Analysis of the

2009-11

Legislatively Adopted Budget

Legislative
Fiscal
Office

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

Following is the *Analysis of the 2009-11 Legislatively Adopted Budget* prepared by the Legislative Fiscal Office staff. This detailed publication provides agency program descriptions; analysis of revenue sources; discussions of budget environment and the essential budget level; and budget decisions made by the Legislative Assembly for the 2009-11 biennium. A summary document (*Budget Highlights*) is also available.

Please call the Legislative Fiscal Office if you have any questions. Published documents are posted online at www.leg.state.or.us/comm/lfo/publications.htm

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ADMINISTRATION

Department of Administrative Services (DAS) – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	9,816,287	8,238,635	7,925,382	15,977,629
Lottery Funds	600,000	0	0	5,168,130
Other Funds	792,263,504	1,430,798,345	943,275,534	965,920,923
Federal Funds	470,721	0	0	47,000
Other Funds (NL)	129,537,046	230,401,493	247,071,201	1,580,404,534
Total Funds	**$932,687,558**	**$1,669,438,473**	**$1,198,272,117**	**$2,567,518,216**
Positions	1,032	971	935	865
FTE	898.52	948.30	930.37	851.74

Totals are different from those in the Governor's budget document due to separate treatment by the Legislative Fiscal Office of: a) Lottery Funds for County Fairs and Oregon Public Broadcasting (OPB) debt service; b) General Fund support for OPB and the Oregon Historical Society; and c) Other Funds expenditure limitation for OPB investments funded with the sale of Lottery Bonds.

Agency Overview

The Department of Administrative Services (DAS) is the central administrative agency that supports other agencies of state government and coordinates statewide services. The Department has numerous divisions responsible for a variety of disparate functions. It operates centrally located motor pools; operates and maintains facilities and the state data center; and provides printing, information technology consultation, computer, payroll, and accounting services. The Department distributes federal, lottery, and state funds to cities, counties, and other state agencies. It also collects and distributes mass transit assessments.

Revenue Sources and Relationships

The Department's operating revenue comes primarily from fees charged for services provided to state agencies, statewide assessments, and assessments for debt service on appropriation and pension obligation bonds. The Department establishes rates for these direct services and bills agencies based on usage. Costs of indirect services, such as the services provided by the Director's Office, Budget and Management Division, and Human Resource Services Division are recovered through a "statewide assessment," which is included in all state agencies' budgets as part of the line item expense titled "State Government Service Charges."

Although services that are supported by the assessment cannot be directly measured and identified to each agency receiving the service, the Department makes an effort to allocate the assessment equitably. Agencies that benefit from appropriation and pension obligation bonds are assessed their share of debt service and debt management costs. Revenue for Nonlimited Other Funds expenditures comes from agency reimbursements for various costs that are demand driven and not discretionary to DAS (e.g., insurance claims and payments related to health care benefits). State agencies' payments to DAS for those costs are controlled through their budget review and approval process. Approximately one-third of DAS revenues received through assessments and charges originate in agency budgets as General Fund.

Essential Budget Level

The agency's essential budget level (EBL) would allow the agency to continue its existing services in 2009-11. Common EBL adjustments include those for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

A discussion of percentage changes from the 2007-09 legislatively approved budget to EBL included under most budget units. In some cases, the percentage increase exceeds what would normally represent inflation. This is due to EBL being based on a 2007-09 legislatively approved level that does not reflect actions taken – primarily reductions – during the 2007-09 budget rebalance in March 2009.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $2.6 billion total funds is 53.9% above the 2007-09 legislatively approved budget. The large increase from 2007-09 is due to the addition of $1.3 billion Other Funds Nonlimited expenditures for the Oregon Educators Benefits Board (OEBB) to allow OEBB to provide pass-through payments to insurers on behalf of OEBB members. This substantial expenditure change masks budget cuts and other changes to the budget that eliminate positions, curtail programs, and continue core services at a reduced level.

The budget includes $53 million Other Funds in program reductions and the elimination of 105 positions, which is equivalent to about 15% of the agency's operating budget. "Operating" for this purpose excludes Nonlimited, pass-through, and debt service expenditures. The reductions affect most agency programs and services to other state agencies, including human resources, budget services, motor pool, facilities, information technology resources, and internal support. Corresponding expenditures for associated assessments and rates in other state agency budgets were also reduced. The budget does add new resources to support small agencies, address workload increases for contracting and surplus property, replace end-of-life equipment, and complete information technology projects approved in agency budgets.

In addition, funding for the Oregon Progress Board was eliminated. However, with HB 3199, the Legislature did authorize the Board to contract with any state agency or nongovernmental entity for staff and support and to accept funds from federal or other sources.

The budget contains $2.1 million General Fund for distribution to organizations and programs focused on preserving the arts, providing legal assistance, and promoting economic development. Also included are $48 million in revenues from lottery-backed bonds for distribution to several projects around the state along with $5.1 million Lottery Funds for debt service on these projects.

Subsequent sections of this document discuss details for each Division. Document content primarily reflects the agency's budget as approved in HB 5002, the agency's budget bill, and HB 5054, the omnibus statewide reconciliation bill. Other pieces of legislation with budget or other significant impacts on agency programs are noted throughout the analysis.

DAS – Office of the Director

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	246,897	225,490	270,231	260,863
Other Funds	3,783,794	4,743,876	4,982,817	4,169,195
Total Funds	**$4,030,691**	**$4,969,366**	**$5,253,048**	**$4,430,058**
Positions	18	18	18	15
FTE	18.00	17.87	18.00	15.00

Program Description

The Director is responsible for managing and coordinating the policies, programs, and services of the divisions within the Department. Also, as the head of state government's central administrative agency, the Director is responsible for coordinating policy among the various state agencies and setting guidelines for developing and executing the Governor's budget. The Office of the Director has four primary functions:

- *Agency Administration* provides, through the Director and Deputy Director, management oversight and policy direction to DAS divisions.
- *Office of Economic Analysis* produces the Oregon Economic and Revenue Forecast and Criminal Justice Population Forecast. It also contracts for the Highway Cost Allocation Study.
- *Internal Audits* conducts internal audits of the Department's public funds.
- *Government Affairs and External Relations* coordinates legislation and communications with agencies and the public.

Revenue Sources and Relationships

General Fund supports prison population forecasting. Otherwise, the Office is funded through an assessment of state agencies and a payment from the Department of Transportation for the cost of the Highway Cost Allocation Study.

Budget Environment

The Office of the Director is essentially an administrative office within an administrative agency. Its budget is based upon the amount of support needed within the Department and within state government.

Essential Budget Level

The essential budget level is 5.7% higher than the 2007-09 legislatively approved budget. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Legislatively Adopted Budget

The legislatively adopted budget is 10.1% below the 2007-09 legislatively approved budget and 15.8% below the essential budget level. The budget reflects the elimination of three positions: one internal auditor; a policy analyst responsible for the agency's business continuity planning, key performance measures, and customer surveys; and an administrative support position for the Office of Economic Analysis.

All inflation on all services and supplies line items except for Attorney General and State Government Service Charges is eliminated. The budget also implements standard statewide adjustments (reductions) in compensation, assessments, and rates.

The Legislature adopted a budget note directing the agency to review and develop a recommendation on the potential budgetary, programmatic, and operational benefits of separating the Department's policy functions from its service functions. The note also requires an analysis – and potential recommendations for changes – of the current methodologies used to develop DAS assessments (used to pay for policy and oversight activities) and service charges (used to pay for services).

DAS – Budget and Management Division

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	10,139,938	10,373,679	8,890,943	8,036,191
Total Funds	**$10,139,938**	**$10,373,679**	**$8,890,943**	**$8,036,191**
Positions	35	35	32	28
FTE	34.29	33.33	31.29	28.00

Program Description

The Budget and Management Division establishes and enforces statewide budget standards and monitors agencies to ensure that funds are spent within legal and budgetary constraints. It is responsible for reviewing agency budget requests and developing and tracking the Governor's recommended budget through the legislative process. The Division also helps to coordinate statewide bonded debt programs, including issuance of certificates of participation (COPs), tax anticipation notes, pension obligation bonds, and lottery revenue bonds. The Division is responsible for development and maintenance of the statewide budget systems.

Revenue Sources and Relationships

The Budget and Management Division is funded primarily through assessments of state agencies ($8.6 million).

Budget Environment

The Division's budget relies on agency assessments. Department management must ensure that the Division does its job properly, using only resources necessary to accomplish the work.

Essential Budget Level

The EBL is a 14.3% decrease from the 2007-09 legislatively approved budget. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The overall decrease is due to a phase-out of expenditures related to the completion of core development on the ORegon Budget Information Tracking System (ORBITS).

Legislatively Adopted Budget

The legislatively adopted budget is 22.5% below the 2007-09 legislatively approved budget and 9.6% below the essential budget level. The large decrease from 2007-09 is due to the phase-out noted above, along with program reductions as follows: two administrative support positions, the state's Budget Analyst Trainee Program (2 positions), and inflation on most services and supplies line items. These changes reduce the Division's capacity to provide budget oversight to about 30 small boards and commissions; oversight plays an important role in ensuring that small agencies meet their missions and obligations, especially as budgets become constrained.

The budget also implements standard statewide adjustments (reductions) in compensation, assessments, and rates.

DAS – State Controllers Division

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	18,545,913	23,870,937	20,692,521	18,529,958
Total Funds	**$18,545,913**	**$23,870,937**	**$20,692,521**	**$18,529,958**
Positions	49	50	50	47
FTE	48.50	49.37	49.50	46.50

Program Description

The State Controllers Division supports and ensures accuracy and accountability in state government financial systems by providing services and controls in the management of statewide accounting, receivables, financial reporting, and payroll functions. It also provides budget and financial and accounting support to a number of small state agencies, including the Office of the Governor.

Revenue Sources and Relationships

The Division receives its revenue from state agency assessments ($11.7 million) and direct charges for processing warrants and payroll documents ($7.9 million). Assessments and charges are based on analyses of services provided and their costs.

Budget Environment

The Division's budget relies on assessments and direct charges paid by agencies. Department management must ensure that the Division does its job properly, using only resources necessary to accomplish the work.

Essential Budget Level

The EBL is a 13.3% decrease from the 2007-09 legislatively approved budget. It includes adjustments (generally increases) for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The overall decrease is due to a phase-out of data processing charges that are no longer applicable.

Legislatively Adopted Budget

The legislatively adopted budget is 22.4% below the 2007-09 legislatively approved budget and 10.5% below the essential budget level. The overall decrease from 2007-09 is due to the phase-out noted above, along with program reductions as follows: four positions responsible for accounting, reception services/clerical tasks, internal controls, and E-Commerce support. Also eliminated are inflation on most services and supplies and funding designated for certain system enhancements.

The budget also implements standard statewide adjustments (reductions) in compensation, assessments, and rates.

The budget for this Division includes the following additions:

- $135,000 Other Funds to prepare for a January 2012 compliance timeline for the federal Tax Increase Prevention and Reconciliation Act of 2005, which requires all federal, state, and local governments to

withhold 3% from any payment for goods and services made to a vendor. Additional ongoing resources will be needed beginning in the 2011-13 biennium.
- $237,701 Other Funds for two accountant positions (1.50 FTE) to help small agencies and client agencies with more complex issues, as well as assist the Oregon Government Ethics Commission with managing its assessment funding model.

DAS – Enterprise Information Strategy and Policy Division

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	34,751,385	45,759,221	44,262,853	35,401,766
Federal Funds	0	0	0	47,000
Total Funds	**$34,751,385**	**$45,759,221**	**$44,262,853**	**$35,448,766**
Positions	48	34	34	22
FTE	45.91	33.74	34.00	22.00

Program Description

The Enterprise Information Strategy and Policy Division (EISPD) maintains certain policy and statewide information technology oversight functions. The Division has six separate functional areas:

- ***Administration*** provides administrative support for the Division. It coordinates and oversees business functions and is headed by the state's Chief Information Officer.
- ***Enterprise Security Office*** identifies the state's information security needs. It is responsible for statewide information security policies and practices.
- ***IT Investment and Planning*** develops and implements state information technology strategies, rules, policies, standards, and processes. It provides support to the Chief Information Officer and information technology-related governance bodies.
- ***Geospatial Enterprise Office*** provides statewide geographic information systems (GIS) coordination for Oregon government (state and local), to support enterprise-wide planning and decision-making.
- ***E-government*** works with agencies and a third party vendor to move information, forms, and payment processes to the Internet to provide online services to citizens.
- ***Business Continuity Planning*** works with state agencies to develop coordinated business continuity strategies and ensure stability of services.

Revenue Sources and Relationships

The Division receives its revenues from assessments of state agencies and charges for direct services. Agency assessments bring in 75% of revenues, while charges for direct services account for the remainder. These revenues support the Division's budget, including debt service payments on COPs primarily sold to fund enterprise security projects.

Budget Environment

A great deal of attention has been given to the state's information technology capabilities, infrastructure, and security. As state government becomes more dependent on technology for the delivery of services, the Division's role of providing statewide technology policy and oversight becomes even more important. The current DAS budget structure reflects an effort to place back-office support functions in operating divisions and focus EISPD's efforts on statewide enterprise information technology strategy and policy.

Essential Budget Level

The EBL is a 3.3% decrease from the 2007-09 legislatively approved budget. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The overall decrease is due to completing a phase-out of costs associated with the start-up of the Enterprise Security Office in 2003-05.

Legislatively Adopted Budget

The legislatively adopted budget is 22.5% below the 2007-09 legislatively approved budget and 19.9% below the essential budget level. The overall decrease from 2007-09 is due to the phase-out noted above, along with the following technical changes and program reductions:

- Shifting $6.1 Other Funds million from EISPD (three positions) to other areas of the agency to better align debt service costs, funding for system and user security, and enterprise security services.
- Eliminating two positions responsible for planning and enterprise security.
- Reducing several core EISPD functions (seven positions), including statewide coordination of Business Continuity Planning, state IT portfolio management, and resources for statewide coordination of Identity and Access Management.
- Removing inflation for most services and supplies and capital outlay line items.

The budget also implements standard statewide adjustments (net increase) in compensation, assessments, and rates. Finally, the budget adds $47,000 Federal Funds to receive a federal grant for the Geographical Information Systems program that was approved at the December 2008 meeting of the Emergency Board.

The Legislature adopted a budget note to address how effectively DAS is performing as the state's leader in information technology (IT) planning, management and policy development. The note requires work on strategic planning with a specific focus on cost savings and efficiencies, enterprise plan development and execution, and development of transition plan for e-government.

DAS – Human Resource Services Division

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	13,980,919	20,573,724	16,668,958	15,176,840
Total Funds	**$13,980,919**	**$20,573,724**	**$16,668,958**	**15,176,840**
Positions	62	67	58	56
FTE	59.84	59.21	56.50	45.47

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 of Executive Branch state government agencies, excluding the Department of Higher Education. Legislative and Judicial Branch agencies and the Lottery Commission pay an assessment to use the centralized employee database. Approximately $1.6 million of revenue has historically come 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.

Essential Budget Level

The essential budget level is 18.9% below the 2007-09 legislatively approved budget. It includes adjustments (increases) for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The net decrease is due to the phase-out of one-time costs related to the Human Resource Information System (HRIS) initial assessment and due to training costs approved at the June 2008 meeting of the Emergency Board that are expected to carry forward but are not built into EBL.

Legislatively Adopted Budget

The legislatively adopted budget is 26.25% below the 2007-09 legislatively approved budget and 8.9% below the essential budget level. The overall decrease from 2007-09 is due to the net decrease in EBL noted above, along with program reductions, with key changes as follows:

- Eliminate a total of eight positions across the division, including resources for Classification and Compensation, Labor Relations, Statewide Recruitment, Human Resources Audit Program, and the statewide employee suggestions program.
- Phase-out statewide training services effective January 1, 2010, toward elimination of duplicative training resources across state agencies. This change will require state agencies to seek certain training elsewhere and could decrease an agency's ability to access and pay for training.
- Eliminate a position responsible for specialized diversity outreach recruitment efforts; related capacity for this type of work exists in other state agencies and in the Governor's Office.

The budget also implements standard statewide adjustments (net increase) in compensation, assessments, and rates.

The budget for this Division includes the following additions:

- $1,888,212 Other Funds for two different components previously approved at the June 2008 meeting of the Emergency Board. The first element, will allow DAS to centrally broker internships and certain IT related training for state agencies. The second component provides staff support and commissioner positions for the Public Officials Compensation Commission.
- $800,100 Other Funds and three limited duration positions to support the statewide rollout of the Enterprise Learning Management System (ELMS). System support is intended to offer employee training and development resources to partially offset the loss of training positions and funding.

DAS – Public Employees Benefit Board

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	6,147,431	7,635,087	6,836,766	18,572,171
Other Funds (NL)	35,174,245	125,380,000	132,830,000	132,830,000
Total Funds	**$41,321,676**	**$133,015,087**	**$139,666,766**	**$151,402,171**
Positions	20	22	22	20
FTE	18.29	21.57	21.08	19.08

Program Description

The Public Employees Benefit Board (PEBB) contracts for and administers medical and dental insurance programs for state employees and their dependents, representing more than 114,000 Oregonians. The Board also selects and administers life and disability insurance coverage for eligible state employees. A major part of the Board's responsibility is developing benefit packages to meet the needs of state government and its employees, and preparing benefits information and answering inquiries from employees and their dependents about coverage.

Revenue Sources and Relationships

The PEBB operation is funded through an administrative charge (assessment) added to the employees' health insurance premiums. By law, the assessment cannot exceed 2% of monthly premiums. Currently, the charge, or assessment, is 0.6% of monthly premiums. Additionally, the Board receives a portion of employee "opt-out" contributions, which are placed in a stabilization fund that is used to help stabilize insurance premiums. The Board is also reimbursed the cost of annual open enrollment activities from insurance companies.

In 1999, the Board received $19.5 million when Standard Life Insurance Company changed from a mutual life insurance company to a stock life insurance company. The money was placed in a separate account pending the outcome of legal claims filed for a portion of the money. The claims have been settled and the Board has decided to use the proceeds to pay for an additional $20,000 of life insurance for each covered state employee beginning in 2009. The Nonlimited Other Funds portion of the budget request is predominantly for health care costs that PEBB self insures from its Stabilization Account. The Stabilization Account has a current balance of about $120 million. The Board's plan to increase the amount that it self-insures requires a significant balance in the account in the advent of adverse claims costs. The account may be used to stabilize benefit premium rates.

Budget Environment

Demand for PEBB's services has been increasing because of issues surrounding health insurance costs. Increased dealings with current and prospective providers also have placed additional demands on staff. Also, changes to employee health insurance benefits that may be mandated by statute, arrived at through collective bargaining agreements or provided by the Board, can impact workload. The Board continues to move toward assuming more of the insurance cost risk by increasing the amount that it self-insures.

Essential Budget Level

The essential budget level is an increase of 5% from the 2007-09 legislatively approved budget. This funding includes support for the level of self insurance approved by the Board prior to calendar year 2010. The Legislature's practice has been to exclude self insurance payments from PEBB's expenditure limitation; these are budgeted as Nonlimited. Any increased expenditure limitation needed due to changes in the amount the Board chooses to self-insure can, therefore, be processed administratively.

Legislatively Adopted Budget

The legislatively adopted budget is 13.8% above the 2007-09 legislatively approved budget and 8.4% above the essential budget level. The overall net increase from 2007-09 primarily consists of the following elements:

- Reductions eliminating excess rent, accounting for the carry forward of 2007-09 reductions (two positions), eliminating inflation on services and supplies, and implementing statewide adjustments in compensation, assessments, and rates.
- New resources ($2.9 million Other Funds) to update the PEBB benefits online system, to pay for a required actuarial valuation of PEBB Other Post Employment Benefits.
- HB 2116 requires PEBB to pay an assessment on self-insured group health plans and a 1% premium tax on its fully insured health plans. The budget includes $9.8 million Other Funds to cover estimated costs for the 2009 benefit year, to be paid from the PEBB stabilization fund. The agency will need to come to the Legislature or Emergency Board to request expenditure limitation to cover assessments in 2010 and 2011. Future assessments will likely need to be recouped through premium increases.

Health care benefit costs continue to be a significant element of state personnel costs and an area of concern for the Legislature. Budgeting costs is a challenge, as year over year inflation is difficult to gauge; calendar year 2010 benefit costs ended up exceeding the 5% increase anticipated, even with premium savings realized by shifting to more self-insurance. Two budget notes, for both PEBB and OEBB, targeted at increasing administrative efficiencies and improving alignment between board decisions and legislative funding were adopted.

Other changes for both benefit boards lay ahead, since they are affected by HB 2009, which makes significant changes to Oregon state governance of health care. The measure establishes the Oregon Health Policy Board, a nine-member panel appointed by the Governor to oversee the development and implementation of health care policy in Oregon. The board will work through its executive arm, the Oregon Health Authority, to develop a plan to provide and fund access to affordable health care for all Oregonians by 2015. A variety of state government entities, including PEBB and OEBB, are transferred to the board's jurisdiction by the end of the 2011-13 biennium.

DAS – Oregon Educators Benefit Board

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	99,464	510,113,482	7,110,058	11,057,882
Other Funds (NL)	0	0	0	1,333,333,333
Total Funds	**$99,464**	**$510,113,482**	**$7,110,056**	**$1,344,391,215**
Positions	4	25	19	22
FTE	0.34	17.77	19.75	22.75

Program Description

The Oregon Educators Benefit Board (OEBB) was created by Chapter 7, Oregon Laws 2007, and performs essentially the same function as PEBB, but for the various school, education service, and community college districts throughout the state. The law prohibits those districts, with certain exceptions, from offering benefit plans other than those offered by the Board on or after October 1, 2008. Staff for OEBB is co-located with staff for the PEBB. One Division Director oversees both operations and the Director and another support person's time is split between the two operations.

Revenue Sources and Relationships

The OEBB operation is funded through an administrative charge (assessment) added to the employees' health insurance premiums. By law, the assessment cannot exceed 2% of monthly premiums. Currently, the charge, or assessment, is 1.6% of monthly premiums.

Budget Environment

During 2007-09, OEBB was quite busy working to issue requests for proposals for health benefit services in order to meet the statutory October 1, 2008 deadline for having benefit plans available to the districts. The volume of activity was greater than anticipated as far more districts than originally scheduled opted to sign up in October. Using a website portal, OEBB was able to handle the workload and open enrollment went smoothly. The workload will continue to increase as the Board now looks to providing optional life, long-term care, and other benefit plans as required by law.

Essential Budget Level

The computed essential budget level does not reflect OEBB's budgetary needs, as it is based on less than 24 months of operations in 2007-09. The 2007-09 legislatively adopted budget as of April 2008, from which the essential budget level was developed, provided 18 months of seed money funding for the Board. Initial OEBB board staffing and funding levels were estimated based on knowledge of PEBB's operations and activity assumptions. The Board was expected to seek additional Other Funds expenditure limitation from the Emergency Board to continue operations through the end of the biennium, which it did. At the June 2008 meeting of the Emergency Board, the agency received the remaining 6 months of operating expenditures and three additional full-time positions for OEBB. At its September 2009 meeting, the Emergency Board established a $500 million Other Funds expenditure limitation for the Board to pay monthly insurance premium payments to providers on behalf of the various districts

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget is dramatically larger than the computed essential budget level, but reflects a true "essential budget" as it includes the staffing and expenditure authority approved legislatively after April 2008. A significant portion of the increase is for $1.3 billion in payments for insurance premiums and certain other insurance related professional fees recorded in the budget as Nonlimited. This is consistent with PEBB's treatment of like expenditures.

The budget also implements standard statewide adjustments (net increase) in compensation, assessments, and rates. It also includes reductions to inflation consistent with other DAS divisions.

OEBB is affected by the same budget notes, health care system dynamics, and legislation as PEBB. The agency will work on budget notes and plans for transitioning the boards to the new health care authority during the interim.

DAS – Facilities Division

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	0	0	0	6,509,234
Lottery Funds	0	0	0	35,000
Other Funds	69,318,762	88,086,908	90,637,497	86,909,008
Other Funds (NL)	3,835,654	2,895,221	0	0
Total Funds	**$73,154,416**	**$90,982,129**	**$90,637,497**	**$93,453,242**
Positions	209	214	201	177
FTE	203.24	208.16	200.50	176.50

Program Description

The Facilities Division provides services related to facilities management; lease negotiation and supervision; project management; space planning and parking management; building operations and maintenance; and landscape maintenance for agencies occupying state-owned space. Major acquisition, construction, capital improvement, and maintenance projects are planned and managed by this Division.

Revenue Sources and Relationships

The Division is funded from a variety of sources; its two major sources are uniform rent, assessed on all tenant agencies, and parking fees. The uniform rent rate for office space in 2009-11 is $1.38 per square foot, which is about a 6% increase over the 2007-09 rate. Uniform rent includes a depreciation component that is deposited in a Capital Projects Fund, the balance of which is primarily used for the major rehabilitation of building space. The Division also receives funding from assessments of state agencies on the Capitol Mall for landscaping, debt service, and general facilities coordination. Other revenue is generated from service agreements to perform maintenance and janitorial services for office buildings owned by other state agencies, managing specialized non-office facilities, and a number of other facilities-related services.

Budget Environment

The Division owns about 2.76 million square feet of mostly office space and leases another 4.4 million square feet. The Division attempts to keep office facilities adequately maintained to prolong their useful lives and keep rental rates at a reasonable level. Demand for new or improved facilities has a direct impact on Division activities. External causes such as increased utility rates and additional security needs contribute to the increased uniform rent.

Essential Budget Level

The essential budget level is slightly below the 2007-09 legislatively approved budget, due to 2007-09 reductions taken during 2009 session and the phase-out of some one-time costs. The net decrease includes standard inflationary changes (increases) for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Legislatively Adopted Budget

The legislatively adopted budget is 2.8% above the 2007-09 legislatively approved budget and 3.2% above the essential budget level. The slight increase from 2007-09 is the cumulative effect of the decrease in EBL noted above, specific budget reductions, and budget enhancements; key changes as follows:

- Reduce the budget by $4.3 million and 26 positions to account for increased energy savings, elimination of most nighttime custodial services, reduction of parking lot enforcement, decreased service levels in administration and contracting services, and reduced inflation.
- Implement standard statewide reductions in compensation, assessments, and rates.
- Add $335,000 Other Funds and two limited duration positions (2.00 FTE) to provide DAS with resources to meet specific external customer needs in the leasing section and to support planning activities.
- Add $5,971,896 General Fund to pay debt service on various statewide projects funded with certificates of participation (COPs) approved in SB 338. Also provided was $537,338 General Fund debt service associated with $5 million in COPs for the Mill Creek infrastructure project approved in the capital construction bill (SB 5506) and $537,338 General Fund for project debt service.

The agency received $1 million Other Funds expenditure limitation to support transferring a portion of the budget for Capitol Mall Security (state police troopers) from the Legislative Assembly budget to the Department. The agency will use ending balance to support the expenditure in 2009-11 and will develop an assessment funding model for 2013-15 that will charge the 30 or so agencies located on the Capitol Mall the cost of these services.

The Division's budget was affected by HB 2013, which establishes the Oregon School Facilities Task Force. The bill adds $35,000 Lottery Funds to fund DAS support of the group, which is initially charged with preparing a report listing options for studying the status of public school facilities in this state. An actual study would follow, upon approval of the report and a funding allocation by the Legislative Assembly or Emergency Board.

HB 2834 directs the closure of the Oregon School for the Blind prior to September 1, 2009, and requires DAS to hold the school in trust, maintain the buildings and grounds, and develop a plan for the sale and distribution of real and personal property including preservation of historical items. The bill provides $450,000 Other Funds expenditure limitation for DAS to begin carrying out this work and, under a budget note, requires the Department to report to the Emergency Board or Legislature no later than February 2010 with a plan for the sale and distribution of OSB property.

DAS – State Services Division

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	948,484	199,079	0	0
Other Funds	119,159,203	135,916,121	142,296,544	103,391,409
Other Funds (NL)	74,894,461	84,234,000	97,194,475	97,194,475
Total Funds	**$195,002,148**	**$220,349,200**	**$239,491,019**	**$200,585,884**
Positions	239	250	246	226
FTE	237.38	250.46	245.50	225.50

Program Description

The State Services Division consists of several programs focused on providing cost effective central services to state agencies. The Risk Management program purchases insurance for the state, and also is responsible for the management of the state's Self-Insurance Fund in order to maintain adequate balances for known and projected losses and to purchase excess coverage for the state. The section investigates and resolves claims against the state and its employees, and devises strategies that encourage agencies to minimize loss-related costs. The program used to receive some General Fund for processing Measure 37 claims; as of 2009-11 this work is being handled by the Department of Land Conservation and Development.

The State Procurement Office provides statewide purchasing and contracting direction, while working to combine the buying power of state and local governments. The Statewide Fleet Administration program acquires and maintains about 4,000 vehicles for state agency use. The Publishing and Distribution program offers a full array of design, printing, finishing, metering, delivery, and mailing services. The Surplus Property program provides a central distribution point for agencies' surplus inventory and actively markets the sale of those items to other governments and the public.

Revenue Sources and Relationships

The revenue source for the Risk Management program's operating expenditures is the Insurance Fund. State agencies pay into the Insurance Fund through an assessment ($129.5 million) based on a share of forecasted statewide claims costs. Statewide needs are developed from independent actuarial forecasts for workers' compensation, property, and liability costs and estimated legal costs. More than 80% of the Section's budget, established to purchase insurance and pay claims from the Insurance Fund, is Nonlimited. The program used to receive some General Fund for processing Measure 37 claims; as of 2009-11 this work is being handled by the Department of Land Conservation and Development.

To help balance the statewide budget, HB 3199 transferred $30 million from the Insurance Fund to the General Fund. It is estimated that the fund can manage claims with a reduced fund balance based on a review of potential claims.

The State Procurement Office operations are supported through an assessment of $3.6 million, which is based on volume of transactions and number of agency positions. An additional $5.1 million is provided through other direct fees for services and purchasing, consulting, and training fees.

The Fleet Administration and Motor Pool operations are supported entirely through fees for services, principally fleet rental charges. In addition, the unit charges agencies that own vehicles for fueling, service, and repair fees.

State and Federal Surplus Property operations generate revenue from service fees. For state surplus items, the fees ($3.2 million) are based on the value of the items sold for the state agencies disposing of the surplus property. For federal surplus property, the service fees ($1.4 million) are charged to agencies acquiring the property through the Division based on the value of the federal surplus property acquired.

Printing and Distribution is financed by charges for printing and mailing services ($51.2 million) and a statewide assessment for shuttle mail service ($2.9 million).

Budget Environment

The amount and types of property owned, the number of employees and their work, and the types of programs agencies have all contribute to the need for risk management services and products, principally insurance. How well agencies manage their risk elements directly impacts their risk management costs. Demand for services drives the budget of the fleet operations, purchasing, surplus property, and printing and distribution services.

Essential Budget Level

The essential budget level is 8.7% higher than the 2007-09 legislatively approved budget. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Legislatively Adopted Budget

The legislatively adopted budget is 9% below the 2007-09 legislatively approved budget and 16.3% below the essential budget level. The decrease from 2007-09 is due to the following technical changes and program reductions:

- Tightening up DAS expenditure limitation by reducing $18,642,627 Other Funds in postage pass-through limitation for DAS.
- Closure of the Eugene and Portland motor pools and retaining vehicles longer reduces the budget by $10.3 million and 19 positions.
- Other actions include removing inflation, decreasing funding for risk litigation, and lowering publishing and distribution services levels, and implementing standard statewide reductions in compensation, assessments, and rates.

The budget also includes the addition of $263,304 Other Funds and two limited duration positions (2.00 FTE) to the State and Federal Surplus Property section to efficiently process property through the program.

DAS – Office for Oregon Health Policy and Research

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	1,398,477	0	0	0
Other Funds	4,221,292	0	0	0
Federal Funds	470,721	0	0	0
Total Funds	**$6,090,490**	**$0**	**$0**	**$0**
Positions	22	0	0	0
FTE	19.80	0.00	0.00	0.00

Program Description

In 2007-09, the Office for Oregon Health Policy and Research, which provide healthcare analysis and policy review activities, was transferred to the Department of Human Services. The change was made so that the Office, along with continuing its existing functions, could assist the Oregon Health Fund Board. The Board was created by SB 329 (2007) and is charged with developing a comprehensive plan to ensure affordable quality health care for every Oregonian.

DAS – Operations Division

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	17,378,883	22,162,158	21,728,836	19,102,927
Total Funds	**$17,378,883**	**$22,162,158**	**$21,728,836**	**$19,102,927**
Positions	105	95	94	88
FTE	103.84	93.88	93.50	87.50

Program Description

The Operations Division provides administrative guidance and operational support services to DAS divisions, the Office of the Governor, select boards and commissions, and select client agencies. These services include budgeting, payroll, accounting, personnel, and procurement services. The Division also provides computer help desk and other information technology support.

Revenue Sources and Relationships

The Division's revenue comes from service charges to the Department's various internal divisions and to its external customers. The other DAS divisions receive their revenues from state agencies through assessments and charges.

Budget Environment

The Operations Division is a support office within an administrative agency. Its budget is based upon the kind and level of services needed by its customers.

Essential Budget Level

The essential budget level is 2% below the 2007-09 legislatively approved budget. It includes adjustments (increases) for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The net decrease is due to a 2007-09 increase in data processing costs, approved at the June 2008 meeting of the Emergency Board, which is not built into the 2009-11 EBL.

Legislatively Adopted Budget

The legislatively adopted budget is 12.1% below the 2007-09 legislatively approved budget and 16.29% below the essential budget level. The net decrease from 2007-09 is due to the phase-out noted above, along with the following technical changes, program reductions, and additions:

- Realign agency resources by shifting two positions from EISPD to Operations for DAS internally focused IT functions.
- Eliminate nine positions that provided financial, information technology-related, and accounting services, which affect both DAS internal and some external customers.
- Reduce inflation in general and decrease costs for cell phone and other ongoing contracts.
- Implement standard statewide adjustments (net increase in this program unit) in compensation, assessments, and rates.
- Add $164,403 Other Funds and one position (1.00 FTE) to the Contract Services section to address a 55% increase in the workload relating to contract services that has occurred during the 2007-09 biennium, in part driven by contracting required to spend state and federal stimulus funds.

DAS – Oregon Progress Board

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	462,724	463,537	512,619	0
Other Funds	470,292	392,400	423,947	0
Total Funds	**$933,016**	**$877,584**	**$936,566**	**$0**
Positions	3	2	2	0
FTE	2.63	1.75	1.75	0.00

Program Description

The Oregon Progress Board consists of nine members appointed by the Governor. The Board maintains and reports on *Oregon Shines*, which is the state's strategic plan to make progress toward three inter-related goals. These goals are quality jobs for all Oregonians; engaged, caring, and safe communities; and healthy, sustainable surroundings. Progress toward the goals is evaluated through 91 benchmarks. In September 2008, the Board adopted a business plan for *Oregon Shines III*, which would update the strategic plan, last revised in 1997.

Revenue Sources and Relationships

The Board is funded by a combination of General Fund and Other Funds. The Board receives Other Funds revenue from private grants, donations, and honorariums for speaking.

Budget Environment

As the Legislature focuses more on performance measures and program outcomes, the activities of the Oregon Progress Board and staff have helped state agencies sharpen their performance measures and outcome metrics.

Essential Budget Level

The essential budget level is 9.4% above the 2007-09 legislatively approved budget. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Legislatively Adopted Budget

Due to General Fund constraints, the Legislature eliminated all state funding for the Oregon Progress Board. To continue acting, the Board will need to leverage funds from other sources and find an entity to work with for staff and other support.

DAS – State Data Center

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	145,637,950	166,418,464	156,096,982	165,240,734
Total Funds	**$145,637,950**	**$166,418,464**	**$156,096,982**	**$165,240,734**
Positions	218	159	159	164
FTE	106.46	159.00	159.00	163.34

Program Description

The State Data Center (SDC) opened in the fall of 2005 as the result of the Computing and Network Infrastructure Consolidation (CNIC) project. By December 2007, eleven separate agency data centers had been moved into a single data center facility. The SDC currently maintains 24/7 core computer services and operational support for these eleven agencies. The facility also provides information technology infrastructure services to thousands of state and local government programs.

SDC is expected to provide agencies equal or improved services while reducing costs. Other anticipated outcomes of consolidating services include the following: better tools and processes through collective purchasing; greater security; reduced electrical power consumption; better and more reliable technologies; improved ability to recover from disaster; and standardization.

Revenue Sources and Relationships

The Center's revenues come from usage fees and charges to state agencies and other customers. Fee and charge methodology, allocation, and structure are still being fine-tuned. How usage and rates are determined depend on the type of SDC service being used. Five major service areas are provided: computing (mainframe, midrange, and distributed systems), network (with enhanced security), storage, and voice. One-time facility construction and start up costs have been financed by the sale of certificates of participation, with the associated debt service expenses built into the budget and paid by customers as part of overall program costs.

Budget Environment

SDC has faced many challenges in its first three years of operations. These include unrealistic expectations for cost savings, inadequate staffing level projections, passive resistance to consolidation, poor baseline data on the scope and cost of services pre-consolidation, and a lack of enterprise focus among customer agencies. Much progress has been made on many of these issues. However, fluctuating costs for agencies and perceptions that there is a lack of return on the state's investment often draw attention away from the facility's successes. These include establishing a quality data center, hiring excellent staff, meeting standards for data center reliability and service, and developing a flexible data center environment.

Over the last few months, the Center has developed a service catalog, provided an annual report as required under its governance charter, and improved its business infrastructure. Rates are continuing to be refined and will likely need to be modified during the legislative budget review process once new usage data and reporting information becomes available.

Essential Budget Level

The essential budget level is 6.2% below the 2007-09 legislatively approved budget. It includes adjustments (increases) for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The net decrease is due to the phase-out of 2007-09 one-time capital expenditures.

Legislatively Adopted Budget

The legislatively adopted budget is almost 1% below the 2007-09 legislatively approved budget and 5.7% above the essential budget level. Along with the EBL changes discussed above, the budget includes the following:

- Technical adjustments to place debt service within the EISPD instead of the SDC, to better align resources by transferring one position, and to correct an error in the SDC rent calculation.
- Program reductions to help balance the statewide budget, eliminating $15 million Other Funds and six positions. A portion ($3.2 million) of the cuts is a one-time reduction realized through the postponement and modification of activity levels related to engineering contracts, voice and network activities, mainframe software and product changes, UNIX consolidation, LDAP standardization, and server management. The remainder is tied to reducing the growth of new business for the SDC and eliminating inflation on capital outlay and services and supplies line items.
- A change in management of data storage capacity that shifts a budget intended to buy more capacity to a budget using two limited duration positions to ensure the efficient and effective use of existing storage.
- An increase of $12 million Other Funds to provide resources to 1) replace obsolete voice technology used by more than 20,000 state employees and 2) to replacement the SDC's computing, network, and telephone equipment on an established lifecycle replacement plan (changing from a 12-year to a 7-year replacement cycle). The Legislature requested DAS to unschedule the expenditure limitation pending completion of actions identified in a budget note.
- Add, based on projects approved in other agency budgets, $10 million Other Funds and eight positions to provide SDC support for these activities. The expenditures are supported by direct payments for services from the agencies receiving the project support, primarily the Department of Human Services, the Employment Department, and the Department of Transportation.

State agencies and the Legislature continue to be sensitive to fluctuations in the SDC budget and costs that seem beyond their control. With consolidation not yet completed and progress toward completion slowed by budget constraints, the SDC will continue to be challenged in defining and managing its portfolio of services while trying to achieve cost savings. Due to these concerns, the Legislature adopted a budget note directing the agency to contract with a third-party to assess and make recommendations on cost savings and cost avoidance strategies that could prove effective for the SDC. The associated report is expected to be submitted to an interim legislative committee prior to the anticipated February 2010 special session.

DAS – Capital Improvements

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	3,643,697	6,271,549	3,111,608	3,111,608
Total Funds	**$3,643,697**	**$6,271,549**	**$3,111,608**	**$3,111,608**

Program Description

The Capital Improvements program pays for remodeling and renovation projects that cost less than $500,000.

Revenue Sources and Relationships

Capital improvement activities are funded out of the Capital Projects Fund, which is set up under ORS 276.005 to support a variety of capital needs for state facilities. The fund is supported primarily by the depreciation component of uniform rent and service agreements. Certificates of participation are also sometimes issued to pay for projects.

Essential Budget Level

The essential budget level includes a phase-out of $3.2 million for projects that were completed in 2007-09.

Legislatively Adopted Budget

The legislatively adopted budget is at the essential budget level, which provides for a core level of resources to maintain buildings and facilities.

DAS – Capital Construction

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	18,088,470	17,272,025	0	9,606,221
Total Funds	**$18,088,470**	**$17,272,025**	**$0**	**$9,606,221**

Program Description

The Capital Construction Program includes major remodeling, renovation, and new construction or acquisition projects costing more than $500,000 in the aggregate.

Revenue Sources and Relationships

Other Funds for capital construction comes from the Capital Projects Fund and from COPs.

Essential Budget Level

The entire six-year Capital Construction budget authority approved for 2007-09 is recorded in that biennium so does not carry forward to the 2009-11 essential budget level. New construction projects would be approved in a policy package.

Legislatively Adopted Budget

The legislatively adopted budget includes funding (SB 5506) for six core project areas, which primarily replace existing building systems. These include roofs, lighting, heating, ventilation, air conditioning, and elevators. The largest project, at $5 million, expedites development of the Mill Creek Corporate Center (Salem) by providing the needed development infrastructure so that the sites are “shovel ready” by late summer 2010. The project includes fill, completion of primary entrance to the property, and connecting facility sewer and water lines. Debt service on this project is supported with General Fund.

DAS – COP Issuance Costs for Capital Construction Projects

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	273,210	685,283	0	110,000
Total Funds	**$273,210**	**$685,283**	**$0**	**$110,000**

Program Description

This program accounts for the cost of issuing COPs specifically for Capital Construction projects. Issuance costs normally are part of the principal amount borrowed, much like borrowers' "points" on a home mortgage are included in the amount borrowed.

Revenue Sources and Relationships

These Other Fund revenues come from the COP sale proceeds.

Essential Budget Level

Cost of issuance expenditures for new construction projects would be approved in a policy package.

Legislatively Adopted Budget

The legislatively adopted budget adds $110,000 Other Funds for cost of issuance on the Mill Creek infrastructure project.

DAS – Miscellaneous Distributions

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	240	0	5,698	5,698
Other Funds (NL)	15,632,686	17,892,272	17,046,726	17,046,726
Total Funds	**$15,632,926**	**$17,892,272**	**$17,052,424**	**$17,052,424**

Program Description

This program primarily reflects the distribution of mass transit assessments collected from state agencies based on the number of employees working in certain mass transit and transportation districts. The assessment is then sent to those districts to reimburse them for the benefits they provide to state government.

Revenue Sources and Relationships

These Other Fund revenues come from state agency payments for mass transit taxes.

Essential Budget Level

The legislatively adopted budget reflects anticipated mass transit assessment collections and distributions based on budgeted employment numbers.

Legislatively Adopted Budget

The legislatively adopted budget is at the essential budget level, which funds the anticipated volume of payments and reimbursements for 2009-11.

DAS – Special Governmental Payments

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	6,759,705	7,350,529	7,142,532	9,207,532
Lottery Funds	600,000	0	0	5,133,130
Other Funds	326,622,661	370,523,431	419,529,506	467,499,315
Total Funds	**$333,982,366**	**$377,873,960**	**$426,672,038**	**$481,839,977**

Program Description

This is a catch-all category that reports payments not directly related to the mission of the Department of Administrative Services. For 2007-09 the budget reflects a $6.4 million General Fund payment to the federal government for costs associated with the Public Employees Retirement System (PERS) blended rate payback to the federal government. Under a settlement, the payment offsets what the federal government perceives to be an overcharge resulting from the practice of blending different PERS rates for general service and police/fire.

The 2007-09 budget also includes $275,000 General Fund for the Independent Development Enterprise Alliance to develop a plan for removing legal barriers to employment and $800,000 General Fund for the Oregon Center for Nursing to help develop solutions to workforce shortages in the healthcare industry. These are one-time payments that are phased-out for 2009-11.

The Other Funds expenditures are primarily for debt service and debt management costs on Pension Obligation Bonds ($280.4 million) and debt service on Appropriation Bonds ($112.6 million).

Revenue Sources and Relationships

Revenues in this program come a variety of sources and are usually discretely identified in the agency's budget bill or other legislation.

Essential Budget Level

The essential budget level is 12.9% above the 2007-09 legislatively approved budget. The increase is based on actual projected 2009-11 costs for the blended rate payback and debt service. Just over $1 million in 2007-09 one-time General Fund costs are phased-out.

Legislatively Adopted Budget

The legislatively adopted budget is 27.5% above the 2007-09 legislatively approved budget and 12.9% above the essential budget level. The budget adds $53 million total funds for project expenditure limitation and debt service on several projects approved in the Lottery Bond bill (SB 5535). These are local projects located around the state targeted at economic and infrastructure development.

Also included in the budget are the following General Fund distributions: $1 million for Oregon Legal Aid, $150,000 for the Skanner Foundation, $500,000 for the Portland Art Museum, and $415,000 for the Jefferson County Economic Development Fund.

Advocacy Commissions Office – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	175,365	380,455	461,655	419,895
Other Funds	72,102	103,988	106,691	75,000
Total Funds	**$247,467**	**$484,443**	**$568,346**	**$494,895**
Positions	4	2	2	2
FTE	2.18	2.00	2.00	2.00

Agency Overview

The Oregon Advocacy Commissions Office was established in 2005 (SB 359) to provide administrative support to the Commission on Asian Affairs, the Commission on Black Affairs, the Commission on Hispanic Affairs, and the Commission for Women. The commissions serve as liaisons between the minority communities and government entities and work to establish economic, social, legal, and political equality in Oregon. The agency assists the commissions in monitoring existing programs and legislation designed to meet the needs of minority populations and helps in identifying and researching problem areas and issues affecting minority communities.

Revenue Sources and Relationships

Agency operations are funded with General Fund. The only other revenue source is donation funds (estimated to be $120,000 in 2009-11). Donation funds are dedicated by statute to the commission to which the donation was made and can only be used by the agency for the purpose for which the donation was made.

Budget Environment

Even though the agency was created in 2005, it is still in its infancy – the Administrator position was vacant much of the 2005-07 biennium. During the 2007-09 biennium, a permanent appointment was made to the Administrator position. The agency’s operating budget is 57% personal services and 43% services and supplies. Expenditure authority for the donation funds ($75,000) is budgeted in the services and supplies category.

Essential Budget Level

The agency’s essential budget level continues its current level of operations at standard budget practice personnel classification and salary ranges.

Legislatively Adopted Budget

The legislatively adopted budget for the Office consists of $419,895 General Fund, $75,000 Other Funds, and two positions (2.00 FTE). The budget represents a 10.4% General Fund increase from the 2007-09 legislatively approved level, but a 9% reduction from the 2009-11 essential budget level. The adopted budget also reduced Other Funds revenues and expenditures to more closely reflect actual experience. The adopted budget maintained all current services with reductions to miscellaneous services and supplies and for a contract for the Office to obtain services from the Bureau of Labor and Industries for accounting and personnel activities. The Office determined that use of the Department of Administrative Services Shared Client Services and Human Resource Services Division was a more efficient means of obtaining these support services.

County Fairs – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Lottery Funds	3,344,827	3,554,474	3,554,474	3,021,303
Total Funds	**$3,344,827**	**$3,554,474**	**$3,554,474**	**$3,021,303**

Agency Overview

County Fairs are provided state support as a pass-through from the Department of Administrative Services for financial assistance related to county fair activities. State funding is deposited into the County Fair Account, which is administered by the County Fair Commission. ORS 565.445 requires the Commission to distribute the monies each January in equal shares to county fair boards.

Revenue Sources and Relationships

ORS 565.447 allocates 1% of the net proceeds of the lottery to the County Fair Account. The statute set an initial allocation cap of $1.53 million per year, but allows a biennial adjustment to the cap based on the change in the Consumer Price Index since January 2001.

Budget Environment

The 2003 Legislature transferred pass-through funding going directly to county fairs from the Department of Agriculture to the Department of Administrative Services (DAS). The Legislature determined that county fair funding would be better placed in the DAS budget since most other state Lottery pass-through dollars reside in the DAS budget.

A portion of the funding – not to exceed $40,000 under statute – is still transferred to the Department of Agriculture where it is expended to support the County Fair Commission. The Commission administers the funding distributed to each county fair and ensures that the county fair boards are meeting reporting and auditing requirements. Pass-through expenditures are technically included in the budget of the Department of Administrative Services, but are displayed separately in Legislative Fiscal Office publications.

Essential Budget Level

The essential budget level maintains the 2007-09 funding amount.

Legislatively Adopted Budget

The legislatively adopted budget credits $3,043,303 Lottery Funds to the County Fair Account, with $22,000 for Commission support and the remainder ($3,021,303 in the table above) designated for payments to county fairs. This level of funding is 15% below the essential budget level and commensurate with reduced funding levels for state agencies generally.

The adopted budget level requires a statutory exception to the allocation prescribed in ORS 565.447; that change is included in HB 3199. Without an exception, the funding level adjusted for the change in the Consumer Price Index would have been about $3.6 million.

Employment Relations Board (ERB) – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	1,449,843	1,781,669	1,858,241	1,717,400
Other Funds	1,351,934	1,714,806	1,809,436	1,758,626
Total Funds	**$2,801,777**	**$3,496,475**	**$3,667,677**	**$3,476,026**
Positions	12	13	13	13
FTE	12.00	13.00	13.00	12.50

Agency Overview

The mission of the Employment Relations Board (ERB) is to resolve disputes concerning labor relations for an estimated 3,000 employers and 250,000 employees in public and private employment in the state. The agency is responsible for administering specific portions of Oregon law: the Public Employee Collective Bargaining Act, which governs collective bargaining in state and local government; the State Personnel Relations Law, which creates appeal rights for non-union state employees who believe they were treated unfairly in the workplace; and the private sector labor-management relations law, which addresses collective bargaining for private sector employers who are not covered by federal law. ERB last handled a private sector case in 2002.

To accomplish this mission, the agency provides the following specific services:

- Conciliation and mediation services provided by three mediators who make themselves available to travel throughout the state to attempt to resolve bargaining disputes, contract grievances, unfair labor practices, and representation matters, including conducting elections to determine whether employee groups will form a labor union. This unit also provides a list of qualified local labor arbitrators and training in dispute resolution.
- Hearing and deciding unfair labor practice complaints, personnel appeals, and contested representation elections handled by three administrative law judges. The administrative law judges issue recommended decisions which the parties can appeal to the Labor Relations Board.
- The Labor Relations Board is a three member panel appointed by the Governor and approved by the Senate. The Board acts as the state's "labor appeal court" for labor and management disputes within state government. The Board issues final orders and administers the labor laws that cover private sector employees that are exempt from the National Labor Relations Act.

Revenue Sources and Relationships

The Employment Relations Board generates the majority of its Other Funds revenue through an assessment to state agencies based on the number of covered employees, including employees from the Legislative and Judicial branches and temporary employees. The amount of projected state agency assessment revenue for 2009-11 is $1,554,000. ERB also receives fees for the following services: contract mediation fees to local governments ($1,000, born equally by the employer and the labor organization involved); grievance and Unfair Labor Practice fees ($500, again split between employer and labor); interest based bargaining training fees (up to $2,500); and filing fees for Unfair Labor Practice complaints ($250) and answers. The agency also charges fees for hard copies of documents, many of which are available online at no cost. The 2009-11 legislatively adopted budget included ratification of many administrative fees including copies, filing via facsimile, and the hourly rate charged for mediation training. The fees were approved in HB 5012, and together, these fee increases are assumed to generate $14,630 for the 2009-11 biennium.

ERB receives General Fund revenue and charges fees to support labor relations functions conducted on behalf of local governments. Local government cases have historically accounted for roughly 60% of the agency's case load.

Budget Environment

In the early 1990s, ERB had over 200 cases filed for hearing each fiscal year. Since FY 1995, the average number of cases filed per fiscal year has been 137. The agency consistently failed to meet its performance targets for timely processing and resolution of cases between 2004 and 2007, which corresponds to the biennium in which the number of permanent administrative law judges was reduced from three to two due to funding constraints.

In 2007, the Legislature approved funding for an additional administrative law judge and ERB eliminated its case backlog over the course of the 2007-09 biennium.

The number of cases filed pertaining to local government labor relations – supported by General Fund appropriations – has exceeded the number of cases filed for state government labor relations, which can be more complicated or time consuming. State government cases are supported by an assessment on state agencies commensurate with the number of agency employees. The 2003 Legislature directed ERB to develop a funding mechanism that was consistent with the workload requirements generated by state and local customers and to ensure that the assessment only covered the costs associated with the state government cases. In cooperation with the Governor's Office, ERB met with representatives from local government employers and unions to discuss funding options for the Local Government program. The workgroup concluded that General Fund should be the primary support for services. The workgroup narrowly approved a recommendation for new and increased fees, provided the costs are born equally by employers and employees, if General Fund support proved to be insufficient.

In 2007, the Legislative Assembly approved fee increases and additional General Fund to support an additional 1.00 FTE permanent administrative law judge position in the hearings division. With the addition of this staff position and by assigning Board members certain cases, the Board was able to eliminate a significant and longstanding backlog of cases. However, state budget shortfalls in 2009 necessitated General Fund reductions in the last quarter of the 2007-09 biennium, which the agency realized by reducing the hours of a hearings officer and a mediator, equivalent to a reduction of 0.25 FTE each, with a corresponding Other Funds reduction.

Essential Budget Level

The 2009-11 essential budget level is a 4.9% increase over the legislatively approved budget amount. Of the agency's 13 positions, four are administrative or legal support positions.

ERB was one of five small state agencies that was granted funding by the Emergency Board to fully fund the General Fund portion of the state employee salary package negotiated for the 2007-09 biennium. The agency was unable to absorb the salary package within its 2007-09 legislatively adopted expenditure limitation and General Fund appropriation, primarily because five of the 13 Board employees fall under the management classification and compensation structure. In addition, administrative law judges were the subject of a classification and compensation study salary adjustment by the Department of Administrative Services (DAS) in 2007-09.

Legislatively Adopted Budget

The FTE reductions in the Hearings and Mediation programs were carried through to the 2009-11 legislatively approved budget.

ERB – Administration

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	911,561	1,115,577	1,154,231	1,098,299
Other Funds	570,235	670,160	717,735	689,177
Total Funds	**$1,481,796**	**$1,785,737**	**$1,871,966**	**$1,787,476**
Positions	5	5	5	5
FTE	5.00	5.00	5.00	5.00

Program Description

The three-member Employment Relations Board acts as a "labor appeal court" for labor and management disputes within state and local governments. The Board is appointed by the Governor and is responsible for issuing final agency orders in declaratory rulings, contested case adjudications of unfair labor practice complaints, representation matters, and appeals from state personnel actions. The Board Chair acts as the agency's administrator. The chair is assisted by an office administrator, and this program unit includes not only the activities of the Board mentioned above, but also the day-to-day administration of the agency, including budgeting, payroll, information technology, reporting, administrative rules, and supervision of staff.

Essential Budget Level

The 2009-11 essential budget level is a 4.8% increase over the 2007-09 legislatively approved budget.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget for the Board and Administration program is a less than a 1% increase over the 2007-09 legislatively approved budget. The budget includes Other Funds expenditure limitation (likely to be paid from state assessment revenue since fee revenue is not as stable) to maintain a reference subscription to national collective bargaining decisions which had heretofore been provided at no cost, and to replace 10 of the agency's 17 computers which are beyond recommended replacement schedules.

ERB – Mediation and Conciliation Services

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	275,162	289,799	306,303	265,235
Other Funds	401,380	513,042	497,814	488,719
Total Funds	**$676,542**	**$802,841**	**$804,117**	**$753,954**
Positions	4	4	4	4
FTE	3.50	3.50	3.50	3.25

Program Description

The Conciliation Services Office is comprised of the State Conciliator, two mediators and a part-time (0.50 FTE) support position, and is responsible for the following:

- Providing mediation and conciliation services to resolve a variety of disputes, including those related to collective bargaining, contract grievances, unfair labor practice allegations, State Personnel Labor Relations Law appeals, and representation matters.
- Training in methods of alternative dispute resolution, collective bargaining, labor-management cooperation, and related issues.
- Maintaining a list of qualified arbitrators and providing related services and information. This includes processing arbitrator applications; handling questions from arbitrators and parties; responding to concerns and complaints from and about panel members; a biannual review of panel member selection rates; suspension or removal of arbitrators; processing requests for arbitration panels; maintaining a library of arbitration awards; and publishing interest arbitration awards on the ERB website. The program also participates in and sponsors a biennial ERB Panel Member Conference and sends out information to panel members on case law and legislative changes.

Essential Budget Level

The 2009-11 essential budget level is a 0.2% increase from the 2007-09 legislatively approved budget.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget is a 6.1% decrease from the 2007-09 legislatively approved budget. This is primarily due to a 0.25 FTE reduction in staffing for this program, in response to the state funding shortfall.

Historically, the number of requests for mediation services by local government has declined with the imposition of fees for mediation services, and fee revenue has historically failed to materialize at projected levels. The legislatively adopted budget shifts $48,647 from Other Fund fee expenditures to Other Fund state agency assessment expenditures, resulting in the mediation program being funded with a mix of approximately 55% from sources of funding historically intended to fund the local government share of the case load, and 45% from state agency assessment. However, all mediators work on both state and local cases, and the number of state versus local cases can vary over biennia.

ERB – Hearings

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	206,373	327,175	336,305	292,464
Other Funds	373,961	525,848	587,947	574,790
Total Funds	**$580,334**	**$853,023**	**$924,252**	**$867,254**
Positions	3	4	4	4
FTE	3.00	4.00	4.00	3.75

Program Description

The Hearings Office is comprised of three Administrative Law Judges and one support staff. The Administrative Law Judges hear all unfair labor practice complaints filed by state and local government labor or management representatives, hear all state personnel appeals, and hear representation matters referred by the Elections Coordinator that require a contested case hearing. Following the hearings, the Administrative Law Judges issue recommended decisions which the parties can appeal to the Employment Relations Board.

Essential Budget Level

The 2009-11 essential budget level is a 8.3% increase over the 2007-09 legislatively approved budget.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget is a 1.7% increase over the 2007-09 legislatively approved budget.

In keeping with its historic state and local funding splits discussed above, the Legislature approved $8,786 in additional General Fund to finance the increase in the salary of the new administrative law judge position added in 2007, pursuant to a statewide classification study by the Department of Administrative Services, Human Resource Services Division.

ERB – Elections

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	56,747	60,155	61,402	61,402
Other Funds	6,358	5,756	5,940	5,940
Total Funds	**$63,105**	**$65,911**	**$67,342**	**$67,342**
FTE	0.50	0.50	0.50	0.50

Program Description

The Elections program is staffed by a part-time (0.50 FTE) position who is responsible for conducting elections regarding employee union representation and certifying the results. The program also processes petitions involving union representation and composition of bargaining units. The agency reports that activity levels have declined slightly over the last biennium, perhaps due to prolonged labor contract periods and the merging or other changes in organization structure of some large labor organizations.

Essential Budget Level

The 2009-11 essential budget level is a 5.8% increase over the 2007-09 legislatively approved budget.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget level is a 2.2% increase over the 2007-09 legislatively approved budget.

Government Ethics Commission – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	636,522	1,266,701	403,618	176,399
Other Funds	3,262	3,379	864,101	1,381,699
Total Funds	**$639,784**	**$1,270,080**	**$1,267,719**	**$1,558,098**
Positions	3	7	6	8
FTE	3.00	6.25	6.00	8.00

Agency Overview

The mission of the Government Ethics Commission[1] is to impartially administer the regulatory provisions of government standards and practices, lobby regulation, and certain public meeting laws. The Commission consists of seven volunteer members; four members are appointed by the Governor upon recommendation by legislative leaders and three directly by the Governor. All members are confirmed by the Senate. No more than four members can be from the same political party and the law limits members to a single four-year term. The Commission is required by law to meet specific timelines for the conduct of investigations. The Commission also educates public officials and lobbyists on the provisions of the Government Ethics Law, the Public Meetings Law, and lobbying regulations. Client groups of the Commission include: all public officials who serve the state or any of its political subdivisions, whether paid or unpaid; registered lobbyists and their employers; and any citizen who requests a review of the conduct of a public official or lobbyist.

Revenue Sources and Relationships

The Commission was historically funded almost entirely by General Fund. Until the 2009-11 biennium, the Other Funds portion, comprising less than 1% of the budget, was from reimbursements for the cost of printing and distributing Commission documents. Actual Other Funds revenue from this source continues to decline with the increased availability of Commission documents on the Internet. The amount of revenue from these sources was $2,631 for 2005-07 and is estimated at approximately $3,000 for 2007-09. The agency's 2009-11 budget includes no revenue from this source.

The Commission also collects revenues from fines and forfeitures based on its authority to impose civil penalties. These revenues are not included in the agency budget, however, but are transferred to the General Fund and are not available for Commission operations. The Commission collected $114,377 in fines and forfeitures in 2005-07, but estimates it will only collect $75,000 in 2007-09 and 2009-11.

Beginning with the 2009-11 biennium, the Commission's funding base changes to an assessment model. The 2007 Legislature approved a funding mechanism to remove the Commission from direct General Fund support. The mechanism allows the Commission to equally share its operating costs between assessments on state agencies and on local government entities. State agencies are assessed based on FTE. Local entities are assessed based on a formula connected to the Municipal Audit charge that is collected by the Secretary of State. For the 2009-11 biennium, General Fund was recommended to be provided in order to allow the Commission to operate while the assessment collections were initiated and to create an Other Funds balance. Beginning in 2011-13, the Commission should be entirely an Other Fund agency.

Budget Environment

After several biennia of declining funding and staffing, the Commission was revitalized by the 2007 Legislature as part of the ethics reform legislation passed during the regular session. Although the total number of complaints filed with the Commission had been relatively constant, with complaint activity spiking slightly upward in election years, the Commission's 2003-05 adopted budget was 25% below 1999-2001 levels. Budget reductions during the 2003 legislative session left the agency with three positions: the executive director, one investigator, and a 0.80 FTE support specialist.

[1] HB 2595, enacted by the 2007 Legislature, changed the name of the Government Standards and Practices Commission to the Government Ethics Commission, effective July 1, 2007.

The 2007 Legislature adopted a number of reforms of ethics laws in HB 2595 and SB 10 that caused additional reporting requirements for lobbyists, lobbying entities, and public officials. SB 10 also included the new funding mechanism for the Commission that starts with the 2009-11 biennium. To respond to anticipated increases in activity due to the reform legislation, the 2007-09 legislatively adopted budget added three new full-time positions, including an investigator, a trainer, and an office assistant. Due to several issues that surfaced with the 2007 reform legislation, the 2009 Legislature passed SB 30 which clarified certain requirements and delayed the implementation of an online reporting system.

A major variable in the Commission's budget is the level of Attorney General charges. These can vary greatly depending upon whether the Commission faces any contested cases. Generally, the legislatively adopted budget makes no allowance for exceptional contested case costs. Due to the unpredictable nature of such legal costs, including the award of attorney fees to prevailing parties, the Commission usually seeks supplemental funding from the Emergency Board during the interim or from the Legislature during session.

The Commission had investigated alternative funding sources with little success until the reform legislation passed in 2007. The difficulty as an agency funded entirely by the General Fund was that the Commission had to seek funding approval from the same legislators that are subject to its review of conduct. There are an estimated 200,000 public officials subject to Commission jurisdiction, with the vast majority serving at the local government level. On average, only approximately 15% of the Commission's caseload originates from state government; 43% of the cases come from cities and counties, with the remaining 42% from school districts, special districts, and other local jurisdictions. The Commission, however, received no direct revenues from local government entities for their combined 85% share of the Commission's workload.

Essential Budget Level

The essential budget level for the Commission is $403,618 General Fund and $1,267,719 total funds. This is $2,361 less than the 2007-09 legislatively approved budget as of June 2009. It includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. It also reflects full funding for positions that were phased-in during the 2007-09 biennium, but will be full-time during the 2009-11 biennium. The essential budget level is also reduced from the 2007-09 legislatively approved budget due to a one-time $75,000 allocation made by the Emergency Board in June 2008 from a special purpose appropriation for costs related to the development of an online reporting system. The essential budget level also reflects the fund shift from General Fund to Other Funds of $865,065 to reflect the change to an assessment based funding mechanism.

Legislatively Adopted Budget

With the transition to an Other Funds assessment-based funding mechanism for the Commission, the 2009-11 General Fund appropriation was limited to enough beginning balance for Commission expenditures until the Other Funds collections begin in the fall of 2009. The Commission's 2009-11 legislatively adopted budget, therefore, was $176,399 General Fund, $1,381,699 Other Funds, and eight positions (8.00 FTE). This represents a General Fund decline of 86% from the 2007-09 legislatively approved level, but an increase in the total budget of 22.7% from the approved level and 22.9% from the 2009-11 essential budget level. With the additional funding and staffing provided by the Legislature in response to the ethics reform legislation over the past two biennia, the Commission's budget has increased by 144% since the 2005-07 biennium with the number of staff increasing by 167% over the same period.

The 2009-11 legislatively adopted budget included the following enhancements:

- $64,944 to continue funding in 2009-11 for higher Attorney General costs initially authorized by the Emergency Board in June 2008 for the 2007-09 biennium;
- $144,450 to add 1 limited duration position (1.00 FTE) as a trainer to assist the agency meet the demand for increased training of public officials;
- $107,498 to continue as limited duration an Administrative Specialist 1 position (1.00 FTE) initially approved by the Emergency Board in June 2008 to assist with the increase in paperwork and filings required under the ethics reform legislation; and
- $68,665 for Department of Administrative Services' charges related to a half-time accountant for Commission assessment billings and collections for the new funding mechanism.

The adopted budget also included the standard reductions for personal services and services and supplies required as part of the overall statewide adopted budget plan.

Office of the Governor – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	8,168,306	11,249,832	12,612,969	10,905,192
Lottery Funds	1,674,526	2,106,349	2,289,279	2,014,225
Other Funds	973,742	2,662,537	2,721,794	4,314,229
Federal Funds	62,943	16,750	0	0
Total Funds	**$10,879,517**	**$16,035,468**	**$17,624,042**	**$17,233,646**
Positions	46	64	62	71
FTE	45.50	62.56	62.00	66.00

Agency Overview

The Office of the Governor provides overall direction to state agencies within the Executive Branch to ensure compliance with statutes and efficient and effective management. The Office includes program area policy advisors, a State Affirmative Action Officer, a Citizen's Representative Office, a Minority, Women and Emerging Small Business Advocate, and provides clerical support for appointing members to boards and commissions. Two activities with statewide impact also are located in the Office of the Governor: the state's Economic Revitalization Team and the Arrest and Return program. The Economic Recovery Executive Team (ERET) was added, on a temporary basis, during the 2009 legislative session to oversee the stimulus dollars received in Oregon as part of the American Recovery and Reinvestment Act.

Revenue Sources and Relationships

The Office of the Governor is supported mainly by General Fund. Lottery Funds are used for the Economic Revitalization Team (ERT). Other Funds includes revenue transfers from the Departments of Administrative Services and Consumer and Business Services. These transfers finance the Affirmative Action and Minority, Women and Emerging Small Business (MWESB) programs. The Affirmative Action program is funded from the transfer of a Department of Administrative Services Human Resource Services Division assessment estimated at $640,000 for the biennium. The MWESB program is funded from assessments on agencies that have capital construction funded in their budgets and also receives funds from sponsoring conferences. The Federal Funds in 2005-07 were from a grant for the Office of Rural Policy. The grant is finished and no more new Federal Funds are expected, although some expenditures continued into 2007-09.

Additional Other Funds are again provided this biennium through revenue transfers from a number of other state agencies to fund policy advisors and general support staff in the Office. Assessments on agencies with ARRA funds are expected to pay for the Economic Recovery Executive Team.

Budget Environment

The budget is driven by the number of staff and programs operated out of the Governor's Office. With the exception of the Economic Revitalization Team, which was transferred to the Office of the Governor in 2003, no new programs have been placed in the Governor's Office in recent biennia. Federal Funds were no longer available to support the Office of Rural Policy after the 2005-07 biennium. In the past, the Office of the Governor has augmented the office staff by: borrowing staff from existing agencies; hiring staff and having other agencies pay their salaries by double filling positions; or hiring staff and having agencies reimburse the Office for their costs. The Legislature attempted to end this practice and place these "off-budget" positions and costs in the budget of the Office of the Governor during the 2007-09 biennium.

Essential Budget Level

The essential budget level for the Office of the Governor is $1,363,137 General Fund (12.1%) and $182,930 Lottery Funds (8.7%) and $59,257 Other Funds (2.2%) higher than the legislatively approved budget. It includes the standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. There is a phase-out of $29,232 General Fund for services and supplies associated with the Office of Rural Policy, which was eliminated during the 2007-09 biennium. One-time funding of $200,000 Other Funds for the Education Design Team was also phased-out.

Legislatively Adopted Budget

The 2009-11 adopted budget for the Office of the Governor is $1,707,777 General Fund (13.5%) and $275,054 Lottery Funds (12%) less than the essential budget level. Other Funds are $1,592,435 (58.5%) higher than the essential budget level.

The General Fund and Lottery Funds reductions include additional vacancy savings that are expected to be above average, additional pay reductions, services and supplies reductions, and the elimination of one position (1.00 FTE) related to the cancellation of the Correspondence System information technology project.

Other Funds are increased due to the creation of the Economic Recovery Executive Team (ERET). The team is expected to oversee the state's interest in the American Recovery and Reinvestment Act (ARRA). The Legislature approved funding for one year, with the expectation that the Governor will provide an update on the team at the February 2010 special session or at an Emergency Board meeting before July 2010. Assessments on agencies with ARRA funds are expected to pay for ERET.

Also included in the adopted budget for the Office of the Governor are new funds for the Arrest and Return program. A fee will be charged to offenders that are on parole or probation and request permission to go to another state. Proceeds from the fee pay for the return of parolees that violate their parole while in another state and must return to Oregon. The fee is expected to generate $75,000 during the 2009-11 biennium.

Oregon Historical Society – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	0	2,609,668	0	625,000
Total Funds	**$0**	**$2,609,668**	**$0**	**$625,000**

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 consistently provide a supplemental grant, but that support has been intermittent in recent biennia. In the past, the state grant amounted to slightly more than 10% of the Society's operating budget. The balance of the Society's budget has come from restricted gifts and grants, memberships and unrestricted grants, grants from local governments, operations, and investment income and bequests.

Budget Environment

Budgetary constraints caused the Legislature to reduce funding for OHS during the 2001-03 biennium. Since 2001-03, no state funding had been given to OHS until 2007-09 when the Legislature initially provided $2.8 million General Fund. The additional funding was intended to help extend museum and public access hours, digitize photos and other holdings, and host regional workshops. The 2007-09 budget was reduced by $190,332 General Fund in March 2009 during the 2007-09 rebalance.

Pass-through grant expenditures are technically included in the budget of the Department of Administrative Services, but are displayed separately in Legislative Fiscal Office publications.

Essential Budget Level

The essential budget level for OHS includes the phase-out of $2.8 million General Fund approved in 2007-09.

Legislatively Adopted Budget

The legislatively adopted budget adds $625,000 General Fund in payments to OHS. In addition, the Legislature passed SB 961, which authorizes the Oregon Department of Transportation to issue a "Pacific Wonderland" license plate and collect an associated $100 surcharge. Net revenues from the plate surcharge are divided between the Oregon State Capitol Foundation and the Oregon Historical Society, for the purpose of establishing and maintaining an Oregon History Center at the State Capitol or on the grounds of the State Capitol State Park.

License plate revenue for OHS in 2009-11 is estimated at $633,000. The Legislature expects to provide any needed expenditure limitation once net revenues are realized, which, due to program timelines and start-up costs, will likely be well into 2010.

Oregon State Library (OSL) – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	2,870,571	3,231,652	3,493,861	3,387,024
Other Funds	6,615,839	7,136,406	7,181,816	7,176,422
Federal Funds	3,987,317	4,822,563	4,755,410	4,710,785
Total Funds	**$13,473,727**	**$15,190,621**	**$15,431,087**	**$15,274,231**
Positions	44	44	44	44
FTE	42.47	42.84	42.47	42.26

Agency Overview

The Oregon State Library's (OSL) mission is to provide quality information services to state agencies, reading materials to blind and print-disabled individuals, and leadership, grants, and other assistance to improve local library service. Trustees of the State Library consist of seven members appointed by the Governor who are responsible for setting policy for OSL and adopting long-range plans for library services statewide.

Revenue Sources and Relationships

Other Funds revenues are generated from three main sources as follows: an assessment on all state agencies, except the Department of Higher Education, for the portion of expenditures that support state agencies (approximately $6.1 million in 2009-11); donations; and reimbursements from local libraries for their portion of costs associated with database licensing.

The OSL Donation Fund includes a collection of donations and bequests, most of which are restricted for a specific use. The largest portions of the Donation Fund are attributable to the Talking Book and Braille Services (TBABS) Donation Fund, and the TBABS Endowment Fund. ORS 357.015(6) gives the Library board of trustees authority to "have control of, use and administer the Donation Fund for the benefit of the State Library, except that every gift, devise or bequest for a specific purpose shall be administered according to its terms." The trustees have adopted a policy of using TBABS Donation Funds for TBABS program enhancements (not regular operating funding), and have opted to reinvest interest earnings from the Endowment Fund back into the Endowment Fund to make it larger. The legislatively adopted budget provides authority to expend approximately $310,499 on TBABS operations and enhancements from these sources in 2009-11, leaving a projected combined ending balance for the TBABS Donation and Endowment Funds of $1 million.

OSL receives Federal Funds from the Institute of Museum and Library Services under the Library Services and Technology Act (LSTA) per a population-based formula. The legislatively approved budget assumes Federal Funds pursuant to this grant in the amount of $4.5 million for 2009-11. The grant requires a 34% match rate as well as a maintenance of effort based on the average of the last three years of non-federal library expenditures relevant to the priorities of LSTA. Reductions in state funding result in an identical percentage reduction in LSTA funding.

Budget Environment

OSL was advised by the federal Institute of Museum and Library Services that it was out of compliance and exceeding administrative spending allowances associated with its LSTA grant. OSL requested and received additional General Fund support for administrative functions to rectify this situation. That policy decision will maintain LSTA funding in 2009-11 amounting to $4.7 million, over 60% of which is budgeted for special payments to local libraries in the form of grants for service improvements and special projects.

Some local libraries are reporting a recent increase in patrons and circulation, presumed to be associated with the current economic downturn; as patrons' discretionary spending for entertainment becomes limited, their use of cost effective alternatives – such as libraries – increases.

Essential Budget Level

The OSL 2009-11 essential budget level represents a 1.58% increase over the 2007-09 legislatively approved budget.

Legislatively Adopted Budget

The legislatively adopted budget includes additional General Fund to fund two existing staff positions in the Library Development program that had been – inappropriately, it turns out – funded with Federal LSTA funds, causing OSL to be out of compliance with administrative funding guidelines, as discussed above. In an effort to partially offset this increase, the legislatively adopted budget eliminates a vacant position and fund shifts other positions from General Fund to Other Funds.

OSL – Administration

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	278,451	292,828	331,083	195,263
Other Funds	774,269	882,626	898,749	809,032
Federal Funds	111,284	134,627	122,389	78,758
Total Funds	**$1,164,004**	**$1,312,628**	**$1,352,221**	**$ 1,083,053**
Positions	6	6	6	6
FTE	5.63	5.63	6.00	6.00

Program Description

This program coordinates the mission and goals of the agency and manages the finance, personnel, and volunteer functions of the agency.

Essential Budget Level

The 2009-11 essential budget level for the Administration program is a 3% increase over the 2007-09 legislatively approved budget.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget for the Administration program is a 17.5% decrease from the 2007-09 legislatively approved budget level. To partially offset the need for additional General Fund required to bring OSL into compliance with federal grant requirements, the Legislature approved shifting the General Fund portion of the Director's salary to Other Funds ($75,605 to state agency assessment). The remainder of the reduction is due to decreases in agency costs, including state government service charges, furloughs and salary freezes.

OSL – Library Development

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	1,325,031	1,544,840	1,738,801	1,934,439
Other Funds	996,193	864,506	887,345	884,790
Federal Funds	3,876,033	4,637,402	4,583,097	4,582,103
Total Funds	**$6,197,257**	**$7,046,748**	**$7,209,243**	**$ 7,401,332**
Positions	6	6	6	6
FTE	5.50	5.88	5.50	6.00

Program Description

This program is responsible for assisting approximately 1,600 local libraries and improving the overall quality of library services in the state through distribution of federal (LSTA) and state (Ready to Read) grants; facilitating school and local library access to a variety of electronic databases; consultation and dissemination of information on youth services; compilation of library statistics; and documenting challenges to library materials.

Essential Budget Level

The 2009-11 essential budget level for the Library Development program is a 2.3% increase over the 2007-09 legislatively approved budget. At the June 2008 meeting of the Emergency Board, OSL received authorization from the Emergency Board to increase the FTE associated with an existing position by 0.38 and shift the cost of the position to Federal Funds. This change was facilitated by terminating a contract with an outside provider for database support, which was no longer needed due to the evolution of the database to a more user-friendly, open source web-based design. The Library determined that the duties of the position fit within the funding guidelines of the LSTA grant.

Legislatively Adopted Budget

The Legislature approved increasing an existing position by 0.38 FTE and shifting the cost of the position to Federal Funds, effectively continuing an action approved by the Emergency Board involving in-house support for the Oregon School Library Information System database. In addition, the legislatively adopted budget provides an additional $279,527 General Fund to bring OSL into compliance with LSTA requirements. This funding will support two existing positions – a Library Development manager and a consulting assistant – currently funded from LSTA funds and contributing to the problem. To partially offset the amount of General Fund required, the Legislature approved shifting funding for the agency's Youth Services Librarian from General Fund to Federal Funds (this position meets federal specifications for administrative funding), and approved a reduction in the Ready to Read Grant Program amounting to approximately five and one-half cents per child.

OSL – Talking Book and Braille Services

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	1,267,089	1,393,984	1,423,977	1,257,322
Other Funds	206,506	410,619	224,924	311,802
Total Funds	**$1,473,595**	**$1,804,603**	**$1,648,901**	**$1,569,124**
Positions	9	9	9	9
FTE	9.50	9.37	9.13	8.42

Program Description

In cooperation with the Library of Congress, which provides books, tapes, recorders, and postage at no cost to Oregon, this program provides reading materials in audio-recorded or Braille formats to individuals with limited vision or other disabilities that prevent the use of books and printed materials. OSL is responsible for maintaining the inventory of materials and distribution. OSL is in the process of converting its audio library from a tape to a digital recording format.

Essential Budget Level

The 2009-11 essential budget level for the TBABS program is a 8.63% decrease from the 2007-09 legislatively approved budget, primarily due to a phase out of Other Funds expenditure limitation associated with the June 2008 Emergency Board request.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget is a 13.1% decrease from the 2007-09 legislatively approved budget. The Legislature approved a shift in support for a Library Specialist position from General Fund to Other Funds ($83,890 to the TBABS Endowment Fund) for one biennium, and approved the elimination of a vacant library specialist position due to declining enrollment for TBABS services and the need to realize General Fund savings. Approved enhancements to the program include establishing a permanent part-time student worker position (0.42 full-time equivalent) to work as a fund development assistant; the position is supported by $23,287 from the TBABS Donation Fund.

OSL – Government Research and Electronic Services

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	4,638,871	4,978,655	5,170,798	5,170,798
Federal Funds	0	50,534	49,924	49,924
Total Funds	**$4,638,871**	**$5,029,189**	**$5,220,722**	**$5,220,722**
Positions	23	23	23	23
FTE	21.84	21.84	21.84	21.84

Program Description

Government Research and Electronic Services (GRES) provides research assistance to state government; develops and maintains the State Library collection, the OSL's online information services, and the Oregon.gov search engine; and coordinates a database of periodical holdings of Oregon libraries. In addition, the general public obtains special information concerning state government publications, Oregon history, and genealogy through a partnership with the Willamette Valley Genealogical Society.

Essential Budget Level

The 2009-11 essential budget level is a 3.8% increase over the 2007-09 legislatively approved budget level.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget level is a 3.8% increase over the 2007-09 legislatively approved budget level.

Oregon Liquor Control Commission (OLCC) – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	115,365,891	122,141,357	131,416,805	134,285,467
Total Funds	**$115,365,891**	**$122,141,357**	**$131,416,805**	**$134,285,467**
Positions	225	233	231	238
FTE	215.46	225.68	223.72	230.72

Agency Overview

The Oregon Liquor Control Commission (OLCC) regulates all individuals and businesses that manufacture, sell, import, export, or serve alcoholic beverages. It also educates and trains liquor licensees, the public, and other groups; and investigates and takes action when necessary against those who violate liquor laws. The five-member Commission is appointed by the Governor and confirmed by the Senate.

Revenue Sources and Relationships

The Commission is entirely supported by Other Funds revenues generated from liquor sales (96%), privilege taxes on malt beverages (beer) and wines (3%), license fees and fines, server education fees, and miscellaneous income (1%). Unless otherwise directed, a statutory distribution formula specifies that 50% of the privilege tax revenues ($35.6 million for 2009-11) are first allocated for payments to the Mental Health Alcoholism and Drug Services Account ($17.5 million), and $570,000 is assumed to be transferred to the Wine Advisory Board. The remaining privilege tax revenues, along with all other revenues (primarily from liquor sales), are first used to pay contracted liquor agents and to finance Commission operations (including liquor purchases). The excess balance ($340.9 million in the 2009-11 biennium) is apportioned to the state General Fund (56%), and to city (34%) and county (10%) general funds.

Even though Other Funds revenues support OLCC operations, the agency's expenditures directly affect the General Fund. Per current law, each dollar spent by the Commission represents 56 cents in liquor revenues that will not go into the state's General Fund, and 44 cents that will not go to local governments. For this reason, an appropriate balance is sought between keeping operating costs as low as possible and making expenditures that are necessary to enhance the generation of revenue while maintaining a controlled distribution environment.

The 2009-11 legislatively adopted budget is expected to result in gross liquor sales amounting to $927 million, and a total of $214.9 million available for distribution to the General Fund. Other revenue distributions are assumed as follows: $570,000 for the Oregon Wine Board; $17.5 million to the Department of Human Services Office of Alcohol and Drug Abuse programs; $68.2 million for cities; $47.8 million for city revenue sharing; and $34.1 million for counties. These figures reflect the continuation of a $0.50 per bottle surcharge imposed by the Oregon Liquor Control Commission for the duration of the 2009-11 biennium. HB 5054 provided that all revenue resulting from the surcharge, after dispenser discounts and liquor agent's compensation, be credited exclusively to the state General Fund.

Budget Environment

Enforcing the state's liquor laws requires a variety of approaches to assist individual licensees, as well as the general community, in understanding the laws and regulations governing the proper and lawful operation of a licensed liquor establishment. Underage drinking, illegal alcohol, and sales to minors continue to be the highest compliance issues. In addition, OLCC is one of a few agencies that contribute resources to the state budget.

As Oregon continues to experience increases in total population and tourists, service permits and outlets licensed to sell alcoholic beverages have increased. Sales have increased significantly since 1995-97 and despite the current economic climate, sales in the 2007-09 biennium came in at $825 million, missing initial OLCC projections by only 3.2% with no appreciable difference in volume.

The Legislative Assembly reduced the 2007-09 budget of the OLCC as part of the state-wide budget rebalance, in an effort to maximize the amount of liquor revenue available to the General Fund. A total of $3.6 million in reductions was approved, including reductions to services and supplies, inventory, agent's compensation and capital improvement.

Essential Budget Level

The essential budget level for OLCC assumes total funds expenditures of $131,416,805, a 4.5% increase from the legislatively approved budget. The essential budget phases out two limited duration positions (1.96 FTE) approved for the 2007-09 biennium as follows: a 1.00 FTE licensing investigator in the Public Safety Services program, and permanent financing actions related to position reclassifications that resulted in the elimination of a low level IS II position equivalent to 0.96 FTE.

Legislatively Adopted Budget

The 2009-11 legislatively approved budget assumes total expenditures of $134,285,467, and maintains agent's compensation at an average rate of 8.88% of sales.

OLCC – Distilled Spirits

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	15,393,790	15,944,794	17,560,559	17,235,416
Total Funds	**$15,393,790**	**$15,944,794**	**$17,560,559**	**$17,235,416**
Positions	63	65	65	71
FTE	57.20	61.42	61.42	67.42

Program Description

Responsibilities of the Distilled Spirits program all relate to liquor sales and distribution. As a "control state," Oregon has granted the Commission sole authority to sell distilled spirits by the bottle. OLCC's current average markup based on the current sales mix is approximately 102%, plus a temporary $0.50 per bottle surcharge which generate funds to finance its expenses and to produce revenue for state and local government general funds. There are two divisions within the Program:

- ***Wholesale Services*** responsibilities include analyzing trends in customer buying and new product availability; purchasing and securely warehousing the liquor; arranging for the shipment of products to the state's retail liquor stores; and settling claims for damaged or defective goods. The Division ensures adequate liquor inventories and a varied selection to satisfy consumer demand.
- ***Retail Services*** oversees operation of the statewide retail liquor store system, which consists of 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 continues to experience a positive rate of revenue growth. OLCC originally projected gross sales for the 2007-09 biennium of $852 million. Due to the economic downturn, OLCC realized approximately $825 million for 2007-09, a figure that was still up about $87 million in gross sales from the previous biennium.

The 2009-11 legislatively adopted budget assumes gross sales of $927 million.

Essential Budget Level

The essential budget level of $17,560,559 represents a 10.1% increase over the 2007-09 legislatively approved budget, due to reductions taken to balance the 2007-09 budget, credit card transaction costs which exceed the budgeted rate of inflation, and increases in personal service costs.

Legislatively Adopted Budget

The Legislature approved the addition of 6.00 FTE to the distribution center to facilitate the distribution of additional cases of product to the state's 243 liquor stores. This translates to an additional $21.9 million in gross revenue, resulting in an estimated $5.6 million in revenue for the state General Fund. The OLCC estimates that a total of approximately 5,540,000 will be packed and distributed to the state's liquor stores in the 2009-11 biennium.

OLCC – Public Safety Services

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	14,599,690	17,603,683	18,842,139	18,972,724
Total Funds	**$14,599,690**	**$17,603,683**	**$18,842,139**	**$18,972,724**
Positions	101	108	106	107
FTE	97.91	104.91	103.00	104.00

Program Description

The Public Safety Services program is responsible for regulating the manufacture, distribution and sale of alcoholic beverages. The program issues liquor licenses and ensures compliance with liquor laws and OLCC regulations. The program consists of three divisions:

- ***License Services*** division investigates and processes license applications for annual and temporary licenses and alcohol service permits, handles renewal applications, and oversees server education providers.
- ***Enforcement and Compliance Services*** division operates 10 regional offices throughout the state. Staff in those offices conduct license investigations, respond to complaints, investigate liquor law violations, and work with licensees and local communities to ensure compliance with liquor laws and resolve problems created by licensed businesses or their patrons.
- ***Administrative Policy and Process Services*** is responsible for reviewing investigative reports and related preparations for contested case hearings; and developing, reviewing, and amending administrative rules.

Budget Environment

The top priority for the Public Safety Services program is preventing underage drinking, reflecting that alcohol continues to be a major contributor in the four leading causes of death among teens and is linked to other crimes. OLCC continues to be challenged by its licensing application process, which takes an average of 111 days to complete. OLCC reports that its licensing and enforcement staff are struggling to keep up with responsibilities associated with over 10,000 licensed businesses. The total number of licensees is around 13,500, and includes businesses that sell alcohol, distilleries, servers, wineries, and breweries.

Essential Budget Level

The essential budget level for the Public Safety Services program represents a 7% increase over the 2007-09 legislatively approved budget primarily due to personal service cost increases.

Legislatively Adopted Budget

The legislatively adopted budget continues a 1.00 limited duration licensing investigator position originally established in the 2007-09 biennium, in an effort to keep the OLCC from falling further behind in the number of days required to issue a license.

OLCC – Administration and Support Services

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	14,275,047	14,608,797	16,820,962	15,542,962
Total Funds	**$14,275,047**	**$14,608,797**	**$16,820,962**	**$15,542,962**
Positions	61	60	60	60
FTE	60.35	59.35	59.3	59.3

Program Description

The Administration and Support Services program consists of the following divisions:

- ***Administration*** includes human resources and is responsible for ensuring that the goals of the agency are implemented and that policy as articulated by the Commission is carried out.
- ***Management Consulting Services*** was organized in 2005-07 to centrally coordinate and provide services, such as internal auditing, performance measurement, research and analysis, staff training, and coordinating input from stakeholders.

- ***Administrative Services*** handles activities such as purchasing, contracting, motor pool, facilities maintenance, and mail.
- ***Communications*** is responsible for internal and external agency communications, including print and electronic materials.
- ***Financial Services*** develops and implements systems that provide fiscal accountability for Commission operations, produces and maintains fiscal records, and develops and monitors execution of the agency's budget.
- ***Information Services*** develops and supports electronic data systems for staff ranging from desk top PCs to distribution center inventory control applications.

Budget Environment

In past biennia, the majority of legislative policy direction concerning investments in OLCC has centered on the distilled spirits and public safety programs. Conversely, except for additional limitation granted for inflation, resources devoted to administrative support functions including financial auditing of privilege tax revenue and liquor agents sales have remained relatively unchanged, despite significant increases in the number of licensees and total dollars flowing through the agency. The information services section is also in the process of trying to modernize and enhance IT systems related to license processing, enforcement databases, and the distilled spirits business system. OLCC is in the process of implementing more web-based functionality for licensing and inventory reporting.

Essential Budget Level

The essential budget level for the Public Safety and Support Services program represents a 15.1% increase over the 2007-09 legislatively approved budget due to reductions taken to balance the 2007-09 budget and costs associated with credit card transactions, state government service charges, and personal services costs.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget maintains FTE and core services for the administration and support program.

OLCC – Store Operating Expenses

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	64,625,504	73,785,000	77,977,180	82,318,400
Total Funds	**$64,625,504**	**$73,785,000**	**$77,977,180**	**$82,318,400**

Program Description

This program includes an expenditure limitation for liquor revenues to pay contract agents who operate the state's 242 retail liquor outlets. Agents are paid monthly using a formula based primarily on store sales and on whether the store is exclusive (i.e., sells only liquor and related items) or non-exclusive (store is run in conjunction with another business, such as a drug or grocery store). Out of the compensation, agents pay liquor store rent, insurance, telephone, utilities, business taxes, employee salaries and benefits, and other operating costs. From the remainder, they pay their own salaries, benefits, and personal taxes.

Budget Environment

The rate of monthly compensation for agents was originally determined annually. In 1979, the Commission started calculating compensation monthly as a percentage of actual monthly sales. Biennial adjustments were made to this basic formula until 1980. From 1980 to 1985 the basic formula did not change, but the Legislature added annual cost of living increases to the formula. In 1985, the Legislature directed OLCC to allocate agents' compensation based on a re-designed compensation schedule. The store formula is reviewed and adjusted by the agency every six months. The goal is to provide basic support, while encouraging sound retail practices and rewarding sales performance. Agents' compensation increases when consumption or prices increase. OLCC requests an increase in the expenditure limitation from the Emergency Board if actual sales exceed forecasted amounts. During the 1997 session, the formula, which had been in effect since 1993, was revised to provide the following compensation:

- ***Non-exclusive stores***: 14.25% of the first $10,000 of monthly sales, plus 7.95% of all monthly consumer sales (up from 7.15% in 2001-03); and 6.20% of all monthly dispenser sales (up from 5.58% in 2001-03), plus up to $118 monthly for deferred compensation if matched by the agent.
- ***Exclusive stores***: based on six sales classifications – 14.25% of the first $10,000 of monthly sales for annual sales up to $210,000 and five compensation bases ranging from $1,660 to $2,700 per month for sales between $210,000 to more than $1.65 million per year; plus 7.55% of all monthly consumer sales (up from 7.15% in 2001-03); 5.89% of all monthly dispenser sales (up from 5.58% in 2001-03); plus up to $150 monthly for deferred compensation to the extent matched by the agent.

Of the $3.6 million total agency budget reductions in 2007-09, $1.9 million was a reduction in compensation to liquor agents. The Commission enacted a temporary $0.50 per bottle surcharge to mitigate up to $1.4 million of the agent's compensation reduction. By the end of the biennium, the effective rate of agent's compensation in the 2007-09 legislatively approved budget amounted to 8.82% of sales, versus 8.88% in the 2007-09 legislatively adopted budget.

Essential Budget Level

The average compensation rate of 8.88% of forecasted liquor sales results in an expenditure limitation of $77.9 million for the 2009-11 biennium, based on projected sales at the essential budget level. Agents' compensation increases when consumption or prices increase. OLCC requests an increase in the expenditure limitation from the Emergency Board if actual sales exceed forecasted amounts.

Legislatively Adopted Budget

Expenditure limitation in the amount of $82.3 million is authorized for the 2009-11 legislatively adopted budget, equivalent to an average rate of 8.88% of forecasted sales. Should actual sales exceed the forecast, the OLCC can request additional expenditure limitation from the Emergency Board to maintain this level of compensation to contracted liquor agents.

OLCC – Capital Improvements and Construction

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	6,471,860	199,083	215,965	215,965
Total Funds	**$6,471,860**	**$199,083**	**$215,965**	**$215,965**

Program Description

The Capital Improvement program reflects OLCC costs of major deferred maintenance and improvements to OLCC facilities. OLCC owns an office and distribution center complex in Milwaukie, which ships all bottled distilled liquor and houses most agency personnel. In 2006, the Emergency Board approved additional expenditure limitation of over $8 million to allow OLCC to purchase a warehouse adjacent to its distribution center and make improvements to both facilities.

Budget Environment

In the past, OLCC and the Legislature have focused on implementing capital improvements that facilitate the generation of additional revenue or avoid the potential for lost revenue due to facilities or equipment breakdown. These improvements have included a major replacement of the warehouse conveyor system, warehouse heating system, and parking lot upgrades. The new warehouse will meet the agency's projected space needs to meet consumer demand for additional variety and volume of products for another 10 to 15 years.

Essential Budget Level

The essential budget level is an 8.4% increase over the 2007-09 legislatively approved budget, due to reductions taken to balance the 2007-09 budget.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget enables OLCC to complete routine maintenance and upkeep, according to a perpetual ten-year maintenance plan. Scheduled projects include repair or replacement of sections of the warehouse roof, replacement of the boiler system, replacement of worn carpeting and flooring, and repair and recoating the exterior of the warehouse.

Oregon Public Broadcasting – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	0	0	0	125,000
Lottery Funds	1,619,165	1,790,684	1,882,673	1,882,590
Other Funds	0	3,000,000	0	0
Total Funds	**$1,619,165**	**$4,790,684**	**$1,882,673**	**$2,007,590**

Agency Overview

The Oregon Public Broadcasting (OPB) is an educational and public broadcasting network serving Oregon through noncommercial public television and radio stations. Its network consists of five television and four radio stations, plus 48 translator/repeaters throughout Oregon. The television stations reach an estimated 90% of Oregonians and the radio stations reach between 80% and 90% of Oregonians. Educational programming (formal and informal) is a significant portion of television, while news and information is the main thrust of radio. OPB also is part of the state's Emergency Alert System.

Revenue Sources and Relationships

The 1993 Legislative Assembly privatized OPB and provided for a supplemental grant through the Department of Administrative Services. The original grant represented about 10% of OPB's estimated revenue. Most of OPB's revenue comes from private contributions. The federal government provides some funding, and OPB also receives sales and service revenue. The operating grant to OPB was reduced during the 2001-03 biennium and no grant funds were provided in the following biennia.

Over the last decade, the Legislature has provided OPB with grants for infrastructure development. These grants, $7 million in 2001-03 and $3 million in 2007-09, were supported with Lottery bond proceeds. Lottery Funds are used to pay the debt service on the bonds. Pass-through grant expenditures and debt service costs are technically included in the budget of the Department of Administrative Services, but are displayed separately in Legislative Fiscal Office publications.

Budget Environment

OPB has sought reinstatement of the operating grant. Budget constraints precluded the Legislature from providing any grants since the 2001-03 biennium.

Essential Budget Level

The essential budget level supports debt service payments for existing lottery bonds.

Legislatively Adopted Budget

The legislatively adopted budget continues to cover debt service on lottery bonds and adds $125,000 General Fund for OPB operations.

Public Employees Retirement System (PERS) – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted*
Other Funds	80,167,511	86,960,346	60,831,964	81,583,703
Other Funds (NL)	5,401,795,835	6,286,947,122	6,476,885,664	6,476,885,664
Total Funds	**$5,481,963,346**	**$6,373,907,468**	**$6,537,717,628**	**$6,558,469,367**
Positions	401	401	296	362
FTE	386.71	394.88	295.05	361.55

** Includes the Governor's veto of SB 897, eliminating $500,000 Other Funds provided in section 4(a) of the bil*

Agency Overview

The Public Employees Retirement System (PERS) administers the retirement system covering employees of state agencies; public school districts; and most cities, counties, and special districts in Oregon. The agency also administers a voluntary deferred compensation program for the state and some local governmental units. It is responsible for all fiduciary activities performed on behalf of system members. This includes receipt of contributions into the retirement trust and deferred compensation trust funds, retirement counseling, retirement benefit determination, and retirement benefit payment. It is not responsible for investment of retirement system or deferred compensation plan assets. The Oregon Investment Council manages the investment of retirement system assets. Deferred compensation plan assets are managed by private fund managers. The five-member Public Employees Retirement Board has broad authority for operation of the programs. Day-to-day operations are carried out by the Board-appointed Director and agency staff.

Investment returns the past few years have resulted in a lowering of actuarially determined employer contribution rates for 2009-11. However, recent turmoil in the investment markets has caused the value of the entire Public Employees Retirement Fund portfolio to drop since the rates were developed using December 2007 census and fund balance data. A continued market decline, or lack of demonstrable recovery, will affect employer contribution rates in future biennia. The Public Employees Retirement Board has set aside certain reserves and has taken other actions to help limit employer contribution rate volatility. However, limiting volatility does not eliminate volatility; employers will very likely see rate increases for the 2011-13 biennium.

PERS – Tiers 1 and 2 Plan

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds (NL)	5,349,196,400	6,232,224,146	6,278,531,664	6,278,531,664
Total Funds	**$5,349,196,400**	**$6,232,224,146**	**$6,278,531,664**	**$6,278,531,664**

Program Description

The Tiers 1 and 2 Plan program unit captures account balance refunds and retirement benefit payments ($5.96 billion); health insurance premiums and subsidy payments ($312 million); and third-party health insurance plan administrator costs ($5.6 million). This program is now a closed program (no new members can be added to the Tiers 1 and 2 plans) because of PERS reform legislation passed during the 2003 legislative session. Tier 1 plan members are employees that were hired before January 1, 1996. Tier 2 members are employees hired on or after January 1, 1996 and have a different level of benefits. The program unit's administrative costs are budgeted under the PERS Operations program and are supported by revenue transfers from this program to Operations.

Revenue Sources and Relationships

The Other Funds revenue is mainly from employer contributions to the retirement system ($2.2 billion) and retirement trust fund investment earnings (about $5.5 billion). A nominal amount of revenue comes from employee contributions by judges and retiree payments for health care insurance. Employer contribution rates are established by the Public Employees Retirement Board based upon advice from its consulting actuary. The Board also determines the level to which certain statutory reserves will be funded from earnings on plan assets.

Essential Budget Level

The essential budget level provides for payment of refunds, health insurance, retirement benefits, and health plan third-party administrator costs expected during the biennium.

Legislatively Adopted Budget

The legislatively adopted budget is at the essential budget level, covering projected retirement system benefit payments, health insurance premiums, and related costs.

PERS – Oregon Public Service Retirement Plan

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds (NL)	52,599,435	54,722,976	198,354,000	198,354,000
Total Funds	**$52,599,435**	**$54,722,976**	**$198,354,000**	**$198,354,000**

Program Description

The 2003 Legislature established a new Oregon Public Service Retirement Plan (OPSRP) with yet a different benefit structure for employees hired after August 28, 2003. OPSRP provides for an employer funded retirement benefit and a mandatory employee contribution of 6% of salary and wages into an Individual Retirement Program (IAP) account. The same legislation redirected Tier 1 and Tier 2 member employee contributions into IAP accounts beginning January 1, 2004. The OPSRP program accounts for IAP third-party administrator costs ($4.8 million) and anticipated payments out of members' individual accounts ($193.6 million). The other administrative costs of this program are budgeted under PERS Operations below. Those administrative costs are funded by revenue transfers from this program to the Operations program where legislative oversight and control is provided through the budget process.

Revenue Sources and Relationships

The Other Funds revenue is mainly from employer and employee contributions to the retirement system ($1.18 billion) and retirement trust fund investment earnings ($405 million). Employer contribution rates are established by the Public Employees Retirement Board based upon advice from its consulting actuary.

Essential Budget Level

The essential budget level provides for payment of IAP third-party administrator costs and payments to members leaving the system expected during the biennium.

Legislatively Adopted Budget

The legislatively adopted budget is at the essential budget level.

PERS – Operations

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	74,446,561	81,251,146	59,408,889	80,160,628
Total Funds	**$74,446,561**	**$81,251,146**	**$59,408,889**	**$80,160,628**
Positions	401	401	296	362
FTE	388.71	394.88	295.05	361.55

Program Description

The Operations program is responsible for the administrative costs of maintenance of employer and employee accounts, processing of retirements, determination of disability retirement benefits, and payment of retirement benefits. It also administers group health insurance plans for retirees and the federally mandated Social Security Administration program. Additionally, the Operations program administers deferred compensation programs for state employees and employees of local governmental units. Operations activities have been divided into six separate divisions.

Central Administration provides the central direction, planning, and leadership for the PERS organization. It consists of the Board, Director, Deputy Director, Human Resources, and Internal Audits. Additionally, the deferred compensation and health insurance programs are located in Central Administration.				
	2005-07 Actual	2007-09 Leg. Approved	2009-11 EBL	2009-11 Leg. Adopted
Other Funds	$4,341,617	$5,016,323	$5,134,377	$5,189,520
Positions	27	27	25	26
FTE	27.00	27.00	25.00	26.00

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.				
	2005-07 Actual	2007-09 Leg. Approved	2009-11 EBL	2009-11 Leg. Adopted
Other Funds	$10,018,819	$13,621,882	$7,428,388	$11,691,158
Positions	107	107	50	79
FTE	103.79	105.25	50.00	79.00

Fiscal Services provides most business and central support services to the other agency divisions. This includes financial reporting, coordination of actuarial information, accounting, trust tax compliance, and fiscal operation functions such as procurement, cash receipts and disbursements, payroll, budget, and cost allocation. Other responsibilities include shipping and receiving, building management, and mail services.				
	2005-07 Actual	2007-09 Leg. Approved	2009-11 EBL	2009-11 Leg. Adopted
Other Funds	$11,580,388	$11,993,432	$12,047,657	$13,501,425
Positions	45	43	37	40
FTE	43.92	42.75	36.92	39.92

Information Systems provides all data processing and telecommunications services for the agency. It maintains the aging Retirement Information Management System (RIMS), and the newly acquired *jClarety* retirement system. The Division continues the conversion of necessary data and applications from the existing RIMS to the new *jClarety* processing system. The Division also provides systems development services, and handles the scheduling and processing of agency data. It also is responsible for the management, retention, storage, and retrieval of agency records.				
	2005-07 Actual	2007-09 Leg. Approved	2009-11 EBL	2009-11 Leg. Adopted
Other Funds	$33,419,332	$31,806,046	$18,551,021	$27,752,079
Positions	102	98	83	88
FTE	97.00	96.38	82.63	87.63

Policy, Planning, and Legislative Analysis is responsible for fiscal and administrative policy coordination, legal services management, contested case hearings, administrative and business rules, and legislative analysis. It is also responsible for the Social Security Administration program for Oregon's public employers.				
	2005-07 Actual	2007-09 Leg. Approved	2009-11 EBL	2009-11 Leg. Adopted
Other Funds	$3,478,807	$4,049,060	$2,753,848	$4,417,379
Positions	14	14	9	14
FTE	13.50	13.5	8.50	14.00

Customer Services oversees employer reporting, maintains member employment and account information, and provides employee member counseling, education, and communications services for the Tier 1 and 2 plans and the Oregon Public Service Retirement Plan.				
	2005-07 Actual	2007-09 Leg. Approved	2009-11 EBL	2009-11 Leg. Adopted
Other Funds	$11,607,598	$14,764,403	$13,493,598	$17,609,067
Positions	106	112	92	115
FTE	101.50	110.00	92.00	115.00

Revenue Sources and Relationships

The Operations program revenue is derived mainly from revenue transfers received from the Tiers 1 and 2 and OPSRP programs ($53.5 million). Additionally, revenue to support the deferred compensation program is from a charge of 0.08 of 1% on deferred compensation trust fund assets ($2.8 million). Revenue from charges for IAP administrative costs is estimated to be $7.6 million. Revenues also are from other administrative fees assessed on participants and employers for social security administration activities and other miscellaneous non-customary services ($500,000).

Budget Environment

PERS Operations have been in a state of transition since the PERS reform legislation of 2003. A new Board was appointed and began operating September 1, 2003. The Board replaced the former Director and new management has been brought in or appointed in all operating divisions. These operational changes occurred while record numbers of members retired, the aging RIMS capabilities continued to deteriorate, and a new *jClarety* system was acquired and installed to service the new Oregon Public Services Retirement Plan. Individual accounts had to be set up for more than 153,000 active members, and employers were required to change their PERS reporting to accommodate the new *jClarety* system. Additionally, Supreme Court decisions handed down in 2005 on PERS reform legislation and a settlement of a lower court decision on the Board 1999 earnings crediting decision have required PERS to recalculate account balances of Tier 1 members, active, inactive, and retired. The Legislature has provided PERS with a number of limited duration positions over the years to deal with transition issues.

Post-reform, the Board has operations essentially stabilized. However, the level of system and human resources needed to manage three retirement plans – for an ever increasing number of retirees – will continue to drive some growth in the agency's budget.

Several policy bills related to PERS programs were passed by the 2009 Legislature and approved by the Governor. These include HB 2704 regarding the elimination of Workers' Compensation benefits in calculating disability retirement; SB 112 regarding provisions for lump sum retirees reemployed by public employers and limitations on hours of employment for certain positions; HB 3401 regarding public employers' use of excess side account dollars to offset IAP contributions; and SB 399 regarding members making purchases with pre-tax dollars transferred from certain other retirement plans. These last two measures have fiscal impacts primarily related to system programming costs, which, if necessary, can be addressed in the budget during the interim.

Essential Budget Level

The essential budget level reflects largely the workload associated with operating requirements that existed before the 2003 reform legislation. The Legislature has provided some additional permanent positions and funding to deal with increased workload. The remaining workload has been addressed using limited duration positions and one-time funding packages that are not considered in the development of the essential budget level budget.

The essential budget level is no longer reflective of PERS operating needs. Creation of the Individual Account Program (IAP) has added dramatically to the workload involved maintaining accurate member data records and with the processing of withdrawals and retirements. Tiers 1 and 2 members who withdraw accounts can now withdraw from their regular and variable accounts and their IAP accounts; and there are different withdrawal options for the accounts. The essential budget level also is based on an expectation of processing 4,000 retirements annually. PERS is now processing about 6,000 retirements annually and expects that number to grow to 8,000 in the following biennium. Additionally, the number of members served; active, inactive, and retired, continues to grow.

PERS not only has to maintain records for, and deal with active and inactive members. Retirees also require continued support and assistance from PERS staff. Issues about health care plans, publicized investment returns, annual 1099R statements, and others all tend to generate contacts from retirees. While PERS tries to communicate as much as possible via the internet and newsletters, retirees continue to seek additional information. They may do it via emails, letters, or telephone calls. All of which require some form of response from staff.

Legislatively Adopted Budget

The legislatively adopted budget includes funding for 31 permanent positions to support workload increases that have been managed with limited duration positions since the 2003-05 biennium. The budget also funds 35 limited duration positions, primarily for completion of the conversion of the agency's retirement administration IT platform from the Retirement Information Management System (RIMS) to a new system (jClarety) and related work-process improvements that will not prove out until the systems conversion is finished. The systems conversion project is expected to be completed in June 2010. The project has continued to be extended due changes driven by legislation and legal decisions.

The total number of agency positions is 39 less than the number authorized in the 2007-09 biennium, reflecting that work related to the 2003 system reforms continues to taper off.

The adopted budget includes the following Policy Option Packages (POPs):

POP No.	Description	Amount
101	Adds five limited duration positions to develop effective and efficient cross-functional business processes.	$849,600
102	Addresses ongoing business needs, including the following: developing business rules, centralizing intake, improving timeliness, handling increased retirement volume, providing call center support; processing appeals, reviewing agency determinations, and providing policy analysis and research support. Adds 21 permanent positions related to workload resulting from plan complexity and member demographics. Adds 23 limited duration positions tied to yet-to-be proven process improvement initiatives.	$5,879,732
103	Adds three limited duration positions, extends the use of leased office space and funds maintenance and equipment needs.	$3,138,193
104	Adds four limited duration position, and continues professional services to complete the RIMS conversion project.	$ 9,714,912
105	Provides funding to support additional actuarial services, an actuarial audit, internal audit peer review, and a standardized internal financial reporting package.	$755,000
106	Adds ten permanent positions to deal with agency transactions that, due to complexity or uniqueness, must be processed manually.	$1,527,319
107	Continues funding for outside legal counsel for fiduciary, federal tax plan compliance, and litigation issues	$1,000,000

The Legislature increased the agency's budget by $500,000 Other Funds to complete system programming changes needed to implement the Data Verification Program required under SB 897. Due to concerns about existing system functionality and workload issues related to the bill, the Legislature requested that a portion of the funding be unscheduled pending receipt of a project work plan per a budget note. In early August 2009, the Governor vetoed SB 897, so the expenditure limitation was subsequently removed from the agency's budget.

The legislatively adopted budget also includes $2.1 million Other Funds in reductions to implement standard statewide adjustments in compensation, assessments, and rates. No direct program reductions were made in the PERS budget.

PERS – Debt Service

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	5,720,950	5,709,200	1,423,075	1,423,075
Total Funds	**$5,720,950**	**$5,709,200**	**$1,423,075**	**$1,423,075**

Program Description

Debt Service accounts for the debt service requirements of the agency. Debt service is required on certificates of participation (COPs) that were issued for purchase of land and construction of agency headquarters in Tigard. COPs were also issued in 2003 for the acquisition of the *jClarety* pension system for the new OPSRP.

Revenue Sources and Relationships

Revenue transfers from the Tiers 1 and 2 Plan support 2009-11 debt service payments. Debt service for the OPSRP technology platform has been supported by revenue transfers from OPSRP; that debt is scheduled to be paid off in May 2009.

Essential Budget Level

The essential budget level is for debt service on the COPs issued for the PERS headquarters only.

Legislatively Adopted Budget

The legislatively adopted budget is at the essential budget level, covering existing debt service requirements.

Racing Commission – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	4,983,295	5,848,854	6,114,165	5,941,351
Total Funds	**$4,983,295**	**$5,848,854**	**$6,114,165**	**$5,941,351**
Positions	16	16	16	16
FTE	13.22	14.52	14.52	14.52

Agency Overview

The Oregon Racing Commission regulates all aspects of the pari-mutuel industry in Oregon. The Commission oversees horse racing at Portland Meadows Racetrack and at five county fair race sites. The Commission also regulates off-site simulcast of races and Multi-jurisdictional Simulcasting and Interactive Wagering Totalizer Hubs (Hubs). The Commission's goals include promoting horse racing in Oregon while ensuring the integrity of the sport as well as the safety of the contestants, public, and animals. Regulatory activities of the Commission include licensing, inspections, and investigations of irregularities.

Revenue Sources and Relationships

Revenues are derived from the state share of wagering receipts, license fees, and licensee fines. All fee revenues received are used for Commission expenses. Any Commission revenues in excess of expenses and maintenance of a prudent ending balance are transferred to the General Fund. The state's share of total bets made at horse racing tracks and on simulcast horse races is 1%. Live racing-related revenues for 2009-11 are projected to remain static.

The 1997 Legislature authorized the establishment of Hubs in Oregon and provided that up to 1% of gross wagering receipts, which is the pari-mutuel tax, could be collected. The Commission, by rule, allows each Hub to select one of three tax formula options. In general, these options result in the Commission collecting about 0.25% of gross wagering receipts. One of the options sets a cap on how much any one Hub will pay during a fiscal year. Of the taxes collected, one-third is transferred to the General Fund; the 2009-11 legislatively adopted budget projects $1,403,909 in these transfers. The remaining two-thirds are deposited in the Racing Development Fund to be used by the Commission for "the benefit of the Oregon pari-mutuel racing industry." This money has been used in the past to enhance race purses, make safety improvements at race meet sites, provide jockey incentives, and promote thoroughbred breeding. The Commission also collects a license fee of $200 per operating day from the ten Hubs currently licensed in Oregon.

Budget Environment

Live racing in Oregon is in an era of uncertainty. Multnomah Greyhound Park ended operations in December 2005 and no live greyhound racing is expected to occur in the state during the 2009-11 biennium. The Oregon horse racing industry has also been challenged due to competing forms of gambling, including those offered by tribal casinos and the Oregon Lottery. Magna Entertainment Corporation, the owner of Portland Meadows, first placed the track up for sale in November 2007 but did not find a buyer. The company filed for Chapter 11 bankruptcy protection in March 2009 and, with approval of the bankruptcy court, the racetrack is now expected to be auctioned off in September 2009. Operations at Portland Meadows have continued during this timeframe and the Commission has approved the track's license for a 2009-10 race meet. The 2009-11 legislatively adopted budget assumes ongoing racing at Portland Meadows, however, the status of the track will need to be closely monitored during the interim.

Commission operations and the five summer race meets have become increasingly dependent on revenues from Hubs. The 2009-11 adopted budget assumes all currently licensed Hubs will continue to operate. The associated revenue is somewhat at risk as other states have become more aggressive in trying to recruit Hubs to relocate. The Commission's approval of hub revenue caps was intended to help reduce that risk.

Essential Budget Level

The essential budget level for the Commission is a 4.5% increase over the 2007-09 legislatively approved budget at June 2009. It includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Legislatively Adopted Budget

The Legislature funded the agency at the calculated essential budget level, less standard statewide adjustments in compensation, assessments, and rates.

Department of Revenue (DOR) – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	134,178,423	146,199,886	160,041,827	152,533,566
Other Funds	29,164,504	34,861,981	35,263,057	33,434,358
Other Funds (NL)	220,487	240,508	237,790	263,830
Total Funds	**$163,563,414**	**$181,302,375**	**$195,542,674**	**$186,231,754**
Positions	1,076	1,048	1,027	1,081
FTE	997.34	968.22	962.11	1,012.26

Agency Overview

The Department of Revenue (DOR) administers the state's income tax and property tax programs. In addition, the Department collects revenue from a variety of sources and transfers it to various state and local agencies. These revenue sources include taxes on: a) cigarettes and other tobacco products; b) amusement devices; c) payroll (for local mass-transit); d) timber, oil, and gas severance; and e) the harvesting of forest products. The Department also collects and distributes hazardous substance fees, court fines and assessments, and taxpayer check-off donations; serves as the collection agency for fines, forfeitures, and assessments owed to state agencies; and administers property tax relief programs for senior citizens and persons with disabilities. Altogether, the tax programs the Department administers generate 96% of General Fund revenue and 88% of local government revenue.

Revenue Sources and Relationships

The Department is mainly supported by the General Fund. Other Funds revenue is derived from charges to various Other Funds tax, fee, assessment, and other programs to cover administrative costs. Time and activity studies are used to determine each program's administrative costs and corresponding charges. A statewide grant program also helps pay for assessment and taxation costs, providing Other Funds revenue to DOR and to counties. The associated funding comes from interest paid on delinquent property taxes and from a document recording fee. A portion of each recording fee ($1) is dedicated to the development of a statewide mapping system to improve the administration of the property tax system.

The following table displays sources and amounts of estimated Other Funds revenues for 2009-11:

SOURCE (2009-11 Legislatively Adopted Budget)	AMOUNT
Cigarette and Other Tobacco Tax Collections	$ 3,300,000
State Agency Collections	$ 11,500,000
Assessor Funding Program	$ 5,500,000
Employer-Employee Taxes (primarily Tri-Met and Lane Districts)	$ 5,100,000
Senior and Disabled Citizens' Property Tax Deferral	$ 1,400,000
Oregon Map Project (ORMAP)	$ 3,700,000
Others	$ 3,000,000
TOTAL REVENUES	**$ 33,500,000**

The legislatively adopted budget for the agency includes revenue changes and associated transfers related to other tobacco products, personal income tax, and corporate income tax changes.

Budget Environment

The current economic forecast projects modest population growth and slow economic growth with limited recovery for the 2009-11 biennium. Over the past several biennia, the Department has been successful in addressing funding constraints and increased workloads by incrementally developing and enhancing automated systems, implementing an aggressive employee training program, reorganizing, and revising operating procedures.

Essential Budget Level

The agency's essential budget level (EBL) is a 7.9% total funds increase over the 2007-09 legislatively approved budget. EBL includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, uniform rent, and state government service charges.

Legislatively Adopted Budget

The legislatively adopted budget is 2.7% above the 2007-09 legislatively approved budget and 4.8% below the essential budget level. The budget includes the roll-up of minimal General Fund reductions taken in 2007-09 and elimination of General Fund support for county property tax administration. The Legislature purposefully limited reductions and added new resources in order to maintain and enhance the state's General Fund revenue stream.

Key policy legislation affecting the agency programs and budget include the following:

- HB 2815 establishes an Interagency Compliance Network, targeting Oregon's underground economy and removing statutory barriers toward improving compliance under taxation, employment, and independent contractor laws. The bill establishes a $750,000 special purpose appropriation in the Emergency Fund for program seed money, which is expected to allocated to network agencies once an interagency agreement and a work plan are completed. The program would be funded in future biennia by a portion of the dollars recovered through increased compliance; based on experience in other states, network efforts are estimated to collect $7.6 million in 2009-11.
- HB 2649 increases personal income-tax rates on higher-income households (over $250,000 single filer, $500,000 joint filer) for tax years 2009 through 2011. The bill is expected to raise $472 million General Fund in 2009-11.
- HB 3405 increases the corporate minimum tax, other corporate taxes, and certain Secretary of State fees and is expected to raise $261 million General Fund in 2009-11. The Department has a fiscal impact of about $1.5 million for implementation and compliance work associated with this bill. General Fund was appropriated to the agency for these purposes in HB 5054.
- SB 880 directs the Department of Revenue to develop and administer a tax amnesty program for corporate income and excise tax, personal income tax, inheritance tax, and transit district (self-employment) taxes. The bill provides for reimbursement of up to $1 million in agency program costs from proceeds collected under amnesty and establishes a $1 Other Funds placeholder for the Legislature to increase once the agency reports on program results.

DOR – Executive Section

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	2,834,915	3,472,113	3,535,672	3,376,996
Other Funds	527,756	428,660	424,895	402,538
Total Funds	**$3,362,671**	**$3,900,773**	**$3,960,567**	**$3,779,534**
Positions	16	16	15	15
FTE	15.58	15.13	14.74	14.74

Program Description

The Executive Section is responsible for overall administration of the agency and for coordinating the agency's legislative, rulemaking, communications, and internal audit functions.

Essential Budget Level

The essential budget level is 1.5% slightly higher than the 2007-09 legislatively approved budget. It includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Legislatively Adopted Budget

The legislatively adopted budget is at the essential budget level, as adjusted for standard statewide reductions for compensation, assessments, and rates.

DOR – General Services Section

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	16,244,229	5,357,731	5,514,696	5,509,238
Other Funds	1,547,183	1,791,810	496,776	496,532
Total Funds	**$17,791,412**	**$7,149,541**	**$6,011,472**	**$6,005,770**

Program Description

The General Services Section is used to budget for a portion of expected central agency costs for postage, legal expenses, and other expenditures that tend to vary from biennium to biennium between operating divisions. For internal budgetary purposes, the receipt and distribution of the various tax revenues are accounted for in this section.

Essential Budget Level

For General Fund, the essential budget level is 2.9% above the 2007-09 legislatively approved budget. It includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

The Other Funds component also includes inflationary increases but nets out lower than the 2007-09 legislatively approved budget due to the phase-out of costs associated with the 2007 kicker distribution.

Legislatively Adopted Budget

The legislatively adopted budget is at the essential budget level, as adjusted for standard statewide reductions for compensation, assessments, and rates.

DOR – Administrative Services Division

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	41,770,232	46,646,999	52,732,577	50,135,234
Other Funds	6,315,741	6,149,773	6,715,789	6,272,474
Total Funds	**$48,085,973**	**$52,796,772**	**$59,448,366**	**$56,407,708**
Positions	354	344	338	340
FTE	301.30	293.22	290.33	292.69

Program Description

The Administrative Services Division provides computer processing systems and support services to the agency's other divisions, processes incoming tax returns, scans returns for errors, processes and banks tax payments, enters and transfers taxpayer data to computer storage, and maintains information files. This Division also provides the Department's purchasing, personnel, facilities management, accounting, and other fiscal support.

Budget Environment

Historically, the Division's activities have been carried out in a high-volume, production-type environment. As the Department adds new systems and becomes more dependent on automation, well-trained and experienced information systems professionals are needed to maintain computer systems. Additionally, changes in other divisions impact the demand for services of its other support functions.

Essential Budget Level

The essential budget level is 12.6% higher than the 2007-09 legislatively approved budget. It includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, uniform rent, and state government service charges. Also included in EBL are a phase-in for banking machine lease costs and phase-outs for one-time costs for document management and remote capture systems.

Legislatively Adopted Budget

The legislatively adopted budget is 2.7% above the 2007-09 legislatively approved budget and 4.8% below the essential budget level. The budget includes the roll-up of minimal General Fund reductions taken in 2007-09 and standard statewide reductions for compensation, assessments, and rates.

The budget adds four positions and spending authority to support compliance efforts in the agency's filing enforcement function for the payroll tax, income tax, and other programs. Also included is one position and supplemental full-time equivalent to support corporate tax program changes in HB 3405.

DOR – Property Tax Division

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	12,020,706	19,920,788	22,322,699	16,317,086
Other Funds	7,979,571	10,269,712	10,919,982	10,643,850
Total Funds	**$20,000,277**	**$30,190,500**	**$33,242,681**	**$26,960,936**
Positions	128	123	123	123
FTE	124.45	120.21	119.89	119.89

Program Description

The Property Tax Division oversees the property tax system and ensures that Oregon's 36 counties comply with all property tax laws and rules. To these ends, the Division develops procedures, advises and trains county staff, and conducts reviews of county actions. Responsibilities also include conducting appraisals on all industrial manufacturing plants valued at $1 million or more; appraising all utility, transmission, communication, and transportation properties; and administering several timber tax programs.

The Division also oversees the Oregon Map Project (ORMAP). The project is responsible for development of a statewide property tax lot base map that is digital, continually maintained, and publicly accessible. The move from paper to computer-based mapping will improve the administration of Oregon's property tax system and will support an array of public and private geographic information systems applications by October 2012. Funding for the project comes from a $1 addition to document recording fees.

Budget Environment

Most of the Division's budget is supported by General Fund. Since 1989, the Division has received Other Funds from the County Assessment Function Funding Assistance (CAFFA) account, which is supported by document recording fees and a portion of the interest from delinquent property taxes. Each biennium CAFFA monies of about $40 million help counties pay for essential assessment and taxation functions. These include valuation, administration, appeals, tax collection and distribution, mapping, and information processing support. The account also helps pay for a portion of the Division's industrial and utility property appraisal responsibilities and the administration of the CAFFA program.

Even with some dedicated funding, Oregon's overall property tax system is still dependent on General Fund to stay sound. County budgets feel the impact of property tax limitations (Measure 50), a poor real estate market, a slumping economy, and vanishing federal timber payments. Historically, county assessment and taxation programs have unsuccessfully competed for funding with other local government services. A reduction in these functions can result in out of date records, inaccurate property values, missed deadlines, customer frustration, a skewed distribution of the property tax burden, and decreased revenues.

If a county cannot commit adequate resources to its assessment and taxation program, that county may lose its CAFFA grant. Additionally, ORS 308.062 requires DOR to take responsibility for a county's assessment and taxation function if a county fails to perform its statutory duties. The Department's main focus for 2009-11 will be trying to help counties find ways to keep programs intact during difficult financial times.

Essential Budget Level

The essential budget level is 10.1% higher than the 2007-09 legislatively approved budget. It includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, uniform rent, and state government service charges.

Legislatively Adopted Budget

The legislatively adopted budget is slightly lower than the 2007-09 legislatively approved budget and 18.9% below the essential budget level. The budget includes standard statewide reductions for compensation, assessments, and rates.

The budget eliminates $5.2 million General Fund in payments to counties for property tax administration; funds were used previously to supplement payments that counties receive from the CAFFA Grant Program. The grant program helps pay for all essential assessment and taxation tasks, supporting about 20% of the counties' costs for functions. Funding for the grants comes from a $9 document recording fee and a portion of the interest from delinquent property taxes.

DOR – Personal Tax and Compliance Division

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	42,449,721	49,854,652	52,935,630	54,182,589
Other Funds	1,305,677	1,758,978	1,807,082	1,839,852
Total Funds	**$43,755,398**	**$51,613,630**	**$54,742,712**	**$56,022,441**
Positions	394	376	372	396
FTE	378.93	363.46	362.17	386.17

Program Description

The Personal Tax and Compliance Division administers the personal income tax program. Responsibilities include auditing and encouraging voluntary compliance for the personal income tax, collecting delinquent personal income taxes, and collecting local option taxes. In addition, the Division administers the Elderly Rental Assistance Program, and provides help to taxpayers by telephone (Tax Help Section) and through informational publications.

Budget Environment

The Division's workload had been increasing over time as the state's population was growing. The number of personal income tax returns filed annually is about 1.8 million. More than half of returns are being filed electronically. The Division has added and improved automated systems to help handle the workload. Compliance efforts are now affecting the Division's workload. As more taxpayer data becomes available from federal and other sources, the Department has increased its efforts to pursue non-filers, and those that may have under- or not-reported income or over-reported deductions. The Department expects to address collection issues through re-engineering of existing systems and processes and through new positions requested to enhance revenue collections.

Essential Budget Level

The essential budget level is 6.1% higher than the 2007-09 legislatively approved budget. It includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, uniform rent, and state government service charges.

Legislatively Adopted Budget

The legislatively adopted budget is 8.5% above the 2007-09 legislatively approved budget and 2.3% above the essential budget level. The budget includes standard statewide reductions for compensation, assessments, and rates.

The budget adds $3.3 million total funds and 24 positions to increase compliance efforts in the agency's filing enforcement function in the personal income tax program. Also included are resources to collect additional assessments (taxpayer liabilities) that will result from the increased level of compliance activity. Agencywide, it is estimated that this package will generate an additional $19.3 million in General Fund revenue for 2009-11.

Also included is one position and supplemental full-time equivalent to support corporate tax program changes in HB 3405. SB 880 adds a $1 Other Funds placeholder to the budget for future reimbursement of agency costs under the bill's tax amnesty program.

DOR – Business Division

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	12,314,349	14,447,602	15,500,552	16,602,422
Other Funds	11,488,576	14,463,048	14,898,533	13,779,112
Total Funds	**$23,802,925**	**$28,910,650**	**$30,399,085**	**$30,381,534**
Positions	184	189	179	207
FTE	177.08	176.20	174.98	198.77

Program Description

The Business Division administers several tax programs, including corporate income and excise taxes, the employer withholding tax, the transit payroll and self-employment taxes, the fiduciary, inheritance, and cigarette taxes, and other agency accounts and special programs. Responsibilities include auditing tax returns and collecting delinquent taxes and other delinquent accounts. The Division also provides debt collection services for state and local agencies and for state and municipal courts in all 36 counties.

Budget Environment

Collection of the state's past due accounts has been a legislative concern, and the Division has an important role in this activity. Currently, the Division is collecting on over 200,000 accounts owed to 284 state offices and agencies. The number of delinquent accounts is expected to increase. The Division is using more automation to help handle workload growth, but is also seeking additional staff resources. Other state agencies have also identified about 150,000 delinquent accounts for collection through the automated refund offset program.

This Division also collects revenues from cigarette tax stamps and taxes on other tobacco products. Due to tax evasion issues, in 2001 the Legislature provided positions and funding for a Tobacco Tax Compliance Task Force that included personnel from the Department of State Police (OSP) and the Department of Justice (DOJ). The group was charged with increasing education and civil enforcement, along with pursuing criminal activity. Funding for the Task Force has been authorized to come from Other Funds taxes collected on cigarette and other tobacco taxes. Due to increased compliance rates, the formal Task Force was disbanded in July 2008. The Division plans to continue its educational, enforcement, and collection activities. Investigative and criminal assistance would be provided by OSP and DOJ as needed.

Essential Budget Level

The essential budget level is 5.2% higher than the 2007-09 legislatively approved budget. It includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, uniform rent, and state government service charges.

Legislatively Adopted Budget

The legislatively adopted budget is 5.1% above the 2007-09 legislatively approved budget and slightly under the essential budget level. The budget includes standard statewide reductions for compensation, assessments, and rates. The decrease from EBL also reflects a reduction of $2.7 million Other Funds tied to dissolution of the Tobacco Compliance Task Force. This funding formerly went to the Department of State Police and the Department of Justice for tobacco tax enforcement. Tobacco tax evasion issues will still be pursued and prosecuted, but the tobacco task force component (dedicated staff) has been disbanded.

The budget adds $1.3 million total funds and 7 positions to increase compliance efforts in the agency's filing enforcement function in the personal income tax program. Agency-wide, it is estimated that this package will generate an additional $19.3 million in General Fund revenue for 2009-11.

To complete implementation and compliance work required under HB 3405, the Legislature also added $913,827 General Fund and eight positions (6.00 FTE).

Growth in the Other Agency Accounts program, which is responsible for collecting delinquent debt for other state entities, drives the addition of 13 limited duration positions (10.79 FTE) and $1.5 million Other Funds to the budget. With these resources revenue agent caseloads should decrease from 7,000 to about 5,000 cases per agent; collection costs are recovered through fees charged to the client agencies.

DOR – Multistate Tax Commission

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds (NL)	220,487	240,508	237,790	263,830
Total Funds	**$220,487**	**$240,508**	**$237,790**	**$263,830**

Program Description

Through the Department of Revenue, Oregon is a compact member of the Multistate Tax Commission, which has 26 dues-paying members (states). The Commission works on behalf of states and taxpayers to equitably administer tax laws that apply to multistate enterprises. It also promotes uniformity or compatibility in tax systems and taxpayer convenience. Dues to the Commission are proportional to the amount of tax revenue each state collects. The budget reflects the Nonlimited expenditures for these dues.

Budget Environment

The Commission expects to maintain its current level of services to members.

Essential Budget Level

The essential budget level is slightly less than the 2007-09 legislatively approved budget. This is due to a 2007-09 administrative increase for actual costs that has not been carried forward into 2009-11. The EBL does include a standard inflationary adjustment of 2.8%.

Legislatively Adopted Budget

The legislatively adopted budget adjusts for updated 2009-11 cost projections by adding $26,040 Other Funds Nonlimited.

DOR – Elderly Rental Assistance

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	6,544,271	6,500,000	7,500,000	6,410,000
Total Funds	**$6,544,271**	**$6,500,000**	**$7,500,000**	**$6,410,000**

Program Description

The Elderly Rental Assistance program provides direct tax relief to elderly, low-income renters. Benefits are based on income levels and the amount of rent, fuel, and utilities paid. The benefits are available to renters age 58 or over with household incomes under $10,000, with household assets (if under age 65) that do not exceed $25,000, and having gross rent in excess of 20% of household income. Through this program, payments are also made to local governments in lieu of property taxes on certain tax-exempt housing for the elderly.

Budget Environment

This program has experienced a steady decline in payments to renters over the last several biennia; in 2005-07 actual expenditures were about $1.5 million less than the amount budgeted. In part this has been because fewer individuals are meeting the program's eligibility criteria, which are not indexed to inflation. Payments are expected to level off as the decline in payments to renters is being offset by payments to local governments for tax-exempt housing for the elderly.

Essential Budget Level

The essential budget level maintains the program at the 2007-09 funding level.

Legislatively Adopted Budget

The legislatively adopted budget reduces this program by $1,090,000 General Fund based on updated cost projections.

DOR – Senior Citizens' and Disabled Citizens' Property Tax Deferral

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	0	1	1	1
Total Funds	**$0**	**$1**	**$1**	**$1**

Program Description

The Senior Citizens' Property Tax Deferral portion of this program allows homeowners age 62 and over who meet program income limits to defer payment of property taxes and special assessments until the owner dies, sells the property, or stops using it as a principal residence. The state pays the tax and obtains a lien on the property for the tax and for accrued interest at the rate of 6% per year. The deferred taxes and interest are collected when the property is disqualified. As properties are disqualified and their deferred taxes are paid, monies received finance the taxes the state pays under the program. For income tax year 2008 (property tax year 2009-10) the household income limit to qualify for the program is $39,000. The program also is available to disabled persons meeting household income limits.

Budget Environment

The Senior Citizens' component of the program has about 7,700 accounts. The Disabled Citizens' component of the program has about 790 participants. In the past, General Fund has covered any shortfall in the program, but in recent biennia tax repayments have exceeded tax payments. However, due to lower than expected repayments and statutory transfers supporting Oregon Project Independence, projected fund balance estimates indicate the program could easily be in the red for tax year 2009-10. If the shortfall materializes, the agency will need to seek additional funding from the Legislature to make the tax payments.

Essential Budget Level

The essential budget level includes a $1 General Fund placeholder to highlight the potential obligation of General Fund to support the program.

Legislatively Adopted Budget

The legislatively adopted budget funds these property tax deferral programs at the essential budget level.

Secretary of State (SOS) – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	11,413,725	13,983,671	11,688,558	11,639,792
Other Funds	32,004,781	39,108,419	37,536,318	38,386,600
Federal Funds	5,747,937	9,222,719	7,520,712	7,505,935
Total Funds	**$49,166,443**	**$62,314,809**	**$56,745,588**	**$57,532,327**
Positions	201	199	198	198
FTE	200.50	198.50	197.50	197.30

Agency Overview

The Office of the Secretary of State is one of three constitutional offices established at statehood. The Secretary is auditor of public accounts, chief elections officer, and manager of the state's records, a role that includes preserving official acts of the Legislative Assembly and the Executive Branch. The Secretary of State serves with the Governor and Treasurer of State on the State Land Board which manages state-owned lands.

Revenue Sources and Relationships

Other Funds revenues are received from various sources, including:

- ***Assessments*** to state agencies based on a pro-rata share of four risk factors (cash, revenues, expenditures, and full-time equivalent positions) are the primary funding source for the Audits Division. However, agencies whose operations are predominately funded with dedicated trust funds (e.g., Department of Transportation) are billed for actual audit costs rather than an assessment. The Archives Division also assesses agencies for the storage and retrieval of inactive, non-permanent records maintained by the Division.
- ***Fees for services*** are collected from business filings, secured transactions, and notary public to support the Corporations Division; and municipal audits for the Audits Division.
  - HB 3405 (2009) increases the business registry fees as well as other corporate taxes. Traditionally, the agency has only been able to retain a cash balance that is equivalent to two months of operating expenditures for the Corporation Division on the initial $20 of the fee. HB 3405 allows them to keep all proceeds on that initial $20. It is anticipated that this change will result in a decrease of $3 million to the General Fund. Since there is a possibility that the measure might be overturned by an initiative petition, the true impact will not be known until early 2010.
  - 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. SB 776 (2009) increases the fees for the voters' pamphlet, but also allows the fees to be waived if a petition form was turned in with a specific number of signatures. The Secretary of State assumed that the numbers of filings would not decrease and that all candidates for office, nominating parties or assemblies, and persons filing an argument will pay the fee rather than submit a petition form. If this is the case, then General Fund revenues will increase by $547,200 for the 2009-11 biennium.
- ***Sale of publications***, including the annual Oregon Administrative Rules Compilation, the monthly Oregon Bulletin which provides updates to the Compilation, and the Oregon Blue Book, generate revenues for the Archives Division.
- ***Internal transfers*** are made to the Executive Office, Business Services, Information Systems, and Personnel Resources Divisions by the Audits and Corporations Divisions for a proportionate share of administrative costs.
- ***Miscellaneous*** document and copier charges are also collected by the Archives and Elections Divisions.

In past biennia, Federal Funds revenues were received primarily under the Help America Vote Act (HAVA). As was the case for the 2007-09 biennium, the HAVA program will expend existing Federal Funds revenues already received by the state. There is no need for General Fund for the state's matching portion of these funds.

Budget Environment

The Secretary of State is a separately elected, constitutional office, and as such, has not been subject to the Governor's budget review. SB 1101 (2005) modified the statutes relating to the Governor's budget development and allotment system to include the Secretary of State and the State Treasurer in those processes. SB 66 (2007) was amended to again exclude the two offices from the Governor's review process.

General Fund expenditures for the Secretary of State will fluctuate depending on the number and type of elections conducted. For primary and general elections, the counties are responsible for the costs of conducting the elections. When statewide special elections are held, the Secretary will reimburse counties for those costs. Costs associated with the production and distribution of voters' pamphlets will also vary depending on the number of candidates, measures, and measure arguments filed.

Implementation of HAVA requirements will continue to influence the Secretary of State's budget in the foreseeable future. HAVA was passed in October 2002 and contains minimum federal standards on various aspects of election administration which include developing a centralized voter registration system, replacement of punch card machines, privacy and independence in the voting process, access for people with disabilities, and voter outreach.

SOS – Administrative Division

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	284,539	301,061	293,445	252,545
Other Funds	1,091,835	1,261,806	1,287,541	1,214,021
Total Funds	**$1,376,374**	**$1,562,867**	**$1,580,986**	**$1,466,566**
Positions	6	6	6	6
FTE	6.00	6.00	6.00	6.00

Program Description

The Executive Office includes the Secretary and the Secretary's immediate staff. The office provides policy direction and daily management of the agency. The executive staff is responsible for strategic planning, policy development, and legislative and press relations. In addition, the office staffs the State Land Board.

Essential Budget Level

The essential budget level for the Administrative Division is $7,616 General Fund (2.5%) less and $25,735 Other Funds (2%) more than the 2007-09 legislatively approved budget. It includes the standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Legislatively Adopted Budget

The 2009-11 adopted budget for the Administration Division is $40,900 General Fund (13.9%) and $73,520 Other Funds (5.7%) less than the essential budget level. The Other Funds reductions are funded by business registry fees. The agency will transfer the savings to the General Fund in lieu of further reductions.

The reductions include an assumption that the agency will take 12 unpaid furlough days, unspecified services and supplies reductions, and savings from statewide reductions that include reduced costs for attorney fees, rent, and assessment charges.

SOS – Archives Division

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	3,489,876	3,566,514	3,832,484	3,556,928
Other Funds	1,684,348	2,319,001	2,444,062	2,416,599
Federal Funds	0	0	0	20,000
Total Funds	**$5,174,224**	**$5,885,515**	**$6,276,546**	**$5,993,527**
Positions	22	22	22	22
FTE	22.00	22.00	22.00	22.00

Program Description

The Archives Division stores public records and protects and provides public access to Oregon's documentary heritage. The Division provides records management advice and assistance to state and local agencies and publishes the state's administrative rules.

Essential Budget Level

The essential budget level for the Archives Division is $265,970 General Fund (7.5%) and $125,061 Other Funds (5.4%) more than the 2007-09 legislatively approved budget. It includes the standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. It also includes a 17% increase in rent for the Archives Building. The Department of Administrative Services (DAS) notified the Secretary of State that they had made a mistake calculating rent at a lower rate for 2007-09 and it would need to be corrected for the 2009-11 biennium. DAS had testified during the budget hearings during the 2007 session that savings could be captured for the Archives Building based on a different rent model. DAS now says that the new rent model did not include all of the costs and it will charge a much higher rate for 2009-11.

Legislatively Adopted Budget

The 2009-11 adopted budget for the Archives Division is $275,556 General Fund (7.2%) and $27,463 Other Funds (1.1%) less than the essential budget level. The Other Funds reductions are funded by business registry fees. The agency will transfer the savings to the General Fund in lieu of further reductions. The Federal Funds are the result of a grant from the National Historic Publications and Records Commission (NHPRC) in the amount of $20,000 for archiving services.

The reductions include an assumption that the agency will take 12 unpaid furlough days, reductions to travel, training, and office expenses, and savings from statewide reductions that include reduced costs for attorney fees, rent, and assessment charges.

The Legislature also approved two packages that will generate new revenues for the Archives Division. The first package allows the Secretary of State to charge a nominal fee ($0.52 per reel) for the storage of microfilm for state and local entities. The second package changed the fee structure for the processing of administrative rules.

SOS – Audits Division

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	12,122,386	15,134,069	16,163,230	15,714,764
Total Funds	**$12,122,386**	**$15,134,069**	**$16,163,230**	**$15,714,764**
Positions	72	72	72	72
FTE	72.00	72.00	72.00	72.00

Program Description

The Audits Division was created to carry out the Secretary's constitutional duties as auditor of public accounts to assure that public funds are properly accounted for and spent in accordance with legal requirements. The Division performs, or contracts for, financial and compliance audits and performance audits of state agencies.

Essential Budget Level

The essential budget level for the Audits Division is $1,029,161 Other Funds (6.8%) more than the 2007-09 legislatively approved budget. It includes the standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Legislatively Adopted Budget

The 2009-11 adopted budget for the Audits Division is $448,466 Other Funds (2.8%) less than the essential budget level.

The reductions include an assumption that the agency will take 12 unpaid furlough days, and savings from statewide reductions that include reduced costs for attorney fees, rent, and assessment charges.

SOS – Business Services Division

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	286,368	328,696	354,155	338,236
Other Funds	2,492,960	2,831,576	2,997,216	2,792,422
Total Funds	**$2,779,328**	**$3,160,272**	**$3,351,371**	**$3,130,658**
Positions	16	16	16	16
FTE	16.00	16.00	16.00	16.00

Program Description

The Business Services Division provides accounting, budgeting, cashiering, payroll, purchasing, contract administration, safety and risk management, fixed assets, and inventory control services for the agency.

Essential Budget Level

The essential budget level for the Business Services Division is $25,459 General Fund (7.8%) and $165,640 Other Funds (5.9%) more than the 2007-09 legislatively approved budget. It includes the standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. It also includes extraordinary inflation for increased Treasury charges related to increased volume in e-government transactions.

Legislatively Adopted Budget

The 2009-11 adopted budget for the Business Services Division is $15,919 General Fund (4.5%) and $204,794 Other Funds (6.8%) less than the essential budget level. The Other Funds reductions are funded by business registry fees. The agency will transfer the savings to the General Fund in lieu of further reductions.

The reductions include an assumption that the agency will take 12 unpaid furlough days, delaying the replacement of computers, elimination of capital outlay, and savings from statewide reductions that include reduced costs for attorney fees, rent, and assessment charges.

SOS – Corporation Division

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	6,998,284	7,409,515	7,594,496	6,733,909
Total Funds	**$6,998,284**	**$7,409,515**	**$7,594,496**	**$6,733,909**
Positions	36	36	36	32
FTE	35.50	35.50	35.50	31.50

Program Description

The Corporation Division is responsible for three major programs: 1) Business Registry – the filing of business names; 2) Uniform Commercial Code – the filing of secured transactions; and 3) Notary Public – commissioning and regulating notaries.

Essential Budget Level

The essential budget level for the Corporation Division is $184,981 Other Funds (2.5%) more than the 2007-09 legislatively approved budget. It includes the standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Legislatively Adopted Budget

The 2009-11 adopted budget for the Corporation Division is $860,587 Other Funds (11.3%) less than the essential budget level. The Other Funds reductions are funded by business registry fees. The agency will transfer the savings to the General Fund in lieu of further reductions.

The reductions include an assumption that the agency will take 12 unpaid furlough days, capital outlay reductions, and savings from statewide reductions that include reduced costs for attorney fees, rent, and assessment charges. Also included was the reduction of 4 positions (4.00 FTE). The impact of the reductions will be minimized by efficiencies gained through technology enhancements.

SOS – Elections Division

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	5,486,790	8,536,003	5,946,858	6,304,027
Other Funds	93,054	123,458	126,914	126,914
Total Funds	**$5,579,844**	**$8,659,461**	**$6,073,772**	**$6,430,941**
Positions	15	15	15	17
FTE	15.00	15.00	15.00	17.00

Program Description

The Elections Division administers state and federal elections laws, provides training to county and city election officials, political party representatives, and candidates; publishes statewide voter's pamphlets; and administers the filing and verification of initiative, referendum, and recall petitions.

Essential Budget Level

The essential budget level for the Elections Division is $2,589,145 General Fund (30.3%) less and $3,456 (2.8%) more than the 2007-09 legislatively approved budget. It includes the standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The large reduction in General Fund is due to a large decrease in state government service charges and one-time funding for a special election in 2007-09 that is not anticipated for the 2009-11 biennium.

Legislatively Adopted Budget

The 2009-11 adopted budget for the Elections Division is $357,169 General Fund (6%) more than the essential budget level. Other Funds expenditures are equal to the essential budget level.

Reductions include an assumption that the agency will take 12 unpaid furlough days, and savings from statewide reductions that include reduced costs for attorney fees, rent, and assessment charges. General Fund enhancements for the Elections Division include $599,942 and 2 positions (2.00 FTE) for signature and referendum verifications; $166,680 of this amount is considered temporary funding. Also included in the Division's budget was $68,845 General Fund for programming costs associated with SB 783.

SOS – Information Systems Division

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	1,112,807	1,182,892	1,188,075	1,121,395
Other Funds	6,374,047	9,445,129	6,287,898	8,818,348
Federal Funds	0	1,920,000	0	0
Total Funds	**$7,486,854**	**$12,548,021**	**$7,475,973**	**$9,939,743**
Positions	24	24	24	26
FTE	24.00	24.00	24.00	26.00

Program Description

The Information Systems Division provides centralized information technology services including database administration, Internet development, and application development and maintenance for the agency.

Essential Budget Level

The essential budget level for the Information Systems Division is $5,183 General Fund (0.4%) more and $3,157,231 Other Funds (33.4%) less than the 2007-09 legislatively approved budget. The essential budget level also eliminates $1,920,000 in Federal Funds that were used for one-time funding of projects in 2007-09. It includes the standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The large reduction in Other Funds is due to the elimination of funding for information technology projects that were completed in 2007-09.

Legislatively Adopted Budget

The 2009-11 adopted budget for the Information Systems Division is $66,680 General Fund (5.6%) less than the essential budget level. Other Funds expenditures are increased by $2,530,450 (40.2%) from the essential budget level. Business registry fees are the source for these expenditures. HB 3405 allows the agency to retain all revenues generated by the first $20 of business registry fees. Traditionally, these excess funds were transferred to the General Fund. The change is expected to create an additional $3 million for the agency that will fund four policy packages and 2 positions (2.00 FTE) for information technology enhancements related to Corporation Division systems. The agency will not proceed with these projects until there is resolution to a potential initiative referendum to overturn HB 3405.

The reductions include an assumption that the agency will take 12 unpaid furlough days, capital outlay reductions, and savings from statewide reductions that include reduced costs for attorney fees, rent, and assessment charges.

SOS – Personnel Resources Division

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	53,345	68,505	73,541	66,661
Other Funds	447,867	583,865	634,961	569,623
Total Funds	**$501,212**	**$652,370**	**$708,502**	**$636,284**
Positions	3	3	3	3
FTE	3.00	3.00	3.00	2.80

Program Description

The Personnel Resources Division provides advice on human resources policies and procedures, maintains employee records, and provides recruitment and training services for the agency.

Essential Budget Level

The essential budget level for the Personnel Resources Division is $5,036 General Fund (7.4%) and $51,096 Other Funds (8.8%) more than the 2007-09 legislatively approved budget. It includes the standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Legislatively Adopted Budget

The 2009-11 adopted budget for the Personnel Resources Division is $6,880 General Fund (9.4%) and $65,338 Other Funds (10.3%) less than the essential budget level. The Other Funds reductions are funded by business registry fees. The agency will transfer the savings to the General Fund in lieu of further reductions.

The reductions include an assumption that the agency will take 12 unpaid furlough days and savings from statewide reductions that include reduced costs for attorney fees, rent, and assessment charges.

SOS – Help America Vote Act

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	700,000	0	0	0
Other Funds	700,000	0	0	0
Federal Funds	5,747,937	7,302,719	7,520,712	7,485,935
Total Funds	**$7,147,937**	**$7,302,719**	**$7,521,712**	**$7,485,935**
Positions	7	5	4	4
FTE	7.00	5.00	4.00	4.00

Program Description

The federal Help America Vote Act (HAVA) requires states to implement a variety of election process reforms including replacing punch card voting systems, purchasing voting equipment that is accessible to people with disabilities, and developing a centralized voter registration system.

Essential Budget Level

The essential budget level for HAVA is $218,993 Federal Funds (3%) more than the 2007-09 legislatively approved budget through December 2008. It includes the standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Legislatively Adopted Budget

The 2009-11 adopted budget for the Help America Vote Act program is $34,777 Federal Funds (0.5%) less than the essential budget level. The reductions include reduced costs for attorney fees and data center costs.

Treasurer of State (Treasurer) – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	22,086,571	30,162,234	31,195,709	31,609,761
Other Funds (NL)	2,131,580	3,500,000	3,500,000	3,500,000
Total Funds	**$24,218,151**	**$33,662,234**	**$34,695,709**	**$35,109,761**
Positions	76	84	82	84
FTE	74.10	81.24	81.10	83.10

Agency Overview

The Treasurer of State acts as the "banker" for the State of Oregon by maintaining all state agency financial accounts, and by investing state funds that are not needed to meet current expenditure demands, including the state's Trust Funds and bond fund proceeds. The Treasurer coordinates and approves state bond sales, acts as collateral pool manager for the state's largest banks, and pays on bonds submitted by bondholders. Additionally, the Treasurer invests excess funds for local governments. The Treasurer is also responsible for administration of the Oregon 529 College Savings Network.

Treasurer – Treasury Services

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	19,979,143	27,318,370	28,216,690	28,208,810
Total Funds	**$19,979,143**	**$27,318,370**	**$28,216,690**	**$28,208,810**
Positions	74	82	80	82
FTE	72.10	79.24	79.10	81.10

Program Description

Treasury Services houses the operations of five Treasury programs. The **Investments Program** invests state held funds including the Oregon Public Employees Retirement Fund, the State Accident Insurance Fund, the Common School Fund, and other smaller funds; the **Oregon Short Term Fund Program** manages and invests state monies (and the funds of local governments that choose to participate) that are not needed for immediate demands in short-term securities; the **Banking Program** processes monetary transactions for all state agencies and over 1,500 local government accounts; the **Debt Management Program** coordinates and approves issuance of state agency and authority bonds; and the **Collateral Pool Program** assures that public funds held in financial institutions are properly collateralized, and acts as pool manager for Oregon banks.

Revenue Sources and Relationships

Approximately 70% of Treasury Services Other Funds revenue consists of revenue from charges the Treasury imposes for administering investments in the Investments Program and for administering the Oregon Short Term Fund. These charges are levied as a percentage of the value of the administered funds, and the revenues received therefore vary directly with the fund balance levels. Revenue from these administrative charges is projected to total $23.7 million in the 2009-11 biennium (an increase of 48% over the 2007-09 biennium level).

Statutes limit the Treasury administrative charge to no more than 0.052% per year of the Oregon Short Term Fund's balance, and to no more than 0.03% per year of other investment fund balances. The Treasury's actual administrative charges, however, have been less than these statutory maximums. The imposed charge for administration of the Oregon Short Term Fund has been 0.036% of the Fund's balance, and the charges imposed for administering the other designated investment funds vary, but are below the allowed maximum. For the largest of the designated investment funds, the Oregon Public Employees Retirement Fund, the administrative charge assessed, prior to the 2009 session, had been only 0.007% per year for most of that Fund's balance.

Other Treasury Services revenues include charges to state agencies for banking services, estimated at $6.3 million (up 10.4% over the 2007-09 biennium level), charges to state agencies for bond and coupon redemption on outstanding general obligation bonds and to state agencies and municipalities for bond issuance costs, estimated at $3.7 million (up 33%), and charges to banks that use the Treasurer as a collateral pool manager, estimated at $647,000 (up 215%). The combined sum of these revenues is projected to total $34.3 million in the 2009-11 biennium, a 39% increase over the prior biennium level.

Budget Environment

The budget is driven by the number and complexity of financial transactions, the complexity and diversity of investments, the number and kinds of bond transactions, and the number of programs operated out of the Treasurer's Office. The Oregon Public Employees Retirement Fund, State Accident Insurance Fund, Oregon Short Term Fund, and Common School Fund account for most of the Treasurer's investment activity. Generally, growth of these funds has increased investment costs and revenues. The Treasurer had relied heavily on automation to service this growth, without a corresponding growth in personnel.

In 2007, however, the Legislature added seven full-time positions, five in the Investment Division, one in the Debt Management Division, and one in the Finance Division. The five Investment Division positions were added to address workload needs arising from growth in investment portfolios, particularly in the Oregon Public Employees Retirement Fund. The additional staff help the Division take advantage of new investment opportunities in its private equity portfolio, and search out other investment opportunities for up to 3% of the PERS portfolio, currently $1.4 billion. The new debt management position addresses increasingly complex federal and securities laws and the application of innovative financial products in agency bond programs. The additional Finance Division position deals with increased workload associated with a statutory change to the administration of the collateral pool for banks that hold state funds.

A large portion of Treasury Services expenditures is financed from administrative fee revenues that are directly dependent on the value of the portfolios that the Treasury manages. Most of the funds managed outside of the Oregon Short Term Fund are invested in the Oregon Public Employees Retirement Fund (OPERF). Sharp declines in equity, bond, and real estate values have reduced the balances of the Oregon Public Employees Retirement Fund and of other invested funds. The balance in the Oregon Public Employees Retirement Fund, for example, peaked at $64.6 billion in November 2007. This fund's balance, however, declined by 36%, to only $41.5 billion, as of March 2009. These declines reduced agency revenue, which are levied on the account balances, from both earlier levels and from previously-forecast levels. The Treasury responded to this situation by increasing the fees it charges to administer investment funds on February 1, 2009. Incremental fee rates were increased, and the fee rate levied on the bulk of the OPERF balance was increased from 0.007% to 0.0144%, a level that, while still only approximately half of the statutory limit, represents a 118% increase over the prior rate. This rate increase was designed to support the earlier revenue projections of a 39% increase over the prior biennium.

As of the close of the 2007-09 biennium, investment fund portfolio values had recovered somewhat from their March 2009 lows. The OPERF ended the biennium with a $45.3 billion balance, up 9% from the prior March, but still 30% below its November 2007 peak. Even with the February 2009 administrative fee increases, if investment fund portfolio values remain at June 2009 levels throughout the entire 2009-11 biennium, administrative fee revenues would still fall approximately $1.2 million short of the amount projected in the legislatively adopted budget, absent additional fee rate increases.

Essential Budget Level

The essential budget level includes the standard adjustments for personnel cost increases and for inflation in services and supplies costs and state government service charges. It additionally includes two-years of funding for two positions that were added in 2007 but not funded for the full 2007-09 biennium, and an adjustment to fully finance up the maximum potential annual bonus payments for investment officers for the first of the two years of the 2009-11 biennium.

Growth in the Treasury Services budget has been robust. The 2009-11 biennium essential budget level represents a 41.2% increase over 2005-07 (even though the EBL does not include potential second-year bonuses for investment officers). This increase has resulted primarily from the authorization of additional positions, and from salary increases awarded as a result of position reclassifications and other compensation rate increases. Of particular note have been the salary increases awarded to the agency's investment officers through compensation plan changes that increased their maximum annual bonus payments from 10% to 30% of salary. Under the Treasurer's compensation plan, 14 agency investment officers are eligible for annual bonus payments equal to up to 30% of salary, based on the performance of the portfolios they manage relative to the similar investment portfolios in other states. Because of the increase in the maximum bonus rate, the increase in the number of investment officers eligible for bonuses, and the increases in investment officer base salary rates, total bonus payments have grown rapidly. Investment officer bonus payments totaled approximately $72,000 in the 2005-07 biennium. In the 2009-11 biennium, investment officers will be eligible for potential bonuses totaling approximately $1.4 million (and over $1.6 million including associated benefits costs).

The essential budget level includes sufficient Other Funds expenditure limitation to support payment of up to $604,826 in investment officer bonus payments for the first of the two possible annual bonuses awarded in the biennium. Payment of any additional bonuses for the first-year (payments could total as much as $800,000 under the existing compensation plan), or for second-year bonuses, would require the Legislature to approve a policy package or the Emergency Board to approve an Other Funds expenditure limitation increase.

Legislatively Adopted Budget

The legislatively adopted budget of $28.2 million Other Funds for Treasury Services is a 3.3% increase over the prior biennium level. Although the amount is approximately equal to the essential budget level, the budget includes $1.5 million in enhancements and $1.5 million in offsetting cuts. Those program enhancements and reductions include:

- $986,157 Other Funds to add two full-time Accountant positions and additional services and supplies expenditures in support of the Treasury's in-house public equity trades and its management of external portfolios, including $300,000 to support a contract investment consultant for the state's deferred compensation plan (Oregon Savings Growth Plan);
- $250,000 Other Funds for one-time expenditures to acquire a web-based state and local debt tracking system;
- $232,563 Other Funds and one full-time position, to continue authority for the Chief Audit Executive position approved by the Emergency Board in June 2008; and
- ($507,790) Other Funds cuts reducing services and supplies expenditures and eliminating one Information Specialist position, to better control expenditures during a period of uncertain revenues;
- ($130,000) Other Funds expenditure reductions to shift a portion of agency shared services costs to the Oregon 529 College Savings Network program; and
- ($838,810) in Other Funds reductions as the program's share of the statewide salary and state government service charge reductions approved as part of the legislatively adopted budget.

The legislatively adopted budget does not provide authority for investment officer bonus compensation payments beyond the level included in the essential budget level. The amount in the budget may be applied toward first-year bonuses, although the $604,826 will not be sufficient if all eligible personnel qualify for the maximum 30% bonus under the compensation plan. The budget, for the first time, establishes a separate line-item expenditure limitation for bonus compensation payments. The Legislature directed the Treasurer to report on performance-based bonus compensation plans available to employees with responsibilities similar to those of the office's investment officers, employed by other state governments and employed in the private sector, and to include information on the general changes in the availability of performance-based compensation for those same employee types that have occurred since the current 30% bonus plan was adopted in 2005. The Treasurer was directed to submit this report prior to committing to any bonus compensation payments based on 2010 calendar year performance, and prior to requesting any expenditure authority for second-year bonus compensation payments.

Treasurer – Oregon 529 College Savings Network

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	2,107,428	2,843,864	2,979,019	3,400,951
Total Funds	**$2,107,428**	**$2,843,864**	**$2,979,019**	**$3,400,951**
Positions	2	2	2	2
FTE	2.00	2.00	2.00	2.00

Program Description

The Oregon 529 College Savings Network administers three savings programs designed to encourage people to save money for future education costs. The Oregon 529 College Savings Board, which is chaired by the State Treasurer, establishes policies and oversees the program. Participants can choose from a variety of investment options. Earnings on the investments are exempt from income taxes if used for qualified educational expenses when withdrawn, and some contributions may be claimed as a deduction against income for state income tax purposes. Although administered by the Treasurer, participant enrollment, investment management, and participant support is provided by third party contractors.

Revenue Sources and Relationships

The program was started with advances from the General Fund, but is now fully-supported from fees (Other Funds). The program receives Other Funds from an annual assessment on plan assets of 10 basis points (0.10%) and from interest earned on the assessment revenues. As such, program revenues vary directly with the total balance in participants' accounts. The program has grown in size to the point that these revenues are sufficient to cover the Treasurer's administrative costs. Revenues from these sources are projected to total $3 million in the 2009-11 biennium.

Budget Environment

The program was initiated during the 1999-2001 biennium. By May 2008, the program had expanded to nearly 111,000 participant accounts, and total balances peaked at more than $1.05 billion. Since that time, however, stock and bond market declines have reduced the value of participants' accounts. As of November 2008, the number of accounts had increased further to more than 116,000, but the total balances in the accounts had declined nonetheless by 30% from the May 2008 level, to $735.4 million. The Treasurer dismissed the former Oregon College Savings Plan administrator (OppenheimerFunds), and subsequent to the 2009 session, selected TIAA-CREF Tuition Financing Inc. as the new administrator for the Plan.

Essential Budget Level

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

Legislatively Adopted Budget

The legislatively adopted budget of $3.4 million Other Funds for the College Savings Network is a 19.6% increase over the prior biennium level, and is approximately $422,000 (or 14.2%) above the essential budget level. Total expenditures are projected to exceed revenues by approximately $400,000, reducing the Network program's projected $1.9 million beginning fund balance to $1.5 million by the end of the 2009-11 biennium. The expenditures support a contract for investment consulting services and one-time costs to transition the College Savings Network's plans to a new management company. The purpose of these enhancements is to improve the operation of the Network's plans and protect investors in those plans. The calculation of the agency's essential budget level for the 2011-13 biennium will include the phase-out of $250,000 Other Funds included in the adopted budget for one-time manager transition costs.

Treasurer – Nonlimited

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds (NL)	2,131,580	3,500,000	3,500,000	3,500,000
Total Funds	**$2,131,580**	**$3,500,000**	**$3,500,000**	**$3,500,000**

Program Description

Payments for cash management services are not limited in the budget. These represent the fees the Treasury pays to financial institutions for direct banking services.

Revenue Sources and Relationships

The Treasury recovers the cost of banking fees related to banking services from state agencies and local governments. These recoveries are calculated on the basis of the agency's or government's actual banking transactions.

Budget Environment

State funds, and the funds of participating local governments, are deposited in Treasury accounts in commercial financial institutions. These institutions levy fees to the Treasury for certain banking transactions. The Treasury has no direct control over these fees, since they are incurred when state agencies or participating local governments make transactions that are subject to bank fees. The Nonlimited expenditures include these transaction-based banking costs. The Treasury collects funds to support the Nonlimited expenditures (i.e., to pay the bank fees) from the state agencies and local governments making the financial transactions.

Essential Budget Level

The essential budget level is equal to the level approved for the 2007-09 biennium.

Legislatively Adopted Budget

The total amount of Nonlimited banking fees is not forecast to change from prior biennium levels.

CONSUMER AND BUSINESS SERVICES

Board of Accountancy – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	1,472,666	2,063,391	1,766,821	1,752,239
Total Funds	**$1,472,666**	**$2,063,391**	**$1,766,821**	**$1,752,239**
Positions	7	7	7	7
FTE	7.00	7.00	7.00	7.00

Agency Overview

The Board of Accountancy is a seven-member citizen board that licenses and regulates public accountants. The Board administers the examination and licenses individual Certified Public Accountants (CPAs) and Public Accountants (PAs), and their firms. The Board is responsible for investigating complaints, renewing licenses, and monitoring the continuing education of its licensees. A staff of seven administers the Board's programs. The Board currently regulates over 8,500 licensees.

Revenue Sources and Relationships

The Board's Other Funds come primarily from business registration fees, biennial licensing fees, and examination fees. Additionally, a small amount of revenue is gained through the sale of mailing lists.

The American Institute of Certified Public Accountants changed the examination from twice a year to a year-round, online examination. This has resulted in reduced revenues and costs to the Board. The Board also anticipates a revenue reduction based on the number of out of state licensees and public accounting firms that will not be required to be licensed in Oregon as a result of the passage of SB 748 during the 2007 session (Chapter 178, 2007 Laws) which provides that a person or business organization holding a certificate, license, permit, designation, or degree granted in another jurisdiction may prepare, advise, or assist in the preparation of tax returns without obtaining a license or registration under ORS 673.010 to 673.457 as long as the person or business organization does not have an office in this state.

Budget Environment

Examination applications and membership have stabilized and Board operating costs are more predictable than they have been. The Board expects the base of licensees to remain relatively consistent in the near future. Over the past two biennia, fines have increased as have the frequency and complexity of complaint investigations. This in turn has increased the expenditures for independent third party auditors and Attorney General's services.

Essential Budget Level

The Board's 2009-11 essential budget level of $1,766,821 reflects a 14.4% decrease from the 2007-09 legislatively approved budget due to phase out of one-time funding for information technology professional services to develop a business case and request for proposal for an online licensing system ($148,845), and professional services for contract investigators to reduce the current backlog of complaints ($249,302).

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $1,752,239 represents a 15.1% decrease from the 2007-09 legislatively approved budget. It includes $50,000 to allow the Board to continue to contract with qualified investigators to handle complex investigations. It also includes minor decreases in personal services ($34,584), as well as adjustments to Department of Administrative Services ($4,131), State Data Center ($3,781), and Attorney General ($22,086) assessment rates.

The Board is instructed to submit a request to the Emergency Board if it requires additional limitation for completion of the online licensing project.

