

Budget Highlights

2005-07

Legislatively Adopted Budget



LEGISLATIVE FISCAL OFFICE
OCTOBER 2005

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

The Legislative Fiscal Office staff has prepared the following *Budget Highlights: 2005-07 Legislatively Adopted Budget*. The document includes program area summaries, legislative actions affecting the budget, potential budget risks, and tentative budget issues. Two new sections that have been added are "Technical Assumptions in the Legislatively Adopted Budget" and "2005 Substantive Bills with Budget Effects." A detailed analysis of the budget by program area and agency is forthcoming.

We hope you find this resource useful and invite you to call the Legislative Fiscal Office if you have any questions.

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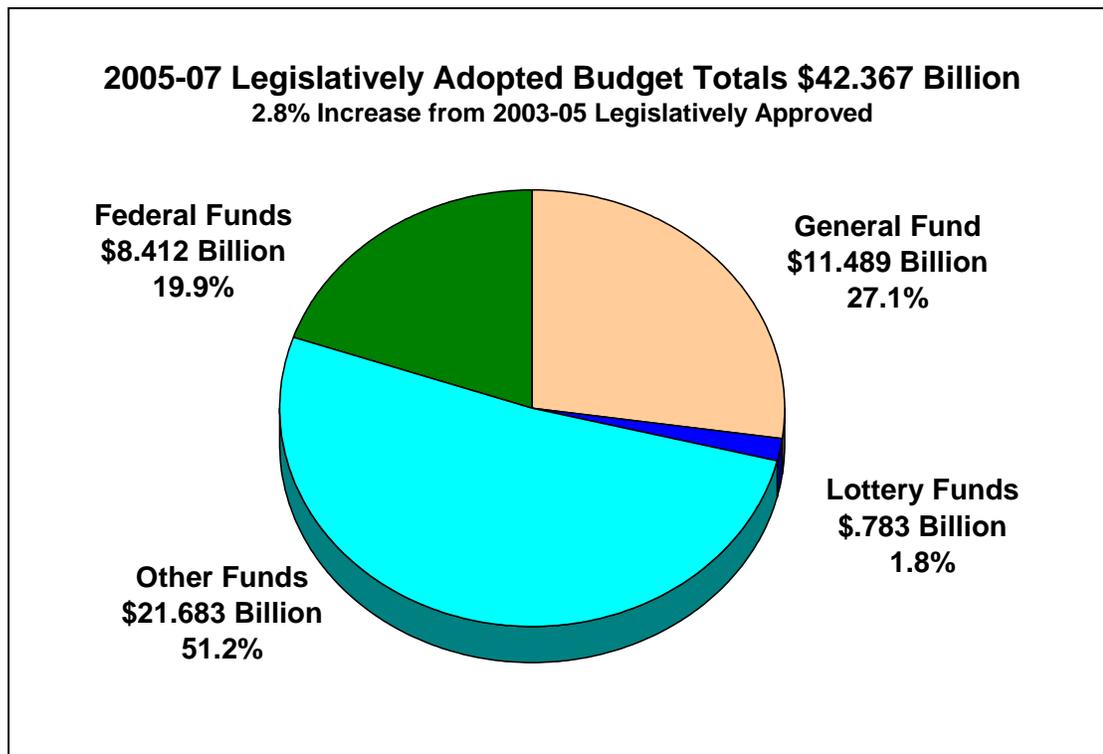
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Summary of 2005-07 Legislatively Adopted Budget

Budget Overview

The total legislatively adopted budget (LAB) for the 2005-07 biennium is \$42.367 billion. The adopted budget includes \$12.272 billion in combined General Fund and Lottery Funds, \$21.683 billion Other Funds, and \$8.412 billion Federal Funds. The 2005-07 total budget represents a 3% increase over the 2003-05 biennium's legislatively approved total budget of \$41.234 billion.



The 2005 Legislature completed the second longest session on record at 208 days. This was one more than the 1993 session, but 19 fewer than the record of 227 days in 2003. With respect to the budget development process, the 2005 session was unique in several ways. The Joint Committee on Ways and Means held hearings during the first four months of session, discussing agency performance measures and engaging in a prioritization of agency programs. In March, legislative leadership agreed to a self-imposed spending and revenue cap of \$12.393 billion. In mid-April, the Joint Committee on Ways and Means left Salem for a series of public hearings on the budget throughout the state. Hearings were held in five regions of the state; the Committee also held a teleconference to allow testimony from seven additional sites across Oregon.

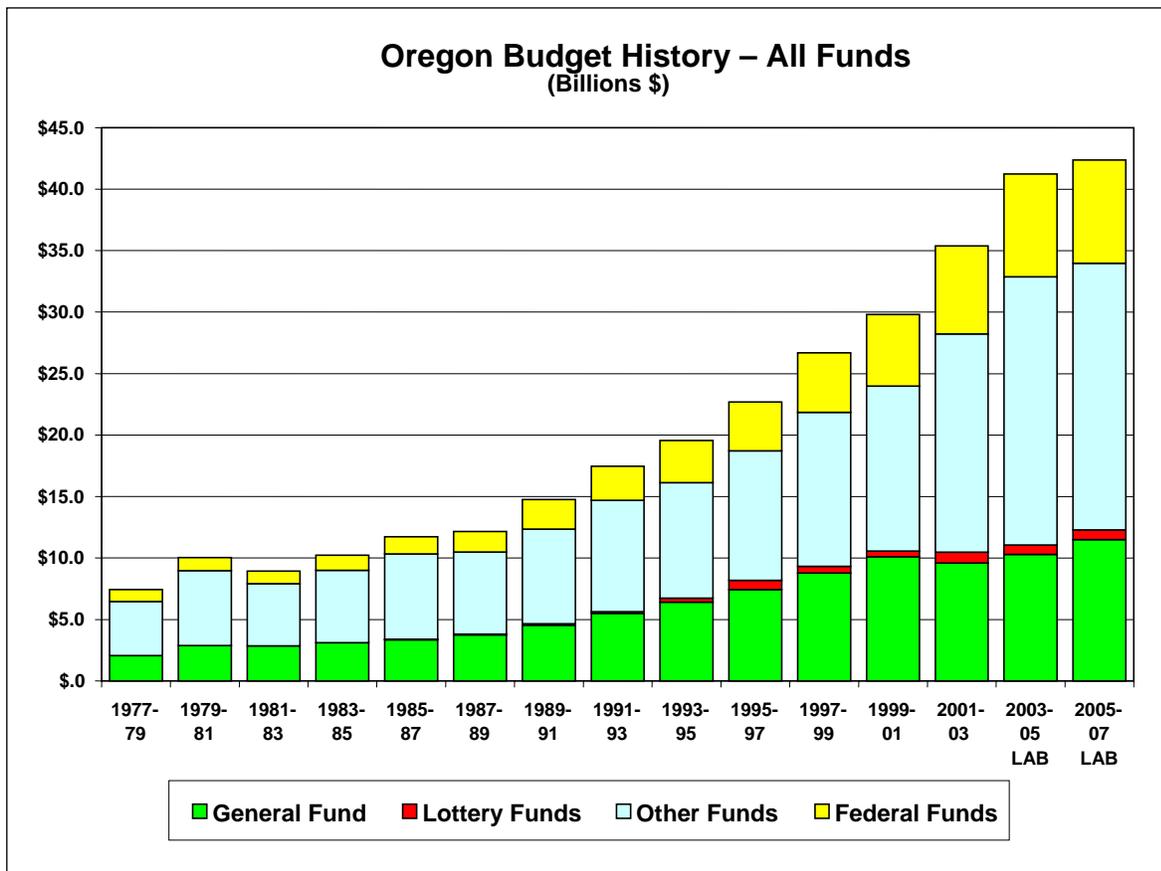
In May, the Joint Committee on Ways and Means turned inactive and special budget committees were formed by the House and Senate leadership. This split the joint appropriation process that is the standard approach for Oregon legislative budget development (a similar split of the joint appropriation process occurred in 1993). Under the split appropriation process, each state agency's budget bill was developed separately by each chamber. Once each chamber had passed a budget for all state agencies, a negotiated agreement allowed those budgets that were passed in identical form by each chamber to be finalized. Legislative leadership then engaged in intensive negotiations over the remaining budgets.

The session concluded in August after the Joint Committee on Ways and Means reconvened to develop the final budget bills required to complete the state’s balanced budget.

The final \$42.367 billion budget adopted by the Legislature for the 2005-07 biennium represents the smallest total funds percentage increase since the 1987-89 biennium. Although General Fund and Lottery Funds expenditures were budgeted at 11% higher than the previous biennium, Other Funds and Federal Funds experienced only slight changes from the 2003-05 budget period.

The largest funding source in the budget, Other Funds, represents 51% of the total expenditures. Other Funds were basically unchanged from the 2003-05 legislatively approved level, down by 0.7%, the smallest biennial change since 1987-89. Other Funds are revenues received by the state from fees for registration or licenses, charges for services, specific taxes (such as gasoline and tobacco), and loan programs. These funds are restricted by law for specified purposes.

Nearly 20% of the 2005-07 legislatively adopted budget is made up of revenues from the federal government. Federal Funds were up only 0.8% in the 2005-07 budget, the smallest increase since a decline in 1981-83. Over the previous five biennial budget periods, Federal Funds have averaged growth of about 19% per biennium. Nearly three-fourths of federal funds are received within the Human Services program area.

