Analysis of the

2013-15

Legislatively Adopted Budget

Legislative
Fiscal
Office

State of Oregon
Legislative Fiscal Office

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

Following is the **Analysis of the 2013-15 Legislatively Adopted Budget**, prepared by the Legislative Fiscal Office. This detailed publication provides agency program descriptions; analysis of revenue sources and relationships; discussions of budget environment; and review of budget decisions made by the Legislative Assembly for the 2013-15 biennium. The summary document, **Budget Highlights**, is also available.

This publication is provided in electronic format via the Legislative Fiscal Office website: www.oregonlegislature.gov/lfo

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

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	444,663,139	418,489,968	458,376,927	481,408,441
Lottery Funds	8,307,548	7,144,080	9,779,594	9,521,027
Other Funds	137,636,049	17,509,093	6,164,804	115,912,543
Federal Funds	142,433,655	118,161,396	116,068,422	107,203,669
Federal Funds (NL)	16,431,823	18,968,832	18,968,832	18,968,832
Total Funds	**$749,472,214**	**$580,273,369**	**$609,358,579**	**$733,014,512**
Positions	63	62	59	59
FTE	60.58	61.45	58.70	58.70

Agency Overview

The Department of Community Colleges and Workforce Development (CCWD) has two primary focuses: (1) post-secondary education through the community colleges system; and (2) workforce development. The Department provides coordination and financial assistance to the 17 locally based community colleges as well as monitors the effectiveness of the services the colleges provide. In the area of workforce development, the CCWD is the statewide administrator of federal programs such as the Workforce Investment Act (WIA) including the Adult Education and Family Literacy program. Federal workforce funds are distributed to seven Local Workforce Investment Boards who provide or arrange for services at the local level. The Oregon Youth Conservation Corps (OYCC) is also hosted by CCWD. Currently, the State Board of Education is the governing board for the state oversight and policy making as it relates to community colleges. With the passage of HB 3120 (2013), the State Board's authority and responsibilities will be assumed by the Higher Education Coordinating Commission (HECC) starting July 2014.

The combined General and Lottery Funds 2013-15 legislatively adopted budget of $490.9 million represents an increase of $65.3 million or 15.3% over the 2011-13 legislatively approved budget. The total funds budget of $733 million is a 26.3% increase over the same period; but after factoring out the $108.6 million in Other Fund for capital construction, the increase is 7.6%. Primary reasons for this growth include a $54.2 million General Fund increase in the State Support for Community Colleges and a $7.5 million General Fund workforce initiative.

CCWD – Administrative and Program Support

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	3,586,861	6,505,471	6,551,029	13,511,901
Other Funds	6,190,532	7,679,335	6,139,496	6,998,584
Federal Funds	142,433,655	118,161,396	116,068,422	107,203,669
Federal Funds (NL)	16,431,823	18,968,831	18,968,831	18,968,831
Total Funds	**$168,642,871**	**$151,315,033**	**$147,727,778**	**$146,682,985**
Positions	63	62	59	59
FTE	60.58	61.45	58.70	58.70

Program Description

This unit includes three primary areas or functions of the agency as outlined in the table on the following page.

	General Fund	Other Funds	Federal Funds	Federal Funds NL	Total Funds	Positions	FTE
Agency Operations	13,511,901	4,059,053	12,981,010	-	30,551,964	56	55.70
Federal & Other Support	-	415,128	93,138,910	18,968,831	112,522,869	-	-
Youth Conservation Corps	-	2,524,403	1,083,749	-	3,608,152	3	3.00
Total	13,511,901	6,998,584	107,203,669	18,968,831	146,682,985	59	58.70

Office Operations includes almost all of the staff for the agency including the business functions of the agency. This staff 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. A large share of the staff manages and coordinates the workforce programs and performs the state responsibilities under the Workforce Investment Act (WIA). The agency also co-administers Carl D. Perkins Professional/Technical programs with the Department of Education. The staff provides for 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 workforce initiative (described below) passed by the 2013 Legislature is included in this area.

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

Oregon Youth Conservation Corps (OYCC) provides education, training, and employment opportunities based on conservation efforts to disadvantaged and at-risk youth ages 14 to 25.

Revenue Sources and Relationships

Other Funds include fees from applicants for the General Education Development and Tracking Outcomes for Programs and Students System tests; charges to community colleges for the cost of copying Adult Basic Education curriculum materials; funds for project management of state bond financed projects; summer conference fees; and funds from the Oregon Department of Education for Carl D. Perkins Professional/Technical program support. OYCC also receives funding from the Amusement Device Tax levied on the state's video lottery terminals (ORS 320.013), donations, and fees for contract services.

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

Budget Environment

Over the past few biennia, there has been an effort to maximize the use of Other Funds and Federal Funds for financing CCWD positions. As a result, there is the equivalent of 8.65 positions (2011-13) out of a total of 58.70 FTE that were funded with General Fund resources, down from 12.52 FTE in 2007-09. The budget for 2013-15 does not significantly change this trend. One consequence of this is that the remaining positions are tied to specific funding sources (mostly workforce related) that generally have restrictions on what they can do or programs they can work on. This limits the flexibility of the agency to take on new initiatives or move staff from one project to another. Most of the General Fund position resources must be used to meet responsibilities relating to the distribution of the State Support to Community Colleges, data collection and research, technical assistance for community colleges, legislative requirements relating to community colleges, and the general operational activities of an agency.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $146.7 million total funds is $4.6 million or 3% less than the 2011-13 legislatively approved budget. Most of this decrease is due to a $8.8 million downward adjustment in Federal Funds anticipating lower WIA Title IB revenues. Both the amount sent to local Workforce Investment Councils and the amount the agency uses to fund agency staff and statewide initiatives are affected. The 2013-15 General Fund of $13.5 million represents a $7 million increase from the 2011-13 legislatively approved budget. The primary factor in this increase is the $7.5 million work force initiative which directs funding to: (1) expand the Back to Work Oregon program ($2.8 million), which matches jobs with workers whose skill sets meet the requirement of the job and provides on-the-job training; (2) continue the National Career Readiness Certificate, which guarantees new hires have the proper skills for the job ($1.5 million); (3) implement the Certified Work Ready Communities program ($750,000), which verifies availability of workers locally who have the proper training or skills; (4) support Sector Strategies ($1.5 million), which are local employer-driven partnerships intended to grow businesses and employ the available local labor force; and (5) provide technical assistance, marketing, and evaluation of the programs included in this investment ($525,000). Most of the funds will be sent out to communities or in support of communities. Two positions are created to support the initiative.

Other changes to the budget include a $150,000 increase in Other Funds for a contract with an outside vendor for monitoring and oversight of the various capital construction projects at community colleges. The Other Funds expenditure limitation was also increased for the anticipated 2013-15 spending from three grants received in 2011-13 ($831,000 and one limited duration position). Similarly, the Federal Funds expenditure limitation was increased by $851,813 for a Bureau of Land Management grant received for the Youth Conservation Corps in 2011-13. The budget was reduced by $44,343 General Fund ($274,305 total funds) for the PERS savings related to SB 822. The budget was further reduced by $275,715 General Fund for the purposes of the supplemental ending balance.

CCWD – State Support to Community Colleges

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	432,838,203	396,291,450	432,727,907	451,261,800
Other Funds	11,635	25,308	25,308	25,308
Total Funds	**$432,849,838**	**$396,316,758**	**$432,753,215**	**451,287,108**

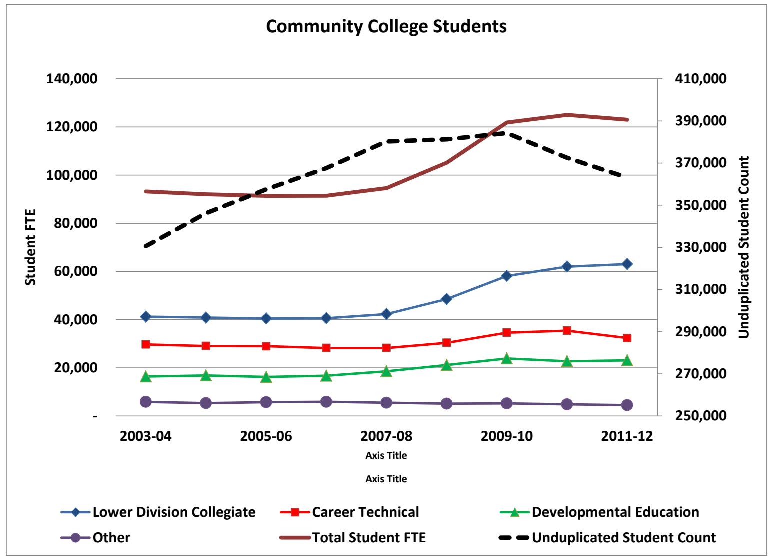
Program Description

All funds in the State Support to Community Colleges program are distributed to the 17 community colleges, except for a small portion allocated to support the Sabin-Schellenberg Skills Center and another skills center at Portland Community College. Starting in 2013-15, a new program is included in this budget unit which provides resources to certain community colleges for specific training for employees of Community Care Organizations (CCOs), which are the primary local health delivery entity for the Oregon Health Plan and other health related programs.

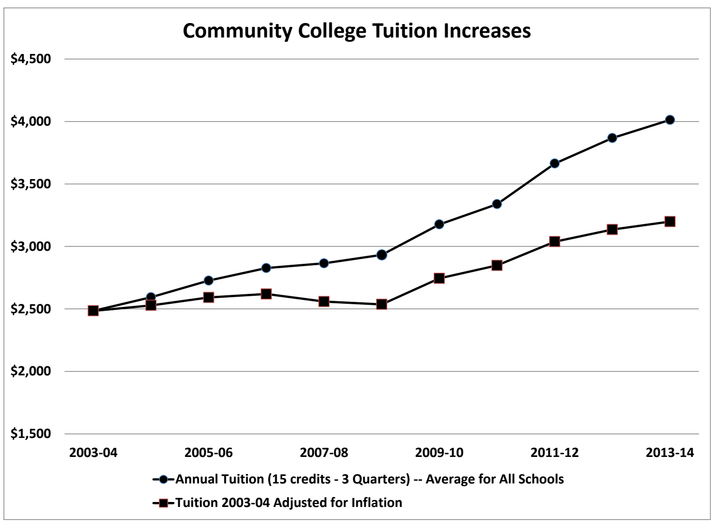
The general purpose state support funds for community colleges are primarily distributed on an adjusted enrollment basis. A small portion is distributed to support contracted out-of-district reimbursements, distance learning, and corrections programs. In addition, up to 1% of the total available is set aside and may be used to for statewide initiatives and activities as well as requests from individual community colleges for assistance in meeting new requirements and expectations. Generally, colleges receive funding for their full-time equivalent (FTE) enrollments in Lower Division Collegiate, Career Technical, Developmental Education, and certain Adult Continuing Education courses. Lower Division Collegiate courses parallel the offerings of the first two years of four-year institutions and carry regular college credit. Career Technical courses generally lead to a certificate or associate degree in a professional program. Developmental Education includes Adult Basic Education, English as a Second Language, GED and Adult High School programs, and post-secondary remedial courses. Adult Continuing Education courses aid in student self-development but do not lead to a degree.

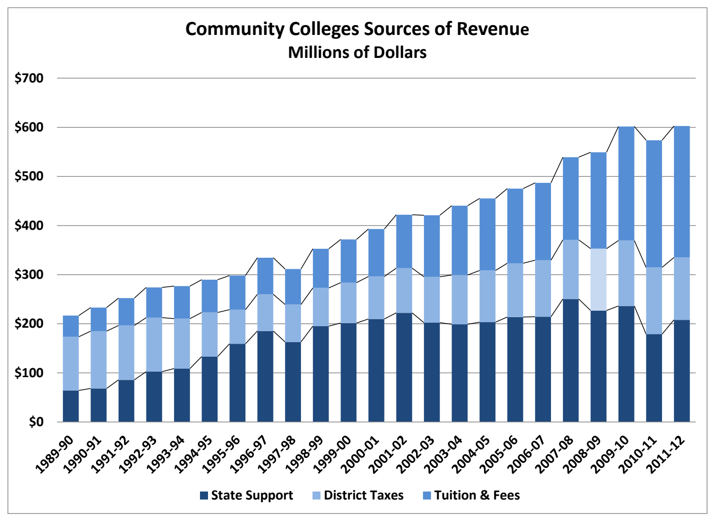
Revenue Sources and Relationships

Other Funds reflect receipts from the state timber tax. Community colleges also collect property taxes to fund their operations. These taxes do not flow through the agency budget and are not included in any budget figures identified here. Approximately $284.9 million of property tax collections are projected by the Department of Revenue for community colleges for operations in the 2013-15 biennium, up from an estimated $275.7 million in the 2011-13 biennium. Tuition and fee revenues, which are not included in the state agency budget, also provide funding for community college operations.



The mix of core funding for community colleges between state support, property taxes, and tuition has changed over the past 20 or more years. The chart below shows the source of revenues for the period 1989-90 through 2011-12. What this shows is that community colleges have depended less on local property tax revenues while relying more on state support and tuition. The state support share grew from 30% in 1989-90 peaking at 55% in 1998-99, and falling back to 35% in 2011-12. Tuition and fees have become more and more important growing from 20% in 1998-99 to 44% in 2011-12.





Budget Environment

As demonstrated in the figure at the right, between the 2006-07 and 2011-12 academic years, full-time equivalent attendance at the community colleges has increased by almost 35%, primarily due to students taking lower division collegiate courses similar to what they would receive in the first two years in a four-year college setting. Almost all of this growth is concentrated in the period between 2007-08 and 2010-11 which overlaps with the economic recession. Many have asserted the growth is largely due to the unemployed and underemployed returning to school to attain new skills and post-secondary degrees and certificates. This growth is mainly due to students taking more classes or credits since the total number of students in that same period grows at a slower rate as measured by the unduplicated student count. As the graph shows, most of the unduplicated student count (dashed line) happened before the recession.

As the use of community colleges increases (as measured by student FTE), so did tuition levels. The figure on the left shows that tuition has climbed steadily since the 2003-04 school year, increasing by over 60%, or 6% per year. When adjusted for inflation (the bottom line on the graph), tuition still saw significant growth over the same period or by almost 30%. Tuition growth was especially prevalent after 2008-09 when inflation adjusted tuition grew by over 26%, or by 5% per year. This corresponds to the period when state support was reduced because of state budget constraints.

HB 3120 (2013) authorizes the Higher Education Coordinating Commission (HECC) to adopt rules for distributing the appropriations for post-secondary education including the State Support for Community Colleges. There has been considerable discussion to look at new factors other than the current enrollment measures to base this distribution. Options include using measures of student success or completion such as the number of diplomas or certificates awarded by individual community colleges. A budget note included as part of HB 5008 (2013) instructed the HECC not to adopt any significant change to the distribution during 2013-15 without consulting with the appropriate legislative committees.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $451.3 million total funds is $55 million or 13.9% greater than the 2011-13 legislatively adopted budget. All but $25,308 is General Fund for this budget unit. Of the General Fund, $450 million represents the general State Support to Community Colleges; while $600,000 is allocated to the two Skills Centers, and $673,800 is designated for the specific funding for training community healthcare workers to support the newly formed Community Care Organizations. The healthcare training program is new this biennium and the Skills Centers received $530,750 in 2011-13.

The $450 million General Fund for the general State Support for Community Colleges reverses a trend of decreasing state support over the past few biennia when state revenues were tighter. The 2013-15 amount represents a $54.2 million General Fund increase over the $395.8 million available for 2011-13, but still does not reach the $495 million level distributed to community colleges in 2007-09. Based on the PERS policy changes relating to SB 822, $9.3 million was reduced from the 2013-15 current service level and the community colleges should see lower PERs costs during the biennium as PERS rates have been adjusted. State Support for Community Colleges was not subject to the supplemental ending balance but a total of $12,000 was reduced for this purpose for the Skills Centers.

CCWD – Community College Capital Construction and Debt Service

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund (DS)	8,238,075	15,693,047	19,097,991	16,634,740
Lottery Funds (DS)	8,307,548	7,144,080	9,779,594	9,521,027
Other Funds (DS)	2,823,882	200,000	0	307,051
Other Funds (CC)	126,610,000	9,604,450	0	108,581,600
Federal Funds (NL)	0	1	1	1
Total Funds	**$147,979,505**	**$32,641,578**	**$28,877,586**	**$135,044,419**

DS – Debt Service; CC - Capital Construction

Program Description

This program finances state support for the construction, acquisition, deferred maintenance, and major renovations of community college properties. The 2005-07 biennium legislatively adopted budget included, for the first time since the 1979-81 biennium, state support for community college capital projects. The projects were financed by Article XI-G bonds which are a constitutionally-authorized general obligation debt of the state. The state is required to match the bonds with at least an equal amount of General Fund. In lieu of regular General Fund, the community colleges were required to transfer local matching funds to the state. These matching funds are designated as the General Fund match, and the matching funds are then returned to the community colleges, with the Article XI-G bond proceeds. Lottery bonds are also issued on behalf of community colleges. Lottery Fund revenues are used for the debt service payments on these bonds and there is no required "local" match.

Budget Environment

The table below shows the authorized capital construction amounts for each community college by source on bonding proceeds. This is the authorized amount and in some cases the project has not gone forward at this point and no bonds have been issued for those projects.

Community College Capital Construction State Support (Article XI-G and Lottery Bonds)							
	2005-2007	2007-09		2009-11		2011-13	2013-15
Community College	XI-G	XI-G	Lottery	XI-G	Lottery	Lottery	XI-G
Blue Mountain			2,055,500		7,365,968	465,037	3,331,350
Central Oregon		5,778,000	2,822,250	5,700,000		500,000	5,260,000
Chemeketa		10,707,500	2,982,500	6,255,000	1,000,000	1,000,000	8,000,000
Clackamas		6,450,000	62,000	8,000,000		800,000	8,000,000
Clatsop	7,500,000	4,000,000	1,875,000		1,900,000	281,785	7,990,000
Columbia Gorge	7,500,000		1,595,000	8,000,000		297,193	7,320,000
Klamath	7,700,000		1,600,000			300,000	7,850,000
Lane		6,750,000	8,000,000	8,000,000		1,000,000	8,000,000
Linn-Benton		3,731,250	1,844,750			800,000	8,000,000
Mt. Hood		2,500,000	3,850,000		950,000	800,000	8,000,000
Oregon Coast	4,500,000	3,000,000	500,000	2,000,000		273,235	
Portland		10,827,500	3,087,500	8,000,000		1,000,000	8,000,000
Rogue	4,100,000		4,000,000		1,250,000	500,000	8,000,000
Southwestern	2,300,000		4,000,000			387,200	8,000,000
Tillamook Bay	4,900,000		175,000			300,000	2,000,000
Treasure Valley			1,413,350	3,000,000		500,000	2,830,250
Umpqua			4,000,000	8,500,000		400,000	8,000,000
Total	**38,500,000**	**53,744,250**	**43,862,850**	**57,455,000**	**12,465,968**	**9,604,450**	**108,581,600**

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget for debt service of $16.6 million General Fund and $9.5 million Lottery Funds is a combined 14.5% more than the amount required in the 2011-13 legislatively approved budget. Most of the growth is in Lottery Funds since no XI-G bonds were issued in 2011-13. There was also $307,051 in Other Funds resources for debt service from interest earned from bond proceeds that are used to backfill General Fund debt service. The budget also reflects that bonds authorized in a previous biennium were not sold for projects at Umpqua and Clackamas Community Colleges so debt service is not required at this time. If and when the institutions have generated the necessary match for the projects, the bonds then can be sold.

The Legislature approved $108.6 million in new capital construction projects to be financed with Article XI-G bonds. The projects and their planned source of matching funds are in the table below. The Legislature also extended the authority for the two projects (Clackamas and Umpqua Community Colleges) which have yet to gather the local match.

Community College Capital Construction Projects Approved by 2013 Legislature

Community College	Project	Amount	Source of Required Matching Funds
Blue Mountain	Applied Animal Science Education Center	3,331,350	Grants, donations, corporate scholarships & possibly bond levy
Central Oregon	Academic & Student Services Center	5,260,000	COCC funds
Chemeketa	Applied Technology Classroom Center	8,000,000	Existing bond levy funds
Clackamas	Clairmont Career & Technology education Center	8,000,000	Extension Services revenues, capital campaign & bond levy
Clatsop	Health & Wellness Center	7,990,000	Legal settlement proceeds, tuition surcharge & fundraising
Columbia Gorge	Advance Technology Center	7,320,000	Fund raising & bond levy
Klamath	Student Success and Career Technical Center	7,850,000	Reserve funds, foundation, federal grants &District bonds
Lane	Center for Student Success	8,000,000	Existing bond levy funds
Linn-Benton	Nursing & Allied Health Facilities	8,000,000	Donations and bond levy
Mt. Hood	Student Services Enhancement	8,000,000	Loan paid by future tuition or bond levy
Oregon Coast	No Project		
Portland	Health Professions Center	8,000,000	Existing bond levy funds
Rogue	Health & Science Center	8,000,000	Partnership contributions, grants & capital campaign
Southwestern	Health & Science Technology Building	8,000,000	Private grants/donations & possible bond levy
Tillamook Bay	Career & Technical Workforce Facility	2,000,000	Reserve funds, partnerships, fundraising & District bonds
Treasure Valley	Workforce Vocational Center	2,830,250	Bond Levy or District bonds
Umpqua	Industrial Technology Building	8,000,000	Grants, donations & other sources
Total		**108,581,600**	

Department of Education (ODE) – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	316,320,396	340,837,528	367,172,563	436,954,079
Lottery Funds	55,232,892	54,160,517	42,457,585	42,371,076
Other Funds	56,757,548	62,940,399	62,948,708	134,359,784
Other Funds (NL)	103,361,263	109,794,294	107,024,055	94,331,467
Federal Funds	975,253,839	831,354,523	851,766,267	996,058,997
Federal Funds (NL)	327,692,063	357,380,254	349,992,872	349,992,872
Total Funds	**$1,834,618,001**	**$1,756,467,254**	**$1,781,362,050**	**$2,054,068,275**
Positions	406	376	376	509
FTE	381.74	357.79	356.80	480.03

The figures above do not include the State School Fund resources which are part of the overall budget for the Oregon Department of Education, but for the purposes of the budget process are appropriated in a separate bill from the remainder of the ODE budget and are included as a separate section in this publication.

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 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). Under changes made with the passage of SB 552 (2011), the separately elected position is eliminated and the Governor is now the Superintendent of Public Instruction. The Governor appoints a Deputy Superintendent who acts as the agency head for Oregon Department of Education. The Chief Education Officer (CEdO) has specific authority over the Deputy Superintendent as it relates to the overall organization of the P-20 system. The Oregon Education Investment Board also has significant roles in defining the activities of the P-20 system as well as the agency.

The Oregon Department of Education (ODE) provides support to the State Board and the 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 or early learning programs; compensatory education programs; and vocational education programs. ODE's role, generally, is to provide curriculum content standards, technical assistance, monitoring, accountability, contract and grant administration, and statewide leadership on a variety of education issues. Department staff provides direct educational services at the School for the Deaf and assist in the education program at the juvenile correctional institutions. ODE is currently implementing an agency-wide strategic plan including establishing new mission and value statements. The statements stress that ODE is to assist and collaborate with educational partners, move toward eliminating the achievement gap, and be "results-focused" with less focus on compliance where possible and more focus on customer service.

The 2013-15 legislatively adopted budget for General Fund and Lottery Funds of $479.3 million is $84.3 million, or 21.3%, greater than the 2011-13 legislatively approved budget. The total funds budget of $2.05 billion is 17.0% greater than the 2011-13 amount. Much of the growth is due to three factors: (1) the creation of two new divisions (Early Learning and Youth Development) which bring new programs to ODE from other agencies; (2) over $25 million in General Fund for strategic education initiatives; and (3) over $45 million Other Funds for the establishment of a Network of Quality Teaching and Learning. More detail on these and other changes in the ODE budget are included in the sections below.

As during the 2011-13 biennium, a statewide supplemental ending balance was established by reducing most General Fund budgets by 2%. The supplemental ending balance may be allocated to agencies later in the biennium if financial conditions warrant that action. For ODE, a total of $8.6 million was reduced from the 2013-15 legislatively adopted budget. The State School Fund was not reduced for the supplemental ending balance calculation.

ODE – Operations

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	35,768,614	34,299,779	34,846,633	45,777,314
Other Funds	11,089,288	14,213,101	16,279,842	23,857,286
Other Funds (NL)	2,814,452	5,271,167	5,271,167	2,704,452
Federal Funds	51,136,469	58,278,523	61,571,238	72,071,879
Total Funds	**$100,808,823**	**$112,062,570**	**$117,968,880**	**$144,410,931**
Positions	284	269	272	422
FTE	273.22	264.34	268.27	400.84

Program Description

Department Operations includes the responsibilities and activities of the State Board and the Deputy State Superintendent, administration of most ODE programs, and assistance to and review of local districts. The Board adopts standards for public schools and is the policy-making body. The Superintendent and Deputy Superintendent exercise a general policy direction, monitoring, and oversight of public schools.

The Department is currently developing and implementing a new strategic plan and reorganization of the agency. The newly released Department organization includes the following units which include the staff and the related administrative costs for the various grant-in-aid and other programs found elsewhere in the ODE budget:

- The **Office of the Deputy Superintendent** provides the overall leadership and management of the agency. This office also includes government and legal affairs functions, the State Board of Education administrator, internal audit function, and communications.
- The **Office of Learning** includes the primary K-12 related staff and administrative functions; and is charged with integrating curriculum, instruction, assessment and accountability, equity, and student support services. Its priorities include improving equity as well as the health and wellness for all students. Included in this largest office in the Department are three primary units. First is the *Instruction, Standards, Assessment and Accountability Unit* with responsibility for administering programs related to educator effectiveness, Common Core State Standards, secondary and post-secondary transitions, various federal programs such as No Child Left Behind Act (NCLB), and statewide student assessment related activities. A second unit is the *Student Services Unit*. Programs managed by this unit include special education, child nutrition programs, long-term care and youth corrections/juvenile detention programs, and the Oregon School for the Deaf. The final unit is the new *Equity Unit* which is responsible for activities related to closing the achievement gap, migrant education, civil rights, and English Language Learners support and monitoring.
- Staff assigned to the **Early Learning Division**, established by the 2013 Legislature, administer programs including Oregon Pre-Kindergarten (OPK), Early Head Start, Great Start, Healthy Start, Relief Nurseries, and child care provider licensing, subsidies, and training.
- The staff of the **Youth Development Division**, also established in 2013, administers programs such as the Title XX Youth Investment program, Juvenile Crime Prevention program, Community Schools, Safe and Equitable Foster Care Reduction, and Gang Involved Youth Program.
- The **Office of Research and Data Analysis** will coordinate data analysis and research across ODE as well as coordinate with other researchers in other education-related agencies.
- 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 and the calculation and distribution of State School Fund payments to school districts and education service districts (ESDs).
- The **Office of Information Technology** will be responsible for the development and maintenance of the agency's technical and information infrastructure including data collection from and reporting on individual schools, school districts, and ESDs.

Revenue Sources and Relationships

Other Funds revenues include indirect cost recovery from federal programs based on cost allocation plans; fees for fingerprinting and background checks; funds from the Department of Human Services and Oregon Health

Authority for health-related and other programs; funds from the Department of Community Colleges and Workforce Development for professional/technical education services and administration; textbook review fees; and miscellaneous fees, contracts, and grants.

Major federal revenue sources include the Individuals with Disabilities Education Act (IDEA), the National School Lunch Program (Nonlimited), NCLB assessment funds, Child Care related funds, Title XX funds, and various compensatory education programs.

Budget Environment

As noted above, the agency is establishing new mission and value statements that are meant to lead the agency to assist and collaborate with educational partners, move toward eliminating the achievement gap, and be "results focused" with less focus on compliance and more focus on customer service. The funding pattern (through 2011-13) of ODE staff is likely a limitation in changing the focus and direction of the agency from one of regulation and compliance to one of technical assistance and collaboration. Over the past few biennia, ODE staff resources have moved from being funded with almost 50% General Fund (a much more flexible funding source) in 2007-09 to just over 36% in 2011-13. The limitation is that the positions funded with Federal and Other Funds are tied to specific programs and functions such as oversight and monitoring as required by federal law. The limited number of positions that were funded with General Fund resources likely limits the ability of the agency leadership to move toward where it wants to be. The 2013-15 legislatively adopted budget does change this trend since positions related to the Network for Quality Teaching and Learning as well as the strategic initiatives are more flexible state resources including General Fund.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $45.8 million General Fund ($144.4 million total funds) reflects an increase of $11.5 million or 33.5% from the 2011-13 legislatively approved budget, and a $32.3 million or 28.8% increase in total funds over the same period. The major factors for this increase include the following:

- The staffing and related costs associated with the new programs to the agency from the establishment of the Early Learning and Youth Development Divisions. A net increase of 116 positions (108.25 FTE) along with $9 million General Fund ($32.5 million total funds) is added to Operations for the programs administered under these divisions.
- Over $1.6 million General Fund and one position (0.88 FTE) are added for ODE's responsibilities under a Governor's Executive Order (#13-04) that addresses the needs of individuals with disabilities, specifically in the area of employment.
- For the staffing of the three strategic education initiatives (described under the Grant-in-Aid section below) 10 positions (7.50 FTE) and $2 million General Fund are included in the 2013-15 budget. A total of $25.8 million is added overall in the ODE budget.
- The staffing and related costs of the new Network for Quality Teaching and Learning add $3.7 million Other Funds and 16 positions (13.00 FTE) to the Operations budget. Other funding for this Network is found in the Grant-in-Aid section below. If the State Land Board approves additional distribution through the Common School Fund, an additional $658,916 Other Funds and three positions (3.38 FTE) will also be added for the Network.
- A number of policy bills were passed that requires additional staffing and increased General Fund resources for the agency including: (1) SB 540 relating to School Capital Improvement Planning ($425,000 and two positions); (2) SB 739 relating to Oregon Studies standards ($146,167 and two positions); (3) HB 2644 relating to the reporting of class size ($267,446 and two positions); (4) HB 2585 relating to the use of physical restraint or seclusion ($102,674); and (5) HB 2912 relating to Career and Technical Education or CTE grants ($239,770 and one position).
- $700,000 General Fund is provided to prepare a business plan and related project management materials for a longitudinal data system covering the P-20 continuum and for replacement of equipment. The business plan is the priority use for these funds. The agency is required to report back to the Joint Committee on Ways and Means during the 2014 session on its progress. Once the business plan is completed, it can be presented to the Legislature and further funding for system development may be considered.

Other increases to this budget include a new position ($83,342 General Fund) to concentrate efforts for education activities of Native Americans, and $492,598 Federal Funds for three new positions for child nutrition programs.

Offsetting these increases are a number of items including; (1) the transfer of the Private Career Schools program to the Higher Education Coordinating Commission (-$1.3 million total funds and four positions); (2) a number of items included in the Governor's budget that reduce the amount available for the State Board of Education, reduce information systems resources, require use of one-time resources or funding shifts, and eliminate the nursing and foreign language specialist positions ($-1.9 million General Fund and two positions); (3) PERS related reductions resulting from passage of SB 822 (-$536,274 General Fund); and (4) a reduction of $909,397 General Fund for the 2% reduction for the supplemental ending balance. This budget also reflects changes in the organization of the Superintendent's office including the replacement of the elected Superintendent position with an appointed Deputy Superintendent position.

ODE – Oregon School for the Deaf

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	10,701,532	10,980,894	11,499,203	10,894,677
Other Funds	2,672,005	8,243,389	3,184,686	3,660,633
Federal Funds	413,048	300,000	335,259	505,778
Total Funds	**$13,786,585**	**$19,524,283**	**$15,019,148**	**$15,061,088**
Positions	106	99	96	83
FTE	92.64	85.45	80.53	75.19

Program Description

The School for the Deaf (OSD) is a residential/day program that serves students who are hearing-impaired. OSD provides academic and career education, living skills development, athletics, and leadership training. On average, 115 students receive services per year with approximately 35% in the day program and the remaining 65% residing on the campus during the school year. Currently, OSD is expecting 118 students for the 2013-14 school year.

HB 2834 (2009) directed the closure of the Oregon School for the Blind (OSB) and established the Blind and Visually Impaired Student Fund (BVI) to assist students in receiving services in their communities, providing technical assistance, and professional development for those who serve students who are blind or visually impaired. This Fund had been part of this budget unit; but starting in the 2013-15 biennium, it has been transferred to the Grant-in-Aid budget unit.

Revenue Sources and Relationships

Other Funds revenues reflect receipts from special education billings, donations, Medicaid reimbursements, fees from local school districts for services provided to their students, nutrition reimbursements, and other sources. When the BVI received a General Fund appropriation, those resources are transferred to an Other Funds account and may be carried forward into future biennia. Beginning in 2013-15 this Fund is no longer part of this budget unit. Federal Funds are from IDEA.

Budget Environment

HB 3687 (2010) directed the Department of Administrative Services (DAS) to transfer 50% of the net proceeds from the sale of OSB to ODE for improvements, repairs, and maintenance costs benefitting the health, safety, and housing of the students of OSD. DAS transferred approximately $2.6 million for this purpose.

There were two budget notes in 2011 that instructed ODE to report during the 2011-13 interim on a staffing model and maintenance plan for the school. The report was finally presented to the 2013 Ways and Means Education Subcommittee during the 2013 session. A staffing model was presented, which has already been partially implemented. The report also presented deferred maintenance needs (see below) along with financing options. There are still a number of policy issues to be addressed regarding the mission and viability of operating a separate residential school for the deaf.

The OSD's facilities are aging and have significant deferred maintenance needs. A recent report estimated over $3.5 million in deferred maintenance projects that need to be addressed in the next few years including roof replacement or repairs, installation of a new HVAC system to replace the current boiler system, asbestos abatement, repair/replacement of windows and doors, and a variety of other projects. The report listed the use of the remaining funds transferred from the sale of the OSB, sale or lease of unused property on the school grounds, lease of underutilized OSD facilities, donations, General Fund resources, and the use of state issued bond proceeds as financing alternatives for these needs. The Subcommittee expressed interest in using surplus property at OSD as a means to finance some of the deferred maintenance projects, and directed ODE and the Department of Administrative Services to study whether and how a lease or sale of a portion of the real property at OSD would benefit the school (HB 2322).

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $10.9 million General Fund is less than 1% smaller than the 2011-13 legislatively approved budget. The total funds budget of $15.1 million represents a 22.9% decrease over the same period, but this is primarily due to the transfer of the Blind and Visually Impaired Student Fund ($988,426 General Fund and $5.1 million Other Funds) to the Grant-in-Aid budget unit of ODE. Other changes in the budget include a realignment of the budget to reflect actual budget execution resulting in eliminating 11 positions (3.51 FTE) and transferring these resources to pay for differentials and temporary position funding. Another two positions were eliminated as part of the 2011-13 staffing reductions related to the "span of control" directive. Other Funds expenditure limitation of $494,614 was added at the agency's request so spending that had been "non-budgeted" or "off the books" (such as that related to the Nightmare Factory) could be incorporated into the budget. PERS related reductions were $232,375 General Fund ($255,523 total funds) while another $222,340 was reduced for the 2% supplemental ending balance.

ODE – Youth Corrections Education Program

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	20,079,684	15,030,552	14,874,525	16,069,050
Federal Funds	1,921,193	2,000,000	1,982,681	2,157,681
Total Funds	**$22,000,877**	**$17,030,552**	**$16,857,206**	**$18,226,731**
Positions	16	8	8	4
FTE	15.88	8.00	8.00	4.00

Program Description

ODE is responsible for ensuring that educational services are provided to children in the Oregon Youth Authority's (OYA) close custody facilities and county detention centers. The Department contracts with local education agencies (e.g., ESDs) to provide services to students. A small number of state employees remain connected to the program; and an agreement with the labor bargaining unit provides that as these state positions become vacant, they are eliminated and the financial resources are transferred to the contracts with the appropriate local education agency.

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 and the Individual with Disabilities Education Act or IDEA.

Budget Environment

The Department contracts with seven school districts to administer education programs in nine OYA close custody facilities. Approximately 450 youth are served statewide. Students in these facilities receive double-weighting in the school funding distribution formula.

The Juvenile Detention Education Program provides education services to youth held in county juvenile department detention centers. Approximately 204 students are served on an average day with the average length of stay of four to five days. The Department contracts with 11 districts to provide programs in 12 county detention centers. Students in county detention centers are assigned a weight of 1.5 in the State School Fund distribution formula. Overall, spending for this program area has fallen due to the reduced number of students served in both OYA facilities and in county detention centers.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $18.2 million total funds is $1.2 million or 7.0% greater than the 2011-13 legislatively approved budget. This budget was increased by $763,678 Other Funds to reflect the anticipated number of students served in the program. Another $443,726 Other Funds was added to reflect the program's share of the growth in the State School Fund. Four positions that had been vacant were eliminated and their funding transferred for contracting with the local ESD following the agreement with the labor bargaining unit.

ODE – Grant-in-Aid

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	269,850,250	295,556,855	320,826,727	216,750,714
Other Funds	20,419,731	22,927,624	28,609,655	73,227,494
Federal Funds	921,783,129	770,776,000	787,877,089	786,788,751
Federal Funds (NL)	327,692,063	357,380,254	349,992,872	349,992,872
Total Funds	**$1,539,745,173**	**$1,446,640,733**	**$1,487,306,343**	**$1,426,759,831**

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 compensatory education, teen parent programs, physical education, and child nutrition services. They also are made for special education services provided by regional programs, Early Intervention/Early Childhood Special Education (EI/ECSE), and private agencies. Other programs include vocational and workforce development, school reform implementation, transition efforts between secondary and post-secondary schools, and training of teachers and other education professionals. The 2013 Legislature approved a number of new programs including the Network for Quality Teaching and Learning which is described in the "Legislatively Adopted Budget" section below.

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

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

Revenue Sources and Relationships

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

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

Budget Environment

The EI/ECSE program serves children with disabilities and their families to improve developmental status and increase school readiness for each child. The EI portion of the program serves children from birth through age 2 and is statutorily required. The ECSE component serves children from age 3 until the age at which schooling begins (usually age 5) and is federally mandated (PL 99-457). The Department contracts with education service districts to provide the services. Within the statewide budget development process, EI/ECSE falls under mandated caseload and receives funding adjustments based on caseload count plus inflation.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $1.43 billion total funds is $19.9 million or 1.5% lower than the 2011-13 legislatively approved budget, while the General Fund budget of $216.6 million is $78.8 million or $26.7 million less over the same period. The primary factor for this decrease is the $126.7 million General Fund transfer of the Oregon Pre-Kindergarten program to the newly established Early Learning Division. Partially offsetting this transfer out was the $988,426 General Fund ($5.1 million Other Funds) transfer of the Blind and Visually Impaired Student Fund from the Oregon School for the Deaf to this budget unit. This budget also reflects a reduction of $4.2 million General Fund over most grant-in-aid programs for the 2% supplemental ending balance. A detailed listing by major program is outlined in the table on the next page.

The Legislature approved a $28.8 million General Fund set of strategic education initiatives with most of their funding in the ODE budget. Over $23.8 million General Fund is included in this budget unit with another $2 million in the Operation budget unit for the related staffing and other costs for these initiatives, which are:

- **Oregon Reads** ($7.4 million), which is a set of early reading programs providing resources to families and caregivers, early literacy instruction, expanded access to libraries, extended time and individualized support for students, and scales up the existing Response to Intervention effort.
- **Guidance and Support for Post-Secondary Aspirations** ($5.3 million), which provides resources to students to encourage their path to post-secondary education. Services or programs include mentoring for at-risk students and resources for dual credit and early college credit courses for secondary students.
- **Connecting to the World of Work** ($11.1 million), which is designed to tie together educational activities with future work opportunities. Programs or services include increased funding for Science Technology, Engineering, and Math (STEM) programs, creation of regional STEM and CTE networks, and providing increased STEM and CTE programs to under-served populations. This initiative also includes resources for providing additional funding for the Eastern Promise program and expanding its concept to other regions of the state.

The Legislature also established the $45 million Other Funds Network of Quality Teaching and Learning (HB 3233) which makes investments in mentoring, school district collaboration, educator preparation, activities to close the achievement gap, and support in implementing Common Core State Standards. A distribution from the school funding formula provides $33 million Other Funds while the other $12 million is contingent on a decision by the State Land Board to increase the distribution from the Common School Fund. Included in the Network are the Mentoring and School District Collaboration programs which had received approximately $9.1 million General Fund in 2011-13. For 2013-15, the General Fund has been replaced with over $20 million of Network Other Funds; consequently the net increase in Network related programs is $36 million.

Funding (General Fund) for a number other programs was established or increased including Start Making a Reader Today or SMART ($500,000), For Inspiration and Recognition of Science and Technology or FIRST ($500,000), Student Achievement Improvement Grants ($1.5 million), Farm to School nutrition program ($990,000), and the Reach Out to Read program ($100,000). A number of policy bills were passed expanding or establishing new General Fund grant programs including CTE Revitalization Grants ($7.5 million), CTE Student Organization Grants ($500,000), and the After School Meal and Snack Program ($300,000). Funding for grants to districts for physical education was increased by $4 million Other Funds using proceeds from the Tobacco Master Settlement Agreement.

Grant-in-Aid Programs	2011-13 Leg. Approved		2013-15 Leg. Adopted	
	General Fund	Total Funds	GF	Total Funds
Nutrition Programs	*2.26*	*287.64*	*3.61*	*353.60*
Nutrition Programs	2.26	287.64	2.32	352.31
Farm to School programs (HB 2649 & HB 5008)	-	-	0.99	0.99
After School Mean/Snack Program (HB 2729)	-	-	0.30	0.30
No Child Left Behind Program (NCLB)	*-*	*359.63*	*-*	*328.31*
Title II (NCLB)	-	55.89	-	22.40
Low Income Part A NCLB	-	254.38	-	260.49
Vocational Education Grant Programs	-	27.60	-	28.26
Migrant Title I Part C	-	21.75	-	17.15
CTE Related Programs	*1.83*	*1.83*	*9.88*	*9.88*
CTE Revitalization Grants	1.83	1.83	9.38	9.38
CTE Student Organization Grants	-	-	0.50	0.50
Teacher Training & Network of Quality Teaching	*9.10*	*9.10*	*-*	*40.62*
School District Collaboration Grants	4.58	4.58	-	-
Teacher Mentoring	4.52	4.52	-	-
Network for Quality Teaching and Learning	-	-	-	40.62
Strategic Education Initiatives	*-*	*-*	*23.85*	*23.85*
Preparation for World of Work	-	-	7.51	7.51
Oregon Reads	-	-	7.37	7.37
Support for Mid High School	-	-	5.34	5.34
Seamless Transitions	-	-	3.63	3.63
Physical Education Grants	*0.37*	*0.37*	*0.38*	*4.38*
Other K-12 Grants including FIRST, SMART & Reach Out to Read	*1.10*	*89.55*	*3.25*	*102.49*
Connectivity	0.47	0.47	-	-
Innovative Education Title V	-	1.38	-	-
State Scholarships	-	0.07	-	34.33
Other Grant Programs	-	87.01	-	64.91
Student Leader Program & Accelerated College Credit	0.48	0.48	0.50	0.50
For Inspiration & Recognition of Science & Technology (Robotics)	0.14	0.14	0.65	0.65
Start Making a Reader Today (SMART)	-	-	0.50	0.50
Reach Out to Read Program	-	-	0.10	0.10
Student Achievement Improvement Grants	-	-	1.50	1.50
IDEA and General Special Education Programs	*-*	*253.61*	*-*	*291.69*
Regional Programs	*25.83*	*55.74*	*26.45*	*57.08*
Long Term Care Program	*14.76*	*37.89*	*15.12*	*38.80*
Hospital Programs	*1.28*	*4.31*	*1.31*	*3.13*
Blind & Visually Impaired Student Fund	*0.97*	*5.97*	*0.99*	*6.12*
Early Childhood Special Education/Early Intervention	*115.26*	*145.34*	*136.04*	*164.04*
Early Childhood Special Education	91.06	113.73	107.90	126.70
Early Intervention	24.20	30.23	28.14	37.34
Even Start Lit Title I Part C	-	1.37	-	-
Other Special Education Programs	*-*	*5.88*	*0.05*	*6.95*
Total Grant-in-Aid	**172.76**	**1,256.85**	**220.91**	**1,430.92**
Supplemental Ending Balance (2%)	**-**	**-**	**(4.16)**	**(4.16)**
Net Funding Level	**172.76**	**1,256.85**	**216.75**	**1,426.76**

ODE – Early Learning and Youth Development Divisions

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	0	0	0	163,531,374
Other Funds	0	0	0	17,545,321
Federal Funds	0	0	0	134,534,908
Total Funds	**$0**	**$0**	**$0**	**$315,611,603**

Program Description

The 2013 Legislature established two new Divisions for the Department of Education. The Grant-in-Aid components of the Divisions' budgets are in this section while the staffing and other costs are part of the Operations section above. The **Early Learning Division** (HB 3234) was established to consolidate and streamline the various early learning programs across state government. A primary goal for this consolidation was to create an early learning system which would result in children being ready for Kindergarten and elementary school, both in terms of education readiness and being healthy. An estimated 40% of children are not ready for Kindergarten when they enroll. The governing and advisory entity for this new Division is the Early Learning Council, and the Division is led by the Early Learning Director. While the Division is part of ODE, the Early Learning Director is appointed by the Governor. The programs that are consolidated into this Division include: (1) the Office of Child Care from the Employment Department and the various programs it currently administers; (2) Oregon's Pre-Kindergarten (OPK) and Early Head Start programs in ODE; and (3) various programs formerly part of the Governor's Office, many of which were programs previously administered by the Commission on Children and Families (e.g., Healthy Start, Relief Nurseries, Race to the Top federal grant).

The **Youth Development Division** (HB 3231) was established to provide a focus point for youth-related programs and insure services provided to youth through 20 years of age are provided in a manner that is integrated, measurable, and accountable and supports academic success and reduces criminal involvement. There is also a Youth Development Council to provide direction and governance of the Division's program. The Division is led by a Youth Development Director who is appointed by the Governor. The programs transferred into the new Division are generally programs that had been part of the former Commission on Children and Families, including the Juvenile Crime Prevention Program, Title XX Youth Investment Program, Community Schools, and the Gang Involved Youth Program.

Revenue Sources and Relationships

The Early Learning Division receives Medicaid funding from the Oregon Health Authority for Healthy Start/Healthy Families and Title IV-B(2) federal funds from the Department of Human Services. These funding steams are spent as Other Funds in the Division's budget. Asset Forfeiture funds are used for Relief Nurseries. Federal child care funding is the largest source of federal funds and is used for the licensing, monitoring, and child care subsidies. The largest share of these funds is transferred to the Department of Human Services for the Employment Related Day Care (ERDC) program. The other major federal funding source is the Race to the Top grant, which funds a variety of activities in the Division.

The Youth Development Division receives Title XX from the Department of Human Services for the Youth Investment program as well as funding from the Casey Foundation. Federal resources are used for the Juvenile Crime Prevention program and gang related programs.

Budget Environment

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

For both Divisions the local delivery systems have yet to be fully developed. The planned local system for the Early Leaning Division's programs will depend on Early Learning Hubs designated by regional partners such as counties, school districts, ESDs, post-secondary institutions, nonprofit service providers, and others who come together in a self-defined region and apply to the Early Learning Council. The hope is that they will operate similar to the Coordinated Care Organizations for the Oregon Health Plan. The number of Hubs is limited to 16 by HB 2013 (2013). For the 2013-15 biennium, the Council is to establish Early Learning Hub Demonstration Projects with no more than seven receiving funding for the first year of the biennium. The Council is responsible for defining the selection criteria, developing final requirements and details that Hubs must operate under, and working out any boundary issues.

Legislatively Adopted Budget

The combined 2013-15 legislatively adopted budget for these two Division's Grant-in-Aid programs is $163.5 million General Fund and $315.6 million total funds. As shown in the table below, the Early Learning Division accounts for over 96.6% of the total General Fund resources and over 95.1% of the total funds. The Oregon Pre-Kindergarten program is by far the largest General Fund program with almost 80% of the General Fund allocated to the program. Most of the programs are at current service level (CSL), prior to the reduction for the supplemental ending balance, while a few programs received small increases over CSL including Oregon Pre-

Kindergarten, Head Start Collaboration, and Relief Nurseries. A total of $3.3 million General Fund was reduced in these budgets for the 2% supplemental ending balance.

The brand new programs (not just new to ODE) or grant streams for the Early Learning Division include the Hub Funding, which will be distributed to the local entities designated as Hubs for the administrative and coordinative costs of delivery of services; one-time continuity funding for counties and their contractors for transition from the former structure to the new delivery system; and the Early Learning Kindergarten Readiness Partnership and Innovation grants, which are designed to assist partnerships and others to assist children be ready for Kindergarten or share best practices in professional development and services. For the Youth Development Division there is a $1.8 million special purpose appropriation for program funding for the second year of the biennium for youth development grants, contracts, and local services. Prior to requesting the funds, the Youth Development Council must prepare and report on a plan on how to invest and distribute these funds.

Early Learning and Youth Development Grant-in-Aid Programs

	2011-13 Leg. Approved		2013-15 Leg. Adopted	
	General Fund	Total Funds	General	Total Funds
Early Learning Division Grant-in-Aid				
Oregon Pre-Kindergarten & Early Headstart	***123.76***	***123.76***	***128.96***	***128.96***
Pre-Kindergarten Grants (in general ODE Grant-in-Aid unit for 2011-13)	123.76	123.76	127.42	127.42
Early Headstart (in general ODE Grant-in-Aid unit for 2011-13)	-	-	1.54	1.54
Hub Funding & Service Continuity Funding	***-***	***-***	***5.00***	***5.00***
Early Hub Funding	-	-	4.28	4.28
Service Continuity Funding	-	-	0.72	0.72
Healthy Families Oregon	***-***	***-***	***14.13***	***18.09***
Healthy Families Oregon	-	-	14.13	18.09
Relief Nurseries	***-***	***-***	***6.60***	***8.85***
Relief Nurseries	-	-	6.60	8.85
Child Care Programs			***0.15***	***128.13***
Child Care Subsidies			0.15	128.13
Other Early Learning Programs	***-***	***-***	***6.42***	***11.51***
Early Learning Kindergarten Readiness grants	-	-	4.00	4.00
Other Early Learning Programs	-	-	2.42	2.42
Race to the Top	-	-	-	5.08
Great Start			1.30	1.30
Children, Youth & Families			0.74	0.74
Family Preservation			-	3.02
CASA			0.08	0.08
Race to the Top				5.08
Total Early Learning Division	**123.76**	**123.76**	**161.12**	**303.42**
Supplemental Ending Balance (2%)	**-**	**-**	**(3.22)**	**(3.22)**
Net Funding Level	**123.76**	**123.76**	**157.90**	**300.20**
Youth Development Division Grant-in-Aid				
Juvenile Crime Prevention Grants	***-***	***-***	***5.66***	***8.64***
Other Youth Development Programs	***-***	***-***	***0.09***	***6.89***
Community Schools	-	-	0.09	0.15
Youth Investment	-	-	-	6.43
Casey Program	-	-	-	0.30
Total Youth Development Division	**-**	**-**	**5.75**	**15.53**
Supplemental Ending Balance (2%)	**-**	**-**	**(0.11)**	**(0.11)**
Net Funding Level	**-**	**-**	**5.63**	**15.41**

ODE – Debt Service

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Lottery Funds	55,232,892	54,160,517	42,457,585	42,371,076
Other Funds	2,496,840	2,525,733	0	0
Other Funds (NL)	1,351,778	2,770,239	0	0
Total Funds	**$59,081,510**	**$59,456,489**	**$42,457,585**	**$42,371,076**

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; as well as $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). There will be an outstanding balance of approximately $2.5 million at the end of 2013-15 which will be fully paid over the next few biennia.

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

Revenue Sources and Relationships

Lottery Funds include direct allocations from available revenues and 75% of the interest earnings from the Education Stability Fund. Other Funds include net unobligated lottery proceeds and interest earnings from the Education Lottery Bond Fund.

Legislatively Adopted Budget

The 2013-15 legislatively adopted Lottery Funds budget of $42.4 million is $11.8 million or 21.8% less than the 2011-13 legislatively approved budget. The budget has been adjusted to reflect the latest projections of interest earnings and biennial payment obligations.

ODE – Common School Fund Distributions

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds (NL)	99,195,033	101,752,888	101,752,888	91,627,015
Total Funds	**$99,195,033**	**$101,752,888**	**$101,752,888**	**$91,627,015**

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. These distributions are then considered local revenues for the purposes of the school distribution formula.

Budget Environment

As of January 2006, fund growth is determined on the basis of a 3-year rolling average. If the growth is 5% or less, a minimum distribution of 2% of the fund's fair market value is made. If the fund grows between 5% and 11%, the distribution percentage grows incrementally, up to a maximum distribution percentage of 5% if the fund grows by 11% or more. This policy was modified so that, effective with the December 31, 2009 distribution, the amount of the distribution shall be equal to 4% of the average balance of the preceding 3 years if the 3-year rolling average growth is less than 11%.

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

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget is based on a 4% distribution. The amount may be increased by $12 million if the State Land Board votes for a higher increase than the one set out in Board general policy, which the Board also did in 2011-13. The total $45 million designated for the Network for Quality Teaching and Learning depends on the Board voting for an increased distribution so a further $12 million is available. Without the increased distribution, the Network will only have $33 million available.

Oregon Department of Education – State School Fund

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	4,777,824,006	5,168,845,755	5,924,260,594	6,222,625,891
Lottery Funds	609,121,349	545,904,513	391,169,853	327,374,109
Other Funds	3,529,791	340,252	400,826	400,826
Federal Funds	323,893,772	61,000,000	0	0
Total Funds	**$5,714,368,918**	**$5,776,090,520**	**$6,315,831,273**	**$6,550,400,826**

For 2011-13 there was $61 million Federal Funds related to the American Recovery and Reinvestment Act included in the total amount. No new funding was available for the 2011-13 biennium and this amount was included as a contingency if school and education service districts did not fully draw these resources prior to the close of the 2009-11 biennium. ODE estimates that approximately $22 million of these funds were spent in 2011-13.

Program Description

The Oregon Constitution directs the Legislature to "provide by law for the establishment of a uniform and general system of common schools." General state support for K-12 schools and Education Service Districts (ESDs) is provided through the State School Fund (SSF) and represents the state share of the amount distributed through the school equalization formula. The Department of Education (ODE) makes distributions of state support to school districts and ESDs that meet all legal requirements.

By far the largest use of the SSF is for distribution through the equalization formula to school districts (95.5% of the net distribution) and ESDs (4.5% of net distribution). Prior to this distribution there are a number of other statutorily defined distributions or "carve-outs" from the SSF including the High Cost Disabilities Account, facilities grants, ESD testing or assessment contract, Talented and Gifted (TAG) programs, funding for speech language pathologists, and Oregon Virtual School District funding. SSF resources are also allocated for students in Youth Corrections and Juvenile Detention programs, the Oregon School for the Deaf, and long-term care facilities and hospitals.

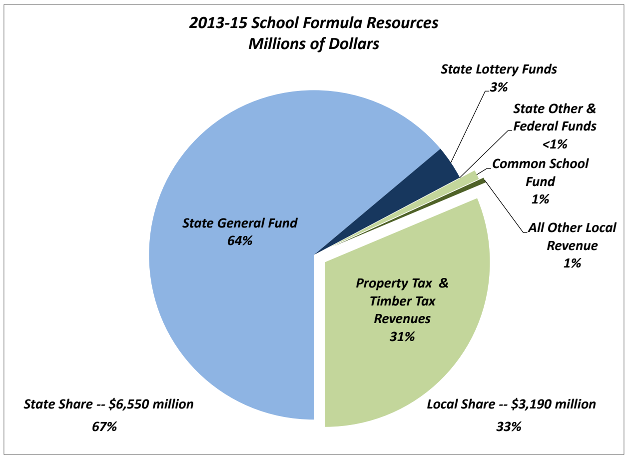
Allocations to school districts include a transportation grant and a general-purpose grant. The general-purpose grant follows a legislatively prescribed distribution formula based on number of students, additional weighting reflecting specific greater education costs (e.g., poverty, special education, and remote schools), teacher experience, and local tax resources. This formula was designed to equalize allocations to schools. Districts may also have local option levies for which the state may provide assistance with if the district qualifies. While the formula distribution provides the largest share of resources for school districts and ESDs, ODE distributes over $1.4 billion of federal and state funding through the grant-in-aid programs for purposes such as child nutrition, special education, specialized education initiatives, and compensatory education.

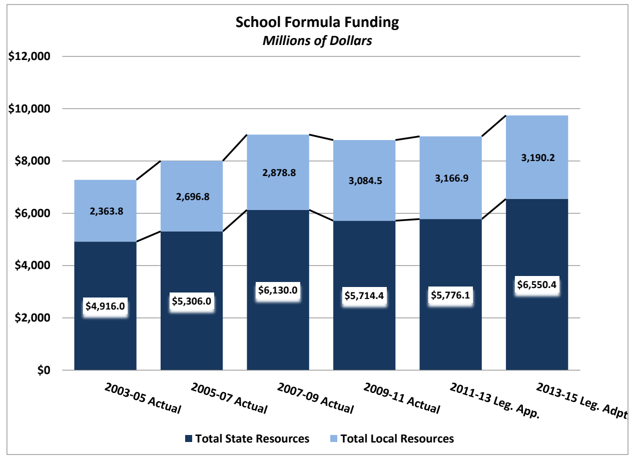
Revenue Sources and Relationships

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, and the state increased its share of the funding and passed a new school equalization formula. By the end of the five- year tax limit phase-in, the state primarily funded the school system and virtually eliminated local control over school funding levels. Measure 50 (a rewrite of Measure 47 passed earlier) added another property tax limit more restrictive than Measure 5 and again the state increased its share of the funding. For the 2013-14 school year, the State School Fund share of the distribution amount through the equalization formula for school districts and ESDs represents 67% or two thirds with various local revenues representing the remaining 33%.

The majority of the SSF budget consists of General and Lottery Funds. The Other Funds portion of the reflect receipts from the state timber tax and donations of kicker rebates. The Education Stability Fund, which originates as Lottery Funds, was accessed for the SSF during the 2007-09, 2009-11, and the 2011-13 biennia. The Oregon Rainy Day Fund (General Fund) was used for the SSF in the 2009-11 biennium. Neither Fund was used for the 2013-15 legislatively adopted budget.

As noted above, the majority of the SSF is distributed to school districts and ESDs through an equalization formula with the SSF representing the state portion combined with a variety of local revenues. These local revenues include local property taxes, local timber tax revenues, revenue from state managed timber, the Common School Fund, payments in-lieu of property taxes, and excess local ESD revenues. The pie chart on the left below demonstrates the breakdown between the distribution formula revenue sources for 2013-15 while the chart on the right provides some historical context of the state/local revenue mix.





Budget Environment

Currently, there are 197 elementary and secondary school districts and 19 education service districts, serving about 536,000 students (ADM) in grades K-12. The School Revenue Forecast Committee estimates enrollment growth of 0.1% per year during the 2013-15 biennium with weighted growth of 0.4% per year. Overall weighted ADM is estimated at 665,000 for the 2013-14 school year.

In 2001, the Quality Education Commission (QEC) was established to: 1) determine the amount of moneys sufficient to ensure that the state's system of kindergarten through grade 12 public education meets quality goals; 2) identify best practices that lead to high student performance and the costs of implementing those best practices in the state's kindergarten through grade 12 public schools; and 3) prior to August 1 of each even-numbered year, issue a report to the Governor and the Legislative Assembly. This report 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. Based on the QEC's Quality Education model estimates, the legislatively adopted budget's SSF amount is still roughly $2 billion short of funding Oregon's educational goals currently in law.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget for the State School Fund is $6.55 billion total funds of which $6.22 billion is General Fund and $327.4 million is Lottery Funds. The combined 2013-15 General and Lottery Funds commitment to the SSF is $835 million or 14.6% greater than the amount available for 2011-13. The 2011-13 amount included over $182 million from the Education Stability Fund while the 2013-15 amount includes no allocation from this Fund. This 2013-15 legislatively approved budget for the SSF is $234 million greater than the 2013-15 current service level estimate and $398 million more than what the Governor proposed in his budget. School districts and other local government budgets will also benefit from the PERS changes assumed as part of SB 822 (2013). It is estimated that school districts and ESDs will see over $200 million in savings from these PERS changes.

The 2011 Legislature passed SB 250 (2011) which decreased the ESD allocation from 4.75% to 4.5%. Furthermore, of the 4.5% ESD share, a further reduction of 0.25% of the total formula distribution was allocated to the Regional Education Services account within the Office of Regional Educational Services. The same bill provided the opportunity for some school districts to withdraw from their ESD. The Office was never established and only a small amount of ODE spending was financed from the new account, and the remainder went to school districts. HB 2506 (2013) abolished the Office of Regional Educational Services and the account as well as the 0.25% allocation. HB 3401 (2013) provided further opportunity for school districts to withdraw from their ESDs in specific areas of the state.

As noted above, the SSF funds a variety of programs other than the general grants to school districts and ESDs. The table below provides an estimate of the overall 2013-15 resources and distributions of the SSF and local revenues for the equalization formula. These figures are based on the revenue and expenditure estimates projected by ODE at this time.

2013-15 State School Fund & Local Revenues Spending
Millions of Dollars

Projected Resources		
State School Fund Appropriation		6,550.40
Local Revenues		3,190.15
Property Taxes & Timber Tax Revenues	3,052.35	
Common School Fund	89.56	
County School Fund	15.72	
State Managed Timber	28.53	
All Other	4.00	
Total Projected Resources		**9,740.55**
Projected Expenditures		
State-wide Uses		
Oregon School for the Deaf	1.50	
Youth Corrections and Juvenile Detention Programs	21.00	
Long Term Care	22.50	
Skilled Nursing Facility Distribution	0.50	
Talented and Gifted Programs	0.35	
Speech Language Pathologists	0.15	
District Best Business Practices	-	
ESD Testing/Assessment Contract	0.97	
Virtual School District	1.60	
Network for Quality Teaching and Learning	33.00	
Distributed to Local School Districts and ESDs		
General Purpose & Transportation Grants to School Districts	9,135.77	
General Purpose Grants to Education Service Districts (ESDs)	418.67	
High Cost Disabilities Account	36.00	
Facilities Grants	20.00	
Local Option Equalization Grants	3.54	
Small School District Supplement	5.00	
Reserve Account	40.00	
Total Projected Expenditures		**9,740.55**

Oregon Health and Science University Public Corporation – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	77,012,354	66,041,261	69,794,258	72,362,387
Other Funds	30,520,386	31,634,760	31,639,826	31,639,826
Other Funds (NL)	66,435,465	69,307,022	0	0
Total Funds	**$173,968,205**	**$166,983,043**	**$101,434,084**	**$104,002,213**

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; and provides services across the state through its full service and trauma center hospital, clinics, research centers, community outreach programs, and health care professional training programs. In addition to its primary site in Portland, OHSU also has clinical facilities throughout the Portland metropolitan area, the Oregon Primate Research Center, and teaching programs in various locations throughout the state. Although operating as a public corporation since 1995, the university is governed by a Board of Directors that is appointed by the Governor and confirmed by the Senate. The Legislature no longer approves the university budget (or limits its expenditures from tuition and other sources), but the state continues to directly support OHSU through grants for academic programs (Schools of Medicine, Dentistry, and Nursing), Area Health Education Centers (AHEC), Child Development and Rehabilitation Center (CDRC), the Oregon Poison Center, and debt service for the Oregon Opportunity Program.

Revenue Sources and Relationships

To finance the Oregon Opportunity Program, an expansion of research programs in genetics and biotechnology, OHSU received $200 million in Article XI-L bond proceeds in 2001-03 and 2003-05. Other Funds are solely Tobacco Master Settlement Agreement funds for debt service on these bonds. The final payment is scheduled in 2024. The Nonlimited Other Funds in the above table for 2009-11 and 2011-13 represent the expenditures associated with refinancing of the bonds.

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. The amount of General Fund allocated to OHSU fell between 2007-09 ($82.2 million) and 2011-13 ($66 million) – the Legislature increased the amount for 2013-15 to $72.4 million.

OHSU's educational programs alone do not generate sufficient revenue to cover their operating costs and have been subsidized with operating gains from healthcare or clinical services as well as the state's General Fund. If the General Fund or other sources decrease, tuition often has had to be increased to make up the difference. Based on information provided by OHSU, the School of Medicine's tuition is ranked high compared to schools that have similar quality, program, and mission. For the 2012-13 school year, OHSU's rate was $43,682 for residents ($58,480 for non-residents) compared to the mean of a group of comparable schools of $33,255 ($55,952 for non-residents). Data provided by OHSU demonstrated that its tuition for 2011-12 was the third highest of public medical schools. Similar trends are demonstrated for the Schools of Nursing (graduate level) and Dentistry where in-state tuition rates are higher than for comparable schools.

According to data provided by OHSU, direct state appropriations make up less than 1.5% of OHSU's total revenues – by far the largest revenue source are patient service revenues which includes indirect state resources through the Oregon Health Plan and state employee health services. In fiscal year 2013, the state's appropriation was 1.4% of OHSU's board approved $2.1 billion operating budget and accounted for the following percentages of unrestricted budgeted revenues in the School of Medicine – 4%, School of Nursing – 36%, School of Dentistry – 12%, AHEC/Rural Health – 85%, CDRC – 22%, and Oregon Poison Center – 50%.

Legislatively Adopted Budget

After factoring out the 2011-13 one-time Other Funds (Nonlimited) expenditures for debt refinancing of $69.3 million, the 2013-15 legislatively adopted budget of $104 million total funds is 6.6% greater than the 2011-13 legislatively approved budget. The General Fund increase parallels the total funds increase while the Other Funds limitation for debt service essentially stays the same between the two biennia. The table below demonstrates the allocation of the General Fund resources between the major programs. The budget for OHSU was not subject to reductions for the supplemental ending balance.

Program/Activity	2009-11 Actual	2011-13 Approved	2013-15 LAB
School of Medicine	27,582,683	22,863,225	23,979,517
School of Nursing	22,684,126	19,787,830	20,738,121
School of Dentistry	11,256,091	9,273,415	9,718,762
Area Health Education Centers/Office of Rural Health	4,451,146	4,054,092	4,248,786
Child Development and Rehabilitation Center	8,622,991	7,239,450	7,710,000
Oregon Poison Center	2,415,320	2,316,624	2,467,201
Health Care Professionals Tuition Assistance (e.g., SB 2)	-	525,000	3,500,000
Total	**77,012,357**	**66,059,636**	**72,362,387**

The Legislature provided an additional $2.2 million General Fund beyond the amount in the Governor's budget for the Schools of Medicine, Nursing, and Dentistry as well as for the Area Health Education Centers. This increase was provided with the understanding that it would be used to freeze tuition in the second year of the biennium, maintain the same proportion of Oregon residents in the schools, continue rural rotations for medical students, maintain Office of Rural Health programs at 2013 levels, and continue the rural K-12 "pipeline" programs.

SB 2 established the Scholars for a Healthy Oregon, a program to provide a scholarship to eligible participants who are entering an OHSU training program for physicians, dentists, nurse practitioners, physician assistants, and nurse anesthetists. Participants who agree to serve in medically underserved communities for at least one year longer than they participated in the training program are provided a conditional scholarship. Failure to complete this requirement results in the repayment of the scholarship plus a 25% penalty. The repayment and penalty is reduced proportionately for each year the participant serves in the designated area or community. A total of $2.5 million General Fund was approved which is estimated to serve 21 students for the 2014-15 school year. Also approved, was $1 million General Fund to continue the Primary Health Care Loan Forgiveness Program within the Office of Rural Health.

Higher Education Coordinating Commission – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	0	0	0	3,111,497
Other Funds	0	0	0	1,732,885
Other Funds (NL)	0	0	0	200,000
Federal Funds	0	0	0	342,759
Total Funds	**$0**	**$0**	**$0**	**$5,387,141**
Positions	0	0	0	27
FTE	0	0	0	20.65

Agency Overview

The Higher Education Coordinating Commission (HECC) is a 15 member commission appointed by the Governor and confirmed by the Senate. Its primary focus is strategic planning for the entire public post-secondary education system in the state. The Commission also advises the Oregon Education Investment Board (OEIB) on state investments for post-secondary education. Other responsibilities include: (1) develop goals and accountability measures for the post-secondary system; (2) develop a strategic plan; (3) develop a finance model for the higher education based on the strategic plan; and (4) approve and authorize degrees for the public universities.

The passage of SB 270 and HB 3120 also add a number of duties to the HECC portfolio. Starting in 2014, the Commission will take over the current responsibilities of the State Board of Education as it relates to the Community College system as well as assuming the responsibilities of the Oregon Student Access Commission (OSAC) which will be eliminated. The existing state staff for the Community College and Workforce Development Department and the current staff of OSAC will remain separate state agencies, but answer to HECC and its staff director. Two other programs and their budgets have been transferred to HECC. The Office of Degree Authorization, which had been part of the OSAC office, evaluates and approves degree granting institutions and their programs that are not part of the OUS system, who do not have regional accreditation, or offer programs from a base outside of the state. The Private Career School program was transferred from the Oregon Department of Education and licenses career schools, approves their programs, and investigates complaints regarding these schools.

Revenue Sources and Relationships

The General Fund provides the resources for the planning, monitoring, and coordinating functions of HECC. The Office of Degree Authorization and the Private Career School Program rely on fees on the institutions licensed by the two programs. Both programs had fee increases or restructuring approved during the 2013 legislative session. The Tuition Protection Fund of the Private Career Schools Program relies on assessments of the schools under the jurisdiction of the Program; and provides resources to students who attended schools and had funds or services due to them after the school went out of business. The Private Career School Program also has a contract with the U.S. Department of Veterans' Affairs for specific programs for veterans.

Budget Environment

The 2013-15 biennium is the first budget period that HECC is a separate state agency with its own budget. Even though HECC was established in 2011-13, it did not have any budget and consequently any staff. Staff from the Office of the Governor, Oregon Education Investment Board (OEIB), Department of Community College and Workforce Development (CCWD), and the University System's Chancellor's Office provided support for the Commission.

Both the Office of Degree Authorization (ODA) and the Private Career Schools Program have seen growth in the number of schools and programs they are responsible for. The ODA's program growth is primarily due to the number of online and placement programs that have started offering programs to Oregon students. In 2007-09, 39 such institutions were under ODA oversight and the number grew to 60 in 2009-11 and to 147 in 2011-13.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget is $3.1 million General Fund, $1.7 million Other Funds, and $5.4 million total funds. There is no 2011-13 budget for this agency for comparison. The budget (including a reduction of $45,957 General Fund for the supplemental ending balance) is divided between its general coordination/ planning functions and its regulatory functions as follows.

	2013-15 Legislatively Adopted Budget						
	General Fund	**Other Funds**	**Other Funds NL**	**Federal Funds**	**Total Funds**	**Positions**	**FTE**
Policy and Coordination Functions	2,952,253				2,952,253	15	10.65
Office of Degree Authorization and Private Career Schools Program	159,244	1,732,885	200,000	342,759	2,434,888	12	10.00
Total	**3,111,497**	**1,732,885**	**200,000**	**342,759**	**5,387,141**	**27**	**20.65**

The Legislature first provided $2.2 million General Fund (9 positions, 6.96 FTE) for the original planning and coordination functions of HECC. This amount included an Executive Director, three Fiscal or Policy Analysts, an Education Specialist, an Accountant, an Information Systems Specialist, and support staff phased in over a 12 month period. This amount also included $250,000 for outside contracts and resources for the general operating costs of the agency and Commission. An additional $859,630 General Fund and policy related staff (6 positions, 3.69 FTE) was added after the passage of SB 270 and HB 3120 to reflect the additional workload of these two higher education governance bills. It should be noted that since this is a new agency with a new set of responsibilities, it is not certain what the exact staffing needs are at this time.

The original staff and budget of the Office of Degree Authorization (ODA) was transferred from OSAC to HECC in the amount of $117,060 General Fund, $416,106 Other Funds, and two staff (2.00 FTE). Based on the additional anticipated fee revenue from a restructuring of the Office's fees, the General Fund was eliminated, an additional $441,981 Other Funds resources and two additional positions (1.50 FTE) were approved. For the Private Career School Program, the existing five positions (4.00 FTE) and $996,592 total funds ($452,228 Other Funds, $200,000 Other Funds Nonlimted, and $344,364 Federal Funds) were transferred from the Department of Education to HECC. Similar to the ODA program, the budget for the Private Career School Program was enhanced due to fee increases. An additional $296,908 Other Funds resources and three new positions (2.50 FTE) were added. To tide the Program over until sufficient fee revenues are collected, a one-time $162,494 General Fund appropriation was provided for the Program. The budget also includes $150,000 in Other Funds limitation for development of a new information system which had originally been approved by the Emergency Board in 2012.

Oregon Education Investment Board – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	0	0	0	6,035,608
Total Funds	**$0**	**$0**	**$0**	**$6,035,608**
Positions	0	0	0	15
FTE	0	0	0	15.00

Agency Overview

The Oregon Education Investment Board (OEIB) is a 13 member board appointed and chaired by the Governor. It is charged with "overseeing" a unified public education system beginning with early childhood learning and continuing to post-secondary education (P-20). Specific OEIB duties include recommending strategic education investments to ensure the education budget is targeted to outcomes, entering into achievement compacts, and providing an integrated student-based data system to monitor spending and outcomes. OEIB has "direction and control" of the Early Learning Council and the Higher Education Coordinating Council to oversee their activities as they relate to connecting and streamlining K-12 to early learning activities and higher education.

This agency's budget also includes the Office of the Chief Education Officer (CEdO) which represents the majority of the budget and all of the positions. The OEIB appoints the CEdO who provides the staffing for the OEIB and is seen as the primary focus point for P-20 education for the state. While the CEdO's position does not have general direct control or hire/fire authority for other education officials in the state, the position does have authority for "direction and control…for matters related to the design and organization of the state's education system" over these officials. The authority for both the OEIB and the CEdO sunsets on March 15, 2016.

Revenue Sources and Relationships

The agency relies totally on a General Fund appropriation to support its budget.

Budget Environment

The 2013-15 biennium is the first that OEIB is a separate state agency with its own budget. The 2011-13 budget for the Office of the Governor's budget included approximately $2.8 million General Fund for the activities of the OEIB and CEdO's office and staff.

The overall guiding principles for OEIB (and other state education entities) include:

- **Tight/loose relationship between the state and educational providers**, where the state will be tight or more directive in expectations and outcomes, but looser in directing how the outcomes are reached.
- **Integration of the P-20 education system**, centered more on the need to integrate all phases of education from early childhood learning to post-secondary education and the transition between the various components.
- **40-40-20 Goal by 2025,** where ORS 351.009 declares the mission of all education beyond high school is to achieve 40% of adults have earned at least a bachelor's degree, another 40% have earned a two year associate's degree or a post-secondary credential, and the remaining 20% have earned at least a high school diploma or its equivalent.

A primary area of work for OEIB is to enter into annual achievement compacts with individual educational entities (e.g., school districts, community colleges, units of OUS, OHSU). The terms of the compacts may include completion rates including high school and college diplomas, certificates, and other "critical stages" in the educational continuum; progress toward the 40-40-20 goal; and validation of the quality of knowledge and skills acquired by students. While the compacts are required, there are no specific consequences if the goals included in the compact are not achieved. The authority for achievement compacts sunsets July 1, 2015.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget is $6 million General Fund of which $4.6 million is for the 11 existing positions and general board related costs that had been in the Office of the Governor in 2011-13. These positions include the Chief Education Officer, a chief of staff, two deputies assigned for general education policy areas, three policy analysts or project managers, a board administrator, and three support positions. Funding is also included for outside contracts the Board may enter into ($500,000), board expenses ($24,000), resources to paying the Department of Administrative Services (DAS) for financial and administrative services ($285,000), and travel and car allowance ($88,000). The agency will need to identify savings in its budget to partially fund Pension Obligation Bond liabilities. The budget was also adjusted for the PERS changes resulting from SB 822 as well as a $123,176 General Fund reduction for the supplemental ending balance.

New initiatives in the OEIB budget include four new positions ($705,587 General Fund) to create a research unit for the P-20 educational continuum. In addition, $950,000 General Fund was included to fund a portion of the strategic education investments including $500,000 for grants to assist in convening groups for regional achievement compact, $200,000 for state education connections conferences, and $250,000 for a statewide reading campaign. These are part of the total $27million General Fund in new funding for strategic education investments included in the overall budget.

Oregon Student Access Commission – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2011-13 Legislatively Adopted
General Fund	87,759,413	99,891,570	108,584,620	115,718,916
Lottery Funds	6,632,734	2,630,172	344,599	246,223
Other Funds	6,814,902	21,659,086	21,107,569	20,094,896
Other Funds (NL)	10,969,513	0	0	0
Federal Funds	917,968	0	0	0
Total Funds	**$113,094,530**	**$124,180,828**	**$130,036,788**	**$136,060,035**
Positions	32	29	26	28
FTE	27.00	26.66	24.67	25.67

Agency Overview

The Oregon Student Access Commission (OSAC) is a seven member Commission whose mission is to create a college-going culture for all Oregonians by providing access through information, mentoring, and financial support. The Commission administers the following programs:

- Oregon Opportunity Grants (OOG) program (funded with General and Lottery Funds) makes awards available to students from families earning up to $70,000 per year based on a Shared Responsibility Model (SRM). The OOG accounts for approximately 96% of the 2013-15 General and Lottery Funds legislatively adopted budget.
- The Private Scholarship program administers over 450 public and private scholarship and grant programs that awarded approximately $16 million for a variety of entities such as the Oregon Community Foundations and Ford Family Foundation.
- Access to Student Assistance Programs in Reach of Everyone (ASPIRE) program trains volunteers to serve as mentors to middle and high school students in schools across the state with information regarding college and career choices, preparation, and financial aid for post-secondary education.
- A series of smaller financial assistance programs including those directed to or related to foster care youth, student child care, children of deceased or disable public safety officers, and Jobs-Plus clients.

The Office of Degree Authorization was transferred to the Higher Education Coordinating Commission (HECC) for 2011-13, but its budget remained part of the OSAC budget through the 2011-13 biennium.

Beginning in 2014, the OSAC Commission itself is eliminated and its policy, governance, and other responsibilities are transferred to HECC. The current OSAC programs and staff remain as a separate state agency under the direction and control of HECC, with a new agency name of the Office of Student Access and Completion (still OSAC).

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. The amount available for 2013-15 was limited since the Education Stability Fund was accessed in both 2009-11 and 2011-13. Since the Fund has not been used at this point for 2013-15, there should be a larger amount available for the next budget period.

Other Funds revenues are primarily funds received from private award donations and associated charges for administering privately funded scholarship programs. In the past, there were also fees collected for reviewing degrees from private post-secondary institutions by the Office of Degree Authorization (ODA); but beginning in 2013-15, the budget for ODA was transferred to the Higher Education Coordinating Commission (HECC). Prior to 2011-13, most Other Funds payments for student aid (e.g., Private Award payments, JOBS Plus payments) were Nonlimited but now these payments are limited.

Budget Environment

In 2007, the Legislature approved the OOG Shared Responsibility Model (SRM) where 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/family's ability to pay. The ability to pay is based on an amount that varies with the student's financial resources and qualifications for federal student aid (the family share and the federal share). As a result, award amounts will vary by income level and other financial resources and more students from middle income families are eligible. The program does not come close to serving the total number of eligible applicants. Between 2007-08 and 2011-12, the number eligible applicants increased by 272% while program funding increased by 51%. Last year only 18.6% of the eligible students were awarded grants. The Commission estimates that if all eligible applicants were awarded grants, the average grant would have been $331 instead of the estimated $1,608 for 2012-13.

Funding for the Oregon Opportunity Grant Program (OOG) has not kept pace with the rising number of students and the cost of tuition. While overall General Fund/Lottery Funds funding for the program has decreased slightly from 2007-09 ($102.7 million in 2007-09 to $99.3 million in 2011-13), there was a larger decline in recipients (65,823 in 2007-09 to an estimated 59,884 for 2011-13). Average grant size did increase from $1,560 in 2009-11 to an estimated $1,608 in 2011-13. For 2013-15, the average grant is expected to grow to approximately $1,800. In contrast, average annual tuition increases for the Oregon University System (OUS) was 7.2% during this period and 7.3% for Community Colleges. Enrollment at Community Colleges (based on the Formula Reimbursable FTE count) grew by over 19% between 2008-09 and 2010-11 and OUS institutions also saw significant growth during the same period. Enrollment growth has eased some during the past year. This trend should be reversed somewhat for 2013-15 since the OOG funding increased to $113.7 million before the reduction for the supplemental ending balance.

The ASPIRE program is primarily dependent on funding from foundations and the federal government; in 2011-13 -- 86% of the funding was from these sources with the remainder from the General Fund. During 2011-13 there were approximately 135 ASPIRE sites across the state serving an estimated 15,000 students on a one to one basis and another roughly 160,000 on a drop-in basis. These foundation and federal funding sources have mostly dried up so for 2013-15 the program will increasingly depend on General Fund resources.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $116 million combined General and Lottery Funds is an increase of $15.8 million or 13.4% over the 2011-13 legislatively approved budget. The total funds budget of $136.1 million is a 9.6% increase over the same period. Lottery Funds limitation is reduced substantially from $2.6 million in 2011-13 to $246,223 for 2013-15. It should be noted that the agency did not spend most of the $2.6 million Lottery Funds in 2011-13 and the Legislature may revisit this budget again in 2014 since those resources are still available. These budget figures for 2013-15 reflect the $2.4 million reduction (most of this in the Oregon Opportunity Grant program) for the supplemental statewide ending balance which "held back" 2% of General Fund resources which may be restored later in the biennium depending on economic conditions. The General Fund and Lottery Funds budget by major program is shown in the table on the next page.

General and Lottery Funds resources for the Oregon Opportunity Grant is $ 111.4 million for 2013-15. If the amount reduced for the supplemental ending balance is restored, total funding increases to $113.7 million or $14.4 million more than the program had available for 2011-13. Under this amount of funding, the agency estimates that it will be able to award 63,000 grants at an average of approximately $1,800 as compared to roughly 60,000 grants at an average of just over $1,600 for 2011-13. Given the significant increase in state support for Community Colleges and the added resources for keeping tuition down for the public universities, the increase in the grants should go further in providing assistance to Oregon post-secondary students.

General and Lottery Funding for the Oregon Student Access Commission

Program/Activity	General and Lottery Funds		
	2009-11 Actual	2011-13 Approved	2013-15 Leg Adopted
Oregon Opportunity Grant	90,231,648	99,360,848	111,452,963
ASPIRE -- Portion Going to Schools	160,500	-	499,800
ASPIRE -- Agency Operations Portion	480,222	157,902	874,306
Other Grant Programs	1,365,200	975,776	920,442
Agency Operation (not including ASPIRE)	1,882,498	1,899,594	2,217,628
Office of Degree Authorization	272,079	127,622	-
Total	**94,392,147**	**102,521,742**	**115,965,139**

2013-15 figures reflect the reduction for the supplement ending balance which may be restored later in the biennium depending on economic conditions. Total reduction for this purpose agency-wide is $2,361,597.

The Access to Student Assistance Programs in Reach of Everyone or ASPIRE program is expanded for 2013-15 as part of the strategic education investments. Even though a reduction in federal and other funding for the program meant a loss of $779,354 in Other Funds and three positions (2.00 FTE), the General Fund commitment to the program increased to a total of just over $1.4 million. The amount sent to school districts to hire local staff and other expenses is increased by $510,000 while the remaining $892,149 General Fund will be used to support the program at the statewide level. A net increase of four positions (3.00 FTE) will be available to promote, coordinate, and provide training for the program.

With the passage of SB 242 (2011), the Office of Degree Authorization transferred to the Higher Education Coordinating Commission (HECC) in 2012. The budget remained part of the overall OSAC budget for all of 2011-13, and the 2013-15 budget finally reflects the transfer of the budget to HECC. As a result, $116,574 General Fund and $413,820 Other Funds limitation as well as two positions (2.00 FTE) are transferred out of the OSAC budget.

Teacher Standards and Practices Commission – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	5,311,522	5,444,612	5,442,725	4,904,153
Federal Funds	0	85,455	35,000	35,000
Total Funds	**$5,311,522**	**$5,530,067**	**$5,477,725**	**$4,939,153**
Positions	25	24	22	20
FTE	25.00	24.00	22.00	20.00

Agency Overview

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

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

There are over 62,000 educators licensed by TSPC with teachers representing over 90%. For comparison, there are approximately 30,000 working teachers in Oregon's public schools.

Revenue Sources and Relationships

The agency is primarily supported by Other Funds from licensing and other fees paid by the regulated professionals with the life of a license ranging from three to five years. License fees make up the vast majority of fee revenues with fingerprint related fees being dedicated for that specific purpose. The last licensure increase occurred in January 2006 when the regular license fee increased from $75 to $100, the maximum allowed by statute. The current fee structure is an extensive and complicated mix of fees for various educators. The Commission is planning to review this structure and return to the Legislature in the future with recommended changes.

The Commission has faced significant declining fee revenues. The 2011-13 budget for TSPC was passed based on the assumption that total revenues would be $5.2 million Other Funds but actual revenues were more in the range of $4.6 million. The 2013-15 budget is based on revenues of under $4.5 million which is a 12% drop since 2009-11. These declining revenues are due to fewer individuals applying for new licenses or renewing licenses. Applications received dropped from over 27,750 in 2009-10 to just over 22,600 for 2011-12.

Budget Environment

Superintendents or chief charter school administrators who discover possible ethical, criminal, or professional misconduct by licensed educators are required to report the misconduct to the agency. The Commission is required to investigate all complaints received from educators or the public. This is a growing workload area and the Commission has moved staff resources to this area. The number of new cases each year has grown; in 2007 new cases totaled 214 and for 2012 totaled 291. The source of cases has changed with the number reported by school districts growing slower than those coming from other sources such as parents or community partners. The average length of time for all cases from the time the case is submitted to when the Commission hears and takes action on the case is 12.9 months for 2012. This represents a reduction from the 14.3 months in 2009. For those cases that challenge the Commission's decisions; or moves to Office of Administrative Hearings, settlement agreements, or the court system, the total time to "close the case" is longer.

The Commission has relied on using its fund balances and reduced expenditures to stay within its revenue stream. For 2011-13, the Commission took steps by leaving positions vacant and reducing other spending where possible. Of the 24 permanent authorized positions for 2011-13 biennium, only 17 were filled at the end of the biennium. The budget for 2013-15 eliminates a net 4 positions. The licensing related staff has been reduced in part to adjust to the workload, but the staff related to investigations could not be reduced to keep pace with the number of potential disciplinary actions. TSPC has had to use its "ending balances" or reserves to cover shortfalls. The 2011-13 ending balance was $985,000 which represented roughly 4.5 months of spending. With the adopted 2013-15 budget and assumed revenues, the estimated ending balance at the end of 2013-15 will be just be over $500,000 which represents just 2.5 months of spending. This amount may not meet the agency's cash flow needs during the entire biennium.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $4.9 million Other Funds (there is also $35,000 in Federal Funds) is a decrease of $541,000 or 10% from the 2011-13 legislatively approved budget. The adopted budget reflects reductions to meet the falling revenues. A total of four fewer positions (24 in 2011-13 to 20 for 2013-15) are included in the budget. The eliminated positions include an Intake Clerk and the Director of Licensure manager position. Two limited duration investigations related positions were continued, but funded with the elimination of an Information Systems Specialist and resources from another position. Staffing responsibilities have shifted among other staff to reflect the workload needs. Other reductions include the PERS related changes due to the passage of SB 822 and reductions in various assessments and user charges common to almost all state agencies.

Two budget notes were included as part of the 2013-15 budget. The first instructs the Commission to report to back to the Legislature during the 2014 session on revenue trends as well as progress in reviewing the fee structure. The second budget note reflects the out-of-date information system that the TSPC staff relies on in its day-to-day work, and instructs the Department of Administrative Services (DAS) and TSPC to work together in identifying alternatives for its replacement as well as options for paying for a new system.

Oregon University System

	2009-11 Actual	2011-13 Legislatively Approved*	2013-15 Current Service Level*	2013-15 Legislatively Adopted
General Fund	729,654,860	668,264,553	715,801,743	727,927,876
Lottery Funds	23,096,954	22,799,521	38,976,643	33,571,489
Other Funds	2,174,667,651	0	0	0
Other Funds (NL)	2,204,966,765	0	0	0
Federal Funds	70,823,654	0	0	0
Total Funds	**$5,203,209,884**	**$691,064,074**	**$754,778,386**	**$761,499,365**
Positions	18,619	0	0	0
FTE	12,898.40	0	0	0

** Other Funds and Federal Funds are not reported due to the change is status of OUS to a non-state agency, which moved these expenditures off the state budget.*

Agency Overview

For decades the Oregon University System (OUS) was the state agency for the state's public universities and colleges, with a single governing board named the State Board of Higher Education. OUS provided central administration, support services, and public services for Oregon's seven 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. This organizational structure and its relationship to the state began to change during the 2011 session with passage of SB 242 when new governance structures were considered.

SB 242 redefined OUS as a non-state agency for purposes of state statutes and constitutional provisions and the seven institutions were reclassified as Public Universities. This change exempted OUS from certain laws that govern state agency operations and is intended to provide operational flexibility and efficiencies. Among the changes included in the measure were: establishing a process for the Board of Higher Education to set enrollment fees, eliminate the requirement of OUS to request Other Funds expenditure limitation for enrollment fees, crediting all interest earned—including General Fund appropriations – to OUS, exempting OUS from participating in the state's risk management and insurance programs, allowing OUS to evaluate options for group health benefit plans and optional retirement plans, purchase property and construct facilities without seeking legislative approval if completed without General Fund, removing OUS from being represented by the Department of Justice, and exempting OUS from paying certain state assessment charges to the Department of Administrative Services. Due to this change, General Fund appropriations must now be made to the Department of Administrative Services as OUS is no longer eligible for direct General Fund appropriations as it is not considered to be a state agency. These changes had the effect of moving non-state funded expenditures and position counts off the state budget. Further dramatic governance change was approved by the 2013 Legislature with the passage of SB 270.

SB 270 allows for the establishment of institutional governing boards for the University of Oregon, Oregon State University, and Portland State University beginning July 1, 2014 and establishes a framework by which the four remaining Public Universities may elect to establish an institutional board. Public universities with institutional boards will no longer belong to OUS as the bill vests institutional boards with specified governance duties and rights including setting tuition and hiring the university president that had previously been the charge of the State Board of Higher Education. Some academic oversight functions were transferred to the Higher Education Coordinating Committee. The bill details the composition requirements of these institutional boards. The bill also allows universities with an institutional board to issue revenue bonds without prior legislative authorization. The bill also establishes a Work Group on University Shared Services to examine how economies of scale efficiencies currently enjoyed under a single provider of many administrative functions can continue in an environment when some universities are no longer part of OUS, the provider of these services. In addition, the bill sets the Governor's role in the board appointment process and clarifies that the Special Committee will be considering questions related the future academic coordination of the seven universities.

With these changes to public university governance and budgeting, the program units in the state budget for OUS were reorganized to reflect the new budget environment post SB 242 and SB 270. The **Public University Support** program now includes the state funding only for instruction, research, and operating costs of the seven institutions that make up OUS, plus the centralized administration and support services of the system. The Legislature appropriates funds for OUS as a whole rather than to the individual institutions. The State Board of Higher Education had previously allocated these funds to the various institutions and programs in annual budgets through the Resource Allocation Model (RAM). The RAM will likely be used to distribute 2013-14 fiscal year funding. After 2013-14 it is anticipated that the Higher Education Coordinating Commission will develop a new method for distribution of future appropriations based less on inputs such as enrollment, with more emphasis on outcomes such as degrees awarded. A newly created budget unit called **State Programs** includes General Fund support for a variety of institutions, centers, and programs operated by OUS that address economic development, natural resource, and other public policy issues, rather than providing support for OUS institutions and students. Many of these programs have an industry-specific focus, matching state support with funds from the private sector and other sources. Funding for these programs was shifted from the Public University Support Fund budget unit that had historically been named Education and General Services.

Oregon State University, as the state's land grant college, operates three Statewide Public Service Programs, which each receive separate General Fund appropriations:

- The **Agricultural Experiment Station** was organized in 1888 and conducts research and demonstrations in the agricultural, biological, social, and environmental sciences. Research is conducted at a central station at Corvallis and at ten branch stations in major crop and climate areas of the state.
- The **Extension Service** is the educational outreach arm of OSU as Oregon's Land Grant and Sea Grant university. Extension faculty on campus and in county offices throughout the state work with researchers and volunteers to develop and deliver non-credit educational programs based on locally identified needs. Extension Specialists are OSU faculty members who develop educational programs and serve as technical resources for county-delivered programs. Extension Agents are OSU faculty assigned to county field locations. Generally, counties provide office space and operating expenses, including support staff. Programs also use the services of a large number of volunteers.
- The **Forest Research Laboratory** at OSU was established by the Oregon Legislature in 1941. Research is organized into six program areas: Forest Regeneration, Forest Productivity, Protecting Forests and Watersheds, Evaluating Forest Policies and Practices, Wood Processing and Product Performance, and Research Support. A 15-member statutory committee establishes the research priorities of the Laboratory.

The **Sports Lottery** began in 1989 when the Legislature authorized a special Sports Action game and directed that 88% of the proceeds from the game, not to exceed $8 million annually, were to be 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. Due to budget constraints, the Legislature has passed legislation preempting the dedicated 1% amount and allocated less Lottery Funds than would have been generated without legislative action to limit funding.

The **Debt Service** program area now reflects only state funded debt service expenditures for capital construction projects financed by bonds. General Fund appropriations are made to pay the debt service on Article XI-G bonds, traditionally used to finance instructional and public service facilities. Capital repairs have been financed using lottery backed bonds since 2001. Revenues from self-supporting programs and student building fees are the sources of debt service for repayment of Article XI-F(1) bonds, which are traditionally a revenue source for construction of student unions, dorms, parking structures, and similar self-supporting programs such as the new sports arena at the University of Oregon. While the sale of these bonds must be approved by the Legislature, the debt service is paid with non-state funds and therefore does not appear in the state budget. The Legislature also approves the use of Small-Scale Energy Loan Program (SELP) bonds to finance campus capital projects. 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 primarily paid with General Fund. 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.

Revenue Sources and Relationships

The only source of revenue for the Oregon University System remaining in the state budget after passage of SB 242 is state funding (General Fund and Lottery Funds). Other Funds expended by Public Universities are no longer counted in the state budget.

Budget Environment

After a number of years of facing unprecedented growth in enrollment, enrollment growth has begun to flatten. At the same time public universities were experiencing high levels of growth, state funding levels were not adequate to support the higher levels of student enrollments without significant tuition increases. While enrollments have grown 26% over the last 10 years, the percentage of the General Fund funding for the Public University Support area has fallen from around 50% in the 2001-03 biennium to 25% for 2011-13, with the vast majority of this difference being made up through tuition increases. In the last 10 years, the average tuition and fees for resident undergraduates has more than doubled, with graduate tuition going up even more significantly.

Legislatively Adopted Budget

The 2013-13 legislatively adopted budget level of $761.5 million represents a $70 million (10%) overall increase from the 2011-13 legislatively approved budget. General Fund levels are higher due to the inclusion of standard inflation increases and the addition of $15 million to "buy-down" proposed tuition increases for Oregon resident undergraduate students. Lottery Funds are higher due increased debt service to pay for Lottery backed bonds approved for sale in 2011-13 for various OUS capital construction projects. Public University funding was exempted from the 2% supplemental statewide ending balance hold back reduction on total General Fund and Lottery Funds support, which were taken in other agencies as part of the final legislatively adopted budget.

The 2013-15 legislatively adopted budget for the state's Public Universities incorporates the following changes:

- The Public University Support Fund, which includes the instruction, research, public service, and operating costs of the seven institutions that make up OUS, plus the centralized administration and support services of the system that were not transferred to the Higher Education Coordinating Commission (HECC), totaled $497 million General Fund, which is more than a 7% increase from the 2011-13 legislatively adopted levels.
- The Public University Support Fund had two significant adjustments. The Legislature added $15 million General Fund to "buy-down" proposed tuition increases for resident undergraduates. This increase was accompanied by a budget note stating that the Legislature intends increases in the rates for tuition and resource fees paid by resident undergraduate students paid at the state's seven Public Universities may not exceed 3.5% in any given year of the 2013-15 biennium. The second adjustment was an $856,000 General Fund reduction for oversight responsibilities that were transferred to the HECC.
- Funding for programs in the new State Programs budget unit were increased by 6.5% on average over the 2011-13 legislatively adopted funding levels when these programs were housed in the old Education and General Services program unit along with the Public University Support Fund support.
- General Fund support for the Statewide Public Services programs, which are the Agriculture Experiment Station ($55.2 million), Extension Service ($39.9 million), and the Forest Research Laboratory ($6.1 million), totaled over $101 million General Fund for 2013-15. This is about $6 million, or 6.5%, more than the 2011-13 legislatively approved budget.
- General Fund support for debt service payments was increased to $89.2 million, which is 2.7% over the 2011-13 total and Lottery Funds debt service payments were increased to $25.6 million, which is 78% over 2011-13, for bonds sold to finance capital construction projects approved in previous biennia.
- Sports Lottery funding was limited by law to $8 million total for the 2013-15 biennium, with Oregon State University and the University of Oregon capped at $1 million each.

Commission for the Blind – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	1,339,094	1,148,037	1,474,612	1,522,942
Other Funds	2,672,035	2,946,859	2,886,114	3,052,021
Federal Funds	10,708,500	11,532,986	12,336,492	12,129,790
Total Funds	**$14,719,629**	**$15,627,882**	**$16,697,218**	**$16,704,753**
Positions	51	48	48	51
FTE	47.73	44.60	44.73	47.73

Agency Overview

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

The agency's 2013-15 legislatively adopted budget is $16.7 million total funds and 51 positions (47.73 FTE). The agency is organized into the following five program areas:

- ***Rehabilitation Services*** ($9.6 million, 25.63 FTE) is the agency's largest program and includes vocational rehabilitation counseling and planning, training and education, job placement assistance, independent living skills training, and assistance for students making the transition from high school to either college or work. These services are provided in regional office throughout the state. This program also includes the Older Blind program.
- ***Orientation and Career Center*** ($3 million, 11.60 FTE) is a highly specialized teaching center that provides counseling and intensive skills 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.
- ***Business Enterprises*** ($0.8 million, 2.00 FTE) provides employment opportunities for blind persons in cafeteria, snack bar, and vending machine management. The federal Randolph-Sheppard Vending Stand Act, enacted in 1935, requires managers of federal buildings to offer blind persons opportunities to establish and operate cafeterias or vending machines. Oregon enacted similar legislation in 1957.
- ***Industries for the Blind*** ($1.6 million, 1.00 FTE) is a supported employment and work alternative program, primarily operated in conjunction with Multnomah County. The program serves clients who are both developmentally disabled and blind. Except for the manager of the program, program staff are statutorily exempt from state personnel law.
- ***Administration Services*** ($1.7 million, 7.50 FTE) coordinates the mission and goals of the agency and manages the Human Resources, Budget, Accounting, Operations, and Information Systems.

Revenue Sources and Relationships

The Commission is funded with $1.5 million General Fund (9%), $3.1 million Other Funds (18%), and $12.1 million Federal Funds (73%).

Federal Funds are provided by formula and special grants from the U. S. Department of Education, Rehabilitation Services Administration (RSA) as authorized by the 1973 Rehabilitation Act (as amended). Vocational Rehabilitation basic support (Section 110) funds are the primary source of funding and have a match rate of approximately $3.70 Federal Funds (78.7%) for every $1 of state or state-matching funds (21.3%). In Oregon, the Department of Human Services receives 87.5% of Section 110 Vocational Rehabilitation basic support grant funding with the Commission receiving the remaining 12.5%. This grant is expected to provide $10.8 million in funding during the 2013-15 biennium. Other RSA grants include in-service training, Supported Employment, independent living, and the Older Blind program, which total $1.1 million federal funds. These grants are funded with 90% federal funds and 10% state matching funds.

General Fund and a limited amount of Other Funds are used to meet matching Federal Funds requirements. There is also a RSA maintenance of effort requirement that is based on the prior two years of funding. If funding is reduced, an equivalent amount of federal funding is lost. The RSA maintenance of effort agreement, however, is for the state as a whole, which again includes both the Department of Human Services and the Blind Commission RSA grant funding. The 2013-15 budget meets the federal matching funds and maintenance of effort requirements, which in part is accomplished through the continued use of Other Funds from the Commission's donations account.

Over half of the agency's Other Funds revenue supports the Industries for the Blind program and is comprised predominately of payments from Multnomah County for services to developmentally disabled persons ($1.7 million). Other revenue sources include: cooperative agreements with school districts and non-profit rehabilitation providers; a transfer from the Department of Education by intergovernmental agreement; and business enterprise vendor assessments.

The agency also maintains an interest-bearing Blind Bequest and Donation Fund. The fund has an estimated 2013-15 beginning balance of approximately $330,000. Years ago, the Commission used only the interest earnings to fund programs. However, beginning in 2003-05 and continuing through the current biennium, the agency has used donation funding to match federal funds and offset the loss of General Fund support. The 2013-15 legislatively adopted budget includes the use of $392,060 from the account in order to maximize federal matching funds and meet maintenance of effort requirements. This level of expenditure from the donation account is not sustainable, and will either need to be partially back-filled with General Fund in the future, or result in program reductions.

Budget Environment

The Commission estimates that approximately 19,500 Oregonians are blind, which is about 0.5% of Oregon's total population. Oregon's blind population is estimated to increase by about 1,950 individuals or 10% each year. Most causes of blindness are age-related – caused by macular degeneration, cataracts, diabetic retinopathy, and glaucoma. Other causes include accidents and injuries. As Oregon's elderly population grows, there is increased demand for agency services, especially for those who develop blindness or greater visual impairment later in life. The federal Rehabilitation Act of 1973, as amended, prescribes what services are provided and the eligibility for those services. The number of people served is a function of available revenue.

A higher general unemployment rate, both statewide and regionally, makes placement of vocational rehabilitation clients with vision loss or impairment more difficult. According to the Commission, the unemployment rate for individuals who are blind approaches 70%. The Vocational Rehabilitation caseload for federal fiscal year 2012 was 714, which is up 4.4% from 2010. Per counselor caseload is currently about 75 cases. The Older Blind program served an additional 829 clients in 2012. In federal fiscal year 2012, the average length of time from eligibility to case closure was 3.16 years with average costs per case being $3,946. During that year there were 101 case closures. Case closure is defined as an individual maintaining employment for a minimum of 90 days as a result of a comprehensive rehabilitation plan.

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

Order of Selection is a federally required wait list system that mandates vocational rehabilitation agencies to prioritize individuals with the most significant disabilities and rehabilitation needs. An agency is required to enter into an order of selection when they determine to have either inadequate staffing levels or case service funds to serve all eligible clients in the vocational rehabilitation program. The Commission has been in Order of Selection twice in the recent past, both times as a result of insufficient case service funds available to serve all eligible individuals (from August 2000 to September 2005 and from January 2009 to December 2010). The 2013-15 legislatively adopted budget provides sufficient resources and staff for the Commission to remain outside the order of selection.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $16.7 million is 6.9% higher than the 2011-13 legislatively approved budget and includes 51 positions (47.73 FTE). The General Fund portion of the budget totals $1.5 million, or 32.6% more than the 2011-13 level.

The budget restores program reductions included in the Governor's budget, and provides funding to add two new technology instructors to the program, one in Salem and one in Medford. These additional staff will decrease wait times for clients and enable the agency to serve an additional 400 clients during the 2013-15 biennium. The budget also adds a position for the supervisor of the Industries for the Blind program. The adopted budget meets federal maintenance of effort requirements and allows the agency to match all available federal funds.

The adopted budget also reflects the standard 5% reduction to services and supplies, as well as the 2% supplemental ending balance holdback which reduces the budget by $31,287 General Fund. This reduction may be restored during the 2014 legislative session for the second year of the biennium depending on statewide economic conditions.

State Commission on Children and Families – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	46,231,324	21,713,999	0	0
Other Funds	15,167,777	8,317,073	0	0
Federal Funds	3,150,868	909,077	0	0
Total Funds	**$64,549,969**	**$30,940,149**	**$0**	**$0**
Positions	28	0	0	0
FTE	25.67	0.00	0.00	0.00

Agency Overview

The State Commission on Children and Families (SCCF) began operations in 1994 to implement a statewide system of services for children and families. The state agency worked with 36 local commissions to develop and carry 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.

While the commission system was not necessarily broken, changes were recommended due to SB 909 (2011), which focused on developing statewide education strategies for improving learning outcomes. In order to help support a seamless education system from birth through college and work toward meeting the "40-40-20" goal, the Early Learning Council (ELC) was established. The ELC is charged with streamlining state programs for young children, providing policy direction to meet early learning goals statewide, and provides oversight for services supporting children and families across Oregon. Similarly, the Youth Development Council (YDC) was established to oversee a unified system that provides services to older youth in a manner that supports academic success, reduces criminal involvement, and is integrated, measurable, and accountable.

HB 4165 (2012) abolished SCCF, transferring its authority related to children ages zero through six to ELC and its authority for school aged children through 20 years of age to YDC, effective July 1, 2012. Consistent with those changes, midway through the 2011-13 biennium, the funding for the former Commission components were moved to ELC and YDC budget structures within the Governor's Office. The bill authorized the local commissions through the end of 2014, with the councils continuing payments to local commissions through the end of the 2011-13 biennium. The legislation also set out a process to recruit and certify community-based coordinators of early learning services to coordinate the delivery of early learning services to local communities.

The 2013 Legislature passed three bills that directly affect the former commission programs. HB 2013 (2013) modified and clarified previous legislation, continuing to work toward streamlining and improving early childhood services. The bill added requirements for training related to implementation of the kindergarten readiness assessment in fall 2013 and a grant program to help with that implementation. A structured process was laid out for the development of Early Learning Hub Demonstration Projects ("Hubs", formerly known as the community-based coordinators) that will ultimately transition into full-fledged Early Learning Hubs.

HB 3231 (2013) established the Youth Development Division within the Oregon Department of Education (ODE) and moved YDC and its associated programs into the agency effective July 1, 2013. The bill also requires YDC to prepare and report on a funding allocation plan that covers all services provided by the council, juvenile crime prevention programs, and new investments in youth development programs.

HB 3234 (2013) established the Early Learning Division also within ODE and moved ELC and its associated programs into the agency effective July 1, 2013. Along with the existing ELC programs, the legislation also moved some programs from the Employment Department and from within ODE into the new division.

Information on these programs is now reflected in the 2013-15 ODE budget narrative.

Oregon Health Authority (OHA) – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	1,443,369,071	1,692,058,124	2,660,872,973	1,972,206,670
Lottery Funds	9,587,187	10,158,046	11,479,452	10,545,822
Other Funds	1,474,116,113	2,355,777,262	1,042,348,235	3,841,163,081
Other Funds (NL)	2,695,615,819	3,316,231,621	3,832,299,341	1,904,711,565
Federal Funds	4,371,907,321	5,185,712,295	6,747,393,211	7,485,009,093
Federal Funds (NL)	98,526,066	110,103,462	107,103,462	106,880,067
Total Funds	**$10,093,121,577**	**$12,670,040,810**	**$14,401,496,674**	**$15,320,516,298**
Positions	4,097	4,108	4,201	4,482
FTE	3,665.65	3,999.04	4,156.50	4,119.23

Agency Overview

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

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

Beginning in 2011-13, the Oregon Health Authority combined the Public Employees' Benefit Board (PEBB), the Oregon Educators Benefit Board (OEBB), the Office of Private Health Partnerships, and the Oregon Medical Insurance Pool, with the health services programs from the Department of Human Services (DHS): Medical Assistance programs, Addictions and Mental Health, and Public Health. OHA will be the largest health care purchaser for the state of Oregon, purchasing health care for over 1,000,000 Medicaid clients, state employees, and local educators by the end of 2013-15.

OHA is the largest agency within the Human Services program area, making up about 63% of total program area expenditures. Overall, OHA's 2013-15 legislatively adopted budget comprises about 12% of the state's combined $16.4 billion General Fund and Lottery Funds budget, and 26% of the state's total funds budget.

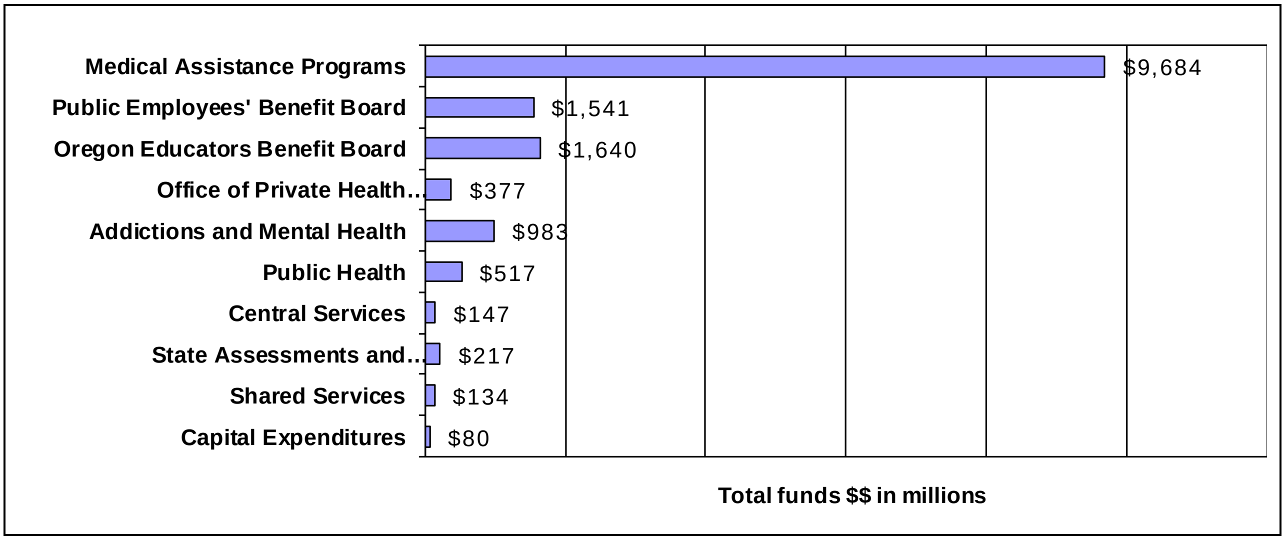
The numbers in all the charts for this agency have been adjusted in 2009-11 to include the new programs that have been moved into OHA from other agencies beginning in 2011-13. While these numbers are estimates, it does provide context for how the program costs have changed over time.

The OHA budget is organized into ten program areas:

- **Medical Assistance Programs** includes the Oregon Health Plan.
- **Public Employees' Benefit Board** provides health insurance for state employees.
- **Oregon Educators Benefit Board** provides health insurance for various school, education service, and community college districts throughout the state.
- **Office of Private Health Partnerships** administers programs that rely on partnerships with private insurance companies.
- **Addictions and Mental Health** includes community mental health services; alcohol and drug treatment and prevention; the Oregon State Hospital and Blue Mountain Recovery Center; and gambling treatment and prevention.
- **Public Health** includes community health, environmental public health, family health, and disease prevention and epidemiology.
- **Central Services** includes the OHA Director's Office, and central administrative support functions.

- **State Assessments and Enterprise-wide Costs** includes central government assessments and usage charges, and agency-wide costs such as rent, as well as the debt service payments on OHA's capital construction financing.
- **Shared Services** provides administrative services to both OHA and DHS.
- **Capital Expenditures** support the Oregon State Hospital (OSH) facility replacement project and limited capital improvements for OSH.

The chart below shows how OHA's $15.32 billion total funds legislatively adopted budget for 2013-15 is allocated among these program areas.



Revenue Sources and Relationships

For the 2013-15 biennium, the General Fund supports 13% of OHA's budget. Almost all of the General Fund is used as match or to meet state maintenance of effort requirements to receive federal funds. The OHA budget includes $10.5 million of statutorily dedicated Lottery Funds for gambling addiction prevention and treatment services.

Other Funds revenues support 37% of OHA expenditures. These come from a wide variety of sources including tobacco taxes, Medicaid provider taxes, Article XI-Q bonds, grants, beer and wine taxes, fees, estate collections, self-insurance payments, health care premiums, insurer assessments, third party recoveries, pharmaceutical rebates, transferred federal funds from other state agencies, and charges for services. Since 2003, health care provider assessments have been a significant source of Other Funds revenue. These assessments are used to support the Oregon Health Plan. The 2013 Legislature continued the current hospital provider assessment, which was scheduled to sunset in September of 2013 (HB 2216). An additional 1% assessment was also included, to establish the Hospital Transformation and Performance Program. The total assessment is expected to raise $745 million Other Funds revenues and result in additional federal matching revenues of over $1.2 billion.

This budget includes some Nonlimited expenditures. Nonlimited expenditures can be increased administratively as long as revenue is available. Nonlimited Other Funds primarily represent insurance premium payments, insurer assessments in OMIP, insurer assessments to pay claims costs under the new Oregon Reinsurance Program, and infant formula rebates in the Women, Infants and Children (WIC) program.

Federal Funds support 50% of OHA expenditures in the legislatively adopted budget for the 2013-15 biennium, and total almost $7.6 billion. The largest source of these Federal Funds comes from the Title XIX Medicaid program, and to a lesser extent, the Children's Health Insurance Program (CHIP). Nonlimited Federal Funds are for the Women, Infants and Children (WIC) nutrition program.

Budget Environment

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

Demographics and Economics

Population changes, especially the number of people who are elderly, disabled, or living in poverty, greatly affect the need or demand for OHA services. The health of the economy also has a significant effect on this budget. Typically, when the economy is poor, demand for OHA services increases and program caseloads grow. Caseload forecasts attempt to factor in projected economic conditions, but considerable risks always remain.

Federal Law and Funding

Federal revenue supports about 50% of OHA's total expenditures. Federal revenue is tied to a significant body of law and federal administrative rules. A number of OHA's programs, such as the Oregon Health Plan (OHP), are governed by waivers of certain federal regulations. The waivers must be approved by federal agencies, with later approvals again if the state wants to make program changes. Federal laws generally require state staff to ensure that federal regulation and policy is carried out consistently or that information management systems are capable of producing federally required reports. Most of the General Fund in OHA's budget is used to match Federal Funds or to meet federal maintenance of effort (MOE) requirements. As a result, General Fund budget reductions often also result in federal revenue reductions, and might jeopardize the state's ability to meet federal match or MOE requirements, thus forfeiting federal funds or incurring penalties.

Federal funding levels are also subject to statutory change or program re-interpretation. For example, the new federal health care reform law requires states to maintain eligibility levels that were in place when the legislation passed, March 23, 2010. This eliminates one of the tools the state has used historically to control costs. The Affordable Care Act will significantly change Oregon's Medicaid program, as health coverage will be expanded to all adults under 138% of the federal poverty level, effective January 1, 2014. About 200,000 adults are expected to be added to the program during the 2013-15 biennium, at a cost of about $1.2 billion. This expansion will be entirely federally funded through 2016. The OHA budget must adjust to changing federal program and revenues on an on-going basis.

Health Care Cost Inflation and Utilization

The biggest single share of OHA's budget is medical costs. At the legislatively adopted budget level, OHA uses $9.4 billion of its $15 billion total funds budget for direct payments to acute health care providers or Medicare premium payments in the OHP, Non-OHP, and CHIP budgets. In the past, health care inflation rates have significantly outpaced general economic inflation rates, as well as the rate of state revenue growth. As a result, health care has consumed a larger share of the total state budget. However, under Oregon's current Medicaid waiver, per-client cost increases are capped at 4.4% in the first year of the biennium, and 3.4% in the second year. This represents a significant change from the past.

Politics

About 81% of the OHA budget is earmarked for special payments to individuals, local governments, insurance companies, health care providers and suppliers, and others who deliver services. As a result, numerous organizations, trade associations, labor unions, advocates, and clients have a direct economic interest in the budget. When budget reductions need to be made, or major enhancements are proposed, these groups become actively involved in the politics that surround the OHA budget.

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

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget for the Oregon Health Authority is $1.97 billion General Fund and $15.32 billion total funds. For comparison, OHA's 2011-13 legislatively approved budget was $1.69 billion

General Fund and $12.67 billion total funds. The 2013-15 legislatively adopted budget is 16.5% General Fund and 20.9% total funds more than the agency's 2011-13 legislatively approved budget.

As in many other agencies, OHA's 2013-15 legislatively adopted budget reflects several statewide budget adjustments. This includes the Governor's proposed administrative savings, and a 5% reduction to services and supplies. It also includes a 2% supplemental ending balance holdback applied to General Fund, totaling $38.8 million. This reduction may be restored during the 2014 legislative session depending on statewide economic conditions. This budget also reflects Public Employees Retirement System (PERS) savings as a result of SB 822, totaling $9.3 million General Fund and $16.9 million total funds.

General Fund increases as a result of a program transfer from the Department of Human Services, as well as investments in the community mental health system. Caseload, inflation, and debt service also contribute to the increase. Total funds increase $2.7 billion over the 2011-13 level. This is largely a result of the expansion of health coverage under Medicaid to all persons under 138% of the federal poverty level, effective January 2014. Services for most of these new clients will be paid with 100% Federal Funds for the first three years. Other contributors include the additional 1% hospital assessment, Designated State Health Programs (DSHP) resources, inflation and caseload cost increases, and the program transfer from the Department of Human Services.

Health care costs in the Oregon Health Plan are capped at an increase of 4.4% in the first year of the biennium, and 3.4% in the second year, based on Oregon's current federal waiver. Those increases are fully funded in this budget. The adopted budget also makes significant investments in the community mental health system. In addition, the new Junction City state hospital facility is expected to open in early 2015, and operational costs are included in this budget.

More detail follows on each of the major program areas in OHA.

OHA – Medical Assistance Programs (MAP)

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	710,837,311	863,233,895	1,695,593,933	1,117,691,566
Other Funds	985,711,211	1,918,908,877	683,803,307	1,892,868,931
Federal Funds	3,786,426,126	4,119,514,307	5,897,825,591	6,673,563,689
Total Funds	**$5,482,974,648**	**$6,901,657,079**	**$8,277,222,831**	**$9,684,124,186**
Positions	252	449	499	498
FTE	231.38	428.96	490.73	489.85

Program Description

Medical Assistance Programs (MAP) includes the Oregon Health Plan (OHP), Non-Oregon Health Plan (Non-OHP), and other health-related programs. Payments for services delivered to clients, primarily medical assistance clients, represent 97% of the MAP budget.

This budget is in a transition period. Health system transformation legislation was passed in the 2011 legislative session (HB 3650), creating a new health care delivery system for the Oregon Health Plan called Coordinated Care Organizations. In addition, starting January 1, 2014 the Affordable Care Act (ACA) will expand health coverage under Medicaid to all persons under 138% of the federal poverty level. This expansion will be entirely federally funded through 2016. This program description will describe the system both as it stands in 2013, as well as how it will change with the expansion.

The ***Oregon Health Plan*** includes both of the state's Medicaid waiver programs – OHP Plus and OHP Standard – under Title XIX of the Social Security Act, as well as the Children's Health Insurance Program (Title XXI of the Social Security Act), which is a federal program designed to improve the health of children by increasing their access to health care services. The 2013-15 legislatively adopted budget for the Oregon Health Plan (OHP) is $8,862 million total funds ($773 million General Fund). OHP is providing medical care to about 660,000 low income Oregonians in 2013. Services include physician, pharmaceutical, hospital, vision, dental, and other acute care services. OHP is expected to add roughly 200,000 clients by the end of the 2013-15 biennium as a result of the ACA expansion.

The OHP is governed by a state plan and waivers to various Medicaid regulations. 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 regulations all require review and approval by the Centers for Medicare and Medicaid Services (CMS), the federal agency that administers Medicaid. This means that policy changes to the plan and waivers, particularly those that would have a significant program or budgetary impact, must pass muster with CMS.

Oregon's Children's Health Insurance Program (CHIP) was implemented in July 1998. Oregon's policy makers took advantage of the more favorable federal CHIP match rate (currently about 74% for CHIP versus 63% for Medicaid) to expand OHP services to more children than would have been covered if the funds were coming from Medicaid alone. To qualify for CHIP, children must be uninsured and ineligible to receive OHP Plus benefits under a Medicaid eligibility category. In addition, the children must be living in households with incomes between 100% (or, in some instances, 133%) and, as of August 23, 2013, 300% of the Federal Poverty Level (FPL) from the previous limit of 200% FPL. Those eligible for CHIP receive the OHP Plus benefit package. As a part of the ACA expansion, children currently served by the Healthy Kids Connect program, up to 300% FPL, will be moved to the Oregon Health Plan.

HB 2116 (2009) implemented two program expansions: the Health Care for All Oregon Children initiative (Healthy Kids), and doubled the size of the OHP Standard program. These expansions were funded with a newly established health care premium assessment of 1% and a re-structured Medicaid hospital provider assessment, respectively. The hospital assessment continues in the 2013-15 biennium, but will be used more generally to support the Oregon Health Plan after January 1, 2014, since the OHP Standard population will be entirely federally funded for the rest of the biennium. The health care premium assessment sunsets September 30, 2013, and those costs will be shifted to General Fund.

The Medicaid state plan and OHP waivers detail eligibility for the program, what services or benefits are offered, and how, in general terms, providers will be reimbursed. These three elements – eligibility, benefits, and reimbursement – are the main levers that have been used to control the OHP budget.

Eligibility for OHP

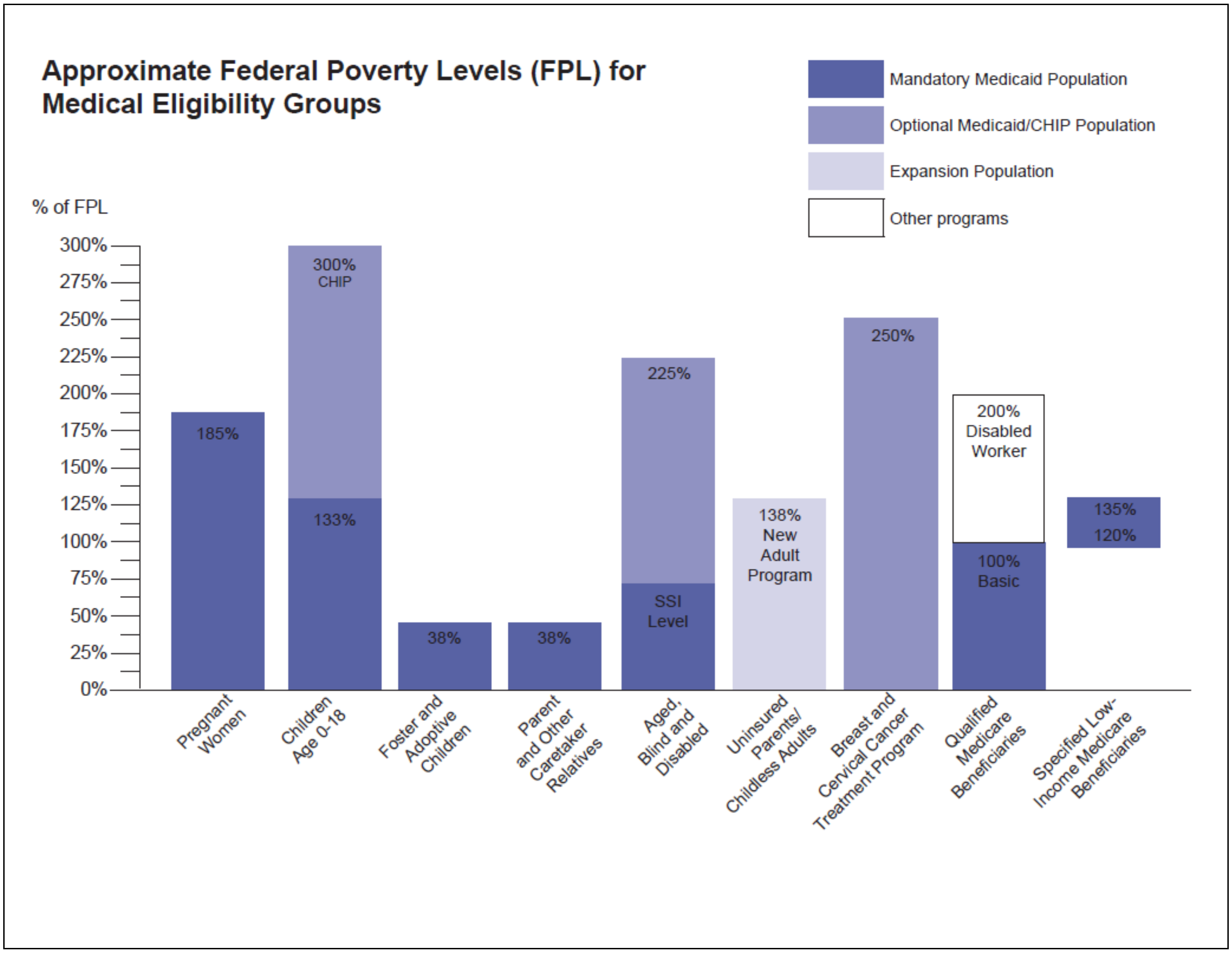
The following is a list of those who are currently eligible for the Oregon Health Plan. Below this list is a chart showing the income levels associated with various Federal Poverty Levels for 2013. Medicaid is considered an entitlement, under federal law. That is, anyone who meets the eligibility criteria established in a Medicaid state plan must be provided services, without regard to the state's financial ability to pay for those services. In the past if a state wanted to reduce eligibility, it had to receive approval from CMS to do so. The new federal health care reform law requires states, as a minimum, to maintain eligibility levels that were in place as of March 23, 2010.

1) Persons receiving, or meeting the eligibility requirements to receive, 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 FPL, children 6 to 18 in households with incomes up to 100% of FPL, and pregnant women and their newborns in households with incomes up to 185% of FPL. Persons who are age 65 or over who are eligible for Supplemental Security income (SSI). The SSI grant is currently $710/month for a household of one, which represents about 74% of FPL. In addition, seniors (and persons with disabilities) who are eligible for Medicaid long-term care are also eligible for the health plan. The income standard for Medicaid long-term care is 300% of the SSI grant, or about 225% 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 care.
6) Blind and disabled persons who are presumed eligible for SSI.
7) Adults with incomes under 100% of FPL who are not eligible for Medicare may be eligible for the OHP Standard program. Due to cuts in the state's General Fund, OHP Standard closed to new enrollment in 2004. Since that time the program has relied primarily on provider assessments as its state revenue source, allowing a biennial average enrollment of about 24,000 clients until 2009. The Medicaid hospital provider assessment was restructured during the 2009 legislative session and approved as part of HB 2116, providing funding for another 35,000 adults to enroll in OHP Standard.

2013 Federal Poverty Levels by Monthly Income and Household Size

Number in household	1	2	3	4	5	6	7	8	+1
100% FPL	$958	$1,293	$1,628	$1,963	$2,298	$2,633	$2,968	$3,303	$335
133% FPL	$1,274	$1,720	$2,165	$2,611	$3,056	$3,502	$3,947	$4,393	$446
185% FPL	$1,772	$2,392	$3,011	$3,631	$4,251	$4,871	$5,490	$6,110	$620
201% FPL	$1,925	$2,598	$3,272	$3,945	$4,618	$5,292	$5,965	$6,639	$674
301% FPL	$2,883	$3,891	$4,900	$5,908	$6,916	$7,924	$8,933	$9,941	$1,009

Certain changes in these eligibility categories will become effective with the expansion starting in 2014. The OHP Standard program will no longer exist with its distinct benefits and limited enrollment based on a reservation list. Instead, all non-pregnant adults with incomes less than 138% of FPL will be eligible for OHP. In addition, all children up to 300% of FPL will be eligible for OHP. The TANF category will no longer include children, and Healthy Kids Connect will phase out by January 1, 2014. Below is a chart showing the eligibility populations after the ACA expansion.



<u>OHP Benefits</u>

All those eligible for OHP, except for those eligible for OHP Standard, currently receive a benefit package known as "OHP Plus." Today, OHP Plus includes hospital, physician, prescription drug, therapies (i.e., physical, occupational, and speech therapies), durable medical equipment, dental, limited vision services, non-institutional mental health and drug and alcohol services, and transportation to medical providers. Clients receiving OHP Plus are not required to pay premiums, but are charged nominal copayments for some services.

Currently, the OHP Standard benefit package is somewhat less comprehensive, and excludes non-emergency transportation, therapies, vision, and a portion of the dental services. The OHP Standard hospital benefit was increased effective January 1, 2012 to be the same as OHP Plus. 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. After the ACA expansions takes effect on January 1, 2014, OHP Standard as a separate entity will end, and this population will receive the same benefit package as OHP Plus.

Underlying all the benefits for both OHP Plus and Standard is the OHP "prioritized list of services." Services are available based on a prioritized list of health conditions and specific treatments. Theoretically, the amount of funding available determines the services that are covered. The Health Evidence Review Commission, administered by OHA, determines the content and establishes the priority of listed services. In practice, however, excluding treatments from the bottom of the list has been difficult to do. CMS has been reluctant to limit treatment by excluding treatments based on the prioritized list. In fact, as of July 2012, the OHP waiver agreement states that Oregon may not reduce benefits.

OHP Provider Reimbursement

OHP Medicaid payments are made to coordinated care organizations (CCOs) and, on a fee-for-service basis, to doctors, hospitals, pharmacies, dentists, and other contractors to provide medical services. As of July 2013, about 90% of those eligible are served through CCOs, which receive a global budget from OHA and who assume the risk of providing necessary medical services for their members. The remaining 10% are served on a fee-for-service basis.

The ***Non-Oregon Health Plan*** budget includes several types of expenditures: General Fund payments to the federal government required under the Medicare Modernization Act for Medicare Part D coverage for clients eligible for both Medicare and Medicaid, known as the "clawback" payment ($152 million total funds), and expenditures for the Citizen Alien Waived Emergency Medical (CAWEM) program ($48 million total funds). This budget also includes assistance for low-income Qualified Medicare Beneficiaries for certain forms of Medicare cost sharing, such as Medicare deductibles, coinsurance, and copayments ($31 million total funds). In addition, the 2013-15 budget transfers several health-related elements of long term care from the Department of Human Services to OHA, for a total of $126 million General Fund and $344 million total funds. This is primarily to pay the Medicare Part A and B premiums for low-income seniors who are also eligible for Medicaid. Also included is payment of coinsurance for Medicare extended care in a skilled nursing facility. The entire Non-OHP legislatively adopted budget for 2013-15 is $575 million total funds ($278 million General Fund).

Also included in the MAP budget, in ***Other Programs,*** are the Pharmacy Programs. The Oregon Prescription Drug Program (OPDP) provides all Oregonians access to reduced-price drugs. The program also provides consolidated purchasing power for the Oregon Educators Benefit Board by jointly purchasing prescription drugs with the state of Washington through the NW Drug Consortium. Pharmacy Programs also provide health insurance to persons who are HIV positive through CAREAssist, Oregon's version of the Ryan White AIDS Drug Assistance Program.

Finally, the budget includes funding for state policy and administrative staff for Medical Assistance Programs. This section increased significantly in 2011-13 when the OHP-only eligibility unit (i.e., OHP Central Processing Center) was transferred from the Department of Human Services to OHA. The transfer consisted of 196 positions in 2011-13.

Revenue Sources and Relationships

Federal Funds revenue sources are mainly two: Medicaid, which accounts for more than 95% of MAP's Federal Funds, and CHIP revenue. Medicaid requires a state match and the match rate is recalculated each year by the federal government. The composite match rate used in the 2013-15 budget for Medicaid is approximately 37% state funds and 63% Medicaid funds for most services. (Medicaid staffing expenditures, such as those in program support and administration are generally funded with half state funds and half Federal Funds.) CHIP funds also require state matching funds. The match rate for CHIP is about 26% state funds to 74% Federal Funds. Medicaid Federal Funds are, in theory, available as long as a state has matching funds. CHIP Federal Funds are allotments, and each state's allotment is limited by a calculation in federal law.

Federal Funds in MAP's 2013-15 budget increase about $1.2 billion because of the expansion of health care coverage under Medicaid to all persons under 138% of the federal poverty level. Services for most of these new clients will be paid with 100% Federal Funds for the first three years. By 2020, the match will phase down to 10% state funds and 90% federal funds.

The 2013-15 budget for OHA includes $910 million in resources as a result of the federal Designated State Health Programs (DSHP). This is part of the approved Medicaid waiver with Oregon's federal partners, who have agreed to invest $1.9 billion in Oregon over five years if the state reduces the inflation of Medicaid per member health care costs by two percentage points within the 2013-15 biennium. The waiver allows Oregon to match funds that support services and programs to meet health needs that the traditional Medicaid program did not allow. These additional federal resources then free up state funds that can be reinvested in OHP. The MAP budget includes $338 million Other Funds and $572 million Federal Funds related to DHSP.

Most of the state's 37% match comes from the General Fund, as well as a variety of Other Funds. Other Funds revenue includes a significant amount of tobacco tax (approximately $315 million), a hospital Medicaid provider assessment, and a small amount of remaining insurer premium tax, pharmaceutical manufacturer drug rebates, client contributions, third party recoveries, numerous licensing and other fees, and other governmental or quasi-governmental entity (such as the Oregon Department of Education and Oregon Health and Science University) funds eligible for federal match.

The 2013-15 budget includes the continuation of the current hospital assessment, which was scheduled to sunset in September of 2013 but now continues through September 2015. An additional 1% assessment is also included, to establish the Hospital Transformation and Performance Program. The total assessment for the biennium is expected to raise $870 million Other Fund revenues and result in additional federal matching revenues of over $1.5 billion. The insurer premium tax, used primarily to fund the Healthy Kids program, sunsets September 30, 2013.

The adopted budget uses $116.1 million of the Tobacco Master Settlement Agreement (TMSA) in lieu of General Fund, for the Oregon Health Plan. This is an increase of $86.1 million from the 2011-13 budget.

Budget Environment

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

HB 2009, from the 2009 legislative session, began Oregon's version of health care reform. It created the Oregon Health Authority and the Oregon Health Policy Board. The Board is charged with coordinating the state's existing patchwork system of purchasing and regulating health care, community services, and workforce training. The Board has been involved in making recommendations on the health care workforce, medical liability, population health, integrated primary care, health purchasing, administrative simplification, and technology, and is currently working on coordinated care model alignment, looking for ways to utilize a model with coordinated care attributes in programs other than Medicaid, such as PEBB.

Oregon, like all other states, had taken an incremental approach to controlling cost growth in Medicaid programs in past years. Historically, three main levers have been used to control the OHP budget: limit client eligibility, reduce client benefits, and cut provider reimbursement. All three of these tools are problematic. The new federal health care reform law requires states to maintain eligibility levels that were in place as of March 23, 2010. Therefore, this tool is no longer available to the state. Also, reducing clients does not address recognized structural flaws in the current health care system. Reducing client benefits is no longer allowed under the OHP waiver agreement with the federal government, as of July 2012. Finally, cutting provider reimbursement will eventually limit access to medical services to low-income Oregonians.

The other option for reducing costs in the system is to structurally change the health care delivery system in Oregon, consistent with the goals of the federal health care reform and HB 2009. That is what Oregon is attempting to do, starting with the passage of HB 3650 in the 2011 legislative session which launched health system transformation efforts and created Coordinated Care Organizations (CCOs). Transformation is focused on changing the health system to achieve better health, better care, and lower costs. Key components include integrated and coordinated benefits and services; one global budget that grows at a fixed rate; use of metrics to assure standards for safe and effective care; local accountability for health, outcomes, and cost; and local flexibility.

The first CCO began enrolling Medicaid clients August 1, 2012, and there are now 16 CCOs certified in Oregon, covering all geographic areas of Oregon and serving about 90% of the Medicaid population as of July 2013 (see chart below). CCOs are focused on a number of key components:

- Integration of physical health, behavioral health, and oral health.
- Focus on primary care and prevention.
- Focus on patient-centered care, such as chronic disease management and patient-centered primary care homes.
- Accountable for health outcomes.

- Community based health workers and non-traditional health workers.
- Implementing alternative payment methodologies that align payment with health outcomes.