Board of Chiropractic Examiners – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	1,003,629	1,156,726	1,295,037	1,243,565
Total Funds	**$1,003,629**	**$1,156,726**	**$1,295,037**	**$1,243,565**
Positions	5	5	5	5
FTE	4.50	4.50	4.50	4.50

Agency Overview

The mission of the Board of Chiropractic Examiners is to protect and benefit the public health and safety, and promote quality in the chiropractic profession. The Board regulates Doctors of Chiropractic and Certified Chiropractic Assistants through examination, licensing, and disciplinary programs. The seven-member board is appointed by the Governor and composed of five chiropractors and two public members.

Revenue Sources and Relationships

The agency is funded by revenue generated from licensing, application, and examination fees. Revenue in 2009-11 is projected to be 5.3% greater than 2007-09 estimates and the projected ending cash balance of $187,768 equals approximately three months of operating costs.

Budget Environment

The agency has identified four main activities: public protection (42%); licensing (22%); public and professional information (20%); and board support (16%). The licensee base continues to grow at a steady rate. The agency is projecting an annual growth rate in the number of licensee of 2.5%. Licensee growth creates increased licensing and examination workload, as well as the potential for increased complaint investigations.

Essential Budget Level

The essential budget level is a 14.9% increase over the 2007-09 legislatively approved budget. This increase covers increases in state government service charges, personal service costs, and Attorney General legal fees.

Legislatively Adopted Budget

The legislatively adopted budget reflects a 7.5% increase over the 2007-09 legislatively approved budget, maintains current service levels and increases the per diem for Board members from $30 per day to $109. The legislatively adopted budget is a 4% decrease from the essential budget level and reflects decreases in Attorney General legal fees, Department of Administrative Services' assessment charges, and personal services savings.

Board of Clinical Social Workers – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	581,996	857,778	808,079	928,435
Total Funds	**$581,996**	**$857,778**	**$808,079**	**$928,435**
Positions	3	5	4	5
FTE	2.50	3.50	3.00	4.00

Agency Overview

The mission of the Board of Clinical Social Workers is to protect the citizens of Oregon by setting a strong standard of practice and ethics through the regulation of clinical social workers. The Board oversees a voluntary licensing program for individuals who want to use the title "licensed clinical social worker." The Board is responsible for developing and enforcing ethical standards for licensed individuals; investigating complaints; and disciplining licensed individuals who violate ethical standards, Board rules, or state licensing laws. The seven-member board is appointed by the Governor and composed of four licensed clinical social workers and three public members.

Revenue Sources and Relationships

The agency is funded by revenue generated from application and licensing fees. Other miscellaneous sources include late fees and publication sales. Revenue in 2009-11 is projected to be 39.1% greater than 2007-09 estimates due to proposed 2009-11 fee increases to establish a limited duration investigator position and provide funds for expert witnesses. The 2009-11 projected ending balance of $229,373 equals approximately six months of operating costs.

Budget Environment

The agency has identified two main activities: public protection (30%) and licensing (70%). An increase in the number of investigations undertaken by the Board and a gradual increase in licenses and renewals have maximized the capacity of staff.

Essential Budget Level

The 2009-11 essential budget level is 5.8% less than the 2007-09 legislatively approved budget due to the net effect of a fee increase and changes in personal services, state government service charges, and Attorney General fees.

Legislatively Adopted Budget

The legislatively adopted budget is an increase of 8.1% over the 2007-09 legislatively approved budget. The legislatively adopted budget reflects the addition of one limited duration Compliance Specialist 2 position (1.00 FTE) and assumes fee increases instituted in the 2007-09 biennium.

Construction Contractors Board – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	11,333,433	15,802,536	16,832,130	15,082,530
Total Funds	**$11,333,433**	**$15,802,536**	**$16,832,130**	**$15,082,530**
Positions	72	82	79	80
FTE	61.34	80.26	79.00	76.50

Agency Overview

The Construction Contractors Board (CCB) provides services to homeowners, contractors, subcontractors, construction suppliers, bonding and insurance companies, and state and local building officials. The Board regulates the profession of construction contracting and provides consumer protection and dispute resolution services. The Board licenses construction contractors and subcontractors, provides consumer information and education, and resolves disputes. The Board investigates complaints, imposes fines for violations of Oregon laws, including failure to carry workers' compensation coverage, and ensures that new contractors meet statutory pre-licensing educational and testing requirements. HB 3127 (2009) established a certification program for locksmiths in the agency.

Revenue Sources and Relationships

Approximately 95% of CCB resources are expected to be received from contractor licensing and renewal fees. Fees are set by adoption of an administrative rule; effective October 1, 2005 the fee for all new and 2-year renewal licenses was reduced from $295 to $260. The remainder of CCB revenue will be from miscellaneous fees and civil penalties. Civil penalty collections do not make up a material portion of revenues, as the agency retains only 20% of the collections, with the remainder transferred to the General Fund. Transfers of civil penalty collections for the 2009-11 biennium are estimated to be approximately $960,000.

The agency was expecting a significant revenue shortfall for the 2009-11 biennium given the economic downturn in the construction industry. In spite of an anticipated $3.9 million beginning balance for 2009-11, the new revenues were not projected to cover the essential budget level. The agency proposed raising the cap on its fees from $260 to $410, but the Legislature approved keeping the fee at $260 until June 2010 and then raising it to $325 for the second year of the biennium. If the revenues come in higher than forecasted, one option would be to lower the fee increase.

Budget Environment

Essential Construction Contractors Board responsibilities continue to be licensing, enforcement, complaint resolution, and consumer and contractor education. Licensing volume has fluctuated over the past four biennia for various reasons, including the implementation of a business competency test for new contractor applicants in July 2000, a recession that touched Oregon in 2001, and a post-recession construction boom. The current economic environment is having a significant impact on the licensing volume. The agency is projecting a reduction in both license renewals as well as applications for new licenses.

HB 3242 (2007) expanded the licensing structure for construction contractors by adding new endorsements designed to differentiate between residential and commercial contractors. The new endorsements for commercial contractors required: minimum experience and continuing education for key employees; and increased surety bond and liability insurance coverage. The bill also required contractors to provide a two-year building envelope warranty for large commercial structures and expands the definition of "small commercial structures" to protect residential contractors from having to obtain dual endorsements.

Essential Budget Level

The essential budget level for the Construction Contractors Board is $1,029,594 (6.5%) Other Funds more than the 2007-09 legislatively approved budget. It includes the standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Legislatively Adopted Budget

As mentioned above, the agency has seen revenues decline dramatically because the construction industry has been hit hard by the economic situation. The agency had proposed increasing licensing fees from $260 to $410 to increase revenues enough to cover the essential budget level as well as a number of policy option packages.

The adopted budget is $1,749,600 (10.4%) less than the essential budget level. The Legislature approved keeping the current license fee at $260 for the first year of the biennium and increasing it to $325 for the second year. The budget includes all of the positions in the essential budget level for the first year, but if forecasted revenues do not improve, 7 positions (3.50 FTE) will be eliminated for the second year of the biennium. If revenues do improve, the Emergency Board could approve the continuation of some, or all of the positions, or it could reduce the fee increase.

The adopted budget also includes $170,970 Other Funds and 1 position (1.00 FTE) for HB 3127, which establishes a certification program for locksmiths in the agency. The position will implement the new program, including the development of administrative rules, licensing, continuing education, and enforcement activities. Revenues from application and certification fees are expected to be $240,000 during the 2009-11 biennium.

Department of Consumer and Business Services (DCBS) – Agency Totals

	2007-09 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	174,066,743	208,628,572	220,849,969	210,074,625
Other Funds (NL)	413,325,249	523,267,375	603,755,069	603,755,069
Total Funds	**$587,391,992**	**$731,895,947**	**$824,605,038**	**813,829,694**
Positions	1,069	1,088	1,071	1073
FTE	1,054.78	1,072.47	1,064.58	1,064.08

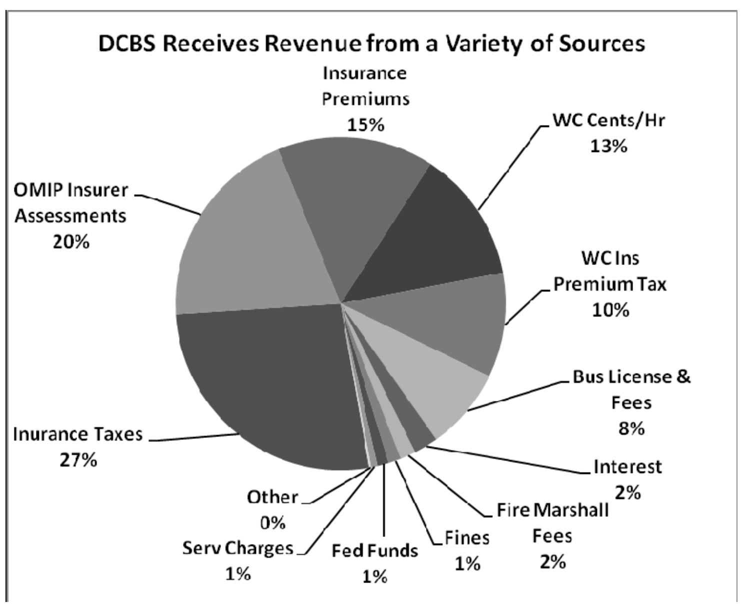
Agency Overview

The Department of Consumer and Business Services (DCBS) is organized into four broad program areas that include central administration and three separate consumer-related regulatory functions:

- Shared Services, including administrative support, information management, and policy direction.
- Regulation and Enforcement of Workplace Safety and Health, including the Workers' Compensation Board, the Workers' Compensation Division, and Oregon Occupational Safety and Health Administration (OR-OSHA).
- Financial and Insurance Regulation and Services, including the Insurance Division, the Division of Finance and Corporate Securities, and the Oregon Medical Insurance Pool.
- Regulation of Building Codes and other consumer services, including the Building Codes Division and the Office of Minority, Women and Emerging Small Business. The 2009 Legislature transferred the Office of Minority, Women, and Emerging Small Business to the Oregon Business Development Department.
- 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. The 2009 Legislature approved HB 2009 which transfers the Oregon Medical insurance Pool to the newly formed Oregon Health Authority. This transfer becomes effective by the 2011-13 budget cycle. For the 2009-11 budget, the Pool remains within DCBS' budget structure until the transfer is complete.

Revenue Sources and Relationships

Over 500 dedicated fees, assessments, and charges support the operation of DCBS. The total revenue in the 2009-11 essential budget, including policy packages, is projected at $975 million. Approximately 13%, or $127, million of that revenue will be transferred to the General Fund from retaliatory taxes collected from insurance companies, certain fines and penalties, and revenues in excess of expenses from Securities revenues for the Division of Finance and Corporate Securities. In addition, the Department is responsible for the management of a number of dedicated accounts within four separate operating funds: the Consumer and Business Services Fund; the Workers' Benefit Fund; the Funeral and Cemetery Consumer Protection Trust Fund; and the Oregon Medical Insurance Pool. The pie chart illustrates the variety of revenue sources, as described in detail in the narrative below:



- The Consumer and Business Services Fund is the operating fund for the Department. Revenue sources include the Workers' Compensation Premium Assessment, which supports the workers' compensation-related programs of the Department, business licenses, and assessments and fees that support Building Codes, insurance, finance, and consumer services programs. The Workers' Compensation Premium Assessment rate is set each fall for the following calendar year.

- The Workers' Benefit Fund is financed through the Workers' Compensation Cents per Hour assessments paid one-half by employers and one-half by workers. The assessment is set each fall for the following calendar year. The Fund primarily supports benefits to claimants injured when benefits were lower, payments to beneficiaries of fatally injured workers, as well as all of the other injured workers' programs, including the Handicapped Worker, Reemployment Assistance, and Rehabilitation programs, and also ensures compensation for injured workers, including payments to injured workers of non-complying employers.
- The Oregon Medical Insurance Pool is funded with premiums collected from insured individuals and insurer assessments. The pool provides access to health care coverage for Oregonians excluded from the health insurance marketplace because of preexisting conditions.

Specific revenue sources include:
- Workers' Compensation Cents per Hour supports the Workers' Benefit Fund. This rate has dropped 33% since 1999. The current rate is 2.8 cents per hour worked for the calendar year 2009.
- Workers' Compensation Tax (Insurance Premium Assessments) supports workers' compensation-related programs. The total premium paid by employers continues to decline. The current workers' compensation premium assessment rate is 4.6% of earned premiums for calendar year 2009; the rate has been level the past three years following several years of decline.
- Insurance Premium Assessments support Insurance Division programs.
- Business Licenses and Fees which support regulatory programs such as Building Codes, Insurance Division, and the Division of Finance and Corporate Securities. The 2009-11 essential budget reflects reduced revenue of approximately $500,000 for the Boiler and Pressure Vessel program in the Building Codes Division.
- Insurance retaliatory taxes, totaling approximately $106 million for the 2009-11 biennium, are transferred to the General Fund.
- Federal Funds, which are expended as Other Funds, support Occupational Safety and Health programs and the Senior Health Insurance Benefits Assistance (SHIBA) program.
- Interest earnings, fines, assessments, and other revenues support various Department programs some of which are transferred to other agencies, including an estimated $17.8 million for the Department of State Police to support the State Fire Marshal.

Budget Environment

Workload is driven by factors such as the demographic changes in Oregon's population, the economic climate, changes in business practices including increased use of rapidly changing information technology, and health care needs and reform. Although the downturn in the economy has caused decreased workload in many areas of DCBS, it has increased the demand for regulatory services in other areas. For example, the department has increased its oversight in the mortgage lending and banking industries as well as its outreach to consumers facing foreclosure. DCBS is also playing a key role in statewide sustainability and health reform efforts. This workload has also included, in recent years, absorbing administrative responsibility for a number of agencies, including Building Codes and duties relating to titling and registration of manufactured structures.

DCBS programs have an effect on businesses and their employees in every segment of the economy. DCBS is aware that its statutory responsibilities to regulate and charge fees will require deliberate and strategic sensitivity where there are increased demands for consumer services and regulatory action. In the current environment, the state has seen a sizable increase in foreclosures and delinquent mortgages; the downturn in housing and construction has affected the Building Codes Division and Oregon OSHA workloads to ensure contractors do not cut corners when it comes to structural and workplace safety

Essential Budget Level

The 2009-11 essential budget level of $824 million total funds is an increase of $176 million, or 25.5%, from the 2007-09 legislatively approved expenditure level and includes 1,071 positions (1,064.58 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes $8.5 million total funds in special session and Emergency Board actions during Fiscal Year 2008 for increased compensation for employees and increased enforcement positions for Mortgage Lending. The 2009-11 essential budget level reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges including the removal of 12 positions (5.55 FTE) relating to personnel changes through permanent financing actions.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget is $11.4 million , or 1.4%, lower than the 2009-11 essential budget level. The 2009-11 essential budget level is 12.6% higher than the 2007-09 legislatively approved budget. Limited Other Fund expenditures increased by 5.6% from the essential budget level while the Nonlimited Other Fund expenditures are increased by 15.4% largely due to quickly rising medical payments within the Oregon Medical Insurance Pool. The budget supports a revenue transfer of $89.9 million to the Oregon Health Authority from a tax on insurers for the Healthy Kids Initiative. The Legislature added three positions (3.00 FTE) to support the Oregon Health Fund Board initiatives adopted by the Legislature in HB 2009; seven positions (7.00 FTE) in Mortgage Lending programs; and five positions (5.00 FTE) in the Building Codes Division to support Energy Efficient Standards required under SB 79 and the Boiler and Pressure Vessel program totaling $2.3 million. The budget also continues support at current levels for statewide electronic permitting. The budget recognizes revenue reductions in several of its fee-supported programs resulting in a reduction of $1.56 million and 12.50 FTE as well as a $0.8 million reduction to reflect revenue reductions in a transfer from the Department of Human Services for the Senior Health Insurance Benefits Assistance (SHIBA) program. An additional personal services reduction of $1.1 million was made to reflect holding vacant multiple positions for six months of the biennium and a reduction of $9.2 million was made to reflect reduction in statewide assessments for state government service charges and statewide salary reductions. The Legislature transferred the Office of Minority, Women and Emerging Small Business with five positions (5.00 FTE) and $938,423 expenditure limitation to the Oregon Business Development Department.

DCBS – Shared Services

	2007-09 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	31,720,814	37,943,862	40,962,906	39,314,998
Other Funds (NL)	19,568	257,956	257,956	257,956
Total Funds	**$31,740,382**	**$38,201,818**	**$41,220,862**	**$39,572,954**
Positions	175	174	178	178
FTE	170.93	169.67	176.54	176.54

Program Description

Shared Services provides direction, leadership, and support services to the diverse divisions, offices, and boards within the Department.

- The Director’s Office accounts for 6% of Shared Services expenditures and provides leadership, policy direction, general supervision of all programs, and liaison with other levels of government and the general public.
- The Information Management Division accounts for 63% of Shared Services expenditures and delivers DCBS information technology strategy and standards. In addition the unit collects, stores, processes, analyzes, and reports agency information used by the department, public, and policymakers.
- Fiscal and Business Services accounts for 22% of Shared Services expenditures. The unit provides centralized purchasing and accounting services, collection services, payroll, purchasing, printing, ordering, and contract management services.
- Communication Services is 1% of Shared Services expenditures, and provides outreach and information on rules, policies and data, including interactive forms on the Internet, to the public and non-English speaking Oregonians.
- Employee Services is 8% of Shared Services expenditures, and provides human resources support, facilities services, mail services, telecommunication, safety, risk management, and training to the agency.

Revenue Sources and Relationships

Shared Services is primarily funded with Other Funds from revenue transfers within the Department’s dedicated funds. Federal Funds of $217,025 from the U.S. Bureau of Labor Statistics and matching funds from Workers’ Compensation Premium Assessments fund an annual survey of work-related and fatal injuries. The Department expends Federal Funds as Other Funds.

Budget Environment

Workload in the Shared Services divisions is driven, in part, by the workload factors affecting the Department as a whole. This includes demographic changes in Oregon's population, economy, changes in business practices, rapidly changing information technology, and health care needs and reform. Shared Services monitors agency workload and statistics in support of the agency's key performance measures.

Essential Budget Level

The 2009-11 essential budget level of $41.2 million total funds is an increase of $3 million, or 8%, from the 2007-09 legislatively approved expenditure level and includes 178 positions (176.54 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes $1.3 million total funds in special session and Emergency Board actions during Fiscal Year 2008 for increased compensation for employees. The 2009-11 essential budget level reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges including the addition of 4 positions (6.87 FTE) relating to personnel changes through permanent financing actions.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget is $1.6 million, or 4%, lower than the 2009-11 essential budget level. The Legislature approved adding one position (1.00 FTE) and $175,260 Other Funds to support initiatives in the Division of Finance and Corporate Securities (DFCS) related to mortgage lending examinations. The position will update and maintain the mortgage lending program computer system or develop and maintain a new system. The current system needs upgrades to effectively track licensed entities, exams conducted, and complaints handled to develop a risk profile system and interact with a new National Mortgage Licensing System. Funding for this position will be through administrative assessments to DFCS for costs which are funded through fees. The budget recognizes revenue reductions in several of its fee-supported programs resulting in a reduction of $260,852 Other Funds and one position (1.00 FTE) for the Shared Services segment of the Department. The budget also reflects a reduction of $1.56 million for decreases in statewide salaries and assessments for state government service charges.

DCBS – Workers' Compensation Board

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	17,339,625	19,681,324	21,504,445	20,164,074
Total Funds	**$17,339,625**	**$19,681,324**	**$21,504,445**	**$20,164,074**
Positions	97	94	93	90
FTE	94.68	94.00	93.00	90.00

Program Description

The Workers' Compensation Board is responsible for adjudicating contested Workers' Compensation cases and Oregon Occupational Health and Safety Administration (OR-OSHA) citations, notices, and orders, and for reviewing administrative orders on appeal. The Board also conducts hearings and reviews of appeals from Oregon Department of Justice decisions regarding applications for compensation under the Crime Victim Assistance Program and resolves disputes between injured workers and workers' compensation carriers arising from workers' civil actions against allegedly liable third parties. The Board consists of five full-time permanent members. Offices are located in Portland, Salem, Eugene, and Medford. The Board also conducts hearings in 8 other locations around the state.

The Workers' Compensation Board program includes three program areas: Administrative Services, Hearings, and Board Review.

Revenue Sources and Relationships

The primary revenue source for the Board is Workers' Compensation Premium Assessment. The current assessment is 4.6% of earned premiums, collected from SAIF, private, and self-insurers to be used for Department expenses.

Budget Environment

The number of requested hearings and Board reviews in calendar year 1992 were 17,877 hearings and 2,230 Board reviews; in 1999 there were 11,828 hearings and 1,096 Board reviews; and in 2001 there were 10,139 hearings and 966 Board reviews. The numbers have held steady in recent years with 9,766 hearings and 620 Board reviews requested in 2008. However, these numbers do not tell the entire story, since the scope and complexity of the cases filed with the Board have increased as litigants request hearings on issues related to the requirements of legislatively adopted workers compensation reforms. Over the past biennia, the Board has responded to the reduced number of filings by reducing staffing by 22.00 FTE since 1995-97 (7.50 in 1997-99, 12.00 in 1999-2001, 1.00 in 2001-03, 2.00 in 2003-05, and 0.68 in 2007-09) with a corresponding reduction in the growth of program expenditures.

Essential Budget Level

The 2009-11 essential budget level of $21.5 million total funds is an increase of $1.8 million, or 9.3%, from the 2007-09 legislatively approved expenditure level and includes 93 positions (93.00 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes $715,793 total funds in special session and Emergency Board actions during Fiscal Year 2008 for increased compensation for employees. The 2009-11 essential budget level reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges including the reduction of 1 position (1.00 FTE) relating to personnel changes.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget is $1.3 million, or 6.2%, lower than the 2009-11 essential budget level. The Legislature reduced the budget by $473,421 Other Funds and 3 positions (3.00 FTE) to reflect reductions in workload and took an additional $886,950 reduction to reflect a decrease in statewide salaries and assessments for state government service charges.

DCBS – Workers' Compensation Division

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	36,300,517	42,637,154	43,765,376	40,692,695
Other Funds (NL)	3,736,083	3,506,903	3,592,210	3,592,210
Total Funds	**$40,036,600**	**$46,144,057**	**$47,357,586**	**$44,284,905**
Positions	255	261	250	244
FTE	250.67	258.00	248.04	239.54

Program Description

The Workers' Compensation Division administers and enforces the provisions of the workers' compensation insurance coverage law and provides some education and consultative services. The Injured Worker Ombudsman receives, investigates, and assists in resolving workers' compensation complaints. The Small Business Ombudsman assists small businesses in obtaining workers' compensation coverage, intervenes in premium determination problems, and provides educational and outreach services programs to small businesses.

The Division has 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 premium assessment and workers' benefit fund assessment collection (5%).

Revenue Sources and Relationships

The Division is primarily supported with revenues from Workers' Compensation Premium Assessments. The current assessment to SAIF Corporation, private and self-insurers is 4.6%. The Division also receives $4.9 million in interest income as well as $5.5 million in other revenue that includes civil penalties including those for non-complying employers. Ombudsman programs are funded with $1.9 million in Workers' Compensation Premium Assessment receipts. Funds are also transferred to the Bureau of Labor and Industries to support investigations of alleged discrimination of injured workers. In addition, $3.7 million is transferred to Oregon

Health Science University Center for Research of Occupational and Environmental Toxicology, with an equal amount transferred from the Workers' Benefit Fund.

Budget Environment

The 1990 reforms to the Workers' Compensation system stabilized the workload of the Division during the 1991-93 and 1993-95 biennia. However, appellate court decisions affected case processing and workload, and these decisions also led to the 1995 Workers' Compensation Reforms. The 1995 Legislature expanded the Division's responsibilities to include development and maintenance of comprehensive medical fee schedules; promotion of reemployment incentives; medical treatment contested case hearings; and disputes related to palliative care, medical fees, and vocational disputes. The Legislature also increased penalties against non-complying employers. The Division's budget and position authority was adjusted 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. Despite a 50 increase in the number of Oregon workers during the past 18 years, Oregon has maintained a low rate of uninsured employers. In addition, the number of accepted disabling claims decreased more than 50% from 1988 to 2007. In the past few years, the Workers' compensation Division has seen an increase in the use of return-to-work programs such as the Employer-at-Injury program, that help injured workers return to work faster.

Essential Budget Level

The 2009-11 essential budget level of $47.3 million total funds is an increase of $1.2 million, or 2.6%, from the 2007-09 legislatively approved expenditure level and includes 250 positions (248.04 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes $1.7 million total funds in special session and Emergency Board actions during Fiscal Year 2008 for increased compensation for employees. The 2009-11 essential budget level reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges including the removal of 11 positions (9.96 FTE) relating to personnel changes through permanent financing actions.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget is $3 million, or 6.5%, lower than the 2009-11 essential budget level. The Legislature reduced personal services by $230,803 Other Funds to align expenditures with projected revenues directing the agency to hold nine positions vacant for six months; reduced the budget by $843,425 and 6 positions (8.50 FTE) to reflect a reduction in workload; and reduced the budget by $2 million to reflect a decrease in statewide salaries and assessments on state government service charges.

DCBS – Oregon Occupational Safety and Health Administration

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	37,065,016	44,851,509	47,757,353	45,482,396
Total Funds	**$37,065,016**	**$44,851,509**	**$47,757,353**	**$45,482,396**
Positions	225	225	222	222
FTE	225.00	225.00	222.00	222.00

Program Description

The Oregon Occupational Safety and Health Administration (OR-OSHA) protects worker health and safety by administering the Oregon Occupational Safe Employment Act and enforcing the Federal Occupational Safety and Health Rules, under an agreement with Federal Occupational and Safety Health Act (OSHA). The main responsibilities are:

- Enforcement of job safety and health laws to assure safe and healthful working conditions for Oregon workers
- Provision of technical training for employer and employee groups

- Consultative safety and health services to private and public employers and employees
- Promulgation of occupational safety and health regulations

The Division has four program areas: Consultative Services and Education; Enforcement; Program Support; and Administrative Services. Consultative Services is 24% of Division expenses and provides employers with information on OR-OSHA requirements and conducts site visits to assist employers in identifying and correcting possible violations. Enforcement is 56% of Division expenses, and is responsible for inspecting businesses and identifying violations as well as imposing fines and other penalties for violations. The remaining 20% of Division expenses is attributable to Administration and Support Services, which provides outreach and training to employers and services and support to operations.

Revenue Sources and Relationships

Projected 2009-11 revenue for the Division includes Workers' Compensation Premium Assessment, Federal Funds (expended as Other Funds), and OR-OSHA fines and forfeitures, most of which are transferred to the DCBS Fund to use for Department-wide workers' compensation-related costs. Funds are also transferred to the Bureau of Labor and Industries to support workers' compensation-related investigations by that agency.

Budget Environment

The Division focuses on education, consultative and prevention services, and worksite inspections. As a result of these activities, Oregon continues to experience a decrease in occupational illness and injury. In 2007, the Division conducted 5,049 health and safety inspections, 2,099 safety and health consultations, and trained 30,052 Oregon workers and employers. The Division expects to conduct worker training, consultative, and loss prevention services at approximately 22,000 per year. The number of illnesses or injuries per 100 full-time workers decreased from 8.7% in 1994 to 6.8% in 1998 to 5.8% in 2004, 5.4% in 2005, and 5.3% in 2006 and 5.1% in 2007 (the last year for which data is available). This reduction is a goal of the expanded activities by the Division to provide safety and health training and workplace inspections. The reduction in injuries, illness and death in Oregon workplaces has been one of the state's successes since 1990. Bureau of Labor and Industries statistics and the Oregon workers' compensation statistics suggest that the rate of decline in workplace injury and illness maybe leveling off.

Historically, OR-OSHA has had one of the highest levels of workplace enforcement presence in the nation. Increases in the number of employers and workers since 1992 have reduced OR-OSHA's inspection presence by more than one-third. In 1992, OR-OSHA could have inspected every Oregon workplace on average once in 15 years. Now it would take OR-OSHA 24 years to inspect every workplace one time. This is still one of the highest levels of enforcement presence in the nation, but a substantial reduction in effect for this period.

Essential Budget Level

The 2009-11 essential budget level of $47.8 million total funds is an increase of $2.9 million, or 6.5%, from the 2007-09 legislatively approved expenditure level and includes 222 positions (222.00 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes $1.7 million total funds in special session and Emergency Board actions during Fiscal Year 2008 for increased compensation for employees. The 2009-11 essential budget level reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges including the removal of 3 positions (3.00 FTE) relating to personnel changes through permanent financing actions.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget is $2.3 million, or 4.8%, lower than the 2009-11 essential budget level. The Legislature reduced the budget $200,235 Other Funds to align expenditures with projected revenues and directed the agency to hold six positions vacant for six months. In addition, the Legislature reduced the budget by $2.1 million to reflect decreases in statewide salaries and assessments for state government service charges.

DCBS – Nonlimited Accounts

Workers Compensation Self Insured Reserve	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds (NL)	703,038	722,316	739,953	739,953
Total Funds	**$703,038**	**$722,316**	**$739,953**	**$739,953**

Workers' Benefit Fund	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds (NL)	179,987,255	184,327,050	191,260,998	191,260,998
Total Funds	**$179,987,255**	**$184,327,050**	**$191,260,998**	**$191,260,998**

OMIP Claims / Third Party Adm	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds (NL)	228,129,425	333,603,150	407,053,952	407,053,952
Total Funds	**$228,129,425**	**$333,603,150**	**$407,053,952**	**$407,053,952**

Program Description

This program area reports Nonlimited expenditures out of the Workers' Benefit Fund, the Oregon Medical Insurance Pool (OMIP),(now part of the Oregon Health Authority) and the Workers Compensation NL Accounts, which consists of the Self-Insured Employer Adjustment Reserve and the Self-Insured Employer Group Adjustment Reserve.

Revenue Sources and Relationships

Nonlimited Workers Benefit Fund revenues include:

- Workers' Compensation Assessments and Contributions (cents-per-hour): the current rate is 2.8 cents per hour, reduced from 4 cents per hour in 2000, with a 1.4-cent deduction from employee wages and an equal payment from the employer, which is dedicated to programs served bythe Workers' Benefit Fund. One-sixteenth (1/16) of one cent is dedicated to the Center for Occupational Disease Research at the Oregon Health and Science University. Funds are also transferred to the Bureau of Labor and Industries to support workers' compensation-related investigations in that agency. Assessments are set at a rate to cover existing and projected claims. The fund supports a variety of programs that provide assistance to employers and injured workers.
- Recovered claims cost from non-complying employers, fines, interest income, and other revenues.

Oregon Medical Insurance Pool Claims (OMIP)/Third Party Administration includes Oregon Medical Insurance Board assessments collected from health insurers (generally twice a year, on an as-needed basis depending on expenditure estimates) and individual insurance premiums collected from insured parties. Once the Board decides what the base rate is, it then determines the additional amount, or surcharge level, it can set in order to meet projected medical claim expenses. The surcharge, which applies to medical plans only, ranges from 100% to 125%. In the past, OMIP has selected surcharge levels as low as 102% and as high as 125%. Oregon law requires portability rates are set at the same amount of the average that the major portability carriers charge with no surcharge. Enrollee monthly premiums fund about 55% of OMIP expenditures. OMIP assesses Oregon health insurers and stop-loss carriers based on the Oregon residents that they insure to fund approximately 45%. The remaining revenue comes from miscellaneous sources including interest, drug rebates, and a federal grant. The funds are used for the payment of claims for parties covered under the subject insurance plans. OMIP assumed an increase in enrollment due to the approval of the Insurance Pool Governing Board's (now known as the Office of Private Health Partnerships, or OPHP) participation in the state's Medicaid/State Health Insurance Program (SHIP) waiver agreements. The agreements allowed OPHP to receive federal match for Federal Health Insurance Assistance Program (FHIAP) enrollees. Based on the influx of federal dollars, OPHP was able to plan substantial enrollment expansion, which would have included a significant increase to the OMIP population who is served through FHIAP. The initial expansion growth was to bring the FHIAP population to 25,000 members, which would have had a very significant impact on the OMIP population through the agency's Individual subsidy program. OMIP enrollment grew to approximately 14,000 members by the end of 2003-05, 13,500 by the end of 2005-07, and a projected 18,000 by the end of 2007-09.

The 2009 Legislature adopted HB 2009 creating the Oregon Health Authority(OHA). OMIP is transferred in this legislation to OHA effective in the 2011-13 budget cycle. For 2009-11, OMIP remains within DCBS's budget structure.

Other Workers Compensation Nonlimited Accounts are funded with an additional 0.2% workers' compensation premium assessment from self-insured employers and employer groups. These Self-Insured Employer and Employer Group Adjustment Reserves pay for injured worker claim costs from self-insured employers and self-insured employer groups that become insolvent.

Budget Environment

The 1995 Legislature directed the Department to reduce the balance of Workers' Benefit Fund to no more than six months of expenses and transfers. This reduction was to occur gradually over a period of years, protecting against wide fluctuations in the assessments to employers, and workers. The Legislature subsequently directed the Department to maintain a Workers' Benefit Fund reserve balance of twelve months. This particular fund has a significant long-term liability.

The budget assumes OMIP's insurance pool loss ratio will be approximately 142%. This is a change to previously lower loss ratios, and more closely reflects the current national experience of 200%. The budget also contains a prudent reserve for extraordinary costs, such as multiple organ transplants, which could affect total expenditures. The OMIP caseload has increased from 6,500 in 1999-2001 to 15,964 in March 2007, primarily as a result of the implementation of FHIAP. In October 2008 there were 16,362 individuals enrolled. The increase in Nonlimited expenditures reflects that caseload growth. Prior to 1997, average rates were in the $190 per month range, but increased to $237 in 1998. Rates increased to an average high of $445 in 2004. That number has since dropped to $401 in 2005, but is currently $437. The fluctuations reflect changes in commercial premiums for comparable benefits plans, changes in the demographics of OMIP enrollees such as age and changes in benefit plans.

Essential Budget Level

The 2009-11 essential budget level for the Workers' Compensation Self Insured Reserve of $739,953 total funds is an increase of $17,637, or 2.4%, from the 2007-09 legislatively approved expenditure level. The 2009-11 essential budget level reflects adjustments for estimated injured worker medical claims costs.

The 2009-11 essential budget level for the Workers' Compensation Benefit Fund of $191.3 total funds is an increase of $6.9 million, or 3.76%, from the 2007-09 legislatively approved expenditure level. The 2009-11 essential budget level reflects adjustments for increased benefits paid to injured workers and beneficiaries.

The 2009-11 essential budget level for the Oregon Medical Insurance Pool Claims and Third Party Administration (TPA) of $407 million total funds is an increase of $148.5 million, or 57.4%, from the 2007-09 legislatively approved expenditure level. The 2009-11 essential budget level reflects adjustments for significant increases in enrollment and medical cost inflation. The Nonlimited budget increased from $258,603,150 in the 2007-2009 legislatively adopted budget to $407,053,952 in the 2009-2011 agency request budget. This is an overall increase of 57.4%, comprised of the following estimates:

- 11.64% of the increase driven by enrollment increases;
- 43.13% of the increase driven by medical cost and utilization trend increases, driven by 13-14% compounded annual increases over a three-year period; and
- 2.63% of the increase driven by Third Party Administrator increases.

Legislatively Adopted Budget

The Legislature approved the Nonlimited accounts at the 2009-11 essential budget level.

DCBS – Insurance

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	15,139,340	18,768,056	20,186,109	18,845,456
Total Funds	**$15,139,340**	**$18,768,056**	**$20,186,109**	**$18,845,456**
Positions	92	94	94	97
FTE	91.00	92.5	92.50	95.50

Program Description

The Insurance Division protects the insurance-buying public by evaluating the financial soundness of insurance companies, the availability and cost of insurance, and the equitable treatment of the insured and claimants. The Division's provides independent customer advocacy and education, assist consumers in resolving complaints against agents and companies, enforces the Insurance Code, and collects and audits taxes of insurance companies. The Senior Health Insurance Benefits Assistance (SHIBA) program provides free counseling to people with Medicare and those who assist them. Volunteers who are trained in Medicare help senior citizens select a Medicare prescription drug plan; find out if they are receiving all possible benefits; compare supplemental health insurance policies; review a bill; and file an appeal or complaint. This program is part of the Oregon Department of Consumer and Business Services and is funded by a federal grant.

Revenue Sources and Relationships

Division revenue sources include business license fees, insurance premium assessments, interest earnings, and investment returns. Revenue estimates for 2003-05 included legislative approval of a fee increase from $1,300 to $1,500 for Certificate of Authority annual renewal. The Division receives a federal grant in the amount of $898,617 from the Health Care Financing Administration, which funds a portion of the Oregon Senior Health Insurance Benefits Assistance Program (SHIBA). For 2005-07, after paying operating expenses, $115 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, and statewide health reform efforts are significant workload factors for the Insurance Division. Information technology has helped the Division to manage this workload.

Essential Budget Level

The 2009-11 essential budget level of $20.2 million total funds is an increase of $1.2 million, or 7.5%, from the 2007-09 legislatively approved expenditure level and includes 94 positions (92.50 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes $669,589 total funds in special session and Emergency Board actions during Fiscal Year 2008 for increased compensation for employees. The 2009-11 essential budget level reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget is $1.3 million, or 6.6%, lower than the 2009-11 essential budget level. The Legislature approved 3 positions (3.00 FTE) at a cost of $344,070 Other Funds to provide staffing supporting legislation in HB 2009 adopted by the Legislature requiring all health plans in the state to report certain data in addition to data currently collected by the Insurance Division and reporting by additional types of entities not already reporting to the Division. The legislation also requires DCBS to approve rates and develop standards for certain administrative processes. The adopted budget supports a revenue transfer of $89.9 million to the Oregon Health Authority from a tax on insurers for the Healthy Kids Initiative approved in HB 2009. A companion package is included in the Department of Human Services agency budget.

In addition, the budget is decreased by $825,346 to reflect a reduction in funding paid by the Department of Human Services to DCBS to administer the Senior Health Insurance Benefits Assistance (SHIBA) program. Payments to partners to run the program will be reduced accordingly. The reduction of DHS transferred funds of $825,346 will have a direct impact to SHIBA sponsors of just under $600,000. This is money that would have gone to pay for sponsor contracts, reimbursement of volunteer expenses, and other direct costs incurred by local sponsor organizations for SHIBA volunteers. The remainder of the reduction will reduce state administration of the program through reduced publications, travel, and training.

The Legislature also reduced the budget by $836,104 to reflect decreases in statewide salaries and assessments for state government service charges.

DCBS – Finance and Corporate Securities

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	11,121,907	13,323,553	14,837,933	16,182,692
Other Funds (NL)	8,841	50,000	50,000	50,000
Total Funds	**$11,130,748**	**$13,373,553**	**$14,887,933**	**$16,232.692**
Positions	68	73	75	86
FTE	68.00	68.81	75.00	86.00

Program Description

The Division of Finance and Corporate Securities (DFCS) enforces laws and regulations related to the sale of corporate securities, commodities, and franchises. DFCS also ensures the safety of financial transactions and fair treatment of the public for individuals, businesses, and governments through regulation of banks, credit unions, mortgage lenders, consumer finance companies, collection agencies, and other financial institutions. The Division is organized into two sections.

Revenue Sources and Relationships

The Division receives revenue from annual assessments on financial institution assets and from securities licensing, registration, and examination fees. The Division also receives $944,571 from interest earnings. HB 3656, enacted in 2003, raised securities licensing and registration fees for the first time since 1967-1969 to the midpoint of such fees charged by all states. This has increased the biennial transfer to the General Fund from slightly less than $3 million in 2001-03 to a projected $19.2 million for 2007-2009.

Budget Environment

A number of factors influence the workload and performance of DFCS. Recent changes in the economy have created the need for increased oversight of all financial institutions, specifically mortgage lenders and banks. The finance and securities field is becoming more globalized, and the use of the Internet for transactions is increasing further, shifting the nature of oversight functions and requires the Division to continually review program policy. In 2008, DFCS oversaw 1,970 broker/dealer firms and 1,588 investment advisor firms. The Securities section opened 121 investigations and took 99 administrative actions, with penalties of about $2.5 million. In 2008 DFCS also oversaw 35 state-chartered banks, 7 state chartered trust companies, and 20 credit unions. There were also 247 consumer finance and short-term lenders, 1,210 licensed mortgage bankers/brokers, 312 manufactured structure dealers, 120 supplemental manufactured structure dealers, 761 registered collection agencies, 54 debt consolidation agencies and 67 licensed pawnbrokers subject to DFCS oversight..

Essential Budget Level

The 2009-11 essential budget level of $14.8 million total funds is an increase of $1.5 million, or 11.3%, from the 2007-09 legislatively approved expenditure level and includes 80 positions (77.06 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes $1.2 million total funds and the addition of five permanent full-time positions (2.06 FTE) in special session and Emergency Board actions during Fiscal Year 2008 for increased compensation for employees and increased enforcement positions for Mortgage Lending and Bank Examinations positions. The 2009-11 essential budget level reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges including adding 7 positions (8.29 FTE) relating to biennializing the positions added by special session actions for mortgage lending enforcement and personnel changes through permanent financing actions.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget is $0.2 million, or 1.4%, higher than the 2009-11 essential budget level. The Legislature approved the addition of 11 positions (11.00 FTE) including one limited duration position, to redesign and expand the scope of mortgage lending examinations. One Information Systems Specialist will update and maintain the current mortgage lending program computer system and integrate the system with a national database scheduled for operation in 2009. Four financial examiners will complete examinations, and two financial examiners positions will perform licensing reviews. A limited duration Finance Enforcement Officer will be responsible for handling a temporary increase in workload for enforcement actions resulting from the additional examinations. Five positions reflect an extension of the permanent field bank examiner positions authorized at the September 2008 meeting of the Emergency Board for the full 2009-11 biennium. The additional staff will be funded by an increase in examination fees and fees for licensing mortgage brokers, bankers, and loan originators.

The Legislature reduced the budget by $664,935 to reflect decreases in statewide salaries and assessments for state government service charges.

DCBS – Oregon Medical Insurance Pool Administration

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	1,803,858	2,001,148	2,075,316	1,981.806
Total Funds	**$1,803,858**	**$2,001,148**	**$2,075,316**	**$1,981,806**
Positions	9	9	9	9
FTE	9.00	9.00	9.00	9.00

Program Description

The Oregon Medical Insurance Pool (OMIP) is a component of the Oregon Health Plan and ensures access to major medical insurance coverage for Oregon residents who otherwise are unable to obtain medical insurance for health reasons. This program was transferred to the Oregon Health Authority this legislative session. Portability coverage is also available for eligible individuals. OMIP promotes access to health coverage and administers a third-party administrator contract. A board of directors, consisting of seven citizen members, guides OMIP policy. The OMIP shares its administrator and some staff through an intergovernmental agreement with OPHP.

Revenue Sources and Relationships

OMIP collects assessments from health insurers (generally twice a year, on an as-needed basis depending on expenditure estimates) and collects individual insurance premiums from insured parties. Other Funds revenues include interest earnings. Nonlimited revenues of approximately $420.7 million are reported in the Nonlimited Programs section. The funds are used for the payment of claims for parties covered under the subject insurance plans, third-party administrator payments, and claim payments for high-risk insureds within Oregon through the Oregon Medical Insurance Pool Board. By statute, the administration rates for pool coverage cannot be more than 125% of rates established as applicable for individual risks in the commercial market.

Budget Environment

Rising health care costs and underwriting practices could affect the number of Oregonians in the high-risk medical pool, which OMIP estimates currently to be 16,157 as of July 1, 2008. Other factors that affect workload include the cost of the coverage, which is set at 125% of the premium set by the largest insurers. The Division continues to monitor the insurance offered for cost and coverage.

Operating expenses for the program continue to remain near 0.51% of program expenditures, resulting in 99.49% of OMIP's budget directly funding health-care expenditures for OMIP enrollees. Enrollee monthly premiums fund about 55% of OMIP expenditures. OMIP assesses Oregon health insurers and stop loss carriers, based on the Oregon residents that they insure, to fund approximately 44%. The remaining 1% of revenue comes from miscellaneous sources, including interest and drug rebates. Premiums are increasing at a rate slightly higher than medical-claim expenditures, making premiums a larger part of total revenue in the 2007-09 biennium than in 2005-07. In 2009-11, OMIP enrollment is projected to exceed 18,000.

Essential Budget Level

The 2009-11 essential budget level of $2.1 million total funds is an increase of $74,168, or 3.7%, from the 2007-09 legislatively approved expenditure level and includes 9 positions (9.00 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes $74,319 total funds in special session and Emergency Board actions during Fiscal Year 2008 for increased compensation for employees. The 2009-11 essential budget level reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget is $93,510, or 4.5%, lower than the 2009-11 essential budget level. The reduction is a reflection of decreases in statewide salaries and assessments for state government service charges.

DCBS – Building Codes

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	22,806,936	28,533,288	28,822,108	27,410,508
Other Funds (NL)	741,039	800,000	800,000	800,000
Total Funds	**$23,547,975**	**$29,333,288**	**$29,622,108**	**$28,210,508**
Positions	143	153	145	147
FTE	140.5	150.25	143.50	145.50

Program Description

The Division has statutory authority for the enforcement of laws and codes related to structures and dwellings; manufactured structures; RV parks and tourist facilities; plumbing; elevators; amusement rides; electrical safety; and boilers and pressure vessels. With assistance from seven boards, it develops, adopts, and interprets state wide building codes for residential and commercial construction; oversees the fabrication, installation, and repair of boilers and pressure vessels; issues trade professional licenses and construction and operating permits; investigates license and code violations; and provides continuing education for licensees. The Division conducts inspections of recreational vehicles, manufactured homes, and prefabricated structures and components and annually inspects operating elevators. The Division tests and certifies construction inspectors and tests and licenses plumbers and electricians.

Revenue Sources and Relationships

The Division's revenues include:

- fees for licenses, inspections, and permits, as well as surcharges on fees levied by state and local jurisdictions;
- Federal Funds (expended as Other Funds) to provide consumer assistance to individuals with complaints about manufactured homes and EPA funds for energy efficient manufactured homes certification;
- fines; and
- 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 choose 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. Although the downturn in construction has affected the division's workload, the division has seen an increase in activities related to sustainability and green building. The division also continues to develop a statewide e-permitting system, which will position Oregon well when it rebounds from the economic downturn by making it easier for contractors to do business.

Essential Budget Level

The 2009-11 essential budget level of $29.1 million total funds is an increase of $288,820, or 1%, from the 2007-09 legislatively approved expenditure level and includes 145 positions (143.50 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes $1 million total funds in special session and Emergency Board actions during Fiscal Year 2008 for increased compensation for employees. The 2009-11 essential budget level reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges including the removal of 8 positions (6.75 FTE) relating to personnel changes through permanent financing actions.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget is $.9 million, or 3.1%, lower than the 2009-11 essential budget level. The Legislature approved HB 2200 increasing boiler and pressure vessel installation and operating permit fees an average of 35%. The increase is projected to restore a positive cash balance in the program by the end of the 2009-11 biennium and is forecasted to continue through 2011-13. Current permit revenue does not cover the program's expenses to complete about 9,000 inspections per year. Boiler fees increased 15% in 1991 and 10% in 2001 but this was not enough to offset the cost of providing inspection. Until 2003, the program had been subsidized by funds from other building code programs; now revenue generated is dedicated to the program generating the revenue. The Legislature restored 3 positions (3.00 FTE) at a cost of $493,594 Other Funds for the 2009-11 biennium.

The adopted budget continues the current funding levels for the statewide E-permitting system mandated in HB 2405 (2007). The system will ultimately have the capacity to serve all 132 local jurisdictions with electronic construction plan review, permit, and inspection activities. The second phase of the 10-year project is being implemented at a rate than can be supported by building permit revenue is expected to be able to sustain adding more jurisdictions to the system. The project is funded through a surcharge on building permits sold in Oregon.

The Legislature approved two limited duration positions (2.00 FTE) to support the adoption of SB 79 requiring DCBS to adopt energy conservation standards for building construction and products in Oregon at a cost of $401,857. The positions will direct and oversee the energy efficiency program, including technical requirements in all specialty code program areas. Funding for this program is from the Department of Energy.

The Legislature reduced the budget by $629,803 to reflect decreases in statewide salaries and assessments for state government service charges.

DCBS – Office of Minority, Women and Emerging Small Business

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	768,730	887,678	938,423	0
Total Funds	**$768,730**	**$887,678**	**$938,423**	**$0**
Positions	5	5	5	0
FTE	5.00	5.00	5.00	0.00

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 online directory of firms certified in these programs. The Office also provides public education on the certification programs and serves as a referral point for information on small businesses.

Revenue Sources and Relationships

The Office receives Other Funds revenue from the Department of Transportation (ODOT) for business certification for federally funded projects and from the Department of Administrative Services (DAS) for assessments to state agencies for certification and outreach services. In 2009-11, OMWESB expects to receive $585,896 from ODOT, which is 32% of the Office's funding. The remaining 68% ($1,251,920) will come from DAS assessments. DCBS will transfer $577,500 in 2009-11 to the Governor's Office to fund the Minority, Women, and Small Business Advocate's Office.

Budget Environment

OMWESB concentrates its efforts on the certification and re-certification process. Effective December 1, 2000, certifications became valid for three years, instead of one. Easing the paperwork burden on certified agencies allows the Office more time to focus on education, directory maintenance, and referral services. In the 2006-07 fiscal year, OMWESB certified 632 new applications and recertified 278 applications.

Essential Budget Level

The 2009-11 essential budget level of $938,423 total funds is an increase of $49,745, or 5.6%, from the 2007-09 legislatively approved expenditure level and includes 5 positions (5.00 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes $35,029 total funds in special session and Emergency Board actions during Fiscal Year 2008 for increased compensation for employees. The 2009-11 essential budget level reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget moved OMWESB to the Oregon Business Development Department (OBD). The 2009 Legislature adopted HB 2152, which transfers the Office to OBD. This change co-locates programs that serve Oregon's disadvantaged, minority, women, and emerging small businesses to better integrate services and provide easier access to the firms they support. All positions within OMWESB were transferred from DCBS to OBD.

Board of Licensed Professional Counselors and Therapists – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	655,496	675,068	751,671	789,059
Total Funds	**$655,496**	**$675,068**	**$751,671**	**$789,059**
Positions	3	3	3	4
FTE	2.00	2.50	2.50	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 registers interns who are completing work experience requirements for licensure. The seven-member board is appointed by the Governor and composed of three licensed professional counselors, two licensed marriage and family therapists, one faculty from a related program, and one public member.

Revenue Sources and Relationships

The agency is funded by revenue generated from application and license fees. Other miscellaneous sources include fines and the sale of mailing lists and copies of public records. Revenue in 2009-11 is projected to be greater than 2007-09 estimates and continued growth in licensees is anticipated.

Budget Environment

The agency has identified three main activities: licensing; consumer protection; and administration. Over the last two years, both initial licenses and license renewals have increased. The agency expects this trend to continue in 2009-11, which will continue to have a direct impact on licensing and consumer protection workload. Operating costs continue to increase due to disciplinary actions.

Essential Budget Level

The essential budget level for the Board of Licensed Professional Counselors and Therapists is $76,603 total funds (11.3%) more than the 2007-09 legislatively approved budget. It includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The 2007-09 legislatively approved expenditure level includes $32,400 total funds in special session and Emergency Board actions during Fiscal Year 2008.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $789,059 represents a 4.97% increase from the 2007-09 legislatively approved budget. The legislatively adopted budget includes funding for the addition of one limited duration Investigator 2 (0.50 FTE) position to provide the expertise needed by the Board to investigate and complete the review of complex complaints in a timely manner.

Board of Dentistry – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	1,674,133	1,963,097	2,091,744	2,182,624
Total Funds	**$1,674,133**	**$1,963,097**	**$2,091,744**	**$2,182,624**
Positions	7	7	7	7
FTE	7.00	7.00	7.00	7.00

Agency Overview

The mission of the Board of Dentistry is to assure that the citizens of the state receive the highest possible quality oral health care. The Board regulates the practice of dentistry and dental hygiene through examination, licensing, and disciplinary programs. The Board also establishes standards for the administration of anesthesia in dental offices; determines dental procedures that may be delegated to dental assistants; and establishes standards for training and certification of dental assistants. The nine-member board is appointed by the Governor and composed of six dentists, two dental hygienists, and one public member.

Revenue Sources and Relationships

The agency is funded by revenue generated from application, renewal, and permit fees. Other miscellaneous sources include fines for late renewals, civil penalties, interest income, and the sale of mailing lists and copies of public records. Revenue in 2009-11 is expected to exceed 2007-09 estimates by approximately 8% and the projected ending cash balance of $483,500 equals approximately six months of operating costs, or 27% of projected revenue.

Budget Environment

The agency has identified three main activities: examination and licensing (26%); enforcement and monitoring (54%); and administration (20%). The growth in licensees may increase slightly from 2007-09 levels due to an increase in dentists obtaining licenses in multiple states and an increase in the number of dental hygienists entering the industry.

Essential Budget Level

The essential budget level is a 6.6% increase over the 2007-09 legislatively approved budget. The increase in the essential budget level includes standard increases for state government services charges, personnel costs, inflation, and rate increases for the Attorney General.

Legislatively Adopted Budget

The legislatively adopted budget increases the agency's budget by 11.2% over the 2007-09 legislatively approved budget and includes a fee increase on certain licenses to cover increased costs associated with national background checks and increased costs associated with subscriptions to national health practitioners databases.

Board of Examiners of Licensed Dieticians – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	58,026	81,722	78,971	76,603
Total Funds	**$58,206**	**$81,722**	**$78,971**	**$76,603**
Positions	1	1	1	1
FTE	0.30	0.30	0.30	0.30

Agency Overview

The mission of the Board of Examiners of Licensed Dietitians is to protect public health, safety, and well being by regulating licensed dietetic practice. The Board oversees the voluntary licensing program for dietitians who want to use the title "licensed dietitian." The agency issues and renews licenses; verifies continuing education; and investigates complaints, taking appropriate disciplinary action when necessary. The seven-member board is appointed by the Governor and approved by the Senate and composed of one physician trained in clinical nutrition, four dietitians, and two public members.

The 2009 Legislative Assembly approved HB 2118 which standardizes certain provisions for membership and appointment to health professional regulatory boards, appointment of executive directors and reporting and auditing of certain board activities.

Revenue Sources and Relationships

The agency is funded by revenue generated from application and license fees. Other miscellaneous sources include late payment fines and interest income. Revenue in 2009-11 is expected to exceed 2007-09 estimates and the projected ending cash balance of $99,650 equals approximately 30 months of operating costs.

Budget Environment

The agency has an estimated 500 licensees, and has averaged one complaint per year from 2000 to 2006. Three complaints were received in 2007.

Essential Budget Level

The 2009-11 essential budget level represents a 3.5% decrease from the 2007-09 legislatively approved budget, reflecting a decrease in statewide assessment rates.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $76,603 represents a 3.1% decrease from the essential budget level. The legislatively adopted budget includes a technical adjustment for rent expenses as well as a decrease to reflect personal services savings and statewide adjustments to assessments.

Health Licensing Agency – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	5,102,020	6,410,206	5,899,299	6,403,386
Total Funds	**$5,102,020**	**$6,410,206**	**$5,899,299**	**$6,403,386**
Positions	27	32	29	33
FTE	27.00	31.40	29.00	33.00

Agency Overview

The Health Licensing Agency is a consumer protection agency providing centralized regulatory oversight for the following health-related professions:

- Athletic Training
- Body Piercing
- Cosmetology
- Denture Technology
- Electrology
- Environmental Health
- Nursing Home Administrators – HB 2243 (2009)
- Hearing Aid Specialist
- Midwifery, Direct Entry
- Permanent Color Technician
- Respiratory Therapy
- Tattoo Artist
- Sex Offender Therapists – HB 3233 (2007)

The agency regulates these professions through examination, licensing, inspection, and disciplinary programs. The boards and councils for the respective professions are responsible for establishing educational and professional scope of practice requirements.

Revenue Sources and Relationships

The agency is funded by revenue generated from application, examination, and license fees. Other miscellaneous sources include civil penalties, late fees, and the sale of supplies. Essential budget level licensing fee revenue in 2009-11 is projected to be $5.5 million. During the interim, the agency developed a cost allocation model to calculate standardized fees across all its boards, councils, and programs. As implemented in 2009-11, fee revenue will increase about $1.5 million.

Budget Environment

HB 3233 (2007) established the Sex Offender Treatment Board to oversee the certification of sex offender therapists and placed the board under the administrative jurisdiction of the Oregon Health Licensing Agency. Due to funding issues that have faced the Board of Nursing Home Administrators, HB 2243 (2009) was passed that transferred their operations to the Health Licensing Agency.

Essential Budget Level

The essential budget level continued full-time positions essential to carry on work from the prior biennium, but did not include several positions that were added administratively during the 2007-09 biennium to help with increased workloads.

Legislatively Adopted Budget

The adopted budget is $6,820 (0.1%) lower than the 2007-09 legislatively approved budget. The Legislature also approved 33 positions (33.00 FTE), including four limited duration positions that were continued from the previous biennium.

Also included is a restructured fee methodology that is estimated to increase revenues by about $1.5 million. The majority of the upper management of the agency was replaced during the beginning of legislative session. An interim management team reviewed the agency operations and presented the budget to the Joint Committee on Ways and Means. Given some concerns by both the committee and the interim management team, a budget note was added directing the agency to review the new fee structure and report back to the Legislature on the actual revenues generated, discussions with industry representatives on the changes, and any proposals to adjust the fees, based on the findings.

The budget also includes transfer of the operations of the Nursing Home Administrators Board to the Health Licensing Agency. The agency was able to absorb the operations without an increase in positions.

Bureau of Labor and Industries (BOLI) – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	11,658,779	12,774,373	13,832,851	13,156,979
Other Funds	5,576,640	6,528,809	6,858,999	6,645,662
Federal Funds	1,256,505	1,546,856	1,654,391	1,412,409
Other Funds (NL)	1,646,532	2,338,473	2,403,950	2,403,950
Total Funds	**$20,138,456**	**$23,188,511**	**$24,750,191**	**$23,619,000**
Positions	109	112	112	107
FTE	107.88	111.00	111.00	106.00

Agency Overview

The Bureau of Labor and Industries (BOLI) has four divisions: Commissioner's Office/Program Support Services; plus three divisions organized around the agency's three program areas: Civil Rights, Wage and Hour, and Apprenticeship and Training. The Bureau ensures compliance with laws relating to the rights of workers and citizens to equal and nondiscriminatory treatment, with laws relating to wages and hours worked (including prevailing wage rates on public works contracts) and terms and conditions of employment, and with laws relating to apprenticeships.

Revenue Sources and Relationships

The Bureau is primarily supported by General Fund. The Bureau also receives Other Funds revenues from a number of sources. The largest single source of Other Funds revenues is the revenue received from a fractional percentage (0.03%) of the unemployment taxes paid by employers. This revenue, which is forecast to total approximately $4 million in the 2009-11 biennium, is deposited into the Wage Security Fund to pay final wages to employees whose employers cease operations and default on final paychecks. The agency is also projected to receive approximately $650,000 from interest earnings and recovery of payments from defaulting employers for the Wage Security Fund. Expenditures from the Wage Security Fund are Nonlimited when used to pay final wages to employees. Such payments are projected to total $2.4 million during the 2009-11 biennium. Expenditures from the Wage Security Fund for agency administrative costs, however, are limited and are shown as Other Funds. The $6,858,999 of total Other Funds expenditures in the essential budget level includes $886,980 of Wage Security Fund revenue spent on agency administration.

The Prevailing Wage Rate program is forecast to receive $2.9 million in assessments on public works construction contracts; Technical Assistance Fees will generate $1.1 million; contract services with the Department of Consumer and Business Services (DCBS) for investigation of discrimination complaints against injured workers will produce $1,033,000; and other miscellaneous fees and receipts will provide approximately $300,000. The agency also receives Federal Funds under three federal programs. BOLI contracts with the Equal Employment Opportunity Commission (EEOC) and receives $926,000 in Federal Funds under this contract to support investigation of civil rights cases covered under three federal Acts: the Civil Rights Act, the Americans with Disability Act, and the Age Discrimination in Employment Act. The EEOC funds partially support the costs for civil rights enforcement where federal and state jurisdictions overlap. BOLI also contracts with the U.S. Department of Housing and Urban Development (HUD) for enforcement of the federal Fair Housing Act. The agency will receive $480,000 of Federal Funds under the HUD contract. Finally, BOLI will receive $111,000 of Federal Funds from the Veterans' Administration (VA). The VA funding supports the Apprenticeship and Training Division in approving apprenticeship and on-the-job training programs for veterans.

Budget Environment

Staffing levels were reduced by approximately one-third, from 159.02 FTE to 107.88 FTE, between the 1993-95 and the 2005-07 biennia. Budget reductions occurred at the same time that the Oregon workforce was increasing by approximately 225,000 employees, and when the number and complexity of laws that the agency enforces also increased. The budget for the Bureau was essentially flat between 1999-2001 and 2001-03, with gradual increases occurring in the 2003-05 and 2005-07 biennia. In 2007, the Legislature increased staffing levels to 111.00 FTE. The Bureau has dealt with the loss of staffing, and with resources that do not keep pace with inflation, by closing offices, seeking efficiencies in operations, and reducing services. The reduced service levels have left the Bureau struggling to meet some of its performance targets.

Workload is primarily driven by the number of complaints received in the programs the Bureau administers. These include claims relating to wages and hours worked, terms and conditions of employment, and civil rights and fair housing law violations. Issues related to the Prevailing Wage Rate law, which sets minimum wage rates for public works contracts, have been a major source of workload growth, particularly in the area of public-private partnership projects. Prevailing wage rate investigations and Wage Security Fund claims fluctuate with changes in Oregon's economy. Apprenticeship registration generally reflects trends in the labor market.

Essential Budget Level

There are no unusual issues relating to the calculation of 2009-11 biennium essential budget level (EBL) expenditures (costs) in the BOLI budget. There are no program or position phase-ins or phase-outs, and the changes from the 2007-09 biennium legislatively approved levels represent the standard increases in personnel costs, plus inflation in services and supplies costs and state government service charges. There are, however, issues relating to revenues. The agency projects that Other Funds and Federal Funds revenues in the 2009-11 biennium will be insufficient to finance essential budget level costs and maintain current staffing levels. In some cases, revenues will increase over 2007-09 biennium levels, but not sufficiently to cover program cost increases. In other cases, revenues are projected to actually decline from 2007-09 biennium levels. The combined Other Funds and Federal Funds revenue shortfall is projected to total over $547,000 (or 6.3%) of the EBL costs supported from these revenue sources.

Legislatively Adopted Budget

The legislatively adopted budget's General Fund support is 4.9% below the essential budget level, but because of the projected Other Funds and Federal Funds revenue shortfalls, all funds expenditures are 5.1% below EBL. The budget eliminates twelve permanent positions, and establishes six new permanent positions and one new limited duration position, for a net reduction of five positions (5.00 FTE). This reduces agency personnel by 4.5%, to a level that is lower than in 2005-07, and results in the closure of the Bureau's Medford office.

BOLI – Commissioner's Office and Program Support Services

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	3,487,865	3,710,542	4,008,632	3,918,735
Other Funds	1,566,406	2,106,777	2,239,294	2,183,121
Federal Funds	242,116	258,151	276,018	202,127
Total Funds	**$5,296,387**	**$6,075,470**	**$6,523,944**	**$6,303,983**
Positions	27	27	27	26
FTE	27.00	27.00	27.00	25.50

Program Description

The Commissioner's Office and Program Support Services Unit provides overall policy direction and management for the Bureau. The program units are:

- The ***Commissioner's Office/Legal Policy*** combines administration, strategic planning, legal policy, public information, and intergovernmental relations into one activity area.
- ***Business Services*** provides centralized fiscal services including accounting, purchasing, payroll, budget development, and contract administration. Employee services such as safety, wellness, labor/management relations, workers' compensation, training, and staff development are another component of this program area. Information services to implement and maintain computer information systems and user support functions also reside here.
- The ***Hearings Unit*** convenes administrative law proceedings in contested cases for wage and hour claims, prevailing wage violations, farm and forest labor contractor violations and licensing, child labor violations, and civil rights complaints.
- The ***Technical Assistance for Employers Unit*** provides employers with online information and with handbooks, a telephone information line, and customized workshops and seminars regarding employment

law and civil rights requirements, and provides similar services for state agencies and local governments regarding prevailing wage rate law.

Revenue Sources and Relationships

The Commissioner's Office/Program Support Division receives just over 60% of its support from General Fund resources. Other Funds revenues include $1.1 million of fees collected by the Technical Assistance for Employers Unit from participating employers for seminars and on-site presentations on Civil Rights and Wage and Hour laws, and from the sale of handbooks. Additional Other Funds are received from miscellaneous fees, and from portions of the Wage Security Fund revenue and Prevailing Wage Rate fees that are allocated to the Commissioner's Office to support central administrative costs and the costs of conducting administrative law hearings. Federal Funds are from an Equal Employment Opportunity Commission (EEOC) contract and are used to cover costs associated with administrative law proceedings for contested cases.

Budget Environment

The overall workload for the agency has remained approximately the same despite the earlier decrease in staff. The Bureau has handled this workload through improved use of technology, particularly through the use of its website. Timeliness of response remains the primary customer focus for BOLI, and long-term reductions in staffing have had an adverse effect on timeliness. More recently, some measures of workload have been declining. Although the number of cases received by the Bureau continues to grow, the number that proceed to the hearing stage (and are not settled prior to hearing) has been declining. The number of administrative law hearings held equaled 13 in 2006-07 and three in 2007-08. These 16 hearings over the most recent two-year period is a decline from a total of 45 hearings in the 2003-05 biennium. A total of 133 cases, on the other hand, were settled prior to hearing in the most recent two-year period, compared to 85 cases in the 2003-05 biennium.

Essential Budget Level

Changes from the 2007-09 biennium legislatively approved levels in the 2009-11 biennium essential budget level represent the standard increases in personnel costs, plus inflation in services and supplies costs and state government service charges. The agency, however, projects Other Funds and Federal Funds revenue levels in the 2009-11 biennium that will be insufficient to finance essential budget level costs and maintain current staffing levels. The Technical Assistance for Employers Unit is self-supporting from the Other Funds fees it generates from seminars and sales of materials. These revenues (forecast to total $1.1 million) are estimated to be approximately $355,000 (or 24%) below the level needed to finance the Unit at the essential budget level. The Hearings Division spends Federal Funds from the EEOC contract to support costs associated with Civil Rights hearings. Federal Funds from this contract will also be less than the amount needed to fund the essential budget level costs for this program.

Legislatively Adopted Budget

The $3.9 million of General Fund in the legislatively adopted budget is a 5.6% increase over the prior biennium level, after the funding reductions approved in the 2009 session to rebalance the 2007-09 biennium budget, but is 2.2% below the essential budget level. The all funds budget is 3.4% below the essential budget level. The budget eliminates four positions and establishes three new positions, for a net reduction of one position (1.50 FTE). The budget includes $228,461 General Fund to support the Technical Assistance for Employers Unit. The money is appropriated to support two positions, one existing and one newly established. This support represents a return to approving state support for this program; previously the Unit was fully financed from fees.

The budget eliminates one of two hearings officers (Administrative Law Judges), and replaces an Information Systems Specialist 5 position with an Information Systems Specialist 2. The budget also adds an Accounting Tech position, and supports an Oracle Migration Project to upgrade IT system software and transfer certain applications to the Web. These two items are funded with approximately $351,000 Other Funds from the Wage Security Fund.

BOLI – Civil Rights

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	2,651,695	2,821,719	3,028,183	2,917,762
Other Funds	965,777	1,074,853	1,090,529	1,057,633
Federal Funds	949,559	1,205,018	1,288,121	1,122,670
Total Funds	**$4,567,031**	**$5,101,590**	**$5,406,833**	**$5,098,065**
Positions	31	32	32	31
FTE	30.50	31.25	31.25	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, age, marital status, sexual orientation, disability, and injured worker status. Protection is also provided against retaliation for filing civil rights complaints, for reporting illegal activity ("whistleblower" protection), and for violations of family leave laws. The Division processes employment discrimination complaints for the Oregon Occupational Safety and Health Administration (OR-OSHA) and Workers' Compensation. The Division operates under a work-share agreement with the federal EEOC for cases that fall under both state and federal law, including civil rights laws; the Americans with Disabilities Act; and the Age Discrimination in Employment Act. These dual-filed cases represent about half of the Division's caseload.

Revenue Sources and Relationships

The Civil Rights Division expects to receive Other Funds of over $1,000,000 from OR-OSHA and the Injured Worker Benefit Fund. The workers' compensation Injured Worker Benefit Fund in DCBS provides the majority of these funds ($713,000) to investigate allegations of discrimination against injured workers. Approximately $90,000 in Other Funds miscellaneous revenues will be generated from providing public record copies. The EEOC work-share reimbursement of $540 per case provides $710,000 Federal Funds to the Division budget. This reimbursement covers about half the actual costs. Since the federal budget fluctuates, the number of cases authorized for reimbursement varies per year, regardless of the number of actual cases handled. When Federal Funds are reduced, the costs of shared cases are shifted onto the General Fund. The HUD contract provides $480,000 Federal Funds to the Division budget.

Budget Environment

The Civil Rights Division responded to 32,445 inquiries in Fiscal Year 2007 and 29,440 inquiries in Fiscal Year 2008, and investigates over 2,000 cases per year. Most of these cases (98%) relate to discrimination in employment, with the rest relating to housing or public accommodations. The four principal areas of complaints relate to sex discrimination (23% of complaints), disability (22%), injured worker (21%), and race/color (17%). In Fiscal Year 2006, approximately 60% of the civil rights investigations were completed within 180 days, although the statutes allow the agency up to a year to complete the investigations. The Bureau has reduced the average time until initial interview of complainants from 51 days in the 2005-07 biennium to 28 days in 2007-09.

BOLI receives funding for investigation of discrimination complaints against injured workers from the Injured Workers Benefit Fund in the Department of Consumer and Business Services. Complaints from injured workers relating to discrimination or retaliation for using the workers' compensation system constitute 15% to 20% of the Civil Rights Division's annual caseload and require the equivalent of four investigators.

Essential Budget Level

The increase in the essential budget level over 2007-09 biennium expenditure levels incorporates only the standard adjustments for personnel cost increases, and for inflation in services and supplies costs and state government service charges. There is, however, an issue relating to revenues. The agency projects insufficient Federal Funds revenue in the 2009-11 biennium to finance essential budget level costs and maintain current staffing levels. Funding for the Division from the EEOC contract is projected to decline by 34% from the 2007-09 biennium level, thereby leaving revenues $126,000 below what is needed to finance the EBL.

Legislatively Adopted Budget

The $2.9 million of General Fund in the legislatively adopted budget is a 3.4% increase over the prior biennium level, after the funding reductions approved in the 2009 session to rebalance the 2007-09 biennium budget, but is 3.6% below the essential budget level. The all funds budget is 5.7% below the essential budget level. The budget eliminates three positions and establishes two new positions, for a net reduction of one position (0.75 FTE).

The budget eliminates one full-time Senior Civil Rights Investigator (Civil Rights Filed Representative 2) position as an outcome of the Federal Funds revenue shortfall. A second Senior Civil Rights Investigator position is eliminated as part of the closure of the Medford office. Two new Senior Civil Rights Investigator positions were established, however. An Office Specialist 2 position in the Eugene office is also eliminated.

BOLI – Wage and Hour

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	3,023,434	3,417,477	3,691,076	3,422,673
Other Funds	3,044,457	3,244,451	3,416,584	3,294,559
Other Funds (NL)	1,646,532	2,338,473	2,403,950	2,403,950
Total Funds	**$7,714,423**	**$9,000,401**	**$9,511,610**	**$9,121,182**
Positions	34	35	35	33
FTE	33.38	34.75	34.75	33.00

Program Description

The Wage and Hour Division receives claims and complaints from workers involving wages and working conditions, including the minimum wage and overtime, and protects children in the workplace. The Division also enforces regulations pertaining to private employment agencies, conducts surveys and publishes prevailing wage rates for public works projects, and licenses and regulates farm and forest labor contractors.

Revenue Sources and Relationships

The Wage and Hour Division expects to receive about $1.9 million from assessments on public construction contracts for the Prevailing Wage Rate (PWR) program, and $130,000 in licensing fees for farm/forest labor contractor licenses. The Wage Security Fund is dedicated to the payment of final wages for employees whose employers cease operations and default on final paychecks. The agency will receive over $4 million for the Fund in the 2009-11 biennium from the .03% of unemployment tax premiums paid by employers during one quarter of each biennium. The Division will also receive $650,000 in interest and recoveries for the Wage Security Fund. Out of the total $4.65 million in Wage Security Fund revenues, the Division will retain $4.45 million. A projected $2.4 million will be spent for actual wage claims as Nonlimited Other Funds. Approximately $700,000 of the Wage Security Fund revenues are spent on administration, with the remainder retained by the Fund.

Budget Environment

The Wage and Hour Division receives and investigates approximately 5,200 wage claims each biennium. Approximately 1,200 of these complaints relate to unpaid final wages involving businesses that have failed, where claims are made against the Wage Security Fund. As noted above, the number of complaints fluctuates with the economy. The 4,000 remaining wage claims are split between roughly 1,200 minimum wage/overtime claims and 2,800 other wage collection disputes. The Division also investigates non-wage claims involving working conditions and child labor violations.

The Bureau notes that the number of General Fund-supported staff is not sufficient to process all wage claims in a timely manner. The agency has tried to maintain enforcement of hours worked and pay rate regulations and enforcement of minimum wage claims but the timeliness of investigations has suffered. The Division did not meet its goal of completing 75% of Wage Security Fund claims within 30 days, nor meet its goal of completing 80% of its minimum wage/overtime claims in 45 days.

Essential Budget Level

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

Legislatively Adopted Budget

The $3.4 million of General Fund in the legislatively adopted budget is a 0.2% increase over the prior biennium level, after the funding reductions approved in the 2009 session to rebalance the 2007-09 biennium budget, but is 7.3% below the essential budget level. The all funds budget is 5.5% below the essential budget level. The budget eliminates four permanent positions and establishes two new positions (one permanent and one limited duration), for a net reduction of two positions (1.75 FTE).

The budget eliminates one full-time Wage and Hour Compliance Specialist position as part of the closure of the Medford office. A second, three-quarter time Wage and Hour Compliance Specialist position, a full-time Public Service Representative, and a full-time Office Specialist position in the Portland office are also eliminated. Two new Wage and Hour Compliance Specialist positions are established, however. One of these two is established on a limited duration basis to support enforcement of wage and hour complaints.

BOLI – Apprenticeship and Training

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	2,495,785	2,824,635	3,104,960	2,897,809
Other Funds	0	102,728	112,592	110,349
Federal Funds	64,830	83,687	90,252	87,612
Total Funds	**$2,560,615**	**$3,011,050**	**$3,307,804**	**$3,095,770**
Positions	17	18	18	17
FTE	17.00	18.00	18.00	17.00

Program Description

The Apprenticeship and Training Division promotes the development of a highly skilled workforce through partnerships with government, labor, business, and education, and provides apprenticeship opportunities for individuals. The 10-member Oregon State Apprenticeship and Training Council provides policy direction and approves local apprenticeship committees and their occupational standards. The Division conducts regular compliance reviews of the local committees to insure that apprentices are being treated fairly and are receiving the best possible training. The Division is also responsible for maintaining a statewide registration of education and training programs for veterans, and works in partnership with educators, employers, and students. This includes cooperative efforts with school-to-work programs to ensure that adult apprenticeship standards are connected to core competencies identified at the high school level.

Revenue Sources and Relationships

The Apprenticeship and Training Division is primarily funded with General Fund. The Division anticipates receiving a federal grant of over $111,000 from the Veterans' Administration in the 2009-11 biennium for on-the-job training of qualified veterans.

Budget Environment

The Division registered approximately 2,500 new apprentices during the first half of the 2007-09 biennium (down from over 2,750 two years earlier), and maintains a registry of nearly 8,100 apprentices as of June 2008 (up from approximately 6,650 apprentices two years earlier). The Division works with educators and employers to develop youth apprenticeship programs.

The Division also conducts compliance reviews for the Oregon State Apprenticeship and Training Council, to ensure that programs are acting in accordance with their standards and that all apprentices are being treated equally. BOLI completed compliance reviews on 45 of the 167 active apprenticeship programs during the first half of the 2007-09 biennium. As of June 2008, minorities represented 13.8% of apprenticeship program participants, and females represented 5.3%. This shows an increase in minority participation from two years ago, when the minority participation rate was 13.4%, and a slight decrease in female participation from the 5.4% rate two years earlier.

BOLI's 2007-09 biennium legislatively adopted budget included $202,845 to fund a new initiative – the Apprenticeship Integration Initiative – including $102,845 General Fund and $100,000 of federal Workforce Investment Act Title IB funds. The Apprenticeship Integration Initiative was funded to help address shortages of skilled workers in Oregon, by establishing pilot projects to integrate registered apprenticeship programs with high school curricula and the workforce system. Many apprenticeship programs in the building, construction, and industrial and manufacturing trades have difficulty attracting an adequate number of qualified candidates to meet demands in these professions. The pilot projects are intended to educate students about the benefits of apprenticeship programs, and to help schools develop programs that will promote skills needed for success in these programs.

Essential Budget Level

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

Legislatively Adopted Budget

The legislatively adopted budget of $3.1 million includes $2.9 million of General Fund, and is approximately $212,000 (or 6.4%) below the essential budget level. The budget eliminates one Office Specialist 2 position. The budget supports the continuation of, but not an expansion of, the Apprenticeship Integration Initiative approved in the 2007 session.

Medical Board – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	7,009,267	8,815,036	8,826,794	9,457,645
Total Funds	**$7,009,267**	**$8,815,036**	**$8,826,794**	**$9,457,645**
Positions	36	37	37	39
FTE	34.30	35.30	35.30	38.00

Agency Overview

The mission of the Oregon Medical Board (formerly the Oregon Board of Medical Examiners) is to protect the health, safety, and well being of Oregon citizens by regulating the practice of medicine in a manner that promotes quality care. The board is responsible for administering the Medical Practice Act and establishing the rules and regulations pertaining to the practice of medicine in Oregon. The agency licenses Medical Doctors, Doctors of Osteopathy, Podiatric Physicians, Physician Assistants, and Acupuncturists; investigates complaints against licensees and takes disciplinary action when a violation of the Medical Practice Act occurs; monitors licensees who have come under disciplinary action; and works to rehabilitate and educate licensees whenever appropriate. The Board is also responsible for the scope of practice for First Responders and Emergency Medical Technicians. The twelve-member board is appointed by the Governor and composed of seven medical doctors, two doctors of osteopathy, one podiatrist, and two public members.

Revenue Sources and Relationships

The agency is funded by revenue generated from licensure, and registration fees. Other miscellaneous revenue includes the sale of lists and directories, and fines or forfeitures imposed as disciplinary measures. Revenue in 2009-11 is projected to be $8,230,317 which is 11% less than 2007-09 and the projected ending cash balance of $2.9 million equals approximately 7 months of operating costs.

The agency is required by ORS 677.290 to transfer $10 for each in-state registered physician to the Oregon Health and Science University (OHSU) to maintain a medical library. The 2009-11 transfer is estimated to be approximately $213,314.

Budget Environment

The Oregon Medical Board receives approximately 96% of its revenue from fees for licensure and registration of Medical Doctors, Doctors of Osteopathy, Podiatrists, Physician Assistants, and Acupuncturists. Approximately 88% of the fees received by the Board come from the licensure of physicians. This license group continues to increase on a net basis of approximately 3% per year.

Essential Budget Level

The essential budget level for the Oregon Medical Board is $11,758 Other Funds (1.3%) more than the 2007-09 legislatively approved budget as of December 2008. It includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The 2007-09 legislatively approved expenditure level includes $309,134 total funds in special session and Emergency Board actions during Fiscal Year 2008.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $9,457,645 represents a 7.3% increase from the 2007-09 legislatively approved budget. The legislatively adopted budget includes funding for: merchant fees related to online services; IT maintenance, server, and laptop replacements; investigative tools, staffing, and resources, including the addition of a limited duration Operations and Policy Analyst 2 (1.00 full-time equivalent) position; the reclassification of existing positions and the expansion of one Office Specialist 2 (0.50 full-time equivalent) position by 0.50 full-time equivalent; committee expenses; and the addition of one limited duration Office Manager 1 (1.00 full-time equivalent) position and the expansion of one Administrative Specialist (0.80 full-time equivalent) position by 0.20 full-time equivalent.

Mortuary and Cemetery Board – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	1,021,759	1,093,108	1,212,236	1,260,188
Total Funds	**$1,021,759**	**$1,093,108**	**$1,212,236**	**$1,260,188**
Positions	7	5	5	6
FTE	6.50	5.00	5.00	6.00

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.

The 2009 Legislative Assembly approved HB 2118 which standardizes certain provisions for membership and appointment of health professional regulatory boards, appointment of executive directors and reporting and auditing of certain board activities.

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. HB 2244 (2009) increased the death certificate filing fee from $7 to $20. The anticipated revenue to the Board is $563,490 and will enable the Board to maintain current staffing levels and provide an adequate cash ending balance.

Budget Environment

The agency regulates individuals and facilities engaged in the care, preparation, processing, transportation, and final disposition of human remains through three main activities: licensing individual death care professionals and the facilities in which they work; performing inspections, complaint investigations, and background investigations on applicants and principals of licensed facilities; and administering the funeral service practitioner and embalmer exams twice a year.

Revenue to support agency operations and maintain an adequate ending cash balance has been an ongoing problem since 2003. The agency had been gradually depleting its cash balance to support operations. In 2007-09 the combination of the cash balance and projected revenue was not enough to sustain operations, and the Legislature reduced its staffing level.

Essential Budget Level

The 2009-11 essential budget level represents a 9.8% increase from the 2007-09 legislatively approved budget reflecting adjustments for personal service costs, inflation, rate increases for Attorney General, and the state government service charges.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $1,260,188 represents a 3.8% increase from the essential budget level. The legislatively adopted budget includes funding for the addition of a permanent full-time investigator (1.00 FTE) position. As mentioned above, the agency has had difficulty maintaining an adequate ending cash balance. The Board is expected to pursue a loan from the Oregon State Treasurer to address cash flow issues during the initial months of the 2009-11 biennium.

Board of Naturopathic Examiners – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	342,014	426,581	479,489	495,406
Total Funds	**$342,014**	**$426,581**	**$479,489**	**$495,406**
Positions	2	2	2	2
FTE	2.00	2.00	2.00	2.00

Agency Overview

The mission of the Board of Naturopathic Examiners is to protect the public by improving the standards of care offered by licensed practitioners through ensuring competency in education, and enhancing communication with the profession and the public. The Board conducts examinations for applicants; issues licenses to practice naturopathic medicine; certifies special competency in natural childbirth; sets continuing education standards; and approves naturopathic schools or colleges offering four-year full-time residential programs. The Board also investigates complaints, administers discipline, and imposes civil penalties. The five-member board is appointed by the Governor and composed of four naturopaths and one public member.

The 2009 Legislative Assembly approved HB 2118 which standardizes certain provisions for membership and appointment of health professional regulatory boards, appointment of executive directors and reporting and auditing of certain board activities.

Revenue Sources and Relationships

The agency is funded by revenue generated from application, license, and certification fees. Other miscellaneous sources include fines for late payments, interest income, and the sale of mailing lists and copies of public records. Revenue in 2009-11 is projected to be about level with that of 2007-09 and the projected ending cash balance of $330,000 equals approximately 16 months of operating costs.

Budget Environment

The agency has identified licensing as its main activity and expects to have an estimated 725 active licensees and 75 inactive licensees in 2009-11.

Essential Budget Level

The 2009-11 essential budget level represents a 11% increase from the 2007-09 legislatively approved budget, reflecting funding for complaint investigations and background checks on license applicants.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $495,406 represents a 3% increase from the essential budget level. The legislatively adopted budget includes funding for complaint investigations conducted by an independent investigator, background checks on license applicants, and a technical adjustment for rent expenses. The Board is directed to report to the Emergency Board or during the 2010 special session on the investigator workload and cost estimates to determine if a permanent position and additional FTE are necessary.

Board of Nursing – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	8,206,560	10,247,281	10,917,539	11,700,411
Total Funds	**$8,206,560**	**$10,247,281**	**$10,917,539**	**$11,700,411**
Positions	45	44	44	50
FTE	44.25	41.75	41.75	47.75

Agency Overview

The mission of the Oregon State Board of Nursing is to safeguard the public's health and well being by providing guidance for, and regulation of, entry into the profession, nursing education, and continuing safe practice. The agency licenses and regulates nurses, nursing assistants, and advanced practice nurses; sets nursing practice standards, guidelines for education programs, and minimum competency levels for entry into the professions; and has the authority to revoke or suspend the license or privilege to practice nursing in the state. The nine-member board is appointed by the Governor and composed of four Registered Nurses, two Licensed Practical Nurses, one Nurse Practitioner, and two public members.

The agency is comprised of four Divisions representing its major programs. The Investigations and Compliance Division investigates complaints regarding violation of the Oregon Nurse Practice Act and recommends disciplinary action to the Board. The Licensing and Certification Division is responsible for all licensing and customer service activities, as well as the training and testing program for certified nursing assistants and certified medication aides. The Practice Consultation and Policy Division reviews nursing education programs; develops policy and rules; and provides specialized expertise with respect to RN/LPN, advanced practice nursing, and nursing assistant program issues. The Central Support Division supports the day-to-day activities of the agency.

Revenue Sources and Relationships

The agency is funded primarily by revenue generated from examination, licensing, and renewal fees charged to registered nurses, licensed practical nurses, nurse practitioners, certified registered nurse anesthetists, clinical nurse specialists, certified nursing assistants, and certified medication aides. The agency also receives Federal Title XVIII (Medicare) and Title XIX (Medicaid) funds through the Department of Human Services (DHS) to fund the Certified Nursing Assistant (CNS) Program. The agency expects to receive approximately $1.8 million from DHS in 2009-11. The agency has experience higher than expected Attorney General legal fees, along with the normal increases in personal services costs, state government services charges, and worker's compensation claims. This has caused a projected revenue shortfall for the 2009-11 biennium. The Board has proposed a fee increase to cover the shortfall and provide a minimal ending balance.

Budget Environment

The agency's budget is influenced by the number of licensees, complaint investigations, background checks, and participants in the Nurse Monitoring program. The agency licenses approximately 47,000 registered and licensed practical nurses; 2,900 nurse practitioners, nurse anesthetists, and clinical nurse specialists; and certifies 19,000 nursing assistants (CNA) and medication aides. On average, 700 formal complaints are investigated each year. Law Enforcement Data System checks are performed on all initial and renewal applications totaling about 36,000 per year. In addition, fingerprint checks are done on all new applications. The Nurse Monitoring program, administered by two coordinators, provides an alternative to discipline for nurses with substance abuse, physical, or mental health disorders. The number of participants averages around 300.

Essential Budget Level

The essential budget level includes increases for state government service charges, personal cost increases, and increases in legal fees. The increase over the legislatively approved budget is $670,258, or 6.5%.

Legislatively Adopted Budget

The legislatively adopted budget is a 14.2% increase from the 2007-09 legislatively approved budget and includes a fee increase, on average, of 32.4% to pay for the following:

- Information technology infrastructure project that will replace the Board's current licensing system, provide the ability to accept online license applications and payment, and ongoing maintenance and upgrades. This project will also include one permanent ISS 6 position (1.00 FTE) at salary range (SR) 29.
- Conversion of four limited duration positions (4.00 FTE) to four permanent positions (4.00 FTE). These positions will be used to address workload issues in the licensing, investigations, and financial services areas of the Board. The positions include a Public Services Representative (SR 15), Compliance Specialist 1 (SR 21), Investigator 1 (SR 21), and Fiscal Analyst 1 (SR 23).
- Establishment of one permanent position (1.00 FTE) to conduct training program surveys and to ensure compliance with survey recommendations and administrative rules. This position will be a Compliance Specialist 1 (SR 21).

Occupational Therapy Licensing Board – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	213,006	296,776	360,241	338,178
Total Funds	**$213,006**	**$296,776**	**$360,241**	**$338,178**
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.

The 2009 Legislative Assembly approved HB 2118 which standardizes certain provisions for membership and appointment of health professional regulatory boards, appointment of executive directors and reporting and auditing of certain board activities.

Revenue Sources and Relationships

The agency is funded by revenue generated from license fees and other miscellaneous sources including limited permits, late fees, interest income, and the sale of mailing lists and copies of public records. Revenues have been more than sufficient to cover operating costs and the Board enjoyed a growing cash balance. The Board conducted a cash flow analysis during 2007 and, as a result, reduced licensing fees in 2008.

Budget Environment

The agency has identified four main activities: licensing; continuing education monitoring; compliant investigation; and administration. The agency expects to issue an estimated 3,000 licenses in 2009-11, which is a 7% increase over current biennium estimates. Compliant investigation workload appears relatively stable, averaging eight complaints per biennium.

Essential Budget Level

The 2009-11 essential budget level represents a 17.6% increase from the 2007-09 legislatively approved budget reflecting standard adjustments for personal service costs, inflation, rate increases for Attorney General, and the state government service charges.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $338,178 represents a 6.5% decrease from the essential budget level. The legislatively adopted budget includes a technical adjustment for rent expenses, personal services savings, and reduced statewide assessment rates.

Board of Pharmacy – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	3,478,189	4,407,856	4,725,674	4,903,896
Federal Funds	14,352	357,545	0	0
Total Funds	**$3,492,541**	**$4,765,401**	**$4,725,674**	**$4,903,896**
Positions	18	22	20	20
FTE	17.50	20.75	18.50	19.00

Agency Overview

The mission of the Board of Pharmacy is to promote, preserve, and protect the public health, safety, and welfare by ensuring high standards in the practice of pharmacy and by regulating the quality, manufacture, sale and distribution of drugs. The agency licenses pharmacists by examination or through reciprocity with other states; registers and inspects hospital and retail pharmacies, drug wholesalers and manufacturers, and over-the-counter drug outlets; investigates drug diversion and rule violations; and regulates the quality and distribution of controlled substances, prescription, and over-the-counter drugs within the state. The seven-member board is appointed by the Governor and composed of five pharmacists and two public members.

Revenue Sources and Relationships

The agency is funded by revenue generated from license, registration, and examination fees. Other Funds revenue in 2009-11 is projected to be slightly less than 2007-09 estimates.

Budget Environment

The agency has identified four main activities: licensing and examination (9%); compliance (42%); operations and administration (41%); and the Pharmacy Recovery Network (PRN) – monitoring chemically dependant pharmacists (5%). Board expenses comprise 3% of the agency's budget. There has been some growth in licensees (approximately 500) over the last two years, but not a significant increase. The number of licensees however may rise due to the impending graduations of two new pharmacy schools. The agency reports that despite only a slight increase in licensees they have a strong increase in licensing and compliance workload. In addition, the agency reports that the number and complexity of consumer complaints continues to increase.

Essential Budget Level

The essential budget level for the Board of Pharmacy is $39,727 total funds (1%) less than the 2007-09 legislatively approved budget. It includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The 2007-09 legislatively approved expenditure level includes $418,077 total funds ($400,172 Other Funds and $17,905 General Fund) and 0.25 full-time equivalent in special session and Emergency Board actions during Fiscal Year 2008.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $4,903,896 represents a 3% increase from the 2007-09 legislatively approved budget. The legislatively adopted budget includes funding for the following: the PRN Director and PRN Assistant positions are both permanently increased in FTE from 0.50 FTE to 0.75 FTE and temporary help. The legislatively adopted budget also allows the Board to receive and pass-through revenue required to process criminal background checks.

Board of Psychologist Examiners – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	720,718	1,042,816	971,603	1,041,395
Total Funds	**$720,718**	**$1,042,816**	**$971,603**	**$1,041,395**
Positions	3	4	3	4
FTE	3.00	3.58	3.00	4.00

Agency Overview

The mission of the Board of Psychologist Examiners is to protect the health, safety, and well-being of Oregon citizens by regulating the practice of psychology in a manner that promotes quality care. The Board determines qualifications, examines, and licenses individuals to practice psychology. The Board also investigates alleged violations of the statutes and imposes appropriate sanctions. The seven-member board is appointed by the Governor and composed of five psychologists and two public members.

Revenue Sources and Relationships

The agency is funded by revenue generated from licensing, application, and examination fees. Other miscellaneous sources include civil penalties and publication sales. The legislatively adopted budget includes increases in the Board's license fees and Other Funds revenues are estimated increase by approximately $326,000. A portion of the fee revenue will fund the limited duration Office Specialist 2 position added for a limited duration as part of the legislatively adopted budget, while the remainder of the additional fee revenue will be applied to strengthen the Board's ending balance.

Budget Environment

The agency has identified three main activities: consumer protection; licensing, examination, and continuing education; and board support and administration. The agency reports that there is not a significant change in the annual number of renewals it processes.

Essential Budget Level

The essential budget level for the Board of Psychologist Examiners is $71,213 total funds (6.8%) less than the 2007-09 legislatively approved budget. It includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The 2007-09 legislatively approved expenditure level includes $47,735 total funds and one position (0.58 full-time equivalent) in special session action during Fiscal Year 2008 for a position to offset the workload demand on other agency staff members.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $1,041,395 represents a .002% decrease from the 2007-09 legislatively approved budget. The legislatively adopted budget includes funding for: the development of a new written jurisprudence exam and the addition of one limited duration Office Specialist 2 (1.00 FTE) position to assist the Board with clerical duties, customer service, and to free up other Board staff to make administrative improvements.

Public Utility Commission (PUC) – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	32,038,871	37,243,097	31,098,970	39,554,662
Federal Funds	365,169	484,012	508,801	493,843
Other Funds (NL)	100,916,860	104,007,751	94,778,703	94,778,703
Total Funds	**$133,320,900**	**$141,734,860**	**$126,386,474**	**$134,827,208**
Positions	127	126	126	129
FTE	124.69	124.50	119.62	127.25

Agency Overview

The three-member Public Utility Commission (PUC), which is appointed by the Governor and subject to Senate confirmation, is responsible for ensuring that consumers receive adequate utility service at fair and reasonable rates, while allowing regulated companies the opportunity to earn an adequate return on their investment.

Revenue Sources and Relationships

Other Funds are derived primarily from fees assessed on regulated utilities, including:

- ***Natural gas, water, and wastewater utilities*** are assessed up to 0.25% on gross operating revenues.
- ***Telecommunications providers*** are assessed up to 0.25% on gross intrastate retail sales excluding wholesale revenues. Telecommunication carriers and subscribers are assessed an additional amount to support the Oregon Universal Service Fund (OUSF) and the Residential Service Protection Fund (RSPF).
  - OUSF is supported through an assessment on intrastate revenue (currently 6.65%) which is estimated to generate $94.6 million during the 2007-09 biennium. HB 3199 would enable funds to be used for broadband mapping and outreach; however, this is not expected to cause a rate increase.
  - RSPF is supported by a surcharge not to exceed $0.35 per month to retail subscribers who have access to relay services. The current surcharge rate is 13 cents per line per month, and the program was extended through 2020. Several enhancements to the program were included in the 2009-11 legislatively approved budget, and are detailed below.
  - ***Electric utilities*** are assessed a gross revenue fee of no more than 0.25%, which is expected to generate approximately $18.1 million in the 2009-11 biennium. Retail electric consumers of Portland General Electric and PacifiCorp pay additional charges for public purpose expenditures (3%) and low-income bill assistance ($15 million per year) as part of the electric industry restructuring legislation approved in 1999. However, the utilities distribute the public purpose revenues directly, rather than through PUC, to the entities provided in statute (e.g., education service districts, and the Housing and Community Services Department).

Federal Funds received from the U.S. Department of Transportation's Gas Pipeline Safety Program support enforcement of federal pipeline safety regulations. The state is required to provide matching funds at the current rate of 55%.

Budget Environment

Fees assessed by PUC on telecommunications are projected to decrease by 4.2% between 2006 and 2011 as customers shift from traditional telephone lines to other technologies such as wireless telephones. Conversely, rising energy costs may have a positive impact on agency revenue since PUC assesses utilities based on their gross revenue.

PUC is continuing implementation of the Renewable Portfolio Standard for utilities passed by the 2007 Legislative Assembly, monitoring utilities to ensure they acquire the lowest cost, lowest risk mix of resources consistent with Oregon's requirements. Volatility of energy costs continues to be a major issue for utilities and consumers, and is likely to add complexity to evaluation of utility resource planning and acquisition processes and cost recovery (rate change) filings by the utilities.

PUC – Utility Program

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	13,934,330	9,857,726	16,480,913	16,219,972
Federal Funds	365,169	484,012	508,801	493,843
Other Funds (NL)	100,916,860	104,007,751	94,778,703	94,778,703
Total Funds	**$115,216,359**	**$114,349,489**	**$111,768,417**	**$111,492,518**
Positions	71	42	69	71
FTE	70.19	42.00	69.00	70.75

Program Description

The Utility Program provides research, analysis, and technical support to assist the Commission in carrying out its mission; implements state policy regarding utility industry restructuring and competition; and oversees the contract with the Energy Trust of Oregon which administers a portion of the public purpose charge. The program also includes the Oregon Universal Service Fund (OUSF), which subsidizes the rates charged by any eligible carrier providing basic telephone service in high cost areas. Payments to providers are reflected as Nonlimited Other Funds.

Essential Budget Level

The essential budget level for the utility is a 2.3% decrease from the 2007-09 legislatively approved budget level, primarily due to a decrease in Other Funds Nonlimited expenditure limitation associated with the Oregon Universal Service Fund; the decline in funds is linked with a decline in the number of traditional "land-line" telephones in favor of wireless technologies. The essential budget transfers 27.00 FTE from the Policy and Administration Program to the Utility Program. The PUC feels employees in these positions directly support regulation and rate case work in the Utility Program, and that the transfer more accurately reflects the managers to which these employees directly report.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget added a permanent engineering analyst position to the Utility Regulation program to ensure compliance by all electric utilities with safety regulations related to poles and wires. Total funds expenditures for the utility program are decreasing 2.5% from the 2007-09 legislatively approved budget due to a decrease in the amount of Other Funds Nonlimited, attributable to the Oregon Universal Service Fund; however, expenditures from Other Funds Limited sources – primarily from assessments on utilities – are increasing 64.5% from the 2007-09 legislatively approved level. The vast majority of the increase is due to a transfer of 27 positions from the Policy and Administration program which will take place during the 2009-11 biennium.

The Legislature also authorized an additional position and associated expenditure limitation to comply with SB 101, which requires the PUC to develop greenhouse gas emissions standards for investor owned utilities, to monitor compliance, and to report on the impact of the standard on utility rates.

PUC – Residential Service Protection Fund

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	8,452,110	10,173,752	2,818,728	11,615,795
Total Funds	**$8,452,110**	**$10,173,752**	**$2,818,728**	**$11,615,795**
Positions	7	7	7	8
FTE	6.50	6.50	1.62	7.5

Program Description

The Residential Service Protection Fund (RSPF) provides telecommunications services for disabled persons, including the hearing- and speech-impaired, and low-income individuals through the following programs:

- ***Oregon Telephone Assistance Program*** subsidizes local telephone service rates to eligible low-income Oregonians by providing a $13.50 monthly reduction for basic telephone service ($3.50 paid by Oregon, the remainder provided by the federal government).
- ***Telecommunication Devices Access Program*** provides special communication devices to deaf, hearing and/or speech impaired, or others with disabilities that prevent them from using telephones.
- ***Oregon Telecommunications Relay Service*** provides a 24-hour-a-day relay service as required by the Americans with Disabilities Act to link hearing-, speech-, and mobility-impaired individuals with non-impaired individuals.
- ***Emergency Medical Certificates*** protect a customer's ability to make calls if a qualified medical professional states that disconnection would significantly endanger the health of the customer, or if disconnection would put a customer at risk for domestic violence. This program is outlined in the RSPF law, but administered by the Policy and Administration program where its expenditures are covered.

PUC also coordinates a federal program called "Link Up America" that provides 50% of the line-connection portion of hook-up charges for new residential telephone services to qualifying low-income Oregonians; customers are responsible for the other half of the charge, the telephone, and other costs of acquiring phone service. No state funds are required for "Link Up America."

Essential Budget Level

The essential budget level reflects six months of operations for the Residential Service Protection Fund Program. The program is scheduled to sunset on January 1, 2010. The PUC will be submitting legislation to extend the program.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget extends the RSPF program until 2020, maintaining access to phone service, adaptive telecommunications devices, and services for disabled and low income Oregonians. The Legislature also approved enhancements to the program, including the purchase of speech generating devices for speech impaired Oregonians, a limited duration internal auditor position to ensure the proper assessment and collection of the RSPF surcharge, and information systems support for the program. These program enhancements may result in a one to two cent increase to the RSPF surcharge, depending on whether RSPF revenue remains stable.

PUC – Policy and Administration Program

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	9,451,222	16,928,242	11,484,326	11,415,583
Total Funds	**$9,451,222**	**$16,928,242**	**$11,484,326**	**$11,415,583**
Positions	48	76	49	49
FTE	47.00	75.00	48.00	48.00

Program Description

The Policy and Administration Program includes:

- ***Commissioners and Commission Services*** includes the Commission Chair, who serves as the agency's administrative head, two Commissioners, and their direct staff support.
- ***Administrative Hearings Division*** conducts rulemaking and contested case hearings involving major industry changes, rate proposals, and consumer complaints.
- ***Central Services Division*** provides budget, accounting, and support services to the agency as well as staffing for consumer protection services to respond to customer concerns regarding regulated utilities.
- ***Human Resources*** advises the agency on employee relations and provides recruitment and training services.

Essential Budget Level

The essential budget removes two divisions from the program – the ***Economic Research and Financial Analysis Division***, which evaluates proposed mergers, addresses issues related to regulation of water utilities, analyzes utilities' cost of capital, and forecasts electric utility loads and power costs; and the ***Regulatory Operations Division*** which processes all utility filings and provides information services to the agency – and transfers the positions to the Utility Program for no net change in agency FTE. The PUC feels employees in these positions directly support regulation and rate case work in the Utility Program, and that the transfer more accurately reflects the managers to which these employees directly report.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget removed two divisions from the program – the ***Economic Research and Financial Analysis Division***, which evaluates proposed mergers, addresses issues related to regulation of water utilities, analyzes utilities' cost of capital, and forecasts electric utility loads and power costs; and the ***Regulatory Operations Division*** which processes all utility filings and provides information services to the agency – and transfers the positions to the Utility Program for no net change in agency FTE. The positions directly support regulation and rate case work in the utility program. The Legislature also approved expenditure limitation for one-time information systems and professional services expenditures related to implementation of information asset classification of documents as mandated by the Department of Administrative Services.

PUC – Board of Maritime Pilots

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	201,209	283,377	315,003	303,308
Total Funds	**$201,209**	**$283,377**	**$315,003**	**$303,308**
Positions	1	1	1	1
FTE	1.00	1.00	1.00	1.00

Program Description

The Board of Maritime Pilots is charged with the regulation, including examining, licensing, and investigating incidents or complaints, of navigation pilots on Oregon's four pilot-required areas. There are currently 60 licensed pilots under the regulatory authority of the Board.

Revenue Sources and Relationships

The Board is a self-supporting entity funded primarily by license fees. Revenues for 2009-11 are estimated to be at least $326,783 based upon the payment of annual license fees by each of the licensed pilots and from miscellaneous receipts. The license fee is tied to the consumer price index by statute, and rises by the cumulative cost-of-living increase for the previous two years at the start of each biennium. For 2009-11, the fee will be approximately $2,825.

Budget Environment

The Board of Maritime Pilots was transferred from the Department of Transportation to PUC by the 2007 Legislature. Policy decisions regarding the regulation of pilots are decided by the 9 member board. PUC has administrative oversight over the Board and assists them in areas such as budgeting, human resources, and accounting. The Board has been reviewing its existing performance measure, and may propose changes or supplemental information which better represent the mission of the Board.

Essential Budget Level

The essential budget for the Board of Maritime Pilots represents an 11.16% increase over the 2007-09 legislatively approved budget. The essential budget continues operations at the 2007-09 legislatively approved budget level.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget for the Board of Maritime Pilots represents a 7% increase over the 2007-09 legislatively approved budget. This increase is due to inflation in personal service costs and services and supplies. No policy option packages were submitted or approved. The Board was directed to develop a relevant performance measure for approval by the 2011 Legislative Assembly.

Board of Radiologic Technology – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	433,225	548,450	648,171	615,094
Total Funds	**$433,225**	**$548,450**	**$648,171**	**$615,094**
Positions	3	3	3	3
FTE	3.00	3.00	3.00	3.00

Agency Overview

The mission of the Board of Radiologic Technology is to promote, preserve, and protect the public health, safety, and welfare of Oregonians when being exposed to ionizing radiation for the purpose of medical diagnosis or radiation therapy. The Board licenses diagnostic or therapeutic technologists and diagnostic technicians; administers limited permit examinations for radiologic technicians to determine initial competence to practice; approves continuing education offerings to assure continuing competence; and defines and enforces the scope of practice for all licensees. The nine-member board is appointed by the Governor and composed of one radiologist, four radiologic technologists, one radiation therapist, one limited permit holder, and two public members.

The 2009 Legislative Assembly approved HB 2118 which standardizes certain provisions for membership and appointment to health professional regulatory boards, appointment of executive directors and reporting and auditing of certain board activities.

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.

Budget Environment

The agency has identified four main activities: licensing; regulatory compliance; education; and governance and administration. Over the last two years the number of permanent licensees and permit holders has increased, and the Board now licenses about 4,100 licensees.

Essential Budget Level

The 2009-11 essential budget level represents an 18% increase from the 2007-09 legislatively approved budget. It includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $615,094 represents a 5.4% decrease from the essential budget level. The legislatively adopted budget includes funding for upgrades to the current electronic licensing and database systems, remodeling of the Board's conference room, and the purchase of ergonomic furniture. Also included in the legislatively adopted budget are decreases to reflect personal services savings as well as assessment and Attorney General rate decreases.

HB 2245 (2009) changes the name of the Board of Radiologic Technology to the Board of Medical Imaging, increases the number of Board members to twelve, and defines member requirements. The measure establishes oversight of X-ray machine operator permit examinations, fees, and inspection of X-ray machine operator schools. The measure creates "medical imaging modality" categories and modifies requirements for licenses, permits and certification. The measure is effective July 1, 2010 and the Legislative Fiscal Office will work with the Board to determine actual biennium revenues, expenditure limitation, and positions required with implementation of the bill. These adjustments will be requested during the 2010 special session.

Real Estate Agency – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	6,912,911	8,045,251	7,954,482	8,377,812
Total Funds	**$6,912,911**	**$8,045,251**	**$7,954,482**	**$8,377,812**
Positions	32	32	30	31
FTE	30.41	31.62	29.63	30.63

Agency Overview

The Real Estate Agency is responsible for the licensing, education, and enforcement of Oregon's real estate laws applicable to brokers, property managers, and real estate marketing organizations; licensing and regulation of escrow agents; and registration and reviews of campground contract brokers, subdivisions, timeshares, and condominium developments. The agency approves courses and develops curriculum requirements for its licensees, administers real estate examinations, audits licensees, and investigates complaints made concerning its licensees and regulated activities. The Real Estate Commissioner, who is appointed by the Governor, administers the agency. The agency supports the Real Estate Board, whose seven industry members and two public members are appointed by the Governor.

Revenue Sources and Relationships

Other Funds revenues are generated through licensing and registration fees and renewals; charges for examinations; the sale of publications; and other services. No fee changes were enacted by the 2007 Legislature. The agency anticipates relative stability in the number of licensees for the biennium.

The agency anticipates collecting approximately $35,000 in civil penalties which are payable to the General Fund.

Budget Environment

The 2005 Legislative Assembly granted the Real Estate Agency a 15-month operating budget in response to concerns raised during the agency's budget hearings. During the 2005-07 interim period, a joint legislative task force reviewed the role and function of the Real Estate Board, practices by the agency, alternative forms of licensure and regulation, and an internal audit completed by the Department of Administrative Services. The task force recommended that the role and authority of the Real Estate Board be changed from an "advisory" to a policy making role. Through a series of Emergency Board appearances, the agency was granted additional expenditure limitation equivalent to an operating budget for the full 2005-07 biennium.

A new real estate commissioner was appointed in May 2007, just prior to the agency's scheduled budget hearings.

The 2007-09 legislatively adopted budget included a number of initiatives to facilitate the recommended change in the Board's role, including two limited duration positions to address increasing numbers of licensees and condominium development filings, as well as provide additional administrative support for the Real Estate Board.

For the past two years, the real estate market has slowed from the frantic pace that was anticipated on 2005-07 activity. Current data shows that the number of persons seeking to enter the real estate industry had declined to levels that are more typical in a regular economy.

Essential Budget Level

The 2009-11 essential budget of $7,954,482 represents a 1.1% decrease from the 2007-09 legislatively approved budget. The decrease reflects the phase out of two full-time limited duration positions partially offset by standard adjustments for personal services costs, inflation, rate increases for the Attorney General, state government service charges, and facilities rental.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget represents a 4.1% increase from the 2007-09 legislatively approved budget. The adopted budget includes:

- $97,778 Other Funds to make permanent one of the limited duration positions (1.00 FTE) approved in 2007-09 to provide full-time continuing administrative support to the Board and the Commissioner. This position would also take on outreach and relationship building responsibilities such as coordinating public records requests, holding public meetings for reviews, updating and maintaining agency website, and compiling results to customer service surveys.
- $84,795 Other Funds for hardware and software upgrades of the agency's mainframe system to update the agency's intranet to enable more efficient sharing of documents, information and resources.
- $500,000 Other Funds to complete the final phase of the agency's online licensing and e-commerce system to address needs identified by the real estate industry.
- a $7 fee increase for each applicant background check (from $40 to $47 to match what the Department of State Police charges for processing a criminal background check) that would increase the agency's revenue by an estimated $21,000.

With an enhanced intranet and an integrated online licensing system, the agency was directed to explore, with the input of the Board and industry representatives, the cost-savings and suitability of transitioning its hardcopy publications (e.g., Real Estate Manual and the Oregon Real Estate News Journal) to online documents and subscriptions.

The 2009-11 legislatively adopted budget also includes minor decreases in personal services reflecting savings ($203,590), as well as adjustments to the following assessment rates: Department of Administrative Services ($17,846); Fleet Services ($4,080); State Data Center ($2,393); Facilities Rent ($5,348); and Attorney General ($30,772).

Board of Examiners for Speech-Language Pathology and Audiology – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	258,523	299,360	326,107	314,657
Total Funds	**$258,523**	**$299,360**	**$326,107**	**$314,657**
Positions	2	2	2	2
FTE	1.40	1.40	1.40	1.40

Agency Overview

The mission of the Board of Examiners for Speech-Language Pathology and Audiology is to protect the public by licensing and regulating the performance of speech-language pathologists, speech-language pathology assistants, and audiologists. The Board adopts rules governing standards of practice; investigates alleged violations; and grants, denies, suspends and revokes licenses. The seven-member board is appointed by the Governor and composed of two licensed speech-language pathologists, two licensed audiologists, two public members, and one medical doctor with American Board of Otolaryngology certification.

The 2009 Legislative Assembly approved HB 2118 which standardizes certain provisions for membership and appointment to health professional regulatory boards, appointment of executive directors and reporting and auditing of certain board activities.

Revenue Sources and Relationships

The agency is funded by revenue generated from application, license, and certification fees. Other miscellaneous sources include late fees, interest income, and the sale of mailing lists and copies of public records. Revenue in 2009-11 is projected to be about the same as 2007-09 estimates and the projected ending cash balance of $58,000 equals approximately four months of operating costs.

Budget Environment

The agency has identified three main activities: licensing; investigation; and administration. As of August 2008, the agency reports 1,530 active licensees. The budget is 70% personal services.

Essential Budget Level

The 2009-11 essential budget level represents an 8% increase from the 2007-09 legislatively approved budget. It includes standards adjustments for personal service costs, inflation, rate increases for Attorney General, and the state government service charges.

Legislatively Adopted Budget

The 2009-11 legislative adopted budget of $314,657 represents a 3.6% decrease from the essential budget level. The legislatively adopted budget includes funding for enhanced investigation expenses, additional Attorney General expenses, and a technical adjustment for rent expenses. Also included in the legislatively adopted budget are decreases to reflect personal services savings as well as reduced statewide assessment rates.

Board of Tax Practitioners – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	892,929	1,105,711	1,126,108	996,527
Total Funds	**$892,929**	**$1,105,711**	**$1,126,108**	**$996,527**
Positions	4	5	5	4
FTE	4.00	5.00	5.00	4.00

Agency Overview

The Board of Tax Practitioners is a seven-member citizen board that protects consumers by ensuring Oregon tax practitioners are competent and ethical in their professional activities. It accomplishes this by licensing and overseeing tax preparers, tax consultants, and tax businesses. Currently, the Board regulates about 2,200 tax consultants, 1,800 tax preparers, and about 1,500 tax businesses per year. It develops initial competency examinations and monitors required continuing education programs for tax preparers. The Board also investigates complaints filed concerning personal tax return services by licensees and unlicensed persons and takes disciplinary action when appropriate. A four-person staff administers Board programs.

Revenue Sources and Relationships

The Board's Other Funds come principally from annual licensing and business registration fees. Fees are also charged for the administration of licensing examinations. Fees are established by rule but are limited by statute. The Board expects to collect $1,138,000 in total revenues from licensing fees, business registration fees, examinations, fines and penalties, pass-through revenues for community colleges administration of examinations, and other miscellaneous revenue for the 2009-11 biennium.

Budget Environment

The number of professionally prepared income tax returns is expected to increase along with the growth in Oregon's population. Statistics from the Department of Revenue show that about one half of all personal income tax returns are filed with the aid of a tax practitioner. The number of tax practitioners and tax businesses is expected to remain the same, or slightly increase, in the 2009-11 biennium.

Essential Budget Level

The essential budget level is $1,126,108, a 1.8% increase over the 2007-09 legislatively approved budget. The increase in the essential budget level includes standard increases for state government services charges, personnel costs, inflation, and rate increases for the Attorney General.

Legislatively Adopted Budget

The legislatively adopted budget includes a decrease of $63,939 from the 2009-11 essential budget level to reflect decreases in Attorney General hourly rates, Department of Administrative Services' assessments, and personal services savings. The legislatively adopted budget represents a 7.2% decrease from the 2007-09 legislatively approved budget and includes the elimination of an Office Specialist 1 position (1.00 FTE).

Veterinary Medical Examining Board – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	505,033	557,967	631,330	660,617
Total Funds	**$505,033**	**$557,967**	**$631,330**	**$660,617**
Positions	3	3	3	3
FTE	2.25	2.25	2.25	2.75

Agency Overview

The mission of the Veterinary Medical Examining Board is to protect animal health and welfare, public health, and consumers of veterinary services. The Board determines license qualifications and licenses veterinarians, veterinary technicians, euthanasia shelters, and euthanasia technicians; investigates consumer complaints and disciplines licensees found to be in violation of the Veterinary Practice Act; conducts national board examinations for veterinary technicians; and monitors advances and changes in the profession to determine minimum practice standards to ensure ongoing public and animal health. The eight-member board is appointed by the Governor and composed of five veterinarians, two public members, and one certified veterinary technician.

The 2009 Legislative Assembly approved HB 2118 which standardizes certain provisions for membership and appointment of health professional regulatory boards, appointment of executive directors and reporting and auditing of certain board activities.

Revenue Sources and Relationships

The agency is funded by revenue generated from license, application, and examination fees. Revenue in 2009-11 is projected to increase about 8% from 2007-09 estimates.

Budget Environment

The agency has identified two main activities: licensing and investigations. Over the last two years the number of licensees has increased about 10%, but the investigation workload has increased 43%. The Board estimates that during 2009-11 it will license 2,053 veterinarians, 955 veterinary technicians, 167 euthanasia technicians, and 33 euthanasia facilities.

Essential Budget Level

The 2009-11 essential budget level represents an 11.6% increase from the 2007-09 legislatively approved budget reflecting adjustments for personal service costs, inflation, rate increases for Attorney General, and the state government service charges.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $660,617 represents a 4.4% increase from the essential budget level. The legislatively adopted budget includes funding for the increase in the Board's existing investigator position from 0.25 FTE to 0.75 FTE and a technical adjustment for rent expenses.

Economic and Community Development

Business Development Department (OBD) – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	1,791,094	4,544,947	4,431,047	4,665,252
Lottery Funds	93,797,043	129,157,908	113,014,071	113,582,000
Other Funds	31,994,929	53,023,261	45,206,567	32,862,431
Federal Funds	23,312,513	36,374,862	27,140,696	34,238,986
Other Funds (NL)	198,026,069	243,237,016	167,103,902	233,515,791
Total Funds	**$348,921,648**	**$466,337,994**	**$356,896,283**	**$418,864,460**
Positions	123	126	125	127
FTE	119.23	126.00	125.00	126.34

Agency Overview

The Oregon Business Development Department (OBD) was previously named the Economic and Community Development Department (OECDD). The Legislature renamed and reorganized the agency during the 2009 session by passing HB 2152. The Department provides economic and community development and cultural enhancement throughout the state, and administers programs that aid businesses and communities. The Department reorganization under HB 2152 created the Oregon Infrastructure Finance Authority (IFA) and the Oregon Infrastructure Finance Authority Board within the Department, and granted oversight of the agency's community development programs to the IFA. The reorganization is designed to allow the agency's economic development and community development programs to operate more independently, and to thereby improve the administration and effectiveness of both the business development, and community development programs. The bill also transferred the Office for Minority, Women and Emerging Small Business to the Department. That Office previously resided in the Department of Consumer and Business Services.

The Oregon Business Development Department receives General Fund, Lottery Funds, Federal Funds, and Other Funds primarily from the Oregon Bond Bank and other bonding programs, and uses the funds to provide grants, loans, and direct and contract services. Program focuses include business and industry development; support of in-state innovation efforts to improve economic competitiveness; trade, tourism and arts promotion; community development; and ports.

The 1997 Legislative Assembly established authority for the Oregon Business Development Commission (OBDC) to distribute funds within the Oregon Community Development Fund for economic and community development purposes, subject to performance-based contracts. That authority was retained in HB 2152, and the OBDC now distributes funds in the Business, Innovation, and Trade Fund (BITF). The IFA has authority, within the Department, over the distribution of moneys in the agency's infrastructure funds. A large majority of the agency's budget reflects these distributions from the BITF and the infrastructure funds, and the agency's activities to support both these distributions and other economic development activities. The Legislature also designates and directs funds, in the agency's budget, to specified economic and community development projects outside of the context of the OBDC and IFA distributions.

The Department has six budget program areas:

- The ***Shared Services/Central Pool*** program area is a new budget structure that includes the budget for all shared/central services for the Department, such as Human Resources, Information Technology, etc. The Shared Services/Central Pool program unit also includes the services of the Director's office providing policy oversight to the Department under the direction of the Oregon Business Development Commission.

- The ***Business, Innovation, Trade*** program area is a new budget structure and includes the staff and the funding sources used by the Department to provide grants and loans to assist businesses in order to achieve the agency's economic development goals statewide, including job retention and creation, and the promotion of innovation. This program area is composed of a variety of programs and funding sources including grants, loans, and bonding programs. The Oregon Business Development Commission allocates resources to each program within the Business, Innovation, Trade program area based on legislative direction and Commission priorities.

- The ***Infrastructure Finance Authority*** program area is a new budget structure and includes the staff and the funding sources used by the Department to provide grants and loans to assist communities in infrastructure development projects. Almost all of the expenditures in this program area are either special payments (loans, grants, or contracts) to local governments or non-profit organizations; or debt service on bonds the state has issued to finance these categories of expenditures, but the expenditures also include the Department's associated expenses for administering the community development programs.

- The ***Film and Video Office*** is a semi-independent agency that receives pass-through support in the OBD budget to promote and support the film, video, and multimedia industries in Oregon.

- The ***Oregon Arts Commission*** fosters the arts and cultural development in Oregon. All operating expenses relating to Arts Commission and Cultural Trust programs, including personal services expenditures and services and supplies expenditures, are included in this program area, as are funds awarded to individuals and arts-related nonprofit organizations.

- ***Lottery Bond Debt Service*** is used exclusively for debt service payments on lottery revenue bonds.

Following the 2007 session, the Economic and Community Development Department began a review of its programs, to determine how they could be made more effective, and whether any of them should be transferred to other agencies. The review was implemented out of two basic concerns. The first concern was that the broad scope of the Department's activities might have a negative impact on its effectiveness in administering the programs. The second concern was that the broad scope and complexity of the Department's programs affected its ability to communicate with its clients, the Legislature, and the public, and had a negative impact on the way the programs' performances were measured.

The Department reviewed the option of transferring its community development programs to the Housing and Community Services Department (HCSD) as a way of improving the effectiveness of both the state's community development and business development programs. The Economic and Community Development (OECD) Commission rejected this concept, however, after the program reviews. Instead, it proposed that an Infrastructure Finance Authority (IFA) be established as a semi-independent agency, separate from the Department, to house most of the community development programs. The IFA was to provide administrative support for the programs, and be governed by a Board that would include representatives of stakeholder groups. The IFA Board would approve the distribution of funds in the Special Public Works Fund, Water/Waste Water Fund, Safe Drinking Water Revolving Loan Fund, and Ports Programs. The OECD Commission recommended transferring administration of the Community Development Block Grant Program to HCSD, transferring the Main Street Program to the State Historic Preservation Office, and transferring the Office for Minority-Owned/Women-Owned/Emerging Small Business Certification from the Department of Consumer and Business Services to OBD.

Subsequent to making these recommendations, the State Treasurer indicated that the proposed IFA could not, as a semi-independent agency, hold the Lottery Funds within the balances of the various funds that it was supposed to administer. In response, the OECD Commission modified its recommendations, and recommended that the IFA and the community development programs (including the Community Development Block Grant) be retained in OBD. Although the programs would still be financed within the Department's budget, a new IFA Board would nonetheless be established and given administrative authority over the community development programs (excluding the Industrial Lands Certification, Brownfields, and Regional Investment programs), independent of the Commission and the OBD Director. The Legislature approved this proposal in HB 2152.

Budget Environment

The workload of the agency is driven by the economic and community development needs of Oregon's communities. This includes assisting communities to meet needs for clean water and wastewater disposal and for other public infrastructure, including community facilities and ports, and providing support for community-identified economic and community development programs.

The 2003 Legislature directed the agency to focus its efforts on the primary goal of assisting the business community to create new jobs and retain existing jobs. The agency was directed by budget note to report to the Emergency Board on the use of the Strategic Reserve Fund, including planned and actual outcomes. The 2005 Legislature added $7 million in Lottery Funds for an Innovation Economy initiative and added staff to support this initiative.

The 2003-05 budget reflected actions taken by the agency to streamline its operations and refocus its efforts towards the primary goal of assisting businesses to create new jobs and retain existing jobs. The total reduction resulting from this effort was $27 million and 10.62 FTE. The 2005 Legislature maintained agency staffing at the 2003-05 level. The Emergency Board approved a reorganization plan that added 5 positions (3.58 FTE) and approved the conversion of Lottery Funds debt service (that otherwise would have reverted to the Department of Administrative Services Economic Development Fund) to support the additional staff needed to address agency workload.

Essential Budget Level

Atypically for state agency budgets, the Department's essential budget level expenditures for the 2009-11 biennium are below the 2007-09 biennium expenditure level. State support (i.e., General Fund plus Lottery Funds) in the EBL is 12.2% below the 2007-09 biennium level, while the decline in total funds is 18% over the same period. There are a number of reasons why this is the case.

The decline in state support reflects the phase-out of support of a number of one-time expenditures approved in the 2007-09 biennium. The single largest expenditure phased-out in the EBL calculation is the 2007-09 biennium support for the Oregon Innovation Council (Oregon InC) Innovation Plan initiatives, at $28.2 million Lottery Funds. Although the Legislature has supported Oregon InC (or the Council's antecedents) initiatives for several biennia, the Legislature does not add these expenditures into the agency's base budget. Instead, it approves any support on a one-biennium basis. This reflects the nature of the Innovation Plan initiatives, which are targeted toward narrower outcomes than the Department's ongoing programs, and which establish short-term targets and goals of eventual self-funding. The short-term targets generally extend beyond a single biennium, however, and the Council often recommends reestablishing funding for an initiative the following biennium.

Other 2007-09 biennium one-time state support expenditures that are phased-out in the EBL calculation include $1.35 million in the Targeted Service Providers program, $1.7 million for the Strategic Reserve Fund for Workforce and Leadership issues, $0.5 million each for the Olympic Trials, the Main Street program, and commercial fisheries support, and $396,000 approved for information technology investments. Additionally, Federal Funds expenditures of $9.3 million are phased-out to reflect declining federal support, primarily in the Community Development Block Grant program.

Legislatively Adopted Budget

The Legislature changed the agency's budget structure in support of the agency realignment enacted in HB 2152. The revised budget structure separates the business development programs administered by the Oregon Business Development Commission from the community development programs administered by the Infrastructure Finance Authority. A separate program area is also established for the Department's centralized administrative services that support both program types. The three new program areas did not exist prior to the agency reorganization, and there is no historic information for them. The agency totals shown in the above table, however, accurately compare the agency's 2009-11 biennium budget with its budget in the prior two biennia.

All Lottery Funds expenditures, excluding debt service payments for lottery revenue bonds, are in the Business, Innovation, Trade (business development) program area, or in the Shared Services/Central Pool program area. The Infrastructure Finance Authority (community development) program area is financed exclusively with Other Funds and Federal Funds. General Fund is typically restricted to the Arts Commission, which does not expend Lottery Funds.

State support (Lottery Funds plus General Fund) in the agency budget totals $118.2 million, a $15.5 million (or 11.6%) decline from the prior biennium level, after the funding reductions approved in the 2009 session to rebalance the 2007-09 biennium budget. Total Lottery Funds expenditures are reduced 12.1% from the prior biennium level, but this increase is exclusively the result of a 24.7% increase in the cost of servicing debt on the

Department's lottery revenue bonds. Excluding debt service and Lottery Funds passed through to the Oregon Film and Video Office, the level of Lottery Funds remaining for agency programs totals $39.5 million and is down over 43% from the prior biennium. Over $9.4 million of these expenditures are financed from carry over Lottery Funds allocated to the Department in prior biennia (or from interest earned on such funds). This reduces the allocation of 2009-11 biennium lottery revenues to $30.1 million, a 52% decline from 2007-09.

The impact of the Lottery Funds reductions on the Department's programs is partially mitigated by a one-time use of $10 million of Other Funds fund balances in the Special Public Works Fund and the Water Fund to finance business development program costs otherwise supported by Lottery Funds. These two Funds are not typically used for this purpose, and are statutorily limited to support grants and loans for community development projects, and to cover the administrative costs of operating the community development programs. The statutory exemption allowing the fund balances to support business development programs expires at the end of the 2009-11 biennium. The budget directs that the $10 million of Other Funds expenditures be restored to Lottery Funds in the calculation of the agency's 2011-13 biennium essential budget level. The Legislature also approved $17.5 million of lottery revenue bond proceeds for recapitalizing the two infrastructure funds. This will offset the withdrawal of the $10 million and increase the fund balances over the course of the biennium.

The 2009-11 biennium budget adds two agency positions (1.34 FTE). The largest single impact on the agency's position count results from the transfer of the Office for Minority, Women and Emerging Small Business, with its five positions, from the Department of Consumer and Business Services to OBD. Net of this transfer, the position count is reduced by three positions (3.66 FTE). The budget eliminates five Lottery Funds-supported positions and reduces a sixth Lottery Funds-supported position to half-time (for a 5.50 FTE reduction) in the Shared Services/Central Pool and Business, Innovation, Trade programs. Two Other Funds-supported positions are added though, including a permanent full-time Debt Manager for the Infrastructure Finance Authority, and a limited duration position for the Main Street program (1.84 FTE combined), which had been phased-out in the agency's essential budget level.

OBD – Shared Services/Central Pool

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Lottery Funds				6,735,148
Other Funds				2,097,840
Federal Funds				9,258
Total Funds				**$8,842,246**
Positions				32
FTE				32.00

Program Description

The Shared Services/Central Pool program area includes agency administrative services that support both the business development (Business, Innovation, Trade) and the community development (Infrastructure Finance Authority) programs. With the Department's reorganization under HB 2152, the business development and community development programs operate under separate policy boards, but continue to share the services included in this program area.

The thirty-two positions and associated non-personnel costs include the ***Office of the Director*** (3.00 FTE), ***Employee Services*** (5.00 FTE), ***Fiscal and Budget*** (8.00 FTE), and the ***Policy and Planning Division*** *(16.00 FTE)*, which includes Strategic Initiatives, Information Technology, Government Relations, Marketing, and Public Affairs.

Revenue Sources and Relationships

Revenues for the 2009-11 biennium include $2.1 million in Other Funds, but the program area is primarily financed with Lottery Funds. The Other Funds include funds from the community development programs for administrative costs. The sources of these funds are primarily interest earnings on balances in the infrastructure funds (within the IFA) and loan repayments on infrastructure loans. The Other Funds revenues also include approximately $715,000 of fund balances transferred from the infrastructure funds (specifically the Special Public Works Fund and the Water Fund) to support business development program expenses. These moneys are available through a one-biennium statutory change approved to expand the legal uses of the fund balances.

Budget Environment

Community and regional needs and the needs of businesses and industry drive the workload. External forces, including changes in Oregon's economy, have a direct impact on the workload. Workload is also affected by changes in organization and staffing. The revisions to the budget structure and the change in direction and responsibility of the Oregon Business Development Commission have a major impact on staff workload, as did the additional workload generated by the new programs, such as the Safe Drinking Water Revolving Loan program and expanded infrastructure program.

Essential Budget Level

The Shared Services/Central Pool program area was newly created in the 2009 session, and there is no 2009-11 biennium essential budget level calculation at the program area level. The activities residing in this program area, however, would have been adjusted from 2007-09 biennium levels only for standard inflation and roll-up adjustments in the EBL calculation methodology. The program area does not include any activities that were phased-in or phased-out from the prior biennium. Specific program cuts and additions are discussed in the Legislatively Adopted Budget section below. A program area level-specific essential budget level will be calculated as part of the development of the 2011-13 biennium budget.

Legislatively Adopted Budget

The Shared Services/Central Pool program area was established to better display how the Department is reorganized under HB 2152. As such, there are no budget data available for this program area for prior biennia.

The legislatively adopted budget eliminates two full-time positions and reduces Lottery Funds expenditures by $487,205 to help address the state's 2009-11 biennium revenue shortfall. Additionally, the budget shifts another $714,989 of expenses from Lottery Funds to Other Funds, as part of a one-time use of $10 million from the infrastructure funds to reduce reliance on Lottery Funds. The use of infrastructure fund balances for this purpose required a statutory change, as the moneys are being used to support business development programs as opposed to public infrastructure projects. The Legislature approved a one-biennium statutory change to permit this use. The budget directs that these Other Funds expenditures be restored to Lottery Funds in the calculation of the agency's 2011-13 biennium essential budget level.

OBD – Business, Innovation, Trade

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Lottery Funds				32,759,377
Other Funds				14,577,127
Federal Funds				4,180,000
Other Funds (NL)				12,100,000
Total Funds				**$63,616,504**
Positions				53
FTE				52.50

Program Description

The Business, Innovation, Trade program area was established in HB 2152 as part of the agency reorganization. As such, there are no budget data available for prior biennia.

The Business, Innovation, Trade (BIT) program area houses the programs that were retained under Oregon Business Development Commission oversight in HB 2152. These programs consist of the Department's business development initiatives that support business creation, recruitment and retention; international trade; development of industrial lands; and initiatives to increase innovation in the Oregon economy and improve the state's economic competitiveness. The largest of these programs are the Oregon Innovation Council Innovation Plan and the Governor's Strategic Reserve Fund. Other BIT programs include the Brownfields Redevelopment and Industrial Lands programs, the Industry Competitiveness Fund, the Local Economic Opportunity Program (formerly Regional Investment), and the direct business support programs including the Small Business Development Centers and the Office for Minority, Women and Emerging Small Business.

Revenue Sources and Relationships

Revenues for the 2009-11 biennium include $26.7 million in Other Funds and $4.2 million Federal Funds, but the program area is primarily financed with Lottery Funds allocated to support business development. The Other Funds revenues include assessments that fund the Office for Minority, Women and Emerging Small Business, plus interest earnings on funds and loan repayments. The Other Funds revenues also include approximately $9.3 million of fund balances transferred from the infrastructure funds (specifically the Special Public Works Fund and the Water Fund) to support business development program expenses. These moneys are available through a one-biennium statutory change approved to expand the legal uses of the fund balances.

Federal Funds support the Brownfields Program. Most of the Federal Funds, $3.4 million of the $4.2 million projected for the biennium, are one-time moneys received under the Federal stimulus package (ARRA).

Budget Environment

The 2005 Legislature approved $45 million in lottery bonds for brownfields redevelopment and industrial lands infrastructure development. The 2007 Legislature approved a 71% increase in Lottery Funds for distribution to businesses and non-profits over the 2005-07 biennium level. This resulted primarily from an increase in support for the Oregon Innovation Council's (Oregon InC) Innovation Plan, which increased from $7 million lottery funds in the 2005-07 biennium to $28.2 million in 2007-09.

All components of the Innovation Plan share the common purposes of supporting innovation in Oregon and improving the state's economic competitiveness. The three Signature Research Center initiatives focus on building university research capacity in their respective areas, and on coordinating and promoting university research projects that will develop innovations that can be commercialized to establish new Oregon businesses and assist existing Oregon businesses. The other initiatives work to develop, share, and implement innovations to support certain emerging and established industries in the state.

Essential Budget Level

The Business, Innovation, Trade program area was newly created in the 2009 session, and there is no 2009-11 biennium essential budget level calculation at the program area level. The program area does, however, include activities that were phased-in or phased-out from the prior biennium. Specific program cuts and additions are discussed in the Legislatively Adopted Budget section below. A program area level-specific essential budget level will be calculated as part of the development of the 2011-13 biennium budget.

Although Oregon InC Innovation Plan proposals have been funded in the agency budget for several biennia, this funding is approved each biennium on a one-time basis and not included in the essential budget level. This reflects the nature of the Innovation Plan initiatives, which are targeted toward narrower outcomes than the Department's ongoing programs, and which establish short-term targets and goals of eventual self-funding. As such, the $28.2 million of Lottery Funds allocated for the Oregon InC Innovation Plan in the 2007-09 legislatively adopted budget is phased-out in the calculation of the 2009-11 essential budget level.

Legislatively Adopted Budget

The legislatively adopted budget reduces Lottery Funds expenditures below the essential budget level, and reduces support for the Oregon InC Innovation plan by 43.7% from the level approved in the 2007 session. As in the past, support for the Innovation Plan initiatives is approved on a one-time basis. Other ongoing Lottery Funds-supported business development programs, which are included in the essential budget level, are reduced from the EBL funding level. The essential budget level for these ongoing programs totals $23 million Lottery Funds. The legislatively adopted budget includes only $10.2 million Lottery Funds for these same programs. Program reductions are not as severe as this would indicate, however, since $5.6 million of Other Funds were added to support these programs on a one-time basis, financed by withdrawals from the agency's infrastructure funds (Special Public Works Fund and Water Fund). With these Other Funds included, support for the business development programs totals $15.8 million in the budget, which is $7.2 million (or 31.4%) below the essential budget level. The reductions are distributed to the Governor's Strategic Reserve Fund, the Small Business Development Center Network, and the Industry Competiveness program. Support for the Local Economic Opportunity Program (formerly Regional Investment) is discontinued.

The budget also includes Lottery Funds reductions to administrative costs. These are reduced by $4.7 million Lottery Funds. Again, administrative reductions are not as severe as this would indicate, since $3.7 million of Other Funds are added to support these expenses on a one-time basis, financed by withdrawals from the agency's infrastructure funds. With these Other Funds included, support for administrative expenses is $1 million below essential budget level. The budget includes the elimination of three full-time positions, and the reduction of a fourth position from full-time to half-time (3.50 FTE).

Other adjustments in the BIT program area include adding the Office for Minority, Women and Emerging Small Business budget [$938,423 Other Funds expenditures and five full-time positions (5.00 FTE)], which was transferred to OBD in HB 2152, and increasing the Federal Funds expenditure limitation by $3,360,000 to allow expenditure of Federal stimulus funds anticipated for the Brownfields program.

The budget supports continued funding for six of the seven Oregon InC programs funded in the 2007-09 biennium. Funding for five of the six continuing programs is reduced from the prior biennium level. These

Oregon InC Innovation Plan

Lottery Funds

Program	2007-09 Legislatively Adopted	2009-11 Legislatively Adopted	Biennial Change
Signature Research Centers			
1) ONAMI - Oregon Nanoscience and Microtechnologies Institute	$9,000,000	$5,656,500	-37.2%
2) OTRADI - Oregon Translational Research and Drug Development Institute	$5,250,000	$2,510,000	-52.2%
3) BEST - Built Environment and Sustainable Technology Center	$2,500,000	$2,750,000	10.0%
Emerging Industry Initiatives			
4) OWET - Oregon Wave Energy Trust	$4,200,000	$3,013,500	-28.3%
Established Industry Initiatives			
5) Northwest Food Processors Innovation Productivity Center	$3,432,000	$1,620,000	-52.8%
6) Manufacturing Competitiveness Initiative (PSU/OMI)	$2,872,000	$0	-100.0%
7) Community Seafood Initiative	$900,000	$450,000	-50.0%
Total	**$28,154,000**	**$16,000,000**	**-43.2%**

reductions range from a 28.3% reduction for the Oregon Wave Energy Trust (OWET), to reductions of 50% or more for the food processing, community seafood, and OTRADI initiatives. Funding for the BEST signature research center, on the other hand, is increased by 10% over the 2007-09 biennium level. BEST focuses on clean energy, bio-based products, and energy efficient building and development technologies. Support for the Manufacturing Competitiveness Initiative was discontinued.

OBD – Infrastructure Finance Authority

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds				7,873,897
Federal Funds				28,282,882
Other Funds (NL)				221,415,791
Total Funds				**$257,572,570**
Positions				33
FTE				32.84

Program Description

The Infrastructure Finance Authority was established in HB 2152 as part of the agency reorganization. As such, there are no budget data available for prior biennia.

The Infrastructure Finance Authority program area houses the programs that were transferred to IFA oversight in HB 2152. These programs consist of the Department's community development initiatives that assist communities primarily through support of infrastructure improvements. The largest of these programs are the revolving fund loan and grant programs of the Special Public Works Fund and the Water Fund. Other IFA programs include the Port Revolving Loan Fund and Port Planning and Marketing Fund programs, the Safe Drinking Water Revolving Loan Fund program, the Main Street program, and the Community Development Block Grant program.

Revenue Sources and Relationships

Infrastructure Finance Authority program expenditures are not supported by Lottery Funds, although the state does issue lottery revenue bonds to finance a portion of these programs' costs. In these instances, lottery revenue bond proceeds are deposited into revolving loan funds and made available for infrastructure loans and grants, and for payment of administrative costs relating to IFA programs. The lottery revenue bond proceeds are in some cases used to match proceeds from Oregon Bond Bank bonds. The mixture of bond, loan, and grant funds increases OBD's capacity for financing projects The expenditures of the bond proceeds distributed to localities as loans or grants are shown as Nonlimited Other Funds (and not as Lottery Funds). Expenditures for program administrative costs (typically financed from interest earnings on, and loan repayments of, the lottery bond proceeds, and not from the proceeds directly) are shown as Other Funds expenditures. Debt service costs on the lottery revenue bonds issued to provide these funds are paid with Lottery Funds, but those payments are shown in the Lottery Bond Debt Service program area, and not in the Infrastructure Finance Authority budget.

IFA program area revenues include fees and service charges, interest earnings, loan repayments, federal grant funds, and Nonlimited Other Funds from the sale of program specific revenue bonds and lottery-backed bonds. Nonlimited Other Funds revenue includes $50.9 million in interest income and $64.7 million in loan repayments from community and port infrastructure projects and business finance loans. Programs include the Special Public Works Fund, Water/Wastewater Funds, and Port Revolving Funds for the investment of proceeds from lottery-backed bond sales. Nonlimited Other Funds revenues also include $63.4 million ($35.6 million in regular formula funds plus $27.8 million in one-time Federal stimulus moneys) for the Safe Drinking Water Revolving Loan Fund. These are federally-sourced funds that are transferred to the Department from the Department of Human Services. Federal Funds support the Community Development Block Grant program.

Budget Environment

The 2005-07 legislatively adopted budget included $90.5 million in Nonlimited Other Funds, reflecting increased bonding and loan repayments in the various revolving loan programs. The 2007-09 biennium legislatively adopted budget supported an additional $33.4 million of lottery bonds for infrastructure and specified projects.

Essential Budget Level

The Infrastructure Finance Authority was newly created in the 2009 session, and there is no 2009-11 biennium essential budget level calculation at the program area level. The expenditures subject to limitation residing in this program area, however, would have been adjusted from 2007-09 biennium levels only for standard inflation and roll-up adjustments in the EBL calculation methodology. The program area does not include any activities that were phased-in or phased-out from the prior biennium. Specific program cuts and additions are discussed in the Legislatively Adopted Budget section below. A program area level-specific essential budget level will be calculated as part of the development of the 2011-13 biennium budget.

Legislatively Adopted Budget

The Infrastructure Finance Authority program area was established to better display how the Department is reorganized under HB 2152. As such, there are no budget data available for this program area for prior biennia.

There are no agency specific expenditure reductions in the IFA program area, although expenditures were reduced by $259,448 as part of the statewide salary and state government service charge reductions approved in the legislatively adopted budget. The budget does, however, transfer resources from the IFA to support business development programs in other parts of the agency budget. A total of $10 million of Other Funds fund balances in the Special Public Works Fund and the Water Fund is transferred to the Business, Innovation, Trade and Shared Services/Central Pool to finance business development programs otherwise supported by Lottery Funds. These two Funds are not typically used for that purpose, and are statutorily limited to support grants and loans for community development projects, and to cover administrative costs of operating the community development programs. The statutory exemption allowing the fund balances to support business development programs expires at the end of the 2009-11 biennium. The budget directs that the $10 million of Other Funds expenditures in those programs be restored to Lottery Funds in the calculation of the agency's 2011-13 biennium essential budget level. The Legislature also approved $17.5 million of new lottery revenue bond proceeds for recapitalizing the two infrastructure funds. This will offset the effect of the withdrawal of the $10 million and increase the fund balances over the course of the biennium.

Other adjustments in the IFA budget include adding a full-time Debt Manager position for the Infrastructure Finance Authority, adding $474,000 Other Funds to cover the cost of issuing the lottery revenue bonds for the infrastructure funds (bond proceeds will finance these costs), transferring the $1.5 million Lottery Funds balance in the Marine Navigation Improvement Fund out to allow these funds to be used to pay debt service costs on lottery revenue bonds, changing loan expenditures in the Safe Drinking Water Program from limited Other Funds to Nonlimited Other Funds as was specified by statute, and adding $350,000 Other Funds, transferred from the Parks and Recreation Department, and one limited duration position (0.84 FTE) for the Main Street Program, which was phased-out in the agency's essential budget level.

Finally, the Legislature adjusted the IFA budget to allow expenditure of $31.6 million of Federal stimulus moneys available under the ARRA. These adjustments included a $27.8 million increase in Nonlimited Other Funds for the Safe Drinking Water Program, and a $3.8 million Federal Funds expenditure limitation for the Community Development Block Grant.

OBD – Film and Video Office

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Lottery Funds	841,605	1,217,610	1,317,582	1,251,703
Total Funds	**$841,605**	**$1,217,610**	**$1,317,582**	**$1,251,703**

Program Description

The Film and Video Office is a marketing agency for Oregon's statewide promotion of the film, video and multimedia industries. The 1995 Legislative Assembly authorized the semi-privatization of the Film and Video Office, which provides the program with greater flexibility in marketing activities. OBD is responsible for the pass-through of Lottery Funds to the Office. The Office recruits film productions through its marketing efforts, provides assistance to productions to identify film locations, and administers the state's film and video incentive programs. Services include maintaining a photo library of potential movie and television locations statewide and assisting in film permitting.

A consultant's report commissioned by the Film and Video Office estimates the industry generated $709.5 million in direct economic output and generated 6,325 full- and part-time jobs in 2007, up 43.6% and 14.6%, respectively, from the levels two years earlier. Approximately 4,000 of the jobs in 2007 were in the indigenous film and video sector, 669 jobs resulted from out-of-state production companies working in Oregon, and 1,655 jobs were in the television and cable broadcasting industries. The fastest growing sector is the out-of-state production companies, where the 669 jobs in 2007 represents a 276% increase over the 2005 level.

Revenue Sources and Relationships

The state-funded portion of the Office budget is from Lottery Funds, which OBD passes through to the semi-independent office. The Lottery Funds finance the Film and Video Office's operating expenses, including the personnel costs of the office's six staff members. As a semi-independent agency, the office's employees are not considered state employees and are not included in the OBD position count. In 2007, the Legislature increased support for the Office by 52% over the 2005-07 biennium. Three-quarters of this increase was dedicated to support expanding the Office's marketing activities.

Essential Budget Level

Because the Film and Video Office is a semi-independent agency, the essential budget level calculation does include adjustments to phase-in compensation cost increases awarded in the prior biennium. The EBL is instead calculated as a simple 2.8% increase over the 2007-09 legislatively adopted budget.

Legislatively Adopted Budget

The legislatively adopted budget provides Lottery Funds support for the Office of $65,879 (or 5%) below the calculated essential budget level. The budget also includes a 50% expansion of one of the Office's film incentive programs – the Oregon Production Investment Fund (OPIF) Program. This program provides film producers with a cash rebate of up to 20% of qualified goods and services expenditures and up to 10% of Oregon payroll costs. Rebates awarded under this program are not included in the Film and Video Office budget.

Funding for these rebates comes from money donated to the OPIF. Donors, however, are eligible for a tax credit against Oregon personal income tax. The amount of this credit is 110% of the donation amount, meaning the donation can be made at no cost to the taxpayer, and indeed the taxpayer personally gains from the donation by receiving a tax reduction that exceeds the donated amount. Existing law limited the amount of tax credits that could be awarded to no more than $10 million per biennium, but the Legislature increased the limit to $15 million per biennium. This expansion reduces General Fund revenues by $4.7 million in the 2009-11 biennium, and by $5 million each biennium thereafter, when the impact of the law change is fully phased in.

OBD – Arts

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	1,297,951	4,044,947	4,431,047	4,665,252
Other Funds	3,437,043	5,958,039	6,148,672	6,496,665
Federal Funds	1,283,196	1,744,598	1,793,447	1,766,846
Total Funds	**$6,018,190**	**$11,747,584**	**$12,373,166**	**$12,928,763**
Positions	9	9	9	9
FTE	8.08	9.00	9.00	9.00

Program Description

The Arts Commission is responsible for making the arts and culture available to all Oregonians by working with other agencies on a variety of initiatives in education, arts, and tourism. The Commission is responsible for a number of activities including: evaluating the impact of arts on Oregon's economy; distributing National Endowment for the Arts (NEA) funding for programs in Oregon; working with the leadership of local arts organizations; conducting assessment and maintenance to protect existing public art and approving new public art; and supporting Oregon's Art in Education program. The Commission coordinates regional efforts and arts education programs through a network of regional arts councils and collaborates to advance arts education for all students. The Commission became a part of OBD in 1993.

Revenue Sources and Relationships

The Arts Commission is the only part of the Department's budget that is regularly supported by General Fund. The Commission also receives federal NEA funding, and Other Funds from the 1% for Arts program and from donations. The 1% for Arts program is a state law which requires that 1% of appropriations to construct or alter certain state buildings must be used for the acquisition of art works.

About 79% of the Commission's funds are used for special payments, which are grants to individuals and non-profit programs that support the goals of the Arts Commission.

Budget Environment

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

In 2003, the Legislature reduced General Fund support for the Commission to $1.2 million, which was the minimum funding level required to meet matching funds requirements for federal arts programs. The 2003 Legislature also transferred the Oregon Cultural Trust program and 1.83 FTE support staff from the Secretary of State's Office to the Arts Commission, with the expectation that the combined programs would result in improved efficiencies and that funds raised for the Trust would help to support the Commission. However, program revenue was not sufficient to support the staffing approved in the transfer.

In 2007, the Legislature appropriated $2.9 million General Fund to support the Creative Oregon Initiative. The funds were made available to increase grants to artists and arts-related programs, to provide business training to artists and arts administrators, to expand the Commission's staff support, and to promote the Cultural Trust program. The 2007-09 biennium level of General Fund support represents a 228% increase over the level appropriated to the Commission the prior biennium.

Essential Budget Level

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

Legislatively Adopted Budget

The Arts program was unaffected by the Department reorganization under HB 2152. The $4.7 million of General Fund in the legislatively adopted budget is a 15.3% increase over the prior biennium level, after the funding reductions approved in the 2009 session to rebalance the 2007-09 biennium budget, and is 5.3% above the essential budget level. The all funds budget is approximately $556,000 (or 4.5%) above the essential budget level.

The budget includes an additional $278,448 of General Fund above the essential budget level for the Creative Oregon II initiative, a further expansion of the supplemental funding added in the 2007-09 biennium. Most of the funds ($275,000) will be used to supplement the Commission's grant programs, the remainder is for program administration and marketing.

The budget also adjusts Other Funds to conform to passage of HB 2740. That bill extends the sunset on the designation of all Cultural Trust license plate revenues to marketing. The budgetary impact is to increase Other Funds expenditures by $348,000, and to reduce deposits into the Cultural Trust by the same amount.

OBD – Lottery Bond Debt Service

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Lottery Funds	48,907,472	58,388,418	69,314,146	72,835,772
Other Funds	1,825,450	2,130,000	3,263,782	1,816,902
Other Funds (NL)	0	2,883,570	0	0
Total Funds	**$50,732,922**	**$63,401,988**	**$72,577,928**	**$74,652,674**

Program Description

The Lottery Bond Debt Service program includes debt service payments on all lottery revenue bonds that have been issued to support OBD programs and certain lottery revenue bonds issued to finance legislatively-specified projects promoting economic development. Debt service on revenue bonds issued for the Oregon Bond Bank are shown in Nonlimited Other Funds in the Infrastructure Finance Authority program area.

Revenue Sources and Relationships

Debt service is paid with Lottery Funds allocations. To minimize the size of the required Lottery Funds allocation, however, interest earnings on lottery-bond reserves are also applied to pay debt service. Interest earnings are spent as Other Funds. The budget for this program was increased by $16.8 million in the 2003-05 biennium to cover the increased debt service cost for the $181 million in lottery-backed bonding authority authorized by the 2001 Legislature. The 2005-07 legislatively adopted budget provided $51 million total funds, an increase of $11.8 million (30%) above the 2003-05 legislatively approved budget from rollup costs for debt service on previously authorized infrastructure bonds. The 2005 Legislature authorized the use of $1.9 million in

Other Funds from interest earnings on lottery-bond reserves and proceeds for the debt service on the $45 million in bonding authority for industrial lands infrastructure. The 2007 Legislature also approved the use of interest earnings on lottery-bond reserves and proceeds for the debt service. Debt service costs on lottery bonds is projected to total $63.4 million in the 2007-09 biennium budget, a 25% increase over the prior biennium level.

Essential Budget Level

The essential budget level funds debt service for Lottery bonds that the Legislature has approved for Department-funded projects prior to the 2009 session, and that have issued or are expected to be issued. Lottery bond debt service expenses for these bonds during the 2009-11 biennium will total $72.6 million, an increase of $9.2 million, or 14.5%, over the prior biennium level. This increase results from Lottery bonds newly-issued during the 2007-09 biennium. In 2007, the Legislature authorized an additional $21.42 million of Lottery bonds for infrastructure projects funded through the Community Development Fund, plus $7 million of Lottery bonds for a parking facility in downtown Hillsboro and $5 million of Lottery bonds for the Coos Bay Channel Project.

Legislatively Adopted Budget

The legislatively adopted budget funds Lottery Debt Service at the essential budget level, with an adjustment for additional lottery revenue bonds approved as part of the 2009-11 biennium budget. The $74.7 million of debt service expenditures in the legislatively adopted budget is a 17.7% increase over the prior biennium level, and is 2.9% above the essential budget level.

The budget supports authorization of an additional $17.5 million of Lottery bond proceeds for the Department's infrastructure revolving loan funds (Special Public Works Fund and the Water Fund) in the 2009-11 biennium, and includes $2.1 million of Lottery Funds for debt service costs in the 2009-11 biennium on these additional bonds. Debt service costs for the newly-authorized lottery revenue bonds is projected to increase to $4.2 million Lottery Funds per biennium, when they fully phase in beginning in the 2011-13 biennium.

Other Funds from interest earnings, totaling $1.8 million, are used to offset the Lottery Funds expenditures needed to service the debt. The budget further reduces lottery allocation amount by directing approximately $0.5 million of Lottery Funds carryover, and the $1.5 million of Lottery Funds in the Marine Navigation Improvement Fund, toward covering debt service. The use of these Other Funds and existing Lottery Funds reduces the amount of 2009-11 biennium lottery revenues that need to be allocated to cover debt service costs to $70.9 million.

Employment Department (OED) – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	3,714,007	3,773,516	4,170,698	3,316,072
Other Funds	94,639,938	121,768,437	124,337,370	132,043,826
Federal Funds	247,466,002	282,155,641	255,114,976	295,268,748
Other Funds (NL)	1,076,205,892	2,136,098,557	1,496,309,317	2,087,207,680
Federal Funds (NL)	0	108,000,000	0	500,092,327
Total Funds	**$1,422,025,839**	**$2,651,799,877**	**$1,879,932,361**	**3,017,928,653**
Positions	1,373	1,331	1,308	1,659
FTE	1,356.77	1,284.10	1,273.39	1,608.65

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***, ended the 2007-09 biennium with an estimated ending balance of $1.5 billion. Assuming minimal improvement in the state economy and the employment rate, the UI trust fund balance is projected to fall to $430 million by the end of the 2009-11 biennium. These funds are designated for unemployment insurance compensation payments to qualified individuals.
- ***Reed Act*** funds, in the amount of $98 million, were distributed to OED as Other Funds from the federal Employment Security Administration Account in 2002 and an additional $5.3 million in 2008-09 as a result of the Federal extension of unemployment benefits. These funds can and have been spent over multiple biennia, but only for expenditures relating to UI and Employment Services administration. The 2009-11 essential budget level assumes expenditures of $24.7 million. The remainder of these funds, (estimated at $5 million), will be expended in 2011-13, allowing the agency to operate with decreased amounts of Federal Funds for administration of the UI program.
- The ***Special Administrative Fund*** receives revenues from penalties and interest on delinquent payment of employer taxes. These funds are designated for administrative expenses or other needs as determined by the Director of the Department. The Legislature utilized $4.7 million from this source to balance the 2007-09 state budget. For the 2009-11 biennium, the Employment Department expects to take in and expend $7.9 million, leaving an ending balance of $0.
- The ***Supplemental Employment Department Administrative Fund (SEDAF)*** is funded by a 0.9% unemployment tax diversion to fund administration of the unemployment system. The Employment Department ended the 2007-09 biennium with an ending balance estimated at $7.8 million. The 2009-11 legislatively adopted budget assumes expenditures of $17.9 million, which may not be realized if revenues fall as a result of businesses laying off workers or closing because of the economic downturn.
- The ***Fraud Control Fund*** is supported by interest earnings on delinquent repayments of UI benefit overpayments and is earmarked for costs associated with the prevention, discovery, and collection of those overpayments.
- The ***Child Care Fund*** consists of donations received through the *Child Care Contribution Tax Credit* program. Donors receive tax credits of $0.75 for each dollar contributed to the Child Care Division, up to $500,000 total credits each year. The 2009-11 legislatively adopted budget assumes tax credits will generate $1.33 million in revenue for 2009-11, used to fund demonstration projects pursuant to statute. The demonstration projects selected by the Department are designed to show the effects of simultaneously increasing quality of

care affordability and provider compensation. The Legislature extended the tax credit until January 1, 2013, enabling continuation of programs. This fund also includes the licensing fees from child care providers, which are assumed to be $743,000 for the 2009-11 biennium.

OED also receives Other Funds revenues from other state agencies for providing job placement services and conducting contested case hearings. The 2009-11 legislatively adopted budget continued 25 limited duration positions for this purpose, as described in the Business and Employment Services section below.

Sources of Federal Funds revenue include:

- ***Employer payroll taxes*** collected by the Internal Revenue Service under authority of the Federal Unemployment Tax Act (FUTA). During the 2009-11 biennium, an estimated $127.1 million will be distributed by the U.S. Department of Labor for administration of the Unemployment Insurance Program, and $21.8 million is expected for employment services provided under the Wagner-Peyser Act, the Trade Adjustment Act, and for veterans' placement services. In addition, under the American Recovery and Reinvestment Act (ARRA), Oregon is projected to receive another $1.98 million for UI administration, and $12.9 million in Trade Act funds for employment services. Federal UI benefit extensions and supplemental payments provided by ARRA are categorized as Federal Funds Nonlimited and amount to over $500 million in 2009-11.
- ***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 $125.3 million will be received during the 2009-11 biennium, $2.1 million of which is the result of additional funding from ARRA. 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 high unemployment rate that Oregon experienced at the end of the 2007-09 biennium is projected to continue, with only minimal improvement toward the end of the 2009-11 biennium. As such, the 2009-11 legislatively adopted budget provides for a total of 233 limited duration positions and $30 million in additional expenditure limitation above what had been included in the essential budget level to process additional unemployment insurance benefit claims and associated appeals.

In 2007, OED began an initiative to integrate workforce skill development and assessment with the Department of Community Colleges and Workforce Development (CCWD). The goal is to seamlessly provide skill assessment, training, and job placement services to Oregon workers and job seekers, making better use of limited Workforce Investment Act (through CCWD) or Wagner-Peyser (Employment Department) dollars while eliminating duplicative administrative processes, leading to better skilled workers for employers, and higher wage jobs for job seekers. The integration involves co-location and a shared intake and customer database, and both OED and CCWD reported that it could be accomplished within existing 2007-09 resources. The integration process has been in effect and under refinement since October 2008.

The need for an accessible, affordable, high quality child care system also remains high. OED attempts to support these demands through programs that enhance child safety and health, promote child care worker training, offer information on child care providers, and ensure compliance with state and federal child care laws. This is the only program within OED which receives General Fund support.

Essential Budget Level

The 2009-11 essential budget level for the Employment Department is a 3.6% increase over the 2007-09 legislatively approved budget, primarily due to inflation associated with personal service costs.

Legislatively Adopted Budget

The primary focus of the 2009-11 legislatively adopted budget for the Employment Department was providing the necessary expenditure limitation and limited duration position authority to provide assistance to unemployed workers during Oregon's economic downturn. The Department was granted 279 positions beyond the essential budget level to address increases in unemployment insurance benefit caseload; 251 of the positions are in the Unemployment Insurance division, and the remaining 28 positions are in the Office of Administrative Hearings, and will be hearing appeals on eligibility decisions.

The second major feature of the Department's 2009-11 budget is associated with federal funding under the American Recovery and Reinvestment Act. Additional Federal Funds were granted for Unemployment Insurance administration ($2 million), employment services ($12.9 million), Childcare and Development Block Grant funds ($2 million), and expenditure limitation and position authority associated with broadening eligibility for unemployment insurance benefits such that Oregon would be eligible for additional federal funding for benefit extensions and payment increases.

Further, the budget includes $2.8 million in Other Funds expenditure limitation and position authority to renew up to 25 limited duration positions for fee-for-service employment placement activities, and $782,000 Other Funds expenditure limitation for 2 limited duration positions associated with research and special studies by Employment Department analysts and economists on a fee-for-service basis.

OED – Unemployment Insurance

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	9,380,460	18,252,933	18,835,150	18,819,693
Federal Funds	94,524,916	101,375,345	101,148,899	124,966,644
Total Funds	**$103,905,376**	**$119,628,278**	**$119,984,049**	**$143,786,337**
Positions	586	588	597	832
FTE	577.43	548.55	568.97	793.23

Program Description

The Unemployment Insurance program determines eligibility for benefits; processes benefit payments; enforces UI laws; collects employer payroll taxes; and provides support to the Employment Appeals Board (EAB). EAB, made up of three Governor-appointed members, is a separate and federally funded entity located within OED for administrative purposes and is responsible for reviewing decisions of the Office of Administrative Hearings on benefit cases.

Essential Budget Level

The 2009-11 essential budget level is a 0.3% increase from the 2007-09 legislatively approved budget. At the time the essential budget level was calculated, Oregon had yet to register the high unemployment rates which drove caseload increases and additional federal funds in the Unemployment Insurance program.

Legislatively Adopted Budget

Prior to the economic downturn, OED had anticipated reductions in federal support for unemployment insurance administration. However, federal reimbursement rates have been comparatively high for 2009. How long they will stay that way is an open question, and depends at least partially on the efficiency with which OED evaluates, pays, and adjudicates claims. In 2007-08, OED modified its internal processes to maximize the amount of federal reimbursement that is paid for administration of the unemployment insurance program. While the result of this maximization effort may be an increase in Federal reimbursement in the near term, there is a risk that Oregon's share of the total may once again decline. Because the total amount of available federal revenue for UI administration has not been growing, future increases to Oregon are likely to come at the expense of other states, who may also take similar steps to maximize their reimbursement. OED is assuming only minimal improvement in the economy, and assumes "above base" administrative reimbursement rates from the federal government at 84% for the 2009-11 biennium (although the actual rate was 100% for the period

July 1 – September 30, 2009). Under this scenario, OED anticipates depleting other fund balances (SEDAF, Reed Act, and Penalty and Interest funding) to pay for operating expenses and any service improvements the Department plans on making in the 2009-11 biennium.

The 2009-11 legislatively adopted budget provides expenditure limitation for a number initiatives that expand eligibility for Unemployment Insurance Benefits:

- SB 462 expands eligibility for Unemployment Insurance (UI) benefits by authorizing the use of an alternate base year (ABY) for calculating benefits. The federal stimulus law required the ABY, and other UI provisions that already exist in Oregon law, for Oregon to become eligible for an additional $85 million in Federal Funds for UI benefits.
- Provisions of HB 2203 brought state UI law into compliance with requirements of the American Recovery and Reinvestment Act of 2009 (ARRA) related to claimants affected by domestic violence and eliminated restrictions for the qualification of Supplemental UI for claimants in specified worker training programs. In addition, the measure extends eligibility for extended Unemployment Insurance benefits for individuals who have exhausted their federal Emergency Unemployment Compensation benefits.
- HB 3483 expanded eligibility for Unemployment Insurance (UI) benefits to workers who had been employed in lower wage jobs during their entire base year and who enroll in training programs approved by the Employment Department and Department of Community Colleges and Workforce Development. The bill limited the total benefits available for distressed workers in training to $9.2 million, and also extended UI benefits to workers between October 2009 and January 2010 to those workers who will have exhausted all state and federal UI benefits. Total benefit extension payments of no more than $30 million are authorized by the bill.

OED – Business and Employment Services

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	54,000	0	0	0
Other Funds	56,488,056	69,306,927	69,807,032	71,167,649
Federal Funds	25,705,984	23,457,296	21,351,239	39,176,274
Total Funds	**$82,248,040**	**$92,764,223**	**$91,158,271**	**$110,343,923**
Positions	518	481	448	537
FTE	514.84	478.05	446.42	530.42

Program Description

This program's mission supports businesses and promotes employment. Services are provided through field offices which recruit and refer qualified applicants to employers by matching the skills of the job seeker with employer job openings. Job seekers and employers can access employment information through interactive job services on OED's website. OED coordinates services with other Workforce partners to help customers access training, skills assessment counseling, and employability planning.

Essential Budget Level

The 2009-11 essential budget level is a 1.7% decrease from the 2007-09 legislatively approved budget because at the time the essential budget level was calculated, the Employment Department assumed a decline in the amount of federal revenue available to support businesses and employment services functions. Because of ARRA, total federal funds to the program have not decreased, but the amount of federal funds that can be used to support ongoing, regular operating expenses is still limited.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget includes a policy option package to provide additional Other Funds expenditure limitation in the amount of $2.7 million and authority for 25 limited duration positions to provide job placement services under contract to partner and state agencies. The Department utilizes the positions to respond to state and local agencies 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 eight biennia (with greater or lesser numbers of positions) depending on the workload estimates of partner agencies. Not all authorized positions have been fully utilized in the past (in 2003-05 and 2005-07, approximately 20 of the 25 authorized limited duration positions were filled) as the positions are only filled when there is sufficient workload and funding available. The package is funded on a fee-for-service basis.

In addition, the legislatively adopted budget includes $17.8 million and 59.00 limited duration FTE associated with additional federal funding for training, reemployment services, and administrative costs provided through the American Recovery and Reinvestment Act.

OED – Child Care

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	3,660,007	3,976,091	4,170,698	3,316,072
Other Funds	1,890,875	2,522,990	2,729,520	2,794,556
Federal Funds	120,614,717	122,739,183	126,386,344	125,020,199
Total Funds	**$126,165,599**	**$129,238,264**	**$133,286,562**	**$131,130,827**
Positions	74	74	76	76
FTE	70.00	70.00	72.00	72.00

Program Description

The Child Care Division ensures that families have access to child care information and services; establishes basic standards for child care services; licenses and inspects child care centers, family homes, and regulated providers; enforces mandatory registration of family child care providers; and staffs the Child Care Commission (CCC). CCC advocates and advises the Governor and Legislature on affordable, quality child care in Oregon.