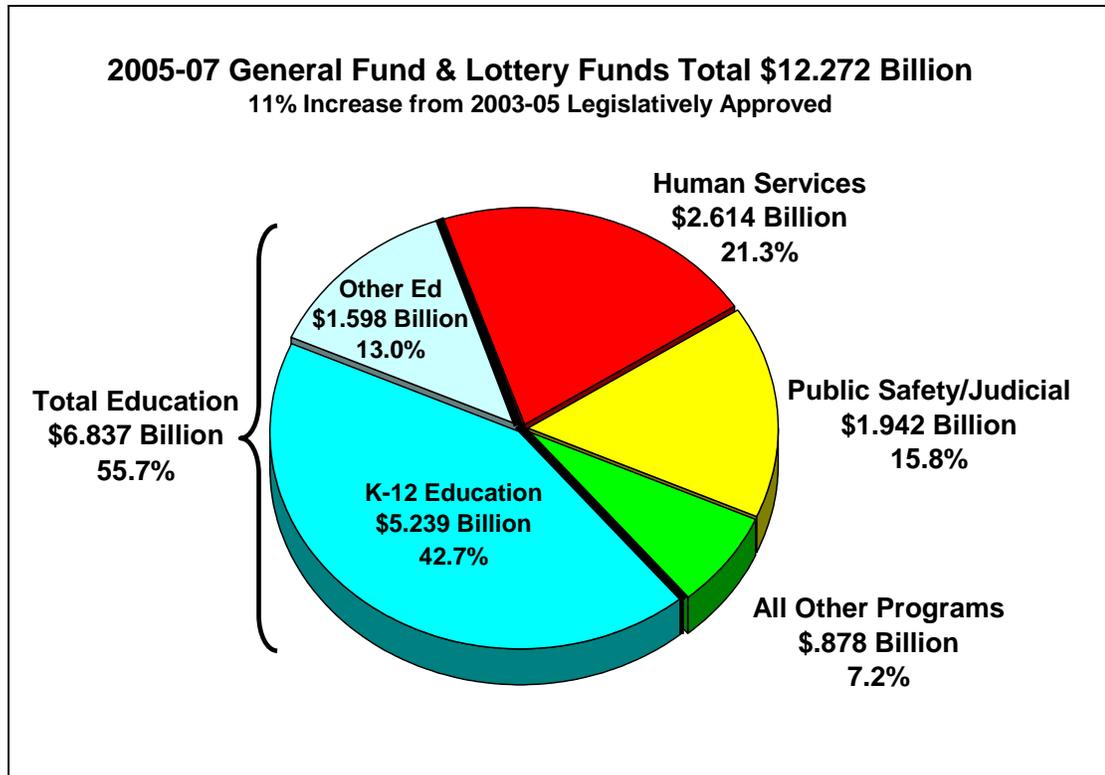


General Fund and Lottery Expenditures

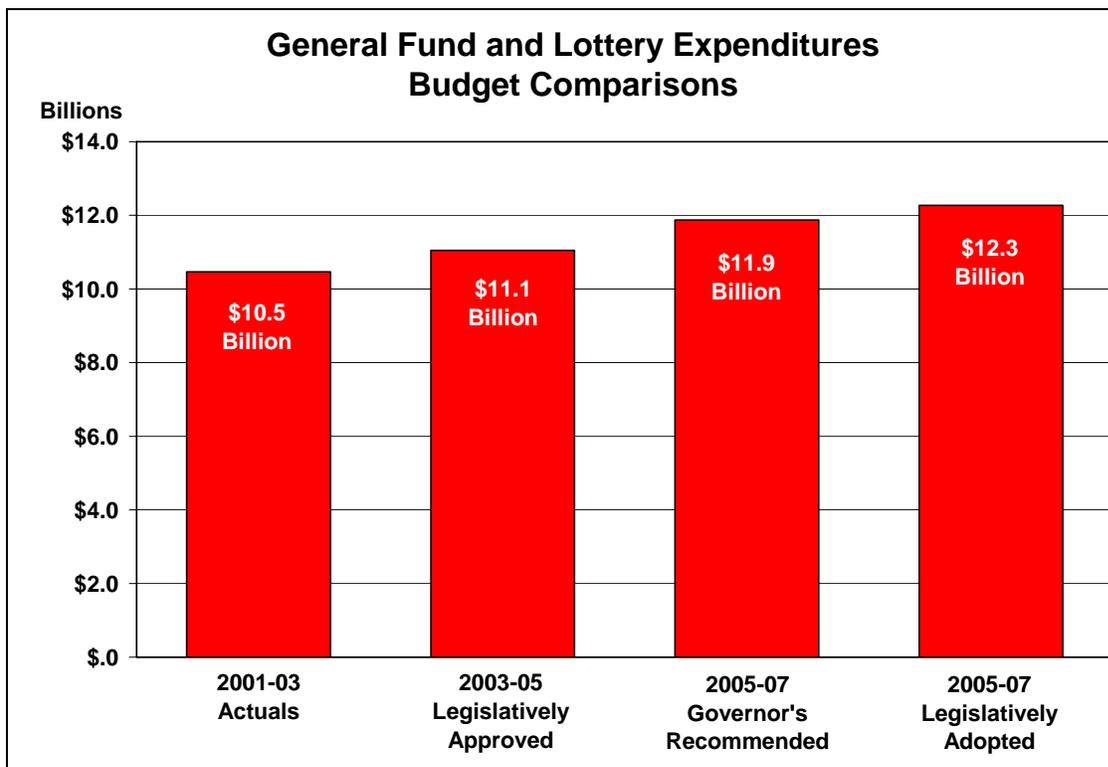
General Fund and Lottery Funds expenditures, which total \$12.272 billion for the 2005-07 biennium, represent 28.9% of the total legislatively adopted budget. Although this percentage is higher than the 26.8% share in 2003-05, it is well below the average 34% for the period from 1993 through 2003. The

reasons for the change in the General Fund and Lottery share of the total budget are the severe drop in General Fund resources during the 2001-03 biennium and an increasing reliance on Other Funds for budget continuity.

The total General Fund and Lottery Funds expenditures of \$12.272 billion for 2005-07 are 11% higher than the 2003-05 legislatively approved budget of \$11.052 billion. The 2003-05 legislatively approved budget represents the authorized budget following all Emergency Board actions, reductions automatically implemented as a result of the voters' defeat of Ballot Measure 30 in February 2004, and various legislative actions taken during the 2005 session to rebalance the budget and adjust limitations for selected agencies.



Nearly 56% of the state's General Fund and Lottery expenditures are dedicated to education programs, including \$5.24 billion, or 43% of the total, to the K-12 State School Fund budget. Nearly 93% of the state's expenditures are found in the three major program areas of Education, Human Services, and Public Safety.

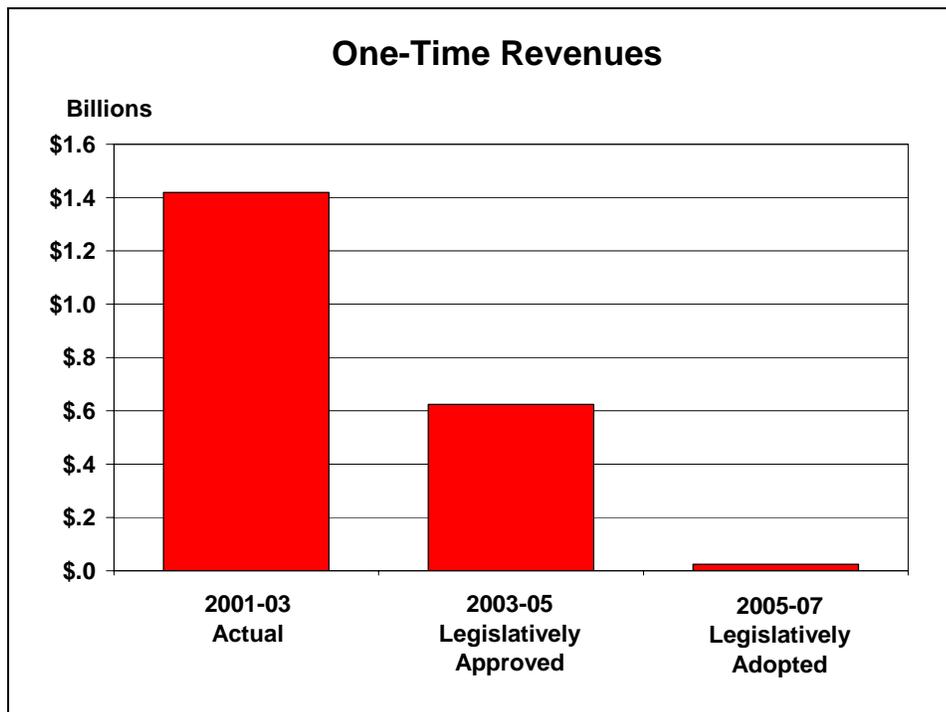


About one-third of the \$1.3 billion General Fund and Lottery Funds increase from the 2003-05 legislatively approved budget to the 2005-07 legislatively adopted budget is due to the Legislature's use of General Fund support to backfill one-time revenues from discretionary sources relied on during the 2003-05 biennium. Reliance on one-time revenues in 2003-05 in part goes back to 2001-03, when the Legislature used approximately \$1 billion of discretionary funds derived from Medicaid Upper Payment Limit (MUPL) revenue, Tobacco Master Settlement Agreement (TMSA) revenue, and the Education Stability Fund as a part of budget rebalancing actions. (Additionally, 2001-03 budget balancing actions delayed final General Fund payments into the 2003-05 budget period for K-12 education [\$211 million] and Community Colleges [\$56 million].)

For 2003-05, the legislatively approved budget included the use of approximately \$600 million in one-time revenues to replace General Fund. These major one-time sources include:

- \$122 million from the Education Stability Fund for the State School Fund;
- \$116 million of federal Jobs and Growth Tax Reconciliation Act funds in the Institutions budget for the Department of Corrections;
- \$91.8 million in Other Funds ending balances that were transferred to the General Fund;
- \$88.8 million of enhanced federal Medicaid matching funds in the Department of Human Services;
- \$45 million of Other Funds savings from implementation of reforms to the Public Employees Retirement System (PERS) transferred to the General Fund;
- \$42.2 million of TMSA funds in the Oregon Health Plan;
- \$34 million of General Fund savings from the issuance of pension obligation bonds to pay off the state's unfunded PERS liability;
- \$20 million in the natural resource program area from federal Pacific Coastal Salmon Recovery Fund (PCSRF) resources and dedicated Measure 66-Capital Lottery Funds; and
- \$10 million of Tobacco Use Reduction Account funds in the Oregon Health Plan.

Most of these sources of one-time revenues were not available for use in the 2005-07 adopted budget. The only use of such discretionary funds in the 2005-07 budget was \$24.5 million of TMSA resources used in the Department of Human Services.



The Lottery Commission’s expansion to include line games, and other potential Lottery Commission actions to increase receipts, allowed an additional \$120 million in lottery program funding in the 2005-07 legislatively adopted budget.

More than 75% of the \$1.3 billion increase in General Fund and Lottery Funds expenditures from the 2003-05 biennium occurs in three program areas: Education, Human Services, and Public Safety.

- Education, primarily the State School Fund, increased by \$400 million. This reflects the replacement of one-time funding in 2003-05 from the Education Stability Fund and covers part of increasing salary and benefits costs as well as student growth.
- Human Services increased by \$323 million, largely due to replacement of one-time federal fiscal relief funding in 2003-05 and requirements linked to the Medicare Modernization Act.
- The Public Safety increase of \$262 million is primarily in the Department of Corrections. This includes the replacement of one-time federal fiscal relief funding in 2003-05 and the effect of voter-mandated, tougher criminal offender sentencing that continues to cause the prison population to grow. The growth has significantly increased operating and debt service costs over time.

The increase in the General Fund and Lottery Funds budget from the Governor’s recommended level of \$11.9 billion to the legislatively adopted amount of \$12.3 billion reflects an increase in the economic and revenue forecast used to craft the 2005-07 budget. The Governor’s proposed General Fund budget was based on the December 2004 forecast. The May 2005 forecast, used to create the legislative budget, projected an additional \$426 million General Fund above the December 2004 forecast (\$202 million from an increase in the 2003-05 projected ending balance, which becomes the 2005-07 beginning balance, and \$224 million from increases in projected revenues for 2005-07).

The following table compares the 2005-07 legislatively adopted General Fund and Lottery Funds budget with 2001-03 actual expenditures and the 2003-05 legislatively approved budget for each program area.

2005-07 General Fund & Lottery Spending in Legislatively Adopted Budget by Major Program Area							
(Dollars in Millions) ¹							
	2001-03 Actuals ²	2003-05 Legislatively Adopted Budget	2003-05 Legislatively Approved Budget ³	2005-07 Governor's Recommended Budget (GRB)	2005-07 Legislatively Adopted Budget (LAB)	% Change 2005-07 Legislatively Adopted from 2003-05 Leg. Approved	% Change 2005-07 Legislatively Adopted from 2005-07 Gov. Recommended
Education							
K - 12 State School Fund ⁴	\$4,417	\$5,190	\$4,914	\$5,001	\$5,239	6.6%	4.8%
Higher Education ⁵	754	771	764	750	789	3.3%	5.2%
Community Colleges ⁶	382	413	416	394	433	4.0%	10.0%
All Other Education	335	343	343	389	376	9.7%	-3.4%
Total Education	5,888	6,717	6,437	6,534	6,837	6.2%	4.7%
Human Services ⁷	2,393	2,466	2,369	2,517	2,614	10.3%	3.9%
Public Safety ⁸	1,236	1,246	1,236	1,563	1,495	20.9%	-4.4%
Natural Resources	241	221	227	259	278	22.6%	7.6%
All Other Programs ⁹	710	846	782	1,005	1,047	33.8%	4.1%
Total Expenditures	\$10,468	\$11,496	\$11,052	\$11,877	\$12,272	11.0%	3.3%

¹ Amounts may not add due to rounding.

² The 2001-03 Actuals represent expenditures incurred after all 2001-03 Emergency Board actions, the five 2002 special sessions, the allotment reductions due to the December 2002 revenue forecast (adopted in SB 859), the February 2003 statewide budget rebalance actions (adopted in SB 5548), and the final DHS rebalance (adopted in SB 5549).

³ The 2003-05 Legislatively Approved represents expenditure authorizations through all 2003-05 Emergency Board actions, including \$544.6 million in reductions that resulted from voter disapproval of Ballot Measure 30 in February 2004.

⁴ The 2001-03 Actuals reflect a \$262 million Education Stability Fund transfer (now shown as Lottery Funds per HB 5077) to the SSF and a shift of \$211 million General Fund from the 2001-03 SSF payment to the 2003-05 biennium (SB 1022).

⁵ Includes Oregon Health and Science University Public Corporation.

⁶ The 2001-03 Actuals reflects a shift of \$56 million of the 2001-03 CCSF payment to the 2003-05 biennium.

⁷ The General Fund in the 2003-05 LAB was reduced, in part, based on the availability of an additional \$151.4 million in federal revenue from improved federal match rates authorized in the Jobs and Growth Tax Reconciliation Act.

⁸ The 2003-05 LAB was reduced by \$116 million General Fund based on one-time use of federal Jobs and Growth Tax Reconciliation Act funds.

⁹ The 2003-05 LAB included a \$40 million General Purpose Emergency Fund and \$9 million for health benefits. The 2005-07 GRB included \$25 million in the General Purpose Emergency Fund; \$130 million for employee compensation issues; and \$20 million for Home Care Workers compensation. The 2005-07 LAB includes \$30 million General Purpose; \$130 million for employee compensation; \$10 million for Home Care Workers; \$53.8 million for special purpose appropriations to selected agencies.

Lottery Revenues and Expenditures

Lottery Revenues – Lottery revenue for the 2005-07 biennium is expected to increase significantly from prior biennia, primarily due to the addition of line games to video terminals. Line games and other Lottery Commission administrative actions, including rate adjustments for retailer commissions, are projected to generate \$120 million in additional revenue for 2005-07.