Oregon Coordinated Care Organizations

CCO Name	Service Area (Counties)	Clients Enrolled *
AllCare Health Plan	Curry, Josephine, Jackson, part of Douglas	29,352
Cascade Health Alliance	Parts of Klamath	**
Columbia Pacific CCO	Clatsop, Columbia, Tillamook, parts of Coos and Douglas	17,513
Eastern Oregon CCO	Baker, Gilliam, Grant, Harney, Lake, Malheur, Morrow, Sherman, Umatilla, Union, Wallowa, Wheeler	30,239
FamilyCare, Inc.	Clackamas, Multnomah, Washington, part of Marion	54,533
Health Share of Oregon	Clackamas, Multnomah, Washington	160,784
Intercommunity Health Network CCO	Benton, Lincoln, Linn	36,236
Jackson Care Connect	Jackson	21,774
Pacific Source Community Solutions CCO - Central Oregon Region	Deschutes, Crook, Jefferson, part of Klamath	37,767
Pacific Source Community Solutions CCO - Columbia Gorge Region	Hood River, Wasco	
PrimaryHealth of Josephine County, LLC	Josephine, parts of Douglas and Jackson	6,656
Trillium Community Health Plan	Lane	55,431
Umpqua Health Alliance	Most of Douglas	16,458
Western Oregon Advanced Health, LLC	Coos, Curry	12,664
Willamette Valley Community Health, LLC	Marion, most of Polk	65,255
Yamhill County Care Organization	Yamhill, parts of Marion, Clackamas, Polk	16,641
* As of July 2013	Total:	561,303
** Enrollment begins September 2013		

The state is still in the process of integrating services into CCO contracts and rates. The integration of behavioral and physical health was a key piece, and was incorporated in the original CCO contracts beginning in the fall of 2012. A number of other components are being transitioned into CCOs over time. Mental health supported employment and assertive community treatment services were integrated into CCOs effective January 2013. Alcohol and Drug residential services moved over effective July 1, 2013. Non-emergency medical transportation is required to be integrated by January 1, 2014, but some CCOs are already incorporating those services. Dental services currently provided by Dental Care Organizations are required to be integrated by June 2014, but three CCOs have already integrated that. Mental health residential services are scheduled for integration effective January 1, 2014.

A key component of the health system transformation is to select and track a number of metrics in order to measure progress toward better health, better care, and lower costs. OHA's Metrics and Scoring Committee developed 17 outcome and quality measures. Each year, OHA will award CCOs funds from a quality incentive pool based on their performance on these 17 measures during the previous calendar year. OHA will also report to CMS on 16 additional state performance measures. The first quarterly progress report was published in May 2013, and primarily reports data on Oregon's starting point, the baseline data for 2011.

The changes resulting from the federal health care reform, as well as Oregon's health system transformation, have been discussed above. However, regardless of the systems that are created to deliver health care services, many factors affect the cost of health care, including population growth and aging; policies of other OHA and

DHS divisions and state agencies; federal welfare and Medicaid laws; changing medical technologies and their costs; medical inflation; and the status of the economy.

Caseload Changes – The OHP budget is based on caseload forecasts and cost estimates that are projected for the coming two years. Because of the size of the OHP budget, even the slightest variance from the original forecast can result in a significant budget shortfall – or windfall. The caseload forecasts for the OHP used to generate the 2013-15 legislatively adopted budget were developed in the spring of 2013. These forecasts used actual data through September 2012 – two years and nine months prior to the end of the 2013-15 biennium. Clearly, this forecast is inherently risky – and made even more so by the tremendous changes that will be happening with the expansion of Medicaid in 2014. Unlike commercial insurers, the OHP does not have established reserves that can be used if caseload forecasts or costs per case are understated and more funding is required – except for the state's General Fund.

Caseloads are greatly influenced by economic conditions. As a general rule, when the economy is not doing well, more people are without medical coverage and seek Medicaid services. While the economy is improving, there is usually a long lag between the end of a recession until caseloads drop significantly. Hence, caseloads are expected to remain relatively high throughout the 2013-15 budget period. In addition, caseloads in the traditional eligibility groups may increase as a result of media attention relating to the ACA expansion and CoverOregon.

Medical Inflation and Utilization Trends – Under federal Medicaid law and state statutes, OHA is responsible for paying rates that are sufficient to assure access to health care services for Medicaid recipients. In other words, Medicaid must adequately reimburse providers of medical care to compete with other health care purchasers in the market place so Medicaid clients may receive services. Because costs for medical services have risen dramatically over the last decade or so, states purchasing Medicaid services have had to spend greater proportions of their budgets on medical services. Causes for these cost increases are complex and include greater use of medical services by an aging population, the use of new high-cost medical technology such as pharmaceuticals or diagnostic tools, medical labor shortages, and a growing uninsured population. When uninsured persons use medical care, but cannot pay for it, providers may be forced to increase their charges to clients who can pay, thereby driving up commercial and public health care costs. Further, some analysts believe that unique billing systems and extensive paperwork requirements may be responsible for as much as 25-30% of all health care costs. Solutions to health care cost problems have been proposed, but have not been easy to implement in either the private health care market or in public programs such as Medicaid or Medicare. As part of the Oregon's federal Medicaid waiver, the state has committed to reducing the cost curve for health care, on a per member basis, by 2 percentage points. Consistent with this, the budget for OHP is based on an inflationary increase of 4.4% the first year of the biennium and 3.4% the second year.

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 currently matched at a rate of approximately 37% state to 63% federal funds. The federal government sets the rules and guidelines for the program and must approve any waivers and changes to waivers that are authorized for the state. However, changing congressional priorities and federal revenue levels can greatly impact funding for Medical Assistance Programs.

The Affordable Care Act has dramatically changed this scenario beginning in 2014, when all "newly eligible" adults under 138% FPL will be eligible for Medicaid. The federal government will pay 100% of the cost of these services for three years, through calendar year 2016. The current Standard population is considered "newly eligible" and so state funding will not be necessary for those clients during the 2013-15 biennium. An estimated 200,000 additional clients are expected to enroll in Medicaid by the end of the biennium. The state share of these costs will transition to 10% state/90% federal in 2020. (Federal funding shares are 95% for 2017, 94% for 2018, 93% for 2019, and 90% for 2020.)

Even as the ACA rolls out, there continues to be concern that the federal government will not live up to these matching revenue expectations. In addition, there are on-going concerns that CMS may eventually phase out the provider tax option that has allowed Oregon to match billions of federal dollars.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget for Medical Assistance Programs is $9.7 billion total funds. This is $2.8 billion, or 40%, higher than the 2011-13 legislatively approved budget. This increase is primarily the result of the expansion under the Affordable Care Act to expand health coverage under Medicaid to all persons under 138% of the federal poverty level. This expansion will be entirely federally funded through 2016. Other contributors include the additional 1% hospital assessment, Designated State Health Programs (DSHP) resources, inflation and caseload cost increases, and program transfers. These program transfers include $183.3 million total funds ($68.1 million General Fund) consisting of Medicaid services moving to this budget from Addictions and Mental Health, and $344.4 million total funds ($125.8 million General Fund) consisting of health-related elements of long term care moving to this budget from the Department of Human Services.

General Fund of $1.1 billion in the adopted budget is $254 million, or 29%, higher than the 2011-13 approved budget. This increase is primarily a result of the program transfers described above.

Health care costs in the Oregon Health Plan are capped at an increase of 4.4% in the first year of the biennium, and 3.4% in the second year, consistent with Oregon's current federal waiver. Those increases are fully funded in this budget. The budget includes the continuation of the current hospital assessment which is now scheduled to sunset in September of 2015 and implements an additional 1% hospital assessment to establish the Hospital Transformation Performance Program (SB 2216). The total assessment for the biennium is estimated to raise $870 million Other Fund revenues and result in additional federal matching revenues of over $1.5 billion. The budget also shifts funding for the OHP Standard program to 100% Federal Funds starting January 1, 2014, and increases Tobacco Master Settlement Agreement resources for OHP from $30 million in the 2011-13 biennium to $116.1 million in 2013-15.

Other budget actions include the following:

- As a result of the Affordable Care Act (ACA) expansion, Healthy Kids Connect clients will move to OHP (HB 2091). In addition, the Family Health Insurance Assistance Program (FHIAP) will end January 2014, with some clients shifting to OHP and others will be able to purchase health insurance through CoverOregon, Oregon's health insurance exchange (HB 2240). This budget includes the OHP funding for both of those populations.
- The Health System Transformation Fund was approved at $30 million, to support efforts of Coordinated Care Organizations (CCOs) to transform health care delivery systems. A budget note was included in the budget report for HB 5030, the OHA budget bill, to specify the distribution methodology for these resources.
- This budget will continue to support primary care practitioners in rural areas by helping to pay for medical malpractice insurance ($4.6 million General Fund).
- A $4.5 million General Fund reduction to caseload funding was approved, related to the anticipation that more women will have health insurance after January 2014, and so will not need the services of the Breast and Cervical Cancer treatment program. All women who qualify will still get services under this program.
- $260,000 General Fund was added to increase reimbursements for ambulance transport services.
- Caseload forecasts were updated to the spring 2013 forecast. The level of uncertainty is much greater for these caseload forecasts and funding assumptions than ever before, given the scale of system change happening over the next few years and assumptions around how federal partners will determine the match rate.
- Another uncertainty in this budget is the CoverOregon cost allocation. The budget currently includes less than half of CoverOregon's initial estimate of this cost.
- The budget includes 85 additional staff for the OHP Central Processing Center ("call center"), in order to assist in the transition of the ACA expansion.

OHA – Public Employees' Benefit Board (PEBB)

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	15,840,243	8,715,361	9,248,755	1,541,141,592
Other Funds (NL)	900,788,603	1,405,241,260	1,752,335,080	0
Total Funds	**$916,628,846**	**$1,413,956,621**	**$1,761,583,835**	**$1,541,141,592**
Positions	19	19	20	20
FTE	18.50	18.50	19.50	19.50

Program Description

The Public Employees' Benefit Board (PEBB) designs, contracts for and administers health plans, group insurance policies, and flexible spending accounts for state employees and their dependents. The Board provides medical and dental insurance programs for state employees and their dependents, representing about 130,000 Oregonians. The Board also selects and administers life and disability insurance coverage for eligible state employees. A major part of the Board's responsibility is developing benefit packages to meet the needs of state government and its employees, and preparing benefits information and answering inquiries from employees and their dependents about coverage.

PEBB began to move toward self-insurance in 2006. By 2010, 85% of participants were enrolled in self-insured medical and visions plans, and 75% were enrolled in self-insured dental plans, which is still true today. PEBB members include active agency and university employees and their dependents; active semi-independent agency employers and their employees; retirees and other self-pay participants and their dependents; and COBRA participants. The program is administered by 20 staff (19.50 FTE), with actuarial services provided through contract.

Revenue Sources and Relationships

PEBB is funded entirely with Other Funds. PEBB collects premiums for all insured individuals, and then purchases insurance with those revenues. These program expenditures are shown as Nonlimited Other Funds in the budget in past biennia, but show as Other Funds Limited starting in 2013-15. The resources to pay for employee health insurance are budgeted in each state agency for that agency's employees. The resources may be General Fund, Lottery Funds, Other Funds, or Federal Funds. Once the resources are transferred to PEBB, they are shown as Other Funds.

PEBB maintains a Stabilization Account that is primarily used as a reserve for its self-insured health coverage. The balance is currently $197 million.

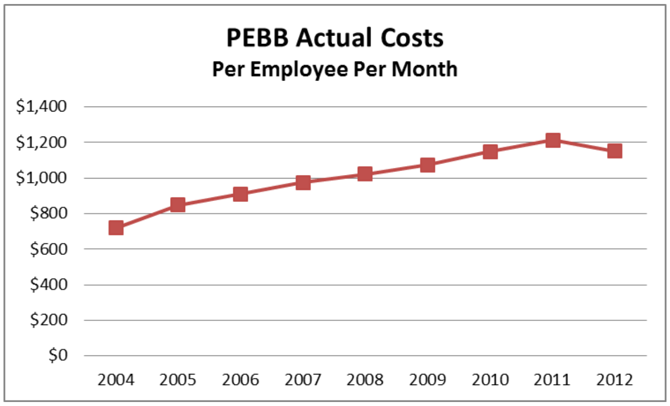
Operational costs are funded through an administrative charge (assessment) added to medical and dental insurance premiums and premium equivalents. By law, the assessment cannot exceed 2% of monthly contributions from employees and employers. For the years 2011 through 2013, PEBB has reduced the assessment from 0.6% to 0.4%. These administrative expenditures are shown as Other Funds (Limited) in the budget.

Budget Environment

HB 2009, from the 2009 legislative session, began Oregon's version of health care reform. It created the Oregon Health Authority and the Oregon Health Policy Board. The Board is charged with coordinating the state's existing patchwork system of purchasing and regulating health care, community services, and workforce training. The Board has been involved in making recommendations on the health care workforce, medical liability, population health, integrated primary care, health purchasing, administrative simplification, and technology. The Board is currently working on coordinated care model alignment, looking for ways to utilize a model with coordinated care attributes in programs such as PEBB.

Like most health care costs, PEBB per-employee costs had been increasing 5% to 7% per year for a number of years. 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.

The Board has been active in implementing programs to help reduce these cost trends. This includes increasing the percentage of PEBB members in patient-centered primary care homes, implementing additional cost tiers to promote value-based benefits, full coverage for preventive services, coverage for weight management and tobacco cessation programs, and implementing benefit design to reduce barriers to care for members with chronic diseases. They also implemented a Health Engagement Model (HEM) to promote member participation in reducing health risks and improving overall health status. These efforts appear to be paying off, as the most recent data show that per-employee costs were reduced by 5.2% in 2012 and the downward trend has continued through the first six months of 2013.



Legislatively Adopted Budget

The 2013-15 legislatively adopted budget is $1.54 billion Other Funds, or 9.0% higher than the 2011-13 legislatively approved budget. The increase is primarily due to including both self-insured and fully insured benefit costs in PEBB's budget. In the past, the PEBB budget reflected only the self-insured benefit costs. The budget eliminates all Other Funds Nonlimited authority, and instead moves all expenditure limitation to Other Funds Limited. In addition, the PEBB budget was constructed to reflect a per-employee growth rate of 4.4% for 2013, 3.4% for 2014, and 3.4% for 2015. These growth rates are consistent with Oregon's Medicaid waiver for the Oregon Health Plan.

OHA – Oregon Educators Benefit Board (OEBB)

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	9,597,465	10,886,968	10,690,359	11,522,448
Other Funds (NL)	1,417,744,580	1,459,320,100	1,628,294,000	1,628,294,000
Total Funds	**$1,427,342,045**	**$1,470,207,068**	**$1,638,984,359**	**$1,639,816,448**
Positions	22	25	21	24
FTE	22.00	22.75	21.00	24.00

Program Description

The Oregon Educators Benefit Board (OEBB) was created in 2007. The Board designs, contracts for, and administers health plans, group insurance policies, and flexible spending accounts for 136,857 educational entity employees and early retirees, and their eligible dependents, in 239 school districts, education service districts, community colleges, and charter schools throughout Oregon. The law prohibits those districts, with certain exceptions, from offering benefit plans other than those offered by the Board on or after October 1, 2008. The program is administered by 24 staff (24.00 FTE), with actuarial services provided through contract.

Revenue Sources and Relationships

OEBB is funded entirely with Other Funds. OEBB collects premiums for all insured individuals, and then purchases insurance with those revenues. These program expenditures are shown as Nonlimited Other Funds in the budget. Operational costs are funded through an administrative charge (assessment) built into the health insurance premiums. By law, the assessment cannot exceed 2% of monthly premiums. OEBB's current assessment has been reduced from 0.95% to 0.90% of monthly premiums. These administrative expenditures are shown as Other Funds (Limited) in the budget.

Budget Environment

HB 2009, from the 2009 legislative session, began Oregon's version of health care reform. It created the Oregon Health Authority and the Oregon Health Policy Board. The Oregon Health Policy Board is charged with coordinating the state's existing patchwork system of purchasing and regulating health care, community services, and workforce training. The Board has been involved in making recommendations on the health care workforce, medical liability, population health, integrated primary care, health purchasing, administrative simplification, and technology. The Board is currently working on coordinated care model alignment, looking for ways to utilize a model with coordinated care attributes in programs such as OEBB.

The Oregon Educators Benefit Board has been active in implementing programs to help reduce costs and improve health. This includes implementing additional cost tiers to promote value-based benefits, full coverage for preventive services, coverage for weight management and tobacco cessation programs, and implementing benefit design to reduce barriers to care for members with chronic diseases.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget is $1.64 billion Other Funds, or 11.5%, higher than the 2011-13 legislatively approved budget. A significant portion of this increase is a result of adding the administration of the Oregon Homecare Insurance Program to OEBB. Under an agreement with the Department of Human Services, OEBB began administering the benefit plans for homecare workers beginning January 1, 2013. The funding is transferred from the Department of Human Services. The 2013-15 adopted budget includes $86.3 million Other Funds and three positions for this program.

OHA – Office of Private Health Partnerships (OPHP)

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	18,932,742	7,002,275	38,183,853	1,710,302
Other Funds	49,117,234	73,049,970	52,061,803	22,702,031
Other Funds (NL)	343,770,156	411,670,261	411,670,261	236,417,565
Federal Funds	10,184,071	313,391,459	234,587,910	116,408,573
Total Funds	**$422,004,203**	**$805,113,965**	**$736,503,827**	**$377,238,471**
Positions	52	43	61	62
FTE	51.25	42.36	59.75	15.67

Program Description

The Office of Private Health Partnerships includes several programs that maximize resources, share costs, and provide access to quality health care for all Oregonians through partnerships with private insurance companies.

The ***Family Health Insurance Assistance Program (FHIAP)*** provides health insurance premium subsidies to previously uninsured, low-income families and individuals. The 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 up through 200% of federal poverty level (FPL) who may earn too much to qualify for Medicaid, but not enough to afford private health insurance. Depending on family income, subsidies range from 50% to 95% of the premium cost for adults, and 100% for children up to age 19. To qualify for a FHIAP subsidy, members must have been uninsured for two months. Members can serve this period of uninsurance while waiting on the reservation list. There are a few exceptions to the uninsurance period including, but not limited to enrollment in OHP or loss of insurance due to change in employment. In addition to a portion of the monthly premium, members are responsible for any co-payments, co-insurance, and deductibles of the plan they select. Enrollment is on a first-come, first-served basis.

Healthy KidsConnect (HKC) is the private sector component of the **Healthy Kids Program**, which was created by the 2009 Legislative Assembly as part of the Health Care for All Oregon Children initiative, established in HB 2116. It provides choices for families that earn too much to qualify for OHP, but cannot afford to pay the full cost of private health insurance premiums. While the bulk of the expenditures for Healthy Kids are included in the Medical Assistance Programs budget, the Office of Private Health Partnerships budget includes funding for premium subsidies for the private health insurance coverage offered in HKC. Healthy KidsConnect contracts directly with commercial health insurance carriers for benefit plans that are comparable to the OHP Plus benefits.

This budget provides premium subsidies to families with household incomes above 200% and through 300% FPL. Families may use these subsidies (85 or 90% of monthly premiums) to purchase health insurance through Healthy KidsConnect contracted carriers or insurance through their employer, as long as the employer plan meets federal benefit standards. Families over 300% of the federal poverty level can still enroll their children in HKC, but are not eligible for subsidies.

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

The new ***Oregon Transitional Reinsurance Program***, established by HB 3458, is also included in this budget. This program was created for a three-year period from 2014 through 2016 to stabilize rates and premiums for the individual insurance market. It is funded by insurer assessments similar to the current OMIP program, which ends at the end of 2013.

With the exception of the Reinsurance program, these programs will all phase out during the 2013-15 biennium.

Revenue Sources and Relationships

Other Funds revenue is primarily premiums and insurer assessments. OMIP is funded with premiums collected from insured individuals and insurer assessments. Enrollee monthly premiums fund about 55% of OMIP expenditures, while assessments on health insurers fund approximately 45%. FMIP is funded by a combination of member premiums and funds from the federal government. The new Oregon Transitional Reinsurance Program is funded with insurer assessments to pay claims costs. Other Funds for 2013-15 also include about $7 million of insurer provider taxes that will be available before the sunset of the tax on September 30, 2013.

Federal Funds revenue sources include Medicaid and CHIP federal matching funds, which match state contributions in the FHIAP and Healthy Kids Connect programs. FMIP is primarily funded with federal revenues.

Budget Environment

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

As a result of these changes, most of the programs in the Office of Private Health Partnerships will be phased out during the 2013-15 biennium. All clients enrolled in Healthy Kids Connect will be transferred to the Oregon Health Plan by January 1, 2014. The FHIAP program will also end as of the end of December 2013, with eligible clients shifting to OHP while others will be able to purchase health insurance through CoverOregon. The high risk pools that Oregon administers will no longer be needed, since under the Affordable Care Act the clients served in these pools can no longer be denied health coverage because of a pre-existing medical condition. OMIP will phase out the end of December 2013, while FMIP ended June 30, 2013.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget for the Office of Private Health Partnerships is $377.2 million total funds, which is a 47% decrease from the 2011-13 budget. General Fund in the adopted budget is reduced to $1.7 million, as programs are phased out and the insurer premium assessments, available before the sunset of the assessment, are used to fund FHIAP and HKC.

The phase-out of the various programs discussed above result in 2013-15 budget reductions of $36.4 million General Fund and $359.2 million total funds, compared to the current service level budget. Portions of these reductions were included as the fiscal impacts associated with HB 2091, HB 2240, and HB 3458. HB 2091 abolishes the Healthy Kids Connect program and transfers all HKC clients to the Oregon Health Plan by January 1, 2014. HB 2240 eliminates FHIAP as of the end of December 2013 to align with the Affordable Care Act. Some clients will shift to OHP while others will be able to purchase health insurance through CoverOregon, Oregon's health insurance exchange. HB 3458 eliminates OMIP as a health plan at the end of December 2013, and repurposes the OMIP Board as the administrator of the new Oregon Transitional Reinsurance Program described below. FMIP was closed as of June 30, 2013. The Information, Education and Outreach program is also eliminated at the end of the year.

HB 3458 also establishes the new Oregon Transitional Reinsurance Program. This program was created for a three-year period from 2014 through 2016 to stabilize rates and premiums for the individual insurance market. It is funded by insurer assessments similar to the current OMIP program, which ends at the end of 2013. The 2013-14 adopted budget includes $104.2 million Other Funds related to this program.

OHA – Addictions and Mental Health (AMH)

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	579,018,176	660,110,475	720,174,237	652,699,969
Lottery Funds	9,587,187	10,158,046	11,479,452	10,545,822
Other Funds	31,358,629	47,823,010	45,568,906	40,815,902
Federal Funds	232,001,936	280,940,716	183,129,459	278,945,275
Total Funds	**$851,965,928**	**$999,032,247**	**$960,352,054**	**$983,006,968**
Positions	2,454	2,334	2,306	2,506
FTE	2,123.20	2,316.99	2,298.22	2,237.64

Program Description

The Addictions and Mental Health (AMH) budget provides prevention and treatment services to those at risk or who have developed substance use or mental health disorders. Services are delivered through community non-profit providers, county mental health agencies, as well as the state hospital system which has facilities in Salem, Portland, and Pendleton. The budget also includes funding for state policy and administrative staff.

Mental health services are provided to people who have been clinically diagnosed as having a serious mental or emotional disorder. Illnesses include schizophrenia, bipolar disorder, and major depression. Medicaid-eligible persons receive mental health diagnoses and treatment under the Oregon Health Plan (OHP). In the past, mental health organizations have received capitation payments and managed much of the risk of providing treatment for OHP eligible persons with mental disorders. That system is still in the process of transitioning over to Coordinated Care Organizations. Starting in August 2012 when the first CCOs started, global budgets included the funding for both physical health and significant portions of behavioral health treatment services. The focus has been on integrating and coordinating physical and behavioral health services. Mental health supported employment and assertive community treatment services were integrated into CCOs effective January 2013. Alcohol and Drug residential services moved over effective July 1, 2013. Mental health residential services are scheduled for integration effective January 1, 2014. In the past, a substantial amount of OHP mental health and addiction service capitation expenditures and some fee-for-service payments were included in Medical Assistance Programs. This will now be even larger as significant resources related to Medicaid-eligible services are transferred from AMH to MAP in the 2013-15 budget. In addition, with the Affordable Care Act expansion of Medicaid in 2014, many more adults will be covered under OHP and be eligible for addiction and mental health services.

Addictions and Mental Health is comprised of three main programs: community mental health, addiction prevention and treatment, including alcohol and drug and problem gambling prevention and treatment, and the Oregon State Hospital (OSH) and Blue Mountain Recovery Center (BMRC). Nearly all the positions associated with this budget are state employees who work at OSH or BMRC.

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

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

Oregon State Hospital and Blue Mountain Recovery Center – The state operates institutional facilities in Salem, Portland, and Pendleton for patients who have a severe mental illness. OSH provides psychiatric evaluation and diagnosis, as well as intermediate and long-term inpatient care. The old facilities in Salem have been replaced with a modern psychiatric treatment and recovery hospital. This was completed at the end of 2011 and has a capacity of 620 beds. A second new hospital, located in Junction City, is in the construction stage, and is expected to be finished by the end of 2014. The Oregon State Hospital campus in Portland serves up to 72 patients in leased space near the Lloyd Center. That lease will end March 2015, and all patients will be transferred to either the Salem or Junction City hospital. The Blue Mountain Recovery Center in Pendleton serves up to 60 adult general psychiatric patients at any one time, and will close by January 1, 2014.

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.

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

Most of the federal funding comes from Title XIX Medicaid, which supports institutional care for some elderly patients and community mental health services. Medicaid requires a state match and the match rate is recalculated each year by the federal government. The program match rate is based on the economy of the state compared to the nation as a whole. The composite Medicaid match rate used in the 2013-15 budget for program expenditures is approximately 37% state funds and 63% Medicaid funds. Administrative expenditures are matched at a 50% rate.

In addition to Title XIX Medicaid funding, the federal Alcohol and Drug and Mental Health Services Block Grants provide about $43 million for adult community support services and for local services for severely emotionally disturbed children and adolescents. The budget also includes a modest amount of Temporary Assistance for Needy Families (TANF) funds. Both the federal Alcohol and Drug and Mental Health Services Block Grants have maintenance of effort (MOE) requirements. In addition, the Department was awarded two grants from the Substance Abuse and Mental Health Services Administration (SAMHSA) for addictions treatment and prevention. Both these grants end in 2014 and provide $5.4 million annually until that time.

Budget Environment

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

Over the last 40 to 50 years, mental health services have become less institutional and centralized and more community-based. The continued development of community residential capacity and the advancement of pharmacological treatment has also enabled more mental health services to be provided at the community (rather than institutional) level. This trend continues today.

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 (July 2013) population of about 650 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. The challenge of this budget is to find a balance between institutional and community-based services, for both mental health services and alcohol and drug treatment, which maintains an appropriate continuum of care.

A series of legal proceedings has had a significant impact on Oregon's mental health system. The Olmstead case in Georgia upheld the rights of individuals to receive timely services in the least restrictive and most appropriate setting. Oregon settled a lawsuit related to Olmstead, *Miranda v. Kitzhaber*. As part of the settlement, the Department of Human Services (DHS) agreed to discharge 31 patients at 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, OSH would admit individuals for evaluations only if there was room at the hospital. The court's decision was finalized in 2003, after which OSH forensics caseload growth rate began to rise. The agency's response to this has been the development of more forensic community-based placements. More recently, a March 2006 settlement agreement in the lawsuit *Harmon v. Fickle* requires OSH to achieve higher staffing ratios to improve patient care.

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

In response to the report, Governor Kulongoski and legislative leadership decided to build two new facilities – a 620 bed facility in Salem at the present OSH campus and a 360 bed unit near Junction City adjacent to a planned Department of Corrections facility. During the 2007-09 biennium, the Department completed extensive planning, and finally, in September 2008 broke ground for the new Salem hospital. The budget for both the facilities was originally about $458 million. However, in order to provide adequate treatment as described in the hospital's Continuous Improvement Plan supported by the U.S. Department of Justice (USDOJ) report issued in January 2008, the square footage of the hospital is nearly 30% larger than originally budgeted. The final cost of the Salem facility is now expected to be roughly $360 million, excluding project management and staffing costs, and the cost of the Behavioral Health Integration Project (BHIP) electronic health record.

Based on the amount of time that had passed since the original *Master Plan Phase II Report*, changes in the mental health system, and the economy, OHA updated the forecast of the needed hospital and community-based treatment beds for people living with mental illness in Oregon through 2030. The agency completed this work in January 2011, in time to be considered by the 2011 Legislature. The report concluded that the Junction City hospital would be needed, but at a 174-bed size rather than the original 360-bed recommendation. This conclusion was based on a number of critical assumptions, including the closure of the Portland campus and Blue Mountain Recovery Center, as well as continued development of the community mental health system. The 174-bed hospital is currently under construction in Junction City, and will be completed by the end of 2014.

The entire project, when complete, including the Salem and Junction City facilities, project management and staffing costs, and the BHIP electronic health record, is expected to cost about $508 million.

While much of the legislative and public's attention has been on the new hospital facilities, the Department also worked hard to develop additional community mental health residential treatment placements. These efforts have been difficult and AMH has encountered opposition from communities that are reluctant to site residential treatment facilities that will serve former OSH patients – particularly forensic patients. In 2008, the Governor appointed a workgroup to assess the situation and make recommendations. The group issued a report in 2009. Despite the debate, however, federal law (Fair Housing Act and the Americans with Disabilities Act) is clear. It prohibits discrimination related to housing based on race, color, age, religion, gender,…and disability. Housing and facility development continues as part of caseload growth planning.

As a more recent backdrop to all of this, USDOJ conducted a review of OSH under the Civil Rights of Institutionalized Persons Act (CRIPA) and issued a highly critical report in January 2008. USDOJ found deficiencies in five general areas: adequately protecting patients from harm, providing appropriate psychiatric and psychological care and treatment, appropriate use of seclusion and restraint, providing adequate nursing care, and providing discharge planning to ensure placement in the most integrated settings. The Legislature set aside $6.7 million General Fund during the February 2008 special session, and later allocated the funds to hire additional OSH staff. An additional 527 positions were added in the 2009-11 legislatively adopted budget for OSH, at a cost of $36 million total funds.

More recently, USDOJ has shifted its focus to Oregon's community mental health system. In 2011, it requested extensive documentation relating to services being provided in the least restrictive and most appropriate setting (as required by the Olmstead case). Effective November 2012, the State of Oregon and USDOJ have entered into a four year agreement for the collection and analysis of specific data and for action steps to address gaps in the state's delivery of community mental health. The agreement recognizes the work happening in Oregon to create a more coordinated health care system, including the mental health system. The goal of the agreement is to use the health system transformation process to provide people living with serious and persistent mental illness with the critical community services they need to live in the most integrated setting possible. The agreement creates a framework, timeline, and milestones for the state, CCOs, and local mental health agencies to work together.

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

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $983 million total funds is $16 million, or 1.6%, less than the 2011-13 legislatively approved budget. General Fund supporting the adopted budget is $652.7 million, which is $7.4 million less than the 2011-13 budget. However, this budget includes a $68 million General Fund, $183 million total funds, transfer of Medicaid funding to the Medical Assistance Programs within OHA. Once the 2011-13 budget amount is adjusted to account for this, as well as the Designated State health Program (DSHP) expenditures, the total funds budget increases about 14% between 2011-13 and 2013-15. DSHP is excluded because these resources are transferred to Medical Assistance Programs and are not available for AMH program costs.

The Affordable Care Act expansion will have a significant effect on this budget. Many of the services now provided are paid with General Fund, because clients do not have insurance and are not eligible for Medicaid. After the expansion, a significant number of these clients will qualify for Medicaid, and services will be paid at 100% Federal Funds for three years. It is estimated that this will free up $45 million General Fund in this budget, which will no longer be needed for current clients, and can be used to expand services. These additional resources are not included in the biennial comparisons above.

The 2013-15 budget includes $41 million of General Fund reductions, compared to the current service level budget, to the Oregon State Hospital (OSH) and Blue Mountain Recovery Center (BMRC). This includes closing BMRC by January 1, 2014 for $12.9 million General Fund savings. Also included are the continuation of the 2011-13 reductions in non-direct care and administration in OSH for $9.7 million General Fund savings, closing one geropsychiatric ward for $8.8 million General Fund savings, restructuring the pharmacy operations for $3 million General Fund savings, and a $7 million General Fund reduction in overtime and non-direct care staffing costs. The budget does provide an additional $200,000 General Fund for OSH to contract for legal services from the Marion County District Attorney, to address the issue of chronically violent patients at the hospital.

The budget includes $79.4 million Other Funds capital construction expenditure limitation to continue building the Junction City campus of the Oregon State Hospital. Operating costs for the new Junction City hospital for approximately the last three months of the 2013-15 biennium are also included. This net cost, after accounting for the closures of the Portland campus and BMRC, is $2.7 million General Fund, and 17.17 FTE.

The budget includes an investment of $26.6 million General Fund to increase capacity in the community mental health system. This is in addition to the $19.7 million in the current service level that remains after the Spring 2013 forecast changes. The $26.6 million includes $9.9 million General Fund redirected from the "reinvested" resources. The plan includes three residential treatment homes in Pendleton, on the Eastern Oregon Training Center (EOTC), that are scheduled to open by January 1, 2014 and provide about 40 jobs.

Children's mental health services are expanded with an investment of $21.8 million General Fund. This includes $1.8 million for the Early Assessment and Support Alliance (EASA) program. This total includes $7.5 million General Fund that is redirected from the "reinvested" resources.

The budget includes a plan to increase provider rates using additional federal matching resources as well as the "reinvested" dollars. For residential facilities within the community mental health system, the agency expects to achieve provider rate equality by using the state resources freed up through more widespread use of federal matching available under the 1915i waiver. The resources will be used to bring the lower paid providers up to the same level as the higher paid providers. These same resources will also be used to provide a 2.4% increase in rates over the current levels, to the extent that resources are available. In addition, the agency expects to use a portion of the "reinvested" resources within their budget, up to $7.6 million General Fund, to ensure that all providers within the community mental health system receive a 2.4% rate increase over the current level.

For the alcohol and drug system, the agency will implement a general provider rate increase of up to 2.4%. For the residential system, the agency will use resources from the Intensive Treatment and Recovery Services (ITRS) program as well as a portion of the "reinvested" resources within their budget to increase youth room and board rates from $30 per day to $90 per day, effective July 1, 2013. In addition, $3.3 million General Fund is set aside in a special purpose appropriation in the Emergency Board to be available for a rate increase in the adult residential system for the second year of the biennium. The agency will do a study of both the adult and youth systems to examine costs at facilities, and examine whether facilities are maximizing their revenues such as federal match. In addition, AMH will consider the overall capacity of the system and identify areas where there is potential to serve more patients with intensive outpatient treatment rather than in residential facilities. The agency will report the results of their work to the Legislature during the 2014 session, and recommend rate increases, if any, and their costs. Some or all of the special purpose allocation could be allocated at that time.

Other community mental health system investments include an additional $4.2 million General Fund for supported housing and peer delivered services, and $1.5 million for supported employment. This budget does not include any backfill of federal sequestration reductions for either community mental health or addictions programs. This may need to be addressed later in the biennium.

The adopted budget includes the statewide 5% reduction to services and supplies. It also includes the 2% supplemental ending balance holdback applied to General Fund, totaling $13.4 million for AMH.

Two policy bills were passed during the 2013 legislative session that affect this program. HB 2836 codifies the conditions, standards, and procedures for determining if individuals under 18 years of age in a delinquency petition are fit to proceed with trial. The bill requires OHA to formalize and administer the fit to proceed evaluation process, including developing training standards for psychiatrists, licensed psychologists, and licensed clinical social workers conducting the evaluations, and developing guidelines for conducting evaluations. The agency budget includes $869,386 General Fund and one position allocated for this work.

SB 421 authorizes a district attorney to petition the court to initiate commitment proceedings if there is reason to believe a person is an extremely dangerous mentally ill person. This is anticipated to increase the length of stay at OSH by a few days as those committed await Psychiatric Security Review Board hearings and discharge placement; $169,571 General Fund was included in the budget for this purpose.

OHA – Public Health

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	46,018,826	34,410,315	39,210,011	38,638,376
Other Funds	75,050,816	77,645,193	82,039,976	86,803,487
Other Funds (NL)	33,312,480	40,000,000	40,000,000	40,000,000
Federal Funds	229,732,241	255,979,822	260,312,432	248,653,922
Federal Funds (NL)	98,526,066	105,729,051	102,729,051	102,729,051
Total Funds	**$482,640,429**	**$513,764,381**	**$524,291,470**	**$516,824,836**
Positions	733	706	699	715
FTE	682.08	686.82	685.32	694.81

Program Description

Public Health provides a diversity of services to improve and protect the health of all Oregonians. The program manages more than 100 prevention-related programs that halt the spread of disease, protect against environmental hazards, and promote healthy behaviors. Oregon's public health system comprises federal, state and local agencies, private organizations and other diverse partners working together to protect and promote the health of Oregonians. As the state component of the system, the OHA Public Health plays a unique leadership role. Public Health operates some programs directly. Other programs are delivered in collaboration with the 34 local health departments. Local health departments play an important role in the delivery of many public health services, with the state providing technical support and oversight.

The state Public Health program consists of three Centers, overseen by an Office of the State Public Health Director.

The ***Office of the State Public Health Director*** is responsible for strengthening the application of policy, planning, and performance measurement across the programs. The office provides support and technical assistance to county health departments and oversees county health plans and funds from OHA. The Health Security, Preparedness and Response Program is a part of the office, and ensures that community and hospitals are prepared for health and medical emergencies. The program develops and tests preparedness plans, provides training and technical assistance, and supports collaboration across communities for possible emergency incidents such as threats of terrorism, tsunamis, and other environmental hazards, or epidemics such as H1N1. The office also includes the Emergency Medical Services and Trauma Systems program with provides regulatory oversight for emergency medical service providers and emergency medical service agencies throughout the state.

The ***Center for Prevention and Health Promotion*** works to prevent disease and promote health by creating environments, policies, and systems that support wellness, such as access to healthy food, physical activity, and safe, tobacco-free environments. These programs promote health throughout the lifespan, including pregnancy, early childhood, adolescence, and adulthood. The Center provides leadership in the following priority areas:

- Preventing tobacco use
- Decreasing obesity/overweight
- Preventing or reducing heart disease and stroke, and increasing survivability
- Reducing suicide
- Preventing family violence
- Supporting the Coordinated Care Organizations
- Ensuring health in all policies
- Demonstrating excellence in epidemiology and surveillance

Programs focused on pregnancy and early childhood promote the health and well-being of pregnant women and children by providing a variety of primary preventive activities and health services. Home visiting is one of the most commonly used and effective approaches in servicing families with pregnant women, newborns, and young children. The Center is leading efforts to develop an integrated home visiting approach in Oregon. The Center also supports the Women, Infants, and Children (WIC) program. Programs focused on school-aged children, adolescents, and young adults promote oral health awareness and education, and increases access statewide. Programs also focus on teen pregnancy prevention, school-based health centers, nutrition, and adolescent mental health. Finally, programs focused on adults include chronic disease self-management and injury prevention programs including a focus on preventing falls. The center also works to reduce unintended pregnancies, promote healthy birth outcomes, increase awareness of women's health issues, and conduct screening for breast and cervical cancer.

The ***Center for Health Protection*** protects the health of individuals and communities through establishing, applying, and ensuring reliable compliance with regulatory and health-based standards. 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, 23,000 restaurants, 13,800 radiation sources, 3,400 swimming pools, 2,300 tourist facilities, and 362 miles of coastline are safe. Services are provided primarily through county health departments and other community and tribal health organizations. The Center also works with public and private entities to ensure that Oregonians have wide access to the health care they need and that these entities meet established standards. Health care facilities covered include:

- Hospitals
- Ambulatory surgical centers
- Birthing centers
- Dialysis facilities
- Home health agencies
- Hospice agencies
- In-home care agencies
- Rural health clinics
- Trauma hospital program
- Patient-centered primary care medical homes

The Oregon Medical Marijuana Program is also administered as a part of the center.

The ***Center for Public Health Practice*** supports a strong public health system by strengthening the partnership between the state and local public health departments, and by ensuring core public health functions are sustained in the areas of infectious disease prevention and control, laboratory services, and vital records. The center identifies and investigates disease outbreaks, hazardous exposures, and other health threats. The Immunization Program coordinates the purchase, management, and distribution of vaccines to prevent diseases. The center also includes a program designed to reduce illnesses and death from sexually-transmitted diseases (STD), tuberculosis (TB), and human immunodeficiency virus (HIV). The Oregon State Public Health Laboratory, which 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.

A number of programs in Public Health include significant amounts of special payments out to counties or other providers of services. Special payments of $300.1 million are about 58% of Public Health's total funds legislatively adopted budget for 2013-15. Of this total, about half is paid to counties to support local public health departments in their efforts to promote public health initiatives, and the rest is distributed to providers of services – most of it, in the form of WIC food vouchers.

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

There are 34 local public health departments in Oregon. These local public health departments provide public health prevention services and some clinical services including public health nurse home visiting, HIV screening and counseling, immunization programs, and communicable disease testing, treatment, and follow-up. Some public health departments such as Multnomah County's provide primary care through safety net clinics. At a minimum, local public health authorities must provide: communicable disease management; tuberculosis case management; immunizations; tobacco prevention, education, and control activities; public health emergency preparedness; maternal child health services; family planning (e.g., CCare); WIC; vital records; and environmental health services. Oregon statutes require local public health authorities to submit annual plans that OHA must review and approve or disapprove. Most counties supplement state and federal funding with local resources to carry out local public health activities.

Revenue Sources and Relationships

General Fund of $38.6 million is only 7.5% of the total 2013-15 legislatively adopted budget. About 2/3 of the General Fund are special payments that go to counties.

Total Other Funds of $126.8 million comprise 24.5% of the total 2013-15 budget. These Other Funds come from licenses and fees (e.g., health records and statistics or the Medical Marijuana program), charges for services (e.g., newborn screening fees or public health laboratory receipts), or other revenues such as Susan G. Komen breast cancer grants. Other Funds revenue also includes tobacco tax receipts from the Department of Revenue that are used to support the tobacco prevention and education program (TPEP). The Nonlimited Other Funds of $40 million are rebates from manufacturers of infant formula and are used in the Women, Infants, and Children (WIC) program.

Total Federal Funds of $351.4 million represent 68% of the total 2013-15 budget. Almost 2/3 of these resources are expended as Special Payments. Federal Funds that support the public health budget include Medicaid for Family Planning through Title XIX, as well as Family Planning Title X and Oregon ContraceptiveCare (CCare), formerly known as the Family Planning Expansion Project (FPEP), the Maternal and Child Health Block Grant, Immunizations, Emergency Preparedness and Response and Hospital Preparedness, Chronic Disease Prevention, Cancer Prevention and Control, Ryan White HIV/AIDS treatment grants, and numerous smaller federal Centers for Disease Control (CDC) grants that focus on other particular public health concerns. Public Health also receives federal support from the Environmental Protection Agency (EPA) in administering the State Drinking Water Program (Primacy) and the EPA State Revolving Loan Fund. The Nonlimited Federal Funds of $102.7 million represent WIC food voucher expenditures.

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.

The challenges for public health in Oregon, as in states across the country, are significant. They include shifting demographics and causes of disease, the rising burden of chronic diseases, funding challenges, and changes in the health care system. In March 2010, the Trust for America's Health, a non-partisan health policy organization, issued a report of state health indicators. Oregon had the fourth highest asthma rate (16.2%), but ranked 48th in the percentage of adults who are physically inactive. We had the third lowest percentage of low birth weight babies of any state, but ranked 4th in children aged 19-35 months without all immunizations.

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

Like many other health and human services programs, public health faces significant funding challenges. The Trust for America's Health ranks Oregon 44th in per capita state funding of public health, at less than half the median level for all states. The Oregon Coalition of Local Health Officials conducted an assessment in 2008 of the capacity of the public health system in Oregon to fulfill its mission. This public health advocacy group issued a report in October 2008 which stated: "After years of flat or declining resources and increasing costs, there is now an imminent threat to local public health's ability to continue serving Oregonians. This statewide capacity assessment revealed significant gaps in all Essential Functions of Public Health and a related gap in the system statewide. The gap identified in this report between Oregon's current local public health capacity and what it would take to make [local public health departments] fully functional is $69.4 million a year."

While the report is old, the information is still relevant. When the report was written, General Fund expenditures for Public Health were $46.7 million (2007-09 biennium). For the 2013-15 budget, General Fund totals $38.6 million, or a 17% decrease since 2007-09.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget is $516.8 million total funds, which is 0.6% more than the 2011-13 legislatively approved budget level. The adopted General Fund budget of $38.6 million is 12.2% above the 2011-13 level of $34.4 million.

Generally, this budget maintains current program levels. Budget changes include the following:

- The Contraceptive Care services (CCare) budget is adjusted to remove $1.3 million General Fund of excess ending balance, and is reduced by $1 million General Fund to account for the anticipated impact of the Affordable Care Act expansion when many clients currently being served in this program will have insurance. In addition, $1.5 million Other Funds of fee revenue from the medical marijuana program replace $1.5 million General Fund in the CCare program.
- Tobacco Master Settlement Agreement resources of $4 million are added for tobacco prevention and cessation programs. This is in addition to current tobacco prevention and cessation programs funded with tobacco tax revenues, which are estimated at $15.8 million in 2013-15.
- HB 2445 provides an additional $4 million General Fund to support school-based health centers. This funding will allow the agency to provide funding to existing school-based health centers in order to bring all centers closer to parity in state funding, as well as provide funding to centers that are in the planning or construction stages.
- A decrease in certain medical marijuana fees was approved. Cardholders on the Supplemental Nutrition Assistance Program will have fees reduced from $100 to $60, while cardholders on the Oregon Health Plan will have fees reduced from $100 to $50.
- HB 3460 provides $0.8 million Other Funds expenditure limitation to establish and administer a new registration system for medical marijuana dispensaries.
- SB 728 establishes a State Trauma Advisory Board within the agency in order to improve the state's emergency medical services and trauma system. One position was funded to assist in this work.
- Fee increases were approved for Emergency Medical Services. This is the third and final increase that was planned with stakeholders in 2009, and is expected to generate about $100,000 Other Funds during the biennium.
- Funding for breast and cervical cancer screening services is increased by $700,000 General Fund. This is partially needed to backfill funding shortfalls in the first year of the biennium.
- An additional $200,000 General Fund will provide fresh Oregon-grown fruits and vegetables from farmers' markets and roadside stands to eligible low-income seniors under the Senior Farm Direct Nutrition Program. Another $100,000 is added for the same purpose for eligible individuals through the Women, Infants, and Children Program.

The adopted budget includes the statewide 5% reduction to services and supplies. It also includes the 2% supplemental ending balance holdback applied to General Fund, totaling $0.7 million for Public Health.

OHA – State Assessments and Enterprise-wide Costs

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	72,339,194	109,206,479	143,963,837	135,501,354
Other Funds	19,631,543	27,118,304	17,894,156	26,839,757
Federal Funds	87,728,659	43,840,796	72,168,731	50,909,614
Federal Funds (NL)	0	4,374,411	4,374,411	4,151,016
Total Funds	**$179,699,396**	**$184,539,990**	**$238,401,135**	**$217,401,741**

Program Description

The State Assessments and Enterprise-wide Costs section includes the budget for costs that affect the entire agency. This include central government assessments and usage charges, such as the state government service charges, risk assessments, State Data Center usage charges, Secretary of State audit charges, mass transit charges, and information technology direct charges. This budget also includes all facilities costs including rent, maintenance, and utilities. In addition, the funding to pay for shared services received from both OHA and DHS is included in this budget. Finally, debt service is now included in this section. The debt service costs are for loan repayment related to the construction of the new Oregon State Hospital facilities in Salem and Junction City. This section does not include any staff.

Revenue Sources and Relationships

The 2013-15 legislatively adopted budget is about 62% General Fund, 12% Other Funds, and 25% Federal Funds. Debt service costs include $70.9 million General Fund, $6.4 million Other Funds, and $4.2 million Federal Funds (Nonlimited). Other costs are allocated to the various program areas within OHA. Federal funding is subject to a federally approved cost allocation plan that charges programs for the services received.

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

Budget Environment

A number of budget updates were needed during the 2011-13 biennium to true up the budget of both OHA and DHS for errors that were made in the original split of these administrative budgets, as well as to account for actual cost allocations that evolved during the biennium.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $217.4 million total funds is $32.9 million, or 18%, higher than the 2011-13 legislatively approved budget for total funds. General Fund is $135.5 million, or $26.3 million and 24%, more than the 2011-13 budget level. A significant portion of the General Fund increase is related to the increase in debt service, which increased $16.8 million General Fund and $12.3 million total funds between 2011-13 and 2013-15.

Budget adjustments include a $2.1 million General Fund and $4.3 million total funds reduction for statewide administrative savings. This is a placeholder for administrative efficiencies in finance, information technology, human resources, accounting, payroll, and procurement expenditures. The Department of Administrative Services will continue to work on details of these reductions with agencies and report back during the 2014 session. While these reductions will occur in Shared Services, this budget contains the General Fund and Federal Funds to support those services. The budget is also reduced by $0.3 million total funds to true up the budget for actual cost allocation experience and rent adjustments. This adjustment increases General Fund by $1.7 million, while reducing Federal Funds.

This budget also includes a $0.7 million General Fund ($1.3 million total funds) investment to improve the agency's computer and network infrastructure. While the investment is in Shared Services, this is the General Fund and Federal Funds budget to support those services.

OHA – Central Services

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	16,221,657	18,094,685	23,067,864	25,285,865
Other Funds	8,619,854	7,166,945	6,777,338	4,946,150
Federal Funds	25,834,288	172,045,195	99,369,088	116,528,020
Total Funds	**$50,675,799**	**$197,306,825**	**$129,214,290**	**$146,760,035**
Positions	141	171	145	191
FTE	124.71	130.54	140.47	183.27

Program Description

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

Other functions, including leadership, communications, and portions of budget and human resources, are directly related to policy and program and so are housed separately in each agency. These are the central services in each agency.

The OHA Central Services section includes all governance functions specifically for the operation of OHA:

- Office of Director and Policy
- Office of Human Resources
- Budget Planning and Analysis
- Office of Communications
- Office of Equity and Inclusion
- Office for Health Policy and Research
- Office of Health Information Technology

The Office of Health Policy and Research (OHPR) is a key resource in support of health system transformation. The office provides health policy analysis and development; coordinates strategic and implementation planning; and conducts data collection, statistical analysis, and evaluation to provide information needed for OHA policy development. It also develops financial, performance, and administrative information for the management of OHA, and provides staff support, policy coordination, and project management in support of the Oregon Health Policy Board.

The Office of Health Information Technology (OHIT) provides leadership in health reform technology efforts statewide to ensure coordination and maximize federal and private funding sources. Specifically, this office is responsible for implementing Health Information Exchange (HIE) in the state. This is a key aspect necessary to support Oregon's health system transformation.

Revenue Sources and Relationships

The 2013-15 legislatively adopted budget is 18% General Fund, 3% Other Funds, and 79% Federal Funds. Administrative costs are allocated to the other program areas within OHA. Federal funding is subject to a federally approved cost allocation plan that charges programs for the services received.

Federal Funds in this budget are primarily related to federal grants. The OHPR budget includes $25.5 million federal funds for the State Innovation System Testing Assistance grant, while the OHIT budget includes $68 million in federal incentives that will be passed through to Oregon providers to develop electronic health records. Remaining federal funds include Title XIX Medicaid administrative reimbursement, as well as funds for administrative support for CHIP and a variety of other smaller federal program funding sources. Federal public health grants also pay a share of these operating costs.

Budget Environment

The Central and Shared Services model was new beginning with the 2011-13 biennium. The shared services structure was chosen to help ensure that administrative services are provided cost-effectively without duplication of resources between OHA and DHS.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $146.8 million total funds is $50.5 million less than the 2011-13 legislatively approved budget. This reduction is primarily due to the phase-out of the Health Insurance Exchange IT grant, as well as portions of several other grants. The entire Health Insurance Exchange project was moved over to CoverOregon, Oregon's health insurance exchange. General Fund of $25.3 million to support the 2011-13 legislatively adopted budget is $7.2 million higher than the 2011-13 approved budget. This is partially due to centralizing more functions and moving related staffing and budget to Central Services.

Budget adjustments include a $2.1 million General Fund and $3.8 million total funds reduction that will necessitate holding positions vacant in the Director's Office, Human Resources, Budget, Communications, Office of Equity and Inclusion, and the Office of Health Policy and Research, as well as reduced spending on services and supplies. The budget is also increased by $0.6 million General Fund to true up the budget for actual cost allocation experience.

Major federal grant adjustments in this budget include the phase-out of the Health Insurance Exchange IT grant, reducing Federal Funds by almost $40 million. The related positions are eliminated in Shared Services. Federal Funds expenditure limitation of $25.5 million and 30 positions are added to OHPR for the State Innovation System Testing Assistance grant.

The 2013-15 budget includes $1.6 million General Fund to support the Patient Safety Commission. This was included as part of SB 483 to improve patient safety and facilitate dispute resolution. This budget also includes a $2.1 million General Fund ($3.4 million total funds) investment to support health care transformation within the Office of Health Policy and Research. This will support data collection and analysis of the All Payer All Claims database; implementation of patient-centered primary care homes; and research and analysis for Health Evidence Review Commission to develop evidence-based guidelines. Another $1 million General Fund and $2 million total funds is invested to support the expanding need for information technology planning and policy, and to continue the development of CareAccord, the secure mechanism to exchange health information. A number of these activities were being funded with federal grant resources that will end during this biennium.

OHA – Shared Services

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	NA	124,562,634	134,263,635	134,121,253
Total Funds	**NA**	**$124,562,634**	**$134,263,635**	**$134,121,253**
Positions	424	361	450	466
FTE	412.53	352.12	441.51	454.49

NOTE: The 2009-11 column above includes positions and FTE, but not the related, non-add Other Funds expenditures, for the OHA Shared Services staffing that is part of the 2011-13 and 2013-15 budget.

Program Description

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

Other functions, including leadership, communications, and portions of budget and human resources, are directly related to policy and program and so are housed separately in each agency. These are the central services in each agency.

<u>Shared Services</u>
Services that are shared with DHS, but housed within OHA include the following:

- The ***Information Security and Privacy Office*** protects the security of all confidential information; educates staff, volunteers, and partners about now to protect confidential information; develops and audits processes for protecting information; and ensures that the Department and its partners meet all federal and state security regulations and contractual obligations.
- The ***Office of Information Services*** deploys and maintains the hardware and software needed by OHA and DHS employees to do their jobs; oversees the implementation of enterprise-wide technology solutions; ensures the back-up and integrity of data used by employees and partners through Oregon; and provides the information infrastructure and technical support necessary to maintain the business services such as payroll distribution, vendor payments, and personnel actions. Information Services develops new information systems such as the Health Insurance Exchange IT project and the Modernization project.
- ***Shared Services Administration*** houses the Chief Information Officer and support staff.

Services that are shared with OHA, but housed within DHS include contracts and procurement; caseload forecasting; technical budget and financial services; document management and archiving; forms and distribution; facility management; general human resources; payment accuracy and recovery; continuous performance improvement; audits and consulting; and investigations.

Revenue Sources and Relationships

Shared Services is funded entirely with Other Funds. These Other Funds reflect revenues received from both DHS and other parts of OHA for purchased services. The revenues to pay for Shared Services within the OHA budget are primarily in the State Assessments and Enterprise-wide Costs section budget.

Budget Environment

The Central and Shared Services model was new beginning with the 2011-13 biennium. The shared services structure was chosen to help ensure that administrative services are provided cost-effectively without duplication of resources between OHA and DHS.

As noted above, the Shared Services budget is spent as Other Funds, but the costs are paid by the various program areas in OHA and DHS as General Fund, Other Funds, and Federal Funds in their budgets. Reductions made in the shared administrative services operations reduce costs elsewhere in OHA and DHS.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $134.1 million Other Funds is $9.5 million higher than the 2011-13 legislatively approved budget.

Budget adjustments include a $5.2 million Other Funds reduction for statewide administrative savings. This is a placeholder for administrative efficiencies in finance, information technology, human resources, accounting, payroll, and procurement expenditures. The Department of Administrative Services will continue to work on details of these reductions with agencies and report back during the 2014 session. While these reductions will occur in Shared Services, the General Fund and Federal Funds budget reductions are included in the State Assessments and Enterprise-wide Costs section.

The 2013-15 budget includes an investment of $2.4 million Other Funds and 12 positions to improve the agency's computer and network infrastructure. This is expected to put the agency on a five-year replacement cycle for personal computers. Two additional information technology staff are added to support the technology systems in the new Junction City facility of the Oregon State Hospital.

The Shared Services budget eliminates all remaining budget related to the Health Insurance Exchange IT project, including 48 positions. The adopted budget then adds $16.7 million Other Funds and 52 positions for on-going Information Technology needs for both OHA and DHS, including Modernization and OR-KIDS systems. This is in line with the agency's direction of maintaining a core set of trained staff at the agency rather than relying on vendors for IT needs.

OHA – Capital Improvements

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	1,165	0	679,238	679,238
Total Funds	**$1,165**	**$0**	**$679,238**	**$679,238**

OHA – Capital Construction

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	279,189,118	59,900,000	0	79,401,530
Total Funds	**$279,189,118**	**$59,900,000**	**$0**	**$79,401,530**

Program Description

The capital improvements budget sets aside $0.7 million General Fund for maintenance expenses related to the Oregon State Hospital.

The capital construction budgets in all three biennia include expenditure limitation to allow work on a new Oregon State Hospital (OSH) in Salem, and a second hospital in Junction City. The capital construction expenditure limitation approved for the 2013-15 budget is expected to be enough to finish the project. More details are included below.

Budget Environment

For years, OSH facilities had been deteriorating, with many becoming uninhabitable. The newest buildings were more than 50 years old and the oldest buildings were more than 120 years old. 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-based 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 and legislative leadership to consider in response to expected hospital service demand and the condition of the OSH facilities. The governor and legislative leaders announced their support for an option that called for three major facilities to be built to replace existing structures: one 620-bed facility located in the North Willamette Valley region, one 360-bed facility located south of Linn County on the west side of the Cascades, and at least two non-hospital level 16-bed secure residential treatment settings placed strategically east of the Cascades. The report also recommended developing a more expansive array of community-based mental health treatment services.

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

During the 2007-09 biennium, the agency completed extensive planning work on the OSH Replacement Project in Salem, and in September 2008 broke ground for the new Salem hospital. The budget for both the Salem and Junction City hospitals was originally about $458 million. However, in order to provide adequate treatment as described in the hospital's Continuous Improvement Plan and supported by the U.S. Department of Justice (USDOJ) report issued in January 2008, the square footage of the hospital is nearly 30% larger than originally budgeted. The final cost of the Salem facility is expected to be roughly $360 million, excluding project management and staffing costs, and the cost of the Behavioral Health Integration Project (BHIP) electronic health record.

During the latter part of the 2007-09 biennium and continuing through the 2011 legislative session, a debate ensued regarding the need for the Junction City hospital. Some policymakers and mental health advocates questioned the need for the Junction City hospital, wondering instead whether both the resources used to finance and operate that site might be better used to enhance community-based mental health services. Others pointed out that the original *Master Plan Phase II Report* recommending an additional hospital was based on the assumption that Oregon had already developed a robust community-based mental health system, which would reduce the demand for hospital services. While strides have been made in funding and developing more community-based mental health care, Oregon has not yet developed an optimal community-based mental health system. Consequently, the need for a hospital in Junction City remains.

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

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

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

The 2011 Legislature approved $59.9 million Other Funds expenditure limitation for the replacement project (of the original $89 million 2011-13 request). This was roughly enough to finish the Salem hospital by the end of 2011, and to provide funding to continue the planning work and infrastructure development for the Junction City hospital, including final design work, final detailed construction documents, and the completion of the permitting process. The Legislature did not approve the remaining $29 million during the 2012 session, which would have enabled the project to start actual construction on the Junction City hospital during the spring of 2012. Instead, the project was slowed down, and actual construction began after the 2013 legislative session.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget includes $79.4 million of Other Funds expenditure limitation in the capital construction budget for the Oregon State Hospital Replacement Project. These resources are expected to be adequate to complete the Junction City hospital by the end of 2014. This will open up about 125 beds in the spring of 2015, as the Portland leased facility is closed.

The entire project, when complete, including the Salem and Junction City facilities, project management and staffing costs, and the BHIP electronic health record, is expected to cost about $508 million.

Department of Human Services (DHS) – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	1,791,286,691	2,185,437,090	2,561,372,047	2,247,307,600
Other Funds	334,595,591	516,471,949	419,141,257	474,879,587
Federal Funds	3,508,015,879	3,427,786,418	3,640,031,799	3,824,064,031
Federal Funds (NL)	2,194,068,587	2,514,345,331	2,514,345,331	2,514,345,331
Total Funds	**$7,827,966,748**	**$8,644,040,788**	**$9,134,890,434**	**$9,060,596,549**
Positions	7,712	7,411	7,466	7,630
FTE	7,494.32	7,312.13	7,364.14	7,480.61

Agency Overview

The Department of Human Services (DHS) supports children, families, seniors, and people with physical and developmental disabilities by providing a range of services through 170 field offices and many community partners. Toward more clearly defining roles and improving accountability, the Department reorganized in early 2012 and the 2013-15 budget reflects this restructure. Central, Shared Services, and State Assessments and Enterprise-wide Costs budget structures capture DHS administrative and agency-wide support services and, for some shared functions, services provided to the Oregon Health Authority (OHA). In addition, certain cross-program activities, such as licensing and protective services, were consolidated into these structures.

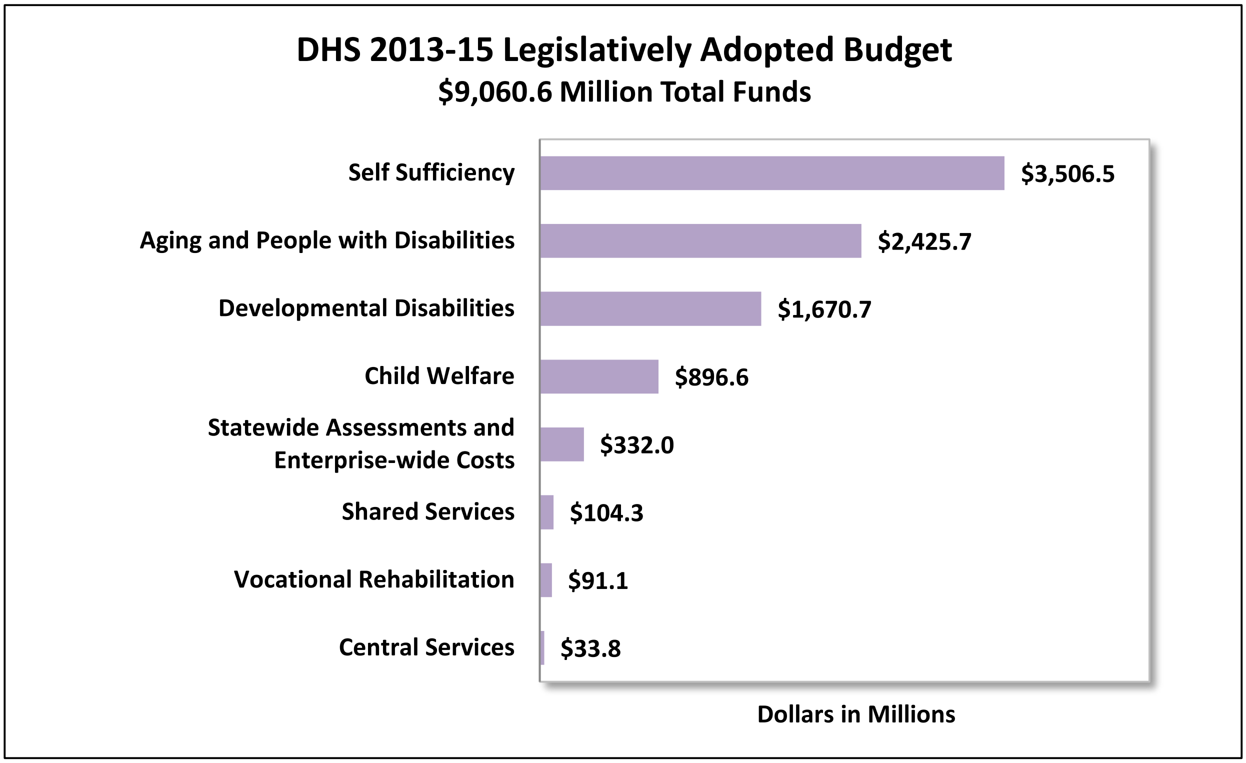
On the program side, budget displays were realigned to distinguish between five separate program budgets:

- **Self-Sufficiency Programs** assist low-income families by promoting family stability and helping them become self-supporting. Programs help clients meet basic needs, such as food and shelter, and provide job training, employment assistance, parenting supports, health care, and childcare.
- **Child Welfare** provides prevention, protection, and regulatory programs for Oregon's vulnerable children. This includes programs that provide safe and temporary or, if necessary, permanent families for children that have been abused or neglected through child protective services, in-home services, out-of-home services, and adoptions.
- **Vocational Rehabilitation** works with businesses, schools, and community program to assist youth and adults with disabilities other than blindness to obtain, maintain, or advance in employment.
- **Aging and People with Disabilities** provides long-term care and other services to seniors and people with physical disabilities. Clients receive services in their own homes, in community-based care settings, and in nursing facilities.
- **Developmental Disabilities** serves children, adults, and families affected by intellectual and developmental disabilities. Program services include in-home family support, intensive in-home supports, and out of home, 24-hour services delivered by proctor/foster care or residential care providers.

At the 2013-15 legislatively adopted budget level, DHS has the second largest budget of any state agency, after OHA. DHS makes up about 14% of the statewide $15.6 billion General Fund budget and about 15% of the statewide $59.8 billion total funds budget.

The 2009-11 numbers displayed for DHS and its program areas in this analysis reflect the reorganization of DHS and the creation of OHA, which occurred during the 2009-11 biennium. Previous 2009-11 estimates of the budget split between the two agencies included in earlier publications were reliant on manual adjustments that may differ from the historical data reported here. In addition, due to that previous reorganization and the recent realignment of program structures, comparisons between the 2009-11 budget tables and current figures may not provide the most useful information on program budget changes.

The following chart shows how the agency's $9.061 billion total funds 2013-15 legislatively adopted budget is allocated across programs and budget structures.



Revenue Sources and Relationships

For the 2013-15 biennium, the General Fund supports 24.8% of DHS' budget. Almost all of the General Fund is used as match or to meet state maintenance of effort (MOE) requirements to receive Federal Funds. While the overall General Fund share of DHS' budget is about the same as in the 2011-13 biennium, it includes both General Fund added to offset 2011-13 one-time non-General Fund revenues and General Fund savings resulting from other one-time revenues assumed in the 2013-15 biennium.

Other Funds revenues support 5.2% of DHS expenditures. These come from a wide variety of sources including nursing home provider taxes, grants, the unitary tax assessment, estate collections, third party recoveries, fees, and charges for services. Federal Child Care and Development Fund moneys are received from the Department of Education (Child Care Office – Early Learning Division) and used as Other Funds in this budget for Employment Related Day Care (ERDC).

Federal Funds support 70% of DHS expenditures for the 2013-15 biennium. The largest single Federal Funds source is the Supplemental Nutrition Assistance Program (SNAP, previously food stamps), which makes up 27.8% of DHS' total budget; the benefits are reflected in the budget as Nonlimited Federal Funds. Federal Funds subject to expenditure limitation include the Title XIX Medicaid program, Temporary Assistance to Needy Families (TANF), Title IV-E Foster Care and Adoption Assistance, Child Welfare Services, Title XX Social Services Block Grant, and Basic 110 Rehabilitation funds. Some of these sources are capped block grants (e.g., TANF, Social Services Block Grant); others provide federal matching funds as partial reimbursement of state costs (e.g., Medicaid, Foster Care and Adoption Assistance).

Budget Environment

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

Oregon's economy has a significant impact on DHS' budget: a poor economy creates more need for basic services for those who have few or no financial resources. TANF caseloads and applications for SNAP have grown significantly over the past several years; while these caseloads are projected to start declining during the 2013-15 biennium, they are still expected to fluctuate and will continue to put substantial pressure on the agency's workload and budget. In addition, even when Oregon's economy fully recovers, that recovery may not benefit many of the multiple-needs clients that DHS serves.

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

With federal dollars supporting more than two-thirds of DHS' budget, federal law and funding levels can give the state more or less capacity to meet the needs of Oregonians. DHS must adjust its budget on an ongoing basis for changes in the Federal Medical Assistance Percentage (FMAP) match rate, which determines the state's share of Medicaid program costs. More broadly, all federal revenue is directly tied to federal law and regulations. DHS' long-term care program for seniors and people with disabilities, for example, is governed by waivers of certain federal Medicaid regulations. Proposed program changes must be approved by the Centers for Medicare and Medicaid Services before being implemented.

In many programs, such as TANF, the federal government has established outcome standards, reviews state performance against those standards, and can levy penalties and/or develop program improvement plans to force progress towards those standards. (On a much more limited basis, some performance improvements can result in a financial award to the state.)

A number of federal funding streams also have state MOE funding requirements, which prevent states from reducing state program funding below identified levels without risking penalties. For example, in exchange for the $166.8 million for the annual federal TANF block grant, Oregon must meet both MOE requirements and client work participation rate requirements. The MOE requirement means non-federal support from the General Fund or other state resources must be at least $91.6 million per year (75% of the state contribution in the 1994 base year) unless JOBS participation has not been met at which point 80% is required. Oregon currently requires 80% or $97.7million in MOE per year.

Dependence on federal funding also leaves agency programs vulnerable when there is uncertainty at the federal level. For Federal Fiscal Year (FFY) 2013, sequestration (automatic spending cuts) are affecting some DHS programs. The agency's largest programs – SNAP, Medicaid, TANF – are exempt from the sequester. But many smaller and often discretionary grant programs in Child Welfare, Self-Sufficiency, and Vocational Rehabilitation are affected. The 2013-15 legislatively adopted budget includes General Fund backfill for these programs for the first quarter of the biennium, as the federal action for this timeframe is already in place and can be quantified. Risk remains that sequester or other federal budget balancing actions in future fiscal years (FFY 2014, FFY 2015) falling within the state's 2013-15 biennium window could require state action to reduce budgets or find other resources to cover program costs. This risk cannot be quantified and is not built into the budget.

The Office of Forecasting, Research, and Analysis (OFRA), which is a shared service of DHS and OHA housed in DHS, issues client caseload forecast semiannually (spring and fall) for the major DHS program areas. OFRA staff use a combination of time-series techniques, deterministic models, and information from program experts to produce each forecast. Monthly reports track accuracy by comparing forecast caseloads with actual caseload counts. This information is used to develop program budgets, to monitor budget versus actual expenditures, and to make management decisions. The 2013-15 legislatively adopted budget is based on the Spring 2013 forecast, which was issued in May 2013.

The agency's service delivery system relies on both state staff and contracted community partners for child care, foster care, residential treatment, long-term care, and other services. Approximately 80% of the DHS budget will be spent directly on provider service partners and in direct payments to clients. In some years providers receive standard cost-of-living increases (although not in recent years; there is some relief in 2013-15), but reimbursement rates have no formal review cycle and no consistent pricing methodology. Typically, the rates are reviewed in response to federal concerns or when access to services becomes an issue, and the necessary adjustments made as a result can be significant. The agency has a budget note requiring a report to the 2015 Legislature on provider rates, with a particular emphasis on how those rates affect direct care worker wages.

About 16% of the budget pays for DHS staff who directly serve clients in communities across Oregon, and only 4% of the budget pays for staff supporting policy development, training, and operations functions within the agency. For most programs, the agency uses a model to determine the number of direct service staff and supervisors that are needed to serve agency clients. Over the past several years, DHS has contracted for staffing studies to review current workload and staffing needs. 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. For most programs, DHS has moved to these new models. Due to budget constraints, these models are frequently funded at less than 100% but the funded percentage of the model is used as a target or reference point. To manage caseloads within budget, DHS continues to refine its workload models, leverage process improvements, and seek technology solutions.

State human services policy has a direct effect on DHS' programs and service delivery. Over the past few decades, Oregon's human services programs have moved to intervene earlier and in less-costly ways to prevent or mitigate the problems these programs address. For example, in the early 1980s, the Medicaid long-term care system received federal waivers to implement the nation's first home and community-based care system. In-home services are delivered to help elderly Oregonians, and people with developmental disabilities, stay at home rather than be moved to out-of-home care. The TANF program is in part a family safety program, with cash assistance and other services a means to help stabilize families. Child welfare is focusing more on in-home services, where appropriate, instead of foster care. Prevention and early intervention has been a clear policy choice. The dilemma comes when available funding is not enough to support earlier, less-costly services as well as more intensive, more expensive services to meet emergent needs.

When budget reductions are needed, options in human services programs focus on client eligibility, benefit levels, and staffing and service delivery costs. In some programs, such as Medicaid, the agency has limited flexibility in determining eligibility and providing services. Benefit levels in some programs are direct payments to individuals; in others they reflect reimbursements to providers for services. The cost of delivering services – individualized supports, community programs, or residential services – might be reduced through provider rate reductions, but providers' operational costs, collective bargaining requirements for some providers, and state statutory requirements are all factors. The agency has made efforts to better tie reimbursement to levels of need, but provider reimbursement has historically been determined by the type of provider group and is not consistent across programs or services provided.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget for the Department is $2.247 billion General Fund and $9.061 billion total funds. This is 2.8% General Fund and 4.8% total funds more than the 2011-13 legislatively approved budget of $2.185 billion General Fund and $8.644 billion total funds. However, excluding the Nonlimited Federal Funds pass-through for Supplemental Nutrition Assistance Program benefits and a $347.8 million total funds program transfer to OHA, the 2013-15 budget is effectively 12.5% more than the 2011-13 legislatively approved budget level.

The 7,630 positions (7,480.61 FTE) authorized for 2013-15 reflect a 3% increase (219 positions) from the 2011-13 biennium. The investment in positions covers caseload growth, improves staffing levels under workload models, corrects a problem in centralized services, and supports specific activities across most agency programs.

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

- TANF cash assistance levels and the 60-month lifetime limit are maintained, as are several 2011-13 program changes. The Governor had proposed reducing the 60-month limit down to a 36-month limit in his budget proposal. While program funding levels continue to limit the number of JOBS program participants, $5 million General Fund was added to serve more JOBS clients, which covers about a 5% increase in services.
- For the Employment Related Day Care (ERDC) program, which provides child care subsidies to employed parents, the budget supports a monthly average of 9,000 cases over the biennium. The ERDC funding package of $112.9 million total funds is also expected to help increase child care provider rates; a reduction in average caseloads may be needed to raise rates, which are set through collective bargaining.
- An investment of $7.1 million General Fund and $56.1 million total funds continues the Self-Sufficiency Modernization project. One key project outcome is workers having fewer business processes and less paperwork, giving them more time with clients.
- The budget includes, at a cost of $11.2 million General Fund and $23.7 million total funds, the full phase-in of the Strengthening, Reunifying, and Preserving Families program as enacted by SB 964 (2011).

- Child Welfare staffing is budgeted at 75% of the workload model, up from 67% in 2011-13. This staffing level supports implementation of differential response, improvements in the Oregon Safety Model, and statewide expansion of SB 964 efforts.
- For Vocational Rehabilitation Services, core functions are continued and a $1 million General Fund investment is made for the Centers for Independent Living.
- The budget for Aging and People with Disabilities (APD) includes $2.3 million General Fund for research and development to support pilot projects to develop new approaches to long term care services. The budget also invests in the statewide Aging and Disability Resource Connection (ADRC) program to assist seniors, all individuals with disabilities, and veterans in navigating their options for long term services and supports. The budget funds Oregon Project Independence at just under $10 million General Fund.
- Funding to support collective bargaining pools, increase provider rates, and cover cost of living adjustments for home and community-based services total $25.8 million General Fund and $78.4 million total funds. Many rates have been flat since July 2008.
- The budget includes funding to serve more seniors with severe mental health issues in the community instead at the more costly Oregon State Hospital and develop community capacity needed to serve clients requiring specialized care.
- For both APD and Developmental Disabilities (DD), the budget reflects the recently approved federal waiver under the Community First Choice Option State Plan (K Plan). Under the K Plan, the state would draw down an additional 6% in federal medical assistance percentage (FMAP) for eligible services; when coupled with match on maintenance of effort (MOE) expenditures, the enhanced rate is expected to generate over $200 million Federal Funds in 2013-15. Associated investments include provider rate increases and funding for collective bargaining.
- In the DD program, the budget covers roll-up costs for personal support worker wage increases and expands the number of Family to Family networks from four to eight.
- At a total of $10.3 million General Fund, $25.7 million total funds, and 40 positions (26.40 FTE), the budget supports the Employment First Initiative and associated Quality Assurance efforts.

DHS' 2013-15 legislatively adopted budget also contains several statewide budget adjustments. These include a reduction for the Governor's proposed administrative savings plan ($4.1 million General Fund, $14.9 million total funds) tied to efficiencies in finance, information technology, human resources, accounting, payroll, and procurement activities. The Legislature reduced services and supplies expenditures by 5%, which decreased the budget by $2.5 million General Fund. Policy changes to the Public Employees Retirement System (PERS) made in SB 822 (2013) also decreased the budget, by $11.1 million General Fund and $25.7 million total funds.

The budget also accounts for a 2% supplemental ending balance holdback applied to General Fund, totaling $45.6 million. This adjustment was made at the appropriation level in HB 5008 (2013), the omnibus budget bill; the budget report for that bill notes that this reduction may be restored during the 2014 legislative session depending on statewide economic conditions. While budget displays for the following program sections reflect the proportionate allocation of this reduction across programs, references to specific investments or subprogram budgets in the narrative generally do not account for the holdback. This is due to uncertainty regarding potential restoration, along with a lack of specific direction or discussion regarding holdback implementation and the associated impacts on programs. If the holdback is not restored, specific program or administrative actions will need to be identified to meet authorized spending levels.

More detail on the DHS budget is presented through the following narratives for programs or functional areas: Self-Sufficiency, Child Welfare, Vocational Rehabilitation, Aging and People with Disabilities, Developmental Disabilities, Central Services, Shared Services, and Statewide Assessments and Enterprise-wide Costs.

DHS – Self-Sufficiency Programs (SSP)

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	381,049,803	308,761,329	450,524,645	372,174,791
Other Funds	101,982,343	145,684,999	125,947,009	153,599,988
Federal Funds	429,507,179	493,464,969	414,594,306	466,378,789
Federal Funds (NL)	2,191,996,819	2,514,345,331	2,514,345,331	2,514,345,331
Total Funds	**$3,104,536,144**	**$3,462,256,628**	**$3,505,411,291**	**$3,506,498,899**
Positions	2,341	2,068	2,089	2,078
FTE	2,288.64	2,065.71	2,071.59	2,058.99

Program Description

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

- The *Supplemental Nutrition Assistance Program* (*SNAP/food stamps)* is a federally funded benefit program to help low-income families, single adults, and childless couples buy the food they need to stay healthy. In July 2013, almost 809,000 persons – about 1 in 5 Oregonians – received SNAP benefits worth over $100 million for the month. The benefit costs are included in the Self-Sufficiency budget as Nonlimited Federal Funds; eligibility determination staff costs are part of the budget as limited expenditures.
- *Temporary Assistance to Needy Families (TANF)* provides cash assistance grants, which, when coupled with SNAP benefits, supplies basic supports for families with children under the age of 19 that meet eligibility criteria. In July 2013, a total of 35,000 single- and two-parent families received TANF cash assistance. Income qualification and benefit amounts are based on family size and expenses. For example, a family of three must have income under $616 per month to qualify, with limited cash resources. The current maximum monthly benefit for a family of three is $506.
  TANF also provides Job Opportunity and Basic Skills (JOBS) services, which include education, training, job placement, and support services. Other program services include assistance and support services for Domestic Violence survivors; services to families eligible for Supplemental Security Income or Supplemental Security Disability Income (pre-SSI/SSDI); and Family Support and Connections services to help families at risk of child abuse or neglect.
- *Employment Related Day Care (ERDC)* is designed to help parents stay employed by subsidizing child care services for low-income working families. Only families with incomes up to 185% of the federal poverty level ($2,823 per month for a family of three) are eligible for ERDC. Clients make a co-payment based on income and household size, and the state subsidizes the remaining costs up to the DHS maximum rate. In July 2013, 8,907 families received ERDC subsidies for 16,283 children in day care.
- The *Refugee Program* works with community groups and social and workforce agencies to provide time-limited cash and medical assistance, SNAP benefits, and employment services to new refugees in Oregon.
- *Youth Services* support teen pregnancy prevention and other youth development initiatives related to juvenile crime, drug and alcohol use, youth suicide, school dropout, and sexual assault prevention and education programs.

SSP administers these programs through coordination and collaboration with families and individuals as well as community partners, and through direct services provided by state staff. Field staff provides program services and benefits to clients through more than 100 field and branch offices throughout the state. Staff in field offices also provide eligibility services for the Oregon Health Plan and other programs offered through the Oregon Health Authority.

Revenue Sources and Relationships

For the 2013-15 biennium, General Fund supports 10.6% of this budget, Other Funds, 4.4%, and Federal Funds, 85%. The General Fund share is higher than in 2011-13 primarily due to the use of $65 million in non-General Fund resources to balance the 2011-13 budget. The 2013-15 recommended budget includes one-time resources again, but at about half that level: $7.5 million in TANF carryover, $4 million in current fiscal year TANF contingency funds, $7.9 million in Child Care Development Fund (CCDF) carry-forward funding, and $14 million in federal fiscal year 2014 TANF contingency funds. While some risk is associated with the last component, funding has already been allocated at the federal level.

The major source of Other Funds is $100 million in federal CCDF dollars transferred from the Department of Education for the Employment Related Day Care program. The budget also includes child support recoveries and client trust account funds from client resources, such as federal Supplemental Security Income disability payments. Overpayment recovery revenues are also used to offset General Fund.

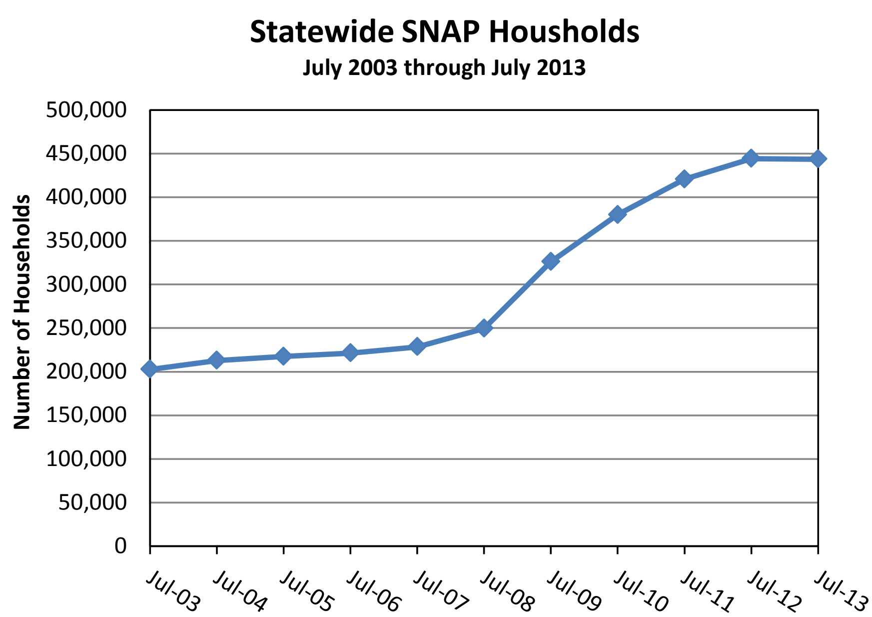
Nonlimited SNAP benefits are the single largest source and use of Federal Funds in SSP. SNAP benefits are projected at $2.5 billion for the 2013-15 biennium. While still very high, this level is flat funded from 2011-13 and reflects an expected decline in the SNAP caseload over the 2013-15 biennium. Federal funds also help pay for program administrative costs, on a 50% state/50% federal basis.

Other Federal Funds come from capped or formula-based block grants, payments for partial reimbursement of eligible state costs, and miscellaneous grants for specific amounts and purposes. Oregon receives $166.8 million a year from the base federal TANF block grant, which pays for cash assistance, JOBS services, child care, and other self-sufficiency programs, as well as child welfare services such as foster care and residential care. The 2013-15 legislatively adopted budget also anticipates the agency to qualify for $14 million in separately-available TANF contingency funds in the first federal fiscal year of the biennium.

Budget Environment

Demand for many of the services provided by SSP increase in poor economic times. Most notably, Oregon has seen a significant increase in caseloads for SNAP benefits and TANF cash assistance with the most recent recession. Federal funds supporting TANF and child care are programs are capped; TANF program cash benefits and employment services are funded primarily with the capped TANF block grant. The block grant does not increase based on higher caseload demands or costs, so the state is faced with adding state funds or decreasing services when costs exceed the available federal funding. Similarly, the federal Child Care and Development Fund (CCDF) that supports ERDC is a capped federal grant. Oregon historically uses TANF funds or General Fund to cover program costs above the available level of CCDF funding.

SNAP benefits make up over half of the SSP budget. The benefits are Nonlimited Federal Funds expenditures without a direct General Fund cost, but staffing to determine and monitor eligibility for the program is a 50% state/50% federal cost. The SNAP caseload has grown drastically as a result of both Oregon's economic conditions and program outreach to encourage eligible individuals and families, especially the elderly, to apply for the assistance. The chart below displays the recent caseload history for the program, which has gone from 202,662 households in July 2003 to 443,618 households in July 2013, more than doubling over the past decade.



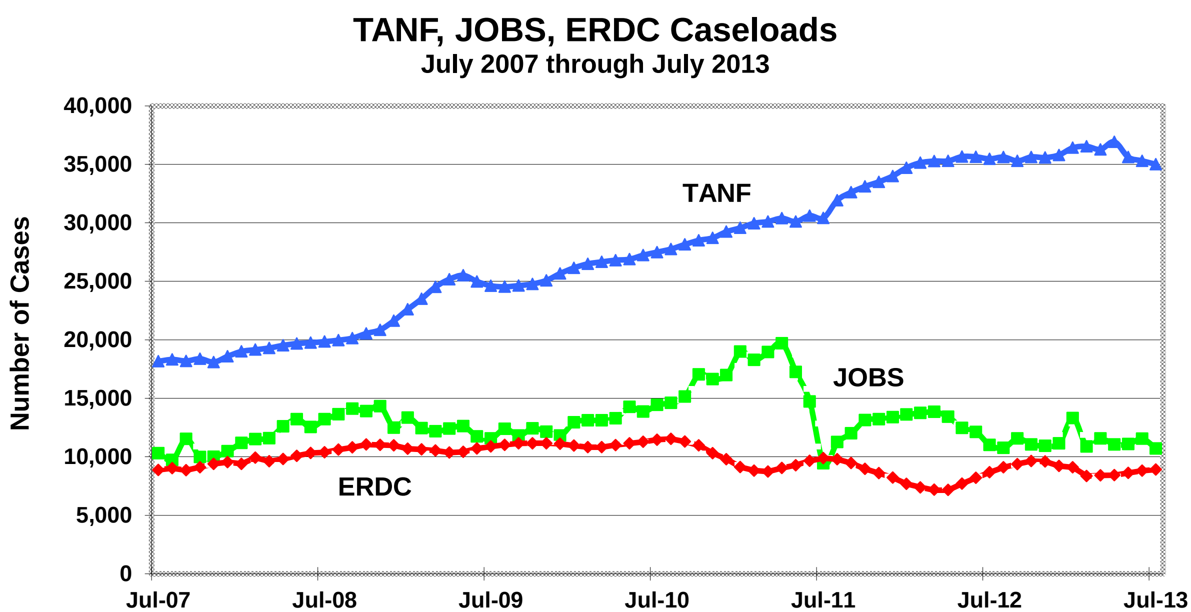
The number of SNAP households is projected to decrease slightly during the 2013-15 biennium. The agency's spring 2013 forecast projects an average of 421,674 households a month, a decrease of 3.9% from the 438,656 monthly average in 2011-13. However, the overall forecast includes an increase in senior participation, which DHS expects will continue to grow along with Oregon's aging population.

While federal SNAP funding has not been capped, efforts at the federal level to reduce spending or change policy could impact the program. For example, while no action has been taken, some members of Congress would like to eliminate categorical eligibility under SNAP. Oregon uses this eligibility pathway, which allows states to simplify and streamline eligibility determination processes for multiple state and federal assistance programs by aligning the programs' eligibility rules. Eliminating this option would mean that some current recipients would lose benefits and DHS would need to redetermine eligibility for SNAP, incurring additional administrative costs.

With federal TANF program reauthorization in 2006, Oregon restructured its program in an attempt to both meet federal requirements and achieve better outcomes for the very low-income families with children who receive TANF services. The 2007 Legislature passed HB 2469 and added funding to implement the restructured program. The basic design of the program includes "Pre-TANF" screening and evaluation with supportive services to meet basic needs, on-going TANF services, post-employment TANF supports, and "state-only" programs to qualify eligible families for Social Security disability benefits, and support two-parent families. Initial reports after the redesign was put into practice showed higher work participation rates and improved employment outcomes. As the economy weakened, however, cash assistance caseloads increased and the range of services and supports expected under the program redesign were diluted as a result of budget constraints.

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

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



For the 2013-15 biennium, TANF caseloads are projected to average 33,947 a month, down 5.2% from the 35,792 monthly average in 2011-13. Caseloads in both the JOBS and ERDC programs are expected to be slightly higher than 2011-13.

Along with a MOE requirement, the TANF program also has client work participation rate requirements. 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, and the Department of Education. Budget decisions on General Fund appropriations in these agencies can affect the state's ability to meet TANF MOE requirements. In recent years, Oregon has also counted the refundable Working Family Child Care tax credit towards its MOE. Oregon has been able to meet MOE funding requirements, but it has not been able to meet federal work participation rates, and faces potential penalties for federal fiscal years 2007, 2008, and 2009.

Legislatively Adopted Budget

SSP's 2013-15 legislatively adopted budget is $372.3 million General Fund and $3,506.5 million total funds, with 2,078 positions (2,058.99 FTE). This is 20.5% General Fund and 1.3% total funds higher than the 2011-13 legislatively approved level. The General Fund increase is primarily due to the use of $65 million in non-General Fund resources to balance the 2011-13 budget; these one-time funds were replaced – or "backfilled" – with General Fund in 2013-15. Nonlimited Federal Funds for SNAP benefits make up more than 70% of SSP's total budget. Estimated at just over $2.5 billion, SNAP payments for the 2013-15 biennium are expected to be no greater than 2011-13 expenditures, reflecting a small decline in the overall need for program services. It should be noted that if the SNAP benefits are excluded from the comparison, SSP's legislatively adopted budget for 2013-15 would actually be $44.2 million total funds, or 4.7%, above the 2011-13 legislatively approved level.

The legislatively adopted budget maintains the TANF Basic and Unemployed Two-Parent programs – including the current 60-month time limit – and most other related services. However, continuing high caseloads and capped federal funding again drives a number of changes in the TANF program. These include up-front eligibility process changes, denying aid based on a "job quit" period, post TANF payments, eliminating enhanced payments for clients applying for federal Supplemental Security Income benefits, and setting an income eligibility limit equal to 185% of federal poverty guidelines for non-parent caretaker relatives of dependent children. The JOBS program is funded slightly above 2011-13 levels; an investment of $5 million General Fund will allow the agency to serve more people but the program will still be limiting services to those clients that are most "job ready" and "near job ready."

The budget includes a series of internal staffing changes that convert vacant eligibility positions to case management positions to prioritize getting TANF families stable and back to work. The overall program budget supports Self-Sufficiency staffing levels at 71% of the workload model.

The Self-Sufficiency Modernization project is continued with a General Fund investment of $7.1 million, $56.1 million total funds, and 15 positions (15.00 FTE). DHS is transitioning from program-oriented processes and duplicative systems to more efficient and streamlined systems. One expected project outcome is workers having fewer business processes and less paperwork, giving them more time to spend with clients. Along with General and Federal Funds, the funding package relies on $14.4 million in Article XI-Q bond proceeds.

The Employment Related Day Care (ERDC) program, which provides childcare subsidies to employed parents, is budgeted at $121.4 million total funds, which is a 7% increase over the 2011-13 level of $112.9 million total funds. The budget supports an increase in caseload capacity to an average of 9,000 cases over the biennium, which is above the 2011-13 average of 8,500. However, the caseload capacity increase will be at least partially offset by expected provider rates increases, which are subject to collective bargaining. The budget also assumes continuation of 2011-13 ERDC policy changes; one action closes program access to those families where the adult has declared they are self-employed, while the other retains higher co-pays for families in the ERDC program.

Along with the standard statewide adjustments noted in the agency-wide narrative, the budget contains adjustments related to 2011-13 interim budget actions, which include the elimination of $2.2 million total funds and 13 positions (12.45 FTE) to implement staffing reductions driven by HB 4131 (2012.)

DHS – Child Welfare (CW)

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	271,386,116	392,627,586	429,229,748	436,614,994
Other Funds	28,221,778	23,795,621	20,175,569	24,193,822
Federal Funds	405,713,174	387,364,290	411,084,530	435,790,403
Total Funds	**$705,321,068**	**$803,787,497**	**$860,489,847**	**$896,599,219**
Positions	2,378	2,376	2,380	2,499
FTE	2,316.10	2,326.09	2,332.40	2,420.82

Program Description

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

- *Child Safety* services 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, in-home safety and reunification services, and System of Care flexible funding.
- *Substitute Care*, or out-of-home care, represents a broad range of care, supervision, and treatment services for children in temporary or permanent custody of the state. Family foster care homes and "special rates" foster care are the primary service elements. Residential Care is provided by private agencies in residential or therapeutic foster care settings for children who cannot live in a family setting. Providers are reimbursed for a portion of the cost of a child's room and board, clothing, school supplies, and personal incidentals; medical, dental, and mental health services are also provided for children in the state's custody. For older youth, independent living services help with the transition out of the foster care system.
- The *Adoptions* program provides adoption and guardianship services to help achieve permanent living placements for children in the child welfare system who cannot return home, including subsidy payments to help remove financial barriers to adoption or guardianship for special needs children.

Revenue Sources and Relationships

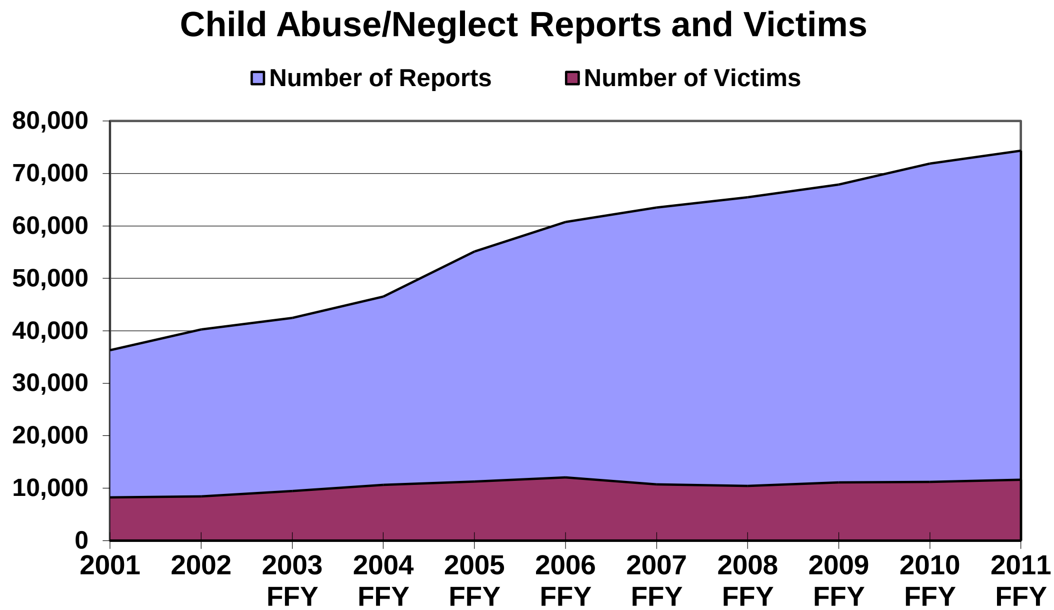
For the 2013-15 biennium, General Fund and Federal Funds each support about one-half of the budget; Other Funds covers just under 3%. The federal government partially reimburses eligible state program costs through Title XIX Medicaid and Title IV-E Foster Care and Adoption Assistance. Medicaid funding 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 and is estimated at about $260 million for 2013-15. Overall, federal reimbursement for the programs varies with federal match rate changes, the number of children served, and eligibility of the services provided. For 2013-15, Oregon's base Federal Medical Assistance Percentage (FMAP) is estimated at 63.1%; at this rate, Oregon would pay 36.9% of eligible program costs. Most administrative functions are paid only on a 50% state/50% federal share.

The Title XX Social Services Block Grant (SSBG) is estimated at about $42 million for the biennium; these flexible dollars are used for field staff, residential treatment beds, and administrative services. Another federal source is the Title IV-B Safe and Stable Families (Family Preservation and Support) grant, estimated at $8.8 million for 2013-15. CW uses these funds to pay for family reunification work and post-adoption services. Child Welfare will also transfer about $12 million in federal funds to the Department of Education to support Early Learning programs (former State Commission on Children and Families activities), which include relief nurseries.

Other Funds revenues include Criminal Fine Account funds 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. User fees support the Adoption Assisted Search Program and Independent Adoption Home Studies. 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.

Budget Environment

In federal fiscal year (FFY) 2010, CW received 74,342 reports of suspected child abuse or neglect; 32,328 of these reports were referred for further investigation. The number of victims increased about 3.7% from the prior year, to 11,599; this represents about 1.3% of the state's estimated 866,538 children aged 0 to 18. Over half of the victims are age 6 or younger. As the following graph shows, the number of abuse and neglect reports has more than doubled since 2001. About 75% of the reports were made by public and private officials required by law to report suspected child abuse and neglect.



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

The estimated average Child Welfare monthly caseload for 2013-15 is forecast to be 20,653, up 2.5% from the average 20,148 caseload in 2011-13. The current (spring 2013) forecast is the first edition using data from the new Child Welfare computer system (OR-KIDS) that came online in August 2011. Some caseload counts and data are still being developed within the new system, so these figures may change as those elements are validated.

In FFY 2011, 12,994 children spent at least one day in some kind of foster care, fewer than the 13,129 children the year before. Family foster care is the primary setting, with 4,542 certified foster family homes in 2011; over 37% of the children placed in family foster care were placed with relatives. The agency reports that 64% of children who left foster care during the year were reunited with their families.

Families and other foster care providers receive partial reimbursement for the cost of room and board, clothing, school, and personal items for foster children. Many children in foster care require special services (and special rate payments), based on emotional, behavioral, mental, or physical problems that require increased skills and supports for foster parents and caregivers. Children in foster care also are eligible for physical and mental health services through the Oregon Health Plan, funded in the Oregon Health Authority budget.

Other, higher cost services may be required in residential treatment or specialized service plans for children whose needs cannot be met in existing service settings. Capacity in residential treatment programs has been constrained by budget, and many providers' costs have increased more rapidly than the rates paid by DHS.

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). During FFY 2011, 731 adoptions were finalized. This is 6.4% fewer than the 781 adoptions finalized in 2010, and the lowest number of finalized adoptions since the year 1999. An additional 217 children left foster care for a guardianship arrangement, up 8% from the 201 in 2010. In almost all cases, children placed receive adoption or guardian assistance payments and medical coverage to provide for their special needs.

Legislatively Adopted Budget

At $436.6 million General Fund and $896.6 million total funds, the 2013-15 legislatively adopted budget for Child Welfare is 11.2% General Fund and 11.5% total funds higher than the 2011-13 legislatively approved General Fund budget. The position count of 2,499 (2,420.82 FTE) reflects a 5.2% increase over 2011-13. The General Fund and position increases are primarily due to program phase-ins and investments.

Besides caseload and cost per case adjustments, the CW funding level includes the full phase-in of the Strengthening, Reunifying, and Preserving Families program as enacted by SB 964 (2011). Funding for the program, which focuses on providing services to allow children to remain safely with their families and avoid foster care, at $11.2 million General Fund ($23.7 million total funds) is captured within the current service level budget. The agency has a budget note requiring an interim legislative update and more detailed reporting as the program grows in 2013-15; implementation for remaining counties will begin no later than April 30, 2014.

The Legislature approved several program enhancements for CW, these are paid for in part by eliminating inflation built into the budget, which was a funding strategy initially proposed by the Governor; they include:

- An increase of $11.3 million General Fund to comply with a change in eligibility rate methodology that allows the state to retain Title IV-E federal funding for foster care. Three positions (3.00 FTE) will ensure ongoing and timely compliance.
- To support efforts to stabilize post adoption services, including crisis response and consultation, and client care for children in residential care, an increase of $199,273 General Fund, $614,942 total funds, and one position (0.88 FTE) was authorized.
- Additional funding of $1 million General Fund, $1.4 million total funds, and nine positions (6.75 FTE) for improving state compliance with the federal Indian Child Welfare Act. This includes one position for coordination with each tribe in Oregon.
- An investment of $10.7 million General Fund, $20.4 million total funds, and 113 positions (85.24 FTE) that will improve Child Welfare staffing by bringing it up to 75% of the workload model. The increase provides for implementation of differential response, which is a design for child welfare intervention that allows for more than one way of responding to reports of suspected child abuse or neglect. The additional capacity also supports improvements in the Oregon Safety Model, statewide expansion of SB 964 (2011) efforts, and compliance with federal requirements. By a budget note, the agency is required to report on the allocation of staff and outcomes associated with the increased capacity.

Funding for the Homeless and Runaway Youth program was increased by $750,000 General Fund. This program sends money to communities to support local services such as street outreach, day drop-in, and overnight shelter; the amount equates to a 69% increase over the 2011-13 program funding level.

The budget covers estimated 2013-15 caseload costs based on the Spring 2013 forecast and permanently restores 48 residential treatment beds with an investment of $2.7 million General Fund ($5.6 million total funds). The forecast for this particular caseload had been artificially constrained because of decreased capacity due to previous budget reduction actions.

Along with the standard statewide adjustments noted in the agency-wide narrative, the budget contains adjustments related to 2011-13 interim budget actions, which include the elimination of $1.5 million total funds and 8 positions (7.71 FTE) to implement staffing reductions driven by HB 4131 (2012). To offset federal sequestration reductions in the first quarter of the biennium, $404,125 General Fund was added. Also in the budget is $11.6 million Federal Funds to reflect expenditures allowed under OHA's Designated State Health Program (DSHP) waiver, along with expenditure authority and positions to support federal grants. A fund shift to capture a federal percentage increase in the FMAP rate is included, as well as technical adjustments and transfers that move a position to Shared Services and reprioritize the Attorney General budget by transferring funding into Child Welfare from other programs.

DHS – Vocational Rehabilitation (VR)

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	14,339,538	15,879,444	16,617,227	17,329,780
Other Funds	1,885,239	2,269,521	2,324,474	2,318,055
Federal Funds	57,098,909	68,667,739	65,274,269	71,421,920
Total Funds	**$73,323,686**	**$86,816,704**	**$84,215,970**	**$91,069,755**
Positions	227	224	224	224
FTE	222.31	220.28	220.28	220.28

Program Description

Vocational Rehabilitation (VR) services works with businesses, schools, and community programs to help youths and adults with disabilities other than blindness prepare for and find employment. In federal fiscal year 2012, the program served a total of 15,207 individuals with disabilities.

- *Vocational Rehabilitation Services* provides training, vocational, and educational services to persons with disabilities that are substantial impediments to obtaining or maintaining employment. These services are delivered through field offices and employees outstationed across the state.
- *Youth Transition Program* provides coordinated vocational rehabilitation services to students who are currently in school to ensure a smooth transition to adult services and employment after school completion.
- *Supported Employment Services* provides vocational rehabilitation services, on a time-limited basis, to severely disabled clients for placement in community-based competitive work sites.
- *Independent Living Program* supports the State Independent Living Council and community-based Centers for Independent Living, which help persons with severe disabilities maintain independence at home, in the community, and in employment.

Revenue Sources and Relationships

For the 2013-15 biennium, General Fund supports 19% of this budget; Other Funds, 2.5%; and Federal Funds, 78.5%. Section 110 of the Rehabilitation Act of 1973 (Basic 110 Grant) provides federal support for vocational rehabilitative services. This grant is distributed to states based upon population and per capita income. The Department of Human Services (DHS) receives about 87.5% of Oregon's allocation of Section 110 Federal Funds; the Commission for the Blind receives the remaining 12.5%. The grant requires General Fund or Other Funds match, at a 21.3% state/78.7% federal rate. Rehabilitative services revenue also includes federal Rehabilitation Act funds for Supported Employment and staff training, and for Independent Living Rehabilitation.

Budget Environment

Almost all of the clients who receive vocational rehabilitation services have severe disabilities which require a broad array of services. For FFY 2012, 71% of the 15,207 persons served had primary disabilities characterized as cognitive, psychosocial, physical, or mental impairments. The severity of the disabilities, and the extent of the services needed to correct or address the disabilities, increase the cost and difficulty of rehabilitation and employment. In addition, VR continue to be challenged to place clients in jobs as Oregon's economic downturn has resulted in fewer available jobs and tighter competition for the jobs that are available.

VR is not an entitlement program like SNAP or Medicaid long-term care services, where funding is tied directly to the number of program eligibles. For the past two decades, federal funding for vocational rehabiliation services has been generally flat, with only cost-of-living adjustments. This has not always kept pace with increased costs and demands for services, and state budget resources have not always been able to fill the gap. Periodically, when demand for services exceed capacity and budget, the program has operated under an Order of Selection, which mandates services to the most severely disabled individuals first. Individuals who cannot be served are put on a wait list. DHS has not had to use the list since July 2010 but is still formally in the Order of Selection and continues to assign priority levels to individuals. While VR does not expect to need a wait list in 2013-15, if one is needed, this action postions the agency to be able to reinstitute a wait list in a manner that minimizes both client and program impacts.

Legislatively Adopted Budget

At $17.3 million General Fund and $91.1 million total funds, the legislatively adopted budget for VR is 9.1% General Fund and 4.9% total funds higher than the 2011-13 legislatively approved budget. Positions are held constant between biennia, at 224 (220.28 FTE).

The General Fund increase is primarily due to an investment of $1 million General Fund for the Centers for Independent Living (CILs). This increase is expected to bring budgets for the Eastern Oregon Center for Independent Living and the Lane Independent Living Alliance (LILA) up to minimum operating levels. The funding also covers a portion of the requested increase in overall base funding to CILs.

VR will also be working with the DHS Developmental Disabilities (DD) program on the revitalized Employment First initiative. This effort will require our counselors and service providers to develop additional skills and expertise to assist clients that have significant barriers to employment. In addition, significant changes in service design, delivery, and coordination with education, DD services, community providers, and employers will be needed.

Along with standard statewide adjustments noted in the agency-wide narrative, the budget includes $311,750 General Fund to offset federal sequestration reductions in the first quarter of the biennium and $7.2 million Federal Funds to align the budget with the latest federal allocation projection.

DHS – Aging and People with Disabilities (APD) – Program Area Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	562,441,264	753,869,451	926,166,377	695,591,617
Other Funds	132,543,213	145,229,263	106,723,038	160,249,068
Federal Funds	1,539,690,113	1,445,899,646	1,654,976,503	1,569,861,340
Total Funds	**$2,234,674,590**	**$2,344,998,360**	**$2,687,865,918**	**$2,425,702,025**
Positions	1,284	1,203	1,266	1,243
FTE	1,248.92	1,185.04	1,255.45	1,231.27

Program Description

Aging and People with Disabilities (APD) and its partners provide services for seniors and adults with physical disabilities. APD 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. Oregon Project Independence (OPI) provides in-home services outside of the Medicaid program. Federal Older American Act services include help with abuse prevention, caregiver supports, medication management, nutrition services, senior employment, legal issues, and other support services. The program also includes federally required supports to aged, blind, and disabled persons who receive Supplemental Security Income (SSI).

Medicaid long-term care services for the elderly and clients with physical disabilities fall into one of three major delivery categories: in-home programs designed to delay the need for more costly institutionalized care; community-based facilities or "substitute homes;" and nursing facilities. In-home care services are provided by home care workers who are employees of the client with oversight by the Home Care Commission, and through providers working through local Area Agencies on Aging (AAAs). Community-based facilities include adult foster care homes, assisted living, residential care, and enhanced residential care. Providence Elder Place is a jointly funded Medicare and Medicaid Program of All-Inclusive Care for the Elderly (PACE), a program that integrates acute medical care and community-based care under a system of capitated rates, serving people at high risk of needing nursing facility care. The program integrates acute and long-term care services, with seniors in this program generally attending adult day care services while living in a variety of care settings.

Eligibility for Medicaid long-term care is based in part upon the ability to perform certain activities of daily living. Applicants for Medicaid long-term care are evaluated on their ability to perform activities of daily living such as eating, toileting, mobility, bathing, and dressing. This evaluation is used to rank the applicant within categories known as "service priority levels." Priority level 1 clients are those most unable to perform activities of daily living and more likely to need services offered in nursing facilities. In contrast, those at lower priority levels are less impaired and more likely to receive in-home assistance. Oregon provides services for clients in categories 1 through 13. Eligibility is also based upon income and assets.

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 waiver allowing 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. This change shifted the service split between community-based care and nursing facilities. In the 1980s about half of the caseload resided in nursing facilities, today those cases represent only about 16% of the Medicaid long-term care cases. In-home cases represent about 38% of the caseload and community-based facility cases, 46%.

Beginning with 2013-15, DHS received approval of a new waiver offered under the Affordable Care Act, called the Community First Choice Option, or K Plan. This waiver, along with updates to existing Medicaid long-term care waivers, will provide the state with the authority to expand person-centered and community-based services for eligible seniors and people with physical and developmental disabilities. The plan also allows Oregon to receive a six percentage point increase in the matching rate the state receives from the federal government; these additional dollars have been built into the budget along with expenditures required to meet program MOE requirements. The K Plan will help provide better support for individualized services, enhance quality of life, and help keep more people in their own homes.

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

APD is the state administrator of the ***Older Americans Act (OAA)***, a federal program targeted to people 60 years of age and older. The state distributes the funds to local AAAs, which deliver a variety of services including information and referral, transportation, congregate meals and "meals on wheels," senior employment programs, legal services, insurance counseling, and family caregiver counseling and training. Over 323,000 Oregonians receive OAA services each year.

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

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

- "Type A" Area Agencies on Aging (AAAs) provide Older Americans Act (OAA) and Oregon Project Independence (OPI) services in most counties. Type A AAAs are typically private non-profit agencies. Staff are employees of the AAA. In areas served by Type A AAAs, local APD offices administer Medicaid, cash assistance, and SNAP services.
- "Type B" AAAs are local government bodies, such as counties or councils of governments. "Transfer AAAs" are staffed by local government employees; in "Contract AAAs," services are provided through state employees supervised by the county. Both administer Medicaid, cash assistance, SNAP services, OAA, and OPI programs.

The budget includes funding, but not positions and FTE, for the staff who work in the Type A AAAs and for the Transfer AAA. While under statute DHS is required to establish a budget level for Transfer AAAs that is not less than 95% of the cost to run a similarly staffed state office, budget constraints in recent biennia have suppressed that level to 90%. However, the 2013-15 budget sets equity at 95%.

Local APD office staff are part of this budget, which include SNAP eligibility staff; however, the SNAP benefit payments are part of the Self-Sufficiency Programs (SSP) budget.

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

Revenue Sources and Relationships

General Fund makes up 28.7% of the APD budget. This is down from the 32.2% share in the 2011-13 budget, primarily due a transfer of $125.9 million General Fund ($347.8 million total funds) to OHA that moved the Medicare Part A and B and the nursing facility extended care programs to that agency. Most of the General Fund is used to match federal Title XIX Medicaid and other federal funds. A smaller share is used for General Fund-only programs such as Oregon Project Independence.

Other Funds revenue is 6.6% of the overall budget. The Other Funds come primarily from nursing facility Medicaid provider taxes, clients' contributions towards their care, and estate recoveries. The nursing facility provider tax, described in statute as the Long Term Care Facility Assessment, is used to match federal Medicaid funds for facilities that serve Medicaid clients, allowing for higher levels of nursing facility reimbursement. The provider tax was scheduled to sunset in 2014, but under HB 2216 (2013) it was reauthorized and extended through June 30, 2020. The 2013-15 legislatively adopted budget includes $61.5 million Other Funds revenue associated with this action.

Federal Funds make up 64.7% of the budget and are predominately Medicaid funds. Federal matching funds for the Medicaid program are determined by the Federal Medical Assistance Percentage (FMAP), which is the federal share of eligible program expenditures. The program match rate changes each federal fiscal year and depends on Oregon's per capita income relative to other states. For the 2013-15 biennium, the average Medicaid match rate is estimated at 63.1%; at this rate, Oregon would pay 36.9% of eligible program costs. Under the K Plan, the state will draw down an additional 6% in federal medical assistance percentage (FMAP) for APD (and DD) services; when coupled with match on MOE expenditures, the enhanced rate is expected to generate about $93 million Federal Funds for APD in 2013-15.

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

Budget Environment

Over the past several biennia, the APD budget has grown significantly due to mandated caseloads, mandated cost increases, and program improvements such as provider rate increases and new program services. Oregon's ability to maintain current services is and will continue to be a challenge, with ongoing growth in the number of Oregonians who receive those services and increasing costs to provide quality care on one side, and limited resources on the other.

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

Demand for services to seniors and adults with physical disabilities is driven largely by demographics. The number of Oregonians ages 65 or older, the population most likely to require long-term care services, increased by almost 80,000, or 18%, in the decade from 2000 to 2010. The Department of Administrative Services' Office of Economic Analysis projects this population will grow by 8.5% during the 2013-15 biennium, reaching over 685,000 by July 1, 2015. As of July 2013, APD was serving 29,303 seniors and adults with physical disabilities in its long-term care programs for the elderly and the physically disabled (which include in-home services, community-based care, and nursing facilities). DHS' spring 2013 caseload forecast projects long-term caseloads overall will increase by 2.7% for the 2013-15 biennium.

Given the demographic projections, the issue of sustainability of the long-term care system has been a recurring topic of discussion. SB 21 (2013) requires DHS to convene a planning committee to develop an improved and secure system of long-term services and supports system. The committee will include DHS, community partners, providers, consumers, seniors, people with disabilities, and legislators; by February 2015 the agency must report to the Legislature on proposed changes, areas of consensus, challenges, and a time line for the implementation of the plan in whole or in part. Previous planning efforts have called for more community resources through local centers, restructured rates to support flexible, specialized and adequate community services, and connecting individual needs to reimbursement rates. However, no funding has been allocated to date to implement that plan. APD has undertaken several pilot efforts for Aging and Disability Resource Centers (ADRCs), a longer-term strategy to reduce costs by providing early information, referral, and assistance services and supports for long-term care to all individuals and families.

In addition to population growth, provider reimbursement is a major driver in APD costs. Adequate provider reimbursement assures access for clients, and allows providers to operate effectively with an appropriate number of skilled staff, while inadequate reimbursement puts access and services at risk. Reimbursement rates are based on a mix of where clients live and the extent of individual client needs. For example, the rates DHS pays nursing facilities for services are set in Oregon statute, which establishes the reimbursement levels at certain percentiles of audited allowable nursing facility costs. Community-based provider rates such as those for assisted living facilities and residential care facilities are tiered based upon client impairment. In-home service caregivers and adult foster home rates are now subject to collective bargaining.

Examples of changes to APD programs in response to state budget constraints in past biennia include eliminating Medicaid long-term care services for people who had been categorized by level of impairment in service priority levels 14-17 (the least impaired), discontinuing the General Assistance program, and reducing

OPI. Agency expenditures and provider reimbursement have also been adjusted over the past several biennia, both in the legislatively adopted budgets and in interim adjustments for statewide General Fund revenue shortfalls and to "rebalance" the APD budget.

Legislatively Adopted Budget

At $695.6 million General Fund and $1,569.9 million total funds, the legislatively adopted budget for APD is 7.7% General Fund less and 3.4% total funds greater than the 2011-13 legislatively approved budget. However, this is a bit misleading as $125.9 million General Fund ($347.8 million total funds) was transferred to OHA with the Medicare Part A and B and the nursing facility extended care programs. Without this transfer, the budget would be 9% General Fund and 18.3% total funds higher than the 2011-13 legislatively approved budget. In addition to a significant General Fund investment, the budget is able to sustain and enhance programs due to the availability of additional Federal Funds (K Plan) and Other Funds (provider tax) resources.

A net increase of 40 positions between biennia reflects a 3.3% increase. The adjustment primarily consists of positions added to meet mandated caseload projections and a handful of new positions supporting budget initiatives that are partially offset by positions eliminated to meet span of control targets.

The budget covers costs for projected caseload growth in programs serving the elderly and people with physical disabilities as well as several targeted investments:

- An increase of $2.3 million General Fund for research and development funding to support pilot projects to develop new approaches to long-term care services. This investment provides $350,000 General Fund for a grant to the Neighborhood Housing and Care Program, which is implementing a model for serving people living with HIV/AIDS in their homes. The average age and acuity of these individuals is growing along with the baby boomer population.
- To help replace APD's aging infrastructure, $2 million General Fund, $4 million total funds, and two positions (2.00 FTE). This action is expected to support changes due to future planning efforts underway through the agency's Long-Term Care 3.0 initiative and SB 21 (2013).
- The budget includes $10.4 million General Fund and $32.1 million total funds to increase home and community-based care rates that have been flat since July 2008.
- Another action that restores previous cuts is $2.5 million General Fund and $5.5 million Federal Funds limitation to partially restore the instrumental activities of daily living (IADL) reduction that occurred in January 2012. Using available funding, the Department will develop and implement a plan to restore hours to the maximum extent possible. The plan may include a phased-in restoration as DHS conducts eligibility re-assessments for consumers served in long-term care programs.
- Funding to serve more seniors with severe mental illness in the community instead of at the more costly Oregon State Hospital, at a cost of $7.3 million General Fund and $10.7 million total funds.
- Another $1.9 million General Fund and $5.3 million total funds will support community capacity needed to serve hard to place clients requiring specialized care.
- To implement the final phase of the Certified Nursing Assistant (CNA) staffing study, $675,000 General Fund and $2 million total funds was added. This change supports a staffing standard of 2.46 hours per resident each day for CNAs.
- The Money Follows the Person program, with a new design and restart, is funded with just over $700,000 Federal Funds and a corresponding General Fund savings.
- A fund shift of $1 million from General Fund to Other Funds supports one-time use of the Quality Care Fund balance.
- To improve care coordination between local APD and Area Agencies on Aging (AAA) offices and Coordinated Care Organizations (CCOs), the budget includes $1.8 million General Fund, $6.8 million total funds, and five positions (4.40 FTE). The investment also supports the statewide Aging and Disability Resource Connection (ADRC) program to assist seniors, all individuals with disabilities, and veterans in navigating their options for long-term services and supports. DHS and OHA will share also responsibilities, under a budget note, for reporting on how they have responded with plans and/or actions that address the recommendations on seniors and mental health contained in the *2013 Report on Senior and Disability Mental Health and Addictions*.

The 2013-15 legislatively adopted budget for APD is dependent on the agency's successful request for a federal waiver under the Community First Choice State Plan Option (K Plan); the agency received notice of approval in July 2013. The funding package tied to this waiver builds in required and ongoing maintenance of effort (MOE) expenditures at $16.1 million General Fund. Coupled with the federal matching component, the funding is used to increase rates, increase the in-home housing allowance to support consumers being served in their own homes, and convert the relative adult foster care program to an in-home program. A portion of the investment is also targeted for home care worker collective bargaining. For APD under the K Plan the state is expected to draw down an additional $92.9 million Federal Funds in 2013-15.

Another key component of the APD 2013-15 budget is continuation of the nursing facility provider tax, which allows $21.6 million General Fund to be freed up for other uses. HB 2216 (2013), which contains the extension, also provides for higher reimbursement rates and outlines a strategy for helping providers reach a goal of reducing Oregon's long-term care bed capacity by 1,500 beds by the end of 2015. The agency received a budget note directing some tracking and reporting on related to activities under the capacity reduction effort.

The budget funds mandated caseload, including staff, and supports APD staffing at 95% of the workload model. The AAAs are funded at 95% of the comparable state office costs (equity level).

Along with the standard statewide adjustments noted in the agency-wide narrative, the budget contains adjustments related to 2011-13 interim budget actions, which include the elimination of $2.6 million total funds and 14 positions (14.00 FTE) to implement staffing reductions driven by HB 4131 (2012). To offset federal sequestration reductions in the first quarter of the biennium, $311,625 General Fund was added. Also in the budget is $8.56 million Federal Funds to reflect expenditures allowed under OHA's Designated State Health Program (DSHP) waiver and Other Funds expenditure authority and positions to cover costs associated with OHA's State Innovation Grant. A fund shift to capture a federal percentage increase in the FMAP rate is included, as well as technical adjustments and transfers that move two positions to Shared Services.

DHS – Developmental Disabilities (DD)

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	405,394,129	536,981,286	562,044,660	535,930,604
Other Funds	33,723,765	37,716,994	25,952,618	28,755,113
Federal Funds	926,919,458	871,002,268	916,934,077	1,105,975,297
Total Funds	**$1,366,037,352**	**$1,445,700,548**	**$1,504,931,355**	**$1,670,661,014**
Positions	825	846	807	841
FTE	784.38	841.01	804.33	824.39

Program Description

Developmental Disability (DD) programs serve about 21,000 adults and children with developmental disabilities. Services include home or community-based services delivered to children and adults through counties and support service brokerages, private providers, and state-operated and private group homes.

Oregon no longer has an institutional facility for persons with developmental disabilities, so all clients are served in the community. Most of these services are administered under Medicaid waivers similar to the Home and Community-Based Care waiver for seniors and people with physical disabilities. Clients must meet Medicaid financial eligibility requirements (e.g., household income levels up to 300% of the SSI grant) and have developmental disabilities that impede their ability to function independently. Developmental disabilities include mental retardation, cerebral palsy, Down's syndrome, autism, and other impairments of the brain that occur during childhood. Some people with developmental disabilities also have significant medical or mental health needs.

Community developmental disability programs at the county level determine eligibility for DD services, assess client needs, determine service rates, arrange and oversee contracts with providers, and respond to protective services issues. Regional brokerages provide case management and link individuals with services. Local providers deliver the support and residential services. This budget covers payments to counties and brokerages for program administration (DD Local Field Authority) as well as for program services. Program services for people with developmental disabilities are described below. Clients may receive services from more than one category and require services from different categories at different points of their lives depending upon their physical condition, age, and ability to function:

- ***Support services*** are for adults and children who live at home and are typically provided by individuals hired by the client, with the help of a personal agent, who gives them the assistance they need to remain in their own homes. Primary support services available 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, support services are provided for children living at home to help prevent out-of-home placements. Regional non-profit brokerages work with clients and their families to arrange appropriate support services.
- ***Comprehensive services*** service adults and children who are living at home and receiving 24-hour supports, or living in residential facilities or group homes. Adult residential programs provide 24-hour group home care or supported living services for people aged 18 and over with a developmental disability. Children's residential care includes foster care, proctor care, and community residential group homes. Children's Intensive In-Home Services are provided 24-hours a day for medically fragile children, medically involved children, and children with intensive behavioral disabilities. Clients receiving comprehensive services may also receive diversion services (to prevent a crisis) or transportation if needed.
- The ***State Operated Community Program (SOCP)*** provides 24-hour community residential care for approximately 108 people who have intensive support needs because of medical or behavioral conditions. State employees operate 23 group homes serving these clients.

Revenue Sources and Relationships

General Fund makes up 32.1% of the DD budget. This is about 5% lower than the share in the 2011-13 budget, primarily due to additional Federal Funds that are used to offset some General Fund costs. Most of the General Fund is used to match federal Title XIX Medicaid and other federal funds.

Other Funds revenue is 2.6% of the overall budget. The Other Funds come primarily from clients' contributions towards their care and estate recoveries.

Federal matching funds for the Medicaid program are determined by the Federal Medical Assistance Percentage (FMAP), which is the federal share of eligible program expenditures. The program match rate changes each federal fiscal year and depends on Oregon's per capita income relative to other states. For the 2013-15 biennium, the average Medicaid match rate is estimated at 63.1%; at this rate, Oregon would pay 36.9% of eligible program costs. Under the K Plan, the state will draw down an additional 6% in federal medical assistance percentage (FMAP) for APD (and DD) services; when coupled with match on MOE expenditures, the enhanced rate is expected to generate about $126.6 million Federal Funds for DD in 2013-15.

Budget Environment

A major cost driver for DD programs is caseload growth; for 2013-15 demand is projected to increase 6.6% from the 2011-13 level, growing from an average of 20,283 to 21,617. While the forecast represents the best estimate currently available, it could be impacted by the K Plan, since under that waiver there will no longer be a minimum age of 18 required to qualify for Medicaid long-term care services. This may increase the number of younger developmentally disabled clients receiving DD services and may require delivery of some more expensive services. Other issues that may affect caseload include the eventual outcome of Lane v. Kitzhaber (a federal class actions lawsuit), a related federal civil-rights investigation, and the recent Governor's Executive Order aimed at increasing access to employment for people with developmental disabilities.

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

The most recent state policy action related to developmental disability services has been triggered by a Governor's Executive Order issued in April 2013. The order sets out a strategy for achieving integrated employment for individuals with intellectual and developmental disabilities. DHS has incorporated this strategy within its Employment First initiative. The Department first adopted this policy, which prioritizes fully integrated work as the first and highest priority option explored in the service planning for working age adults with developmental disabilities, in 2008. Due to budget constraints, the policy struggled to gain traction over the last two biennia. The 2013-15 budget includes resources for Employment First that will allow DD, in partnership with Vocational Rehabilitation and the Department of Education, to carry out activities under the policy and the executive order.

Similar to many other agency programs, DD relies heavily on partners and providers to meet program and client needs. Rate reductions in recent biennia, along with policy changes, make this relationship especially challenging. While the current budget does include some rate restorations, many provider rates had not been increased since 2008. The elimination of six SOCP homes in 2011-13 resulted in clients moving to other parts of the system; while the system had capacity, placements for some of clients were difficult and were not always successful.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget for this program area is $535.9 million General Fund and $1,670.7 million total funds. This is 0.2% General Fund less, but 16.5% total funds more, than the 2011-13 legislatively approved budget at the close of the 2012 session. Federal Funds made available under the K Plan (waiver) are able to offset what would have been General Fund costs. The position count of 841 (824.37 FTE) reflects a less than 1% decrease from 2011-13, but embedded in the change is both the phase-out of 39 positions tied to 2011-13 SOCP home closures and an increase of 40 positions related to Employment First and Quality Assurance work.

Cost per case increases and caseload adjustments are covered in the budget, which also includes the following program enhancements:

- To support four additional Family to Family networks, an addition of $1.2 million General Fund. These community-based networks support family members as caregivers for children with disabilities, often delaying or deferring entry into Medicaid-funded services; services will be made available to more families across the state with a particular focus on eastern Oregon.
- For implementation of an electronic web-based central client record and case management system, $2.4 million General Fund, $4.8 million total funds, and two positions (1.66 FTE).
- To cover roll-up costs associated with a 1.25% wage increase for Personal Support Workers (PSW) effective April 1, 2013. The budget also includes $7.4 million General Fund ($19.9 million total funds) as a placeholder for costs that will remain indeterminate until the conclusion of collective bargaining.
- An increase of $10.3 million General Fund, $25.7 million total funds, and 40 positions (26.40 FTE) to support the Employment First initiative and associated Quality Assurance efforts. As noted previously, Employment First focuses on moving people with developmental disabilities out of sheltered workshops and into integrated employment. Forty Quality Assurance positions were eliminated in the 2009-11 biennium; this partial restoration will help ensure compliance with state and federal requirements, and allow state and local partners to identify system and service issues proactively.

The 2013-15 legislatively adopted budget for DD is dependent on the agency's successful request for a federal waiver under the Community First Choice State Plan Option (K Plan); the agency received notice of approval in July 2013. The funding package tied to this waiver builds in required and ongoing maintenance of effort (MOE) expenditures at $29.5 million General Fund, which are used primarily to restore 6% rate reductions taken by programs in previous biennia. These include group homes, specialized living, transportation, and adult foster care. About $13.5 million General Fund is set aside to fund a bargaining pot for health care insurance for Personal Support Workers. Under the K Plan for this program the state is expected to draw down an additional $126.6 million Federal Funds.

During 2013-15, the agency will work with two budget notes related to DD program activities. The first relates to implementation of a uniform needs assessment tool, with a focus on how it should be evidence-based and developed with broad stakeholder input. The second note directs the agency, as it is implementing the K Plan, to eliminate program wide monetary caps on brokerage consumer's individual service dollars. This change supports basing the client's budget access and amount on needs identified through a functional needs assessment as part of a person-centered planning process.

Along with the standard statewide adjustments noted in the agency-wide narrative, the budget contains adjustments related to 2011-13 interim budget actions, which include the elimination of just over $1 million total funds and 5 positions (5.00 FTE) to implement staffing reductions driven by HB 4131 (2012). To offset federal sequestration reductions in the first quarter of the biennium, $16,625 General Fund was added. A fund shift and a correction (for SOCP) related to the most recent FMAP rate is made, as are technical adjustments and transfers that move three positions to APD. A fund shift of $250,000 from General Fund to Other Funds supports one-time use of the Quality Care Fund balance.

The 2013-15 budget approved for the Department of Human Services (DHS) in SB 5529 continued some reductions in developmental disability program budgets for community programs and brokerages. These reductions left equity (parity) relative to state office costs at levels ranging from 85% to 95%, depending on the budget component (e.g., case management and brokerage options). After completion of the DHS budget in SB 5529, DHS discovered that, within the budgeted funding level for these programs and with some updated assumptions in the budget model, 94% equity can be achieved across all components. DHS will realign the budgets for the programs and implement the revised parity level; the budget report for HB 5008 (2013) documents this issue and discussion. The agency is also developing workload-based models for both programs and plans to build those models into its 2015-17 budget proposal.

DHS – Central Services

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	36,546,387	19,558,680	20,934,101	15,800,519
Other Funds	15,827,734	61,409,920	917,330	880,327
Federal Funds	9,521,274	22,567,899	22,810,382	17,096,814
Federal Funds (NL)	2,071,768	0	0	0
Total Funds	**$63,967,163**	**$103,536,499**	**$44,661,813**	**$33,777,660**
Positions	72	92	91	87
FTE	70.74	91.43	90.42	85.93

Program Description

Central Services includes functions directly related to policy and program in the agency, such as the agency director's office, communications, portions of budget and human resources, and the Governor's Advocacy. As part of the 2013-15 realignment of budgets for administrative services, debt service was moved from this structure to the Statewide Assessments and Enterprise-wide Costs structure.

Revenue Sources and Relationships

The 2013-15 legislatively adopted budget is 46.8% General Fund, 2.6% Other Funds, and 50.6% Federal Funds; the funding mix is dependent on the services provided. Federal funding is subject to a federally approved cost allocation plan that charges programs for the services received.

Budget Environment

The Central and Shared Services budget structures were both new for the 2011-13 biennium; administrative structures were further refined for 2013-15 biennium budget development with the addition of the Statewide Assessments and Enterprise-wide Costs structure. While the overall 2013-15 budget for these three "administrative" programs is about 6% less than the 2011-13 budget, adjustments between the structures to improve alignment of services skew biennium over biennium comparisons at the discrete structure level.

In addition, the 2011-13 legislatively approved budget for Central Services included $60 million Other Funds for a line of credit to manage cash flow issues through the 2011-13 biennium close-out period; a similar loan is not currently part of the 2013-15 budget. For several biennia, the agency has borrowed funds from the Treasury to finance prepayments and account for a lag in receipt of certain revenues, including provider taxes.

For Central Services, the budget has been shaped in recent biennia by efforts to consolidate functions, to improve or transform business processes, and to implement a performance management system.

Legislatively Adopted Budget

For Central Services, the 2013-15 legislatively adopted budget is $15.8 million General Fund, $33.8 million total funds, and 87 positions (85.93 FTE). As noted previously, comparison data is invalid, so for context the overall budget for administration is 7% General Fund greater than and 6.1% total funds less than the 2011-13 legislatively approved budget. This General Fund increase is due primarily to correcting a budget hole (outside of Central Services) that was an artifact of separating the DHS and OHA budgets during the development of the 2011-13 budget.

The 2013-15 legislatively adopted budget includes $195,065 General Fund, $384,897 total funds, and 2 positions (1.76 FTE) to manage agency level and complex projects. To support passage of SB 123 (2013), which addresses the Oregon Foster Children's Bill of Rights, $87,412 General Fund, $384,897 total funds, and 1 position (0.75 FTE) was also added into the budget. These resources will support a dedicated foster child hotline and other costs associated with activities under the legislation.

Along with the standard statewide adjustments noted in the agency-wide narrative, the budget contains adjustments related to 2011-13 interim budget actions, which include the elimination of just over $1.4 million total funds and 7 positions (7.00 FTE) to implement staffing reductions driven by HB 4131 (2012). To offset federal sequestration reductions in the first quarter of the biennium, $16,625 General Fund was added. To better align budget with program expenditures, $8.9 million total funds was moved from Central Services to Child Welfare to help cover attorney general costs.

DHS – Shared Services

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	NA	99,877,709	113,765,827	104,276,993
Total Funds	**NA**	**$99,877,709**	**$113,765,827**	**$104,276,993**
Positions	585	602	609	658
FTE	563.23	582.57	589.67	638.93

NOTE: The 2009-11 column above includes positions and FTE, but not the related, non-add Other Funds expenditures, for the DHS Shared Services staffing that is part of the 2011-13 and 2013-15 budget.

Program Description

With the transition of some former DHS programs to OHA, a new model was developed in 2011-13 for providing administrative functions to the two agencies. A number of support functions, including information technology, financial services, budget, human resources, facilities, and procurement were designated as shared services. Some of the functions are housed in OHA and some in DHS, but all shared services units support both agencies. The two agencies developed a joint governance model under which service-level agreements define the relationship between the agency providing service and the agency receiving the service.

Other program support functions, including leadership, communications, and portions of budget and human resources, are directly related to policy and program and so are housed separately in each agency. These are budgeted in the Central Services structure for each agency.

DHS' Shared Services budget includes the Shared Services Administration; Budget Center; Office of Forecasting, Research and Analysis; Office of Financial Services; Office of Human Resources; Office of Facilities; Office of Imaging and Records Management; Office of Contracts and Procurement; Office of Investigations and Training; Internal Audit and Consulting Unit; Office of Payment Accuracy and Recovery; Performance Excellence Office; Rules Coordinator; and the Office of Adult Abuse Prevention and Investigations.

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

Direct charges and services for central government assessments and usage charges are not part of this budget structure. Those are part of the new administrative budget structure called Statewide Assessments and Enterprise-wide Costs.

Revenue Sources and Relationships

Shared Services funding is all Other Funds, based on revenues received from other parts of DHS and from OHA for purchased services. This Shared Services structure did not exist before the 2011-13 biennium.

Budget Environment

The Shared Services structure was designed to help make sure that administrative services are provided cost-effectively without duplication of resources between DHS and OHA. The budgets for Central Services, Shared Services, and direct charges in DHS and OHA were built to be essentially equivalent to the former DHS Administrative Services Division, which was eliminated in the 2011-13 budget. As a result of the Shared Services model, however, the Other Funds expenditures for those services are counted twice in the budget (technically known as "non-add" funding); once in Shared Services as work is completed and again in DHS and OHA programs as they pay for those services.

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

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $104.3 million Other Funds is 4.4% more than the 2011-13 legislatively approved budget.

The 2013-15 legislatively adopted budget includes 2 positions (0.59 FTE) and $107,117 Other Funds to support accounting and investigations work in OHA, as it moves into the next phase of the Oregon State Hospital replacement project. One position (1.00 FTE) and some training dollars were added in the Office of Investigations to improve client safety, at a cost of $188,391 Other Funds.

When the Shared Services budgets were first established, it was unclear what complement of positions would be needed on the DHS side to provide shared services and to support a realignment of positions between direct program and program support functions for the retained programs. After 24 months of operating in the new environment, the agency completed its evaluation of the position need and determined a net increase of 49 positions (50.21 FTE) was appropriate. The budget includes these positions, which will formally budget work currently being performed through doublefills and other temporary actions. The positions are paid for in the budget by moving $8.5 million Other Funds expenditures from Service and Supplies to Personal Services.

Along with the standard statewide adjustments noted in the agency-wide narrative, the budget contains adjustments related to 2011-13 interim budget actions, which include the elimination of just over $1.8 million Other Funds and 11 positions (10.04 FTE) to implement staffing reductions driven by HB 4131 (2012).

The budget also includes Other Funds expenditure authority and limited duration positions to cover costs associated with OHA's State Innovation Grant. Technical adjustments and transfers move six positions into Shared Services from other programs.