Essential Budget Level

The 2009-11 essential budget level is a 3.3% increase over the 2007-09 legislatively approved budget.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget includes a policy option package to reduce Federal Funds by $3,136,788 in anticipation of flat funding from the federal Child Care Development Fund. The reduction impacts funds transferred to DHS Employment Related Day Care and Jobs Plus programs, and will reduce support for local commissions on children and families, school districts, community colleges, and child care resource and referral agencies; however, the reduction is partially off-set by $2 million in one-time funding from the American Recovery and Reinvestment Act.

The Legislature reduced General Fund support to the Child Care Division by 17.9% from the essential budget level. The reduction will result in fewer funds that will be passed through to partner agencies such as the Department of Human Services and the Department of Education for initiatives that increase the quality of child care.

OED – Workforce and Economic Research

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	5,512,164	7,627,324	7,832,019	8,450,658
Federal Funds	6,620,385	6,087,543	6,228,494	6,105,631
Total Funds	**$12,132,549**	**$13,714,867**	**$14,060,513**	**$14,556,289**
Positions	72	69	68	70
FTE	71.50	68.50	67.50	69.50

Program Description

This program coordinates the collection and dissemination of occupational and economic climate data for the state, workforce regions, and counties, and is Oregon's designated employment statistics agency under the federal Workforce Investment Act. Businesses and individuals can access data through monthly and annual publications such as *Labor Trends*, which outlines payroll, unemployment, and other economic-related issues by workforce region, or through online resources such as the Oregon Labor Market Information System. The program also conducts specialized surveys requested through the U.S. Bureau of Labor Statistics or local workforce investment boards.

Essential Budget Level

The 2009-11 essential budget level is a 2.5% increase over the 2007-09 legislatively approved budget.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget increased Other Funds expenditure limitation by $782,050 and provided 2.00 limited duration FTE for special analysis on an as-requested, fee-for-service basis. Examples of analysis and research include surveys, publications, and consultants, if applicable. The positions would only be filled if relevant specific projects and associated funding are identified.

OED – Office of Administrative Hearings

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	21,368,383	24,058,263	25,133,649	30,811,270
Total Funds	**$21,368,383**	**$24,058,263**	**$25,133,649**	**$30,811,270**
Positions	123	119	119	144
FTE	123.00	119.00	118.50	143.50

Program Description

The program's mission is to be an independent and impartial forum for citizens and businesses to adjudicate their disputes with state agencies. Approximately 70 state agencies are required to utilize the services of the Office of Administrative Hearings for their contested case proceedings.

Essential Budget Level

The 2009-11 essential budget level is a 4.5% increase over the 2007-09 legislatively approved budget, in part because of a classification and compensation study conducted by the Department of Administrative Services Human Resource Services Division that resulted in salary increases for administrative law judges.

Legislatively Adopted Budget

The legislatively adopted budget eliminated three full-time, permanent positions that processed drivers' license appeals and were administrative in nature. Because they were not directly related to the hearings process, they were transferred to the Department of Transportation.

As the number of unemployment insurance claimants has increased, so too has the number of appeals of claim decisions. The 2009-11 legislatively adopted budget provides for 28 additional limited duration hearings officers to address the expected increase in appeals of unemployment insurance eligibility and disqualification.

OED – Nonlimited

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds (NL)	1,076,205,892	1,436,098,557	$1,496,309,317	2,087,207,680
Federal Funds (NL)	0	108,000,000	0	500,092,327
Total Funds	**$1,076,285,892**	**$1,544,098,557**	**$1,496,309,317**	**$2,587,300,007**

Program Description

Payments of unemployment benefits to qualified applicants (associated with the Unemployment Insurance Division of OED) and federal Trade Adjustment Act payments (associated with the Business and Employment Services Division of OED) are budgeted as Nonlimited.

Essential Budget Level

The 2009-11 essential budget level is a 3.1% decrease from the 2007-09 legislatively approved budget. At the time the essential budget was calculated, OED was not anticipating the additional federal ARRA funds for benefit extensions and payment increases which ultimately were approved as 2007-09 supplemental federal funds expenditure limitation.

Legislatively Adopted Budget

Oregon's UI system is funded through a counter-cyclical strategy of raising revenue to pay benefits from employers when the economy is strong. Employer premiums are set in law and adjust annually so that sufficient reserves are on hand to cover 18 months of a recession. Unlike other states with a "pay-as-you-go" UI system, Oregon's employers are more insulated from sharp increases in premiums, and the state is not at risk for insolvency, unlike some other state UI systems.

The 2009-11 legislatively adopted budget estimates over $2 billion in unemployment insurance benefit payments over the 2009-11 biennium. Benefit payments to federal employees had been included with "Other Funds Nonlimited" payments in previous biennia, but have been broken out as part of the new "Federal Funds Nonlimited" category for 2009-11 since these benefit payments are paid by federal, not state UI taxes. Also included in the Federal Funds Nonlimited category are the amounts for benefit extensions and benefit payment increases attributable to the American Recovery and Reinvestment Act.

Housing and Community Services Department (HCSD) – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	10,872,777	19,609,773	12,760,057	10,312,467
Lottery Funds	4,460,536	5,932,768	7,516,467	8,820,655
Other Funds	80,203,828	118,374,505	109,731,506	138,639,627
Federal Funds	113,524,160	155,542,336	120,362,585	252,470,192
Other Funds (NL)	1,548,604,772	2,129,942,600	1,537,062,014	1,537,062,014
Federal Funds (NL)	100,928,787	104,750,000	107,250,000	107,250,000
Total Funds	**$1,858,594,860**	**$2,534,151,982**	**$1,894,682,629**	**2,054,554,955**
Positions	148	143	138	156
FTE	145.50	140.42	135.70	148.33

Agency Overview

The Housing and Community Services Department (HCSD) provides financing and program support for the development and preservation of affordable housing, and administers federal and state antipoverty, homeless, energy assistance, and community service programs. The State Housing Council, a seven-member panel appointed by the Governor, advises the Governor, Legislature, HCSD, and local governments on affordable housing issues.

Revenue Sources and Relationships

HCSD has numerous sources of Other Funds that include proceeds from the sale of bonds ($1.1 billion), mortgage and down payment assistance repayments ($375.7 million), loan and tax credit-related fees ($9.3 million), the energy bill payment assistance charge ($30.25 million) and a portion of the public purpose charge established as part of the electric industry restructuring legislation approved in 1999 ($22.8 million), civil penalties assessed to farm labor contractors by the Bureau of Labor and Industries ($154,953), a surcharge on court cases related to residential landlord and tenant law ($463,144), special assessments on manufactured dwellings ($876,400), and interest earnings ($35.7 million). Resources for bond-related activities are expended as Other Funds Nonlimited. The 2009 Legislative Assembly passed SB 772, which will amount to $172,600 from park registration fees, while the passage of HB 2436 adds $15,156,066 from fees for recording certain documents. Lottery bond proceeds are also part of the legislatively adopted budget, and are budgeted as Other Funds. The Legislature approved $19.9 million in bond proceeds for affordable housing and manufactured home park preservation for the 2009-11 biennium.

In addition to the direct sources of Other Funds revenues, a portion of the General Fund appropriation is transferred to the Oregon Housing Fund and expended as Other Funds to support grants and loans for low-income housing, emergency shelter and transitional housing services, and/or emergency payments of rents, mortgages, or utilities.

Allocations of $8.8 million in Lottery revenue support the debt service requirements for the following: lottery revenue bonds that were issued for the Community Incentive Fund, which supported grants and loans to revitalize downtowns, main streets and develop housing near jobs and transportation; $16 million in lottery backed bonds, the proceeds of which were used to partially fund 150 units of permanent supported housing for homeless in 2007; and the debt service on the $19.9 million in lottery bonds approved for housing preservation (see above) in 2009.

Federal Funds are received from a variety of federal agencies which administer the following programs: HOME Investment Partnership Program ($26.6 million); Section 8 rent subsidies ($107.25 million); Community Development Block Grant ($6.4 million); Community Services Block Grant ($11.6 million, plus a $7.2 million allocation from the American Recovery and Reinvestment Act); Low-Income Home Energy Assistance (LIHEAP) funds ($104.5 million); Emergency Shelter grants ($2.1 million, plus a $4.7 million allocation from the American Recovery and Reinvestment Act for Homeless Prevention and Rapid Rehousing); Supportive Housing programs ($3.4 million); Bonneville and Department of Energy weatherization assistance funds ($12.6 million plus a $28.6 million allocation from the American Recovery and Reinvestment Act); Food Assistance programs ($1.9 million plus a $469,511 allocation from the American Recovery and Reinvestment Act); and federal grants related to volunteerism and AmeriCorps ($4.6 million plus a $773,075 allocation from the American Recovery and Reinvestment Act).

American Recovery and Reinvestment Act (ARRA) funds for other activities included in the 2009-11 legislatively adopted budget include $12.4 million for the Neighborhood Stabilization Program, which provides grant funding for redevelopment of abandoned and foreclosed properties, and $24.6 million for the Tax Credit Assistance Program which provides grant funding for capital investment in Low Income Housing Tax Credit projects that have stalled during the economic downturn.

Federal Funds Nonlimited expenditure authority is for Section 8 rent subsidy payments.

Budget Environment

HCSD has traditionally relied on distributions from bond indentures, loan and tax credit fees, and interest earnings to fund nearly 50% of its personnel and operations. For 2009-11, HCSD estimates that this percentage will decline, to 37% of personnel and operations. Over time, the challenges of rising personal services costs, a 50% increase in the cost of debt issuance, increased insurance requirements due to a growing single family loan portfolio, and the expiration of higher yielding indentures have combined to constrict the agency's cash flow. The current economic recession has added to the financial pressures on administering OHCS programs: fewer bond sales and declining values of tax credits means the agency will lose out on fee revenue it has used for operations expenses; and federal and state housing credits are no longer worth as much as they were last year, creating gaps in funding for proposed housing projects (thus the need for federal stimulus programs such as the tax credit assistance program). While the credit freeze has begun to thaw, there are still fewer financial resources available to finance low income housing, and those resources do not stretch as far as they did two or years ago.

Essential Budget Level

The essential budget level is a 25.2% decrease from the 2007-09 legislatively approved budget, due to phase outs of $11.6 million in General Fund and $4.6 million in Other Funds for one-time initiatives associated with low income housing preservation, permanent supported housing for the homeless, and a $2 million investment in the agency's Housing Finance Fund.

The essential budget eliminated 5 positions as follows: three positions were abolished for permanent financing plans to reclassify other employees; one limited duration position was discontinued; and one position was phased out due to responsibilities merging with another program area. Further, the essential budget redistributes remaining positions among program areas to better reflect workload and management reporting structure.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget includes a reduction of $2.9 million Other Funds and 12.50 permanent FTE to balance expenditures with available ongoing revenue. These reductions are largely offset due to increases in one-time funding from the American Recovery and Reinvestment Act, and due to new fee revenue to support affordable housing resulting from the passage of HB 2436. The other major housing initiative approved by the 2009 Legislative Assembly is the preservation of affordable housing with expiring Section 8 contracts and manufactured home parks.

HCSD – Energy/Weatherization

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	37,803,639	47,368,419	51,005,692	49,912,652
Federal Funds	59,070,974	90,268,712	62,695,806	143,856,702
Total Funds	**$96,874,613**	**$137,637,131**	**$113,701,498**	**$193,769,354**
Positions	7	7	9	25
FTE	7.00	7.00	9.00	24.50

Program Description

Energy and Weatherization programs help low income families by providing assistance payments, installing energy-saving modifications on heating systems and home weatherization, and providing conservation education. Bill payment assistance and energy efficiency measures free up scarce resources for other essentials, such as food and housing costs. HCSD administers various energy and weatherization activities through local community action agencies.

Essential Budget Level

The 2009-11 essential budget level for the Energy/Weatherization program is a 17.4% decrease from the 2007-09 legislatively approved budget, primarily due to the additional Federal Funds increase in 2008. The essential budget reflects the movement of two positions and associated services and supplies associated with the positions into the program from elsewhere in the agency. The personnel moves are meant to better reflect workload and management reporting structure.

Legislatively Adopted Budget

The amount of Federal Funds available for weatherization assistance has increased by 60% from the 2007-09 biennium. The majority of the funding increase is not expected to be ongoing. Over $52 million in additional Low Income Energy Assistance payment funding, and more than $28 million for weatherization, was made available and is in excess of what was anticipated by the essential budget level.

Three positions that were slated for reduction from elsewhere in the agency – an accountant and two information systems specialists – are added back to the Energy and Weatherization program in a limited duration capacity. The information systems specialists will work on databases and reporting modules specific to weatherization projects and the Low Income Energy Assistance program, while the accountant will be utilized for contracts and payments associated with large increases in federal funds for the program area. Another 12.50 limited duration, full-time equivalent positions were approved, and will be funded with Federal Funds connected with weatherization efforts. These positions are associated with contract administration, reporting, and training and coordination with local Community Action Agencies for the purposes of certifying additional weatherization contractors, working with housing developers to access funds for housing rehabilitation projects, training local agencies in separate reporting requirements, and helping local agencies modify intake and evaluation processes where necessary to ensure funds are spent in accordance with federal rules and timelines. The need for and number of ARRA – related FTE positions are expected to dwindle in the 2011-13 biennium.

HCSD – Self-Sufficiency/Emergency Assistance

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	10,017,721	11,584,634	11,915,702	10,310,580
Other Funds	10,149,452	10,108,021	9,847,816	9,688,724
Federal Funds	14,262,294	16,445,321	24,548,021	36,880,982
Federal Funds (NL)	100,928,787	104,750,000	107,250,000	107,250,000
Total Funds	**$135,358,254**	**$142,812,717**	**$153,561,539**	**164,130,286**
Positions	23	23	18	21
FTE	23.00	22.42	18.00	19.85

Program Description

Self-Sufficiency/Emergency Assistance services are provided to very low-income Oregonians to help meet short-term, daily needs for food and shelter.

- *Rental Assistance* includes subsidizing housing costs and, in some cases, developing a self-sufficiency plan to assist individuals with other support, counseling, and training to avoid on-going reliance on assistance. Resources for this purpose include federal Section 8 rental assistance payments and HOME-Tenant-Based Assistance Program payments which subsidizes rental payments for low-income families and individuals, as well as transfers from the state Judicial Department into the Department's Low Income Rental Housing Fund which consists of fees associated with eviction notice filings and interest on security deposits.

- ***Homeless Assistance*** targets homeless or those at risk of becoming homeless to provide for the costs of emergency shelter, transitional housing, and prevention activities such as training and employment assistance and counseling services. HCSD receives both General Fund and Federal Funds for homeless programs. HUD funds the Emergency Shelter Grant Program and the Continuum of Care program which facilitates housing, mental health, and other services to holistically address homelessness in rural counties.
- ***Food Programs*** partner with the Oregon Food Bank to coordinate the distribution of donated foods through regional coordinating agencies and direct service agencies. HCSD also delivers food grants through the Community Action Program of Eastern Oregon (CAPECO) and the Salvation Army. Funding comes from the General Fund, the federal Department of Health and Human Services, and the United States Department of Agriculture.
- ***Community Services Block Grant (CSBG)*** is funded by the federal Department of Health and Human Services, serves all 36 Oregon counties and provides the foundation funding for community based organizations, which coordinate and administer a variety of services to assist low-income Oregonians. CSBG was formerly located in the Community Capacity Building program and was relocated to this program area to better integrate it with other HCSD anti-poverty programs.
- ***Individual Development Accounts (IDA)*** assist low-income individuals who enroll in personal development plans to obtain appropriate financial counseling, career or business planning, and other services. IDAs can be used for post-secondary education, job training, purchase of a primary residence, or to capitalize a small business. This service was relocated to this program area to better integrate it with other HCSD anti-poverty programs.

Essential Budget Level

The 2009-11 essential budget for the Self Sufficiency/Emergency Assistance program is a 7.5% increase over the 2007-09 legislatively approved budget, primarily due to transfers of programs from the Community Capacity Building program area.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget eliminated a vacant position as part of balancing agency expenses with permanent ongoing revenue. In addition, General Fund support to the Emergency Housing Account was reduced by $1.6 million. The position and 94% of the dollar amount of this reduction is offset by the revenue generated by HB 2436 that is directed toward emergency housing assistance.

American Recovery and Reinvestment Act funding bolsters Self Sufficiency/Emergency Assistance programs as follows:

- $469,511 for the Temporary Emergency Food Assistance Program;
- $4,724,062 and 2.00 limited duration FTE positions for the Homeless Prevention and Rapid Re-Housing Program, a grant to provide financial assistance through Community Action Agencies to either prevent individuals and families from becoming homeless or help those who are experience homelessness to be quickly re-housed and stabilized; and
- $7.2 million and a 0.60 limited duration FTE position for additional anticipated allocations under the Community Services Block Grant, which supports community-based organizations that provide assistance to low income Oregonians.

HCSD – Community Capacity Building

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	0	67	0	0
Lottery Funds	4,460,536	4,456,647	0	0
Other Funds	4,724,162	7,242,187	600,365	1,530,301
Federal Funds	16,379,487	17,476,535	4,648,574	5,421,649
Total Funds	**$25,564,185**	**$29,175,436**	**$5,248,939**	**$6,951,950**
Positions	11	10	5	8
FTE	11.00	10.00	5.00	6.92

Program Description

Community Capacity Building includes the following services:

- The ***Manufactured Dwelling Park Community Relations Program*** maintains a centralized resource referral program for tenants and landlords to encourage voluntary dispute resolution. This service is funded through a special assessment on manufactured dwellings.
- The ***Oregon Commission on Voluntary Action and Services*** promotes and supports AmeriCorps, volunteerism, and civic engagement to strengthen Oregon communities. This program is funded by Federal Funds.

Essential Budget Level

The essential budget transferred a number of services and attendant personnel, plus services and supplies, from this program area to other program areas in the agency, as follows:

- The ***Community Incentive Fund (CIF)*** was transferred to Homeownership and Affordable Rental Housing.
- The ***Community Development Block Grant (CDBG)*** was transferred to Homeownership and Affordable Rental Housing.
- ***Individual Development Accounts (IDA)*** was transferred to Self Sufficiency/Emergency Assistance.
- ***Community Services Block Grant (CSBG)*** was transferred to Self Sufficiency/Emergency Assistance.

Legislatively Adopted Budget

The legislatively adopted budget eliminated $58,056 in services and supplies in this program area to balance expenditures with ongoing available revenue.

Federal Funds expenditure limitation in the amount of $773,075 was added due to the receipt of a grant from the American Recovery and Reinvestment Act related to volunteerism. The grant funds support volunteer positions in community action agencies that will assist eligible individuals in accessing services or developing skills related to health care, literacy, mentoring, money management, and parent/child development.

An additional $909,520 Other Funds and a 0.92 FTE limited duration position supported by the document recording fee is also included. The funds will provide training, technical, and financial assistance to community housing partners and to manage contracts with Community Action Agency beneficiaries.

HCSD – Homeownership/Affordable Rental Housing Development

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	794,880	6,025,286	842,468	0
Lottery Funds	0	1,476,121	7,516,467	8,820,655
Other Funds	18,300,805	42,260,213	37,949,225	68,823,460
Federal Funds	21,381,061	20,579,992	26,253,893	64,094,568
Other Funds (NL)	1,548,604,772	2,128,942,600	1,537,062,014	1,537,062,014
OF Debt Service	0	0	0	120,382
Total Funds	**$1,589,081,518**	**$2,199,284,212**	**$1,609,624,067**	**$1,678,800,697**
Positions	54	56	64	68
FTE	53.50	54.00	62.50	63.86

Program Description

HCSD promotes homeownership by supporting below-market-rate loans financed through the sale of tax-exempt mortgage revenue bonds, administering federal programs for the repair and maintenance of existing low-income housing in rural Oregon, providing down-payment and closing cost assistance, and funding home ownership education. A limited revolving loan fund with low interest financing is available for manufactured home park purchases by residents. Farm worker housing loans and grants, low income weatherization using public purpose funds, and financial and physical inspections of projects receiving state and federal funds are other examples activities included in this program area.

HCSD also promotes affordable housing development through a variety of activities to issue tax-exempt bonds, provide conduit financing and loan programs, and administer three housing tax credit programs. Several of the grants and tax credits are allocated through the semi-annual, competitive Consolidated Funding Cycle.

Essential Budget Level

The 2009-11 essential budget is a 26.8% decrease from the 2007-09 legislatively approved budget, primarily due to the phase out of one time funding for housing preservation and permanent supported housing for the homeless. The following programs were merged into the program area to align them with their funding sources and fellows.

- The ***Community Incentive Fund (CIF)*** was capitalized through Lottery Revenue Bonds as part of the Oregon Livability Initiative to revitalize downtown areas and main streets and to develop affordable housing near jobs and transportation. This program was transferred from Community Capacity Building, because the primary focus of the CIF is now as a funding source for affordable housing.
- The ***Community Development Block Grant (CDBG)*** funds maintenance and repairs to existing single-family housing in rural Oregon, and also funds ten ***Regional Housing Centers*** serving rural counties which provide "one-stop shopping" services related to housing rehabilitation, weatherization, credit counseling, and homebuyer education. This program was transferred from Community Capacity Building, because the primary focus of the CDBG is housing rehabilitation and promoting home ownership. The CDBG is supported by Federal Funds.

Legislatively Adopted Budget

Reductions: In an effort to balance the state budget, General Fund support was eliminated for down payment assistance to first time home buyers and home buyer education.

To balance the agency's expenditures with available ongoing revenue, the 2009-11 legislatively approved budget eliminates 6.50 FTE positions including loan specialists, a compliance specialist, an administrative specialist, a fiscal analyst, an accountant, and an architectural consultant. This reduction totals $1,080,489 Other Funds.

In addition, OHCS planned on curtailing its single family loan program, funded through mortgage revenue bonds. With higher issuance costs and insufficient revenue to capitalize the required loan reserves, the program is unable to cost-effectively provide the number of competitive loans as it did in previous biennia. However, the lackluster bond market has made a "planned" curtailment moot; bonds are not being issued for the program due to economic conditions, and OHCS has not had to incur issuance costs or tie up cash in capitalization of reserves. The decrease in the volume of single family loans – while addressing an immediate revenue problem – will further erode future operating revenue, because there will be fewer indentures and loan origination fees from which to draw future operating revenue.

The legislatively adopted budget reduced lottery funds expenditure limitation (for debt service) by $175,693 to reflect reduced costs of borrowing due to favorable terms of the Spring 2009 lottery bond sale.

Affordable Housing Preservation: The 2009-11 legislatively adopted budget includes $20.1 million Other Funds ($19.9 million in lottery bond proceeds and $150,000 in interest income) to continue the preservation of affordable housing projects with expiring federal Section 8 subsidies, and to preserve manufactured home parks (the Legislature approved $9.1 million – $6 million of which was General Fund – for this purpose in 2007-09). This amount will enable the preservation of an estimated 1,598 units of affordable housing, and provide for 2.00 limited duration FTE positions associated with contract oversight and administration. Section 8 contracts will continue to expire through the 2011-13 biennium. Approximately $16 million of the bond proceeds will be used for grants for Section 8 properties, and $3.1 million for loans or grants for manufactured park preservation.

Federal Stimulus Funding: The 2009-11 legislatively adopted budget includes $37.8 million in additional Federal Funds expenditure limitation and 2.50 FTE limited duration positions, reflecting receipt and administration of the following grants funded through ARRA:

- $12.4 million and 2.50 FTE limited duration positions for the Neighborhood Stabilization Program, which provides grant funding for redevelopment of abandoned and foreclosed properties;
- $24.6 million for the Tax Credit Assistance Program which provides grant funding for capital investment in Low Income Housing Tax Credit projects that have stalled during the economic downturn; and

- $830,000 in additional funding for the Community Development Block Grant program which supports the operation of regional one-stop housing centers and grants for low income, single-family home repair projects.

Document Recording Fee: The document recording fee revenue resulting from passage of HB 2436, which is dedicated to affordable housing, will support $12,730,679 Other Funds expenditures in the Homeownership/ Affordable Rental Housing division of OHCS during the 2009-11 biennium. About $10.6 million of this amount will be used to finance multi-family affordable rental housing, and $2.1 million will be used for home ownership assistance (primarily down payment assistance for qualifying low-income Oregonians). The budget provides for 3.36 FTE positions for administration of these loans and grants.

HCSD – Program Outreach and Accountability

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	60,176	2,000,000	1,887	1,887
Other Funds	9,225,770	11,395,666	10,328,408	8,681,790
Federal Funds	2,430,344	2,144,776	2,216,291	2,216,291
Other Funds (NL)	0	1,000,000	0	0
Total Funds	**$11,716,290**	**$16,540,442**	**$12,546,586**	**10,899,968**
Positions	53	47	42	34
FTE	51.00	47.00	41.20	33.20

Program Description

The Program Outreach and Accountability area includes:

- The ***Director's Office,*** responsible for coordinating the mission and goals of the agency, assisting community development through the efforts of six Regional Advisors, and participating in the Economic Revitalization Team. The office houses the director, deputy director, human resource, and agency affairs section (which includes policy and planning).
- The ***Financial Management Division,*** which includes accounting, financial reporting, budget, grant monitoring and reporting, field audits, loan processing, payroll, facilities management, and bond-related activities; and
- The ***Information Services Division,*** providing centralized information technology services to the agency as well as training and technical support to community action agencies and other service partners who have access to OPUS, a web-based client service system. This Division also includes the Research and Analysis Section, which gathers and analyzes data on housing market dynamics, and the Communications section.

Essential Budget Level

The 2009-11 essential budget level is a 24.1% decrease from the 2007-09 legislatively approved budget. Two positions were abolished for purposes of providing permanent financing for the reclassification of other positions. Other positions and associated funding were moved to other program areas to better reflect their primary duties.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget eliminates a revenue transfer from OHCS to the Governor's Office, consistent with a decision made in 2007. The budget also reduces Other Funds expenditure limitation by $1,646,618 and eliminates eight permanent, full-time positions (8.00 FTE) to balance the agency's operating costs with projected ongoing revenues. Eliminated positions include an Office Specialist, an Administrative Specialist, a Public Affairs Specialist, a Human Resource Analyst, three information systems professionals, and an Operations and Policy Analyst.

Department of Veterans' Affairs (ODVA) – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	5,608,595	6,151,775	6,584,883	6,168,915
Other Funds	34,645,935	40,835,064	42,601,691	46,403,160
Other Funds (NL)	408,659,171	608,469,525	488,236,708	488,236,708
Total Funds	**$448,913,701**	**$655,456,364**	**$537,423,282**	**$540,808,783**
Positions	112	111	111	110
FTE	111.03	110.53	110.21	107.64

Agency Overview

The Oregon Department of Veterans' Affairs (ODVA) has three program areas: the Veterans' Loan Program, the Veterans' Services Program, and the Veterans' Home Program. The Veterans' Loan Program, funded entirely with Other Funds, provides home and farm loans to veterans, and includes loan servicing and Department administration costs. The program is responsible for repayment of approximately 17% ($778 million) of the State of Oregon's general obligation debt. The Veterans' Services Program provides counseling, claims assistance, conservatorship services, and partnerships with counties and national veterans' service organizations to support local veterans' programs. The Veterans' Services Program is funded with General Fund and Other Funds, including conservatorship fees. The Veterans' Home Program operates a skilled nursing care and Alzheimer's disease facility in The Dalles, and is funded with Other Funds.

ODVA – Loan Program

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	13,180,513	17,273,959	18,071,937	17,301,383
Other Funds (NL)	408,659,171	608,469,525	488,236,708	488,236,708
Total Funds	**$421,839,684**	**$625,743,484**	**$506,308,645**	**$505,538,091**
Positions	81	78	78	74
FTE	80.13	77.63	77.31	73.31

Program Description

The Loan Program provides home acquisition and home improvement loans to veterans at favorable interest rates. Since 1945, the Department has made over 334,000 home and farm loans with a principal amount over $7.6 billion. The state funds the loans by issuing General Obligation bonds authorized under Article XI-A of the state Constitution. The program consists of:

- ***Director's Office*** – internal audit, public information, and communications.
- ***Veterans' Home Loan Services*** – functions dealing with the loan program, including originating and servicing the loans.
- ***Financial Services*** – overall financial oversight of the Department, including accounting, cashiering, and financial management.
- ***Support Services*** – human services, information services, business services, and records and information management.

Previous federal and state statutory restrictions on the use of tax-exempt bonds to providing 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 recently removed this restriction, however, and the program expects to make new loans this biennium as a result. The Department closely monitors its cash flow needs to ensure that it has sufficient reserves to retire outstanding debt and maintain operations of the program.

Revenue Sources and Relationships

The largest sources of ODVA Other Funds revenues for the 2009-11 biennium are bond sales ($270 million), veteran loan and contract-related repayments ($150 million), and interest earnings ($125 million). The balance of revenue comes from insurance premiums and other service charges, licenses, fees, and miscellaneous revenues. Available revenues and reserves are expected to be sufficient for operations and necessary debt services. The program's administrative costs are limited in the budget, while the direct loan activity expenditures (i.e., loans made to veterans, pass-through payments made on behalf of borrowers, and debt service paid on General Obligation bonds issued to finance the program) are Nonlimited.

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 home loans through ODVA. Veterans now have 25-30 years from the date of their discharge to apply for these loans. ODVA expects to fund loans aggregating $55 to $60 million in the 2009-11 biennium. However, current market conditions (very low conventional loan rates), if continued, may make it difficult for ODVA to offer a competitive mortgage product. Should this be the case, loan originations may be lower than projected.

Essential Budget Level

The essential budget level is calculated as a continuation of administrative costs funded in the 2007-09 biennium, plus a projection of 2009-11 biennium Nonlimited Other Funds expenditure activity.

Legislatively Adopted Budget

The legislatively adopted limited budget of approximately $17.3 million Other Funds is essentially unchanged from the prior biennium level, and is approximately $770,000 (or 4.3%) below the essential budget level. The budget eliminates four vacant positions (4.00 FTE) and reduces expenditures by $471,000 to offset additional expenditures associated with the establishment of a new Campus Veterans' Service Officer Program (included in the Veterans' Services Program below). The budget also includes two one-time expenditures, totaling $526,000 Other Funds, to replace and upgrade the access control system to the headquarters building in Salem, and to replace old HVAC controls with modern controls that will improve energy efficiency in the building.

ODVA – Veterans' Services Program

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	5,608,595	6,151,775	6,584,883	6,168,915
Other Funds	1,580,277	2,466,429	2,502,880	2,628,884
Total Funds	**$7,188,872**	**$8,618,204**	**$9,087,763**	**$8,797,799**
Positions	28	30	30	34
FTE	27.90	29.90	29.90	32.33

Program Description

The Veterans' Services Program includes:

- Counseling and Claims – which assists veterans, their dependents, and survivors to obtain service-connected and non-service related benefits. Over 20,000 active claims have required service during the past two years. This program also provides outreach and assistance to individuals in state institutions, hospitals, domiciliaries, and nursing homes, to help ensure that adequate care is being provided and that the federal Veterans Administration pays its share of that care.
- The Conservatorship Program – which provides conservatorship services for 166 veterans and their dependents who are determined to be "protected persons" and who are recipients of U.S. Department of Veterans' Affairs' benefits. Conservatorship services are provided when no other entity or person is willing or able to act as conservator. The staff serve as trust officers, file required legal reports, apply for all benefits due the veteran, and counsel with families, hospital personnel, social workers, and protected persons to ensure their needs are met within the resources available.
- Educational assistance, emergency assistance, and service delivery partnerships – which includes the Aid Program, Aid to Counties, and Aid to Veterans' Organizations, totals $4.6 million. Educational assistance provides financial help to offset some of the educational expenses of honorably discharged Oregon veterans whose GI educational benefits have been exhausted. The program also assists displaced and disabled veteran workers who return to school to change careers or upgrade skills. An emergency assistance

program was established by the Legislature in 2005 to provide emergency financial assistance to Oregon veterans and their immediate families. A small business repair loan program was approved in the 2008 special session to provide loans to help returning small business owners who had been called away on active duty. Aid to Counties, which began in 1947, is a network of trained individuals operating in 34 Oregon counties to help them provide services to veterans on a local level. Up to 75% of the cost of administering each of the county offices is reimbursed, with a limit of $10,400 per year. In 2005, the Legislature added statutory authority and $2.6 million General Fund to expand the services provided by county veterans' services offices. Aid to Veterans' Organizations was established in 1949 and consists of partnerships with other veterans' service organizations in Oregon, such as the American Legion, Disabled American Veterans, and Veterans of Foreign Wars.

Revenue Sources and Relationships

General Fund supports the Claims and Counseling section, the Conservatorship program, educational and emergency assistance, and service delivery partnership programs. The Conservatorship program also receives Other Funds fees. The 2009-11 estimated conservator fees total $600,000. The balance of Other Funds, most of which support the claims and counseling programs, comes from existing cash balances in the Veterans' Loan program. The Constitution allows these revenues to be used for Veterans' Services.

Budget Environment

Oregon has approximately 350,000 veterans. The aging veteran population is increasing the demand for veterans' benefits, assistance, and conservatorship services. Additional needs have been created by veterans of current and recent conflicts with claims resulting from the environment in which they served, including claims related to Agent Orange and Post Traumatic Stress Disorder. The need for services is increasing at a time when the services available remain constant or may decline, especially at the county level.

There are a number of factors that affect the workload of the program, including the rapid evolution in health care programs, increasingly complex health claims, an aging war veteran population, and downsizing of the U.S. Armed Forces and resulting separation of veterans who use educational and vocational rehabilitation programs. The Department has dealt with the workload through a combination of improvements in processes and automation. However, projecting actual workload is difficult because the number of veterans who may access services is unpredictable.

Essential Budget Level

The essential budget level continues legislatively approved programs without increases in cost, other than those driven by inflation.

Legislatively Adopted Budget

The legislatively adopted budget of approximately $8.8 million Other Funds is essentially unchanged from the prior biennium level, and is approximately $290,000 (or 3.2%) below the essential budget level. The General Fund component, however, is approximately $416,000 (or 6.3%) below the essential budget level.

The budget funds two program enhancements, one with General Fund and the second with Other Funds. Included in the budget is $85,540 of General Fund for a public information campaign on mental health issues affecting veterans, and $392,482 of Other Funds and five limited duration positions (3.43 FTE) for a new Campus Veterans' Service Officer Program to serve student veterans. The Campus Veterans' Service Officer Program will site veterans' service officers directly on Oregon University System and community college campuses, and be operated as a pilot program. The program is funded from moneys in the Oregon War Veterans' Fund. Other General Fund-supported programs are funded at the essential budget level, with the exception that funding for the Small Business Repair Program, which was established during the 2008 special session to assist veterans suffering business losses due to overseas deployment, was eliminated, with resulting savings of $308,400 General Fund. Additionally, support for national veterans' service organizations was reduced by $41,408 General Fund (or 25%).

ODVA – Oregon Veterans' Home Program

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	19,885,145	21,094,676	22,026,874	26,472,893
Total Funds	**$19,885,145**	**$21,094,676**	**$22,026,874**	**$26,472,893**
Positions	3	3	3	2
FTE	3.00	3.00	3.00	2.00

Program Description

The Oregon Veterans' Home in The Dalles provides skilled nursing and Alzheimer's disease care to Oregon veterans. The Home opened in November 1997 and has a bed capacity of 151 residents. Funding for construction and equipping of the facility was from a 65% federal grant matched to a 35% state obligation contributed by Wasco County. The Home is operated with a philosophy of maximum resident independence and encouragement for the residents to function at their highest possible level.

Revenue Sources and Relationships

The Veterans' Home Program is financed entirely with Other Funds. Revenues are primarily moneys received from the residents of the Home, Medicare and Medicaid payments, and a per diem amount received directly from the federal Veterans Administration. Veterans who reside in the Home receive benefits not available to them if they reside elsewhere. Many veterans receive aid and attendance along with disability compensation or income-based VA pensions, which, combined with their social security benefits, provides the revenue with which to pay for their care in the Home. The total amount of revenue is based in part on the occupancy projections obtained from the Home's contractor.

Budget Environment

Expenditures for the Home relate to the cost of providing residential care. Operation of the Home is contracted out to a health care service provider. Obtaining and maintaining a high occupancy rate at the Home is important to its financial condition. The Home continues to enjoy an occupancy rate of about 92% for the past couple of years. The Home has been able to address a prior problem of a shortage of qualified nursing personnel by working with local post-secondary education institutions. With a high occupancy rate, due in large measure to its ability to adequately staff the Home, the Home's revenues have covered its operating costs.

Essential Budget Level

Special payments make up the preponderance of the Veterans' Home budget. The essential budget level continues the operations of the Veterans' Home at the 2007-09 level adjusted for standard inflation, which for special payments is 2.8% in the calculation of the 2009-11 biennium essential budget level.

Legislatively Adopted Budget

The legislatively adopted budget of approximately $26.5 million Other Funds is a 25.5% increase over the prior biennium level, and is 20% above the essential budget level for the program. The 2009-11 biennium budget includes $3.9 million Other Funds for additional staffing needs by the contractor and for medical cost increases exceeding the 2.8% rate of inflation allowed in the essential budget level calculation. One of the cost drivers facing the Veterans' Home operations is a recent Department of Human Services rule requiring additional staffing at nursing homes throughout the state. Moreover, the budget includes an additional $763,000 of one-time Other Funds expenditures to improve the existing HVAC system, add parking stalls, and improve walking paths and outdoor lighting for improved safety. The adopted budget eliminates $120,000 Other Funds and one grant coordinator position that had not been filled for some time.

EDUCATION

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

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	433,764,035	504,905,039	516,563,006	464,376,904
Lottery Funds	0	0	0	9,306,103
Other Funds	82,478,580	156,575,166	6,468,473	137,735,836
Federal Funds	127,964,496	123,489,837	121,243,180	157,859,780
Federal Funds (NL)	3,968,221	5,968,831	5,968,831	18,968,831
Total Funds	**$648,175,332**	**$790,938,873**	**$650,243,490**	**$788,247,454**
Positions	50	57	56	61
FTE	49.70	56.03	55.70	59.36

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 $177.6 million of Federal Funds revenue in the 2009-11 biennium, a 39.4% increase over the level in the 2007-09 biennium legislatively adopted budget. This follows a 3.7% reduction in 2007-09 from the prior biennium level. The Federal Funds total includes $101 million for regular WIA Title IB programs, $11.5 million for Adult Education and Family Literacy (WIA Title II) programs, $2 million from a Federal Wired grant, $1.3 million from a Federal Disability Navigator grant, and $19 million for the National Emergency Grant program (spent as Nonlimited Federal Funds). These funds are supplemented by $42.8 million of one-time Federal stimulus funds received under the American Recovery and Reinvestment Act of 2009 (ARRA), including $37.2 million of supplemental WIA Title IB funds and $5.6 million for the Oregon Youth Conservation Corps. The agency's federal Incentive grant, a source of funding in the 2007-09 biennium, has expired. Excluding the one-time funds available under ARRA and the increased funds received for growth in National Emergency Grants, funding for the agency's base federal programs is down 5.2% from 2007-09.

National Emergency Grant funds are received in a different manner than are other Federal Funds in the agency budget. CCWD must apply to the federal government for any NEG funds, and expenditures of these funds are Nonlimited in the state budget. NEG funds are projected to total $19 million in the 2009-11 biennium. This is more than the $6 million projected for the 2007-09 legislatively adopted budget. Because the Legislature does not limit expenditure of NEG funds, if additional NEG grant monies are eventually received, they may be spent without further Legislative action.

The budget includes $137.6 million of Other Funds revenues in the 2009-11 biennium. This is a 12% reduction from the prior biennium level. Over 93% of Other Funds revenues ($128.6 million) consists of Article XI-G bond and lottery revenue bond proceeds, and community college matching funds, to finance the community college capital construction projects approved in that budget. Capital construction expenditures are approved on a one-time basis, and are never included in the essential budget level for the following biennium. Excluding these capital construction funds, the $9 million of Other Funds revenues for agency operations and debt service in 2009-11 represents as 82% increase over the $4.9 million same revenues budgeted for in 2007-09 biennium, with most of the increase being from excess bond proceeds (bond premium) and bond interest applied to finance debt service costs on Article XI-G bonds.

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

The remaining Other Funds include $1.47 million of interest earnings on Article XI-G bonds and $1.3 million of bond premium that are available to pay a portion of the debt service on those bonds, and $0.76 million from fees for services in the General Educational Development (GED) and Tracking Outcomes for Programs and Students (TOPS) System programs and other miscellaneous revenues. Timber Tax revenues that are distributed to community colleges are also included in the agency budget.

CCWD – Office Operations

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	2,731,005	3,707,943	4,277,827	3,970,687
Other Funds	1,713,738	2,164,870	2,099,825	3,365,394
Federal Funds	9,939,409	7,794,446	12,962,086	13,985,134
Total Funds	**$14,384,152**	**$13,667,259**	**$19,339,738**	**$21,321,215**
Positions	47	54	53	58
FTE	46.70	53.03	52.70	56.36

Program Description

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

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

Revenue Sources and Relationships

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

Essential Budget Level

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

Legislatively Adopted Budget

The $4 million of General Fund in the legislatively adopted budget is a 7.1% increase over the prior biennium level, after the funding reductions approved in the 2009 session to rebalance the 2007-09 biennium budget, but is 7.2% below the essential budget level. The all funds budget, however, is $2 million (or 10.2%) above the essential budget level. The budget eliminates one full-time position and establishes six new positions (four permanent and two limited duration), for a net increase of five positions (3.66 FTE).

The only General Fund program enhancement over the essential budget level is $81,442 General Fund in one-time funding, and two limited duration positions (0.66 FTE), to develop a plan for offering applied baccalaureate degree programs, as required under HB 3093. The budget also approves an additional $170,000 General Fund as match for the Carl Perkins Career and Technical Education program. This increase is offset by an equivalent decrease the Oregon Department of Education's budget, thereby reflecting an adjustment in how program costs are shared between the two departments and not a program expansion.

General Fund reductions include an approximate $367,000 reduction in administrative expense support, and the elimination of one full-time Information Systems Specialist 6 position, and a 10% reduction in Healthcare Workforce Initiative funding. Approximately $103,000 of the reduction is offset by an equal Federal Funds expenditure limitation increase, reflecting reassignment of existing staff responsibilities from state-financed to federally-financed programs. The budget also adds approximately $317,000 Federal Funds and two full-time Information Systems Specialist positions to support the establishment of an integrated WIA Title IB data collection/case management system to replace the six existing independent systems operated at the local level. The budget also adds $300,000 of Federal Funds expenditures and establishes two permanent positions for the new Oregon Career Readiness Certification Program established in HB 2398. This program will certify the workplace and college readiness skills of job seekers, and is intended to better prepare them for continued education and workforce training, and successful employment and career advancement. The program will include an assessment process, targeted instruction and remedial skills training, and issuance of a career readiness certificate. These Federal Funds expenditures are financed by reducing payments to workforce service providers. Additionally, $500,000 of Federal Funds expenditures are added for costs relating to the administration of ARRA-funded programs in the 2009-11 biennium.

A request to add General Fund for the Employer Workforce Training Fund (EWTF) was not approved. The EWTF is currently funded entirely from WIA Title IB Federal Funds. Oregon has used EWTF funds to train incumbent workers and to address other workforce system needs. The Department will allocate $150,000 of EWTF funds, this biennium, to develop a plan for a green jobs growth initiative that will promote the development of emerging technologies and innovations that lead to, create, or sustain family wage green jobs, as required under HB 3300.

CCWD – State Support to Community Colleges

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	428,774,455	497,680,890	502,323,904	452,432,014
Other Funds	251,983	18,000	18,000	25,308
Total Funds	**$429,026,438**	**$497,698,890**	**$502,341,904**	**$452,457,322**

Program Description

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

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

Revenue Sources and Relationships

State support to community colleges is almost exclusively provided by the General Fund. In 1999, however, the Legislature changed the state's system of timber taxation. The new law eliminated the timber privilege tax distribution to community colleges and made this revenue a state resource. The law also required that the state distribute a portion of the funds to the CCSF. This revenue is distributed as Other Funds. All of the Other Funds in this program area are derived from this source.

Community colleges also collect property taxes to fund their operations. These taxes do not flow through the agency budget, however, and are not included in any budget figures identified here. Approximately $247 million of property tax collections are projected for community colleges for operations in the 2007-09 biennium, providing approximately 24% of college operating revenue. Property tax collections are forecast to increase to a total of $267.7 million in the 2009-11 biennium. Tuition and fee revenues, which are also not included in the state agency budget, are the third of the three principal fund sources for community college operations, and are forecast to generate $335 million in the 2007-09 biennium.

Budget Environment

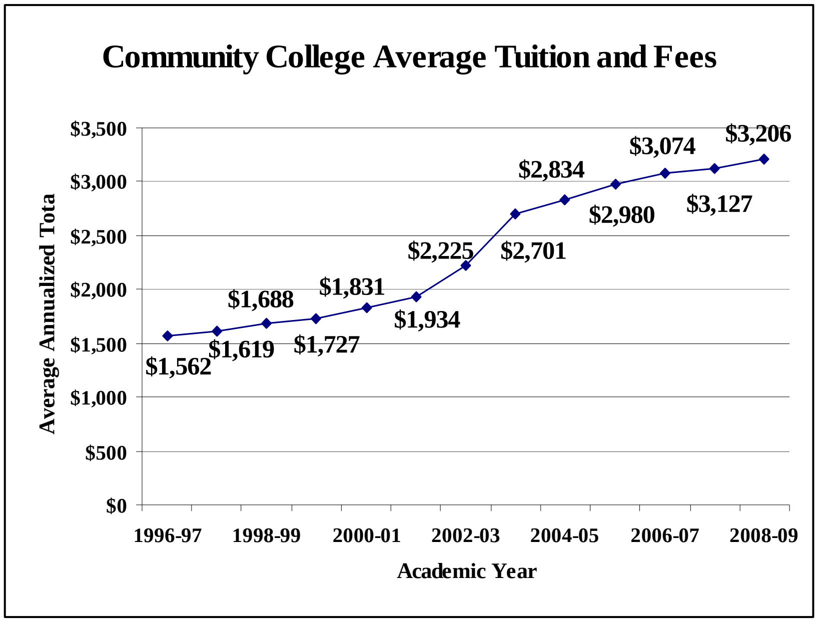
In the 2001 session, the Legislature increased General Fund support for community colleges by 9% over the prior biennium level. During the interim following that session, however, General Fund support was reduced to help address the state's General Fund revenue shortfall. The Legislature reduced support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

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

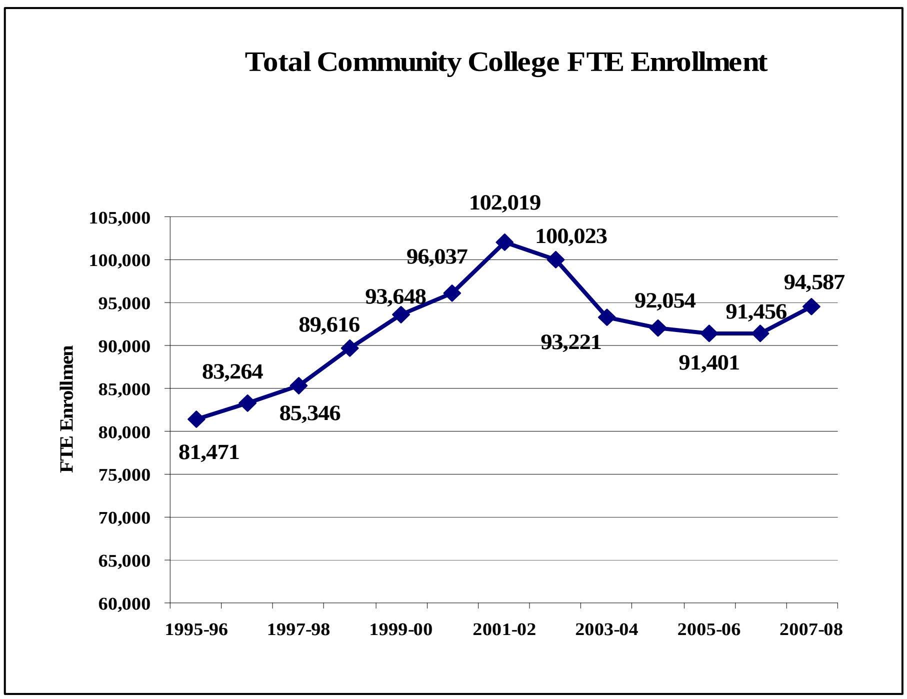
A more useful measure of the funds available for community college programs, however, would add both property tax collections and tuition and fee revenues to state General Fund support. Colleges combine these three primary revenue sources (plus some additional minor revenues) to finance program delivery. Property taxes and community college tuition and fee revenue are not included in the state budget. Revenue from these combined sources increased at a healthy rate during the 1990s. Each biennium, revenues increased from a low of

7.6% (in 1993-95) to a high of 14.5% (in 1997-99) over the prior biennium level. Since then, the rate of increase has fallen considerably, although the General Fund support added in the 2007 session helped to bring the 2007-09 biennium growth rate up to a projected 13%.

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



Community college services are affected by changes in the economy, in community college tuition costs, and in the funding of and accessibility to the Oregon University System. An estimated 30% of the Oregon class of 2005 high school graduates went on to attend an Oregon community college in 2006. This was higher than the 22% who enrolled in the Oregon University System. Also, approximately 3,500 students transferred from community colleges to the Oregon University System in the 2007-08 academic year. The determinants of community college enrollment levels are more complex than for either K-12 enrollments or Oregon University System enrollments, however. Only 28% of community college students (on a headcount basis) are in the traditional college age category of 18 to 24. Approximately 27% are 45 or older. Changes in the size of the 18- to 25-year-old population, therefore, is a less important determinant of enrollment demand for community colleges than it is for other higher education institutions.



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

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

Enrollments grew during the second half of the 1990s. The rate of growth even accelerated, and total enrollment on a full-time equivalent (FTE) basis increased 6.2% in 2001-02 to an all time high of 102,019 FTE. In the following two years, however, as tuition rates increased and course section offerings were reduced (over 21,000 net course sections, or 23% of the total, were eliminated), enrollment began to decline. By the 2005-06 academic year, enrollment had fallen to 91,401 FTE, a 10.4% decline from the peak, and was below the level it had been six years earlier. In 2007-08, FTE enrollment started to recover, and grew by 3.4%. The rate of enrollment growth appears to be accelerating. FTE enrollment in the Fall 2008 Term grew 10.5% over the level in the same period of the prior year.

Essential Budget Level

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

Community college districts are independent local governments and not state agencies. Therefore, community college employees are not state employees, and the CCWD position count only includes only those employed by the state agency itself. The Legislature does not determine or approve individual community college budgets. Instead, the state transfers funds to the colleges (primarily through the CCSF) to support their operations and capital projects.

The essential budget level for the CCSF includes $500.2 million General Fund, almost unchanged from the $500 million General Fund in the 2007-09 legislatively approved budget. The EBL calculation for the CCSF is designed to accommodate a growth in the budget to reflect inflation. For the 2009-11 biennium, that growth is 2.8% over the 2007-09 biennium level. This growth factor is applied, however, to the sum of public support provided by the state General Fund and community college operating property tax revenues. In the 2007-09 biennium, pubic support from these two sources is projected to total $747 million. The 2.8% increase allowed in the EBL calculation generates an increase of $20.9 million, to a total of $767.9 million in 2009-11. Property tax collections alone, however, are forecast to increase by $20.7 million (or 8.4%) over the 2007-09 biennium level. The General Fund increase is therefore only $0.2 million, the remaining amount needed to generate a $20.9 million total increase.

Legislatively Adopted Budget

The legislatively adopted budget includes $450.5 million General Fund for the Community College Support Fund. The CCSF appropriation is $44 million, or 8.9%, below the prior biennium level, and represents a reduction of $49.7 million, or 9.9%, from the essential budget level. At this level of funding, some program eliminations/reductions are expected at community colleges, but tuition rate increases averaging approximately $8 per credit hour (approximately $360 per year for a full-time student) are expected to keep these reductions relatively small. The Joint Committee on Ways and Means approved a budget note stating that the current method of calculating the essential budget level for the Community College Support Fund is not developed to a level of detail that captures the true costs of operating Oregon's community colleges, and directed the Department of Administrative Services and the Legislative Fiscal Office to develop a new proposal for calculating the CCSF essential budget level.

In addition to support for the CCSF, the legislatively adopted budget includes $1.3 million General Fund for the Health Care Workforce initiative, and $577,000 General Fund for the Portland Community College and Sabin-

Schellenberg Skills Centers. These represent funding levels for these programs at 10% and 4.3%, respectively, below the essential budget level.

CCWD – Federal/Other Support

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	1,388,613	396,074	246,074	246,074
Federal Funds	118,025,087	115,295,391	108,281,094	138,274,646
Federal Funds (NL)	3,968,221	5,968,831	5,968,831	18,968,831
Total Funds	**$123,381,921**	**$121,660,296**	**$114,495,999**	**$157,489,551**

Program Description

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

The WIA Title IB program provides services to dislocated workers, youth employment training programs, and other workforce training programs for adults. These programs help workers obtain new skills to become more employable, improve their earnings, and decrease welfare dependency. CCWD retains a small portion of WIA funds for administration, but distributes the bulk of the funds to workforce investment boards and service providers in the state's seven local service delivery areas. WIA Title IB funds also support the National Emergency Grant (NEG) program. This program provides federal funds to retrain dislocated workers when large numbers of workers (more than 50) are laid off because of poor economic conditions. CCWD must apply to the federal government for any NEG funds. These applications are specific to particular layoff events, and the grant funds are spent as Nonlimited Federal Funds.

The Adult Education and Family Literacy (WIA Title II) funds are received from the U.S. Department of Education and distributed to community colleges to support programs in developmental education for adults. Approximately 33,000 clients are served by these funds each year.

Budget Environment

Federal support for these programs was expected to decline from the levels supported in the 2007-09 biennium budget. The passage of the Federal stimulus package (ARRA), however, has resulted in a temporary increase in funding. The federal programs assist workers in upgrading their skills to meet the needs of a changing labor market, and support Adult Basic Education programs at community colleges. Changes in the economy increase the need for the services these programs provide, even if the economy as a whole is growing. Demand for program services had declined though as a result of the economic recovery the last recession earlier this decade, but the current economic recession will again increase demand for these programs.

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

Essential Budget Level

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

Legislatively Adopted Budget

The legislatively adopted budget includes $157.5 million of Federal Funds and Other Funds distribution to local workforce service providers. This level is $35.8 million, or 29%, above the prior biennium level, and represents a $43 million (or 38%) increase over the essential budget level.

One-time Federal stimulus moneys finance $36.7 million of the expenditures in this program area. The budget allocates $12 million of these stimulus funds to establish a summer youth employment program. The budget also transfers approximately $700,000 Federal Funds to the Office Operations program to support establishing two positions for a new Career Readiness Certification program, establishing two other positions for a coordinated WIA Title IB data collection/case management system, and to reassigning activities for existing Department staff more to Federal program support.

CCWD – Debt Service

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	2,258,575	3,516,206	9,961,275	7,974,203
Lottery Funds				9,306,103
Other Funds			1,350,000	2,764,688
Total Funds	**$2,258,575**	**$3,516,206**	**$11,311,275**	**$20,044,994**

Program Description

This program pays the principal and interest on general obligation bonds issued under Article XI-G of the state Constitution for community college capital construction projects. The Legislature had not authorized new Article XI-G bonds for community colleges during the entire period between the 1979 session and the 2005 session. Debt service requirements were declining until the 2005-07 biennium, as the existing bonds were paid off. Debt service payments on bonds issued through the 1979 session will be completed in the 2007-09 biennium.

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

Essential Budget Level

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

The essential budget level calculation assumes that the full $44 million of Article XI-G bonds authorized during the 2007-09 biennium, plus the $7.7 million authorized for Klamath Community College in the 2005-07 biennium but not yet issued, will be sold in Spring 2009 at a 6% interest rate. Bond markets, however, have been highly unstable since the Fall of 2008. It was not certain whether the state would be able to sell the bonds at a 6% interest rate, or whether the sale will include funding for all of the authorized capital projects. The bonds though were eventually sold on very favorable terms. The interest rate was only 3.9%, and the sale generated excess proceeds (bond premium) of $1.3 million.

Legislatively Adopted Budget

The legislatively adopted budget funds projected debt service costs for community college capital construction projects approved through the 2007-09 biennium (this includes $9.1 million for the *Go Oregon!* stimulus projects), plus $1.4 million of Lottery Funds for lottery revenue bonds issued as part of the 2009-11 biennium budget. The $20 million for debt service is 5.7 times the debt service costs in the prior biennium, reflecting the impact of the phasing in of debt service costs on state bonds issued since the 2005 session to support capital construction and deferred maintenance projects at community colleges. The 2009-11 budget covers approximately $2.8 million of debt service costs with Other Funds, thereby limiting state supported-expenditures (General Fund and Lottery Funds) to $17.3 million, approximately 4.9 times the prior biennium level. The sources of the Other Funds are interest earnings and bond premium on the Spring 2009 Article XI-G bond sale, that are of a one-time nature and are not anticipated to be available in future biennia. Given the total amount of bonds approved in the 2009-11 biennium capital construction budget, General Fund and Lottery Funds expenditures for debt service are projected to total $28.9 million in the 2011-13 biennium, a further 67% increase over 2009-11 biennium amount.

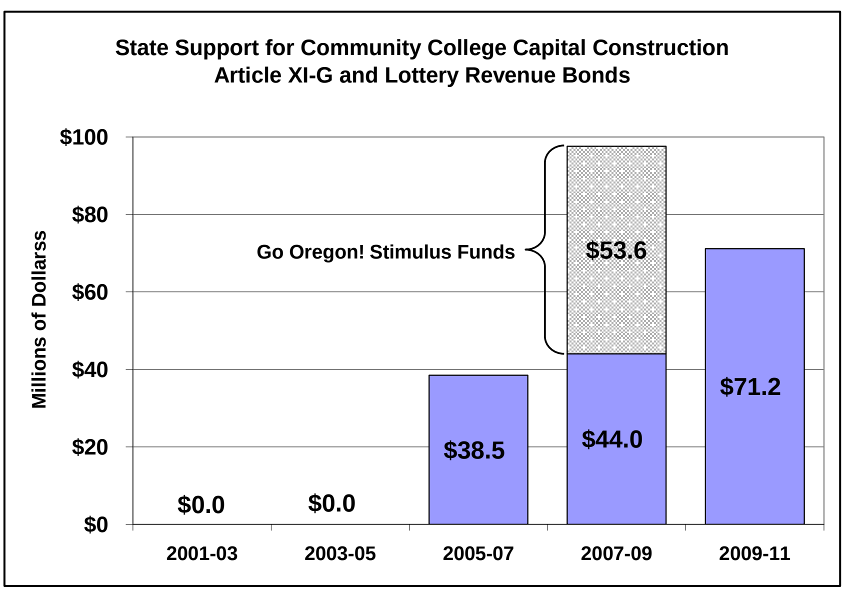
CCWD – Community College Capital Construction

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	77,000,000	151,351,350	0	128,610,000
Total Funds	**$77,000,000**	**$151,351,350**	**$0**	**$128,610,000**

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 was delayed until March 2007 to postpone any debt service costs until the 2007-09 biennium. The sale included $25.9 million of the $38.5 million authorized. Bonds were not be issued for the Klamath or Tillamook Bay projects, because those campuses had not yet raised the required matching funds. Bonds were subsequently issued for the Tillamook Bay project in October 2008. The authorization for the capital construction projects approved in the

2005 session extends through the 2009-11 biennium. Klamath can still proceed with its project until then, if the Legislature reauthorizes authority for its $7.7 million of Article XI-G bonds in the bond limitation bill in the 2009-11 budget.

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

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

1) Ongoing Article XI-G bond support of $40 million per biennium for community college capital construction projects.
2) 2009 session Article XI-G bond support of $36 million for community college capital construction projects. (An additional $4 million for a project at Clatsop Community College was pre-approved during the 2008 special session.)
3) Priority for projects at community colleges that have not recently received Article XI-G bond proceeds from the state.

Article XI-G bond support for capital construction projects at each community college approved prior to the 2009 session is shown in the table below.

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

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

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

Essential Budget Level

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

Legislatively Adopted Budget

The legislatively adopted budget includes $57.5 million of Article XI-G bonds and $13.7 million of lottery revenue bonds, for a total of $71.2 million of state support to support fifteen capital construction and deferred maintenance projects in thirteen community college districts that total $128.6 million in cost. The 2009 session was the first session where lottery revenue bonds were authorized for community college projects. Lottery revenue bonds were authorized twice during that session, first in the *Go Oregon!* state stimulus package (i.e., as part of the 2007-09 biennium legislatively approved budget), and then again in the 2009-11 biennium budget.

The total amount of state-supported debt for community college projects in the legislatively adopted budget is 78% higher than the amount approved in the 2007 session, but is 27% below the level approved during the entire 2007-09 biennium including the *Go Oregon!* state economic stimulus package.

The approved projects are identified in the following table:

2009-11 Biennium Capital Construction Budget

Community College	Project	Article XI-G	Lottery Bonds	Other Revenues	Total
Blue Mountain	Hermiston Higher Education Center		$7,400,000	$0	$7,400,000
Central Oregon	Technology Education Center	$5,700,000		$5,700,000	$11,400,000
Central Oregon	Classroom construction		$1,200,000		$1,200,000
Chemeketa	McMinnville Campus	$6,255,000		$6,255,000	$12,510,000
Clackamas	Harmony Campus Phase II	$8,000,000		$8,000,000	$16,000,000
Clackamas	Deferred maintenance		$1,000,000		$1,000,000
Clatsop	Towler Hall Seismic Upgrades		$1,900,000		$1,900,000
Columbia Gorge	Workforce Building	$8,000,000		$8,000,000	$16,000,000
Lane	Downtown Campus Building	$8,000,000		$8,000,000	$16,000,000
Mt Hood	Classroom/laboratory building seismic upgrades		$950,000		$950,000
Oregon Coast	Marine Sciences building	$2,000,000		$2,000,000	$4,000,000
Portland	Cascade Campus Education Center	$8,000,000		$8,000,000	$16,000,000
Rogue	Deferred maintenance/renovations		$1,250,000	$0	$1,250,000
Treasure Valley	Ontario University Center	$3,000,000		$3,000,000	$6,000,000
Umpqua	Roseburg Regional Health Occupations Training Center	$8,500,000		$8,500,000	$17,000,000
TOTAL		**$57,455,000**	**$13,700,000**	**$57,455,000**	**$128,610,000**

The budget supports issuing the Article XI-G bonds for these projects in Spring 2011, to avoid any debt service costs in the 2009-11 biennium. The 2009-11 budget includes $1.4 million in Lottery Funds for debt service on new lottery bonds, which will allow the lottery revenue bonds to be issued in Spring 2010. Beginning with the 2011-13 biennium, however, when debt service costs for both the Article XI-G and lottery revenue bonds fully phase in, General Fund and Lottery Funds debt service cost for the approved bonds are projected to total $10.3 million per biennium over the remaining term of the bonds.

CCWD – Oregon Youth Conservation Corps

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	2,124,246	2,644,872	2,754,574	2,724,372
Federal Funds	0	400,000	0	5,600,000
Total Funds	**$2,124,246**	**$3,044,872**	**$2,754,574**	**$8,324,372**
Positions	3	3	3	3
FTE	3.00	3.00	3.00	3.00

Program Description

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

OYCC operates two programs. The first – the Summer Conservation Corps – involves more than 600 youths (ages 13-24) each year, and operates during the summer supporting at least one youth crew in every county who work on natural resource and conservation projects. The second program – the Community Stewardship Corps – offers alternative education programs to approximately 500 at-risk youths during the school year through hands-on environmental projects.

Revenue Sources and Relationships

The OYCC last received General Fund in the 2001-03 biennium. Since then, it had operated entirely on Other Funds. Other Funds are primarily from the Amusement Device Tax. The Amusement Device Tax is levied on the state's video lottery terminals. OYCC also receives transfers from other state agencies (Marine Board and the Parks and Recreation Department), and Workforce Investment Act funds, as Other Funds for contract work, and receives approximately $175,000 per biennium in donations. Revenue from all sources is projected to total $2.6 million during the 2009-11 biennium, thereby requiring the spending down of approximately $170,000 (or 14%) of the Other Funds beginning balance to support expenses.

The OYCC will receive Federal Funds as well, from federal stimulus funds received from a U.S. Forest Service grant under ARRA. The grant will support both the Summer Conservation Corps and Community Stewardship Corps programs. The OYCC will receive $6.25 million in the one-time Federal Funds, which will be spent over the 2009-11 and 2011-13 biennia.

Essential Budget Level

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

Legislatively Adopted Budget

The legislatively adopted budget of $8.3 million all funds is a 173% increase over the prior biennium level, and is more than triple the essential budget level. This large increase is a direct result of the Federal ARRA funds made available from the U.S. Forest Service. Funds from this source are not expected to be available for the OYCC's 2011-13 biennium budget.

Department of Education (ODE) – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	5,110,148,812	5,272,600,858	6,359,351,864	5,447,767,562
Lottery Funds	503,769,402	1,117,777,830	594,897,442	495,024,463
Other Funds	50,572,997	66,776,764	55,201,034	60,411,670
Federal Funds	749,565,735	904,213,865	764,602,423	1,229,025,341
Other Funds (NL)	97,748,258	127,241,082	114,547,342	100,687,342
Federal Funds (NL)	252,443,337	284,506,700	278,692,417	278,692,417
Total Funds	**$6,764,248,541**	**$7,773,117,099**	**$8,167,292,522**	**$7,611,608,795**
Positions	487	491	478	393
FTE	442.61	448.28	443.47	375.22

Agency Overview

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

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

The 2009-11 legislatively adopted budget for General Fund and Lottery Funds of $5.9 billion is $447.6 million, or 7%, lower than the 2007-09 legislatively approved budget. However, the total funds budget is only decreased by 2.1% reflecting the use of federal American Reinvestment and Recovery Act funding of $226.1 million for school funding and an increase of $237.1 million for Individuals with Disabilities Education Act (IDEA) and Title 1A of the Elementary and Secondary Education Act.

ODE – Operations

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	34,460,859	47,008,798	46,683,605	38,652,640
Other Funds	10,395,632	13,220,912	14,517,861	15,068,052
Federal Funds	45,392,227	60,443,545	62,212,546	65,645,579
Other Funds (NL)	3,654,658	5,089,850	5,147,342	5,147,342
Total Funds	**$93,903,376**	**$125,763,105**	**$128,561,354**	**$124,513,613**
Positions	273	271	277	269
FTE	260.27	262.86	273.70	265.70

Program Description

Department Operations includes the responsibilities and activities of the State Board and the State Superintendent, administration of a variety of programs, and assistance to and review of local districts. The Board adopts standards for public schools and is the policy-making body. The Office of the State Superintendent exercises a general superintendency of school officers and public schools. This office also includes the agency's internal audit function, communications, federal liaison functions, and the federally supported school and community-based nutrition programs. Other offices within the Department include:

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

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

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

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

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

Revenue Sources and Relationships

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

Major federal revenue sources include IDEA, the National School Lunch Program, NCLB assessment funds, and various compensatory education programs.

Essential Budget Level

The essential budget level of $128.6 million total funds reflects an increase of $2.8 million, or 2.2%, over the 2007-09 legislatively approved budget. General Fund expenditures were reduced to reflect the one-time expenditures approved in 2007-09 for the Oregon Educators Benefit Board ($5 million) and studies on career technical education and transportation ($500,000). The essential budget level also includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $124.5 million total funds reflects a decrease of $1.2 million, or 1%, from the 2007-09 legislatively approved budget. As part of the statewide budget balancing strategy, $6.9 million General Fund and 11 positions were eliminated. However, the adopted budget does include some enhancements, including three positions and $445,027 Federal Funds to support child nutrition programs; and $273,390 General Fund for staff support to physical education grants and reporting, school improvement task force (SB 443), school nursing services (HB 2693), and applied baccalaureate degrees (HB 3093).

ODE – Special Schools

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	17,712,390	17,949,983	19,711,647	13,915,704
Other Funds	2,779,443	3,912,329	3,870,518	5,304,839
Federal Funds	415,093	744,766	541,707	314,455
Total Funds	**$20,906,926**	**$22,607,078**	**$24,123,872**	**$19,534,998**
Positions	186	191	185	108
FTE	154.46	156.54	153.89	93.64

Program Description

The School for the Blind (OSB), with 11 structures on a 7-acre campus, annually serves approximately 31 students who have visual impairments and educational needs beyond what a local school district or regional program can provide. Students range in age from 4 to 21 years, with almost 80% of age 16 or older in 2008. They generally have multiple disabilities that require intensive services and are referred to OSB by the local school district after a finding that needed services might not be available locally. OSB also provides summer programs and coordinates diagnostic services to over 200 students annually and provides consultation services to school districts, regional teachers, and others.

The School for the Deaf (OSD) is a residential/day program that serves students who are hearing-impaired and might not be served in the community. OSD provides academic and career education, living skills development, athletics, and leadership training. In 2007 and 2008, 118 students received services (72 day students and 46 residential students). OSD has 19 structures on a 52-acre campus.

Revenue Sources and Relationships

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

Other Funds revenues are from receipts from special education billings, donations, Medicaid reimbursements, fees from local school districts for services provided to their students, nutrition reimbursements, and other miscellaneous sources. Federal Funds are from IDEA.

Budget Environment

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

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

In 2008, the Superintendent of Public Instruction announced her intention to pursue legislation for the co-location of the OSB on the OSD campus. This decision was based on "the schools, as they exist today with very high costs per student, are not sustainable" and the "seismic and structural conditions of the facilities." The boards of directors for OSB and OSD appealed the decision to the State Board of Education.

The 75th Legislative Assembly directed, through passage of HB 2834, the closure of OSB prior to September 1, 2009. Comprehensive transition plans will be developed for each student enrolled in OSB as of March 1 and who was expected to enroll during the 2009-10 school year. The Blind and Visually Impaired Student Fund was established and moneys appropriated to the Fund shall be used to assist students who are blind or visually impaired, coordinate professional development, and technical assistance. The bill further directed the sale of the property of OSB with net proceeds to be deposited into the Education Stability Fund.

Essential Budget Level

The essential budget level of $24.1 million total funds reflects an increase of $1.5 million, or 6.7%, over the 2007-09 legislatively approved budget. It includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $19.5 million total funds is a decrease of $3.1 million, or 13.6%, from the 2007-09 legislatively approved budget. A reduction of $5.6 million and 69 positions is attributable to the passage of HB 2834 and closure of OSB. While not included in these totals, a $2.9 million special purpose appropriation to the Emergency Board was established to cover the costs of student transition, school closure, staffing, and maintenance and sale of the property. ODE will report its final costs for reimbursement. Also, as part of the statewide budget balancing strategy, $1.3 million and eight positions were reduced at OSD.

ODE – Youth Corrections Education Program

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	21,185,152	22,831,639	18,735,739	18,687,136
Federal Funds	2,882,447	2,190,636	2,248,410	2,246,483
Total Funds	**$24,067,599**	**$25,022,275**	**$20,984,149**	**$20,933,619**
Positions	28	29	16	16
FTE	27.88	28.88	15.88	15.88

Program Description

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

Revenue Sources and Relationships

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

Budget Environment

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

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

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

Essential Budget Level

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

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget maintained the essential budget level with minor technical adjustments.

ODE – Grant-in-Aid

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	199,907,147	255,345,491	287,182,805	282,271,942
Other Funds	13,361,064	21,316,103	15,228,411	15,217,588
Federal Funds	700,875,968	725,474,820	699,599,760	934,718,882
Federal Funds (NL)	252,443,337	284,506,700	278,692,417	278,692,417
Total Funds	**$1,116,587,516**	**$1,286,643,114**	**$1,280,703,393**	**$1,510,900,829**

Program Description

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

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

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

Revenue Sources and Relationships

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

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

Budget Environment

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

Within the statewide budget development process, EI/ECSE falls under mandated caseload and receives funding adjustments based on caseload count plus inflation. In 2008, the Emergency Board allocated additional funding to support the program based on caseload growth for the second year of the biennium. However, some members expressed concern for how this program was funded and whether services were at risk of being reduced in certain areas of the state. In subsequent conversations with legislative members and staff, outstanding issues remain focused on caseload activity, appropriate service levels, true program costs (both state and local), and funding distribution method. Through adoption of a budget note, the 75th Legislative Assembly directed ODE to complete the development of a funding model and key performance measures for Early Intervention and Early Childhood Special Education 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. The 2007 Legislature authorized an additional $39 million General Fund to expand services up to 75% of the eligible children. However, since that time, Head Start eased the entry standards from 100% of the federal poverty line to 130% resulting in an increased number of eligible children and a requisite reduction in the percentages served.

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

Essential Budget Level

The essential budget level of $1.3 billion total funds reflects a decrease of $5.9 million, or 0.5%, from the 2007-09 legislatively approved budget. The decrease is largely attributable to an increase $39 million in one-time federal dollars approved late in the 2007-09 biennium. General Fund expenditures were increased by $12.1 million to reflect the full cost of the OPK expansion approved in 2007-09, $11.6 million for EI/ECSE mandated caseload, and $0.9 million to backfill for lower federal fund revenues in EI/ECSE. The essential budget level also includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $1.5 billion total funds is a $224.3 million increase, or 17.4%, over the 2007-09 legislatively approved budget. This increase is due to the use of a one-time funding increase of $237.1 million for IDEA and Title 1A of the Elementary and Secondary Education Act from the federal American Reinvestment and Recovery Act. While General Fund support was reduced by $4.9 million from the essential budget level as part of the statewide budget balancing strategy, the adopted budget level remains $26.9 million, or 10.5%, higher than the prior biennium. However, General Fund support for the Chess for Success, Civics, and the Start Making a Reader Today (SMART) programs was eliminated; and $2.3 million General Fund was added to cover the family co-payment for school breakfasts (SB 695) and $500,000 for physical education grants. Funding by program is as follows:

Grant-In-Aid Program ($ in millions)						
	2007-09 LAB		2009-11 LAB		% Change	
Program	GF	All Funds	GF	All Funds	GF	All Funds
EI/ECSE	$103.05	$131.58	$111.32	$140.73	8.0	7.0
Oregon Prekindergarten	94.42	94.42	110.08	110.08	16.6	16.6
Regional Programs	31.44	60.54	31.87	61.78	1.4	2.0
Long-term Treatment & Hospital	19.57	40.86	19.79	35.76	1.1	-12.5
Title I Low-Income/Migrant Education	-	284.18	-	395.53	-	39.3
Nutrition	0.11	284.61	2.51	281.20	100.0+	-1.2
Local & Other Special Education	-	200.69	-	298.02	-	48.5
Title II Teacher Quality	-	56.70	-	55.89	-	-1.4
Vocational Education	-	31.02	-	29.56	-	-4.7
Teacher/Admin Quality (Mentoring)	4.95	4.95	5.07	5.07	2.4	2.4
Connectivity	0.61	0.61	0.64	0.64	3.2	3.2
Start Making a Reader Today (SMART)	0.25	0.25	-	-	-100.0	-100.0
Civics/Chess for Success	0.20	0.20	-	-	-100.0	-100.0
Student Leadership	0.75	0.75	0.50	0.50	-33.3	-33.3
Physical Education	-	-	0.50	0.50	n/a	n/a
Other Programs (primarily under NCLB Act)	-	95.28	-	95.65	-	0.4
Total (may not tie due to rounding):	**$255.35**	**$1,286.64**	**$282.27**	**$1,510.90**	**10.5**	**17.4**

ODE – School Funding

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	4,858,068,416	4,952,296,586	6,005,773,807	5,112,927,276
Lottery Funds	447,302,659	1,061,362,741	539,063,144	439,791,571
Other Funds	657,980	3,247,438	340,252	3,637,214
Federal Funds	0	115,360,098	0	226,099,942
Total Funds	**$5,306,029,055**	**$6,132,266,863**	**$6,545,177,203**	**$5,782,456,003**

Program Description

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

Allocations to school districts include a transportation grant, a facility grant, and a general-purpose grant. The general-purpose grant follows a legislatively prescribed distribution formula based on number of students, additional weighting reflecting specific greater education costs, teacher experience, and local tax resources. This formula was designed to equalize allocations to schools.

Revenue Sources and Relationships

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

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

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

Other Funds reflect receipts from the state timber tax and donations of kicker rebates.

Budget Environment

Currently, there are 197 elementary and secondary school districts and 20 education service districts, serving about 536,000 students in grades K-12. The School Revenue Forecast Committee estimates enrollment growth of 0.3% per year during the 2009-11 biennium with weighted growth slower (0.28%) due primarily to leveling in the number of English Language Learners (ELL).

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

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

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

Essential Budget Level

The essential budget level of $6.6 billion total funds reflects an increase of $412.9 million, or 6.7%, over the 2007-09 legislatively approved budget. It is based on recommendations from the School Revenue Forecast Committee and incorporates estimates for growth in average weighted daily membership of 0.28% per year, local revenues of 2.02% in 2009-10 and 4.14% in 2010-11, average teacher salaries of 2.3% per year, and benefits of 8% per year. The essential budget level was reduced by $5.2 million to reflect the transfer of funding to the Oregon Youth Authority for YCEP participants who have already received a high school diploma or who were 21 years of age or older, but continues the SIF at the same inflationary adjustments used for the State School Fund.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget includes $6 billion total funds for school funding. Of that amount, up to $200 million will be appropriated on June 1, 2010, only if the sum of the balances in the Oregon Rainy Day Fund, Education Stability Fund, and the General Fund ending balance as forecasted in June 2010 exceed $100 million. If that threshold is met, all of the resources in the Oregon Rainy Day Fund and any unappropriated General Fund dollars will be appropriated up to the additional $200 million. Allocations for the School Improvement Fund and for District Best Practice Audits are suspended for the 2009-11 biennium. However, ODE may spend up to $1.8 million from the State School Fund for the purposes of the Oregon Virtual School District Fund.

In addition, $1.4 million General Fund was approved for Local Option Equalization Grants (LOEG). This reflects the anticipated grant level for the 2009-10 school year. An additional $900,000 General Fund for the second year funding of these grants is included as a special purpose appropriation to the Emergency Board.

School Funding ($ in millions)

		Essential Budget Level			Legislatively Adopted Budget		
	2007-09 LAB	2009-10	2010-11	Total	2009-10	2010-11	Total
State School Fund (SSF)	$5,987.7	$3,086.4	$3,183.3	$6,269.7	$2,940.1	$2,841.0	$5,781.1
June 2010 Allocation	-	-	-	-	-	200.0	200.0
School Improvement Fund	260.0	135.2	139.9	275.0	-	-	-
Local Option Equalization	0.8	0.4	-	0.4	1.4	-	1.4
Total	**$6,248.5**	**$3,222.0**	**$3,323.2**	**$6,545.2**	**$2,941.5**	**$3,041.0**	**$5,982.5**

ODE – Debt Service

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Lottery Funds	56,466,743	56,415,089	55,834,298	55,232,892
Other Funds	2,193,726	2,248,343	2,508,253	2,496,841
Other Funds (NL)	0	12,751,232	0	0
Total Funds	**$58,660,469**	**$71,414,664**	**$58,342,551**	**$57,729,733**

Program Description

This program provides debt service (principal and interest) on Lottery Revenue bonds, including $150 million of bonds approved by voters in November 1997 and issued in Spring 1999; and $127 million of bonds approved by the 1999 Legislative Assembly and issued in 1999-2001 for state education projects as defined in HB 2567 (1999).

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

Revenue Sources and Relationships

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

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

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 approximately $126 million was made in May 2005, and another $393.8 million was transferred in June 2009. Lower interest earnings result in a greater need for general lottery resources since the required debt payments are fixed.

Essential Budget Level

The essential budget level of $58.3 million total funds reflects a decrease of $13.1 million, or 18.3%, from the 2007-09 legislatively approved budget. The decrease reflects the elimination of one-time expenditure limitation required to record debt refinancing approved by the Department of Administrative Services.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget reflects technical adjustments to the essential budget level to reflect the May 2009 projections of interest earnings, lottery allocations, and the most recent transfer from the Education Stability Fund.

ODE – Common School Fund Distributions

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds (NL)	94,093,600	109,400,000	109,400,000	95,540,000
Total Funds	**$94,093,600**	**$109,400,000**	**$109,400,000**	**$95,540,000**

Program Description

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

Budget Environment

As of January 2006, fund growth is determined on the basis of a 3-year rolling average. If the growth is 5% or less, a minimum distribution of 2% of the fund's fair market value is made. If the fund grows between 5% and 11%, the distribution percentage grows incrementally, up to a maximum distribution percentage of 5% if the fund grows by 11% or more. This policy was modified so that effective with the December 31, 2009 distribution, the amount of the distribution shall be equal to 4% of the average balance of the preceding 3 years if the 3-year rolling average growth is less than 11%.

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

Essential Budget Level

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

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget is based on a 5% distribution.

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

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	73,337,163	82,233,539	88,201,785	79,381,606
Other Funds	31,945,510	31,978,666	31,912,991	31,978,974
Total Funds	**$105,282,673**	**$114,212,205**	**$120,114,776**	**$111,360,580**

The tables for OHSU only show expenditures of state funds in the OHSU budget. Total OHSU expenditures for operations in the 2009-11 biennium are projected to exceed $3.5 billion.

Agency Overview

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

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

The university is governed by a Board of Directors that is appointed by the Governor and confirmed by the Senate. The public policy of the university is delineated in statute. Nonetheless, under its public corporation status, OHSU operates with considerable autonomy. The Legislature no longer approves the university budget (or limits its expenditures from tuition and other sources), though the state continues to support OHSU through grants for its educational and clinical activities. These grants totaled $82.2 million in the 2007-09 biennium. The state also provided $32 million of Tobacco Master Settlement Agreement (TMSA) funds for debt service on $200 million of bonds the state issued in the 2001-03 and 2003-05 biennia to finance the Oregon Opportunity Program – OHSU's expansion of its research programs in genetics and biotechnology. Total state support in the 2007-09 biennium therefore equaled $114.2 million.

Budget Environment

State support for OHSU's education and clinical programs has declined since the institution was reorganized as a public corporation. OHSU received $125.1 million from the state in 1993-95, the last biennium that it was a part of the Department of Higher Education. This level declined 15% when OHSU became a public corporation in the 1995-97 biennium. The $114.2 million of state support during the 2007-09 biennium was still about 9% below the 1993-95 biennium level. The state transfers General Fund to OHSU to support the institution's operating budget, and uses Tobacco Master Settlement Agreement funds to pay debt service on the state bonds that were issued to support the Oregon Opportunity Program (these latter funds are not transferred to OSHU but instead paid directly to bondholders by the state).

For the 2008 state fiscal year (SFY), total OHSU revenue (restricted and unrestricted) is about $1.5 billion. The largest source of operating revenue in the OHSU budget is the net patient service fee revenue generated by its hospitals and clinics, totaling $845.8 million, about 55% of total revenue. Another 31% of revenue comes from gifts, grants, and contracts. State support is about 3% of total revenue, student tuition and fees will contribute 3%, and the sales and services of education departments will contribute another 2.7%. The remainder is divided among various miscellaneous revenue sources.

Outside of its operating budget, the university is also significantly expanding and upgrading its capital plant. In addition to its $3.1 billion of biennial operating expenditures, OHSU also makes a variety of capital investments. As of June 2008, for example, OHSU anticipated spending about $39.3 million on university capital investments and $92.8 million of capital investments in its healthcare system during SFY 2009. Those capital investment plans were modified given the current economic challenges. In June 2009, capital investments for SFY 2009 were expected to be about $36.6 million for the university and $69 million for healthcare facilities.

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

Several years ago, OHSU issued $250 million in revenue bonds to finance the hospital expansion and the development of property for the South Waterfront Campus. This bond is in addition to a $200 million bond the state issued (The Oregon Opportunity Program). OHSU's hospital was operating at capacity, and the university is expanding the hospital to allow it to serve more patients and to increase medical fee revenue. OHSU projects that the facility expansions will eventually house an additional 1,000 employees.

The table below shows consolidated unrestricted and restricted financial results (2004 – 2008 actual, 2009 projected, and the 2010 state fiscal year budget) in millions of dollars. Restricted revenue and expenditures are those dedicated to particular purposes such as federal and private research grants, or certain gifts. The sources for these figures are financial reports provided by OHSU management to the OHSU Board of Directors during their June meetings.

Consolidated Unrestricted & Restricted Operations (Millions of $)	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2008 Actual	2009 Project.	2010 Budget
A. Total Revenue	1,071.4	1,179.8	1,270.3	1,348.9	1,471.0	1,630.8	1,756.9
B. Total Expenses	1,029.8	1,086.8	1,232.8	1,361.0	1,474.6	1,632.1	1,747.6
(B/A) Expenses as a % of Revenue	96.1%	92.1%	97%	100.9%	100.2%	100.1%	99.5%
(A – B) Net Income before Extraordinary Items	41.6	92.9	37.5	(12.1)	(3.6)	(1.3)	9.3
Net Income After Extra. Items & Foundation Contribution	50.4	125.3	100.7	61.3	24.0	2.4	26.7

These figures show operating revenue and expenditures, as well as net income before extraordinary items and investment income, and net income after extraordinary items, investment income and OHSU Foundation contributions. The table highlights several important features about OHSU's finances. First, net income can fluctuate significantly. The difference in net income (before extraordinary items and investment income) between 2005 and 2008, for example, is $96.5 million – a gain in 2005 of $92.9 million and a loss in 2008 of $3.6 million. Also, the table shows the impact of the recent economic downturn and recession. As a response, OHSU has taken steps to reduce its expenditures (through reductions in staffing and services and supplies, and identifying operating efficiencies), and to increase revenue (through tuition increases and hospital revenue enhancements).

Second, the table shows the importance of investment income and foundation contributions (the difference between the last two lines of the table). For example, in 2008, investment income and land sales converted a $3.6 million operating loss into a net gain of $24 million. Whether continued reliance on extraordinary items or investment income to generate a positive net income is appropriate, is a matter of opinion. But OHSU's management wants to improve operating results with only limited reliance on investment income, and the 2010 state fiscal year budget appears to bare that aspiration out.

Third, the table illustrates that, while the state General Fund appropriation is only 3% of total revenue, it clearly makes an important difference in OHSU's operating results. For example, the General Fund appropriation in state fiscal year 2005-06 of approximately $36.7 million is roughly equal to the $37.5 million net income before extraordinary items that OHSU earned in 2006.

The consolidated figures shown in the table above do not show one important fact about OHSU's operations. Because the amounts in the table aggregate OHSU's educational and clinical programs, the figures above fail to show that the educational programs alone do not generate sufficient revenue to cover their operating costs. In other words, OHSU has typically subsidized its educational programs with operating gains from its healthcare or clinical services. This is expected to continue, but the university budget for 2010 anticipates an operating loss (before extraordinary items or investment income) of $14 million – much less than losses of $46.7 million and $32.1 million in 2008 and 2009, respectively.

The university's research performance measures track total dollar awards and national rankings. Total research awards reached $306.9 million in the 2007 SFY, an increase of 12.2% over the fiscal year two years earlier, and more than triple the 1995 level when OHSU assumed its public corporation status. In 2007, the School of Medicine ranked 19th in terms of National Institutes of Health support to medical schools. The university's performance measures for its public service mission track various activities, including: participation in the Area Health Education Centers (AHEC) program, which brings educational training to centers throughout the state; services provided by the Office of Rural Health; calls handled by the Oregon Poison Center; contacts made by the Center for Research on Occupational and Environmental Toxicology (CROET); and the patient service activities of the Child Development and Rehabilitation Center (CDRC).

Essential Budget Level

The 2009-11 essential budget level for OHSU of $120.1 million is about 5.2% higher than the 2007-09 legislatively approved budget of $114.2 million. The essential budget includes sufficient Other Funds (Tobacco Master Settlement Agreement, or TMSA revenue) to pay the debt service on the Oregon Opportunity Program, funding for inflationary costs of 2.8% for OHSU's educational and clinical programs, General Fund to continue enhancements that were begun in 2007-09, and removes funding for two program enhancements that were one-time only. These are described in more detail below.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $111.4 million total funds is $8.7 million, or 7.2%, less than the essential budget level of $120.4 million. The reduction reflects a 10% decrease in General Fund coupled with steady funding to support debt service payments for the Oregon Opportunity program, described in more detail below.

OHSU – Education and General/Hospitals and Clinics/CDRC

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	73,337,163	82,233,539	88,201,785	79,381,606
Total Funds	**$73,337,163**	**$82,233,539**	**$88,201,785**	**$79,381,606**

Program Description

The instructional activities of the University are organized into four schools – the Schools of Medicine, Dentistry, Nursing, and the OGI School of Science and Engineering. The University offers professional degrees in medicine, dentistry, and pharmacy; baccalaureate degrees in nursing, medical technology, radiation therapy, and physician assistant studies; graduate degrees in biomedical science specialties, public health, and nursing; and certificate programs in nursing, paramedic training, and dietetics. The University had an enrollment in fall 2008 of 2,424 students, and awarded 860 degrees and certificates in 2008. Most academic programs are offered on the main and west campuses, but degree programs are also offered in nursing on the campuses of Eastern Oregon University, Western Oregon University, Southern Oregon University, the Oregon Institute of Technology, and the Oregon State University Cascades Campus. The university does not use any state support dollars for the OGI School of Engineering and Science.

The University Hospitals and Clinics are the clinical teaching facilities of the university. The facilities include the OHSU Hospital, the Doernbecher Hospital for Children (part of the OHSU Hospital complex), and approximately 85 sub-specialty and primary care clinics. The hospital has 560 licensed 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 and clinics treated over 190,000 patients and had over 38,000 emergency room visits in SFY 2008. The hospitals and clinics handle a disproportionately large share of health care to uninsured and government-sponsored patients, in comparison to the hospitals' size and market presence. In the 1999 session, the Legislature identified supporting access to medical care by under-served populations and non-sponsored patients as one of the purposes of state funding, and directed OHSU to utilize its state funds to best achieve this and other purposes.

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

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

Revenue Sources and Relationships

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

Other Funds in the Hospital and Clinics program were never limited by the Legislature. The primary source of these funds is payment for services by patients and third party payers. These revenues have not been included in the state budget since OHSU became a public corporation. For example, OHSU hospitals and clinics receive payments for services, including revenue from the Department of Human Services, Division of Medical Assistance Programs (Medicaid) and Public Health Division federal funds from the Maternal and Child Health Block Grant. But none of those Medicaid reimbursements or federal grants is included in this budget for OHSU.

Budget Environment

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

Essential Budget Level

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

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

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

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

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $79.4 million General Fund is $8.8 million, or 10%, less than the essential budget level. This reduction was anticipated to reduce rural health and CDRC funding by about $1.6 million, support for the Oregon Poison Center by about $291,000, School of Nursing funding by $2.6 million, School of Dentistry revenue by $2 million, and School of Medicine support by about $2.4 million – all from the essential budget level. In response to these reductions, OHSU will need to reduce visits and technical assistance to rural health clinics, reduce rural residency training funds, reduce staffing for the Oregon Poison Center, and increase tuition for nursing students by 2.6%, dental students by 8 – 21%, and medical students by 4%.

OHSU – Bond-related Costs

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	31,945,510	31,978,666	31,912,991	31,978,974
Total Funds	**$31,945,510**	**$31,978,666**	**$31,912,991**	**$31,978,974**

Program Description

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

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

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

Revenue Sources and Relationships

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

Budget Environment

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

Essential Budget Level

The essential budget level of $31.9 million is sufficient to pay the debt service on the Oregon Opportunity bonds.

Legislatively Adopted Budget

The legislatively adopted budget made a minor adjustment to the budgeted debt service amount on the Oregon Opportunity bonds to provide additional funding of $65,983. State government service charges, related to this debt, were assumed, in the essential budget level, to be billed to OHSU, and not included in its state budget. The legislatively adopted budget, however, continues the practice of including these charges in OHSU's state budget.

Oregon University System (OUS) – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted*
General Fund	737,484,478	791,522,349	924,840,969	751,543,302
Lottery Funds	9,630,340	25,982,232	32,885,315	23,104,431
Other Funds	1,642,577,101	2,186,501,553	1,322,311,684	2,143,506,152
Federal Funds	0	55,639,902	0	69,361,591
Other Funds (NL)	2,047,068,197	2,228,003,414	2,279,382,924	2,253,682,924
Total Funds	**$4,436,760,116**	**$5,287,649,450**	**$4,559,420,892**	**$5,241,198,400**
Positions	16,145	17,837	17,864	18,251
FTE	12,495.08	12,556.58	12,594.10	12,909.01

** Includes the Governor's line-item veto of section 61(4), HB 5054 of $13.4 million General Fund and $21.9 million Other Funds*

Agency Overview

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

OUS – Education and General Services

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted*
General Fund	592,832,166	615,639,614	741,317,387	576,243,757
Other Funds	1,054,723,522	1,240,496,912	1,220,981,727	1,408,322,734
Federal Funds	0	55,639,902	0	69,361,591
Other Funds (NL)	1,016,253,710	1,070,738,372	1,096,348,308	1,096,348,308
Total Funds	**$2,663,809,398**	**$2,982,514,800**	**$3,058,647,422**	**$3,150,276,390**
Positions	12,530	14,231	14,260	14,723
FTE	9,557.32	9,579.23	9,663.34	10,045.94

** Includes the Governor's line-item veto of section 61(4), HB 5054 of $11,561,556 General Fund and $20,752,132 Other Funds*

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 centralized administration and support services of the system. (The operations of self-supported campus auxiliaries such as housing and health services, however, are shown in the Other Services (Nonlimited) program.) The Education and General Services Program usually accounts for at least 75% of all the Department's state-supported (General Fund plus Lottery Funds) expenditures. The Legislature appropriates funds and provides expenditure limitations for the Department as a whole rather than to the individual institutions. The State Board of Higher Education then allocates these funds to the various institutions and programs in annual budgets through the Resource Allocation Model (RAM). The RAM allocates state support dollars primarily on an enrollment basis. Institutions retain their tuition and fee revenues, and combine these revenues with the allocation of General Fund that they receive through the RAM distribution to support their education and general services operating costs.

Revenue Sources and Relationships

The primary source of Other Funds for the Education and General Services Program is tuition. Other sources include other student fees such as Resource Fees, sales and charges for services, indirect cost recovery on grants, and other miscellaneous revenue. Other Funds subject to expenditure limitation are retained by the campuses generating those revenues, with the exception of a small portion of indirect cost recovery monies that are transferred to the Chancellor's Office. The state's General Fund appropriation for the Education and General

Services program is distributed to the campuses and to centralized services by the Resource Allocation Model (RAM). The RAM distributes most of the General Fund that campuses receive for their Education and General Services programs on a direct enrollment basis. The campuses receive funding for total student enrollment on a full-time equivalent (FTE) basis. The funding amount varies by program type. These varying enrollment-funding amounts are commonly called "cell values." The Department has, however, generally funded the campuses based on their 2002-03 year enrollment levels, (or "frozen" cell values). That is, any changes in enrollment since then have not affected how General Fund is allocated to the campuses.

The remainder of General Fund support to campuses, and all General Fund support for centralized services, is distributed in the RAM through targeted programs. Targeted programs include all funding that is not on a direct enrollment basis. Targeted programs are designed to address the costs of the system that are not directly related to enrollment levels. The largest of the targeted programs are enhanced Engineering funding for projects identified by the Engineering Technology Industry Council ($37.3 million General Fund in 2007-09); the funding for smaller campuses that is additional to the amount they receive for their enrollments ($28.3 million General Fund in the 2007-09 biennium); and the Chancellor's Office operations ($15.8 million General Fund in 2007-09).

Previously, all Federal Funds were included in the Other Funds category in all program areas of 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 were always included in the Nonlimited expenditure categories in their associated program areas. However, the American Recovery and Reinvestment Act (ARRA), which was passed by the federal government in early 2009, included funding to states for fiscal relief to help states address the revenue impacts of the economic recession. Most of these dollars were directed towards education services. In Oregon these monies were used as part of the March 2009 actions taken to rebalance the 2007-09 biennial budget by using these dollars in place of General Fund that had been budgeted for K-12 and OUS operations, but for which there was no revenue. Because of the unique nature of these moneys and their temporary nature, they were added to the OUS budget as Federal Funds expenditure limitation to better facilitate tracking of their expenditure, even though all previous Federal Funds and been expended as Other Funds. Similarly, ARRA state stimulus funds were used as part of the state support for the OUS budget in 2009-11. No additional ARRA stabilization funds are expected for the 2011-13 biennium. This means there will be a significant funding hole when developing the 2011-13 biennial budget for OUS. For purposes of analysis, these federal ARRA monies are counted along with General Fund appropriations to determine total state support for OUS.

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 Oregon University System was reduced greatly after the passage of Measure 5 in 1990. The state met the requirements to support K-12 education by limiting funding for many programs, but OUS was particularly affected. State support for the Education and General Services program not only failed to grow enough to cover inflation, but it actually declined in nominal dollars. The Legislature reversed this trend with the 1997-99 budget, financing new programs in engineering, new partnerships with community colleges, efforts to recruit and retain high quality faculty, and a tuition freeze for Oregon undergraduates. General Fund support was increased again for the 1999-2001 biennium, but General Fund support of Education and General Services declined after the 1999-2001 biennium when the state faced ongoing General Fund revenue shortfalls. Support in the 2001-03 biennium was reduced several times in special sessions as the revenue shortfall became known. In the 2003-05 biennium, support declined a further 12%. During these two biennia, the legislatively approved budgets allowed for large tuition rate increases to offset declines in General Fund support and to allow OUS to address cost increases. In both 2005-07 (8.9%) and 2007-09 (17%), General Fund support was again increased as raising state revenues allowed higher General Fund appropriations.

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

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

Since the early 1990s, mandatory fees rose at a much faster pace than tuition, particularly when tuition rates were frozen by the Legislature through appropriation of additional General Fund support. To address this, the 2007 Legislature directed the Oregon University System to move towards including student fees into tuition to make the actual cost of attending college more identifiable. Towards this end OUS convened a committee in the spring of 2007 comprised of students, faculty, and administrators to examine the issue of resource fees. In January 2008, the State Board of Higher Education approved policy changes to eliminate some resource fees by rolling them into tuition. These adopted policy changes included a prohibition on any new undergraduate resource fees being created and an agreement that all undergraduate universal resource fees, such as a technology and energy surcharge that are charged to all undergraduate students, will be included in tuition no later than the fall term 2011. Undergraduate programmatic fees, which are only assessed to students enrolled in particular programs, will be eliminated by fall 2011. These programmatic resource fees could be eliminated by: a) increasing tuition for all undergraduate students to a level that would generate the amount of revenue formerly created by the programmatic fee; b) creating separate tuition rates, called differential tuition, for programs that formerly had a programmatic fee; or c) some combination of the two. If differential tuition is created, an amount equal to 10% of the tuition must be set aside for financial aid targeted to low-income students majoring in those programs. No changes to graduate resource fees have been made, but the future of such fees will be examined by a committee appointed by the Provosts' Council.

Essential Budget Level

The General Fund 2009-11 essential budget level (EBL) is $126 million (20%) above the 2007-09 legislatively approved budget. While the EBL includes the normal inflation factors included in the EBL calculations, this accounts for just 4.3% of the increase. The rest of this increase was caused by the March 2009 actions taken to rebalance the 2007-09 biennium that were not included in the EBL calculations. The reductions included a $10.3 million General Fund program reduction and a $29.3 million fund shift that used Other Funds cash balances and unanticipated tuition and fee revenues from unexpectedly large enrollment growth to replace General Fund support. Also as part of the rebalance actions, $55.6 million in General Fund was replaced with a like amount of state fiscal relief Federal Funds from the American Recovery and Reinvestment Act. If you include these monies as part of the state's support for OUS then the General Fund 2009-11 essential budget level (EBL) is 10.4% above the 2007-09 legislatively approved General Fund and Federal Funds budget.

Legislatively Adopted Budget

Total General Fund and federal ARRA stimulus support of $645.6 million is $25.7 million (or 3.8%) lower than the 2007-09 approved level and $95.7 million (12.9%) lower that the 2009-11 essential budget level. As discussed under the revenue section above, the American Recovery and Reinvestment Act (ARRA) included funding to states for fiscal relief to help address the revenue impacts of the economic recession. Because of the temporary nature these moneys, they were added to the OUS budget as Federal Funds expenditure limitation to better facilitate tracking, even though all previous Federal Funds and been expended as Other Funds. For analysis purposes, these monies are included with General Fund appropriation totals to calculate total "state support" for the Oregon University System.

The state supported funding level for Education and General Services (E&G) incorporates the following changes:

- Reduced $37.7 million General Fund to reflect the roll-up of permanent General Fund reductions, excluding the Chancellor's Office and Target Programs, taken as part of the rebalance plan for the 2007-09 biennium. The 2009-11 roll-up reductions included in this reduction do not contain cuts to the Chancellor's Office, which were taken separately. Those reductions are also part of the 2009-11 roll-up of 2007-09 rebalance actions, however because they are taken at a higher percentage than other E&G programs they have the effect of lessening the 2007-09 roll-up impact to all other E&G programs. The reductions in this package are also exclusive of reductions to Targeted Programs for Engineering, Research, or Campus Public Service Institutes and Programs. Reductions to these targeted programs were taken separately, and are not included in this total.
- The Chancellor's Office operations were reduced by 25% of the essential budget level (EBL) or $4.2 million General Fund and 13 positions, to reflect roll-up of permanent General Fund reductions taken as part of the March 2009 rebalance plan for the 2007-09 biennium.
- Engineering targeted program support was reduced by $7.3 million General Fund, which is 15% of EBL. Engineering targeted programs include Industry Affairs and Oregon Metals Initiative, Oregon Engineering Technology Investment Fund (ETIC), and Engineering Technology Undergraduates and Graduates supplemental funding per student FTE.
- Research targeted program support was reduced by $2.1 million General Fund (15% of EBL). Targeted research programs include Sponsored Research, Additional Research Support, and Signature Research / Oregon Council for Knowledge and Economic Development.
- Reduced General Fund support for institutes and public service targeted programs by 5% of 2009-11 EBL ($1.9 million). Institutes targeted programs include Dispute Resolution, Natural Resources Institute, Oregon Solutions, Climate Center, Leadership Institute, Health Profession program, Rural Access Initiative, and the Veterinary Diagnostic Lab. Campus Public Services programs includes funding for Rural Oregon Institute at EOU, Veterinary diagnostic Lab at OSU, Population Research Center at PSU, Jefferson Public Radio at SOU, and Labor Education Research Center at UO. Reductions to campus public services programs account for $327,682 of the total General Fund reductions.

The legislatively adopted budget also included adjustments and directions related to tuition levels and revenues:

- Removed $49.8 million General Fund support and replaced it with a like amount of Other Funds revenue from tuition increases. This adjustment used tuition increases of 6% for resident undergraduates and 9% for all others, such as non-resident and graduate to replace state support. This adjustment only uses revenue above the base 3.6% tuition increase necessary to serve currently enrolled students, up to the 6% and 9% levels. The amount of revenue raised from tuition increases above 3.6% was reduced by 30% for fee remissions, per recently adopted Board of Higher Education policy. While this fund shift results in no expenditure reductions while making General Fund available to address state-wide revenue shortfalls, it has the effect of transferring more OUS costs onto tuition revenues.
- Added $128.5 million Other Funds and $6.9 million General Fund for projected enrollment growth. The Other Funds expenditure limitation was added to accommodate additional tuition payments from higher enrollment and use of cash balances. The Oregon University System experienced much higher than anticipated enrollment growth in during the 2008-09 academic year, primarily due to the economic downturn. The General Fund was added to minimally fund the state's share of this increase in students attending OUS institutions.
- The budget was accompanied by a budget note regarding rates of tuition increases, for resident undergraduates only, at the various OUS institutions. The budget note states that the Legislature intends increases in the rates for tuition and resource fees paid by resident undergraduate students at universities whose enrollment are at least 7,500 students should not exceed an average of 8% per year. Increases in the rates for tuition and resource fees paid by resident undergraduate students at all other OUS institutions should not exceed an average of 5% per year, and may not exceed 6.5% per year for any single institution, except for Western Oregon University which may increase rates for new students entering the Western Promise program by 9% in the year of entry.

On August 6, 2009 the Governor vetoed section 61(4) of HB 5054. HB 5054 is the budget reconciliation bill for the 2009-11 budget. A final reconciliation bill is always passed towards the end of a legislative session to catch all the adjustments that were not made in individual agency budgets. Because work on the vast majority of budgets, including those that assess all state agencies, such as the Department of Administrative Services and the Department of Justice, was not completed until the closing weeks of session, HB 5054 includes many adjustments for things like Attorney General fees, state government service charges, adjustments for fleet charges, rent, and Treasury fees. HB 5054 also included reductions for assumed salary savings that were part of the overall state budget such as salary freezes, which required moneys that had automatically been included in budgets during budget development for merit increases to be removed. These reductions were apportioned to each agency based on the amount already in the budget for specific items such as merit increases, as well as, the number of positions and FTE in each agency. The Governor's statement justifying the line-item vetoes in HB 5054 did not address the fact that these budget restorations are for costs the Oregon University System will not incur. It is anticipated that the budget for OUS will need to be revisited during the planned special session in February 2010 to make necessary adjustments to capture the savings that will occur because of other legislative and executive branch actions.

OUS – Agricultural Experiment Station

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted*
General Fund	54,668,604	58,937,209	64,034,043	57,927,331
Other Funds	10,132,334	16,667,553	14,779,848	10,757,155
Other Funds (NL)	63,994,297	59,173,893	60,862,255	60,862,255
Total Funds	**$128,795,235**	**$135,205,074**	**$139,676,146**	**$129,546,741**
Positions	672	820	818	791
FTE	524.35	636.79	642.65	620.04

** Includes the Governor's line-item veto of section 61(4), HB 5054 of $966,779 General Fund and $511,549 Other Funds*

Program Description

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

Revenue Sources and Relationships

Historically, Other Funds subject to expenditure limitation have come primarily from sales and service fees, with some indirect cost recovery on federal grants, interest earnings, and miscellaneous income. The Agricultural Experiment Station receives federal funds (reported as Other Funds) through the Hatch Act. Nonlimited gifts, grants, and donations provided $64 million for Agricultural Experiment Station research in the 2005-07 biennium.

Budget Environment

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

Essential Budget Level

The essential budget level of $139.7 million total funds is $4.4 million (3.3%) more than the 2007-09 legislatively approved budget level. $3.3 million of this increase is due to standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The remaining increase is caused by a $1.2 million General Fund reduction taken in March 2009 as part of the 2007-09 rebalance actions taken by the Legislature that was not included in the EBL calculations.

Legislatively Adopted Budget

General Fund support of $57.9 million is $1 million (or 1.7%) lower that the 2007-09 approved level and $6.1 million (9.5%) lower that the 2009-11 essential budget level. General Fund support was reduced by $3.3 million and 11 positions (8.40 FTE) to reflect the roll-up of permanent reductions taken in March 2009 as part of the statewide rebalance actions implemented to reduce a shortfall in the 2007-09 biennial budget. In addition, the budget was reduced by $3.1 million General Fund and 10 positions (8.21 FTE) from EBL due to revenue constraints in the 2009-11 biennium. These reductions were offset to some extent by the addition of $296,692 General Fund and 2 positions to continue bee health research first approved at the June 2008 Emergency Board meeting. This increase represents the full biennial cost of that June 2008 funding decision. The bee health research was split between the Agricultural Experiment Station and the Extension Service program areas.

Limited Other Funds are $5.9 million lower that the 2007-09 approved levels due to removal of unused expenditure limitation for which there is no revenue source because of declining federal revenues or the previous funding had been one-time in nature. This reduction brings the limited Other Funds budget in line with actual expenditure patterns of 2005-07.

The Legislature had also adopted a reduction of $966,779 General Fund and $511,549 Other Funds as part of the end of session adjustments made to all agency budgets in HB 5054. These reductions included the effects from lower statewide charges like Attorney General hourly rates as well projected savings from a salary freeze and actions intended to lower personal services costs. After the Assembly adjourned, the Governor vetoed these reductions in the Higher Education budget. The Oregon University System was the only executive branch agency protected from these reductions. The Governor stated he vetoed this reduction in the OUS budget to avoid further increases in tuition to students. The Agriculture Experiment Station expenditures are unrelated to undergraduate and graduate costs and do not affect these tuition rates. Therefore, it is unclear why they were included in the Governor's action to restore money for costs the program will not incur.

OUS – Extension Service

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted*
General Fund	39,412,723	42,642,380	46,806,525	42,323,462
Other Funds	22,322,031	27,655,467	26,090,312	20,320,480
Other Funds (NL)	6,800,360	6,704,603	6,841,774	6,841,774
Total Funds	**$68,535,114**	**$77,002,450**	**$79,738,611**	**$69,485,716**
Positions	579	602	602	562
FTE	396.24	420.96	425.71	389.10

** Includes the Governor's line-item veto of section 61(4), HB 5054 of $767,696 General Fund and $334,607 Other Funds*

Program Description

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

Revenue Sources and Relationships

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

Budget Environment

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

Essential Budget Level

The essential budget level (EBL) for the Extension Service is $2.7 million General Fund (3.5%) more than the 2007-09 legislatively approved budget. Much of this increase is due to standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The remaining increase is caused by a $434,398 General Fund reduction taken in March 2009 as part of the 2007-09 rebalance actions taken by the Legislature that was not included in the EBL calculations.

Legislatively Adopted Budget

General Fund support of $42.3 million is only slightly lower that the 2007-09 approved level, but $4.5 million (or 9.6%) lower that the 2009-11 essential budget level. This reduction from the EBL was due to the roll-up of permanent reductions taken in March 2009 to reduce a shortfall in the 2007-09 biennial budget. Due to inclusion of the roll-up, General Fund support was reduced by $2.4 million and 8 positions. The budget was reduced by an additional $2.3 million General Fund from EBL due to revenue constraints in the 2009-11 biennium. A total of $197,589 General Fund was added to continue bee health research first approved at the June 2008 Emergency Board meeting. This increase represents the full biennial cost of that June 2008 funding decision. The bee health research was split the between the Extension Service and Agricultural Experiment Station program areas.

The Limited Other Funds 2009-11 adopted total of $20.3 is $7.3 million (or 26.5%) lower that the 2007-09 approved levels due to removal of unused expenditure limitation for which there is no revenue source because of declining federal revenues or the previous funding had been one-time in nature.

The Legislature also adopted a reduction of $767,696 General Fund and $334,607 Other Funds as part of the end of session adjustments made to all agency budgets in HB 5054, to reflect lower anticipated costs to state agencies. After the Assembly adjourned, the Governor vetoed all such reductions in the OUS budget. This was the only executive branch agency protected from these reductions. The Governor stated he vetoed this reduction in the OUS budget to avoid further increases in tuition to students. Like the other statewide programs, Extension Service expenditures are unrelated to undergraduate and graduate costs. Therefore, it is unclear why they were included in the Governor's action to restore money for costs the program will not incur.

OUS – Forest Research Laboratory

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted*
General Fund	5,536,652	6,590,714	7,013,106	6,311,796
Other Funds	7,132,157	10,072,644	9,059,797	7,408,582
Other Funds (NL)	25,847,830	23,528,122	22,449,835	22,449,835
Total Funds	**$38,516,639**	**$38,619,723**	**$38,522,738**	**$36,170,213**
Positions	258	281	281	272
FTE	208.99	227.61	228.41	219.94

** Includes the Governor's line-item veto of section 61(4), HB 5054 of $115,587 General Fund and $307,588 Other Funds*

Program Description

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

Revenue Sources and Relationships

The Forest Research Laboratory is supported by state, federal, and forest industry resources. Other Funds subject to expenditure limitation come from the Forest Products Harvest Tax; sales and service charges; and from Federal McIntire-Stennis funds. Nonlimited expenditures from grants and contracts support approximately $22 million of the Forest Research Laboratory's expenditures.

Budget Environment

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

Essential Budget Level

The total funds 2009-11 essential budget level of $38.5 million represents a slight decrease (0.25%) from the 2007-09 legislatively approved budget levels. This decrease is due to lower projected Nonlimited Other Funds expenditures and a 2007-09 $55,937 General Fund reduction offsetting the allowed standard increases for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Legislatively Adopted Budget

The adopted budget for the Forest Research Lab is $2.4 million (6.3%) lower than 2007-09 levels. This reduction is primarily due to a $2.7 million (or 26%) reduction in limited Other Funds related to lower anticipated Timber Harvest Tax receipts from timber sales caused by reduced demand for timber brought on by the recession. General Fund support was reduced by $363,986 to reflect the biennial roll-up of permanent reductions taken as part of the rebalance plan for the 2007-09 and an additional $337,324 General Fund as part of the final budget plan to reduce general support by a total of roughly 10% from the 2009-11 essential budget level.

As with the other program areas in the OUS budget, the Governor vetoed reductions of $115,587 General Fund and $307,588 Other Funds contained in HB 5054, the budget reconciliation bill. The Governor's statement justifying his action seemingly ignores the fact that these actions have the effect of putting money back into the affected budgets for costs the programs will not incur.

OUS – Sports Action Lottery

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Lottery Funds	3,957,030	12,683,423	13,038,559	9,665,082
Total Funds	**$3,957,030**	**$12,683,423**	**$13,038,559**	**$9,665,082**

Program Description

The Sports Action lottery game was authorized by the 1989 Legislature. 88% of the proceeds from the game, not to exceed $8 million annually, are used to finance intercollegiate athletics. The remaining 12% are for graduate student scholarships that are not awarded on the basis of athletics. Of the athletic funds, 70% must be used for non-revenue producing sports, and at least 50% must be used for women's athletics.

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

Revenue Sources and Relationships

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

Budget Environment

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

Legislatively Adopted Budget

In order to create savings for reallocation elsewhere, the 2009 Legislative Assembly passed a temporary limit on the amount of monies that could be transferred to the Sports Action account during the 2009-11 biennium. The Legislature set this limit at $9,665,082. Therefore, even if 1% of total lottery revenues exceed this amount, OUS will receive no more than the $9,665,082 cap amount. This was done through a temporary law change that will revert to the 1% transfer amount during the 2011-13 biennium, barring additional action by the Legislature. The approved amount represents 15% less than would have been transferred under the 1% directive, based on the May 2009 Lottery Forecast.

OUS – Debt Service

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	30,238,004	39,384,932	65,669,908	68,736,956
Lottery Funds	5,673,310	13,298,809	19,846,756	13,439,349
Other Funds	0	0	0	26,733,019
Other Funds (NL)	116,201,560	149,563,159	161,014,279	135,314,279
Total Funds	**$152,112,874**	**$191,803,968**	**$246,530,943**	**$244,223,603**

Program Description

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

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

Budget Environment

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

Essential Budget Level

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

Legislatively Adopted Budget

State-paid (General Fund plus Lottery Funds) debt service costs are budgeted for a total $82.2 million, a $29.5 million (or 56%) increase over the 2007-09 biennium level. The very large rate of growth results from the high level of state-supported debt approved in the 2007-09 biennium capital construction budget, including the Go Oregon! Stimulus package. Early in the 2009 legislative session, the Assembly passed the Go Oregon! state stimulus package which moved up many projects proposed for the 2009 -11 biennium in an attempt to create immediate work opportunities (i.e., as part of the 2007-09 biennium legislatively approved budget), which required additional monies to be appropriated to pay debt service on the accelerated projects during the 2009-11 biennium.

No General Fund was appropriated for debt service costs on the approved 2009-11 biennium capital construction projects for state-supported debt because state-supported debt will be issued late in the biennium to avoid costs in 2009-11. Historically, debt service costs on capital construction projects have always initiated in the biennium subsequent to the biennium of the project approval. State-paid debt service costs for projects approved early in the 2009 session in the Go Oregon! state stimulus package and those approved in the 2009-11 biennium budget, are projected to increase by $23.8 million in the 2011-13 biennium, when fully phased in. This amount could vary based on the interest rate obtained at the time the debt is issued.

OUS – Capital Improvement

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	0	0	0	$41,000,000
Total Funds	**$0**	**$0**	**$0**	**$41,000,000**

Program Description

The Capital Improvement program unit includes capitalized expenditures less than $1 million for improvement to land or existing buildings that increase the value, extend the useful life of the asset or make it adaptable to a different use. Land acquisition for a project that has total, complete project costs of less than $1 million are included in this program unit. Projects in excess of $1 million that build, acquire, adapt, replace, or change the use or function of a facility are included in the Capital Construction program unit. All capital projects in excess of $1 million require a separate Capital Construction expenditure limitation established by the Legislature or the Emergency Board.

Activities and projects that keep a facility operating without increasing asset value or operating life, such as maintenance, repairs, replacement of components, or adaption, are not capital projects. Projects that reduce maintenance costs or increase efficiency are generally not considered capital projects. These costs would be included in the appropriate program unit (Education and General Services, Agricultural Experiment Station, Extension Service, and Forest Research Laboratory).

Legislatively Adopted Budget

The 2009-11 adopted budget for the Oregon University System created a new program unit for Capital Improvement expenditures to better categorize capital related expenditures. The Capital Improvement program area is funded with a $41 million Other Funds expenditure limitation. The program area is funded by a transfer of tuition and fee revenues from the Education and General Services program unit.

OUS – Capital Construction

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	14,796,329	28,327,500	0	0
Other Funds	548,267,057	891,608,977	51,400,000	628,964,182
Total Funds	**$563,063,386**	**$919,936,477**	**$51,400,000**	**$628,964,182**

Program Description

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

Revenue Sources and Relationships

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

Historically, the construction, renovation, and acquisition of instructional and public service buildings have been financed equally by the General Fund and Article XI-G general obligation bond proceeds. Addressing deferred maintenance, and academic modernization and repair – which does not include construction or major renovation projects – is also financed with General Fund and Article XI-G bonds. More recently, these facilities have been financed generally by donations and Article XI-G bonds. The donations are categorized as Other Funds in the budget, even though they are technically transferred to the General Fund so that they can be used to match Article XI-G bonds. Student unions, dorms, parking structures, and similar projects are generally financed from auxiliary enterprise balances and the proceeds of Article XI-F(1) bonds. In addition, revenue from self-supporting projects, gifts, grants, and donations are a major funding source for capital construction. Recently, the use of Article XI-F(1) bonds has been expanded to instructional buildings (the new Law Center at the University of Oregon and the Fourth Avenue Building at Portland State University are examples).
In recent biennia, the state has added additional financial instruments to pay for capital construction. In 2001, the Legislature approved the use of Lottery Bonds to finance campus capital projects for the first time, and in 2005, the Legislature approved using Article XI-J bonds, also known as Small-Scale Energy Loan Program (SELP) bonds, to finance costs relating to energy saving components of the capital projects.

Budget Environment

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

Essential Budget Level

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

Legislatively Adopted Budget

The legislatively adopted budget includes $629 million to Oregon University System (OUS) for capital construction and deferred maintenance projects. The projects will be funded from a variety of sources, including various categories of bonds, certificates of participation, gifts, grants, and other revenues including community college matching funds. All of the $629 million of expenditures are supported by Other Funds. Unlike in prior biennia, no General Fund is appropriated to support OUS capital construction or deferred maintenance expenditures.

The bonds and certificates of participation approved for higher education can broadly be separated into two categories: state-supported debt and self-supported debt. State-supported debt is repaid with state General Fund. The budget authorizes a total of $189.1 million of state-supported debt for Oregon University System capital construction. This represents a 23% decrease over the $245.2 million of state-supported debt approved for OUS in the 2007 session, and is 55% less than the $382.1 million approved during the entire 2007-09 biennium, which included $136.9 million of state-supported debt in the Go Oregon! stimulus package (SB 338).

The primary reason for the reduction in state-supported debt from the prior biennium level is that many of the capital projects that were proposed by the system for the 2009-11 biennium budget were accelerated and approved, instead, to start during the 2007-09 biennium. Early in the 2009 session the Legislature passed the Go Oregon! state stimulus package (SB 338), which accelerated a number of "shovel-ready" OUS projects that were ready to begin work by May 2009. This action was taken as an economic recovery measure. As such, SB 338 moved up $75.8 million in projects for which the state will pay the debt service, from the 2009-11 biennium into 2007-09. If these SB 338 projects had been included in the 2009-11 budget instead of the 2007-09 budget, total state-supported debt would have increased slightly in 2009-11.

The legislatively adopted budget for the Oregon University System supports 36 specified capital construction projects, and includes general support to address capital repair and deferred maintenance needs. An important aspect of the budget is the continued funding for campuses to address deferred maintenance issues. The budget includes $20 million of certificates of deposit proceeds to address capital repair and deferred maintenance needs (an additional $34 million was approved as part of the capital construction acceleration initiative in SB 338). This level of funding, along with $60 million of state funds for six additional deferred maintenance capital projects, will significantly address the backlog of deferred maintenance of OUS campuses, now estimated to total $640 million.

For a complete list of all the capital construction projects and financing approved for the Oregon University System for 2009-11 see the Legislative Fiscal Office publication *Budget Highlights of the 2009-11 Legislatively Adopted Budget.*

OUS – Other Services (Nonlimited)

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds (NL)	817,970,440	918,295,265	931,866,473	931,866,473
Total Funds	**$817,970,440**	**$918,295,265**	**$931,866,473**	**$931,866,473**
Positions	2,106	1,903	1,903	1,903
FTE	1,808.18	1,633.99	1,633.99	1,633.99

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

Program Description

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

Revenue Sources and Relationships

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

Budget Environment

Projected Nonlimited expenditures appear in the budget for information purposes only. Available Nonlimited funds may be spent without limitation by the Legislature. Showing the Nonlimited expenses in the budget gives a clearer picture of the Department's overall activities. Nearly 50% of all expenditures are in Nonlimited programs. This figure refers to all Nonlimited funds in the budget and not merely to the funds identified in this program area.

Legislatively Adopted Budget

The legislatively adopted budget anticipates an Other Services (Nonlimited) expenditures increase of 2.4% from the 2007-09 legislatively approved level. These expenditures are difficult to project with accuracy, however, and since they are Nonlimited they may end up varying significantly from the projected amounts without any legislative action.

Oregon Student Assistance Commission – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level*	2009-11 Legislatively Adopted
General Fund	62,791,959	101,610,307	107,560,206	90,340,451
Lottery Funds	253	9,879,176	8,960,475	8,940,885
Other Funds	3,721,550	5,768,242	7,314,368	6,576,994
Federal Funds	2,063,925	2,104,655	1,791,006	1,791,006
Other Funds (NL)	8,960,739	10,712,788	11,341,276	11,651,051
Total Funds	**$77,538,426**	**$130,075,168**	**$136,967,331**	**$119,300,387**
Positions	24	34	31	27
FTE	22.75	31.91	30.16	25.83

** The essential budget level was reduced by $34.8 million after the issuance of the Governor's recommended budget to reflect actions taken at the federal level to expand Pell grants and tax credits.*

Agency Overview

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

- Oregon Opportunity Grants (OOG) program makes awards available to students from families earning up to $70,000 per year based on a Shared Responsibility Model (SRM). Prior to implementing the SRM in 2008, OOG had been limited to students from families with incomes at 55% or less of the current median family income. The OOG accounts for approximately 81% of the 2009-11 legislatively adopted budget.
- Scholarship Services administers approximately 400 public and private scholarship and grant programs, including partnerships with the Oregon Community Foundation and the Ford Family Foundation, Oregon National Guard, Robert F. Byrd program, JOBS Plus, Rural Health Services and Nursing Services Loan Repayment programs, and the Chafee Educational and Training Scholarship for former foster youth.
- Access to Student Assistance Programs in Reach of Everyone (ASPIRE) program is not a financial aid program, but instead it works to increase access to post-secondary education. ASPIRE trains volunteers to serve as mentors to high school students with information regarding college and career choices, preparation, and financial aid for post-secondary education.
- Office of Degree Authorization evaluates and approves proposals for the establishment of new degree programs in Oregon and conducts reviews of authorized programs.

Revenue Sources and Relationships

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

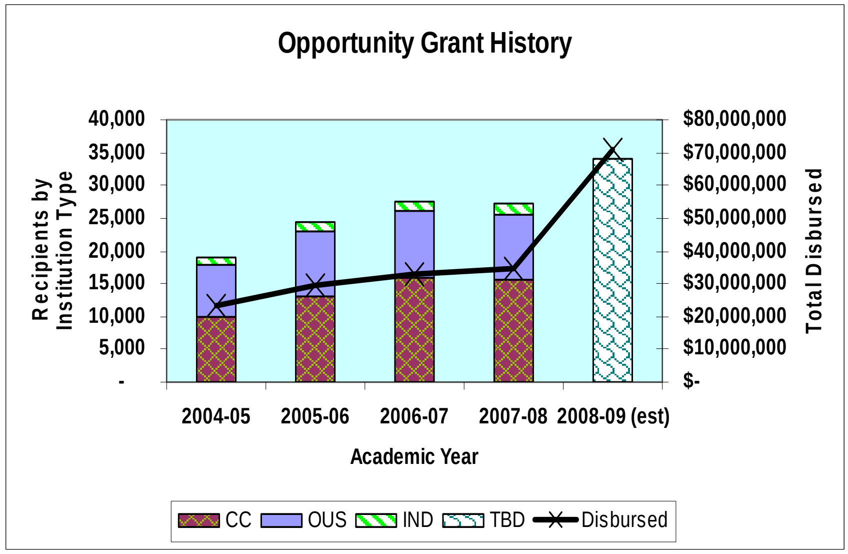
Other Funds revenues are received from private award donations, charges for administering privately funded scholarship programs, and fees for reviewing degrees from private post-secondary institutions. Other Funds payments for administrative expenses (personnel costs, services and supplies) are limited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

Federal Funds are from the Leveraging Educational Assistance Partnership (LEAP) and Special Leveraging Educational Assistance Partnership (SLEAP) programs. LEAP and SLEAP funds are combined with the much larger state contribution to fund the Opportunity Grant. These programs require the state to provide matching funds and not reduce support levels for the Opportunity Grant to receive maximum funding.

Budget Environment

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

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



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

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

Based on current estimates, 38,500 recipients have received disbursements for the fall term in the 2008-09 academic year versus 27,354 recipients for the entire 2007-08 academic year, or a 40.7% increase. Average award amounts increased to $2,115 from $1,484, or 42.5%, for community college recipients and to $2,332 from $1,745, or 33.6%, for Oregon University System recipients.

During the budget review process in 2007, legislative members noted that there was no specific funding level required to implement the SRM, rather the approved funding level would determine the award sizes and the number of students served. OSAC has implemented three levels of cost controls in an attempt to stay within the approved level of funding including: a) award caps (currently $3,200 for full-time and $2,600 for part-time) and an award minimum of $400, b) income caps (up to $70,000 per year), and c) pro-rata adjustment (currently 19%) added to the effective family contribution.

Also in 2007, the ASPIRE program received General Fund dollars, for the first time, to provide an offset to reductions in grant funds and to finance expansion of the program to 115 from 83 high schools. The funding added to the payments to local school districts which finance half the cost of ASPIRE school coordinators who recruit and supervise volunteers. School districts have to match these moneys with their own funds to finance the coordinators. However, the AmeriCorps and Ford Family Foundation grants that have supported the program since inception expired at the end of the 2007-09 biennium.

Essential Budget Level

The essential budget level of $171.8 million total funds reflects an increase of $41.3 million, or 31.6%, over the 2007-09 legislatively approved budget including an increase of approximately $39.1 million General Fund to support the SRM expansion authorized in the prior biennium; a phase-in of $117,609 General Fund to complete the transfer of the student child care program from the Department of Human Services; and an increase to the Gear-Up scholarship program by $1.6 million Other Funds. It also includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

After the issuance of the Governor's recommended budget, the essential budget level was reduced to reflect an additional $34.8 million in federal resources directly to students and families from Pell grants (maximum increased to $5,350 from $4,731) and higher education tax credits.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $119.3 million total funds is $10.8 million, or 8.3%, below the 2007-09 legislatively approved budget. The majority of this decline is attributable to the reduction in the Oregon Opportunity Grant program which received a total funds budget of $97.1 million, or a 10.8% decrease.
The approved budget eliminates funding for new awards in the Rural Health and Nursing Services loan repayment programs, but funds are available to allow the agency to fulfill the existing obligations in these programs. Further, the budget was adjusted to reflect a reduction in support from the federal AmeriCorps program and the Ford Family Foundation for the ASPIRE program; and a reduction of $266,378 General Fund and elimination of one vacant position in Operations. Current programs are maintained in the Office of Degree Authorization. SB 701 established the Nursing Faculty loan repayment program and $200,000 General Fund was provided to support the new program.

State Support (General Fund + Lottery Funds)

	2007-09 LAB	2009-11 EBL	2009-11 LAB	% Change (LAB)
Opportunity Grant	$ 106,478,059	$ 111,246,975	$ 94,798,085	-11.0
Rural Health Services Program	458,412	471,248	0	-100.0
Nursing Services Program	369,768	380,122	262,698	-29.0
Nursing Facility Loan Program	0	0	200,000	n/a
ASPIRE (portion to schools only)	303,000	311,484	162,381	-46.4
Student Child Care	884,991	1,002,600	1,002,600	13.3
Agency Operations	2,995,253	3,108,252	2,855,572	-4.7
Total:	**$ 111,489,483**	**$ 116,520,681**	**$ 99,281,336**	**-11.0**

Teacher Standards and Practices Commission – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	4,174,259	5,090,324	4,661,306	5,118,071
Total Funds	**$4,174,259**	**$5,090,324**	**$4,661,306**	**$5,118,071**
Positions	22	24	21	25
FTE	21.50	23.50	20.50	25.00

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 64,000 educators in Oregon who hold 68,700 current licenses. All student teaching candidates, new applicants for licensure, as well as all former licensees who allow their licenses to lapse for more than three years, are required to pass a criminal history and fingerprint check.

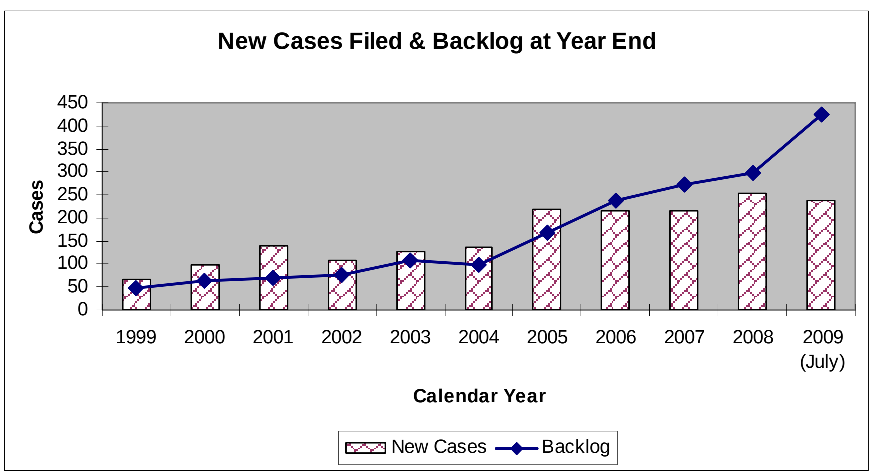
Revenue Sources and Relationships

The agency is entirely supported by Other Funds from licensing and other fees paid by the regulated professionals with the life of a license ranging from three to five years. The last licensure increase occurred in January 2006 when the fee increased from $75 to $100, the maximum allowed by statute.

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

Budget Environment

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



Through July, 237 new cases were filed in 2009 which is only 15 fewer than the number of cases received in all of 2008.

Although additional, limited duration investigative positions were added during the 2007-09 biennium, the backlog of cases continued to increase during most of the biennium. The backlog as of July totaled 424 cases.

Essential Budget Level

The essential budget level totals $4.7 million Other Funds for a decrease of $429,000, or 8.4%, from the 2007-09 legislatively approved budget. It includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The significant decrease reflects the elimination of six limited duration positions approved for the 2007-09 biennium; five of these positions supported investigations for disciplinary cases and one position for information systems support.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget totals $5.1 million Other Funds for a less than 1% increase over the 2007-09 legislatively approved budget. To address the increasing level of discipline cases, 3.50 FTE were established and 1.00 FTE was restored (permanent from limited duration) to maintain and upgrade business systems.

HUMAN SERVICES

Commission for the Blind – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	1,233,746	1,520,038	1,710,148	1,449,953
Other Funds	2,786,193	2,497,700	2,517,386	2,525,619
Federal Funds	11,364,345	12,157,237	11,448,361	11,651,863
Total Funds	**$15,384,284**	**$16,174,975**	**$15,675,895**	**$15,627,435**
Positions	47	50	51	51
FTE	44.60	47.24	47.60	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 with federal funds. General Fund and the agency's Other Funds provide the required match. Vocational Rehabilitation basic support (Section 110) funds represent the largest source of federal funding.

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

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

Budget Environment

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

Essential Budget Level

The essential budget level for the Commission for the Blind is $499,080 total funds less than the 2007-09 legislatively approved budget. It includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. Further, it includes reductions in expenditures to match the Commission's federal revenue, which is not expected to grow as rapidly as costs have. One Vocational Rehabilitation Counselor (1.00 full-time equivalent) position, and two Rehabilitation Instructor for the Blind (2.00 full-time equivalent) positions are eliminated in the Commission's essential budget level. Services and Supplies and Other Special Payments are also reduced in the Commission's essential budget level. The 2007-09 legislatively approved expenditure level includes $959,702 total funds ($41,295 General Fund, $61,572 Other Funds and $856,835 Other Funds) in special session and Emergency Board actions during Fiscal Year 2008.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $15,627,435 is $260,195 General Fund (15%) less than the essential budget level. Other Funds are $8,233 (.003%) and Federal Funds are $203,502 (1.7%) higher than the essential budget level. Federal Funds are increased due to federal funding received by the Commission from federal stimulus moneys. The additional federal funding will be used to fund the reinstatement of three positions (3.00 FTE) that were eliminated as a result of declining revenues, as well as, the Commission's services and supplies and special payments budgets that were also reduced as a result of declining revenues. Other Funds were increased to provide the match requirement for a portion of the federal stimulus monies. The General Fund reductions duplicate a portion of the reductions to staffing that are made in the agency's revenue reduction package. A portion of these reductions were backfilled with federal funding.

Commission on Children and Families – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	46,119,756	57,246,821	62,078,040	49,062,670
Other Funds	18,320,733	23,487,919	21,706,708	17,829,193
Federal Funds	2,421,701	4,522,936	4,864,514	4,836,294
Total Funds	**$66,862,190**	**$85,257,676**	**$88,649,262**	**$71,728,157**
Positions	32	34	32	28
FTE	28.77	30.92	29.67	25.67

Agency Overview

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

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

Revenue Sources and Relationships

General Fund makes up 69% of this budget. Part of the General Fund spent in this agency is used to meet state match requirements for federal funding, most notably federal Maintenance of Effort requirements for the Temporary Assistance to Needy Families program administered by the Department of Human Services (DHS). Other General Fund is used as state match for federal Medicaid and Safe and Stable Families (Family Preservation and Support) funds.

Other Funds revenue supports 25% of the Commission's budget. Most of the Other Funds is federal money that comes to the Commission from other state agencies. DHS will transfer $13.9 million in Title XX Social Services Block Grant and Title IV-B (2) Safe and Stable Families (Family Preservation and Support) revenue to the Commission. Title XX supports programs for non-delinquent, at-risk youths aged 11-18 (formerly called Level 7 youth) and relief nurseries. Title IV-B (2) funds are used for grants to counties and tribes, and for Healthy Start program support. The Commission also uses General Fund to match federal Title XIX Medicaid funds through DHS for qualified services in local Healthy Start programs, and distributes the Medicaid revenues as Other Funds to the counties. The 2009-11 budget includes $4.6 million for these matching funds, although the actual amount will likely be less due to General Fund reductions in the Healthy Start program.

In the past, the Employment Department has transferred federal Child Care and Development Fund (CCDF) revenue to the Commission for local commissions to use for quality child care. For 2009-11, $3.8 million of CCDF funds previously included in this budget as Other Funds will go to the Department of Human Services.

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

The Commission's budget does not include revenues leveraged by local commissions to support local programs and activities. As of mid-August, local commissions have reported $50 million in leveraged funds (cash, grants and in-kind resources, but excluding volunteer hours) for the 2007-09 biennium, with 10 counties still to report for the final quarter of the biennium.

Budget Environment

The Commission system began operations in 1994 to carry out legislative policy to develop and implement a statewide system of services for children and families. Local commissions on children and families serve as the basis for both planning and investments of community supports and services. 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 develop local plans, put the programs in place, and track outcomes. Counties updated their local plans in 2008 to reflect critical issues that face children, youth, and families, and identify strategies and investments to address those issues.

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

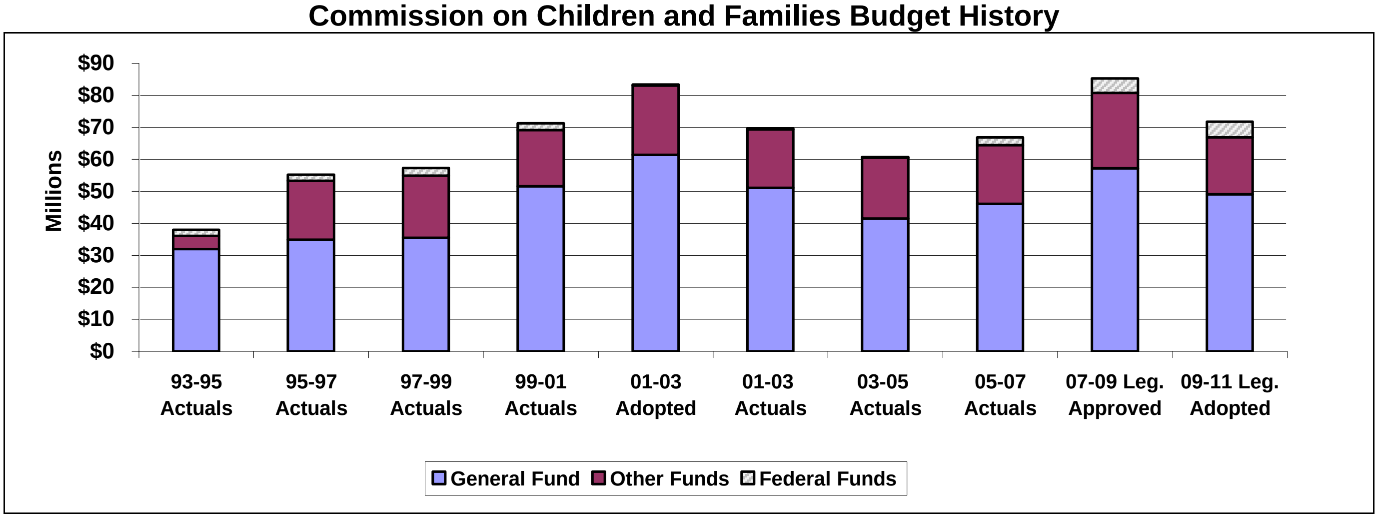
The State Commission distributes state and federal funding to help communities address the priorities identified in the local comprehensive plans. The Local Basic Capacity grant funds local commission staff and overhead, and on-going support for the local coordinated comprehensive plan. The Great Start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

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

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

These added responsibilities have not always been accompanied by increased funding. As the following chart shows, although the Commission's 2001-03 legislatively adopted budget was over $80 million total funds, the budget was later reduced through the 2003-05 biennium. It topped $80 million total funds again only in the 2007-09 biennium, when it included juvenile crime prevention funding that was not part of the Commission's budget in 2001-03. After further reductions, the 2009-11 legislatively adopted budget is 4.9% General Fund less, and only 0.7% total funds more, than the Commission spent in the 1999-2001 biennium, ten years earlier.

Commission on Children and Families Budget History



The reductions earlier this decade affected the Healthy Start home visitation program; locally invested county program funds and local staffing grants; relief nurseries and CASA funding; and funding for community one-call centers and referral lines, physician training, and program evaluation for the Oregon Children's Plan. First Steps violence prevention, family resource centers, and Together for Children programs were eliminated. The 2003 Legislature abolished one-third of the Commission's technical assistance and administrative staff positions. After these actions, the agency's 2003-05 General Fund budget was almost 30% less than its original 2001-03 General Fund budget. A net budget increase in 2005-07 was largely due to the transfer of juvenile crime prevention programs from the Criminal Justice Commission to this agency, and funding for two new relief nurseries. The 2007 Legislature added funding for local commission support, Healthy Start, juvenile crime prevention grants, CASA, relief nurseries, Community Schools and Homeless and Runaway Youth initiatives. However, to rebalance the statewide budget in spring 2009, the 2009 Legislature eliminated $3 million from the Commission's 2007-09 budget in SB 5552, from a combination of personal services savings, use of Other Funds to replace General Fund, unspent county funds, and reductions to local basic capacity and program funding.

Limited program funds and support services have affected both the state Commission's ability to develop its statewide programs as directed by the Legislature, and counties' capacity to carry out their local comprehensive plans. One example is the Healthy Start home visitation program, which provides support for new families during the pre-natal period through age 3. This is the Commission's single largest program, at over $23 million General Fund with matching federal funds at the 2009-11 essential budget level. Previous evaluations of the program have shown that child maltreatment is lower for at-risk families who receive Healthy Start services than for families who do not. However, the Healthy Start program is expected to serve fewer than half of the estimated 18,000 first-birth families in the state each year, rather than the 80% level originally expected by the 2001 Legislature. This is due to both funding levels and a change in program focus over time. The program was originally designed as a "universal" program to offer services to all first-birth families. The 2005 Legislature encouraged the Commission to target state program funds to high-risk first-birth families, with services to low-risk families provided by volunteer services or from other funding sources.

Overall funding for local staffing and planning (the Local Basic Capacity Grant), is about half that of the Healthy Start program. By rule, each local commission is to employ 2.00 FTE to support the local work, but historically state funding has not been enough to pay for 2.00 FTE. Funding was increased in the 2007-09 budget to cover 2.00 FTE for each county, but subsequent budget reductions and rising county costs make it unlikely all commissions will be able to support the 2.00 FTE level in 2009-11.

Juvenile crime prevention grants have been reduced significantly over the past decade. The 2001 Legislature appropriated $17.7 million General Fund for the grants, but that funding has been reduced over time to the extent that program funding is now less than one-half of the original funding level.

Federal law requires juvenile and family courts to appoint a *Guardian Ad Litem* for a child in cases of child abuse or neglect. However, state funding for the CASA program continues to be much less than needed to support CASA volunteers for all eligible children. The $3.2 million total funds in the Commission's budget allow local programs to serve only about one-third of the children and youth who need a CASA volunteer.

Relief nurseries provide comprehensive family services for at-risk families. There are 11 programs operating in eight Oregon counties, with $4.8 million total funds budgeted. Over the past several biennia, the Legislature has consistently added funding to support the start-up of new programs in ready communities, but supporting current program expansions or new program start-ups is difficult in the current budget environment.

Essential Budget Level

The essential budget level for the Commission is $4.8 million General Fund (8.4%) and $3.4 million total funds (4%) more than the 2007-09 legislatively approved budget at the close of the 2009 legislative session. However, the essential budget level does not reflect the 2007-09 budget reductions made in SB 5552 by the 2009 Legislature; the essential budget level was only $1.8 million General Fund (3%) and $375,294 total funds more than the Commission's 2007-09 budget prior to those reductions. The Commission does not have program caseload adjustments, so its essential budget level reflects standard adjustments such as for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. One-time costs approved for data system work and for evaluation of the relief nurseries program during the 2007-09 biennium are not carried forward in the 2009-11 essential budget level.

Legislatively Adopted Budget

Due to statewide revenue constraints, the 2009-11 legislatively adopted budget for the Commission significantly reduces the resources available for the State and local commissions to support children and families. The $49.1 million General Fund and $71.7 million total funds budget is 14.3% General Fund and 15.9% total funds lower than the 2007-09 legislatively approved budget, and 21% General Fund and 19.1% total funds below the 2009-11 essential budget level.

With the exception of the Child Care and Development Fund program, the approved budget preserves all the funding streams and program initiatives within the Commission, although some are at much reduced levels:

- The budget eliminates $3.8 million in Child Care and Development Fund (CCDF) Other Funds that previously supported child care program grants and staff. For the 2009-11 biennium, the CCDF funds will be redirected to the Department of Human Services to support child care expenditures in that agency. This is expected to be a one-time redirection of these funds, with the Commission to again include the CCDF program expenditures in developing its 2011-13 budget.
- The core funding streams for local commission operations and activities – the Children, Youth and Families grant; the Great Start grant; the Youth Investment grant; and the Local Basic Capacity grant – are maintained, but reduced by 15% from the essential budget level. This is a $2.7 million General Fund and $1.1 million Other Funds reduction. The $1.1 million Other Funds reduction is redirected within the Commission's budget to replace General Fund in the Runaway and Homeless Youth program ($600,000), and to replace General Fund distributed to relief nurseries ($463,825).
- The juvenile crime prevention grant is reduced by $1.6 million General Fund, 20% of the program's essential budget level.
- General Fund support for statewide Healthy Start program grants is reduced by $4.6 million General Fund, or 21.5%, from the essential budget level, leaving $16.7 million General Fund in the 2009-11 budget. Given this significant funding reduction, a budget note directs the Commission to work with its partners to look at how the Healthy Start services can be delivered more effectively and at a lower cost. Options could include consolidating delivery at the local level through relief nurseries or other community partners, multi-county operations, State Commission program administration, increased focus on at-risk families, and service cost caps for Healthy Start families. The Commission is to report to the Emergency Board (or Joint Committee on Ways and Means) before January 2010, on this review, any changes proposed or implemented as a result of the review, any expected administrative savings, and the number of Healthy Start families expected to be served within the 2009-11 program funding allocations.
- The Court Appointed Special Advocates (CASA) program and relief nurseries – programs that support children at-risk or in the foster care system – are funded at their 2007-09 levels.
- The Runaway and Homeless Youth and Community Schools initiatives are reduced by a net 25% and 80%, respectively, from the essential budget level. The total $1.2 million General Fund reduction is backfilled in part by $600,000 Other Funds, leaving $100,000 General Fund and $600,000 Other Funds for Runaway and Homeless Youth program grants, and $100,000 General Fund for Community Schools grants.

The adopted budget also reflects a total $2.2 million General Fund reduction in state office support and operating costs, including expected personal services savings from employee furloughs and a statewide salary freeze. The Commission will scale back contracted evaluations for the Healthy Start and juvenile crime prevention programs, with further reductions in Healthy Start program training and other professional services. Other office expenses, publications, training, and travel will also be reduced. The budget continues SB 5552's 2007-09 position reductions into the 2009-11 biennium, eliminating an Executive Support Specialist position (1.00 FTE) and an Information Systems Specialist 6 position (0.50 FTE) in the Policy and Support Services budget unit for General Fund savings. Other position actions eliminate 0.50 FTE of a Program Analyst 2 position for the Community Schools program and 0.50 FTE of an Office Specialist position for General Fund savings. Two positions (1.50 FTE) previously funded with CCDF Other Funds are eliminated, and partial funding (0.25 FTE) for an Office Specialist 2 position is shifted from CCDF Other Funds to General Fund.

It has been ten years since SB 555 (1999) created the Commission system in its current form. A budget note directs the Commission to work with the local commissions, its state agency partners, community stakeholders, and representatives of the Senate, the House of Representatives, the Governor's Office, the Department of Administrative Services, and the Legislative Fiscal Office to review its statutory responsibilities, organizational structure, and potential service and administrative efficiencies at both the state and local level ("shared services"). The Commission is to report back to the 2010 Legislature on this review and its recommendations.

Department of Human Services (DHS) – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	2,707,105,503	3,112,559,523	3,817,475,079	3,457,960,945
Lottery Funds	9,191,451	13,159,004	13,712,288	11,557,611
Other Funds	1,054,749,567	1,311,076,755	962,163,230	1,809,254,005
Federal Funds	4,999,773,629	6,194,122,661	7,533,691,065	8,034,336,690
Other Funds (NL)	31,931,072	40,000,000	40,000,000	40,000,000
Federal Funds (NL)	1,021,155,188	1,355,753,867	2,071,665,182	2,071,665,182
Total Funds	**$9,823,906,410**	**$12,026,671,810**	**$14,438,706,844**	**$15,424,774,433**
Positions	9,525	10,473	10,652	11,469
FTE	9,124.28	9,722.60	10,434.08	10,979.98

Agency Overview

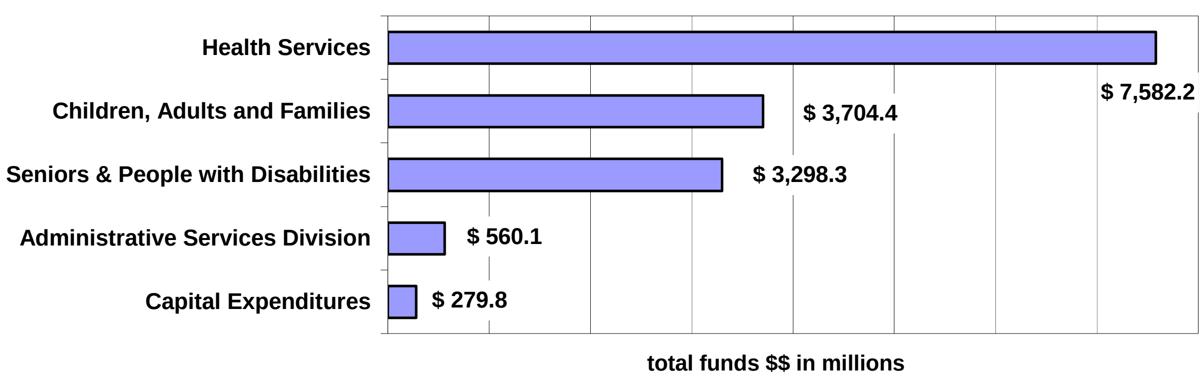
The Department of Human Services (DHS) is the largest agency within the Human Services program area, making up over 98% of total program area expenditures. Overall, DHS' 2009-11 legislatively adopted budget comprises about 24% of the state's combined $14.2 billion General Fund and Lottery Funds budget, and 27% of the state's $55.9 billion total funds budget.

The DHS budget is organized by four program areas:

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

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

The chart below shows how DHS' $15,424.8 million total funds legislatively adopted budget is allocated among these program areas.



Revenue Sources and Relationships

For the 2009-11 biennium, the General Fund supports 22.4% of DHS' budget. Almost all of the General Fund is used as match or to meet state maintenance of effort requirements to receive Federal Funds. The General Fund share of DHS' budget is less in 2009-11 than in recent biennia, largely as a result of increased Federal Funds from the federal American Recovery and Reinvestment Act of 2009 and other one-time fund shifts.

The DHS budget includes $11.6 million of expenditure limitation to allow the use of statutorily dedicated Lottery Funds for gambling addiction prevention and treatment services.

Other Funds revenues support 12% of DHS expenditures. These come from a wide variety of sources including tobacco taxes, Medicaid provider taxes, certificates of participation, grants, the unitary tax assessment, beer and wine taxes, fees, estate collections, child support collections, health care premiums, third party recoveries, pharmaceutical rebates, transferred federal funds from other state agencies, and charges for services. Nonlimited Other Funds come from infant formula rebates in the Women, Infants and Children (WIC) program. Since 2003, health care provider taxes have been a significant source of Other Funds revenue. These taxes are used to support higher Medicaid reimbursement for services as well as benefits for the Oregon Health Plan. The existing hospital and managed care organization (MCO) taxes sunset on September 30, 2009, but the 2009 Legislature approved new hospital taxes, and health insurance premium assessments, through September 30, 2013 (HB 2116).

Overall, Federal Funds support 65.5% of DHS expenditures for the 2009-11 biennium. Federal Funds subject to expenditure limitation are over half of the DHS budget. The largest source of these Federal Funds comes from the Title XIX Medicaid program. Other major Federal Funds revenues include Temporary Assistance to Needy Families (TANF), Foster Care and Adoption Assistance, Child Welfare Services, Social Services Block Grant, Child Health Insurance Program (CHIP), and Basic 110 Rehabilitation funds. Some of these sources are capped block grants (e.g., TANF, Social Services Block Grant); others provide federal matching funds as partial reimbursement of state costs (e.g., Medicaid, Foster Care and Adoption Assistance). Nonlimited Federal Funds are for the Food Stamps and Women, Infants and Children (WIC) nutrition programs.

Budget Environment

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

<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, demand for DHS services increases and program caseloads grow. During the 2007-09 biennium, for example, growth in TANF, Food Stamps, and Oregon Health Plan caseloads put significant pressure on the DHS budget, forcing DHS to take management actions to control costs in its December 2008 plan to balance its 2007-09 budget. At the same time, state revenues were less than originally forecast. Although the caseload forecasts on which DHS' 2009-11 budget is based have attempted to factor in economic conditions projected for the biennium, there is still considerable risk to DHS' budget as demand for its services often continues even as the economy may begin to recover.

<u>Federal Law and Funding</u>

As noted above, federal revenue supports about 65% of DHS' total expenditures. Federal revenue is tied to a significant body of law and federal administrative rules. A number of DHS' programs, such as the Oregon Health Plan (OHP), are governed by waivers of certain federal regulations. The waivers must be approved by federal agencies, with later approvals again if the state wants to make program changes. Federal laws generally require state staff to ensure that federal regulation and policy is carried out consistently or that information management systems are capable of producing federally required reports. Most of the General Fund in DHS' budget is used to match Federal Funds or to meet federal maintenance of effort (MOE) requirements. As a result, General Fund budget reductions often also result in federal revenue reductions, and might jeopardize the state's ability to meet federal match or MOE requirements, thus forfeiting federal funds or incurring penalties.

Federal funding levels are also subject to statutory change or program re-interpretation. For example, human services programs nationally faced a number of proposed federal Medicaid rule changes. Some, but not all, of the rule changes initially proposed to take effect are now expected to be rescinded, but some will result in less federal revenue for state programs. More favorably, the American Recovery and Reinvestment Act of 2009 (ARRA), provided temporary additional federal support for state Medicaid programs and certain other services. The DHS budget must adjust for such changing federal revenue estimates on an on-going basis.

Health Care Cost Inflation and Utilization
The biggest single share of DHS' budget is medical costs. DHS will use $6 billion of its $15.4 billion total funds budget for direct payments to acute health care providers or Medicare premium payments in the OHP, Non-OHP, and CHIP budgets. Health care inflation rates over the last several years have significantly outpaced general economic inflation rates, as well as the rate of state revenue growth. As a result, health care consumes a larger share of the total state budget. The adopted budget assumes a 14% increase in the health care budget for both inflation and higher utilization of services.

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

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

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

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

Essential Budget Level

The calculated essential budget level for DHS – $3,817.5 million General Fund and $14,438.7 million total funds – is $704.9 million General Fund and $2,412 million total funds more than the 2007-09 legislatively approved budget as of the close of the 2009 session. This is a 22.7% General Fund increase and a 20.1% total funds increase. The single most significant factor in the increase is projected growth in caseloads and costs for mandated programs, such as the Oregon Health Plan and long-term care for the elderly and physically disabled. Fund shifts in mandated programs – replacing Other Funds and Federal Funds with General Fund, or vice versa – are made to reflect changes in available revenues, such as tobacco and provider taxes, or federal matching funds. The essential budget level also reflects the net effect of programs phased-in and phased-out during the 2007-09 biennium, the full 24-month cost for employee wage and benefit increases, provider rate increases, and other program enhancements phased-in during the 2007-09 biennium.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget for the Department of Human Services is $3,458 million General Fund and $15,424.8 million total funds. As comparison, DHS' 2007-09 legislatively approved budget at the close of the 2009 session was $3,112.6 million General Fund and $12,026.7 million total funds. The 2009-11 legislatively adopted budget is 11.1% General Fund and 28.2% total funds more than the agency's 2007-09 legislatively approved budget; it is 9.4% General Fund less and 6.8% total funds more than the essential budget level.

Overall, the budget anticipates more than $700 million in one-time revenues – from the ARRA federal stimulus package and provider tax ending balances – that reduce General Fund need for the 2009-11 biennium. This revenue has helped address immediate needs and avoid more significant reductions than those that remain in the budget.

The adopted budget maintains most program services, with significant caseload growth in self-sufficiency programs and the Oregon Health Plan, although some services are capped or reduced. Most program providers will maintain current reimbursement levels, with no cost of living adjustments during the 2009-11 biennium. Reimbursement for Oregon Health Plan providers and nursing home facilities is limited, but still higher than in the 2007-09 biennium. The 2009 Legislature approved major investments in health care for Oregon's children and low-income adults, funded with higher provider taxes on hospitals and health insurance premium assessments.

More detail follows on each of the four major program areas in DHS: Children, Adults and Families; Health Services, which includes the Division of Medical Assistance Programs, the Addictions and Mental Health Division, and the Public Health Division; Seniors and People with Disabilities; and the Administrative Services Division.

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

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	376,609,834	501,669,029	600,787,243	612,705,753
Lottery Funds	9,191,451	13,159,004	13,712,288	11,557,611
Other Funds	31,226,451	34,287,119	35,693,150	35,496,001
Federal Funds	168,726,910	203,139,636	285,244,737	277,014,030
Total Funds	**$585,754,646**	**$752,254,788**	**$935,437,418**	**$936,773,395**
Positions	1,512	1,870	1,862	2,390
FTE	1,437.74	1,592.29	1,818.49	2,100.18

Summary Description

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

Revenue Sources and Relationships

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

Federal Funds revenue of $277 million in the 2009-11 legislatively adopted budget is dominated by Medicaid, which accounts for nearly 80% of the division's federal revenue sources. Medicaid requires a state match and the match rate is recalculated each year by the federal government. The composite Medicaid match rate used in the adopted budget for 2009-11 for program expenditures is approximately 30% state funds and 70% Medicaid funds. This reflects the enhanced match rate included in the federal American Recovery and Reinvestment Act (ARRA). (Medicaid staffing expenditures, such as those in program support or administration are generally funded with half state funds and half Federal Funds.) Other federal revenue sources include the community mental health services block grant, the substance abuse treatment and prevention block grant, and a modest amount of Temporary Assistance for Needy Families (TANF) funds.

Budget Environment

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

Essential Budget Level

The modified essential budget level of $935.4 million total funds is about $183.1 million, or 24%, higher than the 2007-09 legislatively approved budget of $752.3 million. General Fund supporting the modified essential budget level is $99.1 million, or 20%, higher than the 2007-09 legislatively approved budget. The increases are largely the result of adding a full biennial cost for community-based facilities that were developed during the 2007-09 biennium, inflationary costs including medical inflation for several expenditure categories at the state hospital, and the cost of anticipated caseload growth in community-based treatment programs. The modified essential budget level also includes full biennial costs of new positions that were added to the Oregon State Hospital by the Emergency Board; it includes a $21.4 million Federal Funds offset to General Fund that resulted from a higher enhanced Medicaid match rate that is part of the ARRA.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget is $612.7 million General Fund and $936.8 million total funds. This total funds budget is about equal to the modified essential budget level for the 2009-11 biennium, but about

24.5% higher than the 2007-09 legislatively approved budget through the end of the 2009 legislative session. (The increase is slightly lower than the 28.4%increase from the 2005-07 biennium to the 2007-09 biennium.)

The significant budgetary increase from the 2007-09 biennium to the 2009-11 biennium is the result of four main factors. First the increase reflects a higher forecast of community-based caseloads, and it includes the costs for full biennium of community-based treatment facilities that were added over the course of the 2007-09 biennium. Second, the 2009-11 adopted budget includes the costs of higher staffing levels at the Oregon State Hospital – both the full biennial cost of 190 positions that were added by the Emergency Board in June and September, 2008, as well as 527 positions that will be added throughout the 2009-11 biennium. The staffing enhancements at the Oregon State Hospital are part of a comprehensive plan to improve care for hospital patients by constructing new hospital facilities in Salem and Junction City, and to respond to a critical U.S. Department of Justice review of hospital procedures, reported in January 2008. Third, the legislatively adopted budget reflects several reductions to programs including the elimination of cost-of-living increases for various mental health service providers. Fourth, the budget reflects the effects of proposed statewide personal services actions which are expected to reduced the AMH budget by about $9.9 million total funds ($7.9 million General Fund).

AMH – Special Payments

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	363,077,873	483,872,297	582,031,213	595,029,954
Lottery Funds	7,492,224	10,029,936	10,824,774	9,080,313
Other Funds	29,646,742	31,596,248	33,310,942	33,195,497
Federal Funds	158,277,252	194,485,337	276,810,158	269,203,215
Total Funds	**$558,494,091**	**$719,983,818**	**$902,977,087**	**$906,508,979**
Positions	1,383	1,750	1,728	2,255
FTE	1,315.65	1,475.00	1,687.45	1,968.14

Program Description

Mental health services are provided to people who have been clinically diagnosed as having a serious mental or emotional disorder. Illnesses include schizophrenia, bipolar disorder, and major depression. Diagnosed individuals often have a normal to high measured intelligence, but people with developmental disabilities also may have a mental illness. Medicaid-eligible persons receive mental health diagnoses and treatment under the Oregon Health Plan. Mental health organizations receive capitation payments and manage much of the risk of providing treatment for Oregon Health Plan (OHP) eligible persons with mental disorders. A substantial amount of OHP mental health and addiction service capitation expenditures and some fee-for-service payments are included in the Division of Medical Assistance Programs (DMAP).

The Mental Health and Addiction Services program is comprised of three main cost centers: community mental health, alcohol and drug treatment and prevention, and the Oregon State Hospital (OSH) and Eastern Oregon Psychiatric Center (EOPC), or Blue Mountain Recovery Center. The FTE associated with this budget are state employees who work at the OSH or EOPC.

Community Mental Health

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

Addiction Treatment and Prevention

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

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

Revenue Sources and Relationships

Funding for mental health and alcohol and drug treatment programs is about 66% General Fund, 5% Other Funds and Lottery Funds, and 29% Federal Funds. Most of the federal funding comes from Title XIX Medicaid, which supports institutional care for some elderly patients and community mental health services. The Title XIX federal match rate is, as noted above, about 70% for program services and 50% for administration. The program match rate is based on the economy of the state compared to the nation as a whole, as well as, in the 2009-11 biennium, the ARRA enhanced Medicaid rate. In addition to Title XIX Medicaid funding, the federal Alcohol and Drug and Mental Health Services Block Grants provide about $45 million for adult community support services and for local services for severely emotionally disturbed children and adolescents. Both the federal Alcohol and Drug and Mental Health Services Block Grants have maintenance of effort (MOE) requirements.

Other Funds revenues are also received from patient resources, beer and wine tax receipts, Lottery Funds for the prevention and treatment of gambling addictions, and earnings for patient work. The adopted budget includes a Lottery Funds expenditure limitation of $9.1 million to fund the Gambling Addiction and Treatment Program. The Gambling Addiction and Treatment Account receives 1% of net lottery proceeds. Other Funds revenue also consists of patient resources including Social Security benefits and private insurance, as well as personal assets.

Budget Environment

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

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

Despite this trend, the state’s recession from 2001-04 had a drastic and deleterious impact on Oregon’s mental health system. The Oregon Health Plan Standard program which served just over 100,000 persons in January 2003 was closed in July 2004 and today stands at about 25,000. Capitation payments to mental health organizations under the Standard program plunged, and hundreds of mental health workers in community-based organizations were laid off. As a result, hospital emergency rooms and county correctional facilities saw increases in the number of persons with mental disorders they had to serve or incarcerate, respectively.

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

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

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

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

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

As a more recent backdrop to all of this, the U.S. Department of Justice (USDOJ) conducted a review of the OSH under the Civil Rights of Institutionalized Persons Act (CRIPA) and issued a highly critical report in January 2008. The USDOJ found deficiencies in five general areas: adequately protecting patients from harm, providing appropriate psychiatric and psychological care and treatment, appropriate use of seclusion and restraint, providing adequate nursing care, and providing discharge planning to ensure placement in the most integrated settings. The Legislature assembled a joint OSH Oversight Committee which met throughout 2008 to investigate hospital procedures and to hear how DHS was responding to the USDOJ report findings. A new OSH superintendent was appointed and the Legislature set aside $6.7 million General Fund during the February 2008 special session to hire additional OSH staff. These funds were allocated by the Emergency Board in June and September 2008 when DHS reported on its efforts to hire more staff and to improve treatment and living conditions at the OSH. These efforts will continue into the 2009-11 biennium with the addition of 527 more positions at the OSH.

Essential Budget Level

The 2009-11 modified essential budget level for AMH programs of $903 million total funds is $183 million, or about 25%, higher than the 2007-09 legislatively approved budget. The General Fund budget is $582 million and is $98.1 million, or about 20% higher, than the 2007-09 legislatively approved budget. The increases are primarily the result of five factors:

- Added a full biennial cost for community-based facilities that were developed during the 2007-09 biennium; and, therefore, only partially funded.
- Provided cost of living increases including medical inflation for a number of the budget categories at the OSH.
- Included funding for anticipated caseload growth in community-based programs.
- Added full biennial funding for OSH staffing increases that were approve in June and September 2008 by the Emergency Board.
- Included a Federal Funds offset of $21.4 million to General Fund that will occur because of the enhanced Medicaid match rate established in the American Recovery and Reinvestment Act.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $906.5 million total funds is about equal to the modified essential budget level. General Fund of $595 million, however, is about $13 million, or 2%, higher than the modified essential budget level General Fund of $582 million. The total funds adopted budget is significantly higher than the 2007-09 legislatively approved budget at the close of the 2009 legislative session – about $186.5 million higher. The adopted General Fund budget of $595 million is $111.1 million higher the 2007-09 legislatively approved General Fund budget amount.