Difference between 2003-05 and 2005-07 Lottery Revenue				
(\$ in millions)				
	2001-03 (9/03 Forecast)	2003-05 (5/05 Forecast)	2005-07 (5/05 Forecast)*	Difference 2003-05 to 2005-07
Total Earnings	\$672.3	\$780.6	\$931.2	\$150.6
Beginning Balance	6.4	11.1	0.0	(11.1)
Admin Savings and Contingency Transfers	65.8	0.0	0.0	0.0
Reversions	2.1	0.2	2.5	2.3
Interest Earnings	4.9	1.6	2.0	0.4
	\$751.5	\$793.5	\$935.7	\$142.2

*incl. \$2.5 million 2003-05 Gambling Addiction Carryover

During the special legislative sessions in the 2001-03 biennium, the Legislature used over \$80 million in debt service and administrative savings to offset reductions in the General Fund. This included \$65.8 million from administrative savings and the contingency reserve for equipment purchases. This one-time infusion of resources was not available for the 2003-05 biennium.

For 2003-05, the 2003 Legislature expected that up to \$67 million in potential additional Lottery revenue would be allocated to the State School Fund. The Legislature increased the maximum number of video lottery terminals in retail establishments from five to six, but otherwise it did not specify how the additional revenue would be generated. The expectation was that the Lottery Commission would generate this revenue by exercising several options, including reduction in retailer commissions, increased transfer of administrative savings, or from the addition of new games. The Commission met the legislative expectation.

Dedicated Funds – In 1996, the voters dedicated 15% of Lottery Funds to the Education Endowment Fund. In 2002, in another vote, this fund was renamed the Education Stability Fund and the percentage dedication was changed to 18%. In 2005-07, over \$167.6 million will be distributed to the Education Stability Fund.

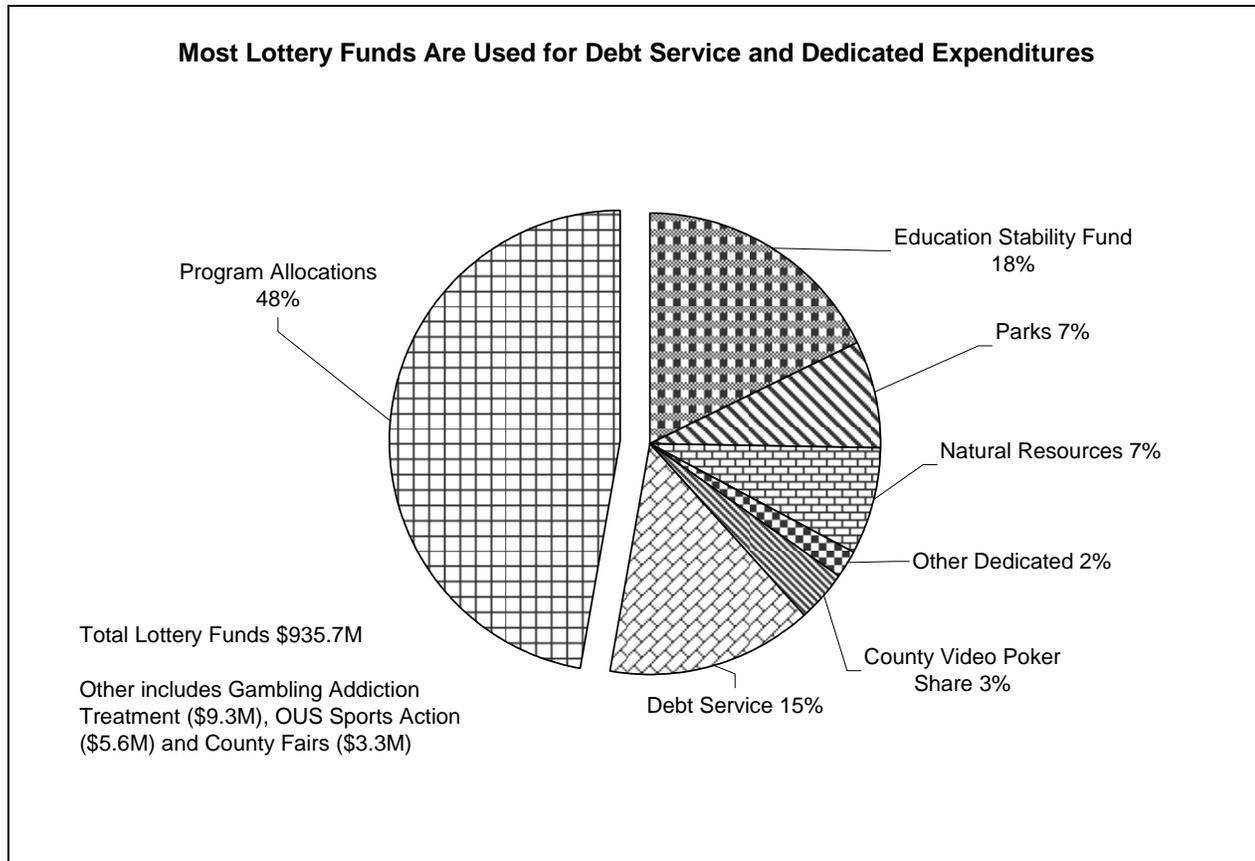
Other dedicated uses include:

- 15% for parks and natural resources (by a vote in 1998);
- 1% of Lottery Funds for gambling addiction treatment programs; and
- effective July 1, 2007, 1% to Higher Education sports programs (and the Sports Action game will be eliminated).

When the dedicated funds are combined with debt service on lottery-backed bonds, which also has priority, 52% of lottery proceeds are either dedicated or obligated in the 2005-07 biennium. This

percentage will increase in future biennia when debt service payments increase as a result of bonding approved by the 2005 Legislature.

Lottery Distributions – Most of the 2005-07 lottery resources, just over 66.9%, are used for education. This includes the State School Fund direct allocation of \$395.6 million and debt service direct allocation of \$52.1 million for K-12 lottery-backed bonds; \$167.6 million dedicated to the Education Stability Fund; and Sports Action revenue and debt service allocated to the Oregon University System. Interest earnings on the Education Stability Fund, which are used to pay debt service on K-12 lottery-backed bonds and to fund Oregon State Scholarship Commission Need Grants, are not included in this percentage.



The 2005 Legislature continued the pattern of expending all available lottery resources. In 2005-07, \$935.7 million in Lottery Funds will be allocated or transferred to the Education Stability Fund and counties, which represented all of the resources available from Lottery Funds. As noted above, debt service and dedicated funds receive the majority of Lottery Funds. The unobligated balance for the 2005-07 biennium was \$440.9 million, of which \$395.6 million – or 90% – was allocated to the State School Fund for K-12 education.

The 2005 Legislature took several other actions with respect to the use of lottery revenues.

- It approved an allocation of \$3.5 million to the Economic and Community Development Department to potentially restore funding reduced from the Oregon Community Development Fund for the Strategic Reserve Fund. The Department will receive all or a portion of these funds if lottery revenues exceed the 2005 close-of-session forecast.

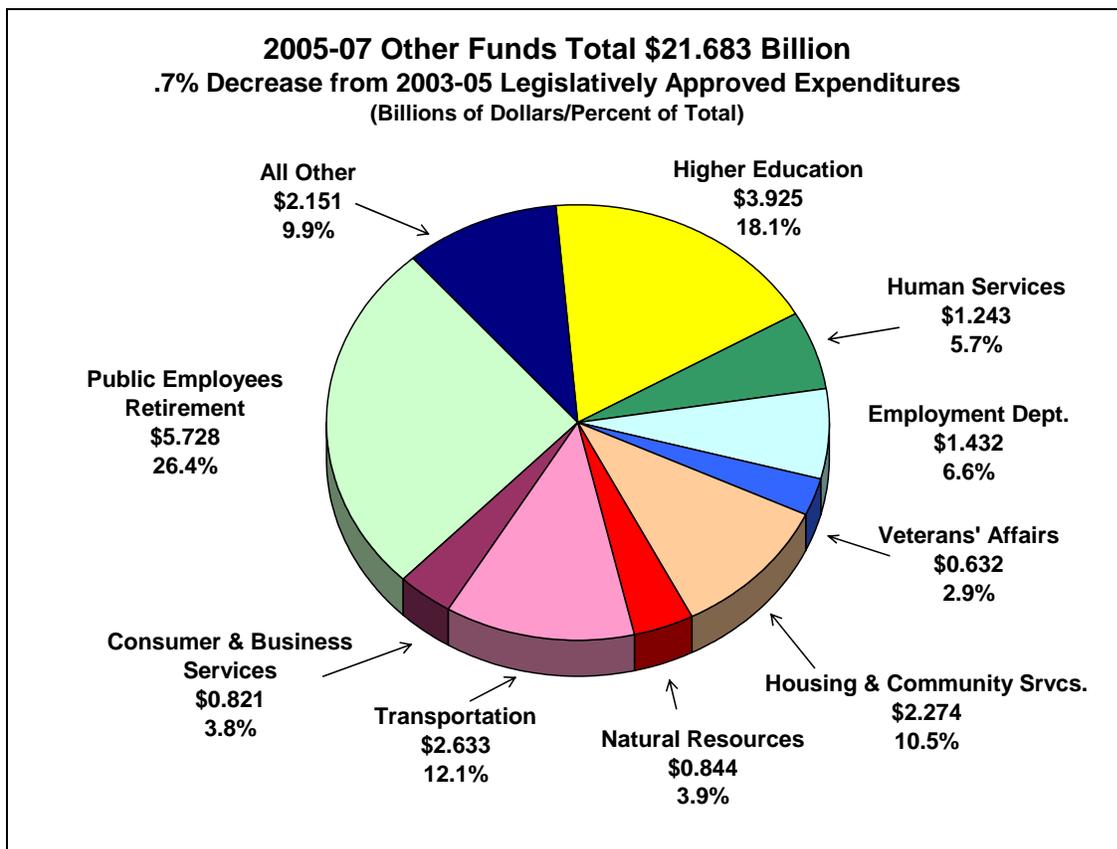
- The Legislature continued funding county fairs at \$3.3 million a biennium. This continues the shift from General Fund support for this program begun in the 2001-03 biennium.
- The Legislature reached an agreement with the Association of Oregon Counties that provides for a one-time distribution of \$861,329 from their 2.5% video lottery distribution, as the county share of the cost of the Economic Revitalization Team (ERT). An interim work group to be chaired by the Senate co-chair of the Joint Committee on Ways and Means was established to evaluate other shared state and county services.
- The Legislature provided dedicated funding of \$3.3 million for Small Business Development Centers and \$1.5 million for women, minority and small business development. The Economic and Community Development Department will work with the Joint Legislative Audit Committee to establish performance standards and reporting on the outcome from the expenditure of these funds.
- Another allocation was made to the Department of Administrative Services to establish a performance-based, forgivable loan of \$600,000 with the Oregon Association of Nurseries for a transportation project. These funds will also be subject to the oversight of the Joint Legislative Audit Committee.

Other Funds Expenditures

The 2005-07 legislatively adopted budget provides for the expenditure of \$21.683 billion in Other Funds resources. Other Funds consist of revenue received by a state agency other than General Fund, Lottery Funds, or Federal Funds, and is generally restricted by law to defined purposes. Examples include revenue from licenses and fees; charges for services; fines, rents, and royalties; interest earnings; bond sale proceeds; sales income; donations and contributions; loan repayments; and certain funds received from the federal government.

The 2005-07 adopted Other Funds budget represents an increase of only \$4.6 million, or 0.02%, over the 2003-05 legislatively approved budget. Other Funds comprise three categories of expenditures: Limited, Nonlimited, and Non-Adds. Of the \$21.683 billion Other Funds in the 2005-07 adopted budget, \$7.495 billion are Limited, \$13.543 billion are Nonlimited, and \$0.645 billion are Non-Adds. Nonlimited Other Funds expenditures are generally unestimable and must be paid by law; consequently, there is no expenditure limitation placed on agencies when Nonlimited expenditures are authorized. Non-Adds reflect funds that are spent twice within the state's accounting system (e.g., assessments charged against one agency for services provided by a second agency).

Since Nonlimited expenditures generally are inestimable, they can increase significantly during the biennial execution of the budget. The 2003-05 budget adopted at the close of the 2003 session, for example, totaled \$18.462 billion Other Funds. Administrative actions that occurred after the close-of-session through Emergency Board actions and approved increases to Nonlimited expenditures increased the 2003-05 approved Other Funds budget to a total of \$21.678 billion, an increase of over \$3.2 billion Other Funds.



Significant changes in Other Funds expenditure limitations in the 2005-07 legislatively adopted budget include the following:

Education

- HB 3183 passed by the 2005 Legislature requires Common School Fund distributions to be transferred from the Department of State Lands to the Department of Education, which will then distribute the funds to schools. As a result, Nonlimited Other Funds expenditures for the Department of Education will be increased by \$89.9 million over the 2003-05 biennium.
- The Department of Higher Education budget anticipates a \$108.3 million Other Funds increase in tuition and resource fee revenues over the prior biennium level. The increase results from rate increases and from enrollment growth. This amount is \$17.3 million less than the increase supported in the Governor's budget. The adopted budget limits tuition and resource fee rate increases for resident undergraduates to 3% per year, which is a reduction from the increases proposed in the Governor's budget.
- The Department of Higher Education budget includes \$20 million Other Funds for information technology purchases financed by Certificates of Participation (COPs). The prior biennium budget did not include COPs.
- The Department of Community Colleges and Workforce Development budget includes \$77 million Other Funds for community college capital construction projects. These are the first Other Funds for community college capital construction since the 1979-81 biennium.
- The completion of the two-biennium funding of the Oregon Health and Science University's Oregon Opportunity Program reduces Other Funds by \$106.3 million from the 2003-05 biennium level. The phase-in of debt service costs on the bonds issued for this program increases Other Funds by \$11.3 million over 2003-05, for a net \$95 million Other Funds reduction.