DHS – Statewide Assessments and Enterprise-wide Costs (SAEWC)

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	120,129,454	157,759,314	155,855,289	173,865,295
Other Funds	20,411,519	487,922	23,335,392	606,221
Federal Funds	139,565,772	138,819,607	154,357,732	157,539,468
Total Funds	**$280,106,745**	**$297,066,843**	**$333,548,413**	**$332,010,984**
Positions	0	0	0	0
FTE	0.00	0.00	0.00	0.00

NOTE: Values in the 2009-11and 2011-13 columns are estimates as they have been modified to account for the creation of budget history for this new structure; adjustments of some historical information in other budget structure displays were also made.

Program Description

For 2013-15, in addition to Central Services and Shared Services, DHS created a third budget structure to help better record administrative costs within the agency's budget. The budget for Statewide Assessments and Enterprise-wide Costs (SAEWC) contains statewide assessments including various Department of Administrative Services' assessments/charges (e.g., State Data Center, Risk Management, Chief Financial Office), Central Government Services Charges, Oregon State Library, and Secretary of State audits. It also includes the budgets for rent, debt service, and computer replacements.

Revenue Sources and Relationships

The 2013-15 legislatively adopted budget is 52.4% General Fund, less than 1% Other Funds, and 47.5% Federal Funds; the funding mix depends on specific assessment or charge and cost allocation. Federal funding is subject to a federally approved cost allocation plan. Prior to the establishment of this new structure, direct charges were budgeted as part of agency program budgets.

Budget Environment

The Central and Shared Services budget structures were both new for the 2011-13 biennium; administrative structures were further refined for 2013-15 biennium budget development with the addition of the Statewide Assessments and Enterprise-wide Costs structure. While the overall 2013-15 budget for these three "administrative" programs is about 6% less than the 2011-13 budget, adjustments between the structures to improve alignment of services skew biennium over biennium comparisons (particularly for Central and SAEWC) at the discrete structure level.

When the separate DHS and OHA budgets were created, assumptions regarding the revenues supporting some centralized services were based on overall fund splits for the "old" DHS agency and those splits were used to budget within each agency. After a biennium of operations and with refinement of a cost allocation model for the "new" DHS, it became clear the programs retained within DHS relied more heavily on General Fund than the programs that moved to OHA. This left administrative services budgeted with Other Funds and Federal Funds expenditure limitation that was "empty," having no actual revenue to support it. This issue was fixed the 2013-15 legislatively adopted budget, but will need to be monitored for potential future changes.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $173.6 million General Fund and $332 million total funds is 10.2% General Fund and 11.8% total funds more than the estimated comparable 2011-13 legislatively approved budget. This General Fund increase is due primarily to correcting a budget hole that was an artifact of separating the DHS and OHA budgets during the development of the 2011-13 budget.

The 2013-15 legislatively adopted budget includes $1.1 million General Fund and $2.1 million total funds to purchase replacement computers; this investment is consistent with a 5-year replacement cycle. For debt service on the next phase of the Self-Sufficiency Modernization project, $878,597 General Fund was added. The budget also contains just over $20 million General Fund to offset empty Other and Federal Funds expenditure limitation, which was assumed but did not prove out when the DHS and OHA budgets were separated.

Long Term Care Ombudsman – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2011-13 Legislatively Adopted
General Fund	1,084,316	1,753,933	2,011,827	2,705,620
Other Funds	1,708,288	703,121	621,564	680,105
Total Funds	**$2,792,604**	**$2,457,054**	**$2,633,391**	**$3,385,725**
Positions	11	12	11	19
FTE	10.50	11.25	10.75	14.56

Agency Overview

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

With passage of SB 626 (2013), the agency will also address needs of residents of care facilities who have mental illness or developmental disabilities.

Revenue Sources and Relationships

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

Budget Environment

Demand for ombudsman services is directly related to the number of long term care facilities and clients. In 2012, Oregon's long term care system had about 43,000 in over 23,000 licensed facilities. This system is expected to continue growing as the population ages, however, the complement of beds by facility type may shift or fluctuate. With respect to the new populations served by the agency under SB 626 (2013), there are about 7,600 persons living in about 1,816 licensed adult foster homes and group homes in Oregon.

The number of certified volunteers providing ombudsman services is constrained by the number of LTCO staff available to provide training and technical assistance. Usually, one Deputy Long Term Care Ombudsman position will support 25 to 30 volunteers. In fiscal year 2012, 180 certified ombudsman volunteers made 13,547 facility visits, or more than 260 visits per week. A typical volunteer covers 4 to 5 facilities, with some having as many as 20 facilities. The agency also received over 3,400 verified complaints ranging from concerns about food portion size to allegations of abuse.

While facility coverage has improved, the budget does not support the agency's goal of having a volunteer assigned to and regularly visiting the residents who live in every licensed facility in Oregon. During 2012, volunteers visited about 68% of all facilities, which is up from 50% coverage reported for 2010. Visits were made to almost 97% of nursing homes and 90% of residential care and assisted living facilities, but only about 60% of adult foster homes. For 2013-15, the LTCO expects to have more volunteers and will focus on visiting more adult foster homes to improve residents' access to ombudsman services and support.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $2.7 million General Fund is 54% more than the 2011-13 budget of $1.8 million General Fund, largely due to passage of SB 626 (2013). Under this bill, which is effective July 1, 2014, the agency will also advocate for residents of care facilities who have mental illness or developmental disabilities. The budget includes $585,488 General Fund and seven permanent positions (2.81 FTE) to support the additional duties; when fully phased-in, the agency will be about double in size. Program resources for 2013-15 include a position to provide the subject matter expertise needed to develop and refine the expanded program and four full-time deputy ombudsman positions to work with about 100 new volunteers. Consistent with an expected gradual ramp-up for the new program, four of these positions would be phased-in over the last 12 months of the 2013-15 biennium, with the fifth deputy ombudsman position phased-in at the start of the 2015-17 biennium. A half-time volunteer recruiter position is budgeted to develop and maintain volunteer ranks and an administrative specialist will help support the new program, staff, volunteers, and an expanded advisory committee.

The budget also includes $200,000 General Fund to cover salary and other costs associated with a new full-time deputy ombudsman position (1.00 FTE). This position will supervise 25 to 30 additional volunteers, increasing facility coverage (visits) with an emphasis on adult foster homes. Statewide General Fund reductions include 5% in services and supplies ($14,814), and 2% across-the-board for a supplemental statewide ending balance ($39,554). Other changes, which net out to reductions of $3,198 General Fund and $478 Other Funds, were made based on lower Attorney General Charges, adjustments to Department of Administrative Services assessments, and a new Secretary of State Archives assessment.

Reductions of $2,222 General Fund and $687 Other Funds were taken tied to a statewide initiative to find administrative efficiencies and associated budget reductions in finance, information technology, human resources, accounting, payroll, and procurement expenditures.

Psychiatric Security Review Board – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	1,214,966	2,105,264	2,598,306	2,306,552
Other Funds	85,133	217,256	2,105	103,725
Total Funds	**$1,300,099**	**$2,322,520**	**$2,600,411**	**$2,410,277**
Positions	8	12	12	11
FTE	6.89	11.76	12.00	11.00

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. The Board's functions have expanded several times since then. Effective 2007, the Board's jurisdiction was expanded to include juveniles found "responsible except for insanity" who have a serious mental condition or who present a danger to themselves or others. The duties of the Board were expanded in 2009 to require PSRB to process relief petitions and hearings for persons barred from possessing a firearm due to a mental health determination, including civil commitment or a finding of guilty except for insanity. SB 420 (2011) changed the jurisdiction of persons found "guilty except for insanity" in certain circumstances. PSRB maintained jurisdiction over offenders who committed Tier 1 crimes (more serious crimes), while the Oregon Health Authority took over jurisdiction of offenders at the Oregon State Hospital who committed Tier 2 crimes (less serious crimes). Once a Tier 2 offender is conditionally released from the State Hospital, jurisdiction transfers to PSRB.

The ten-member board is appointed by the Governor and consists of a five-member adult panel and a five-member juvenile panel. The Board's primary purpose is to protect the public through the on-going review of the progress of those placed under its jurisdiction and a determination of their appropriate placement. The Board has authority to: commit a person to a state hospital designated by the Oregon Health Authority; conditionally release a person from a state hospital to a community-based program with close monitoring and supervision; discharge a person from its jurisdiction; and, when appropriate, revoke the conditional release of a person under its jurisdiction and order the person's return to the state hospital pending a full hearing before the Board.

Revenue Sources and Relationships

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

Budget Environment

The number of adults on conditional release to community-based programs at any one time has stabilized over the last few years at slightly less than 400. That number is expected to grow as the general population grows, and as patients are moved through the state hospital more quickly. Adults on conditional release require monitoring by agency staff, regular reporting, and frequent contacts with case managers. Although fewer cases have come before the juvenile panel than was originally expected, the volume is expected to increase over time and the workload associated with the juvenile panel's cases has been much greater than expected. On the other hand, workload associated with the Gun Relief program has been less than originally anticipated.

Staffing for the agency was increased in 2011, when two additional staff were added to address general workload issues, and two staff were added related to SB 420. Since then, the percentage of hearings scheduled within statutory timelines has increased significantly.

Legislatively Adopted Budget

The legislatively adopted budget for the Board is $2,410,277 total funds, which represents a 3.8% increase from the 2011-13 legislatively approved level and a 7.3% reduction from the current service level. The adopted budget eliminates one vacant position that is not needed for workload. Other Funds limitation was increased to recognize the federal grant revenues the agency expects to receive through the Department of State Police for the Gun Relief Program.

Two bills passed by the 2013 Legislature affect this agency. SB 421 implements a new civil commitment process for individuals considered extremely dangerous as a result of mental illness. The bill allows a district attorney to request that a judge place these individuals under the Board's jurisdiction for supervision and monitoring, increasing the agency's client caseload. The budget was increased by $36,000 General Fund to fund this work. In addition, HB 2549 implements an assessment system for sex offenders. Certain offenders currently under the Board's jurisdiction will need assessments. While the initial assessments will not be conducted by PSRB, the agency is anticipated to incur costs for hearings in the 2015-17 biennium.

The adopted budget also reflects the standard 5% reduction to services and supplies, as well as the 2% supplemental ending balance holdback which reduces the budget by $46,969 General Fund. This reduction may be restored during the 2014 legislative session for the second year of the biennium depending on statewide economic conditions.

Department of Corrections (DOC) – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	1,206,075,833	1,362,844,564	1,536,727,437	1,396,990,504
Other Funds	72,089,447	36,914,957	33,936,401	39,599,876
Other Funds (NL)*	213,420,172	346,773,778	0	0
Federal Funds	111,346,702	8,687,860	6,761,556	7,369,007
Federal Funds (NL)	598,088	1,262,826	1,262,826	1,262,826
Total Funds	**$1,603,530,242**	**$1,756,483,985**	**$1,578,688,220**	**$1,445,222,213**
Positions	4,647	4,509	4,770	4,490
FTE	4,531.55	4,414.55	4,606.24	4,443.68

** 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 2013 forecast and other changes that affect the prison population made by the 2013 Legislature. The community corrections system is based on SB 1145 (1995) which transferred management of offenders sentenced or sanctioned for incarceration 12 months or less, and all felony offenders under community supervision, to the counties. Funds are provided to counties for the costs of supervising these offenders.

Budget Environment

In 2011 and 2012, the Governor established a Commission on Public Safety for "analyzing Oregon's sentencing and corrections data, auditing existing policies, and submitting recommendations that will protect public safety while containing corrections costs and holding offenders accountable." The prison population forecast reflected continued growth for both the male and female populations that would exceed the capacity of the existing prison facilities. If this growth occurred, it would necessitate the opening of the existing, but empty, medium security unit in Madras; retrofitting an unutilized minimum security prison in Salem to accommodate the female population; and beginning construction on a new facility previously identified for Junction City. The Department projected these additional construction and operating costs to total $600 million over a 10-year period.

The Commission's work culminated in the passage of HB 3194 (2013). The measure made changes to felony marijuana offenses, felony driving while suspended or revoked, and the Measure 57 crimes of robbery in the third degree and identity theft. Additionally, the measure increased the transitional leave period from 30 days to 90 days prior to inmate discharge and provides for dispositional downward departure for certain Measure 57 crimes where the inmate is a repeat offender. All of these changes are anticipated to result in a reduction of offenders incarcerated in DOC facilities and increase the amount distributed to the community corrections departments of counties for probation, post-prison supervision, and local control. These changes are expected to mitigate the projected growth in the corrections populations sufficiently to defer new construction for a minimum of five years. It should be noted, however, that DOC will continue to use temporary or emergency beds to meet its capacity needs.

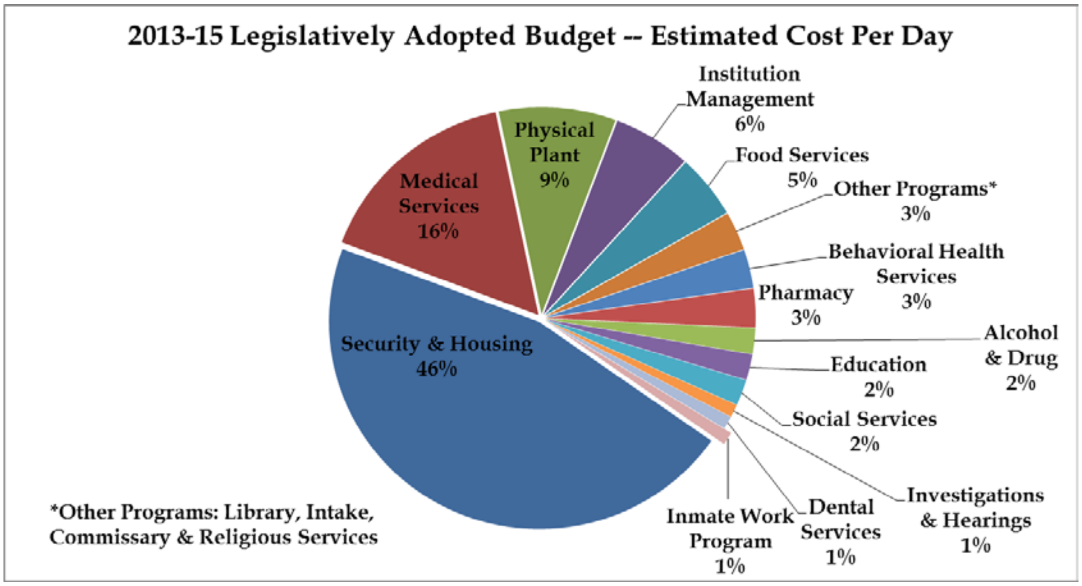
DOC has depended on the use of what the agency calls temporary or emergency beds to meet its capacity needs for many years. These beds are generally additional beds in dormitory-like settings in minimum security facilities or additional beds in what had been single bed cells. In a few cases, a new unit has been added in space that had been originally designed for another purpose. DOC states that it has generally reached the limit for double occupancy cells in its system. There still remain the special unit beds where double occupancy cells are not always feasible and some single cells exist for those with special needs. All facilities, except the Oregon State Penitentiary, will have almost all available cells at double occupancy. Structural load issues prevent the double occupancy use of the remaining single occupancy cells at the Oregon State Penitentiary. Under the current population management plan, which the agency uses to determine what units and when they should open, it is anticipated that 742 emergency beds will be used during the 2013-15 biennium. Short-term work camp beds may also be added as forest related work becomes available. The terms emergency and temporary are somewhat subjective since many beds that have been or are classified as temporary have been used for years.

Department of Corrections Facilities
Active Beds During 2013-15

Facility	Location	Security Level	Permanent Capacity	E-Bed Active as of 6/30/15
Columbia River	Portland	Minimum	553	40
Deer Ridge	Madras	Minimum	657	110
Mill Creek	Salem	Minimum	240	50
Powder River	Baker City	Minimum	286	30
Santiam	Salem	Minimum	440	40
Shutter Creek	North Bend	Minimum	302	-
Snake River	Ontario	Minimum	174	20
South Fork	Tillamook	Minimum	204	-
Two Rivers	Umatilla	Minimum	128	-
Warner Creek	Lakeview	Minimum	406	30
Coffee Creek – Male Intake	Wilsonville	Medium	432	-
Deer Ridge	Madras	Medium	-	-
Eastern Oregon	Pendleton	Medium	1,658	-
Oregon State Correctional	Salem	Medium	894	-
Penitentiary	Salem	Medium/Maximum	2,194	10
Snake River	Ontario	Medium	2,888	60
Two Rivers	Umatilla	Medium	1,750	-
Coffee Creek – Female	Wilsonville	Minimum	540	76
Women's Correctional	Salem	Minimum	-	-
Coffee Creek - Female	Wilsonville	Medium	713	30
Total:			**14,460**	**496**

Notes:
- Deer Ridge has a planned total capacity of 1,880, but only the minimum facility is planned to be occupied for 2013-15.
- Unused (inactive) permanent capacity: Shutter Creek (two 50-bed units), Deer Ridge (1223 additional med beds) and the closed Oregon State Penitentiary Minimum (176 beds).
- As of the end of 2013-15, the anticipated unbudgeted inactive E-bed capacity (total E-bed capacity, minus anticipated active) is projected to total 630 beds.

HB 3194 also establishes a goal of reducing DOC's per-inmate cost by 5% over a 10-year period. DOC is to report to the Legislative Assembly by October 1, 2014, on cost containment solutions. The estimated cost-per-day calculation based on the 2013-15 legislatively adopted budget is $87.15 or a 2.8% increase from the 2011-13 biennium. It should be noted that the cost per day varies from institution to institution due to a number of factors including the age of facility, seniority of staff, size of the population, characteristics of the population, programming at each facility, and the security level. The cost-per-day is a "snapshot" and will change depending on the number of inmates and change in the budget during the biennium. For example, this rate would increase if the 2% supplemental ending balance holdback is restored in the February 2014 session. The components of the cost-per-day are reflected in the following graph.



What this graph does not include is the community corrections budget, debt service for the agency's facilities, department-wide costs of administering the agency including the overall management, state government service charges, financial and personnel staff, and information systems costs.

Based on the April 2013 corrections forecast, DOC anticipates the felony probation and parole/post- prison supervision caseload to total 33,565 by the end of the 2013-15 biennium, resulting in a community corrections mandated caseload increase of $10.9 million. Further, DOC is required, under ORS 423.486, to complete a cost study for community corrections every six years. Preliminary information from the 2012 study estimated increased costs of $31.1 million.

The Prison Rape Elimination Act (PREA) was authorized in 2003, but the U.S. Department of Justice did not release implementation rules until 2012 which apply to public and private institutions that house adult or juvenile offenders. Both DOC and the Oregon Youth Authority (OYA) are developing plans to address requirements for safety, facility oversight, training, and audits. The legislatively adopted budget did not provide additional funding for PREA, but funding may need in the future.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $1,445.2 million total funds is 2.5%, or $35.5 million, greater than the 2011-13 legislatively approved budget when excluding Nonlimited expenditures associated with the refinancing of debt. The budget includes the following:

- Limiting mandated caseload growth for DOC's operating expenditures to $2.9 million General Fund in anticipation of minimal population growth for the next five years due to the passage of HB 3194 (2013).
- Authorizing a Community Corrections budget of $241.5 million total funds including increasing the baseline funding (i.e., SB 1145 opt-out) to $211 million General Fund to reflect a portion of the local expenditure needs in excess of the standard inflationary rate.
- Eliminating 41 positions as part of the middle management actions taken by the Emergency Board.
- Reducing $13 million General Fund for estimated medical costs associated with the passage of HB 2087 (2013) to allow the agency to apply for Medicaid benefits for eligible inmates.
- Authorizing bond funding and capital construction expenditure limitation in the amount of $4.96 million for deferred maintenance projects.
- Reducing $37.7 million General Fund, or approximately 3.2%, of the agency's operating current service level, to be addressed through management actions.
- Applying a 2% supplemental ending balance holdback of $26.1 million General Fund which may be restored in February 2014 depending on the state's overall fiscal situation.

DOC – Operations

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	516,352,057	655,276,360	736,477,864	646,777,254
Other Funds	6,322,047	8,949,950	9,285,909	9,207,388
Federal Funds	103,784,840	0	0	0
Total Funds	**$626,458,944**	**$664,226,310**	**$745,763,773**	**$655,984,642**
Positions	3,338	3,279	3,485	3,259
FTE	3,317.44	3,240.90	3,363.78	3,241.67

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, ($3.9 million); sale of items produced by inmate work and training programs ($1.3 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).

Federal Funds for the 2009-11 biennium were due to the $103.8 million of one-time federal stimulus funding used to offset a General Fund shortfall.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $656 million total funds is 1.2% less than the 2011-13 legislatively approved budget. This budget includes the following:

- An unspecified reduction of $28 million General Fund to be addressed through management actions and/or additional vacancy savings to reach a statewide budget balancing target.
- A reduction of $13.5 million General Fund and 167 positions associated with the passage of HB 3194 (2013).
- Elimination of 16 positions and $3.1 million General Fund approved as part of interim actions taken by the Emergency Board to streamline middle management positions.
- A reduction of $13.7 million total funds in anticipated PERS savings.
- 2% supplemental ending balance holdback of $13.6 million General Fund which may be restored in February 2014 depending on the state's overall fiscal situation.

DOC – Health Services

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	176,264,572	194,958,932	235,215,983	199,926,258
Other Funds	1,081,224	599,455	561,676	561,676
Federal Funds	7,181,076	7,188,088	6,253,705	6,569,359
Total Funds	**$184,526,872**	**$202,746,475**	**$242,031,364**	**$207,057,293**
Positions	601	559	584	559
FTE	528.14	524.72	552.79	539.63

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 36% of the total Medical unit's 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 – General Fund	2009-11 Actual	2011-13 LAB	2013-15 CSL	2013-15 LAB
Physical Health Services	$124,518,550	$137,204,129	$164,428,271	$135,965,625
Pharmacy Services	25,560,151	27,794,980	35,614,965	31,701,560
Mental Health	26,185,871	29,959,823	35,172,747	32,259,073
Total:	**$176,264,572**	**$194,958,932**	**$235,215,983**	**$199,926,258**

Revenue Sources and Relationships

Other Funds revenue is generated from charges to inmates to offset the cost of dentures and some vision-related services. Federal Funds are from the federal State Criminal Alien Assistance Program (SCAAP) to offset General Fund needs for incarceration of illegal aliens. This amount funds approximately 4% of the total costs of incarcerating illegal aliens.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $207.1 million total funds is 2.1% greater than the 2011-13 legislatively approved budget. This budget includes the following:

- An unspecified reduction of $5.5 million General Fund to be addressed through management actions and/or additional vacancy savings to reach a statewide budget balancing target.
- A reduction of $13 million General Fund in anticipated health care savings with the passage of HB 2087 (2013) which allows the agency to apply for Medicare for eligible inmates.
- An addition of three positions (2.64 FTE) to process the Medicare eligibility paperwork associated with HB 2087 (2013).
- A reduction of $5 million General Fund and 22 positions associated with the passage of HB 3194 (2013).
- Elimination of three positions and $436,700 approved as part of interim actions taken by the Emergency Board to streamline middle management positions.
- A reduction of $2.9 million total funds in anticipated PERS savings.
- 2% supplemental ending balance holdback of $4.3 million which may be restored in February 2014 depending on the state's overall fiscal situation.

DOC – Community Corrections

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	220,928,700	192,903,387	224,021,568	234,768,829
Other Funds	1,702,452	10,200,128	6,456,185	6,455,825
Federal Funds	0	0	0	291,797
Total Funds	**$222,631,152**	**$203,103,515**	**$230,477,753**	**$241,516,451**
Positions	64	53	66	61
FTE	64.33	53.33	66.33	61.33

Program Description

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

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

- ***Local control*** – three classes of offenders: (1) those that are convicted for a felony and sentenced to incarceration of 12 months or less; (2) revoked from felony community supervision and sentenced to 12 months or less incarceration; or (3) sanctioned to less than 30 days for violating the terms of community supervision.

Also included in this budget unit is the funding for reimbursing counties for the jail costs associated with the pre-trial and post-trial incarceration costs for Ballot Measure 73 (M73) offenders. In addition, beginning with the 2011-13 biennium, revenue from court fees and fines are distributed to counties for correction programs, facilities, and alcohol and drug programs.

Community Corrections – General Fund

	2009-11 Actual	2011-13 LAB	2013-15 CSL	2013-15 LAB
SB 1145 Grant in Aid	$208,222,280	$182,038,564	$197,452,781	$211,018,201
Pre/Post Trial (M73)	-	4,162,087	11,322,364	4,921,917
Alcohol & Drug (M57)[1, 2]	9,384,352	10,101,280	10,343,711	10,136,836
Jail Support (HB 3194)	-	-	-	5,000,000
Treatment/Transition[1]	930,196	923,573	945,739	879,352
Sexually Violent Dangerous Offenders	117,957	119,218	122,079	143,352
Administration[1, 3]	2,273,915	2,457641	3,834,894	2,669,171
Total:	**$220,928,700**	**$199,802,363**	**$224,021,568**	**$234,768,829**

[1]Prior to the 2012 agency reorganization, a portion or all of these programs were part of the Transitional Services Division, but have been displayed here for comparison.
[2]For the 2011-13 LAB, $4,875,742 of the total $10,101,280 was part of the Transitional Services Division.
[3]For the 2011-13 LAB, $1,099,661 of the total $2,457,641 was part of the Transitional Services Division.

Revenue Sources and Relationships

For the 2013-15 biennium, 79% of the General Fund resources for grant-in-aid to counties will be distributed based on the need for felony probation, post-prison supervision, and parole supervision. The remaining 21% will be distributed for the local control population. Counties also contribute varying amounts to the community corrections system. Based on information collected from the 2011-13 community corrections plans, 18 counties provided little or no local general fund/special levy contributions during 2011-13, and two counties provided less than $10,000. All counties charge offenders fees for supervision or services which provided an estimated $27 million to the system for the 2011-13 biennium. Statewide, local contributions (including the fee revenues) were estimated to have represented roughly 58% of the total funding in the 2011-13 biennium for the community corrections system.

The primary source of Other Funds revenue is from the Criminal Fine Account ($4.3 million) to support distributions to counties for correction programs, facilities, and alcohol and drug programs. This Division also receives supervision fees and other revenues collected by the Linn and Douglas county programs.

Federal Funds revenue is expected from the U.S. Department of Justice, Bureau of Justice Assistance for the SMART probation grant to develop more effective and evidenced-based probation programs.

Legislatively Adopted Budget

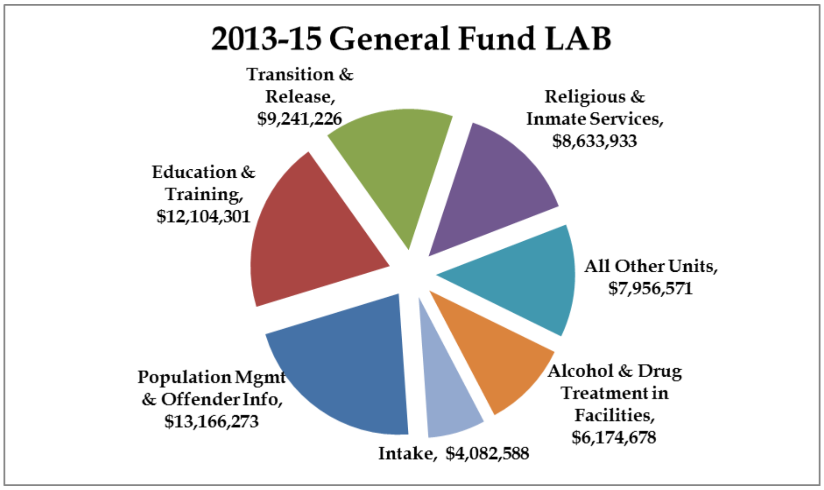
The 2013-15 legislatively adopted budget of $241.5 million all funds is an 19% increase over the 2011-13 legislatively approved budget. This budget includes an increase of approximately $11 million for mandated caseload growth, and reduction of $6.3 million in M73 payments based on historical use of this program, and addition of $17 million General Fund in enhanced baseline funding, and $5 million General Fund for jail support to support the passage of HB 3194 (2013). Further, this budget was subject to the 2% supplemental ending balance holdback of $4.3 million General Fund which may be restored in February 2014 depending on the state's overall fiscal situation.

DOC – Offender Management and Rehabilitation (Transitional) Services

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	51,177,962	61,407,118	68,053,985	61,359,570
Other Funds	6,741,948	9,087,698	9,647,098	9,646,592
Federal Funds	380,786	899,772	507,851	0
Total Funds	**$58,300,696**	**$71,394,588**	**$78,208,934**	**$71,006,162**
Positions	190	162	195	194
FTE	182.94	154.41	192.78	192.50

Program Description

The Offender Management and Rehabilitation Services Division (formerly Transitional Services) seeks 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 jail inspections, religious services, sentence computation, inmate classification, victim services, and offender records.



Revenue Sources and Relationships

Other Funds revenue is generated primarily through the inmate welfare fund including the telephone contract, canteen profits, vending machines, meal ticket sales, and inmate room and board reimbursements ($6.8 million); charges for the inmate work ($1.2 million); and resources transferred in for education programs from the Department of Education and the Department of Community Colleges and Workforce Development ($386,000). Federal Funds for the 2009-11 biennium were for the Second Change Act Prison Release Incentive (SCAPRI) transitional services grant and the Workforce Community Training (WCT) educational programs grant. The 2013-15 current service level Federal Funds are for the Prison Rape Elimination Act grant that was transferred to Central Administration during the 2012 agency reorganization.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $71 million total funds is less than 1% lower than the 2011-13 legislatively approved budget. This budget includes a $1.4 million General Fund unspecified reduction to reach a statewide budget balancing target; the elimination of two positions and $228,580 approved as part of interim actions taken by the Emergency Board to streamline middle management positions; $762,000 total funds in anticipated PERS savings, and an addition of $168,300 General Fund and 0.79 FTE due to the passage of HB 3194. Further, these Divisions were subject to the 2% supplemental ending balance holdback of $1.3 million which may be restored in February 2014 depending on the state's overall fiscal situation.

DOC – Central Administration, General Services, and Human Resources

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	109,701,087	123,965,551	138,815,248	121,803,719
Other Funds	8,065,332	6,980,285	7,985,533	7,952,395
Other Funds (NL)	1,293,844	0	0	0
Federal Funds	0	600,000	0	507,851
Total Funds	**$119,060,263**	**$131,545,836**	**$146,800,781**	**$130,263,965**
Positions	440	454	440	417
FTE	426.07	441.19	430.56	408.55

Program Description

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

- ***Central administration*** includes the Office of the Director, the Office of the Inspector General, the Internal Audits Office, the Government Efficiencies and Communications Unit, Research and Projects, and the Planning and Budget Office. This section also includes the budgets for all of the state government service charges for entire agency.
- ***General Services*** includes Fiscal Services which provides accounting and contract-related services; Information Systems and Services including operations and user support, application development, and system maintenance; Distribution Services which provides goods and services to operate facilities across the state including food and canteen supplies; and Facilities Services which is responsible for the repair and maintenance program, management of leased facilities, and energy conservation.
- ***Human Resources*** staff provides agency wide services including labor management, recruitment, employee development, training, employee safety, and risk management.

The ***Public Service Division*** was previously included along with these programs. During the 2011-13 biennium, the agency completed a reorganization and the Public Service Division was eliminated; however, many of its functions remain in this program (e.g., research and evaluation and public information).

Revenue Sources and Relationships

Other Funds revenues are primarily generated through commissary sales ($5.7 million); General Services' miscellaneous sales, rentals, and surplus equipment; and debt financed cost of issuance. Federal Funds revenue in the 2011-13 biennium was from a grant related to the Prison Rape Elimination Act.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $130.3 million total funds is a 1% decreases from the 2011-13 legislatively approved budget. This budget includes a $2.7 million General Fund unspecified reduction to reach a statewide budget balancing target; the elimination of 15 positions and $2.8 million approved as part of interim actions taken by the Emergency Board to streamline middle management positions; $1.9 million total funds in anticipated PERS savings; and a reduction of $1.4 million total funds and eight positions due to the passage of HB 3194 (2013). Further, these Divisions were subject to the 2% supplemental ending balance holdback of $2.6 million which may be restored in February 2014 depending on the state's overall fiscal situation.

DOC – Debt Service

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	129,495,861	131,697,791	131,444,114	129,710,174
Other Funds	2,563,840	683,992	0	815,000
Other Funds (NL)*	212,126,328	346,773,778	0	0
Federal Funds (NL)	598,088	1,262,826	1,262,826	1,262,826
Total Funds	**$344,784,117**	**$480,418,387**	**$132,706,940**	**$131,788,000**

** 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. For the 2013-15 biennium forward, debt financing will utilize Article XI-Q bonds.

Revenue Sources and Relationships

Other Funds represented unused balances in various capital financing accounts that are used to offset General Fund debt service. The Nonlimited Other Funds represented refinancing of existing COPs while the Nonlimited Federal Funds represent the use of "Build America" bonds where the federal government provides a subsidy for eligible projects.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget for debt service of $131.8 million total funds is 2% less than the 2011-13 legislatively approved budget when excluding debt refinancing. This budget reflects updated debt service requirements from refinancing completed in the 2011-13 biennium. Financing for newly authorized capital construction is deferred until late in the biennium such that no additional debt expenditures are incurred in the 2013-15 biennium.

DOC – Capital Improvements

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	2,155,594	2,635,425	2,698,675	2,644,700
Other Funds	36,891	413,449	0	0
Total Funds	**$2,192,485**	**$3,048,874**	**$2,698,675**	**$2,644,700**

Program Description

This budget unit reflects expenditures for deferred maintenance and asset protection projects for the agency's 14 institutions and approximately 4.6 million square feet of building space. These projects must be less than $1 million or they are categorized as capital construction.

Revenue Sources and Relationships

Source of Other Funds have varied, but DOC does access grants from the Oregon Department of Energy to make improvements. In the 2011-13 biennium, the agency received a grant for a solar water heater improvement at the Eastern Oregon Correctional Institution.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $2.6 million General Fund is 13.3% lower than the 2011-13 legislatively approved budget. The primary adjustment was the phase-out of grant funding from the Oregon Department of Energy. This budget was subject to the 2% supplemental ending balance holdback of $54,000 which may be restored in February 2014 depending on the state's overall fiscal situation.

DOC – Capital Construction

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	45,575,713	0	0	4,961,000
Total Funds	**$45,575,713**	**$0**	**$0**	**$4,961,000**
Positions	14	2	0	0
FTE	12.63	0	0	0

Program Description

This budget unit includes expenditure authority for acquisition or construction of any structure or group of structures; all land acquisitions; assessments; and improvements or additions to an existing structure, which are to be completed within a six-year period with an aggregate cost of $1 million or more. The expenditure limitation for each project is in effect for six years. These projects are typically debt financed which is reflected in a preceding budget unit. The agency continues to maintain a list of deferred maintenance projects in excess of $58 million.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget includes authorization for $1.4 million in roof repairs or replacements, $0.6 million for electrical repairs or replacements; $1 million for kitchen floor replacements, $0.6 million for HVAC projects, and $1.3 million for electronic security system upgrades and replacements. The financing is deferred until late in the biennium such that no additional debt expenditures are incurred in the 2013-15 biennium.

Criminal Justice Commission – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	4,945,096	4,761,327	$4,771,471	23,745,288
Other Funds	185,220	299,950	283,422	483,422
Federal Funds	10,110,865	19,499,190	19,823,048	7,135,487
Total Funds	**$15,241,181**	**$24,560,467**	**$24,877,941**	**$31,364,197**
Positions	10	10	8	9
FTE	9.50	9.00	7.50	8.38

Agency Overview

The Criminal Justice Commission (CJC) and its staff focus their activities on developing and analyzing state criminal justice policies and sentencing guidelines, administering both state and federal criminal justice grant programs, providing technical assistance to local public safety coordinating councils, and supporting the Asset Forfeiture Oversight Advisory Committee.

Revenue Sources and Relationships

The Commission's Other Funds revenue is derived from forfeiture proceeds which fund the activities of the Asset Forfeiture Oversight Advisory Committee. The Federal Funds in the budget represent federal grant funds through the Justice Assistance Grants (JAG)/Bryne Grants, much of which is one-time federal stimulus funds that will not be available after the 2011-13 biennium.

Budget Environment

The 2005 Legislature created a program to expand the capacity of drug courts and instructed the Commission to take the lead in developing the program and evaluating drug courts. Initial funding of these courts came from the state's General Fund and supported expenditures for treatment and court coordinators. In 2009, the program was expanded and continued through the 2011-13 biennium with additional resources through JAG and ARRA grants. However, JAG resources have declined and ARRA funding expires in September 2013.

During the 2011-13 biennium, 24 counties received a total of $13.2 million in grant funding through CJC to support drug courts. The grants were awarded to a variety of court models including adult, juvenile, and family drug courts. Total drug court funding comes from a mixture of on-going program funds in Oregon Judicial Department, grants from the Commission, substance abuse funding from the Department of Human Services via the counties, and from local sources. Without state General Fund support, Oregon's drug courts are at risk of being marginalized or eliminated.

Further, with the passage of HB 3194 (2013), the Commission will administer the Justice Reinvestment Account (Account) to support grants to counties for programs to reduce recidivism and decrease utilization of state prison capacity. The measure did not establish a funding level for the Account. However, it was generally understood that a minimum of $10 million General Fund would be appropriated for the 2013-15 biennium and an additional $5 million would be approved during the February 2014 legislative session if the Legislative Assembly receives a 2013-15 General Fund forecast that is higher than the close-of-session forecast. Further it was understood that the Governor's Office would direct the Commission to allocate $5 million in federal funds from the 2012 and 2013 JAG/Byrne Grants for similar grants to counties. For the 2015-17 biennium, the current service level for the Account is expected to total $20 million General Fund.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget for the Commission of $31.4 million total funds represents a 27.7% increase from the 2011-13 legislatively approved budget. This budget reflects an increase of $8.9 million General Fund and $200,000 Other Funds to support grants for evidenced-based drug courts; $10 million General Fund for the Justice Reinvestment Account, and $190,000 General Fund for a program analyst to support grant administration.

District Attorneys and Their Deputies – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	10,381,113	10,589,261	10,694,849	10,239,592
Total Funds	**$10,381,113**	**$10,589,261**	**$10,694,849**	**$10,239,592**
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.

Although this "agency" is listed separately, the budget described herein only includes the salaries for the 36 separately elected district attorneys, whom are state employees, and state government service charges that primarily cover tort liability and other insurance related purposes. There is a two tier, annual compensation plan for DAs. Ten DAs in counties with populations exceeding 100,000 receive $107,952; all else receive $90,972. Twenty-six counties provide supplemental compensation ranging from $8,000 to $52,353. The state budget has not contributed to the cost of the deputy district attorneys since the 2007-09 biennium, nor witness fees for trials and grand jury hearings since the 1999-2001 biennium. The Department of Justice (DOJ) provides administrative and financial support for the agency.

Revenue Sources and Relationships

The state's portion of the total budgets for District Attorney Offices across the state is small. A county DA office survey compiled in 2000 (which appears to be the most recent) showed that state funds covered approximately 9% of the $57 million total statewide expenditures, but ranged between 2% (Multnomah) and 70% (Wheeler) of county prosecution budgets. However, through DOJ, DAs receives approximately $2.3 million General Fund to offset the Federal Deficit Reduction Act of 2005, and approximately $19 million Federal Funds to support DA child support programs. Through the Department of Human Services (DHS), DAs receive approximately $2 million General Fund for juvenile dependency proceedings. These amounts are not reflected in the table above.

Budget Environment

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. While these are indicators of DA workload, they do not capture all of the potential workload. 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.

HB 3194 (2013) made changes to felony marijuana offenses, felony driving while suspended or revoked, and the Measure 57 crimes of robbery in the third degree and identity theft. Additionally, the measure increased the transitional leave period from 30 days to 90 days prior to inmate discharge and provides for dispositional downward departure for certain Measure 57 crimes where the inmate is a repeat offender. All of these changes are anticipated to result in a reduction of offenders incarcerated in DOC facilities and increase the amount distributed to the community corrections departments of counties for probation, post-prison supervision, and local control. The overall impact to district attorney offices is indeterminate at this time.

Further, DOJ and DHS have formed a work group with local partners to discuss improvements to juvenile dependency proceedings. Key areas of concern include the limited or declining district attorney resources to address consistent processes, and the need for legal representation or support for case workers. DOJ expects to report in during on the 2014 legislative session on progress and potential legislative changes needed.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget for this agency of $10.2 million General Fund is 3.3% less than the 2011-13 legislatively approved budget. This budget assumes reduced PERS expenditures attributable to passage of SB 822 in the amount of $255,376, an increase in compensation for the Yamhill DA, and the 2% supplemental ending balance holdback of $209,190 which may be restored in February 2014 depending on the state's overall fiscal situation.

Department of Justice (DOJ) – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	51,826,581	59,016,098	61,103,471	64,380,931
Other Funds	215,839,684	227,269,372	238,339,853	259,697,319
Other Funds (NL)	6,755,838	10,622,670	8,790,380	4,753,390
Federal Funds	103,125,708	107,173,021	112,967,948	142,235,349
Federal Funds (NL)	15,714,157	15,285,103	15,281,798	15,281,798
Total Funds	**$393,261,968**	**$419,366,264**	**$436,483,450**	**$486,348,787**
Positions	1,344	1,293	1,268	1,282
FTE	1,326.62	1,269.68	1,260.71	1,265.25

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. 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 2013-15 biennium, the General Fund accounts for 13.2% of the legislatively adopted budget and is used primarily for the Child Support Program, Defense of Criminal Convictions, crime victims' programs, legal work for which no state agency can be billed directly (e.g., ballot measure related), and the law enforcement activities of the Criminal Justice Division.

Other Funds resources support 54.4% 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 32.4% of the budget and include the federal share of the Child Support and Medicaid Fraud programs, and crime victims' grants.

The largest source of Other Funds revenue for the agency comes from charges for legal services. Although the agency has the statutory authority to determine the various hourly rates, they have historically been reviewed through the legislative budget process. The rates also cover indirect costs of providing administrative services tied to services funded by charges to state agencies. Employee compensation is the major factor which drives the change in the rate. The 2013-15 legislatively adopted budget assumes an attorney rate of $159 per hour which is an 11.2% increase from the 2011-13 rate of $143 per hour, and is expected to generate a total of $139 million.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget for this agency of $64.4 million General Fund and $486.3 million total funds represent increases from the 2011-13 legislatively approved budget of 9.1% and 16.0%, respectively. The budget includes the following:

- Savings from PERS policy changes of approximately $400,000 General Fund and $5.5 million total funds.
- Approval for the first phase of funding to replace the Child Support Enforcement Automated System (CSEAS). This approval included $1.6 million General Fund for debt service on XI-Q Bonds, $14.1 million Other Funds expenditure limitation, and $27.4 million Federal Funds.
- Crime Victims' programs funded through the General Fund and Criminal Fine Account are increased by $7.7 million, including $4 million General Fund for the Oregon Domestic and Sexual Violence Services Fund, $1.95 million Other Funds for Child Abuse Multidisciplinary Intervention, $1.25 million Other Funds for DA Victims' Assistance Programs, $400,000 Other Funds to restore a domestic violence prosecutor position, and $75,000 General Fund for the Oregon Crime Victims' Law Center. The budget also includes $300,000 Other Funds for the continuation of the Restitution Pilot project (begun during 2011-13 biennium), and $2.4 million Federal Funds and two positions for the Intimate Partner Violence and Pregnancy Grant.
- The mortgage mediation program was extended and $3.6 million Other Funds (fee support) was approved.

- Expenditures for continued defense of the state's position in legal actions challenging the Master Settlement Agreement (MSA) with tobacco companies were approved at $3.25 million General Fund.
- The 2% supplemental ending balance holdback of $1.2 million General Fund which may be restored in February 2014 depending on the state's overall fiscal situation.

DOJ – Administration

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	0	289,500	0	294,000
Other Funds	24,689,495	24,051,123	27,918,615	26,999,955
Total Funds	**$24,689,495**	**$24,340,623**	**$27,918,615**	**$27,293,955**
Positions	118	109	112	113
FTE	117.69	108.19	111.19	111.59

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.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget for this unit of $27.3 million total funds is 12.1% greater than the 2011-13 legislatively approved budget. Besides the PERS adjustments common to all state agency budgets, this budget reflects a realignment of three positions from other divisions to provide project management and information systems support to the agency. One, part-time position was added to support the mortgage mediation program. Funding of $300,000 General Fund was included for a grant to Project Clean Slate, which is a program to assist offenders in the Portland area to improve the skills necessary for employment. This appropriation was subject to the 2% supplemental ending balance hold back ($6,000) which may be restored in February 2014 depending on the state's overall fiscal situation.

DOJ – Appellate Division

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	16,196,381	16,586,285	18,218,964	17,626,920
Total Funds	**$16,196,381**	**$16,586,285**	**$18,218,964**	**$17,626,920**
Positions	69	58	59	58
FTE	67.34	56.49	58.40	57.37

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

Approximately 70% of the billable hours for this Division are charged to the General Fund appropriation for the 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 Division anticipates no significant change in the number of cases during the 2013-15 biennium.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget for this Division of $17.6 million Other Funds is 6.3% higher than the 2011-13 legislatively approved budget. Besides the PERS adjustments common to all state agency budgets, this budget includes an increase of approximately $460,000 for anticipated criminal and post-conviction appeal mandated caseload.

DOJ – Civil Enforcement Division

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	2,976,371	6,182,304	956,917	3,809,509
Other Funds	49,413,547	57,365,879	58,416,705	62,542,134
Other Funds (NL)	7,791	2,560,000	471,040	471,040
Federal Funds	2,265,177	2,883,383	3,302,914	3,242,409
Total Funds	**$54,662,886**	**$68,991,566**	**$63,147,576**	**$70,065,092**
Positions	187	191	193	202
FTE	183.91	189.38	192.03	200.11

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, obtains injunctive relief on behalf of state agencies, and represents the state's interest in probate matters, including conservatorship and guardianship cases. This section also enforces child support orders, prosecutes environmental crimes, enforces state tobacco laws relating to the Master Settlement Agreement, enforces civil rights laws, and represents the state's interest in securities litigation.
- The ***Medicaid Fraud Unit*** investigates and prosecutes fraudulent billings by Medicaid-funded providers; instances of patient abuse or neglect committed by Long-Term Care Facilities or their employees; and fraud in the administration of the Medicaid program. Federal Medicaid law requires each state have a fraud unit separate from its Medicaid designated agency (DHS).
- The ***Financial Fraud/Consumer Protection*** section educates consumers to better protect themselves against marketplace fraud and abuse. It also prosecutes violations of these and antitrust laws, seeking restitution, attorney fees, and penalties for injured consumers and state agencies to deter future wrongdoing.
- The ***Charitable Activities*** section supervises and regulates the activities of charitable, professional fundraisers, and, to some degree, other nonprofit organizations; and enforces laws related to charitable trusts, charitable solicitations, and nonprofit gaming.

Revenue Sources and Relationships

Revenue to support the Child Advocacy and Civil Recovery sections comes from billings to state agencies. Federal Funds provide 75% of the resources for the Medicaid Fraud Control Unit, while the state must contribute a 25% match to receive the federal funds. The federal government allows DOJ to use Medicaid recoveries for the state match in some cases as long as the Medicaid program and other victims are first made whole. Financial Fraud/Consumer Protection section services are funded by Other Funds, including funds in the Department of Justice Protection and Education Revolving Account paid by companies and organizations that sign assurances of voluntary compliance for violations of consumer protection laws. 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 number of senior citizens in long-term care facilities, the size of the Medicaid budget, the number of Medicaid providers, federal expansion of the section's jurisdiction, and the sophistication seen in health care fraud schemes all affect the unit's workload.

The Financial Fraud/Consumer Protection section anticipates a continued flow of consumer complaints, including that of Internet fraud. Consumer hotline calls totaled over 78,000 for the two year period ending June 2013, and the written and electronically submitted complaints totaled just under 24,000 for the same period. Restitution to consumers between July 2011 and June 2013 totaled approximately $6 million.

The number of registered charitable organizations has increased from about 3,000 in the early 1990s to currently over 17,000. 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. Nonprofit gaming organizations, numbering 640 (January 2012), are also monitored including screening applicants for licenses and insuring compliance with rules.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget for this Division of $70.1 million total funds is 1.6% higher than the 2011-13 legislatively approved budget. The General Fund budget is $3.8 million, or 38.4% less than the 2011-13 budget primarily due to the elimination of $3.5 million General Fund which had been provided to as start-up resources for the mortgage mediation program. This program will be sustained by Other Funds resources. The General Fund budget includes $3.2 million and one position for the defense of the Master Settlement Agreement (MSA). Besides the PERS adjustments common to all state agency budgets, this budget transfers three positions and $1.1 million Other Funds for enforcement of environmental crimes from the Criminal Justice and Trial Divisions, increases Other Funds by $3.6 million and one position for the mortgage mediation program, and establishes four positions and approximately $700,000 Other Funds to support civil recovery efforts for the child support program.

DOJ – Criminal Justice Division

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	7,719,495	7,721,158	8,477,145	7,978,666
Other Funds	10,468,549	9,863,240	10,049,960	9,566,503
Other Funds (NL)	1,591,919	649,710	728,469	0
Federal Funds	9,702,769	9,600,055	9,308,500	9,603,735
Total Funds	**$29,482,732**	**$27,834,163**	**$28,564,074**	**$27,148,904**
Positions	83	72	53	51
FTE	76.22	58.51	52.70	49.53

Program Description

The Division provides investigation, prosecution and analysis to a broad spectrum of public safety programs. Specifically, the Division 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. Further, the Division is charged with investigating and prosecuting organized crime groups, and operates or participates in the following joint efforts: operates the Oregon Internet Crimes Against Children (ICAC) unit; participates in the Cooperative Disabilities Investigation Unit (CDIU); participates in the federal, state, and local High Intensity Drug Trafficking Areas (HIDTA) initiative; operates the Criminal Intelligence Unit (CIU), which provides analytical services to Oregon law enforcement and also maintains the Oregon State Intelligence Network (OSIN), the primary intelligence sharing network for Oregon law enforcement; hosts the Western States Information Network (WSIN) for Oregon which shares intelligence information among five western states; and manages the Oregon TITAN Fusion Center which provides intelligence services to law enforcement to combat terrorism in Oregon.

Revenue Sources and Relationships

General Fund resources support three program areas within this Division. Approximately 60% supports the Division's efforts to investigate and prosecuted organized crime, 30% to assist district attorneys, and the balance to support the ICAC unit.

The largest portion of Other Funds revenue is received from legal fees ($8 million) primarily billed to the General Fund programs noted above. A grant from the Department of Transportation ($357,176 Other Funds) supports the DUII program, and funds from the Department of Human Services provide for the operation of the Cooperative Disability Investigations Unit ($1,094,182 Other Funds).

Federal funding for the Division includes the High Intensity Drug Trafficking Area (HIDA) program ($8.2 million Federal Funds), federal asset forfeiture ($111,135 Federal Funds), and Marijuana Eradication ($982,051 Federal Funds). Most of these federal funds are passed along to local law enforcement agencies. The Division receives federal grants to support the Internet Crimes Against Children (ICAC) program ($346,969 Federal Funds). While the total federal funds anticipated for the 2013-15 biennium are expected to increase by 8%, the purpose of the dollars is expected to change. HIDTA revenue is expected to remain stable at $2.8 million for the biennium, while federal support for the Internet Crimes Against Children has increased by approximately 11%. Federal Funds for the Domestic Cannabis Eradication and Suppression program has grown from $750,000 in 2012 to $1.2 million in 2013. Federal funding for this program is uncertain for 2014.

In prior biennia, the Division received Federal grant funds passing through the Oregon Military Department to support the TITAN Fusion Center. At the conclusion of the 2013 legislative session, a decision to continue this federal award was still pending.

Budget Environment

During the 2011-13 biennium, the Division investigated or prosecuted 49 cases of murder, attempted murder, and solicitation to commit murder. In 2011, 272 prosecutorial and/or investigative matters (not including DPSST, administrative, service assist, backgrounds, public records, and litigation hold matters) were opened as compared to 233 opened in 2009. This number grew to 392 in 2012. Further, the number of sex crimes cases increased from 30 in 2011 to 136 in 2012.

During the past year, the workload for the Internet Crimes Against Children unit also grew especially in the number of cybertips received from the National Center for Missing and Exploited Children and requests for assistance from law enforcement agencies. The unit processed and evaluated 681 cybertips in 2011 and 1,079 in 2012.

The Criminal Intelligence Unit and the Oregon TITAN Fusion Center opened 336 cases in 2011 and 2012. Case assistance covered a range of criminal activity including amber alerts, illegal narcotic, hate crimes, homicides, public corruption, and terrorism related crimes. The units provided support for 91 pen registers and investigatory research support for 15,554 persons suspected of criminal activity.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget for this Division of $27.1 million total funds is 2.5% less than the 2011-13 legislatively approved budget. Besides the PERS adjustments common to all state agency budgets, this budget eliminated 21 positions including 13 positions (4.05 FTE) due to the expiration of one-time federal funding, four positions (1.00 FTE) previously approved for the start-up of the mortgage mediation program, three positions (3.00 FTE) due to middle management actions taken by the Emergency Board, and one position due to reorganization including shifting environmental crimes to the Civil Division. The budget also includes a 2% supplemental ending balance hold back of $168,930 General Fund. This amount is subject to restoration to the agency in February 2014 depending on the state's overall fiscal situation.

DOJ – Crime Victims' Services Division

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	4,608,293	5,619,328	5,750,304	9,701,838
Other Funds	24,835,922	22,490,033	23,427,756	30,415,082
Other Funds (NL)	1,548,383	3,230,978	3,308,521	0
Federal Funds	18,152,671	17,557,532	16,511,384	19,079,574
Total Funds	**$49,145,269**	**$48,897,871**	**$48,997,965**	**$59,196,494**
Positions	36	37	35	44
FTE	33.98	35.65	34.00	36.90

Program Description

The Crime Victims' Services Division is responsible for administering the following programs on behalf of crime victims:

- The ***Crime Victims' Compensation program*** was created to provide assistance to innocent victims who sustain injuries resulting from criminal activity.
- The F***ederal Victims of Crime Act*** provides funds to states and local organizations for victims' assistance.
- The ***Prosecutor-based Victim/Witness Assistance*** program is a grant program to certified prosecutors' offices across the state who maintain local crime victims' assistance programs.
- The state ***Crime Victim Grant program*** makes grants to local public and private agencies that provide services to victims of violent crimes.
- The ***Child Abuse Multidisciplinary Intervention (CAMI) grant program*** provides state funds to 36 county teams for a multidisciplinary approach to assessment, investigation, and prosecution of child abuse cases.
- The ***Regional Child Abuse Services grant program*** provides funding to five regional service providers to support and provide technical assistance to CAMI teams and others.
- The ***Child Abuse Medical Assessment program*** pays for child abuse medical assessments in certain cases.
- The ***Domestic and Sexual Violence Services Fund*** was created to advocate, provide safety, promote cooperation among agencies, and stabilize the infrastructure for these victims of assault.
- The ***Sexual Assault Victims' Emergency Medical Response Fund*** provides assistance to victims of sexual assault to ensure they have access to an immediate medical exam and forensic evidence collection.
- The ***Address Confidentiality Program*** provides a substitute address for forwarding mail for victims of domestic violence, sexual assault, and stalking.
- The ***Federal Violence Against Women Act formula grant program*** provides funding for prosecution, advocacy, law enforcement, and court activities dedicated to stopping violence against women.

Revenue Sources and Relationships

The Crime Victims' Compensation program, Regional Child Assessment Centers grants, Child Abuse Medical Assessments, and the CAMI program are supported all or in part by the Criminal Fines Account or CFA ($19.9 million Other Funds). Crime victims programs also receive funding from punitive damages and restitution ($2.6 million Other Funds), and federal grant funds ($19.1 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

Traditionally, the number of applications received by this program increases every year. The program hit an all-time high in the 2009-11 biennium by receiving 535 applications per month. In the 2011-13 biennium, however, the number of applications decreased by 7%. A major part of the decrease is attributed to child assessment centers not being as dependent on this program's funds since the Oregon Health Plan now covers more uninsured children.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget for this Division of $59.2 million total funds is 21% greater than the 2011-13 legislatively adopted budget. This budget includes approximately $7.7 million in enhancements for victims' services, including $4 million General Fund for the Oregon Domestic and Sexual Violence Services Fund, $1.95 million Other Funds (CFA) for CAMI, $1.25 million Other Funds (CFA) for DA Victims' Assistance Programs, $400,000 Other Funds to restore a domestic violence prosecutor position, and $75,000 General Fund for the Oregon Crime Victims' Law Center. The budget also includes $300,000 Other Funds for the continuation of the Restitution Pilot project (begun during 2011-13 biennium), and $2.4 million Federal Funds and two positions for the Intimate Partner Violence and Pregnancy Grant.

DOJ – General Counsel Division

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	41,152,398	44,380,036	45,851,249	44,968,789
Total Funds	**$41,152,398**	**$44,380,036**	**$45,851,249**	**$44,968,789**
Positions	154	146	142	142
FTE	153.95	145.39	141.50	141.50

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.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget for this Division of $45 million total funds is 1.3% greater than the 2011-13 legislatively approved budget. Besides the PERS adjustments common to all state agency budgets, this budget reflects position reductions associated with the passage of SB 242 (2011), middle management actions taken by the Emergency Board, and realignment of positions to the Administration program.

DOJ – Trial Division

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	22,729,012	26,309,861	26,711,754	25,767,823
Total Funds	**$22,729,012**	**$26,309,861**	**$26,711,754**	**$25,767,823**
Positions	101	102	96	94
FTE	100.36	100.90	95.72	93.08

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 four sections: (1) Civil Litigation (jury trials); (2) Criminal and Collateral Remedies; (3) Special Litigation; and (4) Defense of Agency Orders. The cases include defending state agencies and state officials against tort claims, employment claims, cases alleging civil-rights violations, and other claims for money damages; representing state agencies in contract disputes and in the acquisition of land for public roads; defending the state in all trial court cases filed by prisoners; and defending state laws, ballot initiatives, and policies at the trial court level.

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

The Criminal and Collateral Remedies Section (CCR) typically has over 2,000 cases pending. As outlined in the DCC discussion, the agency asserts that workload has grown and is likely to continue increasing with more cases filed, tighter deadlines, and increased complexity due in part to active participation by the petitioners and counsel. This unit also handles mandamus cases and hearings before the Psychiatric Security Review Board.

The Civil Litigation Section is the largest section within the Division, and is responsible for defending the state's interests in a wide variety of cases that may be tried to a jury in state and federal courts. These cases range from complex disputes or legal arguments with far-reaching implications for the state, to the business of settling more routine disputes that arise in the course of the state's business. CLS cases fall into five general categories: torts, employment, commercial disputes, prisoner civil rights lawsuits, and real estate condemnation. Amendments to the Oregon Tort Claims Act have increased the state's liabilities and financial risk in litigation substantially.

The agency also asserts there has been a substantial increase in the costs of litigation discovery and the need for discovery support in litigation within the Civil Litigation and Special Litigation Sections as a result of the extra work associated with electronic discovery (e-mails have caused an increase in the number of records that must be examined and produced) and the threat of judicial sanctions if an agency complies less than fully with its discovery obligations.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget for this Division of $25.8 million Other Funds is 2.1% less than the 2011-13 legislatively approved budget. Besides the PERS adjustments common to all state agency budgets, this budget reflects a reduction in mandated caseload of $510,957 and one position as well as position reductions associated with the passage of SB 242 (2011) and the transfer of enforcement for environmental crimes to the Civil Division.

DOJ – Child Support Division

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	16,977,832	21,842,177	23,803,943	24,420,505
Other Funds	26,354,380	26,222,915	27,744,850	41,810,113
Other Funds (NL)	3,607,745	4,181,982	4,282,350	4,282,350
Federal Funds	73,005,091	77,132,051	83,845,150	110,309,631
Federal Funds (NL)	15,714,157	15,285,103	15,281,798	15,281,798
Total Funds	**$135,659,205**	**$144,664,228**	**$154,958,091**	**$196,104,397**
Positions	596	578	578	578
FTE	593.17	575.17	575.17	575.17

Program Description

This Division locates parents, establishes paternity, enforces and modifies child support obligations, and receives and distributes support payments from absent parents. The Child Support program provides these services automatically for families that are requesting, are receiving, or have received, public assistance from the Department of Human Services; if the child is in the care of DHS's child welfare program or the Oregon Youth Authority (OYA); or if the case has been referred by another state. The program also provides these services to other families if they request the service. In addition, the Douglas, Gilliam, Hood River, Lake, Curry, Linn, Sherman, Deschutes, Jefferson, and Wheeler County District Attorneys have chosen not to provide their own programs and contract with DOJ to handle all their child support cases.

Revenue Sources and Relationships

Federal Funds provide 66% of eligible program costs to maintain the child support program mandated under Title IV-D of the federal Social Security Act. General Fund resources provide the matching funds. The Nonlimited Federal Funds are matching funds passed through to district attorneys for work they complete.

Other Funds revenue is generated through TANF, Oregon Health Plan, and Oregon Youth Authority recoveries. The Nonlimited Other Funds are incentive funds received from the federal program.

Budget Environment

The Program serves roughly 228,000 families per year which is slightly more than 2011. In the past, the DA Programs have provided services to approximately 16.5% of these families. The other 83.5% represents open and former public assistance cases and private cases. Approximately 19.6% of the DOJ caseload is receiving, or has recently received, a DHS payment or service. Total collections continue to grow, in part, due to economic factors like inflation. The ratio of the Division's costs to collections is as follows: for every dollar spent, $6.01 was collected in 2008, $5.46 in 2009, $5.29 in 2010 and $5.41 in 2011. The average number of cases handled during 2011 per FTE in Oregon is 320, with California averaging 163 and Washington at 284.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget for this Division of $196.1 million total funds is 35.6% greater than the 2011-13 legislatively approved budget. Besides the PERS adjustments common to all state agency budgets, this budget includes approval for the first phase of funding to replace the Child Support Enforcement Automated System (CSEAS). This approval included $1.6 million General Fund for debt service on XI-Q Bonds, $14.1 million Other Funds expenditure limitation, and $27.4 million Federal Funds. In total, the CSEA projected is estimated to cost $109.4 million with federal funding supporting two-thirds of the project. This Division was subject to the 2% supplemental ending balance hold back, excluding debt service, ($465,565) which may be restored in February 2014 depending on the state's overall fiscal situation.

DOJ – Defense of Criminal Convictions

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	19,544,590	17,361,631	22,115,162	18,176,413
Total Funds	**$19,544,590**	**$17,361,631**	**$22,115,162**	**$18,176,413**

Program Description

Defense of Criminal Convictions (DCC) is a budgetary unit used to track the cost of defending the state in cases in which sentenced offenders challenge their convictions or sentences. Three types of cases are funded from these funds: (1) direct criminal appeals where the offender's challenge is on alleged legal or factual errors of the trial; (2) post-conviction challenges where the offender challenges the effectiveness of their counsel; or (3) federal *habeas corpus* where the offender challenges violations of the constitutional rights in the federal courts. Personnel and resources connected to this work are part of the Trial and Appellate Divisions who bill this budget unit for the work on the individual cases. Work on ballot measure titles is also billed to this fund as well as other areas where no agency or Division can be billed.

Budget Environment

A number of factors drive the workload and costs of the Trial and Appellate Divisions in working DCC cases. These include:

- The number of contested criminal convictions is primarily due to the number of offenders in the correctional system.
- Resources available to other parts of the criminal justice system have an impact on the demand for these funds. If the amount of resources available for the Public Defense Services Commission programs change, this can affect the number of appeals at the state level. The courts limit the amount of time that cases can be delayed. Timelines set by the Court of Appeals in the past few years had been met by DOJ and PDSC. With

the court increasing from 10 judges to 13 judges in the fall of 2013, however, briefing deadlines could be modified.

- 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 greater at the federal level, and cases are further developed, individual case costs for DOJ are greater.
- The complexity of individual cases is a major factor since it drives up the time spent on each case. Although the Department receives few death penalty appeals during each biennium, these cases are very complex and time consuming. The Department is now handling over thirty active death penalty cases at various stages of litigation in state and federal courts. In addition, the first death penalty cases to reach the federal courts will continue to be actively litigated and further cases are expected to move from the state courts to the federal courts.
- The attorneys of the Appellate and Trial Divisions charge the DCC program for their work on these cases at the same rate as they charge other state agencies for legal work. Growth in this program in recent years has increased in part due to the increasing legal rate increasing from $98 in 2003-05 to the $159 rate planned for in the 2013-15 biennium. This increase is primarily due to employee compensation growth, the major factor in determining the legal rate.
- Whenever the U.S. Supreme Court issues significant rulings in the area of criminal law, there may be hundreds of state criminal convictions effected. Those significant rulings may require new appeals or new trials.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget for the DCC program of $18.2 million General Fund is 5.7% greater than the 2011-13 legislatively approved budget. The increase in mandated caseload is projected to be less than $1 million. It should be noted that the caseload and workload numbers for this program are estimates and can change based on a number of factors including average time spent on cases, the actual number of cases opened, the legal rate charged for the work on the cases, the impact of state and federal court decisions, and the actual number of staff attorney hours available to the program. This program unit was subject to the 2% supplemental ending balance hold back ($379,270) which may be restored in February 2014 depending on the state's overall fiscal situation.

Military Department (OMD) – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	22,898,158	27,975,479	25,228,745	20,783,532
Other Funds	87,693,107	130,697,308	29,861,062	111,646,205
Other Funds (NL)	1,172,023	3,041,915	0	0
Federal Funds	207,961,728	295,951,938	270,300,364	284,930,096
Total Funds	**$319,725,016**	**$457,666,640**	**$325,390,171**	**$417,359,833**
Positions	549	518	452	523
FTE	490.62	460.38	408.94	478.01

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 (OEM).

The National Guard is a federal-state partnership with a dual mission: (a) provide combat-ready units and equipment in support of national defense, and (b) provide units and equipment to protect life and property during natural disasters and civil unrest, as well as to provide backup support to law enforcement. The National Guard serves on a day-to-day basis under the command of the Governor, but is available to the federal government upon order of the President of the United States. The Department is overseen by an Adjutant General, appointed by the Governor to a four-year term of office. The Adjutant General also serves as the homeland security advisor to the Governor and chief of staff of the Governor's Military Council.

Although chartered as a state agency, the Department is functionally and administratively bifurcated into a state and a federal "agency," both of which are overseen by the Adjutant General. The federal government directly funds federal employees, guard member salaries and wages, and all equipment and equipment maintenance. For the state, its responsibility primarily centers on providing facilities and facility maintenance for the Oregon Guard. The federal government, however, also is a major source of funds for new construction facility operating funds, and Homeland Security.

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 dependent 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.

The Department provides 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, which in particular include the state's reintegration program and 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 structure is similar to a number of other states, including Washington. Also in 2007, the Legislature established the Seismic Rehabilitation Grant Program, whose purpose is to reduce the exposure to Oregonians from earthquakes by providing public education and emergency services facilities with funds to retrofit existing facilities to meet seismic standards.

Revenue Sources and Relationships

Revenue for the Department comes from a combination of General Fund, Other Funds, and Federal Funds. Beginning in the 1977-79 biennium, the Department's primary source of funding has shifted dramatically from General Fund to Federal Funds, and to a lesser extent, Other Funds.

The federal government provides two types of funding for the Department:

- State budgeted Federal Funds ($285 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 $725 million for 1,978 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 over $1 billion over the course of a biennium.

The level of federal support in the state budget varies by program, type of facility, and type of construction project. For example, troop training costs are entirely supported by Federal Funds as are base security, firefighters, 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. 25% of the Oregon Youth Challenge Program costs come from the federal government. Federal Funds converted to Other Funds support almost entirely the Other Funds expenditures related to the Department's administrative costs. OEM receives Federal Funds for emergency management, disaster recovery, and homeland security.

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 $111.7million. The preponderance of the revenue (approximately $81.9 million) is related to 9-1-1 emergency telecommunications surcharge revenues under OEM. Historically, however, the source of Other Funds for the Department has been facility rental fees and some miscellaneous sales revenue. Rental revenues earned from federally supported facilities are required by the federal government to be used in support of the facility that earned it. The Department's facility rental revenue is approximately $3.1 million before a $107,355 debt service transfer. Miscellaneous sales revenues are derived from vending machine profit, coin operated telephones, and recycling programs. Other Funds revenue includes approximately $50,000 in Oregon individual tax check-off deduction revenue that began with the 2006 tax year and is associated with the Emergency Financial Assistance Program. The Oregon Youth Challenge Program receives Average Daily Membership (ADM) revenue from the Bend-LaPine School District totaling approximately $2.1 million. Lastly, the budget includes Other Funds for bond proceeds for Capital Construction and Seismic Rehabilitation programs.

Budget Environment

Agency leadership is in a state of transition with the departures of its long-serving Adjutant General, Deputy Director, and the Director and the Deputy Director of the Office of Emergency Management. Each position has recently been filled.

The Department continues to have many competing priorities. In the larger picture, the critical issues are: (a) addressing the state's emergency preparedness and response; (b) managing federal and state deployments; (c) maintaining and constructing new and existing installations and (d) maintaining federal funding for the agency and, in particular, dealing with reductions in federal funding such as sequestration.

The Department also has to focus on the variety of needs of guardspersons and their families, both during deployment and post-deployment. This includes the Department's reintegration efforts and its continued focus on reducing the suicide rate among veterans.

The transfer of the Seismic Rehabilitation Grant Program to the Oregon Business Development Department (OBDD, or Business Oregon) will adversely impact the agency as the Operations program budget has been the beneficiary of excess General Fund debt service.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $417.4 million is $40.3 million, or 8.8%, less than the 2011-13 legislatively approved budget and includes 523 positions (478.01 FTE). The General Fund portion of the budget totals $20.8 million and is $7.2 million, or 25.7%, less than the 2011-13 legislatively approved budget. The Other Funds totals $111.7 million and is $19.1 million, or 14.6%, less than the 2011-13 legislatively approved budget. Federal Funds totals $284.9 million and is $11 million, or 3.7%, less than the 2011-13 legislatively approved budget.

The reduction in the agency's budget is attributable to: the elimination of one-time funding for Seismic Rehabilitation Grant bonds ($28 million); major construction projects ($19.5 million); funding for the Oregon Local Disaster Loan and Grant Account ($8.5 million); elimination of General Fund for three limited duration positions ($406,228); General Fund for rental of the Central Oregon Readiness Center, whose lease ends February 2013 ($684,715); and a one-time increase for State Active Duty wildfire costs during the 2011 fire season ($118,339). There was also the phase-out of the Chemical Stockpile Emergency Preparedness program ($13.3 million), among other lessor decreases.

The Department's budget is comprised of $76.8 million personal services (18.4%), $95.6 million services and supplies/capital outlay (22.9%), $236.6 million special payments (56.7%), and $8.4 million debt service (2%).

The budget includes a $607,431 General Fund and Other Funds reduction for unspecified statewide administrative savings.

The adopted budget includes standard adjustments for Public Employees Retirement System savings, state government service charges, other agency assessments, a 5% General Fund reduction in non-fixed services and supplies, and a 2% General Fund supplemental ending balance hold back. The supplemental ending balance adjustment to the budget equaled $258,007 General Fund and is subject to restoration to the agency in February 2014 depending on the state's overall fiscal situation.

OMD – Administration

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	4,634,685	3,814,012	4,618,920	4,271,768
Other Funds	1,737,889	2,128,279	2,069,816	2,187,214
Total Funds	**6,372,574**	**5,942,291**	**6,688,736**	**6,458,982**
Positions	28	25	23	24
FTE	26.79	22.26	22.00	23.00

Program Description

The Administration program consists of the office of the Adjutant General, Command Group, Financial Administration, Personnel, and Public Affairs. These functions support, administratively, the command of over 8,500 soldiers and airmen, approximately 2,500 state and federal employees, and the oversight for over $3 billion in facilities and equipment.

Beginning with the 2005 biennium, the program became responsible for assisting National Guard members and their families through the following programs:

- ***Reintegration and Veterans' Assistance Program –*** This program provides post-mobilization assistance to National Guard members and their families after soldiers and airmen return from federal deployments.
- ***Emergency Financial Assistance Program –*** This program provides hardship grants and loans to members and immediate family of members of the Oregon National Guard on active duty. According to the Department, the majority of grants from the fund have been to support families during guard member deployments.

Revenue Sources and Relationships

The program is funded with a combination of General Fund and Federal as Other Funds. Other Funds revenue includes approximately $50,000 in Oregon individual tax check-off deduction revenue associated with the Emergency Financial Assistance Program.

Budget Environment

The budget environment for the Administration Program is one of managerial and financial complexity given the interrelationship between its state and federal budgets.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $6.5 million is $516,691, or 8.7%, more than the 2011-13 legislatively approved budget and includes 24 positions (23.00 FTE).

The legislatively adopted budget incorporates the following changes:

- $179,010 General Fund and Other Funds for an Accountant 3 position. This position is needed to continue accounting support for capital projects and debt service for the agency due to an existing Accountant 3 position being transferred to OBDD as part of the transfer of the Seismic Rehabilitation Grant Program.
- $180,965 General to Other Funds fund shift of select agency executive staff. This fund shift was taken as part of the agency's proposed General Fund reduction options. The source of Other Funds is the Emergency Communications Tax.

The budget includes a $133,622 reduction for unspecified statewide administrative savings.

The adopted budget included standard adjustments for Public Employees Retirement System savings, state government service charges, other agency assessments, a 5% General Fund reduction in non-fixed services and supplies, and a 2% General Fund supplemental ending balance hold back. The supplemental ending balance adjustment to the budget equaled $88,728 General Fund and is subject to restoration to the agency in February 2014 depending on the state's overall fiscal situation.

OMD – Operations

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	10,604,059	9,057,413	6,788,586	6,187,896
Other Funds	2,500,846	4,523,983	4,680,240	5,425,762
Federal Funds	82,940,691	101,387,205	101,309,144	112,963,560
Total Funds	**$96,045,596**	**$114,968,601**	**$112,767,970**	**$124,577,218**
Positions	427	397	357	408
FTE	371.23	341.80	314.88	365.51

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 with 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 firefighting protection. It is the only source for crash/rescue and firefighting at the Klamath Falls Airport. Some of the structural resources have been used on Conflagration Act fires as recently as the 2013 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 the 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.
- ***Distributive 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.
- ***Anti-Terrorism Program Manager*** – This program is to develop, implement, manage, and monitor a comprehensive anti-terrorism program for protecting personnel and installations from acts of terrorism. The program is 100% federally funded.

Revenue Sources and Relationships

The program is funded with a combination of General Fund, Other Funds, and Federal Funds. The source of the Other Funds is primarily facility rental fees (approximately $3.2 million), but includes some Federal as Other Funds.

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 major Oregon National Guard facilities are:

- ***Air National Guard Installations:*** Portland Airbase and Kingsley Field Airbase
- ***Army National Guard Installations:*** Armories, Readiness Centers, Armed Forces Reserve Centers, and two aviation facilities
- ***Unit Training Areas:*** Camp Rilea Armed Forces Training Center, Camp Adair, Central Oregon Training and Education Facility, Biak Training Center, Oregon Military Academy, Boardman Training Range, and former Umatilla Chemical Weapons Army Depot
- ***Other:*** Oregon Youth Challenge educational facility and Christmas Valley energy site

The age of some National Guard facilities, especially armories, makes them inefficient and expensive to operate and maintain. The Department reports that 47% of its facilities are in compliance with National Guard Bureau/Department of Army standards and are in the best condition, 34% are classified in "adequate" condition and do not fully meet standards, and the remaining 19% are substandard and in relatively poor condition. Facility compliance with these standards has improved significantly in recent biennia due to a combination of state and federal investments. Such investment is thought to have a direct and positive impact on recruiting, training, and retaining soldiers, not to mention the retention of such units by the state.

There has been an increased federal focus on energy conservation efforts, which are driving the agency to examine ways to lower its energy costs and generate energy from alternative sources such as solar and ocean waves.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $124.6 million is $9.6 million, or 8.36%, more than the 2011-13 legislatively approved budget and includes 408 positions (365.51 FTE).

The legislatively adopted budget incorporates the following changes:

- $8,995,890 Federal Funds for the Umatilla Chemical Depot caretaker agreement with the U.S. Army.
- $1,700,000 General Fund and Federal Funds for additional support for the two airbases, including eight facility positions and $673,230 in services and supplies.
- $1,565,808 Other Funds for 12 positions for custodial and facility maintenance, construction management, natural resources, administrative support, and firefighting. The positions are funded with a combination of armory rental revenue and Federal Funds.
- $1,297,174 Federal Funds for firefighter positions at the Klamath Falls Air National Guard Base.
- $655,700 General Fund to Other Funds fund shift using Energy Trust of Oregon incentive payments that the agency is expected to receive during the biennium. The General Fund savings from this package remain within the agency and are used to fund critical priorities, such as the additional funding at the two airbases.
- $406,226 Other Funds and Federal Funds for three Facility Maintenance Specialist positions. The revenue source is armory rental revenue.

The budget includes a $304,947 reduction for unspecified statewide administrative savings.

The adopted budget includes standard adjustments for Public Employees Retirement System savings, state government service charges, other agency assessments, a 5% General Fund reduction in non-fixed services and supplies, and a 2% General Fund supplemental ending balance hold back. The supplemental ending balance adjustment to the budget equaled $127,396 General Fund and is subject to restoration to the agency in February 2014 depending on the state's overall fiscal situation.

OMD – Office of Emergency Management

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	2,076,376	6,037,907	2,472,456	1,832,048
Other Funds	77,415,378	116,246,831	21,051,688	92,527,369
Federal Funds	94,259,713	167,297,442	156,576,153	157,335,739
Total Funds	**$173,751,467**	**$289,582,180**	**$180,100,297**	**$251,695,156**
Positions	48	50	26	45
FTE	46.60	50.32	26.06	43.50

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 the Department of State Police (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.

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

OEM takes the lead in responding to emergencies across the state and coordinating a statewide emergency services system. This system incorporates the separate local and state emergency service elements into a comprehensive capability to prepare for, respond to, and recover from disaster conditions. Activities include preparedness planning as well as the development and implementation of mitigation strategies. The program has nine major areas of responsibility:

- ***Oregon Emergency Response System (OERS)*** – Maintain OERS 24 hours/seven days a week and act as a single point for reporting and coordinating emergencies that might require state and/or federal assistance.
- ***Statewide 9-1-1 System*** – Administer the 9-1-1 system which provides funding to local systems and takes the lead in developing and implementing new technology.
- ***Grant Administration*** – Administer grants used to respond to emergencies, hazard mitigation planning, and project implementation throughout the state.
- ***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*** – Serves as the administrative "agency" for federal homeland security grants. It is 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 Legislature, and Oregon voters, passed a series of measures centered on reducing the exposure to Oregonians from earthquakes. Some of these measures included: the establishment of a Seismic Safety Policy Advisory Commission (1991); voter approval amending the state's constitution to authorize the use of general obligation bonds for the purposes of seismic rehabilitation of public education facilities (Article XI-M bonds) and emergency services facilities (Article XI-N bonds) (2002); the creation of a seismic rehabilitation grant program within the Office of Emergency Management (2005); and the funding of a statewide seismic needs assessment of education and public safety facilities by the Department of Geology and Mineral Industries (2005). In 2007, the Legislature passed SB 1. This measure provided OEM with four permanent positions to staff and administer the Seismic Rehabilitation Grant Program (SRGP). SB 813 (2013) transfers this program to the Oregon Business Development Department.
- ***Oregon Local Disaster Assistance Loan and Grant Account*** – This Account was established during the 2008 special session to provide loans to local governments and school districts to match moneys from federal programs for federally declared disasters that are subject to state matching funds provisions. A Local Disaster Assistance Review Board was also established to review and approve any loans from the Account. The Account is not permanently capitalized nor has the Department made any loans from the Account since

the agency requested it be established. There has, however, been General Fund support and grants from the Account.

Revenue Sources and Relationships

The major funding source is Federal Funds received for state homeland security, Federal Emergency Management Agency (FEMA) disaster recovery, 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, 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.

Oregon's 9-1-1 toll-free emergency number to access safety services is a state and local partnership. The state's portion is funded through an Emergency Communications Tax of $0.75. This is a per month tax for any phone line capable of accessing 9-1-1 services, with the exception that federal, state, and local governments are tax exempt. During the 2013 session, the 9-1-1 program's statutory sunset was extended from January 1, 2014 to January 1, 2022 (HB 3317).

Telecommunication providers collect the Emergency Communications Tax from their customers and remit the tax revenue to the Department of Revenue (DOR) on a quarterly basis. DOR transfers the revenue to the Emergency Communications Account, net of up to 1% of the revenue amount it retains for administration.

The Emergency Communications Account is to be distributed quarterly according to statute for the following primary purposes: (1) up to 4% of the balance may be used by the Military Department's Office of Emergency Management for program administration costs; (2) 35% is transferred into the Enhanced 9-1-1 subaccount; and (3) the remaining balance is distributed to cities and counties.

Local governments use the revenue to partially fund the expense of approximately 45 Public Safety Answering Points (PSAPs) across city and county governments in Oregon, some of which are co-located with other PSAPs. 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

Program leadership is in a state of transition with the recent replacement of the Director and the hiring of a new Deputy Program Director.

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.

The transfer of the Seismic Rehabilitation Grant Program to OBDD will lessen, to a certain extent, the administrative burden on the overall program. The phase-out of the Chemical Stockpile Emergency Preparedness program is a challenge because it has meant fewer federally funded information technology support positions for the program/agency.

The challenge for this program will be its planning and potential implementation of next generation 9-1-1 technology across the state.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $251.7 million is $37.9 million, or 13%, less than the 2011-13 legislatively approved budget and includes 45 positions (43.50 FTE).

The reduction in the program's budget is attributable to: the elimination of one-time funding for Seismic Rehabilitation Grant bonds ($28 million); funding for the Oregon Local Disaster Loan and Grant Account ($8.5 million); and the phase-out of the Chemical Stockpile Emergency Preparedness program ($13.3 million), among other smaller decreases.

The legislatively adopted budget incorporates the following changes:
- $62,528,008 Other Funds related to the sunset extension of the state's 9-1-1 Emergency Communication Tax.
- $7,293,839 Other Funds for disbursement of grant awards associated with previously issued 2012 Article XI-M General Obligation bonds for seismic rehabilitation of schools.
- $1,053,855 Other Funds to re-establish six positions for the 9-1-1 program.
- $793,160 Other Funds and Federal Funds for four Information System Specialist positions and a Program Analyst position to be funded with Federal Funds and Other Funds from the Emergency Communications Tax.
- $428,289 General Fund to Other Funds fund shift of three positions and $130,856 of services and supplies. This fund shift was taken as part of the agency's proposed General Fund reduction options.
- $288,418 General Fund reduction associated with the transfer of the Seismic Rehabilitation Grant Program to OBDD (SB 813). This reduction represents the Program's administrative costs.
- $277,868 Other Funds for a 9-1-1 Next Generation project manager.
- $275,000 General Fund for the potential loans or grants from the Oregon Local Disaster Assistance Loan and Grant Account.

The budget includes a $51,577 reduction for unspecified statewide administrative savings.

The adopted budget includes standard adjustments for Public Employees Retirement System savings, state government service charges, other agency assessments, a 5% General Fund reduction in non-fixed services and supplies, and a 2% General Fund supplemental ending balance hold back. The supplemental ending balance adjustment to the budget equaled $37,769 General Fund and is subject to restoration to the agency in February 2014 depending on the state's overall fiscal situation.

The Legislature asked the Department to respond to one budget note. The agency is directed to work with the Department of Administrative Services to develop a comprehensive set of foundational project management documents for the design, installation, and implementation of a statewide Next Generation 9-1-1 Internet Protocol Network by December 1, 2013. The Department is to report to the Legislature in 2014 on the status of the project and final authority to proceed with the project.

OMD – Community Support

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	0	418,805	206,575	206,062
Other Funds	2,413,239	2,288,675	1,951,963	2,066,060
Federal Funds	7,710,136	7,961,467	7,783,763	7,933,288
Total Funds	**$9,823,375**	**$10,668,947**	**$9,942,301**	**$10,205,410**
Positions	46	46	46	46
FTE	46.00	46.00	46.00	46.00

Program Description

The Community Support program coordinates support for local education programs and emergencies which require the assistance of the National Guard. The program contains:
- ***Oregon Youth Challenge Program (OYCP)*** – Since 1994, the Oregon National Guard has operated the OYCP through a federal/state agreement with the National Guard Bureau. OYCP is Oregon's only statewide alternative high school and only public military school for at-risk students. It offers at-risk high school dropouts an opportunity to complete educational credit with a goal of reintegrating into high school to earn a diploma or prepare for the General Education Development (GED) examination. The program consists of a 22-week residential training program followed by a 12-month nonresident program. The school is an accredited program. OYCP graduates approximately 234 students per year.

- ***Science and Technology Academy Reinforcing Basic Aviation and Space Exploration (STARBASE)*** – STARBASE is designed to increase at-risk third through eighth grade students' awareness of the importance of math and science. The curriculum demonstrates math and science applications in aerospace operations. National Guard members demonstrate applicability of math and science to flight operations, weather reporting and forecasting, electronics maintenance, and firefighting 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 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, is 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.

In 2009, a federal law change moved the OYCP state match from 40% to 25%. This change has meant that the OYCP is able to meet federal matching funds requirement almost exclusively with Other Funds, which is Average Daily Membership (ADM) revenue through the Bend-LaPine School District.

The STARBASE program is 100% federally funded through the National Guard Bureau.

The revenue for Emergency Operations comes from the state agencies that the National Guard is supporting, most commonly the Department of Forestry as Other Funds, or to a lesser extent 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. The severity of the fire season in 2013 will likely require an increase in Other Funds expenditure limitation for the program to account for the reimbursement of OMD's fire-related expenditures, which preliminary estimates place at over $850,000.

Questions have arisen about expanding the student capacity at the OYCP, however, without a significant capital facilities investment, such an expansion is unfeasible.

Legislatively Adopted Budget
The 2013-15 legislatively adopted budget of $10.2 million is $463,537, or 4.3%, less than the 2011-13 legislatively approved budget and includes 46 positions (46.00 FTE).

The legislatively adopted budget incorporates the following changes:
- $310,000 Other Funds and Federal Funds to reflect an increase in the level of federal funding support for the program and a loosening of the restrictions on which state funds can be used to match Federal Funds.
- $218,000 Other Funds expenditure limitation to mitigate federal sequester cuts that will temporarily reduce the federal share of the OYCP from 75% to 70%, requiring a larger state match.
- $15,000 General Fund for the reimbursement of fuel costs of participating youth's parents or legal guardians who travel to the program to visit their children.

The budget includes a $117,285 reduction for unspecified statewide administrative savings.

The adopted budget includes standard adjustments for Public Employees Retirement System savings, state government service charges, other agency assessments, a 5% General Fund reduction in non-fixed services and supplies, and a 2% General Fund supplemental ending balance hold back. The supplemental ending balance adjustment to the budget equaled $4,114 General Fund and is subject to restoration to the agency in February 2014 depending on the state's overall fiscal situation.

OMD – Debt Service

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	5,583,038	8,647,342	11,152,208	8,285,758
Other Funds	117,961	818,267	107,355	344,700
Other Funds (NL)	1,172,023	3,041,915	0	0
Total Funds	**$6,873,022**	**$12,507,524**	**$11,259,563**	**$8,630,458**

Program Description

The Debt Service Program provides the funding to make payments on principal, interest, and financing costs associated with the issuance of Article XI-Q, XI-N, and XI-M bonds and previously issued certificates of participation (COPs), which are tax exempt government securities. Prior to the 2007-09 biennia, the Department's debt service was budgeted under the Operations Program.

Budget Environment

The Department relies, although not entirely, on the issuance of bonds to match National Guard Bureau Federal Funds when constructing, altering, or repairing National Guard installations. The percentage of state matching funds required varies by the type of installation. Bonds provide financing for federally non-allowable project costs, which, for example, include the cost of real property. Bonds also fund certain armory additions/alterations that are a 100% state responsibility.

The Department's Capital Construction Account, funded through the sale of real surplus property, generally has an insufficient balance to meet matching fund requirements on major construction projects.

In 2002, Oregon voters amended 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) for the Seismic Rehabilitation Grant Program. The state has issued $30 million of SRGP bonds through the end of the 2011-13 biennium.

Revenue Sources and Relationships

The Department's debt service is funded with a combination of General Fund and Other Funds. The Department's 2004-A COP issued for the Baker City Readiness Center is paid from Other Funds ($107,355). The source of Other Funds is statewide facility rental income.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $8.6 million is $3.9 million, or 31%, less than the 2011-13 legislatively approved budget.

The legislatively adopted budget incorporates the following changes:

- $314,523 General Fund debt service to support repayment of Article XI-Q General Obligation bonds for Sharff Hall, the Medford Armory, the Roseburg Armory, and the Baker City Readiness Center;
- $237,345 Other Funds for the cost of bond issuance; and
- $3,180,973 General Fund debt service reduction related to the transfer of the Seismic Rehabilitation Grant Program to OBDD (SB 813).

Debt Service programs were exempted from the 2% General Fund supplemental ending balance hold back.

OMD – Capital Improvement

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Federal Funds	553,187	4,521,824	4,631,304	4,631,304
Total Funds	**$553,187**	**$4,521,824**	**$4,631,304**	**$4,631,304**

Program Description

This program provides for capital improvements to existing facilities. Capital improvement projects are those with a total cost of $1 million or less. As discussed below, Major Construction projects total more than $1 million. The Department's Operations Program budget also includes funding for deferred maintenance/capital improvement. Maintenance/custodial positions in the Operations Program play a key role in facility maintenance.

The Department's capital improvement projects are overseen and coordinated by agency construction staff budgeted under the Operations Program.

Revenue Sources and Relationships

The revenues associated with the Department's capital improvement projects are primarily Federal Funds, but may include General Fund. As noted, however, the Operations Program also has expenditures for capital improvement, which are General, Other, and Federal Funds.

Budget Environment

Capital improvement expenditures are used to address the Department's backlog of deferred maintenance, which is estimated at over $79.6 million, but has decreased from $110 million in the 2009-11 biennium due to the construction of new facilities, one-time federal funding, and multiple biennia of state bond funding. Capital improvement expenditures delay, where possible, installation replacement. This is critically important for certain installations, especially armories, whose replacement schedule is dependent upon the National Guard Bureau's Long-Range Construction Plan and Congressional funding of that plan.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $4.6 million is $109,480, or 2.4%, more than the 2011-13 legislatively approved budget.

OMD – Major Construction

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	3,507,794	4,691,273	0	9,095,100
Federal Funds	22,798,001	14,784,000	0	2,066,205
Total Funds	**$26,305,795**	**$19,475,273**	**$0**	**$11,161,305**

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 42 major construction projects totaling over $216 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

Typically, Federal Funds comprises the majority of construction funding, with the exception of the 2013-15 biennium. In general, Other Funds, and at times General Fund, are required matching funds for projects. State funds pay for certain costs ineligible for federal match (e.g., real property, local permitting, etc.). The sources of Other Funds are either bonds 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. Over 30% of armory usage is attributable to the public.

The Military Department Construction Account (CCA) is a statutory, interest-bearing account into 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.

The Department anticipates revenues may come from the sale of various armories and properties. Other revenue sources are 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 reversion clause, which requires that the land revert back to the county if the Department determines it is no longer needed for military purposes.

Budget Environment

Of all the Department's programs, the Capital Construction program is the one most likely to be affected by shifting federal priorities. The Legislature is frequently requested to add projects or transfer limitation between 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 OMD to communicate to the Legislature the Department's short- and long-term Capital Construction priorities.

The agency plans to pursue all available Federal Funds for new facility design and construction and is looking to continue to partner with other state agencies to share services and reduce operational expenses. The agency has approximately 20 projects identified in the National Guard Bureau Long-Range Construction Plan, with estimated project costs of over $700 million. Of that amount, the state would be required to pay approximately $105 million, or 15%, of costs. Federal Funds for capital construction continue to be highly competitive among states.

There are many challenges facing the Capital Construction Program given the status of some of the Department's installations. The first is completing construction on current legislatively approved projects, some of which will require additional state and federal funding to complete, if such funding is available. The second challenge is acquiring state funding for any new projects. In order to make informed decisions, the Legislature needs from the Department a single, comprehensive, prioritized facility management/Capital Construction plan.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $11.2 million is $8.3 million, or 43%, less than the 2011-13 legislatively approved budget. While the period-to-period change can be significant, the legislatively approved expenditure limitation for any Capital Construction project has a six-year duration.

Funding for the following projects is included in the budget:

- ***Sharff Hall Armory***: $2,781,000 Other Funds (Article XI-Q Bonds) for the acquisition of a former U.S. Army Reserve site in Portland, Oregon ($1.2 million) and for design and construction of needed additions and alterations to convert the facility into an armory ($1,581,000).

- ***Roseburg Armory***: $2,230,416 Other Funds (Article XI-Q Bonds) for a service life extension project to renovate the facility. The project includes the design and construction of additions and alterations to the armory.
- ***Medford Armory***: $2,391,660 Other Funds (Article XI-Q Bonds) for a service life extension project to renovate the facility. The project includes the design and construction of additions and alterations to the armory.
- ***Baker City Readiness Center***: $1,189,579 Other Funds (Article XI-Q bonds) for the transfer of real property with Baker County, to conduct demolition of the County Extension Building, and to construct a new Military Vehicle Storage Compound. Federal Funds Capital Construction expenditure limitation for the project may be requested at a future date once funding is secured from the federal government.
- ***Christmas Valley Land Acquisition***: $220,000 Other Funds (energy incentive funds/rental income) to complete the purchase of 2,296 acres for the possible development of a utility-scale solar project and a potential military training site. This amount will allow for the final installment payment for this acquisition.
- ***Milton-Freewater Armory***: $1,804,000 Federal Funds (National Guard Bureau) for a service life extension project to renovate the facility. Federal Funds expenditure limitation for this project was originally approved by the Emergency Board (May 2012), however, that expenditure limitation expired and additional time is needed to complete construction and expend the funds.
- ***Planning and Design***: $282,445 Other Funds (Capital Construction Account) and $262,205 Federal Funds for planning and preliminary design work at a number of sites throughout the state where the agency is planning future capital construction projects.

The Legislature approved the extension of the project expiration dates and expenditure limitations for the following previously authorized projects: the Ontario Readiness Center (Other Funds): extended to June 30, 2014; the Ontario Readiness Center (Federal Funds): extended to June 30, 2014; and the Dallas Readiness Center land acquisition (Other Funds): extended to June 30, 2015.

The Legislature also approved the sale of the Baker City Armory; under ORS 396.515 (4), the Department is required to obtain legislative approval prior to the sale of any Military Department real property.

Board of Parole and Post-Prison Supervision – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	3,695,294	3,641,093	4,023,123	4,063,865
Other Funds	6,280	10,289	10,536	10,536
Total Funds	**$3,701,574**	**$3,651,382**	**$4,033,659**	**$4,074,401**
Positions	15	14	14	16
FTE	15.00	14.00	14.00	15.67

Agency Overview

The three member Board of Parole and Post-Prison Supervision (BPPPS) is responsible for setting parole release dates for offenders who committed crimes prior to November 1, 1989; approving release plans and establishing conditions of community supervision for all offenders; setting release dates for dangerous offenders; conducting administrative reviews of offender appeals; administering parole revocation hearings; issuing arrest warrants and order sanctions for parole/post-prison violators; and notifying victims of hearings and releases.

Revenue Sources and Relationships

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

Growth in the number of offenders under parole and post-prison supervision is expected to continue. Based on the forecast prepared by the Office of Economic Analysis (April 2013), this number is expected to grow by 10% over the biennium and reach 14,934 by July 2015. Other factors affecting the Board's role and workload include: implementation of and changes in sentencing guidelines; increases in inmate and offender populations; increases in, and results of, inmate and offender judicial appeals; increases in victim participation in post-sentencing matters; and biennial statutory changes.

HB 2549 (2013) created a three-tier system for ranking sex offenders based on their risk as established by a designated risk assessment tool. It requires all offenders in the current system to be reclassified. BPPPS estimates that approximately 4,000 of the close to 20,000 registered sex offenders in Oregon would need to complete a "Static 99" assessment by December 1, 2016. Once all of the assessments have been completed, there may be petition hearings to appeal classifications and to request relief from registering. Depending on the number of petitions and hearings that need to be conducted, the agency may need additional staffing resources.

HB 3194 (2013) made changes to felony marijuana offenses, felony driving while suspended or revoked, and the Measure 57 crimes of robbery in the third degree and identity theft. Additionally the measure increases the transitional leave period from 30 days to 90 days prior to inmate discharge and provides for dispositional downward departure for certain Measure 57 crimes where the inmate is a repeat offender. All of these changes are anticipated to result in a reduction of offenders incarcerated in DOC facilities and increase the amount distributed to the community corrections departments of counties for probation, post-prison supervision, and local control. The overall impact to BPPPS is indeterminate at this time.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget for the Board of $4.1 million total funds is an 11.6% increase from the 2011-13 legislatively approved level. The budget includes $254,655 General Fund and two positions (1.67 FTE) to support the passage of HB 2549. The budget also includes a 2% supplemental ending balance hold back of $79,300 General Fund. This amount is subject to restoration to the agency in February 2014 depending on the state's overall fiscal situation.

Department of State Police (OSP) – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	216,286,946	221,721,695	238,950,711	232,126,436
Lottery Funds	6,511,667	6,855,630	7,525,757	6,914,543
Other Funds	82,597,416	93,876,661	93,688,910	91,213,655
Federal Funds	7,627,721	9,644,097	9,285,514	9,411,098
Total Funds	**$313,023,750**	**$332,098,083**	**$349,450,892**	**$339,665,732**
Positions	1,303	1,220	1,215	1,260
FTE	1,292.35	1,211.13	1,212.75	1,247.13

Agency Overview

The mission of the Department of State Police (OSP) is to enhance livability and safety by protecting the people, property, and natural resources of the state. Key programs include patrol, criminal investigation, fish and wildlife law enforcement, forensic lab services, State Medical Examiner, criminal justice information, enforcement of tribal gaming laws and the Lottery, and the State Fire Marshal.

Legislatively Adopted Budget

The State Police's 2013-15 legislatively adopted budget of $339.7 million total funds represents a 2.3% increase from the 2011-13 legislatively approved budget. While the adopted budget also reflects a net increase of 40 positions from the 2011-13 legislatively approved budget, this may be misleading. Fifty-two positions were added as technical adjustments to reflect work performed by seasonal or retired sworn officers rather than an increase in actual staffing. Further, eight non-sworn positions were transferred to the Department of Transportation (ODOT) to consolidate delivery of the state radio project and wireless support. Key provisions of the budget include:

- The addition of 10 trooper positions in the Patrol Division, four trooper positions in the Criminal Division, and $300,000 for medical examiner support to address concerns for diminishing availability of public safety services in some Oregon counties.
- The addition of one forensic scientist and $1.3 million General Fund for forensic equipment. Forensic services are one of the investment areas identified by the Governor's Commission on Public Safety.
- A reduction of four positions within the Office of the State Fire Marshall (SFM) due to declining revenues from the petroleum load and hazardous substance fees. While these fees are increased in the adopted budget, the SFM streamlined some services and not all of the positions are restored.
- An increase of $2.2 million General Fund in payments to ODOT for the State Radio Project.
- OSP's budget was reduced by $4.7 million General Fund for the 2% supplemental ending balance holdback which may be restored in February 2014 depending on the state's overall fiscal situation.

OSP – Patrol Services

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	109,163,477	111,721,011	120,287,315	115,410,946
Other Funds	9,440,903	10,735,027	11,659,492	11,441,541
Federal Funds	64,445	1,351,392	368,429	366,695
Total Funds	**$118,668,825**	**$123,807,430**	**$132,315,236**	**$127,219,182**
Positions	525	461	460	499
FTE	520.36	458.00	459.00	490.50

Program Description

The Patrol Services Division provides uniformed police presence and law enforcement services throughout the state with the primary responsibility for traffic safety and response to emergency calls on Oregon's state highways and interstates. This Division includes the field command and support staff as well as the Capitol Mall Security, Oregon State University, and the Dignitary Protection units.

Revenue Sources and Relationships

Other Funds revenues are received from ODOT for a variety of purposes (totaling $4.3 million) including traffic safety patrols in highway construction zones, snow-park enforcement, and DMV vehicle identification (VIN) inspections. Additional Other Funds sources include Oregon State University for campus security ($3.2 million), the Parks and Recreation Department, including the State Fair ($510,000), and the Oregon Judicial Department ($538,000) for Supreme Court and Chief Justice security. Also included in the Other Funds for this Division is the Capitol Mall Security unit ($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, the Patrol Division's staffing levels have not kept pace with growth factors directly impacting transportation safety including increases in population, licensed drivers, registered vehicles, and miles traveled on state highways. Oregon in ranked 46th in the number of troopers per capita compared with all other states. In the 2011-13 biennium, 64 sworn patrol positions were eliminated. Underfunding of personnel costs and across-the-board reductions along with retirements continue to affect the Division's service capacity. Currently, none of the patrol offices maintain a 24/7 patrol coverage; and in recent years, on average, 7% of calls for services have gone unanswered. The Division is also experiencing an increase in calls from several counties that have reduced the local law enforcement presence due to county financial needs. For example, comparing a six-month period from 2011 to 2012 in one southern Oregon county, calls for service increased by nearly 42%.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget for the Patrol Division of $127.2 million total funds is 2.8% greater than the 2011-13 legislatively approved budget. This budget reflects a reduction of three positions approved as part of interim actions taken by the Emergency Board to streamline middle management positions, the establishment of 33 trooper positions as technical adjustments to reflect work performed by seasonal or retired sworn officers rather than an increase in actual staffing, and a reduction of $2.4 million total funds in anticipated savings from PERS reform. The Legislature authorized the addition of 10 trooper positions (2.50 FTE) to address concerns for diminishing availability of public safety services in some Oregon counties. The Division was subject to the 2% supplemental ending balance holdback of $2.34 million General Fund which may be restored in February 2014 depending on the state's overall fiscal situation.

OSP – Criminal Investigation

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	26,888,147	29,665,707	31,965,579	30,656,367
Other Funds	4,951,033	5,055,371	5,418,768	5,334,965
Federal Funds	1,209,099	854,859	1,414,018	1,549,573
Total Funds	**$33,048,279**	**$35,575,937**	**$38,798,365**	**$37,540,905**
Positions	129	125	125	131
FTE	129.00	124.00	125.00	128.00

Program Description

The Criminal Investigation Division provides investigative services including assisting communities and local law enforcement through special investigations related to homicides, drug investigations, officer involved incidents, public official misconduct investigations, and child abuse investigations. Many of the crimes investigated by OSP are intrastate and multi-jurisdictional. Specialized areas or units include arson/explosives, drug investigations, intelligence, missing children clearinghouse, sex offender registration, sexually exploited children, polygraph examinations, computer crimes, homicide incident tracking system (HITS), and crimes in state institutions.

Revenue Sources and Relationships

The Division is expected to receive $7 million in Other Funds or Federal Funds revenue. Major sources of this revenue include: sex offender registration fees ($518,000 Other Funds); arson/bomb investigation funding ($3.6

million Other Funds) from the State Fire Marshal in Fire Insurance Premium Tax revenue; and Federal drug enforcement funding of $1.6 million.

Budget Environment

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

The 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. During the 2009-11 biennium, nine detective positions were eliminated with three in fraud and identity theft. Four more positions were eliminated in the 2011-13 budget. During the 2011-13 biennium, detectives participated in 20 child abuse multi-disciplinary teams; 28 interagency major crime teams; 15 interagency drug task forces; and 13 interagency fire investigation teams.

Similar to the Patrol Division, this Division is experiencing an increase in calls from several counties that have reduced the local law enforcement presence due to county financial needs. For example, comparing a six-month period from 2011 to 2012 in one southern Oregon county, investigations and Department of Human Services' referrals increased by nearly 17-fold from 22 to 371 cases. Also, within the last three years, the average number of assists in narcotic investigations ranged from 31 to 41.6 cases per detective which continues to exceed the targeted key performance measure level of 25 cases per detective.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $37.5 million total funds is 5.5% greater than the 2011-13 legislatively approved budget. This budget reflect a reduction of two positions approved as part of interim actions taken by the Emergency Board to streamline middle management positions, the establishment of two trooper positions as technical adjustments to reflect work performed by seasonal or retired sworn officers rather than an increase in actual staffing, and a reduction of $0.7 million total funds in anticipated savings from PERS reform. The Legislature authorized the addition of four trooper positions (1.00 FTE) to address concerns for diminishing availability of public safety services in some Oregon counties. The Division was subject to the 2% supplemental ending balance holdback of $0.6 million General Fund which may be restored in February 2014 depending on the state's overall fiscal situation.

OSP – Forensic Services

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	29,991,897	30,539,808	33,494,822	33,572,985
Other Funds	273,156	299,058	312,433	310,717
Federal Funds	2,120,949	1,908,289	2,003,735	1,989,419
Total Funds	**$32,386,002**	**$32,747,155**	**$35,810,990**	**$35,873,121**
Positions	127	123	123	124
FTE	126.50	123.00	123.00	123.88

Program Description

The Forensics Services Division provides scientific, technical, and investigative support to all criminal justice agencies across the state through forensic analysis. Forensic labs are currently located in Bend, Central Point, 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 in conjunction with the Department of Public Safety Standards and training (DPSST), trains and certifies all law enforcement officers in the use of breath testing instruments. This unit also provides expert testimony regarding the use of these devices.

Revenue Sources and Relationships

The forensics labs do not charge for services and have been funded with General Fund resources. The Other Funds revenues are from miscellaneous sales of equipment, photographic requests, witness fees, and donations from citizens to support the Convicted Offender Program (DNA testing). Federal Funds are grants from the National Institute of Justice, generally for the purchase of equipment, supplies, and DNA test kits.

Budget Environment

The Forensics Division conducted analysis on 46,531 and 49,716 evidentiary submissions (approximately 7% increase) in the 2009-11 and 2011-13 biennia, respectively. Through the first quarter of 2013, evidentiary submissions increased by 10% over the prior year's first quarter. The average number of working days from when a request is received until it is completed is approximately 60 days, or well in excess of the 30 day performance target. 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.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $35.9 million total funds is 9.5% greater than the 2011-13 legislatively approved budget. This budget reflects a reduction of $0.6 million total funds in anticipated savings from PERS reform. The Legislature authorized the addition of one forensic scientist (0.88 FTE) and $1.3 million General Fund for forensic equipment. The Division was subject to the 2% supplemental ending balance holdback of $0.7 million General Fund which may be restored in February 2014 depending on the state's overall fiscal situation.

OSP – Medical Examiner's Office

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	3,964,735	4,076,850	4,290,401	4,419,749
Other Funds	145,478	250,802	256,950	254,032
Total Funds	**$4,110,213**	**$4,327,652**	**$4,547,351**	**$4,673,781**
Positions	9	9	9	9
FTE	9.00	9.00	9.00	9.00

Program Description

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.

Revenue Sources and Relationships

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 Medical Examiner has the responsibility of overseeing a statewide medical examiner system. However, the system is actually comprised of 36 counties each with a different method of funding and staffing for their respective offices. Each county office is overseen by a county medical examiner who is essentially a physician/coroner with varying degrees of death investigation experience. The death investigators are, for the most part, law enforcement personnel whose first priority is police work. Most of the death investigators perform only one or two medical examiner investigations a year. Therefore, their experience in death scene investigations is extremely limited and may leave them inadequately prepared. 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.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $4.7 million total funds is 8.0% greater than the 2011-13 legislatively approved budget. This budget reflects a reduction of approximately $67,000 total funds in anticipated savings from PERS reform. The Legislature authorized the addition of $300,000 to support contractual payments for medical examiner services in southern Oregon. The Division was subject to the 2% supplemental ending balance holdback of $85,000 General Fund which may be restored in February 2014 depending on the state's overall fiscal situation.

OSP – Fish and Wildlife

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	2,258,281	2,463,617	2,430,145	2,774,488
Lottery Funds	6,511,667	6,855,630	7,525,757	6,914,543
Other Funds	20,717,016	22,750,826	23,811,335	23,379,249
Federal Funds	1,905,258	2,355,099	2,244,730	2,251,583
Total Funds	**$31,392,222**	**$34,425,172**	**$36,011,967**	**$35,319,863**
Positions	120	120	118	132
FTE	119.52	120.00	118.00	132.00

Program Description

The Fish and Wildlife Division provides a police presence and law enforcement services throughout the state with primary responsibility for 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.

Revenue Sources and Relationships

Lottery Funds (Measure 76/66) are distributed to this Division to fund enforcement activities associated with the Oregon Plan to protect fish habitat and stream bed enhancement.

Other Funds revenues are received from various sources, but the primary service contract is with the Oregon Department of Fish and Wildlife ($24 million), with smaller service contracts with the Marine Board ($1.9 million) for enforcement of boating laws, the Parks and Recreation Department ($590,000) for activities on the Deschutes River and for ATV enforcement, the Department of Environmental Quality ($253,000) for environmental investigations, and other miscellaneous agreements ($2 million). Federal Funds are primarily received through National Oceanic Atmospheric Administration Joint Enforcement Agreements ($2 million Federal Funds).

Budget Environment

While the overall state population is increasing, hunting and fishing participation rates per 1,000 residents are declining. Sales of hunting licenses and tags depend in large part on populations of various animal species and access to those populations. The levels of animal populations, in turn, are dependent on such variables as weather, fire, and predator populations. These trends have the potential to negatively impact revenue streams that support enforcement, but do not necessarily translate into the need for less enforcement. Over the last decade, angler and hunter compliance has maintained in the high-80s to 90 percent. However, the level of illegal harvest on game fish and big game species in Oregon has increased by nearly 38% since 2007.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget for the Fish and Wildlife Division of $35.3 million total funds is 2.6% greater than the 2011-13 legislatively approved budget. This budget reflects the establishment of 14 trooper positions as technical adjustments to reflect work performed by seasonal or retired sworn officers rather than an increase in actual staffing, and a reduction of $0.6 million total funds in anticipated savings from PERS reform. The Legislature authorized a $463,000 General Fund increase to offset lower available Lottery Funds resources.

The Division was subject to the 2% supplemental ending balance holdback of $57,000 General Fund which may be restored in February 2014 depending on the state's overall fiscal situation.

OSP – Administrative Services

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	37,978,566	34,775,842	36,966,565	37,113,627
Other Funds	6,875,700	11,941,902	8,550,140	8,134,216
Federal Funds	868,947	420,662	430,758	430,758
Total Funds	**$45,723,213**	**$47,138,406**	**$45,947,463**	**$45,678,601**
Positions	167	173	172	166
FTE	165.94	171.00	172.00	166.00

Program Description

The Administrative Services Division includes the Office of the Superintendent, financial services, fleet management, labor relations, dispatch, information systems, wireless communications, and other agency-wide support and staff. The training unit of this Division recruits, selects, and retains the sworn workforce.

Revenue Sources and Relationships

Other Funds revenues are primarily supported through a cost allocation plan that charges the non-General Fund resources within the Fish and Wildlife, Criminal Justice Information System, and Office of the State Fire Marshal divisions. This Division also receives miscellaneous grant reimbursement from other state agencies and Federal Funds.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget for Administrative Services of $45.7 million total funds is 3.1% less than the 2011-13 legislatively approved budget. This budget reflects a reduction of three positions approved as part of interim actions taken by the Emergency Board to streamline middle management positions, the establishment of a trooper position as a technical adjustment to reflect work performed by seasonal or retired sworn officers rather than an increase in actual staffing, the addition of two administrative support positions, and a reduction of $0.7 million total funds in anticipated savings from PERS reform. The Legislature authorized the transfer of eight non-sworn positions to ODOT and a $2.2 million General Fund increase for consolidation of the State Radio Project and wireless support services. This budget also includes a placeholder of just over $1 million total funds for administrative efficiencies in finance, information technology, human resources, accounting, payroll, and procurement expenditures. The Department of Administrative Services will continue to work on details of these reductions with agencies and report back during the 2014 session. The Division was subject to the 2% supplemental ending balance holdback of $0.8 million General Fund which may be restored in February 2014 depending on the state's overall fiscal situation.

OSP – Criminal Justice Information Systems

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	5,784,416	8,478,860	9,515,884	8,178,274
Other Funds	11,643,196	11,703,550	11,953,304	11,806,591
Federal Funds	995,929	2,270,978	2,328,849	2,328,125
Total Funds	**$18,423,541**	**$22,453,388**	**$23,798,037**	**$22,312,990**
Positions	107	101	100	95
FTE	103.78	99.00	99.50	94.50

Program Description

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

Revenue Sources and Relationships

The LEDS program receives Other Funds from charges to user agencies through terminal and other fees charged to agencies using the system ($600,000). Other major sources of Other Funds revenue is from fees for Identification Services including open records checks of criminal histories, firearms, concealed gun, and employment and licensing background checks ($9 million).

Budget Environment

LEDS is challenged by possibly not having sufficient staff required to meet the FBI's standards for accessing the National Crime Information Center (NCIC). The program had been at risk of being sanctioned for not meeting the federal standards in the past. One potential consequence of being sanctioned is the loss of access to National Crime Information Center (a valuable tool for law enforcement) and loss of federal grant funds.

The Identification Services unit's core function of maintaining the state's criminal history repository is critical not only to the criminal justice community and law enforcement through positive fingerprint identification of reported arrestees; but to non-criminal justice users such as regulatory agencies making employment and licensing decisions, as well as the public. The database to support the repository was purchased more than two decades ago and is no longer supported by the vendor. The agency is in the process of identifying an appropriate maintenance plan and likely a replacement strategy to ensure continuity of this key system.

The Division has also experienced a significant increase in requests for firearm background checks. Since 2007, firearms instant check requests have increased by 78% with a 31% increase just in 2012 over 2011. The increased demand has required the addition of temporary staff which may need to be considered for permanent addition if the workload trend continues.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget for the Criminal Justice Information Systems Division of $22.3 million total funds is 1% less than the 2011-13 legislatively approved budget. This budget reflect a reduction of three positions approved as part of interim actions taken by the Emergency Board to streamline middle management positions, the transfer of one position to Administrative Services, and a reduction of $0.3 million total funds in anticipated savings from PERS reform. The Division was subject to the 2% supplemental ending balance holdback of $0.2 million General Fund which may be restored in February 2014 depending on the state's overall fiscal situation.

OSP – Gaming

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	257,427	0	0	0
Other Funds	8,658,093	11,144,532	10,109,117	9,917,197
Total Funds	**$8,915,520**	**$11,144,532**	**$10,109,117**	**$9,917,197**
Positions	41	37	37	37
FTE	41.00	37.00	37.00	37.00

Program Description

The Gaming Division provides regulatory, investigatory, and security services for the Oregon State Lottery, tribal gaming centers operating in Oregon, and ring sports under the authority of the Oregon Athletic Commission. Activities include, but are not limited to, background investigations of vendors, contractors, and licensees and security against ticket counterfeiting or alternation and other means of fraudulent winning.

Revenue Sources and Relationships

The Lottery Commission fully funds the Lottery Security Section services ($5.4 million). Native American Gaming Tribes fund the Tribal Gaming Section activities ($3.7 million). The Vendor Investigation Section is funded by both the Oregon Lottery and vendors who conduct business with Oregon's Gaming Tribes ($1.5 million). License fees and a gross receipts tax (6%) fund the Oregon Athletic Commission regulatory activities ($95,575). Three-fourths of any ending balance for the Oregon Athletic Commission is sent to the Children's Trust Fund; however, the Commission has not had an ending balance during the past few biennia.

General Fund resources are typically not budgeted for this program. However, in the past and with legislative approval, OSP has needed to rebalance existing General Fund appropriations to cover shortfalls in revenue for ring sport regulation and/or employment related expenditures that would not have been fairly allocated to the Lottery or the tribal gaming centers.

Budget Environment

The workload of the Gaming Division is driven by the number and complexity of games, the number of retailers, and changing technology. The Oregon Lottery Commission now offers approximately 40 scratch-it games per year, and has 3,700 lottery retailers with more than 14,000 video lottery terminals throughout the state. The Lottery Security Section conducts background investigations on all Lottery retailers, retailer employees that qualify as a key person, Lottery vendors, and all Lottery employees. The number of retailer background investigations has increased from 475 annually in 2000 to currently about 800 annually. The Lottery Security Section also conducts compliance inspections on all Lottery retailers with a goal of inspecting 75% each year.

Currently, there are eight tribal casinos operating over 7,500 slot machines in this state. This is an increase from 2,600 in 1995. Also, the vendors who conduct business with both the Lottery and the tribal casinos are adding to their business models, often by purchasing subsidiary companies that operate in the area of complex gaming technology. This requires the Vendor Inspection Section to stay current in new technologies and to have enough staff to provide appropriate investigations.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget for the Gaming Division of $9.9 million total funds is 11% less than the 2011-13 legislatively approved budget. The significant decrease reflects a reduction in risk management charges of a little more than $1 million. The prior budget had been increased to address personnel related actions, legal costs, and settlements dating back to incidents in 2005. This budget also reflections a reduction of $180,000 total funds in anticipated savings from PERS reform.

OSP – State Fire Marshal

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	19,892,841	19,995,593	21,617,371	20,635,147
Federal Funds	463,094	482,818	494,995	494,945
Total Funds	**$20,355,935**	**$20,478,411**	**$22,112,366**	**$21,130,092**
Positions	78	71	71	67
FTE	77.25	70.13	70.25	66.25

Program Description

The State Fire Marshal (SFM) 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 13 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 largest 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. 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 Legislature authorized an increase in the FIPT to 1.15% from 1% which is expected to generate an additional $1.7 million in revenues for a total of $20.9 million for the biennium. However, due to tax credits and impacts from excess/retaliatory taxes, this increase in FIPT is expected to decrease the state's General Fund revenue by $1.4 million.

Additional Other Funds revenues are generated through the hazardous substance user fees ($3.3 million) for the Community Right to Know program, and petroleum load fees ($3.3 million) for the Hazardous Response Teams, non-retail fuel dispensing fees ($950,000) for card lock enforcement, licenses and permits (relating to liquefied petroleum gas, and fireworks) totaling $896,000, and from an interagency agreement with the Department of Human Services for fire and life safety inspections of Medicare and Medicaid funded facilities ($756,000). Federal Fund revenue is from Hazardous Materials Emergency Preparedness grants.

The Legislature authorized incremental increases for the petroleum load fee (PLF) from $5/load to $6/load effective July 1, 2013 and to $7/load on July 1, 2014. These increases are expected to generate $1.3M for the 2013-15 biennium. The SFM anticipates increasing the fee to $8/load on July 1, 2015, but that decision will need to be ratified by a future Legislature.

The hazardous substance possession fees were also increased by adjusting the minimum fee to $101 from $25, and increasing the rest of the fee schedule by 6% plus annual adjustments of 6% through July 2016. The new fee schedule is expected to generate an additional $1.1M for the 2013-15 biennium.

Budget Environment

State Fire Marshal staff assists all but nine of the over 300 fire agencies for prevention or inspections. The state has proportionately fewer staff per capita than local prevention programs. Based on 2010 data, there was one state staff for each 165,355 people in the areas the state covers, while the local agencies range from one to 10,328 in Portland to one to 31,131 in the Tualatin Valley Fire and Rescue service area. However, in 2010 and 2011, the number of reported fire safety inspections completed by local fire services dropped significantly from 2009. SFM is uncertain as to why this occurred. SFM 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.

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 the 2009-11 biennium these costs ($407,000) were reimbursed using FIPT and in 2011-13 these costs were $200,000. 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. Through the first few months of the 2013-15 biennium, the Governor has invoked the Conflagration Act on four fires with the final costs yet to be determined.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget for the Office of the State Fire Marshal of $21.1 million total funds is 3.2% greater than the 2011-13 legislatively approved budget. This budget reflect a reduction of four positions due to revenue shortfalls in FIPT, PLF, and HSPF, and a reduction of $0.3 million total funds in anticipated savings from PERS reform. With the approved tax and fee increases noted in the Revenue section above, the SFM was able to retain two positions and maintain transfers to the Criminal Division for the Arson/Explosives Unit and the DPSST for fire services training.

Department of Public Safety Standards and Training – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	11,360,288	11,283,810	10,136,429	9,788,298
Other Funds	31,047,286	32,962,299	34,590,446	34,859,020
Other Funds (NL)*	0	59,971,801	0	0
Federal Funds	52,524	107,513	58,893	258,893
Total Funds	**$42,460,098**	**$104,325,423**	**$44,785,768**	**$44,906,211**
Positions	148	131	131	135
FTE	145.63	132.04	127.29	133.06

** The 2011-13 LAB Other Funds Nonlimited amount is the result of refinancing debt.*

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 43,000 constituents in Oregon through five programs:

- The ***Criminal Justice Training and Certification Program*** provides training and certification for state troopers, police, sheriff deputies, local correctional officers, parole and probation officers, 9-1-1 telecommunicators, and emergency medical dispatchers. Mandated training is set out by statute or rule, and ranges from 16 weeks for the basic police course, six weeks for local correctional officers, four weeks for parole and probation officers (with an additional week for those who carry firearms), two weeks for telecommunicators, and one week for emergency medical dispatchers. DOC continues to train its correctional officers, and DPSST audits DOC's training program. DPSST maintains certifications for over 13,600 state and local criminal justice professionals.
- The ***Fire Training and Certification Program*** provides training across the state to over 11,000 career and volunteer firefighters. This program also certifies firefighters, and accredits fire departments and local training programs that meet minimum requirements.
- The ***Private Security Program*** provides training, licensing, and certification to private security personnel that meet minimum requirements. There are over 1,200 private security firms and over 18,000 licensed private security providers statewide. There are approximately 720 active Private Investigator licensees.
- The ***Administration and Support Services Program*** includes the director's office, business and human resource functions, and information systems. In addition, this area includes the costs of operating the Salem training facility (including food service, housekeeping, operations, and maintenance) as well as the debt service for the facility's construction.
- The ***Public Safety Memorial Fund*** provides financial assistance to family members of public safety officers who are killed, or are permanently and totally disabled in the line of duty.

The agency has regional offices in five locations – Central Point, Eugene, Bend, Baker City, and Pendleton. The agency has professional trainers on staff, but also relies on part-time trainers who are practicing professionals in their fields.

Total Funds Budget by Program Area

	Criminal Justice	Fire	Private Security	Administration and Support Services	PS Memorial Fund	Debt Service
2009-11 Actual	14,998,242	3,785,399	1,840,725	10,337,550	137,894	11,360,288
2011-13 Legislatively Approved	16,591,424	3,991,118	2,026,612	10,214,897	245,761	71,255,611
2013-15 Current Service Level	16,685,297	4,327,753	2,154,654	11,230,096	251,539	10,136,429
2013-15 Legislatively Adopted	17,971,505	4,263,956	2,118,132	10,512,781	251,539	9,788,298

Revenue Sources and Relationships

General Fund resources support only debt service payments for the training facility in Salem. The agency's primary source of funding is an allocation from the Criminal Fine Account (CFA) totaling $25.5 million, which is utilized to support the Criminal Justice Training and Certification, Administration, and Support Services Programs, and the Public Safety Memorial Fund. The second largest source of Other Funds is a revenue transfer of $4.8 million from the Department of State Police, State Fire Marshal utilizing the Fire Insurance Premium Tax to support fire services training.

The agency charges licensing and certification fees to support the Private Security/Investigators Program ($2.2 million), and receives traffic safety grant funding from the Oregon Department of Transportation ($0.4 million). The 9-1-1 telephone excise tax ($0.5 million) supports training services for telecommunicators and emergency medical dispatchers.

Federal dollars are received from two sources. First, the Federal Emergency Management Agency for training developed by the U.S. Fire Academy, and $200,000 from the U.S. Department of Justice to coordinate training for the High-Intensity Drug Trafficking Area program.

Budget Environment

While not the sole source of public safety training, DPSST is a primary provider of essential and perishable skills training for public safety professionals in Oregon. In recent history, due to budget constraints, regionalized training opportunities and advanced curricula for supervisory and middle management have been minimized. The lack of training opportunities continues to be a concern for the agency's local partners.

The Department first occupied the Salem campus beginning in 2006. By comparison to other state agencies, this is still a new facility, but maintenance and repair issues are beginning to emerge. Further, the City of Salem is implementing new storm water and sewer rate structures and DPSST's expenditures are expected to materially change through 2016.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget for this agency of $44.9 million total funds is 1.2% greater than the 2011-13 legislatively approved budget when excluding Other Funds Nonlimited expenditures associated with debt refinancing. All program service levels essentially continue into the new biennium with one key exception. The Legislature authorized the Oregon Center for Policing Excellence supported by $1 million Other Funds (CFA) and four positions (3.52 FTE). It is anticipated that the Center will sponsor two-week training courses for supervisors and mid-level management, a three-day class for executive management, and expand regional training. The adopted budget does assume savings from PERS reforms of approximately $518,000, state-wide administrative reductions of approximately $217,000, and reduced contractual costs for food service of $150,000.

Oregon Youth Authority (OYA) – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	251,231,118	256,250,831	277,323,757	269,052,312
Other Funds	10,625,938	13,173,713	14,008,787	19,508,582
Federal Funds	28,624,903	31,107,231	36,887,629	34,496,051
Federal Funds (NL)	0	1	1	1
Total Funds	**$290,481,959**	**$300,531,776**	**$328,220,174**	**$323,056,946**
Positions	1,163	1,152	1,032	1,030
FTE	1,120.51	979.76	994.58	992.58

Agency Overview

The Oregon Youth Authority (OYA) is a fundamental partner in the state's juvenile justice system. Its statutory purpose is to protect the public, hold youth offenders accountable for their actions, and provide youth offenders with opportunities for reform in safe environments. OYA works closely with county juvenile departments, the judicial system, and other youth-serving systems.

OYA provides a balanced continuum of services through a statewide network of close-custody facilities, and contracted community providers. OYA manages out-of-home placement of delinquent youth in foster homes and Medicaid-funded residential treatment programs; provides parole and probation services; provides funding to counties for basic juvenile justice services and diversion from OYA commitment programs; and operates the state juvenile corrections institutions. Youth correctional facilities are located at Albany, Burns, Grants Pass, Salem, Tillamook, Warrenton, and Woodburn; transition programs are in Florence, La Grande, and Tillamook. OYA's facilities and services are designed to address the diverse treatment and reformation needs for males and females; offenders ranging in age from 12 through 24; differing ethnic groups; offenders whose crimes range from behavioral offenses and property crimes to person-to-person crimes such as assault; and mentally ill and developmentally disabled offenders.

OYA's jurisdiction includes youth adjudicated as juveniles and young offenders convicted as adults who committed their crimes before age 18. There are no mandatory sentence lengths 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 if they can be better served in an adult facility. Ballot Measure 11 (1994) set mandatory sentences through adult court for juveniles ages 15-17 who are convicted of certain offenses. OYA is funded to provide 753 close-custody beds. Just over half of the youth in close custody, 384, are adjudicated in juvenile court, the remainder, 369, having been 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 11% of the total budget comes from Federal Funds, and about 5% or 6% from Other Funds.

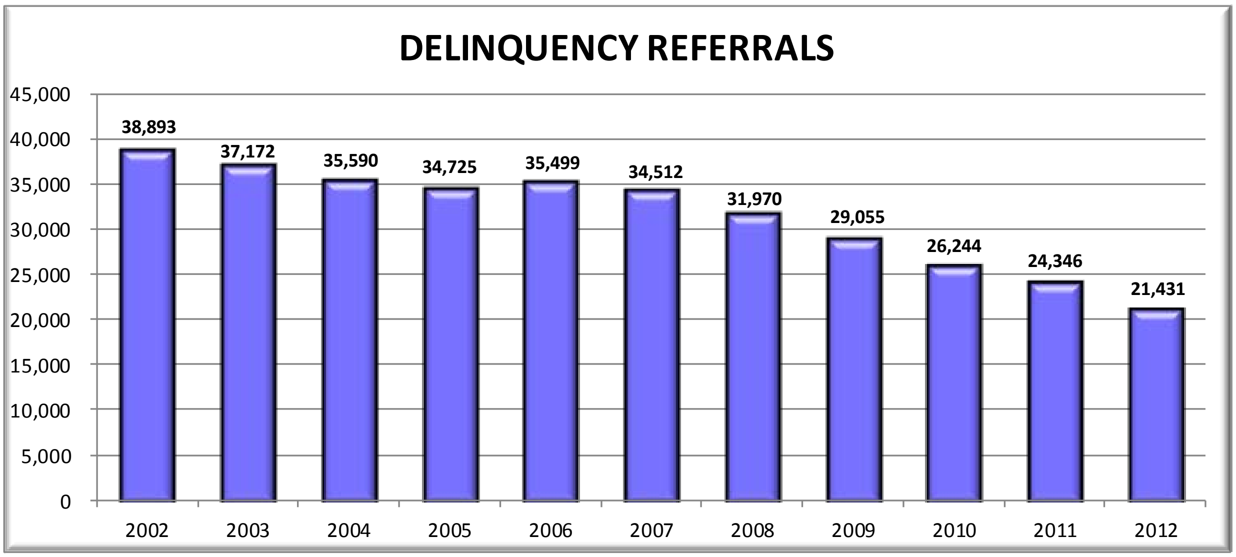
Federal Medicaid reimbursements pay for part of the treatment costs of community residential treatment programs and targeted case management services provided by OYA juvenile parole and probation staff. Residential treatment room and board costs are supported with General Fund. The budget anticipates continuing revenue from this federal source, which provides approximately 40% of the funding for residential treatment and approximately 17% of parole and probation staff personnel costs. Overall, federal fund reimbursements comprise approximately 26% of the Community Services program costs in the 2013-15 biennium.

Federal funds for institution operations are very limited. OYA receives $2.9 million in federal nutrition program funds, and $0.1 million for Hillcrest's alcohol and drug treatment program. These are recorded as Other Funds.

The largest Other Funds sources are county contracts and youth trust fund reimbursements. The budget includes $2.5 million Other Funds revenue from counties to operate detention beds and $6.7 million Other Funds from child support and other assets of the youth, who are billed for part of the cost of care provided in OYA out-of-home placements.

Budget Environment

Oregon has experienced a substantial decline in referrals to county juvenile departments over the past decade. A simple comparison between 2002 and 2012 shows total referrals have declined by 40%. Furthermore, while not evident in the graph below, referrals in the two major crime types posted large decreases during the 2002–2012 period: felony (-50%) and misdemeanor (-39%). Also notable is that referral trends do not reflect the size or growth of Oregon's at-risk population—youth age 10 to 17—which has remained relatively flat (1% decrease as of 2011).



While the delinquency referrals are dropping, there is still a considerable need for services. The Department of Administrative Services' Office of Economic Analysis (OEA) prepares a semi-annual forecast of demand for close custody and community placements. The close custody forecast includes three major groups: juveniles convicted in adult court under Measure 11 or waived under ORS 419C.340 (also referred to as DOC youth); Public Safety Reserve (PSR) youth committed for certain violent crimes, but too young for Measure 11 to apply; and youth committed for new crimes and parole violations as part of the county discretionary bed allocation. A fourth category, community placement, covers youth committed to OYA and placed in residential treatment or foster care while on probation or parole.

DOC and PSR youth are considered mandatory caseload and are forecast like the DOC adult population. Forecasting discretionary close-custody and residential treatment demand is based on a new model (April 2013) that determines recidivism risk based on a range of factors including the youth's placement. This model helps forecast the setting that best meets each youth's treatment needs and is most likely to lead to the lowest probability of committing another crime within three years of release from OYA's custody. The forecast is demand driven and indifferent to available budget or available close-custody capacity.

Because the OYA is heavily dependent on General Fund, funding the entire forecast, including discretionary close-custody beds and total community need, is rarely possible. Further, any reduction to the agency's budget directly affects the number of youth served, and therefore the public's safety.

SB 267 (2003) requires state agencies that provide treatment programming designed to reduce criminal behaviors and decrease hospitalizations for mental health crises to gradually increase the percentage of state-funded treatment that is evidence based. By 2009-11 and continuing forward, compliance was defined as 75% of treatment funding being used for evidence-based programs. OYA operates evidence based treatment and intervention programs such as sex offender or drug and alcohol treatment, family based treatment, and transition services.

Legislatively Adopted Budget

There is a 7.6% change between the 2011-13 legislatively approved budget and the 2013-15 legislatively adopted budget. This funding level serves the same number of youth in close custody facilities and the community as in 2011-13. The budget is, however, 1.6% less than the current service level budget, meaning it will not quite keep up with cost increases. The number of community placements authorized is 658, the same as 2011-13. Under the legislatively adopted budget, close custody capacity is funded at 753 beds, approximately the same as 2011-13.

Because OYA's actual close-custody bed capacity of 1,182 is greater than what has been budgeted for the past 5 biennia, some capacity is unused. For example, of Hillcrest's 298 beds, about 150 are budgeted and of MacLaren's 347 beds, about 180 are budgeted. Additionally, some facilities need significant maintenance, which repeatedly has been deferred due to insufficient funding. In view of these conditions, the Legislature directed the agency to study and report on the optimum use of existing, aging facilities in the Willamette Valley to maximize the efficiency and effectiveness of operations. Additionally, the Legislature directed the agency to continue developing the Youth Reformation System method of determining the best evidence-based placement for each youth such that the youth is released from OYA prepared to be a productive, crime-free, healthy member of the community.

The Legislature kept direct county funding assistance whole in county Juvenile Crime Prevention Basic Services and Diversion funding, as well as support for Multnomah County's gang intervention services. The budget also increased funding for the East Metro Gang Enforcement Team work above standard inflation.

Like other agencies supported by General Fund, the agency was subject to standard actions taken to balance the statewide budget. These include a statewide 2% holdback, a 5% reduction to non-fixed services and supplies expenses, and reductions in state government service charges and attorney general rates. All funds were reduced for PERS rate changes.

OYA – Facility Programs

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	143,708,488	139,634,039	154,388,650	147,935,102
Other Funds	6,852,036	8,764,447	9,095,221	9,135,198
Federal Funds	60,759	20,538	24,245	23,743
Total Funds	**$150,621,283**	**$148,419,024**	**$163,508,116**	**$157,094,043**
Positions	924	910	791	791
FTE	883.76	740.43	755.33	755.33

Program Description

OYA operates close-custody facilities across the state with varying levels of security and structure and a range of treatment services. The agency operates facilities in Albany (Oak Creek Youth Correctional Facility), Burns (Eastern Oregon YCF), Florence (Camp Florence Youth Transitional Facility), Grants Pass (Rogue Valley YCF), La Grande (RiverBend YTF), Salem (Hillcrest YCF), Tillamook (Camp Tillamook YTF and Tillamook YCF), Warrenton (North Coast YCF), and Woodburn (MacLaren YCF).

The total of 753 beds budgeted for 2013-15 includes 653 beds in seven youth correctional facilities for more violent offenders; and 100 beds in three formal transition programs to help youth move successfully back into the community. MacLaren is the largest facility, budgeted at 186 beds for males and serving a variety of populations. Hillcrest, budgeted at 157 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. Because of the agency's dependence on General Fund and because not all juvenile adjudications result in DOC or PSR sentencing, the state last supported full funding in the 2001-03 biennium, but only through February of 2003. OYA currently has physical capacity for 1,182 close custody beds and 50 beds used for county detention programs.

In addition to providing "bed and board" for youth offenders, the facilities provide a range of services as needed for correctional treatment; physical, dental, and mental health; substance abuse; recreation; classroom and vocational education; life skills and work experience; and other support needs. OYA uses a standard risk/needs assessment tool to develop individual correctional case plans for all youth placed in its custody, whether in a close-custody or community placement. OYA reports that 69% of male and 81% of female offenders in its custody have been assessed as substance-abusive or dependent. Further, about 40% of the males and 65% of the females meet the psychiatric requirements for a mental health disorder (excluding conduct disorder).

Females represent only about 7% of the close custody population, but are more likely to have substance abuse or mental health issues than are their male counterparts. To look at these issues, during the 2005-07 biennium, OYA convened a Young Women's Work Group. The committee's recommendations include more gender-specific and evidence-based services, and providing services for female offenders in "single-gender" facilities. The February 2008 reopening of Oak Creek facility in Albany allows specialized services for young women.

Legislatively Adopted Budget

The legislatively adopted budget is 5.8% above the 2011-13 legislatively approved budget, but 3.9% under the current service level budget. This continues the same bed capacity as 2011-13, which had been reduced by 150 with the elimination of 120 positions. No facilities are being closed and the agency is maintaining its statewide presence.

Education services for eligible youth are supported by the state school fund, while vocational and other educational services for older youth are paid for within the OYA budget.

This program unit's proportionate share of the supplemental ending balance hold back is about $3 million General Fund; failure to restore that funding will negatively affect the bed counts and program conditions. PERS reductions are $2.7 million total funds and the services and supplies reduction is $0.8 million General Fund.