The 2009-11 adopted budget is higher than the 2007-09 approved budget for the reasons listed above in the description of the modified essential budget level. The modified essential budget level was, in turn, changed in five main ways to derive the 2009-11 adopted budget. These five adjustments are listed below

- Eliminated funding for provider cost-of-living increases ($10.4 million General Fund and $17.7 million total funds reductions).
- Reduced funding for supported employment services by $1 million General Fund.
- Reduced alcohol and drug prevention programs by $2.5 million General Fund. This amount is net of adding $0.5 million for the Oregon Partnership suicide prevention hotline program.
- Added $36.1 million total funds ($35.2 million General Fund) to increase Oregon State Hospital staffing, by adding 527 positions (280.69 FTE).
- Reduced the budget to account for statewide personal services actions by $8.8 million total funds ($7.1 million General Fund). The Legislative Fiscal Office believes that much of this General Fund reduction was calculated using Oregon State Hospital staffing costs. Any staff furlough savings at the hospital, however, are probably illusory because staff must provide continuous and ongoing coverage at the hospital.

AMH – Program Support and Administration

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	13,531,961	17,796,732	18,756,030	17,675,799
Lottery Funds	1,699,227	3,129,068	2,887,514	2,477,298
Other Funds	1,579,709	2,690,871	2,382,208	2,300,504
Federal Funds	10,449,658	8,654,299	8,434,579	7,810,815
Total Funds	**$27,260,555**	**$32,270,970**	**$32,460,331**	**$30,264,416**
Positions	129	120	134	135
FTE	122.09	117.29	131.04	132.04

Program Description

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

Revenue Sources and Relationships

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

Essential Budget Level

The modified essential budget level of $32.5 million total funds ($18.8 million General Fund) is about 1% higher than the 2007-09 legislatively approved budget of $32.3 million total funds. While the budget includes funding for caseload increases and inflationary costs, it also removes $425,000 General Fund that had been included in the 2007-09 biennium for a community mental health assessment ($150,000) and the Children's Wraparound Project ($275,000). The essential budget also reflects a $1.4 million General Fund transfer of costs associated with the development of secure community-based residential treatment facilities from this budget unit to the AMH program budget.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget for AMH program support and administration is about $30.3 million total funds ($17.7 million General Fund). This is $2.2 million less than the modified essential budget level and $2 million total funds less than the 2007-09 legislatively approved budget at the close of the 2009 legislative session. The adopted budget includes reductions of personal services and services and supplies of 4% and 2%, respectively.

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

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	457,592,052	566,195,150	705,181,508	670,631,655
Other Funds	125,400,369	148,525,750	129,432,052	141,192,856
Federal Funds	748,829,958	879,889,708	827,379,800	923,621,589
Federal Funds (NL)	933,881,972	1,253,024,816	1,968,936,131	1,968,936,131
Total Funds	**$2,265,704,351**	**$2,847,635,424**	**$3,630,929,491**	**$3,704,382,231**
Positions	4,161	4,404	4,680	4,961
FTE	4,027.96	4,215.70	4,601.28	4,827.01

Summary Description

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

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

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

CAF is also responsible for qualifying individuals and families for the Oregon Health Plan (OHP), in coordination with the Department of Human Services' Division of Medical Assistance Programs. During 2008, CAF staff determined OHP eligibility for about 400,000 low-income Oregonians.

The primary focus of the Self-Sufficiency programs is to meet immediate critical needs for low-income families while helping them become independent of public assistance. The key programs are the Supplemental Nutrition Assistance Program (Food Stamps), Temporary Assistance for Needy Families (TANF) including Job Opportunity and Basic Skills (JOBS) services, Employment Related Day Care, Refugee Assistance, and Prevention Services. In 2008, an average of 250,000 Oregon households received food stamps each month; 36,751 families received TANF program benefits; and more than 18,500 families received child care assistance. Refugee resettlement services were provided to over 800 refugees.

Child welfare programs include child protective services, substitute care, and adoptions. Child protection and treatment programs serve children across the state who have been abused or neglected, or those whose families are unable to provide their basic care. In federal fiscal year 2008, CAF received 65,460 reports of suspected child abuse and neglect. The primary goal is to enable families to provide a safe home for their children with in-home supports, education, and treatment, if needed. However, 13,965 children spent time in foster care in 2008. When children cannot be kept safely at home or returned home safely from foster care, the secondary goal is to find permanent alternative families for children through adoption or other efforts.

The Office of Vocational Rehabilitation Services administers Rehabilitation Services, the Youth Transition Program, Supported Employment Services, and the Independent Living Program. The programs served 14,691 individuals in federal fiscal year 2008, with 2,604 individuals placed in employment.

Revenue Sources and Relationships

For 2009-11, General Fund supports about 18% of this budget; Other Funds, about 4%; and Federal Funds, about 78%. The Federal Funds share is higher than in the past due to unprecedented growth in Food Stamps benefits, and one-time revenue from federal stimulus legislation (the American Recovery and Reinvestment Act of 2009, or ARRA). The federal stimulus impact for the 2009-11 biennium includes $75 million in TANF funds, $10.7 million in additional federal funds from temporary enhanced federal match rates for Title XIX Medicaid and Title IV-E Foster Care and Adoptions Assistance programs, and $6.2 million in Basic 110 Vocational Rehabilitation funds. This federal stimulus funding is not expected to be available for 2011-13 and later biennia.

The major source of CAF's Other Funds is $91 million in federal Child Care and Development Funds transferred from the Employment Department for CAF's Employment Related Day Care Program. For the 2009-11 biennium, an additional $3.8 million in CCDF funds will be transferred as a one-time supplement to support increased program expenditures. The budget also includes child support recoveries and client trust account funds from client resources, such as federal Supplemental Security Income disability payments. These are used to offset state assistance and maintenance costs for children in care. Other overpayment recovery revenues are also used to offset General Fund. CAF receives Criminal Fines and Assessment Account revenues to support grants for Domestic Violence Services and the Sexual Assault Victims Fund. Domestic Violence Services also receives Other Funds from a surcharge on marriage licenses, and federal funds. User fees cover the costs of the Adoption Assisted Search Program and Independent Adoption Home Studies. Law Enforcement Medical Liability Account revenues come from local bails and court fines transferred to the program.

Nonlimited Food Stamps benefits are the single largest source and use of federal funds in CAF. Food Stamps benefits, which are 100% federally funded, are projected at $2 billion for the 2009-11 biennium. This is up 57.2% from the 2007-09 biennium, and is more than double the 2005-07 biennium level. Federal funds also help pay for program administrative costs, on a 50% state/50% federal basis.

Other Federal Funds come from capped or formula-based block grants, payments for partial reimbursement of eligible state costs, and miscellaneous grants for specific amounts and purposes. Oregon receives $166.8 million a year from the federal TANF block grant, which pays for cash assistance, JOBS services, child care, and other self-sufficiency programs, as well as child welfare services such as foster care and residential care. The Title XX Social Services Block Grant (SSBG) is estimated at about $41 million for the biennium. Another federal source is the Title IV-B Safe and Stable Families (Family Preservation and Support) grant, estimated at $17 million for 2009-11. CAF uses these funds in its own budget to pay for family reunification work and post-adoption services. CAF will transfer about $14 million in federal funds to the State Commission on Children and Families for grants to counties, relief nurseries, and the Healthy Start program.

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

The federal government partially reimburses eligible state program costs through Title XIX Medicaid and Title IV-E Foster Care and Adoption Assistance. Medicaid funding is used for case management services, special rates for some children in foster care, residential treatment, and related administrative services. Title IV-E funding is used for child welfare services, adoption assistance, and related administrative costs. Federal reimbursement for the programs vary with federal match rate changes, the number of children served, and eligibility of the services provided. Oregon's base federal match rate is about a 60% federal share for program costs, and 50% for administrative costs. As noted above, ARRA provides a temporarily enhanced federal match rate, so 2009-11 program funding will average about 30% state and 70% federal. As in the past, there are continuing revenue risks from federal legislation, budget actions, and regulatory changes by the Centers for Medicare and Medicaid Services (CMS).

CAF expects to receive about $9.9 million in federal Refugee Resettlement funds to pay for refugee program and administrative expenditures. In addition, CAF uses about $3.9 million of TANF funds for the refugee program. Other federally designated grants support family violence prevention, child abuse prevention and treatment, and other targeted services.

Budget Environment

Demand for many of the services provided by CAF increases in poor economic times. Although some of the federal funding that supports CAF's programs is essentially uncapped if state matching funds are available – e.g., Foster Care and Adoption Assistance payments – federal funds supporting TANF, child care, and vocational rehabilitation programs are capped. This creates a significant budget challenge to continue services and programs if state General Fund is not available to cover the higher costs. During 2007-09, CAF made efforts to improve its operations and trim administrative costs, but also reduced eligibility for TANF cash assistance, and limited access to TANF JOBS services and to vocational rehabilitation services, to help balance its budget.

Self-Sufficiency Programs

The passage of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) repealed the Aid to Families with Dependent Children (AFDC) program and combined those funds with several child care and training programs into the Temporary Assistance for Needy Families (TANF), a capped block grant. Congress reauthorized the program through 2010 in the Deficit Reduction Act of 2005. New federal regulations took effect October 1, 2006 (the start of federal fiscal year 2007). The 2007 Legislature adopted legislation to restructure Oregon's TANF program to address the new federal regulations.

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

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

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

Child Welfare Services

Resources have been added in recent years to improve staff training, case planning, federal reporting, and services for older youth, but Oregon's child welfare system continues to be challenged. In 2008, reports of suspected child abuse and neglect were again up significantly, although, for the second year in a row, fewer victims were reported than in the previous year. Younger children continue to be at greater risk of abuse and neglect. The largest single age group of victims of abuse or neglect is under one year old, with almost half of the victims age 5 or younger. Families of abused and neglected children often face multiple stressors such as alcohol and drug abuse, law enforcement involvement, unemployment, and domestic violence. The large number of young victims, combined with the intensity of family problems, results in very complex cases that are difficult and costly to resolve.

DHS uses a "strengths/needs-based" practice, which emphasizes keeping children in their immediate families or with extended relatives, when possible. When children cannot remain safely at home, however, they enter foster care. In federal fiscal year 2008, 4,557 children entered foster care, and 4,907 left. This is the third year in a row in which more children left foster care than entered. As of September 30, 2008 (the last day of the federal fiscal year), 9,058 children were in foster care. Almost 60% of children leaving foster care in 2008 were reunited with their parents. Others left foster care for adoption or other permanent arrangements.

Vocational Rehabilitation Services

Increased demand for vocational rehabilitation services, combined with cost escalation in services such as tuition, books, rehabilitation technology, assistive devices, and medical services, has put significant pressure on Oregon's budget. Funding increases at the federal and state level are generally limited to inflationary adjustments because these services are not considered as an "entitlement" for which increased funding is a given. These adjustments have not been adequate to serve all those in need of services. Oregon's program is now in an Order of Selection, which gives highest priority to those persons with the most severe disabilities, while others are put on a wait list for services.

Essential Budget Level

The essential budget level (EBL) for the Children, Adults and Families Division, modified for the spring 2009 caseload forecast and reprojected revenues, is $705.2 million General Fund and $3,630.9 million total funds. This is $139 million (24.6%) General Fund and $783.3 million (27.5%) total funds higher than the 2007-09 legislatively approved budget through the close of the 2009 session. The significant General Fund increase includes program phase-ins, inflationary adjustments, mandated caseload increases, and the use of General Fund to backfill Federal Funds not available in the 2009-11 budget period for certain mandated program. The even more significant total funds increase also reflects an additional $715.9 million Nonlimited Federal Funds above the 2007-09 level for the Food Stamps program, and $16.9 million Federal Funds in ARRA stimulus funds.

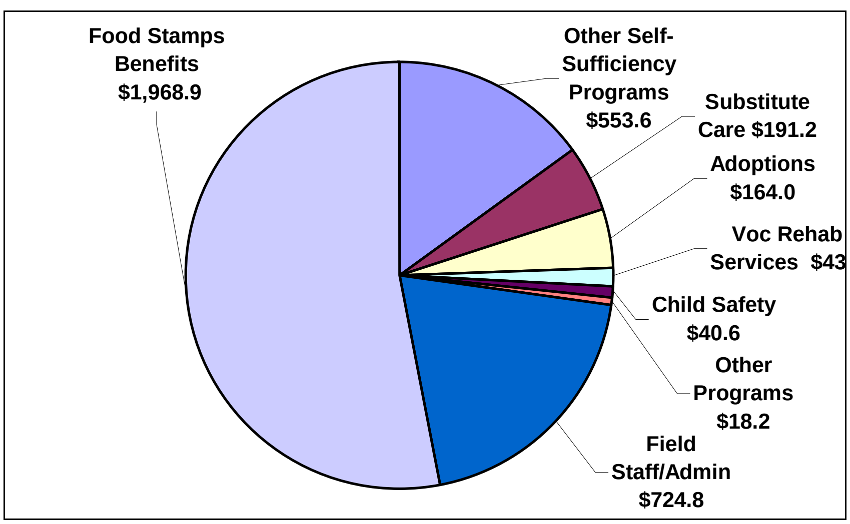
By definition, the essential budget level includes funding to support expected caseload growth or replace Federal Funds revenue shortfalls in mandated programs, such as substitute care and adoptions assistance. The EBL calculation includes mandated caseload costs and fund shifts for Food Stamps, substitute care and adoptions programs, and related staffing costs. It does not include funding to cover caseload growth or revenue shortfalls for non-mandated programs, such as TANF, some child safety programs, or vocational rehabilitation services. These issues are treated separately from the EBL budget discussion.

Legislatively Adopted Budget

CAF's 2009-11 legislatively adopted budget is $670.6 million General Fund and $3,704.4 million total funds. This is 18.4% General Fund and 30.1% total funds higher than the 2007-09 funding level; it is 4.9% General Fund less and 2% total funds more than EBL. The chart below shows how the CAF budget is distributed by program area.

Nonlimited Federal Funds for Supplemental Nutrition Assistance Program (Food Stamps) benefits make up more than half of CAF's total budget. At almost $2 billion, the payments for the 2009-11 biennium are expected to be 57.1% higher than the 2007-09 biennium level, and more than double the 2005-07 biennium level.

Children, Adults and Families
2009-11 Legislatively Adopted Budget
(Total Funds $$ in millions)



The legislatively adopted budget uses $74.9 million in federal TANF stimulus funds to support the TANF Basic and Unemployed Two-Parent programs, and maintain other related services. However, the combination of increasing caseloads and capped federal funds drives a number of reductions in TANF program eligibility, post-TANF payments, and JOBS employment and training services. The budget continues the Employment Related Day Care program eligibility and client co-payment changes implemented late in the 2007-09 biennium. It also anticipates $25.6 million General Fund savings from limiting the program, effective July 2010, to families who have been on TANF within the past 24 months of application for day care assistance, leaving other low-income working families without help with child care costs.

The 2009-11 budget adds $13.4 million General Fund and $30.8 million total funds to restructure reimbursement rates for foster care and adoptive families, and $8.9 million General Fund and $14.6 million total funds for 130 new child welfare program positions. Funding for one-time foster care payments and selected medical services for children or parents of children in DHS' custody will be reduced by half ($6.4 million General Fund).

The budget also adds $2.2 million General Fund for the vocational rehabilitation services program to fully match expected federal funding. However, the program will remain in an Order of Selection for the 2009-11 biennium, with a wait list for serving clients, since demand for services is expected to continue to exceed available funding.

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

CAF Programs – (Special Payments Only)

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	227,050,539	288,087,783	331,494,240	321,514,745
Other Funds	106,781,192	135,176,962	116,603,492	119,830,058
Federal Funds	436,629,995	521,371,819	491,347,117	569,284,067
Federal Funds (NL)	933,881,972	1,253,024,816	1,968,936,131	1,968,936,131
Total Funds	**1,704,343,698**	**2,197,661,380**	**2,908,380,980**	**2,979,565,001**

Program Description

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

- The *Supplemental Nutrition Assistance Program* (*Food Stamps)* is a federally funded benefit program to help low-income families, single adults, and childless couples buy the food they need to stay healthy. In July 2009, about 625,000 persons – about 1 in 6 Oregonians – received food stamp benefits. The benefit costs are included in the Self-Sufficiency budget as Nonlimited Federal Funds; eligibility determination staff costs are part of the Program Support and Administration budget as limited expenditures.

- *Temporary Assistance to Needy Families (TANF)* provides cash assistance grants, which, when coupled with food stamps, supplies minimal support for families with children under the age of 19 that meet eligibility criteria. Income qualification and benefit amounts are based on family size and expenses. A family of three must have income under $616 per month to qualify, with limited cash resources. Beginning July 2007, the maximum monthly benefit for a family of three was $528. TANF also provides Job Opportunity and Basic Skills (JOBS) education, training, job placement, and support services; post-employment payments to help families transition to work; temporary financial assistance and support services for Domestic Violence survivors; services to families eligible for Supplemental Security Income or Supplemental Security Disability Income (pre-SSI/SSDI); and Family Support and Connections services to help families at risk of child abuse or neglect.

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

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

- *Youth Services* support teen pregnancy prevention and other youth development initiatives related to juvenile crime, drug and alcohol use, youth suicide, school drop out, and education programs.

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

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

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

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

Other Programs include a compilation of programs, services, and grants. The Law Enforcement Medical Liability Account (LEMLA) pays for medical services for persons injured by police as a result of law enforcement apprehension. This budget also covers payments to the Employment Department for the Office of Administrative Hearings, and transfers of federal Title XX Social Services Block Grant (SSBG) funds to the State Commission on Children and Families for its Youth Investment Program grants to counties and relief nurseries funding. DHS also passes through SSBG and Title IV-E Foster Care funds to Oregon's Native American tribes for child welfare services for Native American youth.

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

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

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

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

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

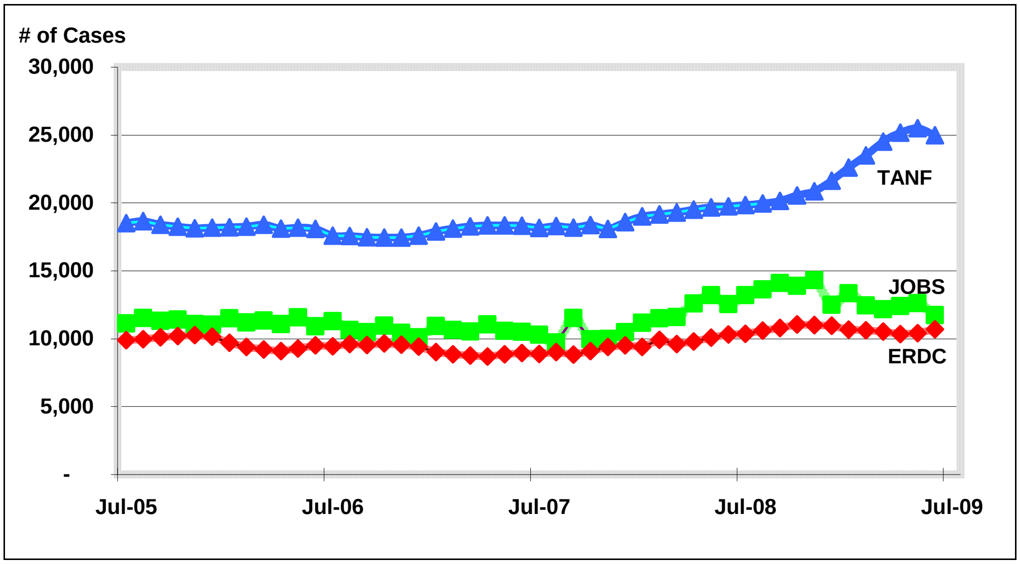
Budget Environment

Self-Sufficiency Programs

The number of families receiving TANF cash assistance has declined dramatically since the mid-1990s. As Oregon's economy weakened at the start of this decade, however, cash assistance caseloads increased, and since July 2007, caseloads have continued upwards at an even higher rate. JOBS program services and day care subsidies can help families reduce or end their need for cash assistance, but funding for these programs was reduced earlier this decade due to state revenue constraints and other human services caseload growth, and caseloads dropped. The 2007 Legislature approved significant additional investments in JOBS and the Employment Related Day Care program as part of the TANF program restructuring. However, the economic downturn has put upward pressure on Food Stamps and TANF cash assistance caseloads, requiring program staff to focus more on eligibility and benefits than on longer-term supports to help families become self-sufficient, and constraining funding available for JOBS and ERDC.

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

TANF, JOBS, ERDC Caseloads
July 2005 through June 2009



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

With federal TANF reauthorization, Oregon restructured its program to both meet federal requirements and achieve better outcomes for the very low-income families with children who receive TANF services. The 2007 Legislature passed HB 2469 to implement the new program, and added $14.6 million General Fund and $16.9 million in federal TANF funds to CAF's budget for the restructured program. The basic design of the program includes "Pre-TANF" screening and evaluation with supportive services to meet basic needs, on-going TANF services, post-employment TANF supports, and "state-only" programs to qualify eligible families for Social Security disability benefits, and support two-parent families. Initial reports showed higher work participation rates and improved employment outcomes, but cash assistance caseloads and JOBS services costs were significantly higher than expected for the 2007-09 biennium. In December 2008, DHS advised the Emergency Board that, as part of the Department's budget rebalance plan, it would take management actions to curtail $7.4 million in projected JOBS costs to keep the program within budget for that biennium. Further program limits were imposed for the 2009-11 biennium.

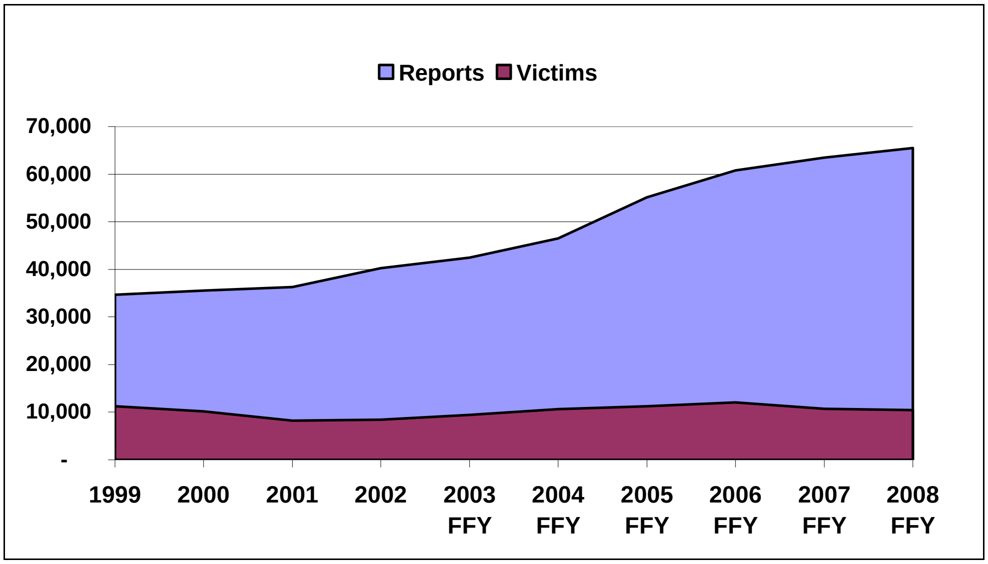
After several biennia of program reductions, the 2007 Legislature added $26.9 million General Fund and $13 million in federal TANF funds to improve funding for the Employment Related Day Care program. This restored program eligibility for families up to 185% of the federal poverty level, reduced client co-payments, and increased maximum child care provider payment levels to the 75th percentile of the 2006 market rate, effective October 2007.

The Department of Human Services' spring 2009 caseload forecast projects the total number of Food Stamps households to average 328,628 a month, up 29% from the average 254,832 households in the 2007-09 biennium. The TANF cash assistance forecast is at 25,234 average cases monthly for 2009-11, a 23.6% increase from the 2007-09 biennium average. Monthly caseloads for Employment Related Day Care (ERDC) are forecast at 11,616 families, 15.8% more than the 10,032 monthly average in 2007-09. This forecast is the basis for the updated 2009-11 essential budget level calculation, but it does not reflect any impact from program limits, eligibility restrictions, or service level reductions imposed late in the 2007-09 biennium or planned for the 2009-11 budget.

<u>Child Welfare Services</u>
In federal fiscal year (FFY) 2008, CAF received 65,460 reports of suspected child abuse or neglect, continuing a trend of increased reports since 1996. The number of victims, however, decreased about 3% from the prior year,

to 10,421; this is about 1.2% of the state's estimated 872,602 children aged 0 to 18. As the following graph shows, the number of reports has almost doubled in the past ten years, while the number of victims in FFY 2008 is actually about 7% lower than the number of victims in 1999.

Child Abuse/Neglect Reports and Victims



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

Foster care placements continue to trend downwards: the spring 2009 caseload forecast projects foster care and other out-of-home care will decrease by about 7% (from 8,315 average monthly cases to 7,710 cases), with child in-home cases up slightly. In FFY 2008, 13,965 children spent at least one day in foster care, significantly fewer than the year before. Family foster care is the primary setting, with 4,735 foster families as of September 30, 2008. Although 1,877 new foster homes were certified during the year, the total number of family foster homes dropped about 3% from 2007. About 37% of the children placed in family foster care are placed with relatives.

Families and other foster care givers receive partial reimbursement for the cost of room and board, clothing, school, and personal items for foster children. The rates were reduced 7.5% during the 2001-03 biennium as a cost-saving measure, but were restored to prior levels in November 2003. Through the 2007-09 biennium, subsequent adjustments were limited to standard inflationary increases. As a result, Oregon's reimbursement level fell behind other states, and for 2007-09 Oregon's base rate for foster family financial support was in the lower 25% nationally. Many children in foster care require additional special rates payments, based on emotional, behavioral, mental, or physical problems that require special services for the children and increased skills and supports for foster parents and caregivers. Children in foster care also are eligible for physical and mental health services through the Oregon Health Plan, funded in the Division of Medical Assistance Programs.

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

The Adoptions Program provides adoption and permanent guardianship options for children in foster care who are unable to safely return to the care of their biological parent(s). The number of adoptive placements increased greatly from 1999 through 2002, reaching a peak of 1,118 finalized adoptions in federal fiscal year

2002, due to federal Adoptions and Safe Families Act deadlines to place a "backlog" of children who had been in foster care. During federal fiscal year 2008, 1,053 adoptions were finalized, up about 5% from the 995 finalized in 2007. An additional 316 children left foster care for a guardianship arrangement, about 5% fewer than the 334 guardianship placements in the previous year. The combined total of adoptions and guardianship placements in 2008 – 1,369 – was 3% more than the combined total of 1,329 in 2007.

In almost all cases, children placed receive adoption or guardian assistance payments and medical coverage to provide for their special needs. This program budget continues to grow due to both the increasing number of new adoptive and guardianship arrangements, and the cumulative nature of the caseload based on continued payments until the children "age out" at age 18. The spring 2009 caseload forecast projects Adoption Assistance and Subsidized Guardianship will grow from a combined average of 11,378 cases in 2007-09 to 12,751 cases in 2009-11, a 12% caseload increase.

Other Programs

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

LEMLA program expenditures are variable, and, over time, program revenues may build up in excess of projected costs. In 2005, the Legislature redirected $0.8 million in LEMLA funds to offset General Fund expenditures elsewhere in the Department of Human Services. This was done as a revenue transfer and does not affect this budget's expenditures. DHS advised the Emergency Board in December 2008 that it proposed to redirect $1 million in LEMLA funds as part of its 2007-09 budget rebalance plan, subject to passage of needed legislation during the 2009 session. The 2009 Legislature enacted the transfer as part of SB 581.

Vocational Rehabilitation Services

Almost all of the clients (about 89%) who receive vocational rehabilitation services have severe disabilities which require a broad array of services. The severity of the disabilities, and the extent of the services needed to correct or address the disabilities, increase the cost and difficulty of rehabilitation and employment. For 2008, the Office of Vocational Rehabilitation Services provided services to 14,691 individuals, down 11.8% from the 16,650 served during 2007. Oregon's economic downturn has also made it more difficult to place clients, making fewer jobs available and increasing competition for jobs that are available. The program helped 2,604 people achieve employment in 2008, down 9.3% from the 2,871 who achieved employment in 2007.

The spring 2009 forecast for vocational rehabilitation suggests an average 9,736 monthly clients for the 2009-11 biennium, compared to 9,225 clients during the 2007-09 biennium. This is a projected 5.5% caseload increase. This number, however, is not adjusted for the impact of recent budget constraints.

For the past two decades, federal funding for vocational rehabiliation services has been generally flat, with only cost-of-living adjustments. This has not kept pace with the increased costs and demands for services. State budget resources have not been able to fill the gap. General Fund reductions in the 2001-03 and the 2003-05 budgets were followed by a shortfall in one-time Federal Funds which had been expected to be available for the 2005-07 budget. This shortfall, and a budget reduction approved for the 2007-09 biennium, left the program far short of meeting caseload demand. In June 2008, the Emergency Board allocated more General Fund to the program, to be matched with federal funding from other states' unused allocations, but Oregon received only $0.2 million of the $8.7 million it expected. In January 2009, the program implemented an Order of Selection, which mandates services to the most severely disabled individuals first, to manage within its current budgeted resources for the rest of the 2007-09 biennium. Individuals who cannot be served are put on a wait list.

Essential Budget Level

The modified essential budget level for CAF Programs is $331.5 million General Fund and $2,908.4 million total funds. This is $43.4 million (15.1%) General Fund and $710.7 million (32.3%) total funds higher than the 2007-09 legislatively approved budget. A $715.9 million increase in Nonlimited Federal Funds for Food Stamps is the largest single factor in the total funds budget increase. EBL also reflects standard cost-of-living increases for clients and providers; expected caseload changes in foster care and adoptions programs; and fund shifts in federal Medicaid and Foster Care and Adoption Assistance matching rates. The ARRA stimulus match rate changes reduce General Fund need by $10.7 million; a separate ARRA allocation of Basic 110 Vocational Rehabilitation funds adds $6.2 million Federal Funds. The EBL budget also reflects the full 24-months cost of investments phased-in during the 2007-09 biennium for TANF reauthorization, child care improvements, and child foster care relative caregiver reimbursements. However, the EBL calculation does not cover projected caseload growth or revenue shortfalls for non-mandated programs, such as TANF or vocational rehabilitation services. As a result, EBL understates the 2009-11 cost to continue these programs at their current service level.

Legislatively Adopted Budget

At $321.5 million General Fund, the legislatively adopted budget for CAF Programs is 11.6% higher than the 2007-09 legislatively approved General Fund budget, but 3.1% below the General Fund modified essential budget level. The $2,979.6 million total funds budget is 35.6% higher than the 2007-09 legislatively approved total funds budget, and 2.4% higher than the total funds EBL. Food Stamps benefits, at $1,968.9 million, make up almost two-thirds of the CAF Programs total funds budget; as discussed above, the $715.9 million increase in Food Stamps benefits between 2007-09 and 2009-11 is the most significant budget driver in CAF programs.

TANF cash assistance caseloads are expected to continue to climb for 2009-11, and the federal TANF block grant remains capped. The 2009-11 budget uses $74.9 million in one-time federal TANF stimulus funds to support the TANF Basic and Unemployed Two-Parent programs, and maintain other related services, but reflects other program reductions in TANF program eligibility, post-TANF payments, and JOBS employment and training services. These reductions include:

- Continue the TANF "job quit" penalty put in place as part of 2007-09 biennium reductions
- Continue reduced Post-TANF payments at $100 per month until October 2010, when payment will be further reduced to $50 per month
- Continue the 185% of federal poverty level income eligibility limit established late in the 2007-09 biennium for TANF Non-needy Caretaker Relatives
- Further reduce JOBS employment and training services by $10 million General Fund

The 2009 Legislature anticipated a number of changes would be made to the TANF program to operate within budgeted resources, address federal program requirements such as maintenance of effort (MOE) and federal work participation rates, and maximize available federal revenues. The agency is to report during the 2010 special session on these issues.

The legislatively adopted budget continues to support the 2007-09 investments in the Employment Related Day Care program to expand income eligibility, reduce client co-payments, and increase provider reimbursement rates generally. The budget uses an additional $3.8 million in Child Care and Development Fund dollars to help maintain current co-payment rates and provider payment levels; the $3.8 million is a one-time supplement to the CCDF funds received by DHS from the Employment Department, from funding that would have otherwise been transferred to the State Commission on Children and Families. However, the budget also anticipates other ERDC reductions to contain program costs overall:

- Continue the 2007-09 elimination of ERDC for self-employed clients
- Continue the 2007-09 elimination of the reduced client co-payment in the first month of ERDC
- Beginning July 1, 2010, restrict new ERDC participants to families who have received TANF within 24 months of the application for ERDC assistance, leaving other low-income working families without help with child care costs

In response to federal concerns about the use of Medicaid Personal Care services for family foster care, CAF redesigned its foster care reimbursement methodology. The adopted budget includes $13.4 million General Fund, $1.1 million Other Funds, and $16.3 million Federal Funds to support this rate redesign. The overall increase will bring Oregon's base foster care rates from the bottom 25% nationally to within the top 25%, and will increase consistency in rate-setting statewide. Although the new methodology is variable depending on each child's situation, CAF estimates that 84-89% of children placed with foster families will have some increase in their total monthly reimbursement, while 11-16% will have a decrease. The approved funding level also anticipates higher adoption assistance subsidies based on the higher foster care rates.

The budget includes program reductions in other areas of the child welfare budget to:

- Reduce one-time foster care payments and Other Medical Program expenditures by 50%
- Reduce Post Adoption Services by 30%

- Phase out Personal Care in Subsidized Guardianship assistance payments
- End General Fund support for the federal IV-E Waiver for Substitute Care when the current waiver expires January 31, 2010

In Vocational Rehabilitation Services, the adopted budget continues the Order of Selection, which requires the program to prioritize its services and maintain a wait list of individuals it cannot serve; $2.2 million General Fund was added to maximize the program's ability to match available federal funding in the 2009-11 biennium. The program will manage its expenditures to meet federal maintenance of effort requirements in federal fiscal years 2009 and 2010, and draw down federal funds that will help it continue program services in the 2011-13 biennium after the one-time $6.2 million infusion of federal ARRA stimulus funds has been spent.

The legislatively adopted budget also eliminates all provider and client cost-of-living increases in CAF programs for the 2009-11 biennium. This is a $7.6 million General Fund and $21.9 million total funds reduction from EBL.

CAF – Program Support and Administration

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	230,541,513	278,107,367	373,687,268	349,116,910
Other Funds	18,619,177	13,348,788	12,828,560	21,362,798
Federal Funds	312,199,963	358,517,889	336,032,683	354,337,522
Total Funds	**561,360,653**	**649,974,044**	**722,548,511**	**724,817,230**
Positions	4,161	4,404	4,680	4,961
FTE	4,027.96	4,215.70	4,601.28	4,827.01

Program Description

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

Budget Environment

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

For most CAF programs, the budget reflects historical staffing standards used to adjust staffing based on caseload growth or reductions. Since 2001, because of statewide revenue constraints, staffing levels for the programs have been funded at lower levels than these historical models would support. As a result of several staffing studies over the past four years, DHS has developed workload-based standards that better reflect the staffing levels needed to complete work in Food Stamps and Medicaid eligibility, TANF case management, and child welfare services. CAF programs have reviewed their workload processes as well. However, even with added staffing in recent budgets for child welfare and Food Stamps eligibility work, the budget does not fully fund positions at the level that either the historical models or the workload-based standards would prescribe. This has resulted in increased caseloads for existing field staff, challenging the agency to develop alternative or more efficient methods of providing services to clients.

Essential Budget Level

The Program Support and Administration essential budget level is calculated at $373.7 million General Fund and $722.5 million total funds, with 4,680 positions (4,601.28 FTE). This is $95.6 million (34%) General Fund and $72.6 million (11%) total funds higher than the 2007-09 legislatively approved budget. The disproportionate General Fund increase is largely the result of General Fund added to replace Federal Funds: $38.2 million to cover a shortfall resulting from expected federal regulation changes for Medicaid Targeted Case Management, $13.7 million to backfill a change in the use of TANF Emergency Assistance for some child welfare out-of-home cases, and $6.1 million to backfill capped federal funds that would otherwise be used to support added staff for Food Stamps and the Oregon Health Plan.

The overall budget growth in EBL reflects standard personal services compensation adjustments, cost increases due to full biennial funding for self-sufficiency and child welfare positions that were funded for less than 24 months in the 2007-09 biennium, and new positions for 2009-11 based on projected caseload growth in the Food Stamps program and the Oregon Health Plan. As with the Programs budget, however, EBL does not include the cost of staffing increases related to caseload growth in non-mandated programs such as TANF and vocational rehabilitation services.

Legislatively Adopted Budget

The legislatively adopted budget funds CAF Program Support and Administration at $349.1 million General Fund, $724.8 million total funds, and 4,961 positions (4,827.01 FTE). This is $71 million (25.5%) General Fund and $74.8 million (11.5%) total funds more than the 2007-09 legislatively approved budget level; it is $24.6 million (6.6%) General Fund less, but $2.3 million (0.3%) total funds more, than EBL.

The Program Support and Administration budget reflects position reductions totaling 36 positions (44.77 FTE) for adjusted staffing levels for Pre-SSI/SSDI cases and the field staffing impact of other TANF and ERDC program reductions. The budget also anticipates administrative savings of $1.4 million General Fund and $5.2 million total funds from management actions to reduce personal services by 4% overall, and reduce administrative services and supplies expenditures by 2%. Further reductions of $13.2 million General Fund and $25.4 million total funds reflect expected savings from statewide personnel management actions, Attorney General rate adjustments, and lower State Data Center charges (HB 5054).

Due to changes at the federal level, the budget was adjusted to reverse $21 million of the $38.2 million General Fund added in EBL to replace a potential loss of Medicaid Targeted Case Management funds. Certain provisions of the proposed federal regulation are expected to be rescinded, resulting in a much lower federal funding shortfall and General Fund backfill need.

The Legislature added $8.9 million General Fund, $5.6 million Federal Funds, and 130 new positions (116.20 FTE) to increase staff coverage to 85% of the workload staffing standard for child welfare workers. This is expected to improve timely response to child protective services cases and increase the number of monthly caseworker visits with children in foster care. Staffing increases in EBL for Food Stamps and OHP program eligibility are maintained, but the budget does not add staff for TANF or vocational rehabilitation services programs.

The budget includes 186 positions (153.30 FTE) and related funding for CAF’s role in implementing HB 2116:

- $4.6 million Other Funds, $4.6 million Federal Funds, and 111 positions (82.21 FTE) will support the continuation and expansion of the Oregon Health Plan standard program
- $4.5 million Other Funds, $4 million Federal Funds, and 75 positions (71.09 FTE) will support the Health Care for All Oregon Children initiative

A limited duration position is added to support SB 630, which establishes a task force on disproportionality in child welfare foster care. The agency will use private grant funds and federal matching funds to support this work ($88,255 Other Funds, $47,522 Federal Funds, 1 position, 1.00 FTE).

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

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	815,215,821	910,830,035	1,195,734,786	943,086,659
Other Funds	670,376,796	720,434,494	533,621,483	1,029,618,161
Federal Funds	2,247,080,649	2,793,556,876	3,634,269,564	4,163,810,498
Total Funds	**$3,732,673,266**	**$4,424,821,405**	**$5,363,625,833**	**$6,136,515,318**
Positions	169	179	185	201
FTE	164.39	171.08	176.79	192.79

Summary Description

The Division of Medical Assistance Program (DMAP) Health Services program area includes the Oregon Health Plan (OHP), Non-Oregon Health Plan (Non-OHP), the Children's Health Insurance Program (CHIP), as well as program support and administration. It is the largest of the Department of Human Services' (DHS) program area budgets, and the 2009-11 legislatively adopted budget includes $943.1 million of General Fund.

The ***Oregon Health Plan (OHP)*** provides medical care to nearly 500,000 low income Oregonians. Services include physician, pharmaceutical, hospital, vision, dental, and other acute care services. The Health Plan includes the state's Medicaid waiver programs (OHP Plus and OHP Standard), the Children's Health Insurance Program (CHIP) and, the Family Health Insurance Assistance Program (FHIAP) in the Office of Private Health Partnerships (a separate state agency). The DMAP budget contains funding for CHIP and the state's Medicaid waiver programs.

The ***Non-OHP*** budget is also part of DMAP and has, in the past, included payments of Medicare premiums for certain low-income eligible populations. This part of the budget is transferred from DMAP to the Seniors and People with Disabilities (SPD) budget for the 2009-11 biennium. The Non-OHP budget retains payments on behalf of Qualified Medicare Beneficiaries for other forms of Medicare cost sharing such as co-payments or coinsurance. The Non-OHP budget contains a General Fund "clawback" payment to the federal government that is required under the Medicare Modernization Act (MMA) of about $140.2 million within the 2009-11 adopted budget. In addition, this part of the budget includes funding for the state's Breast and Cervical Cancer program, the Citizen Alien Waived Emergency Medical program, and limited prescription drug coverage for select former clients of the Medically Needy Program.

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

Revenue Sources and Relationships

Other Funds revenue includes a significant amount of Tobacco Tax (approximately $287.2 million in the 2009-11 legislatively adopted budget), Tobacco Master Settlement Agreement (TMSA) revenue ($30 million), Medicaid provider taxes, pharmaceutical manufacturer drug rebates, client contributions, third party recoveries, numerous licensing and other fees, and other governmental or quasi-governmental entity (such as the Oregon Department of Education, Oregon Health and Science University, or the Office of Private Health Partnerships) funds eligible for federal match.

Federal Funds revenue sources are two: Medicaid, which accounts for better than 90% of the division's Federal Funds, and Children's Health Insurance Program (CHIP) revenue. Medicaid requires a state match and the match rate is recalculated each year by the federal government. The composite match rate used in the 2009-11 adopted budget for Medicaid is approximately 30% state funds and 70% Medicaid funds for most services. This reflects using the enhanced match rate included in the federal American Recovery and Reinvestment Act (ARRA). (Medicaid staffing expenditures, such as those in program support and administration are generally funded with half state funds and half Federal Funds.) CHIP funds also require state matching funds. The match rate for CHIP is about 27% state funds to 73% Federal Funds. Medicaid Federal Funds are, in theory, available as long as a state has matching funds. CHIP Federal Funds are a block grant and each state's allocation is limited by Congress.

Budget Environment

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

Essential Budget Level

The modified essential budget level for 2009-11 of $5.4 billion total funds is $938.8 million, or 21%, higher than the 2007-09 legislatively approved budget. General Fund of $1.2 billion is $284.9 million, or 31%, higher than the 2007-09 legislatively approved budget. These significant increases are largely the result of caseload increases, higher medical service costs, lower amounts of Other Funds (which is replaced with General Fund), and increasing diagnostic related grouping (DRG) hospital reimbursement (within managed care capitation rates) to 100% of costs. Today, DRG hospitals receive reimbursement based on 80% of their Medicare costs. Partially offsetting these increases is the transfer of premium payments for low-income Medicare beneficiaries from DMAP to the Seniors and People with Disabilities (SPD) budget totaling $306.4 million ($127.5 million General Fund).

The modified essential budget level for 2009-11 includes the enhanced Medicaid match rate (as noted above in the Revenue discussion) for six calendar quarters (July 2009 – December 2010). The 2007-09 legislatively approved budget includes the enhanced rate for three calendar quarters (October 2008 – June 2009). The enhanced rate reduced General Fund expenditures in DMAP by $125.5 million in the 2007-09 biennium, and $284.4 million in the 2009-11 modified essential budget level.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget for DMAP is $6.1 billion total funds ($943.1 million General Fund). This budget is $772.2 million total funds, or 14%, higher than the modified essential budget level and $1.7 billion, or 39%, higher than the 2007-09 legislatively approved budget through the end of the 2009 legislative session. Adopted budget General Fund is $252.6 million, or 21%, less than the modified essential budget level.

The adopted budget is the result of five types of adjustments to the modified essential budget level:

First, the budget reflects the use of $139 million of Other Funds to replace General Fund. These Other Funds sources include $116.4 million of anticipated ending balance revenue from provider taxes that was generated during the 2007-09 biennium and $30 million of TMSA funds. These amounts were offset by General Fund that was needed to replace tobacco tax revenue; the May 2009 forecast for tobacco tax dedicated to DMAP declined $11.7 million.

Second, the budget includes reductions to health services. OHP vision services were eliminated for adults – except those deemed medically necessary. In addition, the OHP dental benefit for non-pregnant adults was reduced.

Third, essential budget levels for provider reimbursement were reduced. Capitation rates for Medicaid managed care plans were decreased by 3.75% from the essential budget level ($26.8 million General Fund and $95.1 million total funds). DRG hospital reimbursement contained in the capitation rates was also reduced from 100% of cost to 76% of cost. Discretionary cost-of-living adjustments for fee-for-service providers were eliminated.

Fourth, the budget assumes several significant efficiencies which reduce the budget. DMAP will contract with a sole source for certain durable medical equipment supplies. Prior authorization will be implemented for non-mental health fee-for-service prescriptions. Actions will be taken to limit the growth of Federally Qualified Health Clinic and Rural Health clinic expenditures. DHS expects to identify more third party insurers who may be liable for services rendered to their clients who were served under the OHP.

Fifth, the adopted budget implements two service expansions: the Health Care for All Oregon Children initiative and doubling the size of the OHP Standard program. These expansions are funded with a newly established health care premium assessment of 1% and a re-structured Medicaid hospital provider tax, respectively, included in HB 2116.

DMAP – (Special Payments Only)

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	797,697,811	889,926,534	1,171,692,864	920,254,808
Other Funds	665,918,515	712,720,970	525,781,398	1,011,704,101
Federal Funds	2,220,396,474	2,757,510,233	3,586,997,540	4,110,966,183
Total Funds	**$3,684,012,800**	**$4,360,157,737**	**$5,284,471,802**	**$6,042,925,092**

Program Description

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

Oregon Health Plan

The OHP 2009-11 legislatively adopted budget for the 2009-11 biennium is about $5.5 billion total funds – about 91% of the $6 billion of special payments made by DMAP. The OHP is governed by a Medicaid state plan which includes waivers to various Medicaid administrative rules. In addition, Oregon statutes also dictate what the state's Medicaid plan will include. The plan, proposed amendments to the plan, and waivers to Medicaid rules all require review and approval by the Centers for Medicare and Medicaid Services (CMS), the federal agency which administers Medicaid. This means that policy changes to the plan, particularly those that would have a significant program or budgetary impact, must pass muster with CMS. This approval process usually takes time. Moreover, reaching consensus about program changes prior to submitting a plan amendment or waiver is difficult because such changes often involve numerous interested parties (e.g., advocates for clients, managed care organizations, hospitals, physicians, pharmacists, pharmaceutical companies, and commercial insurers).

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

- Eligibility for OHP

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

1. Persons receiving cash assistance under the Temporary Assistance to Needy Families (TANF) program.
2. Families transitioning from TANF into employment, who are eligible for 12 months after cash assistance ends.
3. Children in foster care or for whom adoption assistance payments are made.
4. Persons in the Poverty Level Medical (PLM) program, which includes children from birth to age 5 in households with incomes up to 133% of the federal poverty level (FPL), children 6 to 18 in households with incomes up to 100% of FPL, and pregnant women and their newborns in households with incomes up to 185% of FPL. Persons who are age 65 or over who are eligible for SSI. In 2006, the SSI grant of $603/month for a household of one was about 74% of FPL. In addition, seniors (and persons with disabilities) who are eligible for Medicaid long-term care are also eligible for the health plan. The income standard for Medicaid long-term care is 300% of the SSI grant, or about 233% of FPL. To qualify for long-term care, however, a person must also have impairments that limit their activities of daily living.
5. Blind and disabled persons, who are eligible for SSI or, like seniors, are eligible for Medicaid long-term.

6. Blind and disabled persons who are presumed eligible for SSI. Many of these persons would have likely qualified for the General Assistance program, a program that was eliminated in the 2005-07 legislatively adopted budget.
7. Adults with incomes under 100% of FPL who are not eligible for Medicare may be eligible for the OHP Standard program. The program currently serves an average caseload during the 2007-09 biennium of about 24,000. Recently, OHP Standard had about 32,000 beneficiaries. Prior to 2004, OHP Standard was open to anyone eligible and had a peak caseload, in January 2003, of over 100,000. Budget reductions, however, forced the Legislature to close OHP Standard to newly eligible people and the caseload decreased. The state funds used to support OHP Standard were, in the past, generated from hospital and managed care provider taxes. The Medicaid hospital provider tax was restructured during the 2009 legislative session and approved as part of HB 2116. Medicaid managed care plans will continue to be assessed through a health insurance premium tax – also part of HB 2116. This latter assessment will be used to support the newly established Health Care for All Oregon Children program.

- <u>OHP Benefits</u>

All those eligible for the OHP, except for those eligible for OHP Standard, receive a benefit package known as "OHP Plus." Today, OHP Plus includes hospital, physician, prescription drug, durable medical equipment, dental, non-institutional mental health and drug and alcohol services, and transportation to medical providers with limited or no co-payments. Vision services (except those deemed medically necessary) for non-pregnant adults were eliminated from the budget during the 2009 legislative session.

OHP Standard is a less comprehensive benefit package and, as initially designed, excluded transportation, vision, and a portion of the dental services. In addition, Standard requires premium payments for eligible persons with household incomes between 10% and 100% of the federal poverty level. If the premium is not paid, the client will lose coverage.

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

- <u>OHP Provider Reimbursement</u>

OHP Medicaid payments are made to managed care organizations and, on a fee-for-service basis, to doctors, hospitals, pharmacies, dentists, and other contractors to provide medical services. Nearly 80% of those eligible are served through managed care organizations (other than those providing dental services), which receive capitation payments from DHS and who assume the risk of providing necessary medical services for their members. The remaining 20% are served on a fee-for-service basis. Dental care organizations (managed care organizations providing dental services) serve more than 90% of those OHP clients eligible for dental coverage.

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

The *Non-OHP* budget includes four major types of expenditures: a General Fund payment to the federal government required under the Medicare Modernization Act for clients eligible for both Medicare and Medicaid known as the "clawback" payment ($140.2 million General Fund and total funds), and expenditures for the Citizen Alien Waived Emergency Medical (CAWEM) program ($10.9 million total funds), women eligible for the Breast and Cervical Cancer Prevention and Treatment Program ($27.1 million total funds), and certain former clients of the Medically Needy program ($146,552 General Fund and total funds). Prior to the 2009-11 biennium, the Non-OHP budget also included Medicaid payments for certain clients who were not eligible for OHP, but did qualify for assistance with their Medicare premiums. The essential budget level for 2009-11, however, transfers this program to the Senior and People with Disabilities (SPD) budget. A similar program, which pays for other Medicare cost sharing including deductibles, coinsurance, and copayments is retained within the Non-OHP budget ($9.5 million total funds). The entire Non-OHP legislatively adopted budget for 2009-11 is about $206.2 million total funds ($152.8 million General Fund).

Children's Health Insurance Program

The *CHIP* is a federal (Title XXI of the Social Security Act) program designed to improve the health of children by increasing their access to health care services. Oregon's CHIP received federal approval in March 1998, and the program was implemented in July 1998. Oregon's policy makers took advantage of the more favorable federal CHIP match rate (approximately 73% for CHIP versus 61% for Medicaid) to expand OHP services to more children than would have been covered if the funds were coming from Medicaid alone. To qualify for CHIP, children must be ineligible for OHP-Medicaid benefits and have been uninsured, except for Medicaid, for six months prior to application. In addition, the children must be living in households with incomes between 100% (or, in some instances, 133%) and 200% FPL. Those eligible for CHIP receive the OHP Plus benefit package. The 2009-11 legislatively adopted budget for CHIP is about $340.6 million ($16.8 million General Fund). Much of the state matching requirement is met using tobacco tax revenue ($41.8 million).

Revenue Sources and Relationships

The federal government will fund approximately 70% of OHP Medicaid costs during the 2009-11 biennium. As noted earlier, this reflects the use of a temporary enhanced Medicaid match rate established in the federal ARRA. Most of the state's 30% match for the 2007-09 biennium comes from the General Fund, tobacco taxes (287.2 million), a hospital Medicaid provider tax, and a newly established health care premium tax to support children's health care. 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 2009-11 also uses $30 million of Tobacco Master Settlement Agreement (TMSA) funds.

Budget Environment

Many factors affect the budget of DMAP, including population growth and aging; policies of other DHS divisions and state agencies; federal welfare and Medicaid laws; changing medical technologies and their costs; medical inflation; and the status of the economy. The following is a brief discussion of four of the significant factors affecting the DMAP budget.

Caseload Changes – The OHP budget is based on caseload forecasts and cost estimates that are projected for the coming two years. Because of the size of the OHP budget, even the slightest variance from the original forecast can result in a significant budget shortfall – or windfall. In collaboration with Willamette University several biennia ago, DHS developed a new method of forecasting OHP caseloads that showed promise of being more accurate and providing better data for management planning.

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

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

Medical Inflation and Utilization Trends – Under federal Medicaid law and state statutes, DHS is responsible for paying rates that are sufficient to assure access to health care services for Medicaid recipients. In other words, Medicaid must adequately reimburse providers of medical care to compete with other health care purchasers in the market place so Medicaid clients may receive services. Because costs for medical services have risen dramatically over the last decade or so, states purchasing Medicaid services have had to spend greater proportions of their budgets on medical services. Causes for these cost increases are complex and include greater use of medical services by an aging population, the use of new high-cost medical technology such as pharmaceuticals or diagnostic tools, medical labor shortages, and a growing uninsured population. When uninsured persons use medical care, but cannot pay for it, providers may be forced to increase their charges to clients who can pay, thereby driving up commercial and public health care costs. Further, some analysts believe that unique billing systems and extensive paperwork requirements may be responsible for as much as 25-30% of all health care costs. Solutions to health care cost problems have been proposed, but have not been easy to implement in either the private health care market or in public programs such as Medicaid or Medicare. National health care reform has recently taken center-stage in the political arena, but progress because of political pressures has been slow.

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 30% state to 70% federal funds. The federal government sets the rules and guidelines for the program and must approve any waivers and changes to waivers that are authorized for the state.

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

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

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

Essential Budget Level

The modified essential budget level for 2009-11 of $5.3 billion total funds is about $924.3 million, or 21%, higher than the 2007-09 legislatively approved budget. General Fund of $1.2 billion is about $281.8 million, or 32%, higher than the approved budget. These increases are primarily the result of four factors: caseload increases, higher medical services costs (up about 14% over the 2007-09 biennium), lower amounts of available Other Funds (e.g., tobacco tax revenue) requiring the use of General Fund instead, and the transfer of premium payments for low-income Medicare beneficiaries from DMAP to SPD ($306.4 million total funds, $127.5 million General Fund).

In addition to these four main budget drivers, the essential budget level raises reimbursement for Diagnostic Related Group (DRG) hospitals (within managed care capitation rates) to 100% of costs (during 2007-09, reimbursement for DRG hospitals was 80% of costs), removes $7 million of General Fund ($17.9 million total funds) that was used in 2007-09 to improve managed care plan reimbursement for physicians, and eliminates Other Funds and Federal Funds payments to enhance managed care plan reimbursement to compensate them for the provider taxes paid during the 2007-09 biennium. The modified essential budget level reflects the use of the enhanced Medicaid match rate which contributes $284.4 million of Federal Funds that are used instead of General Fund. The modified essential budget level also assumes that Medicaid provider taxes used to fund the OHP Standard program would end September 30, 2009. (The duration of the hospital tax was extended by the 2009 Legislature.) Thus, the Other Funds expenditure limitation is clearly lower than the amount included in the 2007-09 approved budget.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $6 billion total funds ($920.3 million General Fund) is $758.4 million, or 14%, higher than the modified essential budget level of $5.3 billion. Adopted budget General Fund, however, is $251.4 million, or 21%, less than the essential budget level of $1.2 billion. The General Fund reduction is the result of the following adjustments. Many of the General Fund benefit reductions also reduce Federal Funds.

- Reducing reimbursement for DRG hospitals (within managed care capitation rates) from 100% of costs in the essential budget level to 76% of costs ($58.4 million General Fund along with associated Federal Funds). (Hospital may "buy-back" the lost Federal Funds up to 80% of cost by contributing additional provider tax.)
- Allowing prior authorization for non-mental health fee-for-service drugs and adopting a voluntary preferred drug list for mental health drugs is expected to save $4.4 million General Fund and $5.4 million Federal Funds.
- Implementing a sole source contract for certain durable medical equipment is expected to save $0.1 million General Fund and $0.2 million Federal Funds.
- OHP dental services were reduced for non-pregnant adults, reducing the budget by $4.5 million General Fund and $10.5 million Federal Funds.
- OHP vision services were eliminated for adults, except those that are deemed medically necessary. This reduced the budget by $4.6 million General Fund and $10.4 million Federal Funds.
- DMAP will take steps to limit the growth of Federally Qualified Health Clinic and Rural Health Clinic expenditures to save $1.1 million General Fund and $2.6 million Federal Funds.
- The DHS transformation efforts such as seeking third party liability reimbursement for those covered by other insurers who received OHP services is expected to save $30 million total funds – $11.2 million General Fund and $18.8 million Federal Funds.
- The budget eliminates discretionary cost-of-living adjustments for health care providers, reducing expenditures by $1.9 million General Fund and $4.6 million Federal Funds.
- Capitation rates for Medicaid managed care plans were reduced by 3.75%, lowering the budget by $26.8 million General Fund and $66 million Federal Funds.
- The budget reflects the loss of $11.7 million of tobacco tax revenue, given the May 2009 forecast, which is replaced by General Fund.
- The special payments budget makes use of $30 million of the Tobacco Master Settlement Agreement (TMSA) in lieu of General Fund.
- The budget uses $4.3 million of hospital provider tax revenue instead of General Fund to fund Graduate Medical Education payments to Oregon Health and Science University and other hospitals.
- Finally, the adopted budget uses $116.4 million of provider tax ending balances through September 30, 2009 instead of General Fund.

In addition to these adjustments which reduced General Fund by over $250 million, the adopted budget adds $341.5 million Other Funds ($292.2 million of hospital provider tax revenue; $49.3 million premium tax revenue) along with $760.1 million to do the following:

- Implement the Health Care for All Oregon Children initiative (HB 2116).
- Double OHP Standard from about 25,000 average monthly cases to 50,000 average cases during the 2009-11 biennium.
- Enhance hospital and Medicaid managed care plan reimbursement to account for the added cost of the provider tax and premium tax, respectively.
- Provide $12.5 million for Oregon Health and Science University intergovernmental transfers.

DMAP – Program Support and Administration

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	17,518,010	20,903,501	24,041,922	22,831,851
Other Funds	4,458,281	7,713,524	7,840,085	17,914,060
Federal Funds	26,684,175	36,046,643	47,272,024	52,844,315
Total Funds	**$48,660,466**	**$64,663,668**	**$79,154,031**	**$93,590,226**
Positions	169	179	185	201
FTE	164.39	171.08	176.79	192.79

Program Description

This budget unit includes funding for the staff that administer the DMAP programs. Of the $93.6 million total funds essential budget level for 2009-11, about one-third is used for personal services (salary, and other payroll expenses such as medical insurance, Public Employee Retirement System contributions, or Social Security taxes). About half of the budget is used for professional services, such as actuarial, pharmacy benefit management, or disease management services. The other services and supplies' budget is used for travel, office expenses, telecommunication, Attorney General services, and training. Finally, the 2009-11 essential budget level includes a $4.4 million total funds payment to the State Commission on Children and Families for its Healthy Start program. The Commission transfers General Fund to DMAP where it is matched with federal administrative Medicaid funds and subsequently returned to the Commission in this special payment.

Revenue Sources and Relationships

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

Essential Budget Level

The 2009-11 modified essential budget level for DMAP Program Support and Administration of $79.2 million total funds ($24 million General Fund) is $14.5 million total funds ($3.1 million General Fund) higher than the 2007-09 legislatively approved budget through the end of the 2009 legislative session. The total funds increase is about 22% and the General Fund increase is about 15%. The increases are primarily the result of including a standard inflationary increase, adding $160,715 General Fund to account for a shortage of Other Funds revenue, and transferring 10 positions along with funding from the Administrative Services Division to DMAP to maintain, rather than develop, the new Medicaid Management Information System (MMIS). In addition, the essential budget level removes about $4.6 million of Federal Funds expenditure limitation used in 2007-09 for a Health Records Bank project.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $93.6 million total funds ($22.8 million General Fund) is $14.4 million, or 18%, higher than the modified essential budget level. General Fund, however is $1.2 million, or 5%, less than the modified essential budget level of $24 million. The $14.4 million total funds increase above the modified essential budget level is attributable to the following adjustments:

- Personal services and services and supplies reductions of 4% and 2%, respectively (reductions of $0.7 million General Fund and $2 million total funds).

- Further reduction to personal services resulting from statewide actions of $0.4 million General Fund and $1.1 million total funds.
- An $80,000 total funds reduction by implementing more electronic communication with health care providers ($40,000 General Fund and $40,000 Federal Funds).
- A reduction of $0.1 million total funds (split between General Fund and Federal Funds) reflecting the elimination of a proposed position to meet higher workload from implementing a policy change to extend children's eligibility from 6 months to 12 months.
- The addition of 1 position (1.00 FTE) to assist in the administration of the hospital Medicaid provider tax ($165,000 total funds).
- The addition of 12 positions (12.00 FTE) to implement the Health Care for All Oregon Children program established in HB 2116, along with outreach funding ($5.2 million Other Funds and $4.4 million Federal Funds).
- The addition of 4 positions (4.00 FTE) to assist with the expansion of the OHP Standard program, supported with Medicaid hospital provider tax funds of $3 million and $3 million of federal Medicaid revenue.
- A payment to the Oregon Health Network of $2 million Other Funds to support the development of electronic medical records and transmission within Oregon.

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

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	33,794,290	45,685,107	53,943,534	48,995,951
Other Funds	47,421,874	69,830,852	67,624,262	73,891,665
Federal Funds	203,665,614	248,476,901	249,743,292	243,275,049
Other Funds (NL)	31,931,072	40,000,000	40,000,000	40,000,000
Federal Funds (NL)	87,273,216	102,729,051	102,729,051	102,729,051
Total Funds	**$404,086,066**	**$506,721,911**	**$514,040,139**	**$508,891,716**
Positions	621	714	696	691
FTE	590.11	677.73	677.31	672.71

Summary Description

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

Revenue Sources and Relationships

The Division's 2009-11 legislatively adopted budget of $508.9 million total funds is comprised of General Fund (9.5%), Other Funds (14.5%), Federal Funds (48%), Nonlimited Other Funds (8%), and Nonlimited Federal Funds (20%). Nonlimited expenditures are not constrained by a budgetary restriction and agencies may make these expenditures as long as revenue is available. Within the PHD, Nonlimited Other Funds and Federal Funds support the Women, Infants, and Children (WIC) program. The Nonlimited Federal Funds of $102.7 million represent WIC food grant expenditures and the $40 million of Nonlimited Other Funds represent expenditures of rebates from the manufacturers of infant formula.

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

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

Budget Environment

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

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

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

Essential Budget Level

The 2009-11 modified essential budget level for the division is $514 million total funds ($53.9 million General Fund). This budget level is about $9 million, or 1.8%, higher than the 2007-09 legislatively approved budget. The budget includes adjustments for personal services costs, inflation (including medical inflation), the continuation of 6 limited duration positions to support federal grant activities, and a technical adjustment that moves 6 positions along with $1.3 million of total funds to the Seniors and People with Disabilities (SPD) budget to support the Medicare Buy-in program.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget is $508.9 million total funds ($49 million General Fund). The total funds budget is about 1% less than the 2009-11 modified essential budget level and about equal to the 2007-09 legislatively approved budget through the end of the 2009 legislative session. The legislatively adopted General Fund budget of $49 million is about 9% below the modified essential budget level of $53.9 million, but about 7% higher than the 2007-09 legislatively approved General Fund budget of $45.7 million.

The adopted budget includes reductions to personal services and services and supplies, the elimination of cost-of-living increases for service providers (including county public health departments), and a decrease in funding for the Safe Drinking Water program. The budget includes $6.6 million Other Funds generated from HB 2116 to augment the Health Care for All Oregon Children program – $1.4 million for additional school-based health centers and $5 million for grants to community health centers which serve vulnerable and underserved children.

PHD Programs – (Special Payments Only)

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	17,699,454	28,443,961	29,554,466	27,454,961
Other Funds	2,872,902	5,318,502	5,599,362	11,734,070
Federal Funds	113,627,748	136,722,408	131,592,268	127,756,999
Other Funds (NL)	31,931,072	40,000,000	40,000,000	40,000,000
Federal Funds (NL)	86,513,583	101,929,051	101,929,051	101,929,051
Total Funds	**$252,644,759**	**$312,413,922**	**$308,675,147**	**$308,875,081**

Program Description

Special Payments of $308.9 million are about 61% of the total funds PHD legislatively adopted budget level for 2009-11. Of this total, about half is paid to counties to support local public health departments in their efforts to promote public health initiatives, and the is distributed to providers of services – most of it, in the form of WIC food vouchers.

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

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

Revenue Sources and Relationships

PHD special payments are supported with $27.5 million of General Fund within the 2009-11 legislatively adopted budget. Other Funds subject to limitation ($11.7 million) comprise about 4% of this budget. Of this amount, $7 million is tobacco tax used to support TPEP. Nonlimited Other Funds of $40 million are rebates from manufacturers of infant formula and are used in the WIC program. This revenue is about 13% of the special payments budget.

Federal Funds revenue of $229.7 million in the budget supports approximately 74% of this public health special payments budget. The largest source of federal revenue ($101.9 million) is expended within the Women, Infants, and Children (WIC) food voucher program and these expenditures are not subject to expenditure limitation. The amount is included in the budget to provide a perspective on total program expenditures. Approximately $62 million of federal revenue is generated by Medicaid and is used to support the Family Planning Expansion Program – a 9 to 1 federal match program that provides contraceptive services, including annual medical exams and contraceptive supplies to eligible clients. Other federal revenue sources include the Bioterrorism Preparedness and Response Grant, the Maternal and Child Health Block Grant, the Cancer Prevention and Control grant, HIV Prevention Project and HIV Title II Care grants, as well as other individual federal grants that range from $71,000 to $1.2 million for the biennium.

Essential Budget Level

The modified essential budget level for PHD special payments of $308.7 million total funds is $3.7 million or 1% less than the 2007-09 legislatively approved budget through the end of the 2009 legislative session. While it includes adjustments for standard inflation as well as medical inflation that total $6.1 million total funds ($1.1 million General Fund), it also removes $11 million of excess Federal Funds expenditure limitation that is no longer supported with revenue; $10 million of that reflects a reduction in federal revenue for emergency preparedness programs. The medical inflation increase of 4.4% for the 2009-11 biennium amounts to $1.2 million total funds ($0.2 million General Fund) and has been applied to the Family Planning Expansion Program, School-based health center program, and HIV/TB program.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget for public health programs is $308.9 million total funds – about equal to the modified essential budget level, but $3.5 million, or 1%, less than the 2007-09 legislatively approved budget through the end of the 2009 legislative session. Although the total funds budget is about equal to the modified essential budget level, the adopted budget reflects some reductions to previously funded programs, as well as some important additions for new initiatives. These changes include the following specific adjustments:

- Eliminated $4.9 million total funds ($1.1 million General Fund) for cost-of-living increases for various public health service providers, including county health departments.
- Discontinued a General Fund grant of $0.5 million to enhance primary health care delivery that had been added to the budget during the 2008 legislative session.
- Reduced funding for the Safe Drinking Water program by $0.5 million General Fund.
- Reduced Other Funds expenditure limitation for the Tobacco Prevention and Education Program to match the May 2009 tobacco tax revenue forecast.

- Added $1.4 million Other Funds for school-based health clinics and $5 million Other Funds for community health center grants. Funding for these program enhancements comes from premium taxes, established in HB 2116 for the Health Care for All Oregon Children program.

PHD – Program Support and Administration

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	16,094,836	17,241,146	24,389,068	21,540,990
Other Funds	44,548,972	64,512,350	62,024,900	62,157,595
Federal Funds	90,037,866	111,754,493	118,151,024	115,518,050
Federal Funds (NL)	759,633	800,000	800,000	800,000
Total Funds	**$151,441,307**	**$194,307,989**	**$205,364,992**	**$200,016,635**
Positions	621	714	696	691
FTE	590.11	677.73	677.31	672.71

Program Description

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

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

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

The ***Office of Environmental Public Health*** program area establishes policies and carries out activities designed to improve the health and safety of Oregonians. It monitors the health status of communities and the performance of the health care systems, and has a regulatory role in ensuring that 3,600 drinking water systems, 18,000 restaurants, 13,600 radiation sources, 3,400 swimming pools, 2,300 tourist facilities, and 362 miles of coastline. Services are provided primarily through county health departments and other community and tribal health organizations. The program provides services directly where there is no local health provider or where highly specialized services require a centralized program. The program provides technical assistance, consultations with health care providers, and targeted health education programs.

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

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

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

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

Revenue Sources and Relationships

The 2009-11 legislatively adopted budget for PHD program support and administration is about $200 million total funds. General Fund of $21.5 million is about 11% of the budget. Other Funds revenue is comprised of licenses and fees, charges for services, sales income, and smaller Other Funds revenue sources. In addition, Other Funds revenue reflects funds that are transferred from other state agencies including the Department of Revenue ($6.2 million of tobacco tax) for the Tobacco Prevention and Education Program, the Military Department for chemical emergency preparedness, and the Employment Department for childcare health consultation. Altogether, Other Funds revenue of $62.2 million supports 31% of PHD program support and administration expenditure limitation.

Federal Funds of $116.3 million make up about 58% of the legislatively adopted budget for 2009-11. Federal Funds sources include Ryan White funds, Public Health Emergency Preparedness, WIC administrative support, Maternal and Child Health Block Grant, Immunization, and Breast and Cervical Cancer funds from the Centers for Disease Control.

Essential Budget Level

The modified essential budget level for PHD program support and administration of $205.4 million total funds is $12.9 million, or 7%, higher than the 2007-09 legislatively approved budget through the end of the 2009 legislative session. It includes standard adjustments for personal services costs and inflation (including a modest amount of medical inflation). The essential budget level includes $0.9 million of Other Funds ($0.1 million) and Federal Funds ($0.8 million) to continue 6 limited duration positions (6.00 FTE) associated with various federal grants during the 2009-11 biennium. Finally, the essential budget level reflects a technical adjustment that moves 6 positions (5.50 FTE) along with $1.3 million total funds to the SPD budget to support the Medicare Buy-in program. Most of the Buy-in program budget has been in the Division of Medical Assistance Programs, but is being transferred to SPD for the 2009-11 biennium.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget for public health program support and administration is $200 million total funds, about $5.4 million, or 3%, less than the modified essential budget level, but about $5.7 million, or 3%, higher than the 2007-09 legislatively approved budget through the end of the 2009 legislative session. The decrease in funding from the modified essential budget level includes the following:

- Reduction in personal services and services and supplies ($0.65 million General Fund).
- Consolidating the Health Systems Planning function within public health with the Office of Health Policy and Research within the Administrative Services Division which reduced the budget by $0.3 million total funds.
- Eliminated General Fund for the Juvenile Diabetes Database ($0.2 million General Fund, 2 positions and 2.00 FTE).

- Reduced administrative costs and operational support across all public health division offices ($0.5 million General Fund, 1 position and 1.00 FTE).
- Eliminated Ambulance Database Coordinator position ($0.2 million General Fund).
- Added fee revenue to support Medical Marijuana and Certificate of Need programs ($0.6 million Other Funds). This fee revenue increase was ratified by the Legislature in SB 5530.
- Added $0.2 million of Other Funds along with 2 positions (1.38 FTE) to provide administrative support for community health center grant program as part of the Health Care for All Oregon Children program.
- Reduced the budget by $4.3 million total funds ($0.6 million General Fund) to reflect statewide personal services actions.

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

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	876,171,708	880,633,665	1,014,676,282	948,555,146
Other Funds	156,521,706	196,316,687	161,124,720	165,170,353
Federal Funds	1,428,790,730	1,801,501,329	2,298,581,377	2,184,576,025
Total Funds	**$2,461,484,144**	**$2,878,451,681**	**$3,474,382,379**	**$3,298,301,524**
Positions	2,044	2,149	2,141	2,069
FTE	1,929.97	1,945.75	2,104.00	2,066.44

Note: The FTE and position count does not include non-state staff for which SPD provides reimbursement in the Area Agencies on Aging (AAA), or regional brokerages and counties that arrange services for people with developmental disabilities. The 2009-11 budget supports 1,499 FTE of these non-state employees.

Summary Description

The Seniors and People with Disabilities (SPD) Division provides services for seniors and adults with physical disabilities, and adults and children with developmental disabilities. SPD administers Oregon's Medicaid long-term care program under a federal Home and Community Based Care waiver under Section 1915(c) of the Social Security Act. Clients receive a range of services including case management, supportive in-home care, community-based residential care, and nursing facility care. SPD and its partners provide Medicaid long-term care services to about 27,000 seniors and adults with physical disabilities. Services to those with developmental disabilities include case management, family or community support services, and comprehensive (residential) care. SPD and its partners serve 12,648 adults and 4,990 children with developmental disabilities.

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

Revenue Sources and Relationships

General Fund makes up about 29% of the SPD budget. Other Funds revenue is about 5% of the overall budget. The Other Funds come primarily from nursing facility Medicaid provider taxes, clients' contributions towards their care, and estate recoveries. Federal Funds make up about 66% of the budget. Federal revenues are predominately federal Medicaid funds. Oregon matches Medicaid program revenue at about 40% state funds and 60% Federal Funds. Most Medicaid administrative functions are matched on a 50% state/50% federal basis. The program match rate changes each federal fiscal year and depends on Oregon's income relative to other states. The 2009 federal stimulus legislation (the American Recovery and Reinvestment Act of 2009, or ARRA) included a substantial, temporary increase to the Medicaid match rate from October 2008 through December 2010. For SPD, this resulted in additional federal funds of $88 million for 2007-09 and $225 million for 2009-11, which helped to offset General Fund need for program caseload and cost growth. This higher federal funding level is not expected to be available for the 2011-13 and later biennia.

Budget Environment

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

A major budget driver for SPD is growth in the number of elderly persons and individuals with disabilities. As of July 1, 2009, more than 13% of Oregon's population was expected to be age 65 or older. That age group is expected to grow 5.9% during the 2009-11 biennium, from 509,599 on July 1, 2009 to 539,482 on July 1, 2011. The state's population over 85 years of age is expected to grow about 5.3% during 2009-11, from 77,385 persons on

July 1, 2009 to 81,458 persons on July 1, 2011. The growth rate for the elderly population is faster than that of Oregon's general population, which is projected to grow about 2.4% during the same period. Also, as the "baby boomers" grow older, the number of people with physical disabilities is expected to increase. Growth is also expected related to developmental disabilities, particularly from autism and alcohol- and drug-caused disabilities.

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

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

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

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

However, the budget has more recently seen a number of funding enhancements. The 2003 Legislature adopted a nursing facility provider tax that provided a significant increase to Medicaid nursing facility reimbursement; the 2007 Legislature continued the tax until 2014 and added General Fund to provide nursing facility reimbursement at the 63rd percentile of allowable nursing facility costs. In response to 2000's Ballot Measure 99, the 2003 Legislature also funded a wage increase, medical insurance, and worker's compensation insurance for home care workers who provide in-home care to people eligible for Medicaid long-term care. In 2007, the

Legislature approved higher reimbursement for group home service providers, additional funding for in-home care worker benefits, more intensive nursing facility staffing, new services for youth with developmental disabilities who are under the jurisdiction of the Psychiatric Security Review Board (SB 328), and for children with significant disabilities who require complex medical care (HB 2406).

Essential Budget Level

SPD's modified essential budget level, after adjustment for the spring 2009 caseload forecast, is $1,014.7 million General Fund and $3,474.4 million total funds. This is an increase of $134 million (15.3%) General Fund and $595.9 million (20.7%) total funds from the 2007-09 legislatively approved budget as of the close of the 2009 session. Without the impact of the federal stimulus package's enhanced Medicaid match, the General Fund increase for 2009-11 would be $225 million larger; without that ARRA impact, the EBL General Fund would be $359 million General Fund, or 40.8%, more than the 2007-09 legislatively approved General Fund budget. Standard personal services roll-up and general inflation are part of the overall EBL increase, but the majority of the increase is attributable to program transfers to this budget from the Department of Human Services' Division of Medical Assistance Programs, mandated caseload growth in Medicaid long term care and developmental disability programs, and phased-in costs from enhancements funded for only part of the 2007-09 biennium (most significantly, rate increases for long-term care and community providers of developmental disability services).

Legislatively Adopted Budget

SPD's 2009-11 legislatively adopted budget is $948.5 million General Fund and $3,298.3 million total funds. This is 7.7% General Fund and 14.6% total funds more than the 2007-09 legislatively approved budget at the close of the 2009 session, but 6.5% General Fund and 5% total funds less than the modified essential budget level. The legislatively adopted budget does not move forward any of the long-term care system enhancements identified by the agency and its stakeholders over the past several years, but it does fully fund projected caseload growth in long-term care programs for seniors and people with physical disabilities and programs for persons with developmental disabilities. It also reflects phased-in costs such as provider rate increases started during the 2007-09 biennium, and the transfer of the Medicare Buy-in Programs from the Division of Medical Assistance Programs budget (which adds $102.2 million General Fund, $249.6 million total funds to this budget). The budget maintains all in-home, community-based, and nursing facility care for seniors and persons with physical disabilities, with no change in program eligibility or services provided. However, some services for persons with developmental disabilities – the employment and community inclusion program, the family support program, and development of community housing – will be reduced. Nursing facility rate increases will be limited by reducing certain allowable costs, although nursing facility rates overall will still increase. Other providers will not receive standard cost-of-living rate adjustments. The legislatively adopted budget is discussed in more detail in the Programs and Program Support and Administration sections below.

SPD – Programs

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	733,425,570	755,356,927	870,183,340	817,024,372
Other Funds	142,245,873	184,179,302	146,886,303	151,227,459
Federal Funds	1,224,375,806	1,617,289,701	2,099,614,748	1,997,713,410
Total Funds	**2,100,047,249**	**2,556,825,930**	**3,116,684,391**	**2,965,965,241**
Positions	846	825	790	708
FTE	832.68	796.33	774.84	728.40

Program Description

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

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

The FTE included in this budget are state employees who work at 31 state-operated group homes for people with developmental disabilities (661 positions, 658.68 FTE) and at the Eastern Oregon Training Center (47 positions, 69.72 FTE). Although the positions and FTE are not reflected in this budget, SPD reimburses Area Agencies on Aging for a staffing level of 783 FTE. Regional brokerages providing services to persons with developmental disabilities are reimbursed for a staffing level of 230 FTE, and county developmental disabilities programs are reimbursed for a staffing level of 486 FTE. Food Stamps eligibility staff are part of the SPD Program Support and Administration budget; Food Stamps benefits are budgeted in the Children, Adults and Families Services Division (CAF) budget.

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

Medicaid law requires states, at a minimum, to provide nursing facility care. Since the 1980s, however, Oregon has operated its long-term care program under a Medicaid Home and Community-Based Care waiver approved by the Health Care Financing Administration (now called the Centers for Medicare and Medicaid Service, or CMS). This waiver allows individuals who would otherwise require the level of care furnished in a nursing facility to opt instead for a home and community-based care option. The nursing facility Medicaid rate includes the cost of room and board. The community-based facility rates, such as those for adult foster homes or assisted living facilities, cover Medicaid services but not the cost of room and board. Clients use their own resources (e.g., Supplemental Security Income) to pay for room and board in community-based facilities and to offset some of the reimbursement cost for nursing facilities. In the mid-1980s, Medicaid long-term caseloads were about evenly divided between community-based care and nursing facilities. Today, nursing facility residents represent less than 20% of the total caseload.

Eligibility for Medicaid long-term care is based in part upon the ability to perform certain activities of daily living. Applicants for Medicaid long-term care are evaluated on their ability to perform activities of daily living such as eating, toileting, mobility, bathing, and dressing. This evaluation is used to rank the applicant within categories known as "service priority levels." Priority level 1 clients are those most unable to perform activities of daily living and more likely to need services offered in nursing facilities. In contrast, those at lower priority levels are less impaired and more likely to receive in-home assistance. Oregon provides services for clients in categories 1 through 13. All eligible clients are entitled to nursing facility care, but under Oregon's waiver, may opt instead for community-based options such as in-home, adult foster home, or assisted living facility care. Eligibility is also based upon income and assets. Clients may have incomes up to 300% of the Supplemental Security Income (SSI) grant, or about $2,022 per month, which is about 224% of the federal poverty level (FPL) for an individual. However, federal law also allows people in states that set income eligibility at more than 100% of the SSI grant to establish income cap trusts. By establishing an income cap trust, an individual is deemed eligible for Medicaid long-term care, assuming they also have the functional limitations described above. In effect, virtually anyone in Oregon could qualify for Medicaid long-term care, if they are impaired and willing to establish an income cap trust. This also means that attempts to limit budgetary growth by lowering income eligibility standards are ineffective under the current waiver provisions.

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

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

SPD is the state administrator of the *Older Americans Act* (OAA), a federal program targeted to people 60 years old and older. SPD distributes the funds to local Area Agencies on Aging, which deliver a variety of services including information and referral, transportation, congregate meals and "meals on wheels," senior employment programs, legal services, insurance counseling, and family caregiver counseling and training. Over 320,000 Oregonians receive OAA services each year.

Oregon Project Independence (OPI) serves about 2,900 Oregonians each month with in-home services. To qualify, clients must be 60 years of age or older, or have Alzheimer's or other related dementia, and be assessed as in service priority levels 1 through 18 (a broader range than the levels 1 through 13 served through Medicaid long-term care). Those with incomes over 100% of the federal poverty level ($903 per month for an individual) pay all or part of the cost of the services received.

The *Oregon Supplemental Income Program* (OSIP) provides a small monthly cash supplement for low-income aged and disabled individuals receiving federal Supplemental Security Income (SSI) benefits though the Social Security Administration. The maximum federal SSI benefit for individuals is $674 per month in 2009. OSIP 2007-09 base payments to the elderly and disabled are about $1.70 per month. Although the OSIP monthly grants are small relative to the SSI grant, this payment has been used to meet the federal requirement for SPD's maintenance of effort (MOE). The 2009 Legislature passed HB 3065, which gives SPD an option to provide noncash assistance rather than mailing small monthly checks, beginning in January 2010.

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

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

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

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

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

Program services for people with developmental disabilities are described below:

- *Support services* are for adults and children who live at home and are typically provided by individuals hired by the client, with the help of a personal agent, who gives them the assistance they need to remain in their own homes. The primary support services available under the Staley Settlement Agreement include home modifications and services to help clients function appropriately within their communities, respite care for primary caregivers such as parents, and non-medical transportation. In addition to Staley support services, support services are provided for children living at home, to help prevent out-of-home placements. Regional non-profit brokerages work with clients and their families to arrange appropriate support services.
- *Institutional services* are provided at the Eastern Oregon Training Center (EOTC) and nursing facilities that specialize in the care of people with developmental disabilities. EOTC provides intermediate care facility services including health and medical care, personal care, recreation, occupational and physical therapy, skills training, education and vocational training, social services, psychological services, and community support, for adults with developmental disabilities. EOTC is being downsized and the remaining clients will ultimately move to community-based care facilities early in the 2009-11 biennium.
- *Comprehensive services* serve adults and children who are living at home and receiving 24-hour supports, or living in residential facilities or group homes. Adult residential programs provide 24-hour group home care for people aged 18 and over with a developmental disability. Children's residential care includes foster care, proctor care, and community residential group homes. Children's Intensive In-Home Services are provided 24-hours a day for medically fragile children, medically involved children, and children with intensive behavioral disabilities. Comprehensive services also covers self-directed supports for adults to manage the services they need to live safely at home. Clients receiving comprehensive services may also receive diversion services (to prevent a crisis) or transportation if needed.
- The *state operated community program* is a 24-hour community residential care program for 148 people who have intensive support needs because of medical or behavioral conditions. There are 31 group homes operated by state employees. The positions and FTE are included in this long-term care budget.

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

Revenue Sources and Relationships

For the 2009-11 biennium, the General Fund supports about 28% of the SPD Programs budget, about 67% comes from Federal Funds, and the balance is from Other Funds revenue. The General Fund share is lower this biennium, and the Federal Funds share higher, due to the enhanced Medicaid match rate in the 2009 federal stimulus act (see discussion below).

Other Funds come primarily from nursing facility provider taxes, client contributions for in-home care and estate recoveries. The nursing facility provider tax is used to match federal Medicaid funds for facilities that serve Medicaid clients. The tax, which currently funds about 25 to 30% of Medicaid nursing facilities reimbursement, is scheduled to sunset in 2014. In the past, Other Funds support for Oregon Project Independence (OPI) has come from the Senior Property Tax Deferral Account. In 2007-09, $16.6 million was transferred to the program. For 2009-11, the program expects to use $3.2 million Other Funds carried forward from 2007-09, but no new transfers are expected from the Senior Property Tax Deferral Account.

Most of the Federal Funds are Medicaid (Title XIX). Federal Medicaid funds require state match that varies depending upon relative state per capita income. For 2009-11, Oregon's base rate is estimated to be about 38% state funds to 62% Federal Funds. The composite match rate used in the 2009-11 legislatively adopted budget for most services is higher, however – about 30% state funds and 70% Medicaid funds – based on the enhanced match rate included in the federal American Recovery and Reinvestment Act (ARRA). The enhanced Medicaid match rate adds $225 million in one-time Federal Funds for 2009-11, which is used instead of General Fund to cover higher caseloads and costs. Federal Older Americans Act funding also supports program services; match rates for these funds are 15%, except for the Title IIIE program (family caregiver program) which requires 25%

state funds. Administrative funding also requires a 25% state match rate. Oregon uses OPI funding as well as AAA local resources as its required match and to meet OAA maintenance of effort requirements for state funding.

Budget Environment

Over the past several biennia, the SPD Programs budget has grown significantly due to mandated caseloads, mandated cost increases, and program improvements such as provider rate increases and new program services. Oregon's ability to maintain current services – facing projected growth in the number of Oregonians who receive those services and increasing costs to provide quality care – is problematic.

A major cost driver for SPD Programs is caseload growth, as Oregon's population ages and the number of persons with disabilities increases. Although caseloads have remained fairly stable in the Medicaid long-term care program over the last few biennia, over time the population is projected to increase. The Department of Human Services' spring 2009 caseload forecast projects in-home caseloads to be about 1% higher in 2009-11 than in 2007-09, increasing from an average of 10,516 cases during the 2007-09 biennium to 10,643 cases in the 2009-11 biennium. Caseloads in community-based care – which includes assisted living facilities, residential care facilities and foster care homes – are expected to average 11,218 cases in the 2009-11 biennium, 5% above the average 10,679 cases in the 2007-09 biennium. The number of clients in nursing facility care, however, is expected to be about 4% less in 2009-11, down to 4,855 average monthly cases from 5,050 cases in 2007-09.

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

As noted earlier, the Staley Settlement Agreement was Oregon's response to legal issues regarding access to state and federal services for people with disabilities. Under that agreement, Oregon is to phase-in universal access to DD services, particularly community-based services known as support services, to eliminate a waiting list for services and reduce the number of situations requiring a crisis response. To deliver support services, a "brokerage" system was established statewide to help people with developmental disabilities and their families access available support services. As of July 2009, anyone needing support services is to be enrolled within 90 days after becoming eligible. The 2009-11 legislatively adopted budget reflects an average caseload of 17,900 persons receiving DD services, up 3.4% overall from the 17,316 cases in 2007-09. Of this total, 7,000 persons are expected to receive Staley support services through local brokerages, with 10,900 receiving intensive in-home or residential ("comprehensive") services. When the Staley Settlement Agreement is fully phased-in, program services are to be available on an entitlement basis, so it is expected that this program area will continue to grow.

Another cost element is provider reimbursement, which must be adequate to assure adequate access for clients, allow providers to operate effectively, and attract and retain an adequate number and skill level of staff. Reimbursement rates have been set through a variety of methodologies at various times. Ballot Measure 99 (November 2000) created a commission to establish standards for in-home caregivers, provide training, and give them a structure to form a union. During the 2003 legislative session, the Department of Administrative Services, representing the Home Care Commission, negotiated wage and benefit enhancements with the union which have continued in subsequent biennia. Negotiations with the nursing facility industry on provider tax issues resulted in statutory language directing the rate setting process for those facilities only; this process is not used for other community-based facilities. In the 2007 regular session and the 2008 special session, the Legislature approved wage increases for most SPD providers to help assure continued access to services in all community-based facilities. These increases are rolled forward into the 2009-11 biennium.

SPD has identified several steps that would improve its rate structures. In the DD program, SPD is using a federal Real Choice grant to implement the third year of a five-year project, the Oregon ReBAR project, which is a rate model for adult residential services. Funding methodologies for reimbursement of both DD program brokerages and county administrative and staffing costs were revised and implemented during 2007-09. In the APD program area, following the 2007 Legislature's direction to review and recommend an acuity-based care reimbursement system, timetable and systems changes, SPD increased rates during the 2007-09 biennium for community-based care providers by $260 a month as part of a strategy towards market level rates.

In response to legislative direction, SPD also developed a long-range plan for services for seniors and people with physical disabilities, both those eligible for Medicaid-funded long term services and those who are not. The plan would increase community resources through local centers, and restructure rates to support flexible, specialized and adequate community services, and connect individual needs to reimbursement rates. DHS' 2009-11 agency request budget included $10 million General Fund for the new community resources and $46.2 million General Fund and $78.7 million Federal Funds for the rate restructuring proposal, with other smaller requests for related investments. HB 2391 (2009) would have established an Aging and Disability Resource Center program in DHS and expanded certain other services. The 2009-11 budget does not include any investments to support the long-range plan SPD developed, the enhanced services proposed in HB 2391, or additional rate restructuring efforts.

Essential Budget Level

The 2009-11 modified essential budget level (EBL) for SPD Programs is $870.2 million General Fund and $3,116.7 million total funds. This is $114.8 million (15.2%) General Fund and $559.8 million (21.9%) total funds more than the 2007-09 legislatively approved budget as of the close of the 2009 session. As noted in the revenue discussion above, the 2009-11 EBL budget includes a one-time use of $225 million Federal Funds instead of General Fund to support program costs, based on the enhanced Medicaid match rate allowed by ARRA. The overall EBL increase also reflects the transfer of the Medicare Buy-In Programs from the Division of Medical Assistance Programs to SPD ($102.2 million General Fund, $249.6 million total funds). Additional mandated caseload growth projected for 2007-09 (at the spring 2009 forecast level), cost of living adjustments and other inflationary increases, and funding for enhancements phased-in during the 2007-09 biennium – such as rate increases for APD community based care facilities and DD providers, as well as funding for new facility staffing standards for Certified Nursing Assistants – are also part of the EBL budget. Overall, the $1,831.3 million total funds APD program budget at EBL is $410.2 million (28.9%) more than the comparable 2007-09 budget; the $1,285.3 million total funds DD program budget at EBL is $149.6 million (13.2%) more than the 2007-09 funding.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget for SPD Programs is $817 million General Fund and $2,966 million total funds, with 708 positions (728.40 FTE). The Programs budget is 8% General Fund and 16% total funds above the 2007-09 legislatively approved budget, but 7% General Fund and 5% total funds below the modified EBL. The budget reflects no significant changes in program eligibility or service delivery, but does include a number of cost containment actions and some reductions in service levels, particularly for services to persons with developmental disabilities. The major reductions from EBL are as follows:

- No cost of living increases will be given to clients or providers ($29.4 million General Fund, $80 million total funds).
- Limiting certain administrative and property expenses as part of nursing facility allowable costs is expected to reduce nursing facility rates by $8.7 million General Fund and $29.5 million total funds from EBL. However, the resulting $1.5 million loss of provider tax revenues requires $1.5 million General Fund backfill, so the net General Fund savings is $7.3 million. Even with this limitation, nursing facility rates will still be higher than in the 2007-09 biennium.
- SPD will continue to review entries into nursing facilities, which helps place Medicaid clients in more independent and less expensive in-home and community care settings where appropriate ($2.2 million General Fund, $10.5 million total funds savings).
- The Homecare Union Benefits Board reserve is eliminated; the Other Funds balance, after repayment of federal funds, is used to replace General Fund (net $2.8 million General Fund program savings).
- The training budget for home care workers will be reduced by half ($1.35 million General Fund) based on past expenditure levels.
- The General Fund transfer to the DD Housing Fund is reduced by $2.5 million General Fund. (This does not affect the Fairview Housing Trust Fund.)
- Funding for the DD Family Support Program is reduced by 35% ($6 million General Fund).
- The DD community inclusion program, which provides clients in DD residential services with outside community services, will be reduced by $2.1 million General Fund and $7 million total funds.

- DD Special Projects community training is reduced by $1.2 million General Fund, $2 million total funds.
- The Eastern Oregon Training Center, already planned to close during the 2009-11 biennium, will close by October 2009, with the remaining 20 clients transferred to community settings ($3.8 million General Fund, $12.7 million total funds).

The legislatively adopted budget also reflects savings from cost re-projections in the Children In-Home Intensive Services Medically Fragile budget, the Juvenile Psychiatric Security Review Board program, and the Oregon Supplemental Income Program (OSIP), and from OSIP administrative savings expected as a result of HB 3065 (2009).

Oregon Project Independence (OPI) is funded at $13.2 million total funds, 1.5% more than the $13 million authorized for the 2007-09 biennium. The funding includes $10 million General Fund, and $3.2 million Other Funds. The Other Funds are senior citizen property tax deferral funds transferred from the Department of Revenue to the OPI Fund during the 2007-09 biennium, and carried forward to support program expenditures during the 2009-11 biennium. The OPI program was financed with $13 million in senior citizen property tax deferral funds during the 2007-09 biennium, but the Department of Revenue expects to make no transfers to OPI during 2009-11 because the general economic and housing downturn has reduced the deferral account's balance overall. To address concerns about OPI program funding, the Legislature directed SPD to work with its local offices, Area Agencies on Aging, and other program stakeholders to review how Oregon Project Independence services can be delivered more effectively as part of Oregon's long-term care system. The agency is to report to the appropriate interim policy committee before January 1, 2010, on this review, any changes proposed or implemented as a result of the review, any potential administrative savings, and the number of persons expected to be served in OPI within the 2009-11 funding allocation.

The legislatively adopted budget also reflects increases in Other Funds fees collected from long term care providers for trustees appointed for troubled health care facilities (HB 2139), adding $450,000 Other Funds expenditure limitation.

SPD – Program Support and Administration

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	142,746,138	125,276,738	144,492,942	131,530,774
Other Funds	14,275,833	12,137,385	14,238,417	13,942,894
Federal Funds	204,414,924	184,211,628	198,966,629	186,862,615
Total Funds	**361,436,895**	**321,625,751**	**357,697,988**	**332,336,283**
Positions	1,198	1,324	1,351	1361
FTE	1,097.29	1,149.42	1,329.16	1,338.04

Program Description

Program Support and Administration includes expenditures for the field staff that deliver SPD services, central policy and administrative functions, and program offices that provide direction, oversight, and direct services to support SPD's programs. This budget also supports the Governor's Commission on Senior Services, the Oregon Disabilities Commission, the Oregon Developmental Disabilities Council, and the Home Care Commission. Field services for seniors and people with physical disabilities are delivered through three different structures:

- "Type A" Area Agencies on Aging (AAAs) provide Older Americans Act and Oregon Project Independence services in most counties. Type A AAAs are typically private non-profit agencies. Staff are employees of the AAA.
- "Type B" AAAs are local government bodies, such as counties or councils of governments. For 2009-11, DHS has contracts with four counties to provide services in the counties of Multnomah, Lane, Linn-Benton-Lincoln, and Marion-Polk-Yamhill-Clatsop-Tillamook. These are described as "Transfer AAAs", and are staffed by local government employees. In three other counties ("Contract AAAs") – Douglas, Jackson, and Josephine – services are provided through state employees supervised by the county. At this time, both Transfer AAAs and Contract AAAs administer Medicaid, cash assistance and Food Stamps programs, and Older Americans Act and Oregon Project Independence programs.
- In Type A AAA areas, local SPD offices administer Medicaid, cash assistance and Food Stamps programs.

HB 2288 (2003) required DHS to adopt a methodology for determining the budget for Transfer AAAs that is not less than 95% of the budget for a local DHS office to do this work. The 2007-09 budget increased reimbursement for the Transfer AAAs to 90% of the estimated cost of a state office equivalent, up from 83% in the prior budget period. The Legislature has not appropriated funds to bring the reimbursement rate to a full 95% of the estimated cost.

The budget includes funding, but not positions and FTE, for the staff who work in the Type A AAAs (which are reimbursed at a flat rate of $5,000) and for the Transfer AAAs. The budget includes funding and 206 positions (200.70 FTE) for staff in the Contract AAAs. Local SPD office staff include 557 positions (549.88 FTE).

Over the past several years, DHS has contracted for staffing studies to review current workload and staffing needs. In SPD, these studies looked at Food Stamps and Medicaid eligibility determination, case management and adult protective services, Presumptive Medicaid Disability Determinations, Medicare Modernization Act Part D work, and in-home care. The studies made recommendations for potential efficiencies and process improvements, but also supported a move from caseload-based staffing models to models that reflect workload standards. In its 2009-11 agency request budget, SPD estimated the cost to implement the new workload standards in part at $12.1 million General Fund, $20.3 million total funds, and 77 positions (67.76 FTE). To date, the staffing studies have not looked at the SPD service delivery system as a whole.

The Disability Determination Services (DDS) program assesses clients' eligibility for Social Security Act claims for disability insurance (SSDI) and Supplemental Security Income (SSI). In Oregon, about 130,000 people receive federal SSDI or SSI benefits that total approximately $70 million each month. DDS includes 192 positions (191.02 FTE) which are 100% federally funded.

The program offices include the Office of Senior and Disability Services, the Office of Developmental Disability Services, the Office of Federal Resource and Financial Eligibility, and the Office of Licensing and Quality of Care. These people oversee nursing facility, community-based care facility, and developmental disability services; administer the federal Medicaid program for SPD clients and programs; and license, monitor, and provide training to improve the quality and safety of services within Oregon's long-term care system. These program office staff total 382 positions (374.40 FTE), with an additional 24 positions (22.04 FTE) in the SPD Director's office.

Revenue Sources and Relationships

Other Funds revenue comes primarily from licensing fees, local county and other governmental agency matching funds (for Medicaid). Transfer funds from the Long-Term Care Ombudsman and Board of Nursing are also matched with Medicaid and returned to these two state agencies.

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

Essential Budget Level

The Program Support and Administration essential budget level is calculated at $144.5 million General Fund and $357.7 million total funds. This is 15% General Fund and 11% total funds higher than the 2007-09 legislatively approved budget, after adjustment for the transfer of Developmental Disability Local Field Authority to DD community based care, which shifted $49 million General Fund and $111.6 million total funds from this budget to the SPD Programs budget. In addition to standard personal services cost roll-ups, the essential budget level adds staffing based on projected increases in mandated program caseloads, and reflects full biennial funding for 121 new positions (121.00 FTE) added at the end of the 2007-09 biennium with the transfer back to the state of the Clackamas County APD program and the Umatilla County DD program. The EBL budget also adds $3.1 million General Fund to replace Federal Funds for 43 Adult Protective Services positions, which are not eligible for Medicaid administrative matching funds.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget for SPD Program Support and Administration is $131.5 million General Fund, $332.3 million total funds, and 1,361 positions (1,338.04 FTE). This is 5% General Fund and 3.3% total funds more than the 2007-09 level at the close of the 2009 session, but 9% General Fund and 7.1% total funds less than EBL. The budget continues the existing operational structure and service delivery system, with selected cost reductions, but does not identify specific operational efficiencies and makes no move to staffing models that reflect workload standards rather than caseload counts.

Administrative savings of $2.4 million General Fund and $5.6 million total funds are anticipated from management actions to reduce personal services by 4% overall, and reduce administrative services and supplies expenditures by 2%. Further reductions of $4.2 million General Fund and $10.4 million total funds reflect expected savings from statewide personnel management actions and Attorney General rate reductions (HB 5054). Transfer Area Agencies on Aging will also receive a slight funding reduction based on a partial hiring freeze. The budget is also reduced for administrative savings of $972,258 General Fund and $1 million total funds for HB 3065, which allows SPD to offer noncash assistance to OSIP recipients in lieu of sending small checks.

Other reductions eliminate ongoing payments to the Homecare Union Benefits Board (HUBB) reserve for health care premiums ($1.1 million General Fund, $3 million total funds), and reduce the Home Care Worker training budget by half ($1.35 million General Fund), based on prior spending patterns. Pass-through funding to the Department of Consumer and Business Services for the Senior Health Insurance Benefits Assistance program is eliminated ($825,346 General Fund), as is pass-through funding to the Retired Senior Volunteer Program ($275,000 General Fund). General Fund support to various advisory boards and commissions will be limited ($274,249 General Fund).

The budget adds $301,937 Other Funds, $301,914 Federal Funds, and 4 positions (3.00 FTE) for provider training, technical assistance, quality improvement initiatives and licensing activities to ensure high standards for quality of care (HB 2442). State civil penalties and increased licensing fees will provide the Other Funds revenue.

DHS/Administrative Services Division – Program Area Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	144,846,699	206,169,219	245,988,408	233,322,463
Other Funds	22,787,370	52,659,688	34,667,563	84,705,851
Federal Funds	202,679,768	267,558,211	238,472,295	242,039,499
Total Funds	**$370,313,837**	**$526,387,118**	**$519,128,266**	**$560,067,813**
Positions	1,018	1,157	1,088	1,157
FTE	974.11	1,120.05	1,056.21	1,120.87

Summary Description

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

- The *Policy and Operations Section* provides overall leadership for the Department. It includes staff that monitor federal and state policies for their impact on the Department's budget and operating requirements, and ensures that DHS complies with all statutory requirements. The Director's Office houses the Office for Oregon Health Policy and Research, which was transferred from the Department of Administrative Services during the 2007-09 interim. The Office of Investigations and Training assesses all allegations of abuse and neglect and ensures protective services are offered or provided within all state-operated mental health treatment facilities and contracted 24-hour residential programs for adults and children with developmental disabilities. The Office of Multicultural Health was moved from the Public Health Division and now resides in the Director's Office. Legislative and Intergovernmental Relations advises the director and coordinates the agency's relationships with stakeholder, advocate, and advisory groups. The Governor's Advocacy Office, which provides ombudsman functions for all DHS programs and services, is also part of this budget.
- The *Finance* section includes two offices – the Office of Budget, Planning, and Analysis and the Office of Financial Services. The former provides actuary services and rate setting, budget development and monitoring, and caseload forecasting. The latter provides accounting, payroll, and accounts receivable and payable services.
- The *Administrative Services* section houses the Offices of Communications, Contracts and Procurement, Document Management, Facilities, Human Resources, Information Security, Information Services, and Payment Accuracy and Recovery. Information Services develops new information systems such as the Medicaid Management Information System (MMIS) or the OR Kids project (previously known as the Statewide Automated Child Welfare Information System, or SACWIS), and supports the Department's computer software and hardware systems. The Office of Payment Accuracy and Recovery (OPAR) is responsible for billing and collection activities for client resources that help cover costs of institutional care, overpayments to clients and providers, reimbursement from clients' health plans or other third party resources, estate collections, and other revenue sources.

Revenue Sources and Relationships

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

The 2009-11 modified essential budget level anticipates $4.6 million in Other Funds from certificates of participation (COPs) issued to pay debt service on financing for the Oregon State Hospital replacement project.

Other Funds also include collection recoveries of Medicaid and other overpayments. Most of these revenues are used elsewhere in DHS to offset General Fund expenditures for program services, but the ASD budget reflects the General Fund, Other Funds, and Federal Funds revenue to pay costs of the collection staff.

Federal Funds in the ASD budget are primarily Title XIX Medicaid administrative reimbursement. Federal Funds are also received for administrative support for Title IV-A Temporary Assistance to Needy Families, Title IV-E Foster Care and Adoption Assistance, Food Stamps, and a variety of other smaller federal program funding sources. Federal public health grants also pay a share of ASD's operating costs.

Budget Environment

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

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

Essential Budget Level

The 2009-11 modified essential budget level for the division is $519.1 million total funds ($246 million General Fund). This budget level is about $7.3 million total funds, or 1%, less than the 2007-09 legislatively approved budget, but $39.8 million General Fund, or 19%, higher than the approved budget. The General Fund increase is largely the result of higher General Fund debt service for the Oregon State Hospital replacement project and information systems projects ($15.3 million), a Federal Funds shortfall of about $10 million caused by a reinterpretation of Medicaid Targeted Case Management (TCM) and Temporary Assistance for Needy Family (TANF) rules – requiring replacement with General Fund, as well as inflationary costs ($9.6 million General Fund), and a phase-in of MMIS maintenance costs ($3.4 million General Fund) as the system is brought into service. The modified essential budget level also includes another $3.5 million General Fund to realign anticipated ASD costs with the federal cost allocation plan.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $560.1 million total funds ($233.3 million General Fund) is $41 million, or 8%, higher than the modified essential budget level for total funds. General Fund is $12.7 million, or 5% less than the essential budget level.

The adopted budget includes nearly $67.9 million total funds ($27.1 million General Fund) of administrative reductions, largely to personal services and services and supplies. These reductions include DAS assessment reductions as well as statewide personal services actions. Offsetting these reductions in the overall budget are a variety of program enhancements including the following:

- Information system enhancements (core information technology upgrade, Public Health and Children, Adults, and Families automation and modernization project, OR KIDS, and a provider payment and payroll system).
- Higher administrative funding associated with Oregon State Hospital (OSH) staffing increases ($3.9 million General Fund, 13 positions (13.00 FTE)).
- Expansions of the Oregon Health Plan (OHP Standard and the Health Care for All Oregon Children initiative – a total of $15.1 million total funds and 29 positions (27.90 FTE)).
- General Fund debt service increases related to information systems projects ($4.9 million).
- Other Funds debt service for the OSH replacement project ($17.6 million).

The adopted budget also includes $6.2 million total funds ($3 million General Fund) along with 14 positions (11.75 FTE) for Health Policy Planning and the Oregon Health Fund Board. These funds and positions were added to support initiatives included in HB 2009. This legislation establishes the Oregon Health Policy Board and its executive branch arm – the Oregon Health Authority. It requires the Board to develop a plan to provide and fund access to affordable health care for all Oregonians by 2015 and also directs the board to implement a variety of specific health care reforms that will reduce health care costs and improve the quality of health care.

HB 2009 also transfers the DHS Public Health Division, the Division of Medical Assistance Programs and the Addictions and Mental Health Division to the Board's jurisdiction by the end of the 2009-11 biennium. For ASD this transfer will require significant work to allocate administrative costs (both federal and state) and budget to one of two agencies – the Health Fund Board or the remaining DHS; and to make choices about which entity is authorized to manage particular administrative functions, such as human resources, information systems (the Medicaid Management Information Systems), or contracts and procurement. This effort should not be underestimated.

DHS/Capital Improvements

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	771,383	448,318	1,163,318	663,318
Total Funds	**$771,383**	**$448,318**	**$1,163,318**	**$663,318**

DHS/Capital Construction

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	2,103,716	929,000	0	0
Other Funds	1,015,001	89,022,165	0	279,179,118
Total Funds	**$3,118,717**	**$89,951,165**	**$0**	**$279,179,118**

Program Description

The capital improvements budget sets aside $0.7 million General Fund for emergency repairs for the Oregon State Hospital (OSH) and the Blue Mountain Recovery Center in Pendleton. The campuses include 100 buildings with a total of 1.4 million square feet. There are roads, sidewalks, parking areas, water and sewer systems, and heating and electrical systems.

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

The 2007-09 and 2009-11 capital construction budgets include expenditure limitation to allow work on a new Oregon State Hospital in Salem. This project is described in more detail below.

Budget Environment

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

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

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

During the 2007-09 biennium, extensive planning work began on the OSH replacement project in Salem. DHS hired a variety of consultants and contractors, did extensive planning, and finally, in September 2008, broke ground for the new Salem facility. The budget for both the Salem and Junction City facilities is about $458.1 million. DHS provided regular project updates at most interim Joint Committee on Ways and Means and Emergency Board meetings throughout the 2007-09 biennium and offered testimony about the project during the agency's Joint Committee on Ways and Means' hearings during the 2009 legislative session.

At the latter part of the 2007-09 biennium, some policymakers questioned the need for the Junction City facility, wondering instead, whether both the resources used to finance and operate that site might be better used to enhance community-based mental health services. In November 2008, DHS provided the interim Joint Committee on Ways and Means an estimate of financing and operating costs for the Salem and Junction City hospitals through the 2013-15 biennium. Those estimates show that Junction City would have an operating cost in the 2013-15 biennium of nearly $213 million – supported, in large part, with General Fund.

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

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

The 2009 Joint Committee on Ways and Means wrestled with the question of whether Oregon could build a stronger community-based mental health system quickly enough, to delay or eliminate the need for the Junction City facility – given the current obstacles: budgetary constraints, community opposition to the siting of new community-based residential treatment facilities, as well as necessary planning and execution time. In the end, the consensus was that a hospital facility needed to be established at the Junction City site – but that it might be possible for it to be somewhat smaller, given the ongoing development of more community-based alternatives. Precise construction decisions concerning Junction City can be delayed for a time, but during the 2009-11 biennium will need to be resolved in order to meet projected timelines for construction and demand for services.

Essential Budget Level

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

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

Legislatively Adopted Budget

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

Long-Term Care Ombudsman – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	581,337	947,535	1,184,701	1,174,082
Other Funds	1,487,945	1,828,365	2,000,527	1,932,156
Total Funds	**$2,069,282**	**$2,775,900**	**$3,185,228**	**$3,106,238**
Positions	9	11	11	11
FTE	8.16	10.00	10.50	10.50

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

Agency Overview

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

Revenue Sources and Relationships

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

Budget Environment

The demand for ombudsman services is directly related to the number of long-term care facilities and clients. In 2008, Oregon's long-term care system had 42,362 beds, in 142 nursing facilities, 232 residential care facilities, 204 assisted living facilities, and 1,588 non-relative adult foster homes. As the population ages, the long-term care system is also expected to grow. However, the number of certified volunteers providing ombudsman services is constrained by the number of LTCO staff available to provide training and technical assistance, which has not kept pace with the growth in the number of long-term care facilities and clients. The 2007 Legislature funded two new Deputy Long-Term Care Ombudsman positions that phased-in during the 2007-09 biennium. Even with its new positions, however, Oregon has a ratio of just 1.00 FTE paid ombudsman for over 6,000 facility beds, significantly more than the 1.00 FTE per 2,000 beds recommended by the Institute of Medicine in 1995.

Essential Budget Level

The essential budget level for the LTCO is $237,166 General Fund (25%) and $409,328 total funds (14.7%) higher than the 2007-09 legislatively approved budget. It includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. It also reflects full funding for the two Deputy Long-Term Care Ombudsman positions phased in during 2007-09.

Legislatively Adopted Budget

The adopted budget reflects the essential budget level after a net reduction of $10,619 General Fund and $78,990 total funds for Attorney General rates, certain state government service charges, and personal services savings. The budget also shifts staffing and resources within existing funds to improve support for volunteer recruitment efforts; this reorganization eliminates the agency deputy position, adds a new volunteer recruitment specialist position, and makes other personnel and expenditure adjustments to improve the agency's capacity to respond to complaints, close cases, and increase the number of facility visits.

Office of Private Health Partnerships – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	25,075,821	22,611,503	26,326,825	21,291,139
Other Funds	56,349,908	50,928,448	59,923,264	123,025,624
Total Funds	**$81,425,729**	**$73,539,951**	**$86,250,089**	**$144,316,763**
Positions	58	53	53	82
FTE	56.80	52.42	52.50	76.08

Agency Overview

In 2005, the Legislature abolished the Insurance Pool Governing Board and established the Office of Private Health Partnerships (OPHP) to assume the management of the Information, Education, and Outreach (IEO) program and the Family Health Insurance Assistance Program (FHIAP). The 2009-11 legislatively adopted budget adds one additional program called Kids Connect, that is funded with health care premium assessment revenue (HB 2116) and matching Federal Funds received by OPHP through the Department of Human Services (DHS) as Other Funds. The IEO program serves as a central source for employers and individuals concerning information about health care resources and health insurance. FHIAP provides health insurance premium subsidies to previously uninsured, low-income families and individuals.

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

The 2001 Legislative Assembly restored OPHP's responsibility for offering health insurance plans for small employers (HB 3126). The 2003 Legislative Assembly directed OPHP to increase access to health insurance and health care by providing affordable health benefit plans for small employers with at least two, but no more than 50 employees (HB 2537). In response to this directive, OPHP worked with insurance carriers and developed two proposed "certified" plans. While both of these plans were eligible for FHIAP premium subsidies and the agency attempted to market these plans aggressively, response to these products was negligible.

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

Program Description

The ***Information, Education, and Outreach*** program conducts continuing education training for insurance agents, markets generic health insurance to small employers, and provides referrals to specially trained health insurance agents. The agency has two full-time marketing positions, but otherwise shares staff and administrative resources with the Oregon Medical Insurance Pool Board (OMIP) in the Department of Consumer and Business Services. The 2009-11 legislatively adopted budget level for IEO is about $0.6 million total funds ($0.5 million General Fund).

The ***Family Health Insurance Assistance Program*** was created in 1997 as an expansion of the Oregon Health Plan (OHP) and is regulated by federal Medicaid waivers and administrative rules. It provides direct premium subsidies to low-income individuals who may earn too much to qualify for Medicaid, but not enough to completely afford their employer's health benefit coverage or an individual health insurance policy. FHIAP provides subsidies ranging from 50% to 95% of the premium cost, depending on household income. Although the 2003 Legislative Assembly adopted legislation that allows persons in households of incomes up to 200% of the Federal Poverty Level (FPL) to receive FHIAP premium assistance, the current program only subsidizes premiums for households earning up to 185% of the FPL. The 2009-11 legislatively adopted budget level for FHIAP is about $73.7 million total funds ($20.8 million General Fund).

To qualify for the subsidy, persons must have been uninsured for six months except for those enrolled in Medicaid. Participants must accept employer-based coverage in cases where there is an employer contribution. Those without access to employer-based coverage, or in cases where the employer does not make a contribution, choose from plans certified by the agency. Adults may receive the subsidy only if all children in the family are covered by a health insurance program. Enrollees are responsible for any co-payments, co-insurance, and deductibles of the plans they select, as well as the unsubsidized portion of the premium. The program is not an entitlement, and enrollment is on a first-come, first-served basis.

The *Healthy Kids Program* was created by the 2009 Legislative Assembly as part of the Health Care for All Oregon Children initiative, established in HB 2116. Although the Department of Human Services (DHS) will take the lead on this initiative, OPHP has a significant role in its implementation. The Office is charged with several tasks. First, OPHP staff must develop a benefit plan that will be called KidsConnect. This plan will provide health insurance coverage that is similar to that offered through the Children's Health Insurance Program or Medicaid by DHS. Second, OPHP will issue a request for proposals to obtain contracts with insurance carriers who will offer the KidsConnect benefit plans. Third, the agency will provide premium assistance to families with household incomes between 200% and 300% of the federal poverty level (up to $66,150/year for a family of four in 2009) to purchase health insurance through OPHP. Families with incomes up to 300% may receive premium assistance to obtain health insurance through an employer. The adopted budget for the Healthy Kids Program in OPHP is about $70 million total funds and includes funding for both premium assistance and administrative costs. This budget anticipates that the OPHP Healthy Kids Program will serve nearly 34,000 children by the end of the 2009-11 biennium.

Revenue Sources and Relationships

General Fund comprises about 14.8% of the OPHP 2009-11 legislatively adopted budget. Other Funds expenditure limitation of $123 million is 85.2% of the adopted budget. Most of this Other Funds expenditure limitation ($99.8 million) is supported with federal Medicaid and Children's Health Insurance Program (CHIP) revenue that is transferred from DHS. Another $23.1 million of Other Funds expenditure limitation is funded with revenue generated from a newly established health care insurance premium tax, in HB 2116.

The OHP 2 waiver which began in November 2002, allowed Oregon to receive both federal CHIP and Medicaid matching funds on FHIAP state expenditures. (The subsequent waiver, which began in November 2007, prohibits the use of CHIP funds for adult premium subsidies.) CHIP revenue requires match of approximately 27% state funds to 73% federal funds and Oregon's Medicaid program has recently been matched at about 39% state funds to 61% federal funds. However, the federal share of the Medicaid program was increased significantly by Congress as part of the American Recovery and Reinvestment Act (ARRA) and the average Oregon match rate for 2009-11 is expected to be about 30% state funds to 70% federal funds.

Budget Environment

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

Second, higher health insurance premiums have, in turn, led to fewer employers offering employer-based coverage. Nationally, 69% of employers offered health insurance to their workers in 2000. By 2008, that percentage had dropped to 63%. As the percentage of firms offering health insurance declined, rates of uninsurance increased. The Office of Health Planning Policy and Research estimated that, in 2000, there were approximately 422,000 people in Oregon (12% of the population) who did not have health insurance. The most recently published estimate, based on the 2006 Oregon Population Survey, is that 15.6% of Oregon's population, or about 600,000 persons, are uninsured. (The Office of Health Policy and Research indicates that it will release a report with a more recent estimate of the uninsured population in Oregon in September 2009.) The Legislative Fiscal Office (LFO) now believes, given the current economic recession, that the percentage of uninsured persons in Oregon is higher that it was in 2006.

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

By August 2009, these three factors, along with a weakening economy, had led to a waiting list for FHIAP assistance of over 47,000 people.

Essential Budget Level

The essential budget level for OPHP is $86.3 million total funds ($26.3 million General Fund), about 17.4% higher than the 2007-09 legislatively approved budget of $73.5 million total funds through the end of the 2009 legislative session. It includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. In addition, the essential budget level includes $1.2 million total funds ($0.3 million General Fund) for medical inflation of 4.4% for the biennium. As an important aside, this allowed medical inflation rate will probably be lower than the actual increase in health insurance premiums for the 2009-11 biennium.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $144.3 million total funds is about 67.2% higher than the essential budget level and 96.3% higher than the 2007-09 legislatively approved budget of $73.5 million. General Fund ($21.3 million) in the adopted budget, however, is lower than both the 2009-11 essential budget level and the 2007-09 approved budget by 19% and 5.8%, respectively.

The budget is primarily the result of two factors. First, the Legislature sought to reduce or limit the growth of General Fund within certain agency budgets to respond to the state revenue situation. As a consequence, this budget reduces funding for FHIAP by $5 million General Fund ($11.9 million total funds) from the 2009-11 essential budget level of $25.8 million General Fund ($85.6 million total funds) – about a 19.4% General Fund reduction and a 13.9% total funds reduction. (The total funds reduction to FHIAP includes the removal of $11.8 million of Other Funds and Federal Funds of “empty” or unsupported expenditure limitation.) Second, as noted above, the budget reflects the addition of the Healthy Kids Plan ($70 million total funds, 39 positions (33.58 FTE).

Psychiatric Security Review Board – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	873,358	1,095,087	1,413,015	1,140,855
Other Funds	0	2,000	2,056	2,056
Total Funds	**$873,358**	**$1,097,087**	**$1,415,071**	**$1,142,911**
Positions	5	5	5	5
FTE	4.75	5.00	5.00	5.00

Agency Overview

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

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

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

Revenue Sources and Relationships

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

Budget Environment

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

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

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

Essential Budget Level

The essential budget level for PSRB is $317,984 total funds, or 29%, more than the 2007-09 legislatively approved budget as of June 2009. It includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, state government service charges, and a significant increase in state central computing costs. The increase in computing costs was adjusted out of the legislatively adopted budget since further review indicated the increase was not correctly aligned with the agency's actual usage.

Legislatively Adopted Budget

The legislatively adopted budget for the Board is $1,142,911 total funds, which represents a 4.2% increase from the 2007-09 legislatively approved level. The adopted budget maintains stability as the agency was held harmless from program reductions. Such reductions would have further compromised either the hearings process or the supervision of clients on conditional release. The budget does reflect statewide reductions in compensation, assessments, and rates.

The budget does not provide any new resources to address the agency's workload issues. A fall 2008 review by the Department of Administrative Services indicated PSRB would need three additional positions to fully meet its workload demands and statutory timelines. Short-term assistance in 2007-09 from the Department of Human Services (DHS) was able to provide some relief from overtime costs and workload issues, but this help is not expected to be available in 2009-11.

The Legislature passed HB 2853, which requires PSRB to process relief petitions and hearings for persons subject to a firearms ban. The bill creates a new program with a projected fiscal impact of about $500,000 a biennium; the estimated staffing need is three positions. Since the measure makes program implementation contingent on federal funding, the program was not included in the adopted budget. Expenditure limitation and position authority will be addressed when dollars becomes available.

NATURAL RESOURCES

Department of Agriculture (ODA) – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	14,835,593	14,210,873	17,393,910	14,264,994
Lottery Funds	10,924,178	10,358,644	10,799,970	10,144,720
Other Funds	40,181,341	52,213,165	49,108,221	49,174,448
Federal Funds	7,357,069	8,338,822	6,751,898	12,287,361
Total Funds	**$73,298,181**	**$85,121,504**	**$84,053,999**	**$85,871,523**
Positions	513	527	517	503
FTE	364.12	375.05	368.29	357.02

Agency Overview

The Department of Agriculture's mission is centered on three broad policy areas of ensuring food safety and providing consumer protection, protecting agricultural natural resources, and promoting economic development in the agricultural industry. The agency emphasizes public education and technical assistance in its provision of regulatory oversight on legislatively mandated programs. Oregon's agricultural industry is one of the state's most important economic activities. Producers are active in over 225 major commodities with a farm level value of more than $5 billion per year. Another $1.5 to $2 billion per year can be counted as value-added through food processing activities.

The Department consists of permanent staff and 131 seasonal employees. The permanent staff is primarily located in Salem, Portland, or one of nine regional offices. Seasonal employees are used to provide industry requested inspection services in the Commodity Inspection, Animal Health and Identification, and Plant Divisions and are located throughout the state.

ODA – Administration and Support Services

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	1,318,124	1,661,335	1,804,726	1,340,946
Other Funds	6,152,554	6,810,973	7,018,645	7,097,527
Total Funds	**$7,470,678**	**$8,512,308**	**$8,823,371**	**$8,438,473**
Positions	40	41	41	38
FTE	40.00	41	39.11	37.97

Program Description

Administration and Support Services provides policy direction and support functions for the agency, including financial management, development and maintenance of information systems, public information, personnel, purchasing, budget development, grants administration, license processing, facilities management, and fleet operations. The Office of the Director is also included within the Administration and Support Services program area. The program also provides accounting services for the Beef Council and auditing services for other commodity commissions when there is a change of administrator at a commodity commission.

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.
Resources program description.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget includes savings of $142,524 General Fund and $117,206 Other Funds from passage of HB 2999 (2009) which suspended operation of the Pesticide Use Reporting System (PURS) for the biennium. One of the information technology positions in the PURS program that would otherwise be eliminated was retained using Other Funds revenues from administrative charges, resulting in an increase of approximately $250,000 Other Funds. The budget also includes $127,900 General Fund savings from elimination of a Human Resources position and $142,865 in savings from shifting a Farm Mediation program position to all Other Funds support in place of General Fund.

ODA – Food Safety

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	6,472,201	4,557,672	7,083,135	6,115,954
Other Funds	14,768,154	21,506,784	19,303,385	18,859,915
Federal Funds	887,674	733,044	513,479	963,479
Total Funds	**$22,128,029**	**$26,900,836**	**$26,899,999**	**$25,939,348**
Positions	191	187	187	182
FTE	125.47	122.71	122.71	115.48

Program Description

The Food Safety Policy Area consists of the Food Safety, Measurement Standards, Animal Health and Identification, and Laboratory Services Divisions. These divisions are primarily responsible for addressing public concerns over the safety of the food supply, the regulation of livestock diseases, and the accurate labeling and packaging of food products and other goods.

- The ***Food Safety*** Division's mission is to ensure a safe, wholesome, and properly labeled food supply. The program is implemented by a combination of central support staff and field inspectors to license and inspect all food establishments except food service providers. The Division uses 33 field inspectors located throughout the state to sample food and inspect over 8,900 facilities including dairies, food processors, grocery stores and meat markets, food storage warehouses, bakeries, delicatessens, and home kitchens operated for commercial purposes. Inspectors examine food handling practices and equipment for safety and cleanliness. The Division also operates the shellfish program to monitor shellfish and their habitats for bacteria and toxins.
- The ***Measurement Standards*** Division licenses and inspects measuring devices to prevent consumer fraud by ensuring goods are accurately weighed and measured. Devices licensed and/or examined by the Division include store checkout scales and scanners, gas station pump meters, truck scales, livestock scales, propane bottle fill and truck delivery meters, and produce scales. The Division also ensures motor fuels meet national quality standards. Weighing and measuring devices are licensed, inspected, and certified by 20 field inspectors. It is projected that there are currently over 53,000 such measuring devices.
- The ***Animal Health and Identification*** Division protects Oregon's human and animal communities from infectious animal diseases and deters livestock theft through the registration and inspection of livestock brands. The Division also regulates and permits exotic animals, regulates commercial feeds, and operates animal damage control programs in partnership with local governments and the U.S. Department of Agriculture. The Division includes 67 brand inspectors who inspect all cattle sold in Oregon and all cattle leaving the state to ensure legal ownership. The Division also has responsibility to deal with issues concerning stray livestock. Veterinary products and commercial feeds are registered and monitored for compliance with state and federal laws.
- The ***Laboratory Services*** Division provides analytical services for the Department's food safety, pesticide, natural resource, feed, and fertilizer regulatory programs. The lab program uses physical, chemical, microbiological, immunological, molecular, and chromatographic methods to test food and feed supplies. The Division also provides an export certification program through the Export Service Center (ESC) to assist

domestic companies in meeting the food safety import requirements of foreign countries. The ESC is a certified customs laboratory for Japan, Taiwan, and Korea, which eases entry of Oregon agricultural products into these markets.

Revenue Sources and Relationships

The Food Safety Policy Area is funded primarily through Other Funds consisting of licenses issued to wholesale and retail businesses, charges to public and private entities for lab analysis, veterinary product registration fees, livestock brand inspection service fees, and other registration fees and charges for services. Some services for federal agencies under service contracts are reported as Other Funds. Federal funding consists of grants for Laboratory Services, funds for the Animal Health and Identification Division relating to BSE or Mad Cow disease and other animal disease testing, and contracts for random sampling of products.

Budget Environment

Several factors continue to contribute toward increases in workload. Population growth brings a corresponding increase in the number and complexity of food establishments. In addition, over 750 food product sampling and testing inspections are done under contract for the Food and Drug Administration (FDA) each year. It is likely the FDA will continue to rely on state inspections as it continues to divert resources toward Homeland Security activities.

Changes in commercial weighing, measuring, and packaging technologies have made monitoring measures and labels more difficult. The Measurement Standards Division is responding to additional federal standards and increased demand for technical assistance from businesses. The Animal Health and Identification Division faces the challenge of maintaining program effectiveness with reduced General Fund support. These factors, along with the fact program fees have not been raised to keep up with the increased cost of providing program services, have caused the Department to request a fee increase. Fees in the Weights and Measures program were increased in 2007 for the first time since 1992 and fees in the Livestock Identification program were last increased statutorily in 2007.

Legislatively Adopted Budget

Actions taken to reduce General Fund expenditures include reducing special payments to USDA – APHIS Wildlife Services for predator control activities by $335,009; shifting some animal health expenditures to Other Funds ($269,060); eliminating funding for packaged product weight testing ($108,436); and a one-time fund shift in the Commercial Feeds program using Other Funds balances ($78,708).

The Livestock Identification program is projected to continue to face revenue challenges in 2009-11. Estimated revenues are unable to support continuing 2007-09 expenditure levels, therefore program expenditures were reduced by $1.3 million using a revenue shortfall package to match anticipated revenue. About $350,000 of these expenditures were restored through an increase in the brand inspection fee. The Department had also requested General Fund to make long delayed purchases of new equipment for the laboratory. However, due to General Fund constraints the legislatively adopted budget instead used $600,000 Other Funds from program support revenues to make these purchases. The budget also added $450,000 Federal Funds expenditure limitation to accommodate recent experiences of higher federal funding for such things as animal health programs.

ODA – Natural Resource

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	3,869,938	5,042,813	4,382,357	3,534,269
Lottery Funds	10,889,778	10,323,454	10,763,998	10,122,720
Other Funds	10,944,256	13,801,838	11,888,320	12,365,965
Federal Funds	5,120,617	6,964,577	4,295,675	5,399,272
Total Funds	**$30,824,589**	**$36,132,682**	**$31,330,350**	**$31,422,226**
Positions	157	157	157	154
FTE	122.01	122.76	120.26	119.86

Program Description

The Natural Resource Policy Area includes the Natural Resources, Pesticides, and Plant Divisions. These three divisions are responsible for protecting the state's agricultural natural resource base.

- The ***Natural Resources*** Division's mission is to conserve, protect, and develop agricultural natural resources on public and private land to ensure agriculture will continue to be productive and economically viable. The Division administers programs to: provide administrative oversight and financial assistance to Soil and Water Conservation Districts; regulate confined animal feeding operations (CAFOs); conduct field burning smoke management and research; implement agricultural water quality management plans (SB 1010); and conduct groundwater research and development. The Division consists of 28 Salem-based staff and 9 field staff positions.
- The ***Pesticides*** Division administers state laws regulating the availability of fertilizer and pesticide products, and the uses of these products. Fertilizer regulation involves the content of plant nutrients contained in fertilizers used for consumer, agricultural, and forest purposes. Naturally occurring materials, such as manure and compost, are not regulated. Pesticide regulation includes product registration, distribution and use recording, user licensing, and use of the products.
- The ***Plant*** Division uses permanent staff and seasonal employees to detect and eradicate exotic insect pests, and weeds, as well as, inspect and certify nursery stock, Christmas trees, and seed crops for pests and diseases. The Division also includes inspection of imported exotic raw logs and wood products. The spread of invasive plants on public and private land remains a growing concern for land managers. This Division also protects threatened and endangered plants. The State Weed Board helps set priorities for the control of nuisance invasive plant species and funds local and regional weed control projects.

Revenue Sources and Relationships

The Natural Resource Policy Area is funded by a variety of revenue sources. General Fund and Lottery Fund revenues provide over 50% of the policy area revenue, but are provided primarily to the Natural Resources and Plant Divisions. Lottery Funds have been provided to the Plant Division beginning in the 1999-2001 biennium for weed control activities from Measure 66 Lottery Funds dedicated to salmon and habitat restoration. Lottery Funds have also been provided to the Natural Resources Division to support the Agricultural Water Quality program and Department based support services to Soil and Water Conservation Districts. Other Funds include revenue from licenses and fees, such as oyster fees, CAFO registrations, field burning fees, nursery and Christmas tree licenses, and pesticide applicator fees. Other Funds also include revenue from reimbursable work and charges for services. Federal Funds are received for plant conservation and water quality programs through cooperative agreements with the U.S. Environmental Protection Agency, the U.S. Department of Agriculture, the Bureau of Land Management, and the Bonneville Power Administration.

Budget Environment

Population growth in Oregon has led to increased competition for available natural resources, including water and land. The Department's level of involvement with coordination and development of water use, land use, and conservation plans with other agencies and affected parties has been steadily increasing. Conservation issues are becoming more complex, requiring more planning and inter-agency cooperation. Nonpoint source pollution control, threatened and endangered plant species, confined animal feeding operations, and field burning alternative programs will continue to call for agency attention. The Plant Division has also continued to develop model conservation plans for the 58 species on the state list of threatened and endangered plants. This list was reduced from 61 species during 2001-03.

The Department's Natural Resources Division has a prominent role in the state's Oregon Plan for the restoration of salmon and watersheds. The Division is charged with implementing aspects of the plan dealing with water quality standards in agricultural areas. Under the provisions of SB 1010 (1993) and the Oregon Plan, staff worked with landowners to develop agricultural water quality management plans to meet state water quality standards in basins where agricultural nonpoint source pollution is a major factor. All plans are now complete and the Department has begun implementation efforts. In conjunction with this effort, the Division also has positions dedicated to working with confined animal feeding operations (CAFOs) to improve the level of compliance with water quality regulations. As part of the Division's efforts to achieve delegation from the Environmental Protection Agency for Clean Water Act CAFO permit responsibilities, the CAFO administrative rules were evaluated and rewritten. State efforts to enhance salmon populations and riparian habitat have focused attention on local Soil and Water Conservation Districts (SWCDs). The Natural Resources Division has a long tradition of working with the existing 45 SWCDs to deliver conservation programs for water quality improvements and watershed management. The 2007-09 legislatively adopted budget transferred funding for operation of Soil and Water conservation Districts to the Oregon Watershed Enhancement Board (OWEB) since all of the funding for SWCD support will come from OWEB funds.

The Pesticides Division is responsible for implementing a statewide pesticide use reporting system (PURS) established by the Legislature in HB 3602 (1999). The reporting system was designed with a phased-in approach using the 1999-2001 biennium to create a framework. Funding for completion and implementation of the system was removed during the 2001-03 biennium and no funding was provided for the 2003-05 biennium either. Funding to restart the program was finally included in the 2005-07 legislatively adopted budget and the system began operation in January 2007. Funding for the base regulatory pesticides program comes from fees. The PURS program is due to sunset in December 2009.

To assure sufficient funding to operate the base pesticide program beyond the 2003-05 biennium, the Department requested the 2005 Legislature to increase the maximum fees allowed by statutes. While an increase in the annual pesticide product registration fee to $250 was authorized, the fee charged has continued at $160 since January 2006. Increases in this fee, to a maximum of $250, are anticipated to occur in the future, and some increase from the current $160 fee may occur as soon as the 2009-11 biennium.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget includes savings of $244,128 General Fund and $219,892 Other Funds from passage of HB 2999 (2009) which suspended operation of the Pesticide Use Reporting System for the biennium, which represents the portion of the program housed in the Natural Resources program area. The budget also eliminated General Fund support for pesticide outreach activities generating savings of $143,319. The 2009-11 budget also shifted $328,762 of expenditures for the Pesticide Analytical Response Center from General Fund to Other Funds. The adopted budget also includes eliminating two positions in the Agriculture Water Quality program funded with $380,000 Measure 66 operations Lottery Funds to match overall Measure 66 expenditures to forecasted revenue for Lottery Funds.

The Nursery program projected revenue would have been insufficient to meet 2009-11 essential budget level expenditures, which caused a reduction of $700,000 in Other Funds expenditure limitation to match current law revenues. The adopted budget ratified an administrative increase in nursery program fees that occurred in 2008 to restore all these expenditures. The budget added a position in the fertilizer program ($185,502 Other Funds) to monitor fertilizer products and two inspector positions to investigate pesticide complaints ($370,968 Other Funds). The budget also added $750,000 Federal Funds expenditure limitation to accommodate recent experiences of higher federal funding. The adopted budget also added $200,000 Other Funds and $350,000 Federal Funds for potential grants or donations to the Invasive Species Council to increase statewide education efforts on the risks of invasive species introduction.

ODA – Agricultural Development

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	3,175,330	2,949,053	4,123,692	3,273,825
Lottery Funds	34,400	35,190	35,972	22,000
Other Funds	8,316,377	10,053,570	10,897,871	10,851,041
Federal Funds	1,348,778	641,201	1,942,744	5,924,610
Total Funds	**$12,874,885**	**$13,679,014**	**$17,000,279**	**$20,071,476**
Positions	125	132	132	129
FTE	76.64	86.21	86.21	83.71

Program Description

The Agricultural Development Policy Area consists of the Agricultural Development and Marketing Division and the Commodity Inspection Division. The mission of the Agricultural Development and Marketing Division is to work with the state's agricultural producers to increase sales in both domestic and international markets through product and market development of high value-added food and agricultural products. The program provides producers with information on product positioning, market research, sales promotion, buyer access, logistical and transportation planning, and tariff and non-tariff barrier consultation. The Division organizes, coordinates, and participates in agriculture trade shows and wholesaler technical seminars in both offshore and domestic markets. The Division's primary geographic emphasis is on Pacific Rim markets and, to a lesser degree, Europe and the Americas. The program attempts to provide assistance to the state's small to medium sized companies in need of expanded markets while providing new trade opportunities to experienced exporting businesses.

The Commodity Inspection Division assists growers and industry in moving products into the domestic and international markets through inspection, grading, and certification. During the 2001-03 biennium, the Division implemented Good Agricultural Practices and Handling Practices audits at the behest of industry. This effort provides official third party verification of efforts to reduce microbial contamination of fresh fruits and vegetables. The Shipping Point Inspection program provides inspection on over 3.3 billion pounds of produce for processing (primarily potatoes) and 1.5 billion pounds of fresh fruit, vegetables, and nuts each year. The program has undergone significant restructuring recently as it moves away from relying on part-time agency employed inspectors, to using full-time employees to oversee and audit inspections conducted by employees of the processors. This has lead to a reduction of 139 positions in the Shipping Point Inspection program since restructuring began.

Revenue Sources and Relationships

The Agricultural Development and Marketing Division is funded primarily with General Fund. The Division receives a small amount of Other Funds from outside marketing projects. Federal Funds are received for special commodity marketing projects. The Commodity Inspection Division is entirely funded by Other Funds revenues from inspection, certification fees, and establishment licenses. The Shipping Point Inspection program increased fees administratively during the 2005-07 biennium.

Budget Environment

Oregon agricultural producers currently sell 80% of their products outside of the state and 40% outside the country. Assistance for farmers, ranchers, and specialty food producers in finding new domestic and global markets for their products is a priority for the Department. Building markets is accomplished through market research, attendance at trade shows, direct negotiations with international buyers, and promotional activities aimed at specific Oregon products. The Commodity Inspection Division validates and promotes Oregon agricultural products through inspection and certification services and communications with producers, wholesalers, and retailers and its activity level is driven solely by the demand for its services.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget includes eliminating $343,155 General Fund for renewable energy projects funding, elimination of an agricultural marketing position saving $175,000 General Fund, and reducing plant health laboratory services by $144,727 General Fund. The approved budget also reduced Lottery Funds provided for County Fair Commission administration by $13,972 that will allow only one meeting per year. The budget also made a one-time shift of $192,219 for a Renewable Energy Technical Assistance position from General Fund to Other Funds from the Energy Supplier Assessment Other Funds. Finally, $4 million Federal Funds expenditure limitation was added to accommodate specialty crop grant funding received from the U.S. Department of Agriculture from the latest iteration of the federal Farm Bill.

Columbia River Gorge Commission (CRGC) – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	852,939	1,050,770	1,179,356	860,811
Other Fund	0	0	0	73,030
Total Funds	**$852,939**	**$1,050,770**	**$1,179,356**	**$933,841**

Agency Overview

The Columbia River Gorge Commission (CRGC) was authorized by the 1986 Columbia River Gorge National Scenic Area Act and created as a regional agency through an interstate compact between Oregon and Washington. The agreement between the Governors' offices of Oregon and Washington, and legislative statutes, form the basis of the relationship between the states and the federal government. The Commission was established to implement the National Scenic Area Act's purposes of protecting and enhancing the scenic, cultural, recreational, and natural resources of the Gorge while encouraging compatible growth within existing urban areas of the Gorge region and allowing future economic growth.

The Commission functions as the permanent regional land use policy body for the Scenic Area, a 292,000-acre region stretching along both shores of the Columbia River for 80 miles, just east of the Portland OR-Vancouver WA metropolitan area. The Columbia River Gorge encompasses three counties in Oregon (Hood River, Multnomah, and Wasco) and three in Washington (Clark, Skamania, and Klickitat) and includes 13 designated Urban Areas. The Commission consists of 13 members, one appointed by each of the six counties within the Scenic Area, six appointed by the two states (three by each Governor), and one ex officio, non-voting member appointed by the U.S. Secretary of Agriculture. The Commission's office is in White Salmon, Washington, and functions with employees of the State of Washington.

The Commission has an oversight role for the entire Scenic Area and functions as a facilitator and resource for collaborative regional efforts. Commission responsibilities include the adoption and maintenance of a management plan, review and approval of local land use ordinances for the Scenic Area, appellate review of decisions made under the ordinances, and coordination of Gorge resource development efforts envisioned by the Scenic Act. The Commission adopted the initial management plan in 1991. Under the management plan, the Commission sets policy for land use and resource protection on non-federal lands in the Gorge, monitors implementation of the plan, ensures that Scenic Area ordinances are effective, and facilitates enhancements of the economic, natural, scenic, cultural, and recreational resource elements of the Scenic Area. Five of the 6 counties are implementing the management plan through locally adopted land use ordinances. Klickitat County, Washington, has not adopted land use ordinances, leaving review of proposed developments to the Gorge Commission.

Revenue Sources and Relationships

The Scenic Act was approved at the federal level, and the intent of the states was to maintain a level of local control as expressed through a bi-state compact. The Columbia River Interstate Compact is a binding legal document that requires each state to pay its Commission members' expenses and to contribute equally to operating costs to perform all functions and responsibilities in accordance with the Compact and Act. The executive state offices and matching state statues reflect this ongoing commitment. Because of this requirement, the budget is, in effect, set by the state appropriating the lesser amount for operational expenses. The Commission has also received grant funding for monitoring program activities and other special project work from the federal government. These grant funds are generally not factored into the development of the Commission's operating budget. The Commission collects no revenue from fees, licenses, or assessments.

Budget Environment

The proximity of the entire Gorge area to the Portland/Vancouver population base affects planning efforts with pressures for new development, changing composition of urban areas, availability of affordable housing, uses of resource lands, and increased visitation to tourism and recreation sites. As the regional planning agency, the Commission must work with stakeholders to ensure these pressures are dealt with in a manner consistent with the requirements of the National Scenic Area Act. The broad mission of the Commission results in many interpretations by the various individuals and groups that recreate and live in the Columbia River Gorge. This has led to controversy regardless of which side of an issue the Commission chooses.

According to the Commission, base funding levels for Commission activities represent the most limiting factor affecting fulfillment of key strategies and mandated responsibilities. Oregon and Washington frequently fund at a different level. This significantly impacts the Commission because any reduction in one state's funding of the joint expenses program will reduce the other state's contribution by the same amount. While Washington budgets biennially, they allot annually. Unspent funds do not carry over from one fiscal year to another. The public increasingly expects to obtain rapid and efficient responses for information. 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. In addition, a new Director was hired by the Commission starting work in September 2006.

CRGC – Joint Expenses

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	799,004	1,028,000	1,156,133	837,588
Other Funds	0	0	0	73,030
Total Funds	**$799,004**	**$1,028,000**	**$1,156,133**	**$910,618**

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 7.71 FTE, all of which are considered to be employees of the State of Washington. The staff positions include an Executive Director, a principal planner, three land-use planners (2.50 FTE), two administrative support positions (1.75 FET), legal counsel (0.66 FTE) and a GIS coordinator (0.80 FTE). The provision of support to counties within the National Scenic Area for activities related to the Act's implementation is not included in the Joint program budget.

Essential Budget Level

The essential budget level for the Commission's Joint program activities of $1,156,133 represents an increase of 12.5% over the 2007-09 legislatively approved expenditure level. The budget includes standard adjustments for inflation and state government service charges.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget for the Commission's joint program activities of $910,618 total funds ($837,588 General Fund and $73,030 Other Funds) represents a decrease of 18.5% General Fund and 11.4% total funds over the 2007-09 legislatively approved expenditure level. The budget includes the following adjustments:

- A reduction of $293,356 General Fund to be in parity with the State of Washington in accordance to the bi-state compact.
- An increase of $73,030 Other Funds, which is expected to be generated through natural resources grants. This amount represents Oregon's share of the cost to restore the Communications Coordinator position (no position or full-time equivalent increase for Oregon due to Washington state personnel status). This position would provide frontline customer service for the public; coordinate communication with city, county, state, federal, and tribal partners; maintain the agency's website; staff public outreach activities; coordinate performance measures, surveys, and community meetings; and develop official communications (e.g., annual reports, press releases, meeting minutes).
- A $25,000 General Fund special purpose appropriation to the Emergency Board to supplement the Columbia River Gorge Commission budget. The Commission is instructed to request this special purpose appropriation after submitting a progress report demonstrating substantial effort in encouraging Klickitat County to adopt ordinances to implement the National Scenic Act, and a plan for charging fees to recover

operational expenses from Klickitat County in Washington for failure to adopt ordinances to implement the National Scenic Act.

To ensure that during the execution of its budget the Commission will give priority to the ongoing development of the Vital Signs Indicators Program, monitoring county land use decisions, and enforcing violations of the National Scenic Area Act, the Commission is instructed to produce a report summarizing the use of Commission resources in carrying out its functions under the Columbia River Gorge Compact related to any amendments to the management plan for the Columbia River Gorge National Scenic Area. The Commission will present this report to an appropriate legislative interim committee prior to the convening of the 2011 regular legislative session.

CRGC – Oregon Commissioner Expenses

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	53,935	22,770	23,223	23,223
Total Funds	**$53,935**	**$22,770**	**$23,223**	**$23,223**

Program Description

Under the Compact, each state is required to pay for its own appointed commissioner expenses. The commissioner expense budgets of Oregon and Washington are not required to match due to differences in compensation practices between the states. The commissioner expense budget includes expenditures for personal services, per diem, and travel expenses related to attendance at meetings of the Columbia River Gorge Commission. The agency was directed to establish the Oregon Commissioner Expenses program unit for the 2001-03 biennial budget to avoid confusion with the Joint program expenses that require an equal match with the funding level decided by the State of Washington.

Essential Budget Level

The essential budget level for the Commissioner Expenses of $23,223 represents an increase of 2% over the 2007-09 legislatively approved expenditure level. The budget includes an increase of $453 General Fund for standard inflation and state government service charges.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $23,223 maintains the Commissioner expenses at its essential budget level.

Department of Energy (DOE) – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	0	3,100,000	0	0
Lottery Funds	0	0	0	590,347
Other Funds	16,989,048	22,095,949	21,307,557	32,297,391
Federal Funds	3,781,133	5,622,500	5,847,654	57,739,196
Other Funds (NL)	82,101,876	158,006,507	167,916,815	167,916,815
Total Funds	**$102,872,057**	**$188,824,956**	**$195,072,026**	**$258,543,749**
Positions	89	94	86	115
FTE	86.73	90.49	84.79	112.75

Agency Overview

The mission of the Oregon Department of Energy (DOE) is to ensure Oregon has an adequate supply of reliable and affordable energy and is safe from nuclear contamination, by helping Oregonians save energy, develop clean energy resources, promote renewable energy, and clean up nuclear waste. DOE encourages energy conservation through public information and incentive programs which provide loans or tax credits for implementing energy efficient technologies in residences, public sector buildings, and private sector businesses.

DOE staffs two statutory boards:

- The Energy Facility Siting Council, a seven-member citizen board appointed by the Governor, that decides whether large energy facilities may be built in Oregon; regulates the construction, operation, and decommissioning of energy facilities; and oversees the disposal of low-level radioactive wastes.
- The Hanford Cleanup Board, a 20-member board, that addresses clean up issues at the nuclear site and represents Oregon's interest in issues involving Hanford, with a focus on protecting the Columbia River and ensuring safe transportation routes for shipments of radioactive waste.

DOE is in the process of reorganizing its internal management systems due to changes in agency leadership which occurred during the spring of 2009. The agency will also be revising key performance measures to bolster data integrity and inform on the agency's impacts related to ensuring adequate energy supplies, energy conservation, and clean and renewable energy.

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 ($110 million in 2009-11), loan repayments ($40 million), and interest income ($28.3 million). Other sources include energy supplier assessments ($9.8 million), settlement funds, application fees related to the Business Energy Tax Credit ($5.6 million), energy siting fees ($3.4 million), and fees for services related to the program for schools and self-directed efficiency projects ($1.1 million) stemming from electric marketing restructuring.

Federal Funds received from the U.S. Department of Energy support various activities including oversight at the Hanford Nuclear site, deployment of technologies and energy sources that improve energy efficiencies in new building construction, promotion and utilization of alternative fuels, infrastructure development, and renewable resource projects. Federal Funds are also received for work related to tracking, monitoring, emergency planning for shipment of low-level radioactive waste materials, and monitoring and testing for contamination related to the Lakeview uranium mediation site. Additionally, the U.S. Department of Agriculture and the Environmental Protection Agency provide funds that support both conservation and renewable energy programs. Federal revenues for these activities are expected to total $6.1 million in 2009-11.

DOE was granted $51.8 million in additional Federal Funds expenditure limitation related to the American Recovery and Reinvestment Act through two grants. The State Energy Program grant ($42,182,000) is for efforts related to energy efficiency and renewable energy. The Oregon DOE will sub-grant these funds for energy efficiency improvements (equipment and installation) in local government buildings, including schools and community colleges. Another $9.6 million in Federal ARRA funds is related to the Energy Efficiency and

Conservation Block Grant which will be used to assist state, tribal, and non-entitlement local governments in implementing energy efficiency and renewable energy programs. Anticipated projects include development and implementation of an energy efficiency strategy; government or not-for-profit building retrofits; transportation measures to conserve energy (including bike lanes, pathways, and sidewalks); development and implementation of building codes; methane capture; LED traffic signals and lighting; and onsite renewable energy use in government buildings.

Approximately 39% of DOE's Other Funds come from an assessment on energy suppliers (primarily utilities and petroleum suppliers) which is limited to one-half of 1% of the supplier's gross revenue derived in Oregon. Barring unforeseen economic declines for energy suppliers, the 2009-11 legislatively adopted budget assumes a continuation of the existing assessment rate of .00069. The Legislature adopted the following budget note related to the Energy Supplier Assessment:

"The Department of Energy is directed to develop – with the assistance of a stakeholder group determined by the Director – policies to guide the Department's assessment on energy suppliers, and to report back to the Legislature by December, 2010 on the following issues: a determination of the Department programs and activities that are appropriately funded through the Energy Supplier Assessment; and a determination of a policy to guide the amount collected, the frequency of the assessment, and an appropriate ending balance."

Budget Environment

The agency has grown substantially in the last two biennia, sharing responsibility for implementing complex and high profile policy priorities such as climate change, the renewable energy portfolio standard to which Oregon's public and investor-owned utilities are expected to adhere; and the expansion of incentives available to businesses implementing renewable or energy efficiency measures. In addition, there has been a substantial increase in the number of energy facility siting requests that must be reviewed and permitted by DOE, including wind farms, biomass projects, and new transmission infrastructure.

Administration of federal stimulus funding, and policy bills – including the creation of a new energy loan program available to residential consumers (HB 2626), and the creation of a "reach" building code and energy performance scores for buildings and residences (SB 79) – further expand the department's duties and responsibilities for the 2009-11 biennium, and – potentially – beyond.

DOE – Operations

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	0	3,100,000	0	0
Lottery Funds	0	0	0	590,347
Other Funds	16,989,048	22,095,949	21,307,557	32,297,391
Federal Funds	3,781,133	5,622,500	5,847,654	57,739,196
Total Funds	**$20,770,181**	**$30,818,449**	**$27,155,211**	**$90,545,934**
Positions	89	94	86	115
FTE	86.73	90.49	84.79	114.50

Program Description

The Operations program provides a number of services and programs, including the following:

- Research and promotion of renewable energy sources and efficiency technologies
- Evaluating energy use and recommending efficiencies in new or remodeled state and school buildings
- Siting new energy facilities and transmission infrastructure
- Evaluating home appliances and business improvements for applicable tax credits
- Safe transport of hazardous nuclear materials, Hanford cleanup, and emergency preparedness
- Climate change evaluation and policy advice
- State Home Oil Weatherization audits and loans and Northwest Energy Efficient Manufactured Housing certification

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget provided expenditure limitation and position authority for an increase of 27.96 full-time equivalent (FTE) positions over the 2009-11 essential budget level. Of these, 10.46 FTE are assumed to be permanent for ongoing program and policy responsibilities, and the remaining positions are assumed to be limited duration and will be reevaluated based on workload and ongoing need in 2011.

The Legislature approved policy option packages to address increases in activity or to enhance "existing" DOE activities, as follows:

- A $192,219 special payment to the Oregon Department of Agriculture in the 2009-11 biennium. The payment from the Energy Supplier Assessment funds a position that provides technical assistance for renewable energy projects involving agriculture, and that interfaces regularly with the Department of Energy.
- Personal services expenditure limitation in the amount of $56,361 for a reclassification of positions approved by Emergency Board action in the 2007-09 biennium.
- Personal services funding in the amount of $139,378 for recruitment and development related to renewable energy manufacturers in Oregon.
- Making permanent a limited duration position first established in 2001 for the Energy Efficient Schools program, funded with Public Purpose charge funds.
- Extending a limited duration position associated with the State Energy Efficiency Design program (which is a fee-for-service program).
- Support for the Department's existing efforts in renewable energy totaling $577,651, including two limited duration positions and one permanent position for the purposes of administering the Community Renewable Energy Feasibility (CREF) fund, administrative support to the Global Warming Commission, and a permanent Operations and Policy Analyst position to provide research and support for efforts related to solar and biomass energy.
- 4.00 FTE limited duration and 1.21 FTE permanent positions to evaluate and process applications in the Business Energy and Residential Energy tax credit programs (funded with fee-for-service and Federal Funds).
- 2.00 FTE limited duration positions to address increases in energy facility siting applications (siting activities are funded on a fee-for-service basis).
- 1.00 permanent FTE position for a toxicology expert to represent Oregon's interests in Hanford clean up activities with the Federal government (funded with Federal Funds).
- 1.00 FTE permanent position to establish internal audit and control functions, assessed against each of the agency's funding sources; each of the agency's funding sources will contribute to the support of this position.
- A 0.50 FTE limited duration position to support the Governor's Energy Planning Council, established by Executive Order in August 2008 and funded through Energy Supplier Assessment revenue.
- 1.00 FTE permanent IT manager for the Department, and expenditure limitation for professional services to enable the Department to contract with DAS Human Resource Services Division for assistance; each of the agency's funding sources will contribute to the support of the IT manager position.
- $670,000 for the purpose of renting additional office space for the 2009-11 biennium to accommodate additional positions approved in the budget.
- $119,209 for services and supplies costs associated with continuing a satellite office in Hermiston, nearer to where many energy facilities are proposed to be sited.
- Authority to disburse the remaining $500,000 of settlement funds comprising the Community Renewable Energy Feasibility Fund.
- The addition of a permanent deputy director/legislative liaison position, the cost of which would be assessed against each of the agency's funding sources.

In addition, the Department of Energy was granted $51.8 million in Federal Funds expenditure limitation under the American Recovery and Reinvestment Act for the 2009-11 biennium, and received expenditure limitation and position authority deemed necessary to administer those funds (see Revenue Sources and Relationships section).

The Department was also granted additional expenditure limitation and position authority to implement the following bills:

HB 2626 – The bill directs the Director of DOE to establish and administer the Energy Efficiency and Sustainable Technology loan program. The program involves identification and certification of project managers and contractors who will construct energy improvements which consumers may finance through savings on their utility bills. The loans are to be funded through fees for service and the issuance and sale of bonds which will offset the cost of the loans. A total of $1.1 million in expenditure limitation and 2.50 FTE was provided in HB 2626 and HB 5054 for costs related to implementation of the bill, as well as $4.7 million lottery bond proceeds to fund the "loan offset grant fund" for the initial phases of the program, and associated debt service.

SB 101 – The bill establishes greenhouse gas (GHG) emissions standards relating to carbon dioxide for electric companies, electricity service suppliers, and consumer-owned utilities, and directs DOE to implement, monitor, and evaluate the standard as it applies to consumer owned utilities. The Legislature approved an increase of $336,229 Other Funds and established one permanent Policy Analyst 3 position (0.75 FTE) for DOE to coordinate rulemaking activity and implement the standards and reporting. The expenditures for the 2009-11 biennium include personal services costs, related services and supplies, and one-time Attorney General fees of $150,000 due to the anticipated complexity of the rulemaking process.

SB 79 – The Legislature approved an increase of $608,872 Other Funds and 1.00 FTE associated with SB 79, which requires the Department of Energy to adopt a recommended voluntary energy performance scoring system for new and existing commercial and residential buildings. The Department will staff a task force on energy performance scores and coordinate rulemaking activities associated with the voluntary scoring system, requiring the addition of a Policy Analyst 3 position during the 2009-11 biennium.

DOE – Energy Loan Program Nonlimited

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds (NL)	82,101,876	158,006,507	167,916,815	178,916,815
Total Funds	**$82,101,876**	**$158,006,507**	**$167,916,815**	**$178,916,815**

Program Description

The Small-Scale Energy Loan Program (SELP) offers low-interest, long-term loans to individuals, businesses, non-profit organizations, tribes, and state and local governments for conservation and renewable resource projects. Established in 1980, SELP makes loans for projects such as renewable energy resources, energy-efficient heating and lighting systems, weatherization measures, and energy-efficient improvements in manufacturing processes. The program also encourages innovative projects that are energy efficient and environmentally sound. Sales of state general obligation bonds fund the loans.

Legislatively Adopted Budget

The outlook for credit markets appears to be improving. While application volume is down from the previous biennium, SELP had aggregate loan approvals for a bond sale in August 2009 of $35 million; the bond sale is the first sale of the 2009 calendar year. The Department has found that applications for SELP assistance are trending toward more complex projects for larger sums of money, and program staff are examining additional analytical and financial tools to meet changing demands.

The Legislature approved HB 2182, which expands eligibility of alternative fuel projects that use SELP and increases the term of service for members of the Small Scale Local Energy Project Advisory Committee from two to four years. SELP is limited each biennium by how much it can issue in bonds. The Department estimates that expanding the authority of SELP may increase the loan program requirements by $10 million and debt service by $1 million Nonlimited Other Funds per biennium based on experiences with similar projects in the past. Should these projections come to fruition, the amount of Nonlimited expenditures will be updated.

Department of Environmental Quality (DEQ) – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	23,091,569	36,505,910	40,371,909	33,330,127
Lottery Funds	3,799,400	5,610,171	5,555,984	5,426,117
Other Funds	108,485,888	130,023,734	132,316,333	137,861,976
Federal Funds	35,360,617	30,659,385	32,033,198	35,935,314
Other Funds (NL)	132,621,178	150,513,167	84,274,948	189,073,148
Total Funds	**$303,358,652**	**$354,312,367**	**$294,552,372**	**$401,626,682**
Positions	804	826	807	814
FTE	773.89	797.31	787.59	790.13

Agency Overview

The Department of Environmental Quality (DEQ), with policy direction from the five-member Environmental Quality Commission, administers the state's laws regulating air, water, and land pollution. The Department establishes the standards for clean air, water, and land; determines whether or not these standards are being met; and then takes action to enforce the standards when necessary. The agency attempts to use technical assistance and education whenever possible to enhance compliance. The Department also manages the federally delegated Clean Air, Clean Water, and Resource Conservation and Recovery Act programs. In addition to the federal environmental programs, DEQ administers the state environmental programs in the areas of solid waste management, planning, and recycling, groundwater protection, and environmental cleanup. The agency is comprised of four major program units: Air Quality, Water Quality, Land Quality, and Agency Management. A fifth budget unit, Cross Program, was added to manage funding associated with issues that cross the agency's traditional program lines. DEQ headquarters are in Portland with regional administrative offices in Bend, Eugene, and Portland. The agency also maintains field offices in Baker City, Coos Bay, Grants Pass, Hermiston, Klamath Falls, Medford, Pendleton, Roseburg, Salem, The Dalles, Gresham, and the north coast. The Department moved into a new laboratory building in Hillsboro in December 2007.

DEQ – Air Quality Division

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	3,375,697	9,619,277	10,167,305	7,768,464
Other Funds	33,404,318	36,866,876	38,189,649	38,514,722
Federal Funds	5,355,014	6,476,937	6,927,123	7,447,395
Total Funds	**$42,135,029**	**$52,963,090**	**$55,284,077**	**$53,730,581**
Positions	265	237	237	246
FTE	248.2	229.97	230.77	236.27

Program Description

The Air Quality program is responsible for compliance with federal and state air quality standards. The program monitors air quality to protect the public health through the development and implementation of pollution reduction strategies. Federal ambient air quality standards for six criteria pollutants must be maintained (sulfur dioxide, lead, nitrogen dioxide, ozone, carbon monoxide, and respirable particulate matter). The primary sources of air pollution in Oregon are motor vehicles, forest slash burning, woodstoves, industrial facilities, field burning, and area sources. Program clients include the regulated community (primarily industries, businesses, and local governments) and the general public that benefits from clean air. The federally delegated air quality program includes statewide air quality monitoring and emissions inventory, strategic planning for pollution reduction, and a permit system. Permits are issued under two industrial source air quality programs operated by the Department. The Air Contaminant Discharge Permit program (ACDP) issues permits for approximately 1,100 minor industrial emission sources. The Title V Operating Permit program issues permits for about 125 major industrial emission sources.

The Air Quality program includes headquarters, laboratory functions, regional operations, and a local air pollution control agency. Headquarters is responsible for program planning and development, rules and guidance development, data analysis and reporting, technical services, and the Vehicle Inspection Program (VIP). The VIP requires tests of vehicles operating in the Portland and Medford areas as part of the vehicle license renewal process. Air Quality staff in regional offices are responsible for ensuring that industrial sources of air pollution are operating in compliance with rules and permit conditions. Regional staff are also responsible for certification of asbestos removal, regulating open burning, monitoring field burning, and responding to public complaints. The Lane Regional Air Protection Agency operates the air pollution control program in Lane County and receives a share of state funding. Of the Division's 230.44 FTE in the 2007-09 biennium, 38.47 were located in headquarters, 52.31 in regions, 28.62 in the laboratory, and 111.04 in the Vehicle Inspection program.

Revenue Sources and Relationships

The federally delegated clean air program is primarily financed with permit and emission fees (such as the Air Contaminant Discharge Permit fee) supplemented by a General Fund appropriation and Federal Clean Air Act funds. Federal law requires that the cost of the permit program for major industrial sources be fully paid from emission fees (Title V Permit Fee). The Air Contaminant Discharge Permit (ACDP) fee was last raised in 2007, when the Legislature approved a 20% increase. A 24% Title V fee increased was approved and spread over three years in SB 107 (2007). Other non-General Fund sources include fees for asbestos certification and inspection, field burning permits, and the vehicle inspection program. The VIP is entirely supported by a $21 fee for certificates of vehicle emissions compliance, required as part of a vehicle's registration process. Federal Clean Air Act program grants under Section 105 for air pollution planning and control require a state match (both General Fund and fees) greater than the previous year's expenditures.

Budget Environment

The federal Clean Air Act requires compliance with federal air quality standards and prevention of air quality deterioration in areas that exceed federal standards. Nine areas in Oregon have exceeded air quality standards in the past and have officially been declared nonattainment areas by the U. S. Environmental Protection Agency (Portland, Salem, Eugene-Springfield area, Medford-Ashland area, Klamath Falls, Grants Pass, La Grande, Oakridge, and Lakeview). Each of these has failed to meet one or more of three criteria pollutants – ozone, carbon monoxide, and/or particulate matter. The Department has submitted attainment and maintenance plans to the EPA for Portland, Salem, Medford-Ashland, Grants Pass, Lakeview, and La Grande areas in 2004 and 2005. All plans have been approved by EPA with the exception of the Salem maintenance plans for ozone and carbon monoxide, which are expected soon. The Lane Regional Air Protection Agency (LRAPA) is responsible for air quality assessment and protection activities in cities in Lane County like Eugene, Springfield, and Oakridge. The penalties for failing to meet standards include increasingly costly control measures, limitations on the siting of new industry, and, ultimately, loss of federal Highway Funds.

In 2006, EPA tightened the standard for fine particulate pollution, which comes primarily from woodstoves, open burning, diesel engines, and industry. Two Oregon communities, Klamath Falls and Oakridge, violate the new standard and will require new plans. Two more communities, Lakeview and Cottage Grove, are expected to violate (based on the limited monitoring data currently available) and several are at significant risk of violating including Portland, Medford-Ashland, Eugene-Springfield, and Burns.

Essential Budget Level

The essential budget level for the Air Quality Division is $548,028 General Fund (5.7%), $1,322,773 Other Funds (3.6%), and $450,189 Federal Funds (7%) more than the 2007-09 legislatively approved budget. The General Fund increase is caused by General Fund reductions taken from 2007-09 levels in March 2009 to rebalance the 2007-09 budget, as well as, standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. Federal Funds increased at a higher rate due to a shift in budgeting some ongoing work from Other Funds to Federal Funds to better account for expenditures.

Legislatively Adopted Budget

The adopted budget represents a 2.8% decrease from the essential budget level. The General Fund budget of $7.8 million is down 23.6% from the essential budget level due to reductions in program support described below.

The adopted budget for the Air Quality Division includes the following changes:

- $872,297 Other Funds and 9 new positions (6.00 FTE) were added to implement new federal air toxics standards for hazardous pollutants. The new standards will require more gas stations and other small businesses to be regulated. Revenue comes from fee changes adopted administratively in 2007-09 to generate funding needed to meet the increased workload. Because many more entities will be regulated and paying fees, the fee structure was adjusted to lower fees of those previously regulated while still generating sufficient revenue to add the new positions. Positions will provide technical assistance and oversee implementation.
- Added $177,432 Other Funds and one position as part of a phase-in of Title V fee increases approved last session. Federal law requires the program to be solely funded with fees from polluters.
- $749,962 General Fund and two positions (2.00 FTE) were eliminated. Included in these reductions are reduced payments to the Lane Regional Air Protection Agency ($73,690); lower small business technical assistance ($132,000); elimination of an air toxics background monitoring station in Medford ($218,000); cutting Oregon's support for the multi-state regional air quality modeling center ($205,660); and reduced air quality enforcement activities ($120,612).
- Eliminated $1,486,040 General Fund supporting Clean Diesel grants used to help pay for diesel engine retrofits and repowers that reduce diesel particulate emissions and one position conducting clean diesel outreach activities. This reduction was partially offset by the addition of $652,577 Federal Funds from monies provided in the American Recovery and Reinvestment Act (ARRA).
- Added $484,128 Other Funds and two positions (one starting the second year of the biennium) to implement a Greenhouse Gas Reporting program. With the passage of SB 103 (2009), the Department has authority to fund these positions through new greenhouse gas registration fees.