- The Oregon Student Assistance Commission's withdrawal from the Federal student loan guarantee program reduced its Other Funds expenditures (including Nonlimited Other Funds) by 82% (or \$56.9 million) from the 2003-05 biennium level.

Human Services

Other Funds of \$1.244 billion in the 2005-07 legislatively adopted budget for the Human Services program area represent an increase of \$59.6 million, about 5% higher than the 2003-05 legislatively approved budget. The increase is the net result of a number of changes in Other Funds revenue sources, including:

- A \$17.7 million reduction in the allocation of Tobacco Master Settlement Agreement revenue from \$42.2 million in the 2003-05 biennium to \$24.5 million during the 2005-07 biennium.
- A forecasted drop in tobacco tax revenue, which is used to fund the Oregon Health Plan and Tobacco Prevention and Education programs (TPEP), from \$373.5 million in 2003-05 (March 2005 forecast) to \$344.7 million in 2005-07 (May 2005 forecast).
- An offset to these Other Funds revenue reductions with anticipated increases in Medicaid provider tax revenue. These taxes were implemented during the 2003-05 biennium and Other Funds revenue amounts consequently reflect collection of these taxes for a partial biennium during 2003-05 and a full biennium during the 2005-07 biennium. The overall provider tax revenue increase from the 2003-05 biennium to the 2005-07 biennium is more than \$100 million.

Public Safety

- The 2005-07 Other Fund resources (primarily Criminal Fines and Assessment Account, or CFAA) for the Department of Public Safety Standards and Training increased by 34.6%, or \$8 million, over 2003-05. The Other Funds reflect increased costs of operating the new training facility in Salem, expanding the basic law enforcement training from 10 weeks to 16 weeks, and increases in regional training.

Economic and Community Development

- The Employment Department's Nonlimited Other Funds benefit payments are expected to decline by \$790 million due to an improving economic climate and corresponding decrease in unemployment levels.
- Nonlimited expenditures for the Housing and Community Development Department were increased by 18%, or \$336 million, to support the anticipated bonding activity related to single-family and multi-family housing programs.
- Nonlimited expenditures for the Economic Development Department were increased by \$107.4 million, primarily as a result of increased bonding activity related to the development of industrial lands and other infrastructure bonding. Other Funds of \$1.9 million, from interest earnings on lottery-backed bond reserves and proceeds, were used to offset a portion of the Lottery Funds debt service on \$45 million in lottery-backed bonds for industrial lands package.
- The Oregon State Fair and Exposition Center's Other Funds budget was reduced by \$5.8 million to support the agency for the period of July 1 through December 31, until the Fair's management is transferred to the Parks and Recreation Department. The balance of the Fair's biennial expenditures are reflected in the budget for the Parks and Recreation Department.

Natural Resources

- Common School Fund distributions by the Department of State Lands are anticipated to be \$89.9 million in 2005-07, an increase for K-12 schools of about \$36 million over the 2003-05 amount of \$54 million. As noted earlier, HB 3183 requires these distributions to be transferred from the

Department of State Lands to the Department of Education, which will then distribute the funds to schools. Beginning with the 2005-07 biennium, the budget for the Department of State Lands will no longer reflect these distributions as expenditures. This results in about a \$54 million decrease in Nonlimited Other Funds expenditures for the Department from 2003-05 levels.

- The Department of Forestry's budget reflects a decrease in extraordinary forest fire expenses of approximately \$13.2 million.

Transportation

- The highway program budget is \$55 million, or 2.7%, less than the 2003-05 legislatively approved level of \$2.07 billion. The reduction is primarily due to projected contract pay out reductions in Local Government and Preservation Projects. Proceeds from the Oregon Transportation Investment Act bond sales will support \$194 million for bridge preservation work and an additional \$198 million for modernization work in 2005-07. The Department of Transportation (ODOT) will also incur an additional \$83 million in debt service payment on these bonds in the 2005-07 biennium.
- ODOT's budget carries forward \$35 million of lottery bond proceeds to support the Washington County Commuter Rail.

Consumer and Business Services

- The only significant change in Other Funds in this program area was related to Nonlimited Other Funds in the Department of Consumer and Business Services. The Oregon Medical Insurance Pool grew by \$56 million to fund increased claims and third-party administrator costs. This program provides medical insurance coverage for high risk Oregonians who are otherwise ineligible for medical coverage, and is funded through an assessment on medical insurers.

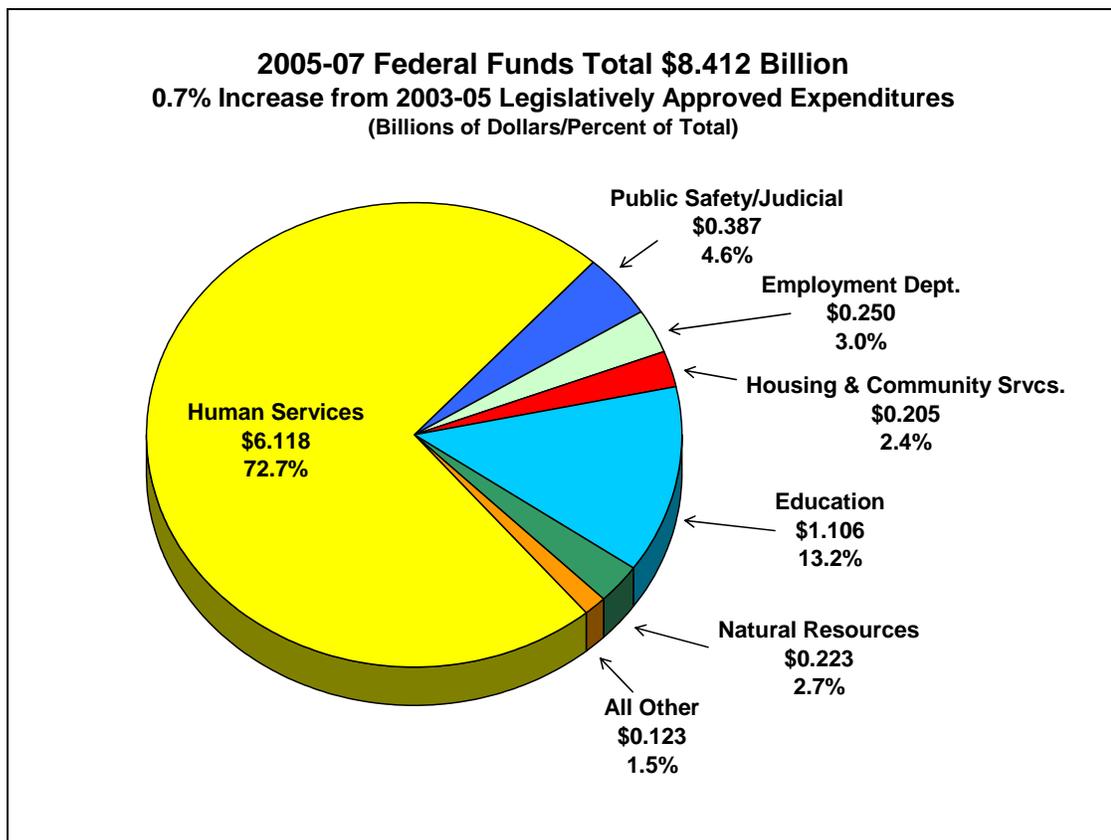
Administration

- A full biennium of debt service on Pension Obligation Bonds and the consolidation of twelve separate state agency data operations into the State Data Center account for most of the \$158 million increase in the Department of Administrative Services' Other Funds budget for 2005-07.
- Operations of the Department of Revenue that were to be paid from increased tobacco tax receipts in 2003-05 were funded with General Fund in 2005-07, resulting in a \$25 million reduction to that department's Other Funds budget for the biennium.
- An increase in liquor sales is expected to produce an additional \$14.2 million in revenue, resulting in an additional \$12 million distribution to the General Fund.

Federal Funds Expenditures

The 2005-07 legislatively adopted budget authorizes expenditure of \$8.412 billion Federal Funds. Federal Funds comprise revenue from the federal government sent to state agencies to pay for specific programs and activities. Examples include competitive grants, matching funds, block grants, pass-through funds, or special payments.

The 2005-07 adopted Federal Funds budget represents an increase of \$178 million, or 2.2%, over the 2003-05 legislatively approved budget at the close of the 2005 session. Federal Funds are also separated into two categories of Limited and Nonlimited. Of the \$8.412 billion Federal Funds in the 2005-07 adopted budget, \$6.960 billion are under expenditure limitation and \$1.452 billion are Nonlimited. Over \$1 billion of the Nonlimited funds are found in the Department of Human Services, primarily in the Children, Adult and Families cluster for Food Stamp benefits and Women, Infants and Children (WIC) program payments.



Significant changes in Federal Funds expenditure limitations include the following:

Education

- The Department of Education anticipates an increase of \$75 million in federal funding, primarily for nutrition and special education grant-in-aid programs to schools and other local programs.

Human Services

Federal Funds of \$6.1 billion in the 2005-07 legislatively adopted budget represent an increase of \$210 million above the 2003-05 legislatively approved budget. The increase is primarily the result of three changes:

- Nonlimited Federal Funds for Food Stamp and Women, Infants and Children grants increased by \$45.7 million because of higher anticipated caseloads.
- During the 2003-05 biennium, the Department of Human Services received approximately \$80 million of federal fiscal relief revenue through a temporary increase in the Medicaid match rate. Because this revenue was temporary and is not available for the 2005-07 biennium, Federal Funds expenditure limitation was reduced by about \$80 million and replaced with General Fund.
- The budget for 2005-07 anticipates higher Medicaid caseloads and costs for services. These expected increases are funded with both state funds and Medicaid matching funds. The adopted budget includes the increase in the state funding portion (General Fund and a number of Other Funds sources) and also the increase in expenditure limitation for the federal Medicaid matching funds.

Public Safety

- The 2003-05 budget for the Department of Corrections includes \$116 million of one-time federal fiscal relief revenue to offset General Fund. This federal funding is not available for 2005-07 and is replaced with General Fund.
- The Oregon Military Department's operating budget increased from \$52 million to \$62 million, excluding capital construction, due to the amount of funds available for federally funded facilities. The Major Capital Construction program decreased \$36 million due to completion of the Armed Forces Reserve Center in Springfield, Camp Rilea improvements, and facilities maintenance. An additional \$7.8 million was approved for facility construction at Camp Rilea and Camp Withycombe.
- The 2005 Legislature transferred the administration of the Juvenile Crime Prevention grants from the Criminal Justice Commission (CJC) to the State Commission on Children and Families (SCCF). As part of that transfer, over \$3 million of federal grant resources was also transferred to the SCCF, leaving less than \$100,000 of federal funding in the CJC budget.

Economic and Community Development

- The total Federal Funds for this program area were reduced by \$22 million, which is 4.4%. These adjustments were due primarily to expiration of federal grants and changes in funding for unemployment and housing subsidies resulting from changes in Oregon's economic situation.

Transportation

- The Department of Transportation's Federal Funds expenditure limitation was reduced by \$4.5 million since authorization of the federal transportation bill had not been completed when the Legislature adopted the Department's budget. It is expected that additional Federal Funds expenditure limitation will be authorized during the interim by the Emergency Board to reflect increases in federal funding for Oregon.
- The Aviation Department budget reflects an increase of \$3.4 million due to additional General Aviation Entitlement Funds through the Federal Aviation Administration.

Natural Resources

- Federal Pacific Coastal Salmon Recovery Fund expenditures by a variety of natural resource agencies declined from \$25.9 million in 2003-05 to \$15.8 million in 2005-07, although Oregon may receive additional PCSRF monies in the second year of the 2005-07 biennium from the federal government.
- The Department of Forestry expects to receive an additional \$3.6 million from the National Fire Plan grants and \$2.2 million to initiate the federal Forest Legacy Program in Oregon.