OYA – Community Programs

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	66,135,748	80,144,683	89,545,227	90,541,326
Other Funds	3,588,299	3,579,279	4,062,352	4,062,352
Federal Funds	26,912,374	29,895,608	35,554,548	33,257,772
Total Funds	**$96,636,421**	**$113,619,570**	**$129,162,127**	**$127,861,450**
Positions	140	140	140	140
FTE	137.75	138.25	138.25	138.25

Program Description

Community Programs provide community-based supervision and services to youth offenders committed to OYA by the juvenile courts. Agency staff designs an individual treatment and reformation plan for each youth in OYA's custody. The Community Programs budget includes funding for community residential services and foster care; parole and probation services; individualized community services; and assistance to county juvenile departments for diverting high-risk youth offenders from OYA placement, basic local juvenile justice services, and youth gang services in Multnomah County.

Budget Environment

Earlier this decade, statewide funding constraints reduced statewide assistance 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 effectively manage at-risk youth and offenders.

As of July 2013, OYA had 582 youth in the community on probation, and 420 youth on parole. OYA staff provides case management services to youth on probation, parole, and case planning in facilities, but the agency contracts for a range of other treatment services and residential placements with foster care or Behavioral Rehabilitation Services (BRS) providers.

Rates paid to BRS providers were first established in 1997 and had been updated only for small inflationary increases since that time. Providers have faced a number of operating costs, such as liability insurance and utility costs, that outstrip inflation. At the same time, providers see more youth with greater service needs.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget is 12.5% above the 2011-13 legislatively approved budget and 1% under the current service level. This level covers 658 community treatment, foster care, and residential beds.

Federal BRS rate reimbursement has declined as a result of the mix of services Oregon (Department of Human Services and OYA) provides in residential care. The federal reduction is $2.4 million, which General Fund backfills in this budget. Additionally, BRS rates have increased due to a revised model that takes into account the 2011 Oregon Wage Index and the mix of services. General Fund provides an additional $1 million needed for the higher rates.

The match rate on federal Medicaid dollars is adjusted to align with the latest federal estimate of 62.86%.

The 2013-15 payments to counties for juvenile crime prevention and diversion is set at $17.6 million General Fund. State support for gang prevention, intervention, and enforcement activities in Multnomah County is budgeted at $5.2 million General Fund, which is a 5% increase from 2011-13 service levels before the statewide holdback. The amount includes $1.8 million General Fund specifically designated for the East Metro Gang Enforcement Team, which is inflated by 10% over 2011-13, before the 2% reduction for statewide holdback.

This program unit's proportionate share of the supplemental ending balance hold back is $1.8 million General Fund; failure to restore that funding will most likely have a negative impact on the program investments described above.

OYA – Program Support

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	33,055,693	30,433,983	30,634,391	28,220,035
Other Funds	185,603	829,987	851,214	851,214
Federal Funds	1,651,770	1,191,085	1,308,836	1,214,536
Total Funds	**$34,893,066**	**$32,455,055**	**$32,794,441**	**$30,285,785**
Positions	99	102	101	99
FTE	99.00	101.08	101.00	99.00

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 also 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 50% of the Program Support budget.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget is 6.7% below the 2011-13 legislatively approved budget and 7.7% below current service level. The budget includes standard reductions for operating efficiencies, PERS, inflation, assessments, and rates.

The Program Support unit will be responsible for coordinating the facilities optimum use study described in the introduction. Additionally, this unit, coordinating with the rest of the agency, will oversee development of the Youth Reformation System.

Two positions are eliminated to finish phasing out reductions begun in October 2011.

This program unit's share of the supplemental ending balance hold back is $0.6 million General Fund; failure to restore that funding will most likely have a negative impact on the agency's overall program support and delivery activities.

OYA – Debt Service

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	7,653,121	5,342,506	2,017,315	1,632,438
Other Funds	0	0	0	384,877
Federal Funds (NL)	0	1	1	1
Total Funds	**$7,653,121**	**$5,342,507**	**$2,017,316**	**$2,017,316**

Program Description

OYA pays debt service on certificates of participation (COPs) and Article XI-Q bonds issued through the Department of Administrative Services.

Debt for previous projects includes $3.4 million for MacLaren infrastructure needs, $2 million for the Oak Creek facility, and $2 million for deferred maintenance needs in OYA's facilities.

Also, the economic stimulus package passed by the 2009 Legislature in SB 338, authorized OYA to spend an additional $9.2 million for various projects around the state. These included control room and HVAC renovations at Burns, Albany, LaGrande, and Warrenton. Also supported were significant facilities renovations at Albany, Hillcrest (Salem), and MacLaren (Woodburn) and the Youth Correctional Facility in Tillamook.

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. Portions of OYA's obligations are paid off, accounting for the significant reduction in General Fund from 2011-13 to 2013-15. In addition, under-spending on projects frees up about $385,000 that can be used for debt service and is the reason for adding Other Funds limitation.

Legislatively Adopted Budget

The 2013-15 legislatively approved budget is set at a level to cover existing debt; no new debt is included in the budget. General Fund debt service on $9.2 million of additional COPs issued during the 2009 session (SB 338) is recorded in the Department of Administrative Services (DAS) budget.

OYA – Capital Improvements

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	678,068	695,620	738,174	723,411
Total Funds	**$678,068**	**$695,620**	**$738,174**	**$723,411**

OYA – Capital Construction

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	0	0	0	5,074,941
Total Funds	**$0**	**$0**	**$0**	**$5,074,941**

Program Description

The capital budgets reflect spending on OYA's 103 buildings at 10 locations, which have an estimated $190 million replacement value. Capital Improvement covers land and building improvements that cost more than $5,000 but less than $1 million. The Capital Construction Program provides safe and secure facilities through new construction, building, or system renovation (or renovation of a group of structures or systems); land acquisitions; assessments; and improvements or additions to existing buildings with an aggregate cost of $1 million or more. Planning for future capital construction projects is also included in this category.

Budget Environment

OYA currently has a physical capacity of 1,182 close custody beds. The agency, however, is not funded to operate its facilities at full capacity. The agency constructed the regional youth correctional facilities in 1997. These facilities have reached an age where maintenance and repair needs have increased. Most of OYA's other facilities are much older, and while all the agency's buildings are in fair condition, maintenance continues to be deferred and necessary improvements remain in building safety, security, and functionality.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget includes $5 million in Article XI-Q bond proceeds and capital construction 6-year limitation for electronic security upgrades and deferred maintenance projects. This funding level should be able to cover the most critical projects needed to prevent building or system failure and allow for emergency improvements.

Business Development Department (OBDD) – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	8,926,180	3,842,479	4,000,961	8,250,274
Lottery Funds	106,424,887	137,516,918	91,595,267	115,478,577
Other Funds	27,493,113	26,120,912	28,367,180	67,638,351
Other Funds (NL)	210,776,965	369,325,307	210,341,005	222,341,005
Federal Funds	28,428,854	50,652,649	38,441,644	38,781,008
Total Funds	**$382,049,999**	**$587,458,265**	**$372,746,057**	**$452,489,215**
Positions	128	132	125	135
FTE	125.72	129.87	123.50	131.88

Agency Overview

The Oregon Business Development Department (OBDD) provides economic and community development and cultural enhancement throughout the state, administers programs that aid businesses and communities, and administers the Seismic Rehabilitation Grant Program. The Oregon Business Development Department receives General Fund, Lottery Funds, Federal Funds, and Other Funds, the latter primarily from lottery revenue bonds, general obligation bonds, and the Oregon Bond Bank; and uses the funds to provide grants, loans, and direct and contract services. Program focuses include business and industry development, support of in-state innovation efforts to improve economic competitiveness, trade and arts promotion, community development, and ports.

The Department has six budget program areas:

- The ***Shared Services/Central Pool*** program area includes central agency administrative services that support both the business development (Business, Innovation, Trade) and the community development (Infrastructure Finance Authority) programs. This program area houses 25% of the agency's employees, and is financed primarily with Lottery Funds.
- The ***Business, Innovation, Trade*** program area includes the staff, and the funding sources, used by the Department to provide support services, grants, and loans to assist businesses with job retention and creation, and to promote trade and innovation. This program area operates a variety of programs and uses a variety of funding sources. The largest of these programs are the Oregon Innovation Council (Oregon InC) Innovation Plan, and the Strategic Reserve Fund. The Business, Innovation, Trade program area is the agency's largest in terms of staffing, housing 43% of the agency's employees, and is primarily financed with Lottery Funds. Other Funds in its budget are primarily from loan repayments and general obligation bond proceeds. Federal Funds support the Brownfields Program. In the 2013-15 biennium, the budget also includes Federal Funds expenditures for two federal grants awarded in the prior biennium.
- The ***Infrastructure Finance Authority*** (IFA) program area includes the staff and the funding sources used by the Department to provide grants and loans to assist communities with infrastructure development projects. Almost all of the expenditures in this program area are either special payments (loans, grants, or contracts) to local governments or non-profit organizations; or debt service on bonds the state has issued to finance these categories of expenditures. Expenditures, however, also include the Department's associated costs to administer the community development programs. In the 2013 session, the Seismic Rehabilitation Grant Program was transferred from the Military Department to the IFA. This program area houses 25% of the agency's employees. The IFA is the only program area in the agency that does receive state support (i.e., Lottery Funds or General Fund). Expenditures are entirely financed with Other Funds and Federal Funds.
- The ***Oregon Arts Commission and the Oregon Cultural Trust*** foster the arts and cultural development in Oregon. All operating expenses relating to Arts Commission and Cultural Trust programs, including personal services expenditures and services and supplies expenditures, are included in this program area, as are funds awarded to individuals and arts-related nonprofit organizations. The Commission is responsible for a number of activities including: evaluating the impact of arts on Oregon's economy; distributing National Endowment for the Arts (NEA) funding to programs in Oregon; working with the leadership of local arts organizations; conducting assessment and maintenance to protect existing public art; and approving new public art. This program area houses 7% of the agency's employees. The Arts Commission is the only part of the agency budget that receives General Fund to support its operations

(General Fund is also provided to pay debt service on general obligation bonds). The remaining portions of the program budget are financed by Other Funds (including donations to the Cultural Trust) and Federal Funds from the National Endowment for the Arts.

- The ***Film and Video Office*** is a semi-independent agency that receives pass-through Lottery Funds support in the OBDD budget to promote and support the film, video, and multimedia industries in Oregon. The Office is not part of the Department, and the Office's employees are not included in the agency employment count.
- ***Lottery and General Obligation Bond Debt Service*** is used exclusively for debt service payments on lottery revenue bonds, Article XI-Q general obligation bonds, and general obligation bonds financing the Seismic Rehabilitation Grant Program (Article XI-M and Article XI-N bonds). The funding source is almost entirely Lottery Funds and General Fund, although bond interest earnings applied to pay debt service are categorized as Other Funds.

Budget Environment

The workload of the agency is driven by Oregon's economic and community development needs. This includes support to businesses; 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 agency budget has been expanded significantly in recent years, as the Legislature has sought to promote job creation and retention in the face of a severe recession, and assist community development projects in a low interest rate environment. A large component of the state support (that is, of General Fund and Lottery Funds support) in the budget is used to pay debt service on lottery revenue bonds (and going forward, on general obligation bonds as well) that have been issued to support economic development, community development, and seismic rehabilitation projects. State support totaled $82.1 million for debt service in 2011-13 biennium, equal to approximately 58% of the total state support provided to the agency. Debt service costs are significantly reduced in the 2013-15 biennium, however, the result of a one-time balloon payment owed in 2011-13 that is not repeated in 2013-15, and the result of lower interest realized from refinancing the agency's bonds. The current service level debt service costs for the 2013-15 biennium are $31.6 million below the 2011-13 level.

Legislatively Adopted Budget

The legislatively adopted budget for the agency totals $452.5 million, a 23% reduction from the prior biennium level. The budget, nonetheless, expands support for most of the agency's existing programs and provides funding for a number of new initiatives. The budget decline from the prior biennium is entirely the result of a number of one-time expenditures in the 2011-13 biennium that are not repeated in 2013-15, and of the refinancing in 2013-15 of the agency's debt. These 2011-13 biennium one-time expenditures included the refinancing of the agency's bonds, and a balloon payment owed on the agency's lottery revenue bonds. The funding reductions associated with discontinuing these one-time expenses more than offset for the program expenditure increases approved in the 2013-15 biennium legislatively adopted budget.

The budget for the Oregon Business Development Department (OBDD) includes $123.7 million of state support (Lottery Funds and General Fund). Most of the state support, a total of $115.5 million, is financed from Lottery Funds. The state support total is $17.6 million (or 12.5%) below the prior biennium level. The reduction is entirely due to reduced debt service costs on lottery revenue bonds. Balloon payments that were due in the 2011-13 biennium are not repeated in 2013-15, and bond refinancing reduced debt service costs even below the calculated current service level. As a result, Lottery Funds debt service costs are $34.1 million (or 41.5%) below the prior biennium level.

Lottery Funds and General Fund expenditures for the agency's other operating and program costs, excluding debt service, are increased by $16.4 million (or 29.6%) over the prior biennium level. The total amount of support dollars transferred to businesses, governments, and non-profit organizations (special payments) through the agency's ongoing programs is increased $3.6 million (or 9.2%). Newly-established programs will transfer an additional $8.2 million. Ten positions (8.38 FTE) were added above current service level, primarily for administration of new programs established or transferred to the agency in 2013-15.

The budget also expands the agency's bond-funded (Other Funds) programs. The 2013-15 legislatively adopted budget provides $58.7 million of lottery revenue and general obligation bonds for the agency's programs, almost six times the $10 million provided in the prior biennium. General Fund/Lottery Funds debt service costs on these bonds are projected to total $10.6 million per biennium when the costs fully phase-in during the 2015-17 biennium.

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, and to pay debt service on general obligation bonds.

OBDD – Shared Services/Central Pool

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Lottery Funds	5,757,063	6,502,024	7,156,781	7,819,653
Other Funds	1,777,553	1,258,575	921,326	1,282,075
Total Funds	**$7,534,616**	**$7,760,599**	**$8,078,107**	**$9,101,728**
Positions	32	32	30	34
FTE	32.00	31.25	30.00	33.75

Program Description

The Shared Services/Central Pool program area was established with the reorganization of the Department in 2009. The Shared Services/Central Pool program area includes agency administrative services that support both the business development (Business, Innovation, Trade) and the community development (Infrastructure Finance Authority) programs. With the Department's reorganization in 2009, the business development and community development programs operate under separate policy boards, but continue to share the services included in this program area.

The program area includes the ***Office of the Director***, ***Employee Services***, ***Fiscal and Budget***, and the ***Policy and Planning Division***, which includes Strategic Initiatives, Information Technology, Marketing, and Public Affairs.

Revenue Sources and Relationships

Revenues for the 2013-15 biennium include $1.3 million in Other Funds, but the program area is primarily financed with Lottery Funds. The Other Funds include funds from transferred from community development programs for administrative costs. The sources of these funds are primarily interest earnings on balances in the infrastructure funds (within the IFA) and loan repayments on infrastructure loans.

Budget Environment

Community and regional needs and the needs of businesses and industry drive the Department's workload. External forces, including changes in Oregon's economy, also have a direct impact on the workload. Workload is affected by changes in organization and staffing. The additional workload generated by new programs, such as the Safe Drinking Water Revolving Loan program, the Seismic Rehabilitation Grant Program, and expanded infrastructure programs, have also impacted the budget.

Legislatively Adopted Budget

The legislatively adopted budget significantly expands support for Shared Services/Central Pool. The $7.8 million of Lottery Funds in the legislatively adopted budget is a 20.3% increase over the prior biennium level, and is 9.3% above the current service level. Four positions were added, for a 13.3% increase in position count over the current service level. The primary cause for the Lottery Funds increase over the prior biennium is this additional staffing. The total funds budget is increased 17.3% above the prior biennium and 12.7% above the current service level.

Budget adjustments include:

- $1.1 million Lottery Funds added to establish three full-time, limited duration positions (3.00 FTE), including two positions in regional governance solutions and one position for West Coast Strategies.

One-half of the expenses associated with the two regional governance solutions positions ($302,233) are financed through a reduction in the Lottery Funds allocation to counties for economic development.

- $120,655 Lottery Funds added to establish one full-time, permanent position (0.75 FTE) and for associated services and supplies for administration of the Seismic Rehabilitation Grant Program, which was transferred to OBDD from the Military Department. (See Infrastructure Finance Authority section below for more description of this program.)

The budget also includes standard adjustments that were approved in most agency budgets on an across-the-board basis. These include reductions to reflect the impact of the policy changes in SB 822 and administrative actions of the PERS Board that reduce state employer contribution rates in the 2013-15 biennium by approximately 4.4 percentage points ($151,456 total funds), a 5% reduction in Lottery Funds for services and supplies ($41,444 Lottery Funds), and a 2% hold back adjustment on Lottery Funds for purposes of establishing a supplemental statewide ending balance ($138,641 Lottery Funds).

OBDD – Business, Innovation, Trade

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	4,617,682	0	0	0
Lottery Funds	28,659,390	47,812,662	32,824,605	58,501,443
Other Funds	11,866,448	8,884,582	8,100,698	13,624,058
Other Funds (NL)	14,693,244	16,791,457	15,306,752	15,306,752
Federal Funds	6,625,603	20,545,709	7,614,388	7,978,609
Total Funds	**$66,462,367**	**$94,034,410**	**$63,846,443**	**$95,410,862**
Positions	54	58	53	58
FTE	52.42	56.62	51.50	55.13

Program Description

The Business, Innovation, Trade Division (BITD) was established to reflect the reorganization of the Department in 2009. BITD houses the Department's business development initiatives that support business creation, recruitment, and retention; international trade; development of industrial lands; and initiatives to increase innovation in the Oregon economy and improve the state's economic competitiveness. The largest of these programs are the Oregon Innovation Council (Oregon InC) Innovation Plan, and the Strategic Reserve Fund. Other BITD programs include the Brownfields Redevelopment and Industrial Lands programs, the Industry Competitiveness Fund, and the direct business support programs including the Small Business Development Centers and the Office for Minority, Women and Emerging Small Business.

Revenue Sources and Relationships

Revenues for the 2013-15 biennium include $26.5 million in Other Funds and $8.4 million Federal Funds, but the program area is primarily financed by Lottery Funds allocated to support business development. General Fund was also provided during the 2009-11 biennium for Oregon Business Development Fund programs. The Other Funds revenues include interest earnings on business development funds and loan repayments, plus assessments that fund the Office for Minority, Women and Emerging Small Business. The increase in Other Funds from the prior biennium primarily reflects the addition of Article XI-Q bond proceeds to the budget for the first time in the 2013-15 biennium. The $5,235,000 of general obligation bond proceeds are provided on a one-time basis to fund Innovation Infrastructure capital projects to increase research and commercialization capacities at Oregon universities.

Ongoing Federal Funds support the Brownfields Program, and additional programs are funded from federal grants awarded in the 2011-13 biennium. The 2011-13 biennium budget included $17.4 million Federal Funds, and established three positions (3.00 FTE), for three federal grant applications. The three federal grants included: the State Small Business Credit Initiative (SSBCI) grant, the State Trade and Export (STEP) grant, and the Clean Cities grant. Approximately $12.6 million Federal Funds are phased-out of the budget in 2013-15 as these grant awards wind down.

Budget Environment

The Business, Innovation, Trade program houses the agency's primary initiatives to create and retain jobs, and its budget has been substantially expanded in recent years. Even before the start of the most recent recession, the 2007 Legislature approved a 71% increase in Lottery Funds for distribution to businesses and non-profits, primarily to increase support for the Oregon Innovation Council's (Oregon InC) Innovation Plan, which was expanded from $7 million lottery funds in the 2005-07 biennium to $28.2 million in 2007-09.

The first biennial budget developed after the start of the recession was in 2009-11. In that biennium, and in the 2011-13 biennium, the Legislature continued to expand support in an effort to promote job creation and retention. Nonetheless, the number of jobs created has fallen in recent years, and the number of jobs retained has remained relatively stable. OBDD verified 2,003 jobs created by its programs in 2010, 1,957 created in 2011, and 1,510 created in 2012. The verified jobs retained count was 5,035 in 2010, 3,761 in 2011, and 4,999 in 2012.

Legislatively Adopted Budget

The $58.5 million of Lottery Funds in the legislatively adopted budget is a $10.7 million (or 22.4%) increase over the prior biennium level, and is 78% above the current service level. The budget establishes five positions (3.63 FTE), a 9.4% increase over the current level. These include three positions associated with new programs (one position each for the Oregon Industrial Site Readiness Program, Oregon Growth Board, and the Beginning and Expanding Farmer Loan Program), one position for an existing program transferred to the agency (Seismic Rehabilitation Grant Program), and one position to expand an existing program (Office of Minority, Women and Emerging Small Business).

State support was also increased in the prior biennium (2011-13 biennium). Given this two-biennium growth, the 2013-15 biennium budget represents a 76% increase in state support over the 2009-11 biennium level. The total funds budget is 1.5% above the prior biennium level and 49.4% above current service level. The primary reason for the large increase over the current service level is that funding for Oregon InC initiatives is always provided on a one-time basis, and therefore excluded from the current service level calculation. Therefore, although Oregon InC funding of $19 million in the 2013-15 biennium budget is approximately $3.6 million higher than the $15.4 million provided in 2011-13, the full $19 million provided, and not just the $3.6 million, represents funding above the current service level.

Reductions in the budget included eliminating $2.8 million of Lottery Funds that had been included in the current service level calculation but that had not been designated to support any program. The additional reductions from current service were the standard adjustments that were approved in most agency budgets on an across-the-board basis. These include reductions to reflect the impact of the policy changes in SB 822 and administrative actions of the PERS Board that reduce state employer contribution rates in the 2013-15 biennium by approximately 4.4 percentage points ($260,353 total funds), a 5% reduction in Lottery Funds for services and supplies ($74,142 Lottery Funds), and a 2% hold back adjustment on Lottery Funds for purposes of establishing a supplemental statewide ending balance ($1,191,878 Lottery Funds).

Enhancements funded in the budget above current service level include:

- **Oregon InC ($19 million Lottery Funds)** – As in the past, support for the Oregon InC Innovation Plan initiatives is approved on a one-time basis. The budget supports continued funding for five of the six Oregon InC programs funded in the 2011-13 biennium. Funding for the Northwest Food Processors Innovation Productivity Center was discontinued, as had been anticipated last biennium, and reduced funding for the Oregon Translational Research and Development Institute (OTRADI) was provided with an understanding that this would be the last biennium of funding for that initiative. Funding for the Unmanned Aerial Systems Center of Excellence and for the Oregon Story Board, two new initiatives funded to support development of the state's unmanned aerial systems (drones) industry cluster, and to promote early stage high-tech startups in the digital storytelling, video game, film, and television industries, respectively, were provided funding of $882,000 each, with an expectation of no further state support. Support for the six funded initiatives totals $19,012,000 Lottery Funds. This amount is equal to $19.4 million, reduced by 2% as part of the standard 2% holdback of Lottery Funds, which was applied on an across-the-board basis, for purposes of establishing a supplemental statewide ending balance. Funding and the percent funding change for each individual initiative is shown in the table on the following page.

Oregon InC Innovation Plan

Lottery Funds

Program	2009-11 Legislatively Approved	2011-13 Legislatively Approved	2013-15 Legislatively Adopted	Biennial Change
Signature Research Centers				
1) ONAMI - Oregon Nanoscience and Microtechnologies Institute	$5,656,500	$5,018,000	$5,978,000	19.1%
2) OTRADI - Oregon Translational Research and Development Institute	$2,510,000	$2,702,000	$1,960,000	-27.5%
3) BEST - Oregon Built Environment and Sustainable Technology Center	$2,750,000	$3,667,000	$5,880,000	60.3%
Emerging Industry Initiatives				
4) OWET - Oregon Wave Energy Trust	$3,013,500	$2,412,500	$1,960,000	-18.8%
5) Drive Oregon	$0	$1,158,000	$1,470,000	26.9%
6) Unmanned Aerial Systems Center of Excellence	$0	$0	$882,000	NEW
7) Oregon Story Board	$0	$0	$882,000	NEW
Established Industry Initiatives				
8) Northwest Food Processors Innovation Productivity Center	$1,620,000	$482,500	$0	-100.0%
9) Manufacturing Competitiveness Initiative (PSU/OMI)	$0	$0	$0	Inactive
10) Community Seafood Initiative	$450,000	$0	$0	Inactive
Total	**$16,000,000**	**$15,440,000**	**$19,012,000**	**23.1%**

- **Innovation Infrastructure ($8,485,000, including $3,250,000 Lottery Funds and $5,235,000 Article XI-Q bond proceeds [Other Funds])** – Lottery Funds in the amount of $3,250,000 was provided to support the operational costs of three programs designed to increase research and commercialization capacities at Oregon universities. These are: (1) Information Technology Infrastructure Upgrades (Oregon Research Collaboratory) - $300,000; (2) The Oregon Regional Accelerator and Innovation Network (Oregon RAIN) based in the South Willamette Valley - $1,250,000; and (3) the Oregon Metals Initiative - $1,700,000. The budget also provides Other Funds expenditure limitation of $5,235,000 for the purposes of paying costs of issuance associated with the sale of Article XI-Q general obligation bonds, and for the distribution of bond proceeds to make capital investments in the same three programs. The bond proceeds are to be distributed as follows: (1) Information Technology Infrastructure Upgrades (Oregon Research Collaboratory) - $2,000,000; (2) the Oregon Rain Accelerator and Innovation Network (Oregon RAIN) based in the south Willamette Valley - $2,500,000; and (3) the Oregon Metals Initiative - $500,000.

  Support for Information Technology Infrastructure Upgrades is for the purpose of upgrading technology infrastructure links between the Center for Spatial Systems Biomedicine in the Collaborative Life Science Building at Oregon Health and Sciences University, the Portland State University Computer Science Department, the Portland State Business Accelerator, and the OTRADI Business Incubator.

  The Lottery Funds components of this support were reduced from the indicated amounts by the 2% holdback. Both Lottery Funds and Article XI-Q bond support for all of the projects was provided on a one-biennium basis.

- **South Coast Ports ($3,040,000 Lottery Funds)** – Funds provided are for the dredging of South Coast ports, and may include but is not limited to acquiring watercraft or equipment necessary for dredging. This initial funding amount was reduced from the amount shown by the 2% holdback, and was provided on a one-biennium basis.

- **WISE (Water for Irrigation, Streams, and Economy) ($1,500,000 Lottery Funds)** – WISE is a water management project for the Bear Creek and Little Butte Creek watersheds in Jackson County. This initial funding amount was reduced by the 2% holdback and was provided on a one-biennium basis.

- **Strategic Reserve Fund ($700,000 Lottery Funds)** – The budget, with this addition, included $16 million of Lottery Funds expenditure limitation (prior to the 2% holdback) for the Strategic Reserve Fund. Under HB 2225, also passed in the 2013 session, the Oregon Business Development Department may transfer Strategic Reserve Fund monies to the Oregon Business Retention and Expansion Program.

- **Small Business Support ($635,000 Lottery Funds)** – The budget increases Lottery Funds by $635,000 to supplement support for two programs that assist small businesses: (1) Oregon Small Business Development Center Network - $500,000; and (2) Government Contract Assistance Program (GCAP) - $135,000. The budget, with these additions, will provide approximately $2,247,000 Lottery Funds to the Oregon Small Business Development Center Network and $431,960 Lottery Funds to GCAP (prior to the 2% holdback).

- **Export Promotion and Assistance ($500,000 Lottery Funds)** – The budget, with this addition, included $1,030,500 for export promotion and assistance programs (prior to the 2% holdback).

- **Economic Gardening ($250,000 Lottery Funds)** – Funding was provided on a one-time basis for an ongoing pilot project providing economic gardening services.

- **Beginning and Expanding Farmer Loan Program ($227,607 Lottery Funds and half-time position [0.50 FTE])** – HB 2700 established the Beginning and Expanding Farmer Loan Program to facilitate the issuance of loans to beginning farmers. The budget does not provide funds for loans under this program, so the Department will not be able to enter into loan arrangements. The position will be utilized to design the program for subsequent use if funding becomes available.

- **Oregon Industrial Site Readiness Program and Oregon Industrial Site Readiness Assessment Program ($179,254 Lottery Funds and one full-time position [0.88 FTE])** – Two new programs were established by SB 246 and SB 253. The first of these, the Oregon Industrial Site Readiness Program, establishes two types of support to public entities (project sponsors) that prepare sites for industrial development. The Program authorizes OBDD: (1) to enter into tax reimbursement arrangements with, and (2) to make loans to, qualified project sponsors for development of certified regionally significant industrial sites. OBDD may forgive up to 50 percent of the loans when a project sponsor contracts with an eligible employer who sites employees on the site. The program limits the amount of loan forgiveness to 50 percent of eligible site preparation costs, or to an amount equal to 50 percent of the estimated incremental income tax revenues associated with the eligible employer's on-site employees, whichever is less.

  Under the Program's tax reimbursement arrangements, project sponsors may receive up to the full amount of their eligible site preparation costs, plus interest. Payment to the project sponsor, in a particular year, is equal to 50 percent of the estimated incremental income tax revenues associated in that year with the eligible employer's on-site employees. The budget does not provide funds to OBDD for program loans. Until funding for those loans is provided, the Department will be unable to enter into loan arrangements, but will be able to enter into tax reimbursement arrangements. Tax reimbursement arrangements are funded by income tax collections that are dedicated to the Program instead of deposited into the General Fund. The budget does not include Other Funds expenditure limitation for payment of these collections to project sponsors. The Lottery Funds that are provided support administration of the program.

  The second new program, The Oregon Industrial Site Readiness Assessment Program, authorizes OBDD to establish two competitive grant programs. The first grant program provides funds to public entities to perform due diligence assessments and to create detailed development plans for regionally significant industrial sites that are publically or privately owned. The second grant program provides funds to public entities to develop industrial land inventories and to prioritize sites for due diligence assessment and site preparation assistance. The budget did not provide any funds to operate these programs.

- **Seismic Rehabilitation Grant Program ($160,421 Lottery Funds and one full-time position [0.75 FTE])** – Lottery Funds were added to establish one full-time, permanent position (0.75 FTE), and for associated services and supplies, for administration of the Seismic Rehabilitation Grant Program which was transferred to OBDD from the Military Department. (See Infrastructure Finance Authority section below for more description of this program.)

- **Oregon Growth Board ($100,000 Lottery Funds and one half-time position [0.50 FTE])** – HB 2323 repealed a scheduled sunset of the Oregon Growth Board and allowed requirements that OBDD provide administrative support to the Board to come into effect. The budget provides $100,000 Lottery Funds to OBDD for program administration, and $1.9 million of Lottery Funds (outside of OBDD's budget) to capitalize the newly-created Oregon Growth Fund. The Oregon Growth Board is projected to have access to approximately $26 million of uncommitted funds in the Oregon Growth Account, and to $1.9 million of uncommitted funds in the Oregon Growth Fund, to manage during the 2013-15 biennium. The Joint Committee on Ways and Means approved a budget note with HB 2323 that requires the Oregon Growth Board to adopt investment policy statements for managing both funds, and to develop performance measures and targets. The Board is directed to report on these statements and measures during the 2014 session.

- **Office of Minority, Women and Emerging Small Business ($532,157 Other Funds and one full-time position [1.00 FTE])** – Other Funds expenditure limitation, and one full-time Compliance Specialist position, were added to allow the Office of Minority, Women and Emerging Small Business to replace its over 20-year old data base and software system, and establish a legal budget to remedy a federal audit finding for the office.

OBDD – Infrastructure Finance Authority

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	6,896,210	7,317,177	7,676,964	39,288,139
Other Funds (NL)	177,784,087	256,966,393	195,034,253	207,034,253
Federal Funds	20,392,591	28,313,847	28,991,070	28,966,213
Total Funds	**$205,072,888**	**$292,597,417**	**$231,702,287**	**$275,288,605**
Positions	33	33	33	34
FTE	32.30	33.00	33.00	34.00

Program Description

The Infrastructure Finance Authority (IFA) program area was established to reflect the reorganization of the Department in 2009. The Infrastructure Finance Authority program area houses the Department's community development initiatives that assist communities primarily through support of infrastructure improvements. The largest of these programs are the revolving fund loan and grant programs of the Special Public Works Fund and the Water Fund. Other IFA programs include the Port Revolving Loan Fund and Port Planning and Marketing Fund programs, the Safe Drinking Water Revolving Loan Fund program, the Main Street program, and the Community Development Block Grant program. In the 2013 session, the Legislature added the Seismic Rehabilitation Grant Program to the IFA's portfolio. That program was transferred from the Oregon Military Department to the IFA effective on January 1, 2014.

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 ($12 million in 2013-15) are deposited into revolving loan funds and made available for infrastructure loans and grants, and for payment of administrative costs relating to IFA programs. The lottery revenue bond proceeds are in some cases used to match proceeds from Oregon Bond Bank bonds. The mixture of bond, loan, and grant funds increases OBDD's capacity for financing projects. The expenditures of the bond proceeds distributed to localities as loans or grants are shown as Nonlimited Other Funds (and not as Lottery Funds). Expenditures for program administrative costs (typically financed from interest earnings on, and loan repayments of, the lottery bond proceeds, and not from the proceeds directly) are shown as Other Funds expenditures. Debt service costs on the lottery revenue bonds issued to provide these funds are paid with Lottery Funds, but those payments are shown in the Lottery Bond Debt Service program area, and not in the Infrastructure Finance Authority budget. Beginning in 2013-15, the IFA also receives general obligation bond proceeds for the Seismic Rehabilitation Grant Program. The 2013-15 budget includes $31.5 million of these bond proceeds, which are spent as Other Funds.

IFA program area revenues include fees and service charges, interest earnings, loan repayments, federal grant funds, and Nonlimited Other Funds from the sale of program specific revenue bonds and lottery-backed bonds. Nonlimited Other Funds revenue includes $37.2 million in interest income and $47.7 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 $12.8 million for the Safe Drinking Water Revolving Loan Fund. These are federally-sourced funds that are transferred to the Department from the Oregon Health Authority. Federal Funds support the Community Development Block Grant program.

Budget Environment

The 2007-09 biennium legislatively adopted budget supported an additional $33.4 million of lottery revenue bonds for infrastructure and specified projects. In 2009-11, $17.5 million of lottery bond proceeds were added to the infrastructure funds. This amount was partially offset, however, by a $10 million withdrawal of monies from those funds to support business development programs *in lieu* of Lottery Funds. The 2011-13 biennium budget included $10 million of lottery revenue bonds for the infrastructure funds and eliminated the use of those funds for business development programs.

Legislatively Adopted Budget

The legislatively adopted budget represents a 5.9% reduction from the prior biennium level. The actual impacts of the IFA budget are better expressed by the change from current service level, however. The 2013-15 biennium budget is an 18.8% increase over the current service level. Other than adjustments to reflect revisions to the PERS contribution rate, there were no reductions approved in the IFA budget. The reduction from the prior biennium is due entirely to $26 million of Nonlimited Other Funds expenditures in the 2011-13 biennium that are not repeated in the 2013-15 biennium budget, and to a decline in debt service costs. These one-time expenditures were to refund bonds issued to support IFA program when lower interest rates made refinancing desirable, and debt services costs savings of $29.6 million were realized from the refinancing.

The budget does, however, include a number of enhancements:

- $12 million of Nonlimited Other Funds were included to **add capital to the agency's two primary infrastructure revolving loan funds**, the Special Public Works Fund (SPWF) and the Water/Waste Water Fund. The budget includes $12 million of lottery bond proceeds for this purpose. To supply these funds, the state will issue a projected $13.5 million of lottery revenue bonds in the spring of 2015. Approximately $1.3 million of these bond proceeds will be held in reserves and $258,580 will be allocated to the Department to pay costs of issuance (Other Funds). The remaining $12 million will be deposited into the infrastructure funds to provide loans and grants to local governments under the direction of the Infrastructure Finance Authority. The monies finance the planning, purchasing, and improvement of municipally-owned facilities such as water and sewer systems, road extensions, community buildings, or other facilities. The SPWF finances all of these types of projects; the Water/Waste Water Fund is restricted to instances where improvements are needed to comply with state or federal water quality standards. These funds will be used to finance approximately six additional projects during the 2013-15 biennium. The funding increases the estimated number of funded projects from 30 to 36 (or by 20%). The number of projects funded in future biennia will return to roughly the 30 per biennium level. Debt service costs on the lottery bonds issued to provide these funds are projected to total approximately $2.5 million per biennium, beginning in the 2015-17 biennium. The debt service will be paid by Lottery Funds.

- $30 million of Other Funds expenditures added for the **Seismic Rehabilitation Grant Program**. This includes $14.7 million for public education building grants, $14.7 million for emergency services building grants, and $353,800 for the cost of issuance. The funds will be distributed from the proceeds of Article XI-M and Article XI-N bonds issued in the spring of 2015. Debt service costs on the bonds issued to provide these funds will be paid by General Fund, and are projected to total approximately $4.3 million per biennium, beginning in the 2015-17 biennium. The Other Funds expenditure limitation is further increased by $1.5 million for distribution of Article XI-M (Education) bond proceeds issued prior to the start of the biennium. No administrative expenditures are added to the IFA for the Seismic Rehabilitation Grant Program. Administrative expenses totaling $281,076 Lottery Funds and including two full-time positions (1.50 FTE) are split between the Shared Services/Central Pool and Business, Innovation, Trade programs.

Debt service costs of $3.2 million General Fund for existing bonds transferred to the agency are included in the Lottery and General Obligation Bond Debt Service program.

- $10 million of Lottery revenue bond proceeds, but only $1 of Other Funds expenditure limitation for expenditure of the proceeds, were included **for Regional Solutions Advisory Committee Funding** for locally-identified priority projects. The Governor requested $50 million for Regional Solutions projects, of which $20 million would be allocated to projects identified by Regional Solutions Advisory Committees and $30 million would be allocated for Regional Conveners Economic Initiatives Funding for statewide use relating to economic development initiatives. The budget authorizes $11.3 million of Lottery revenue bonds to provide $10 million for the first of the two categories. No statutory authorization for distributing these monies currently exists, however. A budget note approved with HB 5008 directs the Office of the Governor to request a bill for consideration in the 2014 session to establish a Regional Solutions program in statute, prior to any increase of the $1 Other Funds expenditure limit.

- $128,247 Other Funds and one full-time position (1.00 FTE) was added to assist **rural communities** in complying with requirements that accompany federal or state-funded capital construction projects.

Finally, the budget includes reductions to reflect the impact of the policy changes in SB 822 and administrative actions of the PERS Board that reduce state employer contribution rates in the 2013-15 biennium by approximately 4.4 percentage points ($151,689 total funds).

OBDD – Film and Video Office

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Lottery Funds	1,251,703	1,102,030	1,153,616	1,130,544
Total Funds	**$1,251,703**	**$1,102,030**	**$1,153,616**	**$1,130,544**

Program Description

The Film and Video Office is a marketing agency for Oregon's statewide promotion of the film, video, and multimedia industries. The 1995 Legislative Assembly authorized the semi-privatization of the Film and Video Office, which provides the program with greater flexibility in marketing activities. OBDD is responsible for the pass-through of Lottery Funds to the Office. The Office recruits film productions through its marketing efforts, provides assistance to productions to identify film locations, and administers the state's film and video incentive programs. Services include maintaining a photo library of potential movie and television locations statewide and assisting in film permitting.

Revenue Sources and Relationships

The state-funded portion of the Office budget is from Lottery Funds, which OBDD passes through to the semi-independent office. The Lottery Funds finance the Film and Video Office's operating expenses, including the personnel costs of the office's four staff members. As a semi-independent agency, the office's employees are not considered state employees and are not included in the OBDD position count. The Office administers film incentive programs, including the Oregon Production Investment Fund Program. These are financed through tax credits which impact the state budget as reductions in revenue. The incentive programs are not funded from the Lottery Funds provided to the Office in the OBDD budget.

Legislatively Adopted Budget

Lottery Funds support for the Office is increased 2.6% over the prior biennium level and is 2% below the current service level. Support was reduced 2% as part of a hold back adjustment on Lottery Funds for purposes of establishing a supplemental statewide ending balance.

The budget also includes an 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, however, are not included in the Film and Video Office budget.

Funding for these rebates comes from money donated to the OPIF. Donors to the Fund are eligible for a credit against Oregon personal income taxes. Potential donors will purchase credit rights at auction. Existing law limited the amount of tax credits that could be awarded in the 2013-15 biennium to no more than $12 million. HB 3367 increased the cap to $20 million per biennium, beginning in 2013-15. The limit had been $10 million per biennium prior to 2009-11, $15 million in 2009-11, and $13.5 million in 2011-13.

OBDD – Arts

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	4,308,498	3,842,479	4,000,961	4,375,016
Other Funds	5,136,001	6,540,845	6,668,192	8,444,079
Federal Funds	1,410,660	1,793,093	1,836,186	1,836,186
Total Funds	**$10,855,159**	**$12,176,417**	**$12,505,339**	**$14,655,281**
Positions	9	9	9	9
FTE	9.00	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 OBDD in 1993.

The program also operates the Trust for Cultural Development (Oregon Cultural Trust). The Oregon Cultural Trust was established in 1999 to support the arts and culture of the state. The Trust is funded primarily by donations. Subject to certain restrictions and limitations, donors are eligible for a credit against Oregon income taxes for the full amount of their donations to the Trust. Since 2002, the Trust has received over $25 million of donations. The Trust also receives funds from the sale of Cultural Trust vehicle license plates. The Department of Motor Vehicles offers Cultural Trust license plates available for passenger vehicles. A surcharge of $30 per biennium is added to the regular vehicle registration fee. Revenues from this surcharge are transferred to the Cultural Trust, where they are used for marketing purposes.

Revenue Sources and Relationships

The Arts Commission is the only part of the Department's budget that is regularly supported by General Fund. The Commission also receives federal NEA funding, and Other Funds from the 1% for Arts program, from donations (including donations to the Cultural Trust), and from the surcharge on Cultural Trust vehicle license plates. The 1% for Arts program is a state law which requires that 1% of appropriations to construct or alter certain state buildings must be used for the acquisition of art works.

About 78% of the expenditures in the program area are special payments, which are grants to non-profit programs and individuals that support the goals of the Arts Commission and Cultural Trust.

Budget Environment

In 2009-11, the budget included approximately $275,000 for Creative Oregon II, an expansion of the Creative Oregon Initiative approved in the prior biennium. With this funding included, total General Fund support in the 2009-11 biennium budget was increased 6.5% over the 2007-09 biennium level. In 2011-13, however, General Fund support was reduced 10.8%.

Legislatively Adopted Budget

The legislatively adopted budget includes significant increases over the prior biennium. The $4.4 million of General Fund in the legislatively adopted budget is a 13.9% reduction from the prior biennium level, and is 9.3% above the current service level. The total funds budget is 20.4% above prior biennium and 17.2% above the current service level. The funding increases are for specified purposes, and the budget retains staffing at the prior biennium level. The three enhancements were all approved on a one-biennium basis and include:

- $500,000 General Fund for **arts programs that benefit underserved students**. The funds are provided for distribution by the Trust for Cultural Development Board. The funds are not deposited into the Trust for Cultural Development Account. The Board instead shall review and approve distributions of the funds for the stated purpose during the 2013-15 biennium.
- $1,500,000 of Lottery revenue bond proceeds (Other Funds) for the **Confluence Project Celilo Park Project Site**.
- $250,000 of Lottery revenue bond proceeds (Other Funds) for the **High Desert Museum** in Bend.

The budget includes standard adjustments that were approved in most agency budgets on an across-the-board basis. These include reductions to reflect the impact of the policy changes in SB 822 and administrative actions of the PERS Board that reduce state employer contribution rates in the 2013-15 biennium by approximately 4.4 percentage points ($41,820 total funds), a 5% reduction in General Fund for services and supplies ($8,588 General Fund), and a 2% hold back adjustment on General Fund for purposes of establishing a supplemental statewide ending balance ($89,679 General Fund).

OBDD – Lottery and General Obligation Bond Debt Service

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	0	0	0	3,875,258
Lottery Funds	70,756,731	82,100,202	50,460,265	48,026,937
Other Funds	1,816,901	2,119,733	5,000,000	5,000,000
Other Funds (NL)	11,298,723	95,567,457	0	0
Total Funds	**$83,872,355**	**$179,787,392**	**$55,460,265**	**$56,902,195**

Program Description

The Lottery and General Obligation Bond Debt Service program includes debt service payments on all lottery revenue bonds and general obligation bonds that have been approved and issued to support OBDD programs, and certain lottery revenue bonds issued to finance legislatively-specified projects promoting economic development. Debt service on lottery revenue bonds is paid by Lottery Funds; debt service on general obligation bonds is paid by General Fund. Other Funds (primarily interest earnings) may also be used to pay debt service when available. Nonlimited Other Funds represent expenditures to refinance outstanding lottery revenue bonds. Proceeds of new bonds are used payoff previously issued bonds when more favorable interest rates are available.

Prior to the 2013-15 biennium, only lottery revenue bonds, and not general obligation bonds, were issued for OBDD programs. The 2013-15 legislatively approved budget authorizes general obligation bonds for OBDD for the first time. The budget authorizes a total of $35,120,000 of general obligation bonds for the Department, including:

- $5,120,000 of Article XI-Q bonds authorized for the purpose of capital investments in three Innovation Infrastructure programs: (1) Information Technology Infrastructure Upgrades (Oregon Research Collaboratory); (2) the Oregon Regional Accelerator and Innovation Network (Oregon RAIN) based in the South Willamette Valley; and (3) the Oregon Metals Initiative. The program area includes $694,286 General Fund for these bonds. Debt service in 2015-17 is projected to increase to $1.4 million.
- $15 million of Article XI-M bonds, and $15 million of Article XI-N bonds, for new Seismic Rehabilitation Grants. The Seismic Rehabilitation Grant Program is transferred from the Oregon Military Department to the Infrastructure Finance Authority in OBDD on January 1, 2014. Article XI-M bond proceeds finance the seismic rehabilitation of public education buildings, and Article XI-N bond proceeds finance the seismic rehabilitation of emergency services buildings. Because the $30 million in bonds will not be issued until spring of 2015, there are no debt service payments made in the 2013-15 biennium (debt service costs on the bonds are projected to total $4.3 million General Fund in 2015-17). The 2013-15 budget, however, does include $3,180,972 General Fund for debt service payments due, after the January 1, 2014 program transfer date, on previously-issued program bonds.

The 2013-15 legislatively approved budget also authorizes $26,775,000 of lottery revenue bonds for the Department, including:

- $13,520,000 of lottery revenue bonds to increase the corpus of the primary IFA infrastructure revolving loan funds – the Special Public Works Fund and the Water/Wastewater Fund.
- $11,160,000 of lottery revenue bonds for Regional Solutions projects. A $1 Other Funds expenditure limitation on bond proceeds was established, pending the establishment of the program in statute.
- $1,965,000 of lottery revenue bonds for Arts projects.

Because the lottery revenue bonds will not be issued until spring of 2015, there are no debt services payments due in the 2013-15 biennium. The $48 million of Lottery Funds and the $5 million of Other Funds in the budget are entirely to pay debt service on lottery revenue bonds issued prior to the 2013-15 biennium. Debt service costs on the newly-approved lottery bonds are projected to equal $4.9 million in the 2015-17 biennium, when the first debt service payments become due.

Debt service on revenue bonds issued for the Oregon Bond Bank is included in Nonlimited Other Funds in the Infrastructure Finance Authority program area.

Budget Environment

Debt service is paid with Lottery Funds allocations. To minimize the size of the required Lottery Funds allocation, however, interest earnings on lottery bond reserves are also applied to pay debt service. Interest earnings are spent as Other Funds. Nonlimited Other Funds expenditures represent the refunding of previously-issued bonds. The State Treasurer restructured portions of the state's lottery bond debt in the spring of 2011 to delay debt service costs and increase lottery bond capacity for the 2011-13 biennium. As part of this restructure, the state refunded $11.3 million of lottery bonds issued for OBDD. These expenditures, which were financed from the proceeds of the restructured bonds, are shown in the OBDD budget as Nonlimited Other Funds. Lottery bonds were refinanced in the spring of 2013.

The restructuring and refinancing of OBDD lottery bonds reduced debt service costs in 2013-15. Debt service costs on lottery bonds are now projected to total $53 million in the 2013-15 biennium. This amount represents a 37% reduction from the prior biennium level.

Legislatively Adopted Budget

The legislatively adopted budget includes $53 million for debt service payments on outstanding lottery bonds. All payments are for bonds authorized and issued prior to the 2013-15 biennium. This includes $48 million of Lottery Funds and $5 million of Other Funds. The Lottery Funds amount is a 41.5% decline from the prior biennium level. This reduction is made possible by there not being a need to repeat balloon payments that were due on lottery revenue bonds in the 2011-13 biennium, by the refinancing of the bonds at lower interest rates, and by increased availability of Other Funds to cover debt service costs.

The $26.8 million of new lottery bonds approved in the 2013-13 budget to provide additional capital to the Department's infrastructure revolving loan funds (the Special Public Works Fund and the Water/Waste Water Fund), and to support Regional Solutions and Arts projects, do not generate debt service costs in 2013-15 because the bonds will not be issued until shortly before the end of the biennium.

The budget includes $3.9 million General Fund to pay debt service on general obligation bonds, including $3.2 million for bonds previously issued for seismic rehabilitation grants, and $0.7 million for new bonds authorized to be issued to support Innovation Infrastructure projects. Debt service costs for the $30 million of new bonds authorized for Seismic Rehabilitation Grants will not begin until the 2015-17 biennium.

Employment Department (OED) – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	2,756,233	3,234,080	4,119,654	0
Other Funds	88,175,490	129,289,332	127,539,307	120,522,794
Other Funds (NL)	2,415,086,782	2,077,281,096	1,648,948,096	1,634,912,351
Federal Funds	322,105,147	311,662,120	279,109,814	159,967,135
Federal Funds (NL)	3,009,968,682	1,492,000,000	110,000,000	124,035,745
Total Funds	**$5,838,092,334**	**$4,013,466,628**	**$2,169,716,871**	**$2,039,438,025**
Positions	1,659	1,595	1,346	1,345
FTE	1,608.46	1,501.19	1,306.70	1,287.03

Agency Overview

The Employment Department (OED) offers services in four program areas:

- Unemployment Insurance (UI) provides wage replacement income to workers who are unemployed through no fault of their own.
- Business and Employment Services (B&ES) offers job listing and referrals services and career development resources.
- Workforce and Economic Research (Research) coordinates the collection and dissemination of occupational and economic climate data for the state, workforce regions, and counties.
- Office of Administrative Hearings (OAH) conducts contested cases for approximately 70 state agencies.

The 2013 Legislative Assembly approved the Governor's recommendation to transfer the Child Care Division to the Department of Education, into that Department's newly established Early Learning Division.

Revenue Sources and Relationships

Sources of Other Funds revenues include:

- The ***Oregon UI Trust Fund*** balance is projected to be at $1.96 billion by the end of the 2013-15 biennium. These funds are designated for unemployment insurance compensation payments to qualified individuals, and budgeted as Nonlimited funds.
- ***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 $6.1 million in 2008-09 as a result of the Federal stimulus legislation. These funds – estimated at $29.8 million at the end of the 2011-13 biennium – can and have been spent over multiple biennia, but only for expenditures relating to UI and Employment Services administration. The 2013-15 legislatively adopted budget level assumes expenditures of $14.2 million. The remainder of these funds will be expended in future biennia to supplement federal support – which is assumed to be decreasing – for business and employment services and unemployment insurance administration.
- The ***Special Administrative Fund*** receives revenues from penalties and interest on delinquent payment of employer taxes. These funds are designated for administrative expenses or other needs as determined by the Director of the Department. For the 2013-15 biennium, the Employment Department expects to take in and expend $10.4 million.
- The ***Supplemental Employment Department Administrative Fund (SEDAF)*** is funded by a 0.09% unemployment tax diversion from employer Unemployment Insurance payroll taxes to fund administration of the unemployment system. The 2013-15 legislatively adopted budget assumes that the diversion will generate $68.3 million in 2013-15, all of which is anticipated to be expended; $10 million from this source was transferred to the General Fund in HB 2322 (2013).
- The ***Fraud Control Fund*** is supported by interest earnings on delinquent repayments of UI benefit overpayments and is earmarked for costs associated with the prevention, discovery, and collection of those overpayments. In 2013-15, the Employment Department projects $5.3 million in collections.
- 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 2013-15 legislatively adopted budget assumes tax credits will generate $1.8 million in revenue for 2013-15, used to fund demonstration projects pursuant to statute. The demonstration

projects selected by the Department are designed to show the effects of simultaneously increasing quality of care affordability and provider compensation. This fund also includes the licensing fees from child care providers, which are assumed to be $1 million for the 2013-15 biennium. The 2013-15 legislatively adopted budget transferred the Child Care Fund along with expenses of the Child Care Division to the Department of Education.

OED also receives Other Funds revenues from other state agencies for providing job placement services and conducting contested case hearings. The 2013-15 legislatively adopted budget includes 111 permanent and 3 limited duration positions for conducting contested case hearings. An additional 22 limited duration positions are approved for job placement services provided to other state agencies are included in the 2013-15 legislatively adopted budget, 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 2013-15 biennium, an estimated $119.1 million will be distributed by the U.S. Department of Labor for administration of the Unemployment Insurance Program, and $17.6 million is expected for employment services provided under the Wagner-Peyser Act.
- The ***Trade Adjustment Act*** funds training and placement services for displaced workers. In 2013-15, $9.5 million is anticipated from this source for administration of the program.
- Veterans' placement services are assumed to amount to $5.2 million for 2013-15.
- Estimates of funding for ***Extended Benefits and Emergency Unemployment Compensation*** (budgeted as Federal Funds Nonlimited) are expected to amount to $100 million in 2013-15. This benefit extension is slated to end on December 31, 2013.
- ***Bureau of Labor Statistics*** funding for workforce and economic research is anticipated to be $2.6 million in 2013-15.
- ***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 $130.9 million will be received during the 2013-15 biennium. The 2013-15 legislatively adopted budget transferred these federal funds along with expenses of the Child Care Division to the Department of Education.
- ***Unemployment Insurance Modernization Funds***– During the June and July of 2009, the Employment Department received one-time revenue as a result of adopting several changes to the UI program, including an alternative base year calculation for unemployment insurance benefits. Like Reed Act funds, the money can only be used for expenditures relating to UI and Employment Services administration. The funds are held in the UI Trust Fund, and the Department has proposed utilizing the $85.6 million in future biennia to improve productivity through the replacement of legacy information technology systems that are becoming obsolete and difficult to repair and update.

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 change in total expenditures since 2009-11 is a direct reflection of recessionary highs in administrative funding and program expenditures tapering off as the recession eased and ended. The unemployment rate in Oregon continues to hover around 8.0%, slightly higher than the U.S. average of 7.4% (July, 2013). For the state fiscal year 2013, nearly 126,000 Oregonians had received their initial unemployment check, down from 193,000 in fiscal year 2012. Federally funded Emergency Unemployment Compensation will be made available to Oregon through the 2013 calendar year. As federal support for additional benefits and attendant administration expenses wanes, the Employment Department will need to reduce program expenditures, primarily in the UI, B&ES, and Research divisions. Reductions in positions in these divisions will be phased in over the 2013-15 biennia (many through attrition).

The Employment Department has experienced formidable challenges with the completion and implementation of several large Information Technology projects, prompting very few IT-related policy option packages to receive review and recommendations for approval by either the Chief Financial Office or the Legislative Fiscal Office during the 2013 session. Over the course of the legislative session, the Department has largely come into compliance with Department of Administrative Services Enterprise Information Security Division project review and approval procedures. Additionally, the Department has sought outside expertise to complete projects that are behind schedule or not performing as desired. At the time of this report, the Employment Department was without a Chief Information Officer, and was working with outside contractors and the Department of Administrative Services to evaluate options aimed at developing a functional quarterly payroll reporting system for use by employers in time for the next tax year (by March 1, 2014). The Employment Department will need to stabilize and eventually replace its Document Management system (used to store and process UI claims data, tax records, and adjudication history). The project is delayed and over budget partially due to performance issues with the contractor selected to implement the project.

A review of Department operations and the retirement of the agency director effective July 30, 2013 led to the appointment of an interim director and management team at the Department. As of this writing, a new director has been named by the Governor and is awaiting confirmation by the Oregon Senate.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget is a 49.2% total funds reduction from the 2011-13 legislatively approved budget. The reduction is primarily due to a reduction in (Nonlimited) unemployment insurance benefit payments, reductions in agency expenditures to match the lower levels of federal revenue anticipated to be made available in 2013-15 to fund agency operations, and the transfer of the Child Care Division to the Department of Education. The Legislature applied standard reductions to the agency's budget attributable to the following: savings in PERS rates resulting from the passage of SB 822 and PERS Board administrative actions; expected efficiencies in finance, information technology, human resources, accounting, payroll, and procurement activities; and state agency assessment and attorney general rate changes. Investments made in overpayment recovery, job placement for Trade Act recipients and clients of other state agencies, UI call center phone system replacement, and federal Emergency Unemployment Compensation benefits were not enough to offset these reductions.

OED – Unemployment Insurance

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	(4,435,177)*	13,634,632	12,878,115	12,579,088
Federal Funds	162,794,906	138,568,096	116,423,007	124,863,794
Total Funds	**$158,359,729**	**$152,202,728**	**$129,301,122**	**$137,442,882**
Positions	834	797	595	692
FTE	795.85	720.99	578.24	633.19

** The 2009-11 negative OF expenditure is attributable to expenditures related to replacement of the UI phone system in 2007-09. These expenditures were reallocated to Federal Funds in 2009-11 after receipt of supplemental Federal Funds from the U.S. Department of Labor that reimbursed the agency for its expenditures. This audit exception was approved by the Department of Administrative Services.*

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 UI benefit cases.

Legislatively Approved Budget

The 2013-15 legislatively approved budget is a 7.8% decrease from the 2011-13 legislatively approved level, primarily due to the following: savings in PERS rates resulting from the passage of SB 822 and PERS Board administrative actions; expected efficiencies in finance, information technology, human resources, accounting, payroll, and procurement activities; state agency assessment and attorney general rate changes; the transfer of one position to the Department of Education; and reductions to balance expenditures with expected operating revenue. The latter is necessary due to a combination of caseload reduction (due to benefit exhaustion or resumption of employment), and declining federal reimbursement rates for administering regular benefits. The Department plans to reduce its expenditures through call center consolidation and staffing reductions amounting to 38 positions phased in throughout the course of the biennium (13.34 FTE), which will reduce

Other Funds by $1.6 million and Federal Funds by $1.3 million. Further reductions are anticipated to be necessary in the 2015-17 biennium.

Limitation increases from the current service level (CSL) were approved for programs or activities for which reimbursement through dedicated funding streams is available, and to accommodate new federal program changes or requirements. These include the following:

- Continuation of 12 limited duration positions dedicated to fraud detection and overpayment recovery ($1.5 million Other Funds and $288,000 Federal Funds). The Employment Department must improve its performance in these areas to maintain or increase its regular administrative grant funding from the Department of Labor, as well maximize the investments made by Oregon employers through their unemployment insurance taxes.
- Continuation of a federally funded Reemployment Eligibility Assessment program that evaluates a UI claimant's eligibility, work search efforts, and skills in order to provide targeted job search and reemployment assistance, with the goal of getting claimants back to work more quickly and reduce costs to the UI Trust Fund. Federal Funds were increased by $4.3 million and 29 full-time permanent Business and Employment Specialist 2 positions (29.00 FTE) were established.
- Approval of limited duration position authority and expenditure limitation for expected increases in UI administration resulting from federal extension of Emergency Unemployment Compensation through December 2013. The administration of the benefit extension is funded through an additional $4.3 million in Federal Funds, and requires 83 limited duration positions (19.88 FTE).
- Replacement of telephone systems servicing UI call centers that have reached the end of their useful and supported life cycle, and acquisition of enhanced predictive dialing capabilities. The investment increases Federal Funds expenditure limitation by $2.6 million and establishes one limited duration Information System Specialist 6 position (0.75 FTE) to plan and execute the project.

Limitation in the amount of $869,000 Federal Funds, six limited duration positions, and one permanent position were approved to accommodate passage of SB 191, which requires the first 15% of proceeds from penalties imposed for fraud to be redirected to the UI Trust Fund and allows for the imposition of an additional 15% in penalty amounts to be imposed and used for fraud control. The passage of SB 192 gives the Department less discretion in waiving penalties against employers who have a pattern of failing to respond timely to requests for information when the failure results in overpayment of a claim; allows for federally funded extensions of the Self Employment Assistance program; and changes Oregon's "Work Share" program to conform to federal rules on eligibility, payments, employer responsibilities, and federal funding. The changes to the work share program are assumed to increase participation, and Federal Funds expenditure limitation of $542,138 and 2.50 limited duration FTE were approved to accommodate the growth. Additional Other Funds limitation of $162,254 and a limited duration 0.88 FTE were approved to administer provisions of SB 252, which increased penalties for late filings by employers.

OED – Business and Employment Services

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	56,862,598	74,932,612	76,507,639	73,525,806
Federal Funds	29,715,471	28,955,497	28,074,389	28,347,461
Total Funds	**$86,578,069**	**$103,888,109**	**$104,582,028**	**$101,873,267**
Positions	535	521	496	473
FTE	527.61	514.76	478.96	477.21

Program Description

This program's mission supports businesses and promotes employment. Services are provided through field offices which recruit and refer qualified applicants to employers by matching the skills of the job seeker with employer job openings. Job seekers and employers can access employment information through interactive job services on OED's website. OED coordinates services with other Workforce partners to help customers access training, skills assessment counseling, and employability planning.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget is a 4.9% decrease from the 2013-15 legislatively approved budget. Standard adjustments included savings in PERS rates resulting from the passage of SB 822 and PERS Board administrative actions; expected efficiencies in finance, information technology, human resources, accounting, payroll, and procurement activities; and state agency assessment and attorney general rate changes. Four positions that provided administrative support and attendant expenditure limitation ($845,797 Other Funds) were eliminated as they will be reestablished within the Department of Education.

Reductions were made to balance expenditures with expected available revenue. As with the UI division, the amount of projected federal funding is failing to keep up with the cost of administering the Business and Employment Services Division. The legislatively approved budget eliminates $3.6 million in Other Funds expenditure limitation, $2.3 million in Federal Funds limitation, and 39.50 FTE. Targeted staffing reductions will be phased in over the course of the biennium, utilizing criteria that considered the ratio of registered customers to staff in various locations, the ability to integrate and co-locate with Workforce Investment Act partners, and the proximity of nearby offices. The reductions assume the consolidation of up to eight field offices, several of which currently operate during limited hours. Further reductions are assumed for 2015-17.

Limitation increases from the CSL were approved for programs or activities for which reimbursement through dedicated funding streams is available, and to accommodate new federal program changes or requirements, as follows:

- Federal Funds limitation of $4 million and 24.00 limited duration FTE were approved for the intensive worker retraining and reemployment services required per the reauthorized Federal Trade Act. Adjustments were made to correct an error that overestimated expenditure limitation and position authority needed for the trade act extension.
- The Legislature approved the addition of Other Funds expenditure limitation in the amount of $3.1 million and authority for 22 limited duration positions to provide job placement services under contract to partner and state agencies. The Department utilizes the positions to respond to state and local agencies that contract with OED to place individuals from training programs (such as vocational rehabilitation, the JOBS program at the Department of Human Services (DHS), and various workforce training programs at community colleges). A similar package has been approved for the last 10 biennia (with greater or lesser numbers of positions) depending on the workload estimates of partner agencies. The package is funded on a fee-for-service basis.

OED – Child Care

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted*
General Fund	2,756,233	3,234,080	4,119,654	0
Other Funds	1,687,406	4,588,582	3,089,580	0
Federal Funds	121,874,138	137,438,918	127,661,979	0
Total Funds	**$126,317,777**	**$145,261,580**	**$134,871,213**	**$0**
Positions	77	80	78	0
FTE	73.00	73.93	74.00	0

** The 2013 Legislative Assembly authorized the transfer of the Child Care Division from the Employment Department to the Department of Education.*

Program Description

The Child Care Division had been part of the Employment Department because safe and affordable child care was seen as much as a workforce need as a human resources or education need. The Child Care Division's activities included providing families with access to child care information and services; establishing basic standards for child care services; licensing and inspecting child care centers, family homes, and regulated providers; enforcing mandatory registration of family child care providers; and staffing the Child Care Commission (CCC), which advocates for and advises the Governor and Legislature on affordable, quality child care in Oregon.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget adjusted the CSL for the Child Care Division to reflect standard adjustments related to PERS and administrative savings, and added $2.8 million in Federal Funds expenditure limitation and 2.00 permanent FTE to reflect the 2013-15 portion of a federal grant to support further development of a Tiered Quality Rating and Improvement System (TQRIS) for child care providers. The legislatively approved budget then transfers the Child Care Division to the Department of Education, to reflect the policy goal of supporting enriching learning environments for the very young to better prepare them for academic success. The amount of the transfer is as follows:

	2013-15 Legislatively Adopted*/Transferred
General Fund	4,119,654
Other Funds	3,089,580
Federal Funds	127,661,979
Total Funds	**$134,871,213**
Positions	78
FTE	74.00

OED – Office of Administrative Hearings

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	27,790,876	27,585,638	26,189,660	26,001,576
Total Funds	**$27,790,876**	**$27,585,638**	**$26,189,660**	**$26,001,576**
Positions	144	128	111	114
FTE	143.50	123.01	110.00	111.13

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 utilize the services of the Office of Administrative Hearings for their contested case proceedings.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget is a 5.5% reduction from the 2011-13 legislatively approved budget, and reflects standard adjustments related to PERS and administrative savings, and changes to state agency assessments and attorney general rates. Additional Other Funds expenditure limitation of $221,000 and 3 limited duration positions were approved to address increases in administrative hearings related to the federal Emergency Unemployment Compensation extension in effect through calendar year 2013. Another $318,000 in Other Funds expenditure limitation was approved to complete the first phase of the Division's case management system replacement project; most of this phase of the project – which will integrate case management functionality, and improve productivity and services to clients – was completed in the 2011-13 biennium.

OED – Workforce and Economic Research

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	6,269,787	8,547,868	8,874,313	8,416,324
Federal Funds	7,720,632	6,699,609	6,950,439	6,755,880
Total Funds	**$13,990,419**	**$15,247,477**	**$15,824,752**	**$15,172,204**
Positions	69	69	66	66
FTE	68.50	68.50	65.50	65.50

Program Description

This program coordinates the collection and dissemination of occupational and labor force 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 employment surveys requested through the U.S. Bureau of Labor Statistics, local workforce investment boards, or private businesses and industry consortiums.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget is a 0.49% reduction from the 2013-15 legislatively approved budget, and reflects standard adjustments related to PERS and administrative savings, and changes to state agency assessments and attorney general rates. The Legislature increased Other Funds by $373,048 and approved two limited duration positions to allow capacity to conduct customized analysis and research requested by customers, funded on a fee-for-service basis. However, a permanent reduction in Other Funds expenditure limitation in the amount of $594,622 and 2.00 FTE was approved to align expenditures with anticipated available revenue.

OED – Nonlimited

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds (NL)	2,415,086,782	2,077,281,096	1,648,948,096	1,634,912,351
Federal Funds (NL)	3,009,968,682	1,492,000,000	110,000,000	124,035,745
Total Funds	**$5,425,055,464**	**$3,569,281,096**	**$1,758,948,096**	**$1,758,948,096**

Program Description

Payments of unemployment benefits (associated with the Unemployment Insurance Division of OED) and federal Trade Adjustment Act payments (associated with the Business and Employment Services Division of OED) are budgeted as Nonlimited.

Legislatively Adopted Budget

Oregon's UI system is funded through a counter-cyclical strategy of raising revenue to pay benefits from employers when the economy is strong. Employer premiums are set in law and adjust annually so that sufficient reserves are on hand to cover 18 months of a recession. Unlike other states with a "pay-as-you-go" UI system, Oregon's employers are more insulated from sharp increases in premiums, and the state is not at risk for insolvency, unlike some other state UI systems.

The 2013-15 legislatively adopted budget estimates over $1.7 billion in unemployment insurance benefit payments, a 50.7% decrease from the 2011-13 biennium. This decrease is illustrative of the formal "end" of the "Great Recession," reflecting a combination of individuals who have exhausted their benefits and the beginnings of an economic recovery as more Oregonians find jobs and return to work. Benefit payments to federal employees are included in the "Federal Funds Nonlimited" category since these benefit payments are paid by federal, not state UI taxes. Also included in the Federal Funds Nonlimited category are the amounts for benefit extensions and benefit payment increases attributable to extended benefits and Emergency Unemployment Compensation, through December 31, 2013.

Housing and Community Services Department (HCSD) – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	9,524,010	15,312,436	12,187,323	8,593,855
Lottery Funds	8,454,527	10,464,685	10,010,599	9,428,966
Other Funds	111,020,175	149,615,398	117,857,575	73,939,411
Other Funds (NL)	744,541,892	806,981,605	577,328,360	454,533,001
Federal Funds	271,449,723	208,039,554	154,818,200	77,993,813
Federal Funds (NL)	105,608,871	108,229,868	108,000,000	54,000,000
Total Funds	**$1,250,599,198**	**$1,298,643,546**	**$980,202,057**	**$678,489,046**
Positions	188	211	127	169
FTE	160.48	184.39	126.50	77.59

Agency Overview

The Housing and Community Services Department (HCSD) provides financing and program support for the development and preservation of affordable housing, and administers federal and state antipoverty, homeless, energy assistance, and community service programs. The State Housing Council, a seven-member panel appointed by the Governor, advises the Governor, Legislature, HCSD, and local governments on affordable housing issues.

Revenue Sources and Relationships

General Fund support is provided to the General Fund Food Program, which provides support to the Oregon Food Bank Network for capacity building and bulk food purchases ($2.7 million); the Statewide Homeless Assistance Program which funds emergency shelter programs and associated services ($2.6 million); the Emergency Housing Assistance Program ($4.8 million) which provides supportive services, emergency mortgage, rent, or utility payments to those who are homeless or at risk of becoming homeless; and support for the low-income rental assistance program ($464,435). Prior to the 2011 session, the rental assistance program was funded through a surcharge on court cases related to residential landlord and tenant law. General Fund support is also provided for mortgage resolution services and foreclosure prevention counseling for homeowners who are at risk of foreclosure ($4.2 million), and the Housing Choice Landlord Guarantee Program ($149,710) which provides reimbursement up to $5,000 in damages caused by renters receiving federal tenant-based assistance payments. The amount of 2013-15 General Fund support for the Court Appointed Special Advocates program – including program staff support through the Oregon Volunteers program – is $2.4 million. The 2013-15 legislatively approved budget provides for 50% of each program's funding through the agency's budget (HB 5015) with the remaining 50% set aside in a special purpose appropriation to the Emergency Board, to be allocated pursuant to receipt and evaluation of a report on options for sustainable program delivery. The report is scheduled to be delivered to the Legislature during the 2014 session. Amounts listed above are for a full biennium's worth of program expenditures (note that HB 5015, the agency's budget bill, appropriates roughly 50% for each program).

Lottery Funds in the amount of $9.4 million are provided for debt service payments on bonds issued for the following purposes: the Community Incentive Program ($3.7 million); the Housing PLUS program (low income housing with on-site personal supports -- $2.2 million); and for debt service payments on bonds to preserve affordable rental housing and manufactured home parks ($3.5 million).

HCSD has numerous sources of Other Funds that include the following: proceeds from the sale of bonds ($240 million); mortgage and down payment assistance repayments ($222 million); Federal HUD contract administration fees for service ($4.8 million); Homeownership Stabilization Initiative fees for service ($2.9 million); loan, tax credit, and other fees for service ($10.3 million); interest earnings ($162.6 million); the energy bill payment assistance charge ($29.9 million); a portion of the public purpose charge established as part of the electric industry restructuring legislation approved in 1999 ($26.2 million); and special assessments on manufactured dwellings ($963,000 per SB 772, 1999). The passage of HB 2436 in 1999 added $20 million from fees for recording certain documents, and the passage of HB 2417 (2013) increased these fees by $5 to generate an additional $5.83 million in the 2013-15 biennium, specifying that an equivalent amount of proceeds be used for veterans' housing. Lottery bond proceeds are also part of the legislatively adopted budget, and are budgeted as Other Funds. The Legislature approved $5.1 million in bond proceeds for affordable housing preservation for 2013-15 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. General Fund for the CASA and the Housing Choice Landlord Guarantee Program are also transferred to Other Funds.

Federal Funds are received primarily as formula grants for weatherization and anti-poverty programs. The 2013-15 legislatively approved budget assumes Federal Funds revenues as follows:

- Community Services Block Grant: $11.2 million
- Homeless Assistance Grants: $2.22 million
- Food and commodity program support from the Department of Agriculture: $2.4 million
- HOME tenant-based rental assistance: $5.1 million
- Temporary Assistance to Needy Families transfers: $1 million
- Low Income Energy Assistance Program: $84.7 million
- Federal weatherization funding: $21.8 million
- HOME funds for housing development from Housing and Urban Development: $18.5 million
- Section 8 rent subsidy (Federal Funds Nonlimited): $108 million
- Foreclosure mitigation counseling grant: $1.15 million
- Neighborhood Stabilization Grant for redevelopment efforts in areas hard hit by foreclosure: $1 million
- Corporation for National and Community Service (Oregon Volunteers! grant funds): $5.6 million

Budget Environment

The slow economy, high rates of unemployment, and a tight credit market have converged to create a challenging environment for HCSD. High rates of unemployment have led to record numbers of home foreclosures and weak buyer demand. While low interest rates may be a boon for those with steady income, they affect the operational capacity of HCSD, because the agency's single family home loan program is not competitive with the private sector; if no bonds for the program are issued, no loan payments and associated interest earnings can be generated to provide operating funding for the agency. Economic uncertainty has caused bond issuance costs to rise and purchase of pass-through revenue bonds (and related fee income) to lag.

The high rates of foreclosure and unemployment mean that the demand for affordable housing – which exceeds supply in the best of economic times – is high. And, tight credit markets make it difficult for affordable housing developers to cobble together financing to make projects pencil out. Finally, regulations have limited the amount of overall earnings on HCSD bonds, while requirements for reserves against default and to secure attractive ratings have increased, to the point that little remains available for agency operations.

Federal decisions have created challenges for the agency as well. High unemployment and foreclosure rates in Oregon led to an award from the United States Treasury of $220 million in Troubled Asset Relief Program funds for mortgage payment assistance, loan preservation assistance, transitional assistance, and loan refinancing assistance. The Department has created programs and eligibility criteria, publicized the assistance, developed procedures in accordance with federal program guidelines and contract oversight criteria, and hired and train staff to assist homeowners in or at risk of foreclosure. HCSD is on track to expend these dollars by mid-2014, and the Home Ownership Stabilization Initiative program will phase out this biennium.

A new agency director in 2012 ushered in organizational changes as well. Agency programs and management have been reconfigured from the organizational structure assumed in the 2011-13 legislatively approved budget. HCSD has begun a thorough look at its services and delivery options, and is exploring ways to eliminate duplication with other agencies or non-essential services. The 2013-15 legislatively approved budget includes General Fund appropriations and Other and Federal Funds limitation equivalent to one year of operating expenses for current agency programs (expenditure limitation for two years of debt service obligations is provided). The agency has been directed via budget note to report to the Legislature on alternative, sustainable service delivery models for 2014 and beyond. The budget note states the following:

The Housing and Community Services Department shall report to the Legislature during the 2014 session on alternate service delivery models for 2015 and beyond. The report should include recommendations on the following:

- Programs and functions that should be discontinued due to redundancies in other agencies and sectors, or because of unsustainable funding, or lack of demand.
- Programs and functions with ongoing, sustainable funding sources that should be continued, and how these programs should be prioritized.
- Of those programs and functions that are recommended for continuation, specification as to which are recommended to be carried out by other agencies or entities, along with a demonstration that the change has been discussed with the potential receiving party, and that the recommendation is feasible.
- Proposed performance measures for programs recommended for continuation.
- The naming of an advisory body or bodies that should provide coordinated housing policy advice to agencies responsible for administering housing-related programs, the Governor, and the Legislature, and a recommendation on which advisory bodies to discontinue.
- A plan for implementing recommended changes which includes a timeline of when functions will be discontinued, transferred or consolidated, and when remaining 2014-15 housing-related expenditure limitation or appropriations should be granted, and how commitments related to bonds, grant agreements, and other legal or contractual obligations will be met.
- Changes to statutes needed to implement the recommendations in the report, and to maximize the use of the Housing Trust Fund corpus to provide affordable housing to low income Oregonians.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget for the Housing and Community Services Department is $678.5 million, a 47.8% decrease from the 2011-13 legislatively approved budget. The primary reason for the reduction compared to the previous biennium is because of the “one year” operating budget, pending decisions about how programs will be structured and delivered in 2014 and beyond. The 2013-15 legislatively approved budget also includes standard adjustments due to the following: assumed savings in PERS rates resulting from the passage of SB 822 and PERS Board administrative actions; for expected efficiencies in finance, information technology, human resources, accounting , payroll, and procurement activities; and for state agency assessment and attorney general rate changes.

HCSD – Safety Net Programs

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	9,479,237	9,624,811	9,963,645	5,284,193
Other Funds	7,228,026	9,314,018	8,842,795	4,693,246
Federal Funds	31,121,340	20,039,676	20,918,792	10,449,442
Total Funds	**$47,828,603**	**$39,978,505**	**$39,725,232**	**$20,426,881**
Positions	13	13	9	9
FTE	11.85	12.00	9.00	4.50

Program Description

Formerly called the Self-Sufficiency/Emergency Assistance program, Safety Net Programs services are provided to very low-income Oregonians to help meet short-term, daily needs for food and shelter. The core types of assistance provided include the following:

- ***Rental Assistance*** includes subsidizing housing costs and, in some cases, developing a self-sufficiency plan to assist individuals with other support, counseling, and training to avoid on-going reliance on assistance.
- ***Homeless Assistance*** targets homeless or those at risk of becoming homeless to provide for the costs of emergency shelter, transitional housing, and prevention activities such as training and employment assistance and counseling services. HCSD receives both General Fund and Federal Funds, as well as a share of Oregon’s Document Recording Fee 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. Funding comes from the General Fund, 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)*** assists low-income individuals who enroll in personal development plans to obtain appropriate financial counseling, career or business planning, and other services. IDAs can be used for post-secondary education, job training, purchase of a primary residence, or to capitalize a small business. This service was relocated to this program area to better integrate it with other HCSD anti-poverty programs.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget is a 47.6% decrease from the 2011-13 legislatively approved budget. The primary reason for the reduction compared to the previous biennium is because of the "one year" operating budget, pending decisions about how programs will be structured and delivered in 2014 and beyond. The 2013-15 legislatively approved budget also includes standard adjustments due to the following: assumed savings in PERS rates resulting from the passage of SB 822 and PERS Board administrative actions; and for state agency assessment and attorney general rate reductions. The legislatively adopted budget provided an additional $450,000 in one-time support to the Oregon Hunger Response Fund (formerly the General Fund Food Program), with half of this amount directed to the special purpose appropriation for second year operations. New investments dedicated to veterans' housing funded by a $5 increase in the document recording fee were also included in the legislatively adopted budget ($280,592 Other Funds), as was General Fund support in the amount of $74,855 for the Housing Choice Landlord Guarantee Program which provides reimbursement of up to $5,000 in damages caused by renters receiving federal tenant-based assistance payments; a corresponding amount of General Fund is included in the special purpose appropriation.

HCSD – Energy/Weatherization

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	49,708,406	56,141,616	46,254,379	28,117,551
Federal Funds	131,168,528	130,503,385	103,713,476	51,852,815
Total Funds	**$180,876,934**	**$186,645,001**	**$149,967,855**	**$79,970,366**
Positions	25	23	6	6
FTE	24.50	19.00	6.00	3.00

Program Description

Energy and Weatherization programs help low income families by providing assistance payments, installing energy-saving modifications on heating systems and home weatherization, and providing conservation education. Bill payment assistance and energy efficiency measures free up scarce resources for other essentials, such as food and housing costs. HCSD administers various energy and weatherization activities through state and federal funding sources; the programs are delivered to low income Oregonians through the statewide network of local community action agencies.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget for the Energy and Weatherization program is a 57.2% decrease from the 2011-13 legislatively approved budget, due to the agency's "one year" operating budget, and due to internal reorganization within the agency that realigned personnel within divisions, taking the program from 23 positions down to six "core" weatherization positions. The legislatively adopted budget includes $5 million in Other Funds expenditure limitation for special payments associated with 2013-14 low income bill payment assistance collections authorized under HB 2004. The legislatively adopted budget also assumes a transfer of $4.8 million in public purpose charge revenue from Housing and Community Services to the Oregon

Department of Energy for use in energy efficiency and conservation initiatives associated with the Governor's ten-year energy plan (HB 2322). The Governor vetoed this provision on August 14, 2013.

HCSD – Multifamily Rental Housing Programs

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	0	453,550	0	0
Lottery Funds	8,454,527	10,464,685	0	0
Other Funds	36,877,205	58,251,842	37,685,624	25,998,225
Other Funds (NL)	211,691,897	326,548,934	1,005,000	502,500
Federal Funds	70,363,473	34,178,226	17,539,997	8,759,839
Federal Funds (NL)	105,608,871	108,229,868	108,000,000	54,000,000
Total Funds	**$432,995,973**	**$538,127,105**	**$164,230,621**	**$89,260,564**
Positions	60	67	29	29
FTE	57.80	64.00	29.00	14.50

Program Description

HCSD assists in making available a continuum of housing options for low-income and fragile Oregonians. The agency promotes affordable housing development and rehabilitation of existing rental housing through the issuance of tax-exempt bonds, provision of conduit financing and loan programs, and administration of three housing tax credit programs. Several of the grants and tax credits are allocated through the semi-annual, competitive Consolidated Funding Cycle. The agency also monitors the physical condition, management and tenant eligibility of housing projects that have received funding, and serves as the Performance Based Contract Administrator for project-based, federal Housing and Urban Development funded Section 8 housing. Federal Rent subsidy payments, budgeted as Federal Funds Nonlimited, are administered through the Multifamily Rental Housing Program.

In previous biennia, the agency had included home ownership and multifamily rental programs under one program area, and had included all bond related activities (including issuance costs and debt service). Under new agency management, the decision was made to separate bond-related activities and debt service management from the day-to-day program management activities, and to distinguish services associated with single family housing from multifamily housing. For the 2013-15 biennium, debt service and bond-related activities are each in a separate program area, below.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget is an 83.4% total funds decrease from the 2011-13 legislatively approved budget, due to the agency program realignment described above, and due to the agency's "one year" operating budget. Standard adjustments for assumed savings in PERS rates resulting from the passage of SB 822 and PERS Board administrative actions, as well as changes in state agency assessments and attorney general rates are included.

Additional Other Funds expenditure limitation in the amount of $2.1 million was approved to reflect the passage of HB 2417, providing for new investments dedicated to veterans' housing that are funded by a $5 increase in the document recording fee.

HCSD – Single Family Housing

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	0	5,234,075	0	2,118,187
Other Funds	6,346,606	10,758,872	3,554,394	2,203,821
Other Funds (NL)	95,069,942	213,086,331	0	0
Other Funds Debt Svc.	437,900,435	267,346,340	0	0
Federal Funds	35,843,329	21,015,609	2,198,402	1,800,233
Total Funds	**$575,160,312**	**$517,441,227**	**$5,752,796**	**$6,122,241**
Positions	20	20	6	9
FTE	18.88	18.67	6.00	4.19

Program Description

HCSD promotes homeownership by supporting below-market-rate loans financed through the sale of tax-exempt mortgage revenue bonds, providing down-payment and closing cost assistance, and funding home ownership education. This program also funds counseling and legal assistance services to homeowners facing foreclosure, and administers the federal Neighborhood Stabilization Program grant for communities to redevelop areas with high instances of foreclosure. Also included is the manufactured communities resource center, which promotes cooperative relationships and alternatives to court action among owners and tenants; the program is funded through an annual assessment on manufactured homes and park registration fees.

Legislatively Approved Budget

The 2013-15 legislatively adopted budget is a 98.8% decrease from the 2011-13 legislatively approved budget, because of the internal realignment of programs (bond related activities and Other Funds Nonlimited Debt Service are now being budgeted in other agency divisions) and due to the agency's "one year" operating budget. The 2013-15 legislatively approved budget includes standard adjustments for assumed savings in PERS rates, and reflects a total General Fund investment of $4.2 million for mortgage resolution and foreclosure prevention counseling and legal assistance ($2.1 million of which was included in the special purpose appropriation to the Emergency Board). Remaining Neighborhood Stabilization Program grant funding in the amount of $754,620 Federal Funds are anticipated to be fully disbursed in 2013-14. Other Funds expenditure limitation in the amount of $437,560 and one position were added to the program, reflecting the home ownership component of HB 2417, which increased the document recording fee by $5 and dedicated revenue to veterans housing.

HCSD – Home Ownership Stabilization Initiative

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	0	6,337,198	380,247	2,551,051
Total Funds	**$0**	**$6,337,19**8	**$380,247**	**$2,551,051**
Positions	0	54	0	37
FTE	0	37.52	0	12.33

Program Description

The Homeownership Stabilization Program is a temporary, two-biennium program that was set up to administer disbursement of $220 million in federal Troubled Asset Relief Program dollars. Oregon was one of 18 states to receive "Hardest Hit" funding as a result of recessionary high unemployment and home foreclosure rates experienced during the economic recession. The program provides temporary mortgage payment assistance, loan refinancing assistance for borrowers who owe more in mortgage loan than the market value of their home, and help with fees and charges amassed through late payments to qualifying applicants.

Because funds must be distributed by 2017, all funding and positions in this program were budgeted as limited duration, and as a result, is not reflected in the current service level.

Legislatively Approved Budget

The 2013-15 legislatively adopted budget is a 59.7% reduction from the 2011-13 legislatively approved budget, reflecting the phase-out and spending down of federal Troubled Asset Relief Program dollars that fund the administration of the Homeownership Stabilization Program. The Department is on track to close out the majority of the program (except for miscellaneous reporting requirements) in the first half of the biennium. The legislatively adopted budget also includes standard adjustments to reflect expected savings in PERS rates.

HCSD – Central Services

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	44,773	0	2,223,678	1,191,475
Other Funds	9,533,979	8,811,852	18,436,695	9,023,797
Federal Funds	2,953,053	2,302,658	10,447,533	5,131,484
Total Funds	**$12,531,805**	**$11,114,510**	**$31,107,906**	**$15,346,756**
Positions	35	34	77	79
FTE	34.70	33.20	76.50	39.07

Program Description

The Central Services program includes the administrative functions of the department, and contains three separate divisions:

- ***Director's Office*** – Provides leadership for the Department, and includes the Director, Chief Audit Executive, executive support staff and the Human Resource Section. Also included is the State Housing Council, consisting of seven members who are appointed by the Governor to develop policies and provide guidance on proposed projects to stimulate and increase the supply of affordable housing.
- ***Policy, Strategy and Community Engagement Division*** – Includes communications and legislative coordination functions, community engagement, and Oregon Volunteers. The division serves research and development functions by gathering quantitative and qualitative information, tracking and analyzing data, meeting state and federal reporting requirements, and working closely with internal and external stakeholders. Oregon Volunteers! has the mission to promote and support AmeriCorps, volunteerism, and civic engagement in order to strengthen Oregon communities. Oregon Volunteers! receives federal funding from the Corporation for National and Community Service. The Court Appointed Special Advocates program (CASA) was moved under the umbrella of Oregon Volunteers in 2012, after the disbandment of the Commission for Children and Families; at the time, the move was described as temporary, pending decisions about a permanent agency "home" for CASA.
- ***Business Operations Division*** – Asset management, information technology, finance, debt management, and administrative services are included in this division. Budget development and implementation, contract and grant awards, compliance and monitoring, information systems, facilities management, accounting and finance, bond issuance and debt management are among the activities performed by personnel in this unit.

Internal realignment by the current agency director centralized activities such as certain database management and reporting functions, and property management functions.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget is a 38.1% increase over the 2011-13 legislatively approved budget because of the realignment of functions and personnel that were located in other divisions in previous biennia. The 2013-15 legislatively approved budget includes standard adjustments due to the following: assumed savings in PERS rates resulting from the passage of SB 822 and PERS Board administrative actions; for expected efficiencies in finance, information technology, human resources, accounting , payroll, and procurement activities; and for state agency assessment and attorney general rate changes. An additional fiscal analyst position was approved pursuant to the passage of HB 2417, which increased the document recording fee by $5 dollars to secure additional housing resources for veterans.

HCSD – Bond-Related Activities

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	0	0	2,703,441	1,351,720
Other Funds (NL)	0	0	244,585,718	122,292,859
Total Funds	**$0**	**$0**	**$247,289,159**	**$123,644,579**

Program Description

The Bond-Related Activities program was created as part of the agency realignment that took place over the 2011-13 interim. In previous biennia, these activities were budgeted under single family/home ownership and multi-family/affordable rental programs.

Bond-Related Activities provide the mechanism to expend funds related to the agency's bond-financed loan programs. HCSD sells tax-exempt bonds to investors and uses the proceeds to finance multifamily and residential (single family) mortgage loans. Investors accept lower interest yields because the interest earned is generally exempt from income tax; the result is lower borrowing costs, which are passed on to borrowers in the form of below-market interest rates on their loans. Because of their tax-exempt status, the bonds are subject to certain federal requirements, such as the following: for multi-family housing projects, a certain number of units must be affordable to people with incomes within a specific range; and single family loans must be for owner-occupied homes with purchase price limitations for low-to-median income first time home buyers. Bonds issued for projects take one of two approaches: issuance of direct revenue bonds (for single family loans, and some multifamily projects which remain within the agency's multifamily loan portfolio); and pass-through (or "conduit") revenue bonds, which simply provide borrowers with access to lower financing rates. The latter are sold as private placements to large commercial banks, which underwrite the projects and negotiate specific transaction terms with the borrower, and depend on commercial bank capacity and willingness to participate as lenders.

Expenditures related to the program include disbursement of bond proceeds, for loans, mortgages and down payment assistance; bond issuance costs for sales fees and marketing; administrative expenses including fees attributable to underwriting, attorneys, financial advisors, trustees, state treasury assessments, and liquidity necessary to assure compliance with tax code requirements and bond covenants throughout the outstanding life of the bonds; and asset protection expenses, including insurance and maintenance.

Legislatively Adopted Budget

In 2009-11, HCSD curtailed its single family loan program, funded through mortgage revenue bonds because conventional loan rates were comparable with what the agency was able to offer, and the low interest rate environment was not enough to offset the costs of providing the loans to borrowers. During 2011-13, HCSD purchased 880 single-family loans with an aggregate loan amount of over $126 million and continued to issue revenue bonds to finance single-family loans utilizing the federal New Issue Bond program ("NIBP"). In June 2013, the Department was also able to generate a modest amount of new money proceeds in conjunction with a large Mortgage Revenue Bond (MRB) refunding. Activity in the 2013-15 biennium is expected to continue as HCSD is currently in the early stages of a new MRB issue (approximately $25 million) which is expected to close in late October/early November 2013. During 2013-15, the Department also expects to refund approximately $60 million of outstanding MRB; similar to the 2013 MRB refunding, and some of these bond structures could also include amounts of lendable new money proceeds.

Based on currently available proceeds and immediate projections of bond issue, HCSD expects to originate at least $75 million of new single-family loans in FY 2013-14; projected origination in FY 2014-15 is still being assessed and will largely depend on tax-exempt bond rates and prepayment speeds. The 2013-15 legislatively adopted budget reflects the agency's "one year" operating budget. No personnel or FTE costs are budgeted in this program, which will allow for future comparisons of bond activity over time.

HCSD – Bond Debt Service

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Lottery Funds	0	0	10,010,599	9,428,966
Other Funds (NL)	0	0	331,737,642	331,737,642
Total Funds	**$0**	**$0**	**$341,748,241**	**$341,166,608**

Program Description

Expenditures in this program reflect the following: regular scheduled principal and interest payments on all of the agency's outstanding direct revenue bonds and Elderly and Disabled Housing project bonds; principal and interest related to early redemption of these bonds; net interest payments owed to parties as a result of interest-rate exchange agreements; and repayments to the U.S. Treasury of any investment earnings that exceed regulated rates earnings rates. In previous biennia, these costs were budgeted under single family/home ownership and multi-family/affordable rental programs.

Legislatively Adopted Budget

The 2013-15 legislatively adopted provided Lottery Funds for a full biennium of debt service on outstanding obligations. The legislatively adopted budget adjusted the lottery fund allocation from the current service level to reflect expected savings in debt services costs.

Lottery Funds allocations are related to specific projects for which lottery bonds were issued in previous biennia, including affordable housing preservation and housing for the homeless with supportive services. Debt service payments on $5.1 million in lottery bond proceeds approved in the 2013-15 biennium for affordable housing preservation will not be due until the 2015-17 biennium, as the bonds are not expected to be issued until the spring of 2015.

Department of Veterans' Affairs (ODVA) – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	5,887,682	6,562,195	6,237,138	9,448,781
Other Funds	39,692,961	59,711,219	47,550,792	43,788,902
Other Funds (NL)	496,940,215	443,095,385	335,225,000	335,225,000
Federal Funds	1,970,508	26,702,288	0	0
Total Funds	**$544,491,366**	**$536,071,087**	**$389,012,930**	**$388,462,683**
Positions	109	94	94	82
FTE	106.79	94.00	93.20	81.20

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 loans to veterans, and includes loan servicing and Department administration costs. The Veterans' Services Program provides counseling, claims assistance, conservatorship services, and partnerships with counties and national veterans' service organizations to facilitate assistance to veterans. The Veterans' Services Program is funded with General Fund and Other Funds, including conservatorship fees. The Veterans' Home Program operates a nursing and memory care facility in The Dalles, and is funded with Other Funds; construction of a second veterans' home in Linn County is underway, and lottery funding for a portion of the state's share of construction costs was reauthorized for a third home in Roseburg.

Revenue Sources and Relationships

The largest sources of ODVA Other Funds revenues are bond sales ($100 million in 2013-15), veteran loan and contract-related repayments ($75 million), and interest earnings ($55 million). The balance of revenue comes from insurance premiums and other service charges, licenses, fees, and miscellaneous revenues totaling approximately $340,000. Available revenues and reserves are expected to be sufficient for operations and necessary debt service. The program's administrative costs are limited in the budget, while the direct loan activity expenditures (i.e., loans made to veterans, pass-through payments made on behalf of borrowers, and debt service paid on General Obligation bonds issued to finance the program) are Nonlimited.

The Claims and Counseling section is funded with General Fund and the Conservatorship program is funded from both General Fund and Other Funds. Conservatorship fee income in the 2013-15 biennium is estimated to total approximately $865,000. The 2013-15 legislatively adopted budget provided sufficient General Fund to fully fund ODVA's Veterans' Service Officer (VSO) positions, effectively ending the direct subsidy of the VSO positions from loan program monies that had been in place for two decades. General Fund also supports the educational assistance, emergency assistance, and service delivery partnership programs, whereby funding is largely passed through as special payments to counties, national service organizations, or individuals.

The Veterans' Home Program operational costs are financed entirely with Other Funds. However, approximately $502,000 General Fund has been provided for debt service on bonds to be issued that provide $4 million of state construction matching funds for the Lebanon Veterans' Home. Revenues are primarily moneys received from the residents of the Home, Medicare and Medicaid payments, and a per diem amount received directly from the federal Veterans' Administration. Veterans who reside in the Home receive benefits not available to them if they reside elsewhere. Many veterans receive aid and attendance along with disability compensation or income-based VA pensions, which, combined with their social security benefits, provides the revenue with which to pay for their care in the Home. The total amount of revenue is based in part on the occupancy projections obtained from the Home's contractor.

Budget Environment

In November 2010, Oregon voters passed Ballot Measure 70, expanding veteran eligibility for the Veterans' Home Loan program as well as eliminating the constitutional 30-year loan eligibility restriction under state law. The loan program is now a lifetime benefit for eligible veterans. In addition, federal law has a limitation of 25 years from discharge in which the veteran must apply for a state home loan, thus limiting the ability to issue tax-exempt bonds for veterans, so any loans for this newly eligible group will have to be funded from reserves or older bond proceeds. Oregon and the four other states with Veterans' home loan programs (California, Texas, Wisconsin, and Alaska) are seeking federal legislation to ease this restriction.

Aging veterans and an increase in the number of younger veterans due to conflicts in the Middle East are creating an increased demand for veterans/counseling and claim services. Support service functions of the counseling and claims program are partially subsidized through interest, fees, and the reserves of the Veterans' Loan program The program has struggled with low demand in both the investor (bond) and consumer (home loan) markets, low interest rates and earnings, lower real estate valuations, higher rates of foreclosure, higher prepayments, and federal restrictions on use of bond funds and earnings generated. All of these factors have negatively impacted the loan program's financial performance. ODVA will be utilizing reserves to help pay for operations in the 2013-15 biennium, and economic modeling suggests that reserve amounts and earnings potential for the program are projected to be under pressure for the foreseeable future.. While economic conditions have recently shown some improvement, demand for new loans and earnings generation will likely remained constrained.

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. A second Veterans' Home is being constructed in the city of Lebanon in Linn County and is scheduled to be completed in the autumn of 2014. A third home in Roseburg was authorized in 2011, with lottery bond proceeds set aside to fund a portion of the non-federal match obligation for construction expenses.

The 2013-15 legislatively adopted budget includes standard statewide reductions to reflect reductions in PERS rates resulting from the passage of SB 822, and statewide administrative savings in finance, information technology, human resources, accounting, payroll and procurement expenditures. End of session adjustments to the budget to reflect more up-to-date state agency assessments and attorney general rates were also made.

ODVA – Loan Program

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	12,528,897	16,064,672	17,365,283	15,245,709
Other Funds (NL)	496,940,215	443,095,385	335,225,000	335,225,000
Total Funds	**$509,469,112**	**$459,160,057**	**$352,590,283**	**$350,470,709**
Positions	73	63	63	51
FTE	72.46	63.10	62.30	50.30

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 $7.7 billion. The state funds the loans by issuing General Obligation bonds authorized under Article XI-A of the state Constitution. The program consists of:

- ***Director's Office*** – internal audit, public information, and communications.
- ***Veterans' Home Loan Services*** – functions dealing with the loan program, including originating and servicing the loans.
- ***Financial Services*** – overall financial oversight of the Department, including accounting, cashiering, and financial management.
- ***Support Services*** – human services, information services, business services, and records and information management.

Legislatively Adopted Budget

The 2013-15 legislatively adopted limited budget of approximately $15.2 million Other Funds is a 5.1% reduction from the 2011-13 legislatively approved budget. In response to reductions in loan activity due to the economic downturn, the Department eliminated 12 positions during the interim, and the legislatively approved budget reflects this reduction in positions and an accompanying $1.7 million in expenditure limitation for the loan program. The legislatively adopted budget includes adjustments resulting from administrative savings, PERS rate reductions, and state agency assessment and Attorney General rate adjustments, and provides sufficient operational funding for up to $100 million in new loan originations during the 2013-15 biennium.

ODVA – Veterans' Services Program

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	5,887,682	6,562,195	6,237,138	8,945,967
Other Funds	2,537,692	2,170,196	2,480,885	865,498
Total Funds	**$8,425,374**	**$8,732,391**	**$8,718,023**	**$9,811,465**
Positions	34	29	29	29
FTE	32.33	28.90	28.90	28.90

Program Description

The Veterans' Services Program includes:

- Counseling and Claims – which assists veterans, their dependents, and survivors to obtain service-connected and non-service related benefits. Over 32,000 active claims were filed under ODVA's power of attorney in 2011. This program also provides outreach and assistance to individuals in state institutions, hospitals, domiciliaries, and nursing homes, to help ensure that adequate care is being provided and that the federal Veterans Administration pays its share of that care.
- The Conservatorship Program – which provides conservatorship services for veterans and their dependents who are determined to be "protected persons" and who are recipients of U.S. Department of Veterans' Affairs' benefits. Conservatorship services are provided when no other entity or person is willing or able to act as conservator. The staff serve as trust officers, file required legal reports, apply for all benefits due the veteran, and counsel with families, hospital personnel, social workers, and protected persons to ensure their needs are met within the resources available.
- Educational assistance, emergency assistance, and service delivery partnerships – which includes the Educational Aid Program, Aid to Counties, Veterans Extended Outreach Grants for Counties, and Aid to Veterans' Organizations, totals $8.9 million.
  - Educational assistance provides financial help to offset some of the educational expenses of honorably discharged Oregon veterans whose GI educational benefits have been exhausted. The program also assists displaced and disabled veteran workers who return to school to change careers or upgrade skills.
  - An emergency assistance program was established by the Legislature in 2005 to provide emergency financial assistance to Oregon veterans and their immediate families.
  - Aid to Counties, which began in 1947, is a network of trained individuals operating in 34 Oregon counties to help them provide services to veterans on a local level; "expansion and enhancement" funding for county training or service enhancements was added in 2005, and requires counties to submit an action plan and quarterly reports to qualify for formula-driven funding.
  - Veterans' Extended Outreach Grant funding (a funding enhancement for the 2013-15 biennium) to provide counties with additional resources to enhance their veteran outreach efforts.
  - Aid to Veterans' Organizations was established in 1949 and consists of partnerships with other veterans' service organizations in Oregon, such as the American Legion, Disabled American Veterans, and Veterans of Foreign Wars.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $9.8 million total funds represents a 12.4% increase from the 2011-13 legislatively approved budget level, with the General Fund component increased by 36% over the 2011-13 legislatively approved budget level. Standard statewide adjustments were applied to the program to reflect reductions in PERS rates pursuant to the passage of SB 822, and for reductions in state agency assessment and Attorney General rates.

The legislatively adopted budget increased General Fund support and decreased Other Fund expenditure limitation for the Department's veteran services officers and personnel working directly on claims and counseling management and support. The total amount of the fund shift was $1.62 million, enabling the Home

Loan program to reinvest these reserves and loan proceeds back into the loan program, fostering longer-term financial stability.

The Legislature approved a one-time, $1 million increase to support enhanced outreach to veterans by county Veterans' Service Officers. The funds will be allocated pursuant to a budget note, that specifies a $10,000 base to 34 eligible counties, with at least an additional $600,000 in funding being allocated in the form of competitive grants to counties that improve outreach efforts for claim filings on behalf of veterans not currently served.

The Legislature also funded a program enhancement in HB 5008, the budget reconciliation bill, consisting of $350,000 in one-time General Fund to provide funding for suicide prevention hotline services targeted at veterans, pursuant to the following budget note: "The Oregon Department of Veterans' Affairs shall establish a veterans' crisis suicide line that offers free, anonymous assistance, 24 hours a day, to active-duty service members, veterans and their families. The Department shall establish an RFP process for the line to contract with a provider that has a contractual affiliation with the National Suicide Prevention Line and the National Veteran's Crisis Line, and has capacity to answer at least 30,000 veteran or suicide calls per year. The Department shall establish the line within 90 days of passage."

In summary, the 2013-15 legislatively adopted budget funds ongoing Veterans' Services programs at the following levels:

- Counseling and Claims services: $3,002,424 General Fund; 20.45 FTE
- Conservatorship: $615,597 General Fund; $865,498 Other Funds; 8.45 FTE
- Educational Aid: $84,663
- County Veterans' Service Officers: $4,485,193 General Fund (including the one-time enhancement for the Veterans' Extended Outreach Grant program)
- Emergency Assistance funding: $299,681 General Fund
- National Service Organizations: $108,409 General Fund

ODVA – Oregon Veterans' Home Program

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	0	0	0	502,814
Other Funds	23,565,329	26,781,474	$27,704,624	27,677,695
Total Funds	**$23,565,329**	**$26,781,474**	**$27,704,624**	**$28,180,509**
Positions	2	2	2	2
FTE	2.00	2.00	2.00	2.00

Program Description

The Oregon Veterans' Home in The Dalles provides nursing and memory 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. Safety and security upgrades, as well as an electronic records system, were started during the 2011-13 biennium and will be completed in the 2013-15 biennium.

Legislatively Adopted Budget

The legislatively adopted budget of $28.2 million total funds is a 5.2% increase from the 2011-13 legislatively approved budget. Standard statewide adjustments were applied to the program to reflect the following: reductions in PERS rates pursuant to the passage of SB 822; expected administrative savings; and decreases in state agency assessment and Attorney General rates. The Legislature approved a one-time increase in Other Funds expenditure limitation of $75,000 to pay for a study of skilled nursing care that was called for in HB 3208 (2011). The Legislature also allocated $502,814 in General Fund to support debt service and cost of issuance associated with $4 million in bonds issued pursuant to Article XI-Q of the Oregon Constitution, to address additional Federal VA mandated design changes and construction costs at the second veterans' home under construction in the City of Lebanon, Linn County. That facility is expected to be open and operational in the autumn of 2014.

ODVA – Capital Construction

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	1,061,043	14,694,877	0	0
Federal Funds	1,970,508	26,702,288	0	0
Total Funds	**$3,031,551**	**$41,397,165**	**$0**	**$0**

Legislatively Adopted Budget

The 2013 Legislature increased the 2011-13 capital construction expenditure limitation by $11.6 million, reflecting construction progress on the second Oregon Veterans' Home in Linn County. The initial source of the state matching funds is $10.4 million from a local option property tax measure approved by Linn County residents, that was transferred to ODVA to begin the pre-construction phase of the project, and $4 million in net proceeds from the issuance of state bonds issued pursuant to Article XI-Q of the constitution. The state bonds will help backfill a funding gap due to Federal VA mandated design changes and construction costs exceeding initial estimates on which the local property tax measure was based.

Lottery Bond authorization for proceeds in the amount of $10.5 million for a third veterans' home in Roseburg was carried over in the lottery bond bill (SB 5533, section 15). Detailed design work on the home is not expected to begin until construction of the second home is completed and the facility is operational.

Department of Agriculture

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	12,998,069	12,158,804	17,468,615	18,720,616
Lottery Funds	8,709,513	7,826,943	7,112,634	6,333,815
Other Funds	45,564,865	54,165,502	51,763,854	53,980,931
Federal Funds	9,796,616	12,146,069	12,502,551	15,168,522
Total Funds	**$77,069,063**	**$86,297,318**	**$88,847,654**	**$94,203,884**
Positions	504	471	463	477
FTE	357.08	344.42	338.42	351.17

Agency Overview

The Department of Agriculture's mission is centered on three broad policy areas of ensuring food safety and providing consumer protection, protecting agricultural natural resources, and promoting economic development in the agricultural industry. The agency emphasizes public education and technical assistance in its provision of regulatory oversight on legislatively mandated programs. Oregon's agricultural industry is one of the state's most important economic sectors. Producers are active in over 225 major commodities with a farm level value of more than $5 billion per year. In addition, more than $2 billion per year can be counted as value-added through food processing activities.

The Department's budget is comprised of four policy areas. ***Administration and Support Services*** provides policy direction and support functions for the agency. The ***Food Safety/Consumer Protection*** Policy Area consists of the Food Safety, Measurement Standards, Animal Health and Identification, and Laboratory Services Divisions. These divisions are primarily responsible for addressing public concerns over the safety of the food supply, the regulation of livestock diseases, and the accurate labeling and packaging of food products and other goods. The ***Natural Resources*** Policy Area includes the Natural Resources, Pesticides, and Plant Divisions. These three divisions are responsible for protecting the state's agricultural natural resource base. The ***Market Access*** Policy Area consists of the Market Access, Development, and Certification Division and the Commodity Inspection Division. These divisions work with the state's agricultural producers to increase sales through product and market development and assist in moving products into the domestic and international markets by providing inspection, grading, and certification of agricultural commodities.

Revenue Sources and Relationships

Around 25% of the Department's expenditures are financed by the General Fund and Lottery Funds. The General Fund provides significant percentages of the total funding for food safety inspections, agriculture marketing, regulation of Confined Animal Feeding Operations, and predator control. Some General Fund is also used to fund the administrative support functions of the agency. Lottery Funds are almost entirely from the constitutionally dedicated 7.5% of all Lottery revenues that are restricted to wildlife and habitat protection and restoration. Dedicated Lottery Funds provide most of the funding for agricultural water quality activities, grants to treat exotic weeds, and insect pest prevention and management.

Other Funds account for over 60% of the Department's total revenues. The main source of agency Other Fund revenues is from license and fee payments for regulated activities such as inspections of measuring devices to ensure accuracy and pesticide applicator fees. Other Funds also include revenue from reimbursable work and charges for services, cost reimbursements, management assessments for central administrative services, and transfers from other and federally funded program areas. Federal Funds are primarily received by the Natural Resources and Agricultural Development and Marketing policy areas. Federal Funds are used for Specialty Crop grants to promote certain agricultural products in the state, plant and animal health protection, invasive species management and prevention, pesticides regulation, and laboratory services.

Budget Environment

Population growth in Oregon has led to increased competition for available natural resources, including water and land. The Department's level of involvement with coordination and development of water use, land use, and conservation plans with other agencies and affected parties has been steadily increasing. Conservation issues are becoming more complex, requiring more planning and inter-agency cooperation. For Food Safety, population growth brings a corresponding increase in the number and complexity of food establishments. In addition, over 600 food product sampling and testing inspections are done under contract for the Food and Drug Administration (FDA) each year. Oregon agricultural producers currently sell 80% of their products outside of the state and 40% outside the country. Assistance for farmers, ranchers, and specialty food producers in finding new domestic and global markets for their products is a priority for the Department. Building markets is accomplished through market research, attendance at trade shows, direct negotiations with international buyers, and promotional activities aimed at specific Oregon products. The Commodity Inspection Division validates and promotes Oregon agricultural products through inspection and certification services and communications with producers, wholesalers, and retailers and its activity level is driven solely by the demand for its services.

Legislatively Adopted Budget

The legislatively adopted budget level of $94.2 million is comprised of $18.7 million General Fund (19.9%), $6.3 million Lottery Funds (6.7%), $54 million Other Funds (57.3%), and $15.2 million Federal Funds (16.1%), and represents a $5.4 million (6%) overall increase from the 2009-11 legislatively approved budget. The state supported portion of the 2013-15 adopted budget (General Fund and Lottery Funds) is about 25% more than the 2011-13 legislatively approved levels. General Fund and Lottery Funds support is higher than the 2011-13 level due primarily to reversal of one-time fund shift actions taken in 2011-13 to replace General Fund with Other Funds. This increase is net of a 2% supplemental statewide ending balance hold back reduction on total General Fund support, which was taken in all agencies as part of the final legislatively adopted budget.

The Department of Agriculture has addressed past reductions in General Fund appropriations, including those taken in 2011-13, largely by moving activities onto other revenue sources. The 2013-15 legislatively adopted budget reversed some of these actions through General Fund increases. A total of $3.2 million in General Fund fund shifts onto one-time federal funding, which occurred in 2011-13, were reversed, which significantly increased General Fund support over the previous biennia. An existing program at the Department of Environmental Quality called the Pesticide Stewardship Monitoring Partnership was expanded to include ODA and funded with equal parts of $750,000 General Fund and $750,000 Other Funds from pesticide fees. The General Fund support will be transferred to DEQ to pay for that agency's expenditures. Almost $1 million General Fund was added to continue three positions working on agriculture water quality monitoring and the effectiveness of the state's regulation of the agricultural sector's impact on water quality. This program was begun in 2011-13 using one-time federal support from the Pacific Coastal Salmon Recovery Fund. Total General Fund support for Predator Control payments to the federal Wildlife Services agency was increased to $415,889 in an effort to partially reverse reductions taken in previous biennia. In addition, $200,000 General Fund was added to fund county wolf predation compensation claims.

The Department experienced reductions in Lottery Funds, which are 19% lower than the 2011-13 approved budget levels. These reductions were due to Ballot Measure 76 Lottery Funds being insufficient to support all current service level expenditures due to the nature of the constitutional dedication of lottery revenues for wildlife and habitat protection and enhancement being changed by Ballot Measure 76, which was passed by the voters in November 2010. This constitutional reauthorization of dedicating Lottery Funds to natural resources changed the way the dedicated Lottery Funds could be spent. Under the old dedication, 7.5% of lottery revenues were divided into two parts, 65% for capital expenditures and 35% for operations expenditures. Under the reauthorization of this dedication in Ballot Measure 76, 65% is for grants to non-state agencies and 35% can support state agency programs. Previously, state agency programs could be funded under either the capital or operations funding split as long as it was the right kind of expenditure. Now state agencies are prohibited from directly receiving any of the 65% dedicated to grants. To meet this challenge, funding for the Plant Conservation program was switched to federal grants and some weed and pest control activities were switched to General Fund.

Other Funds are were slightly below 2011-13 levels due to the reversal of over $3 million in fund shits using Pacific Coastal Salmon Recovery Fund monies from OWEB on a one-time basis and Other Funds reductions from PERS savings. Other Funds also increased due to program enhancements. These included $1.5 million in additional Other Funds expenditure limitation for commodity inspections and certifications, $750,000 Other Funds added for the Pesticide Stewardship Monitoring Partnership program, and $500,000 for pesticide program outreach and compliance activities. Federal Funds are $3 million higher than 2011-13 budget levels due mainly to increased federal support for the Specialty Crop grant program; $437,013 of this increase is attributable to the addition of two positions to administer the Specialty Crop program. Previously, the agency used existing staff to operate the grant program, however, due to increased federal support the agency required dedicated positions to award future grants and track existing and future grants to ensure grant activities are completed.

Columbia River Gorge Commission – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	813,817	814,846	925,598	873,180
Other Funds	2,377	5,000	5,140	5,000
Total Funds	**$816,194**	**$819,846**	**$930,738**	**$878,180**

Agency Overview

The Columbia River Gorge Commission (CRGC) was authorized by the 1986 Columbia River Gorge National Scenic Area Act and created as a regional agency through an interstate compact between Oregon and Washington. The agreement between the Governors' offices of Oregon and Washington, and legislative statutes, form the basis of the relationship between the states and the federal government. The Commission was established to implement the National Scenic Area Act's purposes of protecting and enhancing the scenic, cultural, recreational, and natural resources of the Gorge while encouraging compatible growth within existing urban areas of the Gorge region and allowing future economic growth.

The Commission functions as the permanent regional land use policy body for the Scenic Area, a 292,000-acre region stretching along both shores of the Columbia River for 80 miles, just east of the Portland OR-Vancouver WA metropolitan area. The Columbia River Gorge encompasses three counties in Oregon (Hood River, Multnomah, and Wasco) and three in Washington (Clark, Skamania, and Klickitat) and includes 13 designated Urban Areas. The Commission consists of 13 members, one appointed by each of the six counties within the Scenic Area, six appointed by the two states (three by each Governor), and one ex officio, non-voting member appointed by the U.S. Secretary of Agriculture. The Commission's office is in White Salmon, Washington, and functions with employees of the State of Washington.

The Commission has an oversight role for the entire Scenic Area and functions as a facilitator and resource for collaborative regional efforts. Commission responsibilities include the adoption and maintenance of a management plan, review and approval of local land use ordinances for the Scenic Area, appellate review of decisions made under the ordinances, and coordination of Gorge resource development efforts envisioned by the Scenic Act. The Commission adopted the initial management plan in 1991. Under the management plan, the Commission sets policy for land use and resource protection on non-federal lands in the Gorge, monitors implementation of the plan, ensures that Scenic Area ordinances are effective, and facilitates enhancements of the economic, natural, scenic, cultural, and recreational resource elements of the Scenic Area. Five of the 6 counties are implementing the management plan through locally adopted land use ordinances. Klickitat County, Washington, has not adopted land use ordinances, leaving review of proposed developments to the Gorge Commission.

Revenue Sources and Relationships

The Scenic Act was approved at the federal level, and the intent of the states was to maintain a level of local control as expressed through a bi-state compact. The Columbia River Interstate Compact is a binding legal document that requires each state to pay its Commission members' expenses and to contribute equally to operating costs to perform all functions and responsibilities in accordance with the Compact and Act. The executive state offices and matching state statues reflect this ongoing commitment. Because of this requirement, the budget is, in effect, set by the state appropriating the lesser amount for operational expenses. The Commission has also received grant funding for monitoring program activities and other special project work from the federal government. These grant funds are generally not factored into the development of the Commission's operating budget. The Commission collects no revenue from fees, licenses, or assessments.

Other Funds expenditure limitation is included in the Commission's legislatively adopted budgets to allow the agency to spend any moneys received from donations. The agency, however, received less than $2,500 in revenues from donations during the 2009-11 biennium and none in 2011-13.

Budget Environment

The proximity of the entire Gorge area to the Portland/Vancouver population base affects planning efforts with pressures for new development, changing composition of urban areas, availability of affordable housing, uses of resource lands, and increased visitation to tourism and recreation sites. As the regional planning agency, the Commission must work with stakeholders to ensure these pressures are dealt with in a manner consistent with the requirements of the National Scenic Area Act. The broad mission of the Commission results in many interpretations by the various individuals and groups that recreate and live in the Columbia River Gorge. This has led to controversy regardless of which side of an issue the Commission chooses.

According to the Commission, base funding levels for Commission activities represent the most limiting factor affecting fulfillment of key strategies and mandated responsibilities. Oregon and Washington frequently fund at a different level. This significantly impacts the Commission because any reduction in one state's funding of the joint expenses program will reduce the other state's contribution by the same amount. While Washington budgets biennially, they allot annually. Unspent funds do not carry over from one fiscal year to another. The public increasingly expects to obtain rapid and efficient responses for information.

The Commission is in the unique position of having its budget determined by two states. Since both Oregon and Washington have been experiencing revenue shortfalls due to the economic downturn, the Commission's General Fund budget for the 2011-13 biennium was nearly unchanged from the previous biennium. As of June 2012, joint program services were being provided by four full-time and two part-time staff, for a total of 5.20 FTE, all of which are considered to be employees of the State of Washington. This represents a 27% reduction from 2010 staffing levels and a 48% reduction from 2009 levels.

While the Commission has survived recent attempts at dissolution, it is likely that continued commentary will be generated about whether or not the Columbia River Gorge Commission should be funded. The Commission was directed by the Oregon Legislature through budget notes to obtain legal advice on whether or not the Commission could collect fees as a way to general revenue for operational costs. A report was provided to the Emergency Board in December 2010 indicating that charging fees was not an authority provided by the laws of either of the two states and was not authorized in the National Scenic Act or in the bi-state compact. In order to provide this authority, all of these legal documents would need to be changed. In a similar vein, a decision to dissolve the Commission would require an agreement by both states and by Congress. During Washington's 2011 legislative session, an effort was made to move the operational activities of the Commission into the Department of Ecology.

The Commission has recently undertaken two significant projects to monitor and meet the needs of the region. First, the Commission has continued efforts to develop a comprehensive monitoring system to track Gorge resources; this initiative is known as the Vital Signs Indicators. Second, the Commission is working with Oregon and Washington partners to conduct a National Scenic Area Collaborative Assessment aimed at determining the willingness of organizations to work together to address Gorge concerns.

Legislatively Adopted Budget

The Commission's legislatively adopted budget is comprised of two basic programs – Joint Expenses and Commissioner Expenses. The Joint Expenses program represents all operational activities of the Commission except for the expenses of each state's appointed commissioners. Expenditures for joint program activities are required by law to be equally shared by Oregon and Washington, but due to differing budget practices in Oregon and Washington, the states have recently matched the combined General Fund budgets for Joint Expenses and Commissioner Expenses.

The 2013-15 legislatively adopted budget for the Commission totals $873,180 General Fund and $5,000 Other Funds. The General Fund appropriation represents a 7.2% increase from the 2011-13 legislatively approved level but a 5.7% reduction from the initial estimate of the Current Service Level. In addition to the adopted General Fund amount, the budget also included a $17,820 General Fund reduction for the 2% supplemental ending balance holdback. This amount may be restored to the agency during the February 2014 legislative session depending on statewide economic conditions. With this amount restored, the agency's General Fund budget will total $891,000, equal to the amount authorized by the State of Washington.

The adopted budget included standard reductions for legislatively adopted changes to certain assessments and for an across-the-board services and supplies reduction. The services and supplies reduction was not applied to professional services which represents Oregon's payment to Washington for the personal services expenses of the Commission's staff.

The adopted budget also included an investment of $130,000 General Fund for Oregon's share of additional position costs related to the Commission's current planning workload and to restore a senior planning position. The planning workload is split between technical assistance and monitoring for counties that directly implement the National Scenic Area Act Ordinance and the senior planning position will focus on the Commission's overall regional planning function for both current and long-range planning, including three priority issues of urban area boundary policy, regional recreation planning, and regional resource/economic monitoring.

In addition, Oregon provided an additional $80,000 General Fund to the Department of Land Conservation and Development's local government planning grants program in HB 5008 to be used as a grant to the Columbia River Gorge Commission for continuation of work on urban planning issues inside the Oregon portion of the National Scenic Area in the Columbia River Gorge. While these funds are not directly appropriated to the Columbia River Gorge Commission, they were included in the final state budget partly because Washington was unable to match the amount that Oregon initially provided for the Commission's 2013-15 budget.

Department of Energy (DOE) – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	0	0	0	0
Lottery Funds	516,894	2,164,185	2,166,050	2,166,050
Other Funds	24,549,756	36,440,507	34,854,421	49,447,398
Other Funds (NL)	172,002,020	171,915,239	176,018,807	176,018,807
Federal Funds	28,793,085	36,845,834	3,086,893	2,939,208
Federal Funds (NL)	0	1	1	1
Total Funds	**$225,861,755**	**$247,365,766**	**$216,126,172**	**$230,571,464**
Positions	130	130	108	115
FTE	120.08	119.81	105.57	114.02

Agency Overview

The mission of the Oregon Department of Energy (DOE) is to reduce the long-term costs of energy for Oregonians. The Department works to ensure Oregon has an adequate supply of reliable and affordable energy and is safe from nuclear contamination, by helping Oregonians save energy, develop clean energy resources, promote renewable energy, and clean up nuclear waste. DOE encourages energy conservation through public information and incentive programs which provide loans or tax credits for implementing energy efficient technologies in residences, public sector buildings, and private sector businesses. The Department currently receives no General Fund support for its activities.

DOE staffs the following statutory boards:

- The Energy Facility Siting Council, a seven-member citizen board appointed by the Governor, that decides whether large energy facilities may be built in Oregon; regulates the construction, operation, and decommissioning of energy facilities; and oversees the disposal of low-level radioactive wastes.
- The Hanford Cleanup Board, a 20-member board, that addresses clean up issues at the nuclear site and represents Oregon's interest in issues involving Hanford, with a focus on protecting the Columbia River and ensuring safe transportation routes for shipments of radioactive waste.
- The Global Warming Commission (GWC) recommends ways to coordinate state and local efforts to reduce Oregon's greenhouse gas emissions consistent with Oregon's goals and recommends efforts to help the state, local governments, businesses, and residents prepare for the effects of climate change.

The Department also heads or lends expertise to a number of workgroups and advisory committees, including the following:

- Northwest Power and Conservation Council is responsible for adopting a regional energy conservation and electric power plan and a program to protect, mitigate, and enhance fish and wildlife on the Columbia River and its tributaries. The Council is set up as a regional agency with two members each appointed by the states of Idaho, Montana, Oregon, and Washington for three-year terms. Bonneville Power Administration reimburses the Department for the costs associated with the two appointed members.
- Small Scale Local Energy Project Advisory Committee reviews applications made under the Small Scale Energy Loan Program (also known as SELP). The program promotes energy conservation and renewable energy resource development and offers low-interest loans for projects that save energy; produce energy from renewable resources such as water, wind, geothermal, solar, biomass, waste materials, or waste heat; use recycled materials to create products; or use alternative fuels. It can loan to individuals, businesses, schools, cities, counties, special districts, state and federal agencies, public corporations, cooperatives, tribes, and non-profits. Projects must be primarily in Oregon.
- The Department convenes rulemaking advisory committees on an as needed basis to assist in creating and updating proposed agency administrative rules.

Revenue Sources and Relationships

DOE has numerous sources of Other Funds revenues. The main source is the Small-Scale Energy Loan Program (SELP), which includes general obligation bond sales (estimated at $107.1 million for the 2013-15 biennium), loan repayments ($31.2 million), fees ($3.1 million), and interest income ($20.1 million).

Excluding Nonlimited expenditures related to the Department's Small-Scale Energy Loan program, approximately 23% of DOE's Other Funds expenditures are supported by the agency's energy supplier assessment. The energy supplier assessment is limited to .375% of the supplier's gross revenue from Oregon energy sales. HB 2807 (2013 session) reduced the assessment cap from .5% to .375% of an energy supplier's gross operating revenue and requires the convening of an ongoing workgroup composed of stakeholders to make recommendations on DOE's proposals related to the agency budget, legislative concepts, and planning, policy, and technical analysis. The legislation also requires DOE to notify stakeholders about its involvement in rulemaking, contested case, rate making, or certain other proceedings.

During the last two biennia, the assessment was .069%. In 2011, the rate was .085%, and in 2012, it dropped to .07%. The 2013-15 budget requested $12.8 million in energy supplier assessment revenue which equates to a rate of approximately .092%. Because the assessment is based on gross revenue, it can fluctuate based on Oregon energy sales in a given year. The agency has committed to exploring cost saving measures to arrive at a lower rate and still deliver legislatively approved deliverables.

Other sources of revenue include the following: energy siting fees ($5.4 million); fees for service related to the program for schools and self-directed efficiency projects at industrial sites ($760,000) stemming from electric market restructuring; and fees for energy efficient design services in state buildings, home oil heating, and radioactive waste transportation fees.

The business energy tax credit program was phased out by the 2011 Legislature, and three new programs were created that are substantially different from the previous program. The Department is authorized to charge fees to recover the cost of administering the program; initial fees proved inadequate to support the complexity of the new programs which requires competitive solicitations and more rigorous technical review standards. New energy incentive program specialty areas are: transportation projects, efficiency and conservation projects, renewable energy grants for small projects, and biomass. The legislatively adopted budget assumes fee increases for the programs ranging from $100 to .05% of project cost, depending on the program. HB 5012 ratified fees for Department assistance in issuing and matching tax credit certificates for the Business Energy Tax Credit program to eligible partners. In total, fee adjustments are expected to derive approximately $651,000 in additional revenue during the 2013-15 biennium to cover anticipated revenue shortfalls in the program.

Federal Funds totaling approximately $1.8 million are assumed from the U.S. Department of Energy support various activities including oversight at the Hanford Nuclear site and work related to tracking, monitoring, and emergency planning for shipment of low-level radioactive waste materials. Federal grants that support 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 total another $1.1million.

Budget Environment

Since 2009, the agency has been in a state of growth and flux. In this period, the Department has had four acting or permanent directors, and has grown to share responsibility for implementing complex and high profile policy priorities such as development and implementation of a 10-year energy plan; the renewable energy portfolio standard to which Oregon's public and investor-owned utilities are expected to adhere; and the redesign of incentives available to businesses implementing renewable or energy efficiency measures. In addition, the number and complexity of energy facility siting requests that must be reviewed and permitted by DOE -- including wind farms, biomass projects, natural gas power plants, and new transmission infrastructure -- have resulted in additional staffing resources for the Department. Beginning in the 2011-13 biennium, the Department reorganized its management and budget systems according to function, resulting in five divisions for the 2011-13 biennium (in place of its previous two divisions, Operations and Loan Program). The agency has also been subjected to closer scrutiny regarding its collection and use of energy supplier assessment monies by the stakeholders who pay the assessment; HB 2807 was the result of multiple discussions with these stakeholders and it makes several changes to address some of their concerns.

The 2013-15 legislatively adopted budget is a 6.8% total funds decrease from the 2011-13 legislatively approved budget. The decrease is primarily due to the completion of federally funded initiatives undertaken through the American Recovery and Reinvestment Act. The legislatively adopted budget includes adjustments resulting from administrative savings, PERS rate reductions, and state agency assessment and Attorney General rate adjustments. Targeted efforts in support of the Governor's 10-Year Energy Plan, issued in December, 2012, are funded. These efforts include the following: support for the Governor's Energy Policy advisor position; dedicated staffing for residential energy conservation and for converting public systems and private transportation fleets to cleaner (and lower-cost) fuels; maintaining staff support for dedicated technical expertise to evaluate energy efficiency and renewable energy technologies, including those utilized in public buildings and schools; and compilation and evaluation of data related to energy utilization and efficiencies in public-sector buildings, as a first step in developing a "state building innovation laboratory" to drive additional efficiencies and best practices in public sector construction and renovation. The Legislature also increased Other Funds expenditure limitation to accommodate additional expenditures associated with the following: loans for fleet vehicle conversion (SB 583, 2013 session); and support for the deployment of efforts associated with residential conservation and weatherization funded by the issuance of lottery bonds and the transfer of public purpose charge funds from the Housing and Community Services Department (HCSD) [the transfer of funds from HCSD was subsequently vetoed by the Governor].

DOE – Energy Planning, Policy and Technical Analysis

	2009-11 Actual*	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	0	0	0	0
Lottery Funds	0	0	0	0
Other Funds	0	7,611,383	6,603,371	6,801,750
Federal Funds	0	1,313,552	1,104,956	919,238
Total Funds	**$0**	**$8,924,935**	**$7,708,327**	**$7,720,988**
Positions	30	29	28	25
FTE	28.91	28.00	26.32	25.00

** Meaningful division comparisons between 2009-11 and subsequent biennia are not available due to reorganization of the agency, from two divisions to five in 2011-13.*

Program Description

The Energy Planning, Policy and Technical Analysis Division encompasses conservation programs and research and technical services. Outreach and education efforts are aimed at industrial, commercial, residential, and transportation sectors to develop conservation strategies and promote energy efficiency. Technical expertise in the area of climate change and renewable energy technologies, as well as staffing for the Oregon Global Warming Commission, is encompassed within the Division.

Legislatively Adopted Budget

The 2013-15 legislatively approved budget is a 13.5% decrease from the 2011-13 legislatively approved budget, primarily owing to the relocation of two positions to different divisions to maximize use of existing personnel resources with agency workload needs in other areas.

Two positions – which had been funded with grant revenue in 2011-13 but were phased out in anticipation of a decrease in available grant funding – were added back to support objectives contained in the Governor's 10-year Energy Plan. A permanent Program Analyst 3 position is dedicated to residential energy efficiency project review and policy advice, and a limited duration Program Analyst 3 position will begin research and evaluation activities related to converting transportation fleets to alternative fuel technologies. Both positions are funded with revenue derived from the Energy Supplier Assessment. An additional 0.84 FTE was added to an existing, part-time 0.16 FTE position; the change provides permanent full-time position authority for a Policy Analyst position dedicated to evaluating proposed energy efficiency in the Energy Efficient Schools program, and compilation and evaluation of data on other public buildings to provide the foundation for a future State Building Innovation Laboratory, as envisioned in the Governor's 10-Year Energy Plan.

Technical adjustments to remove FTE and expenditure limitation added in error during development of the Governor's budget were included, as well as adjustments resulting from administrative savings, PERS rate reductions, and state agency assessment and Attorney General rate adjustments.

DOE – Energy Development Services

	2009-11 Actual*	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	0	0	0	0
Lottery Funds	0	2,164,185	2,166,050	2,166,050
Other Funds	0	12,979,707	11,284,219	24,778,287
Other Funds (NL)	0	171,915,239	176,018,807	176,018,807
Federal Funds	0	33,959,205	292,875	443,749
Federal Funds (NL)	0	1	1	1
Total Funds	**$0**	**$221,018,337**	**$189,761,952**	**$203,406,894**
Positions	42	40	24	29
FTE	36.56	33.17	23.25	28.02

** Meaningful division comparisons between 2009-11 and subsequent biennia are not available due to reorganization of the agency, from two divisions to five in 2011-13.*

Program Description

The Energy Development Services Division administers various financing and incentive programs that promote energy conservation and renewable energy use and alternative transportation fuels. The Small-Scale Energy Loan Program, residential incentive programs, school energy efficiency project financing, business tax incentive programs approved under HB 3672 (2011), Business Energy Tax Credit certificate issuance and matching work remaining to complete the phased-out program, the Clean Energy Deployment Program (HB 2960 from 2011), and tax credits for biomass producers and collectors are administered under this program.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget is an 8% total funds decrease from the 2011-13 legislatively approved budget. Federal Funds expenditures have decreased 98.7% from 2011-13 levels due to the completion of projects funded through American Recovery and Reinvestment Act grants, while legislatively adopted Other Funds expenditure limitation increased 90.9% from 2011-13 levels.

Other Funds increases were due to the following:

- Enactment of legislation to provide loans for fleet vehicle conversion (SB 583, 2013 session).
- Support for the deployment of efforts associated with residential conservation and weatherization funded by the issuance of lottery bonds and the transfer of public purpose charge funds from the Housing and Community Services Department (the transfer of funds from HCSD was subsequently vetoed by the Governor).
- Permanent position authority for a position established in 2011-13 that provides financing and pro-forma expertise to school districts contemplating or undertaking energy efficiency projects in the Energy Efficient Schools program. The position is supported by the State Energy Program formula grant received from the federal Department of Energy, and through SELP loan fees.
- Three permanent positions (2.52 FTE) were added to support evaluation of energy incentive program applications and tax credit pass-throughs/transfers. These three positions are funded through energy incentive application and program fee increases which generate an estimated $651,000 in revenue.
- One position was transferred from the Planning, Policy and Technical Analysis Division to the Division to support workload demands generated by the volume and complexity of tax incentive program applications.

Adjustments were also made to reflect decreases in agency PERS rates associated with the passage of SB 822 and the addition of 0.25 FTE to correct an error that occurred in the development of the Governor's budget.

DOE – Nuclear Safety

	2009-11 Actual*	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	0	0	0	0
Lottery Funds	0	0	0	0
Other Funds	0	558,468	596,190	628,654
Federal Funds	0	1,496,565	1,574,500	1,507,902
Total Funds	**$0**	**$2,055,033**	**$2,170,690**	**$2,136,556**
Positions	6	6	6	6
FTE	6.00	6.00	6.00	6.00

** Meaningful division comparisons between 2009-11 and subsequent biennia are not available due to reorganization of the agency, from two divisions to five in 2011-13.*

Program Description

Oregon's interests in ensuring that the federal government carries out its responsibilities related to clean-up efforts at the Hanford Nuclear Reservation are represented by program staff participation at a variety of regional and national forums; staff support is also provided to the Oregon Hanford Cleanup Board. The program also ensures that state and local responders are properly prepared to deal with an emergency in the event of a nuclear accident at Hanford, the Columbia Generating Station, or in the course of the transportation of radioactive materials along state transportation corridors. During times of petroleum shortages, the Division also regulates the state's Petroleum Contingency Plan to ensure petroleum supply for emergency and essential services.

Legislatively Adopted Budget

The 2013-15 legislatively approved budget for the Nuclear Safety program is a 4% total funds increase from the 2011-13 legislatively adopted budget. Technical adjustments were made to appropriately attribute fund types to a position (with a net effect of $0). Decreases to agency PERS rates associated with the passage of SB 822 were also included.

DOE – Energy Facility Siting

	2009-11 Actual*	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	0	0	0	0
Lottery Funds	0	0	0	0
Other Funds	0	4,973,941	4,570,767	5,707,026
Federal Funds	0	0	0	0
Total Funds	**$0**	**$4,973,941**	**$4,570,767**	**$5,707,026**
Positions	9	12	10	14
FTE	7.76	11.08	10.00	14.00

** Meaningful division comparisons between 2009-11 and subsequent biennia are not available due to reorganization of the agency, from two divisions to five in 2011-13.*

Program Description

The Energy Facility Siting program works with energy facility developers and operating energy facilities to meet the state's energy needs by ensuring that large power plants, transmission lines, and natural gas pipelines are built to meet Oregon requirements. Siting is a long-term, multi-year endeavor involving multiple stakeholders, site visits, engineering studies, public hearings, and ongoing monitoring from planning, through to construction and operation of the facility. The program staffs the Energy Facility Siting Council (EFSC), coordinates the energy facility siting process, oversees compliance with existing site certificates, and coordinates federal energy siting projects for the state. The Division is funded with fees paid by applicant energy facilities (Other Funds).

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget is a 14.7% increase over the 2011-13 legislatively approved budget. One existing position was transferred from the Energy Planning, Policy and Technical Analysis Division to align existing staff resources with workload demands, and two limited duration positions approved by May 2012 Emergency Board – A Utility and Energy Analyst 2 (project officer) and an Operations and Policy Analyst 2, to ensure consistent staff work in rule and standards interpretation, and contested case preparation, were continued and made permanent. A limited duration Fiscal Analyst 2 position was approved to facilitate timely billing of siting services and cost recovery on behalf of other state agencies, local governments, and other reviewing agencies. In the event that the Department seeks to continue the position in future biennia, it was requested that data be provided to demonstrate volume and permanency of cost recovery efforts on behalf of other agencies. Decreases to agency PERS rates were made to reflect the passage of SB 822.