DEQ – Water Quality Division

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	13,674,059	19,407,897	21,317,956	19,314,798
Lottery Funds	3,799,400	5,610,171	5,555,984	5,426,117
Other Funds	16,250,819	20,239,580	19,859,257	21,168,587
Federal Funds	12,876,680	12,360,035	12,962,549	12,049,066
Total Funds	**$46,600,958**	**$57,617,683**	**$59,695,746**	**$57,958,568**
Positions	210	259	245	247
FTE	201.41	241.10	236.40	239.00

Program Description

The Water Quality program's goal is for the state's water bodies to meet water quality standards and support beneficial uses of water such as fishing, swimming, irrigating, and drinking and to sustain healthy communities of fish, plants, and other aquatic life. To attain this goal, the Water Quality program has set measurable objectives to characterize water quality trends in groundwater and surface water, to initiate protective actions in known, clean water bodies, and to reduce pollutant levels in water bodies with limited water quality.

The Water Quality program's primary functions are setting and monitoring water quality standards and assessments, controlling wastewater through permits and certifications, providing financial and technical assistance, implementing the Oregon Plan for the restoration of salmon populations and watersheds, and implementing portions of the Safe Drinking Water Act. The Department is responsible for two permit systems, the federally delegated National Pollutant Discharge Elimination System (NPDES) for discharges into surface waters and the state Water Pollution Control Facility (WPCF) permit program for all discharges such as sewage lagoons and effluent irrigation. Approximately 550 individual water quality permits and more than 5,500 general permits are enforced in Oregon under the NPDES and WPCF programs. DEQ also provides ODA assistance in issuing the general and individual permits for Confined Animal Feeding Operations. The Water Quality program also operates the nonpoint source pollution program in Oregon. Nonpoint source pollution is that not attributable to a specific source point. Examples of nonpoint source pollution include stormwater and agricultural runoff. Section 319 of the Clean Water Act requires states to have nonpoint source management programs to address the protection and restoration of surface water and groundwater. The Water Quality program also manages a wastewater financial assistance program for municipalities and conducts Section 401 certifications of dredge and fill work and hydroelectric projects.

In 2007, the U.S. Environmental Protection Agency (EPA) approved the Department's latest 303(d) list that included over 1,000 rivers, streams, lakes, and estuaries covering more than 13,000 miles. The list of streams, referred to as the "303(d) list" because of the requirements of section 303(d) of the federal Clean Water Act, must be submitted to EPA by April 1st of each even-numbered year. The most controversial aspect of the list is the number of water bodies included due only to violation of temperature standards. Once a water body is included on the 303(d) list, the Clean Water Act requires that the state develop a plan to meet water quality standards. The plan is referred to as a Total Maximum Daily Load (TMDL) and is used to describe the maximum amount of pollutants from point sources and surface runoffs, which can enter the water body without violating water quality standards. Much of the recent workload of the Water Quality program has been directed toward the development of TMDL's for Oregon's watersheds. A TMDL is implemented through a combination of changes to industrial and municipal discharge permits and the development of water quality management plans. On agricultural lands, the Department of Agriculture is responsible for the plan development. On forestlands, the Department of Forestry is responsible for the development of the water quality management plans. The Department is under a court consent order to complete 1,153 TMDL's by the end of 2010. 998 of these plans will be completed by the end of 2008, leaving 155 TMDLs to be completed in the final two years.

In order to maintain water quality programs, the Division's positions are distributed between headquarters, the regions, and the laboratory. In the 2007-09 biennium, 70 of the Division's 241.00 FTE were located in headquarters, 127.00 FTE were in regional offices, and 44.00 FTE were assigned to the laboratory.

Revenue Sources and Relationships

The federally delegated and state water pollution permit programs are financed from a combination of sources – the General Fund, industrial and municipal fees, and Federal Clean Water Act funds. Determining the amount of the program's costs that should be paid from fee sources has been an ongoing debate. The Water Quality program has struggled over the past several biennia to achieve fee increases necessary to maintain these programs as General Fund support has diminished, some Federal Fund grant sources have declined, and base Federal Fund grants have failed to keep pace with inflationary increases in program costs. The 2005 Legislature approved an 11% revenue increase from fees as part of a package that included additional General Fund support.

The primary Other Funds sources of revenue include industrial waste discharge permit fees, municipal wastewater permit fees, and subsurface sewage disposal fees. Other Funds sources also finance the administrative costs of the wastewater finance program. Federal Funds are received primarily under the Clean Water Act for operational expenses (Section 106) and for nonpoint source project grants (Section 319) and from other miscellaneous grant sources for a variety of program activities.

Budget Environment

Under the federal Clean Water Act, either the state or federal government must operate programs to protect the quality of rivers, streams, lakes, and estuaries. DEQ must operate programs to carry out the mandatory requirements of the Clean Water Act that are acceptable to the EPA in order to retain program delegation. The alternative would be EPA program assumption. Were EPA to operate the program, funding would possibly be limited to the amount EPA now allocates to the state and might only be sufficient to finance enforcement activities. In addition to the EPA required level of program activity, the Legislature has also required additional water quality programs to be maintained by the Department.

Essential Budget Level

The essential budget level for the Water Quality Division is $1.9 million General Fund more than the 2007-09 legislatively approved budget. This increase is largely due to budget cuts made in March 2009 to rebalance the 2007-09 budget. This General Fund increase was partially offset by removal of 2007-09 one-time program startup costs. Other Funds decreased slightly due to removal of 2007-09 one-time costs and a shift in budgeting ongoing work from Other Funds to Federal Funds to better align funding with work preformed and the revenue sources used.

Legislatively Adopted Budget

The adopted budget for the Water Quality program represents a 9.4% decrease from the essential budget level and is virtually unchanged from 2007-09 levels. Besides the changes listed below, the budget was reduced to reflect lower statewide assessment charges, reduced Attorney General rates, and anticipated savings from salary actions.

The adopted budget for the Water Quality Division includes the following changes:

- The Biomonitoring program was eliminated, saving $860,888 General Fund and eliminating 4 positions. The program collected water temperature and macro invertebrate data from streams as part of the Oregon Plan monitoring effort.
- $500,000 General Fund and 4 positions (2.00 FTE) in the stormwater permitting program were reduced. This reduces some of the enhancements made to stormwater permitting during the 2007-09 biennium.
- Eliminated $372,298 General Fund reducing water quality program enforcement, communications, outreach, and administrative support activities.
- $1.1 million Other Funds was added for 6 limited duration positions (5.50 FTE) continued from 2007-09, to help communities protect their drinking water and carryout federally mandated source water assessment. DEQ and the Department of Human Services (DHS) are both responsible for drinking water source tracking, assessment, and protection. Assessments include mapping source water areas (completed by DHS) and identifying potential sources of contamination (done by DEQ). The funding for the positions comes from DHS who receives it as Federal Funds, but it is expended by DEQ as Other Funds.
- $861,922 Other Funds and 5 new positions (5.00 FTE) to the Clean Water State Revolving Loan program. The positions would ensure that all new CWSRF projects meet federal requirements to accommodate increased federal environmental review requirements for projects receiving loans and increased CWSFR activity.
- Adding $520,000 Other Funds to restore 3 existing positions (2.50 FTE) in the onsite septic system program that were targeted for elimination due to insufficient revenue. This is paid for through an increase in fees for construction permits, site evaluations, variances to existing standards, and alternative treatment plan reviews.
- Added $210,199 General Fund, $182,917 Other Funds, and 3 limited duration positions (1.75 FTE) that were initially added in 2007-09 to implement SB 737 (2007). The bill requires DEQ to develop a list of persistent bioaccumulative toxics by June 2009 and provide to the Legislature a prioritized list of persistent pollutants, their sources, and methods to control or reduce release of the identified toxics. The Other Funds comes through a surcharge on the 52 largest municipal wastewater treatment plants in Oregon.
- 4 new positions (4.00 FTE) were added to the Clean Water State Revolving Loan program. The positions would ensure that all new CWSRF projects meet federal requirements. Also adds back a Federal Funds position eliminated in a revenue shortfall package using CWSRF fees to accommodate increased federal environmental review requirements for projects receiving loans and increased SFR activity.

DEQ – Land Quality Division

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	1,071,300	2,091,894	2,487,455	995,736
Other Funds	37,690,837	48,919,933	49,617,913	55,581,888
Federal Funds	16,568,778	10,995,987	11,678,172	15,408,604
Total Funds	**$55,330,915**	**$62,007,814**	**$63,783,540**	**$71,986,228**
Positions	240	232	232	231
FTE	238.05	229.77	230.19	229.13

Program Description

The Land Quality program's goal is to protect human health and the environment by preventing and reducing waste generation, assuring that waste generated is properly managed, responding to emergency spills, and cleaning up sites contaminated with hazardous substances and uncontrolled releases of toxic chemicals. Activities are organized into the five main subprogram areas of solid waste, hazardous waste, environmental cleanup, underground storage tanks, and emergency management. In each area, the Land Quality program focuses on the hierarchy of waste management, starting with prevention, reduction, reuse, recycling, recovery, and ending with proper disposal.

Land Quality operates the federally approved solid waste landfill compliance program and the federally delegated hazardous waste program. Other federal programs include underground storage tank cleanup and superfund site cleanups. In addition, the Land Quality program operates various state programs, including waste reduction and recycling, hazardous waste generator reporting and technical assistance, oil spill response planning, hazardous materials spill response, voluntary cleanup, toxic materials cleanup, and policy and program development.

Land Quality programs are implemented by regional office staff. Regional staff conduct inspections, issue permits, provide cleanup oversight, and offer technical assistance. Headquarters staff in the Land Quality program provide centralized functions such as hazardous waste facility data collection, Underground Storage Tank (UST) facility registration, rule and policy development, billing and financial operations, and federal grant and contract administration. In the 2007-09 biennium, just under 68 of the Division's 230.00 FTE were located in headquarters, 155.00 FTE were in regional offices, and approximately 7.50 FTE were in the laboratory.

Revenue Sources and Relationships

Most Land Quality programs are financed almost entirely from dedicated Other and Federal Funds. The Solid Waste program is funded entirely by revenue from solid waste permit and disposal fees. Solid waste disposal fees, also known as "tipping" fees, are collected on waste disposed at municipal solid waste sites. Facilities receiving solid waste for disposal must have a permit and are charged a fee for the permit. The amount of the permit fee varies by the type of facility and the volume of waste disposed.

The state also operates the federally delegated hazardous waste management program. General Fund and fees provide the 25% match required for receipt of federal funds. Maintenance of an EPA approved program is a condition of program delegation. State hazardous waste management and cleanup programs, including that portion of costs not funded through cost recovery, are financed in part through hazardous waste disposal fees. Revenue from the disposal of hazardous waste began declining significantly during the 2001-03 biennium. Lower levels of fee and permit revenue are forecast to continue into the 2007-09 biennium.

Budget Environment

Funding of the Orphan Site program continues to be unresolved. Orphan sites are contaminated sites where the owner is either unknown or is unable or unwilling to pay for cleanup costs. The 1989 Legislature authorized the sale of orphan site bonds to provide funding for state-sponsored cleanup of industrial hazardous orphan sites. Repayment of the bonds was to be financed through a petroleum load fee and revenue from the hazardous substance fee. General Fund and Lottery Funds were also used to partially support debt service requirements on the orphan site bonds. In 1993, the Attorney General advised that the petroleum load fee should not be used for orphan site debt service. General Fund and a loan from the Hazardous Substance Remedial Action Fund were used to pay the petroleum load fee share. In 1995, the Legislature limited collection of the hazardous substance fee to an amount necessary to service debt from previous bond sales only and General Fund and Lottery Funds were used in lieu of petroleum load fees. Due to a lack of funding alternatives outside of additional General Fund commitments, the 1997 Legislature made no change to this funding arrangement. The 1999 Legislature shifted all Lottery funded debt service to the General Fund, but did not directly address the long-term funding strategy for industrial orphan site cleanup. General Fund support of debt service was continued by the 2001 Legislature; however no General Fund was appropriated by the 2003 Legislature or the 2005 Legislature for issuance of new bonds due to General Fund constraints. The 2007-09 legislatively adopted budget resumed the issuance of General Fund supported bonds for cleanup of Orphan Sites.

Essential Budget Level

The essential budget level for the Land Quality Division is $395,561 General Fund (18.9%), $697,980 Other Funds (1.4%) and $682,185 Federal Funds (6.2%) more than the 2007-09 legislatively approved budget. These increases are by caused March 2009 rebalance actions, along with standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Legislatively Adopted Budget

The adopted budget for the Land Quality program represents a 12.9% increase from the essential budget level and 16% from 2007-09 levels. General Fund support totals approximately $1 million, which is over 50% below 2007-09. The overall increase in the Land Quality program is caused by increased Federal Funds in the 2009-11 adopted budget, which increased by $4.4 million, or 40%, over 2007-09 levels.

The adopted budget for the Land Quality Division includes the following changes:

- $4 million Federal Funds expenditure limitation was added to accommodate increased Leaking Underground Storage Tank funding available through the American Recovery and Reinvestment Act and an agreement with the U.S. Environmental Protection Agency for maintenance of the McCormick and Baxter Super Fund clean-up site.
- Eliminated $940,355 General Fund and 3 positions (3.50 FTE) by reducing Hazardous Waste compliance inspections, program management, enforcement, and technical assistance.
- Added $277,890 Other Funds and 2 positions (1.84 FTE) to develop a product stewardship program. The new positions would look to develop recycling program proposals patterned on the electronic recycling program that requires manufacturers to be responsible for the recycling costs of their products and bring those proposals the Legislature for approval.

DEQ – Cross Program

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	681,696	674,001	849,840	658,776
Other Funds	992,569	1,251,260	804,189	149,645
Federal Funds	560,145	826,426	465,354	1,030,249
Total Funds	**$2,234,410**	**$2,751,687**	**$2,119,383**	**$1,838,670**
Positions	8	10	5	7
FTE	7.75	10.00	5.00	6.00

Program Description

The Cross Program budget unit was established within the agency's structure in 1999 to manage funding associated with environmental issues that cross the agency's traditional program lines. The budget is managed centrally in Agency Management, while the work is carried out through the traditional programs. The Cross Program budget includes the pollution control tax credit program (which is being phased-out), pollution prevention grants, electronic reporting grant (Exchange Network), and participation in Economic Revitalization Teams (ERT). ERT efforts are designed to streamline the delivery of state services which cross agency lines to local communities through the coordination of effort.

Revenue Sources and Relationships

The 2001 Legislature included General Fund in the Cross Media program to support 4 limited duration positions to work with what is now ERT. These positions and funding were continued with General Fund in subsequent biennia. Other Funds from pollution control tax credit fees provide funding for agency work associated with certification of tax credit applications, however with the failure to reauthorize the pollution control tax credit in 2007 the agency is phasing out the program. The last date to submit an application was December 31, 2008. Under current law, DEQ is responsible for activities such as reviewing replacement facilities and transferring, reissuing, and revoking certificates through 2018 or 2019. DEQ projects that application fees will be sufficient to fund these final activities. Federal Funds for Cross Program activities are primarily from Environmental Protection Agency grants.

Essential Budget Level

The essential budget level for the Cross Program area is $175,839 General Fund (26%) more than the 2007-09 legislatively approved budget due to reduction in General Fund support for 2007-09 necessary to rebalance the biennial budget. The Other Funds and Federal Funds 2009-11 essential budget levels are lower than the 2007-09 approved levels due to removal of one-time funding related to limited duration positions, removal of grant funding, and the phase-down of the pollution control tax credit program. These reductions more than offset increases caused by the standard essential budget changes.

Legislatively Adopted Budget

The adopted budget is $913,017 (33%) below the 2007-09 approved levels. Some of this reduction is due to a fund shift in the Economic Recovery Team that replaced $170,000 General Fund with Other Funds. However, most of the reduction is due to the phase-out of the pollution tax credit which was not reauthorized by the 2007 Leglislature. The budget also included federal funding related to work on the Environmental Information Exchange Network which was removed from the essential budget level, but was added back in the adopted budget. The $565,000 in funding would come from federal grants and would be used to add one limited duration position and conform DEQ's information systems to federal data reporting standards.

DEQ – Agency Management

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	20,147,345	22,997,825	23,604,725	21,249,534
Total Funds	**$20,147,345**	**$22,997,825**	**$23,604,725**	**$21,249,534**
Positions	81	88	88	83
FTE	78.48	85.48	85.23	79.73

Program Description

The Agency Management program provides leadership, coordination, and support for the Department and staff assistance for the Environmental Quality Commission. Agency Management includes the Office of the Director, the Public Affairs Office, the Interprogram Coordinator, and the Management Services Division. Management Services consists of the Accounting, Budget and Administration, Human Resources, Information Systems, Business Systems Development, and Health and Safety sections.

Revenue Sources and Relationships

Agency Management is financed solely from indirect cost revenues. The indirect rate is calculated as a percentage of personal services. In previous biennia, the indirect rate was applied to personal services from Other Funds and Federal Funds sources. Agency Management received a direct General Fund appropriation to account for the remaining approved central service expenditures. Beginning with the 1999-2001 biennium, the indirect collection methodology was changed to include all funding types, including the General Fund. The budgeted indirect rate is set to provide sufficient revenue to fund Agency Management's current service level budget. The actual rate is negotiated annually with the Environmental Protection Agency once the agency's total budget is established. The change in methodology was necessary in order to meet the conditions of the agency's agreement with the EPA on charging the indirect rate against federal revenues. One budgetary effect of this procedure is a double counting of the limitation associated with the indirect charge against General Fund and Lottery Fund positions due to how the transfer is accounted for by the Department of Administrative Services (DAS). The budget first counts the General Fund appropriation to each program for personal services and then counts the indirect rate of that General Fund amount as Other Funds expenditure limitation in Agency Management.

Budget Environment

All funding for Agency Management is generated through its indirect rate charge. The Department estimates the indirect rate for the biennium as part of budget building. The actual indirect rate is negotiated each fiscal year, six months in advance. The Department endeavors to maintain an indirect rate where the ratio of Agency Management costs to program personal services is constant. As a result, lower personal service expenditures in the programs reduce Agency Management revenues and expenditures are adjusted accordingly. General Fund in the Division's budget was used to pay for central government service charges that cannot be assessed against Federal Funds through the indirect charge. The 2005-07 budget changed the manner in which central government service charges are paid. Now the programs transfer Other Fund revenues to Agency Management, which pays the charges.

Essential Budget Level

The essential budget level for Agency Management is $606,900 Other Funds (2.6%) more than the 2007-09 legislatively approved budget. This increase is due to standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Legislatively Adopted Budget

The adopted budget reduced Agency Management by $1,023,592 Other Funds and 5 positions (5.50 FTE) to match lower indirect revenues due to budget reductions in other programs. Agency Management reductions include three support staff; agency-wide grants, performance measure, policy and strategy coordination; as well as eliminating a contract to provide remote/online access to Environmental Quality Commission meetings.

DEQ – Pollution Control Bond Fund Debt Service

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	4,288,817	4,712,841	5,549,353	4,592,353
Other Funds	0	748,260	240,600	1,197,600
Other Funds (NL)	6,957,491	8,373,167	4,274,948	14,294,948
Total Funds	**$11,246,308**	**$13,891,880**	**$10,064,901**	**$20,084,901**

Program Description

The sale of pollution control bonds is used by the Department to finance the Clean Water State Revolving Fund, the Sewer Assessment Deferral Loan program, and the Orphan Site program. Bond proceeds are used to finance municipal waste water facility construction and other water pollution reduction projects, an assessment deferral program for low income households, and cleanup of hazardous waste sites where the responsible party is either unknown, unwilling, or unable to pay for cleanup costs. Bond proceeds also provide the 20% state match for federal capitalization funding.

Revenue Sources and Relationships

For the Orphan Site program, excluding solid waste sites, the Legislature initially provided that debt service would be financed in equal shares from the hazardous substance possession fee and the petroleum load fee. Following a 1993 court ruling on petroleum assessments, the Attorney General advised that the load fee no longer could be used for this purpose. The Legislature substituted temporary funding and directed a Joint Legislative Task Force to find a permanent funding source. The task proved difficult, and no alternative was recommended. Additional attempts to produce a permanent funding structure have met with similar results. The failure to adopt any permanent funding mechanism has meant the continued use of a combination of state General Fund and Lottery Funds support and revenue from the Hazardous Substance Possession fee.

Budget Environment

The Clean Water State Revolving Loan Fund (CWSRF) program included a different mechanism to fund debt service in 2003-05. Debt service on CWSRF bonds was reduced by $5 million General Fund and $1.8 million Lottery Funds, which was replaced with Other Funds using interest paid on past loans from the CWSRF. Interest paid on previous loans had been deposited back into the CWSRF and used to make new loans. Debt service on 2007-09 CWSRF bond sales will also be paid using interest proceeds. The CWSRF Program is now self-funding in the sense that all debt service can be paid out of proceeds from interest payments made by CWSRF loan customers. Currently, interest proceeds are about 8 times the debt service need.

Essential Budget Level

The essential budget level for 2009-11 contains updated estimates for debt service on already issued bonds. General Fund debt service is $836,512 (17.8%) higher than 2007-09 legislatively approved budget due to the authorized sale of orphan site cleanup bonds in 2007-09 for which no debt service was appropriated because the sale was to occur at the end of the biennium, now requiring debt service payments in 2009-11 and a one-time shift that occurred in 2007-09 whereby Other Funds balances were used to pay General Fund debt service.

Legislatively Adopted Budget

No new orphan site cleanup bond sales were included in the 2009-11 adopted budget due to General Fund constraints. The Legislature did make a one-time fund shift of debt service using Other Fund proceeds from previous orphan site bond sales which are transferred from the Land Quality program and $300,000 Other Funds using Hazardous Substance fee balances to replace $957,000 in General Fund debt service payments. The budget also added $10 million Nonlimited Other Funds for debt service on bonds issued to match Federal Funds received from the federal government to provide affordable financing alternatives for wastewater treatment, non-point source control, and management plans for federally designated estuaries through the Clean Water State Revolving Loan Fund (CWSRF).

DEQ – Nonlimited

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds (NL)	125,663,687	142,140,000	80,000,000	174,778,200
Total Funds	**$125,663,687**	**$142,140,000**	**$80,000,000**	**$174,778,200**

Program Description

A program to grant loans to local governments for construction of eligible waste water treatment facilities, where the amount available from the Clean Water State Revolving Loan Fund (CWSRF) was insufficient for the required work, was discontinued in 2003-05 due to lack of participation by local entities. During the 2003-05 biennium, the eligible uses of CWSRF loans were expanded to include projects addressing nonpoint source water pollution concerns. The estimate for total loans written during the 2007 – 2009 biennium is $96.6 million. The actual amount of cash disbursed to borrowers during 2007-09 is estimated to be $151 million

Revenue Sources and Relationships

Since 1999, the repayment source for orphan site bond proceeds has been General Fund. Beginning in 2003-05, payment of debt service on CWSRF bonds has used interest paid on past loans instead of General Fund.

Essential Budget Level

The 2009-11 essential budget is significantly lower than the 2007-09 legislatively adopted budget due to increased CWSRF loan availability in 2007-09 and removal of orphan site cleanup bond proceeds. No new orphan site cleanup bond sales were included in 2009-11 essential budget level.

Legislatively Adopted Budget

The 2009-11 adopted budget included an increase in proceeds from the sale of Clean Water State Revolving Loan Fund (CWSRLF) bonds for up to $94.8 million of federal grants for the CWSRLF program. This is increased from the amount previously anticipated due to additional federal funding through the American Recovery and Reinvestment Act, as well as an increase in base program support.

Department of Fish and Wildlife (ODFW) – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	10,993,233	13,975,193	16,909,505	13,521,898
Lottery Funds	5,719,505	12,164,453	11,281,640	6,105,448
Other Funds	116,757,237	136,439,786	130,985,313	151,472,795
Federal Funds	79,664,474	98,842,749	96,432,261	90,736,188
Total Funds	**$213,134,449**	**$261,422,181**	**$255,608,719**	**$261,836,329**
Positions	1,401	1,354	1,318	1,379
FTE	1,160.74	1,147.90	1,124.65	1,162.20

Agency Overview

The Oregon Department of Fish and Wildlife (ODFW), under direction of its seven-member Commission, manages the fish and wildlife resources of the state. The agency's mission is to "protect and enhance Oregon's fish and wildlife and their habitats for use and enjoyment by present and future generations." By law, the Department is charged with managing wildlife to prevent serious depletion of any indigenous species and with managing fish to provide the optimum economic, commercial, recreational, and aesthetic benefits.

ODFW manages the state's fish and wildlife policies through three primary divisions: Fish, Wildlife, and Administrative Services. Enforcement of the state's fish and wildlife laws is provided by the Department of State Police, Fish and Wildlife Division. The agency is facing a number of major issues including declining fish populations, listings and potential listings of fish species as threatened and endangered, operation and maintenance of fish hatcheries, wildlife diseases, as well as landowner relationships and access for hunting.

Budget Environment

The ODFW budget has become increasingly reliant on revenue from the sale of hunting and angling licenses and tags. During the 2007-09 biennium, revenue from these sources is estimated to provide almost 35% of the Department's total revenue. ODFW has found that the largest variable affecting license and tag sales is the abundance, or even the perceived abundance, of fish and wildlife resources available to hunters and fishers. When the resource available to potential hunters and fishers declines, so do license and tag sales. Another challenge facing the Department, particularly in the Wildlife Division, is demographic changes. National and state trends indicate a declining proportion of the population engaging in hunting activities. Continuation of this trend, coupled with difficulties in attaining easy access to traditional hunting locations, is likely to result in further erosion of hunting license and tag sales.

Actions taken by the Pacific Fishery Management Council have lowered the harvest limits of many marine fish species, including groundfish stocks and most recently Klamath Basin and Sacramento River salmon stocks, adversely affecting the commercial fishing industry. The issues and problems associated with both the recreational and commercial fishing sectors have required increasing involvement of the state's fish managers from the Interjurisdictional Fisheries program, in intergovernmental forums at the regional and national levels.

Hunting and angling license and tag fees were last increased on January 1, 2004, however as time passes the fixed price of licenses and tags loses purchasing power as the cost of doing business increases. This gradual rise in the cost of doing business would have reduced the Department's ending balance to minimal levels by the end of the 2009-11 biennium, necessitating the Department, and the Legislature to approve, an increase in fees and surcharges beginning January 1, 2010. The fee and surcharge increases are projected to generate $22.3 million in 2009-11 and $27.9 million in 2011-13.

ODFW – Fish Division

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	8,209,049	9,497,449	11,758,476	9,595,806
Lottery Funds	4,357,415	10,596,456	9,641,334	5,153,226
Other Funds	41,368,168	46,346,530	44,590,822	56,635,680
Federal Funds	65,460,781	74,182,313	78,672,359	73,629,800
Total Funds	**$119,395,413**	**$140,622,748**	**$144,662,991**	**$145,014,512**
Positions	1,072	1,027	994	1,033
FTE	834.83	821.31	798.52	821.92

Program Description

The Fish Division consists of the Propagation, Natural Production, Marine Resources, and Interjurisdictional Fisheries programs and has primary responsibility for managing fish resources within the state.

- The purpose of the ***Fish Propagation*** program is to produce fish through artificial propagation to augment natural production and to provide fish for sport and commercial fisheries. In 2008, the program's 33 hatcheries and 15 satellite rearing facilities produced about 50 million salmon, steelhead, and trout. Funding supports program administration, technical expertise on fish culture and rearing, and hatchery operation and maintenance, which include fish health monitoring, tagging/fin clipping, and stocking. More than 70% of all fish caught by recreational anglers and 75% of the salmon harvested commercially are hatchery produced fish. Hatcheries are also a tourist attraction and receive upwards of 1.4 million visitors per year.
- The ***Natural Production*** program manages freshwater fish, trout, steelhead, and salmon within the state's rivers, streams, and lakes. The program directs the inventory of fish populations and their habitats, conducts genetic research, assesses freshwater fisheries, develops fish conservation and management plans, manages state and federally listed fishes, and administers angling regulations. The Salmon and Trout Enhancement program, the Restoration and Enhancement program, and the Fish Screening and Fish Passage programs are part of the Fish Natural Production program.
- The ***Marine Resources*** program recommends regulations and assesses harvest of commercial fisheries including ocean salmon, ocean groundfish, estuary bait fish, shrimp, crab, urchin, and other estuarine species. The program also monitors recreational fishing and is responsible for developing new sustainable fisheries and for assessing harvest levels and making allocation decisions between competing user groups.
- The ***Interjurisdictional Fisheries*** program is responsible for management of Columbia River anadromous fisheries, coordination of Columbia Basin activities, and participation in regional and international management councils for the management of marine and migratory fish. The program monitors and evaluates projects funded through the Northwest Power Planning Council and provides the overall planning and management of the Fish Division.

Revenue Sources and Relationships

All Fish Division programs receive Other Funds revenue from fishing license and tag sales. The Propagation program also receives Other Funds revenues from contractual agreements with non-federal agencies, commercial fishing industry fees, interest income, and donations. The Natural Production program Other Funds revenue sources include contractual agreements with non-federal agencies and hydroelectric operator and relicensing fees. The Marine Resources program receives the majority of Other Funds revenue from the commercial fishing industry through license fees, landing fees, and the proceeds from the sale of confiscated commercial fish which are deposited in the Commercial Fish Fund. The Interjurisdictional Fisheries program also receives Other Funds revenue from contractual agreements with non-federal agencies.

The Propagation program's Federal Funds revenues are received from the U.S. Department of Energy through the Bonneville Power Administration, the Department of Commerce through the Mitchell Act, and the Department of the Interior through the Lower Snake River Compensation Plan. General Fund is provided to support state hatchery programs. The Natural Production program's Federal Funds are received from the Bonneville Power Administration, U.S. Army Corps of Engineers, National Marine Fisheries Service, and the Department of Interior through Sport Fish Restoration funds. The Marine Resources program's Federal Funds are primarily from the U.S. Department of Commerce and Department of Interior for marine resource management. The Interjurisdictional Fisheries program receives Federal Funds from the Bonneville Power Administration, the U.S. Army Corps of Engineers, the National Marine Fisheries Service, and the Department of Interior in the form of Sport Fish Restoration funds.

The Natural Production program also receives Measure 66 Lottery Funds for Oregon Plan related work and for fish screening activities. The agency has received $4 million of Measure 66 capital Lottery Funds for the Fish Screening program since the 1999-2001 biennium. This amount was increased to $5 million for the 2005-07 biennium. This funding has allowed the Department to install 148 fish screens and 48 fish passages using Measure 66 capital Lottery Funds. The program also contains Measure 66 operations Lottery Funds to pay for positions working on Oregon Plan activities such as providing technical assistance to local groups working on habitat restoration projects, completing and implementing conservation and recovery plans, as well as conducting the Lower Columbia monitoring program.

Essential Budget Level

The essential budget level for the Fish Division is $2.3 million General Fund (23.8%) more than the 2007-09 legislatively approved budget. Approximately $500,000 of this increase is caused by standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The remainder is caused by cuts made to the 2007-09 budget as pasrt of the March 2009 reductions used to rebalance the budget. The increase in Federal Funds in EBL proves not to be supportable within anticipated federal revenues and therefore nearly all the increase over the 2007-09 legislatively approved level is reduced as a revenue shortfall. Lottery Funds is $955,122 (9%) lower than the 2007-09 legislatively approved budget primarily due to removal of monies for one-time fish monitoring projects and removal of 2007-09 carryover expenditure limitation for fish screen projects begun in 2005-07 but not completed until 2007-09. Other Funds increases due to standard adjustments are mostly offset by removal of one-time funding for fish recovery planning expenses.

Legislatively Adopted Budget

The adopted budget represents a very slight increase over the 2009-11 essential budget level and a 3.1% increase from the final 2007-09 approved budget after rebalance actions taken by the Legislature in March 2009. The increase over 2007-09 is due to program enhancements funded with Other Funds from the approved license and fee increases adopted in HB 2223 (2009). General Fund support is down $2.2 million (or 18.4%) from the essential budget level due to program reductions and fund shifts, the majority of which are continuation of adjustments taken to rebalance the 2007-09 budget.

The adopted budget for the Fish Division includes the following:

- Reduced General Fund nearly $1 million through a number of actions including: keeping a hatchery closed for the biennium that is experiencing fish disease problems; reducing hatchery operations and fish marking; eliminating a vacant construction inspection position; reducing fish monitoring activities; eliminating a developmental fisheries position; and reducing groundfish stock assessments.
- Added $5 million Other Funds of new revenue from fee increases for Fish Division program enhancements. These include purchase of privately raised trout to enhance angler opportunities, added positions to the fish screens maintenance program, added positions to the Marine program to work on commercial fisheries issues and rent more office space, and added 7 positions to enhance monitoring and evaluation of recreational fisheries as part of the Department's 25-Year Angling Plan. Added $350,000 from a Commercial Fish Fund fee increase to identify innovative methods and gear for selectively harvesting hatchery reared salmon in the Columbia River and $925,000 Other Funds to replace lost federal resources to operate hatcheries that rely on Federal Funds from the Mitchell Act.
- Replaced $4.5 million in Measure 66 Lottery Funds with Other Funds from the Pacific Coastal Salmon Recovery Fund (PCSRF) due to significant differences in the amount of Measure 66 Lottery Funds forecasted to be available during 2009-11 and the amount needed to fund the 2009-11 essential budget level. This shift will support a number of salmon recovery and watershed improvement activities.
- $860,000 General Fund for fish monitoring was shifted to Other Funds and Federal Funds.
- $1.3 million Federal Funds and 8 limited duration positions with funding from NOAA Fisheries for ESA recovery planning and implementation. This includes funding to investigate escapement of Chinook salmon to the John Day and a position to act as lead on the Klamath Restoration Agreement arising from the Klamath Hydro settlement.

- $1 million Other Funds was added to provide one year funding for 8 limited duration positions (4.00 FTE) to evaluate the 6 Marine Reserve sites recommended by the Ocean Policy Advisory Council (OPAC) for potential designation in the 2009-11 biennium and to implement HB 3013. Work will include development of a work plan for implementing OPAC recommendations; surveys of habitat, biological, and economic conditions; outreach; and support of local community resource teams. Funding for the first year of the biennium was supported with $1 million in Other Funds transferred from the Department of State Lands (DSL) using monies remaining from payments made to cover removal costs of the *New Carissa*. The Department will pursue funding for the second year of the program from donations and/or federal grants. The agency will need to return to the Emergency Board or the interim Joint Committee on Ways and Means for additional expenditure authority once second year funding is secured.
- Added $750,000 Other Funds to fund 8 positions (6.34 FTE) working on Hydroelectric and Utility agreements.

ODFW – Wildlife Division

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	1,524,825	2,387,190	2,631,936	2,261,071
Lottery Funds	1,362,090	1,567,997	1,640,306	952,222
Other Funds	27,521,935	34,404,101	32,083,763	34,509,901
Federal Funds	12,849,849	22,141,589	15,827,632	15,056,792
Total Funds	**$43,258,699**	**$60,500,877**	**$52,183,637**	**$52,779,986**
Positions	213	211	207	220
FTE	212.45	212.40	211.17	216.32

Program Description

The Wildlife Division consists of the Game, Habitat, and Wildlife Diversity programs and has primary responsibility for managing wildlife resources throughout the state.

- The ***Wildlife Game*** program manages game species including big game, furbearers, waterfowl, and upland game birds. Most regional staff are budgeted within the Wildlife Game and the Habitat programs. Biologists, with the assistance of seasonal wildlife technicians, inventory big game species, develop and implement species management plans, respond to damage complaints, conduct hunter and harvest surveys, and assist in developing hunting regulations. Hunter access is enhanced through the Regulated Hunt Area (RHA). The RHA is a cooperative program between the Department, landowners, and corporations to allow public hunting on privately controlled lands. Other duties of the Game program include disease monitoring and management and habitat improvement projects for waterfowl and upland gamebirds. Management and planning for the entire Wildlife Division is included in the Game program budget
- The ***Wildlife Habitat*** program provides guidance in the agency's development of statewide goals and objectives related to the management of wildlife and their habitat. The program operates state-owned game management areas and develops projects to maintain and improve wildlife habitat. Projects include cover plantings, wildlife food crops, range rehabilitation, protective fencing, water developments, and artificial nesting sites. Wildlife Habitat is also responsible for coordinating, planning, and conserving existing habitat through contacts with other land management agencies and landowners. The Access and Habitat (A&H) program started in 1993 and is used to provide both wildlife habitat improvement and improved hunter access to private lands. Projects are approved by a 7-member board and then submitted to the Fish and Wildlife Commission for final action
- The goal of the ***Wildlife Diversity*** program is the protection and recovery of non-game bird and animal species through the protection and enhancement of populations and habitat of native wildlife. This represents 88% of the total wildlife species in the state. Non-game biologists conduct species surveys, determine species management requirements, initiate efforts to preserve and improve critical habitats, and coordinate wildlife rehabilitation programs. The program provides consultation to other state agencies regarding threatened and endangered species, as required under the Oregon Endangered Species Act. Oregon's Threatened and Endangered Species List includes 23 nongame wildlife species and 6 nongame fish species. The state's Sensitive Species List, species not threatened or endangered but with populations or habitats that could lead to listing, includes a total of 143 species or subspecies. The program is also responsible for creating the state's Comprehensive Wildlife Conservation Strategy. Any state receiving

monies from the federally funded State Wildlife Grant Program or the Wildlife Conservation and Recovery program must complete such a plan.

Revenue Sources and Relationships

The Game and Habitat programs receive Other Funds revenues from hunter license and tag sales. The Diversity program does not receive license and tag revenue since it deals with non-game species. Instead, the program receives Other Funds revenues from the nongame income tax check-off contribution and interest income. The Game program also receives Other Funds from waterfowl and bird stamp and print sales, and contractual agreements with non-federal agencies. Wildlife Habitat also houses the A&H program, which is funded through a $2 surcharge on hunting licenses. The Legislature approved the agency's proposed legislation increasing the A&H surcharge from $2 to $4.

The Game program primarily receives Federal Funds through contracts with federal agencies, while the Habitat program's Federal Funds are derived from the Bonneville Power Administration through the BPA Wildlife Mitigation Program and from the U.S. Department of Interior in the form of Pittman-Robertson Act funds. The Diversity program receives Federal Funds from the U.S. Department of Interior for threatened and endangered species activities through the State Wildlife Grant program and the Wildlife Conservation and Recovery program.

Essential Budget Level

The essential budget level for the Fish Division is $244,746 General Fund (10.3%) and $72,309 Lottery Funds (4.6%) more than the 2007-09 legislatively approved budget. About half of these increases are caused by standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges, with the remainder due to March 2009 reductions to the 2007-09 budget levels. Federal Funds is $6,313,957 (28.5%) lower than the 2007-09 legislatively approved budget due to removal of $3.9 million for a one-time grant and removal of $3.2 million in 2007-09 carryover expenditure limitation for land owner incentive and Threatened and Endangered species projects begun in 2005-07 but not completed until 2007-09. Other Funds decreased $2,320,338 (6.7%) due to removal of carryover expenditure limitation for Access and Habitat grants and landowner incentive projects which more than offset standard increases for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Legislatively Adopted Budget

The adopted budget represents a 1% increase over the 2009-11 essential budget level. This increase is due to program enhancements funded with Other Funds from the approved license and fee increases adopted in HB 2223 (2009) offsetting reductions in General Fund and Lottery Funds support. General Fund support is down $370,000 (or 14.1%) and Lottery Funds are down $680,000 (42%) from the essential budget level due to program reductions and fund shifts.

The adopted budget for the Wildlife Division includes the following adjustments:

- Replaced $640,000 in Measure 66 Lottery Funds with Other Funds from the Pacific Coastal Salmon Recovery Fund (PCSRF) due to significant differences in the amount of Measure 66 Lottery Funds forecasted to be available during 2009-11 and the amount needed to funded the 2009-11 essential budget level. This shift will support a number of watershed and salmon habitat improvement and monitoring activities.
- Added $1.5 million Other Funds of new revenue from license and surcharge increases to enhance Wildlife Division funding for big game surveys to complete census information on deer, elk, antelope, bighorn sheep, and rocky mountain goats because rising costs have reduced survey scope recently and some areas received no surveys. In addition, new revenues, including monies from doubling the Access and Habitat surcharge, were used to enhance and improve habitat to benefit big game species.
- Reduced General Fund support by $100,000 for payments made to USDA – APHIS Wildlife Services for predator control activities on private land, which reduces the total General Fund provided to $120,000 per biennium.
- Reduced General Fund services and supplies that are used as match in the landowner incentive program by $55,000.
- $413,500 Other Funds and 11 positions (3.15 FTE) were added to implement HB 2220, which authorizes ODFW, the Oregon State Marine Board, and Department of Agriculture to operate check stations to inspect for and decontaminate watercraft contaminated with aquatic invasive species. The Other Funds will come from the Marine Board's new boat stamp fee.

- Added $294,000 Other Funds from the Oregon Department of Transportation (ODOT) to continue a current limited duration position as permanent that provides 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.
- Added $185,000 Federal Funds to convert a current limited duration District Veterinarian position permanent. The Federal Funds comes from monies sent to states to monitor for Avian Influenza.

ODFW – State Police Enforcement

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	12,953,322	14,784,038	16,081,254	18,631,254
Total Funds	**$12,953,322**	**$14,784,038**	**$16,081,254**	**$18,631,254**

Program Description

The Department of State Police, Fish and Wildlife Division's primary responsibility is to ensure compliance with laws that protect and enhance the long-term health and use of the state's fish and wildlife resources, including recreational and commercial fishing laws and regulations and hunting laws. The Division also serves a vital function in the Oregon Plan by enforcing laws designed to protect the remaining salmon populations. The Department of Fish and Wildlife contracts with the Department of State Police (OSP) to provide these law enforcement services. These enforcement positions are included in the State Police budget. Officers in the Fish and Wildlife Division are sworn police officers and can enforce traffic, criminal, boating, livestock, and environmental laws and respond to emergency situations.

Revenue Sources and Relationships

The Department of State Police, Fish and Wildlife Division receives General Fund support directly through the Department of State Police budget and Other Funds from hunting and fishing license revenue from the Department of Fish and Wildlife. Beginning with the 1999-2001 biennium, the Fish and Wildlife Division is also provided Measure 66 Lottery Funds to support enforcement of fish and habitat policies.

Budget Environment

The proportion of the Department of State Police, Fish and Wildlife Division's operating budget funded with transfers from the Department of Fish and Wildlife has declined over time. In the 1981-83 biennium, 75% of the enforcement budget was funded by hunting and angler license revenues from the Department of Fish and Wildlife. During 1991-93, ODFW funds comprised 69% of the fish and wildlife enforcement budget of the State Police. By the 2003-05 biennium, the proportion dropped to its current level of a little more than 50%. The remaining funding has been supported by direct state support, through the General Fund and Lottery Funds.

Essential Budget Level

The essential budget level for the State Police Enforcement program area is $1.3 million Other Funds (8.8%) more than the 2007-09 legislatively approved budget as of December 2008. These increases are caused by allowed non-standard adjustments for personal services costs to match OSP projected costs to fully support the same level of enforcement as was provided in 2007-09.

Legislatively Adopted Budget

The adopted budget is $2.5 million more than the essential budget level due to increased ODFW support for OSP enforcement. $1.8 million of this increase is due to a decision to increase payments to OSP to cover the full cost of the ODFW supported enforcement positions by including administrative overhead costs. Current administrative costs for ODFW paid positions are funded from the General Fund. OSP developed a cost allocation methodology that can be used for all non-General Fund positions to calculate a more accurate cost for funding a position by loading in administrative costs. Administrative costs include Human Resources, Payroll, computer services, dispatch centers, training, and fleet costs. Including administrative costs necessitated increasing payments by $2.3 million Other Funds. This was accomplished by adding $1.8 million in new Other Funds support, combined with $500,000 already in the ODFW contract for temporary positions which is not being utilized, to cover total administrative costs of $2.3 million. This equates to about a 14% administrative indirect rate. The additional ODFW funding will be used to fund shift current General Fund administrative expenses to Other Funds to make General Fund available to offset General Fund cuts in the OSP Fish and Wildlife Division, which, without this action, would have caused a number of positions to be eliminated. In addition, $500,000 of revenue from fee increases in HB 2223 was used to fund two new enforcement positions in Central Oregon. Finally, an additional $250,000 that was proposed for renting ocean going boats for enforcement was instead used to fund an additional fish and wildlife trooper that would have been eliminated due to General Fund reductions in the OSP budget.

ODFW – Agency Administration

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	1,088,221	1,903,461	2,322,152	1,507,468
Other Funds	29,440,869	33,200,726	34,974,111	35,173,124
Federal Funds	1,353,844	1,771,917	1,932,270	1,899,403
Total Funds	**$31,882,934**	**$36,876,104**	**$39,228,533**	**$38,579,995**
Positions	115	115	116	125
FTE	112.46	111.30	113.96	122.96

Program Description

Agency Administration provides general support functions to all programs of the Department. The Division includes the Office of the Director, the Fish and Wildlife Commission, Commercial Fishery Permit Boards, and the divisions of Human Resources, Information and Education, Administrative Services, and Information Systems. Agency Administration is also responsible for implementation and development of the Strategic Operational Plan and for management of the Point-of-Sale licensing system.

The Point-of-Sale (POS) licensing system was approved for development in the 1997-99 biennium, after the vendor providing the previous system indicated its planned withdrawal of support. The Department has contracted with a national company to operate a new internet-based POS system. While still maintaining a presence at over 400 retailers where customers can purchase licenses and tags in person, this new system also allows individuals to purchase licenses and tags via the internet.

Revenue Sources and Relationships

Agency Administration is financed through a combination of General Fund, Other Funds, and Federal Funds. Other Funds include license and tag sales, federal indirect cost recovery, and small amounts of miscellaneous revenue donations and miscellaneous sales. Federal Funds are received from the U.S. Fish and Wildlife Service in support of the Hunter Education and Aquatic/Angler Education programs. Much of the contract costs to operate the Point-of-Sale licensing system are paid out of an agent fee collected on each transaction. One-half of the fee is retained by the agent, with the other half transferred to the Department. This fee does not cover the full cost of the new point-of-sale program. The remainder of the cost is paid with revenue from license and tag fees, and other revenues.

Budget Environment

The agency's budget development process is guided by the Strategic Operational Plan. The Plan was developed to guide agency decision-making on budget challenges over the next six years. The agency developed its budget plan with the assistance of an External Budget Advisory Committee and presented the budget plan at a series of public meetings held across the state. Based on the responses to the plan, the Department made changes to priorities, which were then adopted by the Fish and Wildlife Commission. As part of its continued effort to ensure fiscal accountability, the Department provides reports to the Fish and Wildlife Commission on current biennium revenues and expenditures at each of its meetings.

Essential Budget Level

The essential budget level for the Administration Division is $418,691 General Fund (22%), $1,773,385 Other Funds (5.3%), and $160,353 Federal Funds (9%) more than the 2007-09 legislatively approved budget. These increases are caused primarily by standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges, as well as exceptional inflation allowances for increased fuel costs. The General Fund increase is also due to a reorganization which moved two public affairs positions from the Fish Division to the Information and Education program within the Administration Division as well as General Fund reductions taken from the 2007-09 adopted budget in March 2009.

Legislatively Adopted Budget

The adopted budget represents a $1.7 million increase over the 2007-09 approved budget level. This increase is due primarily to the addition of nearly $2 million in Other Funds from the approved license and fee increases adopted in HB 2223 (2009), which offset reductions in General Fund support. General Fund is down $815,000 (or 35%) from the essential budget level due to program reductions and anticipated salary savings.

The adopted budget for the Administrative Division includes the following adjustments:

- Added $1.3 million Other Funds using new revenues from the approved fee increases for administrative enhancements including 3 positions and $620,000 to implement internet sales of licenses and tags, which are needed to print, prepare, and mail products purchased online; $260,000 to accommodate implementation of credit card purchases of ODFW licenses and tags for the purchase of credit card machines and credit card surcharges; $250,000 to accommodate expenditure of monies from the new Crab Pot Buoy Tags which was not added when the new tag system was adopted; and expenditure limitation for monies from Hunter Education Application Fees ($120,000) and Outdoor Skill Clinic fees ($50,000).
- $750,000 Other Funds and 2 positions were added to enhance external and internal websites and connectivity. One position would work on website content changes, while the other will work on the migration of the agency's IT applications and databases from a 20-year old mainframe that uses COBOL to a new UNISYS platform. This enhancement also included $200,000 to provide network and PC support.
- Reduced General Fund $423,051 by eliminating a Procurement Manager position and a Disbursement Manager position.
- Added $140,000 Other Funds to support a limited duration Accountant position to assist in the development of a new tracking system necessary to meet federal audit requirements.

ODFW – Capital Improvements

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	171,138	187,093	196,941	157,553
Other Funds	5,472,943	5,143,391	3,255,363	6,522,836
Federal Funds	0	746,930	0	150,193
Total Funds	**$5,644,081**	**$6,087,262**	**$3,452,304**	**$6,830,582**
Positions	1	1	1	1
FTE	1.00	1.00	1.00	1.00

Program Description

The Capital Improvements budget finances hatchery and wildlife management area facility repairs and improvements. Projects include diking, nesting, water control, and installation of bird netting, repairs to roads, channels, intakes, and ponds. The program includes a position for clerical support to the Restoration and Enhancement Board, funded by surcharge revenues.

Revenue Sources and Relationships

Nearly all of the Other Funds expenditures in the Capital Improvements budget had been for Restoration and Enhancement (R&E) Board projects. R&E projects are funded with a $2 surcharge per angling license. All General Fund expenditures are for emergency hatchery repairs. The agency has proposed doubling the R&E surcharge to $4 beginning January 1, 2010. Federal Funds were added on a one-time basis in 2007-09 to make repairs to federally funded hatchery residence buildings from the Federal Fund Hatchery Housing Fund, which holds rent paid by employees living and working at federally funded hatcheries.

Budget Environment

Hatchery maintenance needs continue to grow. Generally, hatchery facilities are aging and need improvements to water supplies and waste water systems. The Department completed a deferred maintenance study in 2005, which estimated the following deferred maintenance needs: hatcheries, $5.9 million; wildlife area facilities, $2.4 million; and administrative and operational facilities, $0.9 million. Existing funding sources are not sufficient to eliminate the maintenance backlog. To help address this backlog, the 2007 Legislature added $1.4 million Other Funds from the sale of COPs to address the Department's most critical capital repair needs.

Essential Budget Level

Other Funds decreased $1,888,028 (36.7%) due to removal of carryover expenditure limitation for Restoration and Enhancement grants obligated in 2005-07 but paid out in 2007-09 and removal of the $1.4 million Other Funds from the sale of COPs used to pay for deferred maintenance projects in 2007-09. Likewise, all Federal Funds were removed from the 2009-11 essential budget level as they represented one-time expenditures from the Federal Fund Hatchery Housing Fund.

Legislatively Adopted Budget

The adopted budget represents a $245,000 increase over the 2007-09 approved budget level. This increase is due primarily to the addition of $2.8 million Other Funds from an increase in HB 2222 (2009) to the Restoration and Enhancement (R&E) surcharge, which raised the surcharge from $2 to $4, to fund additional R&E projects designed to benefit fish. While Other Funds were increased, Federal Funds decreased by $600,000 due to removal of one-time expenditures from the Federal Fund Hatchery Housing Fund as described above.

Department of Forestry (ODF) – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	52,819,882	46,393,176	44,963,795	40,474,980
Lottery Funds	0	0	0	1,507,601
Other Funds	192,407,822	248,482,943	170,400,142	199,755,346
Federal Funds	15,163,791	26,483,943	26,816,820	46,558,712
Other Funds (NL)	6,254,514	15,000,000	15,000,000	15,000,000
Total Funds	**$266,646,009**	**$336,360,062**	**$257,180,757**	**$303,296,639**
Positions	1,292	1,311	1,251	1,227
FTE	909.15	920.96	893.41	891.07

Agency Overview

The Oregon Department of Forestry (ODF), directed by the seven-member Governor-appointed State Board of Forestry, is a multi-program, multi-funded agency designed to administer the forest laws and policies of the state. The Department provides a cost-effective system of state, federal, and private forest land fire protection, manages state forest lands, and provides stewardship for non-federal forest lands through administration of the Forest Practices Act and provision of forestry assistance. The Department's mission, values, and strategies are included in the agency's 2004-2011 Strategic Plan approved by the State Forester in September 2004. The Strategic Plan is a companion document to the Board of Forestry's forest policy strategic plan, the 2003 *Forestry Program for Oregon.* The Department has adopted the following vision statement through its strategic plan.

The Department of Forestry will be successful in achieving its mission when Oregon has:

- Healthy forests providing a sustainable flow of environmental, economic, and social outputs and benefits.
- Public and private landowners willingly making investments to create healthy forests.
- Statewide forest resource policies that are coordinated among Oregon's natural resource agencies.
- The Board of Forestry recognized as an impartial deliberative body operating openly and in the public interest.
- Citizens who understand, accept, and support sustainable forestry and who make informed decisions that contribute to achievement of the vision of the 2003 Forestry Program for Oregon.
- Adequate funding for the Department of Forestry to efficiently and cost-effectively accomplish the mission and strategies of the Board of Forestry, appropriate use of information technology, business management strategies, and Department personnel policies that encourage and recognize employees, allowing them to meet their full potential in providing excellent public service.

Essential Budget Level

The 2009-11 essential budget level of $257.2 million total funds is a decrease of $78.9 million, or 23.5%, from the 2007-09 legislatively approved expenditure level and includes 1,251 positions (893.41 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes $64.2 million total funds in special session and Emergency Board actions during Fiscal Year 2008 for emergency repair work related to winter storm damage, the 2007 and 2008 forest fire protection program, and increased compensation for employees. The 2009-11 essential budget level includes a reduction of $28.7 million to phase out expenditures related to one-time expenses for the business Improvement Technology Project ($1.7 million of $4.2 million); $16 million General Fund associated with eliminating double budgeting of Other Fund resources in the Protection from Fire Program accounts; $4.5 million Other Funds and 44 positions (16.96 FTE) to phase out Nursery Program operations; $9 million related to Capital Improvement and Capital Construction Projects; one-time federal grant programs; and one time debt issuance costs. It reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges including the removal of 16 positions (10.44 FTE) related to administrative position adjustments. It also reflects technical adjustments to remove double expenditure limitation in operating programs for facilities maintenance and transfers it solely to the Facilities Management program.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $303.3 million is $43.8 million, or 17%, more than the 2009-11 essential budget level and includes 1,227 positions (864.07 FTE). The budget reflects a General Fund reduction of $6.8 million from the 2009-11 essential budget level primarily in the Private Forests monitoring and technical assistance programs. Other Funds is increased by $29.4 million which is comprised of $15 million lottery-backed revenue bonds for purchase of forest land surrounding the former timber town of Gilchrist in Klamath County and the remaining increase is $25 million which is a one-time increase in the Other Funds expenditure limitation to implement a technical accounting adjustment to record gross revenues and expenditures related to timber sales and alignment of timber sale revenues with expenditures for state forest management. The Other Funds expenditure limitation was reduced by $10.6 million to align estimated revenues with expenditures. The Federal Funds expenditure limitation is increased by $19.7 million to reflect one-time federal grant opportunities under the American Recovery and Reinvestment Act of 2009.

ODF – Agency Administration

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	17,435,302	2,901,949	4,032,065	3,514,236
Other Funds	8,781,400	22,426,548	21,105,983	22,095,560
Federal Funds	554,238	773,760	820,971	804,094
Total Funds	**$26,770,940**	**$26,102,257**	**$25,959,019**	**$26,413,890**
Positions	80	81	80	83
FTE	78.84	78.85	78.84	83.22

Program Description

Agency Administration includes the State Forester's office, Board of Forestry support, and traditional support functions such as finance, property management, personnel, computer services, and public information. Agency Administration is also responsible for policy development, forest resource analysis and planning, administration of the log brand inspection program, land use planning coordination, and facilities maintenance.

Revenue Sources and Relationships

Agency Administration is funded by the General Fund, Other Funds, and Federal Funds assessed against agency programs on a pro-rated basis by funding source, such as the State Forests Account (timber receipts) and Forest Products Harvest Tax. The program also receives a small amount of revenue from fees charged for services and map sales.

Budget Environment

Agency Administration performs roles in interagency communications with federal government agencies, the Governor's office, and other state agencies involved in natural resource activities. The program has experienced increasing information needs to address public involvement in the Oregon Plan for Salmon and Watersheds and the development of state forest management plans for the State Forests Program, including the Northwest Oregon Forest Management Plan and the Elliot State Forest Management Plan and Habitat Conservation Plan. Due to a strong interest in the environment on a national and international scale, public interest and involvement in all Department programs and activities is high and will likely increase. The program interacts with multiple external program areas, other natural resource agencies, the United States Forest Service (USFS), Bureau of Land management (BLM), and the Governor's Office on forest health issues.

Increased decentralization of controls by the Department of Administrative Services (DAS) continues to increase centralized Department services of accounting, payroll, contracting, purchasing, personnel, information systems, and facilities management.

A tight labor market and generational changes in the workforce are making it more difficult to develop viable applicant pools for recruiting. Continued turnover in the leadership of the Department due to retirements will impact organizational effectiveness. It will take time and resources for employees to become proficient in their new leadership positions.

Essential Budget Level

The 2009-11 essential budget level of $26 million total funds a decrease of $349,115, or 1.3%, from the 2007-09 legislatively approved expenditure level and includes 80 positions (78.74 FTE) as of December 2008. The General Fund essential budget is $1.6 million more than the 2007-09 legislatively approved expenditure level reflecting increases in salaries and standard adjustments for inflation. The 2007-09 legislatively approved expenditure level includes $2 million total funds in special session and Emergency Board actions during Fiscal Year 2008 related to emergency repair work for winter storm damage, State Data Center charges, and increased compensation for employees. The 2009-11 essential budget reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges including an internal realignment of a position (0.01 FTE).

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $26.4 million is $454,871, or 1.8%, more than the 2009-11 essential budget level and includes 83 positions (83.22 FTE). The budget reflects an increase of 3 positions (4.48 FTE) resulting from a shift of administrative functions and expenditures in the State Forests and Private Forests Programs to Administration adding $640,186 Other Funds expenditure limitation. Offsetting reductions in the State Forest and Private Forests Programs result in a net zero overall budget impact. The budget also reflects a $900,000 increase in Other Funds related to the carry-forward of the Department's Business Systems Information Technology Project authorized by the 2007 Legislature. The project is resourced by the proceeds from sale of certificates of participation issued during the preceding biennium. The budget was also increased by $394,381 Other Funds to provide an expenditure limitation for issuance costs on Lottery Bonds approved in HB 5054 for a state forest land acquisition in Klamath County. The budget also includes a reduction of $517,829 General Fund, $944,990 Other Funds, and $16,877 Federal Funds ($1.5 million total funds) to reflect statewide salary adjustments and reductions in various state government service charges and assessments.

ODF – Protection From Fire

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	23,704,478	30,888,405	26,015,119	29,128,120
Other Funds	92,452,450	111,606,386	46,829,165	47,502,491
Federal Funds	9,600,179	17,671,462	18,426,185	18,249,853
Other Funds (NL)	2,104,808	15,000,000	15,000,000	15,000,000
Total Funds	**$127,861,915**	**$175,166,253**	**$106,270,469**	**$109,880,464**
Positions	708	727	724	727
FTE	397.27	412.25	409.44	412.44

Program Description

The Protection from Fire program provides fire protection for nearly 16 million acres of private, state, and federal forest lands; operates an industrial fire prevention program, smoke management program, and; through the Emergency Fire Cost Committee, finances costs of catastrophic fires. Of the total acreage, 12.1 million is privately owned, 1.2 million is state and local government land, and 2.5 million is federal, mostly Bureau of Land Management (BLM) Western Oregon lands. The total acreage has a current estimated value at risk of approximately $60 billion. The program finances costs for central and field administration, fire suppression crews, facilities maintenance, fire cache, communications, and weather and mapping services. Program services are delivered through 12 forest protection districts including three locally managed Forest Protective Associations. Over one-third of all agency positions are assigned to this program.

The Legislature combined two other program units with the Protection from Fire program in 1995. The four-member Emergency Fire Cost Committee is comprised of forest landowners or their representatives. The committee manages the Oregon Forest Land Protection Fund (OFLPF), which is used to purchase insurance for catastrophic fires and to equalize extraordinary fire costs among forest protection districts. The Cooperative Fire program provides forest management services to public and private forest landowners through contracts. The purpose is to maintain trained fire suppression personnel through the off-season and to maximize the use of public services through the sharing of resources. Both programs are entirely supported with Other Funds revenue.

Revenue Sources and Relationships

The State's Protection from Fire program is provided in three levels with separate funding mechanisms:

Base Protection – ODF's base protection program is delivered through nine local Forest Protection Districts and three private Forest Protective Associations. Each of the local fire protection units prepares an operating budget for prevention, detection, resource readiness, initial attack, and extra cost deductible. The revenue to support the local budgets comes from a combination of the Public Share Fire Fund (General Fund) and forest patrol assessments on local forest landowners. The assessment system includes more than 291,000 parcels, with and without improvements. The distribution is established in statute as 50% General Fund, 50% private landowner assessment. Since each local budget is developed independently, the forest patrol assessments charged against subject landowners vary by district. The assessments are collected by county assessors and are made on a per acre basis with a minimum assessment of $18.00 per lot. Public landowners receive no General Fund match and pay the full cost of fire protection.

Emergency Protection – The purpose of emergency protection is to pay for the excess fire suppression costs of major fires in Oregon. The enabling legislation is based on the belief that the emergency fire suppression costs on forest lands protected by the State Forester need to be equalized so that no single district is required to pay the full amount of fire fighting expenses. Funding for emergency costs is provided through the Oregon Forest Land Protection Fund (OFLPF), administered by the Emergency Fire Cost Committee. The 2005 Legislature modified the reserve base for the OFLPF in HB 2327 from $15 million to $22.5 million stipulating that when the unencumbered balance of the fund reaches a level greater than $22.5 million but less than $30 million, the minimum assessment would decrease from $18 to $16.50, with $1.50 to be paid into the OFLPF. Above a $30 million balance, the assessment would drop to $15 per lot or parcel with none paid to the OFLPF. The OFLPF essentially serves as an insurance policy for local landowners in each of the forest protection districts. The 2009 Legislature allowed the reserve base for the OFLPF to revert back to $15 million. Revenues to support the OFLPF were estimated to be $16.8 million in 2007-09, and are generated from an assortment of landowner assessments and taxes:

- harvest tax of $0.50/thousand board feet (MMbf) on all merchantable forest products; the tax is suspended when the reserve base amount of the OFLPF is projected to exceed $22.5 million ($4.2 million);
- acreage assessment on all protected forest land ($0.04 per acre for protected western Oregon forestlands, $0.06 per acre for eastern Oregon protected forestland, and $0.06 per acre for all class 3 forestlands) ($1.47 million);
- assessment of $3.00 per lot (out of the $18.00 minimum assessed for forest patrol) ($1.14 million);
- surcharge of $38.00 for each improved tax lot ($9.9 million); and
- interest from State Treasurer investments of the fund ($0.1 million).

The OFLPF reimburses fire suppression costs after a district meets an annual deductible based on protected acreage and a deductible of $25,000 for any one fire or on any one day.

Catastrophic Protection – HB 2327 (2005) directs that, prior to February 1 of each year, the State Forester and the Emergency Fire Cost Committee review the need to purchase emergency fire suppression insurance and determine what level might be needed in view of the current condition of the forests, long-term weather predictions, available resources, and other factors. The statute includes a provision to annually assess the insurance premium equally between the Oregon Forest Land Protection Fund (OFLPF) and the General Fund. The current insurance policy provides $25 million total insurance with an annual deductible of $25 million and an annual premium of $1.3 million. Also HB 2327 (2005) increased the limits of the landowners' responsibility to $15 million per year, including the cost of insurance premiums and all claims paid to local districts from the OFLPF to address the rising costs of emergency fire suppression. Beyond this limit, the cost responsibility falls on the General Fund. The measure included a sunset provision that would revert to the lower limit of $10 million if the Legislature did not take action to maintain the increase in landowners' responsibility. The 2009 Legislature allowed the increase in the landowners' responsibility to revert back to $10 million. The impact of this action is an increase in the risk that emergency fire suppression costs above $10 million will require General Fund for payment. The current reserve and expenditure limits are inadequate when dealing with severe fire seasons and higher per unit costs for firefighters and equipment.

The ***Smoke Management/Fuels program*** – Funded by registration and burning fees collected from landowners (87%), contractual payments from other government agencies (12%), and landowner assessments (1%).

Budget Environment

Fire suppression efforts and costs are driven by forest health (insect and disease damage) and weather (drought and lightning storms) and cannot be predicted with certainty. Over 7.5 million acres of forestland in eastern and southern Oregon are suffering from poor forest health and remain untreated. The last decade of drought has affected much of Oregon's forests. In addition, the siting of dwellings and other improvements on forestlands continues to increase the challenges to fire managers and large areas of the state have no fire protection coverage. Fires originating on these unprotected lands can be a threat to protected forestlands and communities. The increasing numbers of homes in the forest complicates protection priorities resulting in higher costs and greater damages and requires additional coordination by fire protection agencies. Numerous structures located on forestland have not been included within the boundaries of rural fire districts and are unprotected. An estimated 3.9 million acres of land in north central and southeast Oregon are completely unprotected. Fires originating in these unprotected areas threaten protected forest land. Fewer fire protection resources are available from the private sector such as logging crews and equipment. Federal budget cuts and local resource constraints have also decreased existing wildfire protection levels by reducing fire fighting resources and revenues. Also, federal fire management policies have reduced the overall productivity of suppression resources and at times limited the availability of critical resources.

Essential Budget Level

The 2009-11 essential budget level of $106.3 million total funds is a decrease of $69.4 million, or 40%, from the 2007-09 legislatively approved expenditure level and includes 724 positions (409.44 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes $69 million total funds in special session and Emergency Board actions during Fiscal Year 2008 related to wild land fire protection ($7 million General Fund and $50 million Other Funds) and changes to employee compensation. The 2009-11 essential budget phases out $16 million General Fund as a result of aligning the General Fund share accounting processes with agency enterprise-wide systems eliminating a double expenditure limitation situation caused by transferring General Fund to the Other Funds accounts. It adds $17.8 million General Fund to various line items throughout the budget and removes $17.1 million Other Funds to remove the double budgeted funds. The 2009-11 essential budget reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges including an internal realignment of 3 positions (2.81 FTE).

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $109.9 million is $1.3 million, or 1.2%, more than the 2009-11 essential budget level and includes 727 positions (412.44 FTE). The budget reflects the addition of $2.3 million General Fund to maintain base protection levels attributed to increasing costs of fire suppression resources including fuel, overtime, contract resources, aircraft, equipment, and communications as well as higher base level deductibles due to severe fire seasons. In addition the budget includes:

- $139,712 Other Funds to establish a position (1.00 FTE) to work as a rangeland association coordinator. The position is anticipated to provide guidance and mentoring of private landowners through developing and implementing rangeland protective associations in areas of unprotected lands where no other means of initial attack and suppression of wildfire exists. The position will be funded by private landowner assessments under the cooperative fire program.
- $305,856 Other Funds to establish two positions (2.00 FTE) to develop, implement, and monitor the Pacific Northwest Wildfire Coordinating Group Interagency Crew Agreement. The positions will provide greater monitoring and accountability of contract resources that perform wildfire suppression duties. The position will be funded by users of the interagency contract crews, including various federal land management agencies and other states.
- $814,117 General Fund and $1,617,364 Other Funds ($2,431,481 total funds) to retain the essential budget level of resources to maintain a 50% General Fund cost share for initial attack fire suppression expenses and fire insurance premium costs and 50% private land-owner cost share. The budget increases the cost to public landowners by $1.7 million for 25% of the Department administration expenses. The remaining 75% is funded by General Fund resources with no cost share of the administration expenses to private land owners.

The budget was also reduced by $40,377 General Fund, $1,389,606 Other Funds, and $176,332 Federal Funds ($1,606,315 total funds) to reflect statewide salary adjustments and reductions in state government service charges and assessments.

Above the base fire suppression resources, a $4.7 million General Fund special purpose appropriation to the Emergency Board was approved by the Legislature for severity resources to pre-position resources and equipment and one-half of the cost of the second year of the biennium's insurance premium (the first year is included in the base budget). Because the Legislature allowed the landowners' responsibility to revert to $10 million from the higher level of $15 million on emergency fire suppression costs, the Legislature approved a budget note directing the agency to report to the Legislature during the 2010 special session on the actual costs of the 2009 fire season and the liability for the General Fund. If costs are expected to exceed the availability of General Fund resources, the Legislature may reconsider the annual limit on landowners' responsibility.

ODF – Equipment Pool Program

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	12,953,972	13,893,423	14,458,252	14,299,695
Total Funds	**$12,953,972**	**$13,893,423**	**$14,458,252**	**$14,299,695**
Positions	29	29	30	30
FTE	29.77	30.75	30.56	30.56

Program Description

The Equipment Pool program operates a motor pool and a radio pool. The motor pool manages 750 pieces of equipment including vehicles, airplanes, pickups, trailers, and heavy equipment. The radio pool supports and maintains 3,500 pieces of major communication equipment such as repeaters, base stations, mobiles, and portables. The radio pool provides the equipment, engineering, maintenance, and support for the Department's co-operators (3 fire protection associations); Department of Fish and Wildlife; Oregon Parks and Recreation Department; and, at times, other agencies, such as the Departments of Agriculture, Water Resources, Justice, Corrections, and the Oregon State Fair.

Revenue Sources and Relationships

Expenditures for the Equipment Pool program are financed 100% from fees charged to equipment pool users.

Budget Environment

Motor pool operations are affected by changes in fuel prices. The radio pool is affected by changing telecommunications technology (narrowband and digital), Homeland Security, and the States Interoperability Executive Committee, which is requiring new strategies to provide the most efficient and effective exchange of information.

Essential Budget Level

The 2009-11 essential budget level of $14.5 total funds is an increase of $564,829, or 4%, from the 2007-09 legislatively approved expenditure level and includes 30 positions (30.56 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes $98,363 total funds in special session and Emergency Board actions during Fiscal Year 2008 related to changes to employee compensation. The 2009-11 essential budget reflects a technical adjustment to remove $143,918 Other Funds double expenditure limitation in operating programs and reflects costs solely in the Facility Maintenance Program. The 2009-11 essential budget reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges including an internal realignment of one position (0.19 FTE).

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $14.3 million Other Funds is $158,557 or 1.1%, less than the 2009-11 essential budget level and includes 30 positions (30.56 FTE). The budget is in effect funded at the 2009-11 essential budget level. The reduction from the essential budget level reflects the reductions in statewide salary adjustments and state government service charges and assessments.

ODF – State Forest Lands

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	62,057,656	65,810,846	67,500,736	83,061,171
Federal Funds	0	145,102	0	7,313,336
Total Funds	**$62,057,656**	**$65,955,948**	**$67,500,736**	**$90,374,507**
Positions	314	302	299	288
FTE	269.73	260.20	260.05	253.16

Program Description

The State Forest Management program manages 780,000 acres of state forestlands on behalf of counties and the Common School Fund. The Board of Forestry owns nearly 83% (648,200) of these acres, including the five state forests (Tillamook, Clatsop, Santiam, Sun Pass, and Elliott). Counties transferred the title to these lands to the Board of Forestry in the 1930s and 1940s. The remaining 132,000 acres are the Common School Lands, which are managed by ODF under contract with the State Land Board. The primary goal of the program is to provide for healthy, productive, and sustainable forests through active management that will produce sustainable timber and revenue on Board of Forestry lands and maximize revenue over the long-term on Common School Lands.

The Department participates in a cooperative tree improvement effort with other major landowners to increase the yield and quality of forest products. The State Forest Management program also operates the J.E. Schroeder Seed Orchard to provide improved tree seed for planting on state land, on non-industrial landowner properties, and on 13 industrial lands whose owners share orchard expenditures.

Revenue Sources and Relationships

The State Forest Management program is entirely self-financed from timber sales and the sale of special forest products. The Department retains 36.25% of timber sales for management of the county trust lands. The remaining 63.75% is distributed to the counties and local taxing districts where the forestland is located. ODF projects the state's share of timber sales to be $45 to $49 million for 2009-11. The agency is reimbursed for Common School Fund land management costs and the remaining revenue goes to the Common School Fund. Management costs are approved by both the Board of Forestry and the State Land Board. Board of Forestry lands are expected to generate $79 to $86 million for counties and local taxing districts, and timber sales from Common School Fund lands will generate $24.9 to $34.3 million in revenue during the 2009-11 biennium. Management costs on the Common School Fund lands are proposed in the budget at slightly over $9.7 million for the 2009-11 biennium.

Budget Environment

The level of forest management on county trust lands is dependent upon timber receipts. The Department must be careful to meet the statutory and constitutional fiduciary responsibilities through timber harvests while protecting and making available the other forest values. The program will plant 20,860 acres with appropriate tree species and genetic sources of tree seed; fertilize and prune 8,950 acres; conduct regeneration harvest on 15,856 acres; pre-commercially thin 6,100 acres; and commercially thin or partially harvest 21,520 acres during the 2009-11 biennium.

Current economic conditions point to possible downturns in most of the Department's revenue sources, including state forests. Overall, ODF revenues may decline 12%-20% over the next two to three years. The national and state economic conditions are expected to remain weak at least through 2009, due in large part to the collapse in subprime and other inadequately secured home mortgages. These conditions in the credit lending industries and the resulting poor housing market conditions are affecting timber and other industries in Oregon and elsewhere. Less timber demand means lower timber sale revenue from state lands. The current fiscal year's (2008) average bid price per thousand board-feet has dropped 15% compared to the previous year.

Swiss Needle Cast, a foliage disease of Douglas-fir, is significantly affecting a portion of state forestlands on the Tillamook State Forest. Symptoms of this disease are also becoming evident in the Elliott State Forest. Federally listed species have significantly affected the management of state forestlands over the last decade. Listings for fish species also have effects on the ability of managing the resource to achieve program goals on state forest lands.

Essential Budget Level

The 2009-11 essential budget level of $67.5 total funds is an increase of $1.5 million, or 2.3%, from the 2007-09 legislatively approved expenditure level and includes 299 positions (260.05 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes $2.1 million total funds in special session and Emergency Board actions during Fiscal Year 2008 related to changes to employee compensation. The 2009-11 essential budget reflects phasing out $145,102 Federal Funds resulting from reductions in federal funding for this program. The 2009-11 essential budget reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges including an internal realignment of two positions (0.15 FTE). It also includes an additional 12.7% increase for fuel cost increases and 1.74% increase for professional services above standard inflationary rates. A technical adjustment removing $593,961 Other Funds of double limitation of expenditure for facilities maintenance costs will be shown solely in the Facilities Maintenance program.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $90.4 million is $22.9 million, or 33.9%, higher than the 2009-11 essential budget level and includes 288 positions (253.16 FTE). The budget reflects a one-time increase of $25 million Other Funds to implement a technical accounting adjustment to comply with Generally Accepted Accounting Principles (GAAP). This change will allow timber sales project expenses to be accounted for as it occurs so that program revenues and expenditures are accurately recorded. Currently, only “net” revenues are recorded; this change allows gross revenues to be recorded requiring a one-time increase in expenditure limitation.

The budget also reflects the following reductions:
- $360,706 Other Funds and 1 position (2.48 FTE) to shift administrative functions to the Administration Program budget;
- $1,306,423 Other Funds to reflect statewide salary adjustments and reductions in state government service charges and assessments; and
- $14,898,922 Other Funds, 45 positions (39.01 FTE) to reflect a downturn in state forest timber receipts due to current economic conditions.

The budget also reflects the following additions:
- $3,229,688 Other Funds, $7,313,336 Federal Funds, and 12 positions (12.00 FTE) to fund five forest management federal grants from the American Recovery and Reinvestment Act through the United States Forest Service and for projects submitted to the National Oceanic and Atmospheric Administration;
- $2,877,008 Other Funds and 17 positions (16.50 FTE) to allow the Department to utilize interagency personnel agreements with the United States Forest Service and Bureau of Land Management to allow state employees to work for and be paid by those agencies in order to retain a trained and experienced workforce as the economy recovers; and
- $1,019,790 Other Funds and 6 positions (6.10 FTE) funded by a revenue transfer from the Oregon Parks and Recreation Department for OHV/ATV trail operation and maintenance on Oregon state forest lands.

ODF – Urban Forestry

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	0	256,958	264,153	264,153
Federal Funds	0	794,430	884,718	864,325
Total Funds	**$0**	**$1,051,388**	**$1,148,871**	**$1,128,478**
Positions	0	3	3	3
FTE	0.00	3.00	3.00	3.00

Program Description

The Urban Forestry program is a new unit realigned from the Private Forest program unit and is responsible for on-site technical, educational, and financial assistance for municipal governments, other public agencies, non-profit groups, and civic organizations. The program provides technical information on tree risk assessment, ordinances, inventories, tree care, planting, tree selection, and urban forest management. The program unit was established to place emphasis on advocating for and promoting enhancing stewardship of Oregon's urban forests and to foster public awareness of the contributions that trees make to the quality of life and the environmental and economic well-being of Oregon cities.

The Urban Forestry Program was initiated in 1991 when federal funds became available from the President's America the Beautiful Initiative. The 1993 Legislature passed a bill directing the Department to assist cities in managing the trees within their urban growth boundaries. A 2004 survey of cities showed that ODF's assistance since 1991 has resulted in an increase in the number of cities with active urban forestry programs, an increase in the number of urban forestry program elements (inventories, management plans, etc.) found in cities, and an increase in local investment in urban forest management. Cities that had received ODF assistance were more likely to be proactively dealing with their tree problems than cities that were not assisted by ODF.

Revenue Sources and Relationships

The Urban Forestry program is funded by a combination of Other and Federal Funds. The majority of Federal Funds have been received through the U.S. Department of Agriculture's Forest Service as part of a consolidated grant program through the U.S. Forest Service State and Private Forestry Program. Match is met on a comprehensive basis. In 2008, a portion of the funds normally received by the Department were diverted to the Western Competitive Grant Process within the U.S. Forest Service State and Private Forestry budget. ODF was successful in obtaining two grants totaling $70,000 in urban forestry funds. Estimated revenues from Federal Funds in the 2009-11 biennium are $514,800 with potential to receive one or more Western Competitive Grants. Other Funds revenues include private donations, cooperative projects with utilities and other entities, and Federal Funds transferred from other state agencies. Estimated revenues from Other Funds are $100,000 for the 2009-11 biennium. In recent years, ODF received "base" urban forestry funding levels of between $400,000 and $500,000 per biennium from federal funds via the U.S. Forest Service. It has also received performance based funds, project specific funds, and competitive based funds above that level. For 2009-11, ODF has been awarded an additional project award of $257,580 that will be received and spent during the 2009-11 biennium. Based on this information, ODF is projecting a minimum of $757,580 federal revenue, which is not enough Federal Funds to fully fund the agency request.

Oregon lacks a dedicated source of tree planting revenues for local communities to access. Most funding incentives are targeted outside of urban growth boundaries, despite the fact that most salmon bearing streams pass through urban areas on the way to the Pacific.

Budget Environment

Most cities lack the technical expertise to complete tree risk management plans. Storms often result in tree damage to public infrastructure and utility systems. Most cities are reactive rather than proactive when it comes to dealing with hazardous tree issues. In 1911 when ODF was created, 58% of Oregonians lived in rural areas; today only 21% of Oregon's population is rural; the other 79% live in urban areas. Since 1990 Oregon has experienced rapid population growth. An estimated 330,000 acres of Oregon forest, about 5% of the state's private forestland, exist inside urban growth boundaries or other development zones. Another 1.8 million acres of private forest exist within one mile of developable areas. As cities grow, they face a number of challenges with retaining forest value and benefits such as maintaining forest cover for urban streams, fish and wildlife habitat, and environmental protection. Land conversions and development pressures are trends affecting Oregon's forests. With a small staff and a large state, ODF struggles to meet the demand for urban forestry assistance across the state.

In the 2005-07 biennium, there were two field foresters covering the entire state, one from Salem and one from Prineville, leaving the southern Oregon area and the Portland metro area under served. ODF lacks sufficient staff to meet the needs of all communities in the state.

Since 1991, Oregon has received over $4.75 million in urban forestry funds from the federal government that have never been matched with a state appropriation. The federal government is considering requiring states to equally match the federal funds it receives on a program basis which means the state would need to allocate at least $400,000 per biennium in order to be eligible for federal funds. Reductions in federal funding available to the state have reduced the program by 23% in 2006 and another 23% for 2007. The reduction has necessitated the elimination of a popular grant program for local governments and non-profit organizations and in the next biennium will result in reducing field staff that provides urban forestry assistance to cities. Before its elimination, this program funded over 400 projects and provided more than $1.9 million in grants that leveraged $3.8 million in local resources.

Essential Budget Level

The 2009-11 essential budget level of $1.1 million total funds is an increase of $97,483, or 9.3%, from the 2007-09 legislatively approved expenditure level and includes 3 positions (3.00 FTE) as of December 2008. The 2009-11 essential budget reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $1.1 million total funds is a $20,393, or 1.8%, reduction from the 2009-11 essential budget level and includes 3 positions (3.00 FTE). The budget is approved at the essential budget level less the reductions for statewide adjustments for salary and state government service charge reductions.

ODF – Private and Community Forests

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	9,727,373	10,260,291	12,110,029	5,026,042
Other Funds	6,873,219	9,114,091	9,673,416	6,846,033
Federal Funds	5,009,374	7,099,189	6,684,946	19,327,104
Total Funds	**$21,609,966**	**$26,473,571**	**$28,468,391**	**$31,199,179**
Positions	115	123	114	95
FTE	113.43	115.80	110.67	80.74

Program Description

The Private Forests program is an integrated program that:

- Promotes forest stewardship through the Oregon Forest Practices Act and rules, and by providing training, technical, and financial assistance to forest landowners and operators.
- Promotes healthy forests through monitoring insect and disease conditions, applying integrated pest management strategies, controlling/eradicating invasive species and assisting landowners conduct stand management prescriptions through technical and financial assistance.
- Promotes increased timber production by family forest landowners through information, incentives, services, and assistance.
- Promotes a stable regulatory and investment climate by developing and promoting science-based best management practices and encouraging federal, state, and local government policies that are supportive of the Board's mission, that avoid unintended adverse consequences, and that improve efficiency of program delivery.
- Promotes the implementation of the voluntary measures under the Oregon Plan for Salmon and Watersheds through technical, cost-share, and administrative assistance.
- Conducts monitoring to ensure rules and programs are effective and efficient.

The Forest Practices Act, adopted in 1971, provides the Board of Forestry authority to regulate forest practices, including timber harvesting and reforestation on 12.3 million acres of private, state, county, and some federal owned forest lands. The statutory and program goals are to ensure the continuous growing and harvesting of forest tree species is maintained as the leading use of privately owned forestland while ensuring forest practices are consistent with the sound management of soil, air, water, fish, and wildlife resources. The Forest Practices Act has been revised in nearly every legislative session since 1979, including major amendments in 1987, and 1991 that changed the requirements governing clear-cut size, green tree and downed wood retention, reforestation, and scenic highway corridors. As a result of the statutory changes, the Board adopted a number of rule changes from 1994 to 1996 related to water protection, chemical use, and reforestation. SB 12 (1999) provided additional direction and authority for the Board to adopt rules to manage public safety risks from rapidly moving landslides. HB 3264 (2003) removed authority for the Board of Forestry and State Forester to require prior approvals and approve written plans and directed rulemaking for conformity. Staffing includes 56 stewardship foresters across the state to provide training, technical and cost-share assistance, review operating plans, and inspect operations for compliance.

SB 496 (2005) authorized the Department to implement the federal Forest Legacy program within urban growth boundaries. The federal Forest Legacy Program provides funding to nationally selected projects that protect key forest types threatened to be converted to other uses. The 2005 legislation limits the program to lands within Urban Growth Boundaries.

Oregon has approximately 166,000 family forest landowners and community forest managers owning a combined 4.5 million acres. Nearly 52,000 of these landowners own and manage at least 10 acres of forestlands. This acreage includes critical habitat for salmon and other fish and wildlife species and has the substantial potential for increased timber productivity. Thus, the program provides family landowners with the information, incentives, services, and assistance needed to encourage voluntary stewardship and investment in their forestland. The technical and financial assistance to family landowners includes multiple resource management, forest property tax policies and options, federal cost-share programs, the Forest Resource Trust, and insect and disease prevention.

The Private Forests Program also conducts insect and disease management surveys, evaluates and monitors forest insects and diseases, and provides information, education, and advice on integrated pest management practices for non-federal forest landowners.

Revenue Sources and Relationships

The Forest Practices subprogram is funded by a combination of 60% General Fund budget, and 40% Forest Products Harvest Tax (FPHT). The harvest tax rate is set in statute each biennium once the Forest Practices program budget is finalized, based on projections of harvest levels and the amount of revenue needed for program operations. Oregon Watershed Enhancement Board grants provide partial funding for some cooperative research projects.

The Forestry Assistance subprogram receives support from a number of revenue sources. General Fund is provided for insect and disease activities, including integrated pest management services, and is used to conduct annual aerial surveys, provide forest pest data and maps, and deliver technical assistance for forest landowners. Federal Funds are provided by the U.S. Forest Service under a consolidated grant program for forest resource management, forest stewardship, and forest insect and diseases management. The federal funding for these programs requires a 50% state match. Federal funding is also provided for Urban and Community Forestry and Forest Health monitoring activities. Other Funds revenues are phased out in the 2003-2005 biennium from a Privilege Tax from the western and eastern Oregon Timber Tax Accounts. These funds were used to inspect under-stocked designated forestland, administer the 50% reforestation tax credit program, and provide technical assistance to family forestland owners in eastern Oregon. The program also receives private donations, including the Forest Resource Trust funds and Urban and Community Forest donations, for specific projects.

Budget Environment

Forest Practices workload has increased as harvesting on private lands accelerated due to improved timber and lumber markets. For the 2009-11 biennium, the Department anticipates processing over 17,000 notifications of operations per year (intent to conduct a forest operation), plus reviewing and commenting on 3,000 written plans describing operating methods on sensitive sites. The number of on-site inspections for pre-operation planning active operations, and reforestation auditing will depend on the number of stewardship foresters remaining after potential budget reductions. On average each stewardship forester conducts over 240 inspections per year. The average number of notifications from 2005-07 (three years) was 18,635 per year. In 2008, 14,892 notifications have been processed through October 2008. Other factors affecting the Forest Practices program include continued implementation of the Oregon Plan; implementation of rules related to landslides and public safety on forestland, harvesting practices, and the use of pesticides; workload necessary to achieve reforestation and "free to grow" status; and encouraging appropriate responses by the federal government on actions and policies related to endangered species and clean water programs.

Forest health remains a critical issue for the state's economy. Sudden Oak Death (an invasive species) has infested portions of southwest Oregon. Failure to effectively manage this problem will have major economic implications for Oregon's forest products and nursery industry. About 8.2 million acres of Oregon's forests have been affected by drought, insects, disease, and fire. The state loses about 1.5 billion board feet of timber every year to insects and disease. Forest managers are concerned about declines in the coastal Douglas-fir forests due to Swiss needle cast disease. Dead and dying forests in Eastern Oregon due to bark beetle and other insect infestations need treatment in order to reduce fire hazards and restore forest health. Many wild salmon and trout populations are under scientific scrutiny. Assistance is also needed for over 166,000 non-industrial private forest land owners regarding the potential listing of threatened and endangered species. Approximately 783,000 acres of family forestlands are classified as under-producing or without a manageable stand of trees.

Essential Budget Level

The 2009-11 essential budget level of $28.5 million total funds is an increase of $568,263, or 2%, from the 2007-09 legislatively approved expenditure level and includes 114 positions (110.67 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes the addition of $568,263 in special session and Emergency Board actions during Fiscal Year 2008 related to changes to employee compensation. The 2009-11 essential budget reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. A technical adjustment removing $35,713 Other Funds of double limitation of expenditure for facilities maintenance costs will be shown solely in the Facilities Maintenance program.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $31.2 million is $2.7 million, or 9.6%, higher than the 2009-11 essential budget level and includes 95 positions (80.74 FTE). The increased budget is primarily due to increasing the Federal Funds expenditure limitation by $8.4 million to reflect receipt of several federal grants under the American Recovery and Reinvestment Act through the United States Forest Service. The increased Federal Funds will add back months to existing positions totaling 9.25 FTE. The adopted budget reflects a 15% reduction in Private Forests to address the statewide General Fund revenue shortfall. This action results in a reduction of $6.6 million General Fund and $3.4 million Other Funds, and an increase of $266,043 to Federal Funds, eliminating a combined 47.7 FTE. Reducing the General Fund appropriation results in a corresponding reduction in the harvest tax revenue for Private Forest Programs. In order to mitigate the reduction, the Legislature approved maintaining the current harvest tax rate in HB 2214 to generate an additional $1.4 million and allow the restoration of 2 stewardship foresters and adding back months to 8 positions (6.52 FTE). This temporarily changes the participation ratio from 60% General Fund/40% harvest tax to 48% General Fund/52% harvest tax for the 2009-11 biennium. In addition, the Legislature approved a reduction of $339,417 General Fund, $235,802 Other Funds, and $54,965 Federal Funds ($630,184 total funds) to reflect statewide salary adjustments and reductions to various state government service charges and assessments.

ODF – Forest Nursery Program

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	3,871,147	4,495,808	0	0
Total Funds	**$3,871,147**	**$4,495,808**	**$0**	**$0**
Positions	45	45	0	0
FTE	19.11	19.11	0.00	0.00

Program Description

The Department's D.L. Phipps Nursery provides quality, genetically adapted tree seedlings to forest landowners for public and private reforestation. Currently, about 50% of the nursery's annual production goes to non-industrial woodland owners, 28% to the forest products industry, 12% to state forests, and 10% to the Bureau of Land Management. The agency has operated the nursery for over 74 years.

Revenue Sources and Relationships

Expenditures for the Forest Nursery program are financed 100% from sales of seedlings and service charges. Fees charged by the nursery change depending upon costs.

Budget Environment

The Forest Nursery program operates on a business model and adjusts expenditure levels to available revenue. The nursery must maintain an adequate supply of clean water for irrigation of seed crops and is subject to the requirements of the Umpqua Watershed Agricultural Water Quality Management Plan.

At the direction of the 2003 Legislature, ODF formed a Nursery Review Task Force to evaluate the role of the state nursery including the nursery's financial situation. The Department was also directed to work with representatives from private nurseries and other appropriate individuals to resolve issues on privatizing production of seedlings. The work of the task force resulted in legislation adopted by the 2005 Legislature authorizing the Department to form a nursery cooperative if a sufficient number of nurseries were willing to join the cooperative and formally obligate their nurseries to produce the speculative seedlings at a reasonable cost. The Department is in the process of closing Nursery operations and selling the property anticipating private nurseries to fill the speculative niche established by the Department.

Essential Budget Level

The 2009-11 essential budget level assumes closure of Nursery operations for the 2009-11 biennium.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget eliminates funding for Nursery operations.

ODF – Facilities Maintenance and Development Program

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	1,674,895	3,316,796	4,841,063	4,833,393
Total Funds	**$1,674,895**	**$3,316,796**	**$4,841,063**	**$4,833,393**
Positions	1	1	1	1
FTE	1.00	1.00	0.95	0.95

Program Description

The Facilities Maintenance and Development program provides oversight and coordinates preventive maintenance, repairs, improvement, planning and construction coordination, and management for the agency's 390 structures throughout the state. The program unit is charged with developing a statewide facilities rental pool program to charge other program and field operations the cost of constructing, operating, maintaining, repairing, replacing, equipping, improving, acquiring, and disposing of structures.

Revenue Sources and Relationships

Facilities Maintenance and Development is currently funded by utilizing the facility operation and maintenance budgets of each program. The program was established to assist in the operations, maintenance, and construction of ODF facilities by providing an additional and relatively stable source of funding to allow more effective management of ODF properties.

Essential Budget Level

The 2009-11 essential budget level of $4.8 million total funds is an increase of $1.5 million, or 45%, from the 2007-09 legislatively approved expenditure level and includes one position (.95 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes the addition of $19,034 in special session and Emergency Board actions during Fiscal Year 2008 related to changes to employee compensation. The 2009-11 essential budget reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. A technical adjustment of $1.3 million Other Funds of expenditure limitation removed from the management and operating programs is added to reflect facilities maintenance costs solely in the Facilities Maintenance program and eliminate double expenditure limitations throughout the budget.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $4.8 million is $7,670 less than the 2009-11 essential budget level. The budget reflects funding at the essential budget level less the reductions for statewide adjustments for salary and state government service charges.

ODF – Debt Service

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	1,952,729	2,342,531	2,806,582	2,806,582
Lottery Funds	0	0	0	1,507,601
Other Funds	5,307,747	1,790,223	1,612,481	1,737,957
Other Funds (NL)	31,188	0	0	0
Total Funds	**$7,291,664**	**$4,132,754**	**$4,419,063**	**$6,052,140**

Program Description

Debt service payments are required to pay off COPs issued for the construction of the Salem Headquarters Office Complex. COPs were issued in 1997-99 in the amount $6.6 million, in 1999-2001 in the amount of $11 million, and in 2001-03 in the amount of $1 million. COPs were issued in 2008 for capital construction relocation projects in John Day and Sisters, as well as for capital investment improvements in the agency's business information systems.

Certificate of Participation	Principal Amount	Final Payment
2001 Series A, Phase 2	$11,095,000	May 1, 2020
2002 Series E, Phase 3	$985,000	November 1, 2008
2005 Series C	$5,155,000	May 1, 2017
2007 Series B	$850,000	November 1, 2012
2008 Series A	$907,564	May 1, 2014
2008 Series A	$2,000,000	May 1, 2023

Revenue Sources and Relationships

Revenue to pay debt service comes from the General Fund (63%) and Other Funds (37%). The associated Other Funds revenue is based on a square footage assessment to the Equipment Pool from the Radio and Motor Pool Funds; State Owned Forest program from the Forest Development and Common School Lands Funds; Forest Practices program from the forest products Harvest Tax; and the Nursery Program from product sales.

Essential Budget Level

The 2009-11 essential budget level of $4.4 million total funds is an increase of $133,306 ,, or 3%, from the 2007-09 legislatively approved expenditure level as of December 2008. The 2009-11 essential budget reflects phasing out one-time costs of $280,000 for debt issuance and the standard adjustments for principal and interest payments expected to be paid during the biennium for existing debt.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $6 million is $12.6 million, or 37%, higher than the 2009-11 essential budget level. The Legislature approved an increase of $1.5 million Lottery Funds for anticipated debt service on approval of Lottery-backed revenue bonds approved in SB 5535 for the purchase of forest land in Klamath County and an increase of $125,476 Other Funds for a technical adjustment to COP issuance costs.

ODF – Capital Improvements

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	2,553,854	10,402,814	4,114,893	4,114,893
Total Funds	**$2,553,854**	**$10,402,814**	**$4,114,893**	**$4,114,893**

Program Description

The Department owns and maintains 390 structures statewide. Examples include mountaintop lookout facilities, fuel facilities, remote forest fire guard stations, district and unit offices, seed and seedling processing facilities, and automotive maintenance shops. Many buildings need improvement or major construction because of age, type of construction, changing building codes, and growth of the agency.

Revenue Sources and Relationships

Generally, costs are prorated among the funding sources of the programs that occupy the specific facility. In the past, General Fund was provided as the public share match money for projects funded in the Protection from Fire program.

Budget Environment

Many of the Department's structures were built in the 1930s, 40s, and 50s, and are in need of renovation to prevent further deterioration and to meet new standards such as the Americans with Disabilities Act and energy conservation requirements. An architectural feasibility study of the Salem Headquarters site was completed during the 1993-95 biennium, which led to its remodeling. The Department uses a Long Range Facilities Management Plan to coordinate major maintenance, improvements, and construction projects on a statewide basis projected over a ten-year period. Site master plans prepared by private consultants are utilized for developing major construction proposals. These site master plans are coordinated with the long-range management plan in developing the agency capital budget.

Essential Budget Level

The 2009-11 essential budget level of $4.1 million is $6.3 million total funds, or 64%, less than the 2007-09 legislatively approved budget level. The 2009-11 essential budget removes $6.4 million of one-time expenditures relating to capital improvements for projects costs on timber sales. The 2009-11 essential budget reflects standard adjustments for inflation.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $4.1 million is funded at the 2009-11 essential budget level.

ODF – Capital Construction

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	0	5,369,050	0	15,000,000
Total Funds	**$0**	**$5,369,050**	**$0**	**$15,000,000**

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.

Essential Budget Level

The 2009-11 essential budget level removes $2.75 million in expenditures relating to capital construction projects approved in the six-year capital construction bill in the 2007-09 biennial budget.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $15 million provides expenditure limitation for bond proceeds from Lottery-backed revenue bonds approved in SB 5535 for ODF to pursue acquiring parcels in the Gilchrist area of Klamath County that would bring a block of forestland that otherwise would likely be divided into smaller pieces into public ownership, in exchange for limited, specific transfer of development rights.

Department of Geology and Mineral Industries (DOGAMI) – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	3,515,026	3,289,957	3,476,189	2,896,740
Lottery Funds	0	1,500,000	0	500,000
Other Funds	3,328,411	6,664,966	3,661,759	6,868,294
Federal Funds	1,377,697	1,945,003	2,045,936	2,396,172
Total Funds	**$8,221,134**	**$13,399,926**	**$9,183,884**	**$12,661,206**
Positions	43	38	37	38
FTE	39.71	36.20	35.20	36.58

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 and oil, gas and geothermal drilling. Department headquarters are located in Portland, with the Mined Land Reclamation unit sited in Albany. Three small Geologic Survey offices are located in Baker City, Grants Pass, and Newport. Employees of the Department are primarily geologists and other geotechnical experts. Department revenue comes from multiple sources including the General Fund, grants from federal and other state agencies, service contracts, and fees.

DOGAMI – Geologic Survey and Services

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	3,515,026	3,289,957	3,476,189	2,896,740
Lottery Funds	0	1,500,000	0	500,000
Other Funds	1,502,417	4,614,498	1,818,461	4,797,831
Federal Funds	1,377,697	1,945,003	2,045,936	2,396,172
Total Funds	**$6,395,140**	**$11,349,458**	**$7,340,586**	**$10,590,743**
Positions	33	28	27	28
FTE	30.22	26.71	25.71	26.71

Program Description

The Geologic Survey and Services program gathers geologic data and maps mineral resources and hazards. Geographic areas needing tsunami hazard mapping, landslide hazard studies, and earthquake risk mapping have been prioritized by the agency. The information is shared with state and local policy-makers for land use planning, facility siting, building code and zoning changes, and emergency planning. The Geologic Survey program also provides publication and library functions, administrative functions such as budgeting, accounting, and personnel services, and operates the Nature of the Northwest Information Center which provides public access to a variety of maps, brochures, books, and other materials. The Center is largely supported by sales revenue and a cooperative agreement with the U.S. Forest Service.

Revenue Sources and Relationships

The Geologic Survey and Services program is funded by General, Other, and Federal Funds. Federal and Other Funds are largely from cooperative agreements and for services on reimbursable projects. Funding partners include federal agencies such as the U.S. Geologic Survey, U.S. Bureau of Land Management, Federal Emergency Management Agency (FEMA), U.S. Forest Service, and the National Oceanic and Atmospheric Administration, and state and local government agencies. Historically, approximately 40-45% of DOGAMI's Federal Fund monies are for grants that require matching General Fund dollars.

Budget Environment

Oregon is a state with a wide range of geologic hazards, varied geologic conditions, and diverse geologic resources. Population increases along with greater interest in renewable energy sources and climate change have contributed to an increase in demand for geologic information. Increased demand combined with General Fund reductions has resulted in DOGAMI becoming more dependent upon obtaining funding partners to support projects, rather than pursuing projects that are of highest priority need.

DOGAMI has invested significantly in light detection and ranging (LIDAR) data collection during the 2007-09 biennium. LIDAR produces elevation maps far more accurate than historically available that support a number of public safety and economic development uses. Most of the funding for LIDAR has been obtained by agency staff working proactively to engage other federal, state and local government as funding partners. The LIDAR Consortium formed by DOGAMI has resulted in partners having access to LIDAR technology in a more affordable and expeditious manner. Continued future success will depend upon DOGAMI continuing to find funding partners to invest in this work.

Essential Budget Level

The Geologic Survey and Services program essential budget level of $7.3 million is comprised of $3.5 million General Fund (47%), $1.8 million Other Funds (25%), and $2 million Federal Funds (28%). Overall the essential budget level represents approximately $4 million reduction (35%) from the 2007-09 legislatively approved budget. This reduction is due to the phase out of funding for LIDAR data collection and database coordination (1.00 FTE). The 2007 Legislature approved a one-time total expenditure of $4.4 million for LIDAR, which included $0.1 million General Fund, $1.5 million Lottery Funds, and $2.8 million Other Funds.

Legislatively Adopted Budget

The Geologic Survey and Services program legislatively adopted budget level of $10.5 million is comprised of $2.9 million General Fund (27%), $0.5 million Lottery Funds (5%), $4.7 million Other Funds (45%), and $2.9 million Federal Funds (27%), which represents a $0.8 million reduction (7%) from the 2007-09 legislatively approved budget. This reduction is largely attributed to a reduction in Lottery Funds to complete LIDAR data collection.

The legislatively approved budget includes $2.95 million Other Funds expenditure limitation and $0.5 million in Lottery Funds to continue LIDAR mapping and one limited duration position for database coordination (1.00 FTE), and $0.4 million in General Fund reductions due to the planned closure of the Grants Pass office and co-location of the Baker City office with local government and fund shifting of staff expenses from General Fund to Federal Funds. Also included in the budget is Other Funds expenditure limitation of $67,019 and one limited duration position (0.50 FTE) to manage financial information and LIDAR contract execution, and $148,602 in Federal Funds expenditure limitation and one limited duration position (0.88 FTE) to complete work on Coos County flood hazard mapping.

DOGAMI – Mined Land Regulation and Reclamation

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	1,825,994	2,050,468	1,843,298	2,070,463
Total Funds	**$1,825,994**	**$2,050,468**	**$1,843,298**	**$2,070,463**
Positions	10	10	10	10
FTE	9.49	9.49	9.49	9.49

Program Description

The Mined Land Regulation and Reclamation program is responsible for regulating the exploration, extraction, production and reclamation of geologic resources for the purposes of conservation and second beneficial uses of minded lands. The objectives are to conserve the mineral resource and protect the environment while providing for the economic uses of the mined materials. The Mined Land Regulation and Reclamation program regulates oil, natural gas, and geothermal exploration and extraction.

Revenue Sources and Relationships

The Mined Land Regulation and Reclamation program is financed primarily from Other Funds derived from aggregate and mine, oil and gas, and geothermal permit fees. Federal Funds for the program were removed from the budget in 2007-2009 biennium.

Budget Environment

The Mined Land Regulation and Reclamation program is currently administering approximately 825 active mining permits. The program is also responsible for implementation of the federal Clean Water Act's General Stormwater Permits and the state's Water Pollution Control Facility Permits at aggregate sites under an inter-agency agreement with the Department of Environmental Quality. The program currently administers about 220 permits under federal and state water pollution laws. The volume of aggregate and permit fees is cyclical in nature, and the current trend is toward reduced permits and fee revenues. Oregon's economic downturn is expected to reinforce the continuation of this trend.

Oil and gas drilling exploration has increased only modestly to date and the fee increase to the program in 2007 is sufficient to cover regulation expenses. Geothermal exploration in the state has increased significantly since 2007.

Essential Budget Level

The Mined Land Regulation and Reclamation program essential budget level of $1.8 million Other Funds, which is a 10% decrease over the 2007-09 legislatively approved budget. This decrease is attributed to having inadvertently omitted in the 2007-09 legislatively adopted budget approximately $0.3 million in services and supplies Other Funds expenditure limitation.

Legislatively Adopted Budget

The Mined Land Regulation and Reclamation program legislatively adopted budget level of $2.1 million Other Funds is a 3% increase over the 2007-09 legislatively approved budget. The Legislature increased the program's Other Funds expenditure limitation by approximately $0.3 million to reinstate the services and supplies budget to historic levels.

Department of Land Conservation and Development (DLCD) – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	13,786,288	20,267,035	16,179,286	16,793,066
Other Funds	759,582	861,793	819,845	863,649
Federal Funds	5,370,272	6,559,044	6,440,348	6,598,675
Total Funds	**$19,916,142**	**$27,687,872**	**$23,439,479**	**$24,255,390**
Positions	78	97	60	90
FTE	69.63	85.54	57.71	74.81

Agency Overview

The Department of Land Conservation and Development (DLCD) is the administrative arm of the Land Conservation and Development Commission (LCDC). The Commission has seven members appointed by the Governor and confirmed by the Senate. DLCD personnel assist LCDC in adopting state land use goals, ensuring compliance of local land use plans with the goals, coordinating state and local planning, and managing the coastal zone and natural hazards programs. Oregon's land use planning system is based on a set of 19 statewide goals expressing the state's policies on land use and related topics such as citizen involvement, housing, and natural resources.

LCDC, assisted by DLCD staff, carries out state planning responsibilities through acknowledgment of local plans, plan amendment review, and periodic review. State law requires each of Oregon's cities and counties to have a comprehensive plan, as well as the zoning and ordinances necessary to implement the plan. When LCDC officially approves the local government plan, the plan is "acknowledged." After acknowledgment, local plans can be changed through post-acknowledgement plan amendments, which are unscheduled changes, or through periodic review. Periodic review is a broad evaluation of the entire local plan and occurs infrequently, such as every five to fifteen years. This review can lead to extensive plan modifications or minor plan adjustments, depending on changing conditions in the area.

The goals of the agency include protection of farm and forest lands and other natural resources; the fostering of livable, sustainable development in urban and rural communities; conservation of coastal and ocean resources; a clear and predictable land use system; and regional collaboration and coordinated local decision-making. In addition to a main office in Salem, the agency maintains field offices in Central Point, Springfield, LaGrande, Portland, Newport, and Bend. Within its budget, DLCD implements the state land use planning laws and assists local governments through two major programs: Planning and Grant.

Revenue Sources and Relationships

Until the 2005-07 biennium, about 65% of the agency's budget had been funded with General Fund, when General Fund support rose into the 70% range due to work associated with Ballot Measure 37. The 2009-11 legislatively adopted budget adds $5.3 million General Fund for Ballot Measure 49 (Ballot Measure 37's successor), setting General Fund support at 69.2%.

Over the last several biennia, federal support has averaged about 25% of the budget. Federal funding comes from the U.S. Department of Commerce's National Oceanic and Atmospheric Administration (NOAA) and from the Federal Emergency Management Agency (FEMA).

NOAA funding under the Coastal Zone Management Act (CZMA) historically has provided between 20% and 30% of the overall costs of the state's land use program. The agency's ocean and coastal program activities are eligible for federal funding, as are coastal communities. Receipt of this funding requires 100% cash or in-kind match, depending on the federal subprogram. The agency expects CZMA resources of around $6 million in 2009-11, about the same level as in 2007-09.

FEMA funds, which are used to operate the Floodplain Management Program, require a 25% state match and are restricted to use in administration of the National Flood Insurance and RiskMap programs. Overall revenues available from this source are expected to be $0.7 million in 2009-11.

Other Funds revenue sources are primarily federal transportation funds from the Oregon Department of Transportation (ODOT) for support of the Transportation Growth Management (TGM) program. DLCD projects a transfer from ODOT of about $0.8 million in 2009-11, approximately the same level as 2007-09. The agency also receives small amounts of Other Funds revenue from the sale of publications, subscriptions to plan amendment and periodic review notices, and public record duplicating services.

New and one-time Other Funds revenues of just over $75,000 are made available in 2009-11 due to the passage of HB 3225. This bill allows the Department to process approximately 500 additional claims under Measure 49 and sets a $175 fee to help offset the claim processing costs.

Budget Environment

Continued population growth and the resulting pressures on transportation systems, land management, and development increase DLCD's workload. Growth presents challenges to coastal development, urban growth boundary expansion, and development of agricultural and rural lands, preservation of natural resources, and maintenance and development of adequate infrastructure.

DLCD has faced significant funding challenges over the past several years. The Department has very limited fee-supported revenue or access to alternate sources of Other Funds, placing it in a position to be reliant on general purpose tax revenues and federal resources.

The latest fiscal challenges come from two voter initiatives regarding landowner compensation for losses due to land use regulations. Measure 37, which voters passed in November 2004, required state and local governments to compensate landowners whose property values were negatively impacted by land use laws or regulations. DLCD was responsible for coordinating the state's response to Measure 37 and taking the lead on handling claims for compensation. The agency received some additional resources in 2005-07 for these efforts, which involved extensive policy and process development. Court decisions first suspending (2005) and then reinstating the law (2006) made it difficult for the agency to implement an efficient and timely process for resolving claims. DLCD was further challenged by the volume of claims filed, especially a large number of claims in early December 2006. As a result, the 2007 Legislature approved HB 3546 which increased the number of days to take action on Measure 37 claims by adding 360 days to the 180-day time frame for claims received after November 1, 2006.

The 2007 Legislature also referred a measure (Measure 49) to voters that would modify Measure 37; voters approved the measure in November 2007. The original law required landowner compensation to be in the form of direct payments or land use regulation waivers. Ballot Measure 49 replaced those compensatory remedies with provisions for a specific number of home site approvals. It also established different criteria for claims filed after June 28, 2007.

With passage of Measure 49, DLCD was required to send notice to all eligible claimants (more than 10,000 representing approximately 6,500 claims) who had filed claims under Measure 37 within 120 days of December 7, 2007. Claimants had to choose whether or not to proceed with a claim under the law's new provisions by filing a form provided by DLCD. In addition, claimants choosing to proceed had to select an option, or election, for their claim. Possible elections include the "express" path (Section 6 of the measure) which allows building up to three homes if previously allowed when they acquired their properties and the "conditional" path (Section 7 of the measure) which allows 4-10 homes if claimants can document reductions in property values to justify additional homes.

For the 2007-09 biennium, DLCD received just under $10 million General Fund and 35 positions (27.83 FTE) to process claims and administer the program. This level of funding, along with about $6 million General Fund proposed in the Governor's 2009-11 budget, was tied to the agency completing the review and resolution of claims by December 31, 2010.

However, the 2009 Legislature passed HB 3225, which sets a statutory deadline of June 30, 2010 for the issuance of final orders on most claims. The measure also allows the agency to process approximately 500 additional claims. The adopted budget includes $5.3 million General Fund to handle both the existing and additional Measure 49 claims. The supplemental claims are subject to a $175 fee intended to partially defray processing costs. These were claims the agency could not previously consider because claimants did not meet specific filing criteria contained in the original ballot measure. Some filing requirements and timelines were confusing to claimants or inconsistently applied across the state. Overall 2009-11 costs for the program, even with the additional claims, are less than initially expected due to an optimized processing timeframe, an estimate for attorney general costs based on actual experience, and better alignment between position classifications and processing workflow.

Finally, adding to the demands on the agency has been an ongoing interest in evaluating, streamlining, and modifying the overall 33-year-old statewide land use program. During the 2005 session, the Legislature passed SB 82, which established the Oregon Task Force on Land Use Planning. The task force, consisting of 10 members, is charged with conducting a comprehensive review or "big look" of the Oregon Statewide Planning Program. Some task force recommendations, including new principles for the state land use system and changes to regional planning, were ultimately incorporated into HB 2229.

Several other land use-related bills were also passed by the 2009 Legislature. These include HB 2001 and HB 2186 regarding transportation funding and planning; HB 2228, HB 3298, and HB 3313 regarding the Metolius Area of Critical Statewide Concern; HB 2230 regarding state agency coordination; HB 3013 regarding coastal Marine Reserves; HB 3099 regarding uses allowed on farm land; HB 2228 regarding the Skyline Forest; SB 763 and HB 2228 regarding transfers of development credits; and HB 3379 regarding DLCD transportation planning rules.

Essential Budget Level

The agency's essential budget level (EBL) is 15.3% below the 2007-09 legislatively approved budget. The reduction is primarily due to the phase-out of Measure 49 costs that were treated as one-time for 2007-09; the legislatively adopted budget includes a policy package to continue this work. EBL includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, uniform rent, and state government service charges.

Legislatively Adopted Budget

The legislatively adopted budget funds the Department at just 3.5% above its essential budget level, even with $5.3 million General Fund added to support Measure 49 claim processing efforts. This anomaly is due to excess attorney general costs that were factored into EBL; these were recalculated and adjusted downward when the Measure 49 package was finalized for 2009-11.

The budget also includes federal resources to support flood hazard map digitization work and improve customer service.

The Legislature has concerns regarding the agency's ability to manage and pay for what appears to be a significant policy workload during 2009-11. As noted above, several pieces of DLCD-related legislation were passed during the 2009 session. Since most of these measures have indefinite timeframes and variable outcomes, the associated workload and fiscal impacts were generally identified as being as minimal or indeterminate. The agency did not receive additional resources to implement these bills, but indicated the Commission will adopt a policy and rulemaking agenda for 2009-11, taking into account legislation, budget, and program priorities. To clarify how this agenda aligns with legislative priorities, a budget note was adopted directing the agency to report back to the Legislature on its policy agenda and associated resource allocations.

DLCD – Planning Program

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	11,713,686	18,131,711	13,382,476	14,496,256
Other Funds	759,582	861,793	819,845	863,649
Federal Funds	3,833,456	4,937,281	6,440,348	6,598,675
Total Funds	**$16,306,724**	**$23,930,785**	**$20,642,669**	**$21,958,580**
Positions	78	97	60	90
FTE	69.63	85.54	57.71	74.81

Program Description

Along with certain program services, this budget unit includes agency administrative functions (15.60 FTE). The ***Office of the Director*** oversees day-to-day operations and agency policy. The ***Operations Services Division*** provides financial and information systems services to the agency.

The Landowner Notification program is also handled by the Operations Services Division. Oregon law (1998's Ballot Measure 56) requires cities and counties to provide individual written notice to landowners when a new or amended zoning ordinance is proposed that will limit or prohibit uses of the landowner's property. The state must reimburse local governments for the notification costs when the proposed ordinance changes are related to changes in state law or policy; DLCD manages the local government claim and reimbursement process.

The ***Planning Services Division*** (13.25 FTE) provides technical assistance and policy consultation services in specific planning areas, such as economic development and revitalization, 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.

Division services include the Transportation and Growth Management (TGM) Program and the Natural Hazards Program. The TGM Program, a joint effort with the Oregon Department of Transportation (ODOT), focuses on helping communities manage urban growth, planning an efficient transportation network, and protecting the function of state highway facilities. The program provides technical assistance and manages grants to special districts, cities, and counties. Federal funding received through ODOT is this program's primary revenue source. The Natural Hazards Program helps flood-prone communities maintain eligibility for participation in the National Flood Insurance Program and keeps floodplain maps and data up to date. Federal funding from the Federal Emergency Management Agency (FEMA) supports this program.

The ***Community Services Division*** (15.00 FTE) assists local governments in the implementation of the statewide land use program through technical assistance, administration of grants, periodic review of local plans and land use regulations, and plan amendment review. Regional representatives in the agency's field offices are part of this Division and work directly with local governments' elected officials and planners. Key issues for urban areas include affordable housing, urban growth boundaries, transportation planning, public facilities and services, and industrial land. Key issues for rural areas include conservation of farm and forestland, flooding and natural hazards, rural and community development, and protection of natural resources.

The ***Ocean and Coastal Services Division*** (11.58 FTE) oversees the implementation of statewide planning goals, with an emphasis on the coastal goals, by local jurisdictions and state agencies in the coastal zone. This Division contains two programs: the federally approved Oregon Ocean and Coastal Management Program (OCMP) and the Oregon Ocean Resources Management Program. The Division provides services such as technical assistance, administration of coastal grants, coordination of state and federal programs in the coastal zone, and support to the Ocean Policy Advisory Council. Federal dollars are used to provide grants to coastal communities for coastal planning implementation and special projects. Key issues and projects for the coastal zone include public access to the ocean, estuaries, and other waters; development on dunes, beaches, and in estuaries; protection of ocean resources; management of coastal hazards and non-point pollution; and natural resource protection, including salmon and steelhead habitat. The OCMP is funded primarily with federal funds under the Coastal Zone Management Act (CZMA).

The Department established the ***Measure 49 Development Services Division*** (19.38 FTE) to process claims for compensation made under provisions of ballot measures approved in 2004 and 2007. Five permanent positions were established to provide ongoing program support with additional, but limited duration, positions approved in each of the last two biennia. In the 2007-09 biennium a total of 30 limited duration positions were authorized. For 2009-11, the Legislature approved 28 limited duration positions. This staffing level provides adequate resources to completing most claim processing by June 30, 2010.

Essential Budget Level

The program unit's EBL is 13.8% lower than the 2007-09 legislatively approved budget. The reduction is primarily due to the phase-out of Measure 49 costs and limited duration map modernization program expenditures. The essential budget level includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, uniform rent, and state government service charges.

Legislatively Adopted Budget

The only General Fund approved in the legislatively adopted budget was $5.3 million and 28 positions (15.38 FTE) for Measure 49. The policy package was adjusted downward from original estimates due to General Fund constraints, to capture lower than expected legal costs, to reflect a change in the handling of appraisal activities, and to account for program changes under HB 3225.

The legislatively adopted budget includes reductions in all fund types to implement standard statewide adjustments in compensation, assessments, and rates. No direct program reductions were taken in this budget structure.

The agency requested $0.3 million Federal Funds and 2 limited duration positions (1.25 FTE) to continue its map modernization project, supported with FEMA dollars. Another package adds about $68,000 Federal Funds to bring a permanent part-time position up to full-time for the coastal management program. Both of these requests are included in the legislatively adopted budget.

DLCD – Grant Program

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	2,072,602	2,135,324	2,796,810	2,296,810
Federal Funds	1,536,816	1,621,763	0	0
Total Funds	**$3,609,418**	**$3,757,087**	**$2,796,810**	**$2,296,810**

Program Description

DLCD awards grants to local jurisdictions for maintaining, improving, and implementing comprehensive land use plans and regulations as well as assisting local governments in meeting the statutory obligation for periodic review of these plans. This program is intended to ensure compliance with the statewide planning goals.

Grants awarded have included those for periodic review, technical assistance, dispute resolution, economic development, and small city and county grants. This program is managed by staff in DLCD's Planning Program. No staff positions are included in the Grants budget.

Revenue Sources and Relationships

Prior to the 2009-11 budget, this program unit included Federal Funds for grants provided to local coastal governments. The budget history and current request for federal-supported activity has been moved to the Planning Program to better align with services delivered by the Ocean and Coastal Services Division.

General Fund is used to provide grants to local governments to complete projects to update and modernize comprehensive plans, land-use ordinances, development codes and other planning regulations. For 2007-09, $0.5 million General Fund was earmarked to provide grants to local governments for planning issues related to service delivery in unincorporated urbanized areas.

Budget Environment

Local governments experience the demands of residential and other growth, infrastructure needs, natural hazards, and environmental issues. Planning grants from DLCD help local governments keep land use plans and ordinances up-to-date. DLCD notifies local governments of grant requirements and the availability of grant funds. After evaluation and review, recipients enter into an agreement with DLCD regarding the specific work to be accomplished and a time schedule for completion. Local grant awards require a match equal to the amount award by DLCD.

The Department uses a standing Grants Advisory Committee to make recommendations to LCDC and DLCD on the allocation of the agency's General Fund for grants and technical assistance. This group, which is composed of various stakeholders, also provides guidance on grant policy, priorities, and administration.

Essential Budget Level

The program unit's EBL is 31% higher than the 2007-09 legislatively approved budget (General Fund). This increase is due to a $0.6 million General Fund reduction made in March 2009 during the 2007-09 rebalance. The reduction eliminated funding tied to uncommitted grants for local governments and was expected to result in delay or possible termination of some projects that are under development.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget is 17.8% below EBL due to a $500,000 General Fund decrease in grants to local governments. This change eliminates an enhancement that was part of the original 2007-09 budget.

Land Use Board of Appeals – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	1,315,100	1,525,950	1,599,580	1,531,111
Other Funds	62,644	77,054	81,546	80,003
Total Funds	**$1,377,744**	**$1,603,004**	**$1,681,126**	**1,611,114**
Positions	6	6	6	6
FTE	6.00	6.00	6.00	6.00

Agency Overview

The Land Use Board of Appeals (LUBA) was established in 1979 to provide prompt, professional, and efficient resolution of land use issues and to create a consistent body of land use law. Prior to the establishment of LUBA, review of local land use decisions was conducted by circuit courts, resulting in delays and inconsistent interpretations of land use law in different portions of the state. LUBA only has jurisdiction to review appeals of local government decisions for consistency with local and state land use laws. LUBA decisions may be appealed to the Court of Appeals and ultimately to the state Supreme Court. Private parties and public agencies – including agricultural interests, developers, environmental groups, individual property owners, and state and local governments – are able to bring issues to LUBA for review.

LUBA's mission is to decide appeals quickly and consistently, and to disseminate its opinions to create a body of land use law that allows for consistent land use decision making. The Board consists of three hearings referees, appointed by the Governor with Senate confirmation, who are members of the Oregon State Bar. Other staff includes two support positions and one staff attorney. LUBA's offices are located in the Public Utility Commission (PUC) building, with the PUC providing accounting, personnel, and other administrative support to LUBA through an inter-agency service agreement.

Revenue Sources and Relationships

LUBA generates Other Fund revenue from the sale of *LUBA Reports*, which are issued to meet the agency's statutory obligation to publish its opinions. LUBA estimates it will issue five volumes that will be sold to 73 subscribers at $175 per volume for Other Fund revenues of $63,875 for the 2009-11 biennium.

LUBA also collects appeal filing and motion to intervene (intervener) fees, which are transferred to the General Fund. The 2009 Legislature increased the appeal filing fee from $175 to $200 and added an intervener fee of $100 (HB 3199). Assuming the Board receives 458 appeals and 390 motions to intervene, this equates to $130,600 in General Fund revenue for the 2009-11 biennium.

Budget Environment

ORS 197.830(14) requires LUBA to issue final written opinions on appeals within 77 days after the date LUBA receives and settles the local government record. At current staff levels, LUBA can manage between 420-450 appeals per biennium, depending upon complexity and timing of the appeals, and still meet performance targets. LUBA received 258 appeals in 2008, so, going into 2009, the agency had a slight backlog in written cases. The volume of appeals is most influenced by economic activity and population growth, thus, Oregon's current economic downturn is expected to influence future appeals volume. The timing and extent of the reduction in appeals volume is not known at this time, however, a short-term reduction in appeals would enable the agency to reduce any remaining backlog.

LUBA's budget does not take into consideration the potential impacts to the agency resulting from Ballot Measure 49 (2007), which modified Ballot Measure 37 (2004). Claims filed under these Measures have the potential to ultimately lead to an appeal being filed with LUBA. In addition, these appeals are generally more complex than a typical appeal. At this time, LUBA anticipates being able to accommodate these cases within current resources.

Essential Budget Level

The essential budget level of $1.7 million is comprised of 95% General Fund and 5% Other Funds and represents a 5% increase over the 2007-09 legislatively approved budget. It maintains LUBA's current level of operations, and reflects standard increases, inflation adjustments, and a special General Fund increase of $9,256 to cover increased service fees paid to the PUC.

Legislatively Adopted Budget

The legislatively adopted budget of $1.6 million is also 95% General Fund and 5% Other Funds and represents a 1% increase over the 2007-09 legislatively approved budget. It continues cost saving measures identified in the 2007-09 biennium and maintains LUBA's current staffing level of six positions (6.00 FTE).

Department of State Lands (DSL) – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	186,656	213,075	244,741	0
Other Funds	16,567,751	41,008,218	21,064,730	24,309,391
Federal Funds	2,227,353	4,929,187	2,399,608	6,062,037
Other Funds (NL)	772,445	1,602,450	1,602,450	1,602,450
Total Funds	**$19,754,205**	**$47,752,930**	**$25,311,529**	**$31,973,878**
Positions	104	111	93	111
FTE	96.11	108.75	91.50	108.46

Agency Overview

The Department of State Lands (DSL) is the administrative arm of the State Land Board. The Board, created under the Oregon Constitution, consists of the Governor, the Secretary of State, and the State Treasurer. The Board is responsible for managing the assets of the Common School Fund. These assets include equity investments managed by the Oregon Investment Council and the State Treasurer on behalf of the Board and over two million acres of state lands deeded at statehood in trust for education; other lands designated by statute, and escheated and forfeited property. In managing these assets, the Board follows the constitutional standard of "obtaining the greatest benefit for the people of the state, consistent with the conservation of…[the]…resource under sound techniques of land management." By statute, related programs, such as removal-fill, wetlands and unclaimed property, are assigned to the Department. The agency also manages the South Slough National Estuarine Research Reserve and provides support to the Natural Heritage Advisory Council.

DSL – Common School Fund Programs

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	159,487	189,175	218,392	0
Other Funds	14,620,902	36,258,052	18,577,420	20,592,740
Federal Funds	576,780	1,359,593	571,588	973,896
Other Funds (NL)	772,445	1,602,450	1,602,450	1,602,450
Total Funds	**$16,129,614**	**$39,409,270**	**$20,969,850**	**$23,169,086**
Positions	85	92	84	93
FTE	79.57	90.25	82.50	91.38

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. 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****)* (24.00 FTE) provides services related to land ownership and property and building management. The Division is responsible for approximately 634,000 acres of range and agricultural lands in eastern Oregon; roughly 130,000 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 6,150 acres of industrial, commercial, and residential lands including management of the State Lands headquarters building in Salem. The agency contracts with the Oregon Department of Forestry for management of state-owned forest lands. Land Management staff issue leases, easements, rights-of-way, and licenses for use of state-owned uplands and waterways and they administer about 400 waterway leases for log raft storage, marinas, houseboat and barge moorage, and various commercial operations. This Division currently prepares the agency's Asset Management Plan, which provides broad policy direction on the uses of state land, rates of return objective, and policies for the purchase and sale of state assets. This Division is also responsible for determining the navigability of waterways.

- ***Wetlands and Waterways Conservation*** **(**formerly **Policy and Planning) (**32.38 FTE**)** approves wetlands delineations and provides permitting, technical assistance, monitoring, and enforcement for removal-fill activities. State law requires a permit to remove, fill, or alter more than 50 cubic yards of material within the bed or banks of the state's waterways. Additional protection is provided by the Department on removal and fills of less than 50 cubic yards in essential salmonid habitats. All removal-fill activities within the designated state scenic waterways must receive Department review and approval.
- ***Finance and Administration*** (29.00 FTE) provides budgeting, general administrative support, accounting, purchasing, information systems, rule-making, audit, legislative coordination, and oversight of the Oregon Natural Heritage Program. Included in this Division is the Estate Administration Program that manages forfeited property and probates estates for persons who die without wills and known heirs. The Finance and Administration Division also includes the Unclaimed Property Section. This Division provides geographic information systems services for the agency.
- The ***Director's Office*** (6.00 FTE) provides overall agency direction under the jurisdiction of the State Land Board. This office includes the communications, human resources and internal audit functions of the agency.

Revenue Sources and Relationships

Other Funds revenue for Common School Fund Programs is derived from two major sources: income from program operations and investment income. Statutory program operations generate revenue from waterway, hydroelectric, sand and gravel leases; unclaimed property dividends; and removal-fill permit fees. Constitutional revenue is generated from periodic land sales and other revenue generated from property holdings. Income from these sources is expected to remain fairly stable from 2007-09 to 2009-11. Investment income is derived from the interest, dividends, and capital gains earnings from funds invested by the State Treasurer according to Oregon Investment Council guidelines. Fluctuations in the investment marketplace prompted a change in investment strategy in the early part of the 2007-09 biennium which enabled the fund to leverage higher-yield opportunities in conjunction with the PERS fund and other larger investment pools. The huge drop in the housing and stock markets in the last half of calendar year 2008 has had a negative impact on investment income gained during the biennium causing a decline from a market value of over $1.1 billion in June 2008 to $765 million on November 30, 2008; a decline of more than 28% in five months time. Investment advisors at the State Treasury do not expect investments to rebound in the short-term to make up these losses.

Revenue from land management activities is projected to show a slight increase during the 2009-11 biennium. Common School Fund revenues also include receipts from timber harvests on Common School Forest land. The Department of Forestry projects $31 million in timber receipts for 2009-11 which is about $6 million more than expected for the 2007-09 biennium. These revenues are based on projected sale prices, harvest dates, and volumes that are subject to changing economic and other conditions. Revenues from timber harvests, and from other constitutional sources such as grazing, agricultural, and mineral leases, are retained in the Common School Fund as principal. Land management activities are supported by earnings from investment of the principal.

Common School Fund distributions to the Department of Education by the Department of State Lands are anticipated to be $95.54 million in 2009-11, a slight increase for K-12 schools of $0.5 million from the 2007-09 distribution estimated to be just under $95 million. Distributions are based on 4% of a three year rolling average of the annual growth in the Common School Fund's market value. The Legislature negotiated with the State Land Board to increase the distribution for the 2009-11 biennium to 5% of the three-year rolling average if there are enough funds in the Distributable Income Account to make this level of distribution.

The 2007 Legislature approved a fee increase for its removal-fill permitting program; annually adjusted to the Portland-Salem, OR-WA Consumer Price Index; which is projected to provide $582,000 in 2009-11 biennium. The revised fee schedule moves the program to being approximately 20% funded by fees with other funding provided by federal grants and a minimal amount of General Fund revenue. Originally, permit revenues covered 67% of the program's costs. In addition to the removal-fill permit fees, the 2007 Legislature established a nonrefundable $350 fee for review of wetland delineation reports. The fee is expected to generate $267,890 in Other Fund fee revenue for the 2009-11 biennium.

Federal Funds are received by the Common School Fund Programs primarily for U.S. Environmental Protection Agency support of the wetlands program, and permit streamlining efforts.

Budget Environment

In September 2005, DSL reorganized its functions to streamline service delivery and permitting and align the management structure to focus efforts on revenue generation for the Common School Fund. The Department has identified developing and implementing strategies for improving efficiency and effectiveness of daily operations as a key initiative for the 2007-09 biennium.

Various legal and environmental factors can adversely affect DSL's ability to reduce expenses of the Common School Fund Programs. Increasing needs to balance protection, conservation, and development interests tend to raise land management costs. New legal requirements for agency programs – such as the addition of essential salmonid habitat provisions to the removal-fill law, responses to threatened and endangered species listings, and re-prioritization of efforts due to new initiatives – increase workloads and can affect timber receipts, sand and gravel royalties, and other land and water-related revenues. Lack of agency staff to actively market land leasing, sales, or investment opportunities can limit the growth of revenue from land management. General economic conditions affect lease rates tied to market prices or other indices.

DSL is the depository of record for unclaimed and presumed abandoned property and funds. The Unclaimed Property program collects approximately $50 million annually; approximately $11 million is returned to owners. Remaining unclaimed funds are placed in trust in the Common School Fund. All unclaimed property, or the proceeds from the sale of the property, is available for claim by the owners forever. The investment earnings generated from the unclaimed property are part of DSL's semi-annual distribution to schools.

DSL continues its regulatory streamlining efforts for the process of administering removal and fill permits included working with the U.S. Army Corps of Engineering to eliminate duplicate federal-state permitting. Recent efforts emphasize non-regulatory tools and incentives for wetland and watershed restoration.

Essential Budget Level

The 2009-11 essential budget level of $20.9 million total funds is a decrease of $18.4 million, or 47%, from the 2007-09 legislatively approved expenditure level and includes 84 positions (82.50 FTE). The 2007-09 legislatively approved expenditure level includes $759,032 total funds in special session and Emergency Board actions during Fiscal Year 2008 for increased compensation for employees. The 2009-11 essential budget level reflects phasing out $18 million in one-time expenses related to removal of the New Carissa shipwreck, and $105,500 Federal Funds associated with limited duration positions and standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges including the removal of 8 positions (7.25 FTE) related to phasing out limited duration grant-funded positions.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget is $2.2 million, or 10.5%, more than the 2009-11 essential budget level and includes 93 positions (92.38 FTE). The Legislature approved the following:

- $540,462 Other Funds and $402,308 Federal Funds to re-establish three limited duration positions and three permanent positions (5.38 FTE). Two of the positions are paid for by the Oregon Department of Transportation for expedited removal-fill reviews on transportation construction projects; one position is paid for by Other Funds and provides Geographic Information Systems (GIS) support to the Land Management Division; three positions are federally funded for EPA-funded water permit application streamlining of the removal-fill program, voluntary wetlands restoration projects, and a joint study of wetland mitigation efforts with the Oregon Watershed Enhancement Board.
- $1.3 million Other Funds to be used to contract with Oregon State University for a sea floor mapping project. Resources for the sea floor mapping project would come from the unspent balance of settlement funds for removal of the New Carissa.
- $270,299 Other Funds to add a permanent position and increase a seasonal half-time position to permanent full-time (1.50 FTE). One management position would manage the Western Region land assets and the full-

time archaeological position will address a backlog of archaeological analysis required for the land program. DSL believes the addition of these positions are necessary to allow the agency to make sufficient improvements that will enable more lands to be leased providing increased revenues for the Common School Fund. The positions would be funded with Common School Fund assets.

- $152,678 Other Funds to add a permanent position (1.00 FTE) to increase DSL capacity in GIS mapping in the removal-fill and wetland program. Funding for the position is partially offset by fee revenue and the balance from Common School Fund assets.
- $126,000 Other Funds to upgrade the Microsoft Office 2000 to a newer supported software version and expand storage capability by purchasing a storage area network (SAN) to meet demands for electronic backup and imaging.
- $193,400 Other Funds to carry forward expenditure limitation for the Portland Harbor Survey Project financed from the bond proceeds authorized in SB 338 (2009) – the Legislature's economic stimulus program commonly referred to as *Go Oregon!*
- $218,392 Other Funds increase and a $218,392 decrease in General Fund to align workload associated with the Economic Revitalization Team position with appropriate funding sources. The position primarily works on development proposals relating to wetland mitigation and is more appropriately funded from these sources.

In addition to the above increases, the Legislature approved the reclassification of an Executive Support Specialist 1 position to a Facility Operations Specialist 1 position to facilitate more efficient building management responsibilities; and reclassification of a Program Analyst 1 to Program Analyst 2 position to place the position on par with an equivalent position in the Unclaimed Property Program to be paid for by a shift of resources ($10,622) from services and supplies to personal services resulting in no net increase in expenditures. The Legislature also approved the addition of one permanent Accounting Technician 2 position (1.00 FTE) to perform data entry, budget analysis, budget preparation, and respond to program staff with data and analysis for operations. The position will be financed by a shift of $94,500 from services and supplies budget to personal services. The agency was utilizing paralegal staff from the Estates programs to do fiscal program work, which, in turn, increased the Attorney General expenses because work the paralegal would normally do was being done by the Attorney General and billed to the agency. Attorney General expenses will be reduced and capacity within the Fiscal Section will be increased.

The budget also reflects a reduction of $774,911 for decreases in statewide salaries and assessments for state government service charges.

DSL – Oregon Wetlands Revolving Fund

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	(37,204)	2,215,473	584,460	1,755,930
Total Funds	**$(37,204)**	**$2,215,473**	**$584,460**	**$1,755,930**
Positions	0	1	0	1
FTE	0.00	1.00	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. As of November 30, 2008, the fund balance is $2 million.

Budget Environment

Since establishment of the Wetlands Mitigation Bank Revolving Fund, DSL has disbursed funds for approximately 30 wetland and waterway restoration projects statewide. DSL is currently assessing about a dozen projects that may qualify for funding from the wetland revolving fund. In 1995, the Legislature expanded the Mitigation Banking Act to allow private mitigation banks. The Legislature made additional changes to the program in 1997 and again in 2003 to make the program more flexible and useful to the public. As of June 2008, there are 14 approved private banks, plus the city of Eugene's wetland bank program. There is high demand for the credits offered by these banks as many banks are sold out shortly after the credits are approved. The federal Environmental Protection Agency and the U.S. Army Corps of Engineers developed new federal mitigation rules that call for higher standards to improve mitigation success. In 2006 DSL began working toward federal approval of use of the mitigation bank revolving fund program for payment in-lieu mitigation for mitigation of federally regulated wetlands to compensate for wetland impacts regulated by federal agencies. Since July 1 2007, $984,475 has been committed toward wetland projects that, in combination with matching fund sources may result in a net gain of more than 115 acres of wetlands and just over four credits were purchased from private mitigation banks. In May 2008, the Corps of Engineers issued a public notice for a statewide in-lieu fee program sponsored by DSL. This program is expected to be approved in early 2009.

Essential Budget Level

The 2009-11 essential budget level of $584,460 total funds is a decrease of $1.6 million, or 74%, from the 2007-09 legislatively approved expenditure level and includes 1 limited duration position (1.00 FTE). The 2007-09 legislatively approved expenditure level includes the addition of $1.5 million in one-time expenses related to Oregon Wetlands Mitigation Bank wetland mitigation projects in special session and Emergency Board actions during Fiscal Year 2008 for increased compensation for employees. The 2009-11 essential budget level reflects the phasing out of $1.6 million in one-time expenses related to Oregon Wetlands Mitigation Bank wetland mitigation projects and the limited duration position to manage fund performance. At the time the limited duration position was authorized, DSL believed the associated workload would be completed by the end of the 2007-09 biennium. The 2009-11 essential budget level also reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget is $1.2 million, or 200%, more than the 2009-11 essential budget level and includes an increase of one positions (1.00 FTE). The Legislature approved adding a permanent Natural Resource Services 3 position (1.00 FTE) and $1 million expenditure limitation for wetland projects. The position is paid for from interest earnings on the Wetland Mitigation Revolving Bank Account. The Federal Army Corps of Engineers recently adopted the state's Wetland Mitigation program for wetland restoration proposals and projects. As a result, federal payments will be deposited into the fund increasing the workload and available resources for wetland projects. The position will be responsible for the growing demand for wetland mitigation options, the need to actively manage the fund, and to coordinate with the Army Corps of Engineers and other state and federal agencies on mitigation issues. The Legislature approved HB 2156 changing the name of the Wetland Mitigation Bank Revolving Fund to the Oregon Removal-Fill Mitigation Fund to allow for accepting payment-in-lieu of mitigation dollars for impacts to waters of the state other than wetlands. This law now allows for banking of mitigation credits for impacts to streams for stream restoration projects.

DSL – South Slough National Estuarine Research Reserve

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	1,152,234	1,897,182	1,593,924	1,625,446
Federal Funds	1,163,415	2,689,428	,1,694,209	2,792510
Total Funds	**$2,315,649**	**$4,586,610**	**$3,288,133**	**$4,417,956**
Positions	19	18	9	17
FTE	16.54	17.50	9.00	16.08

Program Description

The 4,800-acre South Slough National Estuarine Research Reserve (SSNERR) is part of the U. S. National Estuarine Research Reserve System established by the Coastal Zone Management Act of 1972. The 26 estuarine sites in the national system are administered by a partnership with the states and the U.S. Department of Commerce's National Oceanic and Atmospheric Administration (NOAA). The national system was created to preserve representative estuarine types and provide opportunities for education and research.

The South Slough is a tidal inlet of the Coos estuary six miles southwest of Coos Bay. The reserve was designated in 1974 as the first national estuarine research reserve and consists of 1,000 acres of tidelands and open water surrounded by a 3,800-acre upland border. It includes five structures and seven miles of roads and trails. The SSNERR operates an interpretive center and maintains nature trails for hikers and canoeists. It also conducts a variety of research, educational, and stewardship programs.

Revenue Sources and Relationships

The main source of Other Funds revenue supporting the SSNERR is the Common School Fund. Other Funds revenues also include grants, donations, and service charges.

Federal Funds are received through NOAA in the form of grants for operations and special projects. State match rates generally range between 30 to 50%, depending on the individual grant. The SSNERR's operating budget, tideland property valuation, and donations all qualify as match. The SSNERR has statutory authority to apply for grants and regularly submits such requests through NOAA's Office of Coastal Resource Management. Federal revenues for the ongoing operations grant are projected to continue at previously authorized levels.

Budget Environment

An estimated 30,000 individuals visit the reserve annually, including school-age children who participate in educational program offerings. The reserve also serves as a summer work site for Job Training Partnership Act and Youth Conservation Corps programs. The SSNERR expects to experience a continued increase in visitor use, especially from school field trips and from the developing ecotourism industry in the South Coast region. The SSNERR also provides services to the state's higher education system through a Memorandum of Understanding with the University of Oregon's Institute of Marine Biology for sharing administrative resources and laboratory facilities. Reserve employees provide technical and logistical support to visiting scientists and scholars conducting research.

Services are provided at the SSNERR by nine permanent staff positions. This staffing is augmented by the use of limited duration positions, volunteers, seasonal employees, and temporary staff. Temporary positions are funded through grants and cooperative agreements to provide support for education, research, and stewardship programs. The temporary staffing and number of volunteers vary with the seasons and the nature of grant projects.

Essential Budget Level

The 2009-11 essential budget level of $3.2 million total funds is a decrease of $1.3 million, or 28%, from the 2007-09 legislatively approved expenditure level and includes 9 positions (9.00 FTE). The 2007-09 legislatively approved expenditure level includes the addition of $146,688 in Emergency Board actions during Fiscal Year 2008 for increased compensation for employees. The 2009-11 essential budget level reflects the phasing out of $1.3 million services and supplies and nine limited duration positions (8.50 FTE) related to one-time grant programs. The 2009-11 essential budget level also reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget is $1.1 million, or 34%, more than the 2009-11 essential budget level and includes 17 positions (16.08 FTE). The Legislature approved an increase of:

- $857,350 Federal Funds to renew seven limited duration positions, making six of them permanent positions (6.08 FTE) to implement federal and other agency grants related to research, education, and stewardship at the SSNERR. The Federal Fund resources come from the annual operational support funds through the National Oceanic and Atmospheric Administration (NOAA) to finance the positions which are matched by in-kind Other Fund resources in other areas of the budget. The Legislature recognized the ongoing nature and history of receiving the federal funding.
- $83,100 Other Funds to provide resources for building maintenance and replacement of two information systems servers at SSNERR lab and to replace five desktop systems and two laptops and to upgrade the Microsoft Office and Adobe software .
- $155,170 Federal Funds to establish a permanent Information Systems Support 4 position (1.00 FTE) and provide IT support to 15 permanent positions. The position is funded by the operational support grant from NOAA.
- $100,000 Federal Funds for one-time grant funds provided by NOAA Bay Watershed Education and Training. The grant supports a part-time, limited duration Education Program Specialist to promote professional development for teachers, promote locally relevant experiential learning in the K-12 environment, and disseminate a set of education modules designed to incorporate best teaching practices related to the estuary and watersheds.

The Legislature also decreased the budget by $51,578 Other Funds and $14,228 Federal Funds for decreases in statewide salaries and assessments for state government service charges.

DSL – Natural Heritage Program

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	27,169	25,452	26,349	0
Other Funds	68	1,382	1,421	27,770
Federal Funds	487,158	880,166	133,811	2,295,631
Total Funds	**$514,395**	**$907,000**	**$161,581**	**$2,323,401**

Program Description

The state's Natural Heritage Act was passed by the 1979 Legislature to create a discrete and limited system of natural heritage conservation areas to represent the full range of Oregon's natural heritage resources. The Act requires that all conservation efforts be voluntary on the part of the landowner or public land manager and that resources be protected, whenever feasible, on public lands allocated primarily to special non-commodity uses (such as parks, preserves, and wilderness areas).

The 17-member Natural Heritage Advisory Council (NHAC) assists the State Land Board in implementing the mandates of the Act. The NHAC periodically identifies areas that qualify for registration. Registration is only an acknowledgment that the site is one of significant natural character and makes the site available for possible future dedication or other voluntary protection. Areas used in commodity production are avoided. Landowner written permission is required before any private land can be added to the register. State law allows any private individual or organization owning a registered natural area to voluntarily dedicate that area as a natural heritage conservation area with the Board. Public agencies can dedicate lands, following public notice and hearing. The State Land Board, Board of Forestry, Fish and Wildlife Commission, Transportation Commission, Board of Higher Education, and the Parks and Recreation Commission are required to establish procedures for the dedication of lands owned by the State of Oregon as natural heritage conservation areas, with the advice of the Natural Heritage Advisory Council.

The NHAC also is responsible for administration of the Threatened and Endangered Invertebrate Program and works cooperatively with the U.S. Fish and Wildlife Service to conduct studies and recovery actions on threatened and endangered invertebrate species within the state. DSL is the designated agency to receive federal funds for invertebrate species under Section 6 of the federal Endangered Species Act.

DSL is responsible for providing administrative support to the NHAC. Previously, the Department also was responsible for maintaining a data bank of significant natural heritage sites areas to guide decisions on project planning and land management. The data bank assists governmental agencies, private consultants, and individuals with obtaining information about the known location and extent of threatened and endangered species as well as unique or sensitive natural areas. HB 2179 (2003) transferred statutory responsibility for maintenance of the data bank to Oregon State University (OSU).

Revenue Sources and Relationships

The Natural Heritage Program receives General Fund for DSL's administrative support of the NHAC. Federal Funds are received primarily from the U.S. Fish and Wildlife Service for research and special projects on invertebrates and management techniques to protect rare, threatened, and endangered species.

Budget Environment

As of January 2008, the statewide register of natural heritage resources contained 98 sites, including 8 dedicated as natural heritage conservation areas. This is an increase of 27 sites from July 1998, when the register contained 71 sites.

Program operations historically were provided through a contract between the NHAC and The Nature Conservancy. During the 1999-2001 interim, the Emergency Board directed the Department to investigate options for moving the data bank function from a contract with The Nature Conservancy to a state agency, preferably the Department or OSU. In June 2002, responsibility and funding for management of the function was transferred to the Natural Resources Institute at OSU through an interagency agreement. As noted earlier, HB 2179 (2003) statutorily transferred that responsibility.

Essential Budget Level

The 2009-11 essential budget level of $161,581 total funds is a decrease of $745,419, or 82%, from the 2007-09 legislatively approved expenditure level. The 2009-11 essential budget level reflects the phasing out of $750,000 Federal Funds related to one-time grant programs for distribution to non-profit organizations. The 2009-11 essential budget level also reflects standard adjustments for inflation, rate increases for the Attorney General, and state government service charges.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget is $2.1 million, or 1,338%, more than the 2009-11 essential budget level. The Legislature approved an increase in Federal Funds expenditure limitation for a one-time federal grant awarded by the U.S. Department of the Interior under the Endangered Species Act for four projects: Upper and Lower Table Rocks Land Acquisition ($507,000); Cardwell Hill Conservation Easements ($256,820); Big Creek Property Acquisition ($1,007,000) and assistance for a habitat conservation plan in Yamhill County ($391,000). The Legislature also approved shifting $26,349 General Fund support to Other Funds (Common School Fund resources) for DSL administrative support of the program.

DSL – Capital Improvements/Common School Fund

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	831,751	636,129	307,505	307,505
Total Funds	**$831,751**	**$636,129**	**$307,505**	**$307,505**

Program Description

The Department owns and manages property as assets of the Common School Fund. The State Land Board adopted its second Asset Management Plan in 2006 that includes strategies for enhancing the revenue-producing capability of Common School Fund assets through capital improvements and property maintenance.

Expenditures in this program include small infrastructure design and construction projects, facilities rehabilitation, general maintenance and repair, weed control, land rehabilitation, and response to environmental hazards.

Revenue Sources and Relationships

Capital improvement expenditures are financed by Common School Fund revenues.

Budget Environment

As a property manager, the Department must maintain assets to enhance their revenue production and to protect and improve the resource productivity. Examples of capital improvement expenditures include the reinvestment of a portion of grazing lease fees for rangeland health and productivity improvements. For example, to maintain a viable rangeland leasing program, problems such as noxious weed invasion must be controlled. The Department reports that currently it is at risk of violating state law regarding control of noxious weeds such as Medusa head and pepper weed, and adjacent landowners have expressed concerns about invasion of these weeds into their lands.

Essential Budget Level

The 2009-11 essential budget level of $307,505 total funds is a decrease of $328,624, or 52%, from the 2007-09 legislatively approved expenditure level as of December 2008. The 2009-11 essential budget level reflects the phasing out of $337,000 Other Funds related to one-time rangeland management activities. The 2009-11 essential budget level also reflects standard adjustments for inflation, rate increases for the Attorney General, and state government service charges.

Legislatively Adopted Budget

The Legislature approved the capital improvement budget to be funded at the 2009-11 essential budget level.

Marine Board (OSMB) – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	22,453,222	25,397,723	25,949,147	26,262,518
Federal Funds	4,880,114	8,588,830	8,710,980	6,934,578
Total Funds	**$27,333,336**	**$33,986,553**	**$34,660,127**	**$33,197,096**
Positions	40	40	40	43
FTE	39.00	39.00	39.00	41.38

Agency Overview

The Oregon State Marine Board (OSMB) was established in 1959 and is responsible for registering and titling all recreational boating vessels in the state. The Board consists of five members appointed by the Governor for four-year terms. The Marine Board's budget is comprised of three separate program areas. These programs are dedicated to the Board's mission of boater safety, education, and access in an enhanced boating environment.

Revenue Sources and Relationships

All agency programs are funded by three major revenue sources: registration and title fees (37%); marine fuel taxes (34%); and federal funds (26%). The agency receives no General Fund support or Lottery Fund allocations. A small amount (3%) of revenue is received from outfitter and guide registration, mandatory education, and late penalties. The 2009-11 essential budget level provides an ending balance of $1.1 million, or approximately one month of operating costs. The following table summarizes the Department's major sources of revenue.

Revenues	2005-07 Actual	2007-09 Legislatively Adopted	2009-11 Agency Request
Other Funds			
Registration/Title Fees	$ 11,266,026	$ 11,425,753	$11,291,577
Mandatory Education Fees	659,348	450,000	320,000
Guides/Outfitter/Charter Fees	238,478	210,000	215,000
ODOT Gas Tax	11,172,267	11,190,974	11,000,508
Fines/Forfeitures/Other Rev.	814,045	737,000	718,000
OR Dept of Fish and Wildlife	89,000	89,000	89,000
Federal Funds			
Coast Guard Federal Funds	3,264,635	4,320,989	4,441,978
Boating Infrastructure Grant	749,976	3,157,634	1,395,371
Clean Vessel Act	453,621	1,104,629	1,104,629
Total	**$28,707,396**	**$32,685,979**	**$30,576,063**

The motorboat fuel tax revenue is estimated to be $11.2 million during the 2009-11 biennium. Each year the Department of Administrative Services certifies the amount of motor vehicle fuel taxes imposed during the preceding fiscal year on fuel purchased and used to operate motor boats. The amount, less refunds for commercially used motor boats, is transferred to the Marine Board's Boating Safety, Law Enforcement and Facility Account. The estimate is based on the results of the Oregon Motorboat Gasoline Use Survey that is conducted every four years to determine the amount of fuel tax to be transferred from the Department of Transportation. The last survey was completed in spring 2006. The survey indicates total consumption has increased by 2% in turn resulting in a slight increase in fuel tax transfer to OSMB. The next survey will be conducted in the fall of 2009 and is expected to be completed in spring 2010.

Registration fees are set by statute and vary based on type and size of vessel. Registrations are valid for two years. A boat owner must also secure a one-time certificate of title from the Marine Board. The 2003 Legislature adopted new fees based on a flat fee of $3/foot for two years; one time title fees were adjusted to $30, which enabled the agency to restore funding levels for programs eroded by inflation, flat registration counts, and drought conditions. In addition, HB 2220 authorized the Board to charge an additional five dollars per vessel for an invasive species mitigation program. The additional fee will also apply to non-motorized watercraft and out-of-state vessels. Once fully operational, the Board anticipates an additional $2.7 million in fee revenue will be generated per biennium. The agency projects total fee revenue at $11.8 million, an 3.5% increase from 2007-09 revenue levels. The Department of Fish and Wildlife uses Sport Fish Restoration funds to pay the Marine Board for technical assistance on cooperative projects.

The agency anticipates Federal Funds for 2009-11 received from the U.S. Coast Guard's Recreation Boating Safety (RBS) grant program ($4,441,978) and the Clean Vessel Act (CVA) program ($1,104,629). The Boating Infrastructure Grant (BIG) program grants ($1,395,371) are obtained through the dedicated Aquatic Resources Trust Fund with revenues from federal motorboat gasoline taxes and excise taxes on sport fishing equipment. The Coast Guard restricts use of RBS grants to boating safety programs and requires a 50-50 state match. CVA funds were first made available in 1994 for funding vessel waste pump out facilities and dump stations to reduce the effects of untreated sewage from boats in the state's waters. CVA grants require a 25% state match. BIG funds were authorized in 1998 as part of the Sport Fishing and Boating Safety Act and require a 25% state match. The BIG funding program has two tiers. Tier 1 funds are base grants set annually at $100,000 per state and Tier 2 grants are competitive, with approximately $4 million available nationally each year.

Essential Budget Level

The essential budget level is a 2% increase from the 2007-09 legislatively approved budget. This increase includes standard increases to state government services charges, personal service costs, and legal fees.

Legislatively Adopted Budget

The 2009-11 legislatively approved budget is a 4.1% decrease from the 2007-09 legislatively approved budget. This decrease takes into account the net effect of the discontinuation of a one time federal grant program, the establishment of an invasive species permit program authorized by HB 2220, and changes in state government service charges, personal service costs, and legal fees.

OSMB – Administration and Education

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	4,723,065	5,452,921	5,830,620	6,258,434
Federal Funds	298,465	431,094	443,166	443,166
Total Funds	**$5,021,530**	**$5,884,015**	**$6,273,786**	**$6,113,100**
Positions	26	26	26	29
FTE	23.84	23.84	23.84	26.22

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. In addition, HB 2220 (2009) authorizes the Board to establish an Invasive Species Permit Program to mitigate the effects of invasive species on native waters. The Board will work with the Department of Fish and Wildlife, Department of State Police, and Department of Agriculture to establish the program.

Budget Environment

The increasing popularity of water-based outdoor recreational activities in Oregon continues to challenge the Administration and Education program. Boater registration has declined since its peak of 194,715 boats in 2002. Currently, over 190,000 boats are registered with projections indicating boater use of the state's waterways will continue close to this level in the 2009-11 biennium. As evidenced by the latest boater use survey, even though boater registration has decreased, boater use on the water has increased by 2% since 1998. The current economic downturn and the closing of the Ocean salmon fishing season will temper overall boat usage, the recent decline in fuel prices may help moderate this expected decline if fuel prices maintain their current levels. Other non-traditional boating activities, such as personal watercraft (jet skis) and sail boarding are expected to bring additional challenges to waterway management. Boating safety is the number one priority of the program unit. Over 90% of all boating fatalities involve persons who do not wear a life jacket. Human impact on waterways is a challenge for the Oregon State Marine Board. The Mandatory Education law took effect January 1, 2001. The phase-in will continue over the next year until all motorboat operators are certified by 2009.

Essential Budget Level

The essential budget level is a 6.6% increase from the 2007-09 legislatively approved budget. This increase includes standard increases to state government service charges, personal service costs, and legal fees.

Legislatively Adopted Budget

The legislatively adopted budget includes additional limitation ($588,500 Other Funds) and three additional positions (2.38 FTE) to staff the Invasive Species Permit Program authorized by HB 2220. The agency will need to replace their current boat registration system due to the age and inflexibility of the current registration system. The Board will add a Program Analyst 3, an Accounting Technician 2, and an Information Specialist 3; these positions will support the revenue processing and reconciliation; statewide education coordination and outreach; and the development, maintenance, and support of OSMB information technology systems.

OSMB – Law Enforcement Program

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	9,408,774	9,840,522	10,143,856	10,109,050
Federal Funds	3,125,115	3,889,895	3,998,812	3,998,812
Total Funds	**$12,533,889**	**$13,730,417**	**$14,142,668**	**$14,107,862**
Positions	4	4	4	4
FTE	4.83	4.83	4.83	4.83

Program Description

By statute, funding of law enforcement activities is the first priority for the Marine Board after administrative expenses are covered. The Law Enforcement program provides on-water safety patrol and boating law enforcement for 300 miles of coastline, over 5,500 miles of navigable rivers, 1,400 named lakes, and 889 square miles of inland water. Services are provided through contracts with 31 county sheriffs providing coverage in 32 counties and with the Department of State Police providing additional statewide coverage, with emphasis in the four counties not covered by contracts with county sheriffs. The program also provides patrol boats and specialized enforcement equipment, develops and offers basic and advanced training for county marine patrol officers, maintains a marine law enforcement database and reporting system, performs contract administration functions, and retains responsibility for the waterway marking system.

Revenue Sources and Relationships

Funding of the Law Enforcement program is from registration and title fees, marine fuel taxes, and the U.S. Coast Guard Recreation Boating Safety grants. U.S. Coast Guard funding has been reauthorized and will increase slightly over the next several years.

Budget Environment

Law enforcement contracts are continued at the current level with a standard inflation adjustment for county contracts. Increases in the cost of personnel, benefits, fuel, insurance, and other items outpace the standard rate of inflation by an estimated 3%. In the past, some county's contributions have increased to maintain services at the local level. It will be very difficult for counties that are dependent on timber payments to continue to make up the difference in the standard inflation adjustment and the increases in personnel costs and unstable fuel process. Without an increase in funding for marine law enforcement, services will be reduced or reductions will need to be made in other programs. Complaints and requests for rules relating to non-motorized boating are increasing and impacting law enforcement services. In recent years, more than half of Oregon boating fatalities were attributed to non-motorized boaters. Reauthorization of the U.S. Coast Guard's (USCG) Recreational Boating Safety (RBS) grant program in 2005 provided an additional $1 million over the 2005-07 legislatively approved level. The USCG's RBS grant program is up for reauthorization in 2009. The continuation of RBS funding appears likely, but the recent economic turmoil and competing federal priorities make the continuation less than certain. Federal aid contributes approximately $4 million to support the marine law enforcement program.

Essential Budget Level

The essential budget level is a 3% increase from the 2007-09 legislatively approved budget. This increase includes standard increases to state government services charges, personal service costs, and legal fees.

Legislatively Adopted Budget

The legislatively adopted budget increases the Law Enforcement Program budget by 2.7% from the 2007-09 legislatively approved budget to reflect changes in state government service charges, personal service costs, and legal fees.

OSMB – Facility Programs

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	8,321,383	10,104,280	9,974,671	9,895,034
Federal Funds	1,456,534	4,267,841	4,269,002	2,492,600
Total Funds	**$9,777,917**	**$14,372,121**	**$14,243,673**	**$12,387,634**
Positions	10	10	10	10
FTE	10.33	10.33	10.33	10.33

Program Description

The Facilities program provides for the maintenance and improvement of boating facilities throughout the state. The Marine Board provides technical and financial assistance for local governments and state agencies to acquire, develop, improve, and rehabilitate public boating facilities. Projects eligible for Board funding include boat launch ramps, parking, restrooms, courtesy docks, transient tie-up facilities, and other boating-related facilities. Grants rely on partnerships and the leveraging of other financial resources such as federal funds, private funds and donations, and other local and state funds. Priorities for funding are established in the Board's Six Year Boating Facilities Plan, which identifies $156 million in unmet boating access needs statewide. The federal Clean Vessel Act (CVA) program targets water quality protection through the provision of facilities for boat pump out and dumping of waste.

The Board's Maintenance Assistance Program provides financial support for local governments and the Oregon Parks and Recreation Department for the maintenance and operation of boating facilities in park areas. The Board also provides engineering services for local governments and state/federal agencies lacking the specialized skills needed to design and build boat facilities.

Revenue Sources and Relationships

The Facilities program revenue sources include registration and title fees, marine fuel taxes, and the federal Clean Vessel Act (CVA). The Marine Board expects to receive federal grants from the CVA totaling slightly over $1 million in 2009-11. These grants are awarded competitively on a 75% federal to 25% state matching basis. The Marine Board also expects to receive federal grants from the new BIG program totaling approximately $1.4 million, which are also authorized on a 75-25 match ratio. Due to the timing of the construction season and permit timelines, some facility grants may be awarded in one biennium, but not fully expended until the following biennium. The total amount of the grants in any one biennium is not the total amount of the grants that will be awarded in that biennium. For example, most of the projects approved for 2005-07 funded by BIG for non-trailerable boating facilities did not actually begin until sometime in the 2007-09 biennium due to permit timelines. Out of $1 million in BIG funds budgeted for 2007-09, less than $600,000 is estimated for new grants.

Budget Environment

This is one of the few discretionary areas where the Board can make reductions without adversely impacting mandated services in its business, education, and law enforcement/safety programs. The Marine Board leverages a sizeable amount of state dollars with outside sources from federal agencies, local governments, and others. A significant issue for continued funding to maintain and improve public boating facilities and public access to Oregon's waterways is reauthorization of federal aid. The CVA, the BIG, and the Sportfish Restoration Program are all subject to federal reauthorization.

Essential Budget Level

The essential budget level is approximately a 1% decrease from the 2007-09 legislatively approved budget and reflects program phase-outs and one-time costs in addition to increases in state government service charges, personal service costs, and legal fees.

Legislatively Adopted Budget

The legislatively adopted budget decreases the Facility Program budget by 13.8% from the 2007-09 legislatively approved budget to reflect changes the discontinuance of a one-time federal grant program and changes in state government service charges, personal service costs, and legal fees.

Parks and Recreation Department (OPRD) – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Lottery Funds	87,520,218	107,432,184	95,043,951	90,624,929
Other Funds	92,163,590	113,154,196	114,105,658	94,416,010
Federal Funds	7,363,360	9,420,900	8,153,759	14,862,468
Other Funds (NL)	0	1,391	0	0
Total Funds	**$187,047,168**	**$230,008,671**	**$217,303,368**	**$199,903,407**
Positions	866	888	884	883
FTE	571.22	602.20	600.94	600.89

Agency Overview

The State Parks and Recreation Department (OPRD) is under the direction of a seven-member Commission. The Department operates the state's system of 235 recreational properties including ocean shores protection; scenic waterways; the Willamette River Greenway; recreational trails; all-terrain vehicles program; recreation grants to counties and local governments; state park land use and outdoor recreation planning; and management, operations, and maintenance of the Oregon State Fair programs. The Department is also designated as the State Historic Preservation Office and oversees activities of the Oregon Heritage Commission and Oregon Commission on Historic Cemeteries. In addition, the Department manages Natural Resource Lottery Funds programs including local park development grants; state park land acquisition; operations and maintenance; the parks-prisons inmate work program; state park facilities; and development projects.

The Department manages parks lands covering 99,440 acres. These include 50 campgrounds, 175 day-use areas, 500 miles of recreation trails, 362 miles of ocean shore, and other special sites such as boating and fishing docks, group meeting halls, interpretive centers, museums, and historic inns.

Revenue Sources and Relationships

In November 1998, voters approved Measure 66, constitutionally dedicating 15% of the net proceeds of Oregon's lottery revenues to be deposited into a Parks and Natural Resources Fund, until the year 2014, when it will be re-referred to the voters. Half of the fund is allocated to OPRD; the remainder is allocated to the Oregon Watershed Enhancement Board. The 2009-11 essential budget assumes $98.3 million Lottery Funds revenue will be generated for the State Parks and Recreation Department sub-account in the biennium. For 2009-11, these Lottery Funds represent 46% of total revenue in the Department's budget, an increase of 1% from the 2007-09 legislatively adopted budget. At the close of the 2007 legislative session, Lottery Fund receipts for OPRD were projected at $98.7 million. The current forecast for the 2007-09 biennium projects Lottery Fund receipts for OPRD will be slightly more than originally forecasted by approximately $.4 million. Lottery Fund receipts for the 2009-11 biennium are expected to remain flat or be slightly lower than receipts in 2007-09 beinnium.

Park user fees represent 14% of the total revenues. User fees are expected to generate $34 million in 2009-11 without a fee increase. The other major source of Other Funds revenue is from recreational vehicle (RV) registration fees. RV fees are currently shared 35% by the counties and 65% by the state. The 2007 Legislature temporarily modified the distribution in SB 29 adding 5% to the county distribution and decreasing the state distribution by 5%. The modified distribution will revert to the original distribution (30% counties, 70% state) on July 1, 2015. For 2009-11, the RV fee is expected to produce $34.2 million, $22.2 million for the state parks system and $12 million for transfer to counties, including $1.3 million for county opportunity grants. The current estimate reflects an increase of approximately $681,000. The Legislature also created a "salmon" license plate that has a premium surcharge above the standard license plate fees. OPRD anticipates receiving $575,694 in the 2009-11 biennium from the salmon license plate. OPRD expends its share of proceeds from the sale of these plates on salmon habitat restoration needs and related projects.