Summary of Legislative Actions Affecting the 2005-07 Budget

Expenditures by Category in the 2005-07 Legislatively Adopted Budget

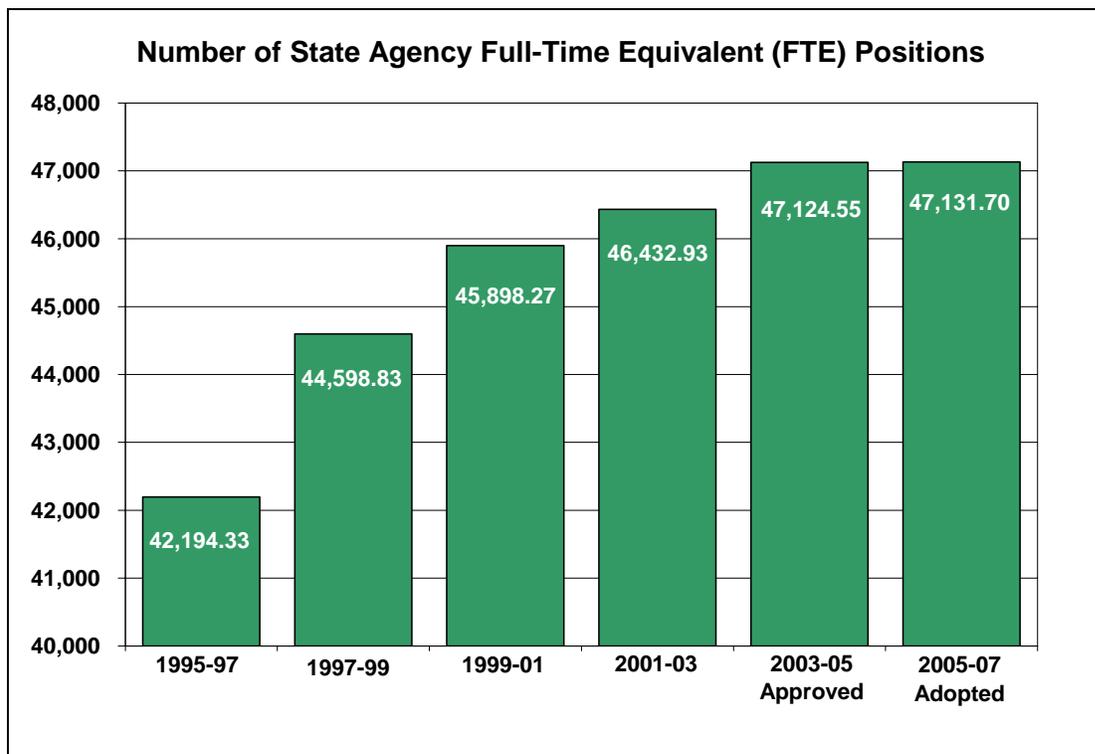
The state's budget is built using a system of expenditure categories. There are five major categories within the budget:

- Personal Services – state employee compensation, including salary and wages, social security taxes, health benefits, retirement contributions, and workers' compensation assessments.
- Services and Supplies – agency expenses for current operations (excluding employee compensation), such as consumable materials, travel, publishing, utilities, rent, telecommunications, professional service contracts, training, and office expenses.
- Capital Outlay – purchases of items that are not consumed in the usual course of agency operations, can be used more than once, have a useful life of more than two years, and have an initial value of \$5,000 or more.
- Special Payments – budgeted transfers and payments to entities outside of state government where goods and services are not received directly in return.
- Debt Service – budgeted expenditures for principal, interest, discounts, and premiums related to payment of state debt.

In the legislatively adopted budget, the largest single expenditure category is the “special payments” category. Nearly 70% of the state's combined General Fund and Lottery Funds are simply passed through a state agency to another entity, either a local government, a local service provider, or an individual recipient of a state government payment. The largest special payment in the budget is the transfer of state resources from the State School Fund to local K-12 education districts. This transfer is \$5.24 billion in the legislatively adopted budget, or 42% of combined General Fund and Lottery Funds. Nearly 90% of the state's General Fund and Lottery Funds budget is used in two segments of the budget: special payments, primarily in the form of aid to local government, and direct support of state government employees.

State Employees

The legislatively adopted Total Funds budget supports 52,480 state positions. These equate to 47,132 Full-Time Equivalent (FTE) positions. An FTE represents the number of months for which each position is budgeted during the 24-month biennium. State law (ORS 240.185) limits the number of state FTE positions to 1.5% of the state's population in the previous year. As of July 1, 2004, the state's population was estimated at 3,579,100. The FTE limit at the beginning of the biennium is therefore 53,687, substantially higher than the number included in the legislatively adopted budget. ORS 240.185 also provides for certain FTE exclusions, including employees in the legislative and judicial branches, the Offices of the Secretary of State, the Governor, and the Treasurer, and some positions in the Employment Department and Department of Higher Education. With these exclusions, the total FTE subject to the statutory limit in the 2005-07 legislatively adopted budget is approximately 41,605. Over 76% of these subject FTE are in three areas: Education (primarily higher education), Human Services, and Public Safety.



State Employee Salary and Benefit Actions

A \$130 million special purpose appropriation to the Emergency Board was proposed in the Governor's budget and included in the legislatively adopted budget for state employee salary and benefit issues. Based on negotiated agreements with employees in 32 separately represented groups, the \$130 million will be used as follows: approximately 40% for insurance benefits; 38% for two 2% cost-of living adjustments; 13% for new salary range step increases; and 9% for supplemental distributions to avoid reductions in programs reliant upon capped block federal grant funds to cover 2005-07 bargained salary and benefit cost increases. The additional roll-up costs in 2007-09 for these employee salary and benefit actions is approximately \$206 million.

Aid to Local Government

The state's budget includes three types of aid to local government: 1) direct payments by state agencies to local governments for programs administered at the local level; 2) revenues collected by the state and shared with local governments for the provision of local government services; and 3) services delivered directly by state agencies that provide local government benefits. The legislatively adopted budget includes a total of approximately \$10 billion for this aid.

Approximately 60% of the aid to local government, or \$6 billion, is combined General Fund and Lottery Funds. The remaining 40% is nearly evenly split between Other Funds and Federal Funds. The state budget does not reflect all of the local government aid, especially in the case of revenue-sharing dollars, which are provided directly to the local government recipients. The following are selected examples of aid to local government included in the legislatively adopted budget.

1. Liquor Apportionment – An estimated \$106.9 million from state liquor sales (based on the May 2005 forecast) will be provided directly to cities (\$82.6 million) and counties (\$24.3 million).
2. Cigarette Tax Distribution – A projected \$24.9 million from the state's cigarette tax will be provided to cities, counties, and public transit (2 cents each per pack sold).

3. County Economic Development Video Lottery – Counties receive 2.5% of the state’s video lottery proceeds. Based on the May 2005 forecast, counties will receive \$32.5 million from video lottery.
4. Highway Fund Transfers – Counties receive 24.38% and cities receive 15.57% of the net revenues of the state’s Highway Fund. For 2005-07, this amounts to \$357 million Other Funds to counties and \$232 million to cities for highway construction.
5. Education Program Support – The majority of the state’s budget for educational services is aid to local government. Agencies in this program account for \$6.8 billion in aid to local government. Nearly 95% of the budget of the Department of Education represents payments to local school districts and education service districts from the State School Fund and through various grant-in-aid programs. Similarly, the majority of the budget for the Department of Community Colleges and Workforce Development consists of payments to local government from the Community College Support Fund and distribution of federal Workforce Investment Act funds to local service delivery agents.
6. Health Services Program Support – Over the past years, the state has moved toward developing local partnerships in the delivery of social support services. State agencies in the Human Services program area provide approximately \$1.2 billion Total Funds in aid to local government. The legislatively adopted budget, for example, allocates \$60 million Total Funds to counties through the Commission on Children and Families. The Department of Human Services contracts with local governments to provide numerous public health, mental health, substance abuse treatment, and senior and disabled program services.
7. Public Safety Program Support – The state’s public safety agencies provide approximately \$435 million Total Funds in aid to local government. This support is used for management of adult offenders sentenced or sanctioned for 12 months or less; supervision of adult offenders on parole, probation, or post-prison supervision; crime victim assistance and domestic violence programs; supervision, intervention, and prevention activities to keep juvenile offenders out of state facilities; disaster relief and recovery assistance programs; homeland security funding; autopsy services; and 9-1-1 operations.
8. Legislative and County Agreement on the Economic Revitalization Team (ERT) – The 2005 Legislature reached an agreement with the Association of Oregon Counties on issues related to the 2005-07 allocation of Lottery Funds. The agreement includes a number of key components.
 - Half of the cost of ERT (\$861,329) will be funded in the first year of the biennium out of the 2.5% of video lottery proceeds, which are dedicated to county economic development. The remaining 2.5% of video lottery proceeds will be distributed to counties as provided in statute.
 - The remaining half of the cost of the ERT (\$861,328) will be funded out of Lottery Funds in the Department of Administrative Services’ Economic Development Fund.
 - The regional and rural investment program will be funded at the 2003-05 budget level of \$7.1 million. Counties may continue to allocate funds out of the 2.5% video lottery proceeds to fund economic development activities associated with the regional and rural investment programs.
 - An interim work group will also be established, consisting of legislative, state, and county stakeholders. The group is to identify the responsibility and funding sources for other areas of state and county shared services, including (but not limited to) county mental health, public health, and alcohol and drug programs; the Economic Revitalization Team; community corrections; and the regional and rural investment programs.

Other Funds Revenue Transfer Actions

To a smaller degree than in the prior biennium, Other Funds revenues and ending balances were used as resources for the statewide balanced budget. The adopted budget for the Department of Human Services relies on \$10.9 million in Other Funds to replace General Fund, including \$7.5 million from

the Tobacco Use Reduction Account, \$0.8 million from the Law Enforcement Medical Liability Account, and \$2.6 million from the Oregon Job Opportunities and Basic Skills (JOBS) Individual Education Account. The budgets for the Department of Education and the Governor's Office also rely on Other Funds in lieu of General Fund or Lottery Funds, including \$150,000 from the School Technology Account to support the Frontier Learning Network and approximately \$861,000 in net receipts from video lottery games to support the ERT, respectively.

SB 1101 transferred unobligated cash balances from the Oregon JOBS Plus Unemployment Wage Fund (\$2 million) and the Portland Metropolitan Area Local Government Boundary Commission (\$167,600), and interest earnings from the Oregon JOBS Individual Education Account (\$1.2 million), to the General Fund for general government purposes. It also transferred \$2.5 million from the Problem Gambling Treatment Fund to the Administrative Services Economic Development Fund.

Other Significant SB 1101 Actions

In addition to the Other Funds revenue transfers, SB 1101 clarified the application of the Governor's budget and allotment processes to include all executive branch agencies, including separately elected officials; allowed the Department of Transportation to continue counting federal expenditures towards achieving funding for modernization programs; and authorized the Board of Accountancy to assess the costs of disciplinary actions. Building on the work completed in prior biennia by the Performance Measure Advisory Group, SB 1101 also transferred the responsibility for developing performance measurement guidelines from the Oregon Progress Board to the Department of Administrative Services with oversight by the Joint Legislative Audit Committee.

2005-07 Agency or Organizational Changes

Due to constraints on the state budget in the 2003-05 biennium, General Fund support was suspended for the two-year budget period for certain agencies and programs determined to be non-essential for the health, safety, and welfare of Oregonians. In most cases, these programs were provided expenditure authority for non-General Fund resources such as gifts, grants, or donations in order to continue services. The suspended programs included the Capital Planning Commission, the Commission on Asian Affairs, the Commission on Black Affairs, the Commission on Hispanic Affairs, and the Commission for Women. General Fund support was also withdrawn from the Oregon Disabilities Commission. The Dispute Resolution Commission was not funded, but responsibility for its major functions was transferred to the Department of Higher Education.

The 2005 Legislature established a new Oregon Advocacy Commissions Office in SB 359. The Advocacy Commissions Office was funded with \$333,203 General Fund and provided staffing authorization for 2.26 FTE. The Office was established to provide administrative support to the Commissions on Asian Affairs, Black Affairs, Hispanic Affairs, and Women.

Three other changes implemented by the 2005 Legislature include the transfer of the functions and duties of the Oregon Disabilities Commission to the Department of Human Services (HB 3230); the transfer of the functions and management of the Oregon State Fair and Exposition Center to the Parks and Recreation Department (HB 3502 and HB 5023); and the transfer of the operation of the Board of Investigators to the Department of Public Safety Standards and Training (HB 2117 and HB 5023). The Legislature also directed seven of the health-related licensing boards that are currently co-located to develop an administrative consolidation plan and a consolidated budget request for the 2007-09 biennium that reflects the new administrative structure.

Performance Measures

Oregon has been developing and tracking performance measures since the 1980s, but only in the past few years have state agencies used a standardized system to measure and report state agency performance. During the 2001-03 interim, a workgroup was convened to establish a set of guidelines to be used by all agencies when developing, reviewing, and reporting their performance. This workgroup included legislators, agency heads, and private sector specialists, and was staffed by the Department of Administrative Services, the Legislative Fiscal Office, and the Audits Division of the Secretary of State. The workgroup endorsed creation of a performance measure system designed to ensure a uniform approach to identifying and reporting agency performance that:

- is based on legislative expectations;
- is useful to managers and line staff;
- is affordable by building on what currently exists;
- includes a mix of effectiveness and efficiency measures; and
- meaningfully links to the Oregon Benchmarks.