DOE – Administrative Services

	2009-11 Actual*	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	0	0	0	0
Lottery Funds	0	0	0	0
Other Funds	0	10,317,008	11,799,874	11,531,681
Federal Funds	0	76,512	114,562	68,319
Total Funds	**$0**	**$10,393,520**	**$11,914,436**	**$11,600,000**
Positions	0	43	40	41
FTE	0.00	41.56	40.00	41.00

** Meaningful division comparisons between 2009-11 and subsequent biennia are not available due to reorganization of the agency, from two divisions to five in 2011-13.*

Program Description

The Administrative Services program provides shared administrative services to the agency including the Director's Office, budgeting, accounting, contracting, information technology, human resources, auditing, communications, records management, and office reception.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget is an 11.6% total funds increase from the 2011-13 legislatively approved budget. Agency PERS rates were decreased to reflect the passage of SB 822, and state agency assessment and Attorney General rates were also adjusted downward to reflect updated rates since development of the Governor's budget. A standard statewide adjustment was also made to reflect administrative savings for expected efficiencies in finance, information technology, human resources, accounting, payroll, and procurement activities. The Legislature also approved $323,425 Other Funds to continue the Governor's Energy Policy Advisor as a limited duration position (1.00 FTE). The position will be funded with revenue derived from the Energy Supplier Assessment.

Department of Environmental Quality

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	30,796,820	25,011,536	28,696,448	29,936,112
Lottery Funds	5,415,717	4,502,197	4,746,582	3,824,782
Other Funds	110,387,186	140,225,902	147,797,195	139,956,679
Other Funds (NL)	125,941,753	125,666,802	87,120,278	127,290,278
Federal Funds	33,043,015	31,628,115	31,367,282	27,563,182
Total Funds	**$305,584,491**	**$327,034,552**	**$299,727,785**	**$328,571,033**
Positions	810	725	715	719
FTE	790.13	710.92	708.42	706.33

Agency Overview

The Department of Environmental Quality (DEQ), with policy direction from the five-member Environmental Quality Commission, administers the state's laws regulating air, water, and land pollution. The Department establishes the standards for clean air, water, and land; determines whether or not these standards are being met; and then takes action to enforce the standards when necessary. The agency attempts to use technical assistance and education whenever possible to enhance compliance. The Department also manages the federally delegated Clean Air, Clean Water, and Resource Conservation and Recovery Act programs. In addition to the federal environmental programs, DEQ administers the state environmental programs in the areas of solid waste management, planning, and recycling, groundwater protection, and environmental cleanup. The agency is comprised of four major program units: Air Quality, Water Quality, Land Quality, and Agency Management.

Air Quality – This program is responsible for compliance with federal and state air quality standards. The program monitors air quality to protect the public health through the development and implementation of pollution reduction strategies. The primary sources of air pollution in Oregon are motor vehicles, forest slash burning, woodstoves, industrial facilities, field burning, and area sources. The federally delegated air quality program includes statewide air quality monitoring and emissions inventory, strategic planning for pollution reduction, and a permit system. Permits are issued under two industrial source air quality programs operated by the Department.

Water Quality – This program's primary functions are setting and monitoring water quality standards and assessments, controlling wastewater through permits and certifications, providing financial and technical assistance, implementing the Oregon Plan for the restoration of salmon populations and watersheds, and implementing portions of the Safe Drinking Water Act. The Department is responsible for two permit systems, the federally delegated National Pollutant Discharge Elimination System (NPDES) for discharges into surface waters and the state Water Pollution Control Facility (WPCF) permit program for all discharges such as sewage lagoons and effluent irrigation. The Water Quality program also operates the nonpoint source pollution program in Oregon. Nonpoint source pollution is that not attributable to a specific source point. Examples of nonpoint source pollution include stormwater and agricultural runoff.

Land Quality – This program focuses on preventing and reducing waste generation, assuring that waste generated is properly managed, responding to emergency spills, and cleaning up sites contaminated with hazardous substances and uncontrolled releases of toxic chemicals. Activities are organized into the five main subprogram areas of solid waste, hazardous waste, environmental cleanup, underground storage tanks, and emergency management. In each area, the Land Quality program focuses on the hierarchy of waste management, starting with prevention, reduction, reuse, recycling, recovery, and ending with proper disposal. Land Quality operates the federally approved solid waste landfill compliance program and the federally delegated hazardous waste program.

Agency Management – This program provides leadership, coordination, and support for the Department and staff assistance for the Environmental Quality Commission. Agency Management includes the Office of the Director, the Public Affairs Office, and the Management Services Division. Management Services consists of the

Accounting, Budget and Administration, Human Resources, Information Systems, Business Systems Development, and Health and Safety sections.

Pollution Control Bond – The sale of pollution control bonds is used by the Department to finance the Clean Water State Revolving Fund, the Sewer Assessment Deferral Loan program, and the Orphan Site program. Bond proceeds are used to finance municipal waste water facility construction and other water pollution reduction projects, an assessment deferral program for low income households, and cleanup of hazardous waste sites where the responsible party is either, unknown, unwilling, or unable to pay for cleanup costs. The Clean Water State Revolving Fund (CWSRF) makes loans to local governments for construction of eligible waste water treatment facilities and is funded primarily with monies from the federal government. Funding for the CWSRF is Nonlimited.

Revenue Sources and Relationships

The federally delegated clean air program is primarily financed with permit and emission fees (such as the Air Contaminant Discharge Permit fee) supplemented by a General Fund appropriation and Federal Clean Air Act funds. Federal law requires that the cost of the permit program for major industrial sources be fully paid from emission fees (Title V Permit Fee). Other non-General Fund sources include fees for asbestos certification and inspection, field burning permits, and the vehicle inspection program. The Vehicle Inspection Program is entirely supported by fees for certificates of vehicle emissions compliance, required as part of a vehicle's registration process in the Portland and Medford areas.

The federally delegated and state water pollution permit programs are financed from a combination of sources – the General Fund, industrial and municipal fees, and Federal Clean Water Act funds. The primary Other Funds sources of revenue include industrial waste discharge permit fees, municipal wastewater permit fees, and subsurface sewage disposal fees. Other Funds sources also finance the administrative costs of the wastewater finance program. Federal Funds are received primarily under the Clean Water Act for operational expenses (Section 106) and for nonpoint source project grants (Section 319) and from other miscellaneous grant sources for a variety of program activities. The Water Quality program relies more heavily on state support for program funding than any other program area.

Most Land Quality programs are financed almost entirely from dedicated Other and Federal Funds. The Solid Waste program is funded entirely by revenue from solid waste permit and disposal fees. Solid waste disposal fees, also known as "tipping" fees, are collected on waste disposed at municipal solid waste sites. The state also operates the federally delegated hazardous waste management program. General Fund and fees provide the 25% match required for receipt of federal funds. Maintenance of an EPA approved program is a condition of program delegation. Agency Management is financed solely from indirect cost revenues. The indirect rate is calculated as a percentage of personal services. The actual rate is negotiated annually with the Environmental Protection Agency once the agency's total budget is established.

While the Department, like all agencies that receive General Fund, experienced General Fund reductions during recent biennia biennium due to General Fund revenue shortfalls, DEQ has also seen significant loss of Other Funds revenue. These reductions have occurred in programs that issue permits related to construction or business activity. Therefore, as the recession has slowed business and construction activity, the Department has seen reductions to its programs that regulate septic systems, storm water runoff, air quality operations, and solid waste operators. To meet the lower revenues, DEQ was forced to take management actions such as holding Other Fund positions vacant in order to keep expenditures in line with falling revenues.

In the past, Other Funds have been transferred into the General Fund for expenditure as General Fund. This has happened to the Department of Environmental Quality. During the 2009 regular session, in an effort to rebalance the 2007-09 biennium, a total of $6,560,000 Other Funds were transferred to the General Fund. The Other Fund transfers were from the solid waste orphan site account ($4,100,000), the vehicle inspection program which tests the emissions of vehicles in the Portland and Medford areas ($2,000,000), a low vehicle emission program that had delayed startup ($400,000), and the balances from two defunct programs ($60,000).

The 2011-13 legislatively adopted budget did not include any transfers of Other Funds balances to the General Fund. However, due to the further accumulation of a significant ending balance in the vehicle inspection program, the Legislature worked with the agency to reduce the fee charged customers during 2011-13 to spend down the ending balance. As a result, the Department will reduce fees for this program by about $1.5 million during the 2011-13 biennium. During the 2013 session, $1,655,000 from the inactive Assessment Deferral Loan Program Revolving Loan Fund was transferred to the General Fund because the funding had gone unused for a number of biennia due to the existence of more attractive programs that accomplish the same goal.

Budget Environment

Air Quality – The federal Clean Air Act requires compliance with federal air quality standards and prevention of air quality deterioration in areas that exceed federal standards. In addition to the negative health impacts on citizens, 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 the past, nine areas in Oregon exceeded air quality standards and were officially declared nonattainment areas by the U. S. Environmental Protection Agency (EPA); Portland, Salem, Eugene-Springfield area, Medford-Ashland area, Klamath Falls, Grants Pass, La Grande, Oakridge, and Lakeview. Each of these failed to meet standards for one or more of three criteria pollutants – ozone, carbon monoxide, and/or particulate matter. DEQ submitted attainment and maintenance plans to EPA for Portland, Salem, Medford-Ashland, Grants Pass, Lakeview, and La Grande areas and all plans have been approved by EPA. 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.

In 2006, EPA tightened the standard for fine particulate pollution, which comes primarily from woodstoves, open burning, diesel engines, and industry. Once again Oregon was faced with violations of the air quality standards. Two Oregon communities, Klamath Falls and Oakridge, were officially declared nonattainment areas by EPA. DEQ and LRAPA worked with the communities to develop attainment plans that were submitted to EPA in December 2012. Lakeview is also violating the standard and DEQ is working with community leaders through EPA's "Particulate Matter Advance" program to improve air quality before it is officially designated as a nonattainment area under the new standard.

EPA is currently reviewing the national standard for ozone (smog) set in 2008.The current ozone standard is 75 parts per billion and could be revised to a value between 60 and 70 ppb. Portland could violate the revised standard if set at 65 ppb, and Oregon could have widespread violations of the standard if set at or below 60 ppb. The revised standard is expected in 2014 or 2015.

Water Quality – Under the federal Clean Water Act, either the state or federal government must operate programs to protect the quality of rivers, streams, lakes, and estuaries. DEQ must operate programs to carry out the mandatory requirements of the Clean Water Act that are acceptable to the EPA in order to retain program delegation. The alternative would be EPA program assumption. Were EPA to operate the program, funding would possibly be limited to the amount EPA now allocates to the state and might only be sufficient to finance enforcement activities. In addition to the EPA required level of program activity, the Legislature has also required additional water quality programs to be maintained by the Department.

Land Quality – Funding of the Orphan Site program continues to be unresolved. Orphan sites are contaminated sites where the owner is either unknown or is unable or unwilling to pay for cleanup costs. Bonds are sold to conduct cleanup of Orphan Sites, however due to General Fund constraints, state-backed bonds are approved on an intermittent basis. Bonds were approved in 2011-13, however the funding only allowed for the maintenance of existing sites that had already received remediation actions. In the past the agency has been able to use some Hazardous Substance Possession fees to pay debt service for Orphan Site bonds in place of General Fund.

Agency Management – All funding for Agency Management is generated through its indirect rate charge. The Department estimates the indirect rate for the biennium as part of budget building. The actual indirect rate is negotiated each fiscal year, six months in advance. The Department endeavors to maintain an indirect rate where the ratio of Agency Management costs to program personal services is constant. As a result, lower personal service expenditures in the programs reduce Agency Management revenues and expenditures are adjusted accordingly.

Pollution Control Bond – The Clean Water State Revolving Loan Fund (CWSRF) program included a different mechanism to fund debt service. Debt service on CWSRF bonds is now paid with Other Funds using interest paid on past loans from the CWSRF. Interest paid on previous loans had been deposited back into the CWSRF and used to make new loans. Debt service on bond sales are now paid using interest proceeds. The CWSRF Program is now self-funding in the sense that all debt service can be paid out of proceeds from interest payments made by CWSRF loan recipients.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget level of $328.6 million is comprised of $29.9 million General Fund (9.1%), $3.8 million Lottery Funds (1.2%) $267.2 million Other Funds (81.3%), and $27.7 million Federal Funds (8.4%), which represents a $15 million (4.8%) overall decrease from the 2011-13 legislatively approved budget. The state supported portion of the 2013-15 adopted budget (General Fund and Lottery Funds) is about 14% more than the 2011-13 approved level due reversal of previous one-time fund shifts to replace General Fund with Other Funds, using General Fund to back fill activities that had previously been supported with Other and Federal Funds, and program enhancements. This increase is net of a 2% supplemental statewide ending balance hold back reduction on total General Fund support, which was taken in all agencies as part of the final legislatively adopted budget. Total positions and FTE were lower than the 2011-13 level due to the elimination of positions caused by Other Funds revenue shortfalls in the Air Contaminant Discharge Permit (ACDP) program and Land Quality programs.

Significant General Fund additions for 2013-15 included $1.5 million to fill Other Funds and Federal Funds shortfalls in Water Quality programs, $500,000 to support implementation of the state's Integrated Water Resources Strategy through local planning efforts and technical assistance, and $460,000 for ground water monitoring. Lottery Funds were $675,000, or 15%, lower than 2011-13 levels. These reductions were due to Ballot Measure 76 Lottery Funds being insufficient to support all current service level expenditures due to the nature of the constitutional dedication of lottery revenues for wildlife and habitat protection and enhancement being changed by Ballot Measure 76, which was passed by the voters in November 2010. This constitutional reauthorization of dedicating Lottery Funds to natural resources changed the way the dedicated Lottery Funds could be spent. Under the old dedication, 7.5% of lottery revenues were divided into two parts, 65% for capital expenditures and 35% for operations expenditures. Under the reauthorization of this dedication in Ballot Measure 76, 65% is for grants to non-state agencies and 35% can support state agency programs. Previously, state agency programs could be funded under either the capital or operations funding split as long as it was the right kind of expenditure. Now, state agencies are prohibited from directly receiving any of the 65% dedicated to grants. To meet this shortfall, General Fund was used in place of Lottery Funds to support water quality programs such as Total Maximum Daily Load (TMDL) plans implementation.

Limited Other Funds are slightly lower than 2011-13 totals due almost entirely to declines in fee revenue, even with fee increases for the ACDP and 401 water quality certifications included. Nonlimited Other Funds, which are attributed to the Clean Water State Revolving Fund (CWSRF) program, are estimated to remain largely unchanged. The CWSRF makes loans to local governments for construction of eligible waste water treatment facilities and is funded primarily with monies from the federal government. CWSRF expenditures are dependent on the number of loan applications received from eligible applicants. Federal Funds were lower than 2011-13 totals due to the ending of federal stimulus to states through the American Reinvestment and Recovery Act and the inability of federal grant support for federally delegated Air, Water, and Land programs to keep pace with program costs.

Department of Fish and Wildlife

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	13,225,857	6,779,844	13,857,099	17,157,413
Lottery Funds	5,801,126	5,824,398	5,339,057	4,767,766
Other Funds	148,567,890	198,364,072	152,805,671	182,247,358
Federal Funds	95,917,881	112,710,166	103,080,395	131,933,605
Total Funds	**$263,512,754**	**$323,678,480**	**$275,082,222**	**$336,106,142**
Positions	1,514	1,470	1,285	1,523
FTE	1,201.96	1,227.49	1,106.25	1,262.41

Agency Overview

The Oregon Department of Fish and Wildlife (ODFW), under direction of its seven-member Commission, manages the fish and wildlife resources of the state. The agency's mission is to "protect and enhance Oregon's fish and wildlife and their habitats for use and enjoyment by present and future generations." By law, the Department is charged with managing wildlife to prevent serious depletion of any indigenous species and with managing fish to provide the optimum economic, commercial, recreational, and aesthetic benefits. ODFW manages the state's fish and wildlife policies through three primary divisions: Fish, Wildlife, and Administrative Services. Enforcement of the state's fish and wildlife laws is provided by the Department of State Police, Fish and Wildlife Division.

The Fish Division consists of the Propagation, Natural Production, Marine Resources, and Interjurisdictional Fisheries programs and has primary responsibility for managing fish resources within the state. The purpose of the ***Fish Propagation*** program is to produce fish through artificial propagation to augment natural production and to provide fish for sport and commercial fisheries. More than 70% of all fish caught by recreational anglers and 75% of the salmon harvested commercially are hatchery produced fish. The ***Natural Production*** program manages freshwater fish, trout, steelhead, and salmon within the state's rivers, streams, and lakes. The program directs the inventory of fish populations and their habitats, conducts genetic research, assesses freshwater fisheries, develops fish conservation and management plans, manages state and federally listed fishes, operates a fish screen program, and administers angling regulations. The ***Marine Resources*** program recommends regulations and assesses harvest of commercial fisheries including ocean salmon, ocean groundfish, estuary bait fish, shrimp, crab, urchin, and other estuarine species. The ***Interjurisdictional Fisheries*** program is responsible for management of Columbia River anadromous fisheries, coordination of Columbia Basin activities, and participation in regional and international management councils for the management of marine and migratory fish.

The Wildlife Division consists of the Wildlife Management, Wildlife Habitat Resources, and Wildlife Conservation programs and has primary responsibility for managing wildlife resources throughout the state. The ***Wildlife Management*** program manages game species including big game, furbearers, waterfowl, and upland game birds. Biologists, with the assistance of seasonal wildlife technicians, inventory big game species, develop and implement species management plans, respond to damage complaints, conduct hunter and harvest surveys, and assist in developing hunting regulations. The Access and Habitat program is used to provide both wildlife habitat improvement and improved hunter access to private lands. The ***Wildlife Habitat Resources*** program provides guidance in the agency's development of statewide goals and objectives related to the management of wildlife and their habitat. The program operates state-owned game management areas and develops projects to maintain and improve wildlife habitat. The goal of the ***Wildlife Conservation*** program is the protection and recovery of non-game bird and animal species through the protection and enhancement of populations and habitat of native wildlife. This represents 88% of the total wildlife species in the state. Non-game biologists conduct species surveys, determine species management requirements, initiate efforts to preserve and improve critical habitats, and coordinate wildlife rehabilitation programs. The program provides consultation to other state agencies regarding threatened and endangered species, as required under the Oregon Endangered Species Act. The program is also responsible for creating and implementing the state's Comprehensive Wildlife Conservation Strategy and the aquatic invasive species program.

Agency Administration provides general support functions to all programs of the Department. The Division includes the Office of the Director, the Fish and Wildlife Commission, Commercial Fishery Permit Boards, and the divisions of Human Resources, Information and Education, Administrative Services, and Information Systems. Agency Administration is also responsible for management of the Point-of-Sale licensing system. ODFW provides funding through a contract with the Department of State Police, Fish and Wildlife Division to provide law enforcement services to ensure compliance with laws that protect and enhance the long-term health and use of the state's fish and wildlife resources, including recreational and commercial fishing laws and regulations and hunting laws. These enforcement positions are included in the State Police budget. Officers in the Fish and Wildlife Division are sworn police officers and can enforce traffic, criminal, boating, livestock, and environmental laws and respond to emergency situations.

Revenue Sources and Relationships

The Department relies heavily on Other Funds revenue from hunting and fishing license and tag sales. The Marine Resources program receives the majority of Other Funds revenue from the commercial fishing industry through license fees, landing fees, and the proceeds from the sale of confiscated commercial fish which are deposited in the Commercial Fish Fund. The Wildlife Conservation program does not receive license and tag revenue since it deals with non-game species. Instead, the program receives Other Funds revenues from the nongame income tax check-off contributions, interest income, and the new voluntary wildlife conservation stamp.

The Fish Division's Federal Funds revenues are received from the U.S. Department of Energy through the Bonneville Power Administration, the Department of Commerce through the Mitchell Act, the U.S. Army Corps of Engineers, the National Marine Fisheries Service, and the Department of Interior through Sport Fish Restoration funds. The Marine Resources program's Federal Funds are primarily from the U.S. Department of Commerce and Department of Interior for marine resource management. The Wildlife Management program receives Federal Funds through contracts with federal agencies and from the U.S. Department of Interior in the form of Pittman-Robertson Act funds (PR funds). The Habitat program's Federal Funds are derived from contracts with federal agencies, the Bonneville Power Administration through the BPA Wildlife Mitigation Program, and PR funds. The Wildlife Conservation program receives Federal Funds from the U.S. Department of Interior for threatened and endangered species activities through the State Wildlife Grant program and the Wildlife Conservation and Recovery program.

Budget Environment

The agency is facing a number of major issues including declining fish populations, listings and potential listings of fish species as threatened and endangered, operation and maintenance of aging fish hatcheries, the perception of fewer hunting opportunities, landowner relationships and access for hunting, and livestock predation. The Department's Other Fund balances are not easily transferred to the General Fund due to federal law that prohibits states from transferring hunting and fishing license and fee revenues to their General Fund or risk losing significant federal funds support.

Past General Fund reductions in the Department of Fish and Wildlife have most often been accomplished through fund shifts. That is by removing General Fund support for a program and shifting that program to another fund type; in the case of ODFW, this has been done using Other Funds revenue from the sale of hunting and fishing licenses and tags and in 2011-13 using one-time Federal Funds from the Pacific Coastal Salmon Recovery Fund.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget level of $336.1 million is comprised of $17.2 million General Fund (5.1%), $4.8 million Lottery Funds (1.4%), $182.2 million Other Funds (54.2%), and $131.9 million Federal Funds (39.2%), and represents an overall $12.4 million, or 3.8%, increase from the 2011-13 legislatively approved budget. The state supported portion of the 2013-15 adopted budget (General Fund and Lottery Funds) is almost 75% higher than the 2011-13 approved levels, with General Fund support increasing $10.4 million and Lottery Fund support going down by over $1 million. The largest contributor to the General Fund increase is reversal of $5 million of one-time fund shifts that occurred in 2011-13 using one-time monies from the Pacific Coastal Salmon Recovery Fund which were received by the Department from the Oregon Watershed Enhancement Board as Other Funds. A Lottery Funds reduction of $700,000 due to Ballot Measure 76 Lottery Funds being insufficient to support all current service level expenditures was backfilled with General Fund. This overall

General Fund increase is net of the 2% supplemental statewide ending balance hold back reduction on total General Fund support, which was taken in all state agencies as part of the final legislatively adopted budget. The total number of positions increased by 53, with half this increase caused by the implementation of programs designed to enhance off-channel areas for commercial fishing and to compensate for a ban on commercial gill net fishing on the main stem of the Columbia River.

The 2013-15 adopted budget for ODFW includes the following General Fund and Lottery Funds adjustments:

- Increased General Fund by $2 million added in SB 830 which implements the Columbia River Fisheries Transition Program. ODFW will use $500,000 of this appropriation for grants to counties that establish their own programs to compensate commercial fishers that are economically harmed by the ban on gill net fishing. The bill also included an annual Columbia Basin salmonid and sturgeon recreational fishing endorsement to provide monies for the Columbia River Fisheries Enhancement Fund. This new Columbia Basin fishing endorsement fee is anticipated to raise $2,002,000 of Other Funds revenue in 2013-15.
- $1.3 million General Fund and $435,000 Lottery Funds and 6 permanent positions (5.50 FTE) were added to work on the Department's Nearshore Marine Management program. This program was funded in 2011-13 solely with Lottery Funds.
- Decreased General Fund support for the Western Oregon Stream Program by $950,000 and replaced it with Other Funds from the Pacific Coastal Salmon Recovery Fund, which is a better fit for the desired uses by the federal granting authority for on-the-ground projects.
- Added $500,000 and one position in HB 3086, which authorizes the Department to develop and administer a uniform policy of mitigating adverse effects that proposed actions may have on a core area sage grouse habitat. This policy could include off-site mitigation and the formation of mitigation banks, and is intended to provide a landscape approach to sage grouse mitigation efforts as opposed to the current site specific focus.
- Increased General Fund support for Predator Control payments to the federal Wildlife Services agency to a total of $415,889 in an effort to partially reverse reductions taken in previous biennia. Predator Control payments in the Department of Agriculture were increased to an identical total funding level.
- $250,000 and three positions added to assist with implementation of the state's Integrated Water Resources Strategy.

The 2013-15 adopted budget also included a number of Other Funds and Federal Funds adjustments:

- $10.5 million Federal Funds and $250,000 Other Funds to address a range of research monitoring and evaluations of fish species throughout the state. Most of this work is a continuation of work approved in prior biennia. Funding comes from U.S. Army Corps of Engineers, Bonneville Power Administration, U.S. Fish and Wildlife Service, National Oceanic and Atmospheric Administration, and with the Other Funds coming from Portland General Electric.
- Added $9.7 million Federal Funds to reflect increased Pittman-Robertson (PR) Act funds from the U.S. Fish and Wildlife Service, derived from a federal tax on the sale of firearms and ammunition, which are sent to the states to fund activities like wildlife game habitat improvements, species surveys, and hunter education. PR funding has been increases due to rapidly increasing sales of guns and ammunition.
- $1 million Other Funds and 14 positions were added to make permanent the Aquatic Invasive Species Boat Inspections program.
- $5.5 million Federal Funds added of Mitchell Act funding to implement reforms and monitoring at federally supported fish hatcheries.
- $1 million Federal Funds from Mitchell Act funding to study alternative gear of commercial harvest of salmon in the Columbia River basin, related to the ban on the use of gill nets by commercial fishers.
- $850,000 Other Funds to restore the Coquille Fish and Wildlife area.
- $1 million Other Funds was added for a capital construction projects at the Sandy Hatchery to improve the water intake at the facility.
- Reduction of $600,000 Other Funds for debt service payments on the $16 million in bonds approved in 2011-13 for the purchase of a new Headquarters Building in Salem. The reduced debt service payments are the result of receiving very favorable rates when bonds were sold in February 2013 to finance the project.

Department of Forestry (ODF) – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	42,924,304	53,902,250	54,053,628	54,437,263
Lottery Funds	1,374,136	2,542,314	2,523,132	5,408,132
Other Funds	169,247,182	217,855,667	209,839,410	215,657,186
Other Funds (NL)	7,980,958	0	0	0
Federal Funds	28,074,483	44,278,675	30,433,489	33,853,011
Total Funds	**$249,601,063**	**$318,578,906**	**$296,849,659**	**$309,355,592**
Positions	1,218	1,181	1,179	1,200
FTE	868.31	852.19	859.59	871.72

Agency Overview

The Oregon Department of Forestry (ODF) is a multi-program, multi-funded agency designed to administer the forest laws and policies of the state. The agency is directed by the State Forester, who is appointed by the Board of Forestry. The Board's seven members are nominated by the Governor and confirmed by the state Senate. The Department provides a cost-effective fire protection system involving state, federal, other public, and privately owned forestland, manages state-owned forestlands, and provides stewardship for non-federal forestlands through administration of the Forest Practices Act and provision of forestry assistance. The Department's mission, values, and strategies are described in a Strategic Plan based on the Board of Forestry's 2011-2019 *Forestry Program for Oregon.* The Board document represents an overarching strategy for sustainable management of Oregon's forests, and sets out the following goals:

Goal A: Promote a fair legal system, effective and adequately funded government, leading-edge research and education, and publicly-supported environmental, economic, and social policies.

Goal B: Ensure that Oregon's forests make a significant contribution towards meeting the nation's wood product needs and provide diverse social and economic outputs and benefits valued by the public in a fair, balanced, and efficient manner.

Goal C: Protect and improve the productive capacity of Oregon's forests.

Goal D: Protect and improve the physical and biological quality of the soil and water resources of Oregon's forests.

Goal E: Conserve diverse native plant and animal populations and protect and improve their habitats in Oregon's forests.

Goal F: Protect and improve the health and resiliency of Oregon's dynamic forest ecosystems, watersheds, and airsheds.

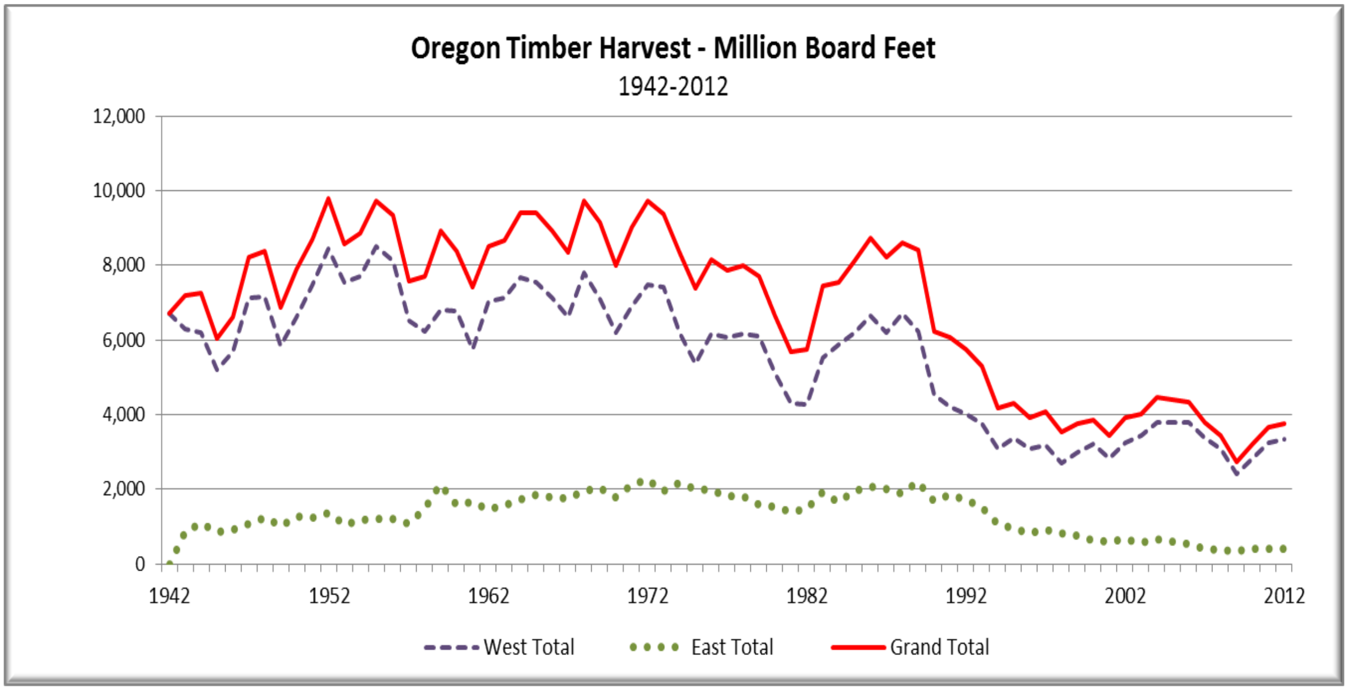
Goal G: Improve carbon sequestration and storage and reduce carbon emissions in Oregon's forests and forest products.

Budget Environment

The state's economic challenges are compounded in ODF by a historic drop in the timber market and changes to General Fund. Due to the nature of the agency's funding structure, a reduction in state General Fund results in additional Other Funds reductions paid by private landowners that would have matched state General Fund. The structure of current agency funding and revenue streams has been relatively static over many years. New legislation in 2013 makes changes to severity resource and catastrophic firefighting support; other funding structures remain unchanged. Reliance on state General Fund is problematic when economic conditions reduce state revenues or when competing interests are prioritized. New revenue sources through partnerships, grants, or service-based approaches can be explored for improvement to basic funding.

The federal government owns about 60% of Oregon's forestlands. Environmental analysis, biomass use, development of stewardship contracts, and other activities to address challenges facing federal forests and nearby private landowners and communities requires resources beyond current available revenue streams. Reduced federal support affects forest management choices which can, in turn, affect state and private forests and costs to prevent or extinguish fires.

The following display provides context in terms of total timber harvest in Oregon from 1942 – 2012. Harvest fluctuations reflect factors such as economic conditions and federal regulatory and management decisions.



Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $309.4 million total funds is 2.9% less than the 2011-13 legislatively approved spending level and 4.2% higher than the 2013-15 current service spending level. This includes a 1% increase in General Fund, a 112.7% increase in Lottery Funds, a 1% decrease in Other Funds limited expenditures, and a 23.5% decrease in Federal Funds from the 2011-13 legislatively approved spending level. The budget includes adjustments for PERS rates, inflation, rate decreases for the Attorney General, and state government service charges, as well as unspecified administrative efficiencies. The budget eliminates $18.7 million of one-time expenditures approved during the 2011-13 biennium for fire protection and completed federal stimulus grant funding, and maintains the 50:50 cost sharing between the General Fund and private land owners for base fire suppression resources. It continues resources added in 2011-13 to administer the Forest Practices Act including compliance monitoring, effectiveness monitoring, field administration, and forest health.

ODF – Fire Protection

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	32,532,288	39,414,676	37,223,823	37,447,898
Other Funds	56,142,260	74,546,161	58,857,643	63,319,355
Other Funds (NL)	836,183	0	0	0
Federal Funds	14,801,093	18,013,764	15,782,437	15,718,166
Total Funds	**$104,311,824**	**$131,974,601**	**$111,863,903**	**$116,485,419**
Positions	731	697	683	693
FTE	411.76	392.88	391.52	394.73

Program Description

The Fire Protection program provides fire protection for nearly 16 million acres of private, state, other public, and some federal forest lands. It also operates an industrial fire prevention program and a smoke management program, and, through the Emergency Fire Cost Committee, finances costs of large, catastrophic fires. Of the total acreage protected, 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 protected under contract.

The total acreage has a current estimated value at risk of approximately $60 billion. The program finances 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. Nearly 60% of all agency positions and 45% of all FTE are assigned to this program.

The four-member Emergency Fire Cost Committee is composed 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 Fire Protection 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 estimated extra cost deductibles. 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 and the public landowner pay full assessment rate. As 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, such as counties or the BLM, receive no General Fund match and pay the full cost of fire protection.

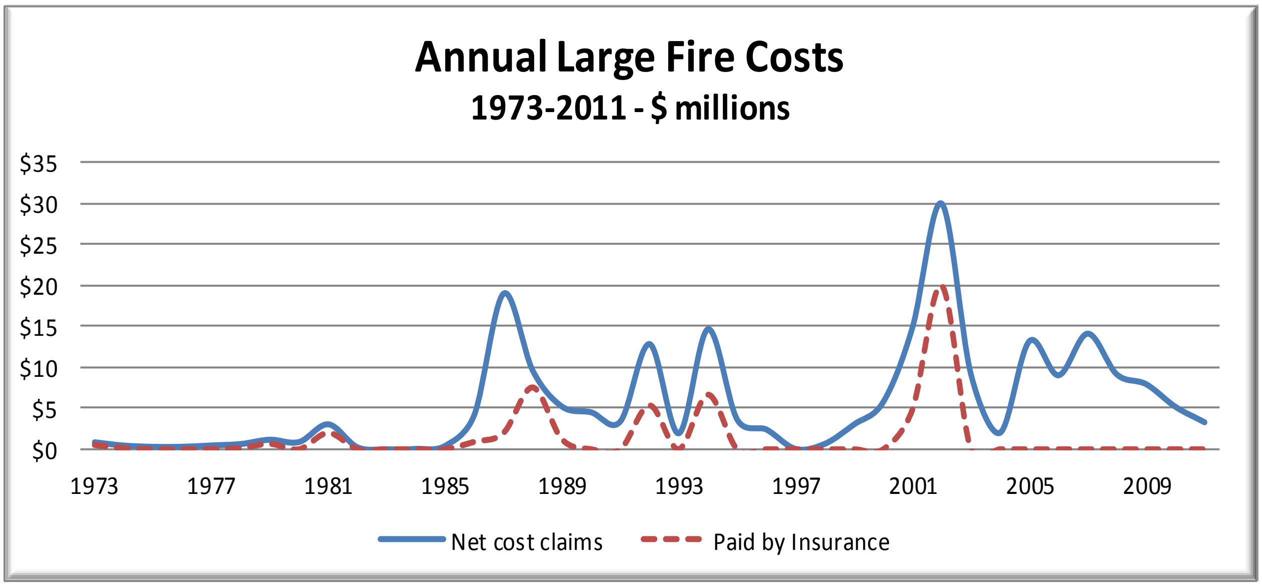
Emergency Protection – The purpose of emergency protection is to pay for the excess suppression costs of major fires in Oregon. The enabling legislation is based on the premise that the emergency fire suppression costs on forest lands protected by the State Forester need to be equalized so that no single district is required to pay the full amount of firefighting 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 $18.75 to $16.88, with $1.88 to be paid into the OFLPF. Above a $30 million balance, the assessment would drop to $15 per lot or parcel with none paid to the OFLPF. The OFLPF essentially serves as an insurance policy for local landowners in each of the forest protection districts. Revenues to support the OFLPF are estimated to be $22.1 million in 2013-15, generated from an assortment of landowner assessments and taxes:

- Harvest tax of $0.625/thousand board feet (mbf) on 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 ($0.05 per acre for protected western Oregon forestlands, $0.075 per acre for eastern Oregon protected forestland, and $0.075 per acre for all grazing lands) ($1.86 million).
- Assessment of $3.75 per lot (out of the $18.75 minimum assessed for forest patrol) ($1.47 million).
- Surcharge of $47.50 for each improved tax lot ($13.99 million).
- Interest from State Treasurer investments of the fund ($0.2 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. HB 2050, discussed in the following section, provides $1 million per year to subsidize the higher rate charged to owners of lands with low productivity but high wildfire potential.

Large Fire Cost 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 (2013) insurance policy provides $25 million total insurance with an annual deductible of $20 million and an annual premium of approximately $1 million. New legislation, HB 2050, also known as the Wildfire Protection Act, provides that the first $2 million of large fire costs each year be shared equally by the OFLPF and the General Fund. The OFLPF would cover the next $9 million. Then the state General Fund picks up the final $9 million for a total of $20 million, which is the deductible for the large fire cost insurance policy. None of this potential $10 million General Fund obligation is included in the agency's 2013-15 budget. The agency will need to request reimbursement in the next legislative session or from the Emergency Board. In 2015-17, the initial shared expense rises to $10 million, with the OFLPF covering the next $5 million and the state General Fund covering the last $5 million deductible. In 2017-19, the entire $20 million deductible is shared dollar-for-dollar.

For context, the following display reflects the volatility of annual catastrophic costs and the amounts paid by insurance since 1973, when the state first began purchasing coverage.



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 factors that include forest fuel loads, forest health (insect and disease damage), and weather (drought and lightning storms) and cannot be predicted with certainty. Over 9.5 million acres of forestland in eastern and southern Oregon are suffering from poor forest health and remain untreated. The last decade of drought has affected much of Oregon's forests. Wet, cool spring weather in 2010, 2011, and 2012 delayed the onset of wildfire activity. The added rainfall, while delaying the onset of wildfire, can spur robust grass and brush growth, adding to the fire fuel load as forest vegetation dries out.

In addition, the siting of dwellings and other improvements on forestlands continues to increase the challenges to fire managers, and large areas of the state have no fire protection coverage. Fires originating on these unprotected lands can be a threat to nearby protected forestlands and communities. The increasing number 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.

With diminishing harvests, 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 firefighting resources and revenues. Also, federal fire management policies have reduced the overall productivity of suppression resources and at times limited the availability of critical resources. Providing adequate funding for fire protection is an increasing challenge given the current economy and private landowners' ability to pay the increasing costs, especially private landowners in low-productivity, fire-prone areas of the state.

Legislatively Adopted Budget

The 2013-15 Fire Protection legislatively adopted budget of $116.5 million is $15.5 million, or 11.7%, less than the 2011-13 legislatively approved budget and $4.6 million, or 4.1%, greater than the 2013-15 current service budget level. It includes 693 positions (394.73 FTE). The budget removes $2.1 million General Fund one-time costs approved during the 2011-13 biennium for extraordinary fire suppression. While General Fund reflects a reduction from the 2011-13 budget, there are several initiatives funded in the program. The legislatively approved budget maintains the 50:50 cost sharing between the General Fund and private landowners for base fire suppression resources. It also begins the implementation of the Wildfire Protection Act with $6 million OFLPF, $1.6 million General Fund, and 10 new seasonal positions. In addition, the budget supports new information technology positions and corrections in administration funding.

The budget reflects adjustments of a net $0.4 million total funds reduction for PERS and DAS charges, Archives assessment increase, and a 5% General Fund services and supplies reduction. The budget also includes a reduction of $0.8 million General Fund for a supplemental ending balance that may be restored during the 2014 legislative session for the second year of the biennium, depending on economic conditions.

Above the base fire suppression resources, the Legislature approved a $5 million General Fund special purpose appropriation to the Emergency Board for fire severity resources. This funding enables the agency to pre-position resources and equipment and to pay one-half of the cost of the second year of the biennium's insurance premium (the first year is included in the base budget).

ODF – State Forest Lands

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	58,644,018	84,235,929	89,881,630	89,119,478
Federal Funds	1,530,804	6,519,699	839,682	3,839,682
Total Funds	**$60,174,822**	**$90,755,628**	**$90,721,312**	**$92,959,160**
Positions	283	268	268	268
FTE	252.87	242.43	241.99	241.99

Program Description

The State Forests program manages about 821,000 acres of state forestlands on behalf of counties and the Common School Fund. The Board of Forestry owns around 85% of these acres, including five state forests (Tillamook, Clatsop, Santiam, Sun Pass, and Gilchrist) and small, scattered parcels. Counties transferred the title to most of these lands to the Board of Forestry in the 1930s and 1940s. The Board has been purchasing the Gilchrist, starting in 2009. The remaining acres are the Common School Lands, which are managed by ODF under contract with the State Land Board. These lands are located primarily in the Elliott State Forest. The primary goal of the program is to provide for healthy, productive, and sustainable forests through active management that will produce a full range of benefits on Board of Forestry lands and maximize revenue over the long-term on Common School Lands, consistent with principles of sound resource management.

Revenue Sources and Relationships

The State Forests program is entirely self-financed from timber sales and the sale of special forest products. The Department retains 36.25% of timber sales for management of the state-owned county trust lands (Board of Forestry 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 $62 million for 2013-15. The agency is reimbursed for Common School Fund land management costs with the remaining revenue going to the Common School Fund. Management costs are approved by both the Board of Forestry and the State Land

Board. State-owned forest lands are expected to generate $109 million for counties and local taxing districts during the 2013-15 biennium.

Timber sales from Common School Fund forest lands are forecasted to generate slightly less revenue than projected management costs of about $11.5 million in 2013-15. In view of low expected sales, the Department reduced management costs by eliminating 7 positions. Sales from the Common School Fund forest lands are significantly restricted by ongoing litigation.

Budget Environment

The level of forest management on state-owned county trust lands is dependent upon timber receipts. The Department manages State Forests to meet the statutory and constitutional fiduciary responsibilities through timber harvests while protecting and making available the other forest values – social and environmental benefits.

Current economic conditions point to possible minor increases in most of the Department's revenue sources, including state forests. The national and state economic conditions are slowly improving, the real estate market is recovering and the inventory of available dwellings is decreasing, driving new home building demand. Mortgage rates are low, but expected to start increasing, which also puts pressure on the housing market.

The Random Lengths Composite 48 Price (Random Lengths Publication, July 2013, Vol. 69, Issue 27) for lumber is $327 per thousand feet compared to $316 per thousand feet in July 2012 and $236 per thousand feet in September 2009. Although prices have recently firmed, they are still well below prices in September 2008 and the housing bubble prices of $396 per thousand feet in September 2005.

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 affected the management of state forests over the last decade. Listings for fish and bird species also influence the ability to manage the resource to achieve revenue goals on state forest lands.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $93 million is $2.2 million total funds, or 2.4%, higher than the 2011-13 legislatively approved budget level and includes 268 positions (241.99 FTE). The budget is 2.5% greater than the 2013-15 current service level.

Final federal stimulus grant funds were phased out. There is an addition of $3 million Federal Funds limitation to purchase available parcels in and near the Gilchrist state forest. The fund source is a U.S. Department of Agriculture federal legacy grant.

Other Funds are increased $250,000 for forest research and monitoring on the Elliott State Forest. Funding is net harvest proceeds from the forest, which is an asset of the State Land Board.

Adjustments are made to recognize reduced PERS rates, unspecified administrative savings, and other assessment reductions. The total is a $1 million Other Funds reduction.

ODF – Private Forests

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	4,641,768	11,396,981	14,069,580	13,919,776
Other Funds	5,501,095	8,963,430	9,752,502	9,645,993
Federal Funds	10,627,200	17,769,912	11,572,897	12,175,184
Total	**$20,770,063**	**$38,130,323**	**$35,394,979**	**$35,740,953**
Positions	86	96	108	114
FTE	84.86	96.74	105.50	109.79

Program Description

The Private Forests program is an integrated effort that:

- Promotes forest stewardship through the Oregon Forest Practices Act and by providing training, technical, and pass-through financial assistance to forest landowners and operators.
- Supports healthy forests through monitoring insect and disease conditions, applying integrated pest management strategies, controlling/eradicating invasive species, and assisting landowners to conduct stand management prescriptions through technical and financial assistance.
- Encourages the role of family forestland owners in providing for forest sustainability including timber availability and the maintenance and enhancement of ecosystem services such as clean water, fish and wildlife habitat, carbon sequestration, and aesthetics through education, financial assistance, and technical services.
- Stimulates 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.
- Upholds the implementation of voluntary measures under the Oregon Plan for Salmon and Watersheds through technical, cost-share, and administrative assistance.
- Monitors to ensure rules and programs are effective and efficient.
- Provides on-site technical, educational, and pass-through financial assistance for municipal governments, other urban public agencies, non-profit groups, and civic organizations.
- Delivers technical information on tree risk assessment, care, planting, and selection; ordinances; inventories; and urban forest management.

Revenue Sources and Relationships

The Forest Practices subprogram is funded by a combination of 60% General Fund, and 40% Forest Products Harvest Tax (FPHT). The harvest tax rate is set in statute each biennium once the Forest Practices program budget is finalized, based on projections of harvest levels and the amount of revenue needed for program operations. Oregon Watershed Enhancement Board grants provide occasional funding for some cooperative research projects.

General Fund, leveraged to obtain an equal amount of federal funding, provides support for the Forest Health staff and field foresters, the annual insect and disease surveys, the delivery of forest pest data and maps, and technical assistance to forest landowners and policy decision makers. General Fund also provides for the Oregon Plan for Salmon and Watersheds activity.

Federal Funds provide funding for family forest landowner financial and technical assistance, technical assistance for tree improvement, Forest Legacy program administration, and insect and disease monitoring and mitigation.

Other Funds are received for carbon sequestration credits and tree planting on under-producing forestlands through the Forest Resource Trust program.

Budget Environment

Factors affecting the Forest Practices program include continued implementation of the Oregon Plan; implementation of rules related to landslides and public safety on forestland, harvesting practices, and the use of pesticides; workload necessary to achieve reforestation and "free to grow" status; and encouraging appropriate responses by the federal government on actions and policies related to endangered species and clean water programs.

As the economy recovers and timber harvesting on private lands becomes more robust, workload will increase from notifications of operations (intent to conduct a forest operation), plus reviewing and commenting on written plans describing operating methods on sensitive sites. The number of on-site inspections for pre-operation planning and reforestation auditing is also expected to increase.

Forest health remains a critical issue for the state's economy. Oregon has experienced about a 4.1 million acre cumulative impact of tree mortality for the period ending 2009 (all insect and disease sources) (410 thousand acres per year). Note that this does not include wildfire loss. The state loses about 750 MMBF average of timber every year to insects and disease (all insect and disease sources; both mortality and growth loss).

- 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. The quarantine area has expanded five times since 2001 and is now 202 square miles. The initial goal of complete eradication in Curry County is now understood to be unachievable given available resources.
- 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.
- Mountain Pine Beetle mortality has declined from its outbreak in 2001 due to exhaustion of mature lodgepole stands.

Many wild salmon and trout populations are under scientific scrutiny. Certification through programs such as the American Tree Farm System and Forest Stewardship Council now require participating landowners to meet standards involving water quality, high conservation value forests, forest health, pest management, and soil conservation. Financial assistance and education are needed to help family forestland owners in particular to develop written plans for management and objectives for future resource conditions, know their current resource conditions and threats, and to plan to go from current to desired conditions.

Oregon lacks a dedicated source of tree planting revenues for local communities. 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 Ocean.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $35.7 million is $2.4 million, or 6.3%, less than the 2011-13 legislatively approved budget and $0.3 million more than the 2013-15 current service level. It includes 114 positions (109.79 FTE). The decrease is due to phasing out final federal stimulus grants. The General Fund appropriation of $13.9 million is 22% over the 2011-13 legislatively approved budget. Other Funds limitation at $9.6 million is a 7.6% increase over the 2011-13 legislatively approved budget level.

The additional General Fund includes standard inflation and roll-up of 2011-13 position expenses. In addition, $0.4 million is included to support Oregon State University research under the Watersheds Research Cooperative and Riparian Function and Stream Temperature project. One position is added. Offsets in General Fund include PERS rate reductions, unspecified administrative efficiencies, 5% non-fixed services and supplies reduction, and assessment adjustments for Attorney General and Department of Administrative Services. 2%, or $0.3 million, is held back for a supplemental ending balance that may be restored during the 2014 legislative session.

Also included is $0.7 million additional Federal Funds (U.S. Department of Agriculture) limitation and 5 positions to provide one-on-one technical assistance and incentives to family forestland owners, primarily in urban and wildland-urban interface areas.

ODF – Agency Administration and Central Business Services

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	5,750,248	3,090,593	2,760,225	3,069,589
Lottery Funds	1,374,136	2,542,314	2,523,132	5,408,132
Other Funds	48,959,809	50,110,147	51,347,635	53,572,360
Other Funds (NL)	7,144,775	0	0	0
Federal Funds	1,115,386	1,975,300	2,238,473	2,119,979
Total	**$64,344,354**	**$57,718,354**	**$58,869,465**	**$64,170,060**
Positions	118	120	120	125
FTE	118.82	120.14	120.58	125.21

Program Description

This section includes Agency Administration, Equipment Pool, Facilities Maintenance and Development, Capital Budgeting, and Debt Service.

- ***Agency Administration*** (96 positions and 95.48 FTE) includes the State Forester's office, Board of Forestry support, and traditional support functions such as finance, property management, personnel, computer services, and public information. Agency Administration is also responsible for policy development, forest resource analysis and planning, administration of the log brand inspection program, land use planning coordination, and facilities maintenance.
- ***Equipment Pool*** (29 positions and 29.73 FTE) operates a motor pool and a radio pool. The motor pool manages 5 fleets, 16 mechanic shops, and an aviation unit with 3 aircraft. The radio pool supports and maintains 3,500 pieces of major communication equipment such as repeaters, base stations, and mobile and portable radios. The radio pool provides the equipment, engineering, maintenance, and support for the Department's cooperators: 3 fire protection associations; the Department of Fish and Wildlife; and the Oregon Parks and Recreation Department.
- ***Facilities Maintenance and Management*** (position in Agency Administration) provides oversight and coordinates preventive maintenance, repairs, improvement, planning and construction coordination, and management for the agency's structures and facilities 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. The estimated value of the facilities is $115 million, with a deferred maintenance backlog of about $8.1 million.
- ***Capital Budgeting*** includes Capital Improvement projects and Major Capital Construction projects. The Department owns and maintains 415 structures statewide. Examples include mountaintop lookout facilities, fuel facilities, remote forest fire guard stations, district and unit offices, seed processing facilities, and automotive maintenance shops. Many buildings need improvement or major construction because of age, type of construction, changing building codes, and growth of the agency. The Department's Long-Range Facilities Management Plan coupled with site master plans provides details on major construction needs over the coming ten-year period. Site master plans and feasibility studies are contracted for by the Department to determine major construction needs to meet workload projections at each site. The Department works with the Capital Projects Advisory Board for review of the agency's major construction, space, and maintenance needs.
- ***Debt service*** payments are required to pay off Certificates of Participation (COPs) issued for the construction of the Salem Headquarters Office Complex, capital construction relocation projects in John Day and Sisters, as well as for capital investment improvements in the agency's business information systems, and forest land acquisition. Additionally, there is debt service for lottery-backed bonds to purchase Gilchrist forest parcels.

Revenue Sources and Relationships

Agency Administration is funded by the Other Funds and Federal Funds assessed against agency programs on a pro-rated basis by funding source, such as the State Forests Account (timber receipts) and Forest Products Harvest Tax. The program also receives a small amount of revenue from fees charged for services and map sales. Expenditures for the Equipment Pool program are financed 100% from fees charged to equipment pool users. Facilities Maintenance and Development is currently funded by utilizing the facility operation and maintenance budgets of each program. Revenue to pay debt service comes from the General Fund (40%), Other Funds (25%), and Lottery Funds (35%). The associated Other Funds revenue is based on a square footage assessment to the Equipment Pool from the Radio and Motor Pool Funds; the State Forests program from the Forest Development and Common School Lands Funds; and the Private Forests program from the Forest Products Harvest Tax. Generally, costs are prorated among the funding sources of the programs that occupy the specific facility. In the past, General Fund was provided as the public share match money for projects funded in the Fire Protection program. Capital construction projects are funded through COPs, Article XI-Q bonds, and Other Funds generated from the State Forest Management program.

Budget Environment

Agency Administration performs roles in interagency communications with federal government agencies, the Governor's office, and other state agencies involved in natural resource activities. The program has experienced increasing information needs to address public involvement in areas such as the development of forest management plans in the State Forests Program, including the Northwest Oregon Forest Management Plan and the Elliot State Forest Management Plan. Due to a strong interest in the social, economic, and environmental aspects of forest management generally, public interest and involvement in all Department programs and activities is high and will likely increase.

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 Statewide Interoperability Executive Committee, which is requiring new strategies to provide the most efficient and effective exchange of information.

Many of the Department's structures were built in the 1930s, 40s, and 50s, and are in need of renovation to prevent further deterioration and to meet new standards such as the Americans with Disabilities Act and energy conservation requirements. The Department uses a Long Range Facilities Management Plan to coordinate major maintenance, improvements, and construction projects on a statewide basis projected over a ten-year period. Site master plans prepared by private consultants are utilized for developing major construction proposals. These site master plans are coordinated with the long-range management plan in developing the agency capital budget.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $64.2 million is $6.5 million, or 11%, more than the 2011-13 legislatively approved budget level and $5.3 million, or 9%, over the current service budget leve. The budget reflects an increase of 5 positions (5.07 FTE) resulting from adding 4 positions to support the ongoing Forest Business Improvement Initiative efforts, shifting 1 position from Facilities to Administration to more closely align duties and funding, and 1 position from Fire Protection for the same reason.

The budget includes the addition of $200,000 General Fund to partially support a position in the Governor's office that will assist in seeking solutions to forest health and economic downturn issues. One-time lottery funding in the amount of $2,885,000 is added for technical support and scientific studies and research to increase the pace and scale of collaboratively developed management efforts with the federal government and to build and pilot a new business model for federal forest management projects in the U.S. Forest Service Blue Mountain Restoration Strategy area. The U.S. Forest Service is expected, but not required, to provide an unspecified amount toward the same effort.

The budget was increased by $113,364 General Fund and $147,243 Other Funds to provide an expenditure limitation for debt service for the East Lane capital project, which was also approved in the Capital Construction bill (SB 5507) at $1,750,000. It will be funded with Article XI-Q bonds, approved in SB 5506. Issuance costs of $120,000 on bonding approved for additional Gilchrist state forest land acquisition and the Lane warehouse is also included. The Gilchrist purchase is approved at $5.2 million, also funded by Article XI-Q bond proceeds.

Department of Geology and Mineral Industries

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	2,675,269	2,464,702	2,638,699	2,505,043
Lottery Funds	499,999	0	0	0
Other Funds	7,733,956	9,034,864	4,192,866	7,835,292
Federal Funds	3,492,611	5,268,289	3,050,661	4,303,586
Total Funds	**$14,401,835**	**$16,767,855**	**$9,882,226**	**$14,643,921**
Positions	44	53	35	50
FTE	40.74	48.57	34.20	49.20

Agency Overview

The Department of Geology and Mineral Industries (DOGAMI) is the state's primary source of geoscientific information. DOGAMI has two program areas The Geologic Survey and Services Program and the Mineral Land Regulation and Reclamation Program. Department headquarters are located in Portland, with the Mineral Land Reclamation unit sited in Albany. Two small Geologic Survey offices are located in Baker City and Newport. Employees of the Department are primarily geologists and other geotechnical experts.

The Geologic Survey and Services Program gathers geoscientific data and maps mineral resources and hazards. Geographic areas needing tsunami hazard mapping, landslide hazard studies, flooding 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, outreach, and library functions and the agency's administrative functions such as budgeting, accounting, and human resource services.

The Mineral Land Regulation and Reclamation Program is responsible for regulating the exploration, extraction, production, and reclamation of mineral and energy resources for the purposes of conservation and second beneficial uses of mined lands. The objectives are to conserve the mineral resource and protect the environment while providing for the economic uses of the mined materials. The Mineral Land Regulation and Reclamation Program regulates oil, natural gas, geothermal exploration and extraction, and receives no General Fund or Lottery Funds support.

Revenue Sources and Relationships

The Geologic Survey and Services Program is funded by General, Other, and Federal Funds. Federal and Other Funds are largely from cooperative agreements and for services on reimbursable projects. Historically, 10 to 15% of DOGAMI's Federal Fund monies are for grants that require matching General Fund dollars. The Mineral Land Regulation and Reclamation Program is financed primarily from Other Funds derived from aggregate mine, oil and gas, and geothermal permit and production fees. The Department has experienced an increase in Federal and Other Funds revenue due to partners in the LIDAR consortium paying the Department for collection of map data using LIDAR services contracted by DOGAMI. Most of the revenue is passed through to the contractor for data collection.

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 geoscientific information. Increased demand combined with General Fund reductions has resulted in DOGAMI becoming more dependent upon obtaining funding partners to support projects, rather than pursuing projects that are of highest priority need. General Fund reductions to this Department have largely involved use of other revenues to replace lost state support. This has occurred to such an extent that future fund shifts may be limited by the availability of state support to use as match for other revenue sources such as federal grants.

Legislatively Adopted Budget

The legislatively adopted budget is $14.6 million: $2.5 million General Fund, $7.8 million Other Funds, and $4.3 million Federal Funds. This is a 12.7% reduction in total funds from the 2011-13 legislatively approved budget. This reduction is largely because of phasing out one-time LIDAR data collection and mapping projects and adding back a smaller amount of project funding. The General Fund portion of the 2013-15 adopted budget is 1.6% higher than the 2011-13 budget, but 5.1% below the current service level, stemming from statewide reduction actions taken in all agencies as part of the final legislatively adopted budget.

The legislatively adopted budget includes $3.5 million Other Funds expenditure limitation to continue LIDAR mapping, 1 limited duration and 2 permanent positions for data analysis and management, and $1.5 million in additional Other and Federal Funds to conduct flooding hazard assessments for coastal river flooding and tsunami inundation threats. As with all state agency budgets, the General Fund portion of DOGAMI's budget was adjusted to include a 5% reduction to services and supplies and a 2% supplemental statewide ending balance hold back reduction on total General Fund support. Additionally, consistent with all budgets, this budget was adjusted for PERS rate reductions and other assessment changes.

Department of Land Conservation and Development (DLCD) – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	15,258,551	11,132,225	12,274,466	12,330,059
Other Funds	1,309,575	1,457,573	1,278,787	947,584
Federal Funds	4,790,276	6,117,281	5,897,527	5,891,950
Total Funds	**$21,358,402**	**$18,707,079**	**$19,450,780**	**$19,169,593**
Positions	95	57	55	61
FTE	80.57	55.11	53.46	58.06

Agency Overview

The Department of Land Conservation and Development administers Oregon's statewide land use planning program and Oregon's federally approved coastal management program. 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.

DLCD personnel assist the Land Conservation and Development Commission (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. Periodic review of plans and technical assistance in the form of grants to local jurisdictions are key elements of the program. Under that program, all cities and counties have adopted comprehensive plans that meet mandatory state standards.

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 Grants.

Revenue Sources and Relationships

General Fund supports 64% of DLCD operations and provides the "in-kind" match requirement for federal grants. General Fund also supports local jurisdiction grants for maintaining, improving, and implementing comprehensive land use plans and regulations.

Federal dollars are expected to cover about 30% of the budget; funding comes from the U.S. Department of Commerce's National Oceanic and Atmospheric Administration (NOAA) and from the Federal Emergency Management Agency (FEMA). This federal funding supports the agency's ocean and coastal program activities, flood plain management, and RiskMap program. Receipt of this funding requires 100% cash or in-kind match, depending on the federal subprogram. FEMA funds, which are used to operate the Floodplain Management Program, in most cases require a 25% state match and are restricted to use in administration of the National Flood Insurance and RiskMap programs.

Other Funds revenue sources consist mostly of federal transportation funds from the Oregon Department of Transportation (ODOT) for Transportation Growth Management and other transportation-related programs. DLCD projects a transfer of $377,677 from ODOT in 2013-15. In 2013-15, DLCD will also be receiving Other Funds from the Military Departments' Emergency Management program to support preparing statewide and local government hazard mitigation plans. DLCD projects a transfer of $180,000. DLCD also receives small amounts of Other Funds revenue from the sale of publications, subscriptions to plan amendments, and periodic review notices and public record duplicating services.

Budget Environment

Continued population growth, while slowing, results in pressures on transportation systems, land management, and development. Growth presents challenges to coastal development, urban growth boundary expansion, development of agricultural and rural lands, preservation of natural resources, and maintenance and development of adequate infrastructure.

DLCD has faced funding challenges over the past several years. The agency has limited fee-supported revenue or access to alternate sources of Other Funds, placing it in a position to be reliant on general purpose tax revenues and federal resources. Federal listings of threatened and endangered species have presented state and local governments with challenges to modify development and land use practices.

Cities, counties, and districts are the "front line" of the statewide land use program. Local and state financial resources have not kept pace with Oregon's need to conduct the planning needed to attract development and sustain local economies. Key infrastructure systems are often supported by local development fees. Land use planning can create constraints on economic growth if adequate lands are not available and planned for changing economic conditions and employment growth. Funding is seldom at the levels needed to be in front of long-term growth

Several land use-related bills with budgetary impacts were passed by the 2013 Legislature. HB 2253 removes responsibility for population forecasts from cities and counties and delegates the responsibility to the Population Forecasting Center at Portland State University and provides for a state-funded grant to perform the work, estimated at a biennial cost of $441,000. HB 2254 provides optional urban growth boundary planning methods to simplify and help cities estimate how much future growth can be accommodated within their boundaries and clarify how cities decide where to grow when they need additional land. HB 3098 allows youth camps to be established on land in eastern Oregon zoned for exclusive farm use requiring LCDC to establish criteria to implement the statute and protect adjacent land uses based on similar uses in forest zones and mixed farm and forest zones.

Legislatively Adopted Budget

The agency's 2013-15 legislatively adopted budget consists of $12,330,059 General Fund, $947,584 Other Funds, $5,891,950 Federal Funds, and 61 positions (58.06 FTE). The General Fund budget reflects an increase of $1.2 million, or 11%, from the prior biennium and $55,593 (or 0.5%) from the current service level. The budget reflects standard adjustments approved in most agency budgets for PERS reforms, statewide administrative savings, statewide general government assessments, an additional 5% reduction in General Fund appropriated for services and supplies, and a 2% hold back adjustment on General Fund for purposes of establishing a supplemental statewide ending balance. The supplemental statewide ending balance holdback is subject to restoration to the agency in February 2014 depending on the state's overall fiscal situation.

The budget also reflects technical adjustments to remove one-time funding in the base budget for the regional planning program, a reduction in federal funding for the Oregon Coastal management Program; and a change in accounting methods in the transfer of federal transportation funds between ODOT and DLCD. Beyond the standard adjustments the budget reflects increases and decreases to implement changes in 2013 statutory changes.

DLCD – Planning Program

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	13,152,247	9,532,884	10,636,741	10,792,077
Other Funds	1,309,575	1,457,573	1,278,787	947,584
Federal Funds	4,790,276	6,117,281	5,897,527	5,891,950
Total Funds	**$19,252,098**	**$17,107,738**	**$17,813,055**	**$17,631,611**
Positions	95	57	55	61
FTE	80.57	55.11	53.46	58.06

Program Description

Administration (13.88 FTE) provides agency leadership and oversees day-to-day operations. These include financial services, support services, information systems, and administration of the Landowner Notification program. This program requires cities and counties to provide written notice to landowners when a new or amended zoning ordinance is proposed that will limit or prohibit uses of the landowner's property. The state must reimburse local governments for the notification costs when the proposed ordinance changes are related to changes in state law or policy; DLCD manages the local government claim and reimbursement process.

Planning (16.60 FTE) provides technical assistance and policy consultation services in planning areas, such economic development and revitalization, urban growth boundary expansion, farm and forest protection, natural resource management, mineral and aggregate resources, and floodplain management.

Specific services include the Transportation and Growth Management (TGM) Program and the Natural Hazards Program. The TGM Program, a joint effort with 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. New to DLCD in the 2013-15 budget is responsibility to update and coordinate the Oregon Natural Hazard Mitigation Plan.

Community Services (15.00 FTE) assists local governments in the implementation of the statewide land use program through technical assistance, administration of grants, periodic review of local plans and land use regulations, and plan amendment review.

Ocean and Coastal Services (11.58 FTE) oversees the implementation of statewide planning goals, with an emphasis on the coastal goals, by local jurisdictions and state agencies in the coastal zone. This Division contains two programs: the federally approved Oregon Ocean and Coastal Management Program and the Oregon Ocean Resources Management Program. The agency provides services such as technical assistance, administration of coastal grants, coordination of state and federal programs in the coastal zone, and support to the Ocean Policy Advisory Council. These activities are primary supported by federal funding.

Measure 49 Development Services (1.00 FTE) was established to process claims for compensation made under Measure 37 and Measure 49. The bulk of the claims were processed by June 30, 2010, by employees in limited duration positions. The 2013-15 budget retains one permanent position to provide ongoing program support. While the volume of new or newly eligible claims is minimal, litigation from already processed claims is ongoing.

Legislatively Adopted Budget

This program unit captures more than 90% of the agency's spending. The 2013-15 legislatively adopted budget for General Fund is 13% above the 2011-13 legislatively approved budget and $155,336, or 2.46%, above the current service level. The budget includes one-time expenses funded by General Fund of $300,000 for administrative rule writing required by enactment of HB 2254 and HB 3098; $346,000 for completion of the regional land use planning pilot project in southern Oregon; and $238,934 and one limited duration position to provide resources to partially modernize information systems. A budget note was approved requiring DLCD to complete foundational project documentation for the agency's Information Management Modernization Initiative and report to the Joint Committee on Ways and Means during the 2014 legislative session on the status of the project.

Two limited duration positions and one permanent position (2.42 FTE) working on greenhouse gas emissions reduction targets were approved. This effort was initiated under the 2009 Jobs and Transportation Act and is supported by $319,414 General Fund and $174,240 Other Funds provided by ODOT from federal transportation planning funds.

The budget makes permanent a limited duration position funded by federal resources through the National Flood Insurance Program to improve digital flood hazard maps and adds a new limited duration position funded by the Office of Emergency Management to update and coordinate the Oregon Natural Hazard Mitigation Plan. This effort is supported by $179,363 Other Funds, $249,231 Federal Funds, and 2.00 full-time equivalent positions.

Base budget authority for attorney general expenses was increased by $50,000 General Fund to align current expenditures with projected legal review costs to address local land use planning activities.

The budget also adds $350,000 in federal resources received as Other Funds from the Scripps Institution of Oceanography and the University of California San Diego Supercomputer Center to produce a data portal to convert NASA data on sea level changes to a more useable form for local planners to assess the impact of potential seal level change on coastal communities, cities, and counties. DLCD anticipates an additional $250,000 of Other Funds expenditure limitation will be required in the 2015-17 biennium for this grant.

The budget reflects standard adjustments approved in most agency budgets for PERS reforms, statewide administrative savings, statewide general government assessments, an additional 5% reduction in General Fund appropriated for services and supplies, and a 2% hold back adjustment on General Fund for purposes of establishing a supplemental statewide ending balance. The supplemental statewide ending balance holdback is subject to restoration to the agency in February 2014 depending on the state's overall fiscal situation.

DLCD – Grant Program

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	2,106,304	1,599,341	1,637,725	1,537,982
Total Funds	**$2,106,304**	**$1,599,341**	**$1,637,725**	**$1,537,982**

Program Description

DLCD awards grants to local jurisdictions for maintaining, improving, and implementing comprehensive land use plans and regulations as well as assisting local governments in meeting the statutory obligation for periodic review of these plans. This program is intended to ensure compliance with the statewide planning goals.

Grants awarded have included those for periodic review, technical assistance, dispute resolution, economic development, and small city and county grants. This program is managed by staff in DLCD's Planning Program. No positions are included in the Grants budget.

Revenue Sources and Relationships

General Fund is used to provide grants to local governments to complete projects to update and modernize comprehensive plans, land-use ordinances, development codes, and other planning regulations.

Budget Environment

Local governments experience the demands of residential and other growth, infrastructure needs, natural hazards, and environmental issues. Planning grants from DLCD help local governments keep land use plans and ordinances up-to-date. DLCD notifies local governments of grant requirements and the availability of grant funds. After evaluation and review, recipients enter into an agreement with DLCD regarding the specific work to be accomplished and a time schedule for completion. Local grant awards require a match equal to the amount award by DLCD.

The Department uses a standing Grants Advisory Committee to make recommendations to LCDC on the allocation of the agency's General Fund for grants and technical assistance. This group, which is composed of various stakeholders, also provides guidance on grant policy, priorities, and administration.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget is $61,359 General Fund, or 4%, below the 2011-13 legislatively approved budget and $99,743 General Fund, or 6%, below the current service level. This change consists of a 25% decrease in the overall grant program, plus an additional reduction to create the statewide supplemental ending balance; an increase of $250,000 General Fund to support implementation of HB 2253; and a one-time grant of $80,000 General Fund to be provided to the Columbia River Gorge Commission for Oregon urban boundary planning needs in the Gorge. The supplemental statewide ending balance holdback is subject to restoration to the agency in February 2014 depending on the state's overall fiscal situation.

Land Use Board of Appeals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	1,412,424	1,331,909	1,448,572	1,517,044
Other Funds	64,014	83,620	85,648	84,328
Total Funds	**$1,476,438**	**$1,415,529**	**$1,534,220**	**$1,601,372**
Positions	6	5	5	6
FTE	6.00	5.00	5.00	5.75

Agency Overview

The Land Use Board of Appeals (LUBA) was established in 1979 to provide prompt, professional, and efficient resolution of land use issues and to develop a consistent body of land use law. Prior to the creation of LUBA, circuit courts reviewed local land use decisions which resulted in delays and inconsistent interpretations of land use law in different portions of the state. LUBA has jurisdiction to review appeals of local government and some state agency decisions for consistency with local and state land use laws. LUBA decisions may be appealed to the Court of Appeals and ultimately to the state Supreme Court via discretionary review. Private parties and public agencies – including agricultural interests, developers, environmental groups, individual property owners, and state and local governments – are able to bring issues to LUBA for review.

The Board consists of three hearings referees and two support positions. The Board Members are members of the Oregon State Bar and are appointed by the Governor (subject to Senate confirmation). LUBA's office is located in the Public Utility Commission (PUC) building, with PUC providing accounting, personnel, and other administrative support to LUBA through an inter-agency service agreement.

Revenue Sources and Relationships

General Fund supports 94% of the budget. 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's budget is based on an estimated $72,955 that will be received in sales income during the 2013-15 biennium. This estimate requires LUBA to issue five volumes that will be sold to 84 subscribers at $175 per volume.

LUBA also collects appeal filing fees and fees from intervening parties, which are transferred to the General Fund. The 2009 Legislature increased the appeal filing fee from $175 to $200 and added an intervener fee of $100 (HB 3199). LUBA estimates receiving $80,150 from these fees in 2013-15, which is consistent with handling about 130 appeals annually and 140 intervening parties annually. This revenue estimate is understated if the number of appeals the agency is predicting materializes. At 187 appeals and 113 motions to intervene annually, the biennial revenue would be $97,500 about a 22% increase over the current biennium.

Budget Environment

At historical staff levels, LUBA managed between 420-450 appeals per biennium. Depending upon complexity and timing of the appeals, LUBA was able to meet performance measure targets for issuing final opinions within the statutory 77-day deadline. The volume of appeals is the determining factor in LUBA's workload. The number of appeals is heavily influenced by economic activity and population growth. With the economic recession that began in 2009, the annual number of LUBA appeals declined significantly. In 2010, the Board received 116 appeals, and in 2011 it increased to 120 appeals. The Board is projecting 375 appeals and about 225 motions to intervene for the 2013-15 biennium. LUBA was able to meet performance measure targets for issuing final opinions within the statutory 77-day deadline.

As the economy recovers, LUBA expects that the number of appeals will rise to historical levels of 420-450 appeals per biennium. Depending upon complexity and timing of the appeals, when appeal numbers go beyond 220 per year it becomes difficult to meet the 77-day deadline and perform the other related functions. When appeal numbers reach 250 to 260 per year for a sustained period, LUBA will fall behind and can recover only when appeal numbers drop for an extended period of time, or additional staffing is made available.

Legislatively Adopted Budget

LUBA's 2013-15 legislatively adopted budget consists of $1,517,044 General Fund, $84 328 Other Funds, and 6 full-time positions (5.75 FTE). The General Fund appropriation is 14% above the 2011-13 legislatively approved level and 5% above current service levels. The Legislature approved restoring a staff attorney position and added $135,000 General Fund to ensure LUBA's ability to comply with its statutory mandates.

The budget reflects standard adjustments approved in most agency budgets for PERS reforms, statewide administrative savings, statewide general government assessments, an additional 5% reduction in General Fund appropriated for services and supplies, and a 2% hold back adjustment on General Fund for purposes of establishing a supplemental statewide ending balance. The supplemental statewide ending balance holdback is subject to restoration to the agency in February 2014 depending on the state's overall fiscal situation

Department of State Lands

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	1,934,790	681,266	0	0
Other Funds	23,084,202	29,253,872	25,754,324	29,740,188
Other Funds (NL)	7,346,149	29,054,249	10,054,249	10,234,249
Federal Funds	3,497,375	6,099,914	2,777,493	1,831,671
Total Funds	**$35,862,516**	**$65,089,301**	**$38,586,066**	**$41,806,108**
Positions	110	108	105	107
FTE	107.46	106.42	104.00	106.00

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 has provided support to the Natural Heritage Advisory Council.

The Department is organized around four program areas and the final work on natural heritage grant implementation:

- ***Common School Fund*** (90 positions, 89.00 FTE) consists of four divisions, Land Management, Wetlands and Waterways Conservation, Finance and Administration, and the Director's Office.
- ***Oregon Wetlands Revolving Fund*** (1 position, 1.00 FTE) was established by the 1987 Legislature to provide financial resources to acquire wetlands banking and wetlands mitigation sites; to accomplish wetlands restoration, enhancement, and creation; and to cover administrative costs.
- ***South Slough National Estuarine Research Reserve*** (16 positions, 16.00 FTE) is a tidal inlet of the Coos estuary six miles southwest of Coos Bay. The area was designated in 1974 as the first national estuarine research reserve and consists of 1,000 acres of tidelands and open water surrounded by a 3,800-acre upland border. The 4,800-acre South Slough National Estuarine Research Reserve (SSNERR) is part of the U. S. National Estuarine Research Reserve System established by the Coastal Zone Management Act of 1972. SSNERR operates an interpretive center and maintains nature trails for hikers and canoeists. It also conducts a variety of research, educational, and stewardship programs. Its laboratory work is co-located with the University of Oregon's Oregon Institute of Marine Biology in Charleston.
- ***Capital Improvements*** (no positions or FTE) manages property as assets of the Common School Fund. Expenditures in this program include small infrastructure design and construction projects, facilities rehabilitation, general maintenance and repair, weed control, land rehabilitation and conversion, and response to environmental hazards.
- ***Natural Heritage Program*** (no positions or FTE) – the state's Natural Heritage Act was passed by the 1979 Legislature to create a discrete and limited system of natural heritage conservation areas to represent the full range of Oregon's natural heritage resources. The program was transferred to the Oregon Parks and Recreation Department on January 1, 2012. This budget includes a small limitation to complete work on the last grant administered by DSL.

Revenue Sources and Relationships

Other Funds revenue for the Department is derived from two major sources: income from program operations and investment income. Statutory program operations generate revenue from waterway, hydroelectric, sand and gravel leases; unclaimed property dividends; and removal-fill permit fees. Income from these sources is expected to remain fairly stable. Fee revenue and leasing revenue is expected to generate $8.5 million for the

2013-15 biennium. Constitutional revenue is generated from periodic land sales and other revenue generated from property holdings for deposit in the Common School Fund. Revenue from land management activities is projected to show a slight increase during the 2013-15 biennium. Common School Fund revenues also include receipts from timber harvests on Common School Forest land. The Department of Forestry originally projected 40 million board feet in harvest in 2013-15. Subsequently, due to a more recent barrier to harvest, the estimate was adjusted to 15 million board feet, to generate about $10.2 million. Common School Fund distributions to the Department of Education by the Department of State Lands are anticipated to be $91.6 million in 2013-15, unless the Land Board decides to distribute at a higher rate.

Federal Funds received by the Department from the U.S. Environmental Protection Agency, Office of Coastal Resource Management, National Oceanic Atmospheric Administration, Department of Commerce, and U.S. Fish and Wildlife Service provide support of the wetlands program, permit streamlining efforts, and the South Slough National Estuarine Research Reserve. Federal Fund receipts are estimated at $1.4 million for the 2013-15 biennium, a significant reduction from 2011-13. In general, federal revenues are declining, and the NHAC program is transferred to State Parks. State match ranges from 30% to 50% depending on the individual grants and is provided from in-kind contributions, private donations, and some Common School Fund expenditures.

Budget Environment

The Common School Fund is a constitutional trust created to manage the assets derived from the common school trust lands granted to Oregon by the federal government at statehood. These lands originally comprised 6% of the new state's land for the support of schools, plus land for a state university. Revenues from these lands and any associated mineral, timber, or other resource are dedicated to the Common School Fund. The state holds title to the mineral rights for approximately four million acres. From 1999 to 2009, distributions were based on a sliding scale of percentages of a three year rolling average of the annual growth in the Common School Fund's market value with lower percentages used when fund growth was relatively sluggish. The constitution (Article VIII) requires the Legislative Assembly to provide by law how moneys in the Common School Fund shall be invested and distributed, and to appropriate, in each biennium, money from the fund for public education. State law, ORS 273.105, delegates this responsibility to the State Land Board.

In 2009, the Legislature appropriated $2,825,910 General Fund and reduced the Department's statutory Other Fund ending balance to provide an additional $1,812,968 Other Funds expenditure limitation to hire a forensic consultant to help the state defend its position in the Portland Harbor cleanup cost allocation process. The forensic consultants evaluated state activities at or adjacent to 79 upland sites and provided the contamination and remedy reports costs in each sediment management area in the 2011-13 biennium. The Department required additional assistance from the Department of Justice and the forensic consultant in 2011-13 and the work will continue in 2013-15 as cost allocation negotiations and natural resource damage assessment work go on with federal environmental agencies and other entities. An insurance policy settlement is covering ongoing charges for the work, eliminating immediate need for more General Fund.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $41.8 million total funds is $23.2 million, or 35.8%, less than the 2011-13 legislatively approved budget. The primary reason for the drop is phasing out a one-time $19 million loan to the Department of Revenue. There are also phase-outs for one-time grant limitations. The 2013-15 budget is $3.2 million, or 8.3% higher than 2013-15 current service level. The Legislature approved the following:

- $3.5 million Other Funds to continue work on Portland Harbor Superfund forensics. Other Funds are assumed to come from insurance policy proceeds.
- $299,000 Other Funds expenditure limitation to pay property taxes on the former Eugene Motor Pool site and on a commercial building in the Common School Fund asset inventory, and management fees on the same commercial building.
- $57,800 final NHAC limitation for carryover Federal Funds on the last grant DSL is administering.
- $95,166 carryover and $135,000 new Federal Funds limitation for annual Environmental Protection Agency grants to address wetlands protocol streamlining.
- $399,826 Other Funds carryover limitation for a habitat and restoration project at the South Slough.
- $152,856 Other Funds and one new position at South Slough (1.00 FTE) to implement the forest management plan, climate change plan, and watershed management plan.

- $1.2 million Federal Funds limitation reduction at South Slough to reflect anticipated diminishing federal revenue.
- $300,000 Other Funds limitation for an HVAC upgrade in the State Lands Building, an asset of the Common School Fund.
- $307,360 Other Funds unspent carryover limitation for the Laton Point rangeland conversion project.

The budget also reflects reductions of $236,214 Other Funds to adjust Department of Administrative Services and Archives assessments and reflect a decrease in the Attorney General hourly billing rate.

Marine Board (OSMB) – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	22,201,108	23,537,102	21,984,696	25,981,329
Federal Funds	6,188,391	6,683,394	6,759,893	7,443,149
Total Funds	**$28,389,499**	**$30,220,496**	**$28,744,589**	**$33,424,478**
Positions	43	40	40	40
FTE	41.38	39.50	39.50	39.50

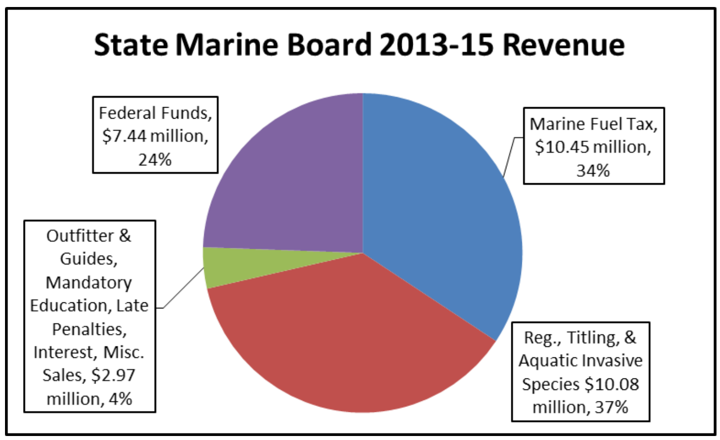
Agency Overview

The Oregon State Marine Board (OSMB) was established in 1959 and is responsible for registering and titling all recreational motorized and sailboats 12 feet and longer in the state, providing boater education, marine law enforcement, facility access, and mitigating the effects of invasive species on native waters. The Board returns user fees (marine fuel tax and title and registration fees) to boaters in the form of boating safety and clean boating educational programs, marine law enforcement, and improved boating facilities. The Board consists of five members appointed by the Governor for four-year terms. The Board selects the agency's executive director.

Revenue Sources and Relationships

The agency receives no General Fund support or Lottery Fund allocations. All agency programs are funded by two major revenue sources. OSMB is funded with 76% Other Funds and 24% Federal Funds. Other Funds revenues in the 2013-15 biennium are projected to total $23 million while Federal Funds are projected to total $7.44 million.

The agency's primary Other Fund revenue sources are:



- ***Marine fuel taxes:*** Each year the Department of Administrative Services certifies the amount of motor vehicle fuel taxes imposed during the preceding fiscal year on fuel purchased and used to operate motor boats. Approximately 34%, or $10.45 million, comes from marine fuel taxes. The amount, less refunds, for commercially used motor boats, is transferred to the Marine Board's Boating Safety, Law Enforcement and Facility Account. The estimate is based on the results of the Oregon Motorboat Fuel Use Survey that is conducted every four years to determine the amount of fuel consumed for a variety of vessel sizes and types, which is used to determine the tax to be transferred from the Department of Transportation. The last survey was completed in spring 2010. The survey indicates total consumption has decreased by 22%, which despite an increased tax rate for the second half of the last fiscal year, results in a slight decrease in fuel tax transfer to OSMB.
- ***Registration and title fees:*** Registration fees are set by statute and vary based on type and size of vessel. Registrations are valid for two years. A boat owner must also secure a one-time certificate of title from the Marine Board. The 2003 Legislature adopted new fees based on a flat fee of $3/foot for a two year registration; one time title fees were adjusted to $30, which enabled the agency to restore funding levels for programs eroded by inflation, flat registration counts, and drought conditions. The last fee increases were authorized by the 2003 Legislature and became effective during the 2003-05 biennium.
- ***Invasive species fees:*** The fees for the permits are $5 for motorboats, $5 for manually propelled boats over ten feet in length, and $20 for nonresidents and annual fees for operators of boat liveries. The aquatic invasive species fees were instituted during the 2009 legislative session and are deposited into a dedicated account.

The Legislature approved HB 2039 requiring all persons functioning as a fishing guide to be registered as a guide and requires that all guides operating motor boats be required to carry a minimum of United States Coast

Guard Inland licenses. The measure increases the fees in 2014 from $50 to $150 per year. The fee increase is expected to generate an additional $294,976 during the 2013-15 biennium. The increase will fund improved program oversight, outreach efforts, and law enforcement specifically targeted to illegal guiding services.

OSMB has an Other Funds beginning balance of $8.5 million and an estimated ending balance of $5.5 million, which represents five months of cash reserves.

The sources of the agency's Federal Funds are:

- U.S. Coast Guard's Recreation Boating Safety (RBS) grant program ($4.2 million): The Coast Guard restricts use of RBS grants to boating safety programs and requires a 50-50 state match. This is a formula-driven grant award and is funded by the federal Sportfish Restoration and Boating Trust Fund.
- Boating Infrastructure Grant (BIG) program ($1 million): The BIG funding program has two tiers. Tier 1 funds are base grants set annually at $100,000 per state and Tier 2 grants are competitive, with approximately $4 million available nationally each year. BIG funds, authorized in 1998 as part of the Sport Fishing and Boating Safety Act, require a 25% state match.
- Clean Vessel Act (CVA) program ($2.2 million): CVA funds were first made available in 1994 for funding vessel waste pump out facilities and dump stations to reduce the effects of untreated sewage from boats in the state's waters. CVA grants require a 25% state match. CVA is a competitive grant.

Matching funds for the various grants come from local government funds, local in-kind support, and OSMB registration and titling fees and marine fuel tax.

Budget Environment

Over the last 12 years, the average number of boats registered by OSMB was 184,647. The number of registered boats peaked in December of 2003 at 197,591. Current registration is estimated to be 169,188 boats, which would be its lowest point in the last 12 years. On average, registration has declined approximately 1% per year since 2000. The agency notes that even though the number of registered boats has declined, there is an increased utilization of waterways by non-registered craft, such as canoes, kayaks, rafts, and inner tubes.

The decline in boat registration reduces registration and titling fee revenues and likely the amount of marine fuel tax received by the agency. The agency has administratively managed its budget to remain within available cash resources.

Charter and Outfitter/Guide registrations are historically stable. General economic conditions drive this population of fee payers, but for the most part the clientele are motivated beyond economic concerns which add stability. Increased enforcement is anticipated to increase Outfitter/Guide numbers in 2012.

The interplay of motorized and non-motorized boating activities continues to be an issue that the agency must actively manage in terms of education, regulation, and law enforcement. The level of safety patrol and boating law enforcement will become more difficult as biennium-over-biennium funding of these activities by the agency will be relatively unchanged from the 2009-11 biennium.

The demand for technical and financial assistance to help maintain, repair, and replace aging boating facilities continues to rise. The Boating Access Improvement Plan (2011-2017) lists $179 million in improvements identified by users and facility managers at 770 public boating access sites in Oregon. Looking beyond the 2013-15 budget period, it may be necessary to reduce programs and staffing if revenues will not sustain programs at current levels.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $26 million is $3.5 million, or 12%, higher than the 2011-13 legislatively approved budget and $4.7 million, or 16%, higher than the 2013-15 current service level budget. Staffing levels remain the same as the prior biennium at 40 positions (39.50 FTE).

The Other Funds budget of $26 million is $2.7 million, or 12%, higher than the 2011-13 legislatively approved budget and $4 million, or 18%, higher than the current service level.. Federal Funds total $7.4 million and are $759,755, or 11%, higher than the 2011-13 legislatively approved budget and $683,256, or 10%, higher than the current service level.

The budget reflects standard adjustment of $43,688 Other Funds approved in most agency budgets for PERS reforms, statewide administrative savings, and statewide general government assessments.

OSMB – Administration and Education Program

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	5,447,848	5,241,125	5,626,461	6,209,284
Federal Funds	272,042	455,438	209,895	209,895
Total Funds	**$5,719,890**	**$5,696,563**	**$5,836,356**	**$6,419,179**
Positions	29	24	24	24
FTE	26.22	23.00	23.80	23.80

Program Description

The Administration and Education program is responsible for vessel titling and registration activities including floating homes and boathouses, outfitter and guide registration, and ocean charter boat licensing. The program also administers state boating laws, develops waterway management plans, serves as liaison with other government units, conducts boating accident analyses and boater surveys, coordinates the Adopt-a-River program, and provides the agency's central business functions. Education activities include implementation of mandatory boater education, coordination of statewide water safety school programs, development and distribution of safe boating promotional materials, and the production of public information materials for distribution to the media.

Budget Environment

Balancing needs and expectations of water-based outdoor recreation activities in Oregon is a growing challenge. The number of registered boats continues to decline and evidence indicates a steady increase in the popularity of non-registered manually powered boats and organized rowing sports. Implementation of the Aquatic Invasive Species Program is enabling the Board to gather baseline use data on non-registered boats for the first time, but it will take several years to quantify trends. However, fatalities related to manually powered boat operation continue to increase, and conflict between motorized and non-motorized users has spiked in recent years. The economic downturn has eroded the number of 16-20' registered boats, and higher fuel prices have likely played a part in fewer use days by registered boaters. These changes require new ways of dealing with user conflict and managing limited and declining resources by service providers. While approximately 80% of fatalities involved persons not wearing life jackets, funds for statewide campaigns are now very limited. The agency continues to work closely with service providers to carry this important message to all boaters – registered or not – while trying to assess how best to serve this diverse group of customers.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $6.2 million is $722,616 total funds, or 18%, higher than the 2013-15 legislatively approved budget and $482,823 total funds, or 10%, higher than the 2013-15 current service level. The budget maintains staffing levels at 24 positions (23.80 FTE).

The budget was increased by $783,170 Other Funds expenditure limitation for:

- Abandoned boat removal and the triennial boating survey and the quadrennial fuel usage survey required by statute ($303,000).
- Completion of the replacement of the Marine Board Accounting and Registration System ($151,000).
- Six improvement projects to Marine Board Operations including network hardware replacement, clean marina program spill kits and bilge socks, strategic planning implementation, boating traffic surveillance equipment, signage improvement, and the aqua-smart program ($117,000).
- Enhanced outfitter and guide program oversight and outreach efforts to implement HB 2039 relating to illegal guide operations ($212,170).

The budget was reduced $156,659 Other Funds for standard adjustments relating to PERS reforms, statewide administrative savings, and statewide general government assessments.

OSMB – Law Enforcement Program

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	8,728,167	9,546,302	8,976,247	10,265,550
Federal Funds	4,845,448	4,031,731	3,827,169	3,991,969
Total Funds	**$13,573,615**	**$13,578,033**	**$12,803,416**	**$14,257,519**
Positions	4	4	4	4
FTE	4.83	4.50	5.10	5.10

Program Description

By statute, funding of law enforcement activities is the first priority for the Marine Board after administrative expenses are covered. The Law Enforcement program provides on-water safety patrol and boating law enforcement for 300 miles of coastline, over 5,500 miles of navigable rivers, 1,400 named lakes, and 889 square miles of inland water. Services are provided through contracts with 31 county sheriffs providing coverage and with the Department of State Police (OSP) providing additional statewide coverage, with emphasis in the five counties (Gilliam, Grant, Harney, Lake, and Wheeler) not covered by contracts with county sheriffs. The program also provides patrol boats and specialized enforcement equipment, develops and offers basic and advanced training for county marine patrol officers, maintains a marine law enforcement database and reporting system, performs contract administration functions, and retains responsibility for the waterway marking system.

Revenue Sources and Relationships

Funding of the Law Enforcement program is from registration and title fees, marine fuel taxes, and the U.S. Coast Guard Recreation Boating Safety grants. U.S. Coast Guard funding has been reauthorized and will decrease slightly over the next several years.

Budget Environment

Funding for marine law enforcement is challenging the Marine Board's resources. The primary concern for future funding is the steady decline in boat registrations since 2003. The Marine Board anticipates that the rate of decline in title and registration transactions will flatten with the improving economy. Another critical trend is the budget pressure many county sheriff offices are facing, especially those counties reliant on timber funds. Many counties have been forced to decrease the funds they allocate to their marine law enforcement programs. Most counties were providing more than the minimum match, with some counties providing the same or more funding than the Marine Board to cover waterway needs in those counties.

The statewide marine patrol fleet is old with a number of boats more than 15 years old. Most counties are not in a position to replace patrol boats and have become more reliant on OSMB for funding replacement craft. Without an increase in funding for marine law enforcement, services will be reduced or reductions will need to be made in other programs.

Complaints and requests for rules relating to non-motorized boating are increasing and impacting law enforcement services. In recent years, more than half of Oregon boating fatalities were attributed to non-motorized boaters. While the continuation of RBS funding appears likely, the recent economic downturn and competing federal priorities make future grant reauthorizations less than certain. Federal aid contributes approximately $4.7 million to support the marine law enforcement program.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $14.3 million is $379,486 (or 5%) higher than the 2011-13 legislatively approved budget and $1.5 million (or 11%) higher than the current service level budget and includes 4 positions (5.10 FTE) shifting parts of a manager position into the program from the Administrative and Education program to align better align budget with program responsibilities.

The budget was increased by $1.3 million Other Funds and $14,800 Federal Funds expenditure limitation for:

- A one-time $885,200 Other Funds and $164,800 Federal Funds expenditure to restore funding for county sheriff law enforcement contracts and boat purchases to return to 2008 funding levels.

- A one-time Other Funds expenditure for enhanced purchases of law enforcement boats, increased on-water patrol hours, a reserve for special-needs enforcement efforts, training for personal watercraft patrols and boating accident reconstruction, and a pilot project to implement electronic boating exam reports.

The budget was reduced $18,397 Other Funds for standard adjustments relating to PERS reforms, statewide administrative savings, and statewide general government assessments.

OSMB – Facility Program

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	8,025,093	6,848,476	6,479,640	7,595,225
Federal Funds	1,070,901	2,196,225	2,722,829	3,241,285
Total Funds	**$9,095,994**	**$9,044,701**	**$9,202,469**	**$10,836,510**
Positions	10	9	9	9
FTE	10.33	9.00	9.00	9.00

Program Description

The Facilities program provides for the maintenance and improvement of boating facilities throughout the state. The Marine Board provides technical and financial assistance for local governments and state agencies to acquire, develop, improve, and rehabilitate public boating facilities. Projects eligible for Board funding include boat launch ramps, parking, restrooms, courtesy docks, transient tie-up facilities, and other boating-related facilities. Priority consideration will be given to the rehabilitation and expansion of existing sites, followed by the development of new sites. Grants rely on partnerships and the leveraging of other financial resources such as federal funds, private funds and donations, and other local and state funds. Priorities for funding are established in the Board's Six Year Boating Facilities Plan which currently has identified identifiable motorized, mixed, and non-motorized boating access projects statewide across each of Oregon's 36 counties. The federal Clean Vessel Act (CVA) program targets water quality protection through the provision of facilities for boat pump out and dumping of waste.

The Board's Maintenance Assistance Program provides financial support for local governments and the Oregon Parks and Recreation Department for the maintenance and operation of boating facilities in park areas. The Board also provides engineering services for local governments and state/federal agencies lacking the specialized skills needed to design and build boat facilities.

Revenue Sources and Relationships

The Facilities program revenue sources include registration and title fees, marine fuel taxes, and the federal Clean Vessel Act (CVA). The Marine Board expects to receive federal grants from the CVA totaling slightly over $910,000 in 2011-13. These grants are awarded competitively on a 75% federal to 25% state matching basis. The Marine Board also expects to receive federal grants from the new BIG program totaling approximately $1.1 million, which are also authorized on a 75-25 match ratio. The timing of the construction season and permit timelines drives the expenditure of grant funds.

Budget Environment

This is one of the few discretionary areas where the Board can make reductions without adversely impacting mandated services in its business, education, and law enforcement/safety programs. The Marine Board leverages a sizeable amount of state dollars with outside sources from federal agencies, local governments, and others. A significant issue for continued funding to maintain and improve public boating facilities and public access to Oregon's waterways is reauthorization of federal aid. The CVA, the BIG, and the Sportfish Restoration Program are all subject to federal reauthorization.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $10.8 million is $1.8 million (or 20%) higher than the 2011-13 legislatively approved budget and $1.6 million (or 18%) higher than the current service level budget and maintains staffing levels at 9 positions (9.00 FTE).

The budget was increased by $1.2 million Other Funds and $520,000 Federal Funds expenditure limitation for:

- Reclassification of a Procurement and Contract Specialist 2 position to a Program Analyst 3 position correcting a work-out-of class situation ($7,968).
- A one-time Other Funds expenditure for local grants for boating facility maintenance and improvements ($509,800).
- An increased level of boating facility grants including $60,000 to replace field survey instruments that are more than nine years old ($638,787 Other Funds; $520,000 Federal Funds).

The budget was reduced $40,970 Other Funds and $1,544 Federal Funds for standard adjustments relating to PERS reforms, statewide administrative savings, and statewide general government assessments.

OSMB – Aquatic and Invasive Species Program

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	0	1,901,199	902,348	1,911,270
Total Funds	**$0**	**$1,901,199**	**$902,348**	**$1,911,270**
Positions	0	3	3	3
FTE	0.00	3.00	1.60	1.60

Program Description

The Aquatic Invasive Species (AIS) program purpose is to mitigate the effects of invasive species on native waters through inspecting and decontaminating watercraft. The program was established during the 2009-11 biennium and became operative on January 1, 2010. The program is operated in coordination with the Oregon Department of Fish and Wildlife (ODFW), Department of Agriculture (ODA), and OSP. Boat inspections are conducted through mobile check stations operated by ODFW, ODA, or OSMB.

County Sheriff deputies and OSP troopers are contracted with by OSMB and ODFW for enforcement. Enforcement activities for the program are tracked using a statewide online reporting database.

ODFW, as the state agency charged to manage fish and wildlife resources, has the primary responsibility to implement the boat inspection stations. For the 2010 boating season, ODFW had five two-person inspection teams stationed at various locations across the state that conducted roadside inspections and boat ramp inspections. Each team is outfitted with a decontamination trailer. The program works closely with the Oregon Invasive Species Council, neighboring state's AIS programs, as well as the U.S. Fish and Wildlife Service to assist in the development of rapid response planning, containment, and decontamination.

Revenue Sources and Relationships

The Aquatic Invasive Species program is estimated to generate $2.3 million in revenue from permit fees charged to boaters who register their boats for use on the public waterways of the state. This includes both in-state and out-of-state users. The fees for the permits are $5 for motorboats, $5 for manually propelled boats over ten feet in length, and $20 for nonresidents and annual fees for operators of boat liveries. The collection of fees on manually propelled boats provides information to the agency on non-motorized usage of Oregon's waterways.

OSMB collects all revenue for the program. The expense of ODFW and OSP are paid by OSMB after being billed by the participating agencies.

Budget Environment

The program prevention focus is on quagga and zebra mussels, aquatic weeds such as Eurasian water milfoil, hydrilla, New Zealand mud snails, and other key aquatic invasive species that are spread by recreational water-based activities (boating, fishing, floating, etc.).

In 2010, a total of 2,852 *voluntary* watercraft inspections occurred at primarily boat ramps and some roadside inspection stations of which 80% were Oregon boats and the remaining 20% were from Washington (7%), California (6%), Idaho (4%), and various other states (3%). A total of 19 decontaminations were completed for

New Zealand mudsnail and Eurasian water milfoil, among other discoveries. There were no decontaminations associated with quagga or zebra mussels.

This new program would benefit from a comprehensive review of its statutory framework and implementation strategy.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $1.9 million is essentially the same funding level as the 2011-13 legislatively approved budget and $1 million (112%) higher than the current service level budget and maintains staffing levels at 3 positions (1.60 FTE).

The budget reflects restoration of $1 million Other Funds for payment to the Oregon Department of Fish and Wildlife to operate inspection teams to prevent the spread of aquatic invasive species into and within Oregon. The budget was reduced $9,078 Other Funds for standard adjustments relating to PERS reforms, statewide administrative savings, and statewide general government assessments.

Parks and Recreation Department

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	0	0	0	980,000
Lottery Funds	86,441,978	80,594,505	86,892,780	84,614,432
Other Funds	86,786,404	99,870,258	104,885,962	111,999,304
Other Funds (NL)	0	4,624,192	0	0
Federal Funds	8,639,850	17,563,157	8,773,998	11,819,364
Total Funds	**$181,868,232**	**$202,652,112**	**$200,552,740**	**$209,413,100**
Positions	879	878	873	862
FTE	603.07	603.03	601.29	592.15

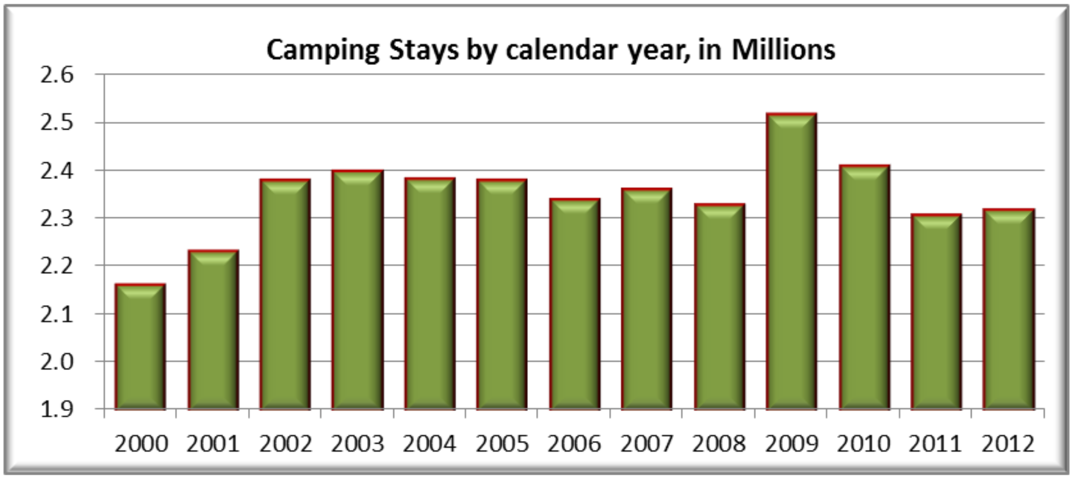
Agency Overview

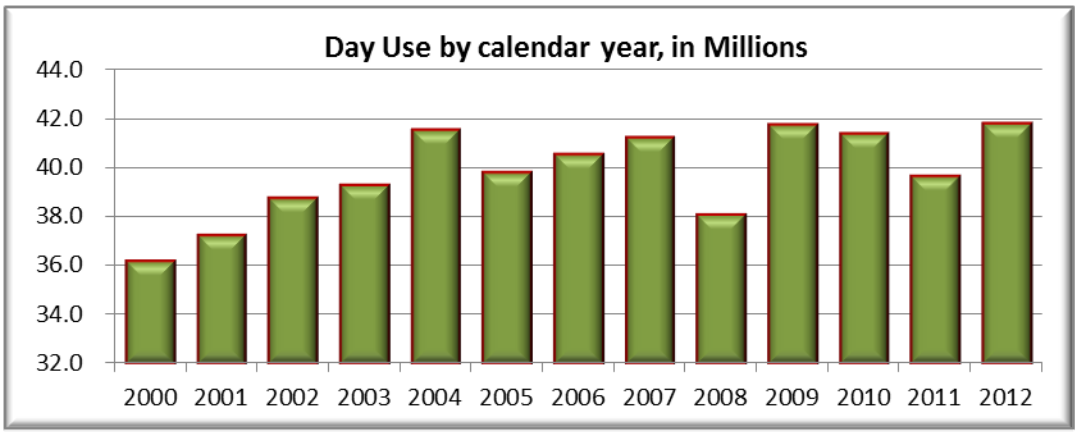
The State Parks and Recreation Department (OPRD) is under the direction of a seven-member Commission. The Department operates the state's system of more than 250 recreational properties including ocean shores protection; scenic waterways; the Willamette River Greenway; recreational trails; all-terrain vehicles program; recreation grants to counties and local governments; state park land use and outdoor recreation planning; and Oregon State Fair management, operations, and maintenance. 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 park lands covering 108,000 acres. These include 59 campgrounds, 176 day-use areas, about 1,000 miles of recreation trails, 362 miles of ocean shore, and other special sites such as boating and fishing docks, group meeting halls, interpretive centers, museums, and 2 historic inns.
The Department operates through the following programs:

- ***Directors Office*** (13 positions, 13.00 FTE) is responsible for overall agency management; support of Commission activities; coordination with the Governor, Legislature, and other government entities; and development of broad policy direction. It also provides public information, reviews agency programs, and coordinates rulemaking in its efforts to improve agency performance.
- ***Central Services*** (73 positions, 71.10 FTE) is responsible for agency financial services, personnel and information services, and internal audit. The program unit provides budget and fiscal resources management, staff recruitment and training, information technology services including managing the park reservation system, centralized business services such as fleet and managing procurements.
- ***Park Development*** (14 positions 14.00 FTE) is responsible engineering design, survey, and construction oversight for statewide park development projects focused on reducing the backlog of repairs and deferred maintenance. This budget also includes funding for the purchase of new real property.
- ***Direct Services*** (709 positions, 445.97 FTE) is responsible for park operations, park planning and recreation programs, along with property and resource management, engineering services for operations, park safety, and risk management. The program is responsible for operation of the state park system on a daily basis. It also provides labor, materials, and products for state parks through partnerships with state, county, and local correction and youth crew programs.
- ***Community Support and Grants*** (29 positions, 28.50 FTE) is responsible for direction and management of the Department's major grant programs and Heritage programs. The grant programs include the All-Terrain Vehicle (ATV) grants program, the Land and Water Conservation Fund, the Local Government Grant Program, the Recreational Trails Grant Program, and the Recreational Vehicle Grant Program. The Heritage program administers federal and state programs for historic and archeological resource planning and preservation and provides the services required of the State Historic Preservation Office.
- ***Oregon State Fair and Exposition Center*** (24 positions, 19.58 FTE) conducts an annual state fair that is typically 11 days in length. The agency also provides services for ongoing exposition activities including recreational vehicle and organization meetings, concerts, and consumer products and services shows.

The following displays show annual statewide attendance for camping stays and day use visits.





Revenue Sources and Relationships

In November 1998 and again in November 2010, voters approved measures constitutionally dedicating 15% of the net proceeds of Oregon's lottery revenues to be deposited into a Parks and Natural Resources Fund. Half of the fund is allocated to OPRD; the remainder is allocated to the Oregon Watershed Enhancement Board. The second election amended the original measure to dedicate at least 12% of OPRD's share of gross proceeds to local grant programs and requires that costs to administer the local grants be borne by the remaining 88% of gross Lottery revenue. It also requires that the local grant amount be increased to 25% if the net proceeds deposited into the fund increase more than 50% above the amount deposited in the 2009-11 biennium. The following display shows funding amounts for 2009-11, 2011-13, and projection for 2013-15.

Parks Dedicated Lottery funding

	2009-11	2011-13	2013-15
$ Millions	$81.5	$81.0	$79.1
Percent change from 2009	--	-0.5%	-2.3%
12% for local grants	$9.8	$9.7	$9.5

The fund would need to be over $123 million to trigger the larger local grant percentage.

The 2013-15 legislatively adopted budget assumes $79.1 million Lottery Funds revenue will be generated for the State Parks and Recreation Department sub-account. Of the $79.1 million; $9.5 million is required to be appropriated by the Legislature to local park grant programs. This is a decrease of $0.5 million from the 2011-13 legislatively approved amounts. The remaining amount, $69.6 million, is projected to be available for the Department's operating programs. The change from 2011-13 is a reduction of 2.3%.

Park user fees represent 21% of the total revenues. User fees are expected to generate $42 million in 2013-15. Due to the infusion of Lottery Fund resources in 1999, park user fees remained at 1996 market levels. The 2009 Legislature approved an increase in the park user fees to bring rates closer to market rates and address declines in Lottery Fund resources. The 2013-15 legislatively adopted budget includes further fee increases for total additional revenue of $1.6 million.

The other major source of Other Funds revenue is recreational vehicle (RV) registration fees. RV fees are currently shared 35% by the counties and 65% by the state, due to the 2007 Legislature temporarily modifying the distribution in SB 29. The modification added 5% to the county distribution and decreased the state distribution by 5%. The modified distribution will sunset and revert to the original distribution of 30% counties, 70% state on July 1, 2015. A budget note directs Parks to work collaboratively with county park providers to address funding, service gaps, and efficiencies. For 2013-15, the RV fee is expected to produce $32 million, $20.9 million for the state parks system and $11.1 million for transfer to counties, including $1.1 million for county opportunity grants. The current estimate of RV registration fees reflects an increase of approximately $290,000. RV fee revenue is trending upward, but at less than 1% per biennium.

The Legislature also created a "salmon" license plate that has a premium surcharge above the standard license plate fees. OPRD anticipates receiving $507,238 in the 2013-15 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 $4.4 million from the Oregon Department of Transportation State Highway Fund for roadways and rest area maintenance, $425,000 from the Marine Board for boater facility maintenance and rehabilitation, and $14.5 million from the All-Terrain Vehicle (ATV) fuel tax revenues and fees for ATV operator permits and safety courses. Assorted Other Funds from the Deschutes River boater pass, rental of park property, sale of publications, and other donations and miscellaneous sources are also collected.

The Department also expects to receive $11.8 million in Federal Funds.

Budget Environment

As the agency's Lottery Funds increased, the Department's staffing increased by 169 positions (143.33 FTE) since the 1997-99 biennium, a gain of 24%. Due to significant increases in Lottery Funds over time, the Legislature looked for opportunities to shift programs to the Department as a means of funding existing or new initiatives that would otherwise require General Fund. The Oregon State Fair and Exposition Center and the Capitol Mall were added to the Department over the past ten years. Also, Other Fund balances were reappropriated from the All Terrain Vehicle (ATV) program in 2010 through HB 3696. ATV funds are also used for payments to the Department of State Police for troopers and to the Department of Forestry for ATV trails operations and maintenance, and ATV balances were tapped for funding invasive species work at the Oregon Department of Agriculture.

With passage of Measure 76 in November 2010, an estimated $9.5 million will need to be allocated by the Legislature for local park grants. Related agency grant-administration costs of $432,000 Lottery Funds in the current service level budget cannot, however, be expensed against the local park grant allocation and are therefore not available for state park operations. In 2011-13, the budget was adjusted by shifting Lottery Funds from other programs into the local grant program to make up the difference between the current service level budget for local park grants and administrative costs. That shift continues in the 2013-15 budget.

Property Acquisition is a fundamental component of ensuring an adequate supply of land is available for the recreational enjoyment of Oregonians and to preserve an area of outstanding natural, scenic, or historical value. Opinions vary widely on how much new parkland is needed. There has been no attempt by the Department to take into consideration other public lands that are available for the recreational enjoyment of Oregonians in its strategic plan for acquisitions of new parkland. As new parks and recreation sites have been developed, ongoing operational and maintenance costs are increased. Lottery Funds have made these acquisitions and new developments possible. Managing the increase in operating costs over time, however, is a major issue. Changing demographics may result in promoting different forms of recreational activity other than camping. The 2013-15 budget includes an estimate of $3 million Lottery Funds for acquisition.

In the 1999-2001 biennium, dedicated Lottery Funds from Measure 66 (1998) provided 35% of available revenue and Other Funds provided 63%. Then, until the 2009-11 biennium, Lottery Funds increased relative to Other Funds. In the 2007-09 biennium, Lottery Funds provided 46% of the revenue and Other Funds 52%. This trend resulted from expanding programs during periods when Lottery revenues escalated and fee rates were held flat since the last increase in 1996. As Lottery revenue growth has slowed, park user fee increases were needed to maintain services; increases were approved by the 2009 Legislature and the 2013 Legislature to maintain current service levels, provide adequate operating ending balances, and allow continued upkeep and upgrade of the system. In 2013-15, Lottery Funds are 38% and Other Funds are 56% of available revenues.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget is $6.8 million, or 3.3%, more than the 2011-13 legislatively approved budget and $8.9 million, or 4.4%, more than the 2013-15 current service budget level and includes 862 positions (592.15 FTE). The budget reflects adjustments to align revenues and expenditures with the May 2013 Lottery Fund revenue forecast. The Legislature approved the following:

- $5.1 million in Lottery bond proceeds to pass through to a local entity in support of an effort to repurpose the old mill site at Willamette Falls in Oregon City. Debt service begins in 2015-17 at $1 million.
- $2.1 million total funds for costs that have exceeded standard inflation including unemployment, fleet and fuels, and utilities.
- $2.8 million total funds reduction for changes in PERS rates and unspecified administrative efficiencies as well as assessment adjustments for Archives, Attorney General, and central services.
- $35,410 Other Funds limitation for a new fee of $10 per night to allow pets in yurts and cabins.
- $1.6 million Other Funds limitation for several park user fee increases, including yurts, deluxe cabins, teepees, electric hookup sites, horse campsites with hookups, extra vehicle charges, primitive sites, and rustic cabins.
- $250,000 Other Funds for funds from Japan to cover costs of cleaning up tsunami debris caused by the 2011 Tohoku, Japan earthquake.
- $1.1 million to issue grants using federal Recreation Trails funds.
- $451,696 to accommodate additional federal funds and additional Oregon Cultural Trust funding for work in the Heritage program.
- $800,000 ATV unexpected funding to issue additional grants.
- An increase of $1 million General Fund and corresponding decrease of $1 million Lottery Funds for the State Fair and Exposition Center. In addition, 15 positions, or 13.14 FTE, are eliminated and the funding redirected at temporary staff for greater flexibility in managing the Fair and other activities. A $750,000 reduction accommodates an expected revenue shortfall.

The budget includes ending balance capacity of $10.7 million Lottery Funds and $27.6 million Other Funds for local grant reimbursements, salary and benefit reserve, and other cash flow needs. The budget also makes several technical adjustments to carry forward expenditure limitation for obligated projects that will not pay out until the 2013-15 biennium.

Water Resources Department

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Approved
General Fund	19,268,371	20,359,297	23,640,461	26,504,946
Lottery Funds	348,455	732,384	574,025	574,025
Other Funds	9,560,735	29,162,165	13,289,661	34,547,013
Federal Funds	646,093	1,195,479	1,276,373	1,272,735
Total Funds	**$29,823,654**	**$51,449,325**	**$38,780,520**	**$62,898,719**
Positions	148	146	142	157
FTE	146.26	144.59	141.09	154.80

Agency Overview

The Water Resources Department (WRD), guided by its seven-member Commission, sets water policy for the state, and issues and protects water rights. By law, all surface and groundwater in Oregon belongs to the public. The agency mission is to "serve the public by practicing and promoting wise long-term water management" through the restoration and protection of stream flows and watersheds and by directly addressing Oregon's water supply needs.

The Department operates through the following six programs:

- ***Administrative Services*** (14 positions, 13.00 FTE) provides human resource, accounting, payroll, contracting, facilities management, risk management, training services, and budget preparation and execution. The Division also provides administrative support for the Oregon Watershed Enhancement Board.
- ***Field Services*** (54 positions, 53.83 FTE) administers water laws, including dam and well inspections, and water right regulation and enforcement. The Division regulates water use in order to protect senior water rights for both in-stream and out-of-stream purposes. The Department organized the state's 20 watermaster districts into four regions for more efficient use of field personnel. Field staff includes region managers, watermasters, technicians, and locally-funded assistants. Field staff responsibilities include dam inspections, enforcing water distribution among water right holders, processing water right transfers, hydrologic data gathering, well construction inspections, well monitoring, and water right record maintenance. In addition, field staff act as liaisons with Watershed Councils, municipal water suppliers, local governments, and irrigation districts to explain Commission and Department policies, review water management plans, provide information on water availability and water rights, and bring regional policy issues back to the Department.
- ***Technical Services*** (44 positions, 43.30 FTE) is responsible for managing data and technical analyses of the state's surface and ground water. The Division supports both current and long-term water management needs by collecting, analyzing, and applying information on ground water and surface water resources. Technical Services' programs include hydrologic analysis, ground water investigations, surface water availability, hydrographics, dam safety, stream gauging, geographic and water rights information systems, well construction and enforcement, and water use reporting.
- ***Water Rights and Adjudications*** (38 positions, 37.67 FTE) is responsible for evaluating both in-stream and out-of-stream water right applications, and administers programs such as water right certification, permit administration, water right transfers, Native American water right negotiations, adjudication of pre-1909 and federal reserved water rights, and hydroelectric licensing. It also has the lead responsibility for Oregon's hydroelectric water right and licensing program. Approximately 164 currently authorized licensed hydroelectric projects pay annual fees to support the coordinated programs in the Departments of Water Resources, Fish and Wildlife, and Environmental Quality.
- ***Directors Office*** (6 positions, 6.00 FTE) is responsible for the oversight of all policy-related functions of the agency. The Office coordinates the development of administrative rules, provides citizen response and information services, supports the Water Resources Commission activities, develops legislative proposals, and provides oversight of agency activities related to the Oregon Plan for restoration of salmon and watersheds, the Global Warming Commission, Government-to-Government tribal activities, and Sustainability and Streamlining Efforts.

- ***Water Development Loan Program*** (1 position 1.00 FTE) was established by the Legislature in 1977 as a general obligation bond program to finance irrigation and drainage projects. The loan program was expanded in 1982 and 1988 through constitutional amendments approved by voters to also include community water supply, fish protection, and watershed enhancement projects

Revenue Sources and Relationships

The Department's operating budget is primarily General Fund, representing 50% of the operating program revenue. Lottery Funds are used to pay debt service on Lottery revenue bonds authorized in 2009 by the Legislature associated with the Umatilla Basin critical ground water projects; development of an integrated water resources strategy; grants for evaluating the feasibility of developing a water conservation, reuse, or storage project; and administrative costs to re-establish a loan program for water development projects.

The other major source of revenue for the Department is Other Funds revenue from fees and charges for services which is 46% of the revenue not including bond proceeds. Other Funds revenue sources include start card fees (well drilling), water right and transfer fees, exempt ground water use fees, interest earnings, and payments from various county and state agencies for contracted services. The Department assumed $13.7 million of fee revenue for the 2013-15 biennium. The Legislature approved in HB 2259, a 13% increase in the 2009 fee schedule for well start cards, water rights, and transfer fees to 50% cost recovery representing about $2.1 million in Other Fund revenue. The 50% cost recovery fees will sunset in 2017 and fees would revert to levels established in 2009.

Federal Funds received through the Federal Emergency Management Agency (FEMA), Bureau of Reclamation, and other federal agencies represents about 2% of the budget.

Budget Environment

The Department's ability to manage the increasing demand for water as the population of the state grows, while at the same time manage the environmental and long term sustainability of the resource is impeded from a lack of data on both surface and groundwater on which to base decisions and declining resources to collect and manage the data.

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. Climate change effects on Oregon's water supply is in an early stage of analysis requiring a close look at how it may affect water rights, crop production, and migration patterns.

Listings and potential listings under the Endangered Species Act and water quality issues increase the complexity of water allocation decisions.

Most of Oregon's river basins east of the Cascade Mountains have been adjudicated of pre-1909 water rights, tribal water rights, and other federal reserved water rights. Only a few of the river basins west of the Cascades have been adjudicated. The administrative phase of the Klamath Basin Adjudication has been completed and the case has been transferred to the Klamath County Circuit Court.

The Legislature adopted SB 839 establishing a Water Supply Development Account and requirements for making loans and grants from the account. The Department is required to establish seasonally varying flows before issuing a loan or grant and may use account moneys to pay the costs of establishing a seasonally varying flow.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $62.9 million total funds is $11.4 million or 22.2% higher than the 2011-13 legislatively approved budget and $24.1 million, or 62%, more than the current service level. The General Fund budget was increased $6.1 million, or 30%, from the 2011-13 legislatively approved budget level and $2.9 million, or 12%, from 2013-15 current service level. The Legislature approved the following increases for the 2013-15 biennium:

- $445,531 General Fund to support two positions (2.00 FTE) and $10,242,513 Other Funds supported by lottery-backed bond proceeds for a water supply development program for both in-stream and out-of-stream water uses. Debt Service on the lottery bonds will begin payments in the 2015-17 biennium.
- $890,976 General Fund and one permanent position (0.50 FTE) to continue an effort approved in 2008 for an ongoing program to provide feasibility grants to local entities for water conservation, storage, and reuse projects.
- $209,004 General Fund and one permanent position (1.00 FTE) for coordination of implementing recommendations identified in the Integrated Water Resource Supply Strategy.
- $250,000 General Fund to restore funding for groundwater studies reduced in past biennia due to limited General Fund resources. These funds will be used to leverage Federal Funds (1:1) to conduct studies critical to understanding the relationship between surface water and groundwater.
- $342,333 General Fund and 2 permanent positions (1.83 FTE) to restore watermasters in the Wallowa Basin and Klamath Basins.
- $167,080 Other Funds to make permanent an existing limited duration assistant watermaster (1.00 FTE) in the Deschutes Basin. The position is funded by the counties of Deschutes, Jefferson, Crook, and Klamath Counties.
- $174,363 General Fund to reinstate a permanent Natural Resource 3 position (1.00 FTE) to monitor compliance with governmental entities measuring and reporting the amount of surface water and groundwater diverted for beneficial use.
- $366,856 General Fund to fund two permanent positions (2.00 FTE) for data collection on geographical and ecological differences among water basins throughout the state to develop rules, guidelines, and/or policy recommendations for instream flow protections that will lead to allowing application for in-flow water rights to be issued.
- $100,000 General Fund to recapitalize the Measurement Cost Share Fund to assist with the purchase and installation of measurement devices on significant points of diversion of water in high priority watersheds.
- $780,000 General Fund and two permanent positions (1.75 FTE) to provide resources to increase data collection sites, analyze groundwater systems, assess options for new but sustainable uses, investigate reports of user problems, and consolidate information in a database.
- $730,000 General Fund to provide resources for new stream gauges at high priority points of diversion and 3 permanent positions (2.63 FTE) to manage the new stream gauges.
- $996,211 Other Funds and seven permanent positions (7.00 FTE) from resources provided through passage of HB 2259 increasing and continuing the water permit fees schedule to retain permit writing staff paid for by fees on water right transactions.
- $11,061,191 Other Funds from General Obligation Bond proceeds authorized by the 2009 Legislature to finance the next phase of the Umatilla water development projects to store winter water from the Columbia River in an underground aquifer for agricultural use in the Columbia River Basin– bonds will be repaid by loan repayments made by the borrowers.
- Federal Funds to make permanent an existing limited duration assistant hydrotech position (1.00 FTE) in the east region using revenue from the Bureau of Reclamation and Grande Ronde Model Watershed project.
- $291,674 General Fund to continue two limited duration positions to complete the Integrated Water Supply Strategy; work during the 2013-15 biennium will include technical advisory reviews, workshops, survey, and completing recommendations for a coordinated and integrated water resource policy with a means for enforcement for the state to meet future water needs in terms of quantity, quality, and ecosystem functions.
- $30,000 General Fund one time funding to implement SB 839 to fund expenses of two task forces established by the bill.

The budget reflects standard adjustments approved in most agency budgets for PERS reforms, statewide administrative savings, statewide general government assessments, an additional 5% reduction in General Fund appropriated for services and supplies, and a 2% hold back adjustment on General Fund for purposes of establishing a supplemental statewide ending balance. The supplemental statewide ending balance holdback is subject to restoration to the agency in February 2014 depending on the state's overall fiscal situation.

Oregon Watershed Enhancement Board

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Lottery Funds	59,881,320	63,179,128	6,733,282	58,109,189
Other Funds	1,833,021	1,773,534	1,516,106	1,849,375
Federal Funds	20,911,187	47,279,276	19,801,404	32,732,090
Total Funds	**$82,625,528**	**$112,231,938**	**$28,050,792**	**$92,690,654**
Positions	30	31	27	32
FTE	30.00	31.00	27.00	32.00

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. Ballot Measure 66 was replaced by Ballot Measure 76, which passed in November 2010, and reauthorized the dedication of 15% of net lottery proceeds to state parks (7.5%) and fish, wildlife, and habitat conservation (7.5%). The Ballot Measure 76 reauthorization changed the way the dedicated Lottery Funds could be spent. Under the old dedication, the Lottery revenues were divided into two parts, 65% for capital expenditures and 35% for operations expenditures. Under the reauthorization of this dedication, 65% is now restricted to grants for non-state agencies. Only the other 35% can be used to support state agency programs. Previously, state agency programs could be funded under either the capital or operations funding split as long as it was a qualifying expenditure. Now, state agencies are prohibited from directly receiving any of the 65% dedicated to grants.

OWEB is designated as the single state agency charged with administration of the salmon and watershed portion of the dedicated lottery revenues required under Ballot Measure 66 and 76. OWEB consists of 11 voting members, including five voting members from state natural resource agency boards and commissions and six public members appointed by the Governor and confirmed by the Senate. OWEB is also authorized to include up to six additional non-voting members, including the director of Oregon State University's agricultural extension service and representatives from five federal land and natural resource agencies. OWEB distributes funding for projects, offers technical assistance on grant proposals, and coordinates with other state natural resource agencies.

Revenue Sources and Relationships

After a number of years of falling Lottery revenues, total revenues are projected to decrease only slightly in the 2013-15 biennium, while program costs continue to increase. Therefore, Lottery revenues will be lower, while the cost increases anticipated by the programs that rely on constitutionally dedicated Lottery Funds for support, such as employee compensation, remain unchanged. These gaps between Lottery revenues and program costs were addressed in the 2013-15 biennium by increasing other funding, primarily through the use of state General Fund, to maintain the programs rather than make budget reductions.

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 first authorized by Congress in 2000 and are for salmon habitat restoration, stock enhancement, and research. The Legislature assumed $23 million from PCSRF would be available for expenditure in 2013-15. This amount includes one year of federal funding and carry-forward funds. OWEB is hopeful it will receive a second similar grant amount in the second half of the 2013-15 biennium, which would bring 2013-15 PCSRF funding up to historical levels. Other Funds are received from the Department of Transportation for one-half of the proceeds from the sale of salmon license plates and from various non-governmental sources in the form of donations and grants.

Budget Environment and Potential Reductions

The nature of the constitutional dedication of 7.5% of all lottery revenues for wildlife and habitat protection, restoration, and enhancement was changed by Ballot Measure 76, which was passed by the voters in November 2010. In the 2009-11 approved budget, more that 45% of the dedicated Lottery Funds go directly to state agencies. This could not continue under Ballot Measure 76 conditions. Possible solutions included simply cutting agency programs that rely on dedicated Lottery Funds until the 35% state agency expenditures is reached, moving some activities to non-state agencies, requiring some programs that currently are supported with dedicated Lottery Funds that pass through state agencies to find a third party to apply directly to the Oregon Watershed Enhancement Board on their behalf for funding from the 65% dedicated to grants to non-state agencies, or moving eligible activities from the 35% Operations Fund to the 65% Grant Fund.

Legislatively Adopted Budget

The adopted budget for OWEB is about 17% below 2011-13 levels, due largely to 2011-13 one-time actions. The 2011-13 legislatively approved budget used $15 million PCSRF Federal Funds, awarded in 2010 but carried over into the 2011-13 biennium, to backfill agencies facing reductions due falling Lottery revenues and the restrictions of Ballot Measure 76 that limited direct state agency expenditures to the 35% Operations Fund and prohibited direct expenditure by state agencies of monies deposited in the 65% Grant Fund.

The 2013-15 legislatively adopted budget for the Oregon Watershed Enhancement Board establishes a $51.9 million Lottery Funds grant fund for 2013-15, which is about 6% less that the grant fund for 2011-13. The adopted budget provides OWEB with a total of $6.2 million in operations Lottery Funds, more than $300,000 Other Funds, $2 million Federal Funds, and 32.00 full-time equivalent (FTE) positions to support administration of the grant program. The Legislature moved $1.5 million Other Funds and $30.1 million Federal Funds that have been used for grant funding in the past to the grant program area to align the agency budget with its programs. In addition, the budget for the Operations program added back five positions that phased out because they were limited duration positions in 2011-13. Two of the five grant program positions were added back as permanent positions.

The following table shows the legislatively adopted budget's 2013-15 allocations of all new Measure 76 Lottery Funds revenue. As previously discussed, state agencies' expenditures were eligible for any dedicated Measure 66 Lottery Funds in previous biennia, but under Measure 76 they are limited to the funding from the Operations Fund only.

2013-15 Measure 76 Lottery Fund Allocations

	M-76 LF 35% Operations	M-76 LF 65% Grants
Available New Resources May '13 Lottery Forecast	**28,924,452**	**51,890,927**
Department of Fish and Wildlife	4,441,297	0
OSP/ Fish and Wildlife Enforcement	6,812,205	0
Department of Agriculture	6,067,653	0
Department of Environmental Quality	3,640,043	0
Oregon Watershed Enhancement Board	6,243,133	51,890,927

Department of Aviation – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	7,320,330	5,856,565	5,927,998	6,202,750
Federal Funds	3,711,681	4,086,055	2,939,298	4,769,741
Total Funds	**$11,032,011**	**$9,942,620**	**$8,867,296**	**$10,972,491**
Positions	17	12	12	13
FTE	16.38	11.50	11.50	12.50

Agency Overview

The Department of Aviation's mission is to support Oregon communities by preserving and enhancing aviation. The seven member State Aviation Board, appointed by the Governor, represents aviation interests from the public and private sectors. The Board provides policy direction to the Department.

The Department's six-year plan goals include: a) protect public-use airports; b) leverage technology to enhance general aviation programs; c) support communities through economic development; d) improve safety and operating condition of state-owned/operated airports; and e) protect and enhance aviation. Key areas of the responsibilities include:

- Develop and implement the Oregon Aviation Plan and related policies.
- Conduct continuous aviation system planning and provide technical assistance on airport planning and development.
- Administer the federal General Aviation Entitlement grant and pavement maintenance program.
- Register approximately 4,200 aircraft annually.
- Register approximately 4,500 pilots biennially.
- 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 2013-15 biennium of $11 million. This reflects a decrease of $1.7 million from the 2009-11 actual revenue, or 14.9%, and $1.3 million, or 11.7%, greater than the 2011-13 legislatively approved budget.

Fuel Tax: Jet fuel tax and aviation fuel tax represent 37% of the revenue for the Department.

- Jet fuel tax, 85% of fuel tax revenue, remains at $0.01 per gallon as approved by the 1999 Legislature. Of the $0.01 tax, 55% supports the Department's operating budget and the rest is dedicated to pavement maintenance for all public owned and public use airports. The 2013-15 estimated net jet fuel revenue totals $3.4 million, an increase of 11% from the 2011-13 actual revenue.
- Aviation fuel tax remains at $0.09 per gallon as approved by the 1999 Legislature. Of the $0.09 tax, up to 55% supports the Department's operating budget and 45% is dedicated to pavement maintenance. The 2013-15 estimated net revenue totals $611,000, an increase of 16% from the 2011-13 actual revenue.

Effective July 1, 2012, the Legislature approved a modification to the distribution of fuel tax revenues (SB 939) between operating programs and pavement maintenance. Previously one half was available for the operating budget. The distribution change of fuel tax revenues was necessary to insure adequate resources to operate and maintain state airports for mission critical services.

Fees: Pilot registrations, aircraft registrations, hangar and site leases, and charges for services represents 25% of the revenue for the Department.

- The Department registers and collects fees from an estimated 4,545 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 2013-15 estimated revenue totals $110,000. HB 2150 (2009) increased these fees from $8 for initial registration and $16 for renewals.

- Approximately 4,200 aircraft are registered with the Department. Fees are based on the class of the aircraft and range from $40 for ultralight to $350 for turbo/jet fixed wing. These funds are used for the 10% federal grant match. The Department annually licenses 25 aircraft dealers for a fee of $250 each. The 2013-15 estimated revenue totals for all aircraft fees is around $600,000.
- The Department also generates revenues through hangar and site leases and charges for services.

Federal Funds: Federal Funds are 40% of the Department's revenue.

- 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 55 eligible airports, 12 of which the Department has administered under the GA Entitlement Program since 2003. Eligibility is based on a federal formula; therefore, the state does not have to compete for the funds. The funds provide improvements to airport security, pavement, and lighting and require a 10% match.

Budget Environment

The Department of Aviation's financial position was in jeopardy in 2009. Aviation and jet fuel tax revenues, which are the primary source of funding for operations, had dropped significantly in recent years and are still not expected to return to pre-recession levels in the near future. In order to get through the 2009-11 biennium with a balanced budget, the Department held 5 positions vacant (31% of its staff) and reduced spending on services and supplies. In addition, the Legislature authorized the agency to spend money for operations that would otherwise be used for airport pavement maintenance activities.

In the spring of 2010, a management review report noted agency deficiencies including a lack of administrative capacity, management controls, contract management, and budget planning and execution. The report concluded that the Department would greatly benefit from moving Aviation back into the Oregon Department of Transportation citing benefits that include appropriate separation of duties, longer life cycle of institutional knowledge, and overall efficiencies due to improved use of existing business systems and processes. The Legislature, however, preferred to ensure aviation policy issues remained autonomous from other transportation policy concerns and retained Aviation as an independent agency. The Legislature directed the Department of Transportation to provide all business operating services for the Department of Aviation (SB 939).

As a result of new management and close expenditure monitoring, the Department of Aviation now operates with a smaller, more stable staff. This provides a reasonable base from which to grow, should revenues improve with the improving economy.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $11.1 million total funds reflects an increase of $1.2 million total funds, or 12.4%, from the 2011-13 legislatively approved budget. The Legislature added a position (1.00 FTE) to assist in development and implementation of the Federal Aviation Administration's General Aviation Airport Improvement program. The position is responsible to keep FAA dollars in the state of Oregon by making expiring dollars available to all of the public use airports.

Department of Transportation (ODOT) – Agency Totals

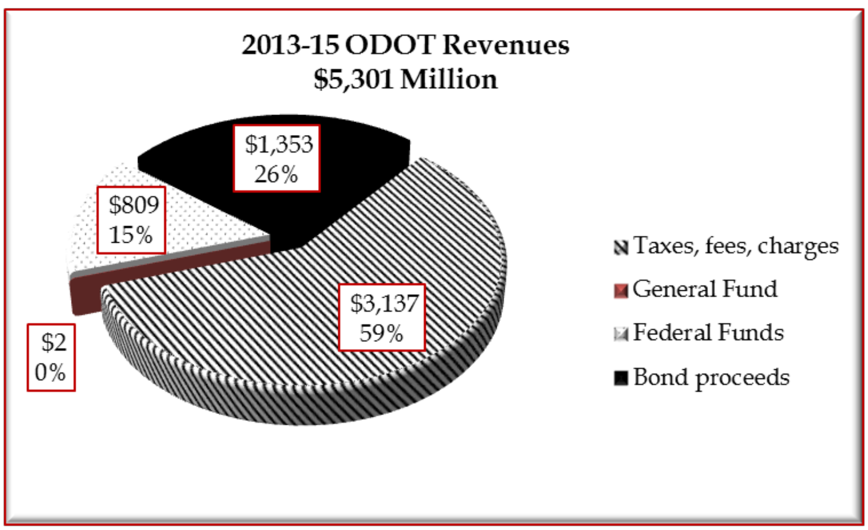
	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	16,912,732	2,000,010	21,137,928	2,060,000
Lottery Funds	80,439,321	72,614,930	95,261,416	93,953,970
Other Funds	3,612,722,722	3,616,523,281	3,273,588,556	3,813,954,090
Other Funds (NL)	25,401,967	255,705,987	18,158,214	18,158,214
Federal Funds	103,713,381	135,086,355	100,982,195	119,483,481
Federal Funds (NL)	11,921,871	21,621,529	21,621,529	21,621,529
Total Funds	**$3,851,111,994**	**$4,103,552,092**	**$3,530,749,838**	**$4,069,231,284**
Positions	4,692	4,613	4,608	4,557
FTE	4,547.06	4,521.79	4,519.34	4,467.63

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. The five-member Oregon Transportation Commission and the Department's director are all appointed by the Governor, and confirmed by the Senate. Historically, ODOT has focused primarily on constructing and maintaining highways. More recently, however, with designated General, Federal, and Lottery Funds, it has broadened its focus to include alternatives to automobiles in congested areas and otherwise underserved areas.

Revenue Sources and Relationships

The bulk of ODOT's revenues originate from constitutionally dedicated motor fuel taxes, weight-mile taxes, vehicle taxes, and driver fees and from bond revenue that is supported by those revenues as well as Federal, Lottery, and sometimes, General Fund. The forecasted revenue from all sources is $5.3 billion for 2013-15. Out of the total revenues for 2013-15, $895 million is projected to transfer out to other state agencies and local governments, leaving $4.4 billion available for expenditure on state transportation and programs. Compared to the December 2012 ODOT revenue forecast, this is an average decrease of about $25 million per year. The display reflects all expected 2013-15 revenues by source.