Other dedicated revenue sources include $4.5 million from the Oregon Department of Transportation State Highway Fund for roadways and rest area maintenance, $1 million from the Marine Board for boater facility maintenance and rehabilitation, and $11.8 million from the All-Terrain Vehicle (ATV) fuel tax revenues and fees for ATV operator permits and safety courses. Assorted Other Funds from the Deschutes River boater pass, rental of park property, sale of publications, and other donations and miscellaneous sources are also collected. The Department also expects to receive $7.8 million in Federal Funds from the Land and Water Conservation Fund/National Park Service (LWCF/NPS) ($1.1 million), Historic Preservation ($1.5 million), the Recreational Trails Program ($2.2 million, part of the Safe, Accountable, Flexible, Efficient Transportation Equity Act: a Legacy for Users – SAFETEA-LU), and $3 million from miscellaneous other sources of Federal Funds for project grants. Federal funding from NPS and Historic Preservation is decreased from prior biennia.

Budget Environment

The Department is challenged to balance rates and fees for park users at an affordable level for a diverse population with the rising costs of doing business. The constitutionally dedicated Lottery Funds revenue guarantees the Department a solid source of funding. Recent economic forecasts predict a slight decline in revenue through 2011 with an increase corresponding to the rebounding economy after 2011.

The infusion of dedicated Lottery Fund resources has created pressures from a number of factions to not only focus resources on maintaining existing parks and operations, but to expand land acquisitions, maintain new unplanned state parks, manage and develop the struggling Oregon State Fair, undertake special historical projects, develop new recreation programs and keep parks accessible and affordable for all its visitors. In addition, the Parks and Recreation Commission, Executive Branch, and constituent groups have varying ideas of what the Department should be doing under its statutory mission.

Oregon's population is expected to continue growing and the Department is planning for both an increase in the number of Oregonians and for changing demographics such as the aging of the baby boomers. Changing demographics may result in promoting different forms of recreational activity than camping. The Department continues to invest in facility maintenance and repair, land acquisitions, and local park grants. Differing opinions about how much new parkland is needed and what criteria should be used for acquisitions has been a challenge. Also, as new parks and recreation sites have been developed, ongoing operational and maintenance costs are incurred.

The Department's ability to maintain current services is dependent on the amount of revenue generated from these sources keeping pace with increases in the cost of doing business. User fees have long been a primary source of funding for state park operations. User fee revenues have remained static over time, while costs are increasing at higher rates due to inflation and labor cost increases, opening new parks, and added responsibilities by the Legislature without new sources of revenue. In addition, mandated fee waivers have increased to approximately $1 million in 2007-09. Park user fees have not increased since 1997. Park user fee revenues have been a primary source of funding for state park operations. In 1997, they covered 72% of the cost of operations; non-dedicated Other Fund resources and Lottery Funds made up the 28% difference. In the 2007-09 legislatively adopted budget, park user fees accounted for 55%, while 45% came from other non-dedicated resources and Lottery Funds. Inflation is a major factor in the increasing dependence on other non-dedicated resources and Lottery Funds for basic park operational needs. Since implementing Measure 66 which dedicated Lottery Funds revenue for park purposes, the Department was able to maintain flat user fee rates using Lottery Funds to make up differences created by rising costs. Lottery Funds increased 137% since first receiving a full biennium of the dedicated resource in 1999-2001. Today, campers and day use visitors cover 55% of the cost of operations. Since 1999, the Department has invested over $81.6 million in maintenance, repair, and upgrades to existing state parks, acquired over 3,600 acres of additional park land, and issued more than 160 local park grants. OPRD provided a report to the Legislature during the 2008 special session to alert members of a projected shortfall in Other Fund revenues. This shortfall in Other Fund revenues necessitated a realignment of expenditure limitation to backfill the shortfall with Lottery Funds. Dedicated Other Funds revenues include the All-Terrain Vehicle (ATV) fuel tax revenue; trusts and sinking funds; Recreational Vehicle (RV) registrations for county grants; state highway funds for specific rest area operations and maintenance; and state fair revenues. Dedicated program revenues have sufficient resources to cover planned expenditures for the biennium. Non-dedicated Other Fund resources include RV registrations, excluding county payments and grants; one-time donations and grants; salmon license plate revenues; park user fees; and miscellaneous income.

Essential Budget Level

The 2009-11 essential budget level of $217 million total funds is a decrease of $10 million, or 4%, from the 2007-09 legislatively approved expenditure level and includes 884 positions (600.94 FTE). The 2007-09 legislatively approved expenditure level includes $14 million total funds in special session and Emergency Board actions during Fiscal Year 2008 for emergency repair work related to winter storm damage, increased compensation for employees, and adjustments to realign program expenditure with current revenue streams. It also includes a one-time increase of $869,000 Other Funds for facility improvements financed by bond proceeds authorized in SB 338 (2009) for projects intended to stimulate Oregon's economy. The 2009-11 essential budget level includes a reduction of $9.8 million to phase out one-time expenditures related to a federal grant for land acquisition, new park development at seven State Parks, and one time costs associated with new park operations and maintenance. It reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges including the removal of 4 limited duration positions (1.26 FTE).

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget is $20.4 million, or 9.6%, less than the 2009-11 essential budget level and includes 883 positions (600.89 FTE). The budget reflects adjustments to align revenues and expenditures with the May 2009 Lottery Fund revenue forecast ($85,280,132) which is $19 million lower than the 2009-11 essential budget level ($104,355,661) revenue forecast. The budget also assumes approval of the Parks Commission proposal to increase fees to bring camping and day use fees to market rates for implementation in May of 2010 and reflects:

- A realignment of Lottery Fund (net-$4.2 million) and Other Fund (net-$17.9 million) expenditures to match projected revenue streams including a $4.2 million increase in fee resources in the 2nd half of the biennium.
- Reclassification of 14 positions, establishment of 5 positions (4.00 FTE); at no net cost by reducing 4.10 vacant FTE to finance the established positions and reclassifications to address issues following an internal position audit initiated by OPRD management during the 2007-09 biennium which found instances of mismatched classifications, obsolete classifications, mismatched alignment of full-time-equivalent counts, double fills, and desk audit requests position.
- An increase of $3.3 million Other Funds to fund Off-Highway Vehicle Safety (OHV) (also known as ATVs) Program funded by fuel tax revenues from OHV/ATVs.
- A revenue transfer of $1 million to the Department of Forestry from the OHV/ATV Account to fund positions dedicated to OHV/ATV trail operation and maintenance in state forests.
- A shift of $2.7 million Lottery Funds from the Land Acquisitions program and $2.3 from Lottery Fund beginning balances to Facility Investments to focus investments on programs that will create or sustain jobs in the current economy. A minimal amount of $4.2 million Lottery Funds remains in the Land Acquisitions program to cover current obligations.
- An increase in the Federal Funds expenditure limitation to reflect $2.6 million federal stimulus funds and a $2 million land acquisition grant through NOAA.
- Several technical adjustments to carry forward expenditures obligated in the 2007-09 biennium but will not be paid until the 2009-11 biennium; and adjustments in the Lottery Fund beginning balance to reflect savings from management actions in the 2007-09 biennium and in revenues to match current projections.

OPRD – Administration

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Lottery Funds	10,655,568	10,720,811	10,544,069	21,434,174
Other Funds	14,538,407	13,925,303	15,363,965	3,971,501
Federal Funds	0	993	0	0
Total Funds	**$25,193,975**	**$24,647,107**	**$25,908,034**	**$25,405,675**
Positions	88	79	79	79
FTE	81.23	72.85	73.52	73.52

Program Description

The Administration program includes six divisions:

- ***Directors Office*** (3.00 FTE) consists of three positions including the Director, an Executive Assistant, and a communications staff person. The Office is responsible for overall agency management; support of Commission activities; coordination with the Governor, Legislature, and other government entities; and development of broad policy direction. The Director's office works with the Historic Preservation Advisory

Committee, the Oregon Heritage Commission, the Recreational Trails Advisory Council, and the non-governmental, non-profit Oregon State Parks Trust.

- ***Human Resources*** (5.00 FTE) supports the Department on all personnel and labor relations including recruitment, training, and collective bargaining. The Division provides safety services through risk management, workers' compensation, safety awareness, and property and visitor liability.
- ***Financial Services*** (18.00 FTE) is responsible for the biennial budget development and execution, coordination of Secretary of State audits, centralized accounting, and payroll. This area also includes the Assistant Director for Administration and the internal auditor.
- ***Procurement*** (7.00 FTE) provides centralized contracting, procurement services, and fleet management.
- ***Information Systems*** (14.00 FTE) provides planning, development, and support for the Department's business applications including the installation, standardization, and operation of the Department's desktop and laptop computers, network and internet/intranet connections, geographic information system, and operation of the automated reservation system. It also provides technical management of the Department's financial interface to the Statewide Financial Management System.
- ***Reservations Northwest*** (26.52 FTE) is a reservation booking service that started operations in January 1996. The call center books reservations for 27 Oregon state parks and 20 Oregon state special facility areas. The reservation system allows customers to reserve campsites by telephone or Internet up to 9 months in advance. The system also gives customers the ability to make arrangements to stay at multiple locations throughout Oregon. The Reservations Northwest staff also support the Parks Information Center, which provides information on availability of campgrounds and facilities, volunteer programs, special events, publications, ATV, and other services provided by the Department.

The funding for these programs is from park user fees and Lottery Funds.

Budget Environment

Parks operate in every region of the state. The Administration Program Unit provides the Department's centralized business functions. The budget also includes the department-wide state government service charges. Growing local populations and increasing tourism bring demands to state parks. Increased demands for services on the agency have increased stress on its business infrastructure for accounting services, reporting, personnel, and management. Retirement of experienced managers and staff turnover is exhausting its ability to absorb and adapt to the changing conditions.

Essential Budget Level

The 2009-11 essential budget level of $26 million total funds is an increase of $1.2 million total funds, or 5%, from the 2007-09 legislatively approved expenditure level and includes 79 positions (72.85 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes $532,613 total funds in special session and Emergency Board actions during Fiscal Year 2008 related to increased compensation for employees, and adjustments to realign program expenditure with current revenue streams. The 2009-11 essential budget reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges including an internal realignment of 0.67 FTE. An additional increase above standard inflation is reflected for rent costs associated with the Reservations Northwest office ($9,913 Other Funds) and inflation for Department of Administrative Services (DAS) real property leasing and increases in Treasury transactions ($16,616).

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget is $502,359, or 1.9%, lower than the 2009-11 essential budget level and includes 79 positions (73.52 FTE). The Legislature approved a reduction of $11 million Other Funds reflecting a revenue shortfall in the Other Funds and an $11 million Lottery Fund increase to restore reductions of Other Funds. A reduction of non-operating expenditures in Acquisitions, Local Government grants, and Facility Investment programs funds the increase in Administration. By reducing the non-operating programs funded by Lottery Funds, the Department is able to maintain basic park operations. The Legislature also approved reclassification of three positions funded by shifting $5,784 Lottery Funds expenditure limitation from services and supplies to personal services and the establishment of one permanent Administrative Specialist position funded by eliminating a vacant Accounting Technician position resulting in a net reduction of $29,517 Other Funds. The Legislature approved an increase of $220,000 Other Funds expenditure limitation for replacement of the agency's park reservation system and an additional $264,174 Lottery Funds expenditure limitation to cover increased rates for the State Data Center. The Legislature reduced the budget by $394,871 Lottery Funds and

$562,148 Other Funds to reflect statewide salary adjustments and reduced assessments for state government service charges.

OPRD – Heritage Programs

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Lottery Funds	2,938,968	3,491,956	3,230,027	3,160,103
Other Funds	287,094	415,549	480,976	470,277
Federal Funds	1,400,905	1,987,516	1,871,859	1,536,397
Total Funds	**$4,626,967**	**$5,895,021**	**$5,582,862**	**$5,166,777**
Positions	18	19	19	19
FTE	18.00	19.00	19.00	19.00

Program Description

The Heritage Programs Division (19.00 FTE) consists of three primary programs: The State Historic Preservation Office, the Oregon Heritage Commission, and the Oregon Commission on Historic Cemeteries.

- ***The State Historic Preservation Office*** (SHPO), which consists of 17 positions (17.00 FTE), manages and administers all federal and state programs for historic and archeological resource planning and preservation. The program also assists with the development and interpretation of historic and cultural resources in the park system. Staff administer the federal grant-in-aid program and seven other federal programs under the National Historic Preservation Act. SHPO also manages two state programs: the Archeological Permit program and the Special Assessment of Historic Properties program.
- The ***Oregon Heritage Commission*** (1.00 FTE) is the primary organization for coordination of the state's heritage activities. The Commission, created in 1995, consists of nine voting and eight ex-officio members. The Commission is charged with establishing and implementing an Oregon Heritage Plan for the purpose of coordinating heritage conservation and avoiding duplication among various interest groups. The Commission coordinates statewide anniversary celebrations, encourages heritage tourism, maintains an inventory of state-owned cultural properties, and administers local museum and heritage grant programs.
- The ***Oregon Commission on Historic Cemeteries*** (1.00 FTE) is one of the few commissions of its type in the United States. It is charged with the preservation of tribal and pioneer-era cemeteries throughout Oregon. It provides grants, education, and technical assistance. The Department Director appoints commissioners.

Revenue Sources and Relationships

Approximately 20% of the Department's Federal Funds are received through the State Historic Preservation Office. About a third of the Federal Funds are provided to local governments in the form of grants to operate local historic preservation programs. Grants are awarded on a reimbursable basis and require at least a 50% state match. Owners of property on the National Register can also apply for a fifteen-year property tax freeze through SHPO. Other revenue for these programs comes from special assessment application fees and Lottery Funds.

Budget Environment

Implementation of the adopted Oregon Heritage Commission plan is dependent on availability of resources. The *Heritage Needs Assessment*, published in 1998, indicates that $40 million is needed to fund specific projects. It is expected that the plan will reduce duplication and promote efficiencies in the conduct of state heritage activities.

Heritage Programs workload is driven primarily by external constituents; by the number of applicants for listings on the National Register, applicants for the grant-in-aid program, technical assistance requests from local governments and heritage organizations, archaeological permits, tax incentives, and by the number of federal projects requiring annual review (3,000/year in 2005-07) for potential impacts on historic and cultural resources.

Essential Budget Level

The 2009-11 essential budget level of $5.6 million total funds is a reduction of $312,159 total funds, or 5.3%, from the 2007-09 legislatively approved expenditure level and includes 19 positions (19.00 FTE). The 2007-09 legislatively approved expenditure level includes a reduction of $19,838 total funds in special session and Emergency Board actions during Fiscal Year 2008 related to increased compensation for employees; and adjustments to realign program expenditure with current revenue streams. The 2009-11 essential budget reflects the phasing out of funding for the Oregon Sesquicentennial planning ($419,000 total funds); empty Federal Funds expenditure limitation ($268,000); and standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget is $416,085, or 7.45%, lower than the 2009-11 essential budget level and includes 19 positions (19.00 FTE). The Legislature approved a reduction of $317,081 Federal Funds due to a decline of available federal heritage funds. The reduction impacts special payments to local governments for heritage programs. In addition, the Legislature approved the reclassification of two positions at no additional cost in the 2009-11 biennium. The Legislature approved SB 192 reauthorizing the property tax incentive program including reducing tax credit application fees, simplifying the application process, changing the tax credit to a simple property tax reduction, eliminating redundant review processes, and focusing on external building features and enhanced inspection capacity. The Legislature also approved a one-time transfer of $500,000 from the Oregon Property Management Account to the Oregon Business Development Department for the Oregon Main Street Program. The Legislature also reduced the budget by $69,924 Lottery Funds, $10,699 Other Funds, and $18,381 Federal Funds to reflect statewide salary adjustments and reduced assessments for state government service charges.

OPRD – Grants

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Lottery Funds	6,622,053	15,301,045	16,304,935	6,978,112
Other Funds	6,889,909	19,323,934	11,642,786	14,927,793
Federal Funds	3,832,282	3,898,375	3,265,732	5,199,153
Total Funds	**$17,344,244**	**$38,523,354**	**$31,213,453**	**$27,105,058**
Positions	9	10	10	11
FTE	9.00	10.00	10.00	11.00

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 Government Grant Program, the Recreational Trails Grant Program, and the Recreational Vehicle Grant Program. Funding for these programs is from ATV permit fees, recreational vehicle registration fees, Lottery, Other, and Federal Funds.

Budget Environment

The number of applicants seeking grant program funds drives workload levels. There continues to be a high degree of interest in the Local and Federal Grants program funds. Funding from the National Park Service Land and Water Conservation Fund is expected to decrease during the biennium. The Local Grant program was increased to $8.5 million for 2005-07 and to $15.8 million for 2007-09.

Essential Budget Level

The 2009-11 essential budget level of $31.2 million total funds is a reduction of $7.3 million total funds, or 19%, from the 2007-09 legislatively approved expenditure level and includes 10 positions (10.00 FTE). The 2007-09 legislatively approved expenditure level includes an increase of $8.3 million total funds in special session and Emergency Board actions during Fiscal Year 2008 related to increased ATV Grants program activity; adjustments to realign program expenditure with current revenue streams; and increased compensation for employees. The 2009-11 essential budget includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget is $4.1 million, or 13%, lower than the 2009-11 essential budget level and includes 11 positions (11.00 FTE). The Legislature approved:

- A reduction of $6.3 million Lottery Funds to provide resources to restore reductions in Other Fund resources in park operations and administration programs. The reduction affects grants to local communities to acquire, develop, and rehabilitate outdoor recreation and open spaces and puts it closer to the 2005-07 funding levels.
- $800,000 Federal Funds for a transportation enhancement grant for the Rogue Valley that has been awarded to OPRD with the funds available early in the new biennium. The funds will come directly to OPRD and be administered similar to the Recreation Trails grants.
- $733,421 Federal Funds to reflect increased Recreational Trails Program formula grants for cities and counties.
- $400,000 Federal Funds for grants obligated and carried over to the 2009-11 biennium for expenditure.
- $3.3 million Other Funds and one permanent position (1.00 FTE) to implement improved safety training for ATV users implementing SB 101 (2007, funded by dedicated ATV fuel taxes and permit fees).
- $1 million revenue transfer from dedicated ATV fuel taxes and permit fees to the Department of Forestry to fund 7 positions responsible for operations and maintenance of OHV/ATV trails in state forests.
- Reclassification of Principal Executive Manager D to Principal Executive Manager E at no additional cost in the 2009-11 biennium.
- A reduction of $13,159 Lottery Funds and $35,345 Other Funds to reflect statewide salary adjustments and reduced assessments for state government service charges.

OPRD – Property Acquisitions

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Lottery Funds	7,382,821	21,145,556	22,767,824	4,194,963
Federal Funds	0	600,000	0	2,000,000
Total Funds	**$7,382,821**	**$21,745,556**	**$22,767,824**	**$6,194,963**
Positions	0	1	1	1
FTE	0.00	0.88	1.00	1.00

Program Description

The Property Acquisitions program is responsible for direction and management of all real property functions of the Department. The program was increased by $3 million to a total of $7 million for the acquisition and development of new park properties in the 2003-05 biennium. In 2005, the Legislature increased the program to $7.5 million and to $22.1 million in 2007. Since 1999, the Department has acquired a total of 6,012 acres of property through direct purchase and donation.

Essential Budget Level

The 2009-11 essential budget level of $22.8 million total funds is an increase of $1 million total funds, or 4.7%, from the 2007-09 legislatively approved expenditure level and includes 1 position (1.00 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes a decrease of $993,668 Lottery Funds in special session and Emergency Board actions during Fiscal Year 2008 related to adjustments to realign program expenditures with current revenue streams, and increased compensation for employees. The 2009-11 essential budget phases out $600,000 Federal Funds for a one-time federal grant to purchase land and standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges including phasing in a position approved in the 2007-09 budget of 0.12 FTE.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget is $16.6 million, or 72.8%, lower than the 2009-11 essential budget level and includes one position (1.00 FTE). The Legislature approved a reduction in the Lottery Fund acquisitions program of $16.4 million to restore reductions in Other Funds for park operations and administration and an additional $2.2 million reduction to reflect a shift in priorities to activities that will create or sustain jobs in the current economy. A corresponding increase in the Facilities Investments program focuses legislative priorities to construction activities and infrastructure backlog reduction. The Legislature also approved an increase of $2 million in Federal Funds expenditure limitation for the anticipated award of a National Oceanic and Atmospheric Administration (NOAA) land acquisitions federal grant for the Ona Beach State Park and Beaver Creek State Natural Area.

OPRD – Operations

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Lottery Funds	12,690,165	21,900,529	13,203,868	22,765,342
Other Funds	60,228,989	59,137,935	68,294,352	57,160,249
Federal Funds	631,308	1,387,351	1,426,196	1,978,196
Total Funds	**$73,550,462**	**$82,425,815**	**$82,924,416**	**$81,903,787**
Positions	675	686	686	687
FTE	417.35	426.47	426.92	428.87

Program Description

The Operations program has responsibility for daily operation of the state park system. Five activity areas make up the Operations program:

- ***Assistant Director for Operations*** (2.00 FTE) consists of the Assistant Director and support staff to provide overall direction for Operation program activities.
- ***Risk and Safety Program*** (3.00 FTE) provides safety services through risk management, workers' compensation safety awareness, and property and visitor liability, plus beach safety programs.
- ***Park Operations*** (407.67 FTE) is directly responsible for statewide operations of state parks. Management and maintenance responsibilities include insuring the safety of the public and protection of natural resources and facilities. Park Operations are divided into four geographic areas based on the number of park facilities and visitation. Park Operations employees – rangers and seasonal park aides – maintain park buildings and grounds, operate registration services, collect fees, enforce park rules, provide information, and interpretive services and programs. Other duties include maintenance of trail systems, Willamette Greenway sites, and the Deschutes River Scenic Waterway Recreation Area.
- ***Property and Natural Resource Management*** (8.00 FTE) provides technical expertise and support to field staff on resource management issues. The Natural Resource Management unit plans and conducts all timber management on state park property, coordinates timber sales and monitors replanting, identifies hazardous and unhealthy trees, oversees removal, trains forestry interns, manages wildlife and habitat programs, and protects threatened and endangered species on state park properties. In addition, Natural Resource Management also prepares natural resource plans for individual park areas. The unit also administers the Department's land acquisition and concession programs and manages leases of park land for agricultural use.
- ***Engineering*** (8.20 FTE) provides survey and engineering services for park projects not funded through the Facilities Investment Program.

Budget Environment

Growth in Oregon's population and economy has increased the demand on current resources and facilities and created a need for new parks and recreational programs. In 1995, the Department implemented a program to promote use of state park campgrounds in off-prime seasons and increase camping revenues. The Department added yurts, cabins, and other promotional activities during this same period.

Additional personnel were provided to meet the growth in demand for visitor services that has resulted from the increased usage. Nearly 42 million visitors a year come to Oregon State Parks, making them among the most heavily used parks in the nation. Statistics to support this statement include: Oregon parks rank 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.

Essential Budget Level

The 2009-11 essential budget level of $83 million total funds is increased by $498,601 total funds, or 0.6%, from the 2007-09 legislatively approved expenditure level and includes 686 positions (428.87 FTE). The 2007-09 legislatively approved expenditure level includes a decrease of $4.3 million Other Funds and an increase of $9.3 million Lottery Funds in special session and Emergency Board actions during Fiscal Year 2008 related to adjustments to repairs for winter storm damage, realign program expenditures with current revenue streams, and increased compensation for employees. The 2009-11 essential budget phases out $327,017 in one-time costs associated with new state parks including the State Capitol, Cougar Valley, Depoe Bay, Golden, Kam Wah Chung, Stub Stewart, and Prineville State Parks. It phases in $105,253 associated with ongoing expenses that were not budgeted for a full 24 months in the 2007-09 biennium, including 0.45 FTE and standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget is $1 million, or 1%, lower than the 2009-11 essential budget level and includes 687 positions (428.87 FTE). The Legislature approved a reduction of $15 million Other Funds and 1 permanent full-time position (1.00 FTE) reflecting a revenue shortfall in the Other Funds revenue and a $9.3 million Lottery Fund increase to restore reductions of Other Funds and the position. Reductions in non-operating expenditures in Acquisitions, Local Government grants, and Facility Investment programs finance the shortfall in Other Funds. By reducing the non-operating programs funded by Lottery Funds, the Department is able to maintain basic park operations. The Legislature also approved

- $208,154 Other Funds and $24,459 Lottery Funds to reclassify three positions and establish a Parks Manager 2 position, three Office Coordinator positions (2.00 FTE) and added 0.25 FTE to a Park Ranger position to address issues arising from mismatched position and incumbent classification reviews funded by eliminating a vacant Ranger Aide position (0.50 FTE) and reducing two months from an Engineering Specialist position.
- $115,911 Lottery Funds and $1.4 million Other Funds reduction to reflect statewide salary adjustments and reduced assessments for state government service charges.
- $237,184 Lottery Funds and $711,551 Other Funds to finish projects related to winter storm damage that will not be completed before the end of the current biennium in Cape Look Out State Park and the Spring Valley landslide.

In addition, the Legislature approved an adjustment in park fees closer to market rates to generate approximately $8.4 million in total biennial revenue as follows:

Proposed Fee Increase		
	Current Fee	New Fee
Recreational Vehicle Sites	$20	$24
Tent Sites	$16	$20
Yurts	$27	$36
Cabins	$35	$39
Boat Moorage	$7	$10
Reservation Transactions	$6	$8
Day Use	$3	$5
Annual Day Pass	$25	$35
Day Use 24 Month Pass	$40	$50

During 2009-11 the agency expects to collect approximately $4.3 million in total revenue. The Legislature approved a $4.3 million Other Funds expenditure limitation to restore temporary appointments and services and supplies in state parks with the anticipated revenue.

OPRD – Facility Investments

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Lottery Funds	38,997,949	23,678,937	17,781,370	20,211,825
Other Funds	3,535,679	4,707,882	4,071,210	3,111,407
Federal Funds	1,498,865	1,546,665	1,589,972	4,148,722
Total Funds	**$44,032,493**	**$29,933,484**	**$23,442,552**	**$27,471,954**
Positions	18	16	16	16
FTE	17.17	15.50	16.00	16.00

Program Description

The Facility Investments includes the following two activity areas:

Parks and Prisons (3.00 FTE) provides labor, materials, and products for state parks through partnerships with state, county, and local correction and youth crew programs. Crews work on various maintenance and development tasks such as recreation trails, cabin construction, yurt foundations, and boat docks in the parks. The Department of Corrections' inmates also provide products such as picnic tables, fire rings, nursery stock, signs, cabin furniture, and computer assisted design work.

Facility Investments (13.00 FTE) provides engineering design, survey, and construction oversight for statewide park development projects focused on reducing the backlog of repairs and deferred maintenance. The section also develops standards and construction plans that comply with building codes to meet requirements for land use, climates, soils, purposes, and visitation levels.

Budget Environment

In 1999, the Legislature authorized the issuance of $15 million lottery backed bonds to address overdue repairs from deferred maintenance. The bonds were repaid during the 2005-07 biennium. Ongoing investments in repairs and renovations from Lottery Funds were increased in the 2005-07 biennium to $20 million per biennium. Of this amount, an average of $10.6 million is applied directly to reduce the maintenance backlog to a manageable level by the year 2014; $12.8 million is applied to enhancing state parks, $2.5 for historic and cultural restorations and $2.8 million for restoration. An additional $7 million is utilized to improve and expand parks for the future. The 2007-09 legislatively adopted budget increased the amount to be applied for reducing the backlog to $13 million; reducing enhancements and historic and cultural restorations by $6 million. Administration – which includes project management, yurts and cabins, and the Parks and Prison Program – was increased $310,000, or 11%.

Small grants are often available for facility investments from local governments, other state agencies, or the federal government.

Essential Budget Level

The 2009-11 essential budget level of $23.4 million total funds is a decrease of $6.5 million total funds, or 22%, from the 2007-09 legislatively approved expenditure level and includes 16 positions (16.00 FTE). The 2007-09 legislatively approved expenditure level includes a decrease of $877,960 Lottery Funds in special session and Emergency Board actions during Fiscal Year 2008 related to adjustments to realign program expenditure with current revenue streams, and increased compensation for employees. The 2009-11 essential budget phases out $7.5 million Lottery Funds and $869,000 Other Funds in one-time costs associated with new state parks including the Stub Stewart, Crissey Field, and Tseriadun State Parks and facility investments funded by bond proceeds authorized in SB 338 (2009) for projects intended to stimulate Oregon's economy. It reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges including an adjustment of 0.50 FTE.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget is $4 million, or 17%, lower than the 2009-11 essential budget level and includes 16 positions (16.00 FTE). The Legislature approved a reduction of $0.9 million Other Funds reflecting a revenue shortfall in the Other Funds revenue and a $2.3 million Lottery Fund reduction to reflect reduced revenues forecasted for the biennium. The Legislature increased the Lottery Fund expenditure limitation by $4,827,554 shifting resources from Land Acquisitions and beginning Lottery Fund balances for the purpose of reducing the backlog of projects and job creation. The essential budget level includes $11.5 million planned for reducing the backlog of facility improvement projects. Additional resources of $4.8 million will allow furthering the OPRD goal of eliminating their backlog of projects by 2014 and providing resources to sustain or create jobs during the 2009-11 biennium. The Legislature also approved $15,155 Lottery Funds to reclassify three positions to address issues arising from mismatched position and incumbent classification reviews and a reduction of $91,665 Lottery Funds and $4,929 Other Funds to reflect statewide salary adjustments and reduced assessments for state government service charges. The Federal Funds expenditure limitation was increased by $2.6 million for projects at Bradley, Boiler Bay, Ophir, Koberg, Catherine Creek, Hilgard Junction, Red Bridge, Booth Battle Mountain, Collier, and Mitchell Point/Guy Talbot from federal stimulus funds and 2003-05 FHWA grant funds through the Oregon Department of Transportation.

OPRD – Recreation Programs and Planning Program

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Lottery Funds	0	3,410,355	3,434,073	4,227,475
Other Funds	0	3,182,283	3,242,731	2,280,585
Total Funds	**$0**	**$6,592,638**	**$6,676,804**	**$6,508,060**
Positions	0	22	20	20
FTE	0.00	21.50	19.50	19.50

Program Description

The Recreation Programs and Planning Program was a new unit in 2007-09 realigned from assets in other parts of the Department and is responsible for planning, implementation, and outreach regarding outdoor recreation in Oregon. The program unit was established to place emphasis on advocating for and promoting outdoor recreation in Oregon. This includes planning for future recreational needs and providing interpretive programs that educate visitors about the natural resources, history, and culture of the areas surrounding the parks and throughout Oregon. Additionally, public services and marketing such as development and printing of brochures, media contact, and maintenance of the Department webpage is part of the program. Five activity areas make up the Recreation Programs and Planning Program:

- ***Recreation Programs*** (6.00 FTE) plans, develops, and directs services to enrich visitor experiences by providing oversight for park interpretive programs, managing motorized and non-motorized recreational trails programs, and providing technical assistance to field staff regarding trail development in state parks, developing water-based recreation, implementing a statewide bicycle recreation program, overseeing more than 31,000 park volunteers each year, establishing and monitoring Friends Groups, and developing State Parks Policies and Procedures.
- ***Planning*** (4.50 FTE) is responsible for development of the Statewide Comprehensive Outdoor Recreation Plan which documents statewide and regional recreation demands and trends, the supply of recreation opportunities, facilities and settings, and identifies emerging needs of Oregon residents and visitors. The Planning unit creates plans for development, protection, and public enjoyment of state park properties and regional recreation corridors; identifies natural, cultural, and scenic resources, opportunities, and constraints; directs the master planning process; and provides direction on planning and development of sites and facilities. The Planning unit also coordinates with park units and other governmental agencies planning for ocean shore use and protection.
- ***Public Services*** (7.00 FTE) is responsible for internal and external communications, marketing, paid media campaigns, website content, public relations, coordination of media relations, statewide special event management, graphic design and production, publications, map production, exhibit creation and fabrication, consultation on signage, interpretive writing, and visual identity.
- ***Grant Administration –*** Although part of this new program area, it is discussed in a separate section of this analysis.
- ***Recreation Administration*** (2.00 FTE) provides oversight and communication with the Oregon Parks and Recreation Commission; park providers at the local, county, state, and federal levels; and recreation stakeholders including the Oregon Outdoor Recreation Council, Oregon Recreation Trail Advisory Council, All-Terrain Vehicle Account Allocation Committee, and the Oregon State Parks Trust.

Budget Environment

A wide range of public and private sector recreation organizations provide outdoor recreation opportunities for the general public in Oregon. The major land and water recreation resources are owned and managed by the federal government with 93.9% of the land and 46.2% of water recreation areas under federal management. The state owns 5.1% of the land and 29.6% of water recreation areas. Growth in Oregon's population and economy has increased the demand on current resources and facilities and created a need for new parks and recreational programs. Demographic changes over the past 10 years include a recreating public that is older, more highly educated, with higher income levels, increasingly urban living, and increasing in ethnic diversity. In addition, people have become less physically active.

The public is asking public land managers to protect streams, fish, wildlife habitat, and threatened and endangered species. They are also seeking amenities including quiet, natural places, natural appearing settings, and information and education. The recreating public wants family-oriented activities, and to travel closer to home with more frequent but shorter stays. There is also a growing demand for motorized and non-motorized trail facilities, alternative camping facilities such as yurts and cabins, and RV camping especially at the coast.

Biking vacations attracted more than 27 million travelers in the past five years and they rank as the third most popular outdoor vacation activity in America. An ad-hoc partnership of bicycle enthusiasts, including Cycle Oregon, the Bicycle Transportation Alliance, the Oregon Tourism Commission, Oregon Department of Transportation (ODOT), the Governor's office, and OPRD, formed in 2004 to unify Oregon's bicycle tourism strategy. The group has been working to promote recreational bicycling in the state. The effort has been on-going for three years. A recent accomplishment of this group was the creation of the Willamette Valley Scenic Bikeway from Champoeg State Park to Armitage County Park. During 2005, Cycle Oregon, OPRD, Travel Oregon, and the ODOT Bicycle Pedestrian Program have taken a leadership role in moving the effort forward. The bicycle partnership's effort is to position Oregon as a premier bicycle tourism and recreation destination. The partnership is proposing that bicycle tourism-related work that is now done by ODOT, OPRD, Cycle Oregon, Portland Oregon Visitors Association, League of American Bicyclists, Oregon Tourism Commission, and various bike shops be coordinated through OPRD. The primary tool for the program would be an interactive website from which users can find information needed to create their own itinerary based on their preferences.

Essential Budget Level

The 2009-11 essential budget level of $6.7 million total funds is an increase of $84,166 total funds, or 1.3%, from the 2007-09 legislatively approved expenditure level and includes 21 positions (20.50 FTE). The 2007-09 legislatively approved expenditure level includes an increase of $122,393 Lottery Funds in special session and Emergency Board actions during Fiscal Year 2008 related to increased compensation for employees. The 2009-11 essential budget phases out two positions (2.00 FTE) in one-time costs associated with the bicycle recreation and ocean shore management planning. These positions were approved for funding from Other Fund resources as limited duration to insure dependence on Lottery Funds was not an issue in future biennia. The essential budget also reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget is $168,744, or 2.57%, lower than the 2009-11 essential budget level and includes 20 positions (19.50 FTE). The Legislature approved $885,999 Other Funds reflecting a revenue shortfall in the Other Funds revenue and an $885,999 Lottery Fund increase to restore reductions of Other Funds services and supplies. The Legislature approved the reclassification of a Principal Executive Manager D to Principal Executive Manager E at no additional cost during the 2009-11 biennium; and reductions of $56,000 Lottery Funds to shift contract expenditures to Ocean Shores Services in the Operations Program and $36,597 Lottery Funds and $76,147 Other Funds to reflect statewide salary adjustments and reduced assessments for state government service charges.

OPRD – Oregon State Fair

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Lottery Funds	3,997,460	3,547,925	3,684,776	3,559,926
Other Funds	6,683,512	12,461,310	11,009,638	12,494,198
Total Funds	**$10,680,972**	**$16,009,235**	**$14,694,414**	**$16,054,124**
Positions	58	55	53	50
FTE	28.47	36.00	35.00	32.00

Program Description

The Oregon State Fair conducts an annual state fair that is typically 11 days in length and provides services for ongoing exposition activities including recreational vehicle and organization meetings, concerts, and consumer products and services shows. The purpose of the Fair is to provide information and encourage the growth and prosperity of all agricultural, stock raising, horticultural, mining, mechanical, artistic, and industrial pursuits in the state. The Fair represents Oregon's agricultural, industrial, artistic, and cultural heritage. The Fair responds to the needs and interests of visitors, participants, exhibitors, concessionaires, vendors, and facility users.

Revenue Sources and Relationships

The Fair receives Other Funds revenue from grounds admission, commercial exhibit fees, ride and show admissions, parking, space rental fees, and food concessions, which is not sufficient to fully cover increases in fixed operating costs or to fund essential maintenance. The budget is supplemented with Lottery Funds from the Parks and Natural Resource Fund.

Budget Environment

Since 1997, the Oregon State Fair has experienced significant difficulty in meeting its operating and debt service requirements out of existing revenue. The 2005 Legislature determined that the best option was to combine the Fair with OPRD since the statute for OPRD already includes fairs and heritage programs as part of its mission. OPRD has experience with managing state property, providing entertainment, and collecting revenue, and has the resources to provide operational support to the Fair.

In January 2006, OPRD hired a professional market research firm to conduct a survey and facilitate a series of meetings with community, business, and elected officials from eight geographically distinct regions across the state to gather ideas for the vision and future direction of the Fair and its facilities. Overall themes that emerged from the conversations included high expectations of strong fiscal management and clear accountability and that the Oregon State Fair should be for and about Oregon; more inclusive of regions of the state; have a greater educational role for youth and adults; and continue its traditional ties to agriculture, but expand its connection to industry, manufacturing, cultural heritage, history, and resources within Oregon.

As a result of these meetings, a business plan has been developed to clarify the mission and business objectives of the annual state fair and usage of fairgrounds between annual state fairs. The plan outlines strategies to:

- Revitalize the annual state fair by showcasing the best of Oregon.
- Provide leadership to counties, areas, regions, municipalities, and organizations across the state to create local venues for events and activities that build up to and culminate at the annual state fair.
- Address methods to improve the quality of the experience (both annual state fair and interim activities on the fairgrounds) – including facility and land improvements, and customer service from vendors, contractors, and staff.
- Meet all expenses for the Fair including operations and maintenance from revenue generated by the enterprise.
- Provide an "exit strategy" for decision-makers to take action on the future of the enterprise.
- Address business systems and management policies to ensure efficient operation and accountability.
- Identify a role for the State Fair Foundation, partnerships with other enterprises, and an expanded role for sponsorships.

Essential Budget Level

The 2009-11 essential budget level of $15 million total funds is a decrease of $1.3 million total funds, or 8.2%, from the 2007-09 legislatively approved expenditure level and includes 55 positions (36.00 FTE. The 2007-09 legislatively approved expenditure level includes an increase of $1.9 million Other Funds in special session and Emergency Board actions during Fiscal Year 2008 related to increased state fair event activities and increased compensation for employees. The 2009-11 essential budget phases out two positions (1.00 FTE) in one-time costs associated with seasonal activities. The essential budget also reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget is $1.4 million, or 9.25%, higher than the 2009-11 essential budget level and includes 50 positions (32.00 FTE). The Legislature approved an increase of $1.7 million Other Funds to reflect phasing in ongoing expenditures from facilities equipment replacements approved by the Emergency Board in June 2008, ongoing expenditures related to sponsorships during annual state fair events, and ongoing expenses related to interim contracting activities of state fair facilities between annual state fair activities. The Legislature approved a reduction of $75,871 Lottery Funds, $154,041 Other Funds, and three positions (3.00 FTE) to address issues arising from mismatched position and incumbent classifications. An additional reduction of $48,979 Lottery Funds and $100,641 Other Funds was approved to reflect statewide salary adjustments and reduced assessments for state government service charges.

OPRD – Oregon State Fair Debt Service

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Lottery Funds	4,235,234	4,235,070	4,093,009	4,093,009
Other Funds (NL)	0	1,391	0	0
Total Funds	**$4,235,234**	**$4,236,461**	**$4,093,009**	**$4,093,009**

Program Description

This program pays the principal and interest on construction bonds. The 2001 Legislature added $10 million in lottery-backed bonding authority and increased the debt service from Lottery Funds to $2,611,346. The debt service cost for 2003-05 was $3.7 million. This cost increased to $4.2 million in 2005-07. The increase reflects the full debt service cost for all of the Lottery-backed bonds.

Revenue Sources and Relationships

Lottery Funds revenue from the Parks and Natural Resources Fund is used to repay debt service on the capital construction and improvement bonds.

Essential Budget Level

The 2009-11 essential budget level of $4 million total funds is a decrease of $143,452 total funds, or 3.4%, from the 2007-09 legislatively approved expenditure level as of December 2008. The essential budget reflects standard adjustments for debt service payments.

Legislatively Adopted Budget

The Legislature approved the budget at the 2009-11 essential budget level.

Water Resources Department (WRD) – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	21,254,080	25,957,473	25,451,601	21,035,526
Lottery Funds	0	0	0	354,911
Other Funds	4,045,553	7,233,243	7,168,086	13,574,310
Federal Funds	551,585	1,184,828	1,079,877	1,197,639
Other Funds (NL)	1,521,457	0	0	0
Total Funds	**$27,372,675**	**$34,375,544**	**$33,699,564**	**$36,162,386**
Positions	140	151	144	148
FTE	138.13	147.60	142.42	146.29

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.

Budget Environment

Continued growth in population and industry will intensify demands on scarce water resources throughout the state. Surface waters in most of the state are fully appropriated by existing out-of-stream and in-stream uses, except during periods that fall outside of the irrigation season when stream flows are generally higher. There are also a number of areas in Oregon that are experiencing reductions in ground water supplies.

The 2007 Legislative Assembly approved the Oregon Water Supply and Conservation Initiative, a project comprised of community grants, a water demand forecast, and inventories of water supply opportunities. Further, with funding approved in SB 1069 (2008), WRD provides grants and direct services for feasibility studies related to water conservation, water reuse, and water storage. The 2008 grant program, established at $1.75 million General Fund, helps pay the costs of planning studies needed to evaluate the feasibility of developing water conservation, reuse, or storage projects. Grants made by the program are limited to up to half the cost of the proposed study and capped at $500,000 per individual grant. General Fund resources of $750,000 were also provided to conduct an aquifer recovery assessment in the Umatilla Basin. Funding for these projects was approved on a one-time basis. However, due to a decline in General Fund revenues, the 75th Legislative Assembly reduced funding for the planning grants by $694,165 for the 2007-09 biennium. In response, WRD reduced award amounts to 20 grantees and two reduced grant awards were declined by the applicants.

As part of the statewide budget balancing strategy for the 2009-11 biennium, services supported by the General Fund budget were reduced by 5.4% from the essential budget level. Further service reductions to Water Resource programs were avoided by increasing water rights and transfer fees to 50% cost recovery and implementing a new fee for exempt wells. These fees are included in SB 788 with an expected increase in revenues of $2.2 million. The 50% cost recovery fees will sunset in 2013.

WRD – Administrative Services Division

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	3,446,715	3,962,935	3,273,687	3,152,286
Other Funds	152,001	566,915	602,165	1,275,425
Total Funds	**$3,598,716**	**$4,529,850**	**$3,875,852**	**$4,427,711**
Positions	11	14	12	12
FTE	9.63	11.42	10.63	11.83

Program Description

The Administrative Services Division provides human resource, accounting, payroll, contracting, facilities management, risk management, training services, and budget preparation and execution. The Division also provides administrative support for the Oregon Watershed Enhancement Board.

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.

Essential Budget Level

The essential budget level of $3.9 million total funds is $653,998, or 14.4%, lower than the 2007-09 legislatively approved budget. It includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The decrease reflects a reduction of two positions and one-time costs associated with implementing SB 1069 (2008).

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget maintains the essential budget level with technical adjustments for statewide compensation and rate adjustments. Further, 0.83 FTE was transferred from the Water Development Loan Program and a part-time position was increased to full-time to support the workload associated with recording the drilling of geotechnical holes (HB 2232). The Legislature also restored $500,000 for the grant program established under SB 1069 (2008) with funding provided through Lottery Revenue Bond proceeds (Other Funds).

WRD – Field Services Division

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	8,277,032	9,687,536	10,416,493	8,618,376
Other Funds	1,136,934	2,320,257	2,005,010	3,068,622
Federal Funds	84,901	134,363	0	117,762
Total Funds	**$9,498,867**	**$12,142,156**	**$12,421,503**	**$11,804,760**
Positions	64	69	65	65
FTE	63.50	68.30	65.00	65.00

Program Description

The Field Services Division administers water laws, including dam and well inspections, and water right regulation and enforcement. The Division regulates water use in order to protect senior water rights for both in-stream and out-of-stream purposes. The Department organized the state's 20 watermaster districts into four regions for more efficient use of field personnel. Field staff includes region managers, watermasters, technicians, and locally-funded assistants. Field staff responsibilities include dam inspections, enforcing water distribution among water right holders, processing water right transfers, hydrologic data gathering, well construction inspections, well monitoring, and water right record maintenance. In addition, field staff act as liaisons with Watershed Councils, municipal water suppliers, local governments, and irrigation districts to explain Commission and Department policies, review water management plans, provide information on water availability and water rights, and bring regional policy issues back to the Department.

Revenue Sources and Relationships

Field Services Division activities are primarily supported by the General Fund. Other Funds revenue sources include start card fees (well drilling), water right and transfer fees, exempt grout water use fees, interest earnings and revenue from the U. S. Geological Survey, Bureau of Reclamation, and various county and state agencies for contracted services. Federal Funds from the Bureau of Reclamation are used for water related data gathering, analysis, and other projects.

Essential Budget Level

The essential budget level of $12.4 million total funds is $279,347, or 2.3%, higher than the 2007-09 legislatively approved budget. It includes standard adjustments for personal services costs, inflation, rate increases for the

Attorney General, and state government service charges. The essential budget level also eliminates four limited duration positions which had been approved to support assistant watermaster, streamflow data collection, and ground water rights responsibilities.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $11.8 million total funds is $337,396, or 2.8%, lower than the 2007-09 legislatively approved budget. Three positions supported by Other and Federal Funds were established including an assistant watermaster in the South Central Region, a hydrotech in the East Region, and one position to support workload for water right transfers and groundwater registrations. However, as part of the statewide budget balancing strategy, two positions which supported the Oregon Plan, one water measurement technician, and $100,000 in real-time water measurement equipment were eliminated. Further, approximately $300,000 in expenditures associated with water rights and transfers were shifted from the General Fund to fee support.

WRD – Technical Services Division

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	5,744,519	7,854,462	6,562,762	5,169,800
Other Funds	768,119	2,456,946	2,655,022	5,972,821
Federal Funds	466,684	1,050,465	1,079,877	1,079,877
Total Funds	**$6,979,322**	**$11,361,873**	**$10,297,661**	**$12,222,498**
Positions	36	39	38	37
FTE	36.00	38.88	37.79	36.29

Program Description

The Technical Services Division is responsible for managing data and technical analyses of the state's surface and ground water. The Division supports both current and long-term water management needs by collecting, analyzing, and applying information on ground water and surface water resources. Technical Services' programs include hydrologic analysis, ground water investigations, surface water availability, hydrographics, dam safety, stream gauging, geographic and water rights information systems, well construction and enforcement, and water use reporting.

Revenue Sources and Relationships

Prior to 2009, the General Fund supported the majority of Technical Services Division activities. However, the 2009-11 legislatively adopted budget includes increased fees for well start cards (HB 2231) for an estimated $800,000 and water rights and transfers (SB 788) which is expected to generate $1 million; and established new fees for exempt wells for an estimated $1.2 million (SB 788).

Other Funds sources also include interest earnings and revenue from the U. S. Geological Survey and Bureau of Reclamation for contracted services. Federal Funds from the Bureau of Reclamation are used for water related data gathering, analysis, and other projects.

Essential Budget Level

The essential budget level of $10.3 million total funds is $1.1 million, or 9.4%, lower than the 2007-09 legislatively approved budget. It includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The essential budget level reflects a reduction of $750,000 General Fund and elimination of two limited duration positions associated with implementing SB 1069 (2008); and a reduction of $50,000 for water studies conducted by tribes in Umatilla and Walla Walla.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $12.2 million total funds is $860,625, or 7.6%, higher than the 2007-09 legislatively approved budget. As part of the statewide General Fund budget balancing strategy, three positions and associated costs were eliminated plus a reduction to ground water studies ($50,000). However, two positions (one permanent and one limited duration) were established to support the recording of exempt ground water uses (SB 788).

WRD – Water Rights and Adjudications Division

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	2,176,007	2,468,835	2,853,225	1,941,936
Other Funds	1,507,387	1,509,384	1,511,980	2,447,411
Total Funds	**$3,683,394**	**$3,978,219**	**$4,365,205**	**$4,389,347**
Positions	22	22	22	25
FTE	22.00	22.00	22.00	25.00

Program Description

The Water Rights and Adjudications Division is responsible for evaluating both in-stream and out-of-stream water right applications, and administers programs such as water right certification, permit administration, water right transfers, Native American water right negotiations, adjudication of pre-1909 and federal reserved water rights, and hydroelectric licensing.

The Hydroelectric Section has the lead responsibility for Oregon's hydroelectric water right and licensing program. Approximately 164 currently authorized licensed hydroelectric projects pay annual fees to support the coordinated programs in the Departments of Water Resources, Fish and Wildlife, and Environmental Quality.

The Division continues its efforts in the Klamath Basin General Stream Adjudication, a complex situation involving claims for individual, tribal, and federal water rights along with many resource and supply issues. The Department has received more than 5,600 legal contests to 731 claims. Adjudication staff members assists with hearings, conduct field surveys, and work with claimants to resolve issues related to disputed claims. As agreements are reached and as circuit courts issue decrees regarding the stream basin water rights, the Division prepares and issues the associated water right certificates. As of November 2006, about 96% of all the legal contests to claims to water rights in the Klamath Adjudication process were resolved. However, those remaining are some of the most difficult to resolve due to their complexity and the entities involved, including the federal government.

Revenue Sources and Relationships

The Water Rights and Adjudications Division receives General Fund support for program functions conducted in the public interest such as processing in-stream water right applications. The primary Other Funds revenue sources include water right application fees, water right transfer fees, and hydroelectric licensing fees.

Essential Budget Level

The essential budget level of $4.4 million total funds is $386,986, or 9.7%, higher than the 2007-09 legislatively approved budget. It includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $4.4 million total funds is $411,128, or 10.3%, higher than the 2007-09 legislatively approved budget. Three positions were established to process water rights applications rather than contract for these services. However, as part of the statewide General Fund budget balancing strategy, the Klamath adjudication budget was reduced by $200,000 and $580,045 in program expenditures were transferred from General Fund to Other Funds.

WRD – Director's Office

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	1,609,807	1,983,705	2,345,434	2,153,128
Lottery Funds	0	0	0	354,911
Other Funds	273,392	28,390	28,067	400,738
Total Funds	**$1,883,199**	**$2,012,095**	**$2,373,501**	**$2,908,777**
Positions	6	6	6	8
FTE	6.00	6.00	6.00	8.00

Program Description

The Director's Office is responsible for the oversight of all policy-related functions of the agency. The Office coordinates the development of administrative rules, provides citizen response and information services, supports the Water Resources Commission activities, develops legislative proposals, and provides oversight of agency activities related to the Oregon Plan for restoration of salmon and watersheds, the Global Warming Commission, Government-to-Government tribal activities, and Sustainability and Streamlining Efforts.

Revenue Sources and Relationships

Other Funds revenue includes publication and copy fees, and in the 2009-11 biennium, proceeds from Lottery Revenue Bonds.

Essential Budget Level

The essential budget level of $2.4 million total funds is $361,406, or 18%, higher than the 2007-09 legislatively approved budget. It includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $2.9 million total funds is $896,682, or 44.6%, higher than the 2007-09 legislatively approved budget. With the passage of HB 3369, WRD will develop an integrated water strategy. Two positions were established to support this work and will be funded through Lottery Revenue Bond proceeds (Other Funds). Further, Lottery Funds were approved to support the debt service payments for bonds to be issued for loan program development, grants, and the integrated water strategy.

WRD – Water Development Loan Program

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	207,720	351,351	365,842	409,293
Other Funds (NL)	1,521,457	0	0	0
Total Funds	**$1,729,177**	**$351,351**	**$365,842**	**$409,293**
Positions	1	1	1	1
FTE	1.00	1.00	1.00	0.17

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.

Revenue Sources and Relationships

The limited Other Funds expenditures are for administrative costs, including the program's one staff member, agency loan management, and contracts for financial services. These costs are financed from sinking fund interest earnings. Nonlimited expenditures included past debt service and bond sale costs. A General Fund appropriation has been used in prior biennia to supplement Other Funds revenue to maintain solvency in the program by covering administrative costs and debt service shortfalls.

Budget Environment

The state retains responsibility for all administrative costs and for any debt service shortfalls until the loans are retired. 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.

General obligation refunding bonds were issued in 1991 for $6.9 million to pay off existing outstanding bonded debt at higher interest rates. Bonds have not been issued to finance new water development projects since 1984.

Essential Budget Level

The essential budget level of $365,842 total funds is $14,491, or 4.1%, higher than the 2007-09 legislatively approved budget. It includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $409,293 total funds is $57,942, or 16.5%, higher than the 2007-09 legislatively approved budget. Only two current loans remain and the workload to service those loans, maintain and archive loan files, and support information requests has significantly declined. The sole staff member has been partially reassigned to other administrative work and the adopted budget transfers 0.83 FTE to the Administrative Services Division.

With the passage of HB 3369, the Water Resources Commission will establish standards for borrowers obtaining loans issued from the Water Development Fund and may modify allowable fees including application and loan processing fees. The adopted budget includes $217,000 in Lottery Revenue Bonds to support the necessary work of bond counsel and financial advisors to review fees, loans, and underwriting standards. Also, $10 million in Article XI-I(1) bonds were authorized for the 2009-11 biennium, and $15 million for 2011-13. Additional expenditure limitation for bond issuance and staff to support the administration of the expanded program have not yet been authorized and would be dependent on the work completed by the Commission, bond counsel, and financial advisors.

Oregon Watershed Enhancement Board (OWEB) – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Lottery Funds	50,561,621	84,630,076	21,863,785	66,667,401
Other Funds	753,210	1,664,862	2,136,718	2,099,705
Federal Funds	21,870,571	22,001,679	21,541,600	23,220,144
Total Funds	**$73,185,402**	**$108,296,617**	**$45,542,103**	**$91,897,250**
Positions	27	30	23	31
FTE	26.38	30.00	23.00	31.00

Agency Overview

The Oregon Watershed Enhancement Board (OWEB) was established in 1999 by the legislation implementing Ballot Measure 66, which established the framework for the full allocation of the measure's constitutionally dedicated lottery revenue. Ballot Measure 66, passed by the voters in November 1998, amended Section 4, Article XV of the Oregon Constitution to dedicate 15% of net lottery proceeds to be split between state parks and salmon, watershed, and habitat restoration. OWEB was designated as the single state agency charged with administration of the salmon and watershed portion of the dedicated lottery revenues. OWEB consists of 11 voting members, including five voting members from state natural resource agency boards and commissions and six public members appointed by the Governor and confirmed by the Senate. OWEB is also authorized to include up to six additional non-voting members, including the director of Oregon State University's agricultural extension service and representatives from five federal land and natural resource agencies.

HB 3225 (1999) created a Parks and Natural Resources Fund to receive the dedicated lottery revenues and established two accounts, the Parks Subaccount for park purposes and the Restoration and Protection Subaccount for salmon and watershed purposes. Ballot Measure 66 required that at least 65% of the revenue for salmon and watershed restoration be used for capital expenditures. In order to maintain accountability, HB 3225 defined "capital expenditures" and the Watershed Improvement Grant Fund (WIGF) was designated to receive these funds. The bill also established a Watershed Improvement Operating Fund (WIOF) to receive the 35% of lottery revenues able to be used for non-capital expenditures.

OWEB – Operations

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Lottery Funds	7,762,238	17,136,678	18,363,785	14,917,401
Other Funds	753,210	1,664,862	2,136,718	2,009,705
Federal Funds	21,870,571	22,001,679	21,541,600	23,220,144
Total Funds	**$30,386,019**	**$40,803,219**	**$42,042,103**	**$40,147,250**
Positions	26	30	23	31
FTE	25.38	30.00	23.00	31.00

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 May 2009 Lottery forecast, which is used to set 2009-11 funding levels, assumes $85.3 million Lottery Funds revenue will be generated for the Restoration and Protection Subaccount in the 2009-11 biennium. This is $13 million lower than the December 2008 forecasted amount for 2009-11, which was used for the Governor's budget recommendations. In addition to the May 2009 forecasted amount for 2009-11, $300,000 of Lottery Funds for non-capital expenditures and $500,000 of Lottery Funds for capital expenditures are projected to remain unallocated at the end of the 2007-09 biennium caused by slight increases in Lottery forecasts above the May 2007 forecast used to set the 2007-09 adopted budget levels. Inclusion of these carryover amounts increases the total Measure 66 Lottery Funds available for expenditure in 2009-11 to $86.1 million. Based on the constitutional split between operations and capital expenditures, $30.1 million of this total can be used for non-capital expenditures such as grants and other agency operational costs, during the 2009-11 biennium. After many years of continuous growth in Lottery revenues, total revenues are projected to hold steady through the 2009-11 biennium and are projected to decline overall in the 2011-13 biennium, while program costs continue to increase.

Federal Funds are derived primarily from National Oceanic and Atmospheric Administration – Fisheries, an agency within the U.S. Department of Commerce, which administers the Pacific Coastal Salmon Recovery Fund (PCSRF). PCSRF monies were authorized by Congress in 2000 and are for salmon habitat restoration, stock enhancement, and research. Through Federal Fiscal Year (FFY) 2008, Oregon has been awarded $103 million in PCSRF funding, with $10.5 million of this total being earmarked by Congress for specified expenditures. NOAA Fisheries approved $8.2 million for FFY 2008 during the interim. This amount included no earmarks for the first time since the initial PCSRF funding was received in 2000. After initial concerns over the availability of PCSRF funding were addressed at the federal level, the Legislature assumed $24 million from PCSRF will be available for expenditure in 2009-11.

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. A law change made during the March 2009 rebalance of the 2007-09 budget clarified that salmon plate revenues can be used for the same purposes as the Watershed Improvement Operating Fund (WIOF).

Budget Environment

There is uncertainty over the continued availability of PCSRF monies from the federal government and Oregon has already experienced a significant reduction in PCSRF funding. For example, the $8.2 million approved for FFY 2008 compares to $13.1 million approved for FFY 2004. This uncertainty was further exacerbated when the new President's first budget recommendation cut all PCSRF funding. Due to concerns raised by the Northwest congressional delegation, funding was later restored through an addendum to the published President's budget. However, the long term stability PCSRF funding will remain a question for the foreseeable future. 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. Likewise, the 2009-11 legislatively adopted budget replaced $5.1 million in Measure 66 operating Lottery Funds in the Oregon Department of Fish and Wildlife budget with Other Funds from the Pacific Coastal Salmon Recovery Fund (PCSRF) due to reductions in the amount of Measure 66 Lottery Funds forecasted to be available during 2009-11. This shift will support a number of salmon recovery and watershed improvement activities in the Department.

Essential Budget Level

The essential budget level for the Operations program unit is $1.3 million Lottery Funds (7.2%) more than the 2007-09 legislatively approved budget. These increases are caused by standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. In addition, Lottery Funds grew $600,000 due to an increase in the amount of Measure 66 operations Lottery Funds expenditure limitation allowed as carry-forward for grant payments that are obligated in the prior biennium but not spent.

Legislatively Adopted Budget

The adopted budget for Operations is less than 2% below 2007-09 levels, with a nearly 13% reduction in Lottery Funds mostly being offset by a 5.5% increase in Federal Funds from the Pacific Coastal Salmon Recovery Fund (PCSRF).

The legislatively adopted budget for the Operations program includes the following:

- The non-capital grant fund for 2009-11 includes $4 million Measure 66 operations Lottery Funds and $10 million Federal Funds from PCSRF. These grant monies are for projects and activities not eligible for funding with Measure 66 capital Lottery Funds, including monitoring, watershed education, and technical assistance.
- Used $1,250,000 Measure 66 operations and $3,750,000 PCSRF Federal Funds to support Watershed Council and Soil and Water Conservation District operations. This is the same level of funding provided to councils and districts in 2007-09.
- Added back 7 positions that phased out in the essential budget level because they were limited duration positions in 2007-09. This allows the agency to continue current levels of service in 2009-11. Six of the positions would be added back as permanent positions and one is continued as limited duration. These positions include: Office Specialist 2 (grant information tracking and database entry); Policy Analyst 1 (oversee grant process and supports electronic applications); Information Specialist 7 (maintain grant databases); Accountant 1 (grant payment specialist); NRS 3 (data management); a Public Affairs Specialist 2 (external communications coordinator); and NRS 2 (federal performance reporting required by NOAA), which is added back as limited duration. The cost for the positions is funded with $890,000 of PCSRF Federal Funds administrative allowance and $172,000 Other Funds from the sale of salmon license plates.
- Reduced state support for the Lower Columbia River Estuary Partnership (LCREP) by 25% and for the Independent Multidisciplinary Science Team (IMST) by 33%.

The following table shows the legislatively adopted budget's 2009-11 allocations of all Measure 66 Lottery Funds, including a total of $27.4 million Measure 66 Lottery Funds to support a variety of salmon recovery and watershed restoration activities in the Department of Fish and Wildlife, Department of Environmental Quality, Department of Agriculture, and the Department of State Police.

2009-11 Measure 66 Lottery Fund Allocations

	M-66 LF Operations	M-66 LF Capital
Available Resources May '09 Lottery Forecast and 2007-09 unallocated	**30,129,809**	**55,955,361**
Department of Fish and Wildlife	927,570	4,403,869
OSP/ Fish and Wildlife Enforcement	6,325,505	272,563
Department of Agriculture	4,705,277	5,191,094
Department of Environmental Quality	5,551,244	0
Oregon Watershed Enhancement Board	12,502,018	46,000,000

Note: Expenditure totals do not match revenue totals because not all the forecasted revenue is allocated for expenditure and drawing down of 2007-09 ending balances.

OWEB – Capital Construction Projects

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Lottery Funds	42,000,000	59,500,000	0	46,000,000
Total Funds	**$42,000,000**	**$59,500,000**	0	**$46,000,000**
Positions	1	0	0	0
FTE	1	0.00	0.00	0.00

Program Description

Capital Construction Projects are funded through the Watershed Improvement Grant Fund (WIGF). The WIGF was an existing fund used by the Governor's Watershed Enhancement Board prior to the establishment of OWEB to support on-the-ground projects and other eligible expenditures under the Oregon Plan. With passage of Ballot Measure 66 and its implementing legislation (HB 3225), the funding source for the WIGF changed. Measure 66 required that 65% of the dedicated lottery revenues be used for capital expenditures, but failed to define the term. HB 3225 defined capital expenditures to mean projects that restore, enhance, or protect fish and wildlife habitat, watershed functions, native salmonid populations, or water quality or expenditures for personal property of a nonexpendable nature used in the enforcement of fish, wildlife, and habitat protection laws and regulations. Because capital project expenditures typically cross biennia and projects can take years to close out, OWEB is provided 6-year expenditure limitation for Measure 66 capital Lottery Funds in this program unit much like other agency capital budgets are provided 6-year expenditure limitation. During budget development the previous biennium's 6-year Lottery Funds expenditure limitation is phased-out during calculation of the essential budget level and new capital expenditures are proposed in a policy package.

Revenue Sources and Relationships

The May 2009 lottery forecast assumes $55.4 million Lottery Funds revenue would be generated for the Watershed Improvement Grant Fund (WIGF) in the 2009-11 biennium based on the constitutional split of 65%/35% between capital and operations. In addition to this amount, $520,000 of Lottery Funds from revenue in excess of the amount included in the close-of-session forecast is projected to remain unallocated at the end of the 2007-09 biennium, and is available for expenditure during the 2009-11 biennium. Inclusion of this carryover amount increases the total Measure 66 Lottery Funds constitutionally dedicated to capital expenditures to $55.9 million, which is $5.2 million less than was assumed to be available as of the December 2008 forecast, upon which the Governor based his budget recommendations.

Budget Environment

The ability of OWEB to be effective in promoting and implementing programs to restore, maintain, and enhance Oregon watersheds is partially dependent on the cooperation of other state natural resource agencies and on the capacity of local conservation efforts to identify, design, and develop projects in a timely manner. OWEB has two grant cycles annually for consideration of capital project funding.

Essential Budget Level

As mentioned above, all capital expenditures in this program area are phased-out during development of the essential budget level and then added back for the new biennium as a policy package. This has the function of reducing the Capital Construction Projects program unit 2009-11 essential budget level to zero.

Legislatively Adopted Budget

The Legislature adopted a total of $46 million in Measure 66 capital Lottery Funds for capital project grants in 2009-11. This is $13.5 million, or 22.7%, less than approved in 2007-09 due in part to lower anticipated revenues being available during the 2009-11 biennium.

OWEB – Research and Development

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Lottery Funds	799,383	7,993,398	3,500,000	5,750,000
Total Funds	**$799,383**	**$7,993,398**	**$3,500,000**	**$5,750,000**

Program Description

The Restoration and Protection Research Fund (RPRF) was created by the 1999 Legislature in HB 3225. The fund is to be used for funding research and other activities related to the restoration and protection of native salmonid populations, watersheds, fish and wildlife habitats, and water quality, including but not limited to research, monitoring, evaluation, and assessment related to the Oregon Plan. All interest earnings on the Restoration and Protection Subaccount, the Watershed Improvement Operating Fund (WIOF), and the Watershed Improvement Grant Fund (WIGF) are credited to the Restoration and Protection Research Fund.

Revenue Sources and Relationships

Revenue for the Restoration and Protection Research Fund is derived from interest earnings on the other OWEB funds, including the operating and grant funds. The Attorney General has advised OWEB that expenditures of interest earned on the WIOF and WIGF are constrained in the same manner as expenditures from each of these funds are constrained. This means only interest on the Operation Fund can be used for expenditures that are not considered to be capital type expenditures of a research project. For example scientific equipment has been funded in the past from interest on the WIGF, but staff time to analyze the data collected using the equipment would have to be paid using interest from Lottery Funds deposited in the WIOF.

Budget Environment

During deliberations on the implementation of Ballot Measure 66 and the continuation of the Oregon Plan, the Legislature noted that a funding gap existed for research activities not specifically tied to any individual grant or on-the-ground project. The Restoration and Protection Research Fund was established to create a funding source to address these issues.

Essential Budget Level

Because few grant funding timelines are limited to a single biennium's expenditures, the essential budget level for 2009-11 includes $3.5 million in carry-forward expenditure limitation for monies obligated in 2007-09, that will be expended in the following biennium.

Legislatively Adopted Budget

The adopted budget assumes $2,250,000 in new Research and Development Fund monies will be available for use during 2009-11, $750,000 for non-capital research and $1.5 million for capital-related research projects. When combined with the $3.5 million in carry-forward expenditure limitation from 2007-09, the total amount of Research and Development Fund expenditures authorized by the Legislature is $5,750,000.

PUBLIC SAFETY

Department of Corrections (DOC) – Agency Totals

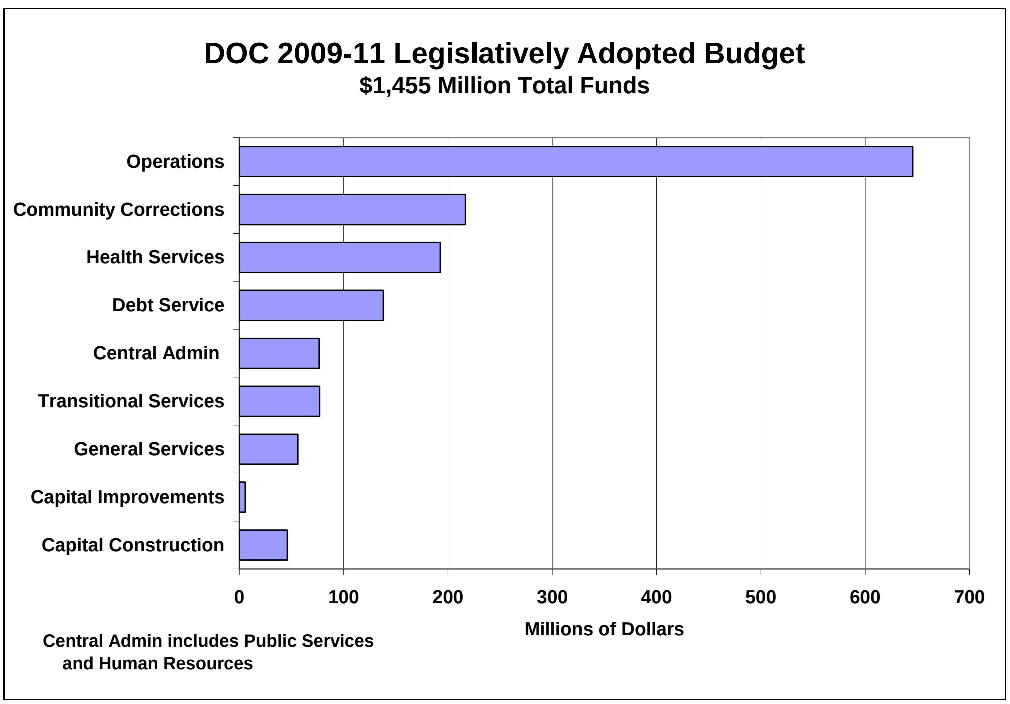
	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	1,060,812,814	1,260,826,243	1,455,542,591	.1,259,731,433
Other Funds	42,217,811	88,136,123	31,838,251	86,553,299
Federal Funds	3,648,414	17,785,700	4,696,921	108,541,761
Other Funds (NL)*	11,192,954	0	0	0
Total Funds	**$1,117,871,993**	**$1,366,748,066**	**$1,492,077,763**	**$1,454,826,493**
Positions	4,268	4,773	4,794	4,741
FTE	4,170.25	4,647.32	4,665.29	4,621.17

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

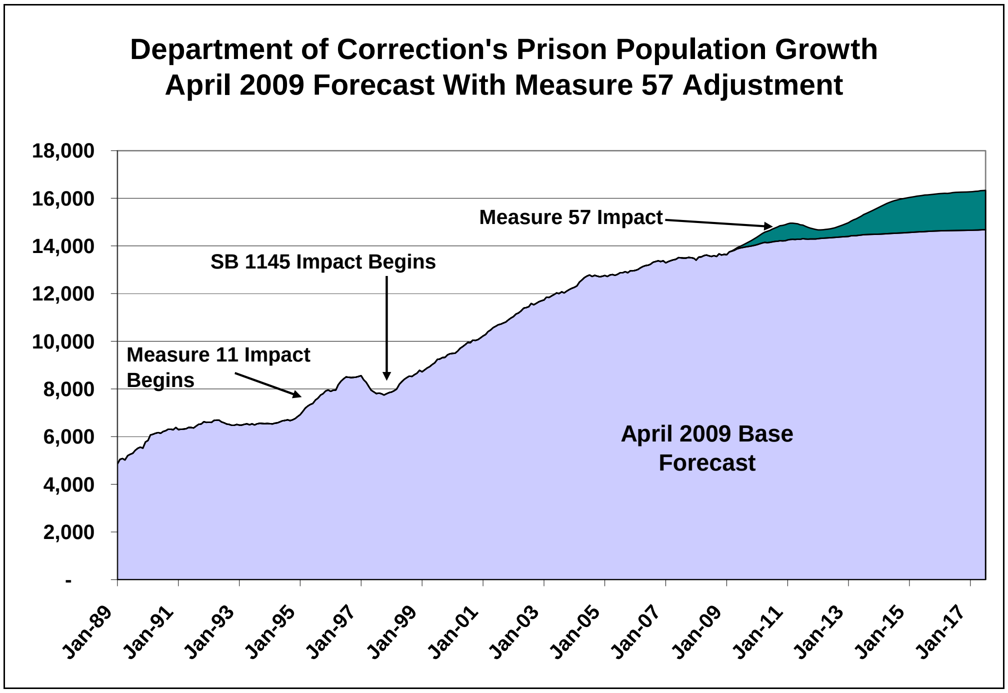
Agency Overview

The Department of Corrections (DOC) has two primary functions – the operation of prisons and the state responsibility for the community corrections system. The Department operates 14 institutions for the incarceration of adult and certain juvenile felons sentenced to prison for more than twelve months by the courts. The budget is based on the April 2009 base forecast after adjustment for changes in sentencing, implementation dates for Ballot Measure 57, and other changes that affect the prison population. The community corrections system is based on SB 1145 (1995) which transferred management of offenders sentenced or sanctioned for incarceration 12 months or less, and all felony offenders under community supervision, to the counties. The Department provides funds to counties for the costs of supervising these offenders.

The 2009-11 legislatively adopted budget is $1,454.8 million total funds; with 44.4% for the operation, housing, and security of inmates; 13.2% for health and mental health services; 5.3% for transitional services like substance abuse treatment and education; 14.9% for community corrections programs; 9.5% for the debt service; and 9.2% for general support services and administration. There are $5.8 million total funds (less than 1%) for capital improvements. Capital construction represents 3.2% of the budget and assumes continued infrastructure development at the Junction City site but on the time table for the state hospital facility sharing the site.



The most significant cost driver for the DOC budget is the number of incarcerated offenders in the prison system. This graph shows the growth in the actual and projected prison population, increasing from roughly 5,000 in 1989 to over 16,000 in 2017 including the impact of Ballot Measure 57. While the information reflects the Measure 57 changes by the Legislature (as estimated by the Criminal Justice Commission staff), it does not reflect other sentencing changes passed by the 2009 Legislature. This expected increase of more than 225% over the period has resulted in a large construction program to expand the number of beds in the system and a growing number of staff to manage the inmate population.



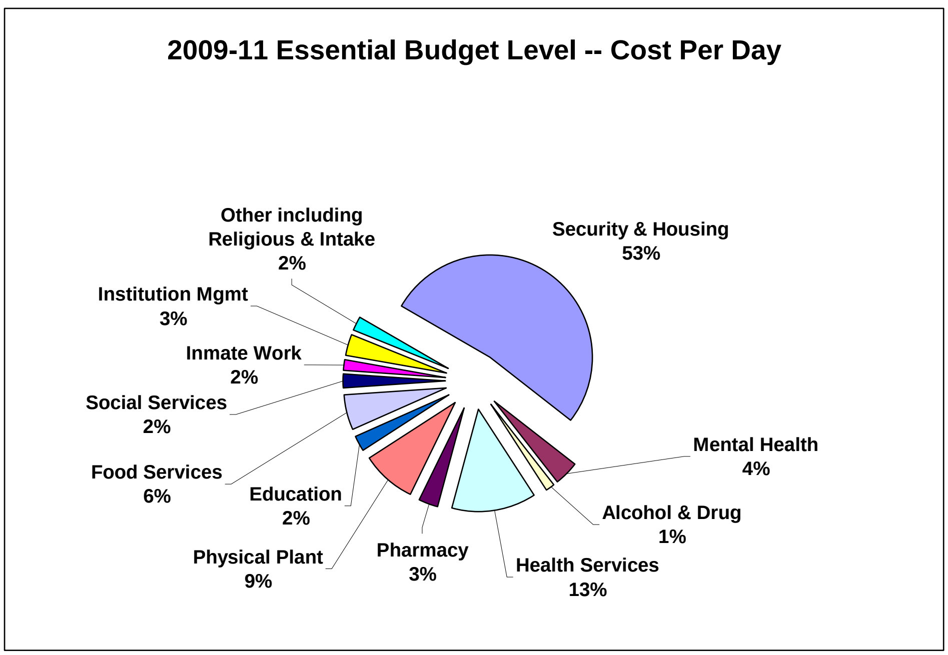
The passage of Ballot Measure 11 (BM 11) created the need to increase the building program. The increases in the number of inmates due to BM 11 were not so much due to the growth in the number of offenders entering the system but to the length of time BM 11 offenders spend in prison. SB 1145 also affected the prison system by transferring the responsibility for those sentenced to 12 months or less to counties. This bill made a one-time reduction in the growth of the prison population after a short adjustment period when counties used the state prisons for incarceration until new jail capacity was completed. Other factors contributing to the prison population growth include changes by the 1999 and later Legislatures that increased the sentences for repeat property offenders. Finally, Ballot Measure 57 passed in November 2008 changing the sentencing of certain property and drug related crimes. The Legislature altered the implementation dates for BM 57 but long-term it should have a similar impact as how it was passed by the voters. It is estimated that approximately 600 inmates will be added to the prison population by July 2011 as a result of BM 57 and growing to a total additional population of over 1,500 by 2015.

The ability of state policy makers to control prison population growth is constrained by ballot measures passed by Oregon voters including Measure 11 (1994), which established mandatory minimum sentences for specific major crimes; Measure 4 (1988), which eliminated probation for repeat offenders of specific crimes and eliminated the use of earned time; and Measure 74 (1999), which was part of the crime victims' package and requires that an offender must return to the sentencing court to reduce a sentence. The table below demonstrates the impact of these measures, the number of inmates in each group, and the requirements for changing the sentencing. The numbers below do not include the impact of BM 57 passed in November 2008.

Ballot Measures and Time Frames	Number in Prison as of 6/09	Steps to Change Release Date
Non Measures 11 and 4 inmates whose crimes were committed prior to 12/99	639	Simple majority of Legislature
Measures 11 and 4 inmates whose crimes were committed prior to 12/99	1,114	Two thirds majority of Legislature
Measure 74 offenders whose crimes were committed after 12/99. Includes Measure 11 and 4 inmates after 12/99	11,322	Requires constitutional change

The average cost-per-day for an inmate in 2001-03 was $62.24, increasing to $77.47 for the 2007-09 legislatively adopted budget. This figure underestimates the total amount for 2007-09 since it does not include the funding distributed to the agencies from the "salary pot." A preliminary estimate for the 2009-11 cost-per-day for the legislatively adopted budget $82.34. It should be noted that this is a preliminary estimate and will change as the agency makes final budget allocations across programs.

The cost per day varies significantly from institution to institution due to a number of factors including age of facility, seniority of staff, population of the facility, programming at each facility, and the security level. The estimated cost per day of the new Deer Ridge Facility will be higher, 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.



This chart shows the breakdown by spending category for the cost-per-day for the 2009-11 essential budget level. The breakdown for the 2009-11 legislatively adopted budget should not be very much different. Staff costs are the primary driver for this figure so staff intensive functions like security and housing make up large shares of the total. Debt service, department-wide administration, business services, and capital construction are not included in these costs.

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

Essential Budget Level

The essential budget level (EBL) for the Department of Corrections of $1,492.1 million total funds represents an increase of $125.4 million, or 9.2%, over the 2007-09 legislatively approved budget. The General Fund EBL of $1,455.5 million is a $194.7 million, or 15.4%, increase over the same period. Most of this net General Fund increase is attributable to: (1) increases in employee compensation including wage and salary increases approved during the 2007-09 biennium, (2) net roll-up costs for debt service of outstanding COPs of $5.2 million, and (3) adjustments for inflation of $32.7 million. There were also reductions for one-time costs made in 2007-09 generally related to opening the new prison in Madras. The 2009-11 EBL includes most of the effect of the October 2008 forecast which added $9.7 million General Fund to the EBL. The Community Corrections program's EBL is underfunded by $3 million General Fund since the Governor only funded half of what should have been included in the EBL. The EBL does not factor in the impact of BM 57 since it was passed after the EBL was developed.

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

Legislatively Adopted Budget

The legislatively adopted budget (LAB) for 2009-11 of $1,454.8 million total funds is $37.3 million, or 2.5%, less than the essential budget level (EBL). Since the EBL did not include the impact of Measure 57, the decrease is more significant. The LAB General Fund budget of $1,259.7 million is $195.8 million less than EBL. This General Fund reduction is attributed to a one-time use of $103.8 million of federal stimulus funds made available through the American Recovery and Reinvestment Act (ARRA).

The estimated impact of Ballot Measure (BM) 57, which voters passed in November 2008, was estimated at $74 million General Fund in the Governor's recommended budget. The Legislature reduced the cost by $25.5 million by changing the implementation dates. HB 3508 requires those offenders who are sentenced before February 15, 2010 to serve their entire Measure 57 sentence. After that date the enhanced Measure 57 sentences are suspended until January 1, 2012. Another $1.7 million in other Measure 57 related reductions were taken leaving almost $47 million in the DOC budget for Measure 57. Included in this amount is $10 million General Fund for treatment and intensive community supervision for Measure 57 offenders.

Other major General Fund changes include:

- Resources for employee compensation are reduced (HB 5054) totaling $29 million in General Fund.
- The opening of the Deer Ridge medium security facility in Madras is delayed saving an estimated $23 million General Fund (135.26 FTE); and the 49 bed expansion at the Shutter Creek facility in North Bend is also delayed saving an estimated $2.2 million General Fund. DOC will use temporary beds across the system to fill this gap in capacity as well as the increase due to Measure 57 offenders.
- Sentencing changes that reduce the need for prison beds include an increase in the amount of earned time an eligible offender can accumulate from 20% of their sentence to 30% (estimated savings of $6 million General Fund) and a streamlining of the Governor's commutation process for non-violent inmates subject to a U.S. Immigration and Customs Enforcement Order (estimated savings of $2.1 million General Fund).
- Total funds resources for community corrections grants to counties are reduced by a total of $30.1 million. Sentencing changes related to probation revocation, active and inactive probation status, and local control post-prison supervision status account for $16 million of this decrease. Most of the remaining amount is due to updated caseload numbers reflecting the April 2009 forecast.
- A number of staffing and other changes decrease the need for $42 million General Fund. These include a net $6.9 million savings from transferring basic training of correctional officers from the Department of Public Safety Standards and Training (DPSST) to DOC, $20 million in unspecified reductions in operations and health services, reductions in central service staffing, and updated information on debt service needs.

One of the most significant issues facing the Department of Corrections for the 2009-11 budget is how to absorb the growing inmate population due to BM 57. This measure changed sentences for certain drug related and property crimes committed on or after January 1, 2009. This measure also anticipated increased availability and funding for substance abuse treatment for drug-addicted offenders, but no specific amount is set out in the measure for this purpose. While the 2007-09 impact was minimal (less than $1 million for DOC), over time the impact grows significantly. The Legislature did change the timing of the implementation dates which reduced the 2009-11 costs, but the measure will have a significant long-term impact. By June 2015, over 1,500 offenders are estimated to be added to the DOC prison population as a result of BM 57. While this overall population increase challenges the agency in providing sufficient beds to meet the increasing population, specific characteristics put additional pressure on parts of the DOC system. First, women make up a larger proportion of the BM 57 offenders than the current DOC population. Based on the initial projections of BM 57, the women's prison population is projected to grow by over 41% by 2015 while the men's population is projected to grow by just over 21%. There is only one women's facility in the DOC system at this time, and it is currently near capacity so the options to house the additional women are limited. In addition, the majority of BM 57 offenders are projected to be classified as minimum custody. Because of the nature of the current and projected prison capacity, it is anticipated that DOC will have to place minimum custody inmates in more expensive medium custody facilities in the near term.

The combination of the already growing population, augmented with the impact of BM 57, means DOC will have to find almost 1,000 new beds by the end of 2009-11. The agency plans to use a combination of temporary beds, more beds in existing spaces, and opening new units at the recently opened facility in Madras to meet their needs. If the growth continues, the Department will have to expand the prison capacity or look at other alternatives. The DOC has begun planning and limited development for a new facility at Junction City, but the Legislature must give approval for financing before further development and construction of the actual prison facility moves forward.

DOC – Operations

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	522,290,734	611,453,390	692,534,163	625,197,238
Other Funds	10,783,642	11,500,190	11,674,558	15,680,755
Federal Funds	3,465,784	12,973,659	4,696,921	4,696,921
Total Funds	**$536,540,160**	**$635,927,239**	**$708,905,642**	**$645,574,914**
Positions	3,307	3,628	3,632	3,475
FTE	3,257.73	3,547.01	3,535.32	3,414.43

Program Description

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

Revenue Sources and Relationships

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

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

Budget Environment

The budget for Operations is driven by the prison population forecast; sentencing laws; custody level requirements; local arrest, prosecution, and sentencing practices; and Ballot Measure 17 (1994) inmate work related requirements. The Department of Administrative Services' Office of Economic Analysis prepares the Prison Population Forecast approximately every six months. The April 2009 forecast originally indicated an anticipated increase in the prison population of almost 1,700. The actual number will be substantially less since this forecast does not factor in the changes in law made by the 2009 Legislature which will reduce the population forecast. These changes included the implementation dates for Ballot Measure 57, increased earned time, and changes in the commutation process for certain populations. Between legislative sessions, DOC rebalances within its budget if forecasts estimate additional changes in the prison population.

Department of Corrections Facilities

Existing Facilities	Location	Primary Security Level	Budgeted Capacity
Coffee Creek Correctional Facility	Wilsonville	Women's/Intake	1,651
Columbia River Correctional Institution	Portland	Men's Minimum	553
Eastern Oregon Correctional Institution	Pendleton	Men's Medium	1,659
Mill Creek Correctional Facility	Salem	Men's Minimum	240
Powder River Correctional Facility	Baker	Men's Minimum	286
Oregon State Correctional Institution	Salem	Men's Medium	895
Oregon State Penitentiary	Salem	Men's Maximum/Minimum	2,444
Santiam Correctional Institution	Salem	Men's Minimum	440
Shutter Creek Correctional Institution	North Bend	Men's Minimum	396
Snake River Correctional Institution	Ontario	Men's Medium	3,050
South Fork Forest Camp	Tillamook	Men's Minimum	200
Two Rivers Correctional Institution	Umatilla	Men's Medium	1,812
Warner Creek	Lakeview	Men's Minimum	406
Deer Ridge Correctional Institution	Madras	Men's Minimum/Medium	* 969

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

The Department opened one new mixed minimum and medium security level facility – Deer Ridge in Madras – in September 2007. Over the next three biennia, units at this facility will open to meet the anticipated inmate growth. The next facility scheduled to come on line is one in Junction City which is now in the planning/development stage. The legislatively adopted budget does not include any specific funding for prison construction at that site but does include resources for infrastructure shared with the state hospital proposed for the same site. There is no scheduled opening date at this time for the Junction City prison and the Legislature will have to approve funds for its construction.

DOC has depended on the use of what the agency calls temporary or emergency beds to meet their capacity needs for many years. These beds are generally additional beds in dormitory-like settings in minimum security facilities or additional beds in what had been single bed cells. In a few cases, a new unit has been added in space that had been originally designed for another purpose. DOC states that it has generally reached the limit for double occupancy cells in their system. There still remain the special unit beds where double occupancy cells are not always feasible and some single cells exist for those with special needs. All facilities, except the Oregon State Penitentiary, will have almost all available cells at double occupancy. Structural load issues prevent the double occupancy use of the remaining single occupancy cells at the Oregon State Penitentiary. As of June 2011, DOC plans to have 1,285 temporary beds in the system. Short-term work camp beds may also be added as forest related work becomes available. The term temporary is somewhat subjective since many beds that have been or are classified as temporary have been used for years.

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

Not only is the prison population growing, the demographics are changing with more of the population with serious health and mental health issues. The current facilities in the agency's system are not necessarily designed to serve these populations effectively. Many states have designed units with these "special needs" population in mind and have specifically designed geriatric units for the older population and other long-term care units. DOC staff is looking at building the new facility at Junction City sometime in the future to meet the mental health and elderly needs of the population but it adds to the cost of the facility. The Legislature has yet to make a decision on whether to build the Junction City and there are other alternatives such as vacant jail facilities/beds, further sentencing changes, and out-of-state rentals to evaluate as part of this decision. A budget note was included as part of the 2009-11 budget instructing DOC to examine the feasibility of purchasing or leasing the 525 bed Wapato jail facility in Multnomah County and report back to the Legislature by March 2010.

Essential Budget Level

The 2009-11 essential budget level for this largest division in DOC of $708.9 million total funds is $73 million, or 11.5%, greater than the 2007-09 legislatively approved budget. The corresponding General Fund increase is $81 million, or 13.3%. The increase is due generally to employee compensation increases including those approved during 2007-09, changes in vacancy savings, inflation, and a fund shift recognizing that additional federal SCAAP payments were received in 2007-09 that will likely not be available in 2009-11. Offsetting these costs were two major items. First, the mandated caseload figures (based on the October 2008 forecast) actually are reduced by just over $1 million General Fund. Even though the prison population is increasing, the change in the staffing needs from not opening the medium security facility at Deer Ridge saves money in 2009-11. There are also one-time expenditures made in 2007-09 that will not be required in 2009-11.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget for this division of $645.6 million total funds and $625.2 million General Fund is 8.9% and 9.7% less than their respective EBL amounts. This change factors in the $14.9 million General Fund increase to address the needs arising from the passage of BM 57. This increase is offset by over $82.5 million in reductions from EBL including:

- A further delay in opening of the medium security facility at Deer Ridge and 49 new beds at Shutter Creek and relying more on temporary beds across the system generates $19.4 million General Fund savings.
- The responsibility for training new correctional officers is proposed to be transferred from the Department of Public Safety Standards and Training (DPSST) to DOC saving an estimated $7.9 million. These savings represent the compensation that is paid to the new officers when they attend the five week training at DPSST. Now the assumption is that they will have more on-the-job training at DOC. There is over $1 million added to the Human Resources budget for training resources for this action.
- A staffing reconfiguration eliminates 24 positions, saving $5.8 million General Fund.
- Additional vacancy savings of $20 million are included.
- The updated prison population forecast (April 2009) reduced the resource need in this division by $4.3 million General Fund.
- Other sentencing changes including an increased in earned time reduces the budget by $8.1 million General Fund.
- Changes in employee compensation included in HB 5054 reduce General Fund need by $20.9 million.

DOC – Health Services

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	124,609,730	153,001,738	193,831,350	192,075,761
Other Funds	703,604	361,160	520,070	520,070
Federal Funds		3,486,241		
Total Funds	**$125,313,334**	**$156,849,139**	**$194,351,420**	**$192,595,831**
Positions	419	556	536	603
FTE	393.85	520.4	506.84	556.06

Program Description

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

Health Services Budget
Total Funds

Budget Area	2003-05 Actual	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Legislatively Adopted
Physical Health Services	60,470,011	84,369,498	104,719,323	129,451,130
Pharmacy Services	17,136,854	21,499,234	23,191,058	30,730,966
Mental Health	12,963,095	19,444,602	28,938,758	32,413,735
Total	**90,569,960**	**125,313,334**	**156,849,139**	**192,595,831**

Revenue Sources and Relationships

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

Budget Environment

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

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

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

The Department has replaced its former contract for managing its outside health spending including a provider network system, reimbursement of providers and data to analyze health care spending. The services received from the former contractor did not always meet the agency's expectations and the anticipated savings. The new contractor has taken a more "hands on" approach including daily reviews and updates with providers on individual cases. While it is too early to indicate, the Department anticipates more controlled spending on outside health care based on the more individual review and greater information on provider discounts. The agency does participate in a multi-state bulk pharmacy purchasing group for savings.

Essential Budget Level

The 2009-11 essential budget level (EBL) for Health Services of $193.8 million General Fund is over $40 million, or 26.7%, greater than the 2007-09 legislatively approved budget. Two factors drive most of this increase. Employee compensation issues including increases approved during 2007-09 and changes in the vacancy savings assumptions account for a large share of the increase. Inflation is the other major factor accounting for $20 million including over $17 million granted for exceptional inflation. This represents inflationary increases of almost 40% for medical related services and over 18% for pharmacy related costs. Some of this increase reflects the rise in medical costs generally across the economy and some is attributable for DOC to catch up for past biennia when inflation adjustments have not kept up with the actual increases in costs. Over the past two biennia DOC has had to internally rebalance resources within its budget to cover health related costs.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget for Health Services of $192.1 million General Fund is $1.7 million, or 0.1%, less than EBL. Major General Fund changes from EBL are:

- Additional funding of $8.9 million is appropriated for the impact of the additional inmate population due to Ballot Measure 57. This is based on the implementation schedule as passed by the Legislature.
- A further delay in opening of the medium security facility at Deer Ridge and relying more on temporary beds across the system generates in $2.3 million General Fund savings.
- Vacancy or other unidentified savings of $4 million are included.
- Changes in employee compensation included in HB 5054 reduce the General Fund need by $4.2 million.
- The updated prison population forecast (April 2009) reduced the resource need in this division by $2.6 million General Fund.

Health Services spending has generally exceeded the original budgeted amount for the past two biennia reflecting increasing costs. The 2007-09 rebalance plan approved by the Emergency Board in September 2008 had to move over $15 million from other parts of the budget to fill the gap in funding for health services, primarily for services provided in the community. With the exceptional inflation increase provided in the 2009-11 legislatively adopted budget, it is hoped that the need for rebalance is minimized.

DOC – Community Corrections

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level*	2009-11 Legislatively Adopted
General Fund	190,148,480	215,699,623	244,965,620	111,092,799
Other Funds	464,755	3,367,434	1,919,722	1,919,722
	0	0	0	103,784,840
Total Funds	**$190,613,235**	**$219,067,057**	**$246,885,342**	**$216,797,361**
Positions	48	47	47	53
FTE	48.00	47.33	47.33	53.33

** The 2009-11 Essential Budget Level (EBL) listed above is $2,987,702 General Fund less than the true EBL amount based on the October 2008 forecast. The $103.8 million in Federal Funds for 2009-11 LAB represents one-time funding available through the federal stimulus package.*

Program Description

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

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

- ***Local control*** – three classes of offenders: (1) those that are convicted for a felony and sentenced to incarceration of 12 months or less; (2) revoked from felony community supervision and sentenced to 12 months or less incarceration; or (3) sanctioned to less than 30 days for violating the terms of community supervision.

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

Revenue Sources and Relationships

This budget unit is mainly supported by the General Fund. The Other Funds revenue is from supervision fees and other revenues collected by the Linn and Douglas county programs. For 2009-11, it is anticipated that 32% of the amount distributed to counties will be used for felony probation with the remaining 68% being used for parole and post-prison supervision and for the local control population. This is based on the October 2008 local offender population forecast and the band rate structure, but counties may spend it differently based on local decisions. This breakdown also does not factor in the sentencing changes made by the 2009 Legislature that affect community corrections.

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 were estimated to have represented roughly 40% of the total funding in 2003-05 for the community corrections system, while the state grants represented 60% of the spending. At this time no updated information is available.

Budget Environment

The Community Corrections Grants budget is primarily driven by the local offender population forecast issued by the Department of Administrative Services' Office of Economic Analysis, which forecasts the number of offenders on probation, parole, post-prison supervision, local control, and Level 3 sanctions (see table below). The number of community corrections cases continues to grow but Measure 57 will reduce this growth temporarily as these offenders are placed in prison instead of probation. Long-term, the caseloads will increase again as those Measure 57 offenders are released from prison and return to the community.

Community Corrections Forecast
April 2009 Forecast
Does not include Level 3 Sanctions
Does not factor in changes made in HB 3508 (2009 Session)

	Felony Probation	Parole & Post Prison Supervision	Local Control	Total
Dec 2008	19,215	13,752	951	33,918
July 2009	19,248	13,838	1,088	34,174
July 2010	18,914	14,336	1,113	34,363
July 2011	18,579	14,963	1,091	34,633
July 2012	18,614	15,347	1,090	35,051

In the past, funding for Community Corrections Grants generally increased from one biennium to another based on inflation and the projected number of offenders supervised or incarcerated at the county level. The rates were based on cost studies completed in the early 1990s. During the 2005-07 interim, the community corrections directors, sheriffs, counties and DOC undertook a project to "rebase" the rates based on cost studies for both jail operations (local control population) and supervision operations (all other). These funds were to be allocated to individual counties through a capitation model, based on the number and risk levels of offenders in each county. The 2007-09 legislatively approved budget was based on the cost study for supervision and a cost for incarcerating a DOC inmate for the jail portion of the model. The new "rebased" system was implemented on July 1, 2008 and is reflected in the 2009-11 budget. The 2009 Legislature passed a bill requiring the review of costs of supervision in 2012 and every six years after 2012.

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

Funding in other state agency budgets has a direct impact on the community corrections system. For example, counties depend on local alcohol and drug programs to provide treatment to the community corrections population. Over 75% of this population have alcohol and/or drug issues, with 58% experiencing serious issues. Reductions in previous biennia to these treatment programs did reduce the available resources for the community corrections caseload. For 2009-11 funding for alcohol and drug treatment was not reduced significantly in the Department of Human Service's budget but there may be some impact due to potential changes in drug court funding.

Essential Budget Level

The 2009-11 essential budget level (EBL) for the Community Corrections program in the Governor's printed budget of $245 million General Fund is $29.3 million, or 13.6%, greater than the 2007-09 legislatively approved budget. The true EBL is actually $248 million General Fund, $3 million more because the Governor arbitrarily reduced the EBL in preparing his budget. The growth in the EBL is due to the roll-up of the rate change that became effective July 1, 2008 to reflect 24 months of spending ($12.5 million), inflationary increases ($6.1 million), and for growth in the mandated caseload as projected in the October 2008 forecast.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget for Community Corrections programs of $216.8 million total funds is $33.1 million, or 13.2%, less than the actual or true EBL. The General Fund appropriated for this program is $111.1 million reflecting the one-time use of $103.8 million in federal stimulus funding available through the American Recovery and Reinvestment Act (ARRA) offsetting the need for an equal amount of General Fund. The agency has indicated that it may request that these federal funds be shifted to other parts of the agency so counties will not be subject to the extensive reporting requirements under ARRA. Regardless of where these federal funds are used, this fund shift will have to be reversed for 2011-13.

The total funds reduction is due primarily to two major factors. First, the April 2008 forecast prepared by the Department of Administrative Services updated the community corrections caseload showed a significant reduction in the estimated population served through this program. This and other adjustments (including impact of Measure 57) results in a net $16.7 million reduction in the amount required. The second set of reductions result from changes in sentencing and other laws that decrease the number of offenders that community corrections programs must supervise. These changes are:

- The maximum jail time assumed to be paid by the state in the community corrections grants for offenders (felony) on probation who have their probation revoked is reduced to 60 days (unless a new crime is committed) saving an estimated $9.8 million General Fund.
- The agency is instructed to adopt rules when an offender may be transitioned to inactive supervision when they comply with their terms of probation and other requirements. Since the state does not pay for inactive supervision, this is estimated to save $5.1 million General Fund.
- A similar change is made regarding transition to inactive supervision for offenders under post-prison supervision saving an estimated $1.1 million General Fund.

DOC –Transitional Services

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	35,574,089	40,670,901	55,575,451	68,732,971
Other Funds	8,314,878	12,498,951	9,029,250	8,265,498
Federal Funds	29,201	420,800	0	60,000
Total Funds	**$43,918,168**	**$53,590,652**	**$64,604,701**	**$77,058,469**
Positions	121	136	154	169
FTE	118.5	131.38	152	166.14

Program Description

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

Transitional Services Division Budget
Total Funds

Budget Area	2003-05 Actual	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Legislatively Adopted
Workforce Development	16,229,279	17,919,387	20,008,059	22,109,751
Alcohol & Drug Treatment	6,470,802	6,569,326	12,033,366	25,998,120
Religious Services	4,400,274	5,726,643	6,099,450	6,942,042
Offender Info & Sentence Comp.	6,990,052	8,054,719	8,958,686	10,924,284
Other Division Costs	4,573,594	5,648,093	6,491,091	11,084,272
Total	**38,664,001**	**43,918,168**	**53,590,652**	**77,058,469**

Revenue Sources and Relationships

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

- revenue from services provided or products produced by inmates in educational programs such as automotive and computer repair ($0.7 million);
- inmate welfare funds for the alcohol and drug programs and the education program is derived from coin operated telephones, canteen profits, vending machines, meal ticket sales, and inmate room and board reimbursements ($6.5 million);
- grant resources transferred in for alcohol and drug programs ($221,498); and
- resources transferred in for education programs from the Department of Education and the Department of Community Colleges and Workforce Development ($377,613).

Budget Environment

The Transitional Services budget is driven by the number of inmates, constitutionally and statutorily required programs and services, and other offender treatment or vocational training needs. Increased prison populations and the phasing in of new facilities have placed higher demands on the various programs (education, social skills, cognitive skills, sex offender assessment, alcohol and drug treatment, religious services), thus requiring more staff and General Fund support. In the past, these are often some of the first programs cut during budget shortfalls.

The programs included in this Division are designed to meet specific inmate needs, often directly related to their criminality (e.g., alcohol/drug abuse leading to the need to commit theft to pay for drugs). Nationally, over 75% of inmates have alcohol and drug problems, 47% have no high school diploma or GED, over 20%

function below the literacy level, 53% have never worked in a legitimate job, 21% are mentally ill, and 3% are developmentally disabled. The DOC population generally matches the profile for these issues nationwide.

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

Essential Budget Level

The 2009-11 essential budget level (EBL) for Transitional Services of $64.6 million total funds ($55.6 million General Fund) represents a 20.6 % (36.6%) increase over the 2007-09 legislatively approved budget. This increase is primarily due to the employee compensation increases including those approved in 2007-09, inflation adjustments ($1.1 million), roll-up costs to account for a full 24 months of spending for items added part way through the 2007-09 biennium ($1.1 million), and mandated caseload growth for increased costs based on the October 2008 forecast ($1.8 million). In addition, reductions were made to the 2007-09 budget of this Division later in the biennium to fill gaps within the DOC budget as well as to address statewide General Fund shortages. These reductions contribute to the larger percentage increases between the two biennia.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget for Transitional Services of $77.1 million total funds represents a 19.3% increase over EBL and the General Fund increase is $13.1 million, or 23.7%, over EBL. This increase is due to:

- Ballot Measure 57 costs of $16.8 million General Fund are added including the $13.1 million for treatment and the remainder for increases in staff in other areas of this budget including religious services and the Offender Information Sentencing Computation unit due to the increasing number of inmates. Funding for Measure 57 related treatment will be divided between the amount distributed to local needs ($10 million) with the remainder for treatment within DOC facilities.
- Five new permanent transitional services coordinators ($867,265 General Fund) are added to assist inmates to return to the community when released. Four are for the continuation of existing limited duration positions in 2007-09 and the other is a new position for 2009-11.

Offsetting these increases are $4.5 million in General Fund reductions including the delay of fully opening the medium security facility at Deer Ridge ($1.3 million), increased vacancy savings across the division ($250,000), reduction in cognitive and educational programs ($1.5 million), and reductions in the amount for employee compensation common to most state agencies ($935,508).

DOC – General Services

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	40,386,089	42,172,054	50,695,493	48,723,252
Other Funds	5,589,035	13,159,486	6,367,065	7,488,400
Total Funds	**$45,975,124**	**$55,331,540**	**$57,062,558**	**$56,211,652**
Positions	232	244	263	268
FTE	219.23	239.57	261.80	261.02

Program Description

The General Services Division includes the following units:

- ***Fiscal Services*** provides central accounting, inmate trust accounting, and contract-related services for the entire agency. While most of its staff is located in Salem, staff is also located in eastern Oregon to oversee business operations at those facilities.
- ***Information Systems and Services*** provides agency-wide functions including operations and user support, applications development, systems maintenance, technical support, and research/evaluation. It is responsible for operating a number of systems, including the offender database and tracking system used to

manage the state's prisons and community corrections; the Corrections Information System; fiscal systems; and automated office systems.

- ***Distribution services*** provide the various goods and services necessary to operate facilities across the state including food and canteen supplies. It has a central warehouse in Salem and transports supplies to facilities around the state. It is also responsible for the statewide inventory system for the agency.
- ***Facilities services*** is responsible for the repair and maintenance program for all of the DOC owned facilities. It also manages leased facilities, wireless communications, and energy conservation.

Revenue Sources and Relationships

Fiscal Services and Facility Services rely on Other Funds derived from the sale of certificates of participation (COPs) for activities related to construction. The Distribution Services unit receives over $6.3 million Other Funds from charging for services.

Budget Environment

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

Essential Budget Level

The essential budget level (EBL) for the General Services Division of $57.1 million total funds represents a 3.1% increase from the 2007-09 legislatively approved budget and the 2009-11 General Fund EBL of $50.7 million is a 20.2% increase from the 2007-09 legislatively approved budget. The primary reason for the relatively small total funds increase was the $8.9 million phase-out of one-time spending in 2007-09, mostly for the new Deer Ridge prison. The General Fund increases are due to employee compensation increases including those approved during 2007-09, inflation adjustments, and increased staffing and other costs due to mandated caseload growth.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $56.2 million total funds and $48.7 million General Fund represents a decrease of 1.5% and 3.9%, respectively, from the 2009-11 EBL levels. The budget for this Division was increased by $2.3 million General Fund for the impact of Measure 57 including new staff. Offsetting these increases are General Fund reductions including savings resulting from the delayed opening of the medium security facility at Deer Ridge ($1.7 million); elimination of seven positions in financial services, network services, and wireless program ($1 million), and reductions in the amount for employee compensation common to most state agencies ($1.5 million).

Two Other Funds expenditure limitation increases are included in the legislatively adopted budget for 2009-11:

- $500,000 Other Funds for empty limitation in anticipation of receiving unidentified revenues from leases, energy related payments, or other sources; and
- $572,727 Other Funds and four positions for new commissary staff to be paid through the commissary sales to inmates.

DOC – Central Administration, Human Resources and Public Services

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	46,798,497	68,712,615	79,879,486	73,025,224
Other Funds	4,023,389	3,328,270	2,327,586	3,667,137
Federal Funds	153,429	905,000	0	0
Other Funds (NL)	92,954	0	0	0
Total Funds	**$51,068,269**	**$72,945,885**	**$82,207,072**	**$76,692,361**
Positions	141	162	162	173
FTE	132.94	257.23	162	170.19

Program Description

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

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

Revenue Sources and Relationships

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

For calendar year 2008, DOC hired approximately 385 employees (new hires), continuing a trend since 1995 as DOC has opened or expanded facilities. Recruitment strategies are in place to assist with the increased workload of recruiting and performing background checks. Recruitment resources are being directed toward those types of positions that are hard to fill, including Correctional Officers and various medical positions.

Essential Budget Level

The 2009-11 essential budget level (EBL) for these combined units of $82.2 million total funds and $79.9 million General Fund represent increases over the 2007-09 legislatively approved budget of 12.7% and 14.8% respectively. Most of the growth is attributable to employee compensation increases including those approved during 2007-09; increases in central state government service charges, Attorney General charges and inflation adjustments which total $10.1 million General Fund; and $0.5 million in General Fund increases due to the rise in mandated caseload costs. Offsetting these increases are $1.2 million General Fund in phase-out costs for one-time spending in 2007-09, resources for rental beds no longer needed, and resources that had been paying for now paid-off small scale energy loans.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $76.7 million total funds and $73 million General Fund represent decreases from EBL of 6.7% and 8.6%, respectively. Increases for BM 57 total $1.6 million General Fund adding

16 positions for increased staffing across many of the administrative areas. Offsetting these increases are $9.5 million in General Fund cuts including:

- almost $700,000 in various services and supplies reductions across the three units;
- elimination of nine administrative positions including inspectors, an auditor, a communications manager, and a human resource analyst ($1.8 million);
- reduction of $5.4 million in the EBL amount allocated for central state government service charges which is a reduction common to all state agencies; and
- reductions in the amount for employee compensation common to most state agencies ($1.1 million).

DOC – Debt Service

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	99,926,196	126,653,115	135,431,603	135,042,223
Other Funds	12,135,818	3,549,487	0	2,910,092
Other Funds (NL)*	11,100,810	0	0	
Total Funds	**$123,162,824**	**$130,202,602**	**$135,431,603**	**$137,952,315**

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

Program Description

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

Revenue Sources and Relationships

For 2009-11, this budget unit is funded with General Fund for the debt service on existing and proposed COPs. There is also $2.9 million Other Funds in the 2009-11 budget which represents an estimate of unused balances in various capital financing accounts which can be used to offset General Fund debt service. If these unused balances do not materialize, other areas of the budget will have to be reduced to cover the required debt service costs. In 2005-07, the Other Funds (limited) expenditures were capitalized interest payments where debt service was paid with COP proceeds. The Nonlimited Other Funds represented refinancing of existing COPs.

Budget Environment

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

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

Essential Budget Level

The 2009-11 essential budget level (EBL) for DOC's debt service of $135.4 million total funds (same amount of General Fund) represents an increase of $5.3 million, or 4%. The increase represents the net impact of the roll-up of costs for paying a full 24 months of a biennium for those COPs issued in 2007-09 minus any amounts that had been allocated for COPs issued years ago and now are fully paid.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget for debt service of $135 million General Fund is slightly less than the General Fund EBL. The $2.5 million increase for the additional debt service required to pay the 2009-11 costs of

COPs issued during the biennium for the Junction City site and construction related project staff is offset by the use of an estimated $2.9 million Other Funds in unused balances in various capital financing accounts which can be used to offset General Fund debt service. The Governor's recommended budget had included a larger increase due to significantly more proposed construction at the Junction City site, but the Legislature chose to delay a decision on going forward with construction of a prison on the site. There are debt service resources in this budget for infrastructure and site work based on the construction schedule of the state hospital planned for the same site.

DOC – Capital Improvements

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	1,078,999	2,462,807	2,629,425	5,841,965
Other Funds	201,880	0	0	0
Total Funds	**$1,280,879**	**$2,462,807**	**$2,629,425**	**$5,841,965**

Program Description

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

Revenue Sources and Relationships

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

Budget Environment

The Department owns approximately 275 buildings with over 5.1 million square feet of building space across the state. Much of this space is in newer facilities constructed over the past ten years, but some of the buildings are up to 125 years old. A 1996 consultant's review indicated the facilities at that time had $63 million in known maintenance needs, of which a large portion remains to be addressed. DOC received $19.3 million to address priority issues in 2007-09, and at least $33.5 million still remain. The agency is also aware of more than $20 million in projects that have yet to be fully evaluated for the amount of work that must be performed. The ten year plan for these projects requires $11.6 million per biennium, significantly more than what has been budgeted in the past.

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

Essential Budget Level

The 2009-11 essential budget level (EBL) for capital improvements of $2.6 million General Fund is 6.8% greater than the amount for the 2007-09 legislatively approved budget. The increase is greater than the standard adjustment for standard inflation because the 2009 Legislature reduced the 2007-09 budget for this area to solve General Fund shortages elsewhere in the state budget.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $5.8 million General Fund is over 122% greater than the EBL. This increase is due to projects required to provide for the temporary and other beds for the new inmates expected due to the passage of Measure 57. These Measure 57 increases are one-time in nature and will not be part of the 2011-13 budget development.

DOC – Capital Construction

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	0	40,371,145	0	46,101,625
Total Funds	**$0**	**$40,371,145**	**$0**	**$46,101,625**

Program Description

This budget unit includes expenditure authority for acquisition or construction of any structure or group of structures; all land acquisitions; assessments; and improvements or additions to an existing structure, which are to be completed within a six-year period with an aggregate cost of $500,000 or more. The expenditure limitation for each project is in effect for six years. Most or almost all of capital construction funding for DOC in the past has been financed with COPs and the resources to pay the biennial costs of paying off those COPs are found in the debt service budget unit described above.

Budget Environment

The $40.4 million in 2007-09 budget represents $23 million for larger deferred maintenance projects, $10.6 million for the initial planning and development funding for the proposed Junction City site, and $6.7 million for "Go Oregon" projects approved by the 2009 Legislature.

The amount of capital construction is based on the Long-Range Construction Plan as modified by the Prison Population Forecasts. Currently, a new facility in Madras (Deer Ridge) opened in September 2007 and some planning for a facility has been completed for a site in Junction City. This site will share infrastructure and site development costs with a new state hospital

Agency staff currently estimates the total cost of the next prison currently planned (but not authorized) at Junction City is approximately $450 million (as of the end of 2008). This is $260 million more the cost of a similar sized prison (Deer Ridge) which opened its first units in 2007. DOC has identified four primary reasons for the significant cost increase over the Deer Ridge facility:

- $28.5 million for cost increases to date. In other words, if the Deer Ridge facility was built in 2008 based on construction cost increases, the facility would cost $28.5 million more than it did a few years ago.
- $64.9 million more than what was spent at Deer Ridge (2008 dollars) for greater costs relating to site preparation (grading and fill), wetlands mitigation, road improvements, electrical supply and water/sewer improvement. These costs are higher because of the site conditions, access options, or capacity of the city water or sewer systems. Some of these costs also represent costs for both the prison and the state hospital being built on the same site.
- $86.6 million for changes in the design and programming at the new prison. The agency is proposing that this facility be more directed at meeting the needs of inmates with health care and/or mental health issues. In addition, a commercial laundry is proposed at this site for inmate work crews.
- $80 million for estimated increases in construction costs. This was the amount based on a completed facility in 2012. Since there is no specific completion at this time, this amount will increase. This is the item with the greatest uncertainty.

Essential Budget Level

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

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget for capital construction is $46.1 million Other Funds and includes $44.7 million for the next stages of the development of the Junction City site and $1.4 million for further deferred maintenance related spending. There is no further funding authorized for the construction of a prison facility at the Junction City site. The $44.7 million is for infrastructure and site work limited to that work that must be done to move the hospital project along including sewer and water infrastructure, wetland mitigation, road access, other utilities, storm drainage, access road, and removal of some existing structures. Sewer and water related work will continue with the assumption that a prison will be built on the site some time in the future.

Criminal Justice Commission – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	3,278,770	6,616,896	7,203,683	5,364,461
Other Funds	78,503	1,223,647	33,158	196,866
Federal Funds	100,650	126,984	126,993	12,513,937
Total Funds	**$3,457,923**	**$7,967,527**	**$7,363,834**	**$18,075,264**
Positions	6	6	6	10
FTE	5.25	6.00	6.00	9.50

Note: The significant increase in the budget from 2005-07 to 2007-09 is due to the expansion of the drug court grant program. The Federal Funds increase between 2007-09 and 2009-11 is due to the transfer of a federal grant r program from the Department of State Police.

Agency Overview

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

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

Revenue Sources and Relationships

The Commission's Other Funds revenue is derived from forfeiture proceeds, which fund the activities of the Asset Forfeiture Oversight Advisory Committee (AFOAC). Oregon voters passed Ballot Measure 53 in May 2008 which will again make civil forfeitures a viable tool to provide resources for law enforcement and other activities The law requires that a portion of the proceeds from civil forfeitures be provided to the Commission for the AFOAC oversight and for drug courts. It is very difficult at this time to determine what revenues will be with the changes in the law. Other Funds revenues for 2007-09 also includes just over $1 million as a fund transfer from the State Police originating from federal grants for the drug court grant program. Most of the Federal Funds (over $10 million) in the budget represent federal grant funds through the Justice Assistance Grants/Bryne Grants.

Budget Environment

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

The 2005 Legislature passed legislation creating a program (one year of funding in 2005-07) to expand the capacity of drug courts, and instructed the Commission to take the lead in developing the program and evaluating drug courts. The 2007 Legislature continued the program with sufficient funding for the entire 24 months of the biennium. In addition, a combination of General Fund and other resources were provided to continue drug court grants that had been funded with one-time federal funding during 2005-07. Currently, the number of grants totals 22: 15 expansion grants and 7 new drug court programs. The grants were awarded to a variety of models including adult, juvenile, and family drug courts.

A budget note included as part of the 2007-09 budget instructed the Commission, Oregon Judicial Department (OJD) and Department of Human Services (DHS) to develop a long-term plan for the administration of drug courts. Currently drug court funding comes from a mixture of on-going program funds in OJD, grants from the Commission, substance abuse funding from DHS via the counties, and from local sources. The three agencies did report to the interim Joint Committee on Ways and Means in late 2008 but had not developed a long term plan at that point. The need for a long range plan still remains, even more important as drug court funding overall has been reduced.

Essential Budget Level

The 2009-11 essential budget level (EBL) for the Criminal Justice Commission of $7.2 million General Fund is 8.9% greater than the 2007-09 legislatively approved budget while the total funds EBL of $7.4 million represents a 7.6% decrease for the same period. This total funds reduction is due to a one-time $1 million transfer of federal funds from the State Police in 2007-09 for a coordinated awarding of drug court grants. General Fund growth is due to the roll-up of compensation increases for staff and inflation.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget for the Commission of $18.1 million total funds represents a 127% increase over the 2007-09 budget. This significant increase is primarily due to the $10.6 million increase in federal funds from the transfer of the administration of federal criminal justice grants from the Department of State Police (OSP) to the Commission. Four positions are also established from this transfer utilizing a mixture of federal and other funds resources. Two analyst positions are transferred from OSP to provide program administration, and two financial positions are added to provide the financial reporting and oversight work for the grant program as well as the budget and accounting activities for the Commission. These financial positions replace work previously done by the Department of Corrections and OSP. In addition, a Research Analyst position is created to provide review and analysis relating to Measure 57, drug courts, and the federal grant program.

The 2009-11 General Fund budget of $5.4 million is $1.3 million, or 18.9%, less than the 2007-09 General Fund budget and $1.8 million, or 25.5%, less than the Commission's 2009-11 essential budget level. Most of this reduction is due to a General Fund reduction of $1.6 million in funding for the drug court grant program. The Governor has indicated he will replace a portion of this loss of General Fund resources with federal grant funds. Other General Fund savings include reductions in employee compensation, the elimination of a Research Analyst 2 position (eliminated in 2007-09), service and supplies savings, and financing positions that had been funded with General Fund with asset forfeiture funding.

Analyst: Wilson

District Attorneys and Their Deputies – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	9,161,601	10,481,366	10,818,348	10,188,466
Total Funds	**$9,161,601**	**$10,481,366**	**$10,818,348**	**$10,188,466**
Positions	36	36	36	36
FTE	36.00	36.00	36.00	36.00

Agency Overview

District Attorneys and their deputies prosecute state criminal offenses committed by juveniles and adults. In addition to criminal prosecution, district attorney legal duties include enforcement of child support obligations in non-welfare cases, prosecuting civil forfeitures, presenting evidence at mental health hearings, ruling on public records requests, representing interests in child dependency cases, assisting juvenile courts, and advising and representing county officers. District attorneys and their deputies are also active in local public safety coordinating councils, child abuse prevention teams, and community outreach activities. There are or recently have been three basic functions where state funds have been used for this agency:

- ***District attorneys (DAs)*** are state employees who are locally elected. Before 2005-07 there had been four pay groups based on the population of each county. This was compressed to three groups in 2005-07 and to two groups for 2007-09. Counties have the option to pay an additional salary supplement and provide other benefits (e.g., automobile and additional insurance).
- The state has provided limited support in the past for ***deputy district attorneys.*** There are approximately 370 deputy DAs in the state, ranging from no deputies in some smaller counties to approximately 90 in Multnomah County. The 2009-11 legislatively adopted budget does not include any funding for deputy district attorneys and other prosecution related costs.
- The budget also includes funding for ***administrative costs*** for mandated central services costs (e.g., tort liability). The Department of Justice (DOJ) provides, at no charge, administrative and financial services on behalf of DAs. A position (General Fund) is included as part of the DOJ budget to provide support to the District Attorneys Association.

In the past, the state has assisted counties for a portion of the statutorily mandated ***witness fee costs*** for trials and grand jury hearings in criminal cases. There has been no state funding for this purpose since 1999-2001.

Budget by Program Area

	DA Compensation	Deputy Supplements	Administration	Total
2003-05 Actual	$ 7,156,346	$ 1,018,776	$ 1,152,582	$ 9,327,704
2005-07 Actual	$ 8,130,215	0	$ 1,031,386	$ 9,161,601
2007-09 Legislatively Approved	$9,085,193	$ 444,392	$ 951,781	$10,481,366
2009-11 Essential Budget Level	$9,038,911	$ 456,835	$ 1,322,602	$10,818,348
2009-11 Legislatively Adopted	$8,878,791	0	$1,309,675	$10,188,466

Revenue Sources and Relationships

This is entirely a General Fund budget at the state level. The state's portion of the total budgets for District Attorney Offices across the state is small. A county DA office survey compiled in 2000 showed that state funds covered between 2% (Multnomah) and 70% (Wheeler) of county prosecution budgets.

Budget Environment

The state's share of funding for prosecution expenses of DA offices has fallen significantly over the past 25 years based on data collected as part of the Association of Oregon Counties (AOC), District Attorneys Association, and Department of Justice (DOJ) report to the 2001 Legislature. In 1975, the state portion represented 19% of the total prosecution expenses (state and county) of $6.4 million for all DA offices. By 1993, the state share had dropped to 14% of the total expenses of $34 million statewide, and by 2000 the state share was 9% of the $57 million total statewide expenses. While there has been no update of this information, there is no reason to believe that the state's share has significantly changed since 2000. Counties have backfilled the loss in the state's share of funding but their capacity to do so is limited. Factors such as the economy and growing demands in other county budget areas have led counties to limit the growth in DA resources.

In 2008 a majority of counties (24 out of 36) provided their DA an annual monetary supplement ranging from $7,552 to $43,920 to the salary paid by the state. Some counties also have provided additional benefits such as cars, contributions to deferred compensation, payment of Bar Association dues, and additional insurance. In many cases, the DAs provide additional services for the county including civil duties and legal advisor for some county functions. When factoring in the county share of salaries, DAs' annual salaries during 2008 ranged from $88,356 to over $148,000. In comparison for the same period, the annual salary for circuit court judges was $114,468, for the Chief Justice it was $128,556, for the Attorney General it was $77,200, and the top range of the Senior Assistant Attorney General classification at DOJ was $108,756. It should be noted that not every county provides a supplemental amount for their DA, and county boards can rescind the payment of a supplement.

There are a number of measures of workload for DAs and their offices including number of arrests for person, property, and behavior crimes, or the number of filings where a felony was the most serious charge. Many of these measures have fallen in the recent past as has the overall crime rate. While these are indicators of DA workload, they do not capture all of the potential workload. A significant part of the DA workload is not linked to arrests. In the past, DAs estimate that as much as one-third of the regular statewide workload corresponded to pre-arrest case reviews, where DAs and deputies are asked to assess the sufficiency of evidence collected and provide advice on the need for additional investigation, search warrants, or involvement of task force experts. The amount of time spent on cases, the quantity of cases prosecuted, and methods used vary from county to county depending on available resources and local judicial practices. When reported crimes and arrests are higher or when there are few resources, DA offices must take a variety of actions to meet the increased demand, including: (1) prioritize cases; (2) rely more on plea bargaining negotiations and alternative dispositions (deferred sentencing and reduction of certain felonies and misdemeanors to violations) to reduce the number of trials; and (3) limit the amount of time spent in preparation and prosecution of each case.

The District Attorney offices receive additional state funding through the Department of Justice (DOJ) for the DA responsibilities in the areas of child welfare representation and juvenile dependency. The DAs play a major role in this area, often representing the same interests as the state. Starting in 2007-09 these payments started and were distributed based on a county's proportion of the total number of children under age 18 and the proportion of the total number of children under the age of 18 who are living in poverty. At least 24 counties (end of 2008) had agreed to meet criteria set by DOJ in providing consistent services while some counties decided not to enter in the intergovernmental agreement and not receive any of the $2.9 million (2009-11).

Essential Budget Level

The essential budget level (EBL) for 2009-11 represents a 3.2% increase over the 2007-09 legislatively approved budget. Most of this budget is for the compensation of the 36 District Attorneys so much of the increase in the EBL for 2009-11 is the roll-up costs of the salary increases granted during 2007-09 and for the estimated increase in health insurance costs. Another significant increase in this budget is the assessment by the Department of Administrative Services for general liability coverage. This agency's 2009-11 budget includes roughly $1.2 million for this item, an amount that is exceeded only by seven other much larger state agencies. These assessments are based on past experience in liability cases and this agency has had some large employment related cases in recent years. The amount in the EBL for grants to counties to assist in Deputy District Attorneys salaries and other prosecution related expenses is adjusted for the standard inflation amount.

Legislatively Adopted Budget

The legislatively adopted budget for 2009-11 of $10.2 million General Fund is 5.6% less than the essential budget level (EBL) for the period. The reduction is primarily due to two actions. First, the amount paid to counties to assist in providing limited support for the costs of deputy district attorneys and other prosecution related costs is eliminated saving $456,835 General Fund. This means the state now only pays for the compensation of the 36 elected District Attorneys and the statewide assessments common to all state agencies, including liability coverage. The second reduction is a $160,120 General Fund cut to the compensation of the District Attorneys. This 1.8% reduction is less than what most state agencies received, but DAs do not get merit increases as most state positions receive in the budget development process. This reduction will have to be as a furlough day or as a straight reduction in salary.

Department of Justice (DOJ) – Agency Totals

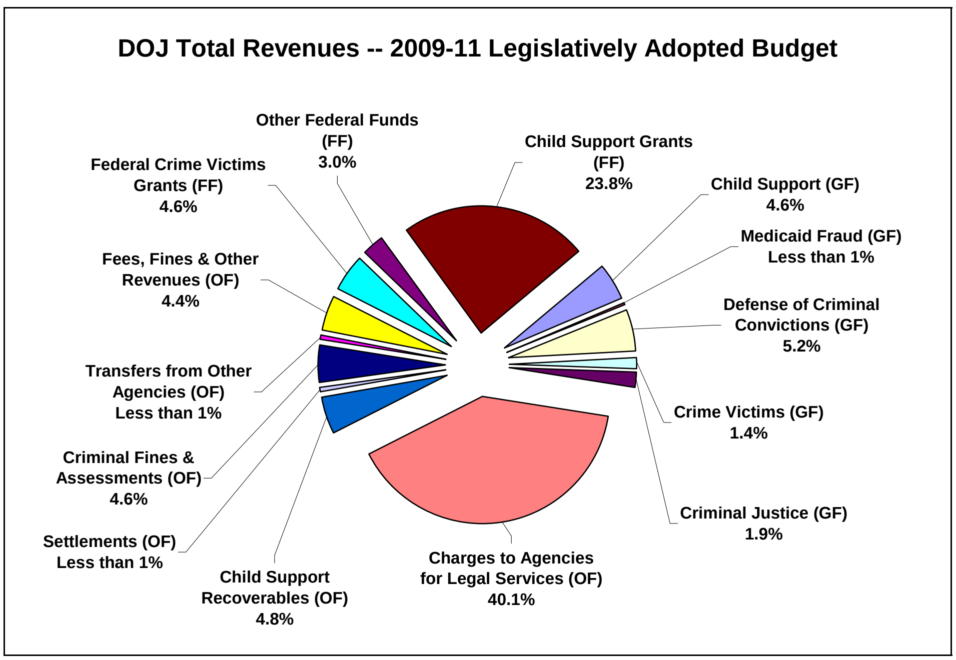
	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	34,463,132	49,095,726	64,884,333	54,721,022
Other Funds	150,997,317	215,376,724	227,810,768	219,503,978
Federal Funds	77,909,995	100,277,305	104,152,120	110,655,247
Other Funds (NL)	5,215,356	8,594,005	7,988,839	7,871,355
Federal Funds (NL)	17,144,814	15,101,812	15,035,429	15,857,750
Total Funds	**$285,730,614**	**$388,445,572**	**$419,871,489**	**$408,609,352**
Positions	1,226	1,334	1,314	1,333
FTE	1,210.81	1,306.71	1,305.68	1,319.83

Agency Overview

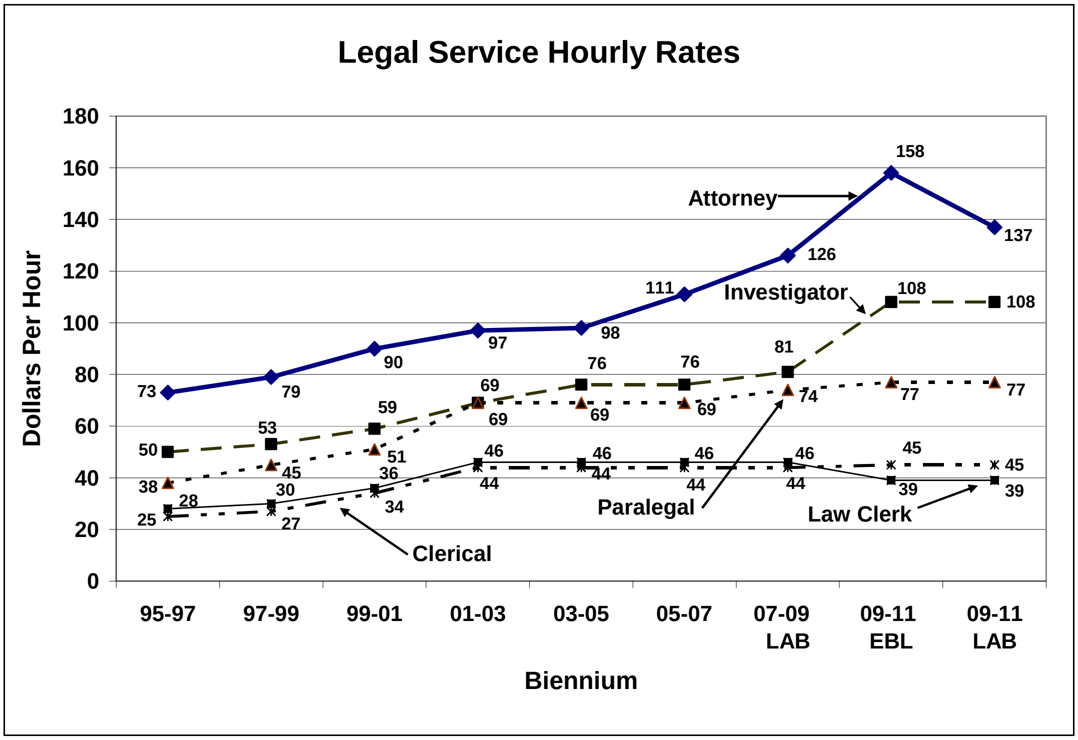
The Department of Justice (DOJ) is responsible for general legal counsel and supervision of all civil actions and legal proceedings in which the state is a party or has an interest. State statute places responsibility with DOJ for all the state's legal business that requires an attorney or legal counsel. DOJ is also responsible for a number of programs, including child support, district attorney assistance, crime victims' compensation, charitable activity enforcement, organized crime-related law enforcement, and consumer protection and education services.

Revenue Sources and Relationships

The Department of Justice relies on a variety of funding sources. For the 2009-11 biennium, the General Fund accounts for 13.4% of the legislatively adopted budget (LAB) and is used primarily for the Child Support Program, Defense of Criminal Convictions, crime victims' programs, legal work for which no state agency can be billed directly (e.g. ballot measure related), and the law enforcement activities of the Criminal Justice Division. Expenditures funded with Other Fund sources of revenue make up 55.6% of the budget (including Nonlimited) and include charges to agencies for legal services, settlements, license and other fees, charges, and fines. Federal Funds (including Nonlimited) make up 31% of the budget and include the federal share of the Child Support and Medicaid Fraud programs, and crime victims' grants.



The chart above shows revenues by source which may be slightly different than expenditures by fund type. More than 40% of the revenue is derived from the hourly charges to state agencies for legal advice, litigation, and other legal services. DOJ operates similar to a law firm in that its legal services are billed not only to state agencies, but also internally. For example, the Trial and Appellate Divisions bill the Defense of Criminal Convictions Fund to cover costs of defending challenges to criminal convictions which are not billable to other state agencies. Although the agency has the statutory authority to determine the various hourly rates, they have historically been reviewed through the legislative budget process. The rate also covers indirect costs of providing administrative services tied to services funded by charges to state agencies. Employee compensation is the major factor which drives the changes in the rate. The hourly rates for attorneys (which represents over 85% of the revenue) and other staff are shown in the graph below. The 2009-11 EBL assumed an attorney rate of $158 per hour, a 25.4% increase from the 2007-09 rate of $126 per hour. The changes to the budget made by the Legislature reduced the assumed rate to $137 per hour, a 13.3% decrease from the EBL and an increase of 8.7% from 2007-09. The ability to reduce these rates is limited since they are based on compensation rates already established and, in many cases, bargained. Based on final decisions on bargaining with employees, the rate may have to be reviewed early in the 2009-11 biennium.



Essential Budget Level

The 2009-11 essential budget level (EBL) of $419.9 million total funds for the Department of Justice represents an 8.1% increase from the final 2007-09 legislatively approved budget. The General Fund EBL for the same period of $64.9 million is $15.8 million, or 32.2%, greater than the 2007-09 legislatively approved budget. The General Fund growth is largely attributable to; (1) growth in the Defense of Criminal Convictions (DCC) budget unit ($8.6 million) for caseload growth and increases in the hourly rate for attorneys, and (2) the need to backfill lost revenue in the Child Support program ($4.7 million). The growth in the total funds EBL is generally due to employee compensation increases, inflation, and the caseload growth in DCC.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget (LAB) for this agency of $54.7 million General Fund and $408 million total funds represents decreases from EBL of 15.7% and 2.7%, respectively. Increases from the 2007-09 legislatively adopted budget are 11.4% for General Fund and 5.2% for total funds. Major changes for 2009-11 include:

- There is limited funding in the legislatively adopted budget ($1 million total funds) to continue the defense of the state's position in legal actions challenging the Master Settlement Agreement (MSA) with tobacco companies. There is also a $1.5 million General Fund special purpose appropriation (SPA) made to the Emergency Board for this defense that is available to the agency if requested. The state receives over $150 million per biennium as a result of the MSA.
- While the costs for the Defense of Criminal Convictions (DCC) continue to grow, the legislatively adopted budget for 2009-11 is $3.8 million General Fund less than the EBL after factoring out the change in the legal rate. Funding for this program has increased dramatically in recent biennia, up from $12 million General Fund in 2005-07 to over $20.9 million in the 2009-11 LAB.

- Two new units are established – one specializing in environmental prosecutions ($714,728 Other Funds) funded through the Department of Justice Protection and Education Fund, and the other unit addressing civil rights related issues ($648,861 General Fund).
- Crime Victims' programs funded through the Criminal Fines and Assessment (CFAA) revenue stream were reduced by $1.8 million, or 8.8%. This decrease was partially offset by a $1 million General Fund appropriation directed for increased medical assessments for children who are suspected victims of abuse.
- One-time federal stimulus funding of $3.6 million will offset the need for an equal amount of General Fund in the Child Support program.

DOJ – Administration

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	11,746,884	23,571,668	24,952,660	24,021,100
Total Funds	**$11,746,884**	**$23,571,668**	**$24,952,660**	**$24,021,100**
Positions	112	115	115	115
FTE	110.38	113.26	113.50	113.50

Program Description

Administration includes the Office of the Attorney General and Administrative Services. The Office of the Attorney General, which includes the executive management of the Department, sets direction and policy for the Department. Administrative Services provides centralized operational support services for the entire Department and includes fiscal services, information services, facility operations, and human resources.

Revenue Sources and Relationships

The primary revenue source for Administration is derived from a cost allocation plan that charges the other divisions and programs in the Department for services such as fiscal, personnel, facilities management, and information systems. The distribution of these costs is based on the amount of time or service each section of Administration provides to other divisions or programs. These are Other Fund expenditures for Administration, but are derived from General Fund, Other Fund, or Federal Fund sources in each division.

Budget Environment

The Department, as a whole, has experienced considerable growth increasing the demands for: (1) fiscal services staff to manage legal billings and to collect amounts due the agency in a timely manner; (2) information services staff to provide full technology support to over 1,300 employees; (3) operations staff providing facilities, purchasing, moving, and mail services at 23 locations around the state; and (4) human resource staff that provide recruitment, classification, performance management, and training services. Significant growth over the last five biennia has increased the need for business and other services provided by Administrative Services.

Essential Budget Level

The 2000-11 essential budget level (EBL) for this unit of $25 million total funds is 5.9% greater than the 2007-09 legislatively approved budget. This increase is primarily due to employee compensation approved in 2007-09 and inflation.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget for this unit of $24 million Other Funds is 1.9% greater than the 2007-09 approved budget and 3.7% less than the 2009-11 EBL. The decrease from EBL is entirely due to reductions in statewide assessments ($137,383) and employee compensation ($794,177) that had been assumed in EBL. A policy package included in the Governor's recommended budget to solve double-fills in the division was not included because they would have increased the rate paid by state agencies for legal services.

DOJ – Appellate Division

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	9,707,138	16,814,863	20,472,428	17,474,054
Total Funds	**$9,707,138**	**$16,814,863**	**$20,472,428**	**$17,474,054**
Positions	47	67	73	63
FTE	46.88	65.63	72.71	62.19

Program Description

The Appellate Division represents the state in all cases that are appealed to state and federal appellate courts in which the state is a party or has a significant interest. Attorneys in this Division spend the majority of their time preparing briefs and arguing appeals in criminal, civil, and administrative cases in which the parties disagree with the trial court or agency results. In most of these cases, attorneys appear before the Oregon Court of Appeals, the Oregon Supreme Court, and the federal Ninth Circuit Court of Appeals. Attorneys occasionally appear in other federal appellate courts and the U.S. Supreme Court. Attorneys in this Division also must prepare and defend ballot titles, a significant workload issue in recent years.

Revenue Sources and Relationships

Although the Division's budget is totally supported with Other Funds, the principal source of funds to pay the billings is the General Fund appropriation for Defense of Criminal Convictions (see later section). Revenue for civil or administrative appeals is Other Funds generated from the hourly fees billed to state agencies.

Budget Environment

Since the Department is usually responding to appeals filed by others, it has little or no control over its workload. The Division handles roughly 4,000 cases (approximately 1,000 civil and 3,000 criminal) per biennium and is involved in about 80% of the Oregon Court of Appeals cases and about half of the Oregon Supreme Court cases. The number of direct criminal appeals and post-conviction appeals has increased in the 2007-09 biennium (up from 2,300 in the prior biennium) due to an increase in the overall workload and efforts to reduce the amount of delay in responding to the cases. These numbers are expected to continue increasing, and are driven by projected increases in the prison population (longer mandatory sentences imposed under Ballot Measure 11 and repeat property offender convictions), and greater funding for the Public Defense Services Commission. The number of civil appeal cases worked during 2007-09 fell as a result of the need to shift resources to the criminal caseload. The Division anticipates an increase in the civil caseload during 2009-11 as it addresses the backlog.

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. The agency has begun moving several of the cases that had been delayed in the state post-conviction trial courts and will continue to make progress in 2009-11 on reducing the several-years delay between the filing of the petitions and trials in these cases. In addition, the first death penalty cases to reach the federal courts will begin active litigation in 2009-11, having completed preliminary steps in 2007-09. Because these cases represent the first opportunity for the federal courts to review the Oregon's death penalty system, they are expected to be very costly to defend and take a lengthy period of time to complete. Two more cases are likely to begin the federal habeas corpus review in 2009-11. Another factor increasing the costs of the federal review of these cases is that the federal public defenders are much better funded than their state colleagues.

This Division also experiences greater workload demands because of the number of ballot measures. More ballot initiatives generate more titles the Division must prepare, and more complaints about the ballot titles that must be defended. The Division's workload in this area has doubled since 1997 but may decrease in the 2009-11 biennium as a result of legislative changes.

Essential Budget Level

The 2000-11 essential budget level (EBL) for this Division of $20.5 million total funds is 21.7% greater than the 2007-09 legislatively approved budget. One major reason for this increase is the additional staff to deal with the growing Defense of Criminal Conviction (DCC) mandated caseload. Six positions, including four attorneys, are added in the EBL. Other factors include employee compensation increases approved in 2007-09 and inflation.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget for this Division of $17.5 million Other Funds is $3 million or 14.6% less than the 2009-11 EBL. The net decrease from EBL is primarily due to the Division's share of the decrease in the funding for Defense of Criminal Convictions (DCC) of $3.8 million across DOJ and the statewide decrease in state employee compensation levels common to most state agencies.

DOJ – Civil Enforcement Division

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	1,924,806	1,957,039	484,325	1,611,175
Other Funds	26,221,981	32,936,458	48,215,128	49,410,659
Federal Funds	1,929,090	2,298,176	2,443,423	2,344,833
Total Funds	**$30,075,877**	**$37,191,673**	**$51,142,876**	**$53,366,667**
Positions	134	138	172	185
FTE	132.66	135.84	170.66	183.48

Program Description

The Civil Enforcement Division represents the state in civil cases and also enforces certain criminal laws. This Division includes five sections:

- The ***Child Advocacy*** section represents the Division of Child Support (DCS) in judicial proceedings to establish paternity and enforce child support orders. This section also represents the Department of Human Services (DHS) in juvenile dependency and termination of parental rights cases and mental health commitments.
- The ***Civil Recovery*** section prosecutes plaintiff's civil litigation on behalf of any agency with a tort, contract, statutory, or other claim to recover money or property. It also represents agencies in bankruptcy proceedings and in post-judgment collections.
- The ***Medicaid Fraud Control Unit*** investigates and prosecutes fraudulent billings by Medicaid-funded providers; instances of patient abuse or neglect committed by Long-Term Care Facilities or their employees; and fraud in the administration of the Medicaid program. Federal Medicaid law requires each state have a fraud unit separate from its Medicaid designated agency (DHS).
- The ***Financial Fraud/Consumer Protection*** section educates consumers to better protect themselves against marketplace fraud and abuse. It also prosecutes violations of these and antitrust laws, seeking restitution, attorney fees, and penalties for injured consumers and state agencies to deter future wrongdoing.
- The ***Charitable Activities*** section supervises and regulates the activities of charitable, professional fundraisers, and, to some degree, other nonprofit organizations; and enforces laws related to charitable trusts, charitable solicitations, and nonprofit gaming.

This Division also enforces the tobacco Non Participating Manufacturer (NPM) law, a statute relating to the Master Settlement Agreement (MSA) entered into by tobacco companies and the states. Enforcement of the NPM law is necessary to protect the over $150 million received in MSA payments in each biennium.

Revenue Sources and Relationships

Revenue to support the Child Advocacy and Civil Recovery sections comes from billings to state agencies. Federal Funds provide 75% of the resources for the Medicaid Fraud Control Unit, while the state must contribute a 25% match to receive the federal funds. The federal government allows DOJ to use Medicaid recoveries for the state match in some cases as long as the Medicaid program and other victims are first made whole. Financial Fraud/Consumer Protection section services are funded by Other Funds, including funds in the Consumer Protection and Education Revolving Account (renamed the Department of Justice Protection and Education Revolving Account by the 2009 Legislature) 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 has been added since then.

Fees charged to charitable and non-profit organizations for registration, filing financial reports, and gaming activities provides funding for the Charitable Activities section.

Budget Environment

Oregon's Medicaid Fraud unit is relatively small when compared to other states with comparable Medicaid budgets. The increasing number of senior citizens in long-term care facilities, the growing size of the Medicaid budget, the greater number of Medicaid providers, a federal expansion of the section's jurisdiction, and the increasing sophistication seen in health care fraud schemes has substantially increased the workload for this unit. Over the last three years, case referrals to the unit have increased over 500%. In 2006, the unit was able to formally investigate less than one of every 3 referred cases; so far in 2008, the unit was able to formally investigate less than one of every 15 referred cases. The unit must decline to investigate and prosecute cases not only involving billing fraud allegations, but cases involving alleged abuse and neglect of the elderly and disabled persons.

The Financial Fraud/Consumer Protection section anticipates a continued flow of consumer complaints, including that of Internet fraud. Consumer hotline calls totaled 89,001 for the two year period ending June 2009, a slight increase from previous years. The written and electronically submitted complaints totaled almost 24,128 for the same period. Restitution to consumers between July 2007 and June 2009 totaled $4.4 million. Before 2003-05, General Fund resources represented roughly one third of the funding for this program, but now it relies on recoveries from enforcement actions.

The number of registered charitable organizations has increased from about 3,000 in the early 1990s to 15,514 as of June 2009. This unit must monitor performance and proposed actions of charitable organizations. Prior to modifying or terminating a charitable trust, the trust's proposed actions must be reviewed by this unit. Over the past three years, there has been an average of 37 such reviews performed. Nonprofit gaming organizations, numbering 607 (June 2009), are also monitored including screening applicants for licenses and insuring compliance with rules.

Essential Budget Level

The 2000-11 essential budget level (EBL) for this Division of $51.1 million total funds is 37.5% greater than the 2007-09 legislatively approved budget. The major reason for this increase is the transfer of 37 positions and funding (roughly $14 million) from the General Counsel Division for the Juvenile Dependency program. This includes $2.9 million in funding for payments to District Attorney offices for their responsibilities around child dependency. Other factors in the total funds increase include employee compensation increases approved in 2007-09 and inflation.

The General Fund for the Division fell by over 75% due to funding being included in 2007-09 for the defense of the state's position with the Master Settlement Agreement with tobacco companies. Since this hopefully is not an ongoing demand for state funding in the future, it is not included in EBL, but the 2009-11 legislatively adopted budget does include funding to pay for DOJ staff working on the issue and for the services of outside counsel given the unique and complex nature of the legal actions with the tobacco companies. Roughly $1.5 million was spent for this purpose during 2007-09 but it is difficult to predict the amount required for 2009-11. The movement of the case through the courts as well as arbitration proceedings will drive the funding required.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget for this Division of $53.4 million total funds is 4.3% more than the 2009-11 EBL. The General Fund budget is $1.2 million, or over 230%, greater than EBL primarily because of two additions; (1) a $500,000 appropriation for the defense of the Master Settlement Agreement (MSA) discussed above, and (2) the creation of a new three position unit ($642,861 General Fund) to address civil rights issues. Other changes to this budget include:

- An additional $500,000 Other Funds is directed from the Tobacco Enforcement Fund to the defense of the MSA bringing the total to $1 million in this budget. There is also a $1.5 million General Fund special purpose appropriation for this purpose.
- An enhancement to the Civil Recovery Section is funded through charges to SAIF (1 position/$151,433 Other Funds).
- Six new positions ($1.1 million Other Funds) are established for investigating unlawful marketplace conduct in the Consumer Protection and Education (CPE) unit including those related to mortgage transactions.

- Three new positions are established to provide for electronic filing and storage of records related to the growing number of charitable organizations which will be paid with fees ($452,814 Other Funds).
- A total of $1.3 million total funds in the amount included in the EBL for employee compensation are reduced from the budget, a reduction common to most state agencies.
- A grant program to nonprofits is created to provide foreclosure relief services ($501,985 Other Funds). Funding for this program is from a financial settlement with Countrywide Financial Corporation.

DOJ – Criminal Justice Division

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	6,746,882	7,319,255	9,473,255	7,727,517
Other Funds	9,850,122	11,343,641	11,136,940	11,060,319
Federal Funds	1,709,413	6,968,386	7,061,969	9,768,821
Other Funds (NL)	143,535	1,029,379	282,136	632,136
Total Funds	**$18,449,952**	**$26,660,661**	**$27,954,300**	**$29,188,793**
Positions	73	85	71	76
FTE	71.36	76.14	70.12	71.37

Program Description

The Division is organized into two sections:

- The ***District Attorney Assistance*** section assists the 36 District Attorney (DA) offices in criminal cases and matters relating to prosecution and law enforcement in their respective counties by providing trial and investigative assistance, technical-legal and prosecutorial advice and services, and legal education and training in criminal law and procedures. In isolated cases, DOJ staff may step in and act as the county District Attorney.
- The primary purpose of the ***Organized Crime*** section is to detect and combat organized criminal activities in the state and to investigate allegations of corruption or malfeasance by public officials in Oregon. This section operates the Criminal Intelligence Unit (CIU), which provides analytical services to Oregon law enforcement and also maintains the Oregon State Intelligence Network, the primary intelligence sharing network for Oregon law enforcement. This section also hosts the Western States Information Network for Oregon which shares intelligence information among five western states; manages the Oregon TITAN Fusion Center which provides intelligence services to law enforcement to combat terrorism in Oregon, participates as part of the Cooperative Disabilities Investigation Unit; and participates as part of the federal/state/local High Intensity Drug Trafficking Areas (HIDTA) initiative. In the past this unit has also been part of the Tobacco Tax Compliance Task Force with the Departments of State Police and Revenue.

Revenue Sources and Relationships

The District Attorneys' Assistance section is funded primarily by the General Fund. The Criminal Intelligence section is funded with a mixture of funding including General Fund. The section receives federal funding for the federally designated High Intensity Drug Trafficking Area program ($6.3 million Federal Funds), federal asset forfeiture ($108,530 Federal Funds), Marijuana Eradication ($936,855 Federal Funds). Most of these federal funds are passed along to local law enforcement agencies. The Division also receives funds from a contract with the California Department of Justice, which administers the federal grant supporting the Western States Information Network ($1.6 million Other Funds). A grant from the Department of Transportation ($296,882 Other Funds) supports the DUII program, and funds from the Department of Human Services provide for the operation of the Cooperative Disability Investigations Unit ($980,292 Other Funds). Federal grant funds passing through the Oregon Military Department support the Fusion Center ($988,582 Other Funds).

Budget Environment

The Organized Crime section and its Criminal Intelligence Unit have seen an increasing workload due to a significant demand from law enforcement agencies across the state. In 2008, the Division had 226 open intelligence cases, 109 organized crime cases (not including tobacco and DPSST-related cases), 25 open DA Assistance cases (including 7 homicide cases), and 25 open election violation investigations. The Division closed over 183 cases in fiscal year 2008.

With the decreases in state financial assistance to District Attorney offices, the demand for the District Attorney Assistance program has increased. The Division provides emergency legal advice to District Attorney Offices and law enforcement personnel; 657 cases in 2006 and 1,438 in 2008. In the past, the program had to take responsibility for the operation of DA offices in a number of counties as vacancies occurred.

Essential Budget Level

The 2000-11 essential budget level (EBL) for this Division of $28 million total funds is 4.9% greater than the 2007-09 legislatively approved budget. The General Fund EBL for the same period increases by 29.4 %. The growth in both General Fund and total fund resources is primarily due to employee compensation increases approved during 2007-09 and inflation. General Fund growth is higher since it supports proportionately more staff than other funding sources. In addition, $1.3 million General Fund reductions were made to the 2007-09 budget during the 2009 legislative session adding to the increase between 2007-09 and the 2009-11 EBL since the full level of services are assumed in the EBL.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget (LAB) for this Division of $29.2 million total funds is $1.2 million greater (4. 4%) than the 2009-11 EBL. The General Fund budget of $7.7 million is 18.4% under the EBL. The 2009-11 LAB includes a $947,771, or 10%, cut in General Fund for programs which assist District Attorney offices, perform criminal and drug related investigations and prosecutions, and provide intelligence information on criminal activity and terrorism to law enforcement agencies. Other changes in the 2009-11 budget include:

- A new three position (2.67 FTE) unit is created to pursue environmental related prosecutions. This unit will assist District Attorney offices who do not have the expertise or time to deal with these types of cases. Funding ($714,728 Other Funds) will come from the Department of Justice Protection and Education Fund (formerly the Consumer Protection and Educational Fund).
- A statewide DUII attorney position is funded by ODOT to provide advice and training to local law enforcement ($296,882 Other Funds).
- Funding for the Fusion Center program is continued which provides terrorism related intelligence ($899,558 Other Funds/5 positions). Funding is not guaranteed for the full biennium for this program.
- The Regional Automated Information Network is continued which is a database of police reports which law enforcement agencies can share ($400,505 Other Funds/2 positions).
- The Tobacco Tax Compliance Task Force, a joint effort with the Department of State Police and Department of Revenue is eliminated. The 2009-11 budget assumes eliminating both DOJ's and the State Police's participation in this task force cutting $1.6 million Other Funds and 6 positions from this Division's budget.
- Increases in limitation are included for three grants which were not included in the EBL – (1) $1.8 million Federal Funds for an increase in the High Intensity Drug Trafficking Area (HIDTA) program, (2) $655,983 in Federal Funds and three positions for the continuation of the Internet Crimes Against Children (ICAC) program, and (3) $350,000 Other Funds (Nonlimited) for increases in the revenue from the RICO program.
- Reductions of $1.3 million total funds ($797,967 General Fund) are made that are common to most state agencies including cuts in employee compensation resources and statewide assessments including the reduction in the legal rate.

DOJ – Crime Victims' Services Division

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	2,562,976	4,708,524	4,862,677	5,828,861
Other Funds	19,721,559	24,155,442	24,723,462	23,504,952
Federal Funds	11,120,890	15,342,142	15,718,324	18,378,985
Other Funds (NL)	1,245,701	3,069,311	3,155,252	3,155,252
Total Funds	**$34,651,126**	**$47,275,419**	**$48,459,715**	**$50,868,050**
Positions	29	32	30	34
FTE	27.53	29.34	28.92	32.64

Program Description

The Crime Victims' Services Division, formally a section of the Criminal Justice Division, is responsible for administering the following programs on behalf of innocent crime victims:

- The ***Crime Victims' Compensation program*** was created to provide assistance to innocent victims who sustain injuries resulting from criminal activity.
- The F***ederal Victims of Crime Act*** provides funds to states and local organizations for victims' assistance.
- The ***Prosecutor-based Victim/Witness Assistance*** program is a grant program to certified prosecutors' offices across the state who maintain local crime victims' assistance programs.
- The state ***Crime Victim Grant program*** makes grants to local public and private agencies that provide services to victims of violent crimes.
- The ***Child Abuse Multidisciplinary Intervention (CAMI) grant program*** provides state funds to 36 county teams for a multidisciplinary approach to assessment, investigation, and prosecution of child abuse cases.
- The ***Regional Child Abuse Services grant program*** provides funding to five regional service providers to support and provide technical assistance to CAMI teams and others.
- The ***Child Abuse Medical Assessment program*** pays for child abuse medical assessments in certain cases.
- The 2001 Legislature created ***the Domestic and Sexual Violence Services Fund*** with General Fund to advocate, provide safety, promote cooperation among agencies, and stabilize the infrastructure for these victims of assault.
- The ***Sexual Assault Victims' Emergency Medical Response Fund*** provides assistance to victims of sexual assault to ensure they have access to an immediate medical exam and forensic evidence collection.
- The ***Address Confidentiality Program*** provides a substitute address for forwarding mail for victims of domestic violence, sexual assault, and stalking.
- The ***Federal Violence Against Women Act formula grant program*** provides funding for prosecution, advocacy, law enforcement, and court activities dedicated to stopping violence against women.

Revenue Sources and Relationships

The Crime Victims' Compensation program, Regional Child Assessment Centers grants, Child Abuse Medical Assessments and the CAMI program are supported all or in part by the Criminal Fine and Assessment Account or CFAA ($18.7 million Other Funds). Crime victims programs also receive funding from punitive damages and restitution ($2.1 million Other Funds), and federal grant funds ($18.4 million Federal Funds). These federal grants are derived from penalty assessments levied against offenders in federal courts. The General Fund provides resources for the Address Confidentiality Program and the Domestic and Sexual Violence Program.

Budget Environment

The number of applications received by the Crime Victims' Compensation program continues to increase, averaging 370 per month in 2001-03, 428 in 2003-05, and 478 in 2005-07. For 2007-09, the monthly claim average was 529, a 9% increase over 2005-07 and a 41% increase over 2001-03.

Essential Budget Level

The 2000-11 essential budget level (EBL) for this Division of $48.5 million total funds is 2.5% greater than the 2007-09 legislatively approved budget. The General Fund EBL of $4.9 million increases by 3.3% for the same period. The growth in both General Fund and total fund resources is primarily inflation adjustments that are part of developing the EBL.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget for this Division of $50.9 million total funds is $2.4 million more (5%) than the 2009-11 EBL. The 2009-11 LAB General Fund budget is 19.9% greater than the EBL. The increase in the Division's General Fund is primarily due to the $1 million appropriation for increased medical assessments for children who are suspected victims of physical abuse. This additional funding was added in part due to the increased workload for community organizations that came about by the "Karly's Law" passed in 2007.

Other Funds expenditure limitation was reduced by a total of $1.8 million due to less funding being made available from the Criminal Fines and Assessment (CFAA) revenue stream. It is expected that these reductions will be taken proportionately across the four CFAA funded programs which are the Child Abuse Multidisciplinary Intervention (or CAMI) program, the Crime Victims' Compensation program, Regional Assessment Centers, and child abuse medical assessments. The Crime Victims Rights program is continued along with three positions ($640,670 Other Funds). This program in the past has been funded with federal grants, but now will be continued using revenues from punitive damages. These revenues have been used by programs across the division to fill gaps where other funding sources have been insufficient.

Federal stimulus funding through the American Recovery and Reinvestment Act (ARRA) of $751,000 Federal Funds is added for crime victims programs. In addition, further funding through the federal Violence Against Women Act funds (VAWA) of $1.9 million is added as further funding was made available.

DOJ – General Counsel Division

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	35,335,741	54,847,022	47,081,577	43,501,457
Total Funds	**$35,335,741**	**$54,847,022**	**$47,081,577**	**$43,501,457**
Positions	178	202	157	158
FTE	172.75	195.13	156.75	157.95

Program Description

The General Counsel Division provides a broad range of legal services to state officials, agencies, boards, and commissions. Staff provides oral and written legal advice, drafts or reviews contracts and other documents, represents agencies in administrative hearings, and furnishes legal opinions. The Division also handles some litigation and appellate work involving client agencies. State agencies generate varied and diverse legal issues. To deal with this broad range of subject matter, the Division is organized into the following eight sections: Business Activities, Government Services, Human Services and Education, Labor and Employment, Natural Resources, Regulated Utility and Business, Tax and Finance, and Business Transactions. State agencies generally must use the legal services of DOJ, and not contract with outside counsel or hire attorneys on staff for legal services without DOJ approval.

Revenue Sources and Relationships

Funds to support the General Counsel Division come from billings to state agencies and are all classified as Other Funds.

Budget Environment

This Division's workload shows increases in some areas and decreases in others, but overall workload has stabilized over the past several biennia following a period of substantial growth. Actual demand for General Counsel services depends on the needs of state agencies. The DOJ asserts the legal work performed by this Division is becoming more complex. Areas where workload has increased include Ballot Measure 37 and 49 claims, siting of renewable energy projects and liquefied natural gas terminal facilities, innovative business transactions involving information technology and intellectual property, and water quality work related to the Portland riverfront and cleanup of the Portland harbor. Areas of decreased work include legal advice for the Oregon University System and some divisions of the Department of Consumer and Business Services. Advice to agencies on employment related issues has decreased some, but if layoffs do occur in the future this may change. In July 2000, the number of pending matters was 19,591, in July 2007 it was 24,622, and in July 2009 it was 25,152.

Essential Budget Level

The 2000-11 essential budget level (EBL) for this Division of $47.1 million Other Funds is 14.2% less than the 2007-09 legislatively approved budget. The primary reason for this significant reduction is the transfer of 37 positions and roughly $11.2 million in personal services and services and supplies costs to the Civil Enforcement Division relating to juvenile dependency functions. In addition, another $2.9 million is transferred to the Civil Enforcement Division for grants to county based District Attorney offices. Partially offsetting this reduction are significant increases in employee compensation costs approved during 2007-09 since many of the staff in this Division are attorneys.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget for this Division of $43.5 million total funds is $3.6 million, or 7.6%, less than the 2009-11 EBL. The primary reasons for this decrease include a $1.5 million reduction in resources assumed for employee compensation common to most state agencies. In addition, $2 million was reduced by the Legislature to prompt the agency in finding efficiencies in the way DOJ provides general legal assistance and advice to state agencies. As part of this action, resources budgeted for legal services are reduced in all state agency budgets by 2%. A related budget note is included instructing DOJ to report to the 2010 special session on the plans and expected outcomes to achieve these savings. An attorney position is added for projected increases in workload in the Business Transactions section.

DOJ – Trial Division

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	15,993,136	22,448,551	24,644,191	24,816,549
Total Funds	**$15,993,136**	**$22,448,551**	**$24,644,191**	**$24,816,549**
Positions	91	98	100	106
FTE	87.67	96.59	99.24	104.92

Program Description

The Trial Division defends the state and its agencies, departments, boards, commissions, officers, employees, and agents in all state and federal trial courts. . The Division is organized into five sections; (1) Commercial, Condemnation and Environmental Litigation (CC&E), (2) Criminal and Collateral Remedies (CCR), (3) Torts, (4) Employment Litigation, and (5) the Special Litigation Unit (SLU). The cases range from defending a state employee involved in an auto accident while on state business to defending the Legislature from constitutional challenges to its authority to pass certain laws. The Division also handles all trial court cases involving inmate litigation. These cases may include appeals from their state court convictions or alleged violations of inmates' constitutional rights.

Revenue Sources and Relationships

Most of the revenue to support this Division is from billings to state agency clients. However, some types of appeal cases heard in trial courts are filed by or on behalf of incarcerated persons and are charged against the General Fund appropriation for the Defense of Criminal Convictions (DCC).

Budget Environment

In 2007, the Criminal and Collateral Remedies unit opened 739 state post-conviction and habeas corpus cases. For 2008, the unit opened 654 cases and had 968 cases pending. This unit also handles mandamus cases and hearings before the Psychiatric Security Review Board. This workload is expected to increase as more prisoners are filing legal actions dealing with issues such as conditions of confinement, as well as efforts to overturn prior convictions and avoid lengthy mandatory sentences for repeat offenses. Post-conviction cases drastically increased in 2005 due in large part to federal court decisions, but returned to historically expected levels in 2006 through 2008. As expected, federal *habeas corpus* cases increased in 2006 and 2007 since they lag the state cases but they are returning to lower levels also. Additionally, the case complexity has increased over the last several years due to increased active participation by the petitioners and counsel.

Special litigation issues continue to increase in number and complexity. Many issues place the state at risk of losing a substantial amount of money. Ballot initiatives prompt challenges to the language of the measures, appropriateness for the ballot, the validity of the supporting signatures, the counting of the votes, and the sufficiency of measures, if passed. Significant human service-related cases have added workload to the unit. Civil rights, the American with Disabilities Act (ADA), and entitlement to service are all issues the Division must face.

The Torts Section has experienced an increase in financial exposure of cases based on the nature of claims and the decreased effectiveness of the Oregon Tort Claims Act damage caps following *Clarke v. OHSU.* Additionally, there has been an increase in exposure from the claims of former state wards because of a rise in sex abuse and neglect cases and a growing reluctance of courts to apply statute of limitations defenses. The

Torts Section also handles inmate civil rights claims, including civil rights actions claiming that Department of Corrections' personnel violated inmates' civil rights. There has been a natural increase in these claims with the rise in inmate prison population and the opening of new prisons. Over a five year period of time, the medical malpractice claims by inmates have increased roughly 200%.

The Department has seen a rise in employment litigation. From December 2000 through May 2008, there was a 74% increase in employment cases. There has been a substantial increase in the need for discovery support in employment litigation as a result of electronic discovery and the threat of judicial sanctions when agencies do not adequately comply with their discovery obligations.

The number of condemnation and inverse condemnation cases in the Commercial Condemnation and Environmental (CC&E) Litigation Section has remained steady from 2007 through 2008, at 32 and 30 cases respectively. Although this is approximately half the high number of such cases filed in 2005 – 2006 (approximately 70 cases per year, up from approximately 31 cases in 2003), it is expected that there will again be a substantial increase in the number of these cases due to the passage of Measure 39 and a recent Oregon Supreme Court decision that makes it advantageous for condemnation defendants to go to trial. The CC&E Section also handles Measure 37 and 49 cases. During 2006 and 2007, there were hundreds of Measure 37 cases in the Department of Justice. With the passage of Measure 49 in November 2007 and the issuance of a number of favorable state court decisions applying Measure 49 in place of Measure 37, many of the existing lawsuits were dismissed and fewer new cases were filed. However, a recent federal court decision, which grants constitutional protection to Measure 37 waivers, will likely lead to a new wave of case filings under Measure 37. It will likely take several years for the state and federal courts to work through the complex legal issues concerning the relationship of Measure 49 to Measure 37, resulting in increased litigation in state and federal courts.

Essential Budget Level

The 2000-11 essential budget level (EBL) for this Division of $24.6 million Other Funds is 9.8% greater than the 2007-09 legislatively approved budget. Beyond inflation and compensation increases approved during 2007-09, the increase is due to the mandated caseload increase of $1.1 million and five positions for Defense of Criminal Convictions (DCC). The agency projected almost 4,800 new DCC cases which are worked in both this Division and the Appellate Division. More up-to-date information was available during the 2009 legislative session so adjustments in the legislatively adopted budget were made. This DCC increase is the only one approved as part of a mandated caseload, but there has been growth in other case types for this Division which are addressed in policy packages and not through the EBL process.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget for this Division of $24.8 million Other Funds is less than 1% greater than the 2009-11 EBL. The budget was adjusted to reflect the agency-wide reduction in the funding from EBL for Defense of Criminal Convictions (DCC) of $3.8 million, but, because of the shift in workload from the Appellate Division to this Division, the overall change in the DCC budget for Trial is an increase of $143,607 Other Funds. Other adjustments in the 2009-11 budget include:

- Three positions ($525,565 Other Funds) are added to address the projected tort related workload including actions resulting from the *Clarke v. OHSU* case, increased sex abuse and neglect cases, changes in privacy rights, and other tort related cases.
- An investigator position ($166,868 Other Funds) is added to assist the attorneys in the Division. This additional cost will be funded through billings of state agencies.
- Reductions of $825,328 Other Funds are made that are common to most state agencies including cuts in employee compensation resources and statewide assessments.

DOJ – Child Support Division

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	11,469,761	15,424,082	21,653,803	18,641,916
Other Funds	22,420,756	29,259,079	26,584,382	25,714,888
Federal Funds	63,150,602	75,668,601	78,928,404	80,162,608
Other Funds (NL)	3,826,120	4,495,315	4,551,461	4,083,967
Federal Funds (NL)	17,144,814	15,101,812	15,035,429	15,857,750
Total Funds	**$118,012,053**	**$139,948,889**	**$146,753,469**	**$144,461,129**
Positions	562	597	596	596
FTE	561.58	594.78	593.78	593.78

Program Description

This Division locates parents, establishes paternity, enforces and modifies child support obligations, and receives and distributes support payments from absent parents. The Child Support program provides these services automatically for families that are requesting, are receiving, or have received, public assistance from the Department of Human Services (DHS); if the child is in the care of DHS's child welfare program or the Oregon Youth Authority (OYA); or if the case has been referred by another state. The program also provides these services to other families if they request the service. In addition, the Douglas, Gilliam, Hood River, Lake, Curry, Linn, Sherman, Deschutes, Jefferson, and Wheeler County District Attorneys have chosen not to provide their own programs and contract with DOJ to handle all their child support cases.