Beginning with the 2003 legislative session, and continued during the 2005 session, this new performance system was utilized during the budget process. Each agency's performance measures were presented to the appropriate Ways and Means subcommittee along with the budget request to ensure that agencies were tracking measures that were important to the Legislature. Each subcommittee then reviewed and formally adopted the measures for its assigned agencies. In many instances, performance measures were approved only after changes were made to modify existing measures, add new measures, and/or adopt new targets for existing measures. Agencies were required to rework some of their measures, or add new specified measures, and return to the Joint Legislative Audit Committee during the interim for approval of the changes. The 2005 Legislature also added two standard customer service measures to all agency performance measure sets. Every agency in all branches of government will be expected to report data on customer service survey results during the 2007 session.

The formal legislative review of performance measures has produced measures that are important to policymakers. This system has also served to establish a stable set of performance measures that can be tracked over time since future changes to measures can only be approved by the Legislature. The approved measures should prove useful to future decision makers when they are considering agency funding requests and the performance of agencies' programs.

Prioritization Process for Agency Programs

Balancing the state budget necessitates resource allocation decisions concerning public services and programs. To facilitate the process, the Joint Committee on Ways and Means established a program prioritization process. A worksheet was developed by the Legislative Fiscal Office to help provide data in a consistent format. Information required in the worksheet included summary information for each activity; purpose and statutory authority; activity costs and source of funds; positions; and expected results (performance measure). The initial prioritization was accomplished by asking agencies to prioritize their own divisions or programs and then consolidate the divisions or programs to develop an agency-wide priority ranking. Agencies were instructed to document the criteria used to establish their priorities.

The agency priority worksheets served as a starting place for the Joint Committee on Ways and Means subcommittees to develop a framework for prioritizing services and programs within each of the six program areas (Education, Human Services, Public Safety, Natural Resources, General Government,

and Transportation/Economic Development). Each of the subcommittee chairpersons established a process and criteria for ranking the programs and services of each agency assigned to his or her subcommittee. After establishing preliminary priorities for each agency, citizens and agencies were provided an opportunity to provide comments. The subcommittees finalized the program prioritizations and the results were then to be used in considering whether General Fund services should be maintained; reliance on General Funds reduced through alternate fund sources, service reductions, or fee increases; or eliminated. For services supported by Other Funds and Federal Funds, the results were used to formulate expenditure plans based on legislative program priorities.

The Budget and the Statutory Appropriations Limit

The state's statutory appropriations limit (ORS 291.357) caps biennial expenditures for government activities at 8% of projected biennial personal income. Based on the June 2005 economic forecast of personal income for the 2005-07 biennium, the statutory limit on appropriations for governmental activities is \$19.5 billion. The legislatively adopted budget for 2005-07 provides for expenditures of \$17.5 billion for governmental activities – \$2 billion under the limit, or 7.2%, of projected personal income.

The 2005-07 legislatively adopted budget totals \$42.4 billion. For purposes of the appropriation limit, however, governmental activities exclude the fiduciary and business activities of government. The largest fiduciary activity budget is the Public Employees Retirement System (PERS), with a total budget approaching \$5.7 billion, most of which is for payment of retirement benefits. Business activities include various loan programs and insurance programs such as workers' compensation and unemployment insurance. Business activity budgets total \$7.2 billion. Also excluded are Federal Funds of \$10.3 billion (including Federal Funds as Other Funds) and about \$510 million from other excluded financing sources, such as donations, revenues from a voter-approved tobacco tax increase, and borrowings for capital construction and asset acquisition.

Technical Assumptions in the Legislatively Adopted Budget

In building and adopting the budget, it was necessary to make assumptions about various rates and assessments. Since these are statewide assumptions, they affect nearly every agency budget. During legislative review of agency budgets, some of the rates and assessments were modified. Below is a description of the major assumptions and any legislative adjustments that were made.

Inflation – The biennial inflation factors used in the adopted budget were 2.4% for general inflation and for non-state employee contract providers and 5% for medical services. The general inflation factor applies to most “services and supplies” categories, capital outlay, and some special payments. Medical inflation is used for programs with medical costs such as Oregon Health Plan provider payments, certain child foster care costs, programs for the developmentally disabled, mental health services, and nursing home and residential care.

Merit Increases – The adopted budget assumes the equivalent of one salary step (“merit”) increase for the 2005-07 biennium for eligible employees at agencies with more than 10.00 FTE. Smaller agencies are fully funded for merit increases since they are less likely to experience vacancy savings or other budget savings to finance the total cost of step increases. The budgeted General Fund cost of merit increases in the 2005-07 budget is \$32 million. This is in addition to the \$130 million appropriated to the Emergency Board in the adopted budget for employee compensation (salary and benefit) issues. For the 2003-05 biennium, merit increases were suspended and not funded in agency budgets.

Other Payroll Expenses (OPE) – One driver of cost changes between biennial periods is the amount required for Other Payroll Expenses, referred to as OPE, including Public Employees Retirement System contribution rates, workers’ compensation charges, Employment Relations Board (ERB) assessments, and flexible benefits (primarily health insurance premiums). This category also includes pension obligation bonds debt service, which is discussed below. The following table shows the OPE rates applicable to 2003-05 and 2005-07.

OPE Rate Comparison			
OPE Factors	2003-05 Approved	2005-07 GRB	2005-07 LAB
ERB (per employee)	\$1.63/month	\$1.35/month	\$1.35/month
PERS (% of salary)	10.49%	15.52%	14.63%
Social Security (% of salary)	7.65%	7.65%	7.65%
Workers' Comp (per employee)	\$3.47/month	\$2.95/month	\$2.95/month
Flexible Benefits (per employee)	\$665/month	\$771/month	\$769/month

As the table shows, the 2005-07 ERB and workers’ compensation assessment rates are lower than 2003-05, while PERS and flexible benefits rates increase. It should also be noted that both the PERS and flexible benefits rates used for the Governor’s budget were reduced when the legislatively adopted budget was developed.

- The ERB decrease is based on a change in the methodology for assessing state agencies. Specifically, the methodology expands the base used to include approximately 3,500 subject employees, with collective bargaining rights, not previously assessed. These include certain employees in the legislative and judicial branches.

- The PERS rate increase in the Governor’s budget to 15.52% (9.52% employer rate and 6% for employer “pick-up” of employee contributions) was developed by the PERS actuary to produce a reasonable preliminary rate. The primary drivers for the rate increase are prior years’ investment losses, the Lipscomb settlement, and the exclusion of certain reserves from asset valuation. (For more detail on PERS rates, please see the Legislative Fiscal Office Budget Information Brief #2004-8, published in June 2004 and posted on the LFO website.) During the 2005 session, the rate was reduced to 14.63%, based on rates subsequently adopted by the PERS Board. As a result, agency budgets were reduced \$12.4 million General Fund and \$35.3 million Total Funds. The Judicial Department was the only agency that was allowed to retain the savings from the PERS rate reduction and internally redirect its General Fund savings. Otherwise, the statewide savings amount would have included an additional \$1.8 million General Fund.
- The workers’ compensation rate includes a cents-per-hour assessment that is paid one-half by employers and one-half by workers to finance the Department of Consumer and Business Services’ (DCBS) Workers’ Benefit Fund. The 2003-05 rate of \$3.47 was based on 2 cents-per-hour per employee. The current assessment rate is 1.7 cents-per-hour. (This rate only represents a small portion of the actual agency costs. For agencies with loss experience, the projected full cost of claims is budgeted, since funds in a claim cost reserve have been depleted for the first time since 1989-91. During 2003-05, the claim reserve subsidized approximately 55% of claim costs.) For 2005-07, state agencies are being assessed approximately \$37 million Total Funds by Department of Administrative Services’ Risk Management Division.
- The flexible benefits decrease in the legislatively adopted budget from the Governor’s budget is due to the elimination of funding for the Public Employee Benefit Board’s wellness program. Flexible Benefits are primarily for health insurance and the rate built into budgets is an estimate of the composite cost rate applicable to all employees for the biennium. The actual rate charged depends on negotiated labor agreements as well as individual employee/family coverage needs. The amount currently built into agency budgets will not cover the actual costs that will be incurred, so the legislatively adopted budget includes a \$130 million special purpose appropriation to the Emergency Fund for this and other employee compensation issues, as previously discussed under the “State Employee Salary Actions” section of this report.

Pension Obligation Bonds – The Department of Administrative Services assesses agencies for their share of actual debt service costs associated with \$2 billion in Pension Obligation Bonds that were issued in October 2003. During the 2003-05 budget period, this assessment was built into each agency’s services and supplies budget as State Government Service Charges. For 2005-07, the debt service assessment was moved to each agency’s personal services budget as Other Payroll Expenses, since the assessment is charged against PERS-subject payroll. As a result of this movement, most agencies show a significant reduction in their state government service charges with an offsetting increase in personal services. For 2005-07 budget development purposes, agencies were assessed 6.25% of PERS-subject payroll using early salary and wage projections. The rate was not adjusted for changes made to personal service costs in the development of either the Governor’s budget or the legislatively adopted budget. The 2005-07 Governor’s budget and the legislatively adopted budget include state agency assessments totaling \$191.4 million (\$76.6 million General Fund, \$1.5 million Lottery Funds, \$79.1 million Other Funds, and \$34.1 million Federal Funds) for Pension Obligation Bond debt service. This amount excludes assessments for SAIF, OSHU, and Oregon Lottery. When these are included, the total amount assessed is \$239.6 million. The actual rate and costs for each agency will be established now that all 2005-07 budgets have been approved. Agencies are expected to absorb any additional costs that will be incurred should the assessed rate increase.

“Smart Buy” Initiative Savings – An effort to pool the state’s purchasing power to reduce state expenditures for items consumed in the normal course of business was initiated in the 2003-05 biennium and referred to as “strategic sourcing,” or the “Smart Buy” initiative. Contracts for office equipment, long-distance telecommunications, personal computers, computer peripherals, software, cell phones, and express mail were negotiated or renegotiated, and saved the state approximately \$9.5 million Total Funds in the 2003-05 biennium. In 2005-07, as the existing contract savings are carried forward and new contracts are put into place, the state is projected to save approximately \$16.4 Total Funds. Of this amount, \$15.1 million was identified in the Governor’s budget and an additional \$1.3 million of savings was identified during legislative review of the budget. All of these savings are reflected in agencies’ 2005-07 legislatively adopted budgets as reductions to service and supplies expenditures.

Computing and Networking Infrastructure Consolidation (CNIC) – The CNIC program was initiated with legislative approval to consolidate operations of the state’s twelve largest data centers into one state data center. The goal is to create efficiencies and cost savings through the co-location of the existing centers into a single facility. Budget savings will not be realized until after the consolidation is completed. The Governor’s budget did not fully reflect the impact of this consolidation, as detailed implementation plans were still being developed. However, the 2005 Legislature approved HB 5166, which established the first biennial budget for the consolidation and operation of the state data center. The \$100.3 million Total Funds budget is supported by \$38.4 million in revenue from the sale of Certificates of Participation and \$61.9 million from agency payments to the data center that are equivalent to the direct expenditures agencies will no longer need to incur. A charge back model, which will assess state agencies served by CNIC, is being developed and expected to be available for full implementation in 2007-09.

Other Technical Budget Adjustments in the Legislatively Adopted Budget

Attorney General Charges – The Governor’s budget was based on an Assistant Attorney General hourly rate of \$119, up from \$98 for the 2003-05 legislatively adopted budget. Based on adjustments to the budget for the Department of Justice, the hourly charge rate was reduced to \$111. As a result, agency budgets were reduced by \$2.1 million General Fund and \$4.8 million Total Funds.

State Government Service Charges – Each agency budget includes a State Government Service Charges line item. This item reflects charges for services and related expenses imposed by one state agency on another state agency. Charges and user fees are set early in the budget development process and are included in the *Price List of Goods and Services* published by the Department of Administrative Services. Some are based on actual use and others on an assessment calculated to provide sufficient revenue to support service delivery. In 2005-07, assessments range from \$360,000 for the DCBS Office of Regulatory Streamlining to \$71 million for the Department of Administrative Services. Based on legislative action, assessments were reduced for mall plaza debt service, information technology quality assurance, and e-government; the assessment for the Progress Board was eliminated; and an assessment for business continuity planning was added. As a result, budgets were reduced \$5.5 million General Fund and \$18 million Total Funds in HB 5176.

3% Services and Supplies Reductions – The 2005 Legislature’s final budget plan called for 3% General Fund reductions to agency Services and Supplies budgets, with a few exceptions. As a result, \$16.7 million General Fund was reduced in the adopted budgets.