Current trends and long-term revenue projections indicate that Highway Fund revenue will not be sufficient to meet anticipated future expenditure levels, requiring reductions in programs by 2% to 3% per year.

The Legislature, through SB 5545, ratified establishing fees for the issuance and renewal of Keep Kids Safe license plates ($30,000), for digital outdoor advertising signs ($24,500), and for tollway fee civil penalties ($0). The bill also included fee increases for costs to manufacture licenses plates ($414,523) and printing cost increase for the Vehicle Code Book ($7,600). By narrative direction in SB 5544, the Legislature approved increasing Sno Park fees, based on a directed study from 2011. HB 2263 authorized increasing statutory business licensing fees for dealers, dismantlers, and other vehicle-related business subject to regulation and inspection by ODOT Driver and Motor Vehicle services division.

Federal Highway funds are usually appropriated for a 5-year period. Currently, however, the Moving Ahead for Progress in the 21st Century (MAP-21) funding covers less than two years in 2013 and 2014, making longer-term project commitments difficult. The funds are received and reported as Other Funds. The total amount of Federal Funds in this category for the 2013-15 biennium is over $670.8 million, down from $879.1 million in 2011-13.

The federal tax rates on gasoline and diesel were last raised in 1993, and Highway Trust Fund revenues have declined significantly since 2007 as a result of the recession and reductions in driving due to high gas prices. Funding levels under the federal surface transportation programs have increased slightly. Federal Funds received and reported as federal revenue are grants or direct revenue for specific programs such as transit and rail projects.

During the 2011-13 biennium, the Department received $72 million in Lottery Funds to make bond installment payments for rail and other transportation infrastructure projects that are ineligible for funding through constitutionally dedicated Highway Trust Funds. For the 2013-15 biennium, Lottery Fund bond debt service is increased to $95.2 million due to rolling up existing debt service obligations.

Budget Environment

Oregon's highway infrastructure—including bridges, pavement, and traffic control systems—continues to age, and therefore requires more maintenance and a growing share of ODOT's revenue. The aging transportation infrastructure has been a priority of the Legislature for several biennia.

- In 2001 and again in 2005, the Legislature adopted a plan, referred to as the Oregon Transportation Investment Acts (OTIA) to provide new revenue to finance $1.9 billion in highway user tax bonds for bridge repair and modernization projects over eight years. It is estimated that bridge needs will grow exponentially over the next few decades due to the need to repair or replace bridges, especially the significant bridge building that occurred in the 1950s and 1960s.
- In 2009, the Legislature adopted HB 2001, referred to as the Jobs and Transportation Act (JTA), increasing motor fuels taxes, weight mile taxes, registration fees, and title fees, specifically for the purpose of maintaining and modernizing the state's road system. Prior to the JTA, the state fuel tax was last increased in 1991. Distribution of the tax and fee increases in JTA is dedicated to rest area management, specific highway projects, and related planning activities as well as shared revenues between city, county, and state transportation programs. JTA expands requirements relating to establishing transportation priorities including developing a least cost planning decision making tool, establishing ten additional criteria for project selection, implementing practical design procedures, cost benefit comparisons, and greenhouse gas and foreign oil dependency reduction.

While growing slowly and including the impacts of OTIA and JTA, the increase in revenues is not sufficient to keep preservation, maintenance, and modernization needs ahead of the escalating costs of highway and street construction and the infrastructure demands that currently exist. Increasing population, changing demographics, and vehicle miles traveled will continue to degrade the transportation system.

The challenge of providing public transportation options across Oregon within and between cities requires investments at levels currently unavailable for rail and bus services. Although some dedicated revenues are available for these public systems, federal revenues continue to be necessary for operations.

With the increase in fuel efficiency and the use of hybrid and electric vehicles, the fuels tax is expected to be a declining source of revenue nationally and within Oregon. Current Corporate Average Fuel Economy (CAFÉ) standards require 54.5 miles-per-gallon for new cars and light trucks by model year 2025, with interim milestones. Anticipating coming mileage standards, the 2001 Legislature created a Road User Fee Task Force to explore alternative methods of taxation. The Department conducted pilot projects in 2006 and 2012, which determined that the per-mile fee is technically and financially feasible. Legislation in 2013 (SB 810) establishes a volunteer program effective in 2015 to further the concept.

In 2001, the governors of Oregon and Washington formed a bi-state partnership to study transportation problems and possible solutions for the I-5 corridor. The partnership recommended relieving three bottlenecks including the Columbia River Crossing project. In 2005, a 39-member task force was formed representing leaders from Oregon and Washington communities, including public agencies, businesses, civic organizations, neighborhoods, freight, commuter, and environmental groups. Local project partners reached consensus on one preferred alternative in July 2008 from five analyzed. Since 2005, the project has spent $182.3 million through June 30, 2013 funded equally by Washington and Oregon with additional contributions from the federal government. The estimated construction cost of the project is $3.1 to $4.2 billion. Funding is expected to come from federal and state sources and from tolling. In 2013, the Oregon Legislature authorized $453.7 million in general obligation bonding authority and $663 million in toll-backed revenue bonds for the project, subject to several project conditions laid out in HB 2800:

- State of Washington funding commitment equal to Oregon's
- Treasurer's investment grade project analysis
- Coast Guard permit to construct the bridge
- Various environmental and public contracting provisions to increase small business participation and apprenticeship

The deadline for all the conditions to be met is September 30, 2013. As of this writing, Washington has not appropriated its share and the Coast Guard has not issued its permit.

The Oregon Wireless Interoperability Network (OWIN) was created to address three basic issues: (1) replace the out-of-date existing wireless communications infrastructure; (2) meet the federal requirements to convert systems to narrowband frequencies by 2013; and (3) meet the requirements of HB 2101 (2005) which outlined a single emergency response system for state agencies and interoperability needs for all public safety agencies. During the 2009 session, the Legislature authorized $76 million in Certificates of Participation (COPs) for initial work on the project including developing the backbone infrastructure (tower site improvements and microwave system). In the February 2010 special session, the Legislature transferred the project to ODOT from the Department of State Police to take advantage of ODOT's experience and capacity to manage large, complex projects. For the 2011-13 biennium, the Legislature approved a scaled-back and less costly project, now referred to as the "Revised State Radio Project" (SRP). Around 6,000 mobile and stationary radios have been replaced, tower sites have been secured and upgraded where needed, and partnership agreements with local entities are completed.

Ongoing interoperability project efforts have not been addressed. SB 665 would have centralized support for the Statewide Interoperability Executive Council and statewide broadband direction to the Department of Administrative Services (DAS). The bill did not pass, but DAS and ODOT will report progress and plans for the transition to the Legislature in February 2014, with the expectation that the transfer can be authorized then.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $4,069.2 million is $34.3 million, or 0.8%, less than the 2011-13 legislatively approved budget level and includes 4,557 positions (4,467.63 FTE). The 2013-15 budget is 56 positions, or 1.2%, down from the 2011-13 legislatively approved budget level. Other Funds increased 5.5%, while Federal Funds dropped 11.6%. All of the Lottery Fund and Nonlimited Federal Funds as well as $464.1 million in Other Funds are dedicated to debt service from bonded projects. The budget reflects $118.1 million more Lottery and Other Funds debt service as compared to the 2011-13 legislatively approved budget.

The Legislature approved the following reductions in the 2013-15 budget:

- $429.9 million to reflect current scheduling for construction projects in the Statewide Transportation Improvement Programs.
- $64.4 million for one-time project-related expenditures for ConnectOregon and JTA in Transportation Program Development.
- $18.3 million for costs associated with federal rail grant funding and $11 million Other Funds in Rail project funding.
- $2 million General Fund for a one-time increase for Senior and Disabled Transportation Operating Grants.

Details of expenditures are in the following Division analyses.

ODOT – Highway Division

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	802,278	0	0	0
Other Funds	2,289,417,445	2,516,477,740	2,177,689,529	2,617,100,410
Total Funds	**$2,290,219,723**	**$2,516,477,740**	**$2,177,689,529**	**$2,617,100,410**
Positions	2,721	2,656	2,628	2,609
FTE	2,614.21	2,600.90	2,575.41	2,555.39

Program Description

The purpose of the Highway Division is to design, build, maintain, and preserve quality highways, bridges, and related system components. The state highway system is over 8,000 center line miles. 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. The STIP is updated every two years through a public hearing process. Enacted by the Legislature in 2001, OTIA authorized bonding to fund modernization projects, pavement preservation, and bridge repair and replacement. In 2009-11, the Legislature authorized a six cent gas tax increase and authorized bonding in the amount of $840 million to finance transportation projects around the state.

Organizationally, the Highway Division is administered through the five regional offices and the headquarters office. The Highway Division contracts out most engineering and design work, as well as construction. To ensure efficient project delivery, more than 300 Technical Services staff are deployed in the five Highway regions. In addition, the Oregon Innovative Partnerships Program has identified possible projects for long-term public-private partnership and has solicited information and statements of interest from potential private sector partners. Agency staff performs much of the maintenance and part of the preservation work for which ODOT is responsible.

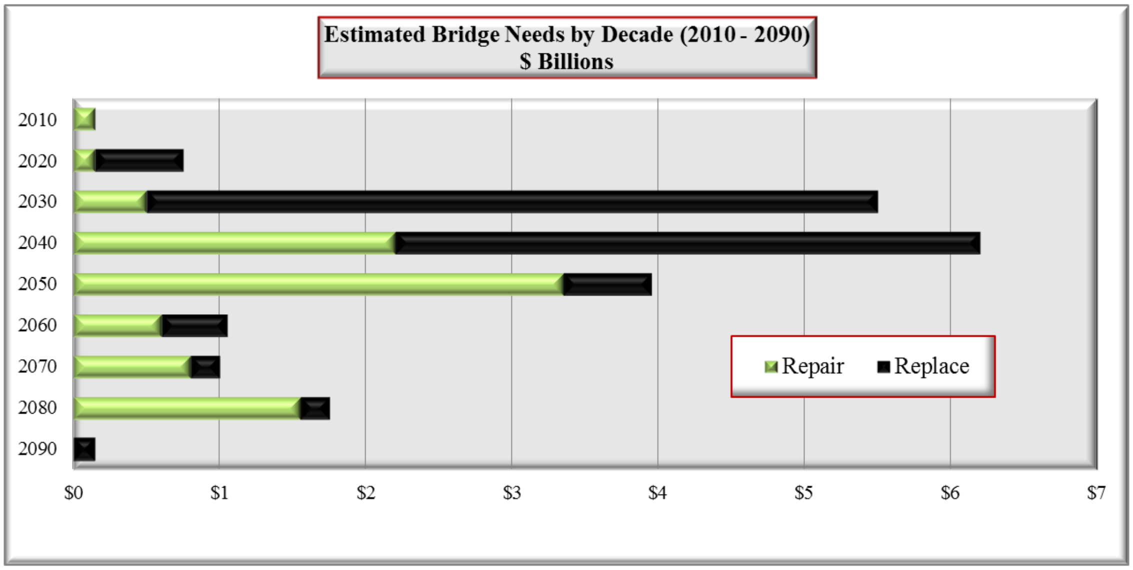
The categories of the Highway Division budget are:

- ***Highway Maintenance and Emergency Relief*** *(1,357 positions and 1,314.40 FTE)* maintains, repairs, and extends the service-life of the state highway system. There are two types of general highway maintenance functions: reactive and proactive. Reactive service generally fixes existing problems and is incident driven. Proactive services save money later. These activities include inspection, upkeep, preservation, or restoration to prevent problems or damage to highways or other highway-related infrastructure and to reduce life cycle costs. Cost-benefit analysis determines which projects to undertake. Maintaining buildings and equipment used by ODOT employees is part of highway maintenance. This Division also provides emergency relief in responding to damage from natural disasters such as floods and earthquakes. Finally, the State Radio system is operated from this Division.

- ***Preservation*** (*140 positions and 140.10 FTE*) rehabilitates existing roadways and facilities to extend their service life. Preservation projects add useful life to the highway system without increasing capacity. The program aims 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. Funding is set to maintain an average statewide highway pavement condition rating of 78% fair or better. While conditions are currently above target, they are forecast to drop within a few years concurrent with expected declining funding levels.

- ***Bridge*** *(148 positions and 148.94 FTE)* preserves more than 2,700 bridges, tunnels, and large culverts on the state highway system. Program projects rebuild or extend the life of an existing bridge as identified through the Bridge Management System. Routine bridge inspections are performed every two years. The program goal is to protect public safety and preserve infrastructure by keeping bridges in the best condition possible and limit net increase in Structurally Deficient bridges to 0.5% per year and limit the net increase in bridges dropping from Good to Fair condition to 1.5% per year. The program is also committed to maintain a small number of high value, historic Oregon coastal bridges that were designed by Conde B. McCullough. The bridges are priceless assets and ODOT has chosen functional obsolescence and high maintenance costs as a fair trade-off for preserving them.

The following display shows the estimated funding needs for bridges in the coming decade. The bulge in 2030 and 2040 mirrors the significant bridge building of the 1950s and '60s. Note that the funding is expressed in billions of dollars.



- ***Safety and Operations*** *(161 positions and 160.82 FTE)* improves the transportation system efficiency. through a cost-effective approach to increased demands. Priority programs include traffic management using control devices, illumination, and signal operations; intelligent transportation systems using technology-based tools including variable message signs, highway advisory radio, ramp meters, cameras, advanced signal management, weather, and travel condition systems; incident management for rapid detection and quick highway incident clearance; landslide and rock fall mitigation; and transportation demand management to encourage the use of alternatives to driving alone (rideshare, vanpools, park and ride).

- ***Modernization*** (*134 positions and 134.30 FTE)* 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.

  To meet the 20-year requirements identified in the Oregon Highway Plan, over $330 million per year would be needed. Revenues from the Oregon Transportation Investment Act and Jobs and Transportation Act have helped meet the need in the short term, but are not enough to meet the growing population demands. The Columbia River Crossing project is in this program unit, subject to meeting construction conditions.

- ***Special Programs*** *(636 positions and 623.63 FTE)* provides construction support and construction projects that do not fit general categories or that fall under special rules or programs. Construction support includes Transportation System management, System and Asset management, Indirect costs such as office expenses, rent, work planning, team/crew meetings, etc., surplus property, outdoor advertising, and administrative costs. Construction projects include pedestrian and bicycle, salmon and watersheds, forest highway, jurisdictional exchange, winter recreation parking, and snowmobile facility maintenance.

- ***Local Government*** *(33 positions and 33.20 FTE)* works in a cooperative venture with cities, counties, and regional planning agencies to address priority transportation needs. 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.

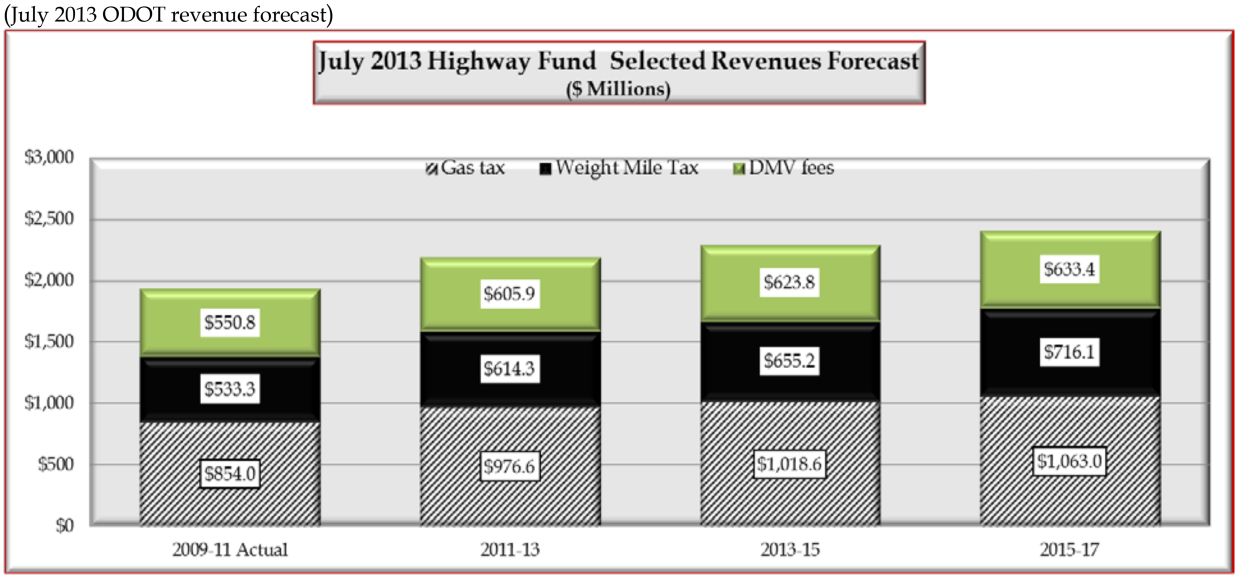
The following table provides total funds expenditure detail for Highway Division programs.

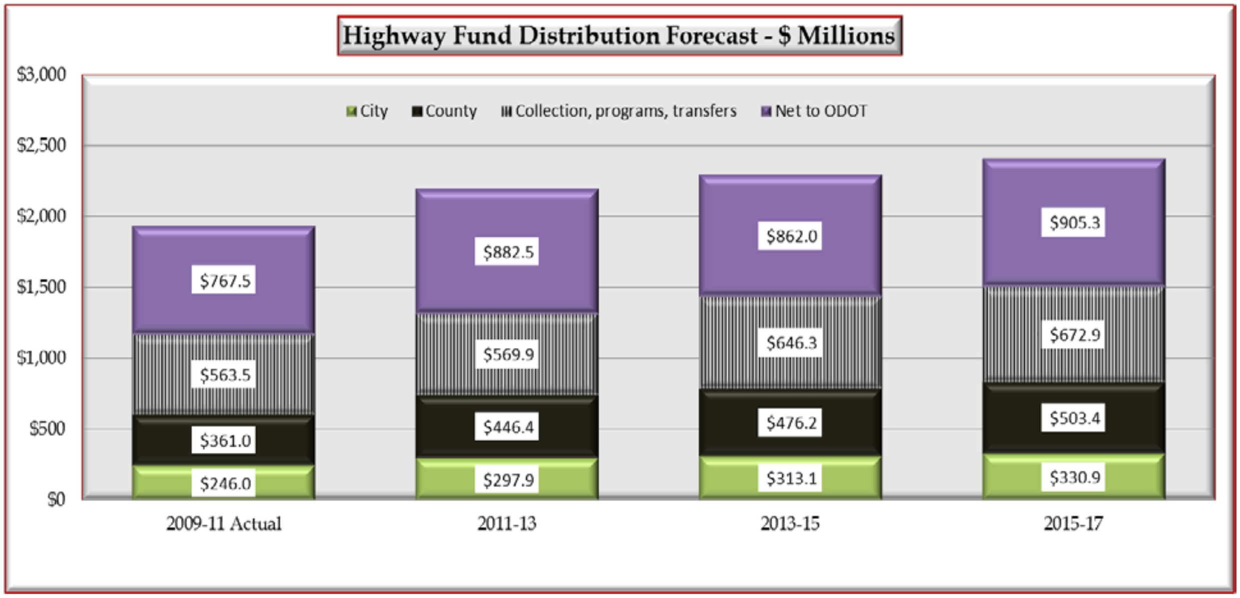
	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Maintenance	399,417,912	434,649,493	456,089,047	453,789,506
Preservation	302,320,752	337,944,015	250,584,169	249,282,316
Bridge	591,926,832	620,079,243	373,622,731	372,277,713
Operations and Safety	108,443,953	134,556,338	124,365,356	123,215,182
Modernization	340,442,060	399,437,446	375,817,134	824,553,621
Special Programs	192,032,811	209,882,342	229,580,378	226,706,905
Local Government	355,635,403	379,928,863	367,630,714	367,275,167
Total Highway Division	**$2,290,219,723**	**$2,516,477,740**	**$2,177,689,529**	**$2,617,100,410**

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 MAP-21 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 2013-15 legislatively adopted budget includes a total of $846.7 million bond financing to pay for identified projects (SB 5506).

The following displays show the major Highway Fund revenue sources and the distribution of those revenues. (July 2013 ODOT revenue forecast)





Budget Environment

The Highway Division budget includes the portion of the 2012-15 STIP to be expended during the 2013-15 biennium. The STIP encompasses a four-year construction period based on federal fiscal years; it is updated every two years. The first two years of the STIP contain the updated projects from the previous two years. The last two years include the new projects that are scheduled to begin in those years. The current STIP covers the period October 1, 2011 through September 30, 2015 to coincide with federal fiscal years.

Criteria for the STIP are approved by the Oregon Transportation Commission, which begins the process for development of a draft 2015-18 STIP. The review typically takes 21 months to complete. Changes in the economy over the past five years have affected driving patterns, which in turn affect ODOT's revenue estimates.

There are over 87,000 miles of roads owned by federal, state, county, and city governments. ODOT operates and maintains approximately 8,000 miles of highways throughout Oregon. The highway system ranges from six-lane, limited-access freeways with metered entrances in Portland to a graveled rural highway in central Oregon. While state highways are less than 10% of total road miles, they carry 58% of the traffic – more than 20.7 billion vehicle miles a year.

Oregon's economy depends on a sound highway system. Local, regional, and national industries – including agriculture, timber, tourism, and technology – rely on the transportation infrastructure. Commercial trucks rely on state highways for both short- and long-haul freight movements. Even though current economic conditions have changed people's driving patterns, it is anticipated that more people will be driving more cars for more miles over the long term.

Roughly 73% of commuters drive alone to and from work. Congestion is worsening, especially on urban freeways. Oregon's population is expected to reach 4.3 million people by 2020, up from 3.9 million in 2012. About 77%of this growth will occur in the Willamette Valley placing additional stress on highways and bridges. Oregon's population is also aging. Ensuring mobility for older citizens requires creative transportation solutions, such as more visible pavement markings, traffic signals, and signing. Environmental concerns have prompted many changes to ODOT practices. Often, additional work is required to deliver projects and programs in the most environmentally responsible manner.

Funding reductions in highway programs will make an impact on project delivery. A 1% reduction in current service level is over $22 million. The Department would be required to select projects to delay or cancel. The level of impact will depend on timing of the reduction decisions.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $2,617.1 million Other Funds is $100.6 million, or 4%, more than the 2011-13 legislatively approved budget level and includes 2,609 positions (2,555.39 FTE). The budget includes funding for two policy bills:

- SB 9 increases the crime and the fine for texting while driving. The cost of designing and posting signs about the law change on state highways is $122,400.
- SB 810 substitutes a road user tax of 1.5-cents per mile on miles driven in Oregon for the 30-cents per gallon fuels tax charge for gallons consumed. It is structured as a volunteer program for up to 5,000 drivers. The program is effective July 1, 2015. The cost to put administrative rules and supporting infrastructure in place is $2.8 million; 8.75 FTE are also approved.

A placeholder of $450 million is included as Oregon's share of the cost of the Columbia River Crossing. At the close of the 2013 legislative session, conditions to move forward with construction had not been met. The deadline to meet all conditions and to qualify for federal money is September 30, 2013.

The State Radio Project is funded for transferring 8 positions from the Department of State Police, $2.6 million, for two positions transferred from Oregon Emergency Management, $0.6 million, and to convert from project status to operations, $3 million and 12.25 FTE. In addition, two positions that had been intended to transfer to the Department of Administrative Services (DAS) for statewide broadband purposes were reinstated with ODOT at a cost of $0.4 million. ODOT and DAS will develop a transition and funding plan and report to the Legislature in February 2014.

The budget includes adjustments for PERS rate reductions, reduced expected highway fund revenue, and rate decreases for the Attorney General and state government service charge assessments. Also, the Legislature approved phasing out $429.9 million in one-time limitation for completed projects.

Following up on 2011 legislative instruction to review Sno-Park permit fees, the Legislature approved rule amendments to set fees as follows: Annual permit - $25; Three-day permit - $9; One-day permit - $3.

ODOT – Driver and Motor Vehicles Services

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	0	0	0	100,000
Other Funds	147,888,745	157,450,268	169,825,030	169,164,828
Federal Funds	1,465,740	3,396,725	3,487,151	3,487,151
Total Funds	**$149,354,485**	**$160,846,993**	**$173,312,181**	**$172,751,979**
Positions	862	861	859	848
FTE	838.46	837.46	836.25	824.75

Program Description

Driver and Motor Vehicles (DMV) licenses and registers nearly 1.8 million drivers and motor vehicles annually and enforces motor vehicle-related laws. There are 60 DMV offices statewide serving more than 12,000 walk-in customers every business day. In addition, DMV personnel process more than 10 million transactions and respond to over 1.6 million phone inquiries each year through 3 call centers, two of which are staffed by Department of Corrections inmates. Law enforcement agencies access about 141,000 records each day, and businesses and individuals make over 2.9 million DMV record requests each year.

Revenue Sources and Relationships

DMV is supported from fees levied for the various services it provides. Passenger vehicle registration fees are the largest single revenue collected, followed by driver licenses, and truck and trailer titling fees. Together these revenues are expected to total $533.3 million in 2013-15.

Revenue in excess of amounts needed to cover DMV operating costs and debt costs is subject to city, county, and state distribution. Approximately 41% of the revenues collected are projected to be transferred to the State Highway Fund, cities, and counties. In addition, just under 5% or $33.8 million of the revenues collected are projected to be transferred to other state agencies. For example, Recreational Vehicle (RV) related fees of $32.5 million are transferred to the Oregon Parks and Recreation Department.

During the spring of 2013, DMV undertook a supported study of its fees to determine if the fees supported the function or product for which they are charged. The results will likely inform requested fee change legislation in a future legislative session.

Budget Environment

Eligibility for an Oregon driver license or identification card has become more difficult as standards for proving identity and legal status tightened. The Legislature adopted a legal presence standard in February 2008 (SB 1080) with provisions phased in by January 2010. In addition, the Legislature adopted SB 640 (2005) requiring biometric data to verify identity for driver licenses, permits, and identification cards issued by DMV. Passage of SB 833 in 2013 overturns some restrictions by allowing individuals without proof of legal residence to secure a driver card, a document with many, but not all, of the same privileges as a driver license.

Business process changes and computer system enhancements are increasingly driven by federal mandates that are underfunded. The federal Real ID Act created national standards for issuing driver licenses and identity cards which, if adopted in Oregon, would require extensive changes to current processes. Most of these changes would not be funded by the federal government. Oregon has received an extension of the deadline to comply with the Act.

DMVs computer systems and facilities are aging and increasing in cost to maintain and operate. The large mainframe systems were first developed in the mid-1960s with many features added throughout the years, making the major applications difficult to support. In addition, field offices are mostly leased from private companies and facility improvements must be planned and funded many years in advance. Most buildings are not energy efficient and parking lots are frequently inadequate for the number of people served and the space needed for commercial driver license testing. Against this old technology, there is considerable public demand for more online services and the ability to use debit or credit cards in field offices.

Frequent changes to Federal Motor Carrier Safety Administration regulations tighten the requirements for issuing and suspending commercial driver licenses and increase the need for data sharing of driver records among states.

Oregon and national transportation initiatives encourage the use of alternative technologies for vehicles like plug-in hybrid and all-electric. Vehicle manufacturers in Oregon and elsewhere will continue introducing creative solutions for these new emerging vehicle types. This raises several issues and concerns relating to:

- Safety standards to operate on Oregon's roads
- Manufacturers conducting safety tests
- Titling and registration of vehicles
- Licensing persons to operate these vehicles

Demographic and economic changes combined with legislative impacts explain most of the variation in total DMV transactions over time.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $172.8 million is $11.9 million, or 7.4%, higher than the 2011-13 legislatively approved budget level and includes 848 positions (824.75 FTE). The Legislature approved funding for three policy bills:

- $4.7 million Other Funds and 6.00 FTE to implement SB 833, which provides for a 4-year "driver card" to be issued to applicants who meet all criteria for a driver license, except for documentation of legal presence in the U.S.
- $100,000 General Fund to implement HB 2421, which authorizes DMV to gather names of veterans, subject to their approval, for the Department of Veterans' Affairs.
- $7,950 Other Funds for SB 9, the measure to increase the crime level, and fine, for texting while driving.

HB 2263 was approved. It authorizes fee increases, effective January 1, 2014, for vehicle show licenses and for business certificates for auto dealers and dismantlers. The additional revenue will support costs to run this business program and prevent its ending balance from going negative.

The Legislature approved reductions for anticipated revenue shortfalls (18.00 FTE), PERS rate changes, and Attorney General charges, an Office of Administrative Hearings technical adjustment, and state government service charges. These reductions were offset by the transfer of a position from Highway Maintenance to DMV.

A budget note directs the DMV to report to the Legislature on the SB 833 impact on number of uninsured and unlicensed drivers; changes in vehicle accidents, number of driver cards, permits, and licenses issued; and trends compared to prior, similar reports. The reporting begins in 2015, unless the measure is referred for a vote of the people and is defeated.

ODOT – Motor Carrier Transportation

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	53,585,247	58,312,861	60,964,188	59,044,295
Federal Funds	4,781,427	5,584,867	5,763,864	5,721,455
Total Funds	**$58,366,674**	**$63,897,728**	**$66,728,052**	**$64,765,750**
Positions	309	310	309	303
FTE	309.00	310.00	309.00	303.00

Program Description

The Motor Carrier Transportation Division (MCTD) administers and enforces laws and rules associated with motor carriers, including regulations related to commercial vehicle registration, safety, and weight-mile tax. MCTD issues over-dimension variance permits and enforces truck size and weight regulations. Division enforcement officers and safety specialists check trucks mainly at 87 weigh stations, including six ports-of-entry, and at dozens of portable scale sites.

The Division also processes mileage reports and collects highway-use (weight-mile) taxes and fees. The Green Light Program increases weigh station capacity by weighing trucks in motion 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, over 90% of revenue collected, is transferred to the State Highway Fund, cities, counties, and is used to cover debt service and central services. Over $5.7 million in Federal Funds is projected to be received in the 2013-15 biennium for commercial vehicle safety enforcement efforts under the Motor Carrier Safety Assistance Program (MCSAP).

Under compensated agreements, MCTD coordinates the regulatory work of the Salem and Eugene Police Departments and the Clackamas County Sheriff's Office. MCTD also coordinates other city police, county sheriffs, and county weighmasters who work under non-compensated agreements. The MCSAP program requires a 20% state match, but because current program expenditures contribute to the match there is no financial outlay from the state.

Budget Environment

The level of construction activity around the state determines staff requirements to assist in mitigating travel delays. Employees identify key routes and types of loads that may be operating in/around construction projects, provide feedback regarding clearances for freight loads, help find detours and alternate routes, and give timely communication on project impacts to the trucking industry.

Online business was up in 2012 as Trucking Online handled 8% more transactions and 7% more records inquiries than the previous year. In the major categories of activity, there has been a steady increase in online weight-mile tax reports and payments. Now, over 48% of all such transactions are completed online. The annual renewal of truck registration or tax credentials is another major online activity. In 2012, companies based out of state put the paperwork aside to electronically renew 74% of all tax credentials needed for trucks that did operate in Oregon in 2012. As a result, Oregon saved 330 reams of paper, plus over $50,000 in postage and staff time to process and mail renewal-related materials.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $64.8 million total funds is $0.9 million, or 1.4%, higher than the 2011-13 legislatively approved budget level and includes 303 positions (303.00 FTE). The budget reflects an increase of $0.3 million for ordinary inflation. The Legislature approved reductions for anticipated revenue shortfalls (6.00 FTE), PERS rate changes, and for telecommunications and Attorney General charges.

ODOT – Transportation Program Development

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	182,521,147	235,468,172	183,007,890	223,919,972
Federal Funds	152,261	163,431	180,824	175,308
Total Funds	**$182,673,408**	**$235,631,603**	**$183,188,714**	**$224,095,280**
Positions	223	223	237	233
FTE	213.85	214.43	228.43	224.43

Program Description

Transportation Program Development operates through four program areas:

- ***STIP Development*** 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 and determines the scheduling and funding of the projects.

- ***Statewide and Regional Planning*** guides and supports short- and long-range planning for Oregon's transportation system. 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 also responsible for the Oregon Highway Plan, Oregon Freight Plan, transportation facility plans and planning for reduction of transportation-related greenhouse gas emissions. The goals, policies, and proposed actions are translated into specific projects and activities driving toward an integrated transportation system. Information sources are federal legislation on clean air, water, and energy acts, state benchmarks, and land use planning goals. The Division also participates with metropolitan planning organizations and cities to prepare Regional Transportation System Plans.

- ***Analysis, Research and Funding*** 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 more efficiently.

- ***Active Transportation*** provides statewide management and support for federal and state-funded non-highway/multimodal programs, including statewide grant project application, evaluation, and award processes, and coordinates change management and program progress. The section also manages ODOT's

Local Government Certification Program, Sustainability Program, and provides support to ODOT Regions in delivering the Local Government program.

ConnectOregon is also part of this section, a program meant to improve the flow of people and commerce, remove delays and improve system efficiency by reducing highway demand. It was first approved by the 2005 Legislature to invest in air, rail, marine, and transit infrastructure.

A third part of this section addresses the Flexible Funds Program, which focuses investments in non-highway transportation projects, programs, and services.

Revenue Sources and Relationships

General planning activities are funded from federal planning grants that specifically apply to Statewide Planning and Research, Surface Transportation, and Highway Bridge Replacement and Rehabilitation programs. Revenue transfers from the highway program support highway planning, system studies and monitoring, and data gathering. The ongoing ConnectOregon program has provided $340 million in Lottery bond proceeds in the past four biennia and is continued in 2013-15 with an additional $42 million.

Budget Environment

Passage of HB 2001 in 2009 by the Legislature had a number of requirements that affect work that is accomplished, how it is completed, and the impact it has on other stakeholders. Changes to the transportation planning process to address least cost planning methodology and integration with greenhouse gas emissions continues. The Division is working with Metropolitan Planning Organizations (MPOs) and local governments to assess the costs of greenhouse gas emissions planning work.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $224.1 million is $11.5 million, or 4.9%, less than the 2011-13 legislatively approved budget and includes 233 positions (224.43 FTE). The budget reflects removal of $64.4 million in one-time costs related to Connect Oregon IV, Jobs and Transportation Act projects directed in HB 2001 (2009), and 2010's SB 1059 that directed planning for greenhouse gas reduction goals. The Legislature approved reductions for expected revenue shortfalls, PERS rate changes, and for Attorney General and state government service charges. There is an increase of $42 million Lottery bond proceeds to continue the Multi-modal Transportation Program initiated by the Legislature in the 2005-07 biennium (ConnectOregon V).

The Legislature included a budget note directing the Department to report during the 2014 legislative session on highway and corridor feasibility studies from the last 10 years and on what actions were taken based on the studies.

ODOT – Public Transit Division

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	7,111,283	2,000,000	0	1,960,000
Other Funds	36,324,927	26,610,760	26,738,948	31,732,117
Federal Funds	62,098,302	68,001,703	56,645,105	54,849,181
Total Funds	**$105,534,512**	**$96,612,463**	**$83,384,053**	**$88,541,298**
Positions	17	15	17	16
FTE	16.46	14.75	16.75	16.45

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 Public Transit administrator also manages the Rail Division. The Division operates six program areas:

- ***General Public Transit*** provides general public transportation to rural areas, tribal governments, and cities with populations under 50,000. The program also includes training and technical assistance. About 90% of its funds are distributed to cities, counties, other government units, and nongovernmental units through grants.

- ***Inter-city Passenger Development*** 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*** provides transportation designed to meet the needs of the elderly and people with disabilities. Programs include:
  - Special Transportation Fund grants for transportation districts, counties, and tribes, consisting of cigarette tax, state identification card fees, and non-highway use state gas tax revenues as well as federal funds.
  - Surface Transportation Program funds for capital public transportation improvements, car and vanpool projects, parking facilities, bicycle and pedestrian projects, and bus terminals. Funds are also used for planning, wetland mitigation, research, transit safety, and mass transit vehicle replacement.
  - New Freedom grants to increase access to jobs for people with disabilities.
  - Federal Transit discretionary grants to maintain facilities and vehicles in a state of good repair.

- ***Transportation Demand Management/Transportation Options*** 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.

- ***Statewide Rideshare Program*** was initiated during the 2011-13 biennium and uses the Rideshare on Line technology which allows the public to use the internet to find rideshare matches for travel in western states. Also called DriveLess Connect, the program replaced four existing rideshare systems in Oregon. Its goal is to reduce single-occupancy-vehicle trips.

- ***Public Transit Planning*** provides statewide transit policy and planning technical assistance and coordinates urban transit planning, local system planning, and multi-modal corridor planning.

- ***Division Administration*** defines state transit policies and provides leadership and support for the program areas.

Revenue Sources and Relationships

The Division receives the majority of its funding from federal sources.
- Federal Highway Administration (Surface Transportation Program) - $10.6 million spent as Other Funds and available for any transit purpose, with no match requirement.
- Federal Transit Administration:
  - $25.9 million for elderly and disabled transportation, 10.27% match from grantees
  - $1 million for planning, 20% match from grantees
  - $26.3 million for general public transit, 43.92% match from grantees
  - $1.6 million for transportation options program, 20% match from grantees
  - $67,247 for transit operations, no match

State funds make up the remaining 34% of the Division's revenue. Public Transit is allocated funds from three main sources:
- Cigarette Tax – $7.2 million. Includes 3.45% ($0.02 per pack) apportionment of all moneys received by the Department of Revenue from certain cigarette tax revenues.
- DMV Photo ID – $3.9 million. 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 – $6.6 million. 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 funds provide match for federal funds 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 the 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.

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 85%, affecting urban and rural areas. While this is a success story in meeting public policy goals, it has created pressure on local provider budgets. In addition, this industry is vulnerable to the recent challenges of public security concerns and cost of fuel. When fuel costs rise, there are more people in need of an alternate to their automobile 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 system operations.

Aging transit fleets throughout the state continue to need replacement vehicles, or the state risks losing its capital infrastructure. Current estimates indicate there is a gap of $25 million annually to meet this need. Fuel costs are an issue for the transit industry, as is local funding for operations. Another major challenge is pressure to upgrade and provide public transit facilities with security features and appropriate bus maintenance structures.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $88.5 million is $8.1 million, or 8.4%, less than the 2011-13 legislatively approved budget and includes 16 positions (16.45 FTE). The budget includes ordinary inflation; $1.96 million one-time General Fund for Senior and Disabled Transportation operating grants; and $3.5 million Other Funds Lottery Bond proceeds for the Salem-Keizer Transit Center.

The Legislature reduced the budget to reflect PERS rate decreases, the expected revenue shortfall, and for Attorney General and telecommunications rate changes.

ODOT – Rail Division

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	270,231,849	45,845,108	22,016,320	38,953,957
Federal Funds	18,179,626	39,748,060	16,698,269	36,888,157
Total Funds	**$288,411,475**	**$85,593,168**	**$38,714,589**	**$75,842,114**
Positions	25	25	25	25
FTE	25.00	25.00	25.00	25.00

Program Description

The Rail Division ensures compliance with federal and state regulations related to passenger and freight rail. The Division operates in the following areas:

- ***Division Administration*** defines overall state rail policies, actively represents the interests of rail customers, and ensures that rail transport opportunities are adequately addressed at the federal, state, and local levels. Administration also coordinates the various functions of the Division. As of 2012, the Division Administrator also manages the Public Transit Division.

- ***Railroad Safety*** ensures compliance with federal and state safety regulations for track, locomotives, rail cars, hazardous material transport, and rail operating practices. In cooperation with the federal government, the program uses a combination of inspections, enforcement actions, and industry education to improve railroad safety.

  Under a separate statutory program, the Division inspects railroad sidings, yards, and loading docks to ensure the safety of railroad workers. The Division has responsibility for the safety oversight of light rail, streetcars, and trolleys. Staff participate in incident and accident investigations and make recommendations for improvement, if necessary. The section also inspects crossings of rail transit operations to ensure compliance with federal and state regulations.

- ***Crossing Safety*** enforces state laws and administrative rules as well as federal laws and regulations related to crossing safety. Statute directs regulatory authority over all public highway-rail grade crossings in the state. The Division authorizes construction, alteration or elimination of highway-rail grade crossings within the state. The section manages safety improvement projects through administration of federal highway and state funds.

  Through projects such as construction of grade-separated crossings, signal upgrades, and elimination of crossings, injuries and fatalities at Oregon highway-rail grade crossings have decreased, averaging 13.7 annually since 2006. In addition to its regulatory role, section staff work with railroad companies, public agencies, and the general public to address crossing safety concerns. Staff also participate in transportation planning activities to improve the mobility of highway and rail traffic.

- ***Operations*** develops rail planning documents and administers both federal and state rail rehabilitation funds to help retain quality rail service to Oregon communities and businesses. The section manages railroad improvement projects for both passenger and freight rail operations; develops and implements freight and passenger rail plans; and manages state owned right of way.
  The section manages and markets intercity passenger rail operations and related Thruway motor coach service, and coordinates Oregon's partnership in the Pacific Northwest High Speed Rail Corridor. As funds are available, Operations provides project management and technical expertise to communities interested in developing rail transport opportunities, such as commuter rail, interurban rail, and excursion rail. The section also participates in federal proceedings related to railroad mergers, line abandonments, and rail service.

Revenue Sources and Relationships

Programs operate with dedicated federal ($20.9 million) and state ($29.5 million) revenue.

Federal revenues include:

- Federal Railroad Administration (FRA), $16.7 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, $4.2 million. Federal as Other Funds used for crossing safety projects.

State revenues at the current service level include:

- Custom License Plate Fees, $6.8 million partially funds two daily passenger round trips between Eugene and Portland.
- Transportation Operating Fund (TOF) Non-Highway Fuels Tax, $3.2 million. Helps fund two round trips between Eugene and Portland.
- Rail Gross Revenue Fee, $3.5 million. Paid by Oregon railroads based on their previous year's gross revenue. Funds can only be spent on rail safety and rail crossing regulations.
- Grade Crossing Protections Account (GCPA), $1.4 million. Generated from driver license and vehicle registration fees. Used for crossing safety regulation and improvement projects at public railroad crossings.
- Other biennial revenues include $50,000 from interest and $252,000 from the Fixed Guideway Fee.

Budget Environment

The lack of stable, adequate funding for both passenger and freight rail keeps Rail's future in Oregon uncertain. In 2007, the Legislature approved dedicating revenue from specialty license plates for use in the passenger rail program. In 2009, the Legislature increased the license fee from $50 to $100. To date, the specialty license plate fee revenue has fallen far short of covering expenses for passenger rail. One-time federal funding makes up the difference for the 2013-15 biennium. Costs are driven by the amount of subsidy the state provides for each rail passenger and the addition of train sets to maintain two daily Eugene-Portland round trips. Considering passenger rail as a system comprising thruway bus service, the federal Coast Starlight, and Cascades trains, the subsidy is around $24-$25 per passenger per Eugene-Portland trip. Considering the Cascades trains alone, the subsidy rises to nearly $46.

Oregon's freight railroads are challenged to raise necessary capital to accommodate increases in rail traffic. The short line railroads have difficulty maintaining their systems to safely handle rail traffic. Growth in the transportation systems and the rail industry, combined with heightened interest in freight mobility and high speed passenger rail, will stretch Division staff resources to provide adequate services for protecting the public from rail-related incidents, particularly in the rail planning and safety assessment areas.

Legislatively Adopted Budget

The Rail Division 2013-15 legislatively adopted budget of $75.8 million is $9.8 million, or 11.4%, under the 2011-13 legislatively approved budget and includes 25 positions (25.00 FTE). The budget reflects removal of $18.3 million one-time federal funding for a train set purchase, carryover of $8.3 million unspent funds for rail operating expense, and reductions for PERS and Attorney General rate changes. Lottery bond proceeds in the amount of $10 million will pass through to a local entity for the Coos Bay Rail project. Debt service for these proceeds would begin in the 2015-17 biennium, at $1.8 million Lottery Funds per biennium.

ODOT – Transportation Safety Division

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	11,981,106	13,960,554	14,413,323	14,314,458
Federal Funds	17,030,035	17,579,927	18,186,787	18,092,743
Total Funds	**$29,011,141**	**$31,540,481**	**$32,600,110**	**$32,407,201**
Positions	26	25	25	25
FTE	25.50	25.00	25.00	25.00

Program Description

The Transportation Safety Division advocates transportation safety through statewide education, enforcement, and engineering. Major efforts focus on occupant protection, intoxicated driving, speeding, youthful drivers, pedestrians, bicyclists, motorcyclists, and employers. Safety programs are operated through over 550 safety grants and contracts awarded annually to local agencies, non-profit groups, the private sector, and service providers. The grants use state and federal funds to provide statewide public education and information programs, and reimburse public schools that provide Division-approved driver education programs.

Further duties include the responsibility to:

- Organize, plan, and conduct a statewide transportation safety program.
- Coordinate general activities and programs of the several departments, divisions, or agencies of the state engaged in promoting transportation safety.
- Provide transportation safety information and develop other measures of public information.
- Cooperate fully with all national, local, public, and private agencies and organizations interested in the promotion of transportation safety.
- Serve as a clearinghouse for all transportation safety materials and information used throughout the state.
- Cooperate in promoting research, special studies, and analysis of problems concerning transportation safety.
- Conduct studies and make recommendations to the Legislature concerning safety regulations and laws.

Revenue Sources and Relationships

Approximately 56% of the Safety program funds are Federal Funds from the Federal Highway Administration for work zone enforcement and the National Highway Transportation Safety Agency for issues related to DUII, safety belt use, field safety, traffic data, and safe routes to schools. The remaining 44% are other state funds, mostly from DMV for student driver training, motorcycle training, and the Highway Fund for regional safety staff. Funding is also provided from the Transportation Operating Fund.

Budget Environment

Factors that influence the workload and performance of the Division include demand for traffic safety education and driver training, youthful driver restrictions, posted speeds, passenger safety, and driving under the influence of intoxicants.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $32.4 million is $0.9 million, or 2.7%, more than the 2011-13 legislatively approved budget and includes 25 positions (25.00 FTE). The Legislature reduced the budget to recognize prospective revenue shortfalls, and for PERS and Attorney General rate changes.

ODOT – Central Services

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	174,279,494	185,897,906	199,904,964	192,333,383
Federal Funds	5,990	19,722	20,195	269,486
Total Funds	**$174,285,484**	**$185,917,628**	**$199,925,159**	**$192,602,869**
Positions	509	498	508	498
FTE	504.58	494.25	503.50	493.61

Program Description

Central Services provides the core administrative functions that support each of the programs. This program includes:

- ***Director's Office*** includes the Department Director and support staff to oversee all operations and programs. (3.00 FTE)
- ***ODOT Headquarters*** manager 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. (37.80 FTE)
- ***Central Services Administration*** includes the Deputy Director and a support person for management of Financial Services, Human Resources, Information Systems, Internal Audit Services, and Support Services. (2.00 FTE)
- ***Financial Services*** provides the Department with accounting and financial services including accounting, collections, budget, payroll, fuels tax revenue, debt, and financial analysis. (73.40 FTE)
- ***Human Resources*** provides professional advice and leadership on employee labor relations, classification, recruitment and retention, and training issues, and manages the Department's human resource systems and processes. Human Resources staff works closely with operating divisions to identify options to meet staffing needs and more efficient ways of doing business. (48.30 FTE)
- ***Civil Rights*** administers 12 federal and state regulatory Civil Rights programs, handling compliance issues for the Department, and promoting workforce development and small business support. (14.00 FTE)
- ***Information Systems*** plans, develops and supports business application systems and technology infrastructure, and supports telephone and electronic mail to enable ODOT business to be conducted efficiently, comply with laws and regulations, and support the mission of ODOT. (225.11 FTE)
- ***Audit Services*** runs the internal audit program assuring that effective management controls are in place and functioning properly to help management achieve its objectives. The unit supports performance measures. External audit provides assurance on financial data submitted by external entities. (10.00 FTE)

- ***Business Services*** provides a variety of services to all ODOT programs including purchasing and contract management, records management, reprographic, and photo video operations as well as facilities. (80.00 FTE)

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 computer use and Highway Fuel Tax accounting. The bulk of the revenues, however, come from indirect charges that are assessed to each division, primarily based upon its number of full-time equivalent positions. The Transportation Operating Fund (TOF) 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. TOF revenues are unrefunded gas taxes paid for non-road use fuel, such as for lawnmowers.

Budget Environment

Workload in Central Services is driven by the workload factors affecting the Department as a whole. This includes demographic changes in Oregon's population and economy, implementation of federal appropriation legislation, rapidly changing information technology, and efficient delivery of programs.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $192.6 million is $6.7 million, or 3.6%, more than the 2011-13 legislatively approved budget and includes 498 positions (493.61 FTE). The Legislature approved $4.5 million in inflation, a $7 million reduction for unidentified administrative savings, a $2.4 million reduction for PERS rate changes, and adjustments to DAS, Attorney General, and Archives charges. There is also carryforward limitation for unspent federal fuels tax grant funds.

The Legislature included a budget note directing the Department to report on all 2011-13 internal audit findings and responses. The report is to be provided during the 2014 legislative session.

ODOT – Nonlimited Loan Fund

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds (NL)	13,961,019	18,158,214	18,158,214	18,158,214
Total Funds	**$13,961,019**	**$18,158,214**	**$18,158,214**	**$18,158,214**

Program Description

Nonlimited programs record revenues and expenses for transactions that are generally internal to the agency and serve operating programs that are subject to expenditure limitation. They are Nonlimited because the level of activity is generally unpredictable. Oregon Transportation Infrastructure Bank (OTIB) remains the only authorized use of the Nonlimited fund type. 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.

Revenue Sources and Relationships

The program operates with dedicated Highway Trust Funds and loan repayments.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget is $18.2 million to reflect estimated loan disbursements anticipated during the biennium. The bond bill (SB 5506) includes placeholder authority for additional borrowing to recapitalize the fund, if there is extraordinary demand.

ODOT – Debt Service

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	8,999,171	10	0	0
Lottery Funds	80,439,321	72,614,930	95,261,416	93,953,970
Other Funds	251,268,982	367,214,388	415,690,341	464,052,646
Other Funds (NL)	11,440,948	237,547,773	0	0
Federal Funds (NL)	11,921,871	21,621,529	21,621,529	21,621,529
Total Funds	**$364,070,293**	**$698,998,630**	**$532,573,286**	**$579,628,145**

Program Description

Debt service in this program relates to highway construction bonds and the state's share of funding for the South Metro Commuter Rail project in Washington County, the Southeast Metro-Milwaukie Extension, Portland Street Car, Short-Line Railroad infrastructure assistance, Industrial Spur infrastructure, and ConnectOregon phases I – V. Debt service is paid from State Highway and Lottery Funds and is partially subsidized by federal funding.

Revenue Sources and Relationships

Other Funds are derived from the sale of bonds, which are retired using allocations of State Highway and Lottery Funds.

Budget Environment

The American Recovery and Reinvestment Act (ARRA) authorized taxable Build America Bonds (BABs). Under ARRA, issuing these types of bonds qualifies the Department to receive direct federal subsidy payments equal to 35% of the interest costs of the taxable bonds. During the 2013-15 biennium the Department expects to receive $21.6 million which will be used to offset debt service payments.

Legislatively Adopted Budget

At $579.6 million total funds, the 2013-15 legislatively adopted budget is $119.4 million, or 17%, less than the 2011-13 legislatively approved budget. The budget reflects debt payments for bonds issued through the 2011-13 biennium. The reduction is mainly due to eliminating temporary Nonlimited debt service limitation.

The Legislature approved the issuance of $42 million Lottery-backed bonds to continue the multi-modal ConnectOregon transportation program initiated in 2005 and approved by the Legislature in HB 2001. Timing for the sale of these bonds is planned so that debt service payments will not be required until the 2015-17 biennium. The estimated cost for payments in 2015-17 is $7.6 million Lottery Funds. The budget also includes a reduction of $1.3 million Lottery Funds that resulted from a Lottery Bond refunding.

The 2013-15 budget includes $5.2 million Other Funds State Radio Project debt service for a new $41 million Article XI-Q bond issuance. There is also $43 million Other Funds debt service for a possible bond issuance of $450 million for the Columbia River Crossing/I-5 bridge replacement. At the close of session several conditions for going forward with the replacement had not been met. The deadline to meet all conditions is September 30, 2013.

ODOT – Capital Improvements

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	3,259,788	3,259,788	3,338,023	3,338,023
Total Funds	**$3,259,788**	**$3,259,788**	**$3,338,023**	**$3,338,023**

ODOT – Capital Construction

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	191,963,992	6,025,736	0	1
Federal Funds	0	591,920	0	0
Total Funds	**$191,963,992**	**$6,617,656**	**$0**	**$1**

Program Description

The Capital Improvements and Capital Construction programs provide for new construction, remodeling, or improvements to facilities subject to the oversight of ODOT.

Revenue Sources and Relationships

Capital activities are funded primarily through transfer of State Highway Funds.

Budget Environment

In 2011, the Legislature approved moving forward with a radio communications project, the Revised State Radio Project (SRP) and placing primary responsibility with ODOT. The SRP replaced the more ambitious Oregon Wireless Interoperability Network (OWIN). SRP is one phase of OWIN and the most critical: the minimum required to comply with federal narrowbanding deadlines and radio replacement. The budget was $209 million, of which $121.4 million was expended in the 2011-13 biennium. The remaining $43 million is scheduled for the 2013-15 biennium.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $3.3 million for Capital Improvements is unchanged, except for 2.4% inflation, from the 2011-13 legislatively approved budget level.

The 2013-15 legislatively adopted budget of $1 for Capital Construction is a placeholder to allow the Emergency Board to increase expenditure limitation for planning and implementation of a project to consolidate facilities in the Portland Metro area.

Unexpected expenses associated with SRP partnership commitments and siting issues escalated the project's cost estimate. The Legislature approved rescheduling $20 million existing capital construction limitation (2009) to enable the agency to complete the project at full scope. Funding will be state highway funds. Eventually, reconciliation between the Department of State Police and ODOT will determine the true General Fund and highway funds split for the project and ongoing operations.

Board of Accountancy – Agency Totals

	2009-11 Actual	2011-13 Legislatively Adopted	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	1,557,481	2,048,572	1,952,934	2,073,326
Total Funds	**$1,557,481**	**$2,048,572**	**$1,952,934**	**$2,073,326**
Positions	7	7	7	8
FTE	7.00	7.00	7.00	8.00

Agency Overview

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

Revenue Sources and Relationships

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

HB 5051 during this 2013 session ratifies fee changes that were approved by the Department of Administrative Services during the 2011-13 biennium. The fee increases are Late Firm registration from $35 to $175, Late Active fee from $50 to $160 and Late Inactive fee from $35 to $50. Established new fees are Municipal Auditor Application fee $100, Municipal Auditor Late fee $100, Retired Renewal fee $25, and Reinstatement Application fee $150. These fee changes were published for public comment, and administrative rule hearings were held. No opposition to these fee changes was received.

The Board is expected to have an ending balance of $1,479,262 Other Funds, which represents about 17 months of operations. The Board receives most of its revenue during annual renewals in June, and thus needs a higher balance to cover cash flow needs. In addition, included in the ending balance is the savings bank for the Board to cover unanticipated contested case expenses.

Budget Environment

Examination applications and membership have stabilized, and Board operating costs are more predictable than they have been in the past. The Board expects the base of licensees to remain relatively consistent in the near future. The Board is challenged with regulating a changing profession and meeting the demand to provide more services to licensees, while ensuring more rigorous professional and ethical standards to protect the public without placing undue restrictions on licensees. For example, in addition to authorizing certain qualified accountants licensed in other states to practice accountancy in Oregon, SB 867 (2009) increased the Board's ability to discipline based on the licensees' performance of public accounting services within a state, rather than restricting the Board's authority to only those holding a state license. In addition, over the past two biennia, fines have increased as have the frequency and complexity of complaint investigations.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $2,073,362 represents a 1.21% increase from the 2011-13 legislatively approved budget and a 6.16% increase from the 2013-15 current service level budget. The legislatively adopted budget includes standard adjustments resulting from statewide administrative savings, general government assessments, Attorney General rate change, and PERS rate reductions. In addition, the budget includes a $165,294 Other Fund expenditure limitation and position authorization (1.00 FTE) for the establishment of a limited duration Financial Investigator position. This position will allow the Board to handle the increase in the number and complexity of complaints, as well as to prepare for the retirement of the Board's current Financial Investigator. The Board has sufficient resources based in operating income and ending balance to fund this request without additional fee increases.

Board of Chiropractic Examiners – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	1,221,987	1,356,554	1,371,217	1,454,717
Total Funds	**$1,221,987**	**$1,356,554**	**$1,371,217**	**$1,454,717**
Positions	5	5	5	6
FTE	4.50	4.50	4.50	4.88

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 Board of Chiropractic Examiners derives the vast majority (roughly 92%) of its revenues from the licensure of Chiropractic Doctors and Chiropractic Assistants. Civil penalties, recovery of legal costs, and miscellaneous fees account for the remainder. The board assumes an annual growth rate in on-going licensees of about 3% and a continuation of new license applications at their current annual rate. Prior to the 2013 legislative session, a number of the Board of Chiropractic Examiners fees were at their statutory maximum. SB 106 eliminated the explicit amount of certain fees and/or the maximum allowable fee amount from statute with respect to certain fees charged by the Board of Chiropractic Examiners and the Board of Pharmacy. The bill retained the current statutory language allowing the boards to set fee amounts by rule. Agencies increasing fees by rule must still obtain legislative approval either through the inclusion of the fee increase in the agency's budget as adopted by the Legislature prior to the implementation of the fee or by ratification through enabling legislation at the next regular session of the Legislative Assembly if the fee is established or increased during the interim. The revenue amounts included in the legislatively approved budget include revenue from an anticipated increase in fees due to the passage of SB 106 in the amount of $203,252 Other Funds.

Budget Environment

The number of licensees continues to be stable and predictable by the Board of Chiropractic Examiners (BOCE). However, the board has been struggling to manage legal and investigative costs. During the prior biennium, the board had to come to the Legislature on two separate occasions within six months of the end of the biennium to obtain additional expenditure limitation for professional services and legal fees. The BOCE has made complaint investigation, response, and resolution its top priority. Addressing the serious complaints, including sexual misconduct and billing fraud among other items, often require significant investigative resources and may result in significant and often unanticipated legal costs due to contested cases. The increased frequency of these complaints and the aggressiveness by which the BOCE pursues resolution will place continuing strain on the agency's budget.

Legislatively Adopted Budget

The total legislatively adopted budget (LAB) for the Board of Chiropractic Examiners is $98,163 or about 7.2% higher than the 2011-13 legislatively approved budget. The budget includes the addition of a part-time (0.38 FTE) position for investigation of complaints and monitoring of licensees on probation with the board. The adopted budget also includes reductions in expenditure limitation for statewide cost savings in administrative service charges, PERS taxation policy changes, and PERS cost of living adjustments.

Construction Contractors Board – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	13,799,101	15,137,443	16,311,910	15,874,620
Total Funds	**$13,799,101**	**$15,137,443**	**$16,311,910**	**$15,874,620**
Positions	81	76	75	75
FTE	76.50	76.00	75.00	75.00

Agency Overview

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

Revenue Sources and Relationships

Approximately 95%, or $15 million of CCB resources are expected to be received from contractor licensing and renewal fees. CCB projects a 76% average renewal rate during the 2013-15 biennium, an increase of 1% over the 2011-13 projections, and 6,480 new licenses based on historical data and some economic recovery. Fees are set by adoption of an administrative rule. The remainder of CCB revenue ($620,840) 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 2013-15 biennium are estimated to be approximately $1 million.

In spite of an anticipated $3 million beginning balance for the 2013-15 biennium, revenues are only projected to cover the current service level budget and will come up short of the required three-month ending balance. However, CCB indicates that licensing renewals are beginning to show an increase which in turn will increase revenues over the course of the biennium. The Legislature acknowledged the slow recovery in the construction industry and despite a lower than ideal ending three months ending balance, approved keeping the contractor licensing and renewal fee at $325 for the 2013-15 biennium.

Budget Environment

Essential Construction Contractors Board responsibilities continue to be licensing, enforcement, complaint resolution, and consumer and contractor education. Licensing volume has fluctuated over the past four biennia for various reasons, including the implementation of a business competency test for new contractor applicants in July 2000, construction booms, and recessions that had a serious impact on the housing industry. The current economic environment continues impact the number of contractor licensees and therefore the revenues available to the agency.

The Legislature approved SB 783 changing the continuing education requirements for residential construction contractors to allow CCB to enter into paid licensing agreements with approved continuing education providers for the use of board-developed continuing education classes and materials. CCB is also allowed to set fees for the approval of continuing education providers; approve continuing education courses, specialized education courses, and continuing education courses provided by the CCB; and set per-student, per-course completed fees. CCB anticipates that two distinct revenue streams would be created by the bill: the approval of continuing education providers and the per-student, per-course fee collected by providers from each contractor upon the completion of an approved course. Until sufficient revenue is generated to support additional positions required to fully administer the program, the agency will need to implement the program with existing resources.

Legislatively Adopted Budget

The total legislatively adopted budget for the Construction Contractors Board is 5% above the prior biennium level, and is 3% below the current service level. The $15.9 million Other Funds budget is $737,177 more than the 2011-13 approved budget. The budget includes standard adjustments that were approved in agency budgets for PERS reforms, statewide administrative savings, and statewide general government assessments.

In addition, the budget contains funding for staffing of all legislatively mandated programs, the same number of positions as in the 2011-13 budget, and the budget allows for just under an estimated two months ending balance. To address the need for a three-month ending balance the Legislature requested the Department of Administrative Services to unschedule $646,000 until the agency demonstrates that there will be sufficient resources to provide the needed three-month ending balance, approximately $1.8 million. Until sufficient revenues are received to support a three-month ending balance, the agency will continue to hold ten positions vacant. The Legislature also approved a budget note requiring the agency to report on a work plan to improve operating efficiencies and regulations encouraging growth in attracting new contractors to the industry and maintaining current contractors.

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

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	185,767,184	200,876,115	216,560,780	210,350,105
Other Funds (NL)	198,397,456	205,069,009	199,611,276	199,565,185
Federal Funds	610,545	3,639,056	996,061	984,288
Total Funds	**$384,775,185**	**$409,584,180**	**$417,168,117**	**$410,899,578**
Positions	1,063	935	916	927
FTE	1,051.06	922.40	909.43	919.97

Agency Overview

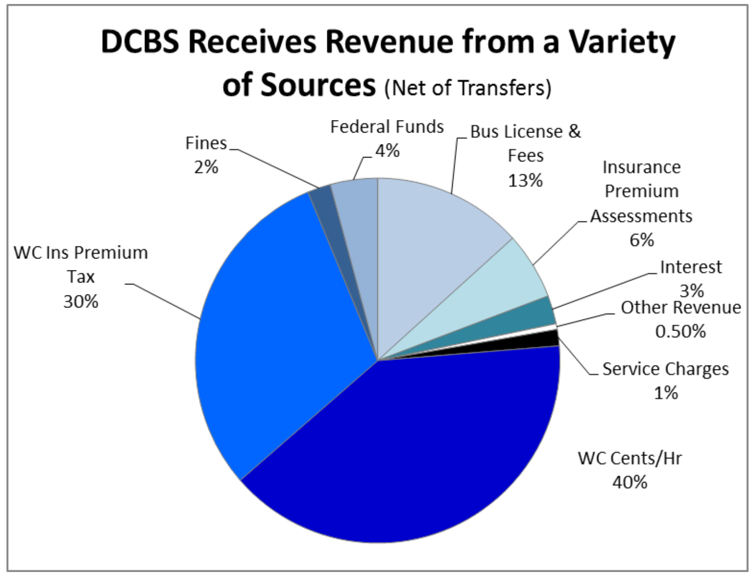
The Department of Consumer and Business Services (DCBS) is organized into five broad program areas plus central administration:

- ***Shared Services*** includes administrative support, information management, and policy direction. Approximately 17% of the agency's full-time equivalent (FTE) staff is housed in Shared Services.
- ***Regulation and Enforcement of Workplace Safety and Health*** includes the Workers' Compensation Board, the Workers' Compensation Division, and the Oregon Occupational Safety and Health Administration (OR-OSHA). These programs collectively are also called the "Workers' Compensation System." Approximately 51% of the agency's full-time equivalent (FTE) staff is housed in the three Workers' Compensation System programs. The agency additionally maintains reserve accounts to finance workers' compensation payments to employees when self-insured employers become insolvent and are unable to make the payments. Approximately 10% of workers are employed by self-insured employers. Expenditures from these reserve funds are not limited in the budget and are categorized as Nonlimited Other Funds.
- ***Workers' Benefit Fund*** supports benefit increases to permanently- and totally-disabled workers and to the survivors of workers killed in workplace injuries, and funds return-to-work programs for injured workers. Payments from the Workers' Benefit Fund are not limited in the budget and are categorized as Nonlimited Other Funds.
- ***Insurance Division*** enforces the state's Insurance Code, including the review of and approving of certain premium rates; and the licensing of insurance companies (including financial regulation), agents, adjusters, and consultants. The Division also assists consumers in resolving complaints against agents and companies. Approximately 11% of the agency's full-time equivalent (FTE) staff is housed in the Insurance Division.
- ***Division of Financial and Corporate Securities*** regulates state-charted financial institutions (banks, credit unions, consumer finance companies, mortgage lenders, pawnbrokers, check cashers) and the sale of securities in the state (including the licensing of individuals who sell, advise, or manage investment securities). The Division also regulates prepaid funeral plans and maintains a reserve account to support consumers when these plans become insolvent or default on their obligations. Approximately 8.5% of the agency's full-time equivalent (FTE) staff is housed in this Division.
- ***Building Codes Division*** regulates Building Codes and other consumer services. Approximately 12.5% of the agency's full-time equivalent (FTE) staff is housed in the Buildings Codes Division.

Revenue Sources and Relationships

The agency is entirely funded by Other Funds, except for certain federal grants received under provisions of the Affordable Care Act of 2010. Over 500 dedicated fees, assessments, and charges support the operation of DCBS. Other Funds revenues, in the 2013-15 legislatively adopted budget, are projected to total $553 million. Approximately 31% of these revenues (equal to $179 million in 2013-15), however, will be transferred outside the agency and not be available to support agency expenditures. The bulk of the transferred funds consist of revenue from two insurance taxes. The Department collects the retaliatory insurance tax, which is transferred directly to the General Fund, and an assessment on health insurance premiums that is transferred to the Oregon Health Authority primarily to support the Health Care for All Oregon Children (Healthy Kids) program. During the 2013-15 biennium, the agency is forecast to transfer $106 million of retaliatory insurance tax revenue to the General Fund, and transfer $29 million of health insurance premium assessment revenues to the Oregon Health Authority. The agency also will transfer an additional $21 million of revenues from licenses, fees, and fines to the General Fund, and transfer $19.7 million to the Department of State Police for the State Fire Marshal's office (from an assessment the Department levies on insurance policies covering fire perils).

After making these transfers, the agency will retain $398.4 million Other Funds as described below:



- 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 2013 the assessment rate will increase to 3.3 cents per hour, in order for the Department to maintain a required fund balance. The Workers' Compensation Insurance Premium Tax supports workers' compensation-related programs. The total premium paid by employers continues to decline. The current workers' compensation premium assessment rate is 6.4% of earned premiums, increased from 4.6% on January 1, 2011. The 4.6% rate had been in effect since 2007. Since 1980, the assessment rate has varied from as low as 4.5% to as high as 16.8%.
- Insurance Premium Assessments support Insurance Division programs.
- Business Licenses and Fees support regulatory programs such as Building Codes, Insurance Division, and the Division of Finance and Corporate Securities.
- Interest earnings, fines, assessments, and other revenues support various Department programs some of which are transferred to other agencies.
- Approximately $14 million Other Funds revenue is Federal Funds expended as Other Funds supporting the Occupational Safety and Health programs.
- Federal Funds, estimated at $1.6 million from the U.S. Department of Health and Human Services is used to enhance the health insurance rate review process .

Budget Environment

DCBS revenues are sensitive to the level of economic activity, and have fallen during the recession. The economic downturn that began in 2008 has reversed but the subsequent recovery has been very slow and uneven. Revenues from the agency's largest limited Other Funds revenue source, the Workers' Compensation Insurance Premium Tax, are estimated to increase by 82% from the 2009-11 biennium but are still 6% below pre-recession revenue collections, even though the agency recently increased the assessment rate to 6.4%. Through the 2009-11 biennium, revenues supporting the Building Codes Division declined 18% from the 2005-07 biennium and are projected to be 15% below pre-recession revenue collections through the 2013-15 biennium. Building code programs are funded largely by building permit fees and surcharges. This permit revenue has stabilized and in some areas has begun to recover as construction activity slowly rebounds and local governments increase the permit fees on which assessments are based.

In total, agency revenues are forecast to support current service levels which represent continuation of the reductions made since the 2009-11 biennium. 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.

Legislatively Adopted Budget

The 2013-15 biennium legislatively adopted budget is $8 million (or 2%) above the prior biennium level. Agency employment count, on a full-time equivalent (FTE) basis, is reduced by 8 FTE (or 1%) from the prior biennium.

While the budget is increased by $8 million from the prior biennium, it is decreased $6.2 million (or 3%) from the current service level. This reduction reflects standard adjustments that were approved in most agency budget for PERS reforms, statewide administrative savings, and statewide general government assessments. As of the end of June 2013, the budget retained 66 vacant positions that are either currently under recruitment, or retained to support management actions to address potential work load increases as the economy recovers. It is understood that the agency will not fill these positions if sufficient revenue is unavailable.

DCBS – Shared Services

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	32,466,220	34,234,215	36,279,336	34,054,702
Other Funds (NL)	26,715	257,956	257,956	257,956
Total Funds	**$32,492,935**	**$34,492,171**	**$36,537,292**	**$34,312,658**
Positions	179	154	157	157
FTE	178.04	153.04	155.50	155.50

Program Description

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

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

Revenue Sources and Relationships

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

Budget Environment

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

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $34.3 million is $179,513 (or 1%) below the prior biennium level. This amount is also $2.2 million (or 6%) below current service level. This reduction reflects standard adjustments that were approved in most agency budget for PERS reforms, statewide administrative savings, and statewide general government assessments.

DCBS – Workers' Compensation Board

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	18,534,369	20,446,397	22,209,549	21,729,133
Total Funds	**$18,534,369**	**$20,446,397**	**$22,209,549**	**$21,729,133**
Positions	90	84	84	84
FTE	90.00	84.00	84.00	84.00

Program Description

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

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

Revenue Sources and Relationships

The revenue source for the Board is the Workers' Compensation Premium Insurance Tax. The current tax rate is 6.4% of earned premiums, collected from SAIF, private, and self-insurers to be used for Department expenses. The rate was increased from 4.6% on January 1, 2011.

Budget Environment

The number of requested hearings and Board reviews has generally been on a declining trend since the mid-1990s. Over the past biennia, the Legislature has responded to the reduced number of filings by reducing staffing by 26.18 FTE since 1995-97 (7.50 in 1997-99, 12.00 in 1999-2001, 1.00 in 2001-03, 2.00 in 2003-05, 0.68 in 2007-09, 3.00 in 2009-11, and 6 in 2011-13), with a corresponding reduction in the growth of program expenditures.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $21.7 million is $1.3 million (or 6%) above the prior biennium level. This amount is $0.48 million (or 2%) below current service level, however. The budget includes standard adjustments that were approved in most agency budgets for PERS reforms, statewide administrative savings, and statewide general government assessments. No changes were made to the number of positions in the Worker's Compensation Board program for the 2013-15 biennium even though the number of requests for review continues to reflect a decline in cases. It is understood that the Board will continue to improve performance goals within current staffing levels.

DCBS – Workers' Compensation Division

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	34,522,998	37,271,530	38,060,083	37,149,108
Other Funds (NL)	3,073,616	3,361,198	3,361,198	3,361,198
Total Funds	**$37,596,614**	**$40,632,728**	**$41,421,281**	**$40,510,306**
Positions	233	202	185	185
FTE	228.44	195.54	182.92	182.92

Program Description

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

The Division has six program areas: Administration, Operations, Compliance, Medical, Benefit Services, and Workers' Compensation Assessments. The Ombudsman for Injured Workers and the Small Business Ombudsman also report to the Division Director.

Revenue Sources and Relationships

The primary revenue source for the Division is the Workers' Compensation Premium Insurance Tax. The current tax rate is 6.4% of earned premiums, collected from SAIF, private, and self-insurers to be used for Department expenses. The rate was increased from 4.6% on January 1, 2011. The Division also receives $1.2

million in interest income as well as $0.9 million in other revenue that includes civil penalties including those for non-complying employers. Workers' Compensation Tax (Insurance Premium Assessments) supports workers' compensation-related programs. The total premium paid by employers continues to decline. The Division also transfers $0.7 million from the Workers' Benefit Fund to the Bureau of Labor and Industries to support investigations of alleged discrimination of injured workers. In addition, $3.4 million is transferred to Oregon Health and Science University Center for Research of Occupational and Environmental Toxicology (CROET), with an equal amount transferred from the Workers' Benefit Fund as Nonlimited Other Funds expenditures.

Budget Environment

The 1990 reforms to the Workers' Compensation system stabilized the workload of the Division during the 1991-93 and 1993-95 biennia. However, appellate court decisions affected case processing and workload, and these decisions also led to the 1995 Workers' Compensation Reforms. The 1995 Legislature expanded the Division's responsibilities to include development and maintenance of comprehensive medical fee schedules; promotion of reemployment incentives; medical treatment contested case hearings; and disputes related to palliative care, medical fees, and vocational disputes. The Legislature also increased penalties against non-complying employers. The Division's budget and position authority was adjusted to deal with requirements of the reform.

In 1999-2001, the Evaluation Unit and the Claims Examiner Certification process were eliminated. Hearing officers were transferred to the jurisdiction of the Employment Department as part of the Office of Administrative Hearings to establish a statewide hearings unit. Despite a 50% increase in the number of Oregon workers during the past 18 years, Oregon has maintained a low rate of uninsured employers. In addition, the number of accepted disabling claims decreased more than 60% from 1989 to 2012. In the past few years, the Workers' Compensation Division has seen an increase in the use of return-to-work programs on accepted disabling claims such as the Employer-at-Injury program, that help injured workers return to work faster.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $40.5 million is $122,422 (or 8.4%) below the prior biennium level. This amount is also $0.9 million (or 2%) below current service level. This reduction reflects standard adjustments that were approved in most agency budget for PERS reforms, statewide administrative savings, and statewide general government assessments. The budget continues the reduction of staffing made in the 2009-11 biennium in response to revenue shortfalls and shifts 11 audit positions (10.04 FTE) to the Nonlimited Workers' Benefit Fund.

DCBS – Oregon Occupational Safety and Health Administration (OR-OSHA)

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	40,281,492	43,333,029	47,537,505	46,456,932
Total Funds	**$40,281,492**	**$43,333,029**	**$47,537,505**	**$46,456,932**
Positions	222	194	194	194
FTE	222.00	192.50	192.50	192.50

Program Description

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

- Enforcement of job safety and health laws to assure safe and healthful working conditions for Oregon workers.
- Provision of technical training for employer and employee groups.
- Consultative safety and health services to private and public employers and employees.
- Promulgation of occupational safety and health regulations.

The Division has four program areas: Consultative and Outreach Programs, which offer free, on-site safety evaluations and training for employers and workers; Enforcement, which ensures compliance with occupational safety and health rules; Policy and Technical, which develops policies relating to Administration concerns; and the Public Education and Conference Program, which provides conferences and workshops for employers and safety professionals.

Revenue Sources and Relationships

The primary revenue source for the Division is the Workers' Compensation Premium Insurance Tax. The current tax rate is 6.4% of earned premiums, collected from SAIF, private, and self-insurers to be used for Department expenses. The rate was increased from 4.6% on January 1, 2011. The Division also receives $12.4 million of federal funds (expended as Other Funds), as well as $2.9 million from OR-OSHA fines and forfeitures, most of which are transferred to the DCBS Fund to use for Department-wide workers' compensation-related costs. Other Funds ($250,000) are also transferred to the Bureau of Labor and Industries to support workers' compensation-related investigations by that agency.

Budget Environment

The Division focuses on education, consultative and prevention services, and worksite inspections. As a result of these activities and of changes in the workplace and the mix of jobs, Oregon continues to experience a decrease in occupational illness and injury. In 2012, the Division conducted 4,591 health and safety inspections, 2,652 safety and health consultations, and hosted 29,064 Oregon workers and employers in training sessions. The number of illnesses or injuries per 100 full-time workers decreased from 6.3% in 2000 to 3.9% in 2010 (the last year for which data is available). This reduction is a goal of the expanded activities by the Division to provide safety and health training and workplace inspections.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $46.5 million is $3.1 million (or 7%) above the prior biennium level. This amount is also $1 million (or 2%) below current service level. This reduction reflects standard adjustments that were approved in most agency budget for PERS reforms, statewide administrative savings, and statewide general government assessments. The budget continues the staffing reductions made in the 2009-11 biennium of 28 full-time positions in response to revenue shortfalls.

DCBS – Nonlimited Accounts

Workers' Benefit Fund	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds (NL)	190,886,980	190,057,807	193,271,630	193,234,475
Total Funds	**$190,886,980**	**$190,057,807**	**$193,271,630**	**$193,234,475**
Positions	0	0	11	11
FTE	0	0	10.04	10.04

Workers Compensation Nonlimited Accts	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds (NL)	3,575,819	10,342,048	1,478,048	1,478,048
Total Funds	**$3,575,819**	**$10,342,048**	**$1,478,048**	**$1,478,048**

Program Description

This program area reports Nonlimited expenditures out of the Workers' Benefit Fund and the Workers Compensation Nonlimited Accounts, which consists of the Self-Insured Employer Adjustment Reserve and the Self-Insured Employer Group Adjustment Reserve.

Revenue Sources and Relationships

Workers Benefit Fund revenues include:

- Workers' Compensation Assessments and Contributions (cents-per-hour): the current rate is 2.8 cents per hour, reduced from 4 cents per hour in 2000, with a 1.4-cent deduction from employee wages and an equal matching payment from the employer. One-sixteenth (1/16) of one cent is dedicated to the Center for

Occupational Disease Research at the Oregon Health and Science University. Funds are also transferred to the Bureau of Labor and Industries to support workers' compensation-related investigations in that agency. Assessments are set at a rate to cover existing and projected claims. The fund supports a variety of programs that provide assistance to employers and injured workers.
- Recovered claims cost from non-complying employers, fines, interest income, and other revenues.

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

Budget Environment

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

Legislatively Adopted Budget

The Legislature increased Workers' Benefit Fund expenditures by $10.4 million to reflect updated forecasts of fund expenditures and a shift of 11 positions (10.04 FTE) from the Workers' Compensation Division for Workers' Benefit Fund audit functions previously paid for by Workers' Compensation Administrative Account revenue. The Legislature reduced expenditures from the Workers Compensation Nonlimited Accounts by $8.8 million reflecting decreased forecasts of expenditures for bankrupt self-insured employers.

DCBS – Insurance Division

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	19,280,122	20,850,989	23,163,383	22,685,023
Federal Funds	610,545	3,639,056	996,061	984,288
Total Funds	**$19,890,667**	**$24,490,045**	**$24,159,444**	**$23,669,311**
Positions	105	105	100	100
FTE	99.41	102.22	99.00	99.50

Program Description

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

Revenue Sources and Relationships

Division revenue sources include business license fees, insurance premium assessments, interest earnings, and investment returns. The Division receives a federal grant in the amount of $1.6 million from the federal State Health Insurance Assistance Program (SHIP) grant from the Centers for Medicare and Medicaid Services (CMS), to fund the Oregon Senior Health Insurance Benefits Assistance Program (SHIBA). These funds are spent as Other Funds. The Division, beginning in 2009-11, also receives funds from other federal grants, primarily for enhancing the review of health insurance premium rates. Funds from these grants are spent as Federal Funds.

In the 2013-15 biennium budget, after paying operating expenses, $107.8 million in insurance premium taxes, fines, and interest earnings are forecast to be transferred to the General Fund for general governmental purposes, and $29 million of health insurance premium assessment revenue is to be transferred to the Oregon Health Authority for the Healthy Kids Program. In addition, $19.2 million from assessments on fire insurance premiums is to be transferred to the State Police Fire Marshal program.

Budget Environment

Increases in the complexity of insurance regulations, the demand for disaster insurance, an aging Oregon population, and statewide health reform efforts are significant workload factors for the Insurance Division. Recent federal health care legislation has also affected state regulation of health insurance policies. The Division has received some grant monies from the federal government designed to assist states in improving the regulation of the health insurance market. These grants supported increased examination of rate filings by hiring additional actuarial staff, boosted public input into rate reviews by providing funding to a consumer group to provide comments on rate requests, to provide consumers better information about what drives health insurance premiums, and enhanced IT improvements to make rate filing information accessible and usable to consumers.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget is $0.8 million (or 3%) below the prior biennium level. This amount is $490,133 (or 2%) below current service level. This reduction reflects standard adjustments that were approved in most agency budget for PERS reforms, statewide administrative savings, and statewide general government assessments.

The Legislature approved a request by the Department to apply for a third federal health insurance rate review grant. If the agency is approved for the additional federal grant for improving the regulation of health insurance and the Legislature subsequently increases the Federal Funds expenditure limitation during the interim, the 2013-15 approved budget will be on par with the 2011-13 legislatively approved budget.

DCBS – Finance and Corporate Securities

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	16,047,965	16,558,006	18,044,602	17,609,081
Other Funds (NL)	247,250	650,000	650,000	650,000
Total Funds	**$16,295,215**	**$17,208,006**	**$18,694,602**	**$18,259,081**
Positions	87	79	79	79
FTE	87.00	79.00	78.63	78.63

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 $179,000 from interest earnings. A portion of the Division’s revenues are transferred to the General Fund for general government purposes. For the 2013-15 biennium, $23 million is projected to be transferred to the General Fund.

Budget Environment

A number of factors influence the workload and performance of DFCS. The economic downturn that began in 2008 in the financial sector has reversed but the subsequent recovery has been very slow and uneven. Problems in mortgage lending industry have evolved from being centered on mortgage lenders and loan underwriting, to a focus on loan servicing and foreclosures. In addition, the agency has experienced an increase in the number of registered debt collectors and pawn brokers. The department is stepping up outreach and enforcement relating to loan modification and debt settlement to deter fraudulent loan modification scams. The Division’s license and fee revenue has fallen as firms have left the market. Although this decline in the number of financial firms reduces the Division's work load, the work load reduction is typically smaller than the associated revenue reduction, because expectations for oversight of the remaining firms have increased. In addition the Dodd-Frank Wall Street Reform and Consumer Protection Act enacted in July 2013 will transfer regulatory oversight of approximately 100 mid-level investment advisers to DCBS requiring additional attention to these larger firms in examination and oversight.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $17.6 million is $1 million (or 6%) above the prior biennium level. This amount is $0.43 million (or 2%) below current service level. This reduction reflects standard adjustments that were approved in most agency budget for PERS reforms, statewide administrative savings, and statewide general government assessments.

DCBS – Building Codes Division

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	24,632,401	28,181,949	31,266,322	30,666,126
Other Funds (NL)	587,076	400,000	592,444	592,444
Total Funds	**$25,219,477**	**$28,581,949**	**$31,858,766**	**$31,258,570**
Positions	147	117	117	117
FTE	146.17	116.10	116.88	116.88

Program Description

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

Revenue Sources and Relationships

The Division's revenues include:

- fees for licenses, inspections, and permits, as well as surcharges on fees levied by state and local jurisdictions;
- Federal Funds (expended as Other Funds) to provide consumer assistance to individuals with complaints about manufactured homes;
- fines; and
- other revenue, including interest earnings.

Budget Environment

The downturn in construction has greatly affected the Division's workload and revenues. The Division has, though, seen an increase in activities related to sustainability and green building. The Division also continues to develop a statewide e-permitting system, to make it easier for contractors to do business. By law, the Division is required to provide building codes regulation and permits in three categories: in areas where local jurisdictions do not provide such service, in certain cases where permits are only issued on a statewide basis (pre-fabricated structures, boilers, recreational vehicles, elevators, and in-plant manufactured dwellings), and for permits for minor construction work that can be used anywhere in the state (minor labels). The Legislature adopted SB 582 (2013) to allow the state to assist counties with their building permit programs by allowing the state to combine resources with local government resources through mutual agreement. It is anticipated that as recovery in the construction industry is drawn out, the state will be asked to provide more assistance in counties that are experiencing reduced permitting activities which in turn reduces revenue supporting local building inspection programs.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $30.6 million is $2.7 million or 9% above the 2011-13 legislatively approved budget and $0.6 million or 2% below current service level. These figures understate the actual reductions in the Division's budget, however, this reduction does reflect standard adjustments that were approved in most agency budget for PERS reforms, statewide administrative savings, and statewide general government assessments. The Legislature did not approve additional funding for implementation of SB 582 because the number of intergovernmental agreements will not be known until a local government approaches the state for building code enforcement assistance. At that time, DCBS will be able to estimate revenues and expenditures and may need an increase in the expenditure limitation which it will seek either from the Legislative Assembly when it meets in February 2014 or at a future meeting of the interim Emergency Board.

Board of Licensed Professional Counselors and Therapists – Agency Totals

	2009-11 Actual	2011-13 Legislatively Adopted	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	903,449	932,509	998,121	1,096,822
Total Funds	**$903,449**	**$932,509**	**$998,121**	**$1,096,822**
Positions	4	4	4	4
FTE	3.25	3.50	3.50	3.50

Agency Overview

The mission of the Board of Licensed Professional Counselors and Therapists is to protect the health and well-being of Oregon citizens by setting a strong, ethical standard of practice through the regulation of licensed professional counselors, and marriage and family therapists. The Board oversees a voluntary licensing program for professional counselors, and marriage and family therapists who want to use the title of "licensed professional counselor" or "licensed marriage and family therapist." The Board also registers interns who are completing work experience requirements for licensure. The Board investigates complaints against counselors and therapists; sets standards to establish, examine and pass on the qualifications of applicants to practice professional counseling, or marriage and family therapy in Oregon; adopts a code of ethics for licensees; sets academic and training standards; studies developing trends and issues in counseling, and marriage and family therapy; and establishes Board policies and positions on counseling issues. The eight-member board is appointed by the Governor and composed of three licensed professional counselors, two licensed marriage and family therapists, one faculty from a related program, and two public members.

Revenue Sources and Relationships

The Board 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. Projected revenue in 2011-13 was $84,803 Other Funds (9.65%) greater than 2009-11 actuals due to continued growth in licensees.

The Board is expected to have an ending balance of $220,471 Other Funds, which represents just under 5 months of operating expense.

Budget Environment

The Board has identified three main activities: licensing; consumer protection; and administration. Over the last four years, initial licenses and license renewals have increased. The Board expects this trend to continue for two main reasons: (1) retiring licensees choosing to keep their licenses in case they want to return to practice; and (2) although the licensure program is voluntary, insurance companies do not reimburse unlicensed clinicians for their services. As more clients depend on insurance, more counselors and therapists choose to seek licensure. With continued growth the Board expects an increase in legal costs due to an increase in complaints and contested cases.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $1,096,822 Other Funds is an increase of $164,313 Other Funds (17.62%) above the 2011-13 legislatively approved budget. The budget is an increase of $98,701 Other Funds (9.89%) above the 2013-15 current service level. The legislatively adopted budget includes standard adjustments resulting from statewide administrative savings, general government assessments, Attorney General rate change, and PERS rate reductions. In addition, the legislatively adopted budget includes:

- $98,216 Other Funds increase in limitation providing the Board with limitation necessary for conducting background checks as part of the license application process. All criminal background fees are passed through to the Department of State Police.
- $26,513 Other Funds increase in limitation to provide the Board with resources necessary to cover Attorney General costs expected with the increase in number of appeals through both the administrative hearing process and to the Court of Appeals.

Board of Dentistry – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	2,159,597	2,502,044	2,649,013	2,581,266
Total Funds	**$2,159,597**	**$2,502,044**	**$2,649,013**	**$2,581,266**
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 2013-15 is expected to exceed 2011-13 estimates by approximately 4.3%.

Budget Environment

There are no significant changes to the budgeting environment for the Board of Dentistry from the prior biennium. The projected workload and number of licensees remain nearly flat in the upcoming biennium. Some increased workload pressure is expected from managing the public's expectations of board functions and from regulatory and industry changes; the board reports that they are able to utilize collaborative relationships with professional associations and schools of dentistry to resolve some of these issues.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget increases the agency's budget by 3.2% over the 2009-11 legislatively approved budget. The budget includes expenditure limitation adjustments for standard, statewide inflationary and personal services cost increases and reductions for statewide cost savings in administrative service charges, PERS taxation policy changes, and PERS cost of living adjustments.

Health Licensing Agency* – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	6,433,623	7,005,466	7,524,737	7,642,521
Total Funds	**$6,433,623**	**$7,005,466**	**$7,524,737**	**$7,642,521**
Positions	37	33	33	35
FTE	34.25	33.00	33.00	35.00

*HB 2074 (2013) changes the name of the Health Licensing Agency to Health Licensing Office and creates the office within the Oregon Health Authority, effective July 1, 2014.

Agency Overview

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

- Board of Athletic Trainers
- Board of Body Art Practitioners
- Board of Cosmetology
- Environmental Health Registration Board
- Nursing Home Administrators Board – HB 2243 (2009)
- Advisory Council on Hearing Aids
- Board of Direct Entry Midwifery
- Board of Denture Technology
- Sex Offender Treatment Board – HB 3233 (2007)
- Board of Licensed Dietitians – SB 939 (2011)
- Respiratory Therapist and Polysomnographic Technologist Board

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

Revenue Sources and Relationships

The agency is funded by revenue generated from application, examination, and license fees. Other miscellaneous sources include civil penalties, late fees, and the sale of supplies. The agency utilizes a cost allocation model to calculate standardized fees across all its boards, councils, and programs and has adjusted fees to better reflect direct usage of licensing, business services, and regulatory divisions of the agency. The agency's projected ending cash balance of $1,359,717 equals approximately 4.3 months of operating costs.

Budget Environment

Three measures passed by the 2013 Legislature will have an effect on the budget environment for the agency in 2013-15:

- HB 2074 (2013) changes the agency's name to the Health Licensing Office and creates the office within the Oregon Health Authority. Additionally, the director of the Health Licensing Office is appointed by the director of the Oregon Health Authority. These changes are operative July 1, 2014.
- SB 365 (2013) creates the Behavior Analysis Regulatory Board within the agency effective November 1, 2013. The agency anticipates approximately 220 licensees with a revenue impact of approximately $72,200 and initial expenditures of approximately $83,260 in the 2013-15 biennium.
- HB 2997 (2013) requires licensure to practice direct entry midwifery in Oregon. Currently, the licensure is voluntary. The agency anticipates an additional 40 applications and 20 renewals during the 2013-15 biennium with an estimated revenue increase of around $30,000.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $7,642,521 represents a 15.7% increase from the 2011-13 legislatively approved budget. The Legislature approved 35 positions (35.00 FTE), including the establishment of two permanent positions and reclassifying six positions to support the licensing and regulatory functions of the agency to better addresses the demand for services and increased consumer protection. Additionally the Legislature approved the abolishment of an Accounting Technician 2 position and establishment of an Investigator position dedicated to inspecting Body Art Practitioner facilities. The legislatively adopted budget also includes reductions resulting from statewide administrative savings and PERS rate reductions.

Bureau of Labor and Industries (BOLI) – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	11,832,787	11,145,065	12,068,837	11,517,209
Other Funds	6,970,066	8,992,406	9,626,487	9,871,681
Other Funds (NL)	1,376,114	2,200,000	1,200,000	1,200,000
Federal Funds	1,065,281	1,396,750	1,506,794	1,495,043
Total Funds	**$21,244,248**	**$23,734,221**	**$24,402,118**	**$24,083,933**
Positions	109	102	99	100
FTE	106.38	101.00	97.50	98.50

Agency Overview

The Bureau of Labor and Industries (BOLI) is organized into four divisions with responsibilities in three broad program areas:

- ***Civil Rights*** – Enforcement of laws that prohibit unlawful discrimination in employment, housing, public accommodation, and career schools. These protections are provided on the basis of: race, color, national origin, sex, religion, age, marital status, sexual orientation, disability, and injured worker status. Protection is also provided against retaliation for filing civil rights complaints, and for reporting illegal activity ("whistleblower" protection) or violations of family leave laws.
- ***Wage and Hour*** – Enforcement of laws relating to wages and hours worked (including prevailing wage rates on public works contracts) and terms and conditions of employment; investigation of claims and complaints from workers involving wages and working conditions, including the minimum wage and overtime; protection of children in the workplace; enforcement of regulations pertaining to private employment agencies; calculations of prevailing wage rates for public works projects, and licensing and regulation of farm and forest labor contractors.
- ***Apprenticeship and Training*** – Regulation of apprenticeship programs that promote the development of a highly skilled workforce.

Revenue Sources and Relationships

The Bureau is primarily supported by General Fund. The Bureau also receives Other Funds revenues from a number of sources. The largest single source of Other Funds revenues is the revenue received from a portion (equal to 0.03% of taxable wages) of the unemployment insurance taxes paid by employers in one calendar quarter each biennium. This revenue, which is forecast to total approximately $4.34 million in the 2013-15 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 $275,000 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 $1.2 million during the 2013-15 biennium. The Fund is also used for administrative expenses, however. The $9.8 million of total Other Funds expenditures in the current service level includes $2.75 million of Wage Security Fund revenue spent on agency administration.

The Prevailing Wage Rate program is forecast to receive $3.2 million in assessments on public works construction contracts; Technical Assistance Fees will generate $1.2 million; contract services with the Department of Consumer and Business Services (DCBS) for investigation of discrimination complaints against injured workers and against workers who have reported safety and health hazards will produce $995,437. The agency also receives Federal Funds under three federal programs. BOLI contracts with the Equal Employment Opportunity Commission (EEOC) and receives $965,000 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 $120,000 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

Recent reductions in General Fund have necessitated corresponding reductions in services. BOLI has maintained core services in its program areas while some activities have been reduced or eliminated. The Bureau has handled workload in part 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.

Program activities have remained relatively stable over the course of the past recession. The agency continues to investigate approximately 2,000 civil rights cases per year, although the number of inquiries, which had recently been in the 30,000 to 32,000 per year range, jumped to over 38,000 in 2012. Wage and Hour Division wage claim investigations have been stable at approximately 2,600 per year. Apprenticeship program activity, on the other hand, does vary with the economy. During recessions businesses offer fewer apprenticeships. The number of new apprentices registered declined to 469 in 2012, down from 2,491 two years earlier.

Legislatively Adopted Budget

The total legislatively adopted budget for the Bureau is 1.5% above the prior biennium level, and is 1.6% below the current service level. General Fund is increased by $0.4 million (4%) from the prior biennium and is $0.4 million (3.7%) below the current service level. The full-time equivalent employment count is decreased 2% from the prior biennium and is 1% higher than the current service level.

The budget includes standard adjustments that were approved in most agency budgets for PERS reforms, statewide administrative savings, statewide general government assessments, an additional 5% reduction in General Fund appropriated for services and supplies, and a 2% hold back adjustment on General Fund for purposes of establishing a supplemental statewide ending balance. The Legislature approved an increase to the Farm Labor Contractor License Fee to generate a total of $58,100 in additional revenue to cover program costs in the 2013-15 biennium.

BOLI – Commissioner's Office and Program Support Services

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	3,492,348	3,142,630	3,763,456	3,412,447
Other Funds	2,030,051	2,717,710	2,589,179	2,846,313
Federal Funds	132,618	157,543	226,244	215,564
Total Funds	**$5,655,017**	**$6,017,883**	**$6,578,879**	**$6,474,324**
Positions	27	25	24	25
FTE	26.00	24.50	23.50	24.50

Program Description

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

- The ***Commissioner's Office / Legal Policy*** combine administration, strategic planning, legal policy, public information, and intergovernmental relations into one activity area.
- ***Business Services*** provides centralized fiscal services including accounting, purchasing, payroll, budget development, and contract administration. Employee services such as safety, wellness, labor/management relations, workers' compensation, training, and staff development are another component of this program area. Information services to implement and maintain computer information systems and user support functions also reside here.

- The ***Hearings Unit*** convenes administrative law proceedings in contested cases for wage and hour claims, prevailing wage violations, farm and forest labor contractor violations and licensing, child labor violations, and civil rights complaints.
- The ***Technical Assistance for Employers Unit*** provides employers with online information and with handbooks, a telephone information line, and customized workshops and seminars regarding employment law and civil rights requirements, and provides similar services for state agencies and local governments regarding prevailing wage rate law.

Revenue Sources and Relationships

The Commissioner's Office/Program Support Services Unit receives 54% of its support from General Fund resources. Other Funds revenues include $1.2 million of fees collected by the Technical Assistance for Employers Unit from participating employers for seminars and on-site presentations on Civil Rights and Wage and Hour laws, and from the sale of handbooks. Additional Other Funds are received from miscellaneous fees, and from portions of the Wage Security Fund revenue and Prevailing Wage Rate fees that are allocated to the Commissioner's Office to support central administrative costs and the costs of conducting administrative law hearings. Federal Funds are from an Equal Employment Opportunity Commission (EEOC) contract and are used to cover costs associated with administrative law proceedings for contested cases.

Budget Environment

The overall workload for the agency has remained approximately the same despite the earlier decrease in staff. The Bureau has handled this workload through improved use of technology, particularly through the use of its website. Timeliness of response remains the primary customer focus for BOLI, and long-term reductions in staffing have had an adverse effect on timeliness. More recently, some measures of workload have been declining. Although the number of cases received by the Hearings Unit has generally grown, the numbers that proceed to the hearing stage (and are not settled prior to hearing) has been declining.

Legislatively Adopted Budget

The $3.4 million of General Fund in the legislatively adopted budget is an 8.6% increase from the prior biennium level, and is 5% below the current service level. The total funds budget is 1.6% below the current service level. Staffing levels remain at 24.50 FTE, the same as they were in the prior biennium but 1.00 FTE more than the current service level.

The budget restores one full-time Training and Development Specialist 2 position (1.00 FTE) in the Technical Assistance program to provide employers with information necessary to comply with employment law to avoid employee complaints and claims at a biennial cost of $152,856 Other Funds. The Legislature also approved increasing the Other Funds expenditure limitation by $78,790 to continue contracting with the Department of Consumer and Business Services (DCBS) for Human Resource services for the agency and to fund bilingual salary differentials; however, the agency will cover the $117,652 General Fund component of the costs through internal management actions to create sufficient General Fund savings. The budget includes a $6,881 General Fund, and $2,293 Other Funds increase in compensation for the Labor Commissioner.

The budget for the Unit also includes standard adjustments that were approved in most agency budgets for PERS reforms reducing $106,532 total funds; statewide administrative savings totaling $122,699; statewide DAS assessments, Attorney General rate reductions, the Secretary of State Archives Assessment, and an unspecified 5% reduction in nonessential services and supplies totaling $47,816. In addition a 2% hold back adjustment on General Fund totaling $69,328 for purposes of establishing a supplemental statewide ending balance was also approved.

BOLI – Civil Rights

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	2,717,349	2,746,091	3,019,494	2,905,707
Other Funds	1,023,599	1,055,632	1,144,890	1,144,214
Federal Funds	879,844	1,150,611	1,199,266	1,199,574
Total Funds	**$4,620,792**	**$4,952,334**	**$5,363,650**	**$5,249,495**
Positions	31	30	30	30
FTE	30.50	29.50	29.50	29.50

Program Description

The Civil Rights Division enforces laws that prohibit unlawful discrimination in employment, housing, public accommodation, and career schools. These protections are provided on the basis of: race, color, national origin, sex, religion, age, marital status, sexual orientation, disability, and injured worker status. Protection is also provided against retaliation for filing civil rights complaints, for reporting illegal activity ("whistleblower" protection), and for violations of family leave laws. The Division processes employment discrimination complaints for the Oregon Occupational Safety and Health Administration (OR-OSHA) and Workers' Compensation. The Division operates under a work-share agreement with the federal EEOC for cases that fall under both state and federal law, including civil rights laws; the Americans with Disabilities Act; and the Age Discrimination in Employment Act. These dual-filed cases represent about half of the Division's caseload.

Revenue Sources and Relationships

The Civil Rights Division expects to receive Other Funds of $995,437 from OR-OSHA and the Workers' Benefit Fund. The Workers' Benefit Fund in DCBS provides the majority of these funds ($745,437) to investigate allegations of discrimination against injured workers. The $250,000 from OR-OSHA is used to investigate complaints of retaliation against employees for opposing unsafe or unhealthy working conditions. Approximately $130,000 in Other Funds miscellaneous revenues will be generated from providing public record copies. The EEOC work-share reimbursement of $650 per case provides $965,200 Federal Funds to the Division budget. This reimbursement covers about half the actual costs. Since the federal budget fluctuates, the number of cases authorized for reimbursement varies per year, regardless of the number of actual cases handled. When Federal Funds are reduced, the costs of shared cases are shifted onto the General Fund. The HUD contract provides $480,000 Federal Funds to the Division budget.

Budget Environment

The Civil Rights Division responded to 31,537 inquiries in Fiscal Year 2009 and 35,229 inquiries in Fiscal Year 2010, 31,179 in Fiscal Year 2011, and investigates over 2,000 cases per year. These numbers have been relatively stable over recent years, and it is unclear whether the 2010 growth in inquiries represents a new trend or is an anomaly. Most of the Division's cases (95%) relate to discrimination in employment, with the rest relating to housing or public accommodations. The four principal areas of complaints relate to sex discrimination (25% of complaints), disability (25%), injured worker (21%), and race/color (17%). The Division is experiencing an increase in investigations of housing complaints. Since 1992, the federal government had been investigating Oregon complaints based on federal fair housing laws. Beginning in 2007, however, BOLI resumed investigating these complaints in Oregon.

BOLI receives funding for investigation of discrimination complaints against injured workers from the Injured Workers Benefit Fund in the Department of Consumer and Business Services. Complaints from injured workers relating to discrimination or retaliation for using the workers' compensation system constitute 20% to 23% of the Civil Rights Division's annual caseload and require the equivalent of four investigators.

Legislatively Adopted Budget

The $2.9 million of General Fund in the legislatively adopted budget is a 5.8% increase over the prior biennium level, but is 3.7% below the current service level. The total funds budget is 2.1% below the current service level. The budget retains current staffing levels of 29.50 FTE.

The budget provides $10,372 total funds to reclassify two current Administrative Specialist 2 intake officer positions as Civil Rights Field Representative 1's so they can perform preliminary investigations and assist the division in meeting federal contract obligations. The increase in cost is funded by Other Funds and Federal Funds. The budget also provides $6,402 Federal Funds expenditure limitation to fund a lead salary differential for the division's head housing investigator and $19,911 Other Funds and $14,614 Federal Funds to fund bilingual salary differentials. A smaller amount of $8,566 General Fund will be covered through internal management actions creating savings to cover the costs.

The budget for the Unit also includes standard adjustments that were approved in most agency budgets for PERS reforms reducing $94,174 total funds; statewide DAS assessments, Attorney General rate reductions, the Secretary of State Archives Assessment, and an unspecified 5% reduction in nonessential services and supplies totaling $36,127. In addition a 2% hold back adjustment on General Fund totaling $59,300 for purposes of establishing a supplemental statewide ending balance was also approved.

BOLI – Wage and Hour

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	2,982,463	2,459,970	2,724,615	2,462,990
Other Funds	2,847,583	3,581,228	3,773,000	3,902,781
Other Funds (NL)	1,376,114	2,200,000	1,200,000	1,200,000
Total Funds	**$7,206,160**	**$8,241,198**	**$7,697,615**	**$7,565,771**
Positions	33	29	29	29
FTE	32.50	29.00	29.00	29.00

Program Description

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

Revenue Sources and Relationships

The Wage and Hour Division expects to receive about $2.9 million from assessments on public construction contracts for the Prevailing Wage Rate (PWR) program, and $145,000 in licensing fees for farm/forest labor contractor licenses. The Wage Security Fund is dedicated to the payment of final wages for employees whose employers cease operations and default on final paychecks. The agency will receive $3.9 million for the Fund in the 2011-13 biennium from a portion (equal to 0.03% of taxable wages) of the unemployment insurance taxes paid by employers in the last calendar quarter of the prior biennium. The Division will also receive $270,000 in interest and recoveries for the Wage Security Fund. Out of the total $4.15 million in Wage Security Fund revenues, the Division is projected to spend $2.2 million for actual wage claims as Nonlimited Other Funds. Approximately $1.6 million of Wage Security Fund revenues are spent on administration as Other Funds, with the remainder retained by the Fund.

Budget Environment

The Wage and Hour Division receives and investigates approximately 3,000 wage claims each biennium. Approximately 40% of these complaints relate to unpaid final wages involving businesses that have failed, where claims are made against the Wage Security Fund. The number of complaints fluctuates with the economy. The remaining wage claims are split between minimum wage/overtime claims and other wage collection disputes. The Division also investigates non-wage claims involving working conditions and child labor violations.

Legislatively Adopted Budget

The $2.5 million of General Fund in the legislatively adopted budget is a 0.1% increase from the prior biennium level, and is 4% below the current service level. The total funds budget is 1.7% below the current service level. The budget retains current staffing levels of 29.00 FTE.

The budget utilizes resources from an increase in the Farm Labor Contractor fees approved in HB 2113 totaling $58,100 to cover the costs associated with the Farm Labor contractor Program and provides $11,588 Other Funds expenditure limitation to provide resources to pay bilingual salary differentials.

The budget for the Unit also includes standard adjustments that were approved in most agency budgets for PERS reforms reducing $79,598 total funds; statewide DAS assessments, Attorney General rate reductions, the Secretary of State Archives Assessment, and an unspecified 5% reduction in nonessential services and supplies totaling $71,702. In addition a 2% hold back adjustment on General Fund totaling $50,233 for purposes of establishing a supplemental statewide ending balance was also approved.

BOLI – Apprenticeship and Training

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	2,640,627	2,796,374	2,561,272	2,736,065
Other Funds	1,068,833	1,637,836	2,119,418	1,978,373
Federal Funds	52,819	88,596	81,284	79,905
Total Funds	**$3,762,279**	**$4,522,806**	**$4,761,974**	**$4,794,343**
Positions	18	18	16	16
FTE	17.38	18.00	15.50	15.50

Program Description

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

Revenue Sources and Relationships

Until the 2009-11 biennium, the Apprenticeship and Training Division was almost exclusively funded with General Fund. In 2009-11, BOLI entered into a contract with the Oregon Department of Transportation to manage a program to help diversify the heavy highway construction workforce by expanding outreach, training, and support services to women, minorities, and young adults. This program is funded by $1.5 million per biennium of federal transportation dollars. BOLI receives and spends these monies as Other Funds. This partnership will continue in the 2013-15 biennium. The Division also anticipates receiving a federal grant of $120,000 from the Veterans' Administration in the 2013-15 biennium for on-the-job training of qualified veterans.

Budget Environment

Apprenticeship programs fluctuate with the economy. The Division registered 946 new apprentices during the 2010 fiscal year (the last year for which data are available), a 62% decline from the 2,491 new apprentices registered two years earlier. The Division also maintains a registry of 5,741 apprentices as of June 2010 (down from approximately 8,100 apprentices two years earlier).

The Division works with educators and employers to develop youth apprenticeship programs. The Division also conducts compliance reviews for the Oregon State Apprenticeship and Training Council, to ensure that programs are acting in accordance with their standards and that all apprentices are being treated equally. BOLI completed compliance reviews on 26 of the 168 active apprenticeship programs during the 2010 fiscal year, a decline from the 45 compliance reviews conducted two years earlier. As of June 2010, minorities represented 13.8% of apprenticeship program participants, and females represented 5.7%. This shows an increase in female participation from two years ago, when the female participation rate was 5.3%. The minority participation rate is unchanged from two years ago.

Legislatively Adopted Budget

The $2.7 million of General Fund in the legislatively adopted budget is a 2.2% decrease from the prior biennium level, and is 1% below the current service level. The total funds budget is also 1% below the current service level. The budget retains staffing at the prior biennium level.

The budget for the Unit includes standard adjustments that were approved in most agency budgets for PERS reforms totaling an increase of $19,337 total funds; reduction in statewide DAS assessments, Attorney General rates, an increase in the Secretary of State Archives Assessment, and an unspecified 5% reduction in nonessential services and supplies totaling a $6,423 reduction. In addition a 2% hold back adjustment on General Fund totaling a $55,813 reduction for purposes of establishing a supplemental statewide ending balance was also approved.

Medical Board – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	9,373,666	10,028,550	10,684,667	10,453,997
Total Funds	**$9,373,666**	**$10,028,550**	**$10,684,667**	**$10,453,997**
Positions	42	40	40	40
FTE	40.46	38.79	38.79	38.79

Agency Overview

The mission of the Oregon Medical Board (formerly the Oregon Board of Medical Examiners) is to protect the health, safety, and wellbeing 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 2013-15 is projected to be $11 million which is an 8% increase from 2011-13 levels and the projected ending cash balance of $3.2 million equals approximately seven months of operating costs. In addition, the legislatively approved budget includes a 9% fee increase on most license renewal fees.

Budget Environment

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

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $10,453,997 represents a 4.2% increase from the 2011-13 legislatively approved budget. The legislatively adopted budget includes funding for: adjustments for PERS policy changes, increased costs associated with the Health Professionals Services Program, and adjustments to various statewide assessments.

Board of Medical Imaging – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	589,631	749,594	827,292	836,832
Total Funds	**$589,631**	**$749,594**	**$827,292**	**$836,832**
Positions	3	4	4	3
FTE	3.00	3.25	3.25	3.00

Agency Overview

The mission of the Board of Medical Imaging is to promote, preserve, and protect the public health, safety, and welfare of Oregonians when being exposed to ionizing radiation for the purpose of medical diagnosis or radiation therapy. The twelve-member board is appointed by the Governor and composed of four licensed physicians representing different medical specialties (at least one radiologist and one licensed medical imaging specialist), three public members, and one member from each of the five major medical imaging modalities (MRI technology, nuclear medicine technology, radiation therapy, radiography, and sonography).

The Board licenses nuclear medicine technologists, sonographers, MRI technologists, diagnostic or therapeutic technologists and diagnostic technicians; administers limited permit examinations for radiologic technicians to determine initial competence to practice; approves continuing education offerings to assure continuing competence; and defines and enforces the scope of practice for all licensees.

Revenue Sources and Relationships

The agency is funded by revenue generated from license, examination, and permit fees. Other miscellaneous sources include fines, interest income, and the sale of mailing lists and copies of public records. The Board currently has approximately 5,600 permanent medical imaging and limited x-ray machine operator licensees and 170 active temporary licensees. Licensing fees are prorated based on birth month and are on a biennial renewal basis. The Board has gradually implemented the new license modalities that were ratified by HB 2245 (2009) and has seen licensing volume increase 44% since 2010. The Board's projected ending cash balance of $189,571 equals approximately 5.4 months of operating costs.

Budget Environment

The agency has identified four main activities: licensing; regulatory compliance; education; and governance and administration. As a result of the three additional licensure types, including sonography, which was previously unregulated or licensed in any state, and the statutory authority to conduct background checks, the Board anticipates continued increase in the number of complaints received and subsequent investigations.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $836,832 represents an 11.6% increase from the 2011-13 legislatively approved budget level. The legislatively adopted budget includes increased expenditure limitation and the shifting of costs for a part-time limited duration position (0.25 FTE) approved by the 2011 Legislature from personal services to professional services. This change is the result of the Board entering into an inter-agency agreement with Radiation Protective Services within the Oregon Health Authority to provide the investigation work for the Board. Additionally, the budget includes increased expenditure limitation to enable the Board to purchase a scanner in order to move toward electronic document storage and records management. Also included in the legislatively adopted budget are standard adjustments resulting from statewide administrative savings, general government assessments, Attorney General rate changes, and PERS rate reductions.

Mortuary and Cemetery Board – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	1,160,298	1,320,994	1,435,655	1,409,105
Total Funds	**$1,160,298**	**$1,320,994**	**$1,435,655**	**$1,409,105**
Positions	7	6	6	6
FTE	6.34	5.71	5.71	5.71

Agency Overview

The mission of the Oregon Mortuary and Cemetery Board is to protect public health, safety and welfare by fairly and efficiently performing its licensing, inspection, and enforcement duties; by promoting professional behavior and standards in all facets of the Oregon death care industry; and by maintaining constructive relationships with licensees, those they serve, and others with an interest in the Board's activity. The eleven-member board is appointed by the Governor and composed of two funeral service practitioners, one embalmer, three cemetery representatives, one crematory operator, and four public members.

Revenue Sources and Relationships

The agency is funded by revenue generated from application, license, and examination fees; a portion of the death certificate filing fee; civil penalties; and interest income. Revenue in 2013-15 is expected to increase, as licenses are projected to increase slightly from 2011-13 levels, and the projected ending cash balance of $586,313 equals approximately 10 months of operating costs.

Budget Environment

The agency regulates individuals and facilities engaged in the care, preparation, processing, transportation, and final disposition of human remains through three main activities: licensing individual death care professionals and the facilities in which they work; performing inspections, complaint investigations, and background investigations on applicants and principals of licensed facilities; and administering the funeral service practitioner and embalmer exams twice a year. The Board has over 2,500 active licensees on a two-year renewal cycle.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $1,409,105 represents a 6.7% increase from the 2011-13 legislatively approved budget level. The legislatively adopted budget includes reductions for statewide administrative savings, general government assessments, Attorney General rate changes, and PERS rate reductions.

Board of Naturopathic Examiners – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	518,818	598,123	553,531	631,110
Total Funds	**$518,818**	**$598,123**	**$553,531**	**$631,110**
Positions	3	3	2	3
FTE	2.33	2.50	2.00	2.50

Agency Overview

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

Revenue Sources and Relationships

The agency is funded by revenue generated from application, license, and certification fees and currently has over 900 active licensees renewed on a biennial basis. Other miscellaneous sources include fines for late payments, interest income, and the sale of mailing lists and copies of public records. The 2011 Legislature approved a fee increase of $50,000 in order to stabilize cash flow and provide an adequate ending cash balance. The Board's 2013-15 projected ending cash balance of $218,383 equals approximately 8.3 months of operating costs.

Budget Environment

The Board anticipates continued growth in the number of applications and licensees. Revenue in 2013-15 is anticipated to increase due to the growing popularity of naturopathic medicine for primary health care, insurance companies providing benefits for naturopathic care, and increased enrollment of students at naturopathic accredited colleges.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $631,110 represents a 5.4% increase from the 2011-13 legislatively approved budget level. Included in the budget is an increase in limitation to make permanent a limited duration part-time investigator position (0.50 FTE) that was first approved by the Legislature in February 2010 and then continued as limited duration in 2011-13. Establishing the position as permanent is in response to the increased number of licensees, statutory authority to conduct background checks, and increased number of complaints received by the Board. The legislatively adopted budget also includes reductions for statewide administrative savings, general government assessments, Attorney General rate changes, and PERS rate reductions.

Board of Nursing – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	12,184,268	13,988,205	13,835,842	14,196,228
Total Funds	**$12,184,268**	**$13,988,205**	**$13,835,842**	**$14,196,228**
Positions	49	47	44	48
FTE	48.75	46.75	43.80	47.80

Agency Overview

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

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

Revenue Sources and Relationships

The agency is funded primarily by revenue generated from examination, licensing, and renewal fees charged to registered nurses, licensed practical nurses, nurse practitioners, certified registered nurse anesthetists, clinical nurse specialists, certified nursing assistants, and certified medication aides. The agency also receives Federal Title XVIII (Medicare) and Title XIX (Medicaid) funds through the Department of Human Services (DHS) to fund the Certified Nursing Assistant Program. The agency projects total revenue of $17.8 million for the 2013-15 biennium, which is a 4.3% increase over 2011-13 legislatively approved budget and will leave the Board with a $3.1 million ending balance or approximately five months operating capital.

Budget Environment

The agency's budget is influenced by the number of licensees, complaint investigations, background checks, and participants in the Health Professionals' Service Program (HPSP). The agency licenses approximately 47,000 registered and licensed practical nurses; 2,900 nurse practitioners, nurse anesthetists, and clinical nurse specialists; and certifies 19,000 nursing assistants (CNA) and medication aides. On average, 700 formal complaints are investigated each year. Law Enforcement Data System checks are performed on all initial and renewal applications totaling about 36,000 per year. In addition, fingerprint checks are done on all new applications.

Legislatively Adopted Budget

The legislatively adopted budget is a $208,023 increase (1.5%) from the 2011-13 legislatively approved budget. The 2013-15 legislatively adopted budget establishes four positions (4.00 FTE) for Information Technology, Licensing and Investigations. These positions were limited duration during the 2009-11 and 2011-13 biennia. The budget also includes limitation for increased costs associated with CNA testing, and increased costs associated with HPSP.

Occupational Therapy Licensing Board – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	286,131	363,959	374,870	367,857
Total Funds	**$286,131**	**$363,959**	**$374,870**	**$367,857**
Positions	1	1	1	1
FTE	1.25	1.25	1.25	1.25

Agency Overview

The mission of the Occupational Therapy Licensing Board is to protect the public by supervising occupational therapy practice; and to assure safe and ethical delivery of occupational therapy services. The Board sets the standards of practice and examines applicants for licensure; issues licenses to qualified applicants; investigates complaints; and takes appropriate disciplinary action when necessary. The five-member board is appointed by the Governor and composed of three occupational therapists and two public members.

Revenue Sources and Relationships

The agency is funded by revenue generated from license fees and other miscellaneous sources including limited permits, late fees, interest income, and the sale of mailing lists and copies of public records. The agency currently has over 2,100 licensees renewed on a biennial basis. Revenues have been more than sufficient to cover operating costs and the Board enjoyed a growing cash balance. The Board conducted a cash flow analysis and, as a result, reduced licensing fees by $10 per year for Occupational Therapists and Occupational Therapist Assistants prior to the 2011 legislative session. The Board's projected ending cash balance of $340,317 equals approximately 22.2 months of operating costs. The Board needs to maintain at least nine months of operating reserves due to its licensing renewal cycle, which occurs once a biennium.

Budget Environment

The agency has identified four main activities: licensing; continuing education monitoring; compliant investigation; and administration. The agency anticipates continued growth in the total number of licensees, but a slight decrease in licensing revenue due to the renewal fee reductions. Compliant investigation workload appears relatively stable, averaging approximately eight complaints per biennium.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $367,857 represents a 1.1% increase from the 2011-13 legislatively approved budget level. The legislatively adopted budget includes reductions for statewide administrative savings, general government assessments, Attorney General rate changes, and PERS rate reductions.

Board of Pharmacy – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	4,478,980	5,111,603	5,530,936	5,783,198
Total Funds	**$4,478,980**	**$5,111,603**	**$5,530,936**	**$5,783,198**
Positions	20	18	18	19
FTE	19.00	17.75	17.75	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. The remaining revenue sources include fines, interest earnings, and other revenue. During the 2009-11 biennium, an accounting error was made that resulted in an understatement of the agency's projected fund balance. In response, a negative fund balance adjustment of $423,475 was included in the budget for the 2011-13 biennium. Once the error was discovered, the actual ending balance for the 2009-11 biennium was corrected and was in fact $845,355 higher than the original budgeted ending balance. These two items created an understatement of the agency's total available revenues for the 2011-13 biennium of $1,268,830. Included in the budget for the 2013-15 biennium is an adjustment to the agency's beginning fund balance of $1,268,830; an increase in available revenues equating to roughly 22% of the biennial budget for the Board of Pharmacy. In response to the corrected fund balance and at the recommendation of the Legislative Fiscal Office, the Board of Pharmacy adopted temporary fee reductions in a number of licensing categories reducing projected revenues by $81,590 from the 2011-13 legislatively approved budget.

SB 1565 passed during the 2012 legislative session allowing for the dispensing of prescription drugs by a physician assistant under the supervision of a physician or supervising physician organization. The measure required the supervising physician or organization to register and be licensed by the Board of Pharmacy as a dispensing drug outlet. During the following interim, the Board of Pharmacy adopted rules and set a fee of $300 after seeking approval from the Department of Administrative Services. That fee was subsequently ratified by the 2013 Legislature in HB 5037. The Board of Pharmacy anticipates that the revenue generated by the fee will total roughly $12,000 in the 2013-15 biennium.

Budget Environment

The board's budget is primarily impacted by the number of licensees and the complexity of the work that is undertaken. As the population of the state continues to grow and to demographically skew to an older average population, the use of prescription and non-prescription drugs continues to increase. There is a marked increase in the number of drugs and devices available to consumers and these are becoming more sophisticated and potent. These factors, combined with functionally no growth in the number of pharmacists, have resulted in a sharp increase in the number and complexity of consumer complaints and inquiries handled by the board. Additional workload increases are a result of keeping up with technological and market driven changes in drug distribution and retail sales, participation in public safety cooperative programs with other state and federal agencies, and increased investigations of counterfeit, diverted, or stolen drugs.

As noted above, the board has implemented temporary fee reductions to reduce projected ending fund balances and does not intend to increase fees in the immediate future. However, the passage of SB 106 (2013) eliminated the explicit amount of certain fees and/or the maximum allowable fee amount from statute with respect to certain fees charged by the Board of Chiropractic Examiners and the Board of Pharmacy. The bill retained the current statutory language allowing the boards to set fee amounts by rule. Agencies increasing fees by rule must still obtain legislative approval either through the inclusion of the fee increase in the agency's budget as adopted by the legislature prior to the implementation of the fee or by ratification through enabling legislation at the next regular session of the Legislative Assembly if the fee is established or increased during the interim.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $5,783,198 represents a 13.1% increase from the 2011-13 legislatively approved budget. This increase is predominately attributable to adjustments in personal services and the restoration of a pharmacy consultant position that was eliminated in the prior biennium's budget due to the accounting error and subsequent projected revenue shortfall discussed above. The individual changes include the reclassification of a Project Manager 1 position to Operations Policy Analyst 2 position, the reclassification of Office Specialist position to Operations Specialist 2 position, the increase of 0.75 FTE Office Specialist 2 position to 1.00 FTE, and the restoration of the Pharmacy Consultant position (1.00 FTE). The 2013-15 legislatively adopted budget produces a slight structural imbalance with budgeted expenditures exceeding anticipated revenue by $69,388 and a projected ending fund balance of $1,792,385 resulting in about seven and a half months of operating reserves.

Board of Psychologist Examiners – Agency Totals

	2009-11 Actual	2011-13 Legislatively Adopted	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	883,233	1,035,662	1,038,681	1,005,553
Total Funds	**$883,233**	**$1,035,662**	**$1,038,681**	**$1,005,553**
Positions	4	4	4	4
FTE	4.00	3.50	3.50	3.50

Agency Overview

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

Revenue Sources and Relationships

The Board is funded by revenue generated from licensing, application, and examination fees. Other miscellaneous sources include civil penalties and publication sales.

The Board is expected to have an ending balance of $740,398 Other Funds, which represents just under 18 months of operations.

Budget Environment

The Board has identified three main activities: 1) consumer protection; 2) licensing, examination, and continuing education; and 3) board support and administration. The Board expects continued growth in licensees, and therefore a corresponding increase in licensing and enforcement workload, as well as increasing legal costs due to appeals of disciplinary actions and potential lawsuits.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $1,005,553 Other Funds is a $39,891 Other Funds increase (4.13%) from the 2011-13 legislatively approved budget. The budget is a $33,128 Other Funds decrease (3.19%) from the 2013-15 current service level. The legislatively adopted budget includes standard adjustments resulting from statewide administrative savings, general government assessments, Attorney General rate change, and PERS rate reductions.

Public Utility Commission (PUC) – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	36,597,114	39,586,887	40,587,906	40,049,729
Other Funds (NL)	83,060,443	75,291,665	79,271,977	79,271,765
Federal Funds	2,222,486	4,813,925	2,351,193	2,444,367
Total Funds	**$121,880,043**	**$119,692,477**	**$122,211,076**	**$121,765,861**
Positions	133	132	129	131
FTE	129.08	128.75	126.75	128.25

Agency Overview

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

Revenue Sources and Relationships

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

- ***Natural gas, water, and wastewater utilities*** are assessed up to 0.25% on gross operating revenues. This rate is expected to generate $5.1 million for natural gas and $87,000 for water / wastewater utilities in the 2013-15 biennium.
- ***Telecommunications providers*** are assessed up to 0.25% on gross intrastate retail sales excluding wholesale revenues, which is expected to generate approximately $3.45 million in the 2013-15 biennium. Telecommunication carriers and subscribers are assessed an additional amount to support the Oregon Universal Service Fund (OUSF) and the Residential Service Protection Fund (RSPF).
  - OUSF is supported through an assessment on intrastate revenue (5.3%) which is estimated to generate $79.4 million during the 2013-15 biennium.
  - RSPF is supported by a surcharge not to exceed $0.35 per month to retail subscribers who have access to relay services. The current surcharge rate is 12 cents per line per month, and the program was extended through 2020. The legislatively adopted budget assumes $12 million in revenue.
- ***Electric utilities*** are assessed a gross revenue fee of no more than 0.25%, which is expected to generate approximately $18.3 million in the 2013-15 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., nongovernmental entity (Energy Trust of Oregon), school districts, and the Housing and Community Services Department). The passage of HB 2004 (2013) allows PUC to collect an additional $5 million per year for low income assistance at the request of the Housing and Community Services Director through 2015.

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 40%.

PUC receives no General Fund support.

Budget Environment

The 2013-15 legislatively approved budget includes standard adjustments to personal services as a result of assumed savings in PERS rates resulting from the passage of SB 822 and PERS Board administrative actions, and for expected efficiencies in finance, information technology, human resources, accounting , payroll, and procurement activities.

Revenue from fees assessed by PUC on telecommunications are projected to decrease by 3% per year, as customers continue to shift from traditional telephone lines to other technologies such as wireless telephones.

Energy costs have a direct impact on agency revenue since PUC assesses utilities based on their gross revenue, and since PUC receives a greater share of revenue from energy utilities than telecommunications utilities, energy utility revenue increases currently offset the revenue loss from telecommunications revenue.

PUC – Utility Program

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	14,782,049	16,871,531	16,287,070	15,995,354
Other Funds (NL)	83,060,443	75,291,665	79,271,977	79,271,765
Federal Funds	2,222,486	4,813,925	2,351,193	2,444,367
Total Funds	**$100,064,978**	**$96,806,059**	**$97,910,240**	**$97,711,486**
Positions	75	73	74	75
FTE	72.58	71.25	73.25	74.25

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 includes analysis and recommendations regarding requested utility rate changes. Emergency preparedness and utility safety and security protocols are developed and monitored to ensure safety and reliability. 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. The Consumer Services Section responds to questions from consumers about the utility industry and assists in resolving consumer complaints.

Legislatively Adopted Budget

Total funds expenditures for the utility program are increased 0.9% from the 2011-13 legislatively approved budget. The legislatively adopted budget includes adjustments resulting from administrative savings, PERS rate reductions, and state agency assessment and Attorney General rate adjustments. The legislatively adopted budget includes approval of one permanent Utility Analyst 3 position to address an increase in gas safety pipeline inspections and reviews required by federal legislation passed in the wake of a pipeline explosion in San Bruno, California in 2011. Internal restructuring during the 2011-13 biennium to comply with management to line-staff ratios and promote administrative efficiencies led to the transfer of some positions among divisions.

PUC – Residential Service Protection Fund

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	10,821,835	10,587,608	10,880,347	10,858,728
Total Funds	**$10,821,835**	**$10,587,608**	**$10,880,347**	**$10,858,728**
Positions	8	8	8	8
FTE	7.50	7.50	7.50	7.50

Program Description

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

- ***Oregon Telephone Assistance Program*** subsidizes local telephone service rates to eligible low-income Oregonians by providing a $12.75 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 Utility program where its expenditures are covered.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget is a 2.6% increase from the 2011-13 legislatively approved budget. The legislatively adopted budget includes adjustments resulting from administrative savings, PERS rate reductions, and state agency assessment and Attorney General rate adjustments. No policy option packages were requested or approved for this program.

PUC – Policy and Administration Program

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	10,680,795	11,778,808	13,077,309	12,409,856
Total Funds	**$10,680,795**	**$11,778,808**	**$13,077,309**	**$12,409,856**
Positions	49	50	46	46
FTE	48.00	49.00	45.00	45.00

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, information technology, human resources, and support services to the agency.
- *Public Affairs and Business Systems* executes strategic plans to increase public awareness and understanding of PUC functions and decisions through communications channels including media and website content. The division also maintains and updates agency policy and procedures, manages documents, maintains and distributes budget information, and coordinates agency legislative actions.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget is a 5.4% increase over the 2011-13 legislatively approved budget. The legislatively adopted budget includes adjustments resulting from administrative savings, PERS rate reductions, and state agency assessment and Attorney General rate adjustments. Internal restructuring during the 2011-13 biennium to comply with management to line-staff ratios and promote administrative efficiencies led to the transfer of some positions among divisions.

PUC – Board of Maritime Pilots

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	312,435	348,940	343,180	785,791
Total Funds	**$312,435**	**$348,940**	**$343,180**	**$785,791**
Positions	1	1	1	2
FTE	1.00	1.00	1.00	1.50

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 2013-15 are estimated to increase due to the passage of SB 851 (2013) that allows a pilotage fee of up to $100 (indexed to inflation in future years) to be assessed on either outgoing or incoming vessels requiring pilotage service at Yaquina Bay, Coos Bay, the Columbia River, or the Willamette River. This fee is anticipated to generate $304,000 in 2013-15 at a rate of $50, applied to an estimated 3,040 vessels per year. Revenue resulting from annual license fees paid by each of the licensed pilots is anticipated to be $342,960 for the biennium. The license fee is tied to the consumer price index by statute, and rises by the cumulative cost-of-living increase for the previous two years at the start of each biennium. The annual license fee will be $2,858 per year for 2014 and 2015.

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 nine member board. PUC has administrative oversight over the Board and assists them in areas such as budgeting, human resources, and accounting.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget for the Board of Maritime Pilots represents a 125% increase over the 2013-15 legislatively approved budget. This increase is due to the passage of SB 851 and the Board's anticipated hiring of a part time executive director to perform duties that require a level of diligence and expertise beyond the capabilities of the current volunteer board members and board administrator. These duties include the completion of a federally mandated fatigue study of pilots, a more in-depth review of licensee medical files, independent investigations into maritime incidents, and more up to date and intensive licensee recruitment and training efforts. The legislatively adopted budget includes adjustments resulting from administrative savings, PERS rate reductions, and state agency assessment and Attorney General rate adjustments.

Real Estate Agency – Agency Totals

	2009-11 Actual	2011-13 Legislatively Adopted	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	6,772,329	7,461,430	7,276,950	7,053,979
Total Funds	**$6,772,329**	**$7,461,430**	**$7,276,950**	**$7,053,979**
Positions	33	30	30	30
FTE	31.24	30.00	30.00	30.00

Agency Overview

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

Revenue Sources and Relationships

Other Funds revenues are generated through licensing and registration fees and renewals; charges for examinations; the sale of publications; and other services. The agency anticipates relative stability in the number of licensees for the biennium. All civil penalties assessed by the agency are transferred to the General Fund in accordance with statute. The fee structure is expected to remain the same as the current biennium. Fees have not been raised since the mid-1990s. Although the agency expects growth in licensees in the next biennium, the growth will likely come at a slow rate. Because of this trend, the agency's 2013-15 revenue projection is conservative at $5,623,695 Other Funds.

The agency is expected to have an ending balance of $987,972 Other Funds, which represents just over 3 months of operating expense. The agency has been spending more than actual revenue received during the 2009-11 biennium, decreasing the ending balance. However, during 2011-13, the agency has implemented a cost reduction plan to close the gap between expenditures and revenue. Savings from the agency's four vacant positions play a significant part in reducing this gap.

Budget Environment

Over the past several years, the real estate market has slowed from the October 2007 peak when there were 24,613 individual real estate licensees in Oregon. In 2009, there were 22,835 licensees. In 2010, there were 21,810. In 2012, there were approximately 18,500 licensees. License totals continue to decline, but the decline has slowed. Rising home prices in several key markets in Oregon and the continuation of low interest rates are two market indicators that give the agency reason to believe an upturn in the number of Oregon licensees is on the horizon.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $7,053,979 represents a 5.46% decrease from the 2011-13 legislatively approved budget, and a 3.06% decrease from the 2013-15 current service level. The legislatively adopted budget includes standard adjustments resulting from statewide administrative savings, general government assessments, Attorney General rate change, and PERS rate reductions.

Board of Licensed Social Workers – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-153 Legislatively Adopted
Other Funds	1,013,929	1,244,968	1,260,516	1,350,215
Total Funds	**$1,013,929**	**$1,244,968**	**$1,260,516**	**$1,350,215**
Positions	5	6	5	6
FTE	4.18	5.45	5.00	6.00

Agency Overview

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

Revenue Sources and Relationships

The agency is funded by revenue generated from application and licensing fees. Other miscellaneous sources include late fees and publication sales. Revenue in 2013-15, $1.3 million, is projected to be 7.5% greater than 2011-13 due to an increase in licenses due to the expansion of the Board's licensing authority.

The 2013-15 projected ending balance of $174,351 equals approximately three months of operating costs.

Budget Environment

The agency has identified two main activities: public protection (30%) and licensing (70%). Passage of SB 177 in 2009 added two new categories of licensing: Registered Bachelors of Social Work and Licensed Masters of Social Work. This increased both the licensing and the compliance workload of the Board. The bill also added criminal background check requirements for licensees.

Legislatively Adopted Budget

The legislatively adopted budget is an increase of $105,247 Other Funds (8.5%) over the 2011-13 legislatively approved budget, and includes an increase of 0.55 FTE.

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

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	362,046	404,495	423,359	529,895
Total Funds	**$362,046**	**$404,495**	**$423,359**	**$529,895**
Positions	3	2	2	2
FTE	1.63	1.40	1.40	2.00

Agency Overview

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

Revenue Sources and Relationships

The agency is funded by revenue generated from application, license, and certification fees and currently has approximately 2,000 active licensees renewed on a biennial basis. Other miscellaneous sources include late fees, interest income, and the sale of mailing lists and copies of public records. The 2013 Legislature approved a fee increase that will allow the Board to cover ongoing operations, fund the personal services costs related to the increase in FTE, and maintain an adequate ending cash balance. The Board's projected ending cash balance of $276,797 equals approximately 14 months of operating costs.

Budget Environment

The agency has identified three main activities: licensing; investigation; and administration. The budget is 70% personal services. The Board has seen a significant increase in the number of complaints, investigations, and disciplinary cases in the past two biennia due in part to a 12.5% increase in the number of active licenses over that time period.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $529,895 represents a 31% increase from the 2011-13 legislatively approved budget level. The legislatively adopted budget includes increasing the Executive Director from 0.60 FTE to 1.00 FTE, a request previously approved by the Emergency Board in December 2010. Additionally, the budget includes increasing the Administrative Assistant position from 0.80 FTE to 1.00 FTE. These increases in FTE to existing positions are the result of the growth in the licensing and investigative workload of the Board. Also the budget includes increased limitation for the Board to conduct fingerprint criminal background checks on all new applicants (estimated at 435 in 2013-15). The fees charged to applicants for the background check will be passed through to the Department of State Police. The budget also includes reductions for statewide administrative savings, general government assessments, Attorney General rate changes, and PERS rate reductions.

Board of Tax Practitioners – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	1,013,888	1,098,646	1,181,895	1,157,125
Total Funds	**$1,013,888**	**$1,098,646**	**$1,181,895**	**$1,157,125**
Positions	4	4	4	4
FTE	4.00	4.00	4.00	4.00

Agency Overview

The Board of Tax Practitioners is a seven-member citizen board appointed by the Governor that protects consumers by ensuring Oregon tax practitioners are competent and ethical in their professional activities. It accomplishes this by licensing and overseeing tax preparers, tax consultants, and tax businesses. Currently, the Board regulates about 1,900 tax consultants, 2,500 tax preparers, and about 1,500 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 of Tax Practitioner's revenues are principally derived from annual licensing and business registration fees. Fees are also charged for the administration of licensing examinations. The Board expects to collect $1,150,000 in total revenues from licensing fees, business registration fees, examinations, fines and penalties, pass-through revenues for community colleges administration of examinations, and other miscellaneous revenue for the 2013-15 biennium.

Budget Environment

The demand for licensed tax practitioners is expected to increase with the population as more returns are filed, resulting in increased total licensing and fee revenue for the agency. However, a portion of this demand may be mitigated by stagnant or decreased personal income that leads to reduced spending on professional services. The Board reports that approximately 39% of the returns filed with the Oregon Department of Revenue are filed by practitioners. Higher levels of unemployment may also increase the number of tax practitioners as the part-time or seasonal nature of the work may be more attractive during an economic downturn than during a period of high employment. The total number of licensees reported by the agency has increased by about 1.7% from the prior biennium.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget is 5.3% above the 2011-13 legislatively approved budget. The budget includes expenditure limitation adjustments for standard, statewide inflationary and personal services cost increases, and reductions for statewide cost savings in administrative service charges, PERS taxation policy changes, and PERS cost of living adjustments.