Revenue Sources and Relationships

Federal Funds (at EBL) generally support 64% of the program costs (includes Nonlimited expenditures); General Fund covers 14.8%, and local funds and recoverables pay the remaining 21.2% based on 2009-11 essential budget level (EBL). The Deficit Reduction Act of 2005 (DRA) discontinued the Child Support Program's ability to federally match incentive award funds. This effectively changed the funding mix necessary to keep the program at the same level as in the past, thereby increasing the amount of General Fund required. The DRA also affects the programs operated by the District Attorneys (DA) in a similar manner.

Budget Environment

The program serves roughly 226,534 families per year and is expected to grow slightly in 2009-11. This is slightly down from the level in previous biennia. In the past, the DA programs have provided services to approximately 19% of these families. The other 81% represents closed public assistance cases and private cases. Approximately 15% of the DOJ caseload is receiving, or has recently received, a DHS or OYA payment or service. Collections continue to grow, in part, due to economic factors like inflation. The total collections to the Division's cost ratio is as follows; for every dollar spent, $5.93 was collected in 2003-05, $5.57 for 2006, and $6.01 in 2008. The estimated amount for 2009 is $5.47. Compared to surrounding states, Oregon's performance in child support is relatively good. In federal fiscal year 2007, the amount of support collected per FTE in Oregon exceeded the amount collected in California and Washington. The average number of cases handled during the same time period per FTE in Oregon is 324, with California averaging 169 and Washington at 217.

Oregon uses recoveries to assist in funding the state's share of the program costs. Over time, the amount of recoveries has fallen relative to the costs of the program. This is due to changes in federal policies such as the federal distribution rules to support the National Strategic Plan. The 2007 Legislature passed HB 2469 which re-established the pass-through payment which makes more money available to families receiving child support. Under this bill, each child receives up to $50 each month (up to $200 per family) which reduces the amount available to the Child Support program for operating the program. Falling Temporary Assistance to Needy Families (TANF) caseloads have also contributed to the decrease in recoveries in previous years but TANF caseloads are expected to increase given the current economic conditions.

Federal law sets out performance measures for states to meet. If any state fails to meet these standards, the federal government has the authority to penalize that state by reducing the TANF grant, which is a major funding source for assistance payments and child welfare programs in the Department of Human Services. If any state fails to meet the requirements of its state plan for child support (e.g., information systems requirements), the federal government may reduce its share of support for operating the program.

Essential Budget Level

The 2000-11 essential budget level (EBL) for this Division of $146.8 million total funds is 4.9% greater than the 2007-09 legislatively approved budget. The General Fund EBL of $21.7 million for the same period increases by $6.2 million, or 40.4 %. The growth in the General Fund is due to a $3.7 million fund shift made by the 2009 Legislature replacing General Fund with one-time federal funding for 2007-09 as well as a $1.5 million fund shift from Other Funds to General Fund resulting from passage of HB 2469 (2007). The Division had relied on these funds as resources for the Division's costs of operation. The EBL also removed $1.9 million in one-time excess limitation and General Fund for replacing lost federal and local revenue in 2007-09. Other increases in the EBL are due to employee compensation increases approved during 2007-09 and inflation.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget for this Division of $144.5 million total funds is $2.3 million, or 1.6%, less than the 2009-11 EBL. The LAB General Fund budget of $18.6 million is $3 million, or 13.9%, less than the EBL. This overall decrease in the Division's General Fund is the net result of three major factors. The first is a change in the calculation of the federal incentive payments estimated to reduce federal funds by $2.5 million. The second change eliminates the Division's authority to conditionally assign certain arrears to the state for collection which is estimated to reduce $1 million in Other Funds revenue and $1.9 million in Federal Funds revenue. Without the additional General Fund resources DOJ asserted that 28 positions (27.95 FTE) would have to be eliminated. The third factor was the use of $3.6 million of federal stimulus funding through the American Recovery and Reinvestment Act (ARRA) which could be used to backfill an equal amount of General Fund in this Division's budget. At this time, it is expected that this is a one-time action and that a corresponding amount of General Fund will have to be added to the 2011-13 budget to maintain program levels. In addition, a total of $2.7 million total funds ($485,611 General Fund) is reduced from this budget as with most other state agencies as it relates to employee compensation assumptions for 2009-11.

DOJ – Defense of Criminal Convictions

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	11,758,707	19,686,826	28,410,273	20,911,553
Total Funds	**$11,758,707**	**$19,686,826**	**$28,410,273**	**$20,911,553**

Program Description

Defense of Criminal Convictions (DCC), formally referred to as Criminal Appeals, is a budgetary unit to track the cost to the Department of defending the state in cases in which sentenced offenders challenge their convictions or sentences. Three types of cases are funded from these funds: (1) direct criminal appeals where the offender's challenge is on alleged legal or factual errors of the trial; (2) post-conviction challenges where the offender challenges the effectiveness of their counsel; or (3) federal *habeas corpus* where the offender challenges violations of the constitutional rights in the federal courts. Personnel and resources connected to this work are part of the Trial and Appellate Divisions who bill this budget unit for the work on the individual cases. Work on ballot measure titles is also billed to this fund.

Revenue Sources and Relationships

Criminal and capital appeals work is primarily financed by the General Fund. In 1997-99 and 1999-2001, this program was "subsidized" by adding a "surcharge" to the fee charged to agencies for legal services. In 2001-03, the subsidy was terminated when General Fund was added to this budget unit.

Budget Environment

Funding for this program has increased dramatically in recent biennia. In 2005-07, the budget for this program was just less than $12 million General Fund while the 2009-11 EBL is now estimated at $28.4 million General Fund, a 141% increase over the period. The Legislatively adopted budget for 2009-11 was reduced and will need to be reviewed during the biennium to see if is meeting the needs of the program.

A number of factors drive the workload and costs of the Trial and Appellate Divisions in working these DCC cases. These include:

- The number of contested criminal convictions is primarily due to the number of offenders in the correctional system. The number of contested convictions will likely increase in the future due to Ballot Measure 11, since offenders are serving longer sentences and they are more likely to pursue all available avenues of appeal including post-conviction and federal *habeas corpus* challenges. The passage of Ballot Measure 57 dealing with property crime sentences will likely also drive up the number of contested convictions over time but given the new implementation schedule for Measure 57 this impact is difficult to gauge at this time for 2009-11.
- 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.
- If there are delays in the state appeals process, some offenders may appeal directly through the federal *habeas corpus* process where DOJ also defends the state's interest. Since public defender resources are much greater at the federal level, and cases are further developed, individual case costs for DOJ are much greater.
- The complexity of individual cases is a major factor since it drives up the time spent on each case. This is one of the primary reason capital cases are so time consuming and expensive.
- The courts limit the amount of time that cases can be delayed. Timelines set by the Court of Appeals in the past few years has limited the ability of the agency to delay these cases which is a primary reason for the request for additional funding for 2007-09. The chief judge of the Court of Appeals had indicated that he may order further reductions in the delay of appeals in 2009-11 but at this time has decided not to go forward with that decision for 2009-11.
- The U.S. Supreme Court recently made changes in two significant areas of criminal law, often referred to as the *Blakely* and *Crawford* cases. As a result, hundreds of state criminal convictions have been reversed and remanded to the trial courts. In addition, the opinions have left unanswered critical questions about how to implement the decisions. While many of the issues have been resolved, there remain some unanswered questions the state appellate courts must address. In addition, there is the possibility that the U.S. Supreme Court will decide to review the constitutionality of Oregon non-unanimous jury provision in 2009-11.
- While many of the issues have been resolved, a number of unanswered questions remain which the state appellate courts and, potentially, the U.S. Supreme Court must address.

The agency took a number of actions to manage the growing caseload starting in 2005-07 and 2007-09 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.

Essential Budget Level

The 2009-11 essential budget level (EBL) for the Defense of Criminal Convictions program unit of $28.4 million General Fund is $8.7 million, or 44.3%, greater than the 2007-09 legislatively approved budget. There are two primary reasons for this increase. As noted above, the rate for attorney services increases by over 25% in the EBL affecting this program since attorneys in the Appellate and Trial Divisions charge this fund for their services. The overall impact of this in the 2009-11 EBL is $4.5 million General Fund. The Legislatively adopted budget assumes a lower rate effectively reducing the need for resources by over $3 million General Fund. Mandated caseload growth represents the other $4.1 million of the increase based on the agency's projections. The agency anticipated that 769 cases will be carried forward from the 2009-11 period while another 4,023 new cases will be recorded. At the time the EBL was developed, the agency estimated that 593 cases will need to be carried forward into the 2011-13 biennium. More up-to-date information is discussed below.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget for the DCC program of $20.9 million General Fund is $7.5 million, or 26.4%, less than the EBL. This reduction is due to two factors. First the reduction in the legal rate from $158 to $137 generated a savings of $3.7 million. The second factor was a $3.8 million decrease in funding from the amount calculated for the EBL. More recent estimates of the expected caseload show that the funding gap from this reduction has been reduced to just under $2 million. The reduction in the gap is based in part on fewer cases (over 300) being brought forward from 2007-09, which reduces the total number of cases which will be worked during 2009-11. Based on the most recent forecast, 430 cases will be carried forward from 2007-09 and an estimated 4,248 new cases will be opened during 2009-11, with an estimated 761 cases to be carried forward into 2011-13. It should be noted that these are estimates and can change based on a number of factors including average time spent on cases, the actual number of cases opened, the legal rate charged for the work on the cases, impact of state and federal court decisions, and the actual number of staff attorney hours available to the program.

Military Department (OMD) – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	18,237,338	24,068,731	28,323,692	26,078,460
Other Funds	11,084,025	133,035,128	84,111,080	126,447,477
Federal Funds	70,018,953	339,851,526	237,131,727	258,213,859
Other Funds (NL)	649,012	0	0	0
Total Funds	**$99,989,328**	**$496,955,385**	**$349,566,499**	**$410,739,796**
Positions	479	518	511	525
FTE	437.37	476.23	470.93	485.72

Agency Overview

The Oregon Military Department (OMD) is responsible for administration of the Oregon Army National Guard, the Oregon Air National Guard, the Oregon State Defense Force, and, beginning with the 2007 biennium, the Office of Emergency Management.

The National Guard is a federal-state partnership with a dual mission: (a) provide combat-ready units and equipment in support of national defense, and (b) provide units and equipment to protect life and property during natural disasters and civil unrest, as well as to provide backup support to law enforcement. The National Guard serves on a day-to-day basis under the command of the Governor, but is available to the federal government upon order of the President of the United States. The Department is overseen by an Adjutant General, appointed by the Governor to a four-year term of office. The Adjutant General also services as the homeland security advisor to the Governor and chief of staff of the Governor's Military Council.

Although chartered as a state agency, the Department is functionally and administratively bifurcated into a state and a federal "agency," both of which are overseen by the Adjutant General. The federal government directly funds federal employees, guard member salaries and wages, and all equipment and equipment maintenance. For the state, its responsibility primarily centers on providing facilities and facility maintenance for the Oregon Guard. The federal government, however, also is a major source of funds for new construction and some facility operating funds.

Due to a variety of factors, the most significant being that the Department's primary source of funding is from the federal government, the state's National Guard is a partnership of unequal partners. The Department's ability to successfully do either a state or a federal mission, or both missions concurrently, is highly dependant upon the actions of the President of the United States, the actions of federal agencies such as the National Guard Bureau and/or the U.S. Department of Homeland Security, and U.S. Congressional appropriations to the National Guard Bureau.

Beginning with the War on Terror, and since the 2005 biennium, the Department has provided assistance to National Guard Veterans and their families. This is another example of federal-state partnership funding with Oregon providing supplemental funding for programs the state considers important to Oregon guardspersons, but for which federal funding is either limited or not available. These include the state's reintegration program, emergency financial assistance for guardspersons and their families.

A responsibility unrelated to the Department's primary mission is youth education. For example, the Youth Challenge Program provides at-risk high school dropouts an opportunity to complete educational credit with a goal of reintegrating into high school to earn a diploma or prepare for the General Education Development (GED) examination. Other youth educational opportunities also exist at Oregon's two airbases.

The 2007 Legislature (HB 2370) further expanded the Department's statutory mission to include the responsibility of state emergency management. This measure moved the state's Office of Emergency Management (OEM), and a portion of the Criminal Justice Services Division (CJSD) related to homeland security, from the Department of State Police (OSP) to the Military Department. The legislative intent of combining the state's emergency management and National Guard responsibilities under one agency is to better prepare the state for a catastrophic event. This structure is similar to a number of other states, including Washington.

Revenue Sources and Relationships

Revenue for the Department comes from a combination of General Fund, Other Funds, and Federal Funds. Beginning in the 1977-79 biennium, the Department's primary source of funding has shifted dramatically from General Fund to Federal Funds, and to a lesser extent, Other Funds.

The federal government provides two types of funding for the Department:

- State Budgeted Federal Funds ($258 million). These funds are used to finance each of the Department's six major program areas and are based on federal/state cooperative agreements and federal grants. Also included are Federal Funds for major construction projects.
- Federally budgeted and expended Federal Funds (approximately $755 million for 2,255 FTE per biennium). Outside of the state budget, the Department receives direct federal support. These are funds the U.S. Congress allocates to the National Guard Bureau to support the Oregon National Guard and are used to fund federal employees, guard member salaries and wages, and equipment.

If combined, the federal and state expenditures for the Department total approximately $1.2 billion over the course of a biennium.

The level of federal support in the state budget varies by program, type of facility, and type of construction project. For example, troop training costs are entirely supported by Federal Funds as are base security, fire fighters, and Science and Technology Academy Reinforcing Basic Aviation and Space Exploration (STARBASE). Approximately 75% of the costs associated with logistical sites are federally funded. Between 75% and 85% of utility, maintenance, and supply expenditures of the Air National Guard are federally funded. 60% 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.

General Fund support is used to pay for wages and salaries of state employees, debt service, OEM, and as state matching funds for various federal/state agreements.

Other Funds revenue received by the Department totals $126.5 million. The preponderance of the revenue (approximately $100 million) is related to 9-1-1 emergency telecommunications surcharge revenues under OEM. Historically, however, the source of Other Funds for the Department has been facility rental fees and some miscellaneous sales revenue. Rental revenues earned from federally supported facilities are required by the federal government to be used in support of the facility that earned it. The Department's facility rental revenue is $2.8 million before a $106,885 debt service transfer. Rental revenue is somewhat uncertain given current economic conditions. Miscellaneous sales revenues are derived from vending machine profit, coin operated telephones, and recycling programs. Other Funds revenue includes approximately $155,076 in Oregon individual tax check-off deduction revenue that began with the 2006 tax year and is associated with the Emergency Financial Assistance Program. Lastly, Oregon Youth Challenge Program receives Average Daily Membership (ADM) revenue from the Bend-LaPine School District totaling approximately $2 million.

Budget Environment

The Department has many competing priorities. In the larger picture, the critical issues are: (a) addressing the state's emergency preparedness and response issues; (b) addressing the state's homeland security issues; (c) managing the increasing number and duration of federal and state deployments; and (d) continuing the integration of the Office of Emergency Management function into the Department.

The Department also must address: (a) the variety of needs of guardspersons and their families, both during deployment and post-deployment; (b) ongoing recruiting, training, and retention of guardsperson; and (c) the maintenance and construction of new and existing installations.

Essential Budget Level

The essential budget level (EBL) for the Department is $349.6 million, of which $28.3 million is General Fund, $84.1 million is Other Funds, and $237.1 million Federal Funds. The EBL total is $147.4, or 29.7%, less than the current biennium's legislatively approved budget (LAB) of $497 million. The two primary factors that explain this reduction are one-time Emergency Board actions and Capital Construction projects that, according to standard budget procedure, are not budgeted at the EBL for the new biennium. The EBL included standard adjustments for personal service costs, inflation, and the elimination of one-time expenditures.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $410.7 million is $86.2 million, or 17.4%, less than the 2007-09 legislatively approved expenditure level of $497 million and $61.2 million, or 17.5%, more than the $349.6 million essential budget level.

The legislatively adopted budget incorporates the following major changes:

- Continued Reintegration Program funding ($200,000 General Fund; 1 position/1.00 FTE).
- Continued Emergency Financial Relief funding ($500,000 General Fund and $500,000 Other Funds).
- Equipment Refurbishment Program funding ($14,954,818 Federal Funds; 13 positions/13.00 FTE).
- Seismic Rehabilitation Bonds ($29.5 million Other Funds) – funds Articles XI-M and XI-N bonding authority, which is to be distributed in equal amounts to School Districts and Public Safety entities.
- Technology and Response ($5.6 million Other Funds; 2 positons/2.00 FTE) – establishes two permanent, full-time positions and increases payment to Public Safety Answering Points for 9-1-1 activities.
- Capital Improvement funding of $1.2 million Federal Funds for five projects at four facilities.
- Major Construction funding of $10.9 million Other and Federal Funds for 13 projects at nine facilities.
- Debt Service funding of $7.9 million General Fund for Seismic Rehabilitation and Major Construction-related certificate of participation bonding.
- General Fund reductions of $3 million, and $793,071 in General Fund funds shift to Other Funds (9-1-1 revenue, armory rental revenue) and Federal Funds. The single largest General Fund reduction of $1.5 million in the Capital Improvement Program is substantially mitigated by the aforementioned $1.2 million increase in federal funding.
- Standard adjustments totaling $3.7 million General, Other, and Federal Funds, which are comprised of personal service savings ($3 million) and Department of Administrative Services and other assessment savings ($728,350).

OMD – Administration

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	5,697,753	5,481,103	4,612,234	4,880,504
Other Funds	1,875,256	1,931,734	2,066,822	2,757,232
Total Funds	**$7,573,009**	**$7,412,837**	**$6,679,056**	**$7,637,736**
Positions	28	28	26	27
FTE	26.66	26.75	25.00	26.79

Program Description

The Administration program consists of the office of the Adjutant General, Command Group, Financial Administration, Personnel, and Public Affairs. These functions support, administratively, the command of over 8,500 soldiers and airmen, approximately 2,600 state and federal employees, and the oversight for over $2.9 billion in facilities and equipment.

Beginning with the 2005 biennium, the program became responsible for assisting National Guard members and their families through the following four programs:

- ***Reintegration and Veterans' Assistance Program –*** This program provides post-mobilization assistance to National Guard members and their families after soldiers and airmen return from federal deployments.
- ***Emergency Financial Assistance Program –*** This program provides hardship grants and loans to members and immediate family of members of the Oregon National Guard on active duty. According to the

Department, the majority of grants from the fund have been to support families during guard member deployments. During the 2007-09 biennium the program provided over 370 participants with assistance packages averaging $1,745 each.

Revenue Sources and Relationships

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

Budget Environment

The budget environment for the Administration Program is one of increasing managerial and financial complexity as the Department's responsibilities, at both the state and federal level, continue to expand.

Essential Budget Level

The essential budget level (EBL) for the program is $6.7 million, of which $4.6 million is General Fund and $2.1 million is Other Funds. The EBL total is $918,520, or 12.1%, less than the current biennium's legislatively approved budget (LAB) of $7.6 million. This reduction is attributable to the elimination of one-time General Fund appropriations for the following: $500,000 General Fund for the Emergency Assistance Program and $500,000 Other Funds; $60,000 General Fund for hunting and angling license reimbursements; and $30,829 General Fund for the Reintegration Program. The EBL included a technical adjustment increase of $448,546 Other Funds for personal income tax charitable check-off revenues related to the Emergency Assistance Fund. The EBL also included standard adjustments for personal service costs and inflation and includes a $410,941 reduction in state government service charges.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $7.6 million is $40,160, or one percent, more than the 2007-09 legislatively approved expenditure level and $958,680, or 14.4%, more than the $6.7 million essential budget level.

The legislatively adopted budget incorporates the following changes:

- Reintegration Program ($200,000 General Fund; 1 position/1.00 FTE).
- Emergency Financial Relief ($500,000 General Fund and $500,000 Other Funds).
- Provides for payments to members of the Oregon National Guard who were exposed to hexavalent chromium while serving around Basra, Iraq, in 2003 and who develop cancer as a result ($30,000 General Fund [HB 3480]).
- Fund shift $126,906 in General Fund personal service and State Government Service Charge costs to Other Funds (9-1-1 revenue).
- Adjusts the budget to accurately reflect the payment of Adjutant General and Deputy Director personal service costs ($87,691 General Fund).
- Accounting position ($94,212 Other Funds; 1 position/1.00 FTE) – This policy package establishes a new permanent full-time Accounting Technician 2 position.
- Standard adjustments totaling $311,965, which is comprised of personal services ($210,659) and Department of Administrative Services and other assessments ($101,306).

OMD – Operations

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	10,657,287	11,795,254	12,704,001	11,005,657
Other Funds	2,439,673	3,858,024	3,650,627	3,869,511
Federal Funds	57,460,117	86,212,370	69,727,454	83,247,490
Total Funds	**$70,557,077**	**$101,865,648**	**$86,082,082**	**$98,122,658**
Positions	405	398	394	406
FTE	365.45	359.33	355.33	367.33

Program Description

The Operations program is responsible for the operation and management of the Army and Air National Guard programs on a daily basis. The Operations program consists of three major areas of responsibility, Army

National Guard, Air National Guard, and other. These three programs oversee the National Guard's 15 subprograms.

There are three Army National Guard subprograms:
- ***Army National Guard Facilities Operations and Maintenance*** – This program combines all Army National Guard facilities operations and maintenance activities into one program including real property operations and maintenance, logistical facilities, armories, training facilities, security, and automated target systems. The program provides basic operation, maintenance, repair, and alteration support for Oregon Army National Guard facilities. The program is funded primarily by Federal Funds with a state matching requirement of 0% to 50%, depending on the nature of the program.
- ***Army National Guard Construction Operation*** – This program manages construction of Oregon Army National Guard facilities. Construction management includes project oversight, contract administration, and quality assurance to ensure that construction work is completed according to plans, specifications, and terms of the contract. The program is funded with General Fund and Federal Funds.
- ***Army National Guard Environmental Program*** – This program is responsible for overseeing compliance with federal and state environmental regulations for Oregon Army National Guard facilities. The program is 98% federally funded and 2% General Fund.

There are seven Air National Guard subprograms:
- ***Air National Guard Administration Program*** – This program provides command and administrative support for all Oregon Air National Guard programs. Administrative staff is 100% federally funded, while services and supplies are funded by the General Fund.
- ***Air National Guard Civil Engineering Program*** – This program provides facility operations and maintenance, repair, and alteration support for the Portland Air Base, Kingsley Field, and Camp Rilea Air National Guard facilities. The program is funded primarily by Federal Funds, with a state match of 15% to 25%.
- ***Air National Guard Security Program*** – This program provides security police protection at the Portland Air Base and Kingsley Field. Security personnel are instrumental in protecting aircraft and facilities against theft, sabotage, vandalism, and trespassing. This program is 100% federally funded.
- ***Air National Guard Fire Protection Program*** – This program provides fire protection at the Portland Air Base and Kingsley Field. Personnel are trained to contain aircraft fires, perform air crew extraction, and provide structural fire fighting protection. It is the only source for crash/rescue and fire fighting at the Klamath Falls Airport. Some of the structural resources have been used on Conflagration Act fires as recently as the 2006 fire season. This program is 100% federally funded.
- ***Air National Guard Environmental Program*** – This program monitors and ensures environmental compliance at the Portland Air Base, Kingsley Field, and Camp Rilea Air National Guard facilities. The program is funded through a federal-state cooperative agreement and requires state matching funds of 15% to 20%, depending on the program location.
- ***Kingsley Field Billeting Program*** – This program provides lodging to Oregon National Guard members, F-15 fighter pilot students, and flight medicine students receiving training at Kingsley Field. The program is 100% federally funded.
- ***Air National Guard Family Support Services*** – This program provides family readiness and support assistance to the Air National Guard members and their families in Klamath Falls and Portland. Services focus on family and personal readiness, economic viability, and overall satisfaction with life in the Air National Guard by members and their families. The program is 100% federally funded.

The other five subprograms include:
- ***Equipment Refurbishment Program*** – This program provides repair for excess unserviceable electronics, power generation, and support equipment that is then redistributed to fill critical equipment shortages in the National Guard. The program is operated at Camp Withycombe in Clackamas, Oregon and is 100% federally funded.
- ***Counterdrug Program*** – This program supports local, state, and federal law enforcement efforts to stop the flow of illegal drugs into the state and manufacture of illegal drugs in Oregon. In addition, the program supports the drug abuse prevention education and training efforts of community-based organizations. The program utilizes Oregon National Guard members, equipment, and specialized technology to provide technical, operational, training, and reconnaissance/observation that augments drug abuse prevention programs within Oregon. The program is 100% federally funded.

- ***Electronic Security System Program*** – This program provides electronic security systems for all facilities designed for storage of small arms or ammunition. Electronic security system equipment and replacement components are procured directly through the federal supply system with 100% Federal Funds.
- ***Telecommunications Program*** – This program provides procurement, operation, and maintenance of the Oregon Army National Guard telecommunications system and is 100% federally funded.
- ***Distance Learning Program*** – This program provides soldiers and their communities access to video teleconferencing, video programming, computer based training, web-based training, interactive audio and video, and electronic mail and network systems. There are seven classroom sites at OMD facilities throughout Oregon. The program is 100% federally funded.

Revenue Sources and Relationships

The Program is funded with a combination of General Fund, Other Funds, and Federal Funds. The source of the Other Funds is primarily facility rental fees ($2.8 million).

Budget Environment

The Oregon National Guard currently has 596 buildings totaling 3.9 million square feet spread across the state in 27 counties. The largest of these facilities are fifteen training/logistical sites, two air bases, and 40 armories. The age of a majority of the Army National Guard facilities, especially armories, makes them inefficient and expensive to operate and maintain. The average age of all Army National Guard facilities is 38 years. The Department reports that 23% of its facilities "meets" the National Guard Bureau/Department of Army standards and are in the best condition, 18% are classified in "adequate" condition, 51% are categorized as being "below the standard" condition, and the remaining 8% are classified as being in "unacceptable" condition. The worsening condition of facilities results in a decline of lease and rental revenue that is a primary revenue source available for operation and maintenance of the armories. It also has a direct and negative impact on recruiting, training, and retaining soldiers, not to mention the retention of such units by the state.

The Operations Program is the largest General Fund program in the Department followed closely by the Debt Service Program. The General Fund in this program is primarily directed to facilities operations and maintenance, including positions supporting this function

Essential Budget Level

The essential budget level (EBL) for the program is $86.1 million, of which $12.7 million is General Fund, $3.7 million is Other Funds, and $69.7 million Federal Funds. The EBL total is $22.6 million, or 20.8%, less than the current biennium's legislatively approved budget (LAB) of $108.6 million. The EBL included standard adjustments for personal service costs and inflation.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $98.1 million is $10.5 million, or 9.7%, less than the 2007-09 legislatively approved expenditure level of $108.6 million and $12 million, or 14%, less than the $86.1 million essential budget level.

The legislatively adopted budget incorporates the following changes:
- Fund Shift ($133 Federal Funds) – shifts a portion of an existing Accountant position funding from $26,305 Federal Funds to $26,192 Other Funds.
- New Operations positions for custodial and administrative work ($165,242 Other Funds and $99,192 Federal Funds; 3 positions/3.00 FTE).
- Upward reclassification of six positions across program functions ($12,674 Other Funds and $13,545 Federal Funds).
- Lane County Field Maintenance Shop, operations and maintenance ($74,969 Federal Funds).
- Limited duration positions to permanent full-time for a Food Services Manager 2 and a Natural Resources Specialist 1 ($129,834 Other Funds and $126,258 Federal Funds; 2 positions/2.00 FTE).
- Equipment refurbishment program change in federal procurement practice ($13,495,000 Federal Funds).
- New Equipment Refurbishment Program positions ($1,459,818 Federal Funds; 13 positions/13.00 FTE).
- Portland Airbase Fire Protective Services ($438,665 Federal Funds).
- General Fund reduction to personal services and services and supplies ($1.2 million General Fund; six positions/6.00 FTE).

- Standard adjustments totaling $2.5 million, which is comprised of personal services ($2.2 million) and Department of Administrative Services and other assessments ($291,009).

A budget note directed the Department to manage its General Fund reductions so as not to "mothball" or close any armory other than those currently being replaced without first reporting to the Legislature.

OMD – Office of Emergency Management

	2005-07 Actual*	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	0	3,094,196	2,846,135	2,248,271
Other Funds	0	83,956,897	76,074,080	111,933,843
Federal Funds	0	156,489,335	161,737,827	162,061,030
Total Funds	**0**	**$243,540,428**	**$240,658,042**	**$276,243,144**
Positions	0	46	45	46
FTE	0	44.15	44.60	45.60

** For 2005-07 Actuals, see the analysis of the Department of State Police.*

Program Description

The Legislature moved the state's Office of Emergency Management (OEM), and a portion of the Criminal Justice Services Division related to homeland security, from OSP to the Military Department beginning with the 2007-09 biennium (HB 2370). With this action OEM and homeland security functions became a program within the Military Department.

OEM takes the lead in responding to emergencies across the state and coordinate a statewide emergency services system. This system incorporates the separate local and state emergency service elements into a comprehensive capability to prepare for, respond to, and recover from disaster conditions. Activities include preparedness planning as well as the development and implementation of mitigation strategies. The program has nine major areas of responsibility:

- ***Oregon Emergency Response System (OERS)*** – Maintain OERS 24 hours/seven days a week and act as a single point for reporting and coordinating emergencies that might require state and/or federal assistance.
- ***Statewide 9-1-1 System*** – Administer the 9-1-1 system which provides funding to local systems and takes the lead in developing and implementing new technology.
- ***Grant Administration*** – Administer grants used to respond to emergencies, hazard mitigation planning, and project implementation throughout the state.
- ***Chemical Stockpile Emergency Preparedness Program (CSEPP)*** – Administer CSEPP in Eastern Oregon. CSEPP is the offsite program that prepares communities to ensure that local and state plans are in place to respond to issues surrounding the demilitarization of chemicals at the Umatilla Army Depot.
- ***Search and Rescue Program*** – Work with sheriffs in relation to the ground, marine, and air search rescue program.
- ***Domestic Preparedness*** – Provide the central point of planning, training, and exercising for the state's domestic preparedness efforts and offer guidance to local governments that receive grant funds through the program.
- ***Terrorism*** – This subprogram serves as the administrative "agency" for federal homeland security grants. It would be responsible for seeking and obtaining homeland security grants, and then distributing grant proceeds to sub-grantees as well as monitoring grant outcomes.
- ***Seismic Rehabilitation*** – In response to public concerns about seismic safety after the 1989 Loma Prieta earthquake in California, the Oregon Legislature, and Oregon voters, passed a series of measures centered on reducing the exposure to Oregonians from earthquakes. Some of these measures included: the establishment of a Seismic Safety Policy Advisory Commission (1991); voter approval amending the State's Constitution to authorize the use of general obligation bonds for the purposes of seismic rehabilitation of public education facilities (Article XI-M bonds) and emergency services facilities (Article XI-N bonds) (2002); the creation of a seismic rehabilitation grant program within the Office of Emergency Management (2005); and the funding of a statewide seismic needs assessment of education and public safety facilities by the Department of Geology and Mineral Services (2005). In 2007, the Legislature passed SB 1. This measure

provided OEM with four permanent positions to staff and administer the Seismic Rehabilitation Grant Program (SRGP).

- ***Oregon Local Disaster Assistance Loan Account –***This Account was established during the 2008 special session to provide loans to local governments and school districts to match moneys from federal programs for federally declared disasters that are subject to state matching funds provisions. A Local Disaster Assistance Review Board was also established to review and approve any loans from the Account. The Legislature appropriated $500,000 General Fund to the Account. To-date, the Department has yet to make any loans from the Account.

Revenue Sources and Relationships

The major funding source is Federal Funds received for state homeland security, Federal Funds for CESPP, Federal Emergency Management Agency (FEMA) disaster recovery, FEMA CESPP pass-through grants, and Non-Disaster Emergency Management Performance grants. These funding sources are used for general OEM operations, development and administration of the emergency response infrastructure, training, and grants passed through to local governments for their emergency management programs. Some of the funds require a 50% state or local match. OEM also receives funding for the planning, training, and coordination in the state's Domestic Preparedness/Weapons of Mass Destruction program. This funding has decreased recently, as Congress appropriates funding for homeland security-related training activities to cities rather than states.

Funding for responding to Presidentially-declared disasters and pre-disaster mitigation is available from the Federal Emergency Management Agency (FEMA) and requires a 25% state or local match. There is also funding dedicated for the CSEPP program (no match required) to pay for OEM and local grants. Umatilla and Morrow counties receive funding through the state for CSEPP-related activities.

Oregon's 9-1-1 toll-free emergency number to access safety services is a state and local partnership. Approximately 73% of the cost of running the state's 9-1-1 service is paid by local government. The remaining 27% is funded by the state through an Emergency Communications Tax of $0.75. This is a per month tax for any phone line capable of accessing 9-1-1 services, with the exception that federal, state, and local governments are tax exempt. The 9-1-1 program's statutory sunset was extended to January 1, 2014 (HB 2369).

Telecommunication providers collect the Emergency Communications Tax from their customers and remit the tax revenue to the Department of Revenue (DOR) on a quarterly basis. DOR transfers the revenue to the Emergency Communications Account, net of up to 1% of the revenue amount it retains for administration.

The Emergency Communications Account is to be distributed quarterly according to statute for the following purposes: (1) up to 4% of the balance may be used by the Military Department's Office of Emergency Management for program administration costs; (2) less than 0.5% is transferred to the Department of Public Safety Standards and Training (DPSST) for training of 9-1-1 telecommunicator and emergency medical dispatchers; (3) 35% is transferred into the Enhanced 9-1-1 subaccount; (4) 2.5% is transferred into the Enhanced 9-1-1 Equipment Replacement subaccount, if the balance is less than $500,000; and (5) the remaining balance, comprising approximately 58% of available revenue, is distributed to cities and counties. The Emergency Communications Account interest-earnings accrue to the General Fund (HB 3199).

Local governments use the revenue to partially fund the expense of approximately 50 Public Safety Answering Points (PSAPs) or dispatch centers across city and county governments in Oregon. Revenue in the Enhanced 9-1-1 subaccount is primarily used by the Department to make direct payments to vendors for PSAP circuit charges and software upgrades. The subaccount may reimburse cities and counties on an actual cost reimbursement basis for some costs.

Budget Environment

The expectation of OEM is to coordinate, facilitate, organize, resource, and manage, pre-event and post-event disaster activities for the state. This is a tall order for a program that has less staff than that of the Department's Oregon Youth Challenge Program, but with a budget that is 32 times larger.

All of Oregon's population is served by Enhanced 9-1-1 services that are provided from 50 Primary PSAPs.

The Department continues to support the Chemical Stockpile Emergency Preparedness Program (CSEPP), which is responsible for the incineration of chemicals at the Umatilla Army Depot. To date, over $108 million has been provided to Oregon in support of building an "adequate" emergency preparedness program in Morrow and Umatilla counties. Chemical incineration, which began in August of 2004, is expected to last until 2010 or 2012, after which the incinerator will be decommissioned.

Essential Budget Level

The essential budget level (EBL) for the program is $240.7 million, of which $2.9 million is General Fund, $76.1 million is Other Funds, and $161.7 million Federal Funds. The EBL total is $18.2 million, or 7%, less than the current biennium's legislatively approved budget (LAB) of $258.5 million. The EBL included standard adjustments for personal service costs and inflation.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $276.2 million is $17.4 million, or 6.7%, more than the 2007-09 legislatively approved expenditure level of $258.9 million and $35.6 million, or 14.8%, more than the $240.7 million essential budget level.

The legislatively adopted budget incorporates the following changes:

- Seismic Rehabilitation Bonds ($29.5 million Other Funds) – Articles XI-M and XI-N bonding authority for the Seismic Rehabilitation Program, which would be distributed in equal amounts to School Districts and Public Safety entities. Debt Service support for these bonds is a separate policy package detailed under the Debt Service Program.
- Technology and Response ($5.6 million Other Funds; 2 positons/2.00 FTE) – establishes two permanent, full-time positions (a Program Analyst 2 and a Information Systems Specialist 3), increases payment to Public Safety Answering Points for 9-1-1 activities, and increases the Department's payment to the Department of Public Safety Standards and Training.
- Titan Fusion ($899,457 Federal Funds) – provides pass-though funding for a U.S. Department of Justice grant related to limiting criminal and terrorist activities in states.
- Fund shift ($133 Federal Funds) – shifts a portion of an existing Accountant position funding from $26,305 Federal Funds to $26,192 Other Funds.
- General Fund reduction to personal services and services and supplies ($225,841 General Fund; one position/1.00 FTE).
- Fund shift of $282,944 General Fund to Other Funds (9-1-1 revenue).
- Standard adjustments totaling $629,635, which is comprised of personal services ($337,806) and Department of Administrative Services and other assessments ($291,829).

The Legislature also directed by budget note that the Department conduct of study of 9-1-1 Public Safety Answering Points consolidation and statewide first responder building mapping.

OMD – Community Support

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	990,653	1,800,905	1,175,754	812,459
Other Funds	4,748,022	2,447,268	2,212,666	2,413,243
Federal Funds	4,673,836	6,257,213	5,666,446	5,486,088
Total Funds	**$10,412,511**	**$10,505,386**	**$9,054,866**	**$8,711,790**
Positions	46	46	46	46
FTE	45.26	46.00	46.00	46.00

Program Description

The Community Support program coordinates support for local education programs and emergencies which require the assistance of the National Guard. The program contains:

- ***Oregon Youth Challenge Program (OYCP)*** – Since 1994, the Oregon National Guard has operated the OYCP through a federal/state agreement with the National Guard Bureau. OYCP is Oregon's only statewide alternative high school and only public military school for at-risk students. It offers at-risk high school dropouts an opportunity to complete educational credit with a goal of reintegrating into high school to earn a diploma or prepare for the General Education Development (GED) examination. The program consists of a 22-week residential training program followed by a 12-month nonresident program. The school is an accredited program. OYCP graduates approximately 234 students per year.
- ***Science and Technology Academy Reinforcing Basic Aviation and Space Exploration (STARBASE)*** – STARBASE is designed to increase at-risk third through eighth grade students' awareness of the importance of math and science. The curriculum demonstrates math and science applications in aerospace operations. National Guard members demonstrate applicability of math and science to flight operations, weather reporting and forecasting, electronics maintenance, and fire fighting facilities.
- ***Emergency Operations*** – In times of state emergency, the Governor can call upon the National Guard to provide personnel and equipment to assist agencies with the state's response to such emergencies. For example, the Governor has ordered the National Guard to assist the Oregon Department of Forestry and the State Fire Marshal's Office with their wildland fire suppression efforts. The Department's own Office of Emergency Management is the coordinating entity for state resources. The National Guard typically provides four types of assets with associated support personnel: (a) helicopters; (b) ground transportation including fuel trucks; (c) field support equipment such as generators; and (d) firefighting apparatus from Kingsley Field and the Portland Airbase fire stations for Conflagration Act fires. Soldiers and airmen called into active duty are paid a State Active Duty (SAD) rate, which is a uniform daily rate of pay based upon a soldier or airman's rank. National Guard equipment, as assets of the U.S. Department of Defense, are invoiced separately to the federal government. The Department's legislatively adopted budget does not contain Other Funds expenditure limitation for what it categorizes as Emergency Operation expenses since such expenses are unpredictable. Therefore, the Department has historically requested an increase in expenditure limitation from the Legislature or the Emergency Board for amounts it is unable to absorb within its normal operating budget and it has requested General Fund reimbursement of expenditures.

Revenue Sources and Relationships

The Program is funded with a combination of General Fund, Other Funds, and Federal Funds. The OYCP is 60% federally funded up to $3.5 million, requiring 40% state matching funds. The state's matching funds portion is comprised of two sources: (a) Average Daily Membership (ADM) revenue through the Bend-LaPine School District and received by the Department as Other Funds; and (b) General Fund.

The Department reports that the Other Funds ending balance for the OYCP is zero, which is of concern. A typical ending balance reserve is three months of cash or $301,650 ($100,550 per month) based on budgeted Other Funds expenditures of $2.4 million.

The STARBASE program is 100% federally funded through the National Guard Bureau. There is not an anticipated Federal Funds increase for the program beyond a 3.1% inflation adjustment. The revenue for Emergency Operations comes from the state agencies that the National Guard is supporting or the General Fund.

Budget Environment

The budget environment centers around supporting at-risk youth and the Department's response to an emergency declaration by the Governor.

Essential Budget Level

The essential budget level (EBL) for the program is $9.1 million, of which $1.2 million is General Fund, $2.2 million is Other Funds, and $5.7 million Federal Funds. The EBL total is $1.6 million, or 15.1%, less than the current biennium's legislatively approved budget (LAB) of $10.7 million. The elimination of one-time expenditures for the Department's emergency-related activities is the primary reason for the decrease. The EBL included standard adjustments for personal service costs and inflation.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $8.7 million is $2 million, or 18.3%, less than the 2007-09 legislatively approved expenditure level of $10.7 million and $343,076, or 3.8%, less than the $9.1 million essential budget level.

The legislatively adopted budget incorporates the following changes:

- a one-time fund shift of General Fund to Other Funds (i.e., ending balance) of $282,458;
- a General Fund reduction in services and supplies of $59,151; and
- standard adjustments totaling $283,925, which is comprised of personal services ($239,719) and Department of Administrative Services and other assessments ($44,205).

OMD – Debt Service

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	891,645	2,060,991	5,533,055	7,131,569
Other Funds	109,074	593,468	106,885	766,885
Other Funds (NL)	649,012	0	0	0
Total Funds	**$1,649,731**	**$2,654,459**	**$5,639,940**	**$7,898,454**

Program Description

The Debt Service Program provides the funding to make payments on principal, interest, and financing costs associated with the issuance of certificates of participation (COPs). COPs are tax exempt government securities. Prior to the 2007-09 biennia, the Department's debt service was budgeted under the Operations Program.

Budget Environment

The Department relies, although not entirely, on the issuance of COPs to match National Guard Bureau Federal Funds when constructing, altering, or repairing National Guard installations. The percentage of state matching funds required varies by the type of installation. COPs provide financing for federally non-allowable project costs, which for example include the cost of real property. COPs also fund certain armory additions/alterations that are a 100% state responsibility.

The Department's Capital Construction Account, the revenue source of which comes from the sale of real surplus property, generally has an insufficient balance to meet matching fund requirements on major construction projects.

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

Revenue Sources and Relationships

The Department's debt service is funded with a combination of General Fund and Other Funds. For the 2009-11 biennium, only the Department's 2004-A COP issued for the Baker City Readiness Center is paid from Other Funds. The source of Other Funds is statewide facility rental income.

Essential Budget Level

The essential budget level (EBL) for the program is $5.6 million, of which $5.5 million is General Fund and $0.1 million is Other Funds. The EBL is $2.7 million, or 93.3%, more than the current biennium's legislatively approved budget (LAB) of $2.9 million. The EBL was adjusted to reflect current debt service payment schedules.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $7.9 million is $5 million, or 171%, more than the 2007-09 legislatively approved expenditure level of $2.9 million and $2.3 million, or 40% more than the $5.6 million essential budget level.

The legislatively adopted budget incorporates the following changes:
- Seismic Rehabilitation ($1.2 million General Fund and $459,100 Other Funds for cost of issuance)
- The Dalles Readiness Center ($100,222 General Fund and $100,662 Other Funds for cost of issuance)
- Milton Freewater Armory ($450,617 General Fund and $62,000 Other Funds for cost of issuance)
- Hood River Armory ($216,335 General Fund and $38,238 Other Funds for cost of issuance)

Debt service on previously authorized COPs, but which had yet been issued was adjusted downward by $404,997 to reflect anticipated cost savings due to more favorable market conditions.

OMD – Capital Improvement

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	0	1,412,951	1,452,513	0
Federal Funds	0	200,000	0	1,226,250
Total Funds	**$0**	**$1,612,951**	**$1,452,513**	**$1,226,250**

Program Description

This program provides for capital improvements to existing facilities. Capital Improvement projects are those with a total cost of $500,000 or less. As discussed below, Major Construction projects total more then $500,000. The Department's Operations Program budget also includes funding for deferred maintenance/Capital Improvement. Maintenance/custodial positions in the Operations Program play a key role in facility maintenance.

Revenue Sources and Relationships

The revenues associated with the Department's capital improvement projects are General Fund and some matching Federal Funds. As noted, however, the Operations Program also has expenditures for capital improvement, which are General, Other, and Federal Funds.

Budget Environment

Capital improvement expenditures are used to address the Department's backlog of deferred maintenance, which is estimated at $110 million and is increasing at an estimated 5% per year. Capital improvement expenditures delay, where possible, installation replacement. This is critically important for certain installations, especially armories, whose replacement schedule is dependant upon the National Guard Bureau's Long-Range Construction Plan and Congressional funding of that plan.

The 2007 Legislature, recognizing the importance of deferred maintenance, provided a $1.4 million General Fund appropriation. The Department was then able to leverage these funds by acquiring federal matching funds for some of the projects. General Fund was provided, not on a one-time basis, but as an ongoing source of funding for the Department due to its significant backlog of deferred maintenance projects.

The Governor's recommended budget eliminated, in its entirety, funding for the Capital Improvement Program. What deferred maintenance funds remained within the Department would be located within the Operations Program. The elimination of the Capital Improvement/deferred maintenance budget is also a proposal that the Department submitted to the Legislature as part of its proposed 20% EBL General Fund reductions.

Essential Budget Level

The essential budget level (EBL) for the program is $1.5 million General Fund. The EBL total is $569,188, or 28.2%, less than the 2007-09 legislatively approved budget (LAB) of $2 million. The EBL includes the standard adjustment for inflation.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $1.2 million is $795,451, or 39.4% less than the 2007-09 legislatively approved expenditure level of $2 million and $226,263, or 15.6% less than the $1.5 million essential budget level.

The legislatively adopted budget incorporates the following changes, which are funded with Federal Funds under the American Recovery and Reinvestment Act (ARRA). These projects were begun during the 2007-09 biennium with $408,750 of ARRA funding. The below figures represent the two-biennia, total cost of each project:

- Salem Armory windows upgrade ($60,000)
- Camp Rilea electrical upgrades ($400,000)
- Camp Rilea utilities upgrade ($950,000)
- Albany Armory Motor Pool upgrades ($55,000)
- Central Oregon Biak Training Center classroom remodel ($170,000)

OMD – Major Construction

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	1,912,000	18,890,679	0	4,706,763
Federal Funds	7,885,000	57,336,683	0	6,193,001
Total Funds	**$9,797,000**	**$76,227,362**	**$0**	**$10,899,764**

Program Description

This program provides for new construction, remodeling, or improvements to facilities to carry out the agency's mission. Oregon faces the loss of National Guard units to other states if the readiness of facilities is not adequately maintained. Since 1986, the Department has undertaken 41 major construction projects totaling over $203.5 million with a state/federal funding ratio of 8:1. Federal planning and design funds for other projects add an additional $15 million.

The Department's construction projects are overseen and coordinated by agency construction staff budgeted under the Operations Program.

Revenue Sources and Relationships

Federal Funds comprise the majority of construction funding. In general, Other Funds, and at times General Fund, are required matching funds for projects. Such state funds pay for certain costs ineligible for federal match (e.g., real property, local permitting, etc.). The sources of Other Funds are either certificates of participation and/or the Department's Capital Construction Account, which is discussed below.

Depending on the type of facility constructed, the federal government pays between 67% and 100% of the approved construction cost. By emphasizing construction of Armed Forces Reserve Centers (AFRC) wherever possible, the Department can access Federal Funds for approximately 97% of the design and construction costs, requiring 3% state matching funds. Site improvements and multi-purpose accommodations outside the federal guidelines are 100% state obligations. Where possible, the Department partners with other federal, state, or county agencies to co-locate functions. This reduces the Department's design and construction cost obligations, and reduces the long-term operations and maintenance burden of each agency. The Department is also cognizant of the need to build facilities with multi-purpose features that enhance a facility's rental income.

The Military Department Construction Account (CCA) is a statutory, interest-bearing account in which is deposited any proceeds from the sale of Military Department real property. The Department requires legislative approval to dispose of surplus property. Moneys in the CCA can only be used for Capital Construction expenditures on legislatively approved projects, which include: (a) paying for construction costs that are outside federal guidelines and that are a state obligation; (b) state matching requirements on federal Capital Construction funding; and (c) miscellaneous land acquisitions.

Revenue flowing into the CCA is variable, but somewhat predictable. Eventually, the Department anticipates revenues may come from the sale of the Ontario, Cottage Grove, Dallas, and Mason armories and property at the Newport Airport. Other revenue sources appear to be project management fees charged to the federal government and certificate of participation revenue transferred into the account. Some of the Department's real property originally donated by counties is on a reverter clause, which requires that the land revert back to the county if the Department determines it is no longer needed for military purposes.

The CCA's balance is approximately $1 million. According to the Department, over the course of the last 11 years, the CCA has had revenues of $13.8 million and expenditures of $13.3 million. Interest earnings have totaled $682,539 over this same period.

Budget Environment

Of all the Department's programs, the Capital Construction program is the one most likely to be affected by shifting federal priorities. The Legislature is frequently requested to add projects or adjust limitation requirements for existing projects. Such changes may require additional state matching funds. The fluidity of the Department's capital projects as compared to other state agencies capital projects underscores the uniqueness of this state agency and the influence federal funding has over its budget. It also underscores the need for the Legislature to understand both the Department's short- and long-term Capital Construction priorities.

The agency plans to pursue all available Federal Funds for new facility design and construction and is looking to continue to partner with other state agencies to share services and reduce operational expenses. The agency has more than 20 projects identified in the National Guard Bureau Long-Range Construction Plan, with estimated project costs estimated at $729 million. Of that amount, the state would be required to pay $111 million, or 15%, of costs. Federal Funds for capital construction continue to be highly competitive among states.

There are many challenges facing the Capital Construction Program given the status of some of the Department's installations. The first is completing construction on current legislatively approved projects, some of which will require additional state and federal funding to complete, if such funding is available. The second challenge is acquiring state funding for any new projects, including any approved as part of the federal economic stimulus package. The Legislature may be placed in the unfortunate position of approving funding for new and ongoing construction projects, while at the same time being forced to shutter armories due to General Fund constraints on operating budgets. In order to make informed decisions, the Legislature needs from the Department a single, comprehensive, prioritized facility management/Capital Construction plan. The Newport Armory Addition/Alteration project has an unexpended balance of an estimated $1.4 million (plus associated General Fund Debt Service). This could be used as originally intended, used to fund other needed construction projects, or disappropriated.

Essential Budget Level

Capital Construction is not budgeted at the essential budget level (EBL). Legislatively approved projects are only budgeted for the biennium in which they are approved, but are typically expended over a six year period. The Department's 2007-09 legislatively approved Capital Construction budget totals $106.3 million, of which $23.3 million is Other Funds and $83 million is Federal Funds.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $10.9 million is $95.4 million, or 90%, less than the 2007-09 legislatively approved expenditure level of $106.3 million. While the period-to-period decrease is significant, the legislatively approved expenditure limitation for any Capital Construction project has a six-year duration. Therefore, 2007-09 projects have at the minimum four additional years in which to be completed, unless an extension is granted by the Legislature.

The legislatively adopted budget incorporates the following changes, which are to be funded with certificates of participation:

- The Dalles Readiness Center ($1)
- Milton-Freewater Armory ($3,348,000)
- Hood River Armory ($1,358,762)

The legislatively adopted budget incorporates the following changes, which are to be funded with Federal Funds:

- The Dalles Readiness Center ($1)
- Central Oregon Biak Training Center ($550,000)
- Camp Rilea Roof and Siding Replacement ($200,000)
- Clackamas Roof Replacement ($170,000)

- Hermiston Armory Drill Floor Heating, Air Conditioning, and Ventilation system ($90,000)
- Coos Bay Armory Unit Transformation ($350,000)
- Hood River Armory Improvements ($233,000)
- Central Oregon Readiness Center Interior Improvements ($300,000)
- Camp Withycombe Storm Water Project ($1.3 million)
- Camp Rilea Water Supply System ($3 million); this project is the only project that is not funded with American Recovery and Reinvestment Act dollars

The Legislature also approved additional six-year time extensions for the following projects: the Lane County Armed Forces Reserve Center; the Camp Rilea Dining Facility; the Boardman Infantry Battle Course and Qualification Training Range; and The Dalles Readiness Center.

Board of Parole and Post-Prison Supervision – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	3,450,872	3,921,748	4,138,063	3,517,191
Other Funds	5,624	16,539	10,048	10,048
Total Funds	**$3,456,496**	**$3,938,287**	**$4,148,111**	**$3,527,239**
Positions	15	15	15	15
FTE	15.00	15.00	15.00	15.00

Agency Overview

The three* member Board of Parole and Post-Prison Supervision (BPPPS) is responsible for setting parole release dates for offenders who committed crimes prior to November 1, 1989; approving release plans and establishing conditions of community supervision for all offenders; setting release dates for dangerous offenders; conducting administrative reviews of offender appeals; administering parole revocation hearings; issuing arrest warrants and order sanctions for parole/post-prison violators; and notifying victims of hearings and releases.

(///make this a footnote): *After the budget was passed the Governor increased the size of the board by appointing a fourth board member. Funding for the addition of the fourth board member is not contained in the 2009-11 legislatively adopted budget and has yet to be identified.

Revenue Sources and Relationships

The Board is supported almost entirely by General Fund. Other Funds revenue is generated from the sale of documents and hearing tapes to the public and to offenders, as well as court ordered costs payable to the Board.

Budget Environment

The following factors have dramatically altered and/or changed the Board's role and workload in recent years: the implementation of sentencing guidelines in 1989; the passage of SB 1145 in 1995; increases in inmate and offender populations; increases in, and results of, inmate and offender judicial appeals; increases in victim participation in post-sentencing matters; and biennial statutory changes. The agency's focus is shifting from determining when inmates are released from prison to approving release plans, imposing conditions of community supervision, and determining the appropriateness of remaining in the community if a violation of condition occurs. Board members are now spending more time addressing victims and district attorney and community concerns about the release of inmates.

Essential Budget Level

The essential budget level for the BPPPS is $209,824 total funds (5.3%) more than the 2007-09 legislatively approved budget. It includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The 2007-09 legislatively approved expenditure level includes $286,452 total funds ($279,725 General Fund and $6,727 Other Funds) in special session and Emergency Board actions during Fiscal Year 2008.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $3.5 million total funds represents a 15% reduction from the essential budget level. This budget reflects a reduction of approximately $375,000 in the agency's usage of legal services through the Attorney General. Another approximately $20,000 was reduced by eliminating budgeted resources for a number of Board ordered psychological evaluations.

Department of State Police (OSP) – Agency Totals

	2005-07 Actual*	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	177,443,107	215,344,908	266,694,456	244,296,881
Lottery Funds	6,364,954	7,150,132	7,596,103	7,223,958
Other Funds	143,800,393	166,991,154	85,311,266	284,623,374
Federal Funds	110,752,832	25,741,644	13,310,911	7,299,333
Other Funds (NL)	5,814,110	0	0	0
Federal Funds (NL)	36,809,520	0	0	0
Total Funds	**$480,984,916**	**$415,227,838**	**$372,912,736**	**$543,443,546**
Positions	1,174	1,333	1,325	1,303
FTE	1,159.36	1,229.16	1,320.75	1,295.65

** The 2005-07 Actual numbers include those budget units and programs that have been transferred to other agencies by the 2007 Legislature, including the Emergency Management Office and the Criminal Justice Services Division. These transferred programs represent $2.5 million General Fund and $218 million total funds in the 2005-07 figures above.*

Agency Overview

Historic functions of the Department of State Police (OSP) include patrol, criminal investigation, forensic lab services, State Medical Examiner, State Fire Marshal, emergency management, and fish and wildlife law enforcement. The Office of Emergency Management (OEM) and the homeland security grant programs of the Criminal Justice Services Division (CJSD) were transferred to the Military Department, and the remaining grant programs of CJSD were transferred to the Department of Justice (DOJ) and the Criminal Justice Commission.

The agency continues reorganizing efforts it begun two biennia ago. For 2009-11, the information systems staff responsible for maintenance of the desktop and central hardware as well as the systems development staff was transferred from the Information Management Division to the Administrative Services Division. Also transferred were the staff and funding responsible for the maintenance of the agency's existing wireless system and equipment. Finally the former Information Management Division is renamed the Law Enforcement Information Division. The staff and programs remaining in this Division include the Identification Services Section and the Criminal Justice Information Systems program.

The 2007 Legislature restored a number of the positions across the agency that had been eliminated during the 2001-03 budget crisis. They not only included the 139 new trooper positions for the Patrol Division, detectives, and forensic scientists; but 35 positions that support the operations of the agency including financial related staff, dispatchers, evidence technicians, information systems staff, and vehicle maintenance personnel. The 2009-11 legislatively adopted budget does eliminate some of these positions including Criminal Division detectives and administrative support positions.

Essential Budget Level

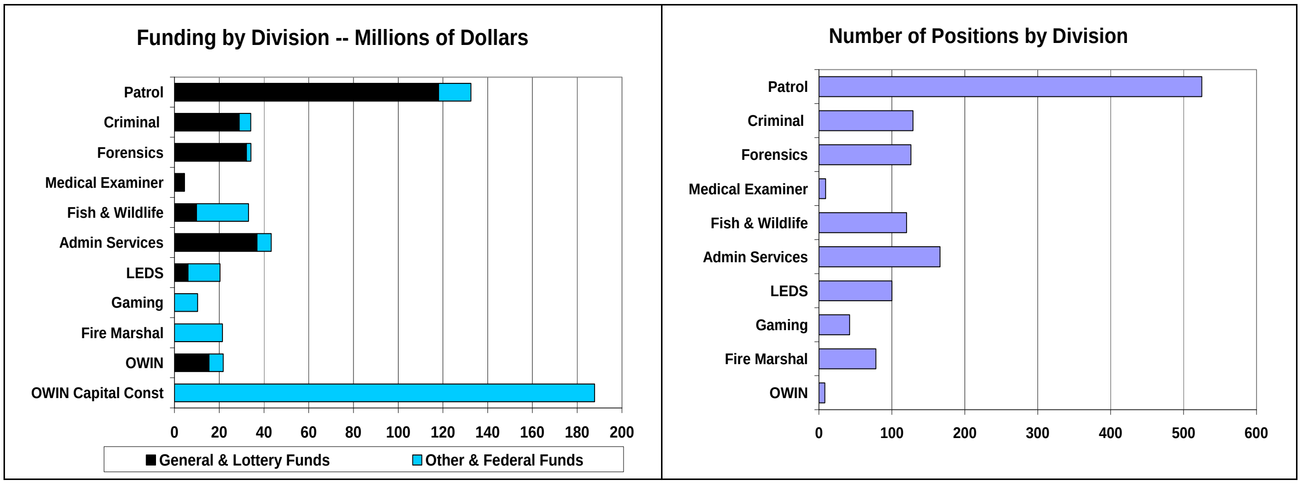
The essential budget level (EBL) for the State Police of $372.9 million total funds is 10.2% less than the 2007-09 legislatively approved budget. This decrease is explained by the $85.8 million of Oregon Wireless Network Interoperability (OWIN) capital construction limitation which is included in the legislatively approved budget. Without this OWIN capital construction, the 2009-11 EBL of $274.3 million is 13.2% greater than the 2007-09 legislatively approved budget. The combined General Fund and Lottery Funds 2009-11 EBL is $51.8 million or 23.3% larger than that for the 2007-09 legislatively approved budget. This growth is due to a combination of factors including the: (a) roll-up costs of the new trooper (139 positions), forensics (15), criminal detectives (8), training (4), and administrative infrastructure (35) positions; (b) employee compensation costs approved during the 2007-09 biennium; and (c) inflation including additional adjustments for ammunition and fuel. The only OWIN related costs in the EBL are $14.7 million General Fund for debt service costs. All other OWIN spending and positions must be added in policy packages to be included in the 2009-11 budget.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget (LAB) for the State Police of $543.4 million total funds is $170.5 million, or 45.7%, greater than the total funds EBL, but most of that increase is due to the proposed $187.8 million in capital construction spending for OWIN. Without this OWIN budget (capital construction), the LAB total funds budget is $17.3 million less than the EBL. The LAB General Fund budget for the same period of $244.3 million is $22.4 million, or 8.4%, less than the EBL. Major reasons for this decrease in General Fund resources include:

- position reductions in the Criminal Divisions and the Administration program area;
- fund shifts using Other Funds and Federal Funds to offset the need for General Fund in the Fish and Wildlife Division, Identification Services, and in the Administrative program area; and
- over $6.5 million across the entire agency in employee compensation reductions (General Fund) common to most state agencies.

2009-11 Legislatively Adopted Budget



OSP – Patrol Services

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	79,757,887	99,409,133	122,416,270	118,070,738
Other Funds	10,792,036	16,156,674	14,475,588	14,136,372
Federal Funds	104,980	330,853	340,694	340,694
Total Funds	**$90,654,903**	**$115,896,660**	**$137,232,552**	**$132,547,804**
Positions	381	525	525	525
FTE	372.36	434.16	523.00	519.88

Program Description

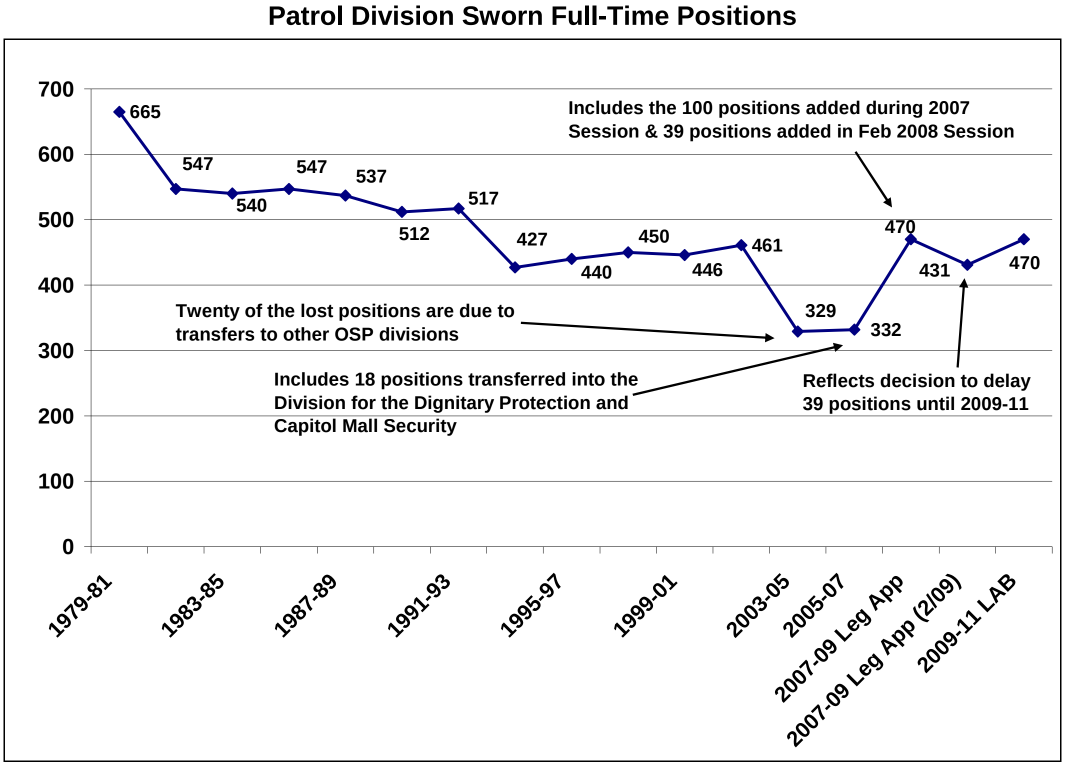
The Patrol Services Division provides uniformed police presence and law enforcement services throughout the state with primary responsibility for traffic safety and response to emergency calls on Oregon's state highways and interstates. Services include enforcement of the Motor Vehicle Code, Motor Carrier Regulations, Criminal Code, and assistance to local public safety agencies and the public. Past Legislatures have approved transfers to this Division of the field command and support staff which better reflects the reporting structure within the agency as well as the Capitol Mall Security unit and the Dignitary Protection unit.

Revenue Sources and Relationships

Other Funds revenues are received from the Department of Transportation for a variety of purposes (totaling $6.2 million) including traffic safety patrols in highway construction zones, commercial truck inspections, snow-park enforcement, and DMV vehicle identification (VIN) inspections. Additional Other Funds sources include Oregon State University for campus security ($2.3 million), and the Parks and Recreation Department, including the State Fair ($655,765). Also included in the Other Funds for this Division is the Capitol Mall Security unit ($3.4 million) which is funded by the Legislative Administration Committee and the Department of Administrative Services. Federal funding for this Division includes funding from the Army Corp of Engineers and the Forest Service.

Budget Environment

Since 1980, Oregon has experienced increases in population, licensed drivers, registered vehicles, and vehicle miles driven. However, the State Police presence on roadways as measured by the number of sworn troopers in the Patrol Division has decreased from 665 in 1980 to 322 by 2005-07, or over 50% (see chart below). By the end of 2007-09, the number was expected to grow to 470, but the hiring of the final 39 troopers was delayed until early in the 2009-11 biennium. The number of troopers available on the road is actually less than these figures since this number includes the troopers assigned to Dignitary Protection (5 positions), Oregon State University security (9 positions), and Capitol Mall Security (12 positions); and does not account for vacancies and temporary assignments as well as officers (e.g., captains) who have a limited presence on the road. Prior to 2001-03, this reduction in the number of troopers was due, in part, to the need to shift staff to address increases in criminal activity (violent crime, juvenile crime, drug activity, crimes against children) and increased competition for limited General Fund resources. In 2001-03, the decrease was due to state budget shortfalls and the need to fill other crucial holes in the State Police budget.



These positions include all sworn employees in the Patrol Division including officers and Troopers as well as those assigned to the OSU office, Dignitary Protection Unit, and Capitol Mall Security in later years.

Troopers are generally assigned for patrol only on major interstates and state highways (e.g., I-5). A major accident or storm can leave even these areas with no coverage. The additional 139 troopers added in 2007-09 and 2009-11 will provide limited 24 hour coverage for many areas of the state. Full 24/7 coverage is difficult to define and is somewhat subjective. In addition, there may be situations in more sparsely populated areas of the state where it is more cost effective to have a trooper on call rather than "on duty." The Department views the importance of the number of troopers on the highway not only for driving safety issues to enforce traffic and DUII laws, but also as a deterrent and enforcement for other crimes such as drug-related crimes. Significant quantities of methamphetamine and other drugs have been found during traffic stops.

In a 2008 survey of other states, OSP found that Oregon had moved up in coverage as measured by "troopers per 100,000 of population." Oregon had ranked last in the number of "line" troopers per capita working full-time patrolling highways (does not include supervisors or troopers assigned for other duties like dignitary protection) in a 2006 survey when it had 6.98 troopers per 100,000 of population. That ranking has increased to 9.85 troopers per 100,000 in Oregon with the remaining states ranging from 5.66 (Wisconsin) to over 77 (Delaware). The rate for surrounding states included Washington (10.59), Idaho (9.67), Nevada (15.24) and California (21.03). One must be careful in using these comparisons since the number of local police and sheriff deputies vary significantly across the states; and this is not necessarily a measure of total law enforcement officers per capita, but of state troopers.

Essential Budget Level

The 2009-11 essential budget level (EBL) for the Patrol Division of $137.2 million total funds is over 18.4% greater than the 2007-09 legislatively approved budget. For the same period, the General Fund budget increases $23 million, or 23.1%. Much of this increase is due to the roll-up costs of the 139 new troopers which were to be added in 2009-11. These roll-up costs (over $20 million) are substantial since many of these new positions started later in the biennium. In addition, support positions were also added during the 2007-09 biennium. Other factors leading to this increase include extra-ordinary inflation granted for fuel costs. The EBL assumes a price of gasoline at $3.15 per gallon, significantly higher than the current price. The cost or savings from a ten cent change in the price of gas means a $140,000 change in budget need ($200,000 agency wide).

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget for the Patrol Division of $132.5 million total funds and $118.1 million General Fund is 3.4% and 3.6%, respectively, less than the EBL. The budget passed by the Legislature includes:

- The 39 trooper positions that were to start at the end of 2007-09 are now funded with $8.1 million General Fund with the assumption that the first 20 will be hired on August 1, 2009 and the other 19 will be hired October 1, 2009. It is likely that the agency will not have all hired by October but plans to hire the troopers as fast as it can taking into account the training schedule at the Department of Public Safety Standards and Training.
- The Division's airplane program (savings of $110,000 General Fund) and the Mobile Response Team or MRT (savings of $205,000 General Fund) are eliminated. Neither cut results in position reductions, but the savings come from training and overtime costs for the MRT program and fuel and other costs for the airplane program.
- Resources for employee compensation are reduced by $3.3 million General Fund in an action common to most state agencies.

OSP – Criminal Investigation

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	24,255,865	27,380,490	32,116,419	28,906,806
Other Funds	4,328,651	5,363,780	5,680,052	4,341,653
Federal Funds	6,197,818	5,665,667	1,054,767	835,728
Total Funds	**$34,782,334**	**$38,409,937**	**$38,851,238**	**34,084,187**
Positions	140	145	145	129
FTE	140.00	142.72	145.00	129.00

Program Description

The Criminal Investigation Division augments and supports local law enforcement through investigation of major crimes, the pursuit and apprehension of criminal offenders, and the gathering of evidence. Many of the crimes investigated by OSP are intrastate and multi-jurisdictional. Specialized areas or units include arson/explosives, drug investigations, intelligence, missing children clearinghouse, sex offender registration, sexually exploited children, tobacco tax compliance, polygraph examinations, computer crimes, homicide incident tracking system (HITS), and crimes in state correctional institutions. During 2007-09, detectives participated in 20 child abuse multi-disciplinary teams; 28 interagency major crime teams; and many other groups including drug task forces, arson task forces, and identity theft investigative teams. With the reductions in the 2009-11 budget the participation in these groups will decrease.

Revenue Sources and Relationships

The Division is expected to receive $6.2 million in Other Funds or Federal Funds revenue. Major sources of this revenue include:

- sex offender registration fees ($420,000 Other Funds);
- arson/bomb investigation funding ($3 million Other Funds) from the State Fire Marshal in Fire Insurance Premium Tax revenue; and

- drug enforcement funding of $1.4 million Federal Funds from the federal government.

Budget Environment

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

The number of investigators or detectives in the Division has been fluctuating during the past decade. The 2005-07 budget added eight further sworn positions specifically dedicated to addressing methamphetamine related crime. These positions have been focused on chemical diversion, methamphetamine labs, and mid-to-upper level methamphetamine-related investigations. The 2007-09 budget added four positions for major crime and drug investigations allowing the agency to increase its presence in drug-related investigations in Central Oregon and the Coast. The ability to conduct an increased number of investigations as well as larger and more sophisticated investigations is enhanced by OSP participation on these drug teams. The 2007-09 budget also included three new detectives to focus on fraud and identity theft crimes. The Department asserts that the workload and the complexity of investigations have generally increased in all areas of the division, including drug enforcement, major/violent crimes, sex abuse crimes, polygraph and public official corruption cases. The demand on detective resources to conduct investigations at state institutions continues to grow with more than 25% of the caseload at the Salem office being generated by state institutions, including the Oregon State Hospital and correctional facilities. A total of nine detective positions were cut in the 2009-11 budget.

Essential Budget Level

The 2009-11 essential budget level (EBL) for the Criminal Division of $38.9 million total funds is just over 1% more than the 2007-09 legislatively approved budget. For the same period, the General Fund budget of $32.1 million increases $4.7 million, or 17.3%. Much of this General Fund increase is due to the roll-up costs of the eight new detective positions added during 2007-09. The EBL reflects the decrease in federal funds due to the transfer of the High Intensity Drug Trafficking Area (HIDTA) program to the Department of Justice.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $34.1 million total funds is $4.8 million (12.3%) less than the 2009-11 EBL while the General Fund budget of $28.9 million is $3.2 million (10%) less than EBL. The major reduction for the General Fund is elimination of 11 detective positions which will likely reduce the staff resources for identity theft, drug crimes, and major crimes. Just under $1 million total funds is reduced for employee compensation, an action common to most state agencies.

In addition, $1.2 million Other Funds is reduced from the budget eliminating five more detective positions from the budget with the termination of the OSP activities with the Tobacco Tax Compliance task force. This task force was established by the 2001 Legislature to address noncompliance in the state's cigarette and other tobacco products tax programs. The task force included staff from OSP, the Department of Justice, and the Department of Revenue. The impact of discontinuing the task force efforts on tobacco tax revenues is unknown at this time, but tax compliance rates during the task force's existence had increased. The number of referrals coming forward has been decreasing.

OSP – Forensic Services and Medical Examiners

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	27,290,300	31,745,630	37,487,183	36,356,323
Other Funds	1,783,865	568,859	336,315	478,461
Federal Funds	1,184,071	2,216,796	1,910,571	1,910,571
Total Funds	**$30,258,236**	**$34,531,285**	**$39,734,069**	**$38,745,355**
Positions	117	135	135	135
FTE	116.25	131.45	135.00	135.00

Program Description

The Forensics Services Division provides scientific, technical, and investigative support to all criminal justice agencies across the state through forensic analysis. Forensic labs are located in Bend, Central Point, Ontario, Pendleton, Clackamas, and Springfield. A DNA Unit is also located in the Clackamas lab. This system is the only "full service" crime lab in the state, and at least 90% of the work is done for law enforcement agencies other than OSP including local police, sheriffs, and district attorneys. The Implied Consent Unit is responsible for approval, certification, and servicing of portable breath testing instruments, and also trains and certifies over 5,000 law enforcement officers in the use of breath testing instruments. This unit also provides expert testimony regarding the use of these devices.

The ***Medical Examiner's Office*** is located in Clackamas and provides technical assistance and supervision to the 36 counties, directs investigations, provides direct professional services (autopsies, court testimony, case review, and consultation), and certifies the cause and manner of all investigated deaths. The State Medical Examiner appoints all 36 county examiners. The Office maintains records and provides training on death investigations to medical school physicians and students, law students, police officers, and emergency medical technicians.

2009-11 Legislatively Adopted Budget

Program Area	General Fund	Other Funds	Federal Funds	Total	Positions	FTE
Forensic Services	$32,081,640	$237,305	$1,910,571	$34,229,516	126	126.00
Medical Examiner's Office	$4,274,683	$241,156	$0	$4,515,839	9	9.00

Revenue Sources and Relationships

The forensics labs do not charge for services and have been funded with General Fund resources. The Other Funds revenues are from miscellaneous sales of equipment, photographic requests, witness fees, and donations from citizens to support the Convicted Offender Program (DNA testing). For 2005-07, $1.6 million Other Funds revenues represented COP proceeds to purchase new intoxilizers to replace an aging and out-of-date existing stock. Federal Funds are grants from the National Institute of Justice, generally for the purchase of equipment, supplies, and DNA test kits. Other Funds revenue for the Medical Examiner includes payments for building support in the three metro area counties and autopsy reports.

Budget Environment

The State Police crime lab system is the only comprehensive lab in the state and the entire public safety system depends on it for timely investigation of evidence. Forensics backlogs or turnaround times have increased from about 23 days in October of 2001 to a peak of over 50 days in July 2005. Since that time various measures have been taken to alleviate this situation, including:

- prioritization and triage guidelines placed in effect for the labs;
- new legislation allowing field test kit results for drugs in preliminary hearings when the charge is possession of controlled substance; and
- additional staff resources added during 2007-09.

As a result, turnaround times have fallen; in 2007 it was 49 days, and fell to 39 days in 2008.

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

Several environmental factors contribute to the growth in requests for forensic services including the growing population; advancements in forensic science; increased public awareness of the value of forensic analysis; judicial expectations that forensic evidence be provided; and improved training of police officers in the identification, collection, and preservation of forensic evidence.

The workload for the Medical Examiner's Office continues to increase due to continuing growth in Oregon's population. Medical Examiner cases remain a consistent 12% of all deaths that occur. The 2007-09 budget transferred toxicology testing from Oregon Health and Science University (OHSU) to the Forensics Division to save funding and to increase the capabilities of the Forensic Division to do toxicology testing.

The Forensics Division operates labs in six locations. It is not entirely clear if operating all of these labs is economical. With the ability to ship samples across the state overnight or within a day or two, the smaller labs may not meet a strict cost-benefit analysis. Often political and regional considerations drive the decisions on keeping a lab open. The Forensics Division had planned to open a new lab in Bend during the 2007-09 biennium, but the building plans have yet to completely determined. At this time it will likely be the summer of 2010 before a new building will be available. The long-term plan for the Medical Examiner's Office also had included opening an office at that location, but that has been put on hold at this time.

Essential Budget Level

The combined 2009-11 essential budget level (EBL) for the Forensics Division and the Medical Examiners Office of $39.7 million total funds is 15.1% greater than the 2007-09 legislatively approved budget. For the General Fund, the EBL of $37.5 million represents an 18.1% increase over the same period. The EBL does factor out the one-time increase in 2007-09 of $1.1 million General Fund to catch up on the DNA backlog. The Division actually only used half of this amount to catch up, with the remainder being used to fill gaps in funding in other OSP divisions in the December 2008 rebalance plan for 2007-09. Increases in the EBL are generally due to the roll-up costs of the 15 new positions for the Forensics Division, increases in employee compensation approved during 2007-09, and inflation. The increase also reflects the reductions made by the 2009 Legislature in the 2007-09 budget; the programs reduced in 2007-09 are fully funded in the 2009-11 EBL.

Legislatively Adopted Budget

The combined 2009-11 legislatively adopted budget for these two units of $38.7 million total funds is $2.2 million (2.5%) less than the EBL. For the General Fund budget, the legislatively adopted budget of $36.4 million is $1.1 million, or 3%, less than the EBL. The only significant reduction for these two divisions is the $968,390 General Fund reduced in employee compensation, an action common to most state agencies. There are no positions reduced in these two budgets for 2009-11. During the 2007 legislative session, there was discussion that the 15 positions added for the Forensics Division for 2007-09 was only the first step in getting the staff back to levels that it was at before the 2001-03 fiscal crisis. The legislatively adopted budget for 2009-11 does not include any further positions.

OSP – Fish and Wildlife

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	4,694,453	5,662,132	5,803,693	2,615,278
Lottery Funds	6,364,954	7,150,132	7,596,103	7,223,958
Other Funds	15,882,532	18,003,016	19,204,574	21,036,539
Federal Funds	981,288	1,465,774	1,353,386	2,236,341
Total Funds	**$27,923,227**	**$32,281,054**	**$33,957,756**	**$33,112,116**
Positions	122	122	120	120
FTE	121.58	122.00	120.00	119.52

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 ($16.8 million Other Funds) based on fish and game license fees. Historically, over 28% of these revenues have been provided to the State Police for enforcement but its share has fallen to less than 19% for 2007-09. Other major funding includes:

- Ballot Measure 66 Lottery Funds for enforcement of the Oregon Plan ($7.2 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 and for ATV enforcement ($619,316 Other Funds);
- Department of Environmental Quality payments ($210,000 Other Funds) for environmental investigations;
- revenue from a fee for shellfish-related enforcement ($475,096 Other Funds); and
- national Oceanic Atmospheric Administration Joint Enforcement Agreements (2.2 million Federal Funds).

Budget Environment

The increasing population is creating greater demands for fish and wildlife enforcement and protection services at a time when there is reduced growth in license and tag revenues being transferred from ODFW. The Division's budget was 75% funded from ODFW transfers in 1981-83, falling to approximately 46% in 2007-09. In the meantime, the amount of biennial ODFW license and tag revenue has increased by roughly 100%. This decreased share has been offset by other funding sources such as Lottery Funds, but this has also changed the focus of enforcement. The increasing population will also create greater demands for recreational use of parks, waterways, wilderness areas, and public lands. This will require further regulation and restriction on the usage of these resources with accompanying demands for law enforcement to ensure compliance.

The Fish and Wildlife Division staff perform basic law enforcement activities beyond their generally assigned responsibilities. They are available to Patrol and other divisions to support their functions. This is a primary reason there has been General Fund in this Division's budget, since these types of activities are beyond the scope of the funding streams from ODFW or the Ballot Measure 66 Lottery funds. Without this funding, the availability of this staff to perform these other functions would be limited.

The amount transferred from ODFW within a biennium has often not kept pace with increasing costs. The 2007-09 rebalance plan approved by the Emergency Board in December 2008 included General Fund resources to backfill almost $490,000 in costs due to employee compensation and fuel costs.

Essential Budget Level

The 2009-11 essential budget level (EBL) for this Division of $34 million total funds represents a 5.2% increase over the 2007-09 legislatively approved budget. The combine General Fund and Lottery Funds EBL budget of $13.4 million is 4.6% greater over the same period. The increases are due primarily to increased employee compensation approved during 2007-09 and inflation including exceptional inflation granted for fuel costs.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget for this division of $33.1 million total funds is $845,000, or 2.5%, less than the EBL. The General Fund budget of $2.6 million is $3.1 million, or 54.9%, less than EBL while the Lottery Funds budget is 5% less than EBL. The General Fund reductions are primarily due to fund shifts on a number of sworn or trooper positions as additional funding is made available through: (1) revenue generated from fees on All-Terrain Vehicles (ATVs) to enforce related regulations; (2) additional resources from the ODFW; (3) Division ending balances; and (4) further federal funding. The net result is the loss of two trooper positions from EBL. In addition, two limited duration non-sworn positions are continued with funding through the National Oceanic and Atmospheric Administration for research and to track trooper time on federally funded enforcement activities. Other changes to this budget include a $291,316 reduction in capital projects funded with Ballot Measure 66 Lottery Funds and an increase in Other Funds limitation of $250,000 for enforcement of invasive species regulations (HB 2220).

OSP – Administrative Services

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	30,963,241	34,288,474	42,277,521	36,937,860
Other Funds	3,654,040	3,456,385	3,560,674	5,944,201
Federal Funds	121,892	7,615,876	7,829,465	410,803
Total Funds	**$34,739,173**	**$45,360,735**	**$53,667,660**	**$43,292,864**
Positions	145	152	178	166
FTE	143.99	149.47	177.00	165.50

Program Description

The Administrative Services Division includes the Office of the Superintendent, financial services, fleet management, labor relations, dispatch, information systems, wireless communications, and other agency-wide support and staff. The Training unit of this division recruits, selects, and retains the sworn workforce.

Revenue Sources and Relationships

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

Budget Environment

Training resources were substantially reduced during 2001-03 and 2003-05. The training budget at the beginning of the 2001-03 biennium was $4.4 million total funds and 17 positions. The 2005-07 budget had only four positions funded for training so it had to rely on other agency staff to augment these training resources. The 2007-09 budget added another four training staff; but, given the training and recruitment activities associated with adding 139 new troopers authorized by the 2007 and 2008 Legislatures, the unit continues to have to rely on other OSP staff. The 2009-11 budget reduces the training unit by three positions. Without sufficient training resources, staff is challenged to keep pace with changes in the law as well as advances in the technology and science related to law enforcement. The Department of Public Safety Standards and Training (DPSST) requires completion of specified training hours for sworn staff to retain their certification. Since training positions have not been fully funded, OSP has had to use other staff to assist in the training. This takes resources away from direct law enforcement activities. Starting in 2007, OSP has used the 16-week DPSST basic law enforcement training instead of its own recruit school. It augments the 16-week course with eight further weeks of additional training unique to OSP.

Over the past few biennia, OSP has faced significant reductions beyond troopers on the road and criminal detectives. The support functions have also been reduced, often at a rate greater than the core functions of the Department. 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, and information management system-related staff. The 2005 and 2007 Legislatures added back positions to fill some of this gap, but not to the levels of pre-2001-03.

Essential Budget Level

The 2009-11 essential budget level (EBL) for this division of $53.7 million total funds represents an 18.3% increase over the 2007-09 legislatively approved budget. The General Fund EBL of $42.3 million is 23.3% greater than the 2007-09 legislatively approved budget. The increase includes the roll-up costs of the new agency infrastructure positions added by the 2007 Legislature, increases in employee compensation approved in 2007-09, and inflation. These increases are offset by over $1.3 million in phase-out of one-time 2007-09 costs, a reduction of debt service need, and one-time increases in the Division's 2007-09 budget through an agency-wide rebalance in December 2008.

This EBL amount also includes the transfer of the wireless communications and information systems programs from the Law Enforcement Data Division (formally the Information Management Division) to this Division.

This reorganization transferred 25 positions and $8.5 million General Fund which represents the agency's resources responsible for the design, acquisition, installation, maintenance, and repair of the statewide telecommunications and information management systems.

Legislatively Adopted Budget

The legislatively adopted 2009-11 budget of $43.3 million total funds is $10.4 million, or 19.3%, below EBL while the General Fund budget is $5.3 million, or 12.6%, below the EBL. The large reduction in total funds is due to the transfer of the administration of federal criminal justice grants from OSP to the Criminal Justice Commission. This transfer of $7.8 million Federal Funds and five positions proposes formalizing a decision made by the Governor during 2008. This completes the transfers of a number of grant programs started by the 2007 Legislature that had previously been administered by the former Criminal Justice Services Division. Transfers had already been made to the Department of Justice and the Oregon Military Department.

The reduction in General Fund is primarily due to the following:

- The elimination of seven positions ($1.3 million General Fund) including positions in fleet operations, training, command center or dispatch, and information systems support. These reductions start to reverse the actions taken in the past two biennia to restore the administrative infrastructure in the agency that had been lost in 2001-03.
- A fund shift of $2.3 million replaces General Fund resources with revenues from the Oregon Department of Fish and Wildlife to pay for a portion of the administrative costs attributed to the Fish and Wildlife Division.
- The wireless program is reduced by $930,590 General Fund affecting overtime, services and supplies costs, and capital outlay. The agency believes the impact of this reduction will not be significant given the similar resources available through the Department of Transportation which it shares a joint operation.
- Funding for employee compensation is reduced by $1 million General Fund, an action common to most state agencies.

OSP – Law Enforcement Information Division

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	7,951,203	14,351,397	11,859,344	5,966,863
Other Funds	7,540,240	12,564,272	10,156,499	14,058,884
Federal Funds	860,572	321,550	330,553	330,553
Total Funds	**$16,352,015**	**$27,237,219**	**$22,346,396**	**$20,356,300**
Positions	94	127	102	100
FTE	93.38	124.34	101.50	99.50

Program Description

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

Revenue Sources and Relationships

The LEDS program receives Other Funds from charges to user agencies through terminal and other fees charged to agencies using the system ($660,000). Other major sources of Other Funds revenue is from fees for

Identification Services including open records checks of criminal histories, firearms, concealed gun, and employment and licensing background checks ($9 million).

Budget Environment

During the 2007-09 biennium, the Law Enforcement Data System (LEDS) Section restored positions lost during the budget shortfall of 2001-03. LEDS has now attained a minimal level of staffing required to meet the FBI's standards for accessing the National Crime Information Center (NCIC). The program had been at risk of being sanctioned for not meeting the federal standards but these restorations provided the resources to alleviate that action. One potential consequence of being sanctioned is the loss of access to National Crime Information Center (a valuable tool for law enforcement) and loss of federal grant funds.

The Identification Services unit increased many of its fees for service in 2005 including those affecting other state agencies and non-profit employers. In doing so and in rebuilding staff resources, the Identification Services unit has remained within budget over the past biennium and regained the ability to provide acceptable turnaround times to customers for core services. The core function of maintaining the states criminal history repository is critical not only to the criminal justice community and law enforcement through positive fingerprint identification of reported arrestees, but to non-criminal justice users such as regulatory agencies making employment and licensing decisions, as well as the public. General Fund has been used in this program to provide sufficient revenue to the central functions of the Section and to backfill those programs where fee revenue does not provide sufficient revenue (e.g. firearms). The 2009 Legislature reduced the General Fund by $4.6 million eliminating almost all of the General Fund. The agency is to return to the 2011 Legislature with an evaluation of its fee structure and what the level of fees would have to be for this program to be self sufficient.

Essential Budget Level

The 2009-11 essential budget level (EBL) for this division of $22.3 million total funds represents a $4.9 million (17.9%) decrease from the 2007-09 legislatively approved budget. Much of this decrease is explained by the transfer of the wireless and information systems related staff from this division to the Administrative Services Division. This reorganization transferred 25 positions and $8.6 million General Fund.

The General Fund EBL of $11.9 million is a $2.5 million or 17.4% decrease from the 2007-09 legislatively approved budget. Most of this decrease is due to the transfer of units to Administrative Services described above. This transfer is offset by the roll-up costs of the new agency infrastructure positions added by the 2007 Legislature, increases in employee compensation approved in 2007-09, and inflation.

Legislatively Adopted Budget

The legislatively adopted budget of $20.4 million total funds is $2.06 million, or 8.9%, less than the EBL. The 2009-11 General Fund budget of $6 million is $5.9 million, or 49.7%, less than EBL. The primary reason for the General Fund reduction is the $4.6 million fund shift in the Identification Services program offsetting all but $600,000 of the program's General Fund with available ending balance generated through fee revenue. This move does significantly reduce the available balances for 2011-13; a budget noted was included as part of this budget to report back to the 2011 Legislature on a review of the current fee structure and an estimate of what each specific fee must be to support its share of costs for the total program. No fee increases are likely for 2009-11, but the program will likely have to increase fees if this program is not to depend on General Fund in the future.

Other reductions for this division include:

- Two positions in the Identification Services program are eliminated (fingerprint technician and a support position) saving $205,336 General Fund.
- There is a 41% reduction ($610,684 General Fund) in the services and supplies budget for the Law Enforcement Data System (LEDS), which could be problematic if the program must unexpectedly replace data processing equipment.
- Funding for employee compensation is reduced by $235,684 General Fund ($475,197 total funds), an action common to most state agencies.

OSP – Gaming

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	72,012	300,819	0	0
Other Funds	7,793,070	10,142,933	10,678,922	10,339,255
Total Funds	**$7,865,082**	**$10,443,752**	**$10,678,922**	**$10,339,255**
Positions	42	43	42	42
FTE	42.00	42.88	42.00	42.00

Program Description

The Gaming Division ensures fairness, honesty, integrity, and security of the Oregon State Lottery and tribal gaming centers operating in Oregon. The State Lottery was established in 1985, and tribal casinos were first authorized in 1993. Since 1993, the Oregon State Athletic Commission (formally the Boxing and Wrestling Commission) has operated from within the Department to ensure the integrity and honesty of boxing and wrestling events.

Revenue Sources and Relationships

The Lottery Commission fully funds the Lottery Security Section (LSS) services ($6 million). Native American Gaming Tribes fully fund the Tribal Gaming Section activities ($3.4 million). The Vendor Investigation Section is funded by both the Oregon Lottery and vendors who conduct business with Oregon's Gaming Tribes ($1 million). License fees and a gross receipts tax partially fund the Oregon Athletic Commission regulatory activities ($160,000). 75% of any ending balance for the Oregon Athletic Commission is sent to the Children's Trust Fund. However, the Oregon Athletic Commission has not had an ending balance during the past few biennia.

Budget Environment

The demand for investigative, oversight, and security services continues to grow due to new contracts and new lottery games and the increased complexity in technology. The Lottery Commission began with one game and now offers approximately 40 scratch-it games per year. Currently, the Division monitors 4,700 Lottery retailers and over 12,300 video lottery terminals located at over 2,300 retail video poker locations; conducts background checks on retail contractors, retail employees, and major vendors; and provides weekly oversight of megabucks, keno, and Powerball. The number of background checks varies from year to year. For example, in 2000, OSP conducted 475 background checks on retailers and in 2008 there were over 1,600 checks performed.

Currently, there are nine tribal casinos operating over 8,000 slot machines. This is an increase from only 2,600 machines in 1995. Some of the existing casinos are also considering expansions in their gaming centers. Another tribal government is in the process of getting approval to move their current casino in Central Oregon to a site closer to the Portland metro area in the Columbia Gorge. Also, the vendors who conduct business with both the Lottery and the Tribes are adding to their business models, often by purchasing subsidiary companies that operate in the area of complex gaming technology. This places an increased demand on the Vendor Investigative Section to stay current in new technologies and to have enough staff to provide the proper investigation and related updates of these companies. The agency has also changed their staffing, from relying less on sworn troopers to increasing the number of financial auditors.

Essential Budget Level

The 2009-11 essential budget level (EBL) for this Division of $10.7 million total funds represents a 2.3% increase over the 2007-09 legislatively approved budget. The EBL does not include any General Fund resources but the agency has had to add General Fund to the budget in the past two biennia to keep pace with expenditures of the Oregon State Athletic Commission. Increases to the EBL generally reflect employee compensation increases approved during 2007-09 and inflation. One position is eliminated as part of the EBL development.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $10.4 million total funds is 3.2% below the EBL level and includes no General Fund. As noted above, the Department has had to augment Oregon State Athletic Commission revenues with General Fund to keep pace with costs. The Department did request General Fund for the

Commission in the agency request budget, but none is included in the adopted budget. The Department will have to find resources elsewhere in its budget to fill any gap or take action to keep costs in this program within levels supported by the program's revenue. The Division has considered implementing a moratorium on Commission events for one week per month so the Commission staff can keep up with the workload and within the revenue stream. The only reductions in this division from EBL are the reductions in employee compensation and assessments common to most state agency budgets.

OSP – State Fire Marshal

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	0	58,467	0	0
Other Funds	20,000,443	20,495,637	21,218,642	20,888,296
Federal Funds	374,923	477,771	491,475	482,818
Total Funds	**$20,375,366**	**$21,031,875**	**$21,710,117**	**$21,371,114**
Positions	80	78	78	78
FTE	78.96	76.50	77.25	77.25

Program Description

The State Fire Marshal is charged with protecting life and property from fire and hazardous materials. It has the following three major program areas:

- ***Fire and Prevention Services*** which is responsible for fire prevention and investigation, emergency response including the Conflagration Act, administration of the Uniform Fire Code, a clearing house for fire prevention information, and collection of fire incident data. There are 18 Deputy Fire Marshals and supervising Deputy Fire Marshals who serve Oregon communities who choose to not provide their own full-service fire prevention programs.
- ***Licensing and Permit Services*** which, in coordination with Fire Prevention Services, regulates the storage and use of explosives, fireworks, and liquid petroleum. This unit also administers regulations governing non-retail fuel dispensing.
- ***Hazardous Materials Services*** which administers the Community Right to Know law, collects and maintains data on hazardous substances, and insures state and local jurisdictions are prepared to respond to incidents. This unit is also responsible for equipping, training, and assisting the 14 Regional Hazmat Response Teams to ensure timely and complete mitigation of hazardous materials incidents. The unit also manages the state's three Incident Management Teams and the Urban Search and Rescue Team.

Revenue Sources and Relationships

The major Other Funds revenue source for the State Fire Marshal is the Fire Insurance Premium Tax (FIPT), which is assessed on insurance companies based on the premiums they collect for property casualty insurance. The current 2009-11 forecast shows available revenues from the FIPT at $15.5 million Other Funds plus approximately $3.5 million from a beginning balance. A portion of these FIPT funds are transferred to the Department of Public Safety Standards and Training and to the OSP Criminal Investigation Division, while the remainder is used as the major funding source for State Fire Marshal programs. The FIPT ending balance at the end of 2009-11 is presently estimated at approximately $1.2 million.

Other Funds revenue supporting the State Fire Marshal programs include non-retail fuel dispensing fees ($545,000) for card lock enforcement, hazardous substance user fees ($3.1 million) for the Community Right to Know program, and petroleum load fees ($3.6 million) for the Hazardous Response Teams. The remaining revenue is generated from licenses and permits (relating to liquefied petroleum gas, explosives, and fireworks) totaling $672,530, and from an interagency agreement with the Department of Human Services for fire and life safety inspections of Medicare and Medicaid funded facilities ($421,000). Federal Fund revenue is from Hazardous Materials Emergency Preparedness grants.

Budget Environment

Based on information from 41 of the 50 states and the District of Columbia from a few years ago, funding sources for Fire Marshal programs vary significantly. Only six states, including Oregon, rely on a FIPT or similar source to fund all or almost all of their fire prevention programs. Two states rely totally on fees. Fifteen states, including California, Nevada, and Washington, rely on general funds as their primary funding source. The remaining states included in this information reported a mixture of funding involving an insurance tax like FIPT, fees, or general fund resources.

State Fire Marshal staff assists all but nine of the 323 fire agencies for prevention or inspections. The state has proportionately fewer staff per capita than local prevention programs. Based on 2008 data, there was one state staff for each 187,000 people in the areas the state covers, while the local agencies range from one to 13,426 in Portland to one to 53,500 in the Tualatin Valley Fire and Rescue service area. State Fire Marshal deputies have been inspecting only the most critical facilities (schools, day care centers, special residential, corrections, flammable tanks, and community target facilities) and they are not always able to inspect them in a timely manner. The number of statewide fire fatalities continues a downward trend from the peak of 90 per year in the mid 1970s to 49 in 2008. The number does vary from one year to another; for example, the number for 2005 was 28, 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 2007 these costs ($738,385) were reimbursed using FIPT. Use of the FIPT for this purpose in future biennia will have to be based on factors including the availability of FIPT resources and the amount of reimbursable fire costs.

Essential Budget Level

The essential budget level (EBL) for the State Fire Marshal of $21.7 million total funds is 3.2% greater than the 2007-09 legislatively approved budget. The change in the EBL is primarily due to increases in employee compensation approved in 2007-09, subtraction of one-time 2007-09 costs for equipment and information systems improvements, and inflation.

Legislatively Adopted Budget

The legislatively adopted budget for 2009-11 of $21.4 million total funds is 1.6% less than the EBL. The only changes from EBL include reallocation of rent costs between OSP divisions, increasing the budget by $220,731 total funds, and the reduction in employee compensation ($503,579 total funds) and other changes to statewide assessments common to most state agencies. There is concern that the FIPT revenues may fall further during 2009-11 so the State Fire Marshall was instructed to monitor the revenues and make any adjustments to spending to reflect any decrease. Fee increases were approved by the Legislature for some programs (e.g., fireworks), but a request for a fee increase in the "card-lock" program was not approved. The Fire Marshal will have to request reconsideration of the fee increase during the 2010 special session or reduce expenditures to stay within the program's revenues.

OSP – Oregon Wireless Interoperability Network and Capital Construction

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	0	2,148,366	14,734,026	15,443,013
Other Funds	0	80,239,598	0	193,399,713
Federal Funds	0	7,647,357	0	751,825
Total Funds	**0**	**$90,035,321**	**$14,734,026**	**$209,594,551**
Positions	0	6	0	8
FTE	0	5.64	0	8.00

Program Description

The Oregon Wireless Interoperability Network (OWIN) project represents the construction, staff, and other project costs for a major project to replace and enhance the wireless communications systems of four state agencies and the public safety communications infrastructure statewide. The figures above also include the capital construction numbers for the OWIN project. The project was created to address three basic issues:

- Components of the current wireless communications infrastructure of state agencies require significant upgrade or replacement. Some key system components (e.g., microwave system) are no longer supported by the manufacturer.
- The Federal Communications Commission (FCC) is requiring all land mobile radio systems to convert their systems from "wideband" to "narrowband" frequencies by 2013. Wideband radios will not be manufactured after 2009.
- The 2005 Legislature passed HB 2101 which stated it is the "policy of the state to develop, finance, maintain and operate a single emergency response wireless communications infrastructure…to meet the needs of state agencies and ensure communications interoperability among public safety agencies in the state." The state agencies operating wireless systems are the Departments of State Police, Transportation, Forestry and Corrections.

Revenue Sources and Relationships

The current "working" cost estimate of OWIN is over $400 million total funds. This is an estimate based on work performed by a contractor over two years ago and needs to be continuously updated based on costs, partnership agreements, project design, and changes in project scope. It is anticipated that a combination of state, local, and federal funds will pay for the costs of OWIN. Financing so far has been a combination of certificates of participation (COPs), federal grants, and contributions by partner local public safety agencies. Debt service costs at this point are being paid with General Fund resources. The Oregon Department of Transportation has also set aside $75 million in future highway funding to pay for debt service costs which is included in its 2009-11 budget.

Budget Environment

The 2007 Legislature determined that there was insufficient information available at that time to approve funding for the initial build-out of the project. Instead, it provided $6.8 million total funds to continue the planning for the construction of the OWIN project. In February 2008, the Legislature authorized $76 million in certificates of participation (COPs) authority for OWIN for the first phase of the project. The first phase is to develop the backbone infrastructure (tower site improvements and microwave system) in three areas – the seven northwest counties including the Portland metropolitan area, the southwest counties, and for a loop connecting Bend and Medford. Future phases of the project will include the development and build-out of the backbone infrastructure for the eastern regions of the state, purchase and installation of radio equipment for the agencies involved, and purchase of backup and replacement equipment.

The Legislative Fiscal Office (LFO) and a legislative workgroup has worked closely with the OWIN project staff to monitor the progress of the project and to ensure that issues related to project management, quality assurance, and project governance are sufficiently addressed. The project staff has made significant progress in meeting the concerns of LFO and the workgroup.

Up to this point, it has been assumed that a combination of General Fund and highway related funds would pay the debt service for any OWIN long term financing that was issued. Other states have used a variety of sources for their wireless communications systems including federal resources and surcharges on the assessment currently in place for the 9-1-1 systems. Even though Oregon has been active in seeking federal assistance for this project there has not been a great amount of federal funding available to states. One alternative that may have some promise is to work with federal agencies who must also upgrade their wireless systems in many areas of the state. The OWIN project has been successful in seeking partnerships with local jurisdictions in sharing sites and facilities.

Essential Budget Level

The 2009-11 essential budget level (EBL) for OWIN of $14.7 million General Fund only includes the estimated debt service costs of the COPs that have been authorized to this point. A total of $85.8 million of capital construction expenditure limitation was approved during 2007-09 and continues for six years after its approval date. All other project costs, including staff, are viewed as "limited duration" and not part of the EBL. Additional project resources must be approved as policy packages by the Legislature.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget for OWIN is $3.5 million General Fund for project staff and other project costs (eight positions) and $11.9 million General Fund for debt service. This debt service amount is $2.8

million less than the amount assumed in the EBL due to more up-to-date estimates of the amount of required debt service for COPs authorized prior to 2009-11. There is no "new" debt service in the budget since the construction schedule relies on resources from the Department of Transportation (ODOT) and on COPs issued late in the biennium so no new debt service is required in the 2009-11 budget.

A total of $187.8 million in capital construction limitation (Other Funds) is authorized (six year limitation) in the 2009-11 budget, which is the current estimate of the OWIN's need for the next phase of the project for the backbone infrastructure (tower site improvements and microwave system) for Northeast and North Central Oregon and the land mobile radio system for Western Oregon. COPs will be issued for these construction and equipment costs as well as the project staffing, which is included in the authorized amount. This $187.8 million does not include the $75 million in resources that are part of the ODOT budget.

The budget report for HB 5054 included Information Technology Program/Project Directives for OWIN and other technology projects. For OWIN, the directives included a number of requirements and due dates to ensure that sound project management and oversight is completed. The individual items included an updated project charter, a controlled funding release plan, success criteria, project work-plan, management plans for costs and staff resources, and project and budget status reports. Legislative Fiscal Office staff will continue to meet with OWIN project staff on this and other project details.

Department of Public Safety Standards and Training – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	8,480,768	11,010,130	11,360,288	11,360,288
Other Funds	29,141,449	38,582,501	42,680,364	36,373,059
Federal Funds	52,992	54,635	56,165	56,156
Total Funds	**$37,675,209**	**$49,647,266**	**$54,096,817**	**$47,789,512**
Positions	156	170	170	146
FTE	134.73	167.13	168.12	143.87

Agency Overview

The Department of Public Safety Standards and Training (DPSST) is responsible for developing and maintaining standards for employment and providing training to over 35,000 public safety professionals and volunteers in Oregon through five programs:

- The ***Criminal Justice Training and Certification Program*** provides training and certification for state troopers, police, sheriff deputies, local and state correctional officers, parole and probation officers, 9-1-1 tele-communicators, and emergency medical dispatchers. Mandated training is set out by statute or rule, and ranges from 16 weeks for the basic police course (as of the beginning of 2007), five weeks for correctional officers, four weeks for parole and probation officers (with an additional week for those who carry firearms), two weeks for tele-communicators, and one week for emergency medical dispatchers.
- The ***Fire Training and Certification Program*** provides training across the state for professional and volunteer firefighters. This program also certifies firefighters, and accredits fire departments and local training programs that meet minimum requirements.
- The ***Private Security Program*** provides training, licensing, and certification to private security personnel that meet minimum requirements. There are approximately 550 private security firms and over 16,000 licensed private security providers statewide. The functions of the Board of Investigators were absorbed by this program beginning in 2006. There are approximately 700 active Private Investigator licensees.
- The ***Administration and Support Services Program*** includes the director's office, business and human resource functions, and information systems. In addition, this area includes the costs of operating the Salem training facility (including food service, housekeeping, operations, and maintenance) as well as the debt service for the new facility.
- The 1999 Legislature established the ***Public Safety Memorial Fund*** to provide financial assistance to family members of public safety officers who are killed, or are permanently and totally disabled in the line of duty.

The agency has regional offices in six locations – Central Point, Eugene, Bend, Hillsboro, Baker City, and Pendleton. The agency has professional trainers on staff, but also relies on part-time trainers who are practicing professionals in their fields.

Total Funds by Program Area

	Criminal Justice	Fire	Private Security	Administration and Support Services*	Memorial Fund
2003-05 Actual	$11,595,761	$1,379,562	$933,915	$6,683,646	$168,058
2005-07 Actual	14,083,350	2,596,214	1,290,921	19,536,651	168,073
2007-09 Leg. Approved	18,857,939	4,053,027	1,534,346	24,628,628	573,326
2009-11 Essential Budget	21,734,370	3,857,611	1,636,223	26,279,374	589,239
2009-11 Legislatively Approved Budget	18,033,535	3,743,466	2,004,278	23,418,994	589,239

** Debt service is included in the Administration and Support Services program and totals $11.2 million General Fund for the 2007-09 legislatively approved budget and $11.4 million in the 2009-11 essential budget level.*

Revenue Sources and Relationships

The primary revenue source for the ***Criminal Justice Training and Certification Program*** is the Criminal Fine and Assessment (CFAA) Account funded by a variety of fines and assessments, including the unitary assessment, paid by offenders. Over $29 million of new CFAA resources will be allocated for the entire agency for the 2009-11 legislatively adopted budget with the majority used in this program. There is over $2.7 million of projected CFAA revenue carried forward from 2007-09 to the 2009-11 budget. This program is also funded with polygraph examiner licensing fees and miscellaneous revenues ($13,600), a grant from the Oregon Department of Transportation ($375,000), and revenue from the 9-1-1 telephone tax ($476,702) for the 9-1-1 telecommunicators and emergency medical dispatchers training.

The primary revenue source for the ***Fire Training and Standards Program*** is $4.5 million from the Fire Insurance Premium Tax (FIPT). This program also receives funding from a Federal Emergency Management Agency (FEMA) grant for training developed by the U.S. Fire Academy ($56,165). The ***Private Security/Investigators Program*** is funded primarily with licensing and certification fees ($2.2 million). The ***Administration and Support Services Program*** is supported with General Fund for debt service costs; CFAA funds for operation of the facility, administrative costs, and housing costs; and inter-fund transfers from programs within the agency to cover their share of common administrative costs. The ***Public Safety Memorial Fund*** is funded with CFAA funds.

Budget Environment

Continued growth in Oregon population and policy changes made by past legislatures has created more demand for public safety training and certification services in recent years. DPSST has over 35,000 "constituents" including over 8,100 law enforcement personnel, over 1,700 parole and probation officers, over 3,800 correctional officers and jailers, over 13,200 fire-related personnel, over 900 emergency telecommunicators, and about 17,000 private security and private investigator personnel. Trends or factors affecting the demand for DPSST services include:

- In 2004, Oregon had the second lowest number of full-time sworn state and local law enforcement officers responding to calls per 100,000 residents; Oregon with 176 sworn personnel followed Washington with 174 sworn personnel per 100,000 residents.
- The growth in prison and jail populations, in part because of Ballot 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 850, or 6.1%, during the 2009-11 biennium. The growth would have been larger except the Legislature changed the implementation dates of Ballot Measure 57. The number of private security staff licensed by DPSST could continue to increase as more commercial and other interests look at private security agencies as alternatives to depending on local law enforcement.
- Regional training continues to be an important component in DPSST's overall curriculum. The law enforcement training program delivered training to over 8,500 students during calendar year 2007 and 7,800 during 2008. The Fire Program provided training to more than 10,000 students during the 2007-09 biennium.

Even with the increase in the basic law enforcement training to 16 weeks that started in January 2007, Oregon still lags behind other states. Based on data in the International Association of Directors of Law Enforcement Standards and Training 2005 Reciprocity Handbook, the average for police basic training was just under 21 weeks. The 1997 Legislature instructed the agency to increase the course from eight weeks to 16 weeks. The increase in length was delayed until a new facility was built and fully staffed. The composition of the new 16-week course has been updated for content (e.g., new court decisions and law changes), as well as how the training is delivered. The expanded curriculum will include greater use of scenarios in the training. Training not provided by DPSST must, in part, be provided by the public safety agencies with their own resources. Many agencies, especially smaller agencies, have very limited training resources.

Spending from the Public Safety Memorial Fund has not kept pace with the amount budgeted to it each biennium. Expenditures for 2003-05 and 2005-07 averaged less than $175,000. The legislatively approved budget for the Fund for 2007-09 is $573,326; but the final expenditures for the biennium was $238,679. The 2009-11 budgeted resources are $589,239; while this would seem too much given past spending, there is no way to predict the number officers killed or injured in the line of duty. If this amount is not sufficient, the agency will have to return to the Emergency Board for resources or find it in its current budget.

Essential Budget Level

The total funds 2009-11 essential budget level (EBL) for DPSST of $54.1 million total funds is 9% greater than the 2007-09 legislatively approved budget. Most of the increase is explained by the roll-up of employee compensation increases during 2007-09. The budget includes an increase over and above the standard inflation rate of almost $160,000 Other Funds for cost increase of ammunition used for firearms training. One-time 2007-

09 expenditures of almost $900,000 for fire related vehicles and equipment and information systems investments are factored out of the EBL. The $11.4 million of General Fund in the EBL and the legislatively adopted budget is for the debt service payments from the construction of the Salem training facility.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget for this agency of $47.8 million total funds is $6.3 million or 11.7% less than the EBL for the same period. Those portions of the budget supported by Criminal Fines and Assessment (CFAA) revenues are reduced substantially more – for the Criminal Justice Training and Certification Program the reduction is 17% below the EBL. Those CFAA revenues that are not used for DPSST and other eligible uses are transferred to the General Fund and are used for other programs in the overall state budget. These CFAA reductions from EBL in the legislatively adopted budget are taken in the Criminal Justice Training and Certification unit and in Administration and Support Services (all Other Funds – CFAA). The reductions in the training area include:

- reductions in the regional training program of $581,337 including the elimination of two of the regional training coordinators and another instructor position;
- reduction in the Leadership and the Instructor Development programs ($607,249 and three positions) which provide training to local agency instructors; and
- cuts in staff (training coordinators) and other training costs at the facility in Salem ($1.2 million and 6 positions) which will reduce the staff contact and training for recruits attending the basic law enforcement training.

The budget also reflects the transfer of the responsibility for training new correctional officers hired by the Department of Corrections (DOC) from DPSST to DOC. A total of $1.2 million and five positions are reduced with the remaining staff responsible for the training of local correctional officers. There is a related net reduction in the DOC budget of $6.9 million General Fund. Three positions and $392,069 were added to provide certification and oversight to ensure that officers trained by DOC meet certification standards.

The CFAA reductions to the Administration and Support Services program area include:

- reduction in staff and contract resources ($1.4 million) for the maintenance, security, and operation of the Salem facility including four positions;
- cuts to the fiscal, human resources, and other administrative support functions of $735,251 including four positions; and
- information systems reductions totaling $354,496 and two positions.

Based on the resources available in the legislatively adopted budget, the agency proposes three fewer Basic Police classes be offered in 2009-11. Since it is difficult to predict the number of individuals who will apply for training, the agency will have to continue to monitor the number of applications for training to see if the allocated resources are sufficient to meet the training needs of local and state jurisdictions.

	Number of Weeks	Actual 2007-09	Projected 2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Basic Police	16	18	18	15
Basic Corrections	5	21	18	6
Parole & Probation	4	4	4	2

Oregon Youth Authority (OYA) – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	212,774,323	252,455,324	346,165,025	266,009,019
Other Funds	10,195,513	31,926,779	16,341,610	14,669,929
Federal Funds	21,199,132	30,231,731	27,601,588	31,443,386
Total Funds	**$244,168,968**	**$314,613,834**	**$390,108,223**	**$312,122,334**
Positions	1,088	1,279	1,579	1,195
FTE	1,048.10	1,147.46	1,416.89	1,142.30

Agency Overview

The Oregon Youth Authority (OYA) is a key player in the state's juvenile justice system. Its statutory purpose is to protect the public, hold youth offenders accountable for their actions, and provide adjudicated youth with opportunities for reform. It works closely with county juvenile departments, the judicial system, and district attorneys. Local public safety coordinating councils and commissions on children and families also have responsibility for policy advice and program funding decisions.

OYA provides a balanced continuum of services through a statewide network of facilities, state employees, and contracted community providers. OYA manages out-of-home placement of delinquent youth in foster homes and residential treatment programs, provides parole and probation services; provides funding to counties for juvenile crime prevention, diversion, and transition programs; and operates the state juvenile corrections institutions. OYA operates youth correctional facilities at Woodburn, Salem, Albany, Grants Pass, Tillamook, Warrenton, and Burns; and transition programs in La Grande, Corvallis, Florence, and Tillamook. OYA's facilities and services must address diverse needs for males and females; very young through young adult ages (12 to 25); differing ethnic groups; offenders whose crimes range from behavioral offenses and property crimes to person-to-person crimes such as murder; and mentally ill and developmentally disabled offenders.

OYA's jurisdiction includes youth committed from both the juvenile and adult courts. Youth can be committed to OYA from juvenile court from as young as age 12. There are no mandatory sentences for juveniles whose cases are heard in juvenile court. Youth committed to OYA through adult court are in the legal custody of the Department of Corrections (DOC), but the physical custody of OYA. OYA may keep youth until their 25th birthday, but may transfer offenders committed through adult court back to DOC earlier if they are dangerous or do not apply themselves. Ballot Measure 11 (1994) set mandatory sentences through adult court for juveniles ages 15-17 who are convicted of certain offenses. About two-thirds of the youth in close custody are adjudicated in juvenile court, and about one-third are convicted in adult court on waived or Measure 11 offenses.

Revenue Sources and Relationships

The General Fund supports the major share of OYA's activities and operations. Typically, anywhere from 7% to 10% of the total budget comes from Federal Funds, and about 5% from Other Funds.

Historically, Federal Title XIX Medicaid reimbursements paid for part of the cost of out-of-home placements and treatment services, case management services, and services for paroled youth. This funding was initially at risk for 2009-11, as a federal rule would have eliminated eligibility for juvenile justice programs. However, the rule was rescinded in June 2009, reversing an anticipated cost shift of $6.1 million from Federal Funds to General Fund.

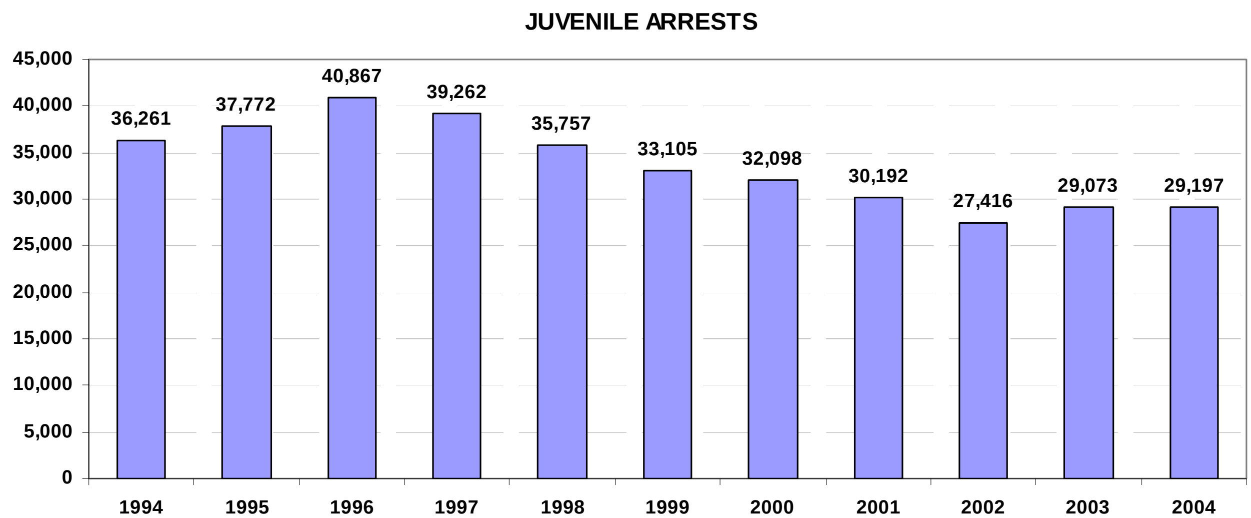
The budget also includes Title XIX Medicaid reimbursements for Behavioral Rehabilitation Services. This funding helps pay for eligible residential treatment services at about a 63% match rate; ineligible room and board costs are supported with General Fund. The budget anticipates continuing revenue from this source, which provides approximately 40% of the funding for residential care and multidimensional treatment foster care providers. Due to the American Recovery and Reinvestment Act of 2009, which provides a time-limited enhanced match rate, an additional $2.7 million Federal Funds will be available in 2009-11.

Federal funds for institution operations are very limited. OYA receives $2.7 million in federal nutrition program funds, and $0.1 million for Hillcrest's alcohol and drug treatment program. These are recorded as Other Funds.

The largest Other Funds sources are county contracts and youth trust fund reimbursements. The budget includes $3.5 million Other Funds revenue from counties to operate detention beds and $6.1 million Other Funds from child support and other assets of the youth, who are billed for part of the cost of care provided in OYA out-of-home placements.

Budget Environment

As the chart below shows, total arrests for juveniles (excluding curfews and runaways) grew in the mid-1990s, but have trended down since 1996. Juvenile arrests in 2004 (the most recent data available) were actually lower than in 1994, and are down almost 30% from the 1996 peak. Person and property crimes have declined by 38% since 1994, while behavioral crimes such as traffic, alcohol, or drug law violations have grown by 15%. In 1994, behavioral crimes accounted for 35% of juvenile arrests; in 2004, 50% of arrests were made for those crimes.



The Department of Administrative Services' Office of Economic Analysis (OEA) prepares a semi-annual forecast of demand for close custody and community placements. The forecast projects demand based on the number and characteristics of offenders committed to OYA and those with similar delinquency characteristics who remain in the community, but who could be expected to be committed to OYA, if OYA had available capacity. The close custody forecast includes three major groups: juveniles convicted in adult court under Measure 11 or waived under ORS 419C.340; Public Safety Reserve youth committed for certain violent crimes, but too young for Measure 11 to apply; and youth committed for new crimes and parole violations as part of the county Discretionary Bed Allocation. The community placement forecast covers youth committed to OYA and placed in residential treatment or foster care while on probation or parole.

The demand forecast is not constrained by budgeted capacity, but it serves as a reasonable context for comparison. For example, on January 1, 2009, OYA's budgeted close custody capacity was 925 youth, but the OEA forecast demand was at 1,189 youth. The budgeted level was about 78% of the forecast demand. The April 2009 forecast indicates close custody demand will average about 1,052 beds during 2009-11. On July 1, 2008, OYA's community placement population was 623; OEA forecast demand was 714. The community population was about 87% of the forecast demand. OEA forecasts community placement demand will decline about 2% over the 2009-11 biennium, from 708 placements at July 2009 to 695 placements at July 2011.

With limited close custody beds, OYA has had to manage growth in the adult and Public Safety Reserve populations by cutting the number of beds available for counties in the Discretionary Bed Allocation. At the same time, funding for community placements and local prevention has not met the level of need. Fewer beds for lower-level offenders combined with community program reductions have made it more difficult for counties to manage youth offenders.

SB 267 (2003) requires state-funded crime prevention programs and services to reflect scientifically based research and demonstrate cost-effectiveness. The bill applied to certain programs of the OYA, the Department of

Corrections, the Commission on Children and Families, and mental health and addiction programs in the Department of Human Services. For the 2005-07 biennium, agencies had to spend 25% of the state funds they receive for these programs on evidence-based programs; this proportion increased to 50% in 2007-09, and is set at 75% beginning in 2009-11. OYA operates treatment and intervention programs such as sex offender or drug and alcohol treatment, family based treatment, and transition services, which meet the SB 267 criteria.

During 2008, the agency underwent a review of management processes and controls. A team identified several items that needed attention, ranging from security to quality assurance to business controls. This effort, called the System Improvement Project (SIP), resulted in specific recommendations on how to make improvements in the areas of concern. The agency is working to implement those changes, which would improve agency oversight, accountability, and performance benchmarks, but is challenged by a lack of resources.

Essential Budget Level

The essential budget level (EBL), including caseload growth, is 24% above the 2007-09 legislatively approved budget. Due to anticipated federal regulation changes, EBL was developed containing a $6.1 million fund shift from Federal Funds to General Fund. As noted previously, this regulation was rescinded and the Federal Funds were restored in the legislatively adopted budget. Also included are standard adjustments for personal services costs, inflation, Attorney General rates, uniform rent, state government service charges, county payments, and payments to community providers. Based on actual cost projections, exceptional inflation for utility expenses, medical services, and pharmacy costs is added.

However, the legislatively adopted budget is 20% lower than the agency's essential budget level; associated reductions and impacts are noted below and in the program unit discussions.

Legislatively Adopted Budget

There is less than a 1% change between the 2007-09 legislatively approved budget and the 2009-11 legislatively adopted budget. While funding appears essentially flat, the budget does reflect a significant reduction from the agency's original 2007-09 program level and erodes progress that was being made toward restoring program reductions taken earlier this decade. Caseload projections continue to be underfunded in the budget.

Under the legislatively adopted budget, close custody capacity is funded at 900 beds, which is about 86% of the average population forecast level of 1,052 beds. It is also 95 beds less than the 995 originally funded for 2007-09. The level of community placements supported in the budget is 555, which is about 79% of the average population forecast level and a decrease of 126 from the 681 originally funded for 2007-09.

Program reductions were made in all areas of the agency and are discussed in greater detail within each section of the analysis.

OYA – Facility Programs

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	113,936,052	137,216,911	199,125,182	149,231,009
Other Funds	6,365,818	10,113,013	11,726,618	10,540,965
Federal Funds	87,602	23,267	0	21,367
Total Funds	**$120,389,472**	**$147,353,191**	**$210,851,800**	**$159,793,341**
Positions	837	1,009	1,289	945
FTE	800.54	882.60	1137.51	903.51

Program Description

OYA operates a variety of close custody facilities across the state with varying levels of security and structure and a range of treatment services. The agency runs facilities at MacLaren in Woodburn, Hillcrest in Salem, Grants Pass, Warrenton, Burns, Tillamook, Florence, Corvallis, Albany, and La Grande.
The 995 beds originally budgeted for the 2007-09 biennium included the phase-in of 145 additional close custody beds: 75 beds in Albany (December 2007 and January 2008), 20 beds at Hillcrest in Salem (February 2009), 25 beds at Warrenton (February 2009), and 25 beds in La Grande (February 2009). Due to 2007-09

reductions taken during the 2009 session, only the 75 beds at Albany came on board; the remaining beds and associated costs for staffing and operations were eliminated.

The total of 900 beds budgeted for 2009-11 includes 775 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, budgeted at 270 beds for males and serving a variety of populations. Hillcrest, budgeted at 180 beds, serves males and handles statewide male intake and parole violator intake assessment activities. Other facilities range in size from 25 to 100 beds, and serve targeted populations such as male sex offenders, male offenders receiving substance abuse services, and female offenders.

The focus in the facilities is on reformation and rehabilitation in the context of public safety and restitution to victims and the community. The facilities provide treatment services, educational programs, and work experience for youth. Treatment, health, and mental health services are provided by OYA employees and by contract with community professionals. Local school districts or education service districts provide education and vocational programs.

Budget Environment

As described above, the Office of Economic Analysis prepares a semi-annual forecast for close custody and community placements. It is clear that the state's current budget environment will not be able to support full funding at the demand forecast level. OYA currently has physical capacity for 1,081 close custody beds, which counts all beds at the permanently constructed facilities, including 50 beds used for county detention programs.

In addition to providing "bed and board" for youth offenders, the facilities provide a wide range of services as needed for physical and dental health, mental health, substance abuse, recreation, education, vocational and other support needs. OYA uses a standard risk/needs assessment tool to develop individual correctional case plans. OYA reports that 71% of offenders in its close custody facilities have been assessed as substance-abusive or dependent; about 65% of the males and 80% of the females met the psychiatric requirements for a mental health disorder (excluding conduct disorder).

Females represent only about 7% of the close custody population, but are more likely to have substance abuse or mental health issues than are their male counterparts. To look at these issues, during the 2005-07 biennium OYA convened a Young Women's Work Group. The committee's recommendations include more gender-specific and evidence-based services, and providing services for female offenders in "single-gender" facilities. The February 2008 reopening of Oak Creek facility in Albany is allowing the agency to deliver these specialized services for young women.

Essential Budget Level

The calculated essential budget level, including caseload growth to match up with the April 2008 demand forecast, is 43.1% above the 2007-09 legislatively approved budget. Most of the increase is due to the roll-up of costs for beds that were phased-in part way through the 2007-09, along with caseload growth. In a change from previous biennia, the essential budget level includes $4.8 million General Fund to provide education services for close custody youth that have a high school diploma or have reached the age of 21. Funding used to be covered by a State School Fund distribution.

Legislatively Adopted Budget

The legislatively adopted budget is 8.4% above the 2007-09 legislatively approved budget and 24.2% below the essential budget level. Along with eliminating caseload growth, the budget reflects removal of 70 beds originally scheduled to come on late in the 2007-09 biennium and 25 existing beds at MacLaren. The $4.8 million General Fund added in the EBL for educational services was reduced to $2.4 million. The budget also includes standard statewide reductions for compensation, assessments, and rates.

OYA – Community Programs

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	66,317,913	78,550,984	100,795,182	76,290,593
Other Funds	3,447,588	2,910,099	3,679,405	3,218,514
Federal Funds	19,974,168	28,957,119	27,601,588	30,151,256
Total Funds	**$89,739,669**	**$110,418,202**	**$132,076,175**	**$109,660,363**
Positions	153	166	179	151
FTE	150.67	154.36	170.00	140.54

Program Description

Community Programs provide community-based supervision and services to youth offenders committed to OYA by the juvenile courts. OYA staff design and carry out an individual reformation plan for each youth in OYA's custody. The Community Programs budget includes community placement services, such as residential services and foster care; parole and probation services; individualized community services; and grants to county juvenile departments for diverting high risk youth offenders from OYA placement, juvenile crime prevention, and youth gang services.

Budget Environment

Earlier this decade, statewide funding constraints reduced statewide grants and targeted grants to counties; reduced funding for probation and parole staff; eliminated or reduced funding for residential, shelter, and foster care beds; and reduced other contracted treatment services. Some of these have been restored, but a lack of community resources and limited capacity at regional youth correctional facilities, continue to be on-going challenges for OYA and local communities to manage at-risk youth and offenders effectively.

As of January 2009, OYA had 635 youth in the community on probation, and 479 youth in the community on parole. OYA staff provides case management services to youth on probation, parole, and case planning in facilities, but the agency contracts for a range of other treatment services and residential placements with foster care or Behavioral Rehabilitation Services (BRS) providers. OYA has historically expressed concern with rates paid to its residential BRS providers. The rates were first established in 1997 and had been updated only for small inflationary increases since that time. Providers have faced a number of operating costs, such as liability insurance and utility costs, that outstrip inflation. At the same time, community capacity reductions have caused providers to see more youth with greater service needs. For 2007-09, funding was added to give providers an average increase of 9% over the biennium. This rate level was maintained for 2009-11.

Essential Budget Level

The calculated essential budget level, including caseload growth to match up with the April 2008 demand forecast, is 19.6% above the 2007-09 legislatively approved budget. Most of the cost increase is due to the roll-up of costs for community placements that were phased in part way through the 2007-09, along with caseload growth.

Legislatively Adopted Budget

The legislatively adopted budget is 0.7% below the 2007-09 legislatively approved budget and 17% below the essential budget level. Along with removing caseload growth, the budget reflects elimination of 68 residential and foster care beds originally scheduled to come on late in the 2007-09 biennium and the elimination of 58 additional community placements. The budget also includes standard statewide reductions for compensation, assessments, and rates.

A total of about $9 million General Fund was shifted to Federal Funds to reflect a higher match rate (short-term) on Medicaid and rescission of the proposed federal rule that would have eliminated program eligibility for federal targeted case management dollars.

The 2009-11 budget includes about $16.7 million for county diversion and juvenile crime prevention basic services grants for 36 counties. The funding covers local services for youth. County diversion funding has been provided since the 1980s, while juvenile crime prevention basic services funding began in 1999.

This program unit also includes $4.7 million General Fund support for youth gang enforcement services and intervention in Multnomah County. No funding is provided for statewide grants for youth gang transition.

In addition, SB 107 enacts a new Interstate Compact for Juvenile Offenders, which sets forth how juvenile offenders crossing state borders are supervised or returned. Along with other provisions, the updated compact directs new data collection and sharing activities that will require the agency to update systems and complete related tasks. Even with reductions, enough General Fund was retained to add one position to support the new requirements.

OYA – Program Support

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	25,334,686	28,716,017	37,856,140	32,098,896
Other Funds	320,645	1,072,804	935,587	910,450
Federal Funds	1,137,362	1,251,345	0	1,270,763
Total Funds	**$26,792,693**	**$31,040,166**	**$38,791,727**	**$34,280,109**
Positions	98	104	111	99
FTE	96.89	102.51	109.38	98.25

Program Description

The Program Support unit includes the director's office and OYA's business services, such as accounting, employee services, budget and contracts, and information systems staff and expenditures. It also includes the agency's internal audits office and the Office of Professional Standards, which is an internal investigation function. The operational costs of the statewide Juvenile Justice Information System (JJIS) are part of this budget. Agency-wide costs that are not allocated to other programs, such as insurance premiums and Attorney General costs, are also part of this budget.

Budget Environment

The major cost driver in this budget is intergovernmental service charges, which pay for some shared government functions and pooled costs, such as risk insurance. These costs make up about 25% of the Program Support budget.

For 2007-09, this unit received three new positions due to funded caseload growth in the facility and community programs. A position was also added to help ensure compliance with provider and client eligibility criteria for federal Medicaid reimbursement for Behavioral Rehabilitation Services in residential treatment placements.

Most of the business processes reviewed under the Systems Improvement Project related to policies, procedures, or business functions that originate within "belong" to this program unit. The review outlined a need for additional staffing for internal audit, employee services, communications, property control, and investigator functions.

Essential Budget Level

The essential budget level is about 32% General Fund and 25% total funds above the 2007-09 legislatively approved budget. The overall increase primarily reflects increased salaries, standard inflation, and adjustments for intergovernmental service charges based on actual projected costs. The disproportionate General Fund increase is due in part to a fund shift of $1.3 million from Federal Funds to General Fund to backfill case management costs that were not originally expected to be eligible for federal dollars. Due to changes at the federal level, this action was reversed in the final budget.

In addition, the EBL also includes $1 million General Fund and 7 positions (5.38 FTE) tied to caseload growth in facility and community programs.

Legislatively Adopted Budget

The legislatively adopted budget is 10.4% above the 2007-09 legislatively approved budget and 11.6% below the essential budget level. The budget includes program reductions, but these are offset by growth in EBL due to inflation; all centralized government charges and assessments are captured in this program unit.

The budget also includes the elimination of five positions as part of the agency's central office reorganization plan and reversal of the EBL fund shift noted previously.

OYA – Debt Service

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	6,557,517	7,263,876	7,653,121	7,653,121
Other Funds	61,462	0	0	0
Total Funds	**$6,618,979**	**$7,263,876**	**$7,653,121**	**$7,653,121**

Program Description

OYA pays debt service on certificates of participation (COPs) issued through the Department of Administrative Services. COPs have been issued for construction of OYA's regional facilities, fencing, and property transactions. OYA has also paid for Juvenile Justice Information System COPs issued in 1998 and for Hillcrest remodeling COPs related to suicide prevention issues.

Budget Environment

OYA's debt service budget has been supported by General Fund and reflects the estimated cost of debt service on all certificates of participation sold or approved to be sold for the agency. This includes certificates of participation expected to be sold in 2009-11 to support capital expenditures approved in 2007-09.

Essential Budget Level

The essential budget level for Debt Service is 5.4% higher than the 2007-09 legislatively approved budget at December 2008. The increase is due to the projected actual costs of debt service payments due in 2009-11.

Legislatively Adopted Budget

The legislatively approved budget is at the essential budget level. General Fund debt service on $9.2 million of additional COPs issued during the 2009 session (SB 338) is recorded in the Department of Administrative Services (DAS) budget.

OYA – Capital Improvements

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	628,155	707,536	735,400	735,400
Total Funds	**$628,155**	**$707,536**	**$735,400**	**$735,400**

OYA – Capital Construction

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	0	17,830,863	0	0
Total Funds	**$0**	**$17,830,863**	**$0**	**$0**

Program Description

The capital budgets reflect spending on OYA's 79 buildings at 11 locations, which have an estimated $187.4 million replacement value. Capital Improvement covers land and building improvements, including major repair or replacement, which cost more than $5,000 but less than $500,000. Capital Construction projects include land acquisition and new construction or major renovation projects costing $500,000 or more.

Budget Environment

OYA currently has a physical capacity of 1,081 close custody beds; however, the agency is not funded to operate its facilities at full capacity. The regional youth correctional facilities completed in 1997 are in good shape, although maintenance costs are increasing. Most of OYA's other facilities are much older, in generally good repair for their age, but need improvements in safety, security, and functionality.

The Hillcrest and MacLaren facilities have significant problems with heating and electrical systems, and MacLaren has additional problems with its drinking water, storm water, and sanitary sewer systems. OYA has also repeatedly identified a need to replace Whiteaker Hall, the aging and deteriorating administration building at MacLaren. The oldest building OYA uses is the Corvallis House, which was constructed in 1913. The building has high maintenance costs and a long list of deferred maintenance projects.

In 2007-09, OYA received $8.6 million Other Funds Capital Construction expenditure limitation, funded by revenues from certificates of participation to be issued in the 2007-09 and 2009-11 biennia. Projects supported include $3.4 million for MacLaren infrastructure needs, $2 million for the Oak Creek facility, $2 million for deferred maintenance needs in OYA's facilities, $1 million for the Corvallis House renovation, and $200,000 to begin planning for renovation or replacement of the Whiteaker Building. The Capital Construction spending authority will be available through June 2013.

As part of the 2007-09 state economic stimulus package passed by the 2009 Legislature in SB 338, the agency received authorization to spend an additional $9.2 million Other Funds in COP revenue for various projects around the state. These include control room and HVAC renovations at Burns, Albany, LaGrande and Warrenton. In addition, significant construction for facilities renovations at Albany, Corvallis, Hillcrest and MacLaren (Woodburn) and the Youth Correctional Facility in Tillamook.

Essential Budget Level

The essential budget level for Capital Improvements is 4% higher than the 2007-09 legislatively approved budget. The increase is primarily due to application of a standard inflation factor. The entire six-year Capital Construction budget authority approved for 2007-09 is recorded in that biennium, so does not carry forward to the 2009-11 essential budget level.

Legislatively Adopted Budget

Capital Improvements are budgeted at the essential budget level; no new Capital Construction is included in the 2009-11 budget. General Fund debt service on economic stimulus projects from SB 338 (2009) is recorded in the DAS budget.

TRANSPORTATION

Department of Aviation – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	6,886,659	9,508,576	6,826,725	6,738,855
Federal Funds	2,863,075	10,443,166	970,000	2,470,000
Total Funds	**$9,749,734**	**$19,951,742**	**$7,796,725**	**$9,208,855**
Positions	19	17	16	17
FTE	17.92	17.00	16.00	16.38

Agency Overview

The Department of Aviation's mission is to support Oregon communities by preserving and enhancing aviation. The seven member State Aviation Board, appointed by the Governor, represents aviation interests from the public and private sectors. The Board provides policy direction to the Department.

The Department's six-year plan goals include: a) protect public-use airports, b) leverage technology to enhance general aviation programs, c) support communities through economic development, d) improve safety and operating condition of state-owned/operated airports, and e) protect and enhance aviation. Key areas of the responsibilities include:

- Develop and implement the Oregon Aviation Plan and related policies
- Conduct continuous aviation system planning and provide technical assistance on airport planning and development
- Administer the federal General Aviation Entitlement grant, pavement maintenance, and financial aid to municipalities (FAM) programs
- Register approximately 4,200 aircraft annually
- Register approximately 2,545 pilots annually
- Conduct airport safety inspections on state-owned and other Oregon public airports; investigate proposed airport and heliport sites; provide technical safety advice on facilities siting and feasibility issues
- Maintain 28 state-owned airports to federal and safety standards including routine and preventive maintenance such as mowing, obstruction removal, pavement preservation, and navigational aid maintenance

Revenue Sources and Relationships

The Department is supported entirely by Other and Federal Funds with total estimated revenue for the 2009-11 biennium of $9.8 million. This reflects a decrease of $12.2 million, or 56%, from the 2007-09 legislatively approved budget. A reduction in federally funded capital construction accounts for most of the decline.

<u>Fuel Tax</u>

- ***Jet fuel tax*** remains at $0.01 per gallon as approved by the 1999 Legislature. Of the $0.01 tax, one half supports the Department's operating budget and the other half is dedicated to pavement maintenance for all public owned and public use airports. The 2009-11 estimated revenue totals $4.2 million, or an increase of 3.4% from the 2007-09 projected revenue.
- ***Aviation fuel tax*** remains at $0.09 per gallon as approved by the 1999 Legislature. Of the $0.09 tax, $0.03 supports the Department's operating budget and $0.06 is dedicated to pavement maintenance. The 2009-11 estimated revenue totals $785,000, or an increase of 7% from the 2007-09 projected revenue.

<u>Fees</u>

- The Department registers and collects fees from an estimated 2,545 pilots, deducts for administrative costs, and passes the dedicated funds to the Military Department's Oregon Emergency Management Search and Rescue program. The initial registration fee is $12 (good until the pilot's birthday) and $24 for renewals which are for a two-year period. The 2009-11 estimated revenue totals $115,000. The 2009-11 legislatively adopted budget increased these fees from $8 for initial registration and $16 for renewals (HB 2150).
- Approximately 4,200 aircraft are registered with the Department. Fees are based on the class of the aircraft and range from $30 for ultralight to $350 for turbo/jet fixed wing. The Department annually licenses 25

aircraft providers for a fee of $250 each. These fees are used to fund operations. The 2009-11 estimated revenue totals $611,000 including approved fee increases (HB 2149).
- The Department also generates revenues through hangar and site leases and charges for services.

Federal Funds
- Funds from the Federal Aviation Administration Airport Improvement Program (AIP) provide grants for capital construction projects and system planning for state-owned and public-use airports. The AIP grants require a 10% state or local match. The Aviation Investment and Reform Act (AIR 21 Bill) adopted by Congress (GA Entitlement Program) provides $150,000 per year for three years awarded to eligible airports. Oregon has 47 eligible airports, eight of which the Department has administered under the GA Entitlement Program since 2003. Eligibility is based on a federal formula; therefore, the state does not have to compete for the funds. The funds provide improvements to airport security, pavement, and lighting and require a 10% match.

Budget Environment

In January 2007, the Department entered into an interagency agreement with the Port of Portland to acquire the Mulino Airport. Before transferring ownership, the Port of Portland agreed to pay for the construction of two rows of T-Hangars at a cost not to exceed $1.4 million and a taxi lane/access road at a cost not to exceed $800,000. The Department will report to an interim legislative committee on the transfer of ownership, revenues generated, and costs associated with operating this additional airport.

The FAM discretionary grant program may provide up to $25,000 per fiscal year per airport to prevent future deficiencies and preserve exiting facilities; eliminate existing deficiencies; modernize the airport; leverage available state and federal funds for airport planning and capital improvements; or contribute to the airport's financial self-sufficiency. The recipient airport must provide matching funds in the form of either cash or in-kind services. The level of match is dependant on the airport's category and ranges from 5% for low activity to 50% for commercial property. However, due to on-going concerns for operating cash balances, the 2009-11 legislatively adopted budget does not include funding for FAM grants.

Essential Budget Level

The essential budget level of $6.8 million Other Funds and $970,000 Federal Funds reflects a decrease of $12.1 million, or 61%, total funds from the 2007-09 legislatively approved budget. The 2007-09 legislatively approved budget included $11.9 million total funds for capital construction projects which carry six-year expenditure limitations and do not need to be re-established in the new biennium. Standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges are included in the essential budget level.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $9.2 million total funds reflects a decrease of 54% from the 2007-09 legislatively approved budget. The adopted budget maintains the essential budget level and includes the following enhancements:
- Assume ownership of the Mulino Airport from the Port of Portland for $1
- Authorize a limited duration Aviation Operations Specialist for nine months
- Upgrade registration software
- Authorize $1.6 million in capital construction funding for improvements at the Joseph Airport

Department of Transportation (ODOT) – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	8,626,167	4,504,713	4,630,845	10,000,000
Lottery Funds	22,819,711	46,559,957	92,782,785	85,445,103
Other Funds	2,578,623,284	3,414,306,679	3,397,274,712	3,869,216,652
Federal Funds	50,690,562	81,466,942	82,510,966	87,466,949
Other Funds (NL)	220,324,825	41,677,260	18,158,214	18,158,214
Total Funds	**$2,881,084,549**	**$3,588,515,551**	**$3,595,357,522**	**$4,070,286,918**
Positions	4,657	4,639	4,607	4,636
FTE	4,544.69	4,532.62	4,512.72	4538.08

Agency Overview

The Oregon Department of Transportation (ODOT) is responsible for developing, maintaining, and managing Oregon's transportation system in a safe and efficient manner that enhances the state's economic competitiveness and livability. Historically, ODOT has focused primarily on constructing and maintaining highways; however, more recently, with designated General, Federal, and Lottery Funds, it has broadened its focus to include alternatives to use of the automobile in congested areas and increased emphasis on alternative modes of transportation. The Department is under the direction of a Director and five-member Oregon Transportation Commission, all of whom are appointed by the Governor, and confirmed by the Senate.

Revenue Sources and Relationships

The bulk of ODOT's revenues originate from motor fuel taxes, 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 $4.7 billion to be collected for 2009-11, $793 million is projected to accrue to other state agencies and local governments, leaving $3.9 billion available for expenditure on transportation programs. This is an increase of $286.8 million from the essential budget level as a result of the Legislature's approval of HB 2001 increasing revenues for transportation projects. The most recent revenue forecast at the essential budget level projected gross highway fund collections to increase by about 1.6% from the 2007-09 estimates. Total state motor fuel tax receipts at the essential budget level were forecasted to increase 5.43%. Despite high gasoline prices faced by Oregonians during the 2007-09 biennium, fuel consumption is not forecast to decline through fiscal year 2013. Compared to the prior forecast, the current forecast shows fuels tax revenue will be about 1.8% higher on average per fiscal year. Some of this increase relates to the impact of HB 2210, which mandated the blending of gasoline with 10% ethanol for sale throughout the state. While presumably less polluting, ethanol blends may result in poorer fuel efficiency and, therefore, consumers will need to increase the number of gallons they purchase if they wish to maintain their current driving habits.

The forecast for Driver and Motor Vehicles Division (DMV) revenues projects a decline of $11 million at the 2009-11 essential budget level or minus 2.24% from the 2007-09 legislatively approved budget (LAB). The DMV response to the changing economy occurs because DMV revenues are driven primarily by demographics rather than the pace of economic activity. The overall outlook for DMV is for about a $1.7 million, or 0.6%, reduction in annual revenues. Weight-mile use taxes are projected to increase at the 2009-11 essential budget level by $24 million – about 4.87% more than the 2007-09 LAB. Because many aspects of the national and state economies are predicted to weaken during the next few years, Motor Carrier revenues are expected to be lower than previous long-term projections anticipated. Motor fuels usage taxes are projected to be $47.8 million more than the 2007-09 LAB, about 5.4% higher.

The Transportation Operating Fund was established by the 2001 Legislature (HB 3882) to pay the expenses of statutorily required or authorized activities that may not be funded with State Highway Fund monies. Among the revenues deposited in the Transportation Operating Fund are fuel tax revenues collected on sales of fuel for non-road uses, if a claim for a refund is not filed. The Department of Administrative Services and ODOT oversee surveys conducted by Oregon State University to estimate the amount of taxes paid on motor vehicle fuels for non-road uses. Based on the most recent survey and current demographic information, it is estimated that approximately 17 million gallons of fuel is used per year in this category for non-road uses. After accounting for valid refund claims, about $8.2 million in the 2009-11 biennium is expected to be available for non-highway uses.

The Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) was enacted August 10, 2005, authorizing federal surface transportation programs for highways, highway safety, and transit for the 5-year period 2005-2009. These funds are received and reported as Other Funds. The total amount of Federal Funds in this category for the 2009-11 biennium is over $928 million. The amount of Federal Funds projected for the 2009-11 biennium is based on the anticipated payment of contracts eligible under the current SAFETEA-LU legislative authorization. The current federal legislation expires September 30, 2009 and is expected to be renewed by Congress at some point in the next two years. Prior to reauthorization of the program it will likely continue under an extension. In February 2009, Congress adopted an economic stimulus package known as the American Recovery and Reinvestment Act (ARRA) that included funding for "ready-to-go" transportation projects. ODOT identified projects to fund under the state's $234 million share of the ARRA highway program funding. Federal Funds received and reported as federal revenue are grants or direct revenue for specific programs such as transit and rail projects.

The Department receives $2.8 million in Lottery Funds to make the final bond installment payment for the Westside Light Rail Line, construction of which is now complete. The Westside Light Rail bonds are scheduled to retire in 2010. The 2001 Legislature authorized the sale of $35 million in Lottery Bonds to participate in the South Metro Commuter Rail Project during the 2001-03, 2003-05, and 2005-07 biennia. The bonds were sold in the 2005-07 biennium with no debt service payments until 2007-09. In 2003, the Legislature authorized the sale of $2 million in bonds to capitalize the Short-Line Premium Credit Account, and the sale of $8 million in bonds for Industrial Spur projects. The 2005 Legislature authorized $100 million in bonds to fund multi-modal transportation infrastructure projects. The 2007 Legislature authorized the sale of $250 million in bonds for the Southeast Portland light rail extension project, $20 million in bonds for the Street Car Grant Program, and another $100 million for Multi-modal transportation infrastructure grant and loan projects. Bonds for the Southeast Portland light rail extension project are expected to be sold by June 30 2009; and bonds for the Street Car Grant Program are proposed for the 2009-11 biennium. Lottery Funds allocated to pay the debt service on these bonds are estimated at $85.4 million. The General Fund is used to partially fund passenger rail service in the Willamette Valley. The following table summarizes the Department's major sources of revenue.

Revenue Source	2007-09 LAB	2009-11 Essential Budget Level	2009-11 Leg. Adopted Budget	Percent of Total Revenue
Beginning Balance	390,710,078	382,132,066	472,733,109	9.94%
General Fund	4,504,713	4,630,845	10,000,000	0.21%
Federal Revenue	79,724,275	82,264,157	87,153,501	1.83%
Federal Revenues as Other	783,754,249	928,115,578	928,115,578	19.51%
Other Funds:				
Charges for Services	2,169,235	9,852,929	9,839,929	0.21%
Drivers' Licenses	77,933,779	72,972,973	89,881,745	1.89%
Interest Income	15,866,881	46,114,079	19,580,730	0.41%
Lottery Funds	46,510,709	86,382,535	85,445,103	1.80%
Motor Vehicle Fuels Tax	881,471,428	929,292,268	951,760,014	20.00%
Other Licenses and Fees	71,637,418	74,663,969	61,380,354	1.29%
Other State and Federal	18,301,733	21,510,148	21,817,497	0.46%
Lottery Bond Proceeds	8,376,960	0	25,000,000	0.53%
Highway Revenue Bond Proceeds	908,614,960	630,339,800	656,000,000	13.79%
Sales Income	19,811,516	21,691,608	25,349,232	0.53%
Vehicle Licenses	423,323,045	417,078,174	560,979,995	11.79%
Weight Mile Tax & Fees	506,071,428	530,064,104	595,030,121	12.51%
Transportation Operating Account	8,300,000	8,236,478	8,457,599	0.18%
Transfers In (Revenue, etc.)	135,019,557	140,670,830	149,334,277	3.14%
Subtotal Revenues	**$4,382,101,964**	**$4,386,012,541**	**$4,757,858,784**	100.00%
Transfers to Other Agencies	(71,909,413)	(76,486,156)	(76,960,672)	
Transfers to Cities and Counties	(607,881,105)	(632,396,282)	(716,887,616)	
Revenues Available for Expenditure	**3,702,311,446**	**3,677,130,103**	**3,964,010,496**	

Budget Environment

According to ODOT's June 2008 Transportation and Economic and Revenue forecast for Fiscal Year 2008 through Fiscal Year 2013, while the current economic downturn in Oregon's jobs and real personal income will result in lower revenues, the expenditures by ODOT that are necessary to maintain, preserve, and modernize the State Highway System will not materially change with weaker travel demands going forward. The funding gap with diminished user tax revenues is compounded by construction cost escalation. At current funding levels, ODOT predicts critical transportation needs will not be met during the next 20 years. The state's aging transportation infrastructure is more costly to operate and maintain. One-fourth of the state's bridges have exceeded their design life of 50 years. Other variables influencing the agency's budget include higher demand for use of trucks to ship products to market; environmental regulations, which add to the cost for design and construction requirements; and extreme weather conditions that cause unexpected emergency repair costs.

The Oregon Transportation Commission identified road and bridge repair, preservation, and maintenance as its highest priority. Local governments face equally critical transportation issues. Pressure on property taxes and local general funds combined with no increase in state funding other than the Oregon Transportation Investment Acts (OTIA), have reduced local community resources for transportation. The Legislature adopted a plan to provide new revenue to finance $1.9 billion in highway user tax bonds for bridge repair and modernization projects over eight years. The OTIA program is expected to be completed by the end of 2013.

The agency General Fund component partially funds the Willamette Valley Passenger Rail. The essential budget requires $4.6 million in General Fund to support the passenger rail service. A portion of the budget that had been previously General Fund was offset by the 2007 Legislature's action to dedicate the revenue from custom license plates to fund one round-trip daily between Eugene and Portland.

Essential Budget Level

The 2009-11 essential budget level of $3,595.4 million total funds is an increase of $6.8 million, or 0.19%, from the 2007-09 legislatively approved expenditure level and includes 4,607 positions (4,512.72 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes $62.7 million total funds in special session and Emergency Board actions during Fiscal Year 2008 for emergency repair work related to winter storm damage, increased compensation for employees, increased debt service on refinanced bonds, and adjustments for contractor payments. The 2009-11 essential budget level includes a reduction of $501 million to phase out one-time expenditures related to research, technology projects, and contractor payments and an increase of $325.7 million to adjust contractor payments for highway projects that are expected to pay out during the 2009-11 biennium. It reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges, and includes the removal of 32 positions (19.90 FTE) either limited duration or temporary in nature. The essential budget is increased by $47.2 million Lottery Fund and $108.4 million Other Funds to reflect increases in principal and interest payments due to revenue bond sales during the 2007-09 biennium. It also reflects technical adjustments to realign positions across programs resulting in a net zero fiscal impact and a fund shift of $791,586 from Other Funds to Federal Funds.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $4,070 million is $475 million, or 13.2%, higher than the 2009-11 essential budget level and includes 4,636 positions (4,537.78 FTE). The budget reflects increases in highway construction programs, including $120 million funded through increases in vehicle registration and title fees and a six cent increase in state fuel taxes to raise $300 million annually authorized in HB 2001 for preservation, highway operations, modernization, and local government programs. The budget adds $31 million out of the increased revenue to support a number of studies and environmental initiatives during the 2009-11 biennium. An additional $122.3 million in revenue will be distributed to cities and counties from the increased fees and fuel taxes. The budget includes $25 million in revenue bonds backed by Lottery Funds for multi-modal transportation infrastructure projects from a $100 million bond issue authorized by the Legislature in HB 2001. The budget shifts $5 million of flexible federal highway funds previously used to fund highway construction projects to public transit programs and adds $10 million General Fund for public transit operating grants. The Legislature approved 25 additional positions to address issues related to building technical expertise to sustain core competencies within the organization. These increases will be explained in the programs below. In addition, the Legislature approved $75 million in revenue bonds backed by highway trust funds for ODOT's share of the Oregon Wireless Interoperability Network (OWIN) project. The Legislature also approved an increase in Custom License Plate Fees to reduce passenger rail's dependence on General Fund resources by

$3.45 million. The budget reflects $220 million of revenue bond proceeds backed by Lottery Funds authorized by the Legislature in 2007 to be distributed during the 2009-11 biennium for the street car grant program and Tri-Met light rail project.

ODOT – Highway Division

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	2,005,136,432	2,605,692,356	2,478,189,163	2,526,032,136
Total Funds	**$2,005,136,432**	**$2,605,692,356**	**$2,478,189,163**	**$2,526,032,136**
Positions	2,702	2,647	2,641	2,665
FTE	2,649.32	2,596.84	2,589.83	2,610.69

Program Description

The purpose of the Highway Division is to design, build, maintain, and preserve quality highways, bridges, and related system components. The Highway Division derives its mission and activities from a comprehensive set of long-range multi-modal transportation system plans and policies developed and maintained under the direction of the Oregon Transportation Commission. The plans cover highways, mass transit, ports, freight and passenger rail, bike lanes, and pedestrian needs. The Statewide Transportation Improvement Program (STIP*)* is a project funding and scheduling document developed through a planning process that involves local and regional governments, transportation agencies, and the interested public. It is updated every two years through a public hearing process. ODOT is responsible for delivering projects associated with OTIA, as well as other STIP projects. Enacted by the Legislature in 2001-2003, OTIA authorized bonding to fund modernization projects, pavement preservation, and bridge repair and replacement.

Organizationally, the Highway Division is administered through the five regional offices and the headquarters office. In the past, the agency had completed most engineering and design work in-house while contracting with private companies for the actual construction of projects. During the 2003-05 biennium, the Highway Division reorganized to contract out most engineering and design work, as well as construction. To facilitate the implementation of this new business model and to ensure efficient project delivery, more than 300 Technical Services headquarter staff have been redeployed in the five Highway regions. In addition, the Oregon Innovative Partnerships Program has identified possible projects for long-term public-private partnership and has solicited information and statements of interest from potential private sector partners. Agency staff performs much of the maintenance and part of the preservation work for which ODOT is responsible. The categories of the Highway Division budget are Maintenance, Preservation, Bridge, Safety, Operations, Modernization, Special Programs, and Local Government.

Revenue Sources and Relationships

Highway programs are supported by state, federal, and local funds. The majority of the federal funds available for highway programs are Federal Highway Administration funds, primarily derived from federal SAFETEA-LU funds. State funds include fuel tax receipts, weight mile taxes, vehicle registration, and highway user revenue bonds. Local funds are provided by cities and counties for projects funded by the local entity in whole or in part, as well as projects for which the local entity is paying ODOT to do some or all of the project work. The following table shows how funding levels have changed since 2003-05. The 2009-11 legislatively adopted budget level includes a total of $535 million bond financing for the three OTIA programs.

Funds	2003-05 Actual	2005-07 Actual	2007-09 Legislatively Adopted	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Beginning Balance	411,353,739	143,598,974	324,834,197	199,689,704	328,165,553
Federal as Other	643,917,034	651,748,119	730,558,790	874,920,119	874,920,119
State Other	854,235,501	897,217,547	812,316,589	867,711,475	950,922,610
State Revenue Bonds	321,959,221	929,124,507	813,275,160	535,000,000	535,000,000
Total Funds	**$2,231,465,495**	**$2,621,689,147**	**$2,680,984,737**	**$2,450,324,298**	**$2,689,008,282**

Budget Environment

The Highway Division budget includes the portion of the 2008-11 STIP to be expended during the 2009-11 biennium. The STIP encompasses a four-year construction period based on a federal fiscal year; it is updated every two years. The first two years of the STIP contain the updated projects from the previous two years. The last two years include the new projects that are scheduled to begin in those years. The current STIP covers the period 2008-11. A draft 2010-13 STIP has been prepared and a public review had started on October 1 and was scheduled to continue through the end of November. Changes in the economy over the past year have impacted driving patterns, which has impacted ODOT's revenue estimates. The most recent transportation forecast shows revenues over the 2009-13 time frame that are substantially lower than the estimates used a year ago to set program targets through 2013. State highway fund sources (gas tax, weight-mile taxes, and vehicle registration fees) have not, with the exception of investments authorized by OTIA, increased in more than a decade. State and federal fuel tax revenues supporting highway programs have failed to keep pace with needs.

Compounding the declining revenue are increased costs, although in the short term some costs are leveling out, still impacts over the last year make the funding situation worse. ODOT projects a $230 million deficit by 2013 from previous revenue projections. Increased costs for the State Data Center, personal services costs, and an increase in the estimated costs for renovation of the Transportation Building add another $85 million over the 2009-13 period raising the deficit to $315 million by 2013. Due to this uncertainty and to allow for many of the variables to stabilize, the agency decided to suspend work on the 2010-13 STIP until the middle of 2010. By the middle of 2010, variables impacting current economic conditions, the federal transportation stimulus package; congressional reauthorization of federal transportation funding will be known; and the Oregon Legislature's decision to increase fees and fuel taxes revenues will be implemented and revenue levels will be more predictable. Federal regulations require that the STIP include only projects for which the state can reasonably expect adequate funding.

The OTIA program authorized ODOT to issue a total of $2.4 billion in bonds for modernization, preservation, and bridge projects, including $300 million to be distributed as grants to local governments. Approximately 43% of these funds have been expended. In addition to OTIA projects, the 2008-11 STIP contains over $1.4 billion in traditionally funded projects and programs. Approximately 71% of the funding for these additional projects ($992 million) comes from federal sources. State highway funds contribute $409 million. In addition, the STIP contains about $284 million Federal Funds for local government projects.

ODOT operates and maintains nearly 8,147 miles of highways in every corner of Oregon. The highway system is as diverse as the state itself. It ranges from six-lane, limited-access freeways with metered entrances to a graveled rural highway. Oregon's economy depends on a sound highway system. Local, regional, and national industries – including agriculture, timber, tourism, and technology – rely on our transportation infrastructure. Commercial trucks rely on state highways for both short and long haul freight movements. State highways make up less than 10% of total road and street miles in the state, but carry 61% of the traffic – more than 56 million vehicle miles per day. Even though current economic conditions have changed people's driving patterns, it is anticipated that more people will be driving more cars for more miles over the long term. Roughly 73% of commuters drive alone to and from work. Congestion is worsening, especially on urban freeways. Despite a 24% increase in miles traveled over the past decade, Oregon's road mileage has grown by only 2%. Oregon's population is also aging. Ensuring mobility for older citizens requires creative transportation solutions, such as more visible pavement markings, traffic signals, and signing. Environmental concerns have prompted many changes to ODOT practices. Often, additional work is required to deliver projects and programs in the most environmentally responsible manner.

Essential Budget Level

The 2009-11 essential budget level of $2,478 million Other Funds is a decrease of $111.6 million, or 4.3%, from the 2007-09 legislatively approved expenditure level and includes 2,641 positions (2,589.83 FTE). The 2007-09 legislatively approved expenditure level includes $58.7 million Other Funds in special session and Emergency Board actions during Fiscal Year 2008 for emergency repair work related to winter storm damage, increased compensation for employees, and adjustments for contractor payments. The 2009-11 essential budget level includes a reduction of $481 million to phase out one-time expenditures related to contractor payments and a one-time payment to counties; and an increase of $313.5 million Other Funds to adjust contractor payments for highway projects that are expected to pay out during the 2009-11 biennium and includes $2.1 million to align fleet acquisition with usage. It reflects standard adjustments for personal services costs; including the removal of 2 positions (2.00 FTE), inflation, rate increases for the Attorney General, and state government service charges. It also reflects technical adjustments to realign positions across programs resulting in an agency-wide net zero fiscal impact, but an $830,612 Other Funds increase and 7 positions (7.00 FTE) within the Highway Division.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $2,526 million is $47 million, or 19.3%, higher than the 2009-11 essential budget level and includes 2,665 positions (2,610.39 FTE). The Legislature approved $125.7 million for maintenance and construction projects under the Jobs and Transportation Act of 2009 (HB 2001). With the new revenues adopted in HB 2001, the Legislature dedicated 68% of the state's share of annual title fee, vehicle registration fee, and plate manufacturing fee increase revenue to maintenance, preservation, and safety projects for maintaining transportation systems and 32% for the state Modernization program. After January 2, 2011, the Legislature dedicated 33% of the state's share of title fee, vehicle registration fee, plate manufacturing fees, gasoline taxes, road use assessments, weight mile tax, and flat fee increases to maintenance, preservation, and safety; 15.75% to state modernization projects; and 51.15% for bond repayments on $840 million in highway user tax bonds authorized in the measure. The $125.7 million is the estimated amount ODOT expects to receive during the 2009-11 biennium. HB 2001 allocates the $840 million to 37 specific projects and 12 counties in specified amounts. The Legislature added 25 positions (25.00 FTE) to be funded by utilizing resources from services and supplies to address the need to sustain core technical competency within Highway Programs. Personal service costs for the 2009-11 biennium would be $6,058,582. The positions will be funded through redirecting dollars from outsourcing programs. The positions are split across multiple program units to mitigate loss of technical quality due to staff retiring or leaving to pursue employment elsewhere. The budget also includes a reduction of $78.6 million in technical adjustments to reflect a reduction in contractor payments, internal shifting of positions and expenditure limitations, and decreases in statewide salaries and assessments for state government service charges.

ODOT – Highway/Maintenance and Emergency Relief

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	342,316,126	402,157,893	399,861,521	399,755,412
Total Funds	**$342,316,126**	**$402,157,893**	**$399,861,521**	**$399,755,412**
Positions	1,402	1,359	1,364	1,364
FTE	1,364.96	1,322.36	1,325.35	1,325.35

Program Description

The purpose of the Highway Maintenance and Emergency Relief program is to maintain, repair, and extend the service-life of the 8,147-mile state highway system. Program activities include surface patching and bridge repair; upkeep of roadway shoulders, drainage, landscape, and rest areas; snow removal; sanding of roads; emergency repairs to roadways following natural disasters; and maintenance of ODOT buildings and equipment. Maintenance projects may include the replacement of necessary safety materials (such as road signs), but do not generally include reconstruction. Department personnel perform much of the Highway Maintenance work, in contrast with construction and engineer/design work, which is primarily contracted out to private companies. The ODOT Wireless Group is also supported with Highway Maintenance funds. The Wireless Group performs operational, maintenance, engineering, construction, and customer support work for the ODOT two-way radio and microwave networks, the network wireless LAN infrastructure, and Intelligent Transportation Systems (ITS) wireless support. The Maintenance program also provides testing and inspecting of roadway materials; purchasing equipment and fleet vehicles; repairing equipment in the field and in shops located in Salem, Bend, and La Grande; selling and distributing fuel; operating storerooms; designing and manufacturing signs; and traffic signals.

Budget Environment

ODOT estimates it would need an additional $44 million per year to fully meet maintenance needs. The Highway Maintenance budget has experienced steady upward pressure as Oregon's highways age and the vehicle miles traveled on them increase. The Department routinely surveys all roads, bridges, and connecting surfaces under its maintenance jurisdiction and grades their condition. Increased traffic volume has caused faster than expected deterioration and driven up the costs of maintenance work sites. Inflation in the price of materials used to maintain and preserve the state's roadways is another significant cost driver. New environmental regulations and restrictions require costlier practices and materials. An aging highway system demands larger, more expensive, and more complex maintenance projects. Lacking sufficient funding, roads have not been maintained in the condition called for in the Department's planning statements. Deferring necessary preservation projects further increases future maintenance needs.

Future maintenance costs are estimated on the basis of current expenditures and assume that current maintenance practices will continue into the future. This assumption does not consider the intensification of maintenance activities required by the system's increasing use and age or by catastrophic natural events. Preventive maintenance that would minimize potential damage from natural disasters is restricted by limited resources. The Federal Highway Administration Emergency Relief program supplements state resources in case of damage to the Federal Highway System caused by a natural disaster. Application for these federal funds requires a declaration of emergency by the Governor and damage must generally exceed $700,000 from a single event.