Use of Revenue and Other Sources in the Legislatively Adopted Budget

Taxes – The legislatively adopted budget does not rely on any new taxes or reinstatement of any previously imposed tax (e.g., 10 cents-a-pack cigarette tax for the Oregon Health Plan contained in Ballot Measure 30) in order to balance the budget.

Tax Expenditures – A tax expenditure is defined as a law that exempts something from taxes that otherwise would be taxed. Many tax credits are put into law with a sunset date. For 2005-07, the Governor's budget assumed 352 tax expenditures with an estimated value of \$27 billion and recommended that the Legislature extend the sunset provisions on all eight tax expenditures scheduled for sunset in 2005-07. The Legislature did the following:

- Extended five of the eight existing tax expenditures scheduled for sunset in 2005-07. Only two of the eight – the Dependent Care Assistance credit and the Qualified Adoption Expense credit – have significant effects on the General Fund. The Legislature extended the sunset on the Dependent Care Assistance credit. This will not reduce the General Fund in 2005-06, but will in 2007-09 by \$4 million. The Legislature did not extend the Qualified Adoption Expense credit, thereby increasing General Fund by \$400,000.
- Made the existing earned income credit refundable (a \$7.1 million General Fund reduction) and expanded six other existing tax credits: a research and development credit; a low-income housing lenders' credit; a residential solar emergency credit; a tax credit for low-income mobile home owners who are forced to relocate; a small city investment credit; and a credit for individual development account credit. The General Fund reduction from those six credits will total over \$3 million in 2005-07.
- Established four new tax credits: a credit for military personnel by connecting to the federal tax code (a \$2.8 million General Fund reduction); a labor rebate for filmmakers in Oregon (a \$1.6 million General Fund reduction); a credit for university venture fund contributions (a \$1.2 million General Fund reduction); and a credit for volunteer medical technicians in rural areas (a \$0.4 million General Fund reduction).

Additional details on the revenue impacts of these tax expenditure changes should be available from the Legislative Revenue Office.

Tobacco Master Settlement Agreement Funds (TMSA) – The legislatively adopted budget continues the use of Tobacco Master Settlement Agreement revenues for debt service payments on the two bond issuances authorized by the Legislature. Of the \$149 million in TMSA revenue projected to be received in 2005-07, the majority of the funds will be used for debt service on the Oregon Health and Science University Opportunity Grants and growth appropriation bonds. In addition, \$24.5 million will be used to fund the Oregon Health Plan.

Medicaid Upper Payment Limit (MUPL) – The legislatively adopted budget does not anticipate any additional MUPL receipts for 2005-07.

Lottery Revenue – The May 2005 revenue forecast projects \$933.2 million will be available in 2005-07, including beginning balance, interest earnings, and new revenue transfers from the Lottery Commission after prizes and operating expenses are deducted. After dedicated distributions for Sports Action (\$5.6 million), county economic development (\$33.4 million), the Education Stability Fund (\$167.6 million), the Parks and Natural Resources Fund (\$139.7 million), gambling addiction (\$9.3 million), and county fairs (\$3.3 million) are deducted, \$574.3 million is available for allocation. Out of this amount, \$136.7 million is used for debt service on existing and newly authorized lottery bonds.

Lottery Bonds – The legislatively adopted budget authorized the issuance of \$206 million in new lottery bonds (\$233.3 including costs of issuance and reserves). Specifically, the Legislature authorized \$100 million for Connect Oregon (multi-modal transportation investment), \$45 million to fund activities related to the Industrial Lands Initiative, and an additional \$19.4 million for deferred maintenance in the Oregon University System. Additionally, \$40.3 million for the South Metro Commuter Rail project was reauthorized. An April 2004 State Debt Policy Advisory Commission report identified that the unused lottery bond authorization under current law for 2005-07 was approximately \$460 million. Based on the newly authorized issuances, the remaining 2005-07 lottery bond capacity is approximately \$267 million.

Fund Shifts – The legislatively adopted budget uses \$2.6 million of Federal Funds from the Pacific Coastal Salmon Recovery Fund and \$10.4 million of Lottery Funds dedicated for watershed, habitat, and salmon restoration by Ballot Measure 66 to support a variety of salmon recovery and watershed restoration activities in the Departments of Fish and Wildlife, Environmental Quality, and Agriculture that had been supported with General Fund in previous biennia. These actions made \$13 million General Fund available to address other budget needs while at the same time making it possible to fund state agency responsibilities under the Oregon Plan for Salmon and Watersheds at previous levels of support as well as provide \$1.5 million to accelerate completion of recovery plans for endangered salmonid stocks throughout the state.

Fees – The 2005-07 legislatively adopted budget does not include any fee increases to directly backfill General Fund reductions made to balance the state budget in 2003-05. Fee increases were approved, however, to maintain or expand services in a number of agencies, including the Department of Higher Education and 13 other agencies (various licensing boards and commissions; the State Fire Marshal; and the Departments of State Lands, Environmental Quality, and Fish and Wildlife). For the Department of Higher Education, the Legislature added \$17.25 million General Fund to allow average tuition and resource fee increases for resident undergraduate students to be limited to 3% each year of the biennium without loss of revenue from the Governor’s budget level, which would have allowed 5-7% tuition increases in each year. It also approved a budget note directing the State Board of Higher Education to limit the average rate of increases to this level. The budget also authorizes the State Board of Higher Education to distribute the \$17.25 million appropriation to campuses in the manner it finds to be in the best interest of the Oregon University System.

Business Taxes – The 2005 Legislature passed legislation (HB 2127) that made several changes directly affecting the Unemployment Insurance (UI) Trust Fund, which is used to make benefit payments to individuals who are unemployed through no fault of their own. Changes include modifying the solvency formula, which determines the balances that the Employment Department must maintain; reducing new employer base rates; rounding the taxable wage base to the nearest \$100 rather than \$1,000; eliminating the Benefit Reserve Trust Fund; and redirecting a portion of the payroll tax to support administration. In total, revenues from employer taxes and interest earnings to the UI Trust Fund are projected to decrease by \$42 million in the 2005-07 biennium and by \$177 million in the 2007-09 biennium. The Employment Department proposed this legislation based on its actuarial analysis of the Trust Fund. While the revenue source for certain administrative functions will change, there were no service and expenditure changes in the legislatively adopted budget based on this legislation.

Program Area Summaries

Education Program Area

The Education program area includes pre-Kindergarten, K-12, and post-secondary education. All levels of education receive significant monies from federal and other sources. With the exception of the Oregon University System, the state does not generally provide education services. Instead, state support funds are passed through state agency budgets to education providers, which include school districts, education service districts (ESDs), community colleges, and the Oregon Health and Science University (OHSU) public corporation.

Because education services are provided in this manner, most non-state funds that support education do not appear in the state budget. Property taxes that support schools, ESDs, and community colleges, as well as the tuition and service charges that support community colleges and OHSU, do not show up in the budget. Certain other non-state funds for education do show up in the state budget, however, because they are passed through a state agency before being distributed to the ultimate user. These include federal funding distributed to school districts, and federal funding to support work force training programs, which are distributed through the Department of Community Colleges and Workforce Development budget.

Unlike other types of education, the post-secondary programs of the Oregon University System are offered directly by a state agency: the Department of Higher Education. Therefore, for the Department of Higher Education, all funds are included in the state budget. These other funds include tuition, bond funds for capital construction, grant funds (including research grants), and auxiliary activity funds that finance student housing and food services, student loan programs, bookstores, and health centers.

K-12 Education

The Legislature approved a base amount of \$5.24 billion for 2005-07 State School Fund grants to school districts and ESDs. This level of funding is a 6.6% increase – or an additional \$323 million – over the 2003-05 legislatively approved budget of \$4.92 billion. The 2005-07 legislatively adopted budget is \$240 million higher than the Governor's budget of \$5 billion.

The adopted budget includes \$4.834 billion General Fund, \$405.1 million Lottery Funds, and \$1 million Other Funds. Other Funds are from certain state timber taxes. The budget provides \$2.567 billion for schools and ESDs in 2005-06 and \$2.673 billion in 2006-07.

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

The 6.6% funding increase for the 2005-07 biennium compares to less than a 1% increase in 2003-05, a 3% increase in 2001-03, a 10% increase in 1999-2001, a 23% increase in 1997-99, and a 37% increase in 1995-97. During the two earliest biennia, the state increased funding to offset the decline in property taxes under the Measure 5 and Measure 50 tax limitations. In 1999-2001, 2001-03, and

2003-05, however, the impact from the implementation of these two property tax measures is relatively minor. In addition, the ability to increase funding in 2001-03 and 2003-05 was affected by the state's economic recession and voter defeat of Ballot Measure 30 in February 2004, respectively. Ballot Measure 30 resulted in nearly a \$300 million reduction in state support for K-12 education in 2003-05 – from the \$5.2 billion adopted by the 2003 Legislature to \$4.92 billion.

The 2005-07 state support monies, along with property tax and other local funds distributed through the equalization formula, increase revenues available to schools and ESDs above the 2003-05 biennium by approximately 8%. On an annual basis, funding for 2005-06 is an 8.6% increase over 2004-05 and funding for 2006-07 is an increase of 4% over 2005-06. These percentages do not reflect any resources potentially available under the trigger.

The following table provides historical data on equalization formula revenues and special state grants (as discussed in the footnotes) for K-12 education:

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

a State funding includes juvenile corrections for 1992-93 through 2003-05; Common School Fund distributions are reflected as local revenues
b Includes one-time funding of \$50 million for classroom needs and \$5 million for security; reflects reduction for \$26 million excess property taxes over cap
c Includes \$150 million from lottery bond sale for school facilities
d Includes \$127 million lottery bond proceeds, \$50 million in SB 622 proceeds, and \$4 million General Fund to schools with more than 50,000 ADMw; assumed distribution: \$83 million in 1999-00, \$98 million in 2000-01
e Includes \$108 million School Improvement Fund and \$225,000 for local option matching grants
f Includes \$225,000 for local option matching grants; includes potential accrual of \$211 million by school districts from 2003-05 resources (SB 1022 – 2002 Third Special Session); without the accrual, the percentage change from 2001-02 is -9.4%; reflects failure of Measure 28 (\$95 million) and \$46 million allotment reduction
g Includes \$8.3 million generated under legislatively adopted trigger language; reflects failure of Measure 30 in 2004-05 per HB 5077; both 2003-04 and 2004-05 include state funding for local option matching grants (biennial total of \$400,000)
Source: Legislative Revenue Office & Legislative Fiscal Office; historical data adjusted to actual and comparable funding sources

The statewide average for per-student (weighted) spending is projected to be \$5,472 in 2005-06. The statewide average for 2004-05 is estimated at \$5,068.

Other actions taken by the 2005 Legislature that affect K-12 funding include:

- the establishment of the Oregon Virtual School District for providing online courses to K-12 students, with a transfer of \$2 million from the State School Fund to the Department of Education for operating the program (SB 1071);
- an appropriation of \$1.2 million for local option equalization grants for eligible school districts that have passed local option levies (HB 5023);
- removal of sunsets on the Small School District Supplement Fund, which helps small high schools provide a comprehensive education program, and the High Cost Disabilities Account, which helps districts with very high-cost special education students (HB 2450); and

- beginning in 2006-07, an increase in the school district share of state and local formula revenue from 95% to 95.25% and a decrease in the ESD share from 5% to 4.75% (HB 3184).

Department of Education

The Legislature approved a budget of \$1.41 billion for the Oregon Department of Education (not including the State School Fund), which is a 9.4% increase over the agency's 2003-05 legislatively approved level. This overall growth is mainly due to an \$89.9 million increase in the agency's Nonlimited Other Funds expenditures to enable it to distribute Common School Fund earnings to schools. Prior to this biennium, these distributions were reflected as expenditures of the Department of State Lands, which transferred the monies to county treasurers who, in turn, distributed the funds to schools. HB 3183, passed by the 2005 Legislature, makes the Superintendent of Public Instruction responsible for making the distributions to schools. The funds are still considered a local resource by statute and are reflected as such in the K-12 funding table shown earlier.

General Fund and Lottery Funds in the Department's 2005-07 budget are approximately equal to 2003-05 levels. Limited Federal Funds increase by about 5% – from \$698 million in 2003-05 to \$733 million in 2005-07. The growth is primarily due to special education grants for schools and ESDs.

The Legislature increased the level of General Fund support over the Governor's budget for the Department by \$3.5 million – from \$237.4 million to \$240.9 million. This increase comprises an addition of \$11.5 million for the Oregon PreKindergarten program, restoration of \$0.7 million for the Student Leadership Centers, an unspecified reduction of \$1.8 million in the Department's Operations program, and removal of both a \$1.8 million policy package for the development of PreK-16 integrated student data system as well as \$4.9 million for caseload growth in the Early Intervention/Early Childhood Special Education program. The Legislature established these latter two amounts as special purpose appropriations in the Emergency Fund and directed the Department to provide additional information when requesting allocation of the funds.

The Legislature provided an additional \$2.6 million Other Funds expenditure limitation for Operations to allow the agency to use indirect federal revenues to support this program. These revenues may be able to be used to offset some or all of the unspecified General Fund reduction in Operations. Finally, the additional amount for the Oregon PreKindergarten program should allow the agency to serve the same number of children in 2005-07 as in 2003-05 at 85% of the federal funding per HeadStart slot.

Post-Secondary Education

The state budget supports post-secondary education through the Department of Higher Education, the Department of Community Colleges and Workforce Development, the Oregon Health and Science University public corporation, and the Oregon Student Assistance Commission. The adopted budget includes a total of \$1.3 billion of General Fund and Lottery Funds to support post-secondary education. This is an increase of \$74.7 million, or 6.1%, over the 2003-05 biennium level.

The budgets of the post-secondary education agencies also include \$4.17 billion of Other and Federal Funds. These funds support various programs in the agency budgets, including:

- federally funded programs, primarily relating to job training under the Workforce Investment Act, in the Department of Community Colleges and Workforce Development budget;
- tuition and fee-paid, auxiliary, student loan, and grant activities in the Department of Higher Education budget; and

- capital construction expenditures in both the Department of Higher Education and the Department of Community Colleges and Workforce Development budgets.

The preponderance of these funds – including those associated with higher education student loan, auxiliary, and grant programs – are not limited by the Legislature. Programs supported by Other Funds in the post-secondary education budgets are generally distinct from the state-supported programs. The exception to this is in the Department of Higher Education, where tuition and other student fees are combined with state support monies to finance the Education and General Services program and where state monies support activities also funded by Other Funds in the Statewide Public Service Program budgets.

Department of Higher Education

State support for the Department of Higher Education totals \$715.9 million. This is an increase of \$36.3 million, or 5.3%, from the 2003-05 biennium level and an \$18.4 million, or 2.6%, increase over the level in the Governor’s budget. The Department budget also includes \$3.89 billion Other Funds for a total of \$4.61 billion from all fund sources. The budget additionally includes special purpose appropriations to the Emergency Board for distribution to the Department. These include a special purpose appropriation of \$2.1 million General Fund for the Department’s costs to implement an integrated K-16 student data system. The Legislative Fiscal Office also estimates that the Department would receive approximately \$29 million General Fund if the Emergency Board allocates the full \$130 million special purpose appropriation available to it for state employee compensation changes. If both of these special purpose appropriations are received by the Department, its state support will be \$67.4 million, or 9.9%, above 2003-05 biennium levels.

General Fund support for the Education and General Services program (all remaining figures exclude special purpose appropriations) totals \$565.1 million, which is \$16.1 million more than the amount in the Governor’s budget. This level is 4% above the prior biennium level. The General Fund appropriation is combined with Limited Other Funds to finance program expenditures and to determine the ability of the Department to meet the program’s expenses. Combined Limited funds for the Education and General Services program total \$1.6 billion, which is 4.1% above the level approved by the Legislature in the prior biennium. The Department spent less than the amount approved for the prior biennium, however. Because of this, the \$1.6 billion that the 2005-07 biennium budget supports is 7.6% above actual 2003-05 biennium expenditures. If the Emergency Board approves the expected Emergency Fund allocation and the Other Funds expenditure limitation increase related to state employee compensation changes, the budget will be 11.3% over actual 2003-05 biennium expenditures.

Notable legislative changes to existing program levels for the Department of Higher Education were:

- \$36 million in General Fund reductions and reallocations of state government service charges.
- \$17.3 million added to limit average tuition and resource fee rate increases for resident undergraduate students to 3% per year. The Governor’s budget proposed increases averaging 6.8% the first year and 5% the second year of the biennium. The 3% tuition rates increases approved in the budget compare to 9.2% and 7.1% for each of the two previous years.
- \$14.5 million General Fund added to restore program cuts in undergraduate education (\$13 million) and the Chancellor’s Office (\$1.5 million).
- \$11.9 million in other General Fund program reductions, including campus public service programs, information technology, services and supplies, and capital outlay expenditures.
- \$2.1 million approved as an Emergency Board special purpose appropriation for an integrated K-16 student data system.

- \$1 million General Fund added for faculty recruitment and retention.
- \$0.3 million General Fund approved to support the Natural Resources Institute at Oregon State University.
- Continuation of the dispute resolution programs at the University of Oregon and Portland State University. Count filing fee surcharges previously used for the programs were shifted to the General Fund, and \$1.5 million General Fund was added in the Higher Education budget to fully finance them.

The budget also increases General Fund support for the Statewide Public Service Programs (Agricultural Experiment Station, Extension Service, and Forest Research Laboratory). General Fund for these programs will increase between 3.2% and 6.5% from prior biennium levels. These budgets do not receive revenue from tuition increases, however. Overall, combined General Fund and Other Funds support for the Agricultural Experiment Station and the Extension Service are up 2.3% from the prior biennium. These increases are not enough to avoid some program reductions, though the reductions are not specified in the budget. The Extension Service's combined Limited expenditures are 3.6% below the prior biennium level, because Other Funds expenditures are reduced to reflect declining fund balances. Program reductions to the Statewide Public Service Programs were reduced significantly from the reductions in the Governor's budget. The Legislature added \$5.7 million General Fund to restore cuts to these programs in the Governor's budget.

Capital construction for the Department is discussed in the "Capital Construction" section of this report.

Community Colleges

General Fund support for the Department of Community Colleges and Workforce Development totals \$433.1 million. This is an increase of \$16.6 million, or 4%, over the 2003-05 biennium level. An additional \$664,400 General Fund was appropriated to the Emergency Board for allocation to the Department for an integrated K-16 student data system.

The state provides funding to community colleges through the Community College Support Fund (CCSF). These monies are not dedicated to any particular purpose and are used by the colleges to support all of their operations. The funds are distributed to the colleges, primarily on an enrollment basis. Most of the General Fund in the Department budget, \$428.1 million, is appropriated for the CCSF. This amount is \$17 million, or 4.1%, above the 2003-05 biennium level. This contrasts with the 5.5% funding reduction for the CCSF proposed in the Governor's budget. The Legislature increased General Fund for the CCSF by \$39.7 million, or 10.2%, over the level the Governor had proposed. The approved funding level included a decision to temporarily suspend, for the 2005-07 biennium only, the regular practice of reducing General Fund support to offset increases in property tax collection forecasts. The adopted budget also added \$330,000 General Fund for the Portland Community College Skill Center, and \$330,000 General Fund for the Sabin-Schellenberg Skills Center.

The Department's operating budget also includes \$156.7 million of Federal and Other Funds, for a total of \$589.7 million from all fund sources. Expenditure limitations were approved to allow the Department to spend all projected revenue from federal Workforce Investment Act and Carl Perkins Technical and Applied Technology Act funds as well as revenues available for the Oregon Youth Conservation Corps.

The increase in state support for the CCSF over the 2003-05 biennium level is calculated to cover inflation as projected for the Portland Consumer Price Index (CPI). Nonetheless, community colleges will face cost increases that will exceed the CPI. The colleges will use increases in property tax collections and tuition rates to cover these additional cost increases. The budget notes that colleges are expected to limit tuition rate increases as much as practicable but are to maintain program offerings.

In a major policy change, the budget includes state-paid General Obligation bonds for community college capital construction projects for the first time since the 1979-81 biennium. A total of \$38.5 million of Article XI-G bonds was approved for seven community college capital construction projects. Details on capital construction for the Department are discussed in the “Capital Construction” section of this report.

OHSU Public Corporation

The General Fund grants to the Oregon Health and Science University (OHSU) public corporation total \$73.3 million, including \$60.9 million General Fund for OHSU’s Education and General program, \$9.7 million for the Child Development and Rehabilitation Center, and \$2.7 million for the Hospital and Clinics. The appropriated amount represents a \$12.4 million, or 14.5%, reduction from the prior biennium. The appropriation represents a \$20.4 million restoration, however, of the \$32.8 million reduction proposed in the Governor’s budget. The budget directs the restoration toward funding the Schools of Medicine, Dentistry, and Nursing at the prior biennium level. The budget also maintains General Fund support of the Child Development and Rehabilitation Center, the Office of Rural Health, and the Area Health Education Centers programs at 2003-05 biennium levels. OHSU will use the General Fund and its Other Funds to maintain these programs at 2003-05 biennium levels and to continue tuition rate differentials for Oregon resident students.

The entire \$12.4 million reduction in General Fund support from the prior biennium is directed to OHSU’s Hospitals and Clinics budget. This represents an 82% reduction from the prior biennium level. The remaining appropriation is sufficient to fund the Oregon Poison Center at current operating levels, without a need for OHSU to use any other revenues in its Hospital and Clinics budget to support the Center’s costs. No additional funding for any other hospital program is provided. State support, however, supplies only a small portion of OHSU’s operating budget, which totals over \$2.3 billion on a biennial basis. OHSU will manage the General Fund reduction within its overall hospital budget and may reduce the number of Medicaid and uninsured low-income patients that it serves in an effort to reduce revenue shortfalls from serving these patients. Nonetheless, the hospital and clinics will continue to serve low-income patients as a part of their public mission.

The Legislature also included \$32 million of Tobacco Master Settlement Agreement funds to pay debt service on Article XI-L bonds previously issued to support the Oregon Opportunity Program. This program is an initiative to expand OHSU’s research programs in biotechnology and genetics, and to expand its rural health programs. A total of \$200 million of Article XI-L bonds were issued in the 2001-03 and 2003-05 biennia. Debt service costs for these bonds, which are fully phased in during the 2005-07 biennium, represent a 55% increase from the 2003-05 biennium.

Oregon Student Assistance Commission

State funding for the Oregon Student Assistance Commission totals \$78.4 million. This is an increase of \$32.9 million (72.2%) over the 2003-05 biennium. The budget increases total funding for the state’s principal student aid program, the Opportunity Grant, to \$78.1 million Total Funds, up \$32.6 million (72%) over the prior biennium level. The Opportunity Grant funding increase expands the program

significantly – from an estimated 38,400 students in 2003-05 to 63,000 in 2005-07. The 24,600 increase in the number of students served is 64% higher than the prior biennium level.

The additional funds will allow all eligible full-time students at community colleges and the Oregon University System to receive Opportunity Grants, up from the approximately 70% of eligibles who received awards in the 2003-05 biennium. In the second year of the biennium, 100% of all eligible students at private colleges and all students who enroll at least half-time will be eligible for Opportunity Grants.

The adopted budget for the Opportunity Grant program is \$17 million below the level in the Governor's budget. It does not, as the Governor's budget would have, expand awards to all eligible students in the first year of the biennium, add part-time students in the first year of the biennium, increase the award size measured as a percentage of the cost of attendance, or provide higher award levels to some students based on merit criteria.

The budget funds the other General Fund-supported scholarships at prior biennium program levels, including \$0.8 million for the Rural Health Services and Nursing Services programs, and adds \$165,000 General Fund for the new Oregon Troops to Teachers program. The budget also includes \$1.7 million General Fund for agency administration. This represents a 91% increase over the prior biennium level. The increase primarily reflects a fund shift from Other Funds, approved in response to the elimination of Federal Family Education Loan Program funds that had supported agency administrative costs. Nonetheless, General Fund for administration was reduced, after a review of ongoing agency expenses, by \$0.8 million, or 32%, from the level included in the Governor's budget.

The agency's Other Funds are greatly reduced from the prior biennium level. This reduction reflects the agency's withdrawal, during the 2003-05 biennium, from the Federal Family Education Loan Program. The agency was unable to cover its costs in that program, necessitating the withdrawal. Excluding Opportunity Grants moneys awarded to students, the agency's expenditures (all funds) are reduced 79% – from \$70.7 million in the 2003-05 legislatively adopted budget to \$14.9 million in 2005-07 biennium. Agency employment is reduced by 74% – from 87.00 FTE to 22.35 FTE.

Human Services Program Area

The agencies in the Human Services program area work with local governments, private for-profit and non-profit organizations, local communities, and individuals to provide cash assistance, food stamps, medical coverage, long-term care and other support to low-income and disabled Oregonians; intervene in cases of child abuse and neglect; offer treatment services to persons with mental disorders, alcohol or drug addictions; regulate the state's public health systems; support local planning efforts and services for children and families; determine placements for persons with mental illness who have been found guilty of committing a crime; and advocate for services for seniors and persons with disabilities.

The 2005-07 legislatively adopted budget for the Human Services program area is \$9.976 billion Total Funds, including \$2.605 billion General Fund and \$9.3 million Lottery Funds. The combined General Fund and Lottery Funds budget is 3% more than the original 2003-05 legislatively adopted budget for this program area and 11% more than the legislatively approved budget at the close of the 2005 session. The 2003-05 legislatively approved budget reflected two significant changes: General Fund and Lottery Fund disappropriations in May 2004 of \$187.6 million, resulting from the defeat of Ballot