Veterinary Medical Examining Board – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	548,262	701,629	754,252	740,203
Total Funds	**$548,262**	**$701,629**	**$754,252**	**$740,203**
Positions	3	3	3	3
FTE	2.25	2.75	2.75	2.75

Agency Overview

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

Revenue Sources and Relationships

The agency is funded by revenue generated from license, application, and examination fees. The agency has over 4,000 veterinary and certified veterinary technician licenses on a biennial renewal basis. The Board's cash flow necessitated a fee increase in order to maintain an adequate ending cash balance. The initial veterinary license and annual renewal fees had not been increased since 1993 and the Certified Veterinary Technician fees had not been changed since inception in 1975. The 2013 Legislature approved a fee increase that will allow the Board to cover ongoing operating costs and maintain an adequate ending cash balance. The Board's 2013-15 projected ending cash balance of $394,477 equals approximately 13 months of operating costs.

Budget Environment

The agency has identified two main activities: licensing and investigations. The number of licensees has grown approximately 8% from the previous biennium. In addition, the number of complaints reviewed by the Board has increased over the last two biennia. The growing number of complaints has coincided with changes to the laws that govern the industry and low-cost insurance provided by the American Veterinary Medical Association that pays up to $25,000 for legal representation for veterinarians that face Board discipline. This insurance option may result in more contested case hearings that could increase the administrative and legal costs of the Board.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $740,203 represents a 5.5% increase from the 2011-13 legislatively approved budget level. The legislatively adopted budget includes reductions for statewide administrative savings, general government assessments, Attorney General rate changes, and PERS rate reductions.

Department of Administrative Services (DAS) – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	12,506,753	9,211,014	7,096,802	9,673,091
Lottery Funds	3,515,081	6,696,851	8,213,576	8,135,841
Other Funds	909,266,545	903,473,635	816,731,668	877,567,512
Other Funds (NL)	114,030,629	197,531,084	122,552,277	122,552,277
Federal Funds	47,000	0	0	0
Federal Funds (NL)	0	1	0	0
Total Funds	**$1,039,366,008**	**$1,116,912,585**	**$954,594,323**	**$1,017,928,721**
Positions	822	773	764	790
FTE	812.34	769.68	760.92	784.68

Totals are different from those in Executive Branch budget documents due to separate treatment by the Legislative Fiscal Office of: a) Lottery Funds for County Fairs as well as Oregon Public Broadcasting (OPB) and Oregon Historical Society 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 and administrative policies. The Department has numerous divisions responsible for a variety of disparate functions. It operates centrally located motor pools; operates and maintains facilities and the state data center; and provides printing, information technology consultation, computer, payroll, and accounting services. The Department distributes federal, lottery, and state funds to cities, counties, and other state agencies. It also collects and distributes mass transit assessments.

Revenue Sources and Relationships

The Department's operating revenue comes generally from fees charged for services provided to state agencies and statewide assessments. DAS establishes rates for direct services and bills agencies based on usage. Costs of indirect services, such as the services provided by the Chief Operating Office, Chief Financial Office, Chief Information Office, and Chief Human Resource Office are recovered through a "statewide assessment," which is included in all state agencies' budgets as part of the line item expense titled "State Government Service Charges."

Although assessment-supported services cannot be directly measured and tied to each agency receiving the service, the Department makes an effort to allocate the assessment equitably. Payments by state agencies to DAS are controlled through their budget review and approval process. A significant portion of DAS revenues received through assessments and charges originate in agency budgets as General Fund or Lottery Funds.

Budget Environment

The Department provides services along two primary tracks: 1) governance and policy direction, such as budget, accounting practices, and human resource policies; and 2) infrastructure and business services, such as printing, mail, fleet, and custodial services. Handling the simultaneous leadership and service-provision roles is an ongoing challenge for the Department. Tension between DAS and state agencies has increased in recent biennia as General Fund constraints have reduced agency budgets, but not necessarily the need for DAS functions. State agencies are particularly sensitive to paying for policy oversight, which has a less tangible value, or services for which they might prefer to forego, purchase elsewhere, or support on their own. Based on a 2010 survey of state agencies, those services include leasing, risk consulting, and facilities planning services.

For the 2009-11 biennium, DAS received a budget note targeted at trying to resolve the dichotomy between the agency's policy and service functions. The budget note directed the agency to convene a workgroup to review certain aspects of the agency, including: the potential benefits of separating the Department's policy functions from its service functions; validity of the current methodologies used to develop DAS assessments and service charges; and overall value and effectiveness of DAS functions and services.

Consequently, the Department chose Entrepreneurial Management (EM) as the primary tool it would use to improve services and provide clarity about its roles. An extensive EM reorganization took effect July 1, 2012 to implement this customer-focused entrepreneurial management model which changed the names of many divisions and generally split the Department into policy teams and service teams. This was done to allow the service side of the agency to focus on providing customer service while policy officers focus on over-arching issues that affect all state agencies.

Another concern of state agencies and the Legislature is the extent to which services, particularly "back office" or administrative functions, are duplicated across state government. The DAS 2011-13 budget bill (SB 5502) included a budget note targeted at reducing administrative functions across state government and reducing the number of underutilized motor pool vehicles. In response, the Governor's budget for 2013-15 included a placeholder 5% total funds across-the-board reduction for administrative efficiencies in finance, information technology, human resources, accounting, payroll, and procurement expenditures. The Executive Branch had intended for these reductions to be specified in the Governor's 2013-15 recommended budget. The Legislature approved these 5% administrative reductions with the understanding that the Department of Administrative Services would continue to work on details of these reductions with agencies and report back during the 2014 session.

DAS – Chief Operating Office

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	240,918	272,059	281,066	467,746
Other Funds	4,390,402	6,903,766	7,184,135	7,146,611
Total Funds	**$4,631,320**	**$7,175,825**	**$7,465,201**	**$7,614,357**
Positions	16	24	20	22
FTE	16.00	24.00	20.00	21.87

Program Description

The Director is responsible for managing and coordinating the policies, programs, and services of the divisions within the Department. Under the current Governor, the DAS director also serves as the Chief Operating Officer for Oregon and has been tasked with reviewing outdated systems, streamlining departments, and creating efficiencies and cost savings in state government. The Director is responsible for coordinating policy among state agencies and setting guidelines for developing and executing the Governor's budget. The Chief Operating Office has four primary functions:

- ***Agency Administration*** provides management oversight and policy direction to DAS divisions.
- ***Office of Economic Analysis*** produces the Oregon Economic and Revenue Forecast and Criminal Justice Population Forecast. It also contracts for the Highway Cost Allocation Study.
- ***Performance Management*** works with agencies on the most efficient and effective use of public funds.
- ***Government Affairs and External Relations*** coordinates legislation and communications.

Revenue Sources and Relationships

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

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget is 6% higher than the 2011-13 legislatively approved budget. Along with standard statewide adjustments related to PERS rate reductions, the budget includes the elimination of an audit manager and an administrative support position. The Legislature passed HB 2620 (2013) which requires the Department of Administrative Services to develop a plan to align state economic and community development programs with regional and community based development programs. To carry out this study $200,000 General Fund was appropriated to the COO on a one-time basis, which nearly doubled the General Fund support to the COO. In addition, five Enterprise Initiative Project Manager positions and $558,519 Other Funds were added to work on statewide initiatives being overseen by the Chief Operating Office.

DAS – Chief Financial Office

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Lottery Funds	323,068	0	0	0
Other Funds	25,420,044	31,108,386	11,790,952	14,022,121
Total Funds	**$25,743,112**	**$31,108,386**	**$11,790,952**	**$14.022,121**
Positions	96	117	39	40
FTE	95.5	116.25	39.00	39.75

Program Description

The Chief Financial Office (CFO) 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 CFO also helps to coordinate statewide bonded debt programs, including issuance and repayment of Article XI-Q bonds, pension obligation bonds, and lottery revenue bonds. The Office is responsible for development and maintenance of the statewide budget systems. Under the Department's Performance Management reorganization, the CFO also 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.

Revenue Sources and Relationships

The Chief Financial Office is funded primarily through assessments of state agencies.

Legislatively Adopted Budget

Reductions in the CFO 2013-15 legislatively adopted budget were limited to standard reductions related to PERS rate changes and the 5% administrative efficiencies. Other Funds of $2.1 million was added to purchase facilities assessment and planning software. This software will allow the Department to increase state real estate asset utilization and improve the maintenance of facilities. The Governor's budget proposed to finance this effort with Article XI-Q bonds with total estimated debt service of $2,978,544. Instead, the Legislature directed DAS to pay cash for the software through a one-time increase in rates and assessments. The Legislature also established a permanent management position to oversee the creation of a proactive capital planning function in the CFO. As part of this package, $450,000 for professional services contracts was added as one-time funding, to review the current inventory of state assets.

DAS – Chief Information Office

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	14,758,168	9,545,311	13,246,781	12,528,553
Total Funds	**$14,758,168**	**$9,545,311**	**$13,246,781**	**$12,528,553**
Positions	19	16	18	23
FTE	19.00	16.00	18.00	22.00

Program Description

The Chief Information Office (CIO) maintains certain policy and statewide information technology oversight functions. The CIO's ***Enterprise Security Office*** identifies the state's information security needs and 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. The ***Geospatial Enterprise Office*** provides statewide geographic information systems (GIS) coordination for Oregon government (state and local), to support enterprise-wide planning and decision-making.

Revenue Sources and Relationships

The Chief Information Office is funded primarily through assessments of state agencies primarily based on FTE counts.

Legislatively Adopted Budget

There were few adjustments to the 2013-15 legislatively adopted budget besides the standard reductions related to PERS rate changes and the 5% administrative efficiencies. Four limited duration positions were continued so they could complete federal grant funded work reporting on broadband internet services throughout Oregon.

DAS – Chief Human Resource Office

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	25,104,733	23,199,053	9,098,123	10,012,960
Total Funds	**$25,104,733**	**$23,199,053**	**$9,098,123**	**$10,012,960**
Positions	104	93	27	26
FTE	97.71	92.21	27.00	26.00

Program Description

The Chief Human Resource Office (CHRO) oversees personnel-related policies to help agencies obtain and retain a skilled workforce. Through administrative rules and policies and collective bargaining agreements, CHRO defines and manages the state's human resources system based upon equal employment opportunity and a merit-based compensation system. In addition, it provides executive recruitment services to state agencies.

Revenue Sources and Relationships

CHRO's principal revenue source is from an assessment of Executive Branch state government agencies, excluding the Oregon University System. Legislative and Judicial Branch agencies and the Lottery Commission pay an assessment to use the centralized employee database.

Legislatively Adopted Budget

In addition to the standard reductions related to PERS rate changes and the 5% administrative efficiencies, the 2013-15 legislatively adopted budget included $2 million Other Funds to begin planning to replace the state's central Human Resource Information Systems (HRIS). DAS will use this funding to better scope the actual cost of the HRIS project and is expected to return to the 2014 session with estimates of the total cost to purchase and install a new HRIS, while at the same time identifying what resources dedicated to the existing system can be redirected and which, if any, can be eliminated with implementation of a new system.

DAS – Enterprise Technology Services

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	204,903,179	197,660,482	179,881,774	179,122,219
Federal Funds	47,000	0	0	0
Total Funds	**$204,950,179**	**$197,660,482**	**$179,881,774**	**$179,122,219**
Positions	306	292	204	219
FTE	305.75	291.5	204.00	218.64

Program Description

Enterprise Technology Services (ETS) provides centralized computing and application services by leveraging new and existing IT assets to support numerous business operations across government. ETS is organized into six service delivery sections:

- ***Administration/Plans and Controls*** provide administrative support for the Division. It also supplies budgeting, strategic planning, as well as, financial, human resources, and project management.

- ***Service Solutions Section*** translates customers' business needs into solution options that may be built in-house or brokered.
- ***Engineering*** designs and builds the products and services that are delivered and supported by ETS.
- ***Service Delivery*** operates the shared ETS environment which includes computing hardware, operating systems, storage and backup solutions, security, production control, help-desk and desktop support, and enterprise and contracted applications.
- ***Technology Availability Management*** monitors, maintains, and supports the shared ETS environment to ensure the systems are available and are responsible for maintaining the equipment, systems, and services offered.
- ***Application Delivery*** is responsible for Enterprise Applications and Internal DAS applications.

Revenue Sources and Relationships

ETS 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 to ensure service charges cover the full cost of services being delivered. Many rates are dependent on usage, and rates are determined by the type of ETS service being used. Four major service areas are provided: computing (mainframe, midrange, and distributed systems), network, storage, and voice.

Legislatively Adopted Budget

Along with standard statewide PERS reduction actions, the 2013-15 legislatively adopted budget includes the following Other Funds adjustments for ETS:

- A $3.3 million reduction from assumed savings created by switching phone service to a Voice Over Internet Protocol.
- A $5.8 million reduction as part of the across-the-board 5% reduction to administrative functions including information technology.
- $1.5 million was added to replace computing, network, and telephone equipment on a regular schedule to avoid equipment failures.
- Added $2.7 million to support growth in demand for mainframe computing capacity. This funding provides expenditure limitation based on projected growth in demand for mainframe services by agencies.
- Added $2.6 million to purchase data storage solutions designed to reduce the demand for more expensive alternatives.
- Included $2 million and 10 limited duration positions as partial funding to implement and support other agency IT projects included in the 2013-15 legislatively adopted budget. ETS will develop a detailed request for additional resources needed to complete approved IT projects for state agencies for the 2014 session.

DAS – Enterprise Asset Management

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	3,762,279	0	0	1,239,609
Other Funds	131,917,176	105,528,980	90,008,520	92,363,428
Other Funds (NL)	18,974,029	0	0	0
Total Funds	**$154,653,484**	**$105,528,980**	**$90,008,520**	**$93,603,037**
Positions	219	168	195	199
FTE	217.38	167.71	194.21	197.71

Program Description

Enterprise Asset Management (EAM) provides services related to facilities management; lease negotiation and supervision; space planning; statewide fleet administration and parking services; building operations and maintenance; landscape maintenance for agencies occupying state-owned space; and the Surplus Property program. Major acquisition, construction, capital improvement, and maintenance projects are planned and managed by EAM.

DAS owns approximately 2.76 million square feet, primarily office space, or about a fourth of the state's total occupied square footage. EAM also manages a portfolio of over 600 short-term and long-term leases for over 4.4 million square feet of space, mostly in the form of office space that is privately owned. The facilities are located all over the state. Growth in other state agencies and demand for new or improved facilities has a direct impact on Division activities.

The Statewide Fleet Administration program acquires and maintains vehicles for state agency use. 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

EAM is funded from several sources; its two major sources are uniform rent, assessed on all tenant agencies, and parking fees. 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. EAM 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.

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

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

Legislatively Adopted Budget

Along with standard statewide PERS reduction actions, the 2013-15 legislatively adopted budget included a $2 million Other Funds reduction from assumed savings created by lower vehicle usage and reducing Department of Justice (DOJ) billings. The Legislature also added $3.5 million Other Funds to replace vehicles in the state motor pool. The current replacement budget is insufficient to replace the vehicles that will go over the 130,000 mileage threshold in 2013-15. No rate increases are necessary to support this additional expenditure limitation due to the ending of COP payments used previously to purchase vehicles.

The most significant adjustment was the addition of $1,264,907 General Fund, $291,520 Other Funds, and one position (0.50 FTE), on a one-time basis, to cover the costs associated with the transfer of responsibilities for maintenance and operations of the State Hospital North Campus Property from the Oregon Health Authority (OHA) to DAS. The property is approximately 47.31 acres of land with approximately 500,000 square feet of space in six buildings. DHS/OHA currently occupies approximately 30,000 square feet of office space in building 33. The Department of Corrections occupies the Dome Building, approximately 70,000 square feet, which it also pays to operate and maintain. The Dome Building costs are not included in this package. The remaining buildings (approx. 400,000 sq. ft.) are vacant.

To provide ongoing maintenance for the one occupied building and the four unoccupied buildings, EAM needs one additional part-time limited duration position (0.50 FTE) to maintain, operate, and manage this work load. Maintaining the property until it sells includes the following issues: asset protection for building envelopes; elevator maintenance; HVAC for ventilation to prevent mold; freeze protection for the fire sprinkler systems; fire alarm monitoring; fire sprinkler testing; and landscaping maintenance.

The General Fund total includes $155,000 General Fund for Real Estate Services to prepare the property for sale. This includes title clearing of deeds back to 1887, surveying the boundaries and any easements, etc., that encumber the property, phase II environmental testing and creating a plan for removal of hazardous materials (asbestos and lead are known to exist), city and neighborhood association public relations and outreach, legally partitioning the north campus from the larger 100-acre parcel, and beginning the marketing for sale.

DAS – Enterprise Goods and Services

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	28,790,700	30,100,322	93,755,310	83,175,541
Other Funds (NL)	75,479,530	99,591,407	98,555,668	98,555,668
Total Funds	**$104,270,230**	**$129,661,729**	**$192,310,978**	**$181,731,209**
Positions	62	57	225	225
FTE	61.00	56.00	223.50	223.50

Program Description

Enterprise Goods and Services (EGS) consists of several programs focused on providing cost effective central services to state agencies. The Risk Management program purchases insurance for the state, and also is responsible for the management of the state's Self-Insurance Fund in order to maintain adequate balances for known and projected losses and to purchase excess coverage for the state. The section investigates and resolves claims against the state and its employees, and devises strategies that encourage agencies to minimize loss-related costs.

The State Procurement Office provides statewide purchasing and contracting direction, while working to combine the buying power of state and local governments. The Publishing and Distribution program offers a full array of design, printing, finishing, metering, delivery, and mailing services. Financial Business Services (FBS) is responsible for the statewide payroll and financial systems, as well as the datamart that provides reporting data for both systems. FBS also provides shared payroll services for client agencies and DAS.

Revenue Sources and Relationships

The revenue source for the Risk Management program's operating expenditures is the Insurance Fund. State agencies pay into the Insurance Fund through an assessment based on a share of forecasted statewide claims costs. Statewide needs are developed from independent actuarial forecasts for workers' compensation, property, and liability costs and estimated legal costs. The amount and types of property owned, the number of employees and their work, and the types of programs agencies have all contribute to the need for risk management services and products, principally insurance.

The State Procurement Office operations are supported through charges for service and an assessment, which is based on the number of agency positions. The Office also receives revenue through direct fees for services and purchasing, consulting, and training fees. Both Printing and Distribution and Financial Business Services are financed through charges for services.

Legislatively Adopted Budget

Along with standard statewide PERS reduction actions, the 2013-15 legislatively adopted budget includes the following:

- Removal of $3.5 million Other Funds added in 2011-13 to join a regional contract to replace the Oregon Procurement Information Network (ORPIN) which failed to progress as planned.
- A $2 million reduction as part of the across-the-board 5% reduction to administrative functions including procurement and payroll expenditures.
- A $2.2 million cut that assumes reducing usage of Department of Justice lawyers, eliminating funding for procurement services initiatives, and reducing mainframe usage.
- Added limited duration positions to implement ePayroll and on-line timekeeping systems which were included in the DAS-identified list of Improving Government Projects.
- Transferred $10 million from the Insurance Fund to the General Fund for general governmental purposes; this transfer increases the insurance program's unfunded liabilities.

DAS – Enterprise Human Resource Services

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	0	0	6,298,565	5,730,187
Total Funds	**$0**	**$0**	**$6,298,565**	**$5,730,187**
Positions	0	0	21	22
FTE	0.00	0.00	20.21	21.21

Program Description

Enterprise Human Resource Services (EHRS) is a new program unit created as part of the DAS reorganization. This Entrepreneurial Management reorganization separated the human resource management services functions from the human resource policy functions.

Revenue Sources and Relationships

In the past, the cost of EHRS services has been subsidized by state agency assessments. The objective for service functions is to have charges for services cover the full cost of providing those services. For the 2013-15 biennium, about 30% of EHRS costs will be covered by service charges, with the reminder paid from assessments. EHRS will work with its Customer Utility Board to achieve 80-100% cost recovery in future biennia.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget contains the standard adjustments including the statewide administrative savings reductions. The EHRS 5% statewide administrative savings reduction is $462,891 Other Funds, which is by far the largest adjustment included in the 2013-15 adopted budget for EHRS.

DAS – Business Services

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	0	837,604	4,469,671	4,326,410
Total Funds	**$0**	**$837,604**	**$4,469,671**	**$4,326,410**
Positions	0	6	15	14
FTE	0.00	6.00	15.00	14.00

Program Description

The Business Services Division coordinates agency-wide programs and internal processes, oversees the Department's finances and budget, and staffs Customer Utility Boards which govern DAS's service enterprises.

Revenue Sources and Relationships

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

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget is significantly higher than 2011-13 approved levels due to new functions being added to this program area as part of the DAS reorganization. Along with standard reductions, a limited duration position was added to support the operation of Customer Utility Boards.

DAS – Capital Improvements

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	3,003,145	4,681,401	5,992,008	5,992,008
Total Funds	**$3,003,145**	**$4,681,401**	**$5,992,008**	**$5,992,008**

Program Description

The Capital Improvements program pays for remodeling and renovation projects that cost less than $1 million.

Revenue Sources and Relationships

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

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget is a 28% increase from the 2011-13 approved budget. The budget provides a core level of resources to maintain buildings and facilities, includes projects deferred in prior budget periods, and does not require any debt financing.

DAS – Capital Construction

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	9,606,721	13,243,854	0	16,821,286
Total Funds	**$9,606,721**	**$13,243,854**	**$0**	**$16,821,286**

Program Description

The Capital Construction Program includes major remodeling, renovation, and new construction or acquisition projects costing more than $1 million in the aggregate.

Revenue Sources and Relationships

Other Funds for capital construction comes from the Capital Projects Fund and from the sale of bonds.

Legislatively Adopted Budget

The 2013-15 legislatively adopted capital construction budget (SB 5507) funds seven projects, which will be supported by Other Funds from the agency's Capital Projects Fund (no debt financing required). These include heating and cooling system projects ($4,921,160), roof replacements ($1,303,942), Public Utility Commission Building exterior replacement ($4,470,390), elevator upgrades ($961,420), carpet replacements ($3,744,374), Executive Building Renovation ($800,000), and planning for future projects ($350,000).

DAS – Miscellaneous Distributions

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds (NL)	19,474,137	22,853,913	23,996,609	23,996,609
Total Funds	**$19,474,137**	**$22,853,913**	**$23,996,609**	**$23,996,609**

Program Description

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

Revenue Sources and Relationships

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

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget supports anticipated mass transit assessment collections and distributions based on budgeted employment numbers.

DAS – Bonds

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	0	449,406,827	359,886,813	359,886,813
Federal Funds (NL)	0	1	0	0
Total Funds	**$0**	**$449,406,828**	**$359,886,813**	**$359,886,813**

Program Description

This is a new budget structure set up to separately display primarily expenditures for debt service and debt management costs on Pension Obligation Bonds ($330.2 million) and debt service on Appropriation Bonds ($28.9 million). Previously these budget elements were captured in the Special Governmental Payments program unit.

Revenue Sources and Relationships

Pension Obligation Bond debt service is supported by an assesment on the PERS employer payrolls. Tobacco Settlement revenues are used to pay the debt service on Appropriation Bonds. The debt service on these bonds continues to decline as the last payment is scheduled to be completed during the 2013-15 biennium. The $1 Federal Funds Nonlimited was a placeholder for potential federal bond refunding opportunities, such as those offered under the Build America Bonds program. These never materialized and the $1 Federal Funds Nonlimited placeholder was removed in the adopted budget.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget is set at a level to cover bond debt service and treasury fees based on existing repayment schedules and budget projections.

DAS – Special Governmental Payments

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	8,503,556	7,900,467	6,815,736	7,965,736
Lottery Funds	4,976,179	6,438,013	8,213,576	8,135,841
Other Funds	467,467,029	18,978,709	0	27,500,007
Total Funds	**$480,946,764**	**$33,317,189**	**$15,029,312**	**$43,601,584**

Program Description

This is a catch-all category that reports payments that are not directly related to the mission of the Department of Administrative Services. These are frequently for one-time special projects or legislative priorities. The Other Funds expenditures recorded in the 2009-11 column above are primarily for debt service on Pension Obligation and Appropriation Bonds; starting with the 2011-13 biennium the budget for these items have been moved to the Bonds program unit.

Revenue Sources and Relationships

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

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget includes the following new legislative priorities and special projects.

General Fund:

- $500,000 to the East Valley Water District to support completion of an environmental impact study on a proposed water storage project.
- $250,000 to the Historic Public Market Foundation to assist with development of the James Beard Public Market in Portland.

- $400,000 for distribution to *211info*, which is a statewide, nonprofit information and referral service for community and social services. The state currently supports about one-third of the organization's operating budget, primarily through contracts with individual state agency programs for specific services. *211info* also receives funding from local governments, other nonprofits, grants, and foundations. This direct General Fund appropriation is intended to help *211info* maintain statewide program access over the 2013-15 biennium. An additional request to support around-the-clock operations was not funded; currently *211info* operates Monday through Friday from 8 am to 6 pm.

Other Funds from Lottery Bond sales late in the 2013-15 biennium (no debt service for 2013-15):

- $10,239,248 Other Funds for disbursement to Metro for the purpose of assisting with the development of a hotel near the Portland Convention Center.
- $3,562,986 Other Funds for disbursement to the Confederated Tribes of Umatilla for construction a 1.5 mile road extension from the Port of Umatilla into the Confederated Tribes of Umatilla, which will open additional industrial land for development.
- $1,042,755 Other Funds for disbursement to the North Central Education Service District for partial funding of digital switch technology acquisition that would serve the educational and public safety needs of Wheeler, Gilliam, and Sherman Counties.
- $12,255,018 Other Funds for disbursement to the Lane Transit District for the West Eugene EmX extension project.

DAS – Shared Services Fund

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	0	266,416	0	24,141,834
Total Funds	**$0**	**$266,416**	**S0**	**$24,141,834**

Program Description

In 2007 the Legislature established a new program, the Shared Services Fund, to provide state support to local taxing districts affected by participation in the Strategic Investment Program (SIP). Local taxing districts are now eligible to receive payments from the state that are calculated to equal 50% of the personal income tax revenue attributable to the earnings of persons hired or retained as result of a SIP property tax exemption. These income tax payments would otherwise have gone to the state General Fund.

Revenue Sources and Relationships

Other Fund revenues come from income tax receipts which are diverted into the Shared Services Fund before they are deposited by the Department of Revenue into the General Fund

Legislatively Adopted Budget

The first payments to counties for tax breaks received during the 2009 Tax Year were approved at the December 2012 meeting of the Emergency Board and made during the 2012-13 Fiscal Year. The 2013-15 legislatively adopted budget included only enough Other Funds expenditure limitation to make the 2010 Tax Year payment. The Department will need to seek additional expenditure limitation later in the 2013-15 biennium for payments due on tax breaks awarded during the 2011 Tax Year.

Advocacy Commissions Office – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	366,193	368,932	411,324	399,995
Other Funds	18,125	40,000	40,960	40,960
Total Funds	**$384,318**	**$408,932**	**$452,284**	**$440,955**
Positions	2	2	2	2
FTE	2.00	2.00	2.00	2.00

Agency Overview

The Oregon Advocacy Commissions Office (OACO) was established in 2005 to provide coordinated administrative support to four advocacy commissions: Commission on Asian Affairs and Pacific Islander Affairs; the Commission on Black Affairs; the Commission on Hispanic Affairs; and the Commission for Women. The commissions themselves serve as liaisons between the minority communities and government entities and work to establish economic, social, legal, and political equality in Oregon. The four commissions have 11 commission members each for a combined total of 44 commissioners.

The administrator of OACO is appointed by the chairpersons of the four commissions and the Commissioner of the Bureau of Labor and Industries.

Revenue Sources and Relationships

Agency operations are funded with General Fund. The only other revenue source is donation funds. Donation funds are dedicated by statute to the commission to which the donation was made and can only be used by the agency for the purpose for which the donation was made. Of the $8,019 in donations revenue available at the end of 2011-13, nearly 86% is attributable to the Commission on Asian Affairs.

Budget Environment

Each biennium, OACO staffs approximately 58 commission meetings, four joint commission meetings, and 24 joint leadership meetings, and prepares and submits four annual reports for each commission to the Legislature. OACO 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.

OACO also supports the work of the individual Commissions by providing all administrative functions including coordinating meetings and speakers, taking minutes, preparing reports and media releases, partnering with stakeholder groups, providing information and referrals for members of the public and elected officials, managing distribution lists, maintaining Commission websites, and overseeing budget/financial support. OACO contracts with the Department of Administrative Services for budget and accounting support.

The Governor's replacement of several commission members led to an increase in Attorney General charges for the agency, which was managed within OACO's approved budget due to the Department of Administrative Services foregoing some rent charges for the 2011-13 biennium.

Legislatively Adopted Budget

The legislatively adopted budget for the Office consists of $399,995 General Fund, $40,960 Other Funds, and two positions (2.00 FTE). The budget represents a $31,063, or 8.4%, General Fund increase from the 2011-13 legislatively approved budget and includes $10,300 for reimbursement of instate travel expense of non-legislator commissioner and staff and $3,491 to fund a portion (25%) of a Portland State University work study student to update the four commission websites as well as conduct some research.

The adopted budget included standard adjustments for Public Employees Retirement System savings ($7,226), statewide administrative savings ($2,863), state government service charges and other agency assessments ($5,880), a 5% General Fund reduction in non-fixed services and supplies ($850), and a 2% General Fund supplemental ending balance hold back. The supplemental ending balance adjustment to the budget equaled

$8,301 General Fund and is subject to restoration to the agency in February 2014 depending on the state's overall fiscal situation.

The agency's General Fund operating budget is about 80% personal services and 20% services and supplies. Other Funds expenditure authority for the donation funds is budgeted in the services and supplies category.

The only funding the four commissions receive is through OACO, otherwise each operates on a volunteer basis.

Citizens' Initiative Review Commission – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	0	115,000	11,026	0
Total Funds	**$0**	**$115,000**	**$11,026**	**$0**

Agency Overview

The Citizens' Initiative Review Commission was established by the Legislature in HB 2634 (2011) to convene citizen panels to review initiative measures in a fair and impartial manner. The Commission is to summarize findings and write recommendations for voter information pamphlets. While the initial Commission consists of seven members, it will eventually be comprised of 11 members. The Commission is also authorized to appoint an executive director and to enter into contracts to hire staff.

If there is sufficient funding, the Commission is required to select citizens for panels to review state measures proposed by initiative petition that are to be voted on in a general election. A determination of sufficient funding is to be made by the Commission no later than four months before the date of the general election in an even-numbered year. The Commission is to select one or more state measures to review and establish a separate citizen panel to review each selected measure. Each citizen panel is to consist of at least 18 but not more than 24 electors. Selections of the citizen panel members are to be made from survey sampling methods from a representative sample of anonymous electors. The panel members are to be compensated for each day served on the panel using an amount calculated using the average weekly wage of workers in covered employment in Oregon as determined by the Employment Department. Panel members are also eligible for reimbursement of travel expenses.

Revenue Sources and Relationships

The Commission is authorized to accept contributions and assistance from public and private sources.

Budget Environment

The original Citizen Initiative Review process was established by HB 2895 (2009) which authorized the Secretary of State to have non-profit organizations form citizen panels to review and create official statements on ballot initiative measures. The initial panels produced reviews on Measures 73 and 74 on the November 2010 ballot. Each review gave a Citizens' Initiative Review statement that had a shared agreement statement from the entire panel plus statements on the pros and cons of each measure.

During the 2011-13 biennium, the Commission contracted with the Oregon Health Licensing Agency to provide administrative support services.

Legislatively Adopted Budget

The Citizens' Initiative Review Commission was transformed into a semi-independent state agency by HB 2322 during the 2013 session. As a semi-independent state agency, the Commission is no longer subject to legislative budget review and is not subject to various other statutory requirements for regular state agencies, including personnel relations, contracting and procurement, and financial administration.

The Commission will need to provide a biennial report to the Legislative Fiscal Office on specified activities.

County Fairs – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Lottery Funds	2,807,758	3,498,007	3,576,453	3,669,380
Total Funds	**$2,807,758**	**$3,498,007**	**$3,576,453**	**$3,669,380**

Agency Overview

County Fairs are provided state support as a pass-through from the Department of Administrative Services (DAS) for financial assistance related to county fair activities. State funding is deposited into the County Fair Account, which is now administered by the Department of Administrative Services after the County Fair Commission was eliminated during the 2013 session. ORS 565.445 requires DAS to distribute the monies each January in equal shares to county fair boards. Pass-through expenditures are technically included in the budget of the Department of Administrative Services, but are displayed separately in Legislative Fiscal Office publications.

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.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget initially provided $3,648,000 Lottery Funds for payments to county fairs. With the elimination of the County Fair Commission, the $21,380 earmarked for County Fair Commission support in the Department of Agriculture budget was redirected to general county fair support. This adjustment brings the total allocation to $3,669,380 Lottery Funds, which is consistent with the statutory funding mechanism, as adjusted for the change in the Consumer Price Index.

Employment Relations Board (ERB) – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	1,621,408	1,932,803	2,104,873	1,894,849
Other Funds	1,471,941	1,862,696	2,141,431	1,901,273
Total Funds	**$3,093,349**	**$3,795,499**	**$4,246,304**	**$3,796,122**
Positions	13	13	13	13
FTE	12.50	13.00	13.00	13.00

Agency Overview

The Employment Relations Board's (ERB) mission is to resolve disputes concerning labor relations. ERB provides four main services to help employers, employees, and labor organizations resolve their disputes: labor mediation; contested case hearings; labor appeal cases; and union representation elections.

The Board for ERB, which acts as the state's "labor appeal court" for labor and management disputes within state and local government, is comprised of a three-member panel appointed by the Governor and approved by the Senate. The Board Chair, designated by the Governor, serves as the administrator of the agency. Other than the Chair, the Board exercises no administrative oversight over the agency.

ERB is governed by the collective bargaining law that covers public employees of the State of Oregon and its cities, counties, school districts, and other local governmental units, such as special districts; State Personnel Relations Law, which creates appeal rights for non-union state employees who believe they were treated unfairly in the workplace; and private sector labor-management relations law, which addresses collective bargaining for private sector employers who are exempt from federal law under the National Labor Relations Act.

Revenue Sources and Relationships

ERB is funded with 50% General Fund and 50% Other Funds. In concept, ERB receives General Fund revenue and charges fees to support labor relations functions conducted on behalf of local government while state government-related activities are supported by an Other Funds assessment on state agencies.

ERB expects to have $2.6 million in Other Fund revenue to support its legislatively adopted budget of $1.9 million. This includes a beginning balance of $840,693 and an ending balance of $503,610, which represents 6.4 months of reserves.

The ERB state agency assessment is based on the number of covered employees, including non-unionized employees from the Executive, Legislative, and Judicial branches as well as temporary employees. The employer rather than the employee pays the assessment. The projected state agency assessment revenue for 2013-15 is $1,504,800, which is based on a $1.65 assessment per month for approximately 38,000 state employees after various adjustments. State agency assessment revenue has a General Fund component since some agencies use General Fund to pay their assessment.

ERB expects to receive $90,100 in Other Funds from its statutory fees. The Board can charge $1,000 for the first two mediation sessions, $500 for the third session, $750 for the fourth session, and $1,000 for each additional session. Mediation fees are split equally between the public employers and bargaining units. Fees were last increased during the 2011 legislative session.

The agency charges fees for the following services: filing fees for unfair labor practice complaints, grievance mediations, arbitrator panel, and an hourly rate charged for mediation training. These fees are estimated to generate $156,000 for the 2013-15 biennium.

The agency charges for hard copies of documents, many of which are available online at no cost, administrative fees including copies, and filing via facsimile. These fees are estimated to total $4,905, and were last increased during the 2009 legislative session.

SB 270 exempted a university with an independent governing board from paying the ERB state agency assessment under ORS 240.167; however, ERB would still be required to provide services to such a university. Therefore, the cost would become a General Fund expense. ERB would require approximately $100,000 General Fund for the second year of the 2013-15 biennium to replace the lost revenue from the Oregon University System and approximately $200,000 General Fund for the 2015-17 biennium. The 2013 Legislature, however, deferred a decision to appropriate funding for this measure.

Budget Environment

ERB has had a period of recent challenges with a 100% turnover in the Board in the last year, including three Board chairs/administrators since 2011.

Increased legislative scrutiny of the agency began in 2011 and included two workgroup efforts to develop an assessment-based funding model to fund services provided to local government (a similar, although unsuccessful, effort was undertaken as recently as 2003) and to improve the timely disposition and the quality of ERB decisions. While no consensus was reached on a funding model, ERB has undertaken a number of administrative actions to improve its processes and procedures, including: establishing timelines for issuing orders; identifying specific types of contested cases for expedited processing; involving stakeholders in a review of the agency's processes and procedures; establishing a Rules Advisory Committee; completing an independent review of some recent Board orders; and involving stakeholders in a discussion of complaint or other actions that lack legal merit.

ERB's caseload is driven by state and local government, with the majority of its mediation and contested cases attributable to local government. Local government represents 70% of contested and mediation cases versus 30% for state agencies, based on an average of the last five years of filings beginning in 2012. The caseload for state government can be more complicated and time consuming than local government because they may involve single individuals seeking remedy under state personnel law.

Public sector caseloads for ERB are cyclical (i.e., vary by fiscal year) and influenced by the renegotiation of multi-year labor contacts. Until last year, ERB had not handled a private sector case since 2002. Private sector cases are infrequent because all but the smallest of companies with union representation fall under the jurisdiction of the federal government's National Labor Relations Board.

The state's collective bargaining environment has generally become more contentious with diminished state and local government resources. This has increased caseloads, challenges, and appeals of Board decisions.

The 2012 caseloads for each of ERB's programs are above the prior five year average. Administrative Law Judge cases totaled 194 as compared to a five year average of 138. Contract mediation cases totaled 115, compared to a five year average of 103. Appeals to the Board totaled 60 as compared to a five year average of 46. Election cases totaled 47 as compared to a five year average of 41.

Over the last five years, an average of 13% of Board orders have been appealed to the Oregon Court of Appeals. None of the Board's decisions had been reversed since fiscal year 2008. However, there has been a recent increase in Court of Appeal reversals (or remands) of ERB rulings.

The timely disposition of cases continues to be an issue for the agency based on a comparison of 2012 year data to the prior five year average. The average time to process a case from the date of filing to the final order was 167 days compared to an average of 159 days. It took Administrative Law Judges 211 days to issue a recommended order as compared to an average of 157 days. Mediation's timely disposition was 51 days as compared to an average of 50 days. The Board took 132 days to issue a final order as compared to an average of 112 days. Contested representation cases took 377 days compared to an average of 305 days, and uncontested cases took 54 days compared to an average of 56 days.

The timely disposition of cases has many influences, including the volume of cases, case complexity, budget reductions (i.e., furloughs), employee turnover, and new employee training, among others.

The inability of parties to file cases electronically is a developing issue for the agency, which has limited information technology resources and capability.

Legislatively Adopted Budget

The legislatively adopted budget for ERB consists of $1.9 million General Fund, $1.9 million Other Funds, and 13 positions (13.00 FTE). The budget represents a 0.02% increase from the 2011-13 legislatively approved budget. ERB proposed no policy package enhancements.

The budget is comprised of $3.2 million personal services (84%) and $610,012 services and supplies (16%).

The adopted budget eliminates $118,092 General Fund and $190,093 Other Funds for a pay-line equity differential of up to 15% for eight of the agency's thirteen employees. During the 2011-13 biennium, the agency, through the Department of Administrative Services (DAS), approved these pay differentials. The cost was funded with one-time vacancy and services and supplies savings. The differentials were included as part of the agency's current service level budget in an effort to provide permanent funding. However, without a prior history of budgeting a line item for differentials, it should not have been considered a current service level expense. The underlying purpose of pay differentials is to augment rather than circumvent the statewide compensation plan for specialized duties called out in administrative rule (e.g., bilingual skills, shift, educational, on-duty call, flight duty, etc.). Other compensation plan disparities that may arise are to be addressed through a DAS review.

ERB continues, however, to pay the eight employees pay-line equity differentials in anticipation that such funding will be restored during the legislative session in February 2014. ERB will have only have 16 months to balance its budget, if this funding is not restored.

The adopted budget included standard adjustments for Public Employees Retirement System savings ($87,336), statewide administrative savings ($7,162), state government service charge and other agency assessments ($4,647), a 5% General Fund reduction in non-fixed services and supplies ($4,035), and a 2% General Fund supplemental ending balance hold back. The supplemental ending balance adjustment to the budget equals $38,817 General Fund and is subject to restoration to the agency in February 2014 depending on the state's overall fiscal situation.

ERB – Administration

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	1,061,209	1,184,236	1,279,366	1,168,817
Other Funds	614,368	693,648	748,121	712,493
Total Funds	**$1,675,577**	**$1,877,884**	**$2,027,487**	**$1,881,310**
Positions	5	5	5	5
FTE	5.00	5.00	5.00	5.00

Program Description

The three-member Board acts as an "appeal court" for labor and management disputes within state and local governments. The Board is appointed by the Governor and is responsible for issuing final agency orders in declaratory rulings, contested case adjudications of unfair labor practice complaints, representation matters, and appeals from state personnel actions. Board orders may be appealed to the Oregon Court of Appeals, but until recently have rarely been overturned.

The Board Chair acts as the agency's administrator. The chair is assisted by an office administrator, and this program unit includes not only the activities of the Board mentioned above, but also the day-to-day administration of the agency, including budgeting, payroll, information technology, reporting, administrative rules, and supervision of staff. ERB contracts with the Department of Administrative Services – Shared Client Services to provide additional support services.

Budget Environment

In fiscal year 2012, the Board had 60 total cases, of which 47 were new case filings and 13 were prior fiscal year cases. The average caseload for the prior five fiscal years is 46 cases.

In fiscal year 2012, eight Board decisions were decided by the Oregon Court of Appeals with four being reversed or remanded by the Court. The last reversal or remand by the Court of a Board opinion occurred in 2007.

Legislatively Adopted Budget

The legislatively adopted budget for the Administration program consists of $1.2 million General Fund, $712,493 Other Funds, and five positions (5.00 FTE). The budget represents a 0.18% increase from the 2011-13 legislatively approved budget.

The adopted budget eliminates $52,967 General Fund and $17,474 Other Funds for a pay-line equity differential.

The adopted budget included standard adjustments for Public Employees Retirement System savings, statewide administrative savings, state government service charges and other agency assessments, a 5% General Fund reduction in non-fixed services and supplies, and a 2% General Fund supplemental ending balance hold back. The supplemental ending balance adjustment to the budget equaled $23,995 General Fund and is subject to restoration to the agency in February 2014 depending on the state's overall fiscal situation.

ERB – Mediation and Conciliation Services

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	239,416	330,674	345,388	317,540
Other Funds	333,649	492,262	589,913	498,991
Total Funds	**$573,065**	**$822,936**	**$935,301**	**$816,531**
Positions	4	4	4	4
FTE	3.25	3.50	3.50	3.50

Program Description

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

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

Contract mediation services are mandatory. Training and other mediation services are not mandatory.

Budget Environment

In fiscal year 2012, ERB had 115 requests for mediation services. The average for the prior five fiscal years is 103 requests. For fiscal year 2012, it took 51 days following a request for the first mediation session to be held. The average for the prior five fiscal years is 50 days. It typically takes two mediation sessions to resolve a dispute.

In fiscal year 2012, the agency's mediation/conciliation service resolved successfully approximately 79% of contract negotiation disputes for strike-permitted employees and 79% for non-strike-prohibited employees.

Legislatively Adopted Budget

The legislatively adopted budget consists of $317,540 General Fund, $498,991 Other Funds, and four positions (3.50 FTE). The budget represents a 0.78% decrease from the 2011-13 legislatively approved budget.

The adopted budget eliminates $13,248 General Fund and $77,518 Other Funds for a pay-line equity differential.

The adopted budget included standard adjustments for Public Employees Retirement System savings, state government service charges and other agency assessments, a 5% General Fund reduction in non-fixed services and supplies, and a 2% General Fund supplemental ending balance hold back. The supplemental ending balance adjustment to the budget equaled $6,483 General Fund and is subject to restoration to the agency in February 2014 depending on the state's overall fiscal situation.

ERB – Hearings

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	252,270	353,214	407,273	344,988
Other Funds	517,008	670,746	795,303	682,590
Total Funds	**$769,278**	**$1,023,960**	**$1,202,576**	**$1,027,578**
Positions	4	4	4	4
FTE	3.75	4.00	4.00	4.00

Program Description

The Hearings Office is comprised of three Administrative Law Judges (ALJ) and one support staff. The Administrative Law Judges adjudicate unfair labor practice complaints filed by state and local government or labor organizations, as well as appeals filed by state management and unrepresented classified employees. They also preside over matters referred by the Elections Coordinator that require a contested case hearing. Following the hearings, the Administrative Law Judges issue "proposed" decisions. All proposed decisions are forwarded to the Board for automatic review and the issuance of a final order. The Board does not have to concur with the ALJ proposed decision. Parties, who disagree with the ALJ's proposed decision, have the right to appeal the decision, which will then be argued before the Board. Parties can appeal the Employment Relations Board's final orders to the Oregon Court of Appeals.

Budget Environment

In fiscal year 2012, ERB had 194 total ALJ cases, of which 128 were new case filings and 66 were prior fiscal year cases. The average for the prior five fiscal years is 138 cases. For fiscal year 2012, it took 575 days to process a case that involved a hearing(s) from filing to final order. The average for the prior five fiscal years is 565 days.

In 2007, ERB made an administrative decision to suspend ALJ travel to the site of the dispute. Instead, all hearings were conducted in Salem. This meant that instead of one ALJ traveling to the community where most of the witnesses work or reside, the public employer and the union had to pay to have witnesses travel to Salem, which can be a significant expense to the jurisdictions involved. The 2013 Legislature directed, through a budget note, to reinstate administrative law judge travel to local jurisdictions for contested case hearings.

Legislatively Adopted Budget

The legislatively adopted budget consists of $344,988 General Fund, $682,590 Other Funds, and four positions (4.00 FTE). The budget represents a 0.35% increase from the 2011-13 legislatively approved budget.

The adopted budget eliminates $45,433 General Fund and $94,384 Other Funds for a pay-line equity differential.

The adopted budget included standard adjustments for Public Employees Retirement System savings, state government service charges and other agency assessments, a 5% General Fund reduction in non-fixed services and supplies, and a 2% General Fund supplemental ending balance hold back. The supplemental ending balance adjustment to the budget equaled $7,043 General Fund and is subject to restoration to the agency in February 2014 depending on the state's overall fiscal situation.

ERB – Elections

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	68,513	64,679	72,846	63,504
Other Funds	6,916	6,040	8,094	7,199
Total Funds	**$75,429**	**$70,719**	**$80,940**	**$70,703**
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.

Budget Environment

In fiscal year 2012, ERB had 47 requests for representation elections, of which 39 were new requests and eight were from the prior fiscal year. The average for the prior five fiscal years is 41 requests. For fiscal year 2012, it took 377 days for resolve a petition for a union representation election when a hearing was required. The average for the prior five fiscal years is 306 days.

The Elections program staff is split equally with the Conciliation Services program.

Legislatively Adopted Budget

The legislatively adopted budget consists of $63,504 General Fund, $7,199 Other Funds, and 0.50 FTE. The budget represents a 0.02% decrease from the 2011-13 legislatively approved budget.

The adopted budget eliminates $6,444 General Fund and $717 Other Funds for a pay-line equity differential.

The adopted budget included standard adjustments for Public Employees Retirement System savings and a 2% General Fund supplemental ending balance hold back. The supplemental ending balance adjustment to the budget equaled $1,296 General Fund and is subject to restoration to the agency in February 2014 depending on the state's overall fiscal situation.

Government Ethics Commission – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	162,912	0	0	0
Other Funds	1,244,405	1,615,856	1,606,484	1,935,994
Total Funds	**$1,407,317**	**$1,615,856**	**$1,606,484**	**$1,935,994**
Positions	8	8	7	8
FTE	8.00	8.00	7.00	7.88

Agency Overview

The mission of the Government Ethics Commission is to impartially administer the regulatory provisions of Oregon government ethics, lobby regulation, and certain public meeting laws. The Commission and its staff educates public officials and lobbyists on the provisions of Government Ethics Law, Executive Session of the Public Meetings Law, and lobbying regulations, through either online or in-person training.

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. Unlike most commissions, members are limited to one four year term and may not be reappointed. The executive director is appointed by the Commission.

The commission actions fall along a continuum from educational to formal sanction. The commission's emphasis is on providing training, general advice, staff advice, or a more formal staff and/or commission issued advisory opinion. A formal complaint requires a preliminary review by staff and may trigger an investigation, preliminary finding, or a contested case hearing. The Commission is required by law to meet specific timelines for the conduct of investigations. At any time during the process a complaint can be dismissed or a settlement negotiated through a stipulated final order issued by the Commission. A formal finding by the Commission may include a letter of reprimand, a civil penalty, and/or a forfeiture. Contested cases are handled through the state's administrative hearings process. Contested case decisions may be appealed to the state Court of Appeals.

Revenue Sources and Relationships

The Commission's 2013-15 legislatively adopted budget includes $2.5 million in assessment revenue. Of this amount, $800,000 is attributable to a one-time assessment to fund a statutory requirement that the agency provide an electronic reporting system for lobbyists and public officials who must file annual Statements of Economic Interest.

The Commission was historically funded almost entirely by General Fund. Beginning with the 2009-11 biennium, the agency's funding was changed to an assessment model with operating costs equally shared between state agencies and local government entities. State agencies are assessed based upon their number of full-time equivalent positions. Local entities are assessed based upon a formula connected to the Municipal Audit charge collected by the Secretary of State. A portion of these assessment revenues originates as General Fund.

From imposing civil penalties, the Commission collects fines and forfeitures. These revenues are transferred to the General Fund and are not used to support agency operations. The Commission collected more than $40,000 in fines and forfeitures during 2011-13 and estimates collecting $75,000 in 2013-15 biennium.

Budget Environment

There are an estimated 200,000 public officials subject to the Commission's jurisdiction, with the vast majority serving at the local government level.

The Commission received 114 complaints in calendar year 2012, with 41 (36%) outside its jurisdiction and 21 (18%) requiring additional information. For 2012, the Commission received 25 ethics (22%), 17 executive session (15%), and 10 lobby (9%) complaints and had no contested case hearings or appeals. These complaints were tracked by jurisdiction: state 4 (8%); cities 17 (33%); counties 8 (16%); education 8 (16%); special districts 4 (8%) and other 10 (20%).

Attorney General (AG) charges had been a major variable in the Commission's budget, but beginning with the 2011-13 biennium, the agency has been part of a pilot program initiated by the Attorney General's office that changed its billings from a traditional variable to a flat (biennial) rate plan. In prior biennia, the Commission's Attorney General charge varied greatly depending upon whether the Commission faced any contested cases. Under the current assessment budget model, the Commission would look to its cash balance to cover extraordinary AG costs and seek an increase in expenditure limitation, if needed. The Commission could request General Fund support from the Emergency Board, if its cash resources prove insufficient.

As noted, $800,000 of one-time assessment revenue was approved for an electronic reporting system. However, the Legislature provided the Commission with authority to expend only $250,000 of the $800,000. The initial funding is to update the project business case, foundation project management documentation, a project work plan, a budget, and secure a vendor contract. When this information becomes available, the Commission will make a recommendation to the Legislature in 2014 on how to proceed with the project. The Legislature will then make a determination as to whether to authorize the remaining $550,000 in expenditure limitation for the project. The Commission will have to rely upon the Department of Administrative Services for project oversight, management, and procurement support. The project had a statutory completion date of January 1, 2015, which had been delayed previously by one year. In HB 2322 (2013), the budget program change bill, the operative date was delayed by another year until January 1, 2016 to allow sufficient time for the project to be planned and implemented. The agency's budget does not include any ongoing operation and maintenance cost for the proposed system.

Legislatively Adopted Budget

The Commission's 2011-13 legislatively adopted budget is $1.9 million Other Funds and eight positions (7.88 FTE). The budget is $320,198, or 19.8%, more than the 2011-13 legislatively approved budget and includes $250,000 of initial funding for the electronic reporting system of Statements of Economic Interest. The budget provides $122,202 to restore an ethics trainer position that was not included in the Governor's budget (0.88 FTE). Additionally, $4,705 was provided to fund the upward reclassification of an existing compliance specialist to the same classification as the Commission's other investigator position.

The adopted budget included standard adjustments for Public Employees Retirement System savings ($25,262), statewide administrative savings ($9,363), and state government service charges and other agency assessments ($12,772).

The agency's Other Funds operating budget is about 64% personal services and 36% services and supplies.

Office of the Governor – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	10,071,418	31,157,883	52,082,405	10,007,383
Lottery Funds	1,941,910	1,815,295	2,419,152	3,261,204
Other Funds	3,768,185	13,471,928	21,399,806	2,809,734
Federal Funds	0	5,413,248	5,332,742	0
Total Funds	**$15,781,513**	**$51,858,354**	**$81,234,105**	**$16,078,321**
Positions	71	74	73	57
FTE	70.00	70.14	69.75	56.50

Agency Overview

The Office of the Governor provides overall direction to state agencies within the Executive Branch to ensure compliance with statutes and efficient and effective management. The Office includes program area policy advisors, a Diversity and Inclusion Office, a citizen's input center, an Office of Intergovernmental and Regional Solutions, an Economic and Business Equity function, the Arrest and Return program, and provides clerical support for appointing members to boards and commissions. SB 909 (2011) created the Oregon Education Investment Board and the Early Learning Council. Both of these functions were located in the Governor's Office during the 2011-13 biennium, but were transferred out of the Office for 2013-15.

Revenue Sources and Relationships

The Office of the Governor is supported mainly by General Fund. Lottery Funds are used for the Regional Solutions program. Other Funds includes revenue transfers from other agencies. These transfers finance the Diversity and Inclusion and Economic and Business Equity programs. The Diversity and Inclusion program is funded from the transfer of a Department of Administrative Services Human Resource Services Division assessment estimated at $975,000 for the biennium. The Economic and Business Equity program is funded from assessments on agencies that have capital construction funded in their budgets and also receives funds from sponsoring conferences. The Federal Funds in 2011-13 were part of the temporary transfer of early childhood and youth development programs into the Governor's Office. Those programs are transferred to the Department of Education for the 2013-15 biennium.

Additional Other Funds are again provided this biennium through revenue transfers from a number of other state agencies to fund policy advisors and general support staff in the Office.

Budget Environment

The budget is driven by the number of staff and programs operated out of the Governor's Office. In the past, the Office of the Governor has augmented the office staff by: borrowing staff from existing agencies; hiring staff and having other agencies pay their salaries by double filling positions; or hiring staff and having agencies reimburse the Office for their costs. The Legislature attempted to end this practice and place these "off-budget" positions and costs in the budget of the Office of the Governor during the 2007-09 biennium. With the election of a new Governor in November 2010, the Office was reorganized in an attempt to meet his needs, and to recognize the scarcity of General Fund resources available for agency operations. The Legislature still has concerns with the number and funding of positions in the Governor's Office. A budget note directs the agency to return to the 2014 legislative session with a report showing the positions that are funded by other agencies, the total cost of those positions, and a proposal to reduce, eliminate, or realign those positions.

Legislatively Adopted Budget

The 2013-15 adopted budget for the Office of the Governor is $21,150,500 General Fund (67.9%) and $10,662,194 Other Funds (79.1%) less than the 2011-13 approved budget. Lottery Funds are $1,445,909 (79.7%) more than the 2011-13 approved budget level.

The large deceases in General Fund and Other Funds can be attributed to the transfer of the Oregon Education Investment Board to a standalone agency and early childhood and youth development programs to the Department of Education. These programs were high priorities for the Governor during the 2011 and 2012 legislative sessions. There was not a final plan on where these programs should be funded during the 2011-13 biennium so they were temporarily funded in the Governor's Office. The increase in lottery funds is mostly due to the addition of three limited duration positions that are to focus on streamlining the permitting process for projects that cross all levels of government.

The Governor's salary, along with the salaries of a number of other elected officials, was increased by $5,000 General Fund per year.

The General Fund budgets of all agencies were reduced by 2% to create a statewide supplemental ending balance. Some or all of those reductions may be restored during the February 2014 legislative session.

Oregon Historical Society – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	577,215	0	0	735,000
Lottery Funds	0	233,298	210,392	210,392
Other Funds	0	2,549,322	0	0
Total Funds	**$577,215**	**$2,782,620**	**$210,392**	**$945,392**

Agency Overview

The Oregon Historical Society (OHS) was chartered by the state in 1898 to gather and preserve documents, manuscripts, publications, films, recordings, and artifacts. The organization also supports local historical societies, museums, and heritage efforts statewide. Agency facilities include the Oregon History Center's regional research library and museum and other sites. OHS offers education programs through the Society's mobile museum and school services. The agency produces the *Oregon Historical Quarterly* and books from its press. The Society also coordinates the Century Farms and Ranch Program, the Oregon Geographic Names Board, and liaison with more than 120 heritage organizations statewide.

Revenue Sources and Relationships

OHS is a nonprofit organization that is financed largely by membership fees, contributions, and publication sales. State support has been intermittent in recent biennia. In the past, the state grant amounted to slightly more than 10% of the Society's operating budget. The balance of the Society's budget has come from restricted gifts and grants, memberships and unrestricted grants, grants from local governments, operations, and investment income and bequests.

The 2009 Legislature passed SB 961, which authorizes the Oregon Department of Transportation to issue a "Pacific Wonderland" license plate and collect an associated $100 surcharge. Net revenues from the surcharge are split evenly between the Oregon Historical Society and Oregon State Capitol Foundation; the surcharge is estimated to bring in about $1.3 million for each entity over the first two biennia of the program. The bill allows for issuance of up to 40,000 specialty plates; 7,186 plates were sold in calendar year 2010.

Budget Environment

Since 2001-03, no state funding had been given to OHS until 2007-09 when the Legislature provided $2.5 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 2009-11 budget originally included $625,000 General Fund for OHS operations; that amount was reduced to $577,215 due across-the-board General Fund allotment reduction actions.

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

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget includes $225,133 Lottery Funds to cover debt service on $2.5 million in bonds authorized in the 2011-13 budget to pay off the mortgage on the Society's storage facility in Gresham. The adopted budget also contained $750,000 General Fund for OHS operations, which was reduced by $15,000 to reflect the 2% supplemental statewide ending balance hold back reduction on all General Fund support.

Oregon State Library (OSL) – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted*
General Fund	3,128,064	2,868,303	3,195,561	1,591,908
Other Funds	5,904,640	6,325,531	6,781,007	2,774,285
Federal Funds	4,475,725	4,747,696	4,917,005	2,463,398
Total Funds	**$13,508,429**	**$13,941,530**	**$14,893,573**	**$6,829,591**
Positions	44	43	43	41
FTE	42.26	41.26	41.26	19.63

** The Legislatively adopted budget provides only one year of funding for the agency with the second year contingent upon the Legislature's approval of a reorganization plan and budget during the legislative session in February 2014.*

Agency Overview

The Oregon State Library's (OSL) mission is to provide quality information services to state agencies, reading materials to blind and print-disabled individuals, and leadership, grants, and other assistance to improve local library service.

The Oregon State Library Board of Trustees consists of seven members appointed by the Governor who are responsible for setting policy for OSL and adopting long-range plans for library services statewide. The State Librarian is appointed by the Board of Trustees and oversees the day-to-day operations of the agency.

Revenue Sources and Relationships

OSL is funded with 23% General Fund, 41% Other Funds, and 36% Federal Funds.

The legislatively adopted budget provides only one year of funding for the agency with the second year contingent upon the Legislature's approval of a reorganization plan and budget during the legislative session in February 2014.

OSL expects to have $6 million in Other Funds revenue to support its 2013-15 legislatively adopted budget, which includes a beginning balance of $2.1 million. Other Funds revenues are generated from four main sources as follows: an assessment on all state agencies, except the Oregon University System; donations and interest income; reimbursements from local libraries for their portion of costs associated with database licensing; and miscellaneous receipts.

The OSL assessment is based two-thirds on the number of state agency full-time equivalents and one-third on the use of OSL by agencies during the prior biennium. The projected state agency assessment revenue for 2013-15 is $5,349,662. The amount of the assessment is based on a 24 month period and therefore may need to be adjusted downward, if funding for the agency is not approved for the second year of the biennium. State agency assessment revenue has a General Fund component since some agencies use General Fund to pay their assessment.

OSL's Other Funds include donations and bequests, most of which are attributable to the Talking Book and Braille Services (TBABS) Donation Fund and the TBABS Endowment Fund. The Funds have a projected beginning balance of $175,234 and $1.1 million, respectively.

OSL receives Federal Funds from the Institute of Museum and Library Services under the Library Services and Technology Act (LSTA) per a population-based formula. The budget assumes Federal Funds pursuant to this grant in the amount of $4.9 million. The LSTA grant requires a 34% match rate as well as maintenance of effort (MOE) 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, although a federal waiver process does exist.

OSL has been able to meet LSTA match and MOE in part due to a new practice of including donation funding in its calculations. However, declining state resources may make maintaining these federal requirements difficult with the result being the loss of some federal funds, unless a federal waiver is granted.

Budget Environment

Oregon's state library, like practically every other state library across the county, is facing a myriad of challenges from having to justify its business model and funding level to keeping pace with technologic and demographic changes. State libraries are struggling to reconstitute themselves to remain viable in the digital age and in an environment of declining resources.

The Oregon Legislature has been acutely aware of such challenges. In 2011 it directed that a workgroup, comprised of OSL, the Secretary of State, and the Judicial Department, review ways to consolidate services and restructure OSL. The workgroup provided solid recommendations, but ultimately only a few were implemented. The 2013-15 Governor's budget, keying off this lack of progress, recommended that only one year of funding be provided the agency with the second year contingent upon the following reorganization: (a) eliminate Government Research Services; (b) consolidate the Library's document repository and reference services with the Secretary of State's Archives Division; and (c) reduce the costs for the Talking Books and Braille Services and other Library services by implementing the recommendations of the 2011 workgroup. The Legislature in 2013 adopted the Governor's recommendations after its frustration with the lack of progress. The agency is currently working with the Department of Administrative Services on an overall agency restructuring, or "transformation," plan to present to the Legislature in 2014, which will likely differ from that directed by the Governor.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget for one year totals $6.8 million and is $7.1 million, or 51%, less than the 2011-13 legislatively approved budget and includes 41 positions (19.63 FTE). The Emergency Board has a $1.7 General Fund special purpose appropriation for the second year of funding for the agency, allocation of which is contingent upon the State Library submission of an acceptable reorganization plan.

OSL's budget is comprised of $3.1 million (45%) personal services, $1.7 million (24%) services and supplies/ capital outlay, and $2.1 million (31%) special payments primarily to local libraries.

The agency's budget was reduced by a total of $330,811 and two positions (2.00 FTE) as part of a decision made by the Emergency Board in May of 2012, which was part of a legislative plan from the 2012 session to restructure state government business operations by making permanent changes to the management of agency programs and services.

The adopted budget included standard adjustments for Public Employees Retirement System savings ($71,029), statewide administrative savings ($35,032), state government service charges and other agency assessments ($51,358), a 5% General Fund reduction in non-fixed services and supplies ($4,676), and a 2% General Fund supplemental ending balance hold back. The supplemental ending balance adjustment to the budget equaled $32,951 General Fund and is subject to restoration to the agency in February 2014 depending on the state's overall fiscal situation.

OSL – Administration

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	217,602	100,544	143,609	51,165
Other Funds	881,494	1,072,095	1,079,115	392,145
Federal Funds	107,148	121,254	123,768	47,670
Total Funds	**$1,206,244**	**$1,293,893**	**$1,346,492**	**$490,980**
Positions	6	6	6	5
FTE	5.68	5.68	5.68	2.34

Program Description

The Administration program coordinates the mission and goals of the agency and manages the finance, budget, accounting, personnel, and volunteer functions of the agency. The agency recently began contracting with the Department of Administrative Services for its Human Resource (HR) needs, after the elimination of the agency's HR staff person. The program also supports the activities of the State Library Board of Trustees.

Revenue Sources and Relationships

The Administration program is funded with 11% General Fund, 80% Other Funds (state agency assessment), and 10% Federal Funds.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of one year totals $490,980 and is $802,913, or 62%, less than the 2011-13 legislatively approved budget and includes five positions (2.34 FTE).

The program's budget was reduced by a total of $182,623 and one position (1.00 FTE) as part of a decision made by the Emergency Board in May of 2012, which was part of the legislative plan from the 2012 session, to restructure state government business operations by making permanent changes to the management of agency programs and services.

The adopted budget included standard adjustments for Public Employees Retirement System savings, statewide administrative savings, state government service charges, other agency assessments, a 5% General Fund reduction in non-fixed services and supplies, and a 2% General Fund supplemental ending balance hold back. The supplemental ending balance adjustment to the budget equaled $1,044 General Fund and is subject to restoration to the agency in February 2014 depending on the state's overall fiscal situation.

OSL – Library Development

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	1,700,329	1,655,167	1,766,885	916,183
Other Funds	19,112	141,517	144,922	72,461
Federal Funds	4,322,771	4,578,414	4,739,282	2,362,401
Total Funds	**$6,042,212**	**$6,375,098**	**$6,651,089**	**$3,351,045**
Positions	6	6	6	6
FTE	6.00	6.00	6.00	3.00

Program Description

The Library Development program is responsible for assisting local public and private libraries and improving the overall quality of library services in the state through distribution of federal (Library Services and Technology Act) 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.

The LSTA grant must be distributed through a "State Library Administrative Agency," which for Oregon is the State Library. LSTA grant funds are used to fund various statewide services and competitive grants to libraries. LSTA funds must be spent based on OSL's LSTA Five Year plan submitted to the Institute of Museum and Library Services. OSL's plan includes: providing access for information resources and library services; use of technology to provide library services and expand access to libraries; develop culture in libraries; and develop information literacy skills; among others.

Ready to Read is a state grant program that makes grants available to any legally-established public library in Oregon and must be used to provide early literacy services/training for parents and caregivers and summer reading programs. Ready to Read grants are based on a formula of the number of children up to 14 years of age in a given county plus a factor for the square miles in the county. Grants are on a per-library basis with the minimum of a $1,000 grant for each library each fiscal year.

Revenue Sources and Relationships

The program is funded with 27% General Fund, 2% Other Funds, and 71% Federal Funds.

Federal Funding is from the Institute of Museum and Library Services under the Library Services and Technology Act (LSTA) per a population-based formula. The budget assumes Federal Funds pursuant to this grant in the amount of $4.9 million. The LSTA grant requires a 34% match rate as well as a maintenance of effort based on the average of the last three years of non-federal library expenditures relevant to the priorities of LSTA. Reductions in state funding result in an identical percentage reduction in LSTA funding. LSTA allows for a 4% administrative expense, which may be low compared to other federal grants.

State General Fund in this program helps fulfill the federal LSTA match and maintenance of effort requirements.

Budget Environment

The Library Development program serves some of the approximately 1,600 local public and private libraries, including school and academic libraries, in Oregon.

The Ready to Read program is funded with General Fund at $1,458,940, or $0.94 per child. Comparable funding in recent biennia has ranged from a low of $0.67 per child to a high of $1.00 per child, for the 2007-09 biennium.

The Ready to Read program makes approximately 128 grants per fiscal year and 193,870 children participated in Summer Reading Programs in fiscal year 2012, which is its highest point in the last five fiscal years, but represents only 28% of the eligible population (692,393).

OSL's Ready to Read Grant program is a component of the Oregon Early Reading Program Initiative (HB 3232). OSL is working with local libraries to encourage participation and develop early learning activities and to use the state's Ready to Read funds in cooperation with other local early learning efforts.

OSL uses approximately 70% of the LSTA grant to fund statewide projects, such as reference services, access to full-text databases, rural courier services, services to the underserved, youth services, technology development consulting, and its own administrative expenses.

OSL uses the remaining 30% of LSTA funding for competitive grants. Recently funded grants were provided to some local libraries, but also public universities, a private university, and several private non-profit entities. These grants funded such things as digitizing local historic newspapers, gallery exhibits, "Homework Help," oral histories, public speakers, and the Oregon architecture mobile project, among others.

LSTA funding for the last eight federal fiscal years, beginning in FFY 2004, has totaled $17.7 million with the average grant being $2.2 million. Funding for FFY2004 was $2.1 million and $2.2 million in FFY2011. The overall federal appropriation was reduced by 5% due to federal sequestration thereby reducing state allocations. The continued sustainability of the current level of federal funding into the future may be of question given the federal budget deficit.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of one year totals $3.4 million and is $3 million, or 47%, less than the 2011-13 legislatively approved budget and includes six positions (3.00 FTE).

One enhancement above the current service level was included in the agency's budget: $196,979 General Fund for the Ready to Read program. Originally, OSL sought the expansion of the program to include Oregon's 15-17 year old population, but that was denied by the Legislature. Instead, the additional funding is only to be used to fund the existing summer reading programs for ages up to 14 years old. This direction may be reconsidered during the Legislative session in 2014 and for the second fiscal year of the biennium if the State Library is able to provide a specific plan for how it can serve effectively the 15-17 year old population and if it is able to develop such a plan with the Oregon Education Investment Board and other related administrative programs charged with implementing the Governor's Oregon Early Reading Program Initiative (HB 3232). Again, this brings total funding for the program to $1,458,940, or $0.94 per child.

The program's budget was reduced by a total of $31,565 General Fund as part of a decision made by the Emergency Board in May of 2012, which was part of a legislative plan from the 2012 session to restructure state government business operations by making permanent changes to the management of agency programs and services.

The adopted budget included standard adjustments for Public Employees Retirement System savings, state government service charges, other agency assessments, a 5% General Fund reduction in non-fixed services and supplies, and a 2% General Fund supplemental ending balance hold back. The supplemental ending balance adjustment to the budget equaled $18,921 General Fund and is subject to restoration to the agency in February 2014 depending on the state's overall fiscal situation.

OSL – Talking Book and Braille Services

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	1,210,133	1,112,592	1,285,067	624,560
Other Funds	225,399	363,760	390,620	194,070
Total Funds	**$1,435,532**	**$1,476,352**	**$1,675,687**	**$818,630**
Positions	9	9	9	9
FTE	8.74	8.74	8.74	4.37

Program Description

In cooperation with the Library of Congress, which provides books, book players, and postage at no cost to Oregon, Talking Book and Braille Services (TBABS) is a statewide program that provides reading materials in audio-recorded or Braille formats to individuals with limited vision or other disabilities that prevent the use of traditional books and printed materials. OSL is responsible for maintaining the inventory of materials and distribution as well as administering the program.

This federal-state cooperative partnership has been in place for almost 80 years and helps local public libraries meet their requirements under the Americans with Disabilities Act. The program participants are not means-tested nor pay a fee for this service.

The program also provides access to Braille and Audio Reading Download (BARD), which provides audio books via an internet download. It provides a daily audio newspaper service for three of Oregon's newspapers to blind and print-disabled Oregonians. For the second biennia in a row, OSL and the Commission for the Blind were unsuccessful in receiving legislative approval to use the Residential Service Protection Funds overseen by the Public Utility Commission to expand the number of audio newspapers for the blind and print disabled.

Revenue Sources and Relationships

The program is funded with 76% General Fund and 24% Other Funds (donations).

OSL's Other Funds include donations and bequests, most of which are attributable to the Talking Book and Braille Services (TBABS) Donation Fund and the TBABS Endowment Fund. The Funds have a projected beginning balance of $175,234 and $1.1 million, respectively. ORS 357.015(6) gives the Library board of trustees authority to "have control of, use and administer the Donation Fund for the benefit of the State Library, except that every gift, devise or bequest for a specific purpose shall be administered according to its terms." The trustees have adopted a policy of using TBABS Donation Funds for TBABS program enhancements (not regular operating funding), however, interest earnings from the Endowment Fund and money from the donation fund continue to be used by the Legislature in order to fund agency operating expenses. OSL is spending $82,000 of donation funding it receives on core services and averages about $80,000 per year in new donations.

State General Fund and donation funds in this program help fulfill the federal LSTA match and maintenance of effort requirements.

Outside of the state budget for OSL, the agency estimates that it receives approximately $4.3 million in in-kind federal support for the TBABS program for the players, books, and postage it receives.

Budget Environment

The program has 5,219 registered patrons, which is down from the 2005 high of 7,156 Oregonians served. Advances in technology are moving the program from tape players to digital players and now to BARD for patrons with internet capability. However, accessibility issues for some patrons means that a complete transition to BARD will likely not occur.

While the switch to digital talking books in September of 2009 has stemmed the decline in registered users, the program still only services approximately 8% of the total number of Oregonians who are eligible to participate (55,350), which is down from the 2005 high of 14%. Over 73% of TBABS participants are 60 years or older and 42% are over 80 years old. The challenge for the program continues to be its registration penetration rate, and in particular, younger non-registrants.

Apart from TBABS, the availability, either commercially or through public libraries, of books on compact disk or downloadable audio files is able to fill the needs of a certain segment of this particular population.

OSL contracts with the State of Utah to provide braille print materials.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget for one year totals $818,630 million and is $657,722, or 45%, less than the 2011-13 legislatively approved budget and includes nine positions (4.37 FTE).

The program's budget was increased by $36,812 General Fund as part of a decision made by the Emergency Board in May of 2012, which was part of a legislative plan from the 2012 session to restructure state government business operations by making permanent changes to the management of agency programs and services.

The adopted budget included standard adjustments for Public Employees Retirement System savings, state government service charges, other agency assessments, a 5% General Fund reduction in non-fixed services and supplies, and a 2% General Fund supplemental ending balance hold back. The supplemental ending balance adjustment to the budget equaled $12,986 General Fund and is subject to restoration to the agency in February 2014 depending on the state's overall fiscal situation.

OSL – Government Research and Electronic Services

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	4,778,635	4,748,159	5,166,350	2,115,609
Federal Funds	45,806	48,028	53,955	53,327
Total Funds	**$4,824,441**	**$4,796,187**	**$5,220,305**	**$2,168,936**
Positions	23	22	22	21
FTE	21.84	20.84	20.84	9.92

Program Description

Government Research and Electronic Services (GRES) provides research assistance to state government. Services include: the State Employee Information Center website; research assistance from professional librarians; document delivery from the Library collection or other libraries via interlibrary loan; distribution of state agency publications to depository libraries; cataloging and archiving of state agency publications in print and electronic formats; electronic mailing list service; maintenance of the search box on the Oregon.gov website; the State Library eClips daily news briefing service and other current awareness services; and staffing of the Legislature's library during legislative sessions.

Since 1907, OSL has been responsible for the Oregon Documents Depository Program by providing permanent public access to Oregon state government publications. In 2006, OSL instituted the Oregon Documents Repository, which collects, preserves, and provides access to online publications of Oregon state government.

In addition, the general public obtains special information concerning state government publications, a limited photo collection, Oregon history, and genealogy (through a partnership with the Willamette Valley Genealogical Society).

Revenue Sources and Relationships

The program is funded by a state agency assessment that is based two-thirds on the number of state agency full-time equivalents and one-third on the use of OSL by agencies during the prior biennium. The projected state agency assessment revenue for 2013-15 is $5,349,662. The amount of the assessment is based on a 24 month period and therefore may need to be adjusted downward, if funding for the agency is not approved for the second year of the biennium. State agency assessment revenue has a General Fund component since some agencies use General Fund to pay their assessment.

The program also receives a $53,327 in federal funding, which pays for approximately 10% of information technology staff time attributable to the LSTA grant.

Budget Environment

There are a total of 9,109 registered users of GRES information services, which is about a quarter of all state employees. However, only 800, or 2%, of state employees actual use GRES database and document delivery services. Another 1,271 users are subscribers to eClips.

GRES received 12,488 requests from state agencies during the first 21 months of the 2011-13 biennium. This equates to an average of 595 requests per month, which is approximately 42% less than the 900 requests per month averaged the prior two biennia. The agency's explanations for this decline are: budget reductions have reduced the number of databases available for research; state employees are conducting their own online research; and the reduction of training on GRES services for state employees.

A total of 16 agencies, out of approximately 100 total state agencies, make up 92% of the requested materials, with the largest consumers being the Oregon Health Authority (38%) and Department of Human Services (13%), which combined comprise 51% of all requests. The next largest group of agencies comprise another 37% of requests: Department of Fish and Wildlife (6%), Public Utility Commission (5%); Department of Environmental Quality (5%); Oregon Youth Authority (3%); Department of Forestry (3%); Department of Corrections (3%); Department of State Police (3%); Department of Agriculture (3%); Department of Education (2%); Department of Consumer and Business Services (2%); and the Department of Transportation (2%). All other agencies comprise 1% or less of the total number of requests.

The general nature of agency requests are: medicine/health (40%); social sciences (20%); natural resources (10%); business and economics (8%); wildlife/fish (5%); and a variety of other categories (17%).

The challenge for the GRES program is what value-add does it provide to state agencies and at what cost and whether a centralized model of government research remains viable in the digital age. Additionally, the understanding of what differentiates GRES depository and repository services from the services provided by the Secretary of State Archives Division needs to be better understood in order to eliminate any duplication of services. Coordination of GRES and SOS services could also be improved.

Lastly, some state agencies continue to maintain their own libraries and employ their own librarians. These entities also pay for GRES services through OSL's state agency assessment.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget for one year totals $2.2 million and is $2.6 million, or 55%, less than the 2011-13 legislatively approved budget and includes 21 positions (9.92 FTE).

The program's budget was reduced by a total of $153,435 as part of a decision made by the Emergency Board in May of 2012, which was part of a legislative plan from the 2012 session to restructure state government business operations by making permanent changes to the management of agency programs and services.

The adopted budget included standard adjustments for Public Employees Retirement System savings and state government service charges and other agency assessments.

Oregon Liquor Control Commission (OLCC) – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	128,101,562	140,096,446	148,355,879	150,626,250
Total Funds	**$128,101,562**	**$140,096,446**	**$148,355,879**	**$150,626,250**
Positions	237	239	234	233
FTE	230.18	231.72	228.63	227.63

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 ($36.3 million for 2013-15) are first allocated for payments to the Mental Health Alcoholism and Drug Services Account ($17.8 million), and $638,000 is assumed to be transferred to the Wine Advisory Board. The remaining privilege tax revenues, along with all other revenues (primarily from liquor sales), are first used to pay contracted liquor agents and to finance Commission operations (including liquor purchases). The excess balance is apportioned to the state General Fund (56%), and to city (34%) and county (10%) general funds.

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

The 2013-15 legislatively adopted budget is expected to result in gross "regular" liquor sales amounting to $1.04 billion, and $32.4 million in revenue from the continuation of a $0.50 per bottle surcharge first imposed in 2009. Per HB 2322 (2013), all revenue resulting from the surcharge, will be credited exclusively to the state General Fund. After liquor purchases, dispenser discounts, agency expenses, and compensation to liquor agents based on an average of 8.88% of assumed sales, the total amount of revenue estimated to be available to the General Fund is $219 million for the 2013-15 biennium. Other revenue distributions are assumed as follows: $78.2 million for cities; $54.8 million for city revenue sharing; and $39 million for counties.

Budget Environment

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

Licensee business models continue to change and OLCC strives to keep up. Examples include the growth of food carts (some of which have applied for licenses), beer and wine growlers in tasting rooms and eateries, and a growing craft distillery industry. Meanwhile, OLCC must continue to do its part to help minimize the negative impacts of alcohol on local communities. To adapt to these new circumstances, the agency has begun a shift toward a more risk-based model of licensing and enforcement.

The State of Washington's process of moving from a "control state" for liquor distribution to having liquor more widely available is being closely watched in Oregon. Oregon has seen an increase in sales in border areas, as Washington consumers found that the prices of distilled spirits rose above what was initially anticipated. Sales in stores along the Washington border continue to post some of the strongest year over year increases in sales.

There continues to be discussion in various circles of an initiative petition aimed at eliminating Oregon's "control state" status as well, though precisely what form such a measure would take and the possible revenue, product selection and availability, and public safety consequences are as yet unknown.

For the 2013-15 biennium, OLCC will continue to report quarterly to the Legislative Fiscal Office on the following factors: revenue and expenditures compared to projections of gross sales; whether additional expenditure limitation is expected to be required to maintain agent's compensation at an average rate of 8.88% of sales on a consistent quarterly basis; and whether additional expenditure limitation is anticipated to be required to enable the continued utilization of bank cards in liquor stores.

Legislatively Adopted Budget

The 2013-15 legislatively approved budget assumes total expenditures of $150.6 million, and maintains agents' compensation at an average rate of 8.88% of sales. The budget is a 7.5% increase from the 2011-13 legislatively approved budget, and a 1.5% increase from the 2013-15 current service level budget. The 2013-15 legislatively adopted budget applied a standard reduction to personal services attributable to expected savings in PERS rates, and assumed additional revenue from increased sales.

OLCC – Distilled Spirits

	2009-11 Actuals	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	17,484,034	19,337,304	21,311,177	20,869,469
Total Funds	**$17,484,034**	**$19,337,304**	**$21,311,177**	**$20,869,469**
Positions	71	71	71	71
FTE	67.13	67.42	68.00	68.00

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 103%, plus a $0.50 per bottle surcharge which generate funds to finance its expenses and to produce revenue for state and local government general funds. There are two divisions within the Program:

- ***Wholesale Services*** responsibilities include analyzing trends in customer buying and new product availability; purchasing and securely warehousing the liquor; arranging for the shipment of products to the state's retail liquor stores; and settling claims for damaged or defective goods. The Division ensures adequate liquor inventories and a varied selection to satisfy consumer demand.
- ***Retail Services*** oversees operation of the statewide retail liquor store system, which consists of 249 retail outlets run by contract agents. Funding for agents' compensation is in a separate program, although it is related to the Retail Services Division of the Distilled Spirits program.

Budget Environment

OLCC continues to experience a positive rate of revenue growth. OLCC realized approximately $975 million for 2011-13 biennium, a figure that was up about $106 million from the previous biennium.

The 2013-15 legislatively adopted budget assumes gross sales of $1.039 billion, plus an additional $32.4 million from continuation of the bottle surcharge.

Legislatively Adopted Budget

The Legislature approved standard reductions to personal services attributable to expected savings in PERS rates. The agency will continue to report to the Legislative Fiscal Office on a quarterly basis on the need for additional expenditure limitation to pay bank card fees, so that the Emergency Board has ample opportunity to address this issue in the event that actual sales exceed projections.

OLCC – Public Safety Services

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	17,620,518	18,939,781	17,802,973	17,027,683
Total Funds	**$17,620,518**	**$18,939,781**	**$17,802,973**	**$17,027,683**
Positions	106	108	95	94
FTE	103.75	105.00	93.00	92.00

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 five regional and eight field offices throughout the state. Staff in those offices conduct license investigations, respond to complaints, investigate liquor law violations, and work with licensees and local communities to ensure compliance with liquor laws and resolve problems created by licensed businesses or their patrons.
- ***Administrative Policy and Process Services*** is responsible for reviewing investigative reports and related preparations for contested case hearings; and developing, reviewing, and amending administrative rules.

Budget Environment

The top priority for the Public Safety Services program is preventing underage drinking, reflecting that alcohol continues to be a major contributor in the four leading causes of death among teens and is linked to other crimes. OLCC has continued to improve performance in its licensing application process. The licensing process took an average of 111 days to complete in 2009, 90.3 days in 2010, and by 2012, the average was 67 days. Meanwhile, the number of licensed businesses has grown, from 10,000 licensed businesses at the end of the 2007-09 biennium to 12,526, while the number of enforcement and compliance services personnel has remained constant at 65. The total number of service permit holders is around 135,600.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget eliminates a 1.00 FTE limited duration licensing investigator position that was approved to enable OLCC to maintain gains in performance related to licensing application review and approval. Also discontinued was a limited duration information systems specialist brought on to help facilitate completion of the agency's licensing and enforcement data system. A third position was eliminated as part of reductions taken in February 2012 to balance the 2011-13 budget. Internal reorganization occurred over the 2011-13 interim, which resulted in the transfer of ten employees – from the administrative policy and process division, and from public safety services – to administration.

Improvements in information systems services are expected to enable the agency to maintain performance levels. The 2013-15 legislatively adopted budget includes standard reductions to personal services to reflect expected savings in PERS rates.

OLCC – Administration and Support Services

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2011-13 Legislatively Adopted
Other Funds	15,732,203	14,584,955	18,092,315	17,357,690
Total Funds	**$15,732,203**	**$14,584,955**	**$18,092,315**	**$17,357,690**
Positions	60	60	68	68
FTE	59.30	59.30	67.63	67.63

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.
- ***Administrative Policy and Process*** develops and updates administrative rules and conducts hearings related to licensure and commission decisions.

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 continues the long and arduous process of modernizing and enhancing IT systems related to license processing, enforcement databases, and the distilled spirits business system. Challenges include adjusting licensing and auditing functions to new business models among licensees, and providing service to an increasing number of stores.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget maintains FTE and core services for the administration and support program, and reflects the transfer of the Administrative Policy and Process division from Enforcement Services. Standard personal services adjustments to reflect expected savings in agency PERS rates were applied, as well as adjustments related to state government service charges and attorney general rates.

OLCC – Store Operating Expenses

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	77,048,991	87,026,000	90,936,000	95,158,000
Total Funds	**$77,048,991**	**$87,026,000**	**$90,936,000**	**$95,158,000**

Program Description

This program includes an expenditure limitation for liquor revenues to pay contract agents who operate the state's 249 retail liquor outlets. Agents are paid monthly using a formula based primarily on store sales and on whether the store is exclusive (i.e., sells only liquor and related items) or non-exclusive (store is run in conjunction with another business, such as a drug or grocery store). Out of the compensation, agents pay liquor store rent, insurance, telephone, utilities, business taxes, employee salaries and benefits, and other operating costs. From the remainder, they pay their own salaries, benefits, and personal taxes.

Budget Environment

Statute gives the Commission authority to determine the compensation of liquor agents. However, agents' compensation comprises 63% of all OLCC expenditures, and is by far the largest program in the agency's budget. Changes to the rate or amount of compensation approved could have major implications to OLCC expenditures, and, by extension, the amount of revenue distributed to the General Fund and the budgets of other state agencies. By limiting the amount available for agents' compensation and utilizing the Emergency Board to grant additional limitation when sales exceed initial projections, the state is afforded the certainty needed to maintain a balanced budget. OLCC has requested multiple times that payments to liquor agents be categorized as Other Funds Nonlimited. The Legislature, for reasons noted above, has repeatedly denied this request.

The rate of monthly compensation for agents was originally determined annually. In 1979, the Commission started calculating compensation monthly as a percentage of actual monthly sales. Biennial adjustments were made to this basic formula until 1980. From 1980 to 1985 the basic formula did not change, but the Legislature added annual cost of living increases to the formula. In 1985, the Legislature directed OLCC to allocate agents' compensation based on a re-designed compensation schedule. The store formula is reviewed and adjusted by the agency every six months. The goal is to provide basic support, while encouraging sound retail practices and rewarding sales performance. Agents' compensation increases when consumption or prices increase. OLCC requests an increase in the expenditure limitation from the Emergency Board if actual sales exceed forecasted amounts. The amount of actual compensation received by an agent is influenced by class of store; base commission; consumer sales; dispenser sales; and the amount of deferred compensation agents elect to have matched by OLCC. To the extent that any of those four factors change, the actual monthly rate earned by an agent will change, to maintain the 8.88% system-wide average. The formula is complicated enough that questions regarding its application persist from agents and legislators.

Legislatively adopted budgets have included expenditure limitation to produce the following average rates of compensation based on the above formula and sales:

- 1995 to 1997: 8.2%
- 1997 to 2003: 8.54%*
- 2003 to present: 8.88%**

* During a special session of the Legislature in 2003, OLCC's request to the Emergency Board for additional expenditure limitation to maintain agents' compensation at an average of 8.54% was not entirely granted, resulting in an effective average rate of 8.48% of sales.

** A $1.9 million reduction to agents' compensation in 2009 was partially restored by imposition of a $0.50 per bottle surcharge; $1.4 million was restored to agents with surcharge revenue, resulting in an effective average rate of agents' compensation of 8.82%, versus the legislatively adopted budget average rate of 8.88%.

Legislatively Adopted Budget

Expenditure limitation in the amount of $95.2 million is authorized for the 2013-15 legislatively adopted budget, equivalent to an average rate of 8.88% of forecasted sales (agents are paid an average of 8.88% on the amount of sales due to the per bottle surcharge, as well as regular sales). The $95.2 million in agent's compensation is an 8.55 % increase from the 2011-13 legislatively approved budget, primarily due to projected increases in sales. In the event that actual sales exceed the forecast, OLCC is expected to request additional expenditure limitation from the Emergency Board to maintain this level of compensation to contracted liquor agents, which will be facilitated by the quarterly reports that OLCC will continue to make to the Legislative Fiscal Office.

In the 2013-15 legislatively adopted budget, no reductions were applied to the Agents' Compensation program, because the program consists of pass-through payments to contracted liquor agents.

OLCC – Capital Improvements and Construction

	2009-11 Actual	2011-13 Legislatively Approved	2011-13 Current Service Level	2011-13 Legislatively Adopted
Other Funds	215,816	208,406	213,408	213,408
Total Funds	**$215,816**	**$208,406**	**$213,408**	**$213,408**

Program Description

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

Budget Environment

In the past, OLCC and the Legislature have focused on implementing capital improvements that facilitate the generation of additional revenue or avoid the potential for lost revenue due to facilities or equipment breakdown. These improvements have included a major replacement of the warehouse conveyor system, warehouse heating system, and parking lot upgrades. A second warehouse acquired in 2007 will accommodate the agency's projected space needs to meet consumer demand for additional variety and volume of products for another 7 to 10 years.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget enables OLCC to perform routine maintenance and upkeep, according to a perpetual ten-year maintenance plan. Scheduled projects include repairs to the boiler system; repair to sections of the warehouse exterior; roof repair; carpet replacement; restroom upgrades; and energy conservation projects. The legislatively adopted budget is a 2.4% increase from the 2011-13 legislatively approved budget.

Oregon Public Broadcasting – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	115,443	0	0	490,000
Lottery Funds	1,880,325	1,566,926	546,157	546,157
Other Funds	0	0	0	0
Other Funds (NL)	694,639	0	0	0
Total Funds	**$2,690,407**	**$1,566,926**	**$546,157**	**$1,036,157**

Agency Overview

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

Revenue Sources and Relationships

The 1993 Legislative Assembly privatized OPB and provided for a supplemental grant through the Department of Administrative Services. The original grant represented about 10% of OPB's estimated revenue. Most of OPB's revenue comes from private contributions. The federal government provides some funding, and OPB also receives sales and service revenue. The operating grant to OPB was eliminated beginning with the 2003-05 biennium, but was partially restored for the 2009-11 budget period. The 2011-13 legislatively approved budget continued to cover debt service on lottery bonds but did not provide any funding for OPB operations.

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.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget continues to cover debt service on lottery bonds with an allocation of $546,157 Lottery Funds. In addition, the adopted budget also added $500,000 General Fund for operations, which was reduced by $10,000 to reflect the 2% supplemental statewide ending balance hold back reduction on all General Fund support.

Public Employees Retirement System (PERS) – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	79,307,909	80,750,830	77,761,634	84,002,344
Other Funds (NL)	6,730,356,220	7,837,176,025	9,277,875,000	9,277,875,000
Total Funds	**$6,809,664,129**	**$7,917,926,855**	**$9,355,636,634**	**$9,361,877,344**
Positions	368	367	334	369
FTE	361.80	365.70	334.00	367.23

Agency Overview

The Public Employees Retirement System (PERS) administers the retirement system covering employees of state agencies; public universities, public school districts; statutory judges, and participating cities, counties, and special districts in Oregon. The agency also administers a retiree health insurance program and a voluntary deferred compensation program for state agencies and some local governmental units. It is responsible for most fiduciary activities performed on behalf of system members. This includes receipt of contributions into the retirement trust and deferred compensation trust funds, retirement counseling, retirement benefit determination, and retirement benefit payment. The Oregon Investment Council (OIC), however, oversees the investment of retirement system and deferred compensation trust fund assets that are managed by private fund managers.

The five-member Public Employees Retirement Board has broad authority for operation of the system. Day-to-day operations are carried out by the Board-appointed executive director and agency staff. The agency executive director is also an ex-officio non-voting member of OIC.

Revenue Sources and Relationships

PERS revenues are budgeted as Other Funds and total approximately $16 billion for the 2013-15 biennium.

Other Funds Nonlimited revenue includes ($15.9 billion): investment earnings, employer contributions, employee contributions, retiree healthcare insurance premium payments, and nominal miscellaneous revenue.

Other Funds Limited revenue includes ($85.9 million): the agency's administrative budget is primarily financed by revenue transfers from the various benefit trust funds administered by the agency; an administrative charge on the deferred compensation program; an administrative fee assessed on participants and employers for Social Security Administration activities; and other miscellaneous revenues.

Budget Environment

PERS serves around 900 employers. Approximately 95% of Oregon's public sector employees are PERS members, which totals 170,972 active members. School districts are the largest PERS employer group (68,468), followed by local government (57,130) and then state government (45,374). PERS also has 40,507 inactive members, who have vested in PERS during previous qualifying employment but are no longer employed in a PERS-covered position. There are also 118,408 retirees/beneficiaries.

Approximately 70,000 active and inactive members, or 34% of all members, are eligible to retire.

With pension system assets of $50.2 billion (including employer side accounts) and liabilities of $61.2 billion, PERS had approximately $11 billion in unfunded liabilities (82% funded) as of December 31, 2011. The unfunded liability has since been reduced by approximately $2.2 billion due to 2012 investment earnings. Approximately 68% of the PERS liability is for members who are retired or are no longer working in a PERS-covered position.

The primary driver of employer rates is the level of unfunded liabilities, which is determined largely by investment earnings. Investment earnings fund about 71% of pension costs with the remainder being paid by employer and member contributions. Prior PERS reforms have kept benefit levels near the rate of inflation, but have been overshadowed by investment earnings below the assumed rate of 8% for some years, most notably during the 2008 financial crisis (-27.18% "return") and more recently 2011 (-2.21% return).

Employer contribution rates are set by the PERS Board and are calculated as a percentage of an employee's eligible payroll costs. Actual rates and rate increases vary, sometimes significantly, by employer.

System-wide employer contribution rates for the 2009-11 biennium averaged 5.2% of PERS covered payroll after applying side account offsets. For 2011-13, primarily because of 2008 investment losses, employer rates (net of side accounts) increased by a system-wide average of 5.6% to a total of 10.8% of PERS-covered payroll. The PERS Board has had some success in limiting the biennial increase in employer rates through a process known as rate collaring. On a system-wide basis, 2013-15 employer net rates were scheduled to increase to 15.7%, or an increase of 4.9% of covered payroll and at an estimated additional cost of $900 million across participating employers. Such rate increases generated substantial interest in system reforms and cost-cutting strategies.

The Legislature, deviating from the Governor's proposed reforms, chose to modify the cost-of-living adjustment, eliminate the supplementary tax remedy payments for non-Oregon residents, and directed the PERS Board to take an unspecified, one-time administrative action to further reduce employer rates by up to 1.9%. The PERS Board implemented a one-time, one-biennium contribution deferral of up to 1.9% of employer payroll. The combined effects of this measure, SB 822 (2013), and the PERS Board's administrative action, reduced the scheduled 2013-15 employer rate increase by a system-wide average of 4.28% and are expected to produce an estimated $790 million in system wide savings for participating employers. SB 822 reduced PERS' unfunded liability by an additional $2.6 billion.

SB 822 has been challenged in court and an expedited review is underway by the Oregon Supreme Court. A reversal of the provisions of the measure would not trigger a special legislative session or necessarily be a budget issue for the 2014 legislative session. If a court ruling occurs before the 2015-17 rates are implemented, the PERS Board would adjust employer rates for 2015-17 and future biennia to include the impact of the Supreme Court's ruling. The PERS Board sets employer rates biennially and has a precedent of not adjusting employer contribution rates during a biennium, although it has the authority to do so.

Additionally, post-legislative session, the PERS Board announced its intent to lower the assumed 8% earning rate to 7.75%, based on the recommendations of the OIC investment consultants and the PERS actuary. Such an action will increase future employer contribution rates beginning with the 2015-17 biennium. The fiscal impact of this change has yet to be determined.

The PERS contingency reserve balance is over $600 million and is excluded from actuarial analysis of the system. Statutorily, contingency reserves are for: (a) employer insolvency; (b) legal expenses; and (c) unspecified contingencies.

Nationally, proposed Government Accounting Standards Board rule changes for how public entities account for pensions in their financial statement could also have an impact on employer contribution rate setting and the agency's accounting and reporting of trust fund assets.

Employer side accounts, which hold a total of about $5.5 billion in employer-issued pension obligation bond (POB) proceeds and other lump-sum payments, play a major role in pre-funding employer contributions. The State of Oregon issued $2.1 billion in POBs in 2003. Debt service on those POBs will cost $330 million for the 2013-15 biennium, an increase of $26 million, or 8.7%, from the prior biennium. POB debt service will continue to increase 8.7% each biennium until the debt is paid off in 2027. POB debt service, however, is completely separate from the PERS employer rate, with debt service being paid by each state agency/participating entity that chose to issue POBs.

Agency operations have stabilized due to the focused efforts of the agency's leadership. The agency's transition to a new information technology platform, *jClarety*, was successful and the agency recently completed a top-to-bottom organizational process review and has developed new internal performance measures. The Legislature approved the final stage of a transition of key positions from limited duration to permanent staffing. The agency, budgeted for 369 positions, continues to operate well below its 420 position staffing peak that occurred during the 2003-05 biennium when major PERS reforms had to be implemented.

PERS works with Cost Effectiveness Measurement, Inc. (CEM) to compare its administration to peer retirement systems. In its most recent report, CEM noted that Oregon PERS' adjusted cost was $124 per year per active and retired member, which is above the peer average of $94. One of the reasons behind the added cost is the underlying complexity of PERS plans and benefit calculations compared to other comparatively simple peer plans.

The budget environment for PERS remains particularly challenging for agency leadership and staff. System-wide reform implementation, litigation, legacy data issues, higher than normal retirement applications, and the push for additional reforms will continue to challenge the agency.

Additionally, agency governance has changed significantly as almost all of the PERS Board has turned over, including its long-serving chair, who was not reappointed by this Governor.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $9.4 billion is $1.4 billion, or 18.2%, more than the 2011-13 legislatively approved budget and includes 369 positions (367.23 FTE).

The budget is composed of $60.5 million (0.7%) personal services, $74.9 million (0.8%) services and supplies/ capital outlay, $9.2 billion (98.5%) special payments, and $1.3 million (0.1%) debt service.

The budget includes $564,191 for three limited duration positions (3.00 FTE) and other associated costs for the recovery of overpaid benefits in conformance with the Oregon Supreme Court in the Strunk and City of Eugene cases.

The budget was reduced by $383,718 and three positions (3.75 FTE) as part of a decision made by the Emergency Board in May of 2012, which was part of the legislative plan from the 2012 session, to restructure state government business operations by making permanent changes to the management of agency programs and services.

The budget includes a $1.5 million reduction for unspecified statewide administrative savings.

The adopted budget included standard adjustments for PERS savings ($1.5 million) and state government service charges and other agency assessments ($120,021).

In an effort to improve the transparency of the agency's budget, the Department of Administrative Services and the Legislative Fiscal Office will conduct a review of the agency's budget structure.

PERS – Tiers One and Two Plans

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds (NL)	6,518,482,087	7,625,860,199	8,540,861,000	8,540,861,000
Total Funds	**$6,518,482,087**	**$7,625,860,199**	**$8,540,861,000**	**$8,540,861,000**

Program Description

The Tiers One and Two Plans program unit captures account balance refunds and retirement benefit payments ($8.1 billion); health insurance premiums and subsidy payments ($361 million); and third-party health insurance plan administrator costs ($6.8 million). This program is now a closed program because of PERS reform legislation passed during the 2003 legislative session. Tier One plan members are employees hired before January 1, 1996. Tier Two members are employees hired on or after January 1, 1996 and before August 28, 2003, and have a different level of benefits from Tier One members. The program unit's administrative costs are budgeted under the PERS Operations program and are supported by revenue transfers from this program to Operations.

The PERS Health Insurance Program offers optional medical, dental, and long-term care insurance plans to eligible Tier One/Tier Two retired members, their spouses, and dependents. Upon retirement, these insurance options become a choice available to all PERS retired members. While primarily serving the Medicare-eligible (age 65 and over) population, the PERS Health Insurance Program also offers insurance coverage options for those not yet Medicare eligible. Active members, their spouses, and dependents are not eligible for this program.

Revenue Sources and Relationships

The Other Funds revenue is mainly from employer contributions to the retirement system ($827.1 million) and retirement trust fund investment earnings (about $10.8 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.

Budget Environment

Active and inactive membership totals: Tier One for members hired before January 1, 1996 (67,134) and for Tier Two for members hired on or after January 1, 1996 but before August 28, 2003 (65,319).

Legislatively Adopted Budget

The legislatively adopted budget of $8.5 billion is set at a level expected to cover projected retirement system benefit payments, health insurance premiums, and related costs.

PERS – Oregon Public Service Retirement Plan

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds (NL)	211,874,133	208,175,500	737,014,000	737,014,000
Total Funds	**$211,874,133**	**$208,175,500**	**$737,014,000**	**$737,014,000**

Program Description

The 2003 Legislature established a new Oregon Public Service Retirement Plan (OPSRP) with a different benefit structure for employees hired after August 28, 2003. OPSRP provides for an employer funded retirement benefit and a mandatory employee contribution of 6% of salary into an Individual Retirement Program (IAP) account. The same legislation redirected Tier One and Tier Two member employee contributions into IAP accounts beginning January 1, 2004. OPSRP program costs include IAP third-party administrator costs ($4.7 million) and anticipated payments out of members' individual accounts ($737 million). The other administrative costs of this program are budgeted under PERS Operations below.

Revenue Sources and Relationships

Other Funds revenue is mainly from employer and employee contributions to the retirement system ($1.6 billion) and retirement trust fund investment earnings ($2.4 billion). Employer contribution rates are established by the Public Employees Retirement Board based upon advice from its consulting actuary.

Budget Environment

Oregon Public Service Retirement Plan (OPSRP) is for PERS members hired after August 28, 2003 (79,026). All members started contributing 6% of covered salary to the Individual Account Program beginning January 1, 2004. Previously, member contributions were credited to Tier One or Tier Two accounts, which for Tier One subjected the funds to the guaranteed rate of return. IAP account earnings, however, vary with actual investment returns and offer no such guarantee.

Legislatively Adopted Budget

The legislatively adopted budget of $737 million is based on projected benefit payments and administrative costs.

PERS – Operations

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	77,884,834	79,332,230	76,458,784	82,699,494
Total Funds	**$77,884,834**	**$79,332,230**	**$76,458,784**	**$82,699,494**
Positions	368	367	334	369
FTE	361.80	365.70	334.00	367.23

Program Description

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

Central Administration provides the central direction, planning, and leadership for the PERS organization. It consists of the Board, Director, Deputy Director, Human Resources, and Internal Audits. Additionally, the deferred compensation and health insurance programs are located in Central Administration.

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	$3,493,000	$5,165,464	$5,757,779	$5,924,421
Positions	17	24	23	24
FTE	17.00	24.00	23.00	23.13

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.

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	$10,893,161	$11,437,471	$12,435,602	$12,826,121
Positions	79	79	78	80
FTE	79.00	79.00	78.00	80.00

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.

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	$14,613,576	$17,152,675	$15,325,631	$16,851,223
Positions	50	50	46	53
FTE	49.50	48.62	46.00	52.84

Information Systems provides all data processing and telecommunications services for the agency. In June 2011, the Division deployed the final piece of functionality for the new *jClarety* system, which replaced the agency's legacy information system. The Division also provides systems development services, and handles the scheduling and processing of agency data.				
	2009-11 Actual	**2011-13 Legislatively Approved**	**2013-15 Current Service Level**	**2013-15 Legislatively Adopted**
Other Funds	$28,750,319	$23,054,313	$22,054,116	$22,958,805
Positions	85	77	75	74
FTE	85.00	77.00	75.00	74.00

Customer Services oversees employer reporting, maintains member employment and account information, and provides employee member counseling, education, and communications services.				
	2009-11 Actual	**2011-13 Legislatively Approved**	**2013-15 Current Service Level**	**2013-15 Legislatively Adopted**
Other Funds	$16,658,796	$17,953,101	$16,603,546	$19,497,147
Positions	121	121	100	122
FTE	115.80	121.08	100.00	121.26

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.				
	2009-11 Actual	**2011-13 Legislatively Approved**	**2013-15 Current Service Level**	**2013-15 Legislatively Adopted**
Other Funds	$3,475,982	$4,569,206	$4,282,110	$4,641,777
Positions	16	16	12	16
FTE	15.50	16.00	12.00	16.00

Revenue Sources and Relationships

The Operations program revenue is derived mainly from revenue transfers received from the Tiers One and Two and OPSRP programs ($82.7 million). Additionally, revenue to support the deferred compensation program is from a charge of 0.08 of 1% on deferred compensation trust fund assets ($1.9 million). Revenues also are from other administrative fees assessed on participants and employers for social security administration activities ($312,000) and other miscellaneous non-customary services ($205,000).

The agency also transfers $70,000 to the Governor's Office to fund a portion of a policy advisor.

Budget Environment

PERS operations will continue to be challenged by having to implement system-wide reforms, respond to litigation and legal decisions, reconcile legacy data, process higher than normal number of retirement applications, respond to changes in the health insurance market, and develop options for additional reforms.

The agency continues to work with a private organizational firm, MassIngenuity, to evaluate and improve the agency's core business functions, organizational structure, process workflows, and other procedures, as well as to identifying new internal performance measurements and reporting tools.

The most recent information technology conversion project, *jClarety,* was successfully implemented and the agency has been able to identify strategic enhancements to the application to improve its functionality and reporting. It is important to note that for some retirees, only essential data elements related to their benefit calculations were migrated into jClarety's electronic databases. The remaining data elements remain in older electronic databases, microfiche, or source paper data records.

For non-retired members, PERS' focus has been on ensuring that a member's data is valid, accurate, and complete at the transaction level to calculate the proper individual benefit payment. Therefore, the agency undergoes a significant effort related to data validation and reconciliation.

The agency worked closely with the Legislature during the 2013 session to structure reforms to ease their implementation (i.e., SB 822). Other relatively minor statutory changes also occurred during the session. Retirement rates are projected to exceed the most recent high of 8,203 in 2011 by rising to 8,468 in 2015. Recent system wide reforms and further reform discussions will likely increase the number of actual retirements.

An external and internal audit of the PERS Health Insurance Program, which has an enrollment of approximately 55,000 members and revenues of $427 million, found deficiencies in internal controls over financial management and reporting, eligibility processing, and contract administration. Additional staffing and funding was approved by the Legislature to remedy these deficiencies, as noted below.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $82.7 million is $3.4 million, or 4.2%, more than the 2011-13 legislatively approved budget and includes 369 positions (367.23 FTE).

Three enhancements above the current service level are included in the agency budget:

- $5,431,929 Other Funds (29.64 FTE) to move 27 previously classified limited duration positions to permanent full-time; add two new permanent full-time positions to enhance work on reconciling data issues on primarily retiree and non-active member accounts; add one new permanent full-time position to focus on enterprise-wide data consistency, reporting, and performance measurement; and add actuarial ($385,000) and auditing contract services ($250,000).
- $760,879 Other Funds (2.84 FTE) for increased management and financial oversight of the Retiree Health Insurance Program as well as additional consulting and actuarial contract services.
- $1.3 million Other Funds for three information technology components related to the agency's Oregon Retirement Information Online Network (ORION): (a) enterprise-level data reporting ($460,000); (b) replacement of the agency's production storage area network ($500,000); and (c) system development to add functionality for select services.
- <$383,718> Other Funds (-3.75 FTE) reduction for an additional reconciliation to meet the direction of SB 5701 (2012) to restructure state government business operations.
- $1.01 million Other Funds (1.50 FTE) to implement the PERS reform measure, SB 822 (2013).

The Legislature adopted two budget notes. PERS is directed to report to the Legislative Fiscal Office (LFO) on the Board's implementation of legislation and administrative actions related to 2013-15 employer contribution rates and on retirement applications and actual retirement activity. PERS was also directed to conduct a review of the healthcare insurance marketplace and report on whether the pre-Medicare population within the PERS Health Insurance Program should be combined with other groups in acquiring healthcare coverage under the Cover Oregon plans and whether the Affordable Care Act or Cover Oregon could provide coverage for the Medicare Plan policy holders under the PERS Health Insurance Program.

PERS was also directed to submit to the Joint Committee on Ways and Means during the legislative session in 2014 a fully developed business case for bringing the administration of the Individual Account Program in-house. Currently, the program is administered by a private third party.

PERS – Debt Service

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	1,423,075	1,418,600	1,302,850	1,302,850
Other Funds (NL)	0	3,140,326	0	0
Total Funds	**$1,423,075**	**$4,558,926**	**$1,302,850**	**$1,302,850**

Program Description

The Debt Service Program provides the funding to make payments on principal, interest, and financing costs associated with previously issued certificates of participation (COP), which are tax exempt government securities. COPs were issued for purchase of land and construction of agency headquarters in Tigard. COPs were also issued in 2003 for the acquisition of the *jClarety* pension system for the new OPSRP; this debt was paid off in May 2009. The remaining debt will be fully repaid by May 2017.

Revenue Sources and Relationships

Revenue transfers from the retirement programs support 2011-13 debt service payments.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $1.3 million is $3.3 million or 71.4%, less than the 2011-13 legislatively approved budget.

The legislatively adopted budget is set to cover all existing debt service requirements.

Racing Commission – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	5,076,400	5,192,629	5,442,748	5,821,294
Total Funds	**$5,076,400**	**$5,192,629**	**$5,442,748**	**$5,821,294**
Positions	16	15	15	15
FTE	14.52	13.27	13.27	13.27

Agency Overview

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

Revenue Sources and Relationships

Revenues are derived from the state share of wagering receipts, license fees, and licensee fines. All fee revenues received are used for Commission expenses. The state's share of total bets made at horse racing tracks and on simulcast horse races is 1%. Live racing-related revenues for 2013-15 are projected to amount to $4.6 million, a 12.6% increase compared to assumptions for the 2011-13 legislatively approved budget. In 2011, the agency began collecting a business license fee from totalizator companies, and raised fees for race meet participants the first time since 1979. The amount of revenue from fees is projected to total $1.6 million.

The 1997 Legislature authorized the establishment of hub racing in Oregon and provided that up to 1% of gross wagering receipts, which is the pari-mutuel tax, could be collected. The Commission, by rule, allows each hub to select one of three tax formula options. In general, these options result in the Commission collecting about 0.25% of gross wagering receipts. One of the options sets a cap on how much any one hub will pay during a fiscal year. Of the taxes collected, one-third is transferred to the General Fund; the amount of the transfer assumed in the 2013-15 legislatively adopted budget is $1.2 million. 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

Both live and simulcast hub racing are in an era of uncertainty in Oregon. The industry has failed to attract younger consumers. As the core racing patron demographic ages, a new generation of patrons must be cultivated in order for the industry to survive. Furthermore, state-run lotteries, video poker, online pari-mutuel wagering, and tribal casinos compete for some of the same money spent on racing, offering modern day consumers additional gambling opportunities. In addition to demographic trends, competition, and the national economic downturn, the industry is plagued by accusations of substance and animal abuse.

The sustainability of Portland Meadows, the only remaining commercial meet in Oregon, is uncertain. Magna Entertainment, the parent company, emerged from bankruptcy and announced an intention to sell its interest in Portland Meadows. It was not until the late spring of 2013 that an announcement regarding whether a 2013 commercial race meet at Portland Meadows would be held, and long-term prospects continue to be uncertain.

Currently, there are ten hubs licensed in Oregon. Revenue from hub racing has saved live racing at the county fairs and has contributed to the purses at the Portland Meadows commercial race meet. The jockey incentive program, regulatory video, regulatory photo finish, summer stabling, safety improvements, and Greyhound Adoption Kennel have also received funds generated by hub revenue. Although the Commission has implemented a number of initiatives in an effort to make it easier for hubs to do business in Oregon, as more states have established laws to govern hub racing, Oregon hubs have the option of relocating. The relocation of hubs to other states would have a significant negative impact on the Commission's fiscal health.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $5,821,294 represents an 11% increase from the 2011-13 legislatively approved budget and a 7% increase from the 2013-15 current service level budget. This is largely due to the addition of a tenth totalizator hub that located in Oregon and is scheduled to begin operations in September of 2013 (Note: After adjournment, another hub announced that it was ceasing operations in Oregon, which will bring the total for the majority of the biennium back to nine hubs).

This budget leaves the Commission with an estimated ending balance of approximately $521,870, which is equivalent to about four months of operations.

Department of Revenue (DOR) – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	140,240,842	147,798,243	163,259,812	165,191,130
Other Funds	30,667,149	34,230,088	37,336,826	65,256,876
Other Funds (NL)	251,521	1,945,006	1,991,686	0
Total Funds	**$171,159,512**	**$183,973,337**	**$202,588,324**	**$230,448,006**
Positions	1,100	1,051	1,050	1,081
FTE	1,016.10	990.67	991.06	1,024.49

Agency Overview

The Department of Revenue (DOR) administers the state's income tax and property tax programs, although property taxes are primarily managed and collected by counties.

The director of the Department is appointed by the Governor, subject to Senate confirmation, to a four year term of office.

The tax programs the Department administers generate approximately $14.8 billion, or 96%, of General Fund revenue, through a combination of personal income, corporate income, and excise, estate, tobacco, gift, and other taxes.

The agency collects approximately $1.1 billion in Other Funds tax and other revenue from a variety of sources and transfers it to state and local agencies. These include taxes on: cigarettes and other tobacco products; amusement devices; payroll (for local mass-transit); timber, oil, and gas severance; emergency telecommunications tax (9-1-1); and a forest products harvest tax, among others. The Department also collects and distributes hazardous substance fees, court fines and assessments, and taxpayer check-off donations; and serves as the collection agency for fines, forfeitures, and assessments owed to state agencies. Of this revenue, approximately $533.2 million, or 50%, is transferred to county government.

DOR also administers several property tax relief programs for senior citizens and persons with disabilities.

Revenue Sources and Relationships

For its operating funding, DOR is dependent upon General Fund appropriations to support its core programs and functions.

The Other Funds revenue in the agency's budget is derived from administrative charges to various tax, fee, assessment, collections, and other programs. Time and activity studies are used to determine each program's administrative costs and corresponding charges. A statewide grant program (County Assessment Function Funding Assessment) also helps pay for local property tax assessment and taxation costs, providing Other Funds revenue to DOR and to counties. The grant 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 digital base map to improve the administration of the property tax system.

Article XI-Q bonds issued by the state are used to pay for the cost of replacing the agency's core information technology applications and updating its business processes.

Budget Environment

DOR administers more than 30 separate tax programs and serves as the primary collection agency for more than 280 state agencies and local governments. Most agency functions are centralized in Salem, but the agency has five district and three satellite offices across the state. There is a general cyclical or seasonal nature to the agency's operations centered around income and property tax filing deadlines.

DOR's challenge for the next three biennia will be to maintain the existing General Fund revenue stream while undertaking a complete modernization of its information technology applications and business processes.

Legislative interest in the agency centered on opportunities to improve revenue generation and collection and reduce the "tax gap," or the amount of unidentified and unpaid taxes. While 97% of tax compliance is done voluntarily through income tax withholding, quarterly estimated tax payments, and payments submitted with tax returns, DOR expends the majority of its efforts on the remaining 3% through auditing, collection, and other enforcement efforts. Prior biennia initiatives, including a tax amnesty program, were successfully concluded. Additionally, DOR along with six other agencies, participates in the Interagency Compliance Network that is designed to improve employers' and workers' compliance with Oregon's tax and employment laws.

DOR continues to explore national best practices for its accounts receivable management, which are attributable to tax filers who agree they owe tax, but are unable to pay. The amount of personal income tax accounts receivables being placed with private collection firms has almost doubled to over 26%. Monthly collection rates for in house activities are below 4% of the total accounts receivable balance and for private collection firms the monthly collection rate is less than 0.3% of the total subject to collection by these firms, which are illustrative of the challenges of collection. One of the most powerful collection tools available to DOR is its ability to intercept federal and state income tax refunds to pay down various forms of debt owed the state.

In 2012, a $2.1 fraudulent personal income tax refund case, of which $1.9 million was recovered, raised public and legislative scrutiny of the agency, and its processes and procedures. The incidents of intercepted tax fraud cases overall has risen from 500 cases in 2010 to 1,925 cases in tax year 2012 with the dollar amounts involved increasing from $478,858 to over $2.6 million. DOR is in the process of evaluating various information technology applications designed to reduce such fraud.

Due to legislative action and a recovering housing market, the liquidity of the Senior and Disabled Citizens' Property Tax Deferral program has improved. Under this program DOR makes annual property tax payments to counties on behalf of participants. The resulting stabilization enabled the program to repay a $19 million loan to the Common School Fund in June of 2013.

Even with some dedicated funding, Oregon's overall property tax system is still dependent on local General Fund to stay sound. County budgets feel the impact of property tax limitations (Measure 50), a recovering real estate market, a slow economic recovery, 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 descriptions and 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 County Assessment Function Funding Assistance grant used to supplement local funding. 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. Legislation passed during the 2013 session provides additional remedies if a county cannot meet its statutory duties.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $230.5 million is $46.5 million, or 25.3%, more than the 2011-13 legislatively approved budget and includes 1,081 positions (1,024.49 FTE).

The budget is comprised of $155 million (67%) personal services, $68 million (30%) services and supplies/ capital outlay, $5.8 million (2.5%) special payments, and $1.5 million (0.7%) debt service.

The Legislature provided additional funding to reduce underreporting of taxes by taxpayers through additional audits and filing enforcement. Also added was more accounts receivable collections staff. These resources are expected to add $33.1 million in additional General Fund revenue to the state at a cost of $3.8 million. This revenue enhancement initiative was developed at the request of the Legislature and was not included either in DOR's requested budget or the Governor's recommended budget.

The agency's core business information technology project was funded with $12.5 million of General Fund and $58.3 million of Article XI-Q bonds. Additionally, $1.6 million General Fund for Debt Service and $521,182 Other Funds for bond financing costs were provided in the adopted budget.

The Elderly Rental Assistance (ERA) and Nonprofit Housing programs were fully funded at $5.6 million General Fund and the Legislature concurred with the Governor's decision to retain ERA in the DOR budget, after initial discussions of possibly transferring the program to the Housing and Community Services Department.

The agency's budget was reduced by $1.4 million and 13 positions (13.00 FTE) as part of a decision made by the Emergency Board in May of 2012, which was part of the legislative plan from the 2012 session, to restructure state government business operations by making permanent changes to the management of agency programs and services.

The budget includes a $1.3 million reduction for unspecified statewide administrative savings, of which $1 million is General Fund. The agency has expressed particular concern about the potential impact this reduction could have on its information technology staff and its efforts to implement the Core System Replacement project.

The adopted budget included standard adjustments for Public Employees Retirement System savings ($2.8 million), state government service charges and other agency assessments ($673,989), a 5% General Fund reduction in non-fixed services and supplies ($701,566), and a 2% General Fund supplemental ending balance hold back. The supplemental ending balance adjustment to the budget equaled $3.3 million General Fund and is subject to restoration to the agency in February 2014 depending on the state's overall fiscal situation.

A number of actions were undertaken to improve the transparency of the agency's budget. DOR's budget had historically been appropriated at the agency-wide level, but beginning with the 2013-15 biennium, funding is appropriated discretely for most major programs. Additionally, positions that had historically been held vacant in order to fund services and supplies expenditures were abolished with the funding converted to services and supplies. The budget also reflects the realignment of some positions within the agency. New program structures were added in order to segregate the Core System Replacement project and its associated Debt Service financing costs from the agency's operating budget. Lastly, DOR's Nonlimited expenditures were placed under expenditure limitation.

The 2013 Legislature passed several policy bills relating to taxation and Department programs. Generally, the workload associated with these bills fall within the agency's budget for policy change and implementation activities. Detailed information on DOR-related legislation can be found in publications produced by the Legislative Revenue Office.

DOR – Executive Section

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	3,585,271	3,303,764	6,333,379	5,947,242
Other Funds	719,966	486,320	785,289	738,878
Total Funds	**$4,305,237**	**$3,790,084**	**$7,118,668**	**$6,686,120**
Positions	17	15	34	33
FTE	17.00	15.00	34.00	33.00

Program Description

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

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $6.7 million is $2.9 million, or 76.4%, more than the 2011-13 legislatively approved budget and includes 33 positions (33.00 FTE).

The increase in the budget is attributable to the transfer of 18 existing positions within the agency rather than new or enhanced program funding. Administratively, the DOR transferred its Human Resources and Facilities Section from the Administrative Services Division to this program.

The adopted budget included standard adjustments for Public Employees Retirement System savings, state government service charges, other agency assessments, a 5% General Fund reduction in non-fixed services and supplies, and a 2% General Fund supplemental ending balance hold back. The supplemental ending balance adjustment to the budget equaled $121,777 General Fund and is subject to restoration to the agency in February 2014 depending on the state's overall fiscal situation.

DOR – Agency Program Management Office (formerly General Services Section)

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	12,884,242	4,918,892	4,371,781	4,046,142
Other Funds	2,238,334	1,299,877	1,244,979	2,801,281
Other Funds (NL)	0	1,674,844	1,715,040	0
Total Funds	**$15,122,576**	**$7,893,613**	**$7,331,800**	**$6,847,423**
Positions	9	8	4	2
FTE	9.00	8.00	4.00	2.00

Program Description

Historically, as the General Services Section, this program unit was used to budget for a portion of expected central agency costs for postage, legal expenses, and other expenditures that tend to vary from biennium to biennium between operating divisions. Beginning in 2011, the agency has reorganized this unit, now called the Agency Program Management Office (APMO), to also include the agency's resources and budget for strategic planning activities. This program is now primarily focused on the implementation of the Core System Replacement project.

For internal budgetary purposes, the receipt and distribution of the various tax revenues are accounted for in this section. Kicker distributions are also recorded here, which will result in expenditure spikes; the last of which occurred with the 2007 kicker. There will be no corporate tax kicker for 2013 based on calculations done by the Department of Administrative Services' Office of Economic Analysis.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $6.9 million is $1.1 million, or 13.25%, less than the 2011-13 legislatively approved budget and includes two positions (2.00 FTE).

The adopted budget converts $1.7 million of the agency's third party collection activities from Nonlimited Other Funds to limited Other Funds expenditure limitation.

The adopted budget included standard adjustments for Public Employees Retirement System savings, state government service charges, other agency assessments, a 5% General Fund reduction in non-fixed services and supplies, and a 2% General Fund supplemental ending balance hold back. The supplemental ending balance adjustment to the budget equaled $95,669 General Fund and is subject to restoration to the agency in February 2014 depending on the state's overall fiscal situation.

DOR – Administrative Services Division

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	41,400,183	45,285,233	46,621,048	43,767,201
Other Funds	6,640,673	6,880,555	7,218,283	6,927,188
Total Funds	**$48,040,856**	**$52,165,788**	**$53,839,311**	**$50,694,389**
Positions	330	303	271	263
FTE	278.99	258.11	226.50	220.00

Program Description

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

Budget Environment

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

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $50.7 million is $1.5 million, or 2.8%, less than the 2011-13 legislatively approved budget and includes 263 positions (220.00 FTE).

The adopted budget included standard adjustments for Public Employees Retirement System savings, state government service charges, other agency assessments, a 5% General Fund reduction in non-fixed services and supplies, and a 2% General Fund supplemental ending balance hold back. The supplemental ending balance adjustment to the budget equaled $903,765 General Fund and is subject to restoration to the agency in February 2014 depending on the state's overall fiscal situation.

The budget includes a $1.3 million reduction for unspecified statewide administrative savings, of which $1 million is General Fund. The agency has expressed concern about the potential impact this reduction could have on its information technology staff and its efforts to implement its Core System Replacement project.

DOR – Property Tax Division

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	13,231,882	13,775,755	15,626,977	14,027,407
Other Funds	6,168,113	10,654,567	11,517,596	11,288,530
Total Funds	**$19,399,995**	**$24,430,322**	**$27,144,573**	**$25,315,937**
Positions	118	105	105	99
FTE	115.33	102.33	102.33	97.26

Program Description

The Property Tax Division watches over the state's property tax system to ensure 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. Statutorily, DOR is responsible for 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 a digit base map will improve the administration of Oregon's property tax system and will support an array of public and private geographic information systems applications with a target date of completion by October 2016, after at least one extension. 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 local General Fund to stay sound. 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. Legislation passed during the 2013 session provides additional remedies if a county cannot meet its statutory duties.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $25.3 million is $885,615, or 3.63%, more than the 2011-13 legislatively approved budget and includes 99 positions (97.26 FTE).

The adopted budget included standard adjustments for Public Employees Retirement System savings, state government service charges, other agency assessments, a 5% General Fund reduction in non-fixed services and supplies, and a 2% General Fund supplemental ending balance hold back. The supplemental ending balance adjustment to the budget equaled $289,008 General Fund and is subject to restoration to the agency in February 2014 depending on the state's overall fiscal situation.

DOR – Personal Tax and Compliance Division

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	48,769,337	54,649,849	63,987,320	64,895,666
Other Funds	2,637,961	1,245,041	1,422,176	1,451,521
Total Funds	**$51,407,298**	**$55,894,890**	**$65,409,496**	**$66,347,187**
Positions	395	395	411	433
FTE	380.55	386.32	403.32	425.32

Program Description

The Personal Tax and Compliance Division administers the personal income tax program. Responsibilities include auditing and encouraging voluntary compliance for the personal income tax, collecting delinquent personal income taxes, and collecting local option taxes. In addition, the Division provides help to taxpayers by telephone (Tax Services Unit), in person at field office locations, 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. Nearly 80% of returns are being filed electronically. 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.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $66.4 million is $10.5 million, or 18.7%, more than the 2011-13 legislatively approved budget and includes 433 positions (425.32 FTE).

The Legislature provided additional funding to reduce underreporting of taxes by taxpayers through additional audits and filing enforcement. Also added is more accounts receivable collections staff. These resources are expected to add $33.1 million in additional General Fund revenue to the state at a cost of $3.8 million (31.00 FTE). This revenue enhancement initiative was developed at the request of the Legislature and was not included either in DOR's requested budget or the Governor's recommended budget.

The adopted budget included standard adjustments for Public Employees Retirement System savings, state government service charges, other agency assessments, a 5% General Fund reduction in non-fixed services and supplies, and a 2% General Fund supplemental ending balance hold back. The supplemental ending balance adjustment to the budget equaled $1.3 million General Fund and is subject to restoration to the agency in February 2014 depending on the state's overall fiscal situation.

A budget noted directed DOR to report on the cause of non-compliance in the personal and corporation tax programs, including a discussion of tax gap estimates and to create a specific, systemic plan to reduce the tax gap including performance measures, benchmarks, and timelines, and report progress from this plan to the Legislature in 2015.

A second budget note directed DOR to report on its use of private collection firms (PCF) including: age of accounts sent to PCF, amount of accounts turned over to the PCF (total and individual), time it takes PCF's to collect past due accounts, collection rate, and the amount and type of fees charged to clients.

DOR – Business Division

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	14,634,723	20,264,750	23,247,307	21,756,762
Other Funds	12,262,102	13,663,728	15,148,503	14,722,832
Total Funds	**$26,896,825**	**$33,928,478**	**$38,395,810**	**$36,479,594**
Positions	231	225	225	220
FTE	215.23	220.91	220.91	215.91

Program Description

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

The Division also contains the Research Section that provides economic analysis and statistical research to other program areas and produces the biennial Tax Expenditure Report in partnership with the Legislative Revenue Office and Office of Economic Analysis.

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 500,000 liabilities totaling over $2.8 billion owed to 284 public sector agencies. Over 300,000 of these liabilities are collected only through an offset of a tax refund and these liabilities total about $2.5 billion. The remaining 200,000 liabilities are collected through staff resources and the total of those liabilities is about $300 million. The average amount owed on the 500,000 liabilities is $5,096. The number of delinquent accounts is expected to increase. The Division is using more automation to help handle workload growth. Collection costs are recovered through fees charged to the client agencies. Private collection firms are also utilized for debt collection.

This Division also collects revenues from cigarette tax stamps and taxes on other tobacco products.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $36.5million is $2.6 million, or 7.5%, more than the 2011-13 legislatively approved budget and includes 220 positions (215.91 FTE).
The adopted budget included standard adjustments for Public Employees Retirement System savings, state government service charges, other agency assessments, a 5% General Fund reduction in non-fixed services and supplies, and a 2% General Fund supplemental ending balance hold back. The supplemental ending balance adjustment to the budget equaled $446,853 General Fund and is subject to restoration to the agency in February 2014 depending on the state's overall fiscal situation.

DOR – Multistate Tax Commission

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	0	0	0	276,646
Other Funds (NL)	251,521	270,162	276,646	0
Total Funds	**$251,521**	**$270,162**	**$276,646**	**$276,646**

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.

Budget Environment

The Commission expects to maintain its current level of services to members. Dues to the Commission are proportional to the amount of tax revenue each state collects.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $276,646, or 2.4%, more than the 2011-13 legislatively approved budget. The single change to the current service level was to move the program's expenditures from Nonlimited to limited expenditures.

DOR – Elderly Rental Assistance and Nonprofit Housing

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	5,735,204	5,600,000	3,072,000	5,558,562
Total Funds	**$5,735,204**	**$5,600,000**	**$3,072,000**	**$5,558,562**

Program Description

This property tax relief program includes the Elderly Rental Assistance (ERA) and the Nonprofit Housing programs (NPH).

The ERA program provides direct rent relief to elderly, low-income renters by offsetting a portion of their rent attributable to property tax. 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.

Under the NPH program, counties grant a property tax exemption to qualifying nonprofit corporations that provide housing to individuals age 62 or older who are within certain income limits. Through this program, payments are also made to local governments in lieu of property taxes on certain tax-exempt housing for the elderly. The nonprofit entity passes the property tax exemption on to eligible tenants in the form of reduced rent. DOR reimburses local government and schools for the exemption amount in November of each year. NPH exemptions fluctuate on an annual basis due to county exemption practices and the need to pay for some prior year exemptions. As this is a pass-through program, DOR does not have data on the nonprofits receiving the exemption or their tenants and therefore the agency is not positioned to evaluate program performance or provide robust program oversight.

Budget Environment

For the ERA program, DOR makes payments directly to approximately 2,421 (2011) renters in November of each year who receive on average of $367 annually. On average, the program has experienced an annual 12.1% decline in claims over the last ten years. The decline has been because fewer individuals are meeting the program's financial eligibility criteria, which is not indexed to inflation.

There are approximately 51 (2011) exempt dwellings that DOR makes an average payment to per dwelling to the counties of $30,698 to each property tax year.

ERA payments are expected to continue to decline, but that decline in payments to renters is being offset by an increase in NPH payments to local governments for tax-exempt housing for the elderly.

During the February 2012 legislative session, DOR, along with the Housing and Community Services Department (HCSD) and the Department of Human Services, responded to a 2011 budget note with recommendations on how the two programs should be structured in the future. The report's recommendation was to move the ERA program from DOR to HCSD during the 2013-15 biennium, however, the Governor did not propose such a change legislatively due primarily to significant organizational changes occurring at HCSD.

A single General Fund appropriation is made for both programs. Statute allows DOR to prorate the available funding, if insufficient to fully fund both programs. Alternatively, DOR could request additional General Fund support for the programs, if the original appropriation proved insufficient. The 2013-15 legislatively adopted budget fully funds both programs, based on DOR's forecast.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $5.6 million is $41,438, or 0.7%, less than the 2011-13 legislatively approved budget. There are no positions budgeted under this program. The cost to administer the program, which is a program expense, is budgeted by DOR under the Property Tax and Personal Tax and Compliance Divisions.

The adopted budget included a 2% General Fund supplemental ending balance hold back. The supplemental ending balance adjustment to the budget equaled $113,438 General Fund and is subject to restoration to the agency in February 2014 depending on the state's overall fiscal situation.

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

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	0	0	0	0
Total Funds	**$0**	**$0**	**$0**	**$0**

Program Description

Enacted in 1963, the Senior Citizens' Property Tax Deferral 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. For the Disabled Citizen's Property Tax Deferral, applicants must also meet income tests and be determined eligible to receive, or are receiving federal Social Security disability benefits.

Revenue Sources and Relationships

The deferred taxes and interest are collected when the property is disqualified. As properties are disqualified and their deferred taxes are paid, monies received cash flow the taxes the state pays counties under the program.

Budget Environment

The program is designed to help low income seniors and disabled citizens remain in their homes by allowing them to defer their property taxes until the home is sold. Initially, the Legislature funded the program through General Fund appropriations. However, as homes were sold and revenue began flowing back into the program surpluses were generated starting in the mid-1990s. The Legislature allocated these surpluses to other purposes over the last decade due to the surplus of funds.

Starting in 2007, the collapse of the housing market in Oregon sharply reduced the inflow of revenue as home sales slowed dramatically. At the same time, the number of new applicants increased as financially stressed individuals looked for ways to cut costs. During 2009-11, the program experienced a severe cash flow problem and had to delay payments to counties in the last fiscal year of the biennium. The Legislature passed legislation in 2011 and 2012 to make structural changes to the program in order to keep it solvent for the long term, however, the program still required a short-term loan of $19 million from the Common School Fund for the 2011-13 biennium. Due to legislative action and a recovering housing market, the liquidity of the program has been stabilized and it was able to repay the $19 million loan on time.

Legislatively Adopted Budget

Since the program operates through revenue transfers in and out of its revolving fund, the budget display does not record expenditures. However, the program makes approximately $11 million in property tax payments each year and receives an estimated $20 million in repayments. The balance of the account will be approximately $10.1 million in November of 2013.

The cost to administer this program, which is a program expense, is budgeted by DOR under the Property Tax Division.

DOR – Core System Replacement

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	0	0	0	3,637,432
Other Funds	0	0	0	26,528,818
Total Funds	**$0**	**$0**	**$0**	**$30,166,250**
Positions	0	0	0	31
FTE	0	0	0	31.00

Program Description

This package adds resources to begin the implementation of the replacement of the agency's core business information technology applications. The estimated one-time cost of implementation totals $70.9 million and is scheduled to be fully completed by the 2017-19 biennia. The project will be funded with $12.5 million of General Fund and $58.3 million of Article XI-Q bonds issued by the state. Ongoing costs are roughly estimated at 2-3 times the initial one-time costs. This program structure segregates one-time project costs from the agency's operating budget.

Revenue Sources and Relationships

The program is funded with a combination of General and Other Funds. General Fund supports payments to the Department of Administrative Services – State Data Center and for vendor contract maintenance, both of which are costs that are ineligible for Article XI-Q financing. Other Funds pay for project information technology, project management, change management, financial, and internal quality assurance staffing. It also includes project management contract services, space rental, contract maintenance, vendor payments, contract contingency, hardware and software, and external quality assurance.

Budget Environment

Funding for the project was not approved in the Governor's budget. Additionally, the Governor chose not to advance proposed legislation establishing the benefits-based funding model that was proposed by the agency and used to fund the majority of the project's costs. However, the Legislature in 2013 approved funding for the project. Additionally, the Legislature changed the funding model of the project from a benefits-based model to the standard funding model of Article XI-Q bonds. Finally, the Legislature directed a more conservative implementation whereby the project is to begin with the much smaller Corporate and Tobacco programs rather than the Personal Income Tax and Compliance program that had been planned originally. DOR is in the process of renegotiating its contract with FAST Enterprise.

Legislatively Adopted Budget

The legislatively adopted budget totals $3.6 million General Fund and $26.5 million Other Funds. Personal services are estimated to total $6 million Other Funds (31 positions/31.00 FTE), $18.8 million Other Funds for services and supplies, and $1.7 million Other Funds for capital outlay. Major costs include: $11.3 million for vendor contract payments; $1 million for vendor contracted maintenance; $1.5 million for an independent quality assurance/control vendor; and $3 million in vendor contract contingency costs. General Fund supports payments to the Department of Administrative Services – State Data Center ($2.5 million) and for vendor contract maintenance ($1.1 million).

The positions budgeted for the Core System Replacement project are established as permanent full-time positions, which is somewhat unusual for a project with a temporary funding source. However, most if not all of these positions will be filled by existing agency staff being transferred to the program. This is thought to help with the installation of the vendor's product as well as provide for a more seamless transition to product maintenance and support. The transferred positions will be backfilled with limited duration staff.