Essential Budget Level

The 2009-11 essential budget level of $399.8 million Other Funds is an increase of $5 million, or 1.3%, from the 2007-09 legislatively approved expenditure level and includes 1,364 positions (1,325.35 FTE). The 2007-09 legislatively approved expenditure level includes $42.5 million Other Funds in special session and Emergency Board actions during Fiscal Year 2008 for emergency repair work related to winter storm damage, OWIN federal grant match, increased compensation for employees, and adjustments for contractor payments. The 2009-11 essential budget level includes an increase of $3.6 million Other Funds to adjust contractor payments for construction projects that are expected to pay out during the 2009-11 biennium and includes $2.1 million to align fleet acquisition with usage. It reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. It also reflects technical adjustments to realign positions across programs resulting in an agency-wide net zero fiscal impact, but a $74,586 Other Funds increase and 7 positions (7.00 FTE) within the Highway Maintenance Program.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $400 million is $106,109 less than the 2009-11 essential budget level and includes 1,364 positions (1,324.35 FTE). The Legislature approved $2 million Other Funds be shifted from the Maintenance services and supplies budget to the Motor Carrier Transportation Division (MCTD) unit to provide resources necessary for MCTD to address deferred maintenance issues at Oregon's weigh stations.

The budget invests $13.6 million in the 2009-11 biennium under the "Jobs and Transportation Act of 2009" (JTA-2009) goal to "Take Care of the System" by improving winter driving safety and the condition of the state highway infrastructure. The 2009-11 investment represents 22.6% of the estimated $60.3 million state share of revenue and would cover approximately 1.5 years of the biennium. The Legislature also approved a reduction of $4.6 million by shifting $3 million from Maintenance to Highway Operations to align the Intelligent Traffic Devices (ITS) maintenance with the same program that funds the construction of new devices and $1.6 million to Central Services to align state government service charges in the correct cost center. An additional reduction of $7 million was approved to reflect statewide salary adjustments and reductions in various state government service charges.

ODOT – Highway/Preservation

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	2,737,678,739	243,449,915	355,010,301	389,054,507
Total Funds	**$2,737,678,739**	**$243,449,915**	**$355,010,301**	**$389,054,507**
Positions	206	199	147	148
FTE	206.00	199.00	147.00	147.87

Program Description

The Preservation program rehabilitates existing roadways and facilities to extend their service life. Preservation projects add useful life to the highway system without increasing capacity. The program strives to conduct resurfacing treatments at the most cost-effective time in the life cycle of a pavement, which typically entails resurfacing at eight- to fifteen-year intervals. This approach allows highways to be resurfaced while they are still in "fair or better" condition and require only relatively thin paving. Costs escalate as road conditions deteriorate into the "poor" category. To sustain the most cost-effective pavement program, the 1999 Oregon Highway Plan established a long-term goal of having 90% of state highway miles in fair or better condition.

Budget Environment

In 1976, the first year pavement condition information was collected by ODOT, Oregon's highways were in poor condition with only 51% of state highway miles rated "fair or better." In 1984, a Preservation program was established in the STIP to improve long-term pavement condition. Pavement condition peaked at 83% "fair or better" in 1993. Conditions then declined to 78% "fair or better" in 1999, as resurfacing costs increased and fewer miles could be treated. For the last ten years, STIP preservation funding has been relatively constant (after adjusting for inflation). Funding from other sources, as well as changes in the manner in which funds are applied, has helped to improve pavement conditions.

ODOT altered its preservation strategy for some low traffic volume highways in 1999 by switching to thin, maintenance-only treatments. While these treatments typically have shorter life and must be applied more frequently than conventional preservation treatments, this strategy reduced the resurfacing cost per mile and is largely responsible for improvements in statewide pavement conditions. This improvement is reflected in the 2004 pavement condition rating of 85% "fair or better." However, this improvement is a short-term phenomenon and pavement conditions will decline through 2010 as these thinner treatments wear out.

Preservation projects funded with OTIA I and II bond proceeds also improved pavement conditions, although higher volume and higher classification highways did not receive OTIA funds. To make the best use of available funds, preservation treatments over the last several years have primarily focused on highways with lower per-mile resurfacing costs. Keeping up with deteriorating pavement conditions has become increasingly difficult as the Department completed most of these lower cost projects. Highways in poor condition, which need extensive rehabilitation or which require costly upgrades to meet current standards, are typically too expensive to include in the STIP in the current fiscal environment. Many of these highways are in high volume urban areas. Until additional funds become available, these highways will receive only patching and a disproportionate level of maintenance funds will need to be devoted to keeping them drivable.

Essential Budget Level

The 2009-11 essential budget level of $355 million Other Funds is an increase of $111.5 million, or 4583%, from the 2007-09 legislatively approved expenditure level and includes 1,364 positions (1,325.35 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes $1.3 million Other Funds in special session and Emergency Board actions during Fiscal Year 2008 for increased compensation for employees. The 2009-11 essential budget level includes an increase of $112.9 million Other Funds to adjust contractor payments for construction projects that are expected to pay out during the 2009-11 biennium. It reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. It also reflects technical adjustments to realign positions across programs resulting in an agency-wide net zero fiscal impact, but a decrease of $8.9 million Other Funds and a reduction of 50 positions (50.00 FTE) within the Highway Preservation Program.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $389 million is $34 million, or 9.6%, more than the 2009-11 essential budget level and includes 148 positions (147.87 FTE). The Legislature approved adding one permanent professional engineering position (0.87 FTE) in the Highway Preservation Program funded by utilizing resources from services and supplies to implement a strategy to provide coverage, succession planning, and address recruiting, retention, and workforce planning issues. The cost for the position is $141,253.

The budget invests $35 million in the 2009-11 biennium under the "Jobs and Transportation Act of 2009" Goal to "Take Care of the System" by improving the condition of the state highway infrastructure. The investment represents 58.1% of the estimated $60.3 million state share of revenue. With the proposed new revenues, an estimated $12.5 million will be invested annually for pavement in general plus an additional $5 million annually for high volume highways in urban areas. The agency estimates that an additional $12.5 million per year will allow ODOT to resurface about 34 more lane miles of state highway at today's high asphalt and fuel costs. ODOT has identified about 85 miles of high volume urban highways that have deteriorated to "poor" and "very poor" condition requiring extensive rehabilitation and reconstruction to restore the highways to "good" condition. The 2009-11 investment would cover 1.5 years of the biennium. The budget is reduced by $955,794 to reflect reductions in statewide salaries and reductions in various state government service charges.

ODOT – Highway/Bridge

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	505,321,643	900,005,637	698,771,709	670,425,103
Total Funds	**$505,321,643**	**$900,005,637**	**$698,771,709**	**$670,425,103**
Positions	161	149	145	150
FTE	160.22	148.50	145.00	149.37

Program Description

The Bridge program is responsible for preserving more than 2,600 bridges, tunnels, and culverts on the state highway system. There are three generations of bridges in Oregon: those built prior to the 1950s, those built between 1950 and 1970, and those built since the 1970s. Only those bridges built since the 1970s were constructed using current capacity and seismic standards. Program activities include repairing structural deterioration; repairing and replacing bridge decks; raising bridges to increase vertical clearance; major bridge painting; repairing and preventing streambed scouring near bridges; protecting bridges from earthquake damage; repairing and protecting bridges from corrosion damage; upgrading electrical and mechanical systems in movable bridges; and safety improvement work, such as upgrading bridge railings and widening bridges.

Budget Environment

The Oregon Transportation Commission, the Governor, and the Legislature have increasingly prioritized Oregon's bridge program. In 2003, the Legislature passed HB 2041, which provided $1.3 billion for the replacement and repair of bridges on state highways. More than 300 state bridges are included in the OTIA III State Bridge Delivery Program. This program will address problems at bridges that need to be open to heavy and oversized truck traffic; load-restricted bridges; Interstate 84 and Interstate 5 bridges; and other key transportation links critical for freight mobility. In spite of this significant investment in state bridges, there remain a large number of bridges that are nearing the end of their expected life and need repair or replacement. 23% of state-owned bridges are more than 50 years old and require extensive rehabilitation and/or replacement. In 2008, ODOT reported 179 bridges that are "structurally deficient." Of these, 38 bridges are structurally deficient due to just the condition of the deck. An average of 12 bridges are rated as structurally deficient each year.

Bridge projects are more costly and variable than highway work of comparable length. ODOT estimates that needs related to structurally deficient bridges are funded at $68 million per year less than needed to keep pace with normal wear and tear. At $75 million per year, ODOT can address 35 of the 75 bridges that need to be replaced or rehabilitated annually. ODOT estimates that 16 to 18 bridges will require emergency repair annually.

Essential Budget Level

The 2009-11 essential budget level of $698.9 million Other Funds is decrease of $201 million, or 22.3%, from the 2007-09 legislatively approved expenditure level and includes 145 positions (145.00 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes a reduction of $32.3 million Other Funds in special session and Emergency Board actions during Fiscal Year 2008 to reflect contractor payment adjustments and increased compensation for employees. The 2009-11 essential budget level includes a decrease of $250.6 million Other Funds to adjust contractor payments for construction projects that are expected to pay out during the 2009-11 biennium. It reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. It also reflects technical adjustments to realign positions across programs resulting in an agency-wide net zero fiscal impact, but an increase of $151,463 Other Funds and a 0.50 FTE increase within the Highway Bridge Program.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $670.4 million is $28.3 million, or 4.1%, less than the 2009-11 essential budget level and includes 150 positions (149.37 FTE). The Legislature approved adding five engineering positions (4.37 FTE) in the Highway Bridge program funded by utilizing resources from services and supplies to address the need to sustain core technical competency within Highway Programs. The cost of the positions is $634,739. The budget is reduced by $27.4 million to reflect adjustments in contractor payments and $955,794 to reflect reductions in statewide salaries and reductions in various state government service charges.

ODOT – Highway/Safety

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	58,386,574	70,873,499	62,042,873	71,652,622
Total Funds	**$58,386,574**	**$70,873,499**	**$62,042,873**	**$71,652,622**
Positions	37	34	56	56
FTE	37.00	34.00	56.00	56.00

Program Description

The Highway Safety Program identifies sections of state highway with the highest number of fatal and serious injury crashes and takes steps to improve safety on these roadway segments. ODOT uses a management system called the Project Safety Management System (PSMS) to improve decision-making and safety on Oregon's highways. The Safety Priority Index System (SPIS) is used to identify highway locations with high crash histories. The Safety Investment Program (SIP) prioritizes segments of highway for corrective action based on a history of fatal and serious injury crashes. SIP indicates where safety investments should be incorporated into preservation projects. Crash patterns are analyzed to determine the optimal corrective actions that can be undertaken by the Department, and corrections are selected based on estimated best return. Corrections often include the addition of passing lanes, roadway realignments, turning refuges, shoulder widening, rumble strips, guardrail additions, sign changes, pedestrian islands, or access control measures. Currently, there are over 650 high crash locations identified on the state highway system and approximately 1,540 miles of roadway with a significant number of fatal and severe injury crashes.

Budget Environment

Increases in population have created more traffic, which in turn has created more congestion and, consequently, an increased number of crashes. Highway Safety funds target high crash locations. Corrective actions are often combined with preservation projects, although stand-alone safety projects may address specific crash types or high crash locations. To free up funds for safety improvements in the maximum number of critical areas, preservation projects with no significant history of crashes may be scaled down to minimum design standards.

In 2004, 456 reported traffic fatalities occurred. Oregon's highway death rate has declined to 1.25 people killed per 100 million vehicle miles traveled from 2001's rate of 1.4. The ODOT Safety Division and the Oregon Transportation Commission have set a goal to reduce this fatality rate to 0.99 per 100 million vehicle miles traveled by 2010. This equates to lowering the statewide fatality count to 370 by 2010.

Essential Budget Level

The 2009-11 essential budget level of $62 million Other Funds is a decrease of $230,626, or 0.37%, from the 2007-09 legislatively approved expenditure level and includes 56 positions (56.00 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes an increase of $10.2 million Other Funds in special session and Emergency Board actions during Fiscal Year 2008 to reflect contractor payment adjustments and increased compensation for employees. The 2009-11 essential budget level includes an increase of $4.3 million Other Funds to adjust contractor payments for construction projects that are expected to pay out during the 2009-11 biennium. It reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. It also reflects technical adjustments to realign positions across programs resulting in an agency-wide net zero fiscal impact, but an increase of $3.2 million Other Funds and an increase of 18 positions (18.00 FTE) within the Highway Safety Program.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $71.6 million is $9.6 million, or 15.5%, more than the 2009-11 essential budget level and includes 56 positions (56.00 FTE). The Legislature added $10 million for highway safety projects under the "Jobs and Transportation Act of 2009" representing 16.6% of the estimated $60.3 million state revenue share for the 2009-11 biennium. The budget is reduced by $390,251 to reflect reductions in statewide salaries and reduced assessments in state government charges.

ODOT – Highway/Operations

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	50,152,650	69,444,816	69,004,040	71,310,646
Total Funds	**$50,152,650**	**$69,444,816**	**$69,004,040**	**$71,310,646**
Positions	151	161	121	128
FTE	147.37	158.62	119.34	125.46

Program Description

Highway Operations includes planning, development, and implementation of improvements to relieve or prevent traffic congestion and to improve safety. Programs include Intelligent Transportation Systems (ITS); transportation system management, such as interconnected traffic signal systems, new traffic signals, ramp metering, and electronic variable message signs; illumination; rock fall and slide repairs; and demand management, which includes ride share, van pool, and park and ride programs. Highway Management performs work related to speed zone studies, signal timing, and traffic investigations, including crash sites. The TripCheck Program operates and maintains ODOT's traveler information systems, including the TripCheck website, 5-1-1 phone system, and cable TV systems. These systems provide the public with information about road and weather conditions, incidents, construction, restrictions, and closures. Operational projects like these are one way to maximize the efficiency of the state highway system with limited funding, while also improving system safety and reliability.

Budget Environment

A growing population and limited funding have increased the state's reliance on system efficiency tools, like those mentioned above, to manage congestion and improve safety. ODOT estimates current funding is $20 million less than needed to replace signs, signals, and lighting; to conduct work to prevent slides and rock falls; and to deploy technological solutions that will ease congestion and improve safety. Highway Operations activities are prioritized through the use of several tools, including the Rockfall Hazard Rating System, Statewide ITS Strategic Plan, Regional ITS Deployment plans, and the Information Technology Tactical Plan. Enhanced prioritization tools are currently under development.

Essential Budget Level

The 2009-11 essential budget level of $69 million Other Funds is a decrease of $440,776, or 0.63%, from the 2007-09 legislatively approved expenditure level and includes 121 positions (119.34 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes an increase of $24.8 million Other Funds in special session and Emergency Board actions during Fiscal Year 2008 to reflect contractor payment adjustments and increased compensation for employees. It reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. It also reflects technical adjustments to realign positions across programs resulting in an agency-wide net zero fiscal impact, but a decrease of $6.9 million Other Funds and a reduction of 39 positions (38.54 FTE) within the Highway Operations Program.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $71.3 million is $2.3 million, or 3.3%, more than the 2009-11 essential budget level and includes 128 positions (125.46 FTE). The Legislature added seven professional engineering positions (6.12 FTE) in the Highway Operations program funded by utilizing resources from services and supplies to address the need to sustain core technical competency within Highway Programs. The cost for the positions is $815,881. The budget adds $3 million shifted from the Maintenance Program to align the Intelligent Traffic Devices (ITS) maintenance with the same program that funds the construction of new devices. The budget is reduced by $693,394 to reflect reductions in statewide salaries and reductions in various state government service charges.

ODOT – Highway/Modernization

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	380,872,899	397,475,288	289,026,232	348,192,936
Total Funds	**$380,872,899**	**$397,475,288**	**$289,026,232**	**$348,192,936**
Positions	143	133	135	137
FTE	142.50	132.50	135.00	136.75

Program Description

The Highway Modernization program designs and builds highway improvements that add capacity to accommodate current or projected traffic growth. This includes adding traffic lanes for passing, climbing, turning, accelerating, and decelerating; building new road alignments or facilities, including bypasses; realigning or widening existing roads; widening bridges to add travel lanes; and administration of the Immediate Opportunity Fund. The Immediate Opportunity Fund (IOF) is a grant program that distributes funds for street and road improvements that will influence the location, relocation, or retention of firms in Oregon. Grants may not exceed $1 million, and are distributed to private firms or their local government sponsors. The IOF also provides procedures and funds for the Oregon Transportation Commission to respond quickly to unique economic development opportunities.

Budget Environment

Modernization needs are calculated by combining current traffic conditions with projections of future highway demand. Since 2001, ODOT has shifted its emphasis from modernization to preservation of roads and bridges. Several modernization projects programmed in the STIP after 2001 were placed on hold. The expenditure limitations include projects already underway; projects in the 2004-07 STIP; and state matching funds for federal projects earmarked through the Surface Transportation Program. From 2000 through 2002, funding levels were at the statutory minimum of approximately $102 to $108 million per biennium, meeting only 12% of the need for increased capacity. The OTIA added $200 million in 2001 and 2002 and as well as $500 million identified in 2003. In order to meet the 20-year need identified in the Oregon Highway Plan, approximately $390 million per year will need to be provided. While the influx of revenue from OTIA bond proceeds will assist in meeting this need in the short-term, long-term funding levels remain far below what is needed to meet the challenges of providing an adequate transportation infrastructure for Oregon’s growing population.

Essential Budget Level

The 2009-11 essential budget level of $69 million Other Funds is a decrease of $108.4 million Other Funds, or 27.3%, from the 2007-09 legislatively approved expenditure level and includes 135 positions (135.00 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes an increase of $920,027 Other Funds in special session and Emergency Board actions during Fiscal Year 2008 to reflect increased compensation for employees. The 2009-11 essential budget level includes a decrease of $153.6 million Other Funds and an increase of $37.6 million Other Funds to adjust contractor payments for construction projects that are expected to pay out during the 2009-11 biennium. It reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. It also reflects technical adjustments to realign positions across programs resulting in an agency-wide net zero fiscal impact, but an increase of $738,527 Other Funds and 6 positions (6.00 FTE) within the Highway Modernization Program.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $348.2 million is $59.1 million, or 20.5%, more than the 2009-11 essential budget level and includes 137 positions (136.75 FTE). The Legislature approved adding 2 professional engineering positions (1.75 FTE) funded by utilizing resources from services and supplies to address the need to sustain core technical competency within Highway Programs. The cost for the positions is $276, 913 for the 2009-11 biennium.

The budget invests $60.1 million for modernization projects which represents $28.5 million under the formula requiring 32% of state highway allocation of new revenue be spent on modernization projects established in the "Jobs and Transportation Act of 2009" and another $31.6 million for specific projects from bond proceeds detailed in HB 2001. The modernization projects will address freight bottlenecks. The Transportation Commission identified 99 modernization projects that are needed to relieve congestion, improve freight mobility and enhance safety. The Legislature reduced the budget by $947,028 to reflect decreases in statewide salaries and assessments on various state government service charges.

ODOT – Highway/Special Programs

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	179,529,747	261,453,043	213,766,232	184,957,448
Total Funds	**$257,400,553**	**$261,453,043**	**$213,766,232**	**$184,957,448**
Positions	567	595	632	641
FTE	556.27	584.86	621.14	628.89

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*** (7.00 FTE) leases and sells property acquired by ODOT for highway construction projects when the property no longer has a present or future use to the Department.
- The ***Rights-of-Way for Other Agencies Unit*** recovers costs associated with providing department staff trained in right-of-way acquisition to local agencies who lack the necessary staff. Department staff help local agencies obtain the necessary right-of-way for construction projects, and reimbursement costs are recovered from project funds.
- ***Administration*** (50.65 FTE), ***Materials Testing Lab*** (19.50 FTE), and ***Indirect Services*** (162.43 FTE) conduct activities that serve a common or joint purpose benefiting more than one project or program. Therefore, their work cannot be effectively charged to individual projects or programs. Activities include management, supervision, and administrative control of the agency; awards programs; contract negotiations; training and education; work planning; service contracts; crew team and safety meetings; quality assurance; and quality control. Office expenses and facilities costs are also covered with these funds.

- ***Highway Deputy Directors, Highway Program Office, and Major Projects Branch*** (28.20 FTE) include Deputy Director and support staff (1.00 FTE) for the Highway program Executive Deputy Director; financial support staff (20.00 FTE) for budget, funds, and grant tracking, financial coordination for regions, report writing, and financial analysis; and headquarters project delivery staff (7.20 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*** (123.55 FTE) staff, located primarily in the five regional offices, focus on work needed to develop construction projects for eventual contracting.
- ***Other Special Programs*** fund miscellaneous expenses such as work on bridges, facilities, and roads of historical interest, safety rest areas, district office facilities work, independent wetland mitigation, and some tourist signing.
- Through the realignment process, ***Systems Management*** (135.00 FTE) will focus their work efforts to overall management of the highway system. This includes program level responsibility for Asset Management, Continuous Improvement (i.e., Quality Assurance/Quality Control, technical performance measures) and ensuring the technical excellence of the Highway Division project delivery staff. To date, the plan for identifying highway system assets is in the final stages of development. The program level Quality Assurance plan is in place, with a pilot of the overall plan currently underway. Additionally, plans are being implemented to ensure that core, advanced, and expert training and development is identified and offered according to a predictable schedule.
- ***Traffic*** (45.35 FTE) covers the traffic function in both Regions and Technical Services. The work that is done supports the operation of the system. Activities include speed zones, non-project traffic analysis, and traffic safety. This will isolate the Traffic function from the Indirect and support function of the Construction program. There is also a component of traffic that is closely aligned with project delivery and will allocate resources to that function.
- ***Reimbursables*** (36.00 FTE) contains ODOT services that are paid by other parties including damage to structures and outside billings allowing ODOT to bill private citizens and businesses for services provided.

Essential Budget Level

The 2009-11 essential budget level of $213.8 million Other Funds is a decrease of $47.37 million Other Funds, or 18.24%, from the 2007-09 legislatively approved expenditure level and includes 632 positions (621.14 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes an increase of $4 million Other Funds in special session and Emergency Board actions during Fiscal Year 2008 to reflect personnel adjustments and increased compensation for employees. The 2009-11 essential budget level includes a decrease of $76.7 million Other Funds to phase out a one-time special payment to Counties to offset a reduction in federal timber receipts, and an increase of $12.3 million Other Funds to adjust contractor payments for construction projects that are expected to pay out during the 2009-11 biennium. It reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. It also reflects technical adjustments to realign positions across programs resulting in an agency-wide net zero fiscal impact, but an increase of $738,527 Other Funds and 35 positions (34.00 FTE) within the Highway Special Programs.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $185 million is $28.8 million, or 13.5%, less than the 2009-11 essential budget level and includes 641 positions (628.59 FTE). The Legislature approved adding 10 professional engineering positions (8.75 FTE) funded by utilizing resources from services and supplies to address the need to sustain core technical competency within Highway Programs. The cost for the positions is $1,309,101 for the 2009-11 biennium.

The budget invests $1,705,000 for highway projects, of which $705,000 represents safety projects including rest area recharging stations for plug-in hybrid vehicles, hazmat safety, and asset management projects and $1 million for an Urban Trails Grant Program under the “Jobs and Transportation Act of 2009.” The $705,000 investment represents 1.1% of the estimated $60.3 million state share of revenue. Under the Act, a revenue transfer of $48.9 million will be made to cities, $73.3 million to counties, and $6 million to the Travel Information Council from the new revenue. The budget is reduced by $27.4 million to reflect a technical adjustment to contractor payments for construction projects to balance within projected revenues and anticipated construction contract payments during the biennium.

The budget adds $1.9 million for Department of Energy grants expected to be expended by the end of 2010 and reduces the budget by $317,784 and one position (1.00 FTE) to move a Fiscal Analyst 2 position and state government service charges to the appropriate cost center in the Central Services program. The Legislature reduced the budget by $4,665,799 to reflect decreases in statewide salaries and assessments on various state government service charges.

ODOT – Highway/Local Government Programs

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	213,191,783	260,832,265	390,706,255	390,683,462
Total Funds	**$213,191,783**	**$260,832,265**	**$390,706,255**	**$390,683,462**
Positions	23	17	41	41
FTE	23.00	17.00	41.00	41.00

Program Description

The purpose of the Local Government Programs unit is to work in a cooperative venture with cities, counties, and regional planning agencies to ensure priority transportation needs are met. ODOT provides federal revenues and reimbursements to local governments for surface transportation, local bridges, congestion mitigation, transportation enhancements, and planning. The Legislature has mandated that a portion of state gas tax revenues be distributed among cities with populations of less than 5,000. ODOT shares a portion of its federal funds with counties and cities outside the Portland metropolitan area with populations greater than 5,000. The Portland metropolitan area receives funding through a separate federal appropriation dedicated to Transportation Management Areas. The program represents only the federal highway funds passed through to local agencies; it does not include the state bond-funded OTIA program.

Budget Environment

Local governments face the same critical transportation issues as the state. Pressure on property taxes and local general funds, combined with flat state funding, have left local communities with fewer resources for transportation. ODOT's Local Government Fund Exchange program allows local governments to exchange $1 of their federal fund allocation for 94 cents in state highway funds. This exchange helps local agencies avoid complicated state and federal contracting regulations and ensures that all federal funds are expended within required timelines. The amount of funds available for exchange is determined annually by ODOT. Local governments may need to accumulate funds over several years to pay for large projects.

Essential Budget Level

The 2009-11 essential budget level of $390.7 million Other Funds is an increase of $129.9 million Other Funds, or 49.8%, from the 2007-09 legislatively approved expenditure level and includes 41 positions (41.00 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes an increase of $131,754 Other Funds in special session and Emergency Board actions during Fiscal Year 2008 to reflect increased compensation for employees. The 2009-11 essential budget level includes an increase of $118 million Other Funds to adjust contractor payments for construction projects that are expected to pay out during the 2009-11 biennium. It reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. It also reflects technical adjustments to realign positions across programs resulting in an agency-wide net zero fiscal impact, but an increase of $4.2 million Other Funds and 23 positions (23.00 FTE) within the Highway Local Government Program.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $390.7 million is $22,793 less than the 2009-11 essential budget level and includes 41 positions (41.00 FTE). The Legislature approved an increase of $280,200 to support projects related to the Connect Oregon grant program. The Legislature reduced the budget by $302,993 to reflect decreases in statewide salaries and assessments on various state government service charges.

ODOT – Utility Permits

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	1,686,271	0	0	0
Total Funds	**$1,686,271**	**$0**	**$0**	**$0**
Positions	12	0	0	0
FTE	12.00	0	0	0

Program Description

The purpose of the Utility Permits program is to issue permits to utility companies that need to conduct activities on state highway rights-of-way. The 2007 Legislature combined this program with the Maintenance Program as a result of an Oregon Supreme Court ruling allowing use of Highway Trust Funds for the activity. Consolidating the activity in Maintenance simplified financial tracking for the Department.

ODOT – Driver and Motor Vehicles Services

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	132,850,110	151,067,266	159,058,764	157,684,979
Federal Funds	324,186	2,569,638	945,713	2,545,006
Total Funds	**$133,174,296**	**$153,636,904**	**$160,004,477**	**$160,229,985**
Positions	867	883	870	874
FTE	833.50	842.75	838.67	842.17

Program Description

Driver and Motor Vehicles (DMV) licenses and registers over 2.8 million drivers and motor vehicles and enforces motor vehicle-related laws. There are 64 DMV offices statewide serving more than 13,000 walk-in customers each day. In addition, DMV personnel process more than 10 million transactions and respond to over 1.8 million phone inquiries each year. Law enforcement agencies access DMV computer information files more than 51,000 times each day, and businesses and individuals make about 4 million DMV record requests each year.

Revenue Sources and Relationships

DMV is supported from fees levied for the various services it provides. Passenger vehicle registration fees are the largest single revenue collected, followed by driver licenses, and truck and trailer licensing fees. Together these revenues represent 97% of total estimated 2007-09 DMV gross revenue collections ($573 million). Revenue in excess of amounts needed to cover DMV operating costs and OTIA debt costs is subject to city, county, and state distribution. Approximately 48% of the revenues collected are projected to be transferred to the State Highway Fund.

Budget Environment

Several different factors currently impact DMV services. These include:

- **Demographic Changes** – Oregon is becoming more ethnically diverse and older. Both factors are important to DMV from a customer service and workforce perspective.
- **Eligibility for Driver Licenses and ID Cards** – Eligibility for an Oregon driver license or identification card is becoming more difficult as standards for proving identity and legal status are tightened. Fewer documents are accepted from applicants, and more electronic systems for verifying the data contained on some documents are now being used. The Oregon Legislature adopted a legal presence standard in February 2008 (SB 1080) with provisions phased in by January 2010. Federal Real ID regulations call for full compliance with new driver license issuance standards by May 2011, or else the state-issued credentials will not be accepted for federal identification purposes.
- **Identity Theft/Fraud** – State-issued driver licenses and ID cards are used widely as identity documents to conduct business with public agencies and private companies. Increasing concern about identity theft has created the need for a robust fraud prevention program at DMV.

- **Service Delivery** – DMV field offices will evolve as we anticipate changes in the way services are delivered and what services are available. Driver licenses and ID cards are no longer issued over-the-counter at field offices, and facial recognition software is used to avoid issuing multiple cards under different names to the same person and to check previous photos on file.
- **Aging Infrastructure** – The computer systems and facilities that DMV relies upon are aging and expensive to maintain and operate. The large mainframe systems were first developed in the mid-1960s, with some additions and enhancements throughout the years; but the major applications are old and difficult to support.
- **Economy** – A depressed economy leads to fewer new and used vehicle sales, and deferred purchases for items such as driver licenses and reinstatement of driving privileges. Vehicle title and registration transactions have decreased, and fewer accident reports are filed as people reduce their vehicle miles traveled with higher fuel costs.

Essential Budget Level

The 2009-11 essential budget level of $160 million total funds is an increase of $6.4 million, or 4.1%, from the 2007-09 legislatively approved expenditure level and includes 870 positions (838.67 FTE). The 2007-09 legislatively approved expenditure level includes an increase of $5.9 million total funds in special session and Emergency Board actions during 2007-09 to reflect receipt of federal grants to implement portions of SB 640 that comply with the federal Real ID mandate and increased compensation for employees. The 2009-11 essential budget level includes $2.9 million Other Funds for continued work on the Facial Recognition Project; and phases out one-time costs of $464,319 Other Funds and $624,196 Federal Funds for implementation of legal residence legislation and a federal grant for updating the commercial drivers license information system. It reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $160.2 million is $225,508 more than the 2009-11 essential budget level and includes 874 positions (842.17 FTE). The Legislature approved an increase of $839,666 to provide resources to replace aging microfilm equipment with a digital imaging system; $314,141 Other Funds to absorb additional workload associated with the facial recognition process and Federal motor carrier safety administration regulations in DMV field offices and headquarters; and $382,315 Other Funds and four permanent positions (3.50 FTE); a half time position to conduct medical case reviews previously handled by the Department of Human Services (DHS); and 3 full-time permanent positions (3.00 FTE) to perform case management hearings work previously handled by the Office of Administrative Hearings in the Employment Department. The action includes eliminating a $73,909 payment to DHS for medical case review services that will no longer be provided. The Legislature also approved $435,851 for additional work to strengthen information system security (e.g., employee access, audit logs, etc.) to further reduce the risk of unlawful release of sensitive data. An additional $1 million was approved to implement provisions of HB 2001 related to vehicle title and registration fee increases, ID card fee increases, and merchant fees on bank card transactions. One time costs of $308,300 will be phased out in the 2011-13 beinnium. The Legislature approved a technical adjustment reducing the budget by $452,284 to shift expenses related to state government service charges to the appropriate cost center in Central Services and increased the Federal Funds expenditure limitation by $1.6 million to reflect the award of a federal grant for changes required in work processes and computer systems for commercial driver licenses. The Legislature reduced the budget by $3.9 million to reflect decreases in statewide salaries and assessments on various state government service charges.

ODOT – Motor Carrier Transportation

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	47,508,087	53,782,842	55,703,315	56,095,128
Federal Funds	4,480,455	5,400,148	5,561,876	5,539,691
Total Funds	**$51,988,542**	**$59,182,990**	**$61,265,191**	**$61,634,819**
Positions	315	316	313	313
FTE	315.00	316.00	313.00	313.00

Program Description

The Motor Carrier Transportation Division (MCTD) is responsible for administering and enforcing laws and rules related to motor carriers, including regulations related to commercial vehicle registration, safety, and weight-mile tax. MCTD issue over-dimension variance permits and enforces truck size and weight regulations. Division enforcement officers and safety specialists check trucks mainly at 87 weigh stations, including six ports-of-entry, and at dozens of portable scale sites. The Division also processes mileage reports and collects highway-use (weight-mile) taxes and fees. The Motor Carrier Transportation Division's Green Light Program increases weigh station capacity by weighing trucks on the highway and sending a green light signal to those with transponders if they do not need to stop at a weigh station. Also, the Division offers an Internet service for permit processing, road-use tax reporting and payment, and other transactions to save motor carrier companies time and money.

Revenue Sources and Relationships

Revenue from weight-mile taxes, commercial vehicle registrations, and permits provide the primary resources to support this Division. All revenue in excess of the amount required for carrying out the regulatory and safety programs, approximately 88% of revenue collected, is transferred to the State Highway Fund. Over $5.5 million in Federal Funds is projected to be received in the 2009-11 biennium for commercial vehicle safety enforcement efforts under the Motor Carrier Safety Assistance Program (MCSAP). MCTD coordinates the work of the Department of State Police (OSP), which receives $1.6 million of the funds each year, as well as city police, county sheriffs, and county weighmasters who work under non-compensated agreements. The MCSAP program requires a 20% state match, but because current program expenditures contribute to the match there is no financial outlay from the state.

Budget Environment

Increased construction activity around the state requires staff to assist in mitigating travel delays. Staff identify key routes and types of loads that may be operating in/around construction projects, provides feedback regarding clearances for freight loads, helps find detours and alternate routes, and timely communicates project impacts to the trucking industry.

Motor carriers based outside the state are required to obtain a permit and file proof of liability insurance, as well as cargo insurance, if necessary. Oregon also issues an Oregon Weight Receipt and Tax Identifier to each truck subject to the weight-mile tax as a means for reporting tax, for tracking miles over Oregon highways, and verification to fuel providers that the truck is exempt from fuel tax. With passage of SAFETEA-LU, states are prohibited from registering interstate carriers, imposing insurance requirements, and requiring the display of any form of commercial motor vehicle identification on or in the vehicle, except the forms specifically named in the SAFETEA-LU act. Oregon's requirements are not allowed. The 2007 Legislature passed SB 222 to address the statutes that are in conflict so that Oregon may participate in a new Unified Carrier Registration System for purposes of verifying that carriers are registered and have proof of insurance on file.

Essential Budget Level

The 2009-11 essential budget level of $61.3 million total funds is an increase of $2 million, or 3.5%, from the 2007-09 legislatively approved expenditure level and includes 313 positions (313.00 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes an increase of $1.7 million total funds in special session and Emergency Board actions during Fiscal Year 2008 to reflect position adjustments and increased compensation for employees. It reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $61.6 million is $369,628 more than the 2009-11 essential budget level and includes 313 positions (313.00 FTE). The Legislature approved an increase of $2 million Other Funds to address deferred maintenance issues at Oregon's weigh stations. Once managed within Highway District Operation budgets, the function was transferred to MCTD without funding to perform major or routine maintenance of scales, weigh station buildings, truck inspection buildings, entry and exit ramps, and parking lots. The Legislature reduced the budget by $1.6 million Other Funds and $22,185 Federal Funds to reflect decreases in statewide salaries and assessments on various state government service charges.

ODOT – Transportation Development

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	82,662,765	172,081,737	172,469,138	220,012,943
Federal Funds	192,187	214,720	210,710	204,949
Total Funds	**$82,854,952**	**$172,296,457**	**$172,679,848**	**$220,217,892**
Positions	217	224	222	222
FTE	207.90	215.40	212.72	212.72

Program Description

Transportation Program Development operates through five program areas:

- ***STIP Development*** (19.00 FTE) coordinates identification and prioritization of the Department's four-year STIP development process. The STIP is updated every two years with ongoing public, local government, and stakeholder involvement. This program area identifies projects using pavement, bridge, and safety condition assessment tools identifying the scheduling and funding of transportation projects.
- ***Technical Assistance and Coordination*** (5.40 FTE) is provided to local governments on updates to periodic comprehensive plan reviews, and transportation system plan reviews; and to Metropolitan Planning Organizations (MPO); and Area Commissions on Transportation (ACT). This program area also maintains data and shares transportation-related information with federal, state, and local agencies through the Technology Transfer Center.
- ***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*** (75.00 FTE) guide and support short- and long-range planning for Oregon's transportation system and administer the statewide Planning and Research Program that directs activities funded by the Federal Highway Administration. The Department adheres to a formal long-term process that produces and periodically updates a long-range strategy reported in the Oregon Transportation Plan (OTP). This program area is responsible for the Department's planning activities that focus on five areas of need: urban mobility, rural accessibility, freight transport mobility, safety, and finance. The goals, policies, and proposed actions are translated into specific projects and activities driving toward an integrated transportation system. Development of these various planning efforts requires a variety of analytical services from traffic analysis to public transit. Other sources of information used include federal legislation on clean air, water, and energy acts, state benchmarks, and land use planning goals.
- ***Transportation Analysis and Research*** (113.32 FTE) provides policy and economic analysis and forecasting, analyzes initiatives and issues, evaluates transportation needs and solutions, conducts strategic planning, researches new technologies, and coordinates opinion surveys. This program area also manages and analyzes transportation data to support planning, construction and maintenance, resource deployment, and funding allocations. Data collection and analysis include the bridge and pavement management systems, crash data, transportation inventory/classification, mapping/geographic information systems services, and traffic counting. This also includes the agency's research program that emphasizes new technologies to help the transportation system operate better and more efficiently.

Revenue Sources and Relationships

General planning activities are funded from federal planning grants and state and federal highway funds. Revenue transfers from the highway program, for example, support highway planning, system studies and monitoring, and data gathering.

Budget Environment

ODOT provides funds each year to help support 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. Transportation system analysis is constantly changing as questions are raised involving the interaction between land use, economics, and transportation.

The program focuses workload on expanding planning and policy matters related to the linkage of transportation and land use, local government transportation system plan reviews, and facility plan reviews. Many local Transportation System Plans are over ten years old and in need of updates. Agency staff and resources will be directed to assist local governments in these plans. The reauthorization of SAFETEA-LU includes a number of revisions to planning. Increasing emphasis on freight mobility is reflected in the reauthorization of SAFETEA-LU.

Essential Budget Level

The 2009-11 essential budget level of $172.7 million total funds is an increase of $383,391, or 0.22%, from the 2007-09 legislatively approved expenditure level and includes 222 positions (212.72 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes an increase of $4.9 million total funds in special session and Emergency Board actions during Fiscal Year 2008 to reflect bridge inspection needs, earmarks, and internal position adjustments and increased compensation for employees.

The 2009-11 essential budget level includes a $5.9 million reduction to phase out costs associated with the Integrated Transportation Information System data base and ODOT's features inventory data base and an increase of $1 million Other Funds for STIP projects expected to pay out during the 2009-11 biennium. It reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $220.2 million is $47.5 million, or 27.5%, more than the 2009-11 essential budget level and includes 222 positions (212.72 FTE). The Legislature approved an increase of $26.5 million to provide resources to continue the Multi-modal Transportation Program initiated by the Legislature in the 2005-07 biennium. The Legislature reduced the budget by $9.3 million to reflect technical adjustments to correct duplicated expenses for Connect Oregon and an additional reduction of $1.5 million to reflect decreases in statewide salaries and assessments on various state government service charges.

Under the "Jobs and Transportation Act of 2009", the Legislature authorized $100 million in Lottery-backed revenue bonds to be used for ConnectOregon III improvement projects selected by the Transportation Commission. Debt issuance costs are estimated to be $2.3 million and the principal and interest payment would be $5 million for the 2009-11 biennium and is reflected in the Debt Service Program expenditure limitation. Debt service costs for the 2011-13 biennium are estimated to be $15 million.

The budget invests $31.8 million to implement provisions of HB 2001 requiring task forces and studies to develop congestion pricing pilot programs in the Portland area, conduct an Efficient Fee Study, and develop a least-cost planning model for decision making. It also provides direction to the interim legislative committees on transportation to review state and local responsibilities for the state highway system resources available for each level of government of the state highway allocation of new revenue to be spent on maintenance, preservation, and safety. All but $1.4 million of the $31.8 million comes from the Federal Highway Administration (FHWA). A major share of the FHWA money, $26 million, is for multi-modal transportation programs. The $1.4 million is $500,000 from bond proceeds for ConnectOregon III, and $900,000 from Highway Trust Funds, a one-time amount for the efficient fee study, modeling, and safety studies, and STIP development.

ODOT – Public Transit Division

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	0	0	0	10,000,000
Other Funds	20,275,615	20,911,919	20,541,760	51,918,094
Federal Funds	30,730,910	42,310,738	44,338,305	47,782,192
Total Funds	**$51,006,525**	**$63,222,657**	**$64,880,065**	**$109,700,286**
Positions	13	15	15	15
FTE	13.50	15.00	15.00	15.00

Program Description

The Public Transit Division develops, encourages, and supports the use of transit, ridesharing, walking, bicycling, telecommuting, and other alternatives to driving alone. The Division operates six program areas:

- ***General Public Transit*** (4.34 FTE) provides general public transportation to rural areas, tribal governments, and cities with populations under 50,000. About 80% of its funds are distributed to cities, counties, other government units, and nongovernmental units through grants.
- ***Inter-city Passenger Development*** (1.00 FTE) provides information, technical assistance, and management of grant resources for inter-city bus, rail, and air passenger services that are needed to connect Oregon communities. Emphasis is placed on improving connections between transportation modes and improving travel information systems.
- ***Special Needs Transportation Services*** (4.16 FTE) provides transportation designed to meet the needs of the elderly and people with disabilities. Programs include: 1) the Special Transportation Fund program distributing state cigarette tax, and Non-Highway Fuels Tax funds to local governments for transportation services benefiting elderly and disabled people; and 2) the statewide Elderly Persons and Persons with Disabilities Federal Grant Program, which funds the purchase of vehicles and other equipment for special needs transportation. Staff 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 – $7.5 million per biennium. Includes 3.45% ($0.02 per pack) apportionment of all moneys received by the Department of Revenue from certain cigarette tax revenues.
- DMV Photo ID – $4.9 million per biennium. Includes any excess fees collected from the distribution of ID cards by the DMV over the cost of running the program. This revenue is passed to local governments to support special needs transportation programs.
- Transportation Operating Fund (TOF) Non-Highway Fuels Tax – $6.4 million per biennium. This includes an apportionment of state tax moneys collected from the sale of fuel for motorized non-highway uses such as lawnmowers, chainsaws, wood chippers, etc. These moneys provide federal fund match for Transportation Demand Management, Special Needs Transportation, and Transportation Planning programs.
- In addition, the Division receives about $200,000 per biennium from interest and the sales of surplus vehicles.

Budget Environment

Challenges for the Division include continued innovation and improvements for accessible public transit services for the elderly, people with disabilities, and rural communities. Oregon's population is growing, with the fastest growing segments of the population including our oldest residents. Providing mobility that continues their opportunity to participate independently in the community helps to defer or avoid the higher costs of additional dependence on support services. Rural communities are particularly affected. In the southern coast area, 27% of the population includes seniors above the age of 65 compared to 12% statewide. By 2015, it is estimated that 15% of the population will be over 65. Oregon's urban traffic congestion is becoming more severe. Oregon's land use and environmental policies challenge the transportation community to provide modern transit alternatives for urban commuters.

Since 1992, public transportation ridership in Oregon has grown 60%, affecting urban and rural areas. This is a success story in meeting public policy goals, but has created pressure on local provider budgets. In addition, this industry is vulnerable to the cost of fuel. When fuel costs rise, there are more people in need of an alternate to their auto use, putting demand on the system to increase trip capacity and hours of service. There is no ongoing dedicated source of state funding to support urban transit systems. In 2003, the Legislature authorized $2 million additional support towards the estimated $18 million annual urban fleet replacement costs.

Aging transit fleets throughout the state continue to need support for replacement vehicles, or the state risks losing the capital infrastructure to operate current services. Current estimates indicate there is a gap of $10 million annually to meet this need. Support to preserve the urban fleet helps providers to maintain service levels and protects the existing public investment in these successful systems. Fuel costs and long-term availability are an issue for the transit industry. Another major challenge for public transportation is pressure to upgrade and provide public transit facilities with security features and appropriate bus maintenance structures. Developing state policy and strategies to provide stable state, federal, and local financial support for planned urban transit system improvements will continue to be an issue.

Essential Budget Level

The 2009-11 essential budget level of $64.9 million total funds is an increase of $1.6 million, or 2.62%, from the 2007-09 legislatively approved expenditure level and includes 15 positions (15.00 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level reflects and increase of $105,766 in special session and Emergency Board actions during Fiscal Year 2008 to reflect increased compensation for employees. The 2009-11 essential budget level includes a reduction in personal services of $821,613 Other Funds and an increase in the Federal Funds expenditure limitation by $791,586 to provide administration and program support for the asset management integration initiative within ODOT. It also reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $109.7 million is $44.8 million, or 69.1%, more than the 2009-11 essential budget level and includes 15 positions (15.00 FTE). The Legislature approved an increase of $11.4 million to implement provisions in HB 2001 related to Public Transit including shifting $10 million flexible federal transportation funding to support non-highway capital transit project grants and $1.4 million to for transit operating grants from increased fee revenues on personal ID cards.

The Legislature also approved a $10 million General Fund increase to support Senior and Disabled Transportation operating grants, and a $20 million Other Funds increase to distribute bond proceeds in the 2009-11 biennium for a street-car grant program authorized by the 2007 Legislature.

A technical adjustment to add $3.5 million Federal Funds limitation was approved to reflect revised federal apportionment for the federal Section 5311 – Rural and Small Urban Areas Program Grants. The Legislature reduced the budget by $96,744 total funds to reflect decreases in statewide salaries and assessments on various state government service charges.

ODOT – Rail Division

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	8,626,167	4,504,713	4,630,845	0
Other Funds	50,810,621	25,928,802	21,521,737	279,415,349
Federal Funds	1,365,249	15,862,746	16,306,903	16,306,903
Total Funds	**$60,802,037**	**$46,296,261**	**$42,459,485**	**$295,722,252**
Positions	24	24	24	24
FTE	24.50	24.00	24.00	24.00

Program Description

The Rail Division ensures compliance with federal and state regulations related to passenger and freight rail service programs. The Division operates the following program areas:

- ***Division Administration*** (1.00 FTE) provides leadership and support, defines state rail policies, and insures rail interests are adequately addressed.
- ***Railroad Safety*** (10.00 FTE) ensures compliance with federal and state safety regulations for track, locomotive and rail cars, hazardous materials transport and rail operating practices through inspections. Staff also inspects railroad walkways and sidings, loading docks and yards to insure safety of railroad workers. This section is also responsible for overseeing the safety plans for light rail and fixed rail guideway operations mandated by the Federal Transit Administration.
- ***Crossing Safety*** (8.00 FTE) enforces federal and state regulations related to public highway-rail crossings, authorizes the construction, alteration or elimination of public highway-railroad crossings, inspects all public crossings, and manages crossing safety improvement projects.
- ***Rail Planning, Projects and Operations*** (5.00 FTE) develops and implements freight and passenger rail plans, and manages freight and passenger rail improvement projects. The section manages the state supported Cascades inter-city passenger rail operations and related Thruway bus services; this program area also enforces laws related to crossing blockages, manages state owned rail right of way and represents the state on railroad merger and abandonment and other rail service issues.

Revenue Sources and Relationships

The programs operate with dedicated federal (16.3 million) and state ($21.5 million) revenue.

Federal revenues at the essential budget level include:

- Federal Railroad Administration (FRA) – $16.3 million. Includes both freight and High Speed Rail Corridor projects as made available by Congress. These project specific funds are used for engineering, design, construction, equipment purchases, and contracts.
- Federal Highway-Railroad Grade Crossing Hazard Elimination Funds (Sec. 130) – $4.2 million. Federal as Other Funds used for crossing safety projects.

State revenues at the essential budget level include:

- General Fund – $4.6 million. Partially funds one roundtrip train daily between Eugene and Portland, with continuing service to Seattle and Vancouver, British Columbia, funded by the State of Washington.
- Custom License Plate Fees – $4.6 million was approved by the Legislature to offset General Fund resources to fund one round trip train between Eugene and Portland.
- Rail Gross Revenue Fee – $4.5 million. Paid by Oregon railroads based on their previous year's gross revenue. Funds can only be spent on rail safety and rail crossing regulations.
- Grade Crossing Protections Account (GCPA) – $1.4 million. Generated from driver license and vehicle registration fees. Used for crossing safety regulation and improvement projects at public railroad crossings.
- Transportation Operating Fund (TOF) Non-Highway Fuels Tax – $1.2 million. Helps fund one round trip train between Eugene and Portland.
- Other biennial revenues include $275,000 from interest, $225,000 from Crossing Blockage Penalties, $100,000 from Railroad Right of Way Lease Fees, and $100,000 from the Fixed Guideway Fee and $251.4 from lottery-backed bonds for a TriMet light rail project.

Budget Environment

The lack of stable funding for both the passenger rail and short-line service systems makes the future of rail service in Oregon uncertain. In past sessions, the Legislature has committed General Fund resources to supplement passenger rail service. However, the funds are scarce and relied upon by many of the state's programs, which put the funding of passenger rail service in jeopardy each legislative session. In addition to committing General Fund for passenger rail services, the 2001 Legislature created the Short-Line Credit Premium account for financial assistance to the short-line railroads. The Legislature allocated $2 million in lottery bond revenue to this account in both the 2001 and 2003 sessions. These funds provide some much-needed rehabilitation resources to the struggling short-line railroads across the state. Growth in the transportation systems and the rail industry, combined with heightened interest in freight mobility, are stretching Division staff resources to provide adequate services for protecting the public from rail-related incidents, particularly in the rail planning and safety assessment areas.

Essential Budget Level

The 2009-11 essential budget level of $44.5 million total funds is a decrease of $3.8 million, or 8%, from the 2007-09 legislatively approved expenditure level and includes 24 positions (24.00 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level reflects an increase of $6.9 million total funds in special session and Emergency Board actions during Fiscal Year 2008 to reflect expenditure authority to complete projects authorized under the Industrial Rail and Short Line Bond programs and increased compensation for employees. The 2009-11 essential budget level includes a reduction of $1 million to reflect the one-time expenses related to the rail multi-modal study and the $4.5 million payment to Union Pacific for rail improvements required under the operating agreement. It reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $295.7 million is $253.3 million, or 596.5%, more than the 2009-11 essential budget level and includes 24 positions (24.00 FTE). The Legislature approved an increase of $251.4 million to distribute Lottery-backed bond proceeds to Tri-Met for a light rail project approved by the 2007 Legislature and added $1 million to carry-over payments for rail project work obligated in 2007-09 but expected to pay out in the 2009-11 biennium. The Legislature reduced the budget by $176,517 to reflect decreases in statewide salaries and assessments on various state government service charges.

The Legislature also approved, in JTA-2009, an increase in the custom plate fee by $25 per year from $25 to $50 to generate approximately $2.3 million per year. This revenue would be used to reduce General Fund support for passenger rail service during the 2009-11 biennium and replace it during the 2011-13 biennium. A shift of $4.6 million General Fund to Other Funds is reflected in the legislatively adopted budget resulting in eliminating all General Fund support for passenger rail service.

ODOT – Transportation Safety Division

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	10,061,809	13,355,412	13,809,901	13,699,375
Federal Funds	13,592,782	14,678,993	15,116,662	15,057,411
Total Funds	**$23,654,591**	**$28,034,405**	**$28,926,563**	**$28,756,786**
Positions	24	26	26	26
FTE	24.00	26.00	26.00	26.00

Program Description

The Transportation Safety Division advocates transportation safety through statewide education, enforcement, and engineering. Major efforts focus on occupant protection, intoxicated driving, speeding, youthful drivers, pedestrians, bicyclists, motorcyclists, and employers. Safety programs are operated through over 550 safety grants and contracts awarded annually to local agencies, non-profit groups, the private sector, and service providers. The grants use state and federal funds to provide statewide public education and information programs, and reimburse public schools that provide Division-approved driver education programs.

Further duties include the responsibility to:
- organize, plan, and conduct a statewide transportation safety program;
- coordinate general activities and programs of the several departments, divisions, or agencies of the state engaged in promoting transportation safety;
- provide transportation safety information and develop other measures of public information;
- cooperate fully with all national, local, public, and private agencies and organizations interested in the promotion of transportation safety;
- serve as a clearinghouse for all transportation safety materials and information used throughout the state;
- cooperate in promoting research, special studies, and analysis of problems concerning transportation safety; and
- make studies and suitable recommendations to the Legislature concerning safety regulations and laws.

Revenue Sources and Relationships

Approximately 5 2% of the Safety program funds are Federal Funds; the other 48% are other state funds.

Budget Environment

A number of factors influence the workload and performance of the Transportation Safety Division. These include traffic safety education and driver training, youthful driver restrictions, posted speeds, passenger safety, and driving under the influence of intoxicants. Recent turnover in senior staff for law enforcement, public safety, engineering, and roadway personnel have created the need for management level training and front line training. Upgrades to equipment and recent court cases have required training for this area to be revised and distributed.

Essential Budget Level

The 2009-11 essential budget level of $29 million total funds is an increase of $892,158, or 3%, from the 2007-09 legislatively approved expenditure level and includes 26 positions (26.00 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level reflects an increase of $909,670 million total funds in special session and Emergency Board actions during Fiscal Year 2008 to reflect increased compensation for employees and increased funding for impaired driving efforts. The 2009-11 essential budget level reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $28.7 million is $169,777 less than the 2009-11 essential budget level and includes 26 positions (26.00 FTE). The Legislature reduced the budget to reflect decreases in statewide salaries and assessments on various state government service charges.

ODOT – Board of Maritime Pilots

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	208,742	0	0	0
Total Funds	**$208,742**	**$0**	**$0**	**$0**
Positions	1	0	0	0
FTE	0.71	0.00	0.00	0.00

Program Description

The Board of Maritime Pilots was located within the Department of Transportation budget, but is independent of the agency and the Oregon Transportation Commission. The Board is charged with the regulation, including examining, licensing, and investigating incidents or complaints, of navigation pilots on Oregon's four pilot-required areas. There are currently 67 licensed pilots under the regulatory authority of the Board.

Revenue Sources and Relationships

The Board is a self-supporting entity funded by license fees. Revenues for 2005-07 are estimated to be at least $276,500 based upon the payment of up to $1,500 annual license fee by each of the 67 licensed pilots and from miscellaneous other revenues. Workload on licensing activities will be reduced throughout 2005-07 due to declining revenues. License revenue is no longer sufficient to support current activities. A proposal to increase license fees to restore expenditures to the current activity level was approved by the Legislature in HB 2277.

Essential Budget Level

The 2007 Legislature determined that the Board of Maritime Pilot's mission and responsibilities aligned better with the Public Utility Commission (PUC) resulting in transferring the budget and functional responsibilities to PUC. Discussion of the agency's budget will be under the PUC budget analysis.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget is reflected in the Public Utility Commission budget.

ODOT – Central Services

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	125,206,667	163,296,527	178,745,370	257,112,309
Federal Funds	4,793	29,959	30,797	30,797
Total Funds	**$125,211,460**	**$163,326,486**	**$178,776,167**	**$257,143,106**
Positions	495	504	496	497
FTE	476.97	496.63	493.50	494.50

Program Description

Central Services provides the core administrative functions that support each of the programs. This program includes:

- ***Director's Office*** (3.00 FTE) includes the Department Director and support staff who oversee all operations and programs.
- ***ODOT Headquarters*** (34.50 FTE) accomplishes work through two major program areas. Government Relations is primarily responsible for working with the Oregon Legislature, members of the Oregon Congressional delegation, and local government officials; and for analyzing federal and state laws and rules affecting transportation. The Public Affairs and Employee Communications unit provides information on transportation programs and activities to the public and keeps ODOT's workforce informed about developments affecting their jobs.
- ***Central Services Administration*** (2.00 FTE) includes the Executive Deputy Director and a support person for management of Financial Services, Human Resources, Information Systems, Internal Audit Services, and Support Services.
- ***Financial Services*** (84.00 FTE) provides the Department with accounting and financial services including accounting, collections, budget, payroll, fuels tax revenue, debt, and financial analysis.
- ***Human Resources*** (51.00 FTE) provides professional advice and leadership on employee labor relations, classification, recruitment and retention, training issues, and manages the Department's human resource systems and processes. Human Resource staff work closely with operating divisions to identify options to meet staffing needs and more efficient ways of doing business.
- ***Civil Rights*** (14.00 FTE) is charged with administering 12 federal and state regulatory Civil Rights programs, handling compliance issues for the Department, and promoting workforce development and small business support.
- ***Information Systems*** (227.50 FTE) includes planning, developing and supporting business application systems; technology infrastructure; and supporting telephone and electronic mail to enable ODOT business to be conducted efficiently, comply with laws and regulations, and support the mission of ODOT.
- ***Audit Services*** (10.50 FTE) is responsible for an internal audit program assuring that effective management controls are in place and functioning properly to help management achieve its objectives and supports performance measures. External audit provides assurance on financial data submitted by external entities.
- ***Business Services*** (68.00 FTE) provides a variety of services to all ODOT programs including purchasing and contract management, records management, reprographic, and photo video operations.

Revenue Sources and Relationships

Central Services is supported by a combination of direct and indirect charges. Direct charges are applied where the service can be accurately measured, such as in computer charges and Highway Fuel Tax accounting. The bulk of the revenues, however, come from indirect charges that are assessed to each division primarily based upon its number of full-time equivalent positions.

Budget Environment

Workload in Central Services is driven by the workload factors affecting the Department as a whole. This includes factors such as the demographic changes in Oregon's population and economy, implementation of federal appropriation legislation, rapidly changing information technology, and efficient delivery of programs.

Essential Budget Level

The 2009-11 essential budget level of $178.8 million total funds is an increase of $15.4 million, or 9.4%, from the 2007-09 legislatively approved expenditure level and includes 496 positions (493.50 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes an increase of $6 million total funds in special session and Emergency Board actions during Fiscal Year 2008 to implement SB 1080 relating to legal presence; reflect agency-wide positions adjustments, increased costs for the state data center, and employee compensation. The 2009-11 essential budget level includes a reduction of $7.1 million Other Funds to phase out the one-time costs associated with the integrated Human Resource and financial information system and implementation of facial recognition costs under SB 640. It reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $257.1 million is $78.4 million, or 43.8%, more than the 2009-11 essential budget level and includes 497 positions (494.50 FTE). The Legislature approved the following:

- $334,192 to support DMV's initiative to replace aging microfilm equipment with a digital imaging system and conduct an evaluation of current information system to determine viability of a systems replacement project;
- $301,182 to support DMVs ongoing administration of the legal presence standard now required for Oregon Driver Licenses and Identification Cards;
- $87,000 to provide resources to make improvements in lighting, security, and landscaping in the parking lot at the Mill Creek Office Building.
- $76 million to provide $75 million Highway Revenue Bonds repaid from Highway Trust Funds for ODOT's share of the Oregon Wireless Interoperability Network (OWIN) communication system to comply with the Federal Communication Commission's mandate that all land mobile radio systems complete the transition from broadband to narrowband by January 1, 2013;
- $950,575 to implement provisions of the JTA-2009 for an Efficient Fee Study, changing economic models used to determine the revenue to be distributed to counties and cities, support increased procurements associated with pilot programs and initiative development, and fuel tax refunds and forms;
- $4 million for increased contract work for Emerging Small Businesses;
- $177,903 and one position (1.00 FTE) to add a Fiscal Analyst 2 positions from Highway Special Programs to Central Services;
- $2.3 million technical adjustment to reflect the appropriate allocation of charges across program cost centers, corresponding with reductions in other agency cost centers netting the action to zero; and a
- $5.7 million reduction to reflect decreases in statewide salaries and assessments on various state government service charges.

ODOT – Nonlimited Loan Fund

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds (NL)	9,025,939	17,663,632	18,158,214	18,158,214
Total Funds	**$9,025,939**	**$17,663,632**	**$18,158,214**	**$18,158,214**

Program Description

Nonlimited programs record revenues and expenses for transactions that are generally internal to the agency and serve operating programs that are subject to expenditure limitation. They are Nonlimited because the level of activity is generally unpredictable. *Oregon Transportation Infrastructure Bank* (OTIB) remains is the only Nonlimited budget category. The OTIB makes loans to local governments, transit providers, and other eligible borrowers. As loans are repaid, principal and interest are returned to the OTIB and are available for new loans. Loan disbursements for the 2009-11 biennium are estimated to be $18 million.

Revenue Sources and Relationships

The program operates with dedicated Highway Trust Funds.

Essential Budget Level

The 2009-11 essential budget level of $18 million total funds is an increase of $494,582, or 2.8%, from the 2007-09 legislatively approved expenditure level. The increase reflects the standard inflation rate applied to all agency budgets.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget is equal to the essential budget level.

ODOT – Debt Service

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Lottery Funds	22,819,711	46,559,957	92,782,785	85,445,103
Other Funds	99,391,271	185,530,173	293,975,776	303,986,550
Other Funds (NL)	211,298,886	24,013,628	0	0
Total Funds	**$333,509,868**	**$256,103,758**	**$386,758,561**	**$389,431,653**

Program Description

Debt service in this program relates to highway construction bonds and the state's share of funding for the Westside Light Rail Project in the Portland metropolitan area, the South Metro Commuter Rail project in Washington County, Short-Line Railroad improvements, and Industrial Spur projects. Debt service is paid from the State Highway and Lottery Funds.

Revenue Sources and Relationships

Other Funds are derived from the sale of bonds, which are retired using allocations of State Highway and Lottery Funds.

Essential Budget Level

The 2009-11 essential budget level of $386 million total funds is an increase of $46.2 million Lottery Funds, or 99%, and an increase of $91.5 million Other Funds, or 45%, from the 2007-09 legislatively approved expenditure level. The 2007-09 legislatively approved expenditure level includes an increase of $17 million Other Funds in special session and Emergency Board actions during Fiscal Year 2008 to pay increased debt service on refinanced bonds. The increase reflects the principal and interest payments for bond sales and sales on certificates of participation incurred through the current biennium.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $389.4 million is $2.7 million, or 0.7%, more than the 2009-11 essential budget level. The Legislature approved an increase of $5 million Lottery Funds to provide debt service for the $100 million in Lottery-backed bond proceeds to continue the multi-modal transportation program initiated in 2005 approved by the Legislature in HB 2001. For 2009-11, the principal amount is estimated at $1,875,000 and interest is estimated at $3,130,778. The debt service on the bonds for ConnectOregon III in 2011-13 is estimated to be $15 million. The Legislature increased the Other Funds expenditure limitation by $2.3 million for debt issuance costs. The Legislature also approved $75 million in Highway revenue bonds for the Oregon Wireless Interoperability Network (OWIN). Debt service on the Highway revenue bonds for the 2009-11 biennium are estimated to be $7.7 million. This cost will roll-up to $19.8 million in the 2011-13 biennium. The Legislature reduced the budget by $12.3 million to reflect a technical adjustment reducing the Lottery Fund debt service on existing bonds resulting from refunding of debt in the 2007-09 biennium.

ODOT – Capital Improvements

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	2,544,263	3,171,000	3,259,788	3,259,788
Total Funds	**$2,544,263**	**$3,171,000**	**$3,259,788**	**$3,259,788**

ODOT – Capital Construction

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	2,200,000	19,488,645	0	1
Total Funds	**$2,200,000**	**$19,488,645**	**$0**	**$1**

Program Description

The Capital Improvements and Capital Construction program provides for new construction, remodeling, or improvements to facilities subject to the oversight of ODOT.

Revenue Sources and Relationships

Capital activities are funded primarily through transfer of State Highway Funds.

Essential Budget Level

The 2009-11 essential budget level for of $3.3 million total funds for Capital Improvements is an increase of $88,788, or 2.8%, from the 2007-09 legislatively approved expenditure level as of December 2008. The 2009-11 essential budget level reflects the standard adjustment for inflation.

The 2009-11 essential budget level of zero dollars for Capital Construction reflects a reduction of $15.1 million for costs associated with capital projects approved by the 2007 Legislature. The 2007-09 legislatively approved expenditure level reflects an increase of $3,999,999 total funds in special session and Emergency Board actions during Fiscal Year 2008 to reflect cost estimates to replace the Sister's maintenance station.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $3.3 million total funds for Capital Improvements is equal to the essential budget level. The 2009-11 essential budget level reflects the standard adjustment for inflation.

The 2009-11 legislatively adopted budget of $1 for Capital Construction reflects a place-holder to allow the Emergency Board to increase expenditure limitation if an opportunity presented itself to take advantage of co-locating or consolidating maintenance stations with local government or other existing maintenance stations.

The Legislature's adoption of HB 2001 provides authority for the co-location of highway maintenance stations with county, city, and state transportation facilities. The measure requires ODOT to include a capital construction placeholder in any budget request that it submits to facilitate consideration of proposals that might arise outside the two-year capital construction budget development cycle to develop administrative offices, maintenance facilities, or other facilities where ODOT and a unit or units of local government might jointly locate.

JUDICIAL BRANCH

Judicial Department (OJD) – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted*
General Fund	282,060,774	310,355,186	348,048,319	299,252,533
Other Funds	21,671,603	50,619,467	36,072,994	58,102,359
Federal Funds	1,478,760	1,013,463	1,047,391	859,163
Other Funds (NL)	9,481,442	10,907,966	10,233,769	0
Total Funds	**$314,692,579**	**$372,896,082**	**$395,402,473**	**$358,214,055**
Positions	2,039	2,074	2,065	1,857
FTE	1,871.21	1,908.46	1,923.13	1,684.34

** Includes the Governor's line-item veto of section 61(6), HB 5054 of $6.2 million General Fund*

Agency Overview

The Oregon Judicial Department's (OJD) current program structure includes:

- ***Judge Compensation**** is the personal service costs of the state's 191 statutory judgeships.
- ***Appellate Courts*** are the Supreme Court, Court of Appeals, Tax Court (a circuit-level court), and legal support cost.
- ***Trial Courts*** are the courts of general jurisdiction. District courts were abolished effective January 15, 1998 and circuit courts assumed jurisdiction for all state trial court functions. A circuit court is located in each of Oregon's 36 Counties. Circuit courts are organized administratively into judicial districts. Some of these, primarily rural, districts include more than one circuit court. However, most of the 27 judicial districts comprise a single circuit court.
- ***Administration and Central Support*** includes the Office of the State Court Administrator, information systems management, fiscal and human resources management, and centralized state agency assessments.
- ***Mandated Payments*** includes the cost of providing trial and grand jurors, court interpreters, civil appellate transcript costs for indigent persons, and Americans with Disabilities Act accommodation services.
- ***State Court Facilities Security Account**** provides funding for security improvements, emergency preparedness, and business continuity for Oregon's circuit, appellate, justice, and municipal courts.
- ***Electronic Court ("eCourt")**** provides funding for a business process reengineering and information technology modernization program.
- ***Debt Service**** provides for Debt Service on certificate of participation financing used to finance Electronic Court.
- ***Capital Improvement/Capital Construction**** is used to fund improvement to the Supreme Court Building.

* program structures which are new for the 2009-11 biennium

The Department is also in the process of moving its General and Other Funds Revenue Management activities into a discrete program structure as directed by a budget note.

Revenue Sources and Relationships

In the 2007-09 biennium, OJD will generate an estimated $272 million in revenue from fines, assessments, forfeitures, filing fees, and individuals' contributions toward their public defense. The Department will retain approximately 8% to fund the actual costs of the Department's collections program, including funds used to reimburse the Department of Revenue and private collection agencies for their costs from collection of delinquent debt. Compensatory fines and restitution, which are expected to total $27.1 million, are also collected by the courts and distributed to individual victims. Because these are trust funds, they are not accounted for in the Department budget nor are they subject to the Department's collection withholding.

Other sources of operating Other Funds revenue include the sale and distribution of court publications; fees charged for public access to the Oregon Judicial Information Network; State Law Library fees; fees charged for the interpreter and shorthand reporter certification programs; fees collected in the public defense Application Contribution Program; grants from the Department of Human Services for the Citizen Review Board; and various grants from other state and federal agencies. Direct Federal Funds come from a grant for a Juvenile Court Improvement Project.

Budget Environment

Workload in the Judicial Department is driven by a number of factors, including: the number and complexity of cases filed; the impact of social issues, such as drug abuse and family dissolution, on workload; and the effect of new laws and regulations. The Judicial Department is attempting to address these issues through a number of initiatives, including: the use of specialty courts; improved use of technology; and initiatives such as the Juvenile Court Improvement Project and the Model Criminal Court Project, to streamline and improve court operations, business processes, and the overall delivery of court services.

During the 2007-09 biennium, the Department undertook an estimated 1,400 reclassifications out of a total of 2,073 positions (68%). The Court Operations Specialist classification, which covers most court clerical staff, had three classification levels. It was replaced with a new four-level classification series entitled Judicial Services Specialists. The Department reports that the majority of those 1,400 reclassifications were simply moving a position from one classification name to another.

The 2009-11 biennium will challenge the Judicial Department perhaps more than any biennia since its inception. The state's declining economy, and projected revenue deficits at the state and local level, will adversely impact court operations and the support circuit courts receive from county government. Depending on a number of factors, such as reductions in local law enforcement and District Attorney staff and potential increases in domestic stress from the economic downturn, the Department could see increases and decreases in its various caseloads. Examples include potential increases in domestic violence, child support, juvenile dependency, eviction, and other civil cases, and potential decreases in misdemeanor and criminal cases from law enforcement reductions.

The Department has no control over the number of case filings it receives, and has legal restrictions on its ability to manage its caseload. For example, there are clear statutory requirements for speedy trials in criminal matters. If a case is not processed within allowable timeframes, it could be dismissed or could be subject to other prescribed statutory sanctions or relief. Thus, as demonstrated in the budgetary reductions during the 2001-03 biennium, delays in adjudication of criminal matters will result in an increase in case backlogs, and Oregon's justice system will become less of a deterrent to crime as the probability of a swift sanction diminishes. Any flexibility the Department has resides primarily within its ability to delay adjudication in civil case filings. Yet, if contentious civil issues remain unresolved for extended periods of time, this could also lead to citizen frustration and potential increases in criminal cases.

The Chief Justice will need to make difficult decisions and develop innovative and resourceful solutions to meet these requirements within a declining budget.

Reductions for the Department fall disproportionately on administrative and support staff for two reasons. The first is that Article VII, Section 1, of the Oregon Constitution prohibits any reduction in the compensation of judges during the term for which they are elected. The second reason is that eCourt Debt Service is a contractual obligation that must be met.

Essential Budget Level

The essential budget level for the Department is $395.4 million, of which $348 million is General Fund, $10.2 million is Other Funds, $36.1 million is Nonlimited Other Funds; and $1.1 million is Federal Funds and 2,065 positions (1,923.13 FTE). The EBL total is $22.5 million, or 6.3%, more than the current biennium's legislatively approved budget (LAB) of $372.9 million.

At the EBL, the Department had reported an ending balance of $32 million Other Funds.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $358.3 million is $14.7 million, or 3.9%, less than the 2007-09 legislatively approved expenditure level of $372.9 million and $36.6 million, or 9.4%, less than the $395.4 million essential budget level.

The state's General Fund revenue shortfall led to reductions across all branches of government. The Legislature, recognizing the importance of having open and accessible courts, passed a budget for the Department that captured cost-savings ($13.9 million) and made some permanent reductions ($13.1 million).

The 2009 Legislature adopted HB 2287, which provides for temporary filing fee surcharges, and provided that the revenue would be used to support justice system agencies. The Department received $6.5 million in expenditure limitation from HB 2287 to backfill a portion of the General Fund reductions, with a potential additional allocation of $18.6 million in the 2010 special session. The Legislature also invested $11.1 million General Fund in the Oregon eCourt initiative.

The Legislature also adopted a reduction of $6.3 million General Fund as part of the end of session adjustments made to all agency budgets in HB 5054, to reflect lower anticipated costs to state agencies for statewide charges as well as savings from lower than anticipated personal service costs. After the Assembly adjourned, the Governor vetoed this reduction in the Judicial Department budget. There was no similar line-item veto for other judicial branch agencies. The practical effect of the veto, if sustained, provides the Department with $6.3 million General Fund above the budget adopted by the Legislature thereby reducing the need for temporary court fee and surcharge revenue backfill from $18.6 million to $12.3 million.

Prior to the Governor's veto, the legislatively adopted budget provided funding for the continuation of key activities of the Department, including: treatment courts; Citizen Review Board; court referees; pre-trial release programs; pro se facilitation; paid mediation; stenographic reporters; appellate support staff; and the restoration of an unspecified 3% across-the-board reduction.

The allocation of the potential $18.6 million HB 2287 revenue is subject to change due to the uncertainty associated with Oregon's economy and state budget situation as well as current caseloads for the public safety system. A budget note directed that the Department report to the 2010 special session of the Legislature on current caseload trends and any resentencing costs required by legislation enacted during the 2009 session.

The following analysis of the Judicial Department's budget is done with the understanding that the Legislature has granted the Department a broader autonomy to execute its budget than is normally provided other state agencies in the Judicial or the Executive Branch. This autonomy means that the Department's primary budget bill does not constrain the legal ability of the Department to prioritize the resources provided by the Legislature in a manner that may differ from the understanding of the Legislature when the body approved the Department's budget bill(s). As an example, the Department has announced, after the close of session, a restructuring of its Administrative and Central Support program and the Office of the State Court Administrator. Typically, such major restructuring efforts are discussed in advance with the Legislature.

OJD – Judge Compensation

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund				62,702,429
Total Funds				**$62,702,426**
Positions				191
FTE				191.00

Program Description

The Judge Compensation Program contains the personal service costs (salary and wages plus other payroll expenses) of the 191 statutory judgeships in Oregon. These include 173 circuit court judges, one tax court judge and three magistrates, ten Court of Appeals justices, and seven Supreme Court justices. The judges of the Supreme Court, Court of Appeals, and Tax Court are elected by voters in nonpartisan statewide elections for six-year terms. The judges of the circuit court are elected by voters in nonpartisan judicial district elections for six-year terms. The Chief Justice, selected by members of the Supreme Court, serves as the administrative head of the Judicial Department.

A Joint Committee on Oregon Trial Court Judicial Resources, which is established by the Department each biennium, reviews requests from circuit courts for the establishment of new judgeships. The Committee's recommendation, based on a weighted caseload study, was for 13 new judgeships and staff across six judicial districts plus added resources for pro tem judges. This request was not approved by the 2009 Legislature.

Judicial salaries, costing $44.1 million, are set in statute and therefore any change, including a cost-of-living-allowance, requires legislative action. While the Public Officials Compensation Commission made a recommendation for increasing judicial compensation by an additional $8.3 million, or 15%, above the current statutory amount, that increase was not approved by the Legislature. The prior 2007 Legislature, however, did increase judicial compensation by approximately $8.5 million, or 19.5%.

The annual salaries of Oregon's state judges is detailed in the below table.

Statutory Judgeship	Annual salary* ORS 292.405-425
Chief Justice	$128,556
Supreme Court Justice	$125,688
Appellate Court Chief Judge	$125,688
Appellate Court Justice	$122,820
Tax Court judge	$118,164
Circuit court judge	$114,468

* excludes other payroll expenses discussed below

In addition to their annual salaries, judicial compensation also includes "other payroll expenses (OPE)," which totals $18.6 million, and is calculated based on a judge's annual salary. OPE is primarily comprised of a retirement benefit, a health benefit, and a social security contribution. A judge's retirement benefit is defined by statute (ORS 238).

The segregation of the compensation of judges from the Department's operating budget is important because Article VII, Section 1, of the Oregon Constitution prohibits any reduction in the compensation of judges during the term for which they are elected. This prohibition means that any General Fund reduction for the Department falls disproportionately on administrative and support staff.

Budgetarily, the Department includes the costs for non-statutorily established judgeships, such as temporary or pro-tem judges, and 50 senior or "Plan B" semi-retired judges, and judicial referees, within the budgets for the Appellate Courts, Trial Court, and the Administration and Central Support Programs rather than under this program area. The services and supplies supporting each statutory judgeship also reside within these programs.

Revenue Sources and Relationships

Statutory judgeships are funded with General Fund.

Essential Budget Level

As a new budget structure, Judge Compensation was not tracked discreetly in the state's budget system. The essential budget level for the program is approximately $62.7 million General Fund.

Legislatively Adopted Budget

The legislatively adopted budget for this program is $62.7 million General Fund.

After the close of session, the Department informed the Legislative Fiscal Office of a $2.9 million General Fund surplus related to an overpayment of employer contributions for judges that occurred during the 2007-09 biennium. This surplus means that the Department's 2009-11 legislatively adopted budget can be reduced by $2.9 million without impacting judge compensation or service levels.

OJD – Appellate and Tax Courts

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted*
General Fund	16,170,905	18,607,280	18,657,831	10,138,638
Other Funds	191,774	261,267	271,747	580,120
Total Funds	**$16,362,679**	**$18,686,547**	**$18,929,578**	**$10,209,188**
Positions	89	91	84	54
FTE	85.56	87.33	81.20	51.69

** Includes the Governor's line-item veto of section 61(6), HB 5054 of $297,754 General Fund*

Program Description

The Appellate and Tax Courts program includes the Oregon Supreme Court and the Court of Appeals. The Supreme Court consists of seven justices elected to serve 6-year terms. The Court of Appeals consists of ten judges who hear appeals from trial courts, agencies, and boards.

In 2008, the Department reorganized the Office of Appellate Legal Counsel into an Appellate Commissioner's Office. The purpose of this reorganization was to "reduce substantially the amount of time it historically has taken for substantive motions in the Court of Appeals to be decided." The Commissioner's decisions are subject to review by either the Motions Department of the Court of Appeals or the Chief Judge.

The Court of Appeals has an Appellate Settlement Conference Program that mediates some civil, domestic relations, and workers' compensation cases.

The Appellate and Tax Court Program, also includes the Tax Court, which is a circuit court level court that is located in Salem. Currently, there is one Tax Court judge who hears matters arising from Oregon tax law. A Tax Magistrate Division was created in 1997 to replace the informal administrative tax appeals process conducted by the Department of Revenue. The Tax Magistrate Division had four magistrates.

Revenue Sources and Relationship

The Appellate and Tax Court program is predominately funded with General Fund, but includes a relatively nominal amount of Other Funds revenue from an appellate filing fee designated to fund the Appellate Settlement Conference Program.

Budget Environment

In 2007, the Supreme Court received 1,314 filings and issued 73 opinions. For this same period, the Court of Appeals received 3,312 filings and issued 401 opinions. The Appellate Settlement Conference Program mediated approximately 150 cases, with a settlement of approximately 105 cases (70%). The Tax Court received 941 filings, of which the majority were property rather than personal income tax related, and closed 1,076 cases. Tax Magistrates issue a written decision in each case. The Tax Court Judge reviewed 49 cases on appeal. As of June 30, 2008, there were 776 active cases and 14 tax cases on appeal.

Reduced caseloads in the circuit courts, if they materialize, could translate to reduced caseloads for the Appellate Courts. With practically no constitutional or statutory flexibility to postpone or defer cases, the Appellate Courts will be forced to evaluate and economize on every aspect of their administrative functions.

Essential Budget Level

The essential budget level for the program is $18.9 million, of which $18.7 million is General Fund and $.03 million is Other Funds. The EBL total is $243,031, or 1.3%, more than the current biennium's legislatively approved budget (LAB) of $18.7 million. This reduction is attributable a personal services technical adjustment that eliminated a one-time $857,555 General Fund adjustment for 2007 biennium judicial salary and benefit changes. The EBL also includes standard adjustments for personal service costs and inflation.

The Department has identified a revenue shortfall in the Appellate Mediation Program of $193,626 (1.00 FTE), and will need to reduce the Program to remain within the available revenue. The Department considered, but rejected, a filing fee increase to pay for this shortfall based on its concern that a higher filing fee would discourage participation in this program.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $10.7 million is $8.2 million, or 43.2%, less than the 2007-09 legislatively approved expenditure level of $18.9 million and $8 million, or 43.4%, less than the $18.9 million essential budget level.

Changes to the legislatively adopted budget include:

- Transfer of $6.3 million in General Fund (18 positons/18.00 FTE) of judge compensation to the newly established Judge Compensation budget structure.
- Elimination of $365,788 savings for employee merit increases that are not slated to occur.
- A $1.9 million General Fund reduction in staff support and a 3% across-the-board reduction. This reduction is partially mitigated by the addition of $509,570 Other Funds (HB 2287 temporary court fees and surcharges) that allows for continued program funding through February 2010 at which time a further allocation of HB 2287 revenue is anticipated. Should the HB 2287 revenue not accrue as anticipated, or should the statewide revenue forecast deteriorate significantly, this revenue may not be available, and the Department will be required to make additional budget reductions.

The Legislature also adopted a reduction of $297,754 General Fund as part of the end of session adjustments made to all agency budgets in HB 5054, to reflect lower anticipated costs to state agencies for statewide charges as well as savings from lower than anticipated personal service costs. After the Assembly adjourned, the Governor vetoed this reduction in the Judicial Department budget. There was no similar line-item veto for other judicial branch agencies.

OJD – Trial Court Operations

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted*
General Fund	200,972,125	223,763,525	241,949,012	156,431,635
Other Funds	12,509,939	17,864,621	20,243,858	24,357,605
Federal Funds	910,164	60,468	0	0
Other Funds (NL)	169,159	779,378	801,201	0
Total Funds	**$214,561,387**	**$242,467,992**	**$262,994,071**	**180,789,240**
Positions	1,710	1,729	1,733	1,420
FTE	1,558.63	1,580.04	1,601.01	1,288.61

** Includes the Governor's line-item veto of section 61(6), HB 5054 of $3.7 million General Fund*

Program Description

Trial Court Operations includes the funding and operations of all state trial courts, which, effective in 1998, are the circuit courts. The program also includes staff to verify the indigency of applicants for representation at state expense (Application Contribution Program).

There are circuit courts in each of the 36 counties, which are consolidated administratively into 27 judicial districts. These courts adjudicate matters and disputes in criminal, civil, domestic relations, traffic, juvenile, small claims, violations, abuse prevention act, probate, mental commitment, adoption, and guardianship cases. One circuit court, Multnomah, also operates as the municipal court for City of Multnomah parking violations.

Revenue Sources and Relationships

The circuit courts are primarily funded with General Fund. Other Funds revenue includes transfers from the Public Defense Services Commission for a portion of the Application Contribution Program, which is used for verification of eligibility for public defense representation, and a portion of revenue administration and collection costs that are retained from court revenue collections, including those generated from parking violations by Multnomah County.

Budget Environment

On an annual basis, circuit courts have approximately 600,000 case filings across all case-types, including civil and criminal.[i] For 2007, the most recent year complete data are available, case filings totaled 605,753, which is a negligible change from the prior year and a 3% reduction from the 623,593 cases filed in 1998. For 2007, the top five case-types in the table below comprised 82% of the cases filed, with the remaining cases grouped under "All Other" case-types:

Case-Type 2007	# of Cases	% of Total	% Chg from 2006	% Chg from 1998
Violations	257,839	42.6%	+24%	+34.7%
Small Claims	75,282	12.4%	-.06%	+27.2%
Civil	65,220	10.8%	+24%	+34.7%
Misdemeanors	63,497	10.5%	-1%	-1.8%
Felony	34,630	5.8%	-8.4%	-12.5%
All Others*	109,285	18.04%		
Total	605,753			

*All Others include: Forcible entry/small claims eviction; Juvenile; Domestic Relations; Dissolution; Family Abuse Prevention Action; Probate; and Mental Health.

Violation caseload, as both a percentage of cases and overall growth, continues to be high. These cases, however, have the lowest workload impact on judicial and staff resources. Civil filings also have experienced a significant growth over the prior year and the last ten year period. Misdemeanor case filings have been relatively stable over the last ten years. The number of felony case filings, however, has actually fallen from the prior year and over the last ten years. Criminal felony, misdemeanor, and complex civil case types have the greatest workload impact on the judicial and staff resources. Juvenile cases, comprising approximately 3% of the total number of case filings, experienced a marginal decline from the prior year and a 17.2% decline from ten years ago. Juvenile cases have increased in complexity over time.

The Department has been developing new methodologies for resolving disputes, including appropriate dispute resolution programs, specialty or problem-solving courts (e.g., drug, family, driving under the influence, restitution, etc.) and improvements in the jury system and use of interpreters.

Essential Budget Level

The essential budget level for the program is $263 million, of which $242 million is General Fund, $20 million is Other Funds, and $0.8 million is NonLimited Other Funds. The EBL total is $20.5 million, or 8.47%, more than the 2007-09 biennium's legislatively approved budget (LAB) of $242.5 million. This includes a personal services technical adjustment that eliminated a one-time $7.6 million General Fund adjustment for 2007 biennium judicial salary and benefit changes. The EBL also includes standard adjustments for personal service costs and standard inflation.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $180.8 million is $61.7 million, or 25.4%, less than the 2007-09 legislatively approved expenditure level of $242.5 million and $82.2 million, or 31.3%, less than the $263 million essential budget level, primarily as a result of the transfer of judge costs to a new program.

The legislatively adopted budget incorporates the following changes:

- Transfer of $56.4 million in General Fund (173 positons/173.00 FTE) of judge compensation to the newly established Judge Compensation budget structure.
- A shift of $801,201 NonLimited Other Funds to Limited Other Funds.
- Elimination of $7 million General and Other Funds savings for employee merit increases that are not slated to occur.
- A reduction of $3 million General Fund (20 positions/20.00 FTE) related to central administrative services.
- A reduction of $948,291 General Fund (8 positions/11.84 FTE) in the Application Contribution Program.
- A reduction of $18.9 million General Fund (147 positions/142.37 FTE) in staff support including a 3% across-the-board reduction. This reduction is partially mitigated by the addition of $4.6 million Other Funds (HB 2287 temporary court fees and surcharges) that allows for continued program funding through February 2010 at which time a further allocation of HB 2287 revenue is anticipated. Should the HB 2287

[i] These figures do not include parking violation cases in Multnomah Circuit Court.

revenue not accrue as anticipated, or should the statewide revenue forecast deteriorate significantly, this revenue may not be available.

The Legislature also adopted a reduction of $3.7 million General Fund as part of the end of session adjustments made to all agency budgets in HB 5054, to reflect lower anticipated costs to state agencies for statewide charges as well as savings from lower than anticipated personal service costs. After the Assembly adjourned, the Governor vetoed this reduction in the Judicial Department budget. There was no similar line-item veto for other judicial branch agencies.

OJD – Administration and Central Support

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted*
General Fund	50,610,818	53,039,251	59,246,109	45,070,398
Other Funds	8,969,890	32,193,579	15,557,389	19,914,405
Federal Funds	568,596	952,995	1,047,391	859,163
Other Funds (NL)	9,047,481	8,713,588	8,957,568	0
Total Funds	**$69,196,785**	**$94,899,413**	**$84,808,457**	**$65,843,966**
Positions	220	234	228	140
FTE	207.41	222.59	221.27	121.02

** Includes the Governor's line-item veto of section 61(6), HB 5054 of $2.3 million General Fund*

Program Description

The State Court Administrator serves under the direction of the Chief Justice of the Supreme Court. The State Court Administrator is responsible for the centralized functions of the Oregon courts system. The Office of the State Court Administrator is divided into the following eight divisions, which the Department is currently in the process of reorganizing:

- Court Programs and Services Division
- Legal Counsel Division
- Human Resource Services Division
- Office of Education and Training, and Outreach Division
- Executive Services Division
- Enterprise Technology Services Division
- Appellate Court Services Division
- Business and Fiscal Services Division

The State Court Administrator also provides management and oversight of: the Citizens Review Board; the Interpreter Certification program; revenue management; the Supreme Court building; internal auditing; the administration of the Appellate Court Records Office; and the Supreme Court library. Centralized assessments and costs are also managed and paid by this office.

Revenue Sources and Relationship

The program is predominately funded with General Fund, but includes the following Other and Federal Fund revenue sources:

- Reimbursement of costs for administration of the court revenue administration and collection activity, including payments to the Department of Revenue and private collection firms ($11.8 million)
- Department of Human Services for the Citizen Review Board ($1.2 million)
- Revenue from the sale and distribution of court publications ($1 million)
- Fees charged for public access to the Oregon Judicial Information Network ($3.2 million)
- Law Library Assessments ($1.7 million)
- Transfers from the Public Defense Services Commission to pay for the Application Contribution Program ($2.9 million)
- Federal Funds from grants that are used for assessments of state foster care and adoption laws and judicial processes, juvenile case data management, and training specific to juvenile case process improvements ($1.1 million)

Budget Environment

The State Court Administrator and support staff continue with efforts to streamline and modernize court operations through ongoing implementation of improvements in automation and processes. Efforts include implementation of technology to facilitate the use of uniform documents and statewide case management systems.

Essential Budget Level

The essential budget level for the program is $84.8 million, of which $59.3 million is General Fund, $15.6 million is Other Funds, $9 million is NonLimited Other Funds, and $1 million is Federal Funds. The EBL total is $10.1 million, or 10.6%, less than the current biennium's legislatively approved budget (LAB) of $94.9 million. This includes the phase-out of $11.4 million total funds for the eCourt Program, which includes the elimination of a one-time strategic plan General Fund appropriation ($1.4 million) and Other Funds certificate of participation proceeds ($10 million). The EBL also includes standard adjustments for personal service costs, standard inflation and above standard inflation (non-Department of Administrative Services building rental charges), and state government service charges.

The Department has identified a revenue shortfall in the amount of $390,075 Other Funds (2 position/3.10 FTE) in its publication and document distribution program. This reduction is necessary for the program to operate within available revenue. The Department is faced with rising personal service costs. The Department considered, but rejected, a fee increase to pay for these costs because the movement of customers to online publication services is already applying downward pressure on hardcopy publication and documentation costs and fees.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $180.8 million is $61.7 million, or 25.4%, less than the 2007-09 legislatively approved expenditure level of $242.5 million and $82.2 million, or 31.3%, less than the $263 million essential budget level.

The legislatively adopted budget incorporates the following changes:

- Elimination of $1.9 million General Fund, Other Funds, and Federal Funds savings for employee merit increases that are not slated to occur.
- A permanent reduction of $8.3 million General Fund (49 positions/49.00 FTE) related to central administrative services.
- A reduction of $5.2 million General Fund (41 positions/43 FTE) in staff support including a 3% across-the-board reduction. This reduction is partially mitigated by the addition of $4.6 million Other Funds (HB 2287 temporary court fees and surcharges) that allows for continued program funding through February 2010 at which time a further allocation of HB 2287 revenue is anticipated. Should the HB 2287 revenue not accrue as anticipated, or should the statewide revenue forecast deteriorate significantly, this revenue may not be available, and the Department will be required to make additional budget reductions.
- A transfer of $2.9 million Other Funds to establish the State Court Security Account budget structure.
- A shift of $8,957,568 NonLimited Other Funds to Limited Other Funds.

The Legislature also adopted a reduction of $2.3 million General Fund as part of the end of session adjustments made to all agency budgets in HB 5054, to reflect lower anticipated costs to state agencies for statewide charges as well as savings from lower than anticipated personal service costs. After the Assembly adjourned, the Governor vetoed this reduction in the Judicial Department budget. There was no similar line-item veto for other judicial branch agencies.

OJD – Mandated Payments

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	14,306,926	14,945,130	16,356,023	$13,851,930
Other Funds	0	300,000	0	$881,269
Other Funds (NL)	264,802	1,000,000	475,000	0
Total Funds	**$14,571,728**	**$16,245,130**	**$16,831,023**	**$14,733,199**
Positions	20	20	20	19
FTE	19.61	19.50	19.65	18.65

Program Description

The Mandated Payments program provides for trial and grand jurors, court interpreters, civil appellate transcript costs for indigent persons, and Americans with Disabilities Act accommodation services.

Revenue Sources and Relationship

The Mandated Payments Program is predominately funded with General Fund, but includes a relatively nominal amount of NonLimited Other Funds revenue (2.8%) generated from jurors fees and mileage donated back to the Department.

Budget Environment

The 1999 Legislature approved a requirement that certified interpreters be provided for all judicial and administrative proceedings. The Judicial Department was given responsibility for the certification process. Staff cost for this activity is paid through the Administration and Central Support Program, Court Program and Services Division.

The Department has a policy package, part of which seeks an increase in interpreter hourly rates ($1 million General Fund). The Department believes an hourly rate increase will help retain (and perhaps attract) experienced interpreters that the Department is unable to retain at current payment levels because their services are in demand by neighboring states and federal courts.

Demand for mandated services is a function of the volume of cases heard by the courts and therefore any reduction in proceedings could translate to fewer services and costs.

Essential Budget Level

The essential budget level for the program is $16.8 million, of which $16.4 million is General Fund and $.5 million is NonLimited Other Funds. The EBL total is $585,893, or 3.6%, more than the current biennium's legislatively approved budget (LAB) of $16.3 million. The EBL includes standard adjustments for personal service costs, inflation, and state government service charges.

The EBL includes two other adjustments. The EBL includes a mandated caseload adjustment of $500,000 General Fund for increased demand for the payment of interpreter services as a contracted professional service and the phase-out of $525,000 NonLimited Other Funds expenditure limitation that the Department utilized to reduce an accumulating ending balance in the donated juror fees and mileage account.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $14.8 million is $1.5 million, or 9%, less than the 2007-09 legislatively approved expenditure level of $16.2 million and $2.1 million, or 12.2%, less than the $16.8 million essential budget level.

The legislatively adopted budget incorporates the following changes:

- Elimination of $115,902 General and Other Funds savings for employee merit increases that are not slated to occur.
- A permanent reduction of $847,847 General Fund in mandated payments.
- A $1.5 million General Fund temporary reduction, of which $406,269 is restored with Other Funds (court fees and surcharges under HB 2287). The HB 2287 revenue provides finding for the program through

February 2010 at which time a further allocation of HB 2287 revenue is anticipated. Should the HB 2287 revenue not accrue as anticipated, or should the statewide revenue forecast deteriorate significantly, this revenue may not be available, and the Department will be required to make additional budget reductions.

- A shift of $475,000 NonLimited Other Funds to Limited Other Funds.

Surprisingly, the Governor did not line-item veto the Mandated Payments reduction of $50,690 that would have been the equivalent to his veto for the Department's other program areas related to lower anticipated costs to state agencies for statewide charges as well as savings from lower than anticipated personal service costs.

OJD – Revenue Management

Program Description

The purpose of the program is the collection of amounts owed to the state that are subject to collection by the Judicial Branch of government. In general, collections are for past-due crime victim restitution payments, compensatory fines, and other fines, costs, and assessments.

The Department has recently begun intercepting state tax refunds to pay these obligations and is seeking federal legislation for the interception of federal tax refunds to offset debt owed to OJD for past-due crime victim restitution payments, compensatory fines, other fines, costs, and assessments. The 2009 Legislature passed SB 93 authorizing the interception of federal tax refunds, once federal legislation becomes law and an agreement is reached between various federal and state agencies. The budgetary impact of this measure, as with the revenue impact, is dependant upon the passage of federal legislation and an agreement reached between the state and the federal government. Any revenue generated by this measure would be distributed based upon current statute.

ORS 1.204 establishes a Judicial Department collections and revenue management program including a Judicial Department Collections Account. Expenses related to the administration of the revenue management program are reimbursable on an actual cost basis, which is based on a flat percentage of collected revenue. By statute, this percentage must be adjusted periodically by the Department to reflect actual program costs. The current administrative percentage is generally 8%, but the rate can be higher for outside collections (15%) and Multnomah Parking violations (10%). These percentages aggregate approximately $34.7 million in revenue each biennium.

The statute directs that the Judicial Collections Account be operated on an actual cost basis. The mechanism to do this is through an administrative percentage set by the State Court Administrator. Since the Account's creation, this percentage has been unchanged at 8%. This has resulted in an accumulation of an Other Funds ending balance and has raised questions as to why ending balance transfers to the state's General Fund have not occurred.

After accounting for the program's administrative expenses, the remaining collections revenue is distributed by case type (i.e., criminal, civil, etc.) according to statute. Depending on the case type and obligation type (i.e., fines or restitution), balances remaining after statutory obligations and administrative costs are deducted are distributed to the state or local governments.

Delinquent accounts move through a progressive series of collection efforts as defined by each circuit court. In general, these steps include: circuit court late payments notices (up to one year); referral of an account by the circuit court to the Department of Revenue (DOR) for collection (up to one year); referral to a private collections firm (up to two years); and finally, a circuit court may refer an uncollected item to the Judicial Department's central staff for their attempt at collection. The Department has a "restitution" team in place working on difficult collection cases, but also focusing on broader collections using revenue from intercepted state tax refunds, including intercepting "kicker" checks.

The Other Fund Revenue Management Program is actually a General Fund Program due to the fact that funds not retained by the Department for the actual cost of the program or distributed to local government must be transferred to the state's General Fund. The actual cost of the program is not clear since revenue management activities within the program are currently funded both with General Fund and Other Funds. Because the Other Funds are a diversion from General Fund revenue, the rationale for having this program funded with

Other Funds is not clear, and this funding mechanism unnecessarily adds to the complexity of the Department's budget and operations.

The Department has conducted a study of its positions working on revenue collection. This study has yet to be made public, but is assumed to include all positions, including those currently funded with the General Fund, which could be eligible, by statute, to be funded with Other Funds that the Department collects as part of its revenue administration program.

The 2009 Legislature deferred a request by the Department to further enhance its revenue collection activities based on a lack of understanding of the Revenue Management Program's entire costs, the lack of a business case and measureable outcomes. The 2007 Legislature increased the program by $2 million Other Funds (15.00 FTE).

Revenue Sources and Relationships

In the 2007-09 biennium, OJD will generate an estimated $272 million in revenue from fines, assessments, forfeitures, filing fees, and individual's contribution toward their public defense. The Department will retain approximately 8% to fund the actual costs of the collections program, and to pay the Department of Revenue and private collection agency costs for collection of delinquent debt.

The program also received approximately $2.9 million Other Funds in the 2005-07 biennium from an application fee ($20) and a contribution amount that is paid by persons seeking representation at state expense. The fees are used to offset the General Fund cost of public defense eligibility verification staff in the Judicial Department (22.70 FTE) and for operating expenses for public defense administration in the Public Defense Services Commission (2.30 FTE).

Major program revenue transfers out are detailed below and total $262.5 million:

- Reimbursement of actual program costs ($34.7 million)
- Transfers to the Criminal Fines and Assessment Account ($95.7 million)
- Transfers to the State General Fund ($61.1 million)
- Transfer to Counties ($33.8 million)
- Transfers to Cities($18.5 million)
- Transfers to Other (e.g., State Bar Legal Aid; Portland Metro; etc.)($10.6 million)
- Transfers to Public Defense Services Commission ($5.7 million)
- Transfers to all other state agencies ($2.4 million)

Essential Budget Level

The EBL budget expenditures for the revenue management program is approximately $18 million Other Funds (120.00 FTE) plus an additional $9 million Nonlimited Other Funds for the payment of collection costs.[ii] The revenue management program also includes some circuit court positions partially funded with General Fund; as noted however, the number and FTE for these positions are not differentiated in the budget.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget has been estimated by the Legislative Fiscal Office to be approximately $37.8 million, of which $11.7 million is General Fund and $26.1 million is Other Funds (240 positions/240.4 FTE). A budget note directed that the Department work with the Legislative Fiscal Office to reconcile in the Oregon Budget Information Tracking System the General Fund and Other Funds budget and staffing level associated with its Revenue Management and Collections Program.

[ii] The Revenue Management Program is not tracked discretely in the state's budget system.

OJD – State Court Facilities Security Account

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted*
Other Funds				3,217,440
Total Funds				**$3,217,440**
Positions				6
FTE				5.50

Program Description

The 2005 Legislature established a State Court Facilities Security Account (SCFSA) within the Oregon Judicial Department (OJD). Revenue for the account is derived from an increase in circuit, municipal, and justice court (non-unitary) assessments. By statute, account proceeds may be used to provide security in buildings that contain or are utilized by the Supreme Court, Court of Appeals, Oregon Tax Court, or the Office of the State Court Administrator (SCA). Additionally, expenditures may be made for developing and implementing a plan for state court security improvement, emergency preparedness, business continuity, and statewide training on state court security. Any funds in the SCFSA that are not needed for the above purposes may be used to fund plans for circuit courts, justice courts, and municipal courts.

The Judicial Department contracted with the National Center for State Courts to conduct a detailed security assessment of 12 court facilities. These include: the Supreme Court building; Justice building; Robertson Building; Court Program and Services building; Vic Building; the circuit court buildings in Multnomah, Tillamook, Linn, Josephine, Jefferson, and Lane Counties; the Municipal Court in The Dalles; and the Justice Building in Tillamook. The study outlines a five year action plan for staffing and capital expenditures. The 2007-09 interim Committee on Court Facilities also examined and reported on the issue of circuit courthouse security.

Revenue Sources and Relationships

The account receives approximately $4 million in assessments each biennium (June 2008 forecast), and currently has a cash balance of $3.4 million. The program revenues exceed expenditures by approximately $800,000 per biennium, which has resulted in a cash balance that has exceeded $4 million, which is above a prudent reserve level of $400,000 or three months of operating expense. The Department has projected the Account's 2007-09 ending balance at $2.8 million.

Essential Budget Level

The essential budget level for the program is $3.2 million Other Funds.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget is $3.2 million (6 positions/5.50 FTE), which includes the conversion of two limited duration position (2.00 FTE) to permanent full-time positions. One of the positions will continue to conduct statewide security improvements, emergency preparedness, and business continuity training. The other position manages security and business continuity for Multnomah Circuit Court.

OJD – Electronic Court

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund				(41,535)
Other Funds				8,806,519
Total Funds				**$8,764,984**
Positions				27
FTE				7.87

Program Description

The Oregon eCourt Program is the projected seven year project to modernize Oregon court business practices. The Oregon Judicial Information Network (OJIN), which is the Department's current electronic case management system, has been in operation for the past 25 years. OJIN contains all of the records of circuit courts, including financial information. The records are an integral part of Oregon's civil, business, and public safety systems and provide various jurisdictions and agencies with data relevant to judicial determinations. However, OJIN does not provide courts with any flexibility in accessing and using these records, including compiling outcome or other essential decision support data.

Implementation of the Oregon eCourt Program involves far more than information technology, and will require major reengineering of the Judicial Department's business practices across the Department's 36 circuit courts, as well as the Oregon Supreme Court, Court of Appeals, and the Tax Court. The complexity of revising (and gaining acceptance) of business practices equals, if not exceeds, its high technical complexity. In addition, the implementation plan is highly complex and assumes that its nine separate Projects will be designed and implemented independently, but simultaneously.

The Legislature considers the eCourt Program a key component in increasing data sharing across all of the state's public safety entities.

Revenue Sources and Relationships

The eCourt Program is funded with a combination of base budget General Fund, certificate of participation proceeds, General Fund Debt Service, and Other Funds (Collections revenue).

The eCourt Program has an ability to generate Other Funds revenue, similar to the current OJIN user access fee. The Department is planning to charge users a "transaction" or "convenience" charge. The Department would also like to institute a copy fee ("document production recoupment charge"). Transaction fee revenue could be used to pay for system maintenance, upgrades, development, and replacement. It could also be used to pay for Debt Service.

Budget Environment

The eCourt Program is critical for Oregon. During the 2007-09 interim, however, the Emergency Board found numerous deficiencies in the planning and execution of the program. A Quality Assurance (QA) firm was eventually hired in October 2008. The QA firm's first major assessment and risk report of eCourt corroborated the concerns identified by the Emergency Board. After years of planning, and almost one year of funding, the risks of the program, as noted by the QA vendor, are increasing rather than decreasing.

In addition, there is an absence of comprehensive budget and expenditure information for the eCourt Program.

In early January 2009, the Chief Justice announced that the eCourt Program was going to be scaled back due to the declining state's economy and revenue picture. Around this same time, the Legislature directed the Department to remedy long standing deficiencies and reduce unnecessary program risks.

Reductions for the Department, and in particular circuit courts and the Administrative and Central Support Program, will negatively impact eCourt development.

A legal question exists as to whether the Chief Justice has the statutory authority to impose charges for eCourt and how "charges" differ from "fees." The Department has yet to reply to a request for its legal opinion on this matter. A preliminary review of this matter by Legislative Counsel concluded that the Department requires statutory authority to institute an eCourt transaction fee. This is supported by the fact that court filing fees are in statute and that adjustments to existing fees or the establishment of new fees or surcharges must be approved by the Legislature.

The imposition of any eCourt "transaction" or "convenience" charge or fee has budgetary ramification for other state agencies who utilize the services of the Department. At the appellate level, these include the Public Defense Services Commission and the Department of Justice, both of which are file documents with the Appellate Court. PDSC estimates that its biennial cost to eFile all its documents based on the Supreme Court

Order would be $60,000 General Fund. PDSC has not budgeted for this charge/fee nor has it developed a policy package requesting this increase.

Essential Budget Level

The essential budget level for the program is estimated to exceed $20 million General Fund. The Legislative Fiscal Office, however, is unable to substantiate this estimate due to the lack of comprehensive budget and expenditure information.

Legislatively Adopted Budget

The eCourt Program's Other Funds expenditure limitation is $8.8 million (27 positions/4.78 FTE) and is financed with certificates of participation (COPs) from the Spring 2009 sale ($3.5 million) and a fall 2009 sale. The 2009-11 Chief Justices' recommended budget had originally sought $55.2 million, of which $3 million would have been General Fund, $6.5 million General Fund Debt Service, and $40.4 million in new certificates of participation proceeds.

OJD – Debt Service

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	0	0	11,839,344	11,099,041
Other Funds	0	0	0	345,000
Total Funds	**$0**	**$0**	**$11,839,344**	**$11,444,041**

Program Description

The Debt Service Program provides the funding to make payments on principal, and interest, and financing costs associated with the issuance of certificates of participation (COPs). COPs are tax exempt government securities. The Department's Debt Service is related exclusively to the Oregon eCourt Program.

Revenue Sources and Relationships

The Department's Debt Service is currently funded with General Fund. In the future there exists the opportunity to fund part of eCourt Debt Service with Other Funds revenue generated from eCourt transaction charges and Revenue Management funds.

Essential Budget Level

The essential budget level for the program is $11.8 million General Fund. The 2007-09 biennium does not have any Debt Service due to the fact that it was capitalized into the original COP sale. The 2009-11 Debt Service calculation was based on the 2008 special session approved COP sales of $24.4 million.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $11.4 million is $395,303, or 3.3%, less than the $11.8 million essential budget level and includes both an adjustment for a lower than anticipated Spring 2008 COP sale amount ($7.5 million rather than the anticipated $24.4 million) and new Debt Service associated with an anticipated issuance of $20.4 million in COPs.

OJD – Capital Improvement/Capital Construction

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Fund	0	415,000	0	0
Total Funds	**$0**	**$415,000**	**$0**	**$0**

Program Description

This program provides for capital improvements and construction to existing facilities. Capital Improvement projects are those with a total cost of $500,000 or less.

The Department owns a single building which is the Supreme Court Building that was constructed in 1914. All other buildings used by the Judicial Department are either leased from private parties or are owned and maintained by the county.

In 2008, the Department contracted with the private firm that was undertaking the State Court Facilities Assessment of 48 county-owned circuit court buildings to perform a similar assessment of the Supreme Court Building. This assessment reported an estimated total cost of $19.2 million (excluding some additional items that the Department would likely add), for renovation of the Supreme Court Building. According to the Department, this estimate does not include the cost of moving and relocating Supreme Court functions while renovations are untaken. A preliminary estimate of this cost is $50,000 for moving related expenses plus an additional facility rental cost of $20,000 per month.

Revenue Sources and Relationships

The Department's Capital Improvement or deferred maintenance budget is typically funded with General Fund. During the 2007-09 biennium, however, the Legislature provided the Department with $415,000 Other Funds financed with certificates of participation and General Fund Debt Service (under the Department of Administrative Services) to replace the roof on the Supreme Court Building.

Essential Budget Level

The Department dedicates essential budget level General Fund resources, including position authority, to the ongoing maintenance of the Supreme Court Building, however, the EBL amount for 2009-11 is unknown as it is not tracked discreetly in the state's budgeting system.

The Appellate Court Services Division, under the Administration and Central Support Program Areas, is responsible for the Supreme Court Building Service Section.

Legislatively Adopted Budget

The Department's legislatively adopted budget did not include any Capital Improvement or Capital Construction projects for the Supreme Court Building.

Of note is that the 2009 Legislature authorized the issuance of $12 million in lottery bonds for court facility improvements. The Oregon Judicial Facilities Fund that was established into which the bond proceeds are to be deposited is a fund under the Department of Administrative Services rather than the Judicial Department (see SB 5536 and HB 5054).

Commission on Judicial Fitness and Disability – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	220,903	166,688	190,577	178,929
Total Funds	**$220,903**	**$166,688**	**$190,577**	**$178,929**
Positions	1	1	1	1
FTE	0.50	0.50	0.50	0.50

Agency Overview

The Commission on Judicial Fitness and Disability investigates and acts upon complaints of judicial misconduct or disability. The basis for a finding of misconduct is a violation of the Oregon Code of Judicial Conduct.[iii] 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 practice. The Commission is co-located within the executive director's private law office. Commission members, as well as the executive director recuse themselves when they have personal involvement or prejudice regarding a complaint or complainant. By statute, the Commission's initial complaint proceeding and records are confidential until such time as a public hearing is held on a formal charge. Also, the Commission considers all its proceedings, including those pertaining to administrative matters, non-public.

The Commission receives approximately 250 written complaints each biennium. The majority are complaints involving the legal determination of a judge, and after initial review by the Commission, are dismissed because they fall outside the Commission's statutory authority. Those complaints that are within its statutory authority are initially investigated. If there is sufficient evidence in support of a complaint, a formal investigation is conducted by outside counsel hired by the Commission. The outcome of the investigation could lead to the dismissal of a complaint, an informal disposition by the Commission, or a formal charge leading to prosecution. For a formal charge, a public hearing is held, the outcome of which is either the judge's exoneration or a recommendation by the Commission to the state's Supreme Court to censure, suspend, or remove the subject judge. The Supreme Court's determination on the Commission's recommendation is a final decision, but may be appealed to the U.S. Supreme Court. At any point in the process, a judge may resign, retire, or enter into a stipulated agreement with the Commission by agreeing to the recommended sanction. All stipulated agreements must be approved by the Supreme Court. A case determined by the Supreme Court typically takes two years to prosecute at an estimated cost to the state of over $50,000 General Fund.

In a matter where a judge's conduct is determined to be the result of a physical or mental disability, the Commission generally refers the matter directly to the Chief Justice for disposition.

Revenue Sources and Relationships

General Fund supports the Commission. The Commission's statutory authority does not allow for the imposition of civil penalties or the recovery of Commission extraordinary costs from judges sanctioned by the Supreme Court.

The Commission relies upon in-kind support from the Oregon Judicial Department for financial and limited support services as discussed below.

[iii] The Chief Justice has convened a committee to update the Oregon Code of Judicial Conduct based on the American Bar Association's model code. The last extensive update of Oregon's Code of Judicial Conduct occurred in 1996. After review by the Judicial Conference and final approval of the Oregon Supreme Court, the updated code is expected to take effect early in the fall of 2009.

Budget Environment

The Commission budgets for normal and extraordinary expenditures. The normal operating budget pays for a half-time executive director, office rental, office supplies, meeting accommodations, travel reimbursements, and initial investigations.

Formal investigations and prosecutions are classified as an extraordinary expense of the Commission since it has no control over the number of valid complaints or their cost. Extraordinary expenses may include: private attorney fees ($100/hour flat rate plus expenses) for investigations and trial, court reporter services, meeting space rental, executive director and board member travel expense for formal hearings, and miscellaneous expenses. The Legislature historically has provided the Commission with an approved budget for extraordinary expense with the understanding that the Commission may return to the Emergency Board or the Legislature if extraordinary expenses exceed the available budget. The Commission's legislatively adopted extraordinary budget has been sufficient to cover investigation and prosecution expenses in four of the last eight biennia. The Commission's prior four Emergency Board appearances for extraordinary expenses occurred in 1995, 1996, 1998, and 2006 with allocations of $20,000, $50,000, $43,000, and $61,944, respectively. Of note is that during the 2007-09 biennium, the Commission did not have any extraordinary expenditures.

The Commission does not have budgeted resources for budget, accounting, and website services. These activities are undertaken for the Commission by the Oregon Judicial Department (OJD). OJD assists the Commission in the technical development of its budget, Emergency Board actions, and related accounting transactions. The services provided by OJD are done without financial remuneration. An alternative to this arrangement, which could be seen as a potential conflict of interest, would be to have the Commission acquire independent services from the Department of Administrative Services, Shared Client Services.

The Commission, as an independent agency with the Judicial Branch of government, enjoys unusual autonomy in establishing and executing its budget. The Executive Branch makes no recommendation and exercises no budgetary control over the Commission's budget since the Commission resides in a separate branch of government. The Chief Justice also makes no recommendation and takes no formal budgetary control over the Commission because the Judicial Branch does not have a unified budget similar to the Executive Branch. In other words, neither the Chief Justice nor the Governor reviews or approves the Commission's recommended budget or monitors its expenditures. That responsibility falls solely to the Legislature.

Essential Budget Level

The essential budget level for the Commission is $190,577 General Fund compared to the current biennium's legislatively approved budget (LAB) of $166,688. The EBL is $23,889, or 14%, more than the LAB. The EBL is comprised of $114,534 personal services (1 position/0.50 FTE) and $76,043 services and supplies. Of the EBL, the normal operating budget is $160,107 (84%) and the extraordinary budget is $30,470 (16%). The EBL included standard adjustments for personal services costs, inflation, and state government service charges.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $178,929 is $12,241, or 7.3%, higher than the 2007-09 legislatively approved expenditure level, but $11,648, or 6.1%, less than the essential budget level. The single largest reduction was a $9,529, or 5%, decrease in the budget for extraordinary expenditures. This is in part due to the fact that the Commission currently does not have any pending cases for investigation or prosecution. The Commission's adopted budget also includes $1,753 for furlough savings and $366 in Department of Administrative Service assessments savings.

Public Defense Services Commission (PDSC) – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	183,534,420	211,439,300	235,774,872	210,794,161
Other Funds	316,795	1,125,502	676,845	3,981,401
Total Funds	**$183,851,215**	**$212,564,802**	**$236,451,717**	**$214,775,562**
Positions	56	66	78	69
FTE	55.05	65.85	77.07	69.00

Agency Overview

The Public Defense Services Commission (PDSC) was established as an independent state agency in 2001. The agency combined the state Public Defender, which provided appellate representation, with the trial court representation function, which had been a division with in Oregon Judicial Department since the early 1980s. Prior to the early 1980s, trial level public defense (and Oregon trial courts) was a local government responsibility.

The Commission is comprised of seven members appointed by the Chief Justice of the Oregon Supreme Court, who also serves on the Commission as an ex-officio member. The Commission holds public meetings across the state approximately once every quarter. The agency itself is overseen by an executive director, appointed by the Commission. By statute, the Commission is to "establish and maintain a public defense system that ensures the provision of public defense services in the most cost-efficient manner consistent with the Oregon Constitution, the United States Constitution, and Oregon and national standards of justice."

Eligible persons are entitled to adequate legal representation in court, at state expense, under provisions of the Oregon and federal constitutions and Oregon statutes. Public defense representation is not limited to criminal cases. Other statutory and constitutional provisions include: the right to appointed counsel in court proceedings involving life, liberty, and property, including habeas corpus; post-conviction relief; contempt; juvenile dependency, delinquency, and termination of parental rights; civil commitments for the mentally ill or developmentally disabled; and parole and probation violation proceedings. The U.S. Supreme Court has also held that the right to appointed counsel includes related costs such as expert witnesses and investigation expense.

Public defense at the trial court level is accomplished primarily through a state-fund and state-administered competitive contracting system that is on a two-year cycle (July to June). The Commission contracts with nonprofit public defend offices, private law firms, consortia of attorneys or law firms, or individual attorneys. Legal representation on criminal matters for eligible persons at the appellate court level is primarily handled by attorneys who are employees of the Commission.

The costs of "non-routine" expenses for primarily investigators, but also forensic and medical services or experts, is typically paid directly by the Commission after a contractor receives pre-approval. Some public defender contracts, however, do include a provision for investigators. The Commission also has a limited service contract with a private forensics laboratory.

The Commission is organized into three divisions: (1) the Appellate Division consists of public defense attorneys who represent eligible persons at the appellate court level; (2) the Public Defense Services Account consists of the funding, primarily at the trial court level, for contract defense services, including attorneys, investigators, and expert witnesses; and (c) the Contract and Business Services Division, which is responsible for administering the public defense contracts that provide legal representation for eligible persons, processing requests and payments for non-contract fees and expenses, and the budget and other financial activities of the Commission.

Budget Environment

The quality of legal representation for eligible persons is dependant upon many factors, including the experience of the public defender. Other important factors to be considered are the hourly rate paid and the number of cases assigned to a public defender, which are not mutually exclusive because public defenders may compensate for lower than market hourly rate payments by assuming more cases.

Contract Hourly Rates

The Commission sets guideline rates administratively, based upon available resources, to pay nonprofit public defenders, law firms, consortia of attorneys, or individual attorneys for their services.[iv] The Commission's ability to acquire quality representation services for eligible persons at established guidelines rates, and the ability of their contractors to retain qualified attorneys, continues to be hampered by inequities between its rates compared to those of district attorneys, private law firms, neighboring states, and the federal government. This inequity also exists in regard to the comparatively low hourly rates paid for investigators and expert witnesses.

The 2007 Legislature provided funding to reduce the parity or salary discrepancy between local defense attorneys and their district attorney counterparts, and to increase the hourly rate for investigators and hourly paid attorneys. The following table details theses changes.

Category	1991 to July 2007 Guidelines/Budget		Current PDSC Guidelines/Budget		Difference/(percent)	
Hourly Rates	Non-Death Penalty	Death penalty	Non-Death Penalty	Death Penalty	Non-Death Penalty	Death Penalty
Attorney	$40	$55	$45	$60	$5 (+13%)	$5 (+9%)
Investigator	$25	$35	$28	$39	$3 (+12%)	$4 (+11%)

The table below shows an estimate of the increase that would be required to achieve ultimate parity with other public and private attorneys. For attorneys, parity would mean an increase of over 50% in current guideline rates. Investigators would require a 15% to 25% rate increase for parity.

Category	Current PDSC Guidelines/Budget		Estimate of Parity Rates		Difference/(percent) (above current rates)	
Hourly Rates	Non-Death Penalty	Death Penalty	Non-Death Penalty	Death Penalty	Non-Death Penalty	Death Penalty
Attorney	$45	$60	$70	$95	+$25 (+56%)	+$35 (+58%)
Investigator	$28	$39	$35	$45	+$7 (+25%)	$6 (+15%)

*Guideline hourly rates for medical and forensic experts are $90 to $110 with parity estimated at $125 to $150 for forensics experts and $150 to $300 for medical experts.

According to the Commission, staff in public defense organizations are paid approximately 57% below their district attorney counterparts. Organizations have had to accept more cases in order to maintain funding levels necessary for operations. This has led to attorney caseloads that exceed national standards.

The Commission has also endeavored to control costs, particularly through contract negotiations and maintaining a $45 per hour rate for hourly attorney services. The issue of parity also applies to the Commission's appellate attorneys who are compensated less than other state attorneys, for example those in the Department of Justice.

Trial Level Caseload Issues

Public defender organizations have difficulty attracting new attorneys and retaining experienced attorneys when their payment rates are low and caseloads are high. Per-attorney caseload is 30% above national caseload standards.

2009-11 Budget Issues

During the legislative session, the Commission's forecasted caseload decline from what was originally projected in its budget. While these savings were captured in the Commission's legislatively adopted budget, uncertainty exists around future caseload trends. As such, the Legislature instructed to the Commission to report to the

[iv] The Commission only increases rates administratively after the Legislature has approved a policy package that provides additional funding for the Commission. In the last 16 years (1991 to 2007), there has only been one administrative change and funding enhancement.

2010 special session of the Legislature on its current caseload trends and any resentencing costs required by legislation enacted during the 2009 session.

The economic downturn as it affects the legal community may increase the competition for public defense service contracts as individuals and law firms that previously have not provide such defense services seek a new revenue source. If true, how this will impact the quality of representation remains a question.

Compensation parity remains an issue and continues to impact the quality of representation as more experienced defenders are able to move to higher paying jobs within the legal community.

The standard for filing of an opening Appellate Court brief, which is set administratively by the Court of Appeals, was to move from 250 days to maximum of 180 days during the 2009-11 biennium. The Court of Appeals has since decided to retain the 250 day standard.

As an independent agency within the Judicial Branch of government, the Commission enjoys unusual autonomy in establishing and executing its budget. The Executive Branch makes no recommendation and exercises no budgetary control over the Commission's budget since the Commission resides in a separate branch of government. The Chief Justice also makes no recommendation and takes no formal budgetary control over the Commission because the Judicial Branch does not have a unified budget similar to the Executive Branch.[v] In other words, neither the Chief Justice nor the Governor reviews or approves the Commission's recommended budget or monitors its expenditures. That responsibility falls to the Legislature and is similar to all other Judicial Branch agencies.

Revenue Sources and Relationships

The General Fund has historically supported the Commission with a relatively nominal amount of Other Funds revenue from the Application Contribution Program supporting the Contract and Business Services Division. Beginning with the 2009-11 biennium, however, $3.5 million in Other Funds (temporary court fees and surcharge) revenue will help support expenditures of the Public Defense Services Account.

The Commission has no legal authority to control the number of public defense cases it receives nor does it have the authority to prioritize cases-types.

The state's declining economy, and projected revenue deficits at the state and local level, could adversely impact the public safety system as declining resources impact local law enforcement, prosecutions, public defense, the courts, and corrections. There could be three types of reductions to the Public Defense Services Account:

1. ***Enforcement/Prosecution/Court Effects***: There could be potentially be a reduction in demand for public defense if local law enforcement is reduced, resulting in fewer arrests, and if local district attorney staff are reduced, resulting in fewer prosecutions.
2. ***Economic Effect***: There could be an increase in the demand for public defense if a larger percentage of the population becomes financially eligible for services.
3. ***Court Effect***: Courts will also be faced with reduced resources and may have to prioritize cases. This could reduce the demand for public defense. The state has a constitutional obligation to provide counsel for eligible persons, and to provide for timely adjudication. If insufficient funding or court closures result in violation of these constitutional provisions, the court must dismiss the case and release the person. In the absence of any prioritization and adequate public defense funding, the courts would need to dismiss cases.

Any reduction to the Public Defense Services Account means less payments for trial court level representation and contract payments to nonprofit public defenders, law firms, consortia, and individual attorneys. If courts are required to postpone cases due to a lack of funding for public defense representation, pending case backlogs will increase and offenders may fail to appear on deferred cases. This effect occurred during the 2001-03 biennium when statewide budget reductions resulted in a reduction in trials.

Essential Budget Level

The essential budget level (EBL) for the Commission is $236.5 million, of which $235.8 million is General Fund and $.7 million is Other Funds. The EBL total is $23.9 million, or 11.2%, more than the current biennium's

[v] By statute, the Chief Justice, along with the Chairperson of the Commission, presents the Commission's budget to the Legislature.

legislatively approved budget (LAB) of $212.6 million. It includes standard adjustments for personal services costs, inflation, and state government service charges. The EBL includes a mandated caseload adjustment totaling $19.4 million General Fund. At the EBL, the Commission reported an Other Funds ending balance of $3.2 million.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $214.8 million (69 positions/69.00 FTE) is $2.2 million, or 1%, more than the 2007-09 legislatively approved expenditure level of $212.6 million (66 positions/64.30 FTE) and $21.7 million, or 9.2%, less than the $236.5 million essential budget level (78 positions/77.07 FTE).

The legislatively adopted budget incorporates the following changes:

- Re-forecasting of its EBL mandated caseload resulted in budget savings of $9,179,835 General Fund.
- A reduction in trial-level representation funding by $14,149,226 General Fund (HB 5020 reduced $13,149,226 and HB 5054 reduced $1 million). This reduction means that the Commission will not be able to provide public defense services for the last seven weeks of the 2009-11 biennium given that the projected average monthly expenditure is $8,799,468 per month. This reduction, however, is anticipated to be funded with a portion of temporary new court fees and surcharge revenue that will be generated under HB 2287. The Commission's legislatively adopted budget includes $3.5 million in Other Funds expenditure limitation related to this revenue. A further allocation of HB 2287 revenue will be made during an anticipated 2010 special session.
- Standard adjustments total $676,158 General Fund, which is comprised of a personal services savings ($623,419) and Department of Administrative Services and other assessments ($52,739). Other Funds were also reduced by $30,648 for personal services savings.
- A increase in funding by $272,934 General Fund to fund the impact of substantive legislation – HB 2476, which provides a sentencing enhancement in the case of sexual abuse in the second degree when the offender is over 21 years of age and is, or has been, the coach of the victim ($6,262); HB 5055 included an appropriation for HB 3508 ($74,000); and HB 5054 included an appropriation for HB 2343, which expands the definition of "mentally incapacitated" to any situation where the victim is rendered incapable of appraising or controlling his or her conduct at the time of an offense to the victim ($192,672).

PDSC – Appellate Division

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	6,267,406	9,466,734	11,873,544	10,167,447
Total Funds	**$6,267,406**	**$9,466,734**	**$11,873,544**	**$10,167,447**
Positions	37	48	59	52
FTE	36.80	46.60	58.52	52.00

Program Description

The Appellate Division is responsible for providing legal representation on criminal matters for eligible persons at the appellate court level and for juvenile dependency and termination of parental rights cases. This is accomplished primarily through the use of staff attorneys. The division is the counterpart to Oregon's Attorney General's appellate division.

Revenue Sources and Relationships

The General Fund supports the program.

Budget Environment

The workload is driven by the number of criminal and parole appeals, and the legal complexity of the appealed cases. Statutory changes, ballot initiatives, and United States and Oregon appellate court decisions also affect the number of appeals that are filed.

The Appellate Division estimates it will assign 3,586 cases to its attorneys this biennium. The current caseload level for the Commission's appellate attorneys is 54 case assignments per year, compared to 25 case assignments per year in states such as Arizona and Florida. The State of Louisiana has a caseload standard of 50 cases per attorney.

The agency continues to work towards reducing its backlog of cases that are pending more than 210 days. The current backlog as of June 2008 is 49 cases, which is the lowest point in the last eight years. This is due primarily to the Legislature adding eight new attorneys and improved case management practices.

Federal courts require that states provide adequate and timely representation on appeal. Oregon's Court of Appeals determines the maximum amount of time for an appellate brief to be filed in a criminal case. Failure to meet timeliness requirements could result in dismissal of a case. Over the past two years this maximum amount of time has been reduced from 350 days to 250 days, where it currently remains.

Appellate attorneys are paid 21% to 34% less than their Department of Justice counterparts. This disparity affects attorney recruitment and retention and can affect timeliness and effectiveness of services.

The current backlog of appellate cases and the average length of time to appeal will need to be monitored. Oregon's Court of Appeals could potentially order the dismissal of any pending case that exceeds its 250 day standard from the date the record settles to the filing of the opening brief.

Essential Budget Level

The essential budget level for the program is $11.9 million General Fund (59 positions/58.52 FTE), which is $2.4 million, or 25.4%, higher than the current biennium's legislatively approved budget (LAB) of $9.5 million.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $10.2 million (52 positions/52.00 FTE) is $700,713, or 7.4%, more than the 2007-09 legislatively approved expenditure level of $9.5 million (48 positions/46.60 FTE) and $1.7 million, or 14.4%, less than the $11.9 million (59 positions/58.52 FTE) essential budget level.

Changes to the Commission's legislatively adopted budget can be categorized by being either a caseload adjustment or a reduction.

- Eliminated from the Appellate Division budget was an EBL increase of $910,297 General Fund (5.52 FTE) related to the assumption that the Court of Appeals would reduce the filing of an opening brief from 250 days to a maximum of 180 days. The Court of Appeals later decided to retain the current 180 standard based on the state's budget situation and its own reductions within the Court of Appeals.
- The reductions to the Appellate Division include the elimination of one vacant, permanent full-time attorney position for $170,688 General Fund (1.00 FTE) and the reduction of $102,414 General Fund for services and supplies related to travel, training, and equipment replacement.
- Standard adjustments total $522,718 General Fund, which is comprised of personal services ($491,409) and Department of Administrative Services and other assessments ($31,309).

PDSC – Public Defense Services Account

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	174,472,431	198,918,106	220,648,969	197,592,842
Other Funds	0	0	0	3,500,000
Total Funds	**$174,472,431**	**$198,918,106**	**$220,648,969**	**$201,092,842**

Program Description

The Public Defense Services Account pays the cost of legal representation for eligible defendants in criminal matters, and for persons who are entitled to state paid legal representation if they are financially eligible and are facing involuntary civil commitment proceedings; contempt; probation violation; juvenile court matters involving allegations of delinquency and child abuse or neglect (including termination of parental rights cases); and other limited civil proceedings. Both the U.S. and Oregon Constitutions guarantee the right to legal representation, at state expense, to financially eligible persons facing criminal prosecutions. This program is also responsible for the cost of all transcripts and the cost of appellate legal representation for cases not represented by the Appellate Division.

The Public Defense Services Account funds public defense at predominately the trial court level for eligible defendants. The following table details the types and percent of cases. The top three categories (criminal, child abuse/neglect, and probation violation/extradition) comprise 90% of the public defense cases.

#	Public Defense Services Account – Case Types – Trial Level	%
1	Criminal	46%
2	Child Abuse/Neglect	31%
3	Probation Violation/Extradition	13%
4	Juvenile Delinquency/Probation Violations	6%
5	Contempt/Non-payment of Child Support/Other	2%
6	Civil Commitment/Psychiatric Security Review Board	1%
7	Post-Conviction Relief/Habeas Corpus	1%
8	Total	100%

For the 2005-07 biennium, there were 356,900 public defense trial level cases (non-death penalty) that averaged $471 each in Public Defense Services Account expenses.

Revenue Sources and Relationships

The General Fund has historically supported the program. Beginning with the 2009-11 biennium, however, $3.5 million in Other Funds (temporary court fees and surcharge) revenue will help support expenditures of the Public Defense Services Account.

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 state has had recent experience with the effect of reduced funding on the delivery of public defense services. During the 2001-03 biennium, in the several special legislative sessions, the budget for the Public Defense Services Account was reduced by $27.5 million (17%) from the legislatively adopted budget. Although $5 million of that cut was subsequently restored, these cuts occurred so late in the biennium that public defense funding was virtually eliminated during the last quarter. This resulted in two problems in the public safety system. First, District Attorneys were required to prioritize the cases that were filed, resulting in many offenders avoiding prosecution. Second, existing cases were postponed, resulting in a sharp increase in the number of offenders who failed to appear once the cases were rescheduled. The effect on community safety was noted by law enforcement, businesses, and citizens, as offenders became aware that they could avoid swift prosecution.

Any reduction to the Public Defense Services Account means less payments for trial court level representation and contract payments to nonprofit public defenders, law firms, consortia, and individual attorneys. Case backlogs will increase as will the court's ability to process its docket of cases.

Essential Budget Level

The essential budget level for the Account is $220.7 million General Fund, which is $21.7 million, or 10.9%, higher than the current biennium's legislatively approved budget (LAB) of $198.9 million.

The Commission's EBL includes the following six mandated caseload adjustments:

#	Mandated Caseload Adjustment	EBL
1	Personal Services Adjustment (7.9%)	$9,867,772
2	Standard Inflation (2.8%)	$5,608,190
3	Death Penalty Caseload from Prior Biennia	$4,122,148
4	Non-Attorney Provider Cost Increase	$583,134
5	Mileage Reimbursement	$175,210
6	Trial-Level Non-Death Penalty Caseload Reduction	<$1,884,321>*
7	Total	$18,472,133

*See below EBL caseload reforecast savings of $9,179,835.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $201.1 million is $2.2 million, or 1.1%, more than the 2007-09 legislatively approved expenditure level of $198.9 million and $19.6 million, or 8.9%, less than the $220.7 million essential budget level.

Changes to the Commission's legislatively adopted budget include the following:

- The Commission's re-forecasting of its EBL caseload resulted in budget savings of $9,179,835 General Fund.
- A reduction in trial-level representation funding by $14,149,226 General Fund (HB 5020 reduced $13,149,226 and HB 5054 reduced $1 million). This reduction means that the Commission will not be able to provide public defense services for the last seven weeks of the 2009-11 biennium given that the projected average monthly expenditure is $8,799,468 per month. This reduction, however, is anticipated to be funded with a portion of temporary new court fees and surcharge revenue that will be generated under HB 2287. The Commission's legislatively adopted budget includes $3.5 million in Other Funds expenditure limitation related to this revenue. A further allocation of HB 2287 revenue will be made during an anticipated 2010 special session.
- The $192,672 General Fund appropriation was for the Commission to meet the requirements of HB 2343, which expands the definition of "mentally incapacitated" to any situation where the victim is rendered incapable of appraising or controlling his or her conduct at the time of an offense to the victim.
- The Account was appropriated $74,000 General Fund in HB 5055 for HB 3508, which increased the penalty from a Class C felony to a Class B felony for assault in the third degree where the assault resulted from the defendant driving under the influence of intoxicants.
- The Account also received $6,262 General Fund for HB 2476, which provides a sentencing enhancement in the case of sexual abuse in the second degree when the offender is over 21 years of age and is, or has been, the coach of the victim. The bill also designates sexual abuse in the second degree a Class C felony, with a crime seriousness level of 8, when committed under these circumstances.

PDSC – Contract and Business Services Division

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	2,794,583	3,054,460	3,252,359	3,033,872
Other Funds	316,795	1,125,502	676,845	481,401
Total Funds	**$3,111,378**	**$4,179,962**	**$3,929,204**	**$3,515,273**
Positions	19	18	19	17
FTE	18.25	17.70	18.55	17.00

Program Description

The Contract and Business Services Division (CBS) is responsible for administering the public defense contracts that provide legal representation for financially eligible persons, and for processing requests and payments for non-contract fees and expenses.

Revenue Sources and Relationships

The General Fund and Other Funds supports the majority of the program. The program received approximately $2.9 million Other Funds in the 2005-07 biennium from an application fee ($20) and a contribution amount that is paid by persons seeking representation at state expense. The fees are used to offset the General Fund cost of public defense eligibility verification staff in the Judicial Department (22.70 FTE) and for operating expenses for public defense administration (2.30 FTE). The Commission entered into an intergovernmental agreement with the Judicial Department regarding use of these fees for public defense verification staffing.

Budget Environment

This program administers over 100 contracts in all 36 counties, receives and verifies invoices for payment on contractual services, and issues over 20,000 payments per year. The program also pre-approves over 10,000 requests for non-routine expenses such as investigations. The administrative expense of the Commission, as represented by this CBS Division, is 1.6% of the Department's budget.

The program works with public defense contractors on the development and use of best management and business practices and also receives and investigates complaints regarding concerns over the quality of legal representation and the appropriate expenditure of funds by contractors.

Issues and Options

The fiscal administration and oversight of the $201 million Public Defense Services Account and the other expenditure of the Commission are essential functions of this program as is the role of the program to minimize administrative costs of public defender organizations through review of management and operational processes and procedures. Administrative funding, however, is a function of the General Fund appropriated to the Public Defense Services Account. A decline in this fund's balance translates into few contractor payments and the possibility of administrative reductions. However, less fiduciary oversight of the Account could translate into added and inappropriate expenses charged to the Account.

There also exists the opportunity to utilize Application Contribution Account revenue to fund shift General Fund positions, or portions of positions, to Other Funds thereby achieving General Fund savings. A portion of the Other Funds ending balance could potentially be moved into either the State's General Fund or the Public Defense Services Account in lieu of a General Fund appropriation as was done at the beginning of the 2009 legislative session in order to balance the 2007-09 budget (HB 5522).

The Judicial Department's eCourt Program is planning to charge users a "transaction" or "convenience" charge. The Department would also like to institute a copy fee ("document production recoupment charge"). The imposition of any eCourt "transaction" or "convenience" charge or fee has a budgetary ramification for other state agencies who utilize the services of the Department. At the appellate level, these include the Public Defense Services Commission and the Department of Justice, both of which file documents with the Appellate Court. PDSC estimates that its biennial cost to eFile all its documents based on the Supreme Court Order would be $60,000 General Fund. PDSC has not budgeted for this charge/fee nor has it developed a policy package requesting this increase.

Essential Budget Level

The essential budget level for the program is $3.9 million, of which $3.3 million is General Fund and $.7 million is Other Funds. The EBL total is $250,758, or 6%, less than the current biennium's legislatively approved budget (LAB) of $4.2 million. It includes standard adjustments for personal services costs, inflation, and state government service charges.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $3.5 million (17 positions/17.00 FTE) is $664,689, or 15.9%, less than the 2007-09 legislatively approved expenditure level of $4.2 million (18 positions/17.70 FTE) and $413,931, or 10.5%, less than the $3.9 million essential budget level (18 positions/18.55 FTE).

Changes to the Commission's legislatively adopted budget include:

- The legislatively adopted budget includes the permanent elimination of two long-term vacancies for an Other Funds savings of $164,796 (1.55 FTE) and $65,047 General Fund services and supplies reduction for travel and training expenses.
- Standard budget adjustments reduced General Fund by $153,440 and Other Funds by $30,648. The adjustments are comprised of personal services savings ($162,658) and Department of Administrative Services and other assessments ($21,430).

The estimated ending balance in the Application Contribution Program Account for the 2007-09 biennium is $800,000. This balance is project to be maintained through the 2009-11 biennium based on the Judicial Department's revenue projection of $5,706,088 for the 2009-11 biennium. During the 2007-09 biennium, $493,934 of ACP balance was transferred to the PDSC Account with a corresponding General Fund reduction (SB 5522).

LEGISLATIVE BRANCH

Legislative Branch (LEG) – Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	63,211,645	82,108,702	86,648,989	75,178,600
Other Funds	5,018,671	39,150,487	3,797,014	6,406,624
Other Funds (NL)	1,500,896	1,573,061	1,415,161	1,463,004
Total Funds	**$69,731,212**	**$122,832,250**	**$91,861,164**	**$83,048,228**
Positions	686	696	695	675
FTE	393.90	403.92	403.51	381.37

Overview

The Legislative Branch includes members of the Legislative Assembly and their employees, the costs of four statutory committees or offices, and the Commission on Indian Services. The statutory committees, which provide either administrative and operations support or specialized analysis, include: 1) the Legislative Administration Committee; 2) the Legislative Counsel Committee; 3) the Legislative Fiscal Office; and 4) the Legislative Revenue Office.

The 2009-11 adopted budget for the Legislative Branch is $7,470,389 General Fund (13.2%) less than the essential budget level. Total Other Funds are $2,657,453 (51.0%) greater than the essential budget level. The main reason for the Other Funds increase is the use of savings ($2 million) from the Wings Remodel project, which was approved last biennium, as a one-time replacement for General Fund debt service.

Branch-wide budget savings also include the continuation of a salary freeze that began in February 2009 and is expected to continue through January of 2011.

LEG – Legislative Assembly

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	27,722,266	34,068,340	36,298,773	32,943,483
Other Funds	83,481	202,969	208,653	208,653
Other Funds (NL)	89,792	86,789	89,219	137,087
Total Funds	**$27,895,539**	**$34,358,098**	**$36,596,645**	**$33,289,223**
Positions	444	443	443	443
FTE	216.95	216.20	216.20	207.44

Program Description

The Legislative Assembly budget includes salaries and per diem for legislative members and their staffs, the leadership and caucus offices, the Secretary of the Senate, the Chief Clerk of the House, session staff, and Senate Executive Appointments.

Revenue Sources and Relationships

The General Fund supports 99% of the Legislative Assembly's activities. Other Funds revenue subject to expenditure limitation comes from reimbursements for duplicating services. The Nonlimited Other Funds are from the Lounge Revolving Account, established in ORS 171.117, which receives payments from legislative members for food services, to be used to pay for the costs of food served in members' lounges.

Budget Environment

The primary responsibility of the Legislative Assembly is to produce a balanced budget that complies with state and federal laws, represents the priorities established by the Legislature, receives an affirmative vote by a majority of each chamber, and is signed into law by the Governor. The Legislature also considers thousands of policy issues each biennium and, ultimately, enacts laws on behalf of the citizens they represent.
The Legislature meets in session every other year and enacts a biennial budget. During the interim, interim committees examine specific topics or program areas and a Joint Committee, the Emergency Board, is appointed

to meet periodically to address certain fiscal issues that cannot be put off until the next regular session. The Emergency Board has limited authority, so there are fiscal circumstances that can require the full Legislature to meet in a special session to ensure the budget remains balanced.

The portion of the Legislative Assembly budget to cover the costs for members is divided to reflect session and interim activities as well as House and Senate costs. The remainder of the budget which covers the costs of leadership offices and the Office of the Secretary of the Senate and the Office of the Chief Clerk of the House is provided for the normal biennial period.

Essential Budget Level

The essential budget level (EBL) for the Legislative Assembly is $2,230,433 General Fund (6.5%) more than the 2007-09 legislatively approved budget. The EBL is also $5,684 Other Funds (2.8%) and $2,430 Other Funds Nonlimited (2.8%) more than the legislatively approved budget. It includes the standard adjustments for personal services costs, inflation, and state government service charges.

Legislatively Adopted Budget

The 2009-11 adopted budget for the Legislative Assembly is $3,355,290 General Fund (9.2%) less than the essential budget level. Nonlimited Other Funds are $47,868 (53.7%) more than the essential budget level, reflecting increases in the fees for the member lounges.

The General Fund reductions include the expectation that a pay freeze will continue through January 2011, a reduction of one month from the 2011 regular session, 13% reductions to the office budgets for the presiding officers and caucus offices, and reductions to interim budgets for members. No positions were eliminated from the Assembly budget but a reduction of 8.76 FTE reflects a one month reduction from some positions, assuming the same reduction from the 2011 regular legislative session.

LEG – Legislative Administration Committee

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	21,817,506	31,551,257	31,952,708	25,297,160
Other Funds	3,936,240	37,454,960	2,068,464	4,403,308
Other Funds (NL)	489,447	597,778	597,932	597,932
Total Funds	**$26,243,196**	**$69,603,995**	**$34,619,104**	**$30,298,400**
Positions	151	155	155	145
FTE	103.39	107.45	107.45	99.15

Program Description

The Legislative Administration Committee (LAC) appoints an administrator to direct and manage the service and support systems for the Legislative Assembly and Legislative Branch agencies. Services include:
1) substantive committee staffing; 2) information systems and technology support; 3) building operations and maintenance for the State Capitol; 4) accounting, payroll, and personnel functions; and 5) public information.

Revenue Sources and Relationships

The General Fund typically supports 90% of LAC's requested expenditures, but it only accounted for 45% of the 2007-09 budget. This was due to a large increase in Other Funds revenue from the issuance of certificates of participation for the Capitol renovation project. There is also Other Funds revenue from Capitol Building office space and hearing room rent, parking fees, donations for Holidays at the Capitol, equipment rentals, sales of publications and audio tapes, and copy/vending machine usage. LAC adopts the same rental rate for occupants of the Capitol, except Legislative Administration and the Legislative Assembly, as the rate imposed by the Department of Administrative Services for occupants of other state buildings. Parking fees and revenue from rentals, pay phones, and vending machines go into the State Capitol Operating Account which is used to partially cover expenses incurred in operating, maintaining, protecting, and insuring the Capitol. A Nonlimited Stores Revolving Account accommodates revenue from retail sales in the Capitol Gift Shop and a Nonlimited Property and Supply Stores Account accommodates revenue from the sale of supplies to legislative agencies.

Budget Environment

Significant factors affecting LAC costs are the continued demand for improved information systems; maintenance and repair of the Capitol, including security needs; and meeting the needs of legislative committees. The length of legislative sessions and the number of bill introductions, amendments, and committee hearings also affect the agency's workload and costs.

The Legislative Branch has been engaged in a major technology transition program to replace existing mainframe application systems with new graphical systems based on current technology. As a result of this focus, the Information Systems unit has become the largest component of the ongoing LAC budget. Many technology plans for the 2003-05 biennium were postponed due to fiscal constraints, including the bill drafting system and the recording and archiving system. Funding to advance these projects was approved for the 2005-2007 biennium and continued in the 2007-09 budget. The bill drafting system project is particularly important since this is the system that is relied upon to prepare all legislative measures, perform law searches, change bills into statutes, and publish adopted laws.

Another major cost driver for LAC is maintenance and repair of the Capitol. Several large projects were completed prior to the 2003-05 biennium, including re-roofing, replacing aging wiring and transformers, upgrading elevators to meet building code requirements, remodeling of hearing rooms, and planning for the upgrade of the wings. An upgrade of the infrastructure (plumbing, electrical, fiberglass fiber in ceilings, and carpet) of the two wings of the Capitol was planned to occur during 2003-05, but was not authorized by the 2003 Legislative Assembly due to budget constraints. The renovation project for the wings was approved and was completed during the 2007-09 biennium.

Essential Budget Level

The essential budget level for the Legislative Administration Committee is $401,451 General Fund (1.3%) and $35,386,496 Other Funds (94.5%) less and $154 Other Funds Nonlimited more than the 2007-09 legislatively approved budget. The main reason for the decrease in General Fund was a phase-out of some one-time data processing costs. The large decrease in Other Funds is the elimination of one-time costs for the Capitol wings renovation project. It includes the standard adjustments for personal services costs, inflation, and state government service charges.

Legislatively Adopted Budget

The 2009-11 adopted budget for the Legislative Administration Committee is $6,655,548 General Fund (20.8%) less than the essential budget level. Other Funds are $2,334,844 (112.9%) more than the essential budget level, mostly reflecting the use of savings ($2 million) from the Wings Remodel project, which was approved last biennium, as a one-time replacement for General Fund debt service.

The General Fund reductions include the expectation that a pay freeze will continue through January 2011, a reduction of one month from the 2011 regular session, the fund shift of debt service that is mentioned above, and the shift of payments for a portion of the Capitol Mall State Police patrol to the Department of Administrative Services. Ten positions (8.30 FTE) were eliminated which may lead to a reduction of some services in the Capitol.

LEG – Legislative Counsel

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	7,241,019	8,530,009	9,561,610	8,394,303
Other Funds	998,629	1,486,449	1,513,617	1,788,383
Other Funds (NL)	921,657	888,494	728,010	727,985
Total Funds	**$9,161,305**	**$10,904,952**	**$11,803,237**	**$10,910,671**
Positions	64	67	67	57
FTE	46.81	50.27	50.36	45.28

Program Description

The Office of the Legislative Counsel (LC) drafts legislation for legislators, legislative committees, and state agencies. LC also provides research services and legal advice to legislators and legislative committees. LC prepares indexes and tables for all measures introduced during a legislative session and, every two years following each session creates, annotates, indexes, publishes, and sells the only official codification of the *Oregon Revised Statutes (ORS)* and session laws (*Oregon Laws*). LC also conducts a review of all new administrative rules adopted by state agencies to determine if they are consistent with the agencies' statutory authority.

Legislative Counsel is charged by statute (ORS 173.335) with providing necessary drafting services "as legislative priorities permit" to the Oregon Law Commission. The Commission was established in 1997 to identify defects or anachronisms in the law and recommend needed reforms to the Legislative Assembly.

Revenue Sources and Relationships

The General Fund at the agency request level supports 77% of LC's expenditures. Other Funds are derived from sales of the *Oregon Revised Statutes*, *Oregon Laws*, bill drafting services, and other LC publications. The budget reflects increased revenue from bill drafting services due to an increase in the fee charged for the service. A small portion of the publication sales income is expended as limited Other Funds and used to defray that part of the agency's General Program expenses that are related to *ORS* publication editing. The balance of the publication sales income is expended as Nonlimited within the *ORS* Publications Program. LC has statutory authority to charge state agencies and other entities for drafting legislation, and has been doing so since 2001-03.

Budget Environment

The number of bills and amendments drafted fluctuates from session to session, but overall the trends are fairly flat. The primary driver of drafting increases in the recent past has been agency requests. When workload increases, it creates additional pressure on LC staff, which ripples throughout the institution as these bills are drafted, introduced, amended, and finalized.

During legislative sessions, the agency hires temporary employees that serve primarily as copy editors for staff attorneys and to assist with workload issues. However, the agency has worked to reduce its reliance on temporary staff over the last several biennia.

Publication sales of *Oregon Revised Statutes* and *Oregon Laws* have declined in recent biennia due, in part, to the availability from free or low-cost Internet sources. Overall, Other Funds receipts have remained stable because of increased efficiencies in operations and increased sales of specialty publications. Specialty publications include the criminal code; family law code; landlord-tenant laws; labor, employment, and workers' compensation laws; and construction and building trade laws. If Other Funds receipts were to decline, additional General Fund support may be needed for *ORS* publication.

Essential Budget Level

The essential budget level for the Legislative Council Committee is $1,031,601 General Fund (12.1%) and $27,168 Other Funds (1.8%) more and $160,484 Other Funds Nonlimited (18.1%) less than the 2007-09 legislatively approved budget. It includes the standard adjustments for personal services costs, inflation, and state government service charges. The reduction in Other Funds Nonlimited is due to an anticipated reduction in revenues for the printing of *Oregon Revised Statutes*.

Legislatively Adopted Budget

The 2009-11 adopted budget for Legislative Counsel is $1,167,307 General Fund (12.2%) less than the essential budget level. Other Funds are $274,766 (18.2%) more than the essential budget level, reflecting a fund shift from General Fund to Other Funds for the Oregon Law Commission and the Council on Court Procedures.

The General Fund reductions include the expectation that a pay freeze will continue through January 2011, the elimination of 10 positions (5.08 FTE), the fund shift mentioned above, and services and supplies reductions.

LEG – Legislative Fiscal Office

	2005-07 Actual	2007-09 Legislatively Approved*	2009-11 Essential Budget Level*	2009-11 Legislatively Adopted
General Fund	4,555,885	5,633,630	6,197,674	5,995,339
Total Funds	**$4,555,885**	**$5,633,630**	**$6,197,674**	**$5,995,339**
Positions	19	22	21	21
FTE	18.75	21.00	20.50	20.50

** This reflects a position shared with the Legislative Revenue Office. The 0.50 FTE is shown in both agencies and the position is included in the Legislative Fiscal Office position count for 2007-09, but is transferred to the Legislative Revenue Office in 2009-11.*

Program Description

The Legislative Fiscal Office (LFO) is a non-partisan, legislative service agency created by statute in 1959. The Office researches, analyzes, and makes recommendations concerning state expenditures, financial affairs, program administration, and agency organization. The Office reports to the Joint Committee on Ways and Means during legislative sessions and to the Emergency Board during the interim between sessions. LFO determines the fiscal impact of all legislative measures and, when applicable, publishes fiscal impact statements that accompany bills through the legislative process. The 2007 Legislature approved an information technology analyst for LFO. The Office now provides budget analysis and policy recommendations concerning state agency information systems projects. LFO produces various publications to guide the Joint Committee on Ways and Means processes; address specific budgetary topics; provide legislative members, agencies, and the public with detailed and summary information as each budget is presented and after it is adopted; and annually reports on the status of all liquidated and delinquent accounts, as well as agency efforts to collect on such accounts.

Revenue Sources and Relationships

The Legislative Fiscal Office is completely supported by General Fund.

Budget Environment

As with other committee staffs, the work of LFO changes between legislative sessions and the interim. During sessions, budget analysis and the number of bill introductions and amendments is the primary driver of workload for the agency. LFO reviews all measures to determine if they have a fiscal impact and prepares fiscal impact statements.

During the interim, workload is driven by the number, length, and complexity of special sessions necessary to rebalance the statewide budget; the number and complexity of Emergency Board requests; and the number of other program and fiscal issues that require analysis. The Office also spends a significant amount of time educating and providing information to members, legislative staff, and other stakeholders about the budget process and current budget issues.

Essential Budget Level

The essential budget level for the Legislative Fiscal Office is $564,044 General Fund (10.0%) more than the 2007-09 legislatively approved budget. It includes the standard adjustments for personal services costs, inflation, and state government service charges.

Legislatively Adopted Budget

The 2009-11 adopted budget for the Legislative Fiscal Office is $202,335 General Fund (3.3%) less than the essential budget level. The reductions include the expectation that a pay freeze will continue through January 2011 and elimination of audits on agencies that are outside of Executive Branch control.

LEG – Legislative Revenue Office

	2005-07 Actual	2007-09 Legislatively Approved*	2009-11 Essential Budget Level*	2009-11 Legislatively Adopted
General Fund	1,585,121	1,945,713	2,211,308	2,134,888
Total Funds	**$1,585,121**	**$1,945,713**	**$2,211,308**	**$2,134,888**
Positions	6	7	7	7
FTE	6.00	7.00	7.00	7.00

** This reflects a position shared with the Legislative Fiscal Office. The 0.50 FTE is shown in both agencies and the position is included in the Legislative Fiscal Office position count for 2007-09, but is transferred to the Legislative Revenue Office in 2009-11.*

Program Description

The Legislative Revenue Office (LRO) provides staff assistance to the House and Senate Revenue Committees during legislative sessions and to interim revenue committees, task forces, and work groups between sessions. The Office was established in 1975 to provide non-partisan analysis of tax and school-finance issues. The Office prepares research reports and writes revenue impact statements on initiatives, proposed legislation affecting state or local public finance, personal and corporate income taxes, property taxes, consumption taxes, school finance, and distribution of the State School Fund.

Revenue Sources and Relationships

The Legislative Revenue Office is completely supported by General Fund.

Budget Environment

As with other committee staffs, the number of bill introductions and amendments create the workload for the agency during regular and special sessions. Increases in bills and amendments, along with tax-related voter initiatives and legislative referrals, require the staff to write more revenue impact statements. The number of revenue, school finance committee, task force, and workgroup meetings and related research and analysis projects determines the interim workload.

Essential Budget Level

The essential budget level for the Legislative Revenue Office is $265,595 General Fund (13.7%) more than the 2007-09 legislatively approved budget. It includes the standard adjustments for personal services costs, inflation, and state government service charges.

Legislatively Adopted Budget

The 2009-11 adopted budget for the Legislative Revenue Office is $76,420 General Fund (3.5%) less than the essential budget level. The reductions include the expectation that a pay freeze will continue through January 2011 and a reduction to services and supplies.

LEG – Commission on Indian Services

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	289,848	379,753	426,916	413,427
Other Funds	321	6,109	6,280	6,280
Total Funds	**$290,169**	**$385,862**	**$433,196**	**$419,707**
Positions	2	2	2	2
FTE	2.00	2.00	2.00	2.00

Program Description

The Commission on Indian Services compiles information on services available to Indians, assesses state programs and services, serves as a forum for considering Indian problems, and advises on matters relating to the preservation and protection of Indian historic and archaeological resources. The Commission, created in 1975, has 13 members appointed by the President of the Senate and Speaker of the House of Representatives for two-year terms. In addition to one senator and one state representative, each of Oregon's nine federally recognized tribal groups is entitled to one member. The remaining two members are from the Portland area and Willamette Valley Indian communities.

Various statutes require that the Commission be consulted on matters related to the preservation and protection of Indian fish, wildlife, historic, and archaeological resources. SB 770 (2001) requires state agencies to take Oregon's nine federally recognized tribal governments into account when developing policies and implementing programs that may affect tribal interests. The law also requires the Governor to annually convene a meeting of agency representatives and the tribes, the Department of Administrative Services to provide annual training to agency managers and employees that have regular contact with tribes, and state agencies to submit annual reports to the Governor and the Commission on their activities with tribes.

Revenue Sources and Relationships

Other Funds revenue is from registration and other fees derived from sponsorship of special meetings. The funds are used to cover costs associated with the events.

Budget Environment

Staff salaries and Commission member travel are the primary costs in this budget. The Commission holds regular quarterly meetings, as well as special meetings at the call of the Chair. It advises the legislative and executive branches on ways to improve communication and coordination with tribes in an effort to avoid unnecessary court disputes and highlight shared interests.

The Commission reports that governmental (federal, state, and local) and non-governmental entities are increasingly relying on the Commission for technical and coordination services and the volume of phone and mail transactions is increasing. It is also increasingly being asked to provide trainings for effective government-to-government relationships; conduct meetings with agencies and their tribal counterparts by program and issue area; answer questions from various state agencies on how to establish and maintain effective relationships with tribes; and discuss various points of law and strategies. Tribal initiated activities related to their various programs and significant events have also increased.

Essential Budget Level

The essential budget level for the Commission on Indian Services is $47,163 General Fund (12.4%) and $171 Other Funds (2.8%) more than the 2007-09 legislatively approved budget. It includes the standard adjustments for personal services costs, inflation, and state government service charges.

Legislatively Adopted Budget

The 2009-11 adopted budget for the Commission on Indian Service is $13,489 General Fund (3.2%) less than the essential budget level. The reductions include the expectation that a pay freeze will continue through January 2011.

EMERGENCY FUND

Emergency Board – Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	0	$0	$40,219,084	$76,147,321
Total Funds	**$0**	**$0**	**$40,219,084**	**$76,147,321**

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:

	2003-05 Adopted	2005-07 Approved	2007-09 Adopted	2009-11 Adopted
General Purpose Emergency Fund	40,000,000	30,000,000	30,000,000	30,000,000
Salary & Benefit Adjustment*	9,000,000	131,000,000	125,000,000	32,000,000
Special Purpose Appropriations	47,442,994	107,100,764	45,514,219	14,147,321
Total	$96,442,994	$268,100,764	$200,514,219	$76,147,321

** For the 2009-11 legislatively adopted budget, no allocation was made to the Emergency Board specifically for salary and benefit adjustments; the special purpose appropriation was included for supplemental state agency costs, which could include increased costs for state employee health benefits for the 2010 and 2011 benefit years.*

The 2001 Legislature approved a general purpose Emergency Fund of $40 million and a total of $100 million for state employee salary and benefit adjustments. As part of rebalance actions during the five 2002 special sessions, the Legislature made adjustments to the appropriations in each of these three major categories, resulting in a disappropriation of $19 million from the general purpose Emergency Fund and $22.7 million of the amount set aside for employee negotiated salary and benefit increases. Additional disappropriations were made during the special sessions from unspent special purpose appropriations to agencies. The 2003 Legislature appropriated $40 million for general purposes and established a special purpose appropriation of $9 million for state employee health benefit plan changes. Additional agency specific special purpose appropriations of $47.4 million were also established. Of the total $96.4 million appropriated to the Emergency Board, $9.6 million was not allocated and reverted to the General Fund ending balance as of June 30, 2005.

The 2005 Legislature approved a general purpose Emergency Fund of $30 million, the smallest amount for general uses since 1993-95. In addition, the Legislature approved $130 million for state employee salary and benefit adjustments and $10 million for home care worker salary and benefit adjustments. Other special purpose appropriations totaled $23.8 million. In the April 2006 special session, held primarily as a result of increased caseload costs in the Department of Human Services, the Legislature disappropriated $9 million from the state employee salary and benefit special purpose appropriation due to refined information on projected costs of the salary and benefit package and established a special purpose appropriation for the Department of Human Services in the amount of $83.3 million for caseload costs, cost-per-case increases, and other departmental needs. Through the December 2006 meeting of the Emergency Board, the last scheduled meeting of the interim, the remaining balance in the general purpose Emergency Fund was $1.7 million with an additional $9.9 million remaining in the special purpose appropriation made to the Emergency Board for the Department of Human Services; $9.5 million of this amount was allocated to the Department as part of the agency's final 2005-07 rebalance approved in April 2007 in SB 5547. A total of $2.1 million of remaining unspent Emergency Fund resources were disappropriated and returned to the General Fund in SB 5547 and SB 5549.

The 2007 Legislature approved a general purpose Emergency Fund of $30 million and approved a special purpose appropriation for state employee salary and benefit adjustments of $125 million. In addition, other special purpose appropriations for specific agency uses were made to the Emergency Board in the amount of $45.5 million. During the February 2008 special session, the Legislature established three new special purpose appropriations in the amount of $24.4 million (two for the Department of Human Services totaling $23.4 million and one for costs associated with potential passage of one of the property crime ballot initiatives totaling $1 million). At the June 2008 meeting of the Emergency Board, the Department of Administrative Services brought forward a request on behalf of all state agencies for the allocation of the $125 million special purpose appropriation for state employee salary and benefit changes. At that time, there was already evidence that the state's economy was faltering and that projected revenues for both the 2007-09 and 2009-11 biennia might not reach previously forecasted levels. As a result, the Emergency Board decided to only allocate $100 million of the $125 million special purpose appropriation, retaining the remaining $25 million for either later adjustments or toward any possible current biennium revenue shortfall. When combined with the unallocated general purpose Emergency Fund and the other unallocated special purpose appropriations, the Emergency Fund's balance at the conclusion of the Emergency Board's last meeting of the interim (December 2008) was $53.2 million. This amount was disappropriated during the 2009 legislative session as used as part of the initial rebalance plan for the 2007-09 biennium when revenue forecasts indicated that the state budget was $851 million out of balance in March 2009.

Budget Environment

The size of the general purpose Emergency Fund has not expanded in the past several biennia proportionately with the growth in the General Fund budget. Unused special purpose appropriations have augmented the general purpose Emergency Fund.

The actual cost of implemented salary and benefit increases had significantly exceeded the amounts appropriated to the Emergency Board in each of the five biennia prior to 2005-07. Appropriations in 1995-97 and 1997-99 financed approximately 70% of the actual increases. The $40 million appropriated in 1999-2001 financed less than 50% of the actual increases. The $100 million appropriated for 2001-03 was anticipated to fully fund salary and benefit increases, but was reduced by the Legislature during the 2002 special sessions to $77.3 million. The Legislature adopted a general salary freeze for the 2003-05 biennium and reduced agency budgets to reflect no employee merit increases and no cost-of-living adjustments. The $9 million special purpose appropriation for salary and benefit adjustments in the 2003-05 adopted budget reflected approximately 35% of the estimated General Fund cost to state agencies of negotiated health benefits (in addition to the $9 million General Fund, $15 million Other Funds from the Public Employees Benefit Board was distributed, leaving approximately $1.9 million of the higher costs unfunded). Actual costs above the amounts appropriated were absorbed within agency budgets, primarily through forced position vacancies and under-realized caseload growth. The amount appropriated for the 2005-07 salary and benefit package fully funded agency General Fund costs. The allocation of $100 million of the $125 million 2007-09 salary and benefit special purpose appropriation covered 100% of the redistributed costs for Pension Obligation Bonds, 100% of the costs for a temporary change to the Public Employees Retirement System rates, and slightly more than 75% of the General Fund costs of the regular compensation increases awarded to all employees. In keeping with the Governor's intention, there was no attempt to pay for increases provided by the Governor to management employees in a supplemental salary and benefit package, which cost approximately $15.8 million in the 2007-09 biennium. Due to the state's economic situation, no special purpose appropriation was provided in the 2009-11 legislatively adopted budget specifically for state employee negotiated salary increases or cost-of-living adjustments; $32 million was allocated to potentially be used for increases in the costs of health benefits for state employees for the 2010 and 2011 benefit years.

Essential Budget Level

Unlike the process used to determine agency essential budget levels, the Emergency Board's essential budget level was dictated by the development of the Governor's recommended budget. The Governor included $30 million for the general purpose Emergency Fund and included one agency-specific special purpose appropriation for the Department of Forestry in the amount of $5.1 million for fire insurance premium costs and severity resources. Both of these actions would be considered to be normal for the determination of the essential budget level.

The Governor's budget, however, also included an unorthodox calculation of the special purpose appropriation for state employee salary and benefit changes in the 2009-11 biennium. The Governor's proposed budget assumed that state employees would not receive any cost-of-living adjustment in salaries during the 2009-11 biennium. An estimated $30.2 million was assumed in the budget, however, to help cover the increasing costs for health and benefit plans for state employees. In addition, the Governor was required by law to include in the 2009-11 recommended budget the amount of $9.8 million for funding salary increases for the state's elected officials, as recommended by the Public Officials Compensation Commission. Instead of including a special purpose appropriation to the Emergency Board to cover these identified costs to the 2009-11 budget, the Governor's budget instead only included a special purpose appropriation of $5.1 million to the Emergency Board for salary and benefit costs. The apparent reason was that the proposed budget also assumed a statewide reduction of $34.9 million General Fund related to "temporary closures" due to a plan to furlough all state employees (both represented and management) one day per quarter for the eight quarters of the biennium. The assumed $34.9 million in "savings" from this furlough action, however, were not removed from individual agency budgets in the Governor's proposed budget.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget for the Emergency Board includes a $30 million General Purpose appropriation, plus special purpose appropriations totaling $46.1 million as follows:

- $32 million for state agency supplemental costs including health benefit increases in the 2010 and 2011 benefit years;
- $4.7 million for the Department of Forestry for forest fire suppression severity and fire insurance premium costs;
- $2.9 million for costs associated with the closure of the Oregon School for the Blind;
- $2 million for the Secretary of State for special election costs;
- $1.5 million for the Department of Justice for workload associated with defending the state in the Tobacco Master Settlement Agreement litigation;
- $0.9 million for the Department of Education for local option equalization grants;
- $0.8 million for the Legislative Branch agencies for potential special session costs;
- $0.75 million for costs associated with developing and implementing the Interagency Compliance Network;
- $0.6 million for the Legislative Administration Committee or the Secretary of State for redistricting costs; and
- $0.025 million for the Columbia River Gorge Commission for an ordinance adoption report.

Due to the state's economic situation, the Legislature did not adopt the salary increases recommended by the Public Officials Compensation Commission and, instead, passed SB 778 which kept the salaries for the affected public officials at the 2007-09 levels.

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