DOR – Capital Debt Service and Related Costs

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	0	0	0	1,554,716
Other Funds	0	0	0	521,182
Total Funds	**$0**	**$0**	**$0**	**$2,075,898**

Program Description

The Debt Service Program provides the funding to make payments on principal, interest, and financing costs associated with the issuance of Article XI-Q bonds, which are tax exempt government securities. This program segregates Debt Service and financing costs from the agency's operating budget.

Revenue Sources and Relationships

The Department's debt service is funded with General Fund. Financing or issuance costs are paid as Other Funds from bond proceeds with agencies receiving net proceeds for project costs.

Budget Environment

The legislative decision was to fund the Core System Replacement project using debt financing rather than the benefits-based funding model proposed by the agency.

Article XI-Q bonds for information technology projects are financed over a seven year period. It is expected that the state may issue $58.3 million of Article XI-Q bonds to finance this project, with General Fund Debt Service repayments totaling an estimated $70.1 million, based on current interest rate assumptions.

Legislatively Adopted Budget

The legislatively adopted budget totals $1.6 million General Fund and $521,182 Other Funds.

Secretary of State (SOS) – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	13,154,574	12,500,468	12,579,143	8,476,735
Other Funds	34,795,709	42,099,026	42,844,859	48,895,140
Federal Funds	5,632,259	7,559,402	7,736,442	7,710,474
Total Funds	**$53,582,542**	**$62,158,896**	**$63,160,444**	**$65,082,349**
Positions	198	197	196	202
FTE	197.30	195.69	195.19	200.61

Agency Overview

The Office of the Secretary of State is one of three constitutional offices established at statehood. The Secretary is the auditor of public accounts, the chief elections officer, and the 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 State Treasurer on the State Land Board which manages state-owned lands.

The agency's major divisions include the: ***1) Elections Division***, which administers state and federal elections laws, provides training to county and city election officials, political party representatives, and candidates; publishes statewide voter's pamphlets; and administers the filing and verification of initiative, referendum, and recall petitions; ***2) Audits Division***, which carries out the Secretary's constitutional duties as auditor of public accounts to assure that public funds are properly accounted for and spent in accordance with legal requirements; the Division performs, or contracts for, financial and compliance audits and performance audits of state agencies; ***3) Archives Division***, which stores public records and protects and provides public access to Oregon's documentary heritage; the Division provides records management advice and assistance to state and local agencies and publishes the state's administrative rules; and ***4) Corporation Division***, which is responsible for three major programs: Business Registry – the filing of business names, Uniform Commercial Code (UCC) – the filing of secured transactions, and Notary Public – commissioning and regulating notaries. The agency also has an Administrative Services Division that provides administrative support and executive oversight. The Administrative Services Division includes the Executive Office which houses the Secretary and her immediate staff.

Revenue Sources and Relationships

The $8.5 million of General Fund in the 2013-15 biennium legislatively adopted budget finances 13% of total agency expenditures, down from 20% in the prior biennium. The decline reflects the replacement, in the 2013-15 budget, of General Fund support for the Archives Division with revenues from a new Other Funds assessment on state agencies. Remaining General Fund supports the Elections Division and the Administrative Services Division. The General Fund supports 46% of the Elections Division budget ($6.6 million General Fund), and 11% of central administrative expenses in the Administrative Services Division ($1.9 million General Fund).

The Audits, Archives, and Corporation Divisions receive no General Fund and are fully supported by Other Funds, however, portions of the Audits Division and Archives Division assessments to state agencies are financed by General Fund appropriations to those agencies. Prior to the 2013-15 biennium, the Archives Division was also supported by General Fund. In the 2011-13 biennium, the division received $3.5 million of General Fund which covered 53% of total expenditures. The 2013-15 biennium legislatively adopted budget replaced General Fund support with a new state government service charge assessed to state agencies.

Other Funds revenues are received from various sources, including:

- ***Assessments*** to state agencies, based on a pro-rata share of four risk factors (cash, revenues, expenditures, and full-time equivalent positions), which are the primary funding source for the Audits Division. Agencies whose operations are predominately funded with dedicated trust funds (e.g., Department of Transportation), however, are billed for actual audit costs rather than an assessment. Audits Division assessments and billings are projected to total $22.8 million in 2013-15, and will support the Division's direct costs plus a portion of the agency's central administrative costs (the Executive Office, the Information Systems Division, and internal administrative functions). Charges to local governments total approximately $600,000. The Audits Division houses 71 full-time positions (approximately 35% of agency staff) and is fully funded from these revenues.

The Archives Division is also supported by assessments and charges to state agencies. A new assessment, established in the 2013-15 biennium budget, replaces General Fund support for the Division. The assessment is based on full-time equivalent positions and will generate $4.1 million Other Funds in the 2013-15 biennium. This amount includes $3.6 million in ongoing assessments to replace General Fund support, plus $500,000 in one-time funding for new shelving. The Division also assesses agencies for the storage and retrieval of inactive, non-permanent records maintained by the Division, and for publication of administrative rules. Those assessments are projected to total $3.1 million in 2013-15. The Archives Division houses 22 full-time positions (approximately 11% of agency staff).

- ***Licenses and fees*** are collected from business filings, secured transactions, and notaries public to support the General Fund and the Corporation Division. Revenue from these sources is projected to total $70.9 million in the 2013-15 biennium. The legislatively adopted budget transfers $54.8 million of Corporation Division revenue to the General Fund. The remaining $16.1 million is retained by the agency. The retained revenues fully support the Division's operations ($8.1 million Other Funds), and provide $8 million of Other Funds for the the Administrative Services Division (approximately 47% of the total budget). The Corporation Division houses 34 positions (approximately 17% of agency staff), and is fully funded by these Division licenses and fees.

  In 2009 the Legislature passed HB 3405, which was subsequently referred by petition to the voters and approved as Measure 67. That bill doubled the fee to obtain a notary public commission, and increased the UCC filing fee by 50%. The bill also increased business registry fees, but allocated the full amount of the increase to the General Fund. The agency continues to retain the revenue from the first $20 of each business registration fee. Significantly for the agency budget, however, was the provision in HB 3405 that allowed the agency to retain all of the fee revenues dedicated to it. Previously the agency had only been able to retain a cash balance equivalent to two months of operating expenditures for the Corporation Division, from notary public commissions, UCC filing fees, and the initial $20 of the business registry fee received. HB 3405 allowed the agency to retain all of these proceeds.

- ***Sale of publications***, including the annual Oregon Administrative Rules Compilation, the monthly Oregon Bulletin which provides updates to the Compilation, and the Oregon Blue Book, generate revenues for the Archives Division.

- ***Internal transfers*** of Other Funds revenues are made to the Administrative Services Division by the Audits and Corporations Divisions for a proportionate share of administrative costs.

In past biennia, Federal Funds revenues were received under the Help America Vote Act (HAVA) and the Federal Voting Assistance Program (FVAP). No further support from the federal government is expected for either of these two programs. As was the case for the past several biennia, however, the HAVA and FVAP programs will spend Federal Funds revenues already received by the state, and almost all of the agency's Federal Funds expenditures will be for these programs. The 2013-15 biennium began with approximately $9.9 million of program funds remaining. These will be sufficient to finance $7.5 million of Federal Funds program expenditures in the 2013-15 biennium budget; however, the $2.3 million that will remain at the end of the biennium is insufficient to continue full support in 2015-17.

The agency is also budgeted to receive Federal Funds revenues from two previously-awarded federal grants. The 2013-15 biennium budget includes $168,869 of Federal Funds in the Archives Division from these grants.

Budget Environment

The Secretary of State is a separately elected, constitutional office, and as such, has not been subject to the Governor's budget review. In 2005, the Legislature modified the statutes relating to the Governor's budget development and allotment system to include the Secretary of State and the State Treasurer in those processes. In 2007, however, the Legislature reversed this action and again excluded the two offices from the Governor's review process.

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

Ongoing HAVA requirements will continue to influence the Secretary of State's budget for the foreseeable future. HAVA was passed in October 2002 and contains minimum federal standards for various aspects of election administration, which include developing a centralized voter registration system, replacement of punch card machines, privacy and independence in the voting process, access for people with disabilities, and voter outreach. Although the agency still holds approximately $9.3 million of Federal Funds from previous appropriations of HAVA funds, no further support from the federal government for HAVA activities is anticipated.

Legislatively Adopted Budget

The Secretary of State's total funds budget of $65.1 million is a 4.7% increase over the 2011-13 legislatively approved budget, and is 3% above the current service level. The budget includes 202 positions (200.61 FTE), a 2.5% increase over the 2011-13 biennium level. General Fund support of $8.5 million represents a 32.2% reduction from the prior biennium. This reduction is primarily due to a $3.6 million fund shift in the Archives Division budget from General Fund to Other Funds. Excluding this fund shift, General Fund support for other agency programs is decreased by 4%.

The budget includes standard adjustments that were approved in most agency budgets on an across-the-board basis. These include reductions to reflect the impact of the policy changes in SB 822 and administrative actions of the PERS Board that reduce state employer contribution rates in the 2013-15 biennium by approximately 4.4 percentage points ($930,130 total funds), a 5% reduction in General Fund appropriated for services and supplies ($123,683 General Fund), and a 2% hold back adjustment on General Fund appropriations for purposes of establishing a supplemental statewide ending balance ($175,186 General Fund).

The budget supports a number of programs above the current service level, all paid for with Other Funds. These budget enhancements include $1.8 million for one-time information technology projects, $713,016 and four positions to enhance Information Systems Division services, $500,000 for additional shelving in the Archives Building, and $248,162 and two positions for a new Office of Small Business Assistance. Finally, the budget transfers $4 million of Corporation Division revenues to the General Fund, in addition to revenues that are already transferred by statute. This increases total Corporation Division revenue transfers to the General Fund to a total of $54.8 million in 2013-15.

SOS – Administrative Services Division

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	1,749,927	1,813,801	2,030,827	1,920,138
Other Funds	11,708,142	14,471,719	12,921,319	15,121,799
Total Funds	**$13,458,069**	**$16,285,520**	**$14,952,146**	**$17,041,937**
Positions	51	51	51	55
FTE	50.80	50.69	50.69	54.61

Program Description

The Administrative Services Division provides policy direction for the agency and administrative support functions to support the Elections, Audits, Archives and Corporation Divisions. Administrative Services is organized functionally into four areas: 1) the Executive Office, 2) the Business Services Division, 3) the Information Systems Division, and 4) the Human Resources Division.

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. 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. The Information Systems Division provides centralized information technology services including database administration, Internet development, and application development and maintenance for the agency. The Human Resources Division provides advice on human resources policies and procedures, maintains employee records, and provides recruitment and training services for the agency. A majority of the Division's budget supports Information Systems. The fifty-five positions funded in the 2013-15 legislatively adopted budget are apportioned to the four areas as follows: Executive Office – 6 positions; Business Services Division – 16 positions; Information Systems Division – 30 positions; Human Resources Division – 3 positions.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget is a 4.6% increase over the prior biennium level, and is 14% above the current service level. General Fund is increased 5.9% over the prior biennium but is 5.5% below the current service level. Four full-time positions are added, increasing the position count from 51 to 55 (a 7.8% increase).

The budget supports two one-time information technology projects: 1) continued expansion and improvements to the Central Business Registry to support including city and county government business registrations, existing business opt-ins, and a modernization of the Business Entity Registration and Information system, and to establish a pilot project for online licensing ($567,483); and 2) Phase 2 of the Business Xpress One-Stop Business Portal ($1,200,000), which includes development of a combined application for the License Directory, Business Wizard, and Business Information Center. Both projects are funded from business registration fee revenues (Other Funds). The Legislature reduced funding for these projects by $232,517 from the amounts the agency had initially requested. The budget transfers the $232,517 reduction (along with other business registration fee revenues) to the General Fund for general government purposes.

Additionally, the budget establishes three full-time permanent positions, and one full-time limited duration position (for four positions, 3.92 FTE in total) to address the expansion of applications supported by the Information Systems Division. Funding for the positions, which is primarily supported with Corporation Division revenues, is approved at $713,016 Other Funds.

The budget also includes standard adjustments that were approved in most agency budgets on an across-the-board basis. These include reductions to reflect the impact of the policy changes in SB 822 and administrative actions of the PERS Board that reduce state employer contribution rates in the 2013-15 biennium by approximately 4.4 percentage points, a 5% reduction in General Fund appropriated for services and supplies, and a 2% hold back adjustment on General Fund appropriations for purposes of establishing a supplemental statewide ending balance.

SOS – Elections Division

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	7,903,987	7,176,728	6,930,394	6,556,597
Other Funds	33,268	124,960	128,052	128,032
Federal Funds	5,618,792	7,394,983	7,567,573	7,541,605
Total Funds	**$13,556,047**	**$14,696,671**	**$14,626,019**	**$14,226,234**
Positions	21	20	20	20
FTE	21.00	20.00	20.00	20.00

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.

Federal Funds in the Elections Division budget come from two sources. The federal Help America Vote Act (HAVA) requires states to implement a variety of election process reforms including replacement of punch card voting systems, purchasing voting equipment that is accessible to people with disabilities, and developing a centralized voter registration system. Oregon, along with other states, received funds under HAVA to support these activities. The Federal Voting Assistance Program (FVAP) grant funds are one-time Federal Funds available to provide voting assistance to uniformed service members, their families, and citizens living outside the U.S.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget for the Elections Division is a 3.2% decrease from the prior biennium level, and is 2.7% below the current service level. General Fund is reduced 8.6% from the prior biennium, and is 5.4% below the current service level. The reduction from the prior biennium is primarily due to a one-time General Fund appropriation of approximately $600,000 in the 2011-13 biennium for a special election that was not repeated in the 2013-15 biennium budget.

The budget also includes standard adjustments that were approved in most agency budgets on an across-the-board basis. These include reductions to reflect the impact of the policy changes in SB 822 and administrative actions of the PERS Board that reduce state employer contribution rates in the 2013-15 biennium by approximately 4.4 percentage points, a 5% reduction in General Fund appropriated for services and supplies, and a 2% hold back adjustment on General Fund appropriations for purposes of establishing a supplemental statewide ending balance.

HAVA requirements will continue to impact the Secretary of State's budget in the future. HAVA was passed in October 2002 and mandates minimum federal standards on various aspects of election administration, including maintenance of a centralized voter registration system, replacement of punch card machines, privacy and independence in the voting process, access for people with disabilities, and voter outreach. Although the agency still holds approximately $9.9 million of Federal Funds from prior-biennia appropriations of HAVA and FVAP funds, no additional funding from the federal government is anticipated for these programs.

As was the case in prior biennia, the HAVA and FVAP programs will spend Federal Funds revenues already received by the state, and almost all of the agency's Federal Funds expenditures will be for these programs. The $9.9 million of remaining Federal Funds are sufficient to finance $7.5 million of program expenditures in the 2013-15 biennium budget; however, the $2.3 million that will remain at the end of the biennium will be insufficient to continue the programs through 2015-17. The Joint Committee on Ways and Means approved a budget note requesting the Secretary of State to report on the use of Federal HAVA monies, and on Elections Division plans to address the upcoming exhaustion of available HAVA monies. The report is to identify programs and expenditures that will be discontinued upon exhaustion of HAVA monies, and identify expenditures that the Secretary will request to be continued with alternative fund sources.

SOS – Audits Division

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	14,630,399	16,949,422	18,531,993	18,221,625
Total Funds	**$14,630,399**	**$16,949,422**	**$18,531,993**	**$18,221,625**
Positions	72	71	71	71
FTE	72.00	71.00	71.00	71.00

Program Description

The Audits Division carries out the Secretary's constitutional duties as auditor of public accounts to assure that public funds are properly accounted for and spent in accordance with legal requirements. The Division performs, or contracts for, financial and compliance audits and performance audits of state agencies, and information technology audits of state computer systems. The Division further monitors approximately 1,700 local government audits, and operates the Government Waste Hotline.

The Division's budget is entirely supported by Other Funds assessments and billings to state agencies and local governments. Revenue from these sources will total $22.8 million in the 2013-15 biennium. The agency will transfer $5.8 million of these revenues to the Administrative Services Division to support central administrative functions, and spend $18.2 million to operate the Audits Division.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget for the Audits Division is a 7.5% increase over the prior biennium level. Although this amount is 1.7% below the current service level, the shortfall results entirely from reductions to reflect the impact of the policy changes in SB 822 and administrative actions of the PERS Board that reduce state employer contribution rates in the 2013-15 biennium by approximately 4.4 percentage points. The Division, therefore, is anticipated to continue prior biennium service levels.

SOS – Archives Division

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	3,500,660	3,509,939	3,617,922	0
Other Funds	1,977,689	2,972,265	3,294,578	7,332,566
Federal Funds	13,467	164,419	168,869	168,869
Total Funds	**$5,491,816**	**$6,646,623**	**$7,081,369**	**$7,501,435**
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.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget for the Archives Division is a 12.9% increase over the prior biennium level, and is 5.9% above the current service level. General Fund support is eliminated, but fully replaced with revenue from a new assessment charged to state agencies.

The budget establishes a new state government service charge to finance the operations of the Archives Division that were previously supported by the General Fund. This charge is apportioned to state agencies on the basis of their full-time equivalent employment counts. The new Archives Division assessment revenues are spent in the Secretary of State's budget as Other Funds. The assessment will generate a total of $4.1 million Other Funds in the 2013-15 biennium, of which $3.6 million provides a permanent replacement for the $3.6 million of General Fund that was in the Archives Division current service level budget, and $500,000 provides one-time funding to replace approximately one-quarter of the shelving in the Archives Building with compact shelving to increase capacity to store the permanent records of the state.

Other agency budgets were adjusted to reflect the impact of the new $4.1 million assessment. These adjustments included adding $1.6 million to General Fund appropriations to fund the new assessment for General Fund agencies, and reducing the Central Government Service Charge assessment to Other Funds agencies by $1.5 million. Because the Central Government Service Charge assessments had been transferred to the General Fund, the combined impact of the two adjustments made to other agency budgets reduced General Fund available for other purposes by $3.1 million.

The budget also includes $168,869 of Federal Funds expenditures financed by two federal grants, including: $30,000 from an ongoing State Historical Records Advisory Board grant; and $138,869 from a grant from the National Historical Publications and Records Commission that is being used to integrate the records of the Office of the Governor into the Oregon Records Management Solution system.

Finally, the budget also includes reductions to reflect the impact of the policy changes in SB 822 and administrative actions of the PERS Board that reduce state employer contribution rates in the 2013-15 biennium by approximately 4.4 percentage points.

SOS – Corporation Division

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	6,446,211	7,580,660	7,968,917	8,091,118
Total Funds	**$6,446,211**	**$7,580,660**	**$7,968,917**	**$8,091,118**
Positions	32	33	32	34
FTE	35.50	31.50	31.50	32.00

Program Description

The Corporation Division is responsible for three major programs: 1) Business Registry – the filing of business names; 2) Uniform Commercial Code – the filing of secured transactions; and 3) Notary Public – commissioning and regulating notaries. The Legislature added a fourth program, the Office of Small Business Assistance, to the Division in the 2013 session.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget for the Corporation Division is a 6.7% increase over the prior biennium level, and represents a 1.5% increase over the current service level. The budget establishes two new positions, representing a 6.3% increase over the current service level. The budget also includes reductions to reflect the impact of the policy changes in SB 822 and administrative actions of the PERS Board that reduce state employer contribution rates in the 2013-15 biennium by approximately 4.4 percentage points.

The budget adds $248,162 Other Funds expenditures and two full-time positions (1.50 FTE) for operation of the new Office of Small Business Assistance, which is established in HB 3459. The Office will facilitate interactions between small businesses and state regulatory agencies, and work to resolve issues and complaints arising from these interactions. The Office may also investigate, and report findings on, otherwise unresolvable issues and complaints that involve small businesses and state regulatory agencies. Expenditures are paid from business registry fee revenues that would otherwise be available for transfer to the General Fund.

The Corporation Division receives no General Fund, and is entirely funded by fee revenues. The primary funding source is fees charged to register business entities in the state. The agency retains $20 of each business registration fee. The rest of the fee amount is transferred to the General Fund. Under current law, approximately 25% of total business registration fee revenues are currently retained by the agency and approximately 75% are transferred to the General Fund. The approved budget, however, includes a one-time additional transfer to the General Fund in the amount of $4 million for the 2013-15 biennium, which will bring the total transfer amount to $54.8 million.

The remaining $16.1 million of revenues are retained by the agency. These retained revenues fully support the Division's operations ($8.1 million Other Funds). Furthermore, an additional $8 million of the revenues are transferred to support Other Funds expenditures in the Administrative Services Division budget. Under current business registration fee revenue projections, an additional $2.2 million will be available for transfer to the General Fund in the 2014 legislative session. If the second transfer is also approved, the agency would retain a $2.3 million Other Funds ending balance in the Corporation Division, sufficient to finance 3.4 months of operations.

Oregon State Treasurer (OST) – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	31,773,270	35,248,684	40,020,642	45,149,748
Other Funds (NL)	3,677,332	3,700,000	3,584,000	0
Total Funds	**$35,450,602**	**$38,948,684**	**$43,604,642**	**$45,149,748**
Positions	84	85	85	92
FTE	83.10	83.48	84.10	89.89

Agency Overview

The mission of the Oregon State Treasurer (OST) is to provide financial stewardship for Oregon's public entities through the management of the state's liquidity requirements and investments. OST maintains all state agency funds and invests most state and some local government funds that are not needed to meet current expenditure demands.

OST operates five programs. The **Investments Program** invests state-held funds including the Oregon Public Employees Retirement Fund, the State Accident Insurance Fund, the Common School Fund, and other smaller funds; the **Cash Management Program** processes monetary transactions for all state agencies and over 1,500 local government accounts, and operates the Oregon Short-Term Fund and the Oregon Intermediate Term Pool which manages and invests state monies (and the funds of local governments that choose to participate) that are not needed for demands in the short and intermediate-term; the **Debt Management Program** coordinates and approves issuance of state agency and authority bonds; the **Public Funds Collateralization Program** assures that public funds held in financial institutions are properly collateralized, and acts as pool manager for Oregon banks and credit unions; and the **Oregon 529 College Savings Network** administers two tax-advantaged savings programs designed to encourage people to save money for future education costs.

OST is overseen by the Office of the State Treasurer, which is a statewide elected official whose authority is established by Article VI, Section 1 of the Oregon Constitution and by various state laws. The Treasurer is the investment officer for the Oregon Investment Council (OIC), which is responsible for establishing the state's investment policy. The Treasurer also serves on the State Land Board and chairs the State Debt Policy Advisory Commission, among other duties and responsibilities. Statute designates the State Treasurer as the sole banking and cash management officer of the state.

Revenue Sources and Relationships

OST is an Other Funded agency, although portions of charges to state agencies may originate as General Fund. OST projects to receive a total of $60.1 million in Other Funds revenue for the 2013-15 biennium, a 35% increase from the prior biennium level.

Each Treasury program is supported by its own charges. The revenue is generated primarily from charges based on the value of managed portfolios, fees charged for the number and type of banking transactions it processes, the proportion of outstanding debt held by agencies and fees for new bond issuances and charges for bond and coupon redemptions, and on holdings of state funds in excess of FDIC insurance levels.

The agency's central administrative functions are financed by a portion of each program's revenues that are internally assessed to support those functions.

OST continues to receive a grant from the Rockefeller Foundation for the purpose of designing and launching a West Coast Infrastructure Exchange. The grant totaled $250,000 for the 2011-13 biennium and $500,000 for the 2013-15 biennium.

While portfolio values have fluctuated greatly since the start of the financial crisis, OST has been able to adjust its fees to maintain consistent agency revenues, in part because the agency has broad authority to set its fees within statutory limits. As such, OST has been immune from both revenue and expenditure reductions faced by most other state agencies in recent biennia.

Budget Environment

The OST 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 participation levels in other programs such as the Public Funds Collateralization Program and the Oregon 529 College Savings Network. The agency processes an estimated 37 million financial transactions biennially, including deposits, electronic fund transfers, and checks issuances.

OST manages, under the direction of the OIC, approximately $80 billion in short, intermediate, and long-term assets, the largest of which is the $63 billion Oregon Public Employees Retirement Fund (OPERF).

Most long-term asset values have yet to recover from their pre-financial crisis levels. For example, OPERF peaked at $66.8 billion in November 2007, but then declined by 38%, to only $41.5 billion, in March 2009. The OPERF valuation was $63.1 billion, as of June 30th, 2013. OIC and OST investment staff expect lower long-term investment returns into the future. Investment results have broad budgetary implication for state and local governments as they account for approximately 71% of Public Employee Retirement System pension costs with the remainder coming from employer and employee contributions.

OST Investment Officer compensation has a performance-based component, which ties a portion of their maximum compensation to the performance of the investment portfolios that they manage. When portfolio performance exceeds the performance of most other states' comparable investment portfolios, Investment Officers can earn up to 30% more than what they earn when portfolio performance is below that of most other states.

The Legislature, after some consideration, rejected the State Treasurer's proposal (SB 120 and HB 3318) to establish the Oregon Investment Council as a public corporation, which would have placed it outside of legislative control.

HB 2323, which did become law, abolished the sunset date for the Oregon Growth Board, and transferred the management of the Oregon Growth Account from the State Treasurer to the Oregon Growth Board.

Although considered an Executive Branch agency, the State Treasurer, as a separately elected, constitutional office, operates independent of the Governor and the rest of the Executive Branch. The Executive Branch makes no recommendation and exercises no budgetary control over the State Treasurer's budget. That responsibility falls solely to the Legislature.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $45.2 million is $6.2 million, or 16%, more than the 2011-13 legislatively approved budget and includes 92 positions (89.89 FTE).

The State Treasurer's salary was increased by $5,000 per year, which added $9,174 to the budget after accounting for Other Payroll Expenses.

The budget also includes employee compensation that includes merit, cost-of-living, and performance-based compensation and when combined are the single largest cost increases for the OST budget.

The adopted budget included standard adjustments for Public Employees Retirement System savings ($804,212) and state government service charges and other agency assessments ($52,584). OST, as an Other Funded agency, did not have a 5% General Fund reduction in non-fixed services and supplies or a 2% General Fund supplemental ending balance hold back.

OST – Treasury Services

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	28,380,933	31,729,854	36,382,078	40,327,950
Other Funds (NL)	3,677,332	3,700,000	3,584,000	0
Total Funds	**$32,058,265**	**$35,429,854**	**$39,966,078**	**$40,327,950**
Positions	82	83	83	90
FTE	81.10	81.48	82.10	87.89

Program Description

Treasury Services houses the main operations of the agency, which can be divided into seven general cost centers:

- ***Investments Program*** ($13.4 million, 15.77 FTE) invests state-held funds including the Oregon Public Employees Retirement Fund, the State Accident Insurance Fund, the Common School Fund, and other smaller funds. This includes Investment Officer Incentive Compensation ($2.7 million), which is an incentive based with bonuses of up to 30% of investment officer's base salary.
- ***Cash Management Program*** ($8.9 million, 26.87 FTE) processes monetary transactions for all state agencies and over 1,500 local government accounts, and operates the Oregon Short-Term Fund and the Oregon Intermediate Term Pool which manages and invests state monies (and the funds of local governments that choose to participate) that are not needed for immediate demands.
- ***Financial Institution Banking Fees*** ($3.6 million), fees paid to financial institutions for direct banking services. The Treasury recovers the cost of banking fees related to banking services from state agencies and local governments. These recoveries are calculated on the basis of the agency's or government's actual banking transactions. 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.
- ***Debt Management Program*** ($2.6 million, 6.60 FTE), coordinates and approves issuance of state agency and authority bonds. The program also issues Tax Anticipation Notes.
- ***Public Funds Collateralization Program*** ($0.5 million, 2.15 FTE), assures that public funds held in 37 participating financial institutions are properly collateralized, and acts as pool manager for Oregon banks and credit unions.
- ***Agency Administrative Services*** ($11.4 million, 36.50 FTE), provides the general administrative functions of the agency, including information technology, human resources, accounting, project management, procurement, and the State Treasurer's salary and staff.

There is an additional cost of the Investment Division that occurs as a revenue transfer rather than an expense and therefore is not subject to legislative expenditure limitation. That expense is associated with investment fees, commissions, and other expenses for private third-party investment managers, brokerage commissions, charged against invested funds. For just the Oregon Public Employees Retirement Fund, these charges exceed $335 million or $670 million on a biennial basis, based on fiscal year 2012. This is approximately 15 times the State Treasurer's 2013-15 legislatively adopted budget, but which is an expense entirely off-budget.

Revenue Sources and Relationships

Treasury Services program expenditures are financed with Other Funds, although portions of the banking and Debt Management Program charges to state agencies are financed by General Fund appropriations to those agencies. Each Treasury program is supported by its own charges. The agency's central administrative functions, in turn, are financed by a portion of each program's revenues that are internally assessed to support those functions. The combined sum of these Other Funds revenues is projected to total $54.2 million in the 2013-15 biennium, a $14.1 million, or 35%, increase from the prior biennium level of $40.1 million.

OST may deduct monthly a maximum of 0.25 of a basis point (.0025%) of the most recent market value of assets under management for administration and portfolio management fees. The fee is calculated on a sliding scale as noted below:

Graduated Scale [Monthly Valuation]	Flat Fee	Basis Point Charge	Percent Charge
< $10 million	--	0.25	0.0025%
$10 to $100 million	$250	0.25	0.0025%
$100 to $500 million	$2,500	0.24	0.0024%
$500 to $1 billion	$12,100	0.22	0.0022%
>$1 billion	$23,100	0.12	0.0012%

Investment Management fees are estimated to generate $28 million, or 51.5% of total revenue, for the 2013-15 biennium. However, this level of fees assumes $6.3 million of a policy package to add additional staff, but which was withdrawn from legislative consideration by the State Treasurer. This over-assessment is recognized by OST, which states that a fee reduction may be necessary, if the proposed program enhancement is brought before the Legislature (i.e., reconsidered) in 2014 or the Emergency Board and fails to be approved.

The Oregon Short Term Fund (OSTF) invests excess cash for durations of less than one year. The value of the OSTF was $11.5 billion, as of June 30, 2013. This includes the assets of the Oregon Local Government Investment Pool (OLGIP), which is the vehicle for local governments to invest in the OSTF. SB 351 (2013) allows the governments of Oregon's nine federally recognized tribes to also invest funds through the OLGIP. The proceeds from Tax Anticipation Notes issued by OST and a portion of the Oregon Public Employees Retirement Fund are also invested in the OSTF. Statutorily, OST may deduct monthly 0.435 of a basis point of the most recent market value of assets under management directly from the OSTF for administration and portfolio management fee. The current monthly rate OST charges this Fund is 0.3 of a basis point (0.003%).

The Oregon Intermediate Term Pool (OITP) invests excess cash for durations of up to 10 years. HB 2140 (2013) allows local governments to invest in the OITP, which previously was only available to state agencies. The value of the OITP was $163.9 million of June 30, 2013. The Pool began on June 30, 2010. OST may deduct monthly 0.435 basis points of the most recent market value of assets under management directly from the OITP for administration and portfolio management fee. The current monthly rate OST charges is the Pool is 0.435 of a basis point (0.00435%).

OST estimates that it will receive a combined $11 million in fees from the OSTF and the OITP, or 20.3% of total revenue, for the 2013-15 biennium.

OST may pass along charges to each state agency for private banking services based on the number and type of transactions processed on their behalf. Local government investment pool participants are also charged for banking services in this manner. Banking fee revenues are estimated to be $5 million, or 9.19% of total revenue, for the biennium with a budgeted expense of $3.6 million.

OST charges bank and credit union depositories for the reasonable expenses of the agency in connection with the services, duties and activities of the Public Funds Collateralization Program. Charges are calculated quarterly as follows: each bank and credit union depository is charged a flat fee of $250 for their participation in the pool; and program expenses not covered by the $250 flat fee are allocated to bank and credit union depositories holding state funds in excess of FDIC insurance levels. Combined, these fees are estimated to total $733,042, or 1.4% of total revenue, for the biennium.

OST may charge state agencies and municipalities fees to offset the costs of providing bond issuance, tracking and reporting services. If the fees are not sufficient to fully fund OST debt management operations an assessment is made quarterly against each state agency with outstanding debt issuances. Debt Management revenues are estimated to total $3.6 million, or 6.7% of total revenue.

As noted previously, OST has the authority to raise or lower any of its rates, within the statutory limit, to match revenues to expenditures.

OST also has received an Other Funds grant from the Rockefeller Foundation for $500,000, or 1% of total revenue, for the purpose of designing and launching a West Coast Infrastructure Exchange. The Foundation envisions the exchange as a "platform to accelerate new public-private finance models for infrastructure projects in California, Oregon, and Washington." The Legislature in 2012 originally approved $250,000 of expenditure limitation for this grant.

The Treasury Services program's estimated 2013-15 ending cash balance is $5.4 million, equivalent to over 3.2 months of operating reserves.

Budget Environment

The state's cash management system is a highly integrated suite of 19 cash management applications that operate as a conduit between financial institutions, state treasury accounts, the state's financial management applications (accounting system), state agencies and local governments.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $40.3 million is $4.9 million, or 13.8%, more than the 2011-13 legislatively approved budget and includes 90 positions (87.89 FTE).

Three enhancements above the current service level are included in the agency budget:

- $1,192,728 Other Funds and seven permanent full-time positions (5.79 FTE) for the Cash Management program to support the ongoing operations of the system and to develop foundational documentation, including a business case, for the eventual replacement of various components of the existing system.
- Conversion of the agency's $3.6 million in Nonlimited Other Funds expenditure limitation used to pay for banking costs to $3.6 million limited Other Funds expenditure limitation. This change reflects a more restrictive legislative policy in granting Nonlimited authority, given its transition to annual meetings, and its ability to more regularly consider requests for limitation increases from agencies.
- The State Treasurer's salary was increased by $5,000 per year, which totaled $9,174 including Other Payroll Expenses.

The budget also includes employee compensation that includes merit, cost-of-living, and performance-based compensation. The budget for Investment Officer Incentive Compensation is $2,719,136, an increase of $797,119, or 42%, above the 2013-15 base budget.

The adopted budget included standard adjustments for Public Employees Retirement System savings and state government service charges and other agency assessments.

OST – Oregon 529 College Savings Network

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	3,392,337	3,518,830	3,638,564	4,821,798
Total Funds	**$3,392,337**	**$3,518,830**	**$3,638,564**	**$4,821,798**
Positions	2	2	2	2
FTE	2.00	2.00	2.00	2.00

Program Description

The Oregon 529 College Savings Network administers two savings programs designed to encourage people to save money for future education costs: a state plan and a plan offered through private investment advisors. 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.

Both of the Oregon plans are overseen by the five-member Oregon 529 College Savings Board.

Revenue Sources and Relationships

The College Savings Network revenues are projected to total $5.4 million in the 2013-15 biennium, or 10% of total revenue, with budgeted expense of $4.8 million. The account for the Network's state operating account retains interest earnings, which equal approximately $1,000 per month, or $24,000, for the 2013-15 biennium.

The program was started with advances from the General Fund, but is now fully-supported from fees (Other Funds).

The Oregon 529 College Savings Network receives Other Funds from an assessment on plan assets equal to 5 basis points (0.05%) of total plan assets (down from 10 basis points in 2011) and is calculated and remitted to the Network monthly by the Oregon College Savings Plan and MFS 529 Savings Plan, sold through financial advisors. As such, its program revenues vary directly with the total balance in participants' accounts.

The program's ending balance is estimated to be $3.2 million, or over 15.7 months of operating reserve.

Budget Environment

The program was initiated during the 1999-2001 biennium. By May 2008, the program had expanded to nearly 111,000 participant accounts, and total balances peaked at more than $1.05 billion. Subsequent stock and bond market declines reduced the value of participants' accounts, however. By November 2008, the number of accounts had increased further to more than 116,000, but the total balances in the accounts had declined nonetheless by 30% from the May 2008 level, to $735.4 million. The Treasurer dismissed the former Oregon College Savings Plan administrator (Oppenheimer Funds), and subsequent to the 2009 session, selected TIAA-CREF Tuition Financing Inc. as the new administrator for the Plan. The Network programs resumed growing as markets recovered. By the end of 2012, the Network held approximately 133,520 accounts with a total value of $1.66 billion, of which $623.3 million, or 37%, is held for out-of-state participants.

The state plan (direct-sold) has 67,228 accounts (total assets of $830.3 million) and the plan sold through private financial advisors has 66,292 accounts (total assets of $834.7 million).

The participation rate of Oregon residents 18 years and younger in Oregon's 529 College Savings Network is 9.3%, which ranks Oregon in the top eight states nationally, according to the College Savings Plans Network.

Legislatively Adopted Budget

The legislatively adopted budget of $4.8 million Other Funds for the College Savings Network is $1.3 million, or 37%, more than the 2011-13 legislatively approved budget and includes two positions (2.00 FTE).

One enhancement above the current service level is included in the agency budget: $1.2 million Other Funds for the College Savings Network Marketing for the public awareness and marketing campaign for the Oregon 529 College Savings Network. This provides funds for the direct-sold state plan and has been approved by the Oregon 529 College savings Network Board. The revenue for the package come from two sources; $1 million from the plan's manager TIAA-CREF Tuition Financing, Inc., and $200,000 from the program's Other Funds balance, and is expected to continue in 2015-17.

The budget also includes employee compensation that includes merit and cost-of-living increases.

The adopted budget included standard adjustments for Public Employees Retirement System savings, state government service charges, and other agency assessments.

Legislative Branch (LEG) – Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	70,522,689	82,943,021	92,883,066	87,966,699
Other Funds	6,975,797	5,695,511	4,583,261	42,863,152
Other Funds (NL)	1,334,927	1,470,003	1,254,288	1,254,288
Total Funds	**$78,833,413**	**$90,108,535**	**$98,720,615**	**$132,084,139**
Positions	675	652	652	650
FTE	381.15	426.96	426.91	428.52

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 2013-15 adopted budget for the Legislative Branch is $5,023,678 General Fund (6.1%) more than the 2011-13 legislatively approved budget. Total Other Funds are $37,167,641 (652.6%) more than the legislatively approved budget. The main reason for the Other Funds increase is the inclusion of $34.5 million for the funding of the first phase of the Capitol Master Plan.

Branch-wide budget General Fund reductions include $1.6 million for Public Employee Retirement System (PERS) revisions due to the passage of SB 822 and $2.8 million for anticipated reversions that will carry forward into the 2013-15 biennium. Adjustments were also needed to correct data and telecommunications charges that were mistakenly adjusted in the Governor's recommended budget.

The General Fund budgets of all Legislative Branch agencies were reduced by 2% to create a statewide supplemental ending balance. Some or all of those reductions may be restored during the February 2014 legislative session.

LEG – Legislative Assembly

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	30,840,594	37,132,538	41,108,099	38,039,318
Other Funds	75,361	268,970	278,975	277,937
Other Funds (NL)	81,935	91,360	93,553	93,553
Total Funds	**$30,997,890**	**$37,492,868**	**$41,480,627**	**$38,410,808**
Positions	443	422	422	422
FTE	207.36	251.39	251.27	251.27

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 it represents.

The Legislature meets in a longer session every odd-numbered year and enacts a biennial budget. Voters approved a shorter annual session in November 2010 that meets during even-numbered years. During the interim, interim committees examine specific topics or program areas and a Joint Committee, the Emergency Board, is appointed to meet periodically to address certain fiscal issues that cannot be put off until the next regular session. The Emergency Board has limited authority, so there are fiscal circumstances that can require the full Legislature to meet in a special session to ensure the budget remains balanced.

The portion of the Legislative Assembly budget to cover the costs for members is divided to reflect session and interim activities as well as Senate and House costs. The remainder of the budget which covers the costs of leadership offices and the Office of the Secretary of the Senate and the Office of the Chief Clerk of the House is provided for the normal biennial period.

Legislatively Adopted Budget

The 2013-15 adopted budget for the Legislative Assembly is $906,780 General Fund (2.4%) more than the 2011-13 legislatively approved budget level. Other Funds are $8,967 (3.3%) more than the approved budget level.

The Assembly budget includes adjustments for the following:

- The elimination of inflation on the New Member Transition account (-$1,080 General Fund).
- An increase of $4,530 General Fund to each member's interim account to reflect costs associated with the even-year legislative session ($407,700 General Fund).
- An increase of $35,000 General Fund to the Joint Interim Committee per diem pool.
- Funding of $50,000 General Fund for Senate and House Chamber Improvements.

The General Fund budgets of all Legislative Branch agencies were reduced by 2% to create a statewide supplemental ending balance. Some or all of those reductions may be restored during the February 2014 legislative session.

LEG – Legislative Administration Committee

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	24,027,383	28,999,433	32,048,223	33,376,264
Other Funds	4,764,678	4,180,685	2,607,029	37,920,316
Other Funds (NL)	383,763	597,932	597,932	597,932
Total Funds	**$29,175,824**	**$33,706,050**	**$35,253,184**	**$71,894,512**
Positions	145	143	143	142
FTE	99.01	100.79	100.86	100.65

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 accounts for 46.4% of the 2013-15 budget. This is due to a large increase in Other Funds revenue from the issuance of Article XI-Q bonds for the first phase of the Capitol Master Plan. There is also Other Funds revenue from Capitol Building office space and hearing room rent, parking fees, donations for Holidays at the Capitol, equipment rentals, sales of publications and audio tapes, and copy/vending machine usage. LAC adopts the same rental rate for Non-

Branch occupants of the Capitol as the rate imposed by the Department of Administrative Services for occupants of other state buildings. Parking fees and revenue from rentals, pay phones, and vending machines go into the State Capitol Operating Account which is used to partially cover expenses incurred in operating, maintaining, protecting, and insuring the Capitol. A Nonlimited Stores Revolving Account accommodates revenue from retail sales in the Capitol Gift Shop and a Nonlimited Property and Supply Stores Account accommodates revenue from the sale of supplies to legislative agencies.

Budget Environment

Significant factors affecting LAC costs are the continued demand for improved information systems; maintenance and repair of the Capitol, including security needs; and meeting the needs of legislative committees. The length of legislative sessions and the number of bill introductions, amendments, and committee hearings also affect the agency's workload and costs.

Legislatively Adopted Budget

The 2013-15 adopted budget for the Legislative Administration Committee is $4,376,831 General Fund (15.1%) more than the 2011-13 legislatively approved budget. Other Funds are $33,739,631 (807.0%) more than the 2011-13 approved budget. Most of the increase can be attributed to bond proceeds for the first phase of the Capitol Master Plan.

The LAC budget includes adjustments for the following:

- A placeholder package of $1 million General Fund for a new policy office. It is expected that a work group or task force will be created to make recommendations to legislative leadership before the 2014 session on the role and functions of the new office.
- A net increase of $140,815 General Fund for a new Legislative Recording and Streaming System. The cost is partially offset by the reduction of one session-only media specialist that will no longer be needed after the system is implemented.
- Funding of $553,707 General Fund for an increased security presence in the Capitol, adding three retired troopers and an additional regular trooper, which will phase-in January 2014.
- Funding of $210,000 Other Funds for deferred maintenance projects including security camera upgrades, replacement of the parking garage gates, and the recoating of the House Wing roof.
- Funding of $34.5 million in Article XI-Q bond proceeds for the Capitol Master Plan project. The first phase will fund detailed pre-construction planning and the design phase of the project. The project will address life-safety concerns through seismic upgrades and other critical needs, including fire and electrical systems. Debt Service of $1.4 million General Fund was also approved for costs during the 2013-15 biennium.

The General Fund budgets of all Legislative Branch agencies were reduced by 2% to create a statewide supplemental ending balance. Some or all of those reductions may be restored during the February 2014 legislative session.

LEG – Legislative Counsel

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	7,793,217	8,528,744	10,086,943	9,784,658
Other Funds	2,036,401	1,311,425	1,690,671	1,658,313
Other Funds (NL)	869,229	780,711	562,803	562,803
Total Funds	**$10,698,847**	**$10,620,880**	**$12,340,417**	**$12,005,774**
Positions	57	57	57	55
FTE	45.28	45.28	45.28	45.60

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 supports 81.5% of LC's expenditures. Other Funds are derived from sales of the *Oregon Revised Statutes*, *Oregon Laws*, bill drafting services, and other LC publications. A small portion of the publication sales income is expended as limited Other Funds and used to defray that part of the agency's General Program expenses that are related to *ORS* publication editing. The balance of the publication sales income is expended as Nonlimited within the *ORS* Publications Program. LC has statutory authority to charge state agencies and other entities for drafting legislation, and has been doing so since 2001-03.

Budget Environment

The number of bills and amendments drafted fluctuates from session to session, but overall the trends are fairly flat. The primary driver of drafting increases in the recent past has been agency requests. When workload increases, it creates additional pressure on LC staff, which ripples throughout the institution as these bills are drafted, introduced, amended, and finalized.

During legislative sessions, the agency hires temporary employees that serve primarily as copy editors for staff attorneys and to assist with workload issues. However, the agency has worked to reduce its reliance on temporary staff over the last several biennia.

Publication sales of *Oregon Revised Statutes* and *Oregon Laws* have declined in recent biennia due, in part, to the availability from free or low-cost Internet sources. Overall, Other Funds receipts have remained stable because of increased efficiencies in operations and increased sales of specialty publications. Specialty publications include the criminal code; family law code; landlord-tenant laws; labor, employment, and workers' compensation laws; and construction and building trade laws. If Other Funds receipts were to decline, additional General Fund support may be needed for *ORS* publication.

Legislatively Adopted Budget

The 2013-15 adopted budget for Legislative Counsel is $1,255,914 General Fund (14.7%) more than the 2011-13 legislatively approved budget. Other Funds are $346,888 (26.5%) more than the 2011-13 approved budget.

The LC budget includes $192,971 General Fund for the reclassification of four session staff attorney positions into two continuing deputy positions.

The General Fund budgets of all Legislative Branch agencies were reduced by 2% to create a statewide supplemental ending balance. Some or all of those reductions may be restored during the February 2014 legislative session.

LEG – Legislative Fiscal Office

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	5,516,076	5,871,135	6,798,857	3,610,997
Other Funds	97,516	0	0	3,000,000
Total Funds	**$5,613,592**	**$5,871,135**	**$6,798,857**	**$6,610,997**
Positions	21	21	21	21
FTE	20.50	20.50	20.50	21.00

Program Description

The Legislative Fiscal Office (LFO) is a non-partisan, legislative service agency created by statute in 1959. The Office researches, analyzes, and makes recommendations concerning state expenditures, financial affairs, program administration, and agency organization. The Office reports to the Joint Committee on Ways and Means during legislative sessions and to the Emergency Board and the interim Joint Committee on Ways and Means during the interim between sessions. LFO determines the fiscal impact of all legislative measures and, when applicable, publishes fiscal impact statements that accompany bills through the legislative process. The 2007 Legislature approved an information technology analyst for LFO. The Office now provides budget analysis and policy recommendations concerning state agency information systems projects. LFO produces various publications to guide the Joint Committee on Ways and Means processes; addresses specific budgetary topics; provides legislative members, agencies, and the public with detailed and summary information as each budget is presented and after it is adopted; and annually reports on the status of all liquidated and delinquent accounts, as well as agency efforts to collect on such accounts.

Revenue Sources and Relationships

The Legislative Fiscal Office has traditionally been supported completely by General Fund. For the 2013-15 biennium the Legislature approved $3 million in Other Funds for the operations of the agency. The source of the revenue is a portion of the Central Government Service Charge (CGSC) assessment. In the past, all of the CGSC revenues were transferred to the General Fund. A portion of the CGSC formula is driven by costs associated with the Legislative Fiscal Office, so the Legislature decided to target the funds directly to the Office.

Budget Environment

As with other committee staffs, the work of LFO changes between legislative sessions and the interim. During sessions, budget analysis and the number of bill introductions and amendments is the primary driver of workload for the agency. LFO reviews all measures to determine if they have a fiscal impact and prepares fiscal impact statements.

During the interim, workload is driven by the number, length, and complexity of special sessions necessary to rebalance the statewide budget; the number and complexity of Emergency Board requests; and the number of other program and fiscal issues that require analysis. The Office also spends a significant amount of time educating and providing information to members, legislative staff, and other stakeholders about the budget process and current budget issues.

Legislatively Adopted Budget

The 2013-15 adopted budget for the Legislative Fiscal Office is $739,862 total funds (12.6%) more than the 2013-15 legislatively approved budget. As mentioned above, Other Funds now account for 45.4% of the agency's budget.

The LFO budget includes adjustments for the following:

- A fund shift of $3 million from General Fund to Other Funds. The Other Funds are Central Government Service Charges that used to go to the General Fund.
- Funding of $110,362 General Fund to increase a half-time Fiscal Analyst position to full-time.

The General Fund budgets of all Legislative Branch agencies were reduced by 2% to create a statewide supplemental ending balance. Some or all of those reductions may be restored during the February 2014 legislative session.

LEG – Legislative Revenue Office

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	1,977,774	1,996,569	2,372,109	2,711,399
Total Funds	**$1,977,774**	**$1,996,569**	**$2,372,109**	**$2,711,399**
Positions	7	7	7	8
FTE	7.00	7.00	7.00	8.00

Program Description

The Legislative Revenue Office (LRO) provides staff assistance to the House and Senate Revenue Committees during legislative sessions and to interim revenue committees, task forces, and work groups between sessions.

The Office was established in 1975 to provide non-partisan analysis of tax and school-finance issues. The Office prepares research reports and writes revenue impact statements on initiatives, proposed legislation affecting state or local public finance, personal and corporate income taxes, property taxes, consumption taxes, school finance, and distribution of the State School Fund.

Revenue Sources and Relationships

The Legislative Revenue Office is completely supported by General Fund.

Budget Environment

As with other committee staffs, the number of bill introductions and amendments create the workload for the agency during regular and special sessions. Increases in bills and amendments, along with tax-related voter initiatives and legislative referrals, require the staff to write more revenue impact statements. The number of revenue, school finance committee, task force, and workgroup meetings and related research and analysis projects determines the interim workload.

Legislatively Adopted Budget

The 2013-15 adopted budget for the Legislative Revenue Office is $714,830 General Fund (35.8%) more than the 2011-13 legislatively approved budget.

The LRO budget includes adjustments for the following:

- Approval of $235,000 General Fund for a lead economist position associated with HB 2002. The bill requires LRO to issue a report detailing tax credits scheduled to expire in the next year.
- Approval of $200,000 General Fund for a personal services contract associated with SB 306. The bill requires LRO to prepare a report for the legislature on the feasibility of imposing a statewide clean air fee or tax on greenhouse gas emissions.

The General Fund budgets of all Legislative Branch agencies were reduced by 2% to create a statewide supplemental ending balance. Some or all of those reductions may be restored during the February 2014 legislative session.

LEG – Commission on Indian Services

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	367,645	414,602	468,835	444,063
Other Funds	1,841	6,431	6,586	6,586
Total Funds	**$369,486**	**$421,033**	**$475,421**	**$450,649**
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.

Legislatively Adopted Budget

The 2013-15 adopted budget for the Commission on Indian Services is $29,461 General Fund (7.1%) more than the 2011-13 legislatively approved budget. Other Funds are $155 (2.4%) more than the 2011-13 legislatively approved budget.

The General Fund budgets of all Legislative Branch agencies were reduced by 2% to create a statewide supplemental ending balance. Some or all of those reductions may be restored during the February 2014 legislative session.

Judicial Department (OJD) – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	284,107,992	367,808,432	409,314,689	394,466,850
Other Funds	80,904,659	56,914,830	22,864,190	66,209,554
Federal Funds	1,099,450	1,303,013	891,014	1,227,911
Total Funds	**$366,112,101**	**$426,026,275**	**$433,069,893**	**$461,904,315**
Positions	2,084	1,878	1,830	1,889
FTE	1,904.08	1,752.66	1,709.46	1,763.60

Agency Overview

The Judicial Department (OJD) includes the judges and administrative staff to operate general-jurisdiction trial or circuit courts, a tax court, an intermediate court of appeals, and a supreme court. Oregon's 36 counties are consolidated into 27 judicial districts. Oregon's Justice, County, and Municipal courts fall outside the jurisdiction of the agency.

In 1983, Oregon's district courts, circuit courts, and appellate courts were unified into a statewide court system. In 1998, district courts were abolished and merged with circuit courts into single unified trial level courts. The Department's other responsibilities include the collection of court-ordered judgments, providing court interpreters, and state court security.

The Chief Justice appoints the chief judge of the Court of Appeals and the presiding judges of all state trial courts. The Chief Justice also appoints the state court administrator position, which was officially created in 1971.

The Chief Justice is the administrative head of the Department and has the authority to make rules and issue orders related to the administrative and procedural operations of state courts. The Judicial Conference, comprised of all elected judges, serves an advisory role. The Department's administrative proceedings are generally not open to the public.

The Department is unique in many aspects. It has a decentralized structure of independently elected judges and non-unionized employees who are overseen by a single administrative head (i.e., the Chief Justice). Circuit court judges and staff work in county-owned and county-maintained buildings. Each presiding judge exercises a degree of autonomy in prioritizing the budget for local courts depending upon the needs of local jurisdictions.

The Department's 1,889 positions (1,763.60 FTE) are organized into the following program areas:
- ***Judicial Compensation*** ($68.9 million, 193.64 FTE) holds the personal service costs of the state's 191 statutory judgeships (increased to 194 on October 1, 2013).
- ***Appellate and Tax Courts*** ($23.5 million, 103.12 FTE) includes the operating costs for the Supreme Court, Court of Appeals, Tax Court (a court of original jurisdiction), and legal support costs.
- ***Trial Courts*** ($202.8 million, 1,245.07 FTE) are the courts of general jurisdiction. A circuit court is located in each of Oregon's 36 counties. Circuit courts are organized administratively into judicial districts. Some of these, primarily rural, districts include more than one circuit court. However, most of the 27 judicial districts comprise a single circuit court.
- ***Administration and Central Support*** ($55.9 million, 157.50 FTE) includes the Office of the State Court Administrator, information systems management, fiscal and human resources management, and centralized state agency assessments.
- ***Mandated Payments*** ($14.7 million, 22.31 FTE) includes the cost of providing trial and grand jurors, court interpreters, civil appellate transcript costs for indigent persons, and Americans with Disabilities Act accommodation services.
- ***State Court Facilities and Security Account*** ($9.7 million, 4.00 FTE) provides funding for security improvements, emergency preparedness, and business continuity for Oregon's circuit, appellate, justice, and municipal courts.

- ***Electronic Court*** ("eCourt") ($25.9 million, 37.96 FTE) provides funding for a business process reengineering and information technology modernization program.

Revenue Sources and Relationships

The Judicial Department is funded with 85.4% General Fund, 14.3% Other Funds, and 0.3% Federal Funds.

In the 2013-15 biennium, OJD will generate an estimated $260 million in revenue from a variety of sources, including fines and forfeitures ($123 million), state court fees ($119 million), and individuals' contributions toward their public defense ($4.4 million). Compensatory fines and restitution, which are expected to total $22.7 million, are also collected by the courts and distributed to individual victims. Because these are trust funds, they are not accounted for in the Department budget. Other sources of operating Other Funds revenue include the sale and distribution of court publications ($650,000); fees charged for public access to the Oregon Judicial Information Network ($4.1 million); State Law Library assessment revenues ($2.4 million); fees charged for the interpreter and shorthand reporter certification programs; and various grants from other state, local, and federal agencies.

The majority of court-generated revenues are distributed to the General Fund ($118 million, or 45%), the Criminal Fine Account ($91 million, or 35%), cities and counties ($31 million or 12%), the Oregon State Bar Association for Legal Aid Services ($11.9 million, or 5%), or the Public Defense Services Commission ($4.4 million, or 2%). OJD receives approximately $4.4 million Other Funds in the 2013-15 biennium from the Application/Contribution Program (ACP) related to public defense services. ACP includes 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).

The Department is also responsible for the collection of amounts owed to the state that are subject to collection by the Judicial Branch of government. In general, collections are for past-due crime victim restitution payments, compensatory fines, and other fines, costs, and assessments. After accounting for an administrative fee, the remaining collections revenue is distributed by case type (i.e., criminal, civil, etc.) according to statute. Depending on the case type and obligation type (i.e., fines or restitution), balances remaining after statutory obligations and administrative costs are deducted are then distributed to the state or local governments.

According to the most recent Report on Liquidated and Delinquent Accounts Receivable dated June 2012, the Judicial Department reported that $1.27 billion is owed the state. Since 2002, the amount of debt has increased $955.5 million, or 305%. OJD defines its liquidated and delinquent accounts as "…those cases on which no payment has been received within 30 days of the agreed upon payment date." OJD's definition therefore includes deferred payment plan accounts.

Direct Federal Funds come from a grant for a Juvenile Court Improvement Project. The grant has a 25% matching funds requirement. The Department also received grants from the Department of Human Services for the Citizen Review Board, but this federal grant is received and expended as Other Funds.

Budget Environment

The Department has no control over the number of case filings it receives, and has legal restrictions on its ability to manage its caseload. For example, there are clear statutory requirements for speedy trials in criminal matters. If a case is not processed within allowable timeframes, it could be dismissed or could be subject to other prescribed statutory sanctions or relief. Any flexibility the Department has resides primarily within its ability to delay adjudication in civil case filings. Yet, if contentious civil issues remain unresolved for extended periods of time, this could lead to citizen frustration and negatively impact business activity.

Workload in the Judicial Department is driven by a number of factors, including: the number and complexity of cases filed; the impact of social issues, such as drug abuse and family dissolution; crime rates; and the effect of new laws and regulations. Case-types vary in their impact on judicial resources and staff. Criminal felony, misdemeanor, juvenile, and complex civil case types have the greatest workload impact on the judicial and staff resources. Violations and Small Claims cases have a lower impact on resources.

Reductions for the Department fall disproportionately on administrative and support staff for two reasons. The first is that Article VII, Section 1, of the Oregon Constitution prohibits any reduction in the compensation of judges during the term for which they are elected. The second reason is that eCourt debt service is a contractual obligation that must be met. The successful implementation of the Oregon eCourt Program is viewed as critical to bring the Department forward into the 21st century.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $461.9 million is $36 million, or 8.5%, above the prior biennium level, and is 6.6% above the current service level. Details on the enhancements and reductions in the legislatively adopted budget are provided in the program area summaries below, but budget highlights include:

- $2.7 million General Fund and twelve positions included to add an additional three-judge panel to the Court of Appeals.
- $1.9 million General Fund added to increase judicial salaries by $10,000 over the course of the 2013-15 biennium.
- $885,680 General Fund added to increase the rate paid to freelance certified interpreters from $32.50 to $40 per hour.
- $24.3 million Other Funds [Article XI-Q bond proceeds] and 40 limited duration positions added to continue implementation of the eCourt program.
- $15 million Other Funds [Article XI-Q bond proceeds] added to support replacement of the Multnomah County Courthouse in Portland. Only $1 of expenditure limitation was approved at this time, pending development of the replacement plans.
- $4.4 million Other Funds [Article XI-Q bond proceeds] added to upgrade the exterior of the Supreme Court Building.
- $3.5 million Other Funds [State Court Facilities and Security Account] added for Local Court Facilities Infrastructure projects, including support for a new Union County Courthouse.
- $8 million total funds reduction to reflect session changes in the PERS contribution rate.
- $6.3 million General Fund reduction to establish a supplemental statewide General Fund ending balance. This holdback, or some portion of it, may be restored if the budget situation permits.
- $2.2 million General Fund reduction equal to 5% of General Fund budgeted for services and supplies.
- $3 million unspecified General Fund reduction to assist in balancing the state General Fund budget.
- $1 million General Fund reduction to be replaced with General Fund prior-biennium ending balances carried forward into the 2013-15 biennium budget.

OJD – Judicial Compensation

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	59,395,640	64,740,982	67,395,024	68,869,970
Total Funds	**$59,395,640**	**$64,740,982**	**$67,395,024**	**$68,869,970**
Positions	191	191	191	194
FTE	191.00	191.00	191.00	193.64

Program Description

The Judicial Compensation program contains the personal service costs (salary plus other payroll expenses) of the 191 statutory judgeships currently in Oregon. These include 173 circuit court judges, one tax court judge, ten Court of Appeals justices (to increase to thirteen on October 1, 2013), 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 courts 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. 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, are included within the budgets for the Appellate Courts, Trial Courts, and the Administration and Central Support programs rather than under this program area. The services and supplies supporting each statutory judgeship also reside within those programs.

Judicial salaries, as with most other elected official's salaries, are set in statute and therefore any change, including a cost-of-living-allowance, requires legislative action. The last time judges' salaries were increased was during the 2007 biennium when judicial compensation was increased by approximately $8.5 million, or 19.5%. During the 2009 biennium, the Public Officials Compensation Commission's recommendation to increase judicial compensation by an additional $8.3 million, or 15%, above the current statutory amount, was not approved by the Legislature. The 2011 Legislature also made no change to statutory judge salaries.

In addition to annual salaries, judicial compensation also includes other payroll expenses (OPE), which equals approximately 50% of salary (that is, two-thirds of costs are for salaries and one-third are for OPE). About half of the OPE total is to pay PERS contributions. A judge's retirement benefit is defined by statute (ORS 238). PERS operates a separate Judge Member Plan exclusively for judges to comply with ORS 238. The contribution rate for this plan is 25.33% of salary.

Revenue Sources and Relationships

Statutory judgeships are funded with General Fund.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $68.9 million is $4.1 million, or 6.4%, above the prior biennium level, and is 2.2% above the current service level. This amount financed includes two budget enhancements, and several budget adjustments. Enhancements funded in Judicial Compensation include:

- **Judicial Compensation ($2.57 million General Fund) –** The Legislature approved two salary increases during the 2013-15 biennium for statutory judges. Judges' salaries are increased by $5,000 per year, effective January 1, 2014, and by a second $5,000 per year starting on January 1, 2015. The impact of these changes on the six judicial salary categories is shown in the table below. The full $10,000 salary increase in place beginning in 2015 represents increases over current levels ranging from 7.8% for the Chief Justice to 8.7% for Circuit Court Judges. The cost of the salary increases will roll up to $5.15 million in the 2015-17 biennium, when the $10,000 increase will be in effect for the full biennium.

Statutory Judges	Current Salary	2014	2015 and Beyond
Chief Justice	$128,556	$133,556	$138,556
Supreme Court Justices	$125,688	$130,688	$135,688
Court of Appeals Chief Judge	$125,688	$130,688	$135,688
Court of Appeals Judges	$122,820	$127,820	$132,820
Tax Court Judge	$118,164	$123,164	$128,164
Circuit Court Judges	$114,468	$119,468	$124,468

- **Court of Appeals Expansion ($956,220 General Fund and three positions [2.64 FTE]) –** During the 2012 session, the Legislature approved adding a fourth, three-judge panel to the Court of Appeals, thereby expanding the Court's membership from ten to thirteen judges on October 1, 2013. Compensation for the three judges was funded. The funding amount is exclusive of the salary increases shown above (costs relating to salary increases for the three new judges are included in the $2.57 million for Judicial Compensation noted above). Total costs relating to the Court of Appeals expansion equal $2.7 million General Fund and twelve new positions. Only the cost of the new judges' compensation and the judge positions are included here, the remaining costs for support staff and services and supplies, and support positions, are included in the Appellate and Tax Courts program below.

The Judicial Compensation budget also includes two program-specific budget adjustments:

- **Judicial Compensation-Specific PERS Rate Adjustments ($640,933 General Fund)** – Standard reductions approved on an across-the-board basis to reflect changes in the PERS contribution rate were approved in Judicial Compensation (see below). The across-the-board adjustments needed to be further adjusted, however, to reflect the impact of SB 822 and PERS Board administrative actions on the PERS Judge Member

Plan. Judges participate in a unique PERS plan that was affected differently by the adjustments than other plans were. The PERS contribution rate for the Judge Member Plan will be 25.33% of salary in the 2013-15 biennium, the same rate as in 2011-13. The across-the-board PERS reductions did not provide sufficient funding to pay this rate, so $640,933 was added back to fully-fund projected costs. (The 2013-15 biennium PERS contribution rate for OJD's non-judge employees is 14.67%, as it is for most state agency employees.)

- **General Fund Carry-Forward Adjustment (-$297,163 General Fund) –** Because salaries are established by statute, full funding for Judicial Compensation is a fixed amount. Given the salary increases approved by the Legislature, the cost of Judicial Compensation (assuming no position vacancies) in the 2013-15 biennium is $69,167,133. Starting with the 2009-11 biennium ending balance, Judicial Branch agencies are able to retain General Fund ending balances. Furthermore, without additional legislative action, an appropriation amount equal to the ending balance is transferred from the ending biennium to the next biennium. An estimated $297,163 of General Fund ending balance is forecast to be rolled forward from the 2011-13 biennium to the 2013-15 biennium budget and will be available for 2013-15 biennium Judicial Compensation expenditures. Noting this, this amount is subtracted from the budget. The remaining funding is established at a level so that Judicial Compensation will be fully funded when the $297,163 from the prior biennium is rolled forward.

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, the standard reductions that were approved in most agency budgets on an across-the-board basis were only applied to Judicial Compensation on a limited basis. Specifically, the budget does not include the 2% hold back on General Fund to establish a supplemental statewide ending balance. Also, because there are no services and supplies expenditures in Judicial Compensation, the 5% General Fund reduction to them did not apply. The budget does include reductions, calculated in the standard manner applied in all budgets, to reflect the impact of the policy changes in SB 822 and administrative actions of the PERS Board that reduce state employer contribution rates in the 2013-15 biennium by approximately 4.4 percentage points ($2.4 million). As noted above, however, this standard calculation did not leave sufficient funding to pay contributions under the specific Judge Member Plan, so $640,933 of the reduction was restored.

OJD – Appellate and Tax Courts

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	9,762,862	15,702,968	19,860,961	20,485,079
Other Funds	161,387	3,164,317	1,651,418	3,037,047
Total Funds	**$9,924,249**	**$18,867,285**	**$21,512,379**	**$23,522,126**
Positions	58	88	99	108
FTE	54.16	84.08	94.48	103.12

Program Description

The Appellate and Tax Courts program includes the Oregon Supreme Court and the Court of Appeals. The Supreme Court consists of seven justices elected to serve 6-year terms. The Court of Appeals, which was statutorily created in 1969, consists of ten judges who hear appeals from trial courts, agencies, and boards. The administrative head of the Court of Appeals is the Chief Judge, who is appointed by the Chief Justice. 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 court of original jurisdiction that is located in Salem. Currently, there is one Tax Court judge who hears matters arising from Oregon tax law and appeals from the Tax Magistrate Division. A Tax Magistrate Division was created in 1997 to replace the informal administrative tax appeals process conducted by the Department of Revenue. The Tax Magistrate Division has three magistrates. The Tax Court has exclusive, statewide jurisdiction for all matters related to state tax laws, including income taxes, corporate excise taxes, property taxes, timber taxes, cigarette taxes, local budget law, and property tax limitations.

Revenue Sources and Relationship

The Appellate and Tax Court program is predominately funded with General Fund, but includes some Other Funds revenue, including State Law Library assessment revenues ($2.4 million) and publication sales revenue ($650,000).

Budget Environment

The following table contains historic case filing data for the Appellate and Tax courts. Case filings in 2011 for the Supreme Court and the Court of Appeals have fallen from the prior year and are at ten-year lows. Tax Court – Magistrate Division caseloads have also fallen from the prior year. Only the Tax Court – Regular Division caseload has experienced a recent increase in case filings.

Appellate and Tax Court Historic Case Filings by Calendar Year

Court-Type	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Supreme Court	939	1,028	999	1,062	1,347	1,274	1,321	1,368	1,001	922
Court of Appeals	3,277	3,314	3,677	3,801	3,517	3,312	3,220	3,416	3,089	2,936
Tax Court Regular Division	47	55	39	43	27	26	73	50	53	72
Tax Court Magistrate Division	1,245	1,047	1,184	1,021	827	915	1,237	1,641	1,370	1,310

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $23.5 million is $4.8 million, or 24.7%, above the prior biennium level, and is 3.1% above the current service level. This amount financed includes one budget enhancement, one specific budget reduction, and several budget adjustments. The enhancement in Appellate/Tax Courts is:

- **Court of Appeals Expansion ($1,742,916 General Fund and nine positions [8.64 FTE]) –** During the 2012 session, the Legislature approved adding a fourth, three-judge panel to the Court of Appeals, thereby expanding the Court's membership from ten to thirteen judges on October 1, 2013. Compensation for nine support positions, and for services and supplies associated with the Court expansion, is included in the Appellate and Tax Courts program. The added support staff includes two Appellate Staff Attorneys, five Law Clerks, and two Judicial Services Specialist 3 positions. Total costs relating to the Court of Appeals expansion equal $2.7 million General Fund and twelve positions. The cost of the new judges' compensation is not included here; it is included in the Judicial Compensation program above.

The specific reduction in the Appellate/Tax Courts program is:

- **General Fund Reduction (-$200,000 General Fund) –** The budget for OJD includes an unspecified $3 million General Fund reduction to assist in balancing the overall state budget within available General Fund resources. OJD is instructed to take management actions to implement the reduction with minimal impact to judicial services. The $200,000 reduction here is the amount of the $3 million total that was apportioned to this program area.

The Appellate/Tax Courts budget also includes one program-specific budget adjustment:

- **State Law Library and Publications Budget Consolidation ($1.4 million Other Funds)** – Although the State Law Library and Publications functions operate exclusively within the Appellate/Tax Courts program area, the program has historically been funded in different areas of the Department's budget, including Trial Courts and Administration and Central Services, as well as Appellate and Tax Courts. The budget consolidates all State Law Library and Publications expenditures within the Appellate/Tax Courts program area by transferring a total of $1,422,902 of associated expenditures from Trial Courts and Administration to the Appellate/Tax Courts program area.

In addition, standard reductions were applied that were approved in most agency budgets on an across-the-board basis. These include reductions to reflect the impact of the policy changes in SB 822 and administrative actions of the PERS Board that reduce state employer contribution rates in the 2013-15 biennium by approximately 4.4 percentage points ($470,117 total funds), a 5% reduction in General Fund for services and supplies ($66,533 General Fund), and a 2% hold back adjustment on General Fund appropriations for purposes of establishing a supplemental statewide ending balance ($419,421 General Fund).

OJD – Trial Courts

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	149,128,824	179,555,020	208,927,433	197,478,616
Other Funds	19,788,160	5,599,224	5,695,822	5,290,318
Total Funds	**$168,916,984**	**$185,154,244**	**$214,623,255**	**$202,768,934**
Positions	1,570	1,385	1,353	1,360
FTE	1,407.36	1,271.02	1,240.17	1,245.07

Program Description

Trial Court operations includes the funding and operations of all state trial courts (Circuit Courts). The program also includes staff who verify the eligibility 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 act as courts of general jurisdiction, and 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. Jurisdiction over tax law, however, is reserved to the Tax Court.

Revenue Sources and Relationships

The circuit courts are primarily funded with General Fund. Other Funds revenue includes transfers from the Public Defense Services Commission for a portion of the Application/Contribution Program, which is used for verification of eligibility for public defense representation in circuit courts ($2.7 million), and grants funds supporting specialty court operations ($1.2 million).

Budget Environment

In calendar year 2011, caseloads totaled 552,601 cases across nine major case-categories. This is close to the 20 year low of 555,141 cases in 1994 and significantly below the high of 655,574 cases in 2003. The types of cases filed in circuit courts have changed over the last 20 years as fewer violations and criminal cases are being filed while the number of Civil and Small Claims cases have increased.

Case-Type by Calendar Year	1990 to 2010 Average	2000 to 2010 Average	2005 to 2010 Average	2010 Caseload	2011 Caseload
Civil	76,060	84,686	93,874	99,000	92,449
Small Claims	64,683	71,232	76,118	74,573	73,673
Domestic Relations	51,501	47,699	46,088	46,425	47,919
Felony	33,481	35,304	32,364	29,444	31,086
Misdemeanor	65,254	64,156	62,960	60,294	59,589
Violations	285,795	276,816	249,869	221,974	214,654
Juvenile	18,971	17,853	16,845	15,229	14,013
Civil Commitments	6,974	8,236	8,674	8,529	8,871
Probate	10,136	10,029	10,006	9,929	10,347
Total	612,809	615,982	596,797	565,397	552,601

Oregon has also operated specialty courts and dockets for over two decades. Such courts have become a significant component of the Department's service delivery model and as such have a significant budgetary impact. Specialty courts perform a unique function that is separate and distinct from the adjudicatory functions of the courts. There are types of specialty courts that have been established include: drug; driving under the influence; family; community; domestic violence; mental health; clean slate; and early resolution.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $202.8 million is $17.9 million, or 9.5%, above the prior biennium level, but is 5.5% below the current service level. This amount financed includes two budget enhancement, one specific budget reduction, and several budget adjustments. The enhancements in the Trial Courts program are:

- **Specialty Court Grants ($908,012 Other Funds and seven positions [4.90 FTE]) –** Other Funds expenditure limitation and position authority associated with specialty grants to support family courts, pretrial release programs, and the Citizen Review Board. This provides expenditure limitation for expenditure of grant monies that were awarded in the 2011-13 biennium, but that will be spent in the 2013-15 biennium. The grant funds are used to pay seven employees who work in these program areas; the positions are established on a limited duration basis.

- **Court-ordered Assisted Outpatient Treatment ($100,000 General Fund) –** HB 2594 allows courts to order assisted outpatient treatment when a determination is made that a person's condition is deteriorating to the point of mental illness. The budget includes $100,000 for costs of conducting hearings on this option.

The specific reduction in the Trial Courts program is:

- **General Fund Reduction (-$2,000,000 General Fund) –** The budget for OJD includes an unspecified $3 million General Fund reduction to assist in balancing the overall state budget within available General Fund resources. OJD is instructed to take management actions to implement the reduction with minimal impact to judicial services. The $2 million reduction here is the amount of the $3 million total that was apportioned to this program area.

The Trial Courts budget also includes two program-specific budget adjustments:

- **State Law Library and Publications Budget Consolidation (-$1.2 million Other Funds)** – Although the State Law Library and Publications functions operate exclusively within the Appellate/Tax Courts program area, portions of these programs' funding have historically been provided in other areas of the Department's budget, including Trial Courts and Administration and Central Services. The budget consolidates all State Law Library and Publications expenditures within the Appellate/Tax Courts program area, and transfers $1,214,807 of expenditures in the Trial Courts budget to the Appellate/Tax Courts program area.

- **General Fund Carry-Forward Adjustment (-$615,916 General Fund) –** Starting with the 2009-11 biennium ending balance, Judicial Branch agencies are able to retain General Fund ending balances. Furthermore, without additional legislative action, an appropriation amount equal to the ending balance is transferred from the ending biennium to the next biennium. An estimated $615,916 of General Fund ending balance is forecast to be rolled forward from the 2011-13 biennium to the 2013-15 biennium budget and will be available for 2013-15 biennium Administration expenditures. Noting this, the budget subtracted this amount, with the understanding that this reduction will be reversed when the 2011-13 biennium General Fund ending balance is rolled forward.

In addition, standard reductions were applied that were approved in most agency budgets on an across-the-board basis. These include reductions to reflect the impact of the policy changes in SB 822 and administrative actions of the PERS Board that reduce state employer contribution rates in the 2013-15 biennium by approximately 4.4 percentage points ($4,516,925 total funds), a 5% reduction in General Fund for services and supplies ($476,819 General Fund), and a 2% hold back adjustment on General Fund appropriations for purposes of establishing a supplemental statewide ending balance ($4,037,866 General Fund).

OJD – Administration and Central Support

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	40,567,549	45,030,687	51,210,992	48,046,887
Other Funds	45,431,797	5,718,591	6,200,199	6,619,940
Federal Funds	1,099,450	1,303,013	891,014	1,227,911
Total Funds	**$87,098,796**	**$52,052,291**	**$58,302,205**	**$55,894,738**
Positions	212	152	160	160
FTE	202.39	147.25	157.50	157.50

Program Description

The State Court Administrator serves under the direction of the Chief Justice of the Supreme Court. The State Court Administrator is responsible for the centralized functions of the Oregon courts system. The Office of the State Court Administrator is divided into the following eight divisions:

- Court Programs and Services Division
- Legal Counsel Division
- Human Resource Services Division
- Office of Education, Training, and Outreach
- Executive Services Division
- Enterprise Technology Services Division
- Appellate Court Services Division
- Business and Fiscal Services Division

The State Court Administrator also provides management and oversight of: the Citizens Review Board; the Interpreter Certification program; revenue management; the Supreme Court building; internal auditing; the administration of the Appellate Court Records Office; and the Supreme Court library. Centralized assessments and costs to state agencies are also managed and paid by this office.

Revenue Sources and Relationship

The program is predominately funded with General Fund, but includes the following Other and Federal Funds revenue sources:

- Department of Human Services moneys for the Citizen Review Board (est. $1.4 million).
- Fees charged for public access to the Oregon Judicial Information Network (est. $4.1 million).
- Temporary 5% filing fee increase transferred to the State Court Technology Fund ($1.4 million).
- Transfers from the Public Defense Services Commission to pay for the Application Contribution Program ($2.7 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 under the Juvenile Court Improvement Project ($1.49 million).

Budget Environment

The State Court Administrator and staff provide centralized legal, analytical, business, and administrative support for the Department, which is challenging given the decentralized structure of the Department, and the aging information technology infrastructure on which decision-making must rely. The eCourt program is in the process of being implemented and represents a significant upgrade to the technology infrastructure.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $202.8 million is $17.9 million, or 9.5%, above the prior biennium level, but is 5.5% below the current service level. This amount financed includes four budget enhancements, one specific budget reduction, and several budget adjustments. The enhancements in the Administration and Central Support program are:

- **Specialty Court Grants ($908,012 Other Funds and seven positions [4.90 FTE]) –** Other Funds expenditure limitation and position authority associated with specialty grants to support family courts, pretrial release programs, and the Citizen Review Board. This provides expenditure limitation for expenditure of grant monies that were awarded in the 2011-13 biennium, but that will be spent in the 2013-15 biennium. The grant funds are used to pay seven employees who work in these program areas; the positions are established on a limited duration basis.

- **Electronic Filing ($550,000 Other Funds) –** HB 2562 increases certain identified civil filing fees by approximately 5% for a nine-month period from October 1, 2013 through June 30, 2014. The bill also directs the State Court Administrator to transfer 4.75% of the revenue collected from the fees that were so increased, during the period they are increased, to the State Court Technology Fund in the Administration and Central Support program area. The Other Funds expenditure limitation for the State Court Technology Fund was increased $550,000, to allow a portion of the revenue generated by the filing fee increases to be used to pay charges for the new eCourt e-filing system. Currently, these charges are paid directly by system users, and the payments are not included in the OJD budget. The Judicial Department will assume payment of the filing charges for the nine-month period beginning on October 1, 2013.

- **Multnomah County Courthouse Capital Project ($270,001 Other Funds) –** The Legislature included $15 million of Article XI-Q general obligation bond proceeds to support replacement of the Multnomah County Courthouse in Portland. Bond proceeds and county matching funds will be transferred to the county for this project, and this transfer will be made as an Other Funds expenditure in the Administration and Central Support program area.

  The legislatively adopted budget does not, however, include expenditures (i.e., transfer to Multnomah County) of the bond proceeds, because the project plans are still under development. The Legislative Assembly or Emergency Board will need to increase the Department's Other Funds expenditure limitation before bond proceeds and county matching funds can be distributed for the construction project. The budget does, however, include two adjustments relating to this project. These include $270,000 Other Funds for paying the costs of issuing the Article XI-Q bonds for this project. Those expenditures will be paid from bond proceeds. The budget also includes a $1 Other Funds expenditure limitation on distributions of bond proceeds and matching funds to Multnomah County. This expenditure limitation may be increased by either the Legislative Assembly or the Emergency Board after presentation of a financing plan for the project.

- **Protective Orders for Sexual Abuse Victims ($85,000 General Fund) –** HB 2779 creates a new case type – protective orders for victims of sexual abuse. The budget includes a one-time $85,000 General Fund appropriation for the design, programming, and testing of the new notices in the Oregon Judicial Information Network (OJIN) and in the Oregon eCourt Case Information system.

The specific reduction in the Administration and Central Support program is:

- **General Fund Reduction (-$500,000 General Fund) –** The budget for OJD includes an unspecified $3 million General Fund reduction to assist in balancing the overall state budget within available General Fund resources. OJD is instructed to take management actions to implement the reduction with minimal impact to judicial services. The $500,000 reduction here is the amount of the $3 million total that was apportioned to this program area.

The Administration and Central Support budget also includes one program-specific budget adjustment:

- **State Law Library and Publications Budget Consolidation & Court Interpreter Certification Program Budget Consolidation (-$278,095 Other Funds)** – Although the State Law Library and Publications functions operate exclusively within the Appellate/Tax Courts program area, portions of these programs' funding have historically been provided in other areas of the Department's budget, including Trial Courts and Administration and Central Services. The budget consolidates all State Law Library and Publications expenditures within the Appellate/Tax Courts program area, and transfers $208,095 of expenditures in the Administration and Central Support budget to the Appellate/Tax Courts program area. Similarly, $70,000 of expenditures in the Court Interpreter Certification Program are transferred to Mandated Payments, where the program operates and the budget is consolidated.

In addition, standard reductions were applied that were approved in most agency budgets on an across-the-board basis. These include reductions to reflect the impact of the policy changes in SB 822 and administrative actions of the PERS Board that reduce state employer contribution rates in the 2013-15 biennium by approximately 4.4 percentage points ($923,229 total funds), a 5% reduction in General Fund for services and supplies ($565,530 General Fund), and a 2% hold back adjustment on General Fund appropriations for purposes of establishing a supplemental statewide ending balance ($998,348 General Fund).

OJD – Mandated Payments

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	13,350,575	13,931,104	14,153,313	14,086,002
Other Funds	0	535,335	525,811	594,752
Total Funds	**$13,350,575**	**$14,466,439**	**$14,679,124**	**$14,680,754**
Positions	20	23	23	23
FTE	20.50	23.00	22.31	22.31

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 (ADA) accommodation services.

Revenue Sources and Relationship

The Mandated Payments Program is predominately funded with General Fund, but includes a relatively nominal amount of Nonlimited Other Funds revenue (2.8%) generated from jurors fees and mileage donated back to the Department.

Budget Environment

The 1999 Legislature approved a requirement that certified interpreters be provided for all judicial and administrative proceedings. The Judicial Department was given responsibility for the certification process. Staff cost for this activity is paid through the Administration and Central Support Program, Court Program and Services Division.

Demand for mandated services is a function of the volume of cases heard by the courts and therefore any reduction in proceedings could translate to fewer services and costs. Approximately 51% of the budget supports jury payments, 48% supports interpreter services, and the remaining 1% supports ADA compliance and arbitration expenses.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $14.7 million is $154,898, or 1.1%, above the prior biennium level, but equal to the current service level. This amount financed, however, includes one budget enhancement, one specific budget reduction, and several budget adjustments. The enhancement in the Mandated Payments program is for:

- **Contract Interpreter Rate Increase ($885,680 General Fund) –** The budget increases the rate paid to freelance certified interpreters from $32.50 per hour to $40 per hour, a 23.1% increase. The rate previously had not been changed since January 1, 1998, and the new rate remains below the $45 per hour rate other state agencies pay to interpreters under the state's DAS Cooperative Purchasing Program.

The specific reduction in the Mandated Payments program is:

- **General Fund Reduction (-$100,000 General Fund) –** The budget for OJD includes an unspecified $3 million General Fund reduction to assist in balancing the overall state budget within available General Fund resources. OJD is instructed to take management actions to implement the reduction with minimal impact to judicial services. The $100,000 reduction here is the amount of the $3 million total that was apportioned to this program area.

The Mandated Payments budget also includes one program-specific budget adjustment:

- **Court Interpreter Certification Program Budget Consolidation ($70,000 Other Funds)** – Although the Court Interpreter Certification Program operates exclusively within the Mandated Payments program area, a portion of its funding has historically been provided in the Administration and Central Services budget. The budget consolidates all Court Interpreter Certification Program expenditures within the Mandated Payments program area, and transfers $70,000 of program expenditures from the Administration and Central Services budget to Mandated Payments.

In addition, standard reductions were applied that were approved in most agency budgets on an across-the-board basis. These include reductions to reflect the impact of the policy changes in SB 822 and administrative actions of the PERS Board that reduce state employer contribution rates in the 2013-15 biennium by approximately 4.4 percentage points ($93,028 total funds), a 5% reduction in General Fund for services and supplies ($464,082 General Fund), and a 2% hold back adjustment on General Fund appropriations for purposes of establishing a supplemental statewide ending balance ($296,940 General Fund).

OJD – Revenue Management

Program Description

The purpose of the program is to collect amounts owed to the state that are subject to collection by the Judicial Branch of government. In general, collections are for past-due crime victim restitution payments, compensatory fines, and other fines, costs, and assessments.

After accounting for the program's administrative expenses, the remaining collections revenue is distributed by case type (i.e., criminal, civil, etc.) according to statute. Depending on the case type and obligation type (i.e., fines or restitution), balances remaining after statutory obligations and administrative costs are deducted are distributed to the state or to local governments.

Delinquent accounts move through a progressive series of collection efforts as defined by each circuit court. In general, these steps include: circuit court late payments notices (up to one year); referral of an account by the circuit court to the Department of Revenue (DOR) for collection (up to one year); referral to a private collections firm (up to two years); and finally, a circuit court may refer an uncollected item to the Judicial Department's central staff for their attempt at collection. The Department also works with DOR to intercept state tax refunds, including intercepting surplus kicker checks.

In the closing days of the 71st legislative session (2001), the Legislature transferred the collections program from the General Fund to Other Funds revenue from OJD collections. The 2011 Legislature moved the program back to the General Fund to simplify the budget process in the trial courts.

Revenue Sources and Relationships

In the 2011-13 biennium, OJD will generate an estimated $329.8 million in revenue from fines, assessments, forfeitures, filing fees, and an individual's contribution toward their public defense.

The majority of the revenue collected will either be transferred directly to the General Fund or the Criminal Fine Account, with the exception of $11.9 million which will be transferred in quarterly increments into a Legal Aid Services account for transfer to the Oregon State Bar. Entities who had historically received court revenue transfers now received their funding through the budget process with General Fund appropriations.

Legislatively Adopted Budget

Generally, the actual budget and position authority for revenue management activities resides under the Trial Court, Administration and Central Support, and Appellate/Tax Courts budget structures. A separate General Fund appropriation, however, is made for payments to 3rd party debt collectors, who assist the collection efforts. The appropriation funds payments to the Department of Revenue and private collection firms for collection fees that are paid as a percentage of the amount collected, and bank fees and Treasury charges. The budget projects that 3rd-party collection fees will total $11.96 million in 2013-15, and that the parties will collect $64.9 million in revenue. The budget reduced the General Fund appropriation by $514,135 as part of a statewide 5% reduction in

General Fund appropriations for services and supplies, and by an additional $239,201 for the 2% General Fund hold-back. The remaining adopted funding level is $11,206,706 General Fund, or approximately $750,000 below current service level.

OJD – State Court Facilities and Security Account

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	0	0	814,318	0
Other Funds	2,941,245	7,735,658	8,790,940	9,673,233
Total Funds	**$2,941,245**	**$7,735,658**	**$9,605,258**	**$9,673,233**
Positions	4	4	4	4
FTE	3.90	3.90	4.00	4.00

Program Description

The 2005 Legislature established a State Court Facilities Security Account (SCFSA) within the Oregon Judicial Department (OJD). Revenue for the account is currently derived from moneys allocated from the Criminal Fine Account (CFA) by Legislature. 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.

The 2011 Legislature expanded the use of the account to include the funding of capital improvements for court facilities and the distribution of support to County Local Court Security Accounts (see HB 2712), and changed the name of the account to the State Court Facilities and Security Account.

Revenue Sources and Relationships

In the 2011-13 biennium, the account received an initial allocation of funding from the Criminal Fine Account of $10.8 million. This includes an allocation of $2.9 million for state court security, $4.7 million for local court security (formerly part of the county assessment and deposited directly into local court security accounts), and $2.3 million for court facilities.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $9.7 million is $1.9 million, or 25%, above the prior biennium level, and is 0.7% above the current service level. Expenditures are entirely supported by monies from the Criminal Fine Account, including 2013-15 biennium CFA allocations of $9.4 million and expenditure of $0.3 million of CFA allocations from the prior biennium. The approved budget will generate a zero ending balance in the SCFSA. There are three general categories of SCFSA expenditures: 1) OJD Security and Emergency Preparedness Office - $3,167,257; 2) Capital Improvements for Courthouses - $3,545,858; and 3) Distributions to County Local Court Security Accounts - $2,960,118. The Security and Emergency Preparedness Office is funded at the current service level adjusted for the reduction in the PERS contribution rate. Capital improvements for courthouses were not funded last biennium, so the entire amount in the 2013-15 adopted budget is an enhancement above current service level. The distribution to county local court security accounts is a 54% reduction from the current service level.

The budget includes one budget enhancement, one specific budget reduction, and several budget adjustments. The enhancement in the budget is:

- **Local Court Facilities Infrastructure ($3,545,858 Other Funds) –** The budget finances the following projects: 1) Union County Courthouse Replacement – $2 million was provided to replace the courthouse in La Grande. This facility received the lowest overall assessment rating in the 2008 statewide assessment of courthouse facilities. The total cost of the project is projected to be $3.2 million, with the remaining needed funds to be provided by Union County and contributions; 2) Curry County Courthouse Roof Replacement – $150,000 will finance replacing the 22-year old courthouse roof; and 3) Life/Safety Upgrades – $1,395,858 to install fire sprinkler and fire alarm systems in Curry, Gilliam, Malheur, and Wallowa Counties. These projects were the highest-rated priority in terms of life/safety in the 2008 statewide facility assessment.

The specific reduction in the State Court Security and Facilities Account program is:

- **County Local Court Security Accounts (-$3,459,555 Other Funds) –** This reduction was made to reflect the impact of HB 2562, which modifies and reduces justice and municipal court fine transfers to the Criminal Fine Account, and increases direct transfers from these courts to counties for local court facilities security accounts. Counties will now receive revenues directly from justice and municipal courts for this purpose instead. The reduction is equal to the estimated amount that justice and municipal courts would have contributed to the Criminal Fine Account for local court security accounts (54% of total contributions) had HB 2562 not been enacted. The remaining transfers from the State Court Facilities and Security Account to counties are established to provide funding to local court facilities security accounts at the level provided by the circuit courts in the 2009-11 biennium.

The budget also includes one program-specific budget adjustment:

- **Personal Services Fund Shift (-$795,990 General Fund, +$795,990 Other Funds)** – In 2012, the Legislature passed SB 1579, which prohibited SCFSA funds from being used to pay for OJD positions (as had been the practice prior to passage of the bill). As a result, personal services expenditures in the SCFSA budget were shifted to General Fund in the 2013-15 biennium current service level budget. In 2013, the Legislature passed SB 49, which repealed this prohibition. With passage of SB 49, the expenditures were shifted back to SCFSA Other Funds.

- **SCFSA Beginning Balance –** This adjustment has no impact on expenditure numbers, however, the budget reduced the Criminal Fine Account allocation to the SCFSA by $290,150, to allow these funds to remain in the General Fund. This reduction requires OJD to spend the SCFSA beginning balance, in lieu of newly-allocated funds. The SCFSA is projected to have a zero balance at the end of the 2013-15 biennium.

Finally, the standard reduction was applied that was approved in most agency budgets on an across-the-board basis to reflect the impact of the policy changes in SB 822 and administrative actions of the PERS Board that reduce state employer contribution rates in the 2013-15 biennium by approximately 4.4 percentage points. The reduction equaled $18,328 Other Funds.

OJD – External Pass-Throughs

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	0	14,552,100	14,901,350	14,407,322
Other Funds	0	77,860	0	11,900,000
Total Funds	**$0**	**$14,629,960**	**$14,901,350**	**$26,307,322**

Program Description

In the 2011-13 budget, General Fund appropriations were added to the OJD budget to support funding of county law libraries and law library services, and county mediation and conciliation programs. These programs had previously been funded through court fee revenue transfers. In addition, the External Pass-Through program includes General Fund appropriation passed through to fund the Council on Court Procedures and the Oregon Law Commission. In 2013-15, the Legislature added the transfer of court fee revenues (Other Funds) to the Oregon State Bar for the Legal Services Program (Legal Aid).

Revenue Sources and Relationship

The External Pass-Through Program is funded with General Fund and with court fee revenue that is transferred by the Department to other entities.

Budget Environment

The 2011 Legislature passed HB 2710, which simplified court fees and generally eliminated the dedication of court fee revenue to specific programs. Other than Legal Aid, which retains an $11.9 million per biennium dedication from court fees, court fees are now directed to the General Fund. Two county programs that had been financed from dedicated fees – county law libraries and mediation/conciliation programs – were provided equivalent General Fund appropriations after the dedicated fees were eliminated.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $26.3 million is $11.7 million, or 80%, above the prior biennium level, but this is due to the inclusion of Legal Aid support as expenditures in the budget. General Fund is reduced 1% below the prior biennium level, which is 3.3% below current service level.

This amount financed includes one budget enhancement, one specific budget reduction, and several budget adjustments. The enhancement in the External Pass-Through program is for:

- **Legal Aid Support ($11.9 million Other Funds) –** The budget does not increase state support for the Oregon State Bar's Legal Aid program. Support remains at $11.9 million, the same level as in the 2011-13 biennium. In 2011, the Legislature passed HB 2710 which established an ongoing $11.9 million per biennium dedication of court fee revenues to the Legal Aid program. The 2011-13 biennium budget, however, did not include the transfer of the dedicated funds to the Oregon State Bar. As an appropriate technical correction, the 2013-15 biennium budget shows these transfers to the Oregon State Bar in the External Pass-Throughs program area.

The specific reduction in the External Pass-Through program is:

- **General Fund Reduction (-$200,000 General Fund) –** The budget for OJD includes an unspecified $3 million General Fund reduction to assist in balancing the overall state budget within available General Fund resources. OJD is instructed to take management actions to implement the reduction with minimal impact to judicial services. The $200,000 reduction here is the amount of the $3 million total that was apportioned to this program area. The $200,000 reduction is evenly divided between the two county programs: County law library support is reduced $100,000 and county mediation/conciliation programs are reduced $100,000.

In addition, one standard reduction was applied that was approved in most agency budgets on an across-the-board basis. This was a 2% hold back adjustment on General Fund appropriations for purposes of establishing a supplemental statewide ending balance ($294,028 General Fund).

OJD – eCourt Program

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	1,240,940	1,906,357	1,957,881	1,752,893
Other Funds	12,582,070	33,757,253	0	24,098,945
Total Funds	**$13,823,010**	**$35,663,610**	**$1,957,881**	**$25,851,838**
Positions	29	35	0	40
FTE	24.77	32.41	0.00	37.96

Program Description

The Oregon eCourt Program is the estimated seven year project to modernize Oregon court business practices. The Oregon Judicial Information Network (OJIN), which is the Department's current electronic case management system, has been in operation for the past 25 years. OJIN contains all of the records of circuit courts, including financial information. The records are an integral part of Oregon's civil, business, and public safety systems and provide various jurisdictions and agencies with data relevant to judicial determinations.

Implementation of the Oregon eCourt Program involves far more than information technology, and will require major reengineering of the Judicial Department's business practices across the Department's 36 circuit courts, as well as the Oregon Supreme Court, Court of Appeals, and the Tax Court. The complexity of revising (and gaining acceptance) of business practices equals, if not exceeds, its high technical complexity.

The eCourt Program is estimated be completed by end of the 2015-17 biennium at an estimated total development cost of $97 million, according to the Judicial Department.

Revenue Sources and Relationships

The eCourt Program is funded with a combination of base budget General Fund, and certificates of participation and Article XI-Q general obligation bond proceeds. The program carried forward over $12 million of cash from the 2009-11 biennium.

OJD has indicated that it may impose fees to pay for maintenance, upgrades, development, and system replacement, but it would require additional statutory authority to do so. The Legislature declined to provide this authority in the 2013 session.

Budget Environment

The Oregon eCourt Program had a troubled history of program deficiencies since its official launch in July of 2007 when the Legislature first approved funding for the program. The Legislature, however, recognized the critical need for the program and that it should proceed, albeit with greater involvement by the Legislature. This same concern was shared by the Chief Justice, which ultimately led to an agreement in 2011 between legislative leadership and the Chief Justice on a detailed remediation plan as part of the ongoing funding evaluation of the program.

The remediation plan was meant to address long-standing deficiencies of the program as identified by the Quality Assurance vendor (QA), including the development of a budget and schedule, and to provide updated planning documentation that is standard for major information technology projects. The Department met the requirements set out in the plan and has begun to implement the eCourt Case Information and File & Serve Systems in the state's circuit courts. During the 2011-13 biennium, five circuit courts in Yamhill, Crook, Jefferson, Linn, and Jackson counties went live, and are now operating under the eCourt system. The other circuit courts continue to operate under the legacy Oregon Judicial Information Network (OJIN) system.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $25.9 million is $9.8 million, or 27.5%, below the prior biennium level. Because bond proceeds are the Other Funds source for the program's Other Funds, all Other Funds expenditures are approved on a one-biennium basis and are therefore above the current service level.

The legislatively adopted budget includes $24.3 million of Article XI-Q general obligation bond proceeds, and $1.8 million General Fund, to finance the continued implementation of eCourt. Because the bonds will not be issued until the spring of 2015, no debt service payments for them will be due in the 2013-15 biennium. Debt service costs for the bonds in the 2015-17 biennium are projected to equal approximately $11 million General Fund. The issue was delayed until spring 2015 to avoid current biennium debt service costs. Expenditures cannot be equivalently delayed, however, without pausing project implementation, so OJD will initially fund the eCourt expenses with General Fund, and then use bond proceeds in lieu of General Fund expenditures after they become available.

Services and supplies expenditures are significantly reduced from the prior biennium level, reflecting the discontinuing of one-time purchases that were necessary last biennium as the program was being acquired and initially implemented. Personal services, however, are increased from the prior biennium. The budget supports forty positions (37.96 FTE), compared to thirty-five (32.41 FTE) in the prior biennium. The added personnel will support major expansions scheduled for this biennium, including implementation of eCourt in Multnomah County. The current implementation schedule for the biennium includes implementing both the eCourt Case Information System and File & Serve in the following counties: Clatsop, Columbia, Tillamook – August 2013; Benton and Polk – January 2014; Multnomah and Multnomah Parking – May 2014; Douglas, Josephine, Marion – 4th Quarter 2014; Lane and Lincoln – 1st Quarter 2015, and Deschutes, Klamath, Lake – 2nd Quarter 2015.

This schedule will leave 17 circuit courts and the Tax Court still operating on OJIN at the end of the biennium. These remaining courts are scheduled to be implemented in the 2015-17 biennium, the final biennium of implementation. Implementation costs are projected to decline to $12 million in the 2015-17 biennium.

OJD – eCourt Debt Service

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	10,661,602	20,114,374	18,133,375	18,133,375
Other Funds	0	326,592	0	530,319
Total Funds	**$10,661,602**	**$20,440,966**	**$18,133,375**	**$18,663,694**

Program Description

The eCourt Debt Service Program provides the funding to make payments on principal, interest, and financing costs associated with the issuance of certificates of participation (COPs) and general obligation Article XI-Q bonds. These payments include cost of issuing the bonds. COPs are tax-exempt government securities, but they have been replaced with general obligation bonds authorized under Article XI-Q of the state Constitution. Debt service on both the COPs and the general obligation bonds is paid by General Fund. The cost of issuing the COPs or bonds is paid from their proceeds as Other Funds.

The Department's debt service is currently related exclusively to the Oregon eCourt Program, although beginning in 2015-17, debt service for capital construction and for support of county courthouse capital projects will also be included in the Debt Service budget.

Revenue Sources and Relationships

The Department's debt service is currently funded with General Fund. In the future there exists the opportunity to fund part of eCourt debt service with Other Funds revenue generated from eCourt transaction charges and Revenue Management funds.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget includes $18.1 million of General Fund to pay debt service on debt instruments issued to finance implementation of eCourt. This represents a 9.8% reduction from the prior biennium. The budget includes $530,319 Other Funds to pay the cost of issuing $24.3 million of Article XI-Q bonds authorized for the 2013-15 biennium. Bond proceeds will be the source of these funds. Because the new bonds will not be issued until the spring of 2015, there will be no debt service costs that need to be paid on them this biennium. Debt service costs on the new bonds are projected to equal $11 million General Fund in the 2015-17 biennium.

OJD – Capital Construction

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	0	0	0	4,465,000
Total Funds	**$0**	**$0**	**$0**	**$4,465,000**

Program Description

This program provides for capital construction to existing state-owned facilities. The Department owns a single building, the Supreme Court Building, which was constructed in 1914 and is the oldest building on the Capital Mall. All other buildings used by the Judicial Department are either leased from private parties or are owned and maintained by the county. The Appellate Court Services Division, under the Administration and Central Support Program Areas, is responsible for the Supreme Court Building Service Section.

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. By 2013, OJD had re-estimated the cost to fully renovate and seismically retrofit the building at $26.8 million.

Note: Capital construction support for county-owned facilities is included in the Administration and Central Support and State Court Facilities and Security Account programs.

Revenue Sources and Relationships

Other Funds are provided by proceeds of the sale of Article XI-Q general obligation bonds. The first issue of these bonds will be in the spring of 2015. No debt services costs will be due in the 2013-15 biennium. Debt service costs, projected to total $708,088 in the 2015-17 biennium, will be paid by General Fund in the Debt Service program area (i.e., Capital Construction does not include associated debt service costs).

Legislatively Adopted Budget

The legislatively adopted budget supports a $4.4 million capital construction project (plus $65,000 cost to issue the bonds) to upgrade the exterior of the Supreme Court Building. The project will be funded with Article XI-Q general obligation bonds. The funding will be used to address major safety issues with the exterior of the building, water penetration through the façade, and dry-rot in wooden-framed windows. This project will fund terracotta exterior repair and sealing, window repair, project management, and the review and planning of future phases of critical interior renovation work, and will reduce the remaining scope of the full-renovation project.

Commission on Judicial Fitness and Disability

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	156,451	178,470	205,844	193,140
Total Funds	**$156,451**	**$178,470**	**$205,844**	**$193,140**
Positions	1	1	1	1
FTE	0.50	0.50	0.50	0.50

Agency Overview

The Commission on Judicial Fitness and Disability investigates and acts upon complaints of judicial misconduct or disability. The basis for a finding of misconduct is a violation of the Oregon Code of Judicial Conduct. This code was last amended in July of 2011 by Chief Justice Order. The Commission does not have formally approved administrative rules, but has rules of procedure.

Major updates to the Code of Judicial Conduct are reviewed by the Judicial Conference, which is comprised of all state court judges, and then approved by the Oregon Supreme Court. The Code of Judicial Conduct can also be updated by Chief Justice Order, as noted above. Thus, the Supreme Court is charged not only with promulgating the Code, but also with the review and approval of Commission recommendations.

The Commission has jurisdiction over the following categories of judges: justices of the peace (32), circuit court judges (173), appellate court judges (17 currently, to be expanded to 20 on October 1, 2013), temporary or pro-tem judges (approximately 100), senior or "Plan B" semi-retired judges (approximately 45), judicial referees (24), and the Tax Court judge. In total, the Commission's jurisdiction extends to approximately 395 of Oregon's judges. A 2003 Supreme Court decision determined that the Oregon Constitution does not give the Commission jurisdiction over local municipal court judges.

The nine-member Commission is comprised of three judges, three lawyers, and three members of the public. The executive director of the Commission is also an attorney in private practice. The Commission is co-located within the executive director's private law office. Commission members, as well as the executive director, recuse themselves when they have personal involvement or prejudice regarding a complaint or complainant. By statute, the Commission's initial complaint proceeding and records are confidential until such time as a public hearing is held on a formal charge. Also, the Commission considers all its proceedings, including those pertaining to administrative matters, non-public.

The Commission receives approximately 250 written complaints each biennium. A significant number of the complaints involve the legal determination of a judge, and after initial review by the Commission, are dismissed because they fall outside the Commission's statutory authority to investigate judicial misconduct. Those complaints that are within its statutory authority are initially investigated. If there is sufficient evidence in support of a complaint, a formal investigation is conducted by outside counsel hired by the Commission. The outcome of the investigation could lead to the dismissal of a complaint, an informal disposition by the Commission, or a formal charge leading to prosecution. For a formal charge, a public hearing is held, the outcome of which is either the judge's exoneration or a recommendation by the Commission to the state's Supreme Court to censure, suspend, or remove the subject judge. The Supreme Court's determination on the Commission's recommendation is a final decision, but may be appealed to the U.S. Supreme Court. At any point in the process, a judge may resign, retire, or enter into a stipulated agreement with the Commission by agreeing to the recommended sanction. All stipulated agreements must be approved by the Supreme Court. A case determined by the Supreme Court typically takes two years to prosecute at an estimated cost to the state of over $50,000 General Fund.

In a matter where a judge's conduct is determined to be the result of a physical or mental disability, the Commission generally refers the matter directly to the Chief Justice for disposition.

Revenue Sources and Relationships

General Fund supports the Commission. The Commission's statutory authority does not allow for the imposition of civil penalties or the recovery of Commission extraordinary costs from judges sanctioned by the Supreme Court.

The Commission relies upon in-kind support from the Oregon Judicial Department for financial and limited support services as discussed below.

Budget Environment

The Commission budgets for normal and extraordinary expenditures. The normal operating budget pays for a half-time executive director, office rental, office supplies, meeting accommodations, travel reimbursements, and initial investigations. 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.

Formal investigations and prosecutions are classified as an extraordinary expense of the Commission, since it has no control over the number of valid complaints or their cost. Extraordinary expenses may include: private attorney fees ($100/hour rate plus expenses) for investigations and trial, court reporter services, meeting space rental, executive director and board member travel expense for formal hearings, and miscellaneous expenses. The Legislature historically has provided the Commission with an approved budget for extraordinary expense with the understanding that the Commission may return to the Emergency Board or the Legislature if extraordinary expenses exceed the available budget. The Commission has not needed to request additional funding from the Emergency Board since 2006. Of particular note is that during the 2007-09 and the 2009-11 biennia, the Commission did not expend any of its regularly budgeted extraordinary expenditures.

This situation has changed, however. The agency anticipates approximately $11,000 of extraordinary expenses in the 2011-13 biennium, and an unknown amount in the 2013-15 biennium for a continuing investigation.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $193,140 General Fund is $14,670, or 8.2%, above the prior biennium level and is 6.2% below the current service level. Of this total, $183,022 is appropriated for Administration (i.e., normal expenses), and $10,118 is appropriated for Extraordinary Expenses.

No enhancements were approved for the Commission budget. No unique budget reductions were approved either, but the standard reductions were applied that were approved in most agency budgets on an across-the-board basis. These include reductions to reflect the impact of the policy changes in SB 822 and administrative actions of the PERS Board that reduce state employer contribution rates in the 2013-15 biennium by approximately 4.4 percentage points ($3,074), a 5% reduction in General Fund for services and supplies ($1,703), and a 2% hold back adjustment on General Fund appropriations for purposes of establishing a supplemental statewide ending balance ($4,055).

Funding was shifted, however, from Administration to Extraordinary Expenses to address costs associated with an ongoing investigation. The 2013 Legislature transferred $5,000 from Administration to Extraordinary Expenses in the 2011-13 biennium budget, to fund costs that totaled approximately $11,000. An additional $3,950 was transferred in the 2013-15 biennium budget, to help finance continuing costs of an investigation.

Starting with the 2009-11 biennium ending balance, Judicial Branch agencies are able to retain General Fund ending balances. Furthermore, without additional legislative action, an appropriation amount equal to the ending balance is transferred from the ending biennium to the next biennium. An estimated $3,950 of General Fund ending balance is forecast to be rolled forward from the 2011-13 biennium to the 2013-15 biennium budget and will be available for 2013-15 biennium administration. When this roll forward is completed, the $3,950 that was shifted out of administration to help pay extraordinary expenses will be restored to Administration.

Public Defense Services Commission (PDSC) – Agency Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	211,374,802	230,441,855	251,420,300	244,280,071
Other Funds	12,144,671	3,830,055	3,218,844	4,467,042
Total Funds	**$223,519,473**	**$234,271,910**	**$254,639,144**	**$248,747,113**
Positions	69	76	76	76
FTE	68.96	75.40	75.79	75.79

Agency Overview

The Public Defense Services Commission (PDSC) was established as an independent state agency in 2001. The agency combined the state Public Defender, which provided appellate representation, with the trial court representation function, which had been a division within Oregon Judicial Department since the early 1980s. Prior to the early 1980s, trial level public defense (and Oregon trial courts) was a local government responsibility.

The Commission is comprised of seven members appointed by the Chief Justice of the Oregon Supreme Court, who also serves on the Commission as an ex-officio member. The Commission holds public meetings across the state approximately once every quarter. The agency itself is overseen by an executive director, appointed by the Commission. By statute, the Commission is to "establish and maintain a public defense system that ensures the provision of public defense services in the most cost-efficient manner consistent with the Oregon Constitution, the United States Constitution, and Oregon and national standards of justice."

The Commission is organized into three divisions:

- ***Appellate Division*** ($14.2 million, 60.00 FTE) consists of public defense attorneys who represent eligible persons at the appellate court level. The Appellate Division is responsible for providing appellate representation on criminal matters, juvenile dependency and termination of parental rights cases, and parole cases. This is accomplished primarily through the use of staff attorneys. The division is the state counterpart to the Oregon Attorney General's appellate division.
- ***Professional Services Account*** ($230.9 million, 0.00 FTE) consists of the funding for contract defense services, including attorneys, investigators, and expert witnesses, primarily at the trial court level.
- ***Contract and Business Services Division*** ($3.7 million, 15.79 FTE) is responsible for administering the public defense contracts that provide legal representation for eligible persons, processing requests and payments for non-contract fees and expenses, and the budget and other financial activities of the Commission.

Eligible persons are entitled to adequate legal representation in court, at state expense, under provisions of the Oregon and federal constitutions and Oregon statutes. Public defense representation is not limited to criminal cases. Other statutory and constitutional provisions include: the right to appointed counsel in court proceedings involving life, liberty, and property, including habeas corpus; post-conviction relief; contempt; juvenile dependency, delinquency, and termination of parental rights; civil commitments for the mentally ill or developmentally disabled; and parole and probation violation proceedings. The U.S. Supreme Court has also held that the right to appointed counsel includes related costs such as expert witnesses and investigation expense.

Oregon statutes broadly define who is financially eligible for public defense. Each applicant for state-paid representation is required to provide a verified financial statement detailing income, assets, debts, and dependents. This process is administered by Verification Specialists employed by the Oregon Judicial Department. Verification Specialists assist judges in their decision whether to appoint state-paid counsel. A person is presumed eligible for services if the applicant's income is less than or equal to the eligibility level for the federal food stamp program (130% of the federal poverty level) unless the applicant has liquid assets that could be used to hire an attorney. If an applicant 's income exceeds food stamp standards, the applicant is eligible for state-paid counsel only if the applicant's income and liquid assets are determined to be insufficient to hire an attorney suitable for the type of case pending against the applicant.

Public defense at the trial court level is accomplished primarily through a state-funded and state-administered competitive contracting system that operates on a two-year cycle (January to December). The Commission contracts with over 100 nonprofit public defender offices, private law firms, consortia of attorneys or law firms, or individual attorneys. Legal representation on criminal matters for eligible persons at the appellate court level is primarily handled by attorneys who are employees of the Commission.

The costs of "non-routine" expenses for primarily investigators, but also forensic and medical services or experts, is typically paid directly by the Commission after a court-appointed attorney receives pre-approval. The Commission has approximately ten contracts with non-attorney providers including one with a private forensics laboratory. Some public defender contracts, however, do include a provision for investigators.

Budget Environment

Caseloads

The state has a constitutional obligation to provide counsel for eligible persons, and to provide for timely adjudication. If insufficient funding for public defense results in violation of these constitutional provisions, the court must dismiss the case and release the person. The Commission has no legal authority to control the number of public defense cases it receives, nor does it have the authority to prioritize case-types. In the absence of any prioritization and adequate public defense funding, the courts would need to dismiss cases.

The number of cases is impacted by numerous factors. These include crime rates and demographic factors, such as population size and age distribution. The state of the economy also affects the number of people who are financially eligible for public defense services, and it may affect funding levels for public safety and judicial services. When, for example, law enforcement is reduced or expanded as a result of economic conditions, the number of arrests and number of prosecutions can change. Trial-level caseloads (excluding death penalty cases increased substantially in the 1990s and into the 2003-04 fiscal year. Between the 1993-94 and 2003-04 fiscal years, annual caseload count increased from 108,963 to 170,902 – a 57% increase. Since 2003-04, however, caseload counts have fluctuated from year to year but remained relatively flat overall, always coming in between 170,000 and 180,000 cases per year. The 2011-12 caseload count of 172,357 is less than 1% above the 2003-04 count eight years earlier.

Trial-Level Non-Death Penalty Public Defense Caseloads	Caseload	Change
Fiscal Year 2003-04	170,902	16.3%
Fiscal Year 2004-05	171,850	0.6%
Fiscal Year 2005-06	179,058	4.2%
Fiscal Year 2006-07	178,002	-0.6%
Fiscal Year 2007-08	170,288	-4.3%
Fiscal Year 2008-09	169,795	-0.3%
Fiscal Year 2009-10	172,480	1.6%
Fiscal Year 2010-11	170,381	-1.2%
Fiscal Year 2011-12	172,357	1.2%

Finally, law changes affecting crimes and how crimes are categorized will affect both the number of cases and the cost of providing public defense. The average cost to the PDSC of criminal cases, for example, varies from $350 for a misdemeanor charge to $1,300 for a Class A felony. Death penalty cases are particularly costly for the agency and require expenditures over multiple years. Costs related to death penalty cases totaled $25.9 million in the 2009-11 biennium, even though only 41 new death penalty cases were taken into the public defense system those two years. Death penalty cases are forecast to cost $30.9 million in 2013-15 biennium.

Compensation and Workload

The quality of legal representation for eligible persons is dependent upon many factors, including the experience and workload level of the public defender. As such, important budget issues often relate to considerations of recruiting and retaining qualified attorneys and investigators and to limiting workloads to manageable levels. In addition, the PDSC undertakes extensive public defense delivery system reviews and investigations in cooperation with local public defense contractors, Circuit Court Judges, District Attorneys, and other local justice system representatives, and prepares service delivery plans for each judicial district or county. These plans help to promote cost-effective delivery systems unique to each locale that incorporate the best practices from around the state. PDSC also routinely performs quality assurance assessments of providers in each judicial district.

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. Rates the Commission pays directly, and salaries nonprofit public defenders pay, are generally below the rates paid to privately-paid defense attorneys, investigators, and expert witnesses; to deputy district attorneys; and to federal public defenders. This impacts the ability to recruit and retain qualified professionals in the public defense system.

The 2007, the Legislature provided funds to increase salaries of public defenders, and to increase the hourly rate for investigators and hourly-paid attorneys. The following table details the hourly-rate changes.

Category	1991 to July 2007 Guidelines/Budget		Post- July 2007 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%)

Even after these adjustments, payment rates remain lower than for professionals in private practice or for prosecuting attorneys. According to the Commission, attorneys in public defense organizations are, on average, paid approximately 21% less than their district attorney counterparts, with the percentage amount varying greatly among the organizations. 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.

Salary levels for the Commission's own attorneys in the Appellate Division show a similar situation. PDSC attorneys are compensated less than other state attorneys, for example those in the Department of Justice. 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.

Revenue Sources and Relationships

General Fund finances 98% of the PDSC budget, with the remaining 2% financed by Other Funds. The General Fund support provided to PDSC equals approximately 1.5% of statewide General Fund resources. Temporary court fees and surcharge revenue (Other Funds) were used to support Professional Services Account expenditures during the 2009-11 biennium, but these sources were replaced with General Fund in the 2011-13 biennium.

Since the 2011-13 biennium, there has been a single Other Funds source for the agency: revenue from the Application/Contribution Program (ACP). Applicants for state-appointed counsel pay a $20 application fee, unless the fee is waived for financial hardship reasons. In addition, the court may find that individuals are able to pay a contribution towards their defense costs. Revenue from these application fees and contributions is projected to total $4.4 million in the 2013-15 biennium. These revenues are dedicated to support of the public defense system. PDSC will transfer $2.7 million of the revenue to the Judicial Department to support program Verification Specialist positions in the courts. PDSC supports compensation of 2.30 FTE positions in the Contract and Business Services Division with the ACP revenue it retains. ACP cash balances above reserve requirements have also been used to augment Professional Services Account expenditures. During the 2011-13 biennium, $3.4 million of ACP funds were used for Professional Services Account expenditures in the PDSC budget.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $248.7 million is $13.8 million, or 6.2%, above the prior biennium level and is 2.3% below the current service level. Position count of 76 is unchanged from the prior biennium.

Budget adjustments include standard adjustments that were applied to most state agencies in the legislatively adopted budget, plus specific enhancements and reductions. All specific enhancements and reductions were in the Professional Services Account, and are detailed in that section below.

PDSC – Appellate Division

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	10,499,836	12,061,433	14,895,629	14,185,524
Total Funds	**$10,499,836**	**$12,061,433**	**$14,895,629**	**$14,185,524**
Positions	53	60	60	60
FTE	53.00	59.44	60.00	60.00

Program Description

The Appellate Division is responsible for providing legal representation for eligible persons on criminal matters, and for parents in juvenile dependency and termination of parental rights cases at the appellate court level. The Division also represents inmates requesting judicial review of Board of Parole and Post-Prison Supervision decisions. These services are primarily provided through the use of staff attorneys. The Division is the defense counterpart to the Oregon Department of Justice's Appellate Division. Representation is primarily in the Oregon Court of Appeals and the Oregon Supreme Court, although the Division occasionally appears in the U.S. Supreme Court.

The Juvenile Appellate Section in the Appellate Division handles dependency and termination of parental rights cases appealed to the Oregon Court of Appeals. The section also services as a statewide resource for trial-level counsel.

Revenue Sources and Relationships

The Appellate Division is fully supported by General Fund.

Budget Environment

The Appellate Division's workload is driven by the number of criminal and parole appeals, and the legal complexity of the appealed cases. Statutory changes, ballot initiatives, and United States and Oregon appellate court decisions also affect the number of appeals that are filed.

The Appellate Division caseload fluctuates from one biennium to the next, with no clear trend recently being observed. The number of cases assigned to its attorneys fell from 4,041 in the 2005-07 biennium to 3,694 in the 2007-09 biennium, then increased back to 4,020 in the 2009-11 biennium. The 2011-13 biennium budget added seven division positions to reduce attorney caseloads. The agency, however, now estimates that caseloads will fall to 3,280 cases in the 2011-13 biennium. At that rate, the average caseload level for the Commission's appellate attorneys is approximately 36 case assignments per year. Some states, including Washington, have established a maximum appellate caseload of 25 cases per attorney; Nebraska sets the maximum at 40 per year.

Comparing maximum salaries, Appellate Division attorneys are paid 14% to 28% less than their Department of Justice counterparts. This disparity affects attorney recruitment and retention and can affect timeliness and effectiveness of services.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $14.2 million is $2.1 million, or 17.6%, above the prior biennium level and is 4.8% below the current service level. No enhancements were approved for the Appellate Division budget.

No unique budget reductions were approved either, but the standard reductions were applied that were approved in most agency budgets on an across-the-board basis. These include reductions to reflect the impact of the policy changes in SB 822 and administrative actions of the PERS Board that reduce state employer contribution rates in the 2013-15 biennium by approximately 4.4 percentage points ($328,282), a 5% reduction in General Fund for services and supplies ($64,574), and a 2% hold back adjustment on General Fund appropriations for purposes of establishing a supplemental statewide ending balance ($291,347).

Starting with the 2009-11 biennium ending balance, Judicial Branch agencies are able to retain General Fund ending balances. Furthermore, without additional legislative action, an appropriation amount equal to the ending balance is transferred from the ending biennium to the next biennium. An estimated $120,000 of General Fund ending balance is forecast to be rolled forward from the 2011-13 biennium to the 2013-15 biennium budget and will be available for 2013-15 biennium Appellate Division expenditures.

PDSC – Professional Services Account

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	198,145,412	215,442,730	233,182,489	226,918,697
Other Funds	11,684,324	3,387,500	2,722,500	3,982,500
Total Funds	**$209,829,736**	**$218,830,230**	**$235,904,989**	**$230,901,197**

Program Description

The Professional 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 Professional Services Account funds public defense predominately at the trial court level for eligible defendants. Trial-level caseloads (excluding death penalty cases increased substantially in the 1990s and into the 2003-04 fiscal year. Between the 1993-94 and 2003-04 fiscal years, annual caseload count increased from 108,963 to 170,902 – a 57% increase. Since 2003-04, however, caseload counts have fluctuated from year to year but remained relatively flat overall, always coming in between 170,000 and 180,000 cases per year. The 2011-12 caseload count of 172,357 is less than 1% above the 2003-04 count eight years earlier.

The largest category of case type is Dependency and Juvenile Delinquency, which represents 39% of total trial-level non-death penalty caseload. This is followed by Misdemeanors and Misdemeanor Probation Violations, at 29%; Felonies and Felony Probation Violations, at 28%; and all other at 4%. Costs for the different case types vary substantially, however, with felony cases being especially expensive. As a result, the distribution of costs for the same categories listed above is much different than the distribution of the number of cases: Dependency and Juvenile Delinquency, comprises 31% of total trial-level non-death penalty costs; Misdemeanors and Misdemeanor Probation Violations, 19% of total costs; Felonies and Felony Probation Violations, 45% of total costs; and all other, 5% of total costs.

Revenue Sources and Relationships

The General Fund has historically supported the program. Other Funds are from two sources. During the 2009-11 biennium, temporary court fees and surcharges were established to provide revenue used to support Professional Services Account expenditures during the 2009-11 biennium. These revenues were eliminated in the 2011-13 biennium, however, and replaced with General Fund.

During the 2011-13 and 2013-15 biennia, revenue from the Application/Contribution Program provides the Other Funds used to support the public defense expenditures.

Budget Environment

Although many factors affect caseload levels, including the state of the economy and state budget, caseload levels have remained relatively stable in recent biennia. Instead, concerns over compensation rates for public defenders, and their workload levels, have been prominent. Compensation paid directly by the Commission to attorneys, investigators, and expert witnesses; and compensation paid by public defender organizations that are funded by the Commission, are below the levels available for district attorneys and privately-paid defense attorneys. This negatively affects the ability to recruit and retain employees in the public defense system.

The impact of high caseload levels on public defense services has also been a concern. The caseload levels are especially high for attorneys that deal in Juvenile Dependency cases.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $230.9 million is $11.5 million, or 5.3%, above the prior biennium level and is 2.7% below the current service level. A number of enhancements and reductions are included in the Professional Services Account budget.

Additional funding provided includes:

- **Public Defense Provider Compensation ($3 million General Fund) –** These funds are provided to increase compensation paid to public defender contractors, hourly-paid attorneys, and hourly-paid investigators. The agency was instructed to allocate $2,329,729 to reduce the average salary differential between public defender salaries and district attorney salaries, allocate $218,141 to increase the compensation rates for hourly-paid attorneys, and allocate $452,130 to increase the compensation rates for hourly-paid investigators. These recipients handle approximately 35% of the trial-level, non-death penalty public defense caseload. The public defenders eligible for the compensation increase work exclusively on public defense cases. The consortium contractors and law firm contractors who handle a majority of the case load are eligible to take private cases as well. The distribution to the three categories reflects how funds were apportioned in the agency's original $4.9 million request. Distributions to attorneys and investigators were reduced proportionally from the levels in the agency request, however, how the money for attorney salaries was divided between the two categories of attorneys, public defender contractors, and hourly-paid attorneys, was changed to reflect caseload levels.

- **Juvenile Dependency Caseload Reduction ($2.4 million General Fund) –** The agency requested $3.8 million to reduce trial-level juvenile dependency caseloads and improve the quality of legal services in juvenile dependency and termination of parental rights cases. The requested funding level was calculated to allow a 7% average reduction in the caseloads of attorneys providing these services. The $2.4 million provided will support an approximate 4.5% average reduction in the caseloads of attorneys providing these services, however, the agency may choose to distribute available funds on a pilot project basis. The agency will make caseload reductions conditional upon agreement to implement established best practices, and will evaluate the impacts of the caseload reductions.

Approved funding reductions include:

- **Elimination of "Tail" Funding (-$3.2 million General Fund) –** Funding that was included in the current service level for expenses that will not be paid until after the 2013-15 biennium is over was eliminated. Traditionally, each biennial appropriation included funds to support some payments made in the following biennium for services performed in the budgeted biennium. The reduction eliminates this practice, but this does not reduce the amount of funds available to the Commission to pay expenses during the 2013-15 biennium itself.

- **Marijuana Sentencing Reductions (-$855,200 General Fund) –** SB 40, passed in the 2013 session, reduces crime categories for the unlawful manufacture and possession of marijuana and marijuana products. Because the costs to provide defense services increases with the severity of the crime, the fiscal impact of the legislation to PDSC is to reduce costs. The sentence reductions are projected to reduce PDSC costs by $855,200, so this amount was removed from the budget.

One fund shift was also approved:

- **Professional Services Account Fund Shift (-$1.26 million General Fund, +$1.26 million Other Funds) –** Additional Application Contribution Program funds are used in lieu of General Fund. This action does not affect total funding for the program, but allows additional expenditures of revenues from the Application/Contribution Program (ACP) to support the public defense system. The ending balance of ACP funds after including this Other Funds expenditure limitation increase is projected to be approximately $500,000, which is equal to approximately 2.7 months of expenditures.

The standard reductions were applied that were approved in most agency budgets on an across-the-board basis. These include a 5% reduction in General Fund for services and supplies ($1,731,434), and a 2% hold back adjustment on General Fund appropriations for purposes of establishing a supplemental statewide ending balance ($4,617,158). All expenditures in the Professional Services Account are categorized as services and supplies. For purposes of the 5% services and supplies reduction, however, the 5% was calculated on only 15% of expenditures, as this is the average proportion of funds that public defenders spend on services and supplies.

PDSC – Contract and Business Services Division

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	2,729,554	2,937,692	3,342,182	3,175,850
Other Funds	460,347	442,555	496,344	484,542
Total Funds	**$3,189,901**	**$3,380,247**	**$3,838,526**	**$3,660,392**
Positions	16	16	16	16
FTE	15.96	15.96	15.79	15.79

Program Description

The Contract and Business Services Division (CBS) is responsible for administering the public defense contracts that provide legal representation for financially eligible persons, and for processing requests and payments for non-contract fees and expenses.

Revenue Sources and Relationships

The General Fund and Other Funds support the majority of the program. The program received approximately $3.6 million Other Funds in the 2009-11 biennium from an application fee ($20) and a contribution amount that is paid by persons seeking representation at state expense. The fees are used to offset the General Fund cost of public defense eligibility verification staff in the Judicial Department (22.70 FTE) and for operating expenses for public defense administration (2.30 FTE). The Commission entered into an intergovernmental agreement with the Judicial Department regarding use of these fees for public defense verification staffing.

The estimated ending balance in the Application Contribution Program Account for the 2011-13 biennium is $704,552, which is 1.6 months of reserve.

Budget Environment

This program administers over 100 contracts in all 36 counties, receives and verifies invoices for payment on contractual services, and issues over 20,000 payments per year. The program also reviews over 10,000 requests per year for non-routine expenses such as investigations. The administrative expense of the Commission, as represented by this CBS Division, is 1.5% of the agency's budget.

The program works with public defense contractors on the development and use of best management and business practices and also receives and investigates complaints regarding concerns over the quality of legal representation and the appropriate expenditure of public defense funds.

The fiscal administration and oversight of the $230.9 million Professional Services Account and the other expenditures of the Commission are essential functions of this program as is the role of the program to minimize administrative costs of public defender organizations through review of management and operational processes and procedures. Less fiduciary oversight of the Account by the Program could translate into added and inappropriate expenses charged to the Account.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget of $3.7 million is $238,158, or 8.1%, above the prior biennium level and is 58% below the current service level. No enhancements were approved for the Contract and Business Services Division budget.

No unique budget reductions were approved either, but the standard reductions were applied that were approved in most agency budgets on an across-the-board basis. These include reductions to reflect the impact of the policy changes in SB 822 and administrative actions of the PERS Board that reduce state employer contribution rates in the 2013-15 biennium by approximately 4.4 percentage points ($83,088), a 5% reduction in

General Fund for services and supplies ($18,822), and a 2% hold back adjustment on General Fund appropriations for purposes of establishing a supplemental statewide ending balance ($65,418).

Starting with the 2009-11 biennium ending balance, Judicial Branch agencies are able to retain General Fund ending balances. Furthermore, without additional legislative action, an appropriation amount equal to the ending balance is transferred from the ending biennium to the next biennium. An estimated $22,000 of General Fund ending balance is forecast to be rolled forward from the 2011-13 biennium to the 2013-15 biennium budget and will be available for 2013-15 biennium Contract and Business Services Division expenditures.

Emergency Board – Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	0	0	0	$155,106,815
Total Funds	**$0**	**$0**	**$0**	**$155,106,815**

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 2001 Legislature approved a general purpose Emergency Fund of $40 million and a total of $100 million for state employee salary and benefit adjustments. As part of rebalance actions during the five 2002 special sessions, the Legislature made adjustments to the appropriations in each of these three major categories, resulting in a disappropriation of $19 million from the general purpose Emergency Fund and $22.7 million of the amount set aside for employee negotiated salary and benefit increases. Additional disappropriations were made during the special sessions from unspent special purpose appropriations to agencies. The 2003 Legislature appropriated $40 million for general purposes and established a special purpose appropriation of $9 million for state employee health benefit plan changes. Additional agency specific special purpose appropriations of $47.4 million were also established. Of the total $96.4 million appropriated to the Emergency Board, $9.6 million was not allocated and reverted to the General Fund ending balance as of June 30, 2005.

The 2005 Legislature approved a general purpose Emergency Fund of $30 million, the smallest amount for general uses since 1993-95. In addition, the Legislature approved $130 million for state employee salary and benefit adjustments and $10 million for home care worker salary and benefit adjustments. Other special purpose appropriations totaled $23.8 million. In the April 2006 special session, held primarily as a result of increased caseload costs in the Department of Human Services, the Legislature disappropriated $9 million from the state employee salary and benefit special purpose appropriation due to refined information on projected costs of the salary and benefit package and established a special purpose appropriation for the Department of Human Services in the amount of $83.3 million for caseload costs, cost-per-case increases, and other departmental needs. Through the December 2006 meeting of the Emergency Board, the last scheduled meeting of the interim, the remaining balance in the general purpose Emergency Fund was $1.7 million with an additional $9.9 million remaining in the special purpose appropriation made to the Emergency Board for the Department of Human Services; $9.5 million of this amount was allocated to the Department as part of the agency's final 2005-07 rebalance approved in April 2007 in SB 5547. A total of $2.1 million of remaining unspent Emergency Fund resources were disappropriated and returned to the General Fund in SB 5547 and SB 5549.

The 2007 Legislature approved a general purpose Emergency Fund of $30 million and approved a special purpose appropriation for state employee salary and benefit adjustments of $125 million. In addition, other special purpose appropriations for specific agency uses were made to the Emergency Board in the amount of $45.5 million. During the February 2008 special session, the Legislature established three new special purpose appropriations in the amount of $24.4 million (two for the Department of Human Services totaling $23.4 million and one for costs associated with potential passage of one of the property crime ballot initiatives totaling $1 million). At the June 2008 meeting of the Emergency Board, the Department of Administrative Services brought forward a request on behalf of all state agencies for the allocation of the $125 million special purpose appropriation for state employee salary and benefit changes. At that time, there was already evidence that the state's economy was faltering and that projected revenues for both the 2007-09 and 2009-11 biennia might not reach previously forecasted levels. As a result, the Emergency Board decided to only allocate $100 million of the $125 million special purpose appropriation, retaining the remaining $25 million for either later adjustments or toward any possible current biennium revenue shortfall. When combined with the unallocated general purpose Emergency Fund and the other unallocated special purpose appropriations, the Emergency Fund's balance at the conclusion of the Emergency Board's last meeting of the interim (December 2008) was $53.2 million. This amount was disappropriated during the 2009 legislative session as used as part of the initial rebalance plan for the 2007-09 biennium when revenue forecasts indicated that the state budget was $851 million out of balance in March 2009.

The 2009 Legislature approved a $30 million General Purpose appropriation, plus special purpose appropriations totaling $46.1 million. Included in the special purpose appropriations was $32 million for state agency supplemental costs including health benefit increases in the 2010 and 2011 benefit years. The entire $32 million along with $10 million from the General Purpose Emergency Fund and the $2.3 million carryover from the Legislative Assembly's 2007-09 biennium unused appropriation were disappropriated during the February 2010 special session for use towards rebalancing the state's overall 2009-11 budget. Additional special purpose appropriations were established during the February 2010 session totaling $41.5 million, primarily for caseload and cost per case increases in the Department of Human Services.

The 2011 Legislature initially adopted a budget with a $25 million General Purpose appropriation, plus special purpose appropriations totaling $47.7 million. No provision was made for either salary and benefit cost increases or for state agency supplemental costs. During the 2012 session, the Legislature used approximately $38 million of the special purpose appropriations for their original intended purposes or towards the overall statewide rebalance plan enacted during the session. The Legislature then added $74.6 million in new special purpose appropriations during the 2012 session for potential allotment mitigation, human services caseloads, and other unexpected costs. As of December 2012, the Emergency Fund had a balance of $50,447,306; this balance was disappropriated by the Legislature during the 2013 session in order to make it immediately available for the 2013-15 budget.

Budget Environment

The size of the general purpose Emergency Fund has not expanded in the past several biennia proportionately with the growth in the General Fund budget. Unused special purpose appropriations have augmented the general purpose Emergency Fund.

The actual cost of implemented salary and benefit increases had significantly exceeded the amounts appropriated to the Emergency Board in each of the five biennia prior to 2005-07. Appropriations in 1995-97 and 1997-99 financed approximately 70% of the actual increases. The $40 million appropriated in 1999-2001 financed less than 50% of the actual increases. The $100 million appropriated for 2001-03 was anticipated to fully fund salary and benefit increases, but was reduced by the Legislature during the 2002 special sessions to $77.3 million. The Legislature adopted a general salary freeze for the 2003-05 biennium and reduced agency budgets to reflect no employee merit increases and no cost-of-living adjustments. The $9 million special purpose appropriation for salary and benefit adjustments in the 2003-05 adopted budget reflected approximately 35% of the estimated General Fund cost to state agencies of negotiated health benefits (in addition to the $9 million General Fund, $15 million Other Funds from the Public Employees Benefit Board was distributed, leaving approximately $1.9 million of the higher costs unfunded). Actual costs above the amounts appropriated were absorbed within agency budgets, primarily through forced position vacancies and under-realized caseload growth. The amount appropriated for the 2005-07 salary and benefit package fully funded agency General Fund costs. The allocation of $100 million of the $125 million 2007-09 salary and benefit special purpose appropriation covered 100% of the redistributed costs for Pension Obligation Bonds, 100% of the costs for a temporary change to the Public Employees Retirement System rates, and slightly more than 75% of the General Fund costs of the regular compensation increases awarded to all employees. In keeping with the Governor's intention, there was no attempt to pay for increases provided by the Governor to management employees in a supplemental salary and benefit package, which cost approximately $15.8 million in the 2007-09 biennium. Due to the state's economic situation, no special purpose appropriation was provided in either the 2009-11 or the 2011-13 legislatively adopted budgets specifically for state employee negotiated salary increases or cost-of-living adjustments; $32 million was allocated to potentially be used for increases in the costs of health benefits for state employees for the 2010 and 2011 benefit years, but no such provision was included in the 2011-13 budget.

Legislatively Adopted Budget

The 2013-15 legislatively adopted budget for the Emergency Board includes a $30 million General Purpose appropriation, plus special purpose appropriations totaling $125.1 million as follows:

- $86.5 million for state employee compensation changes;

- $12.9 million for non-state employee (home health care workers) compensation changes;
- $8.9 million for the Housing and Community Services Department for second year operational costs of programs and activities;
- $5 million for the Department of Forestry for forest fire protection expenses;
- $4.6 million for the Department of Education for costs related to student assessments for the second year of the biennium;
- $3.3 million for the Oregon Health Authority for rate increases for alcohol and drug residential treatment homes;
- $1.8 million for the Department of Education for youth development program costs for the second year of the biennium;
- $1.7 million for the Oregon State Library for second year fiscal operations;
- $225,000 for the Housing and Community Services Department for second year operational costs of the Oregon Hunger Response Fund;
- $100,000 for the Oregon Health Authority for staffing related to dental pilot projects; and
- $75,000 for the Housing and Community Services Department for second year costs of the Housing Choice Landlord Guarantee program.

If the amounts in these special purpose appropriations are not allocated by the Emergency Board by December 1, 2014, the remaining amounts become available to the Board for any legal use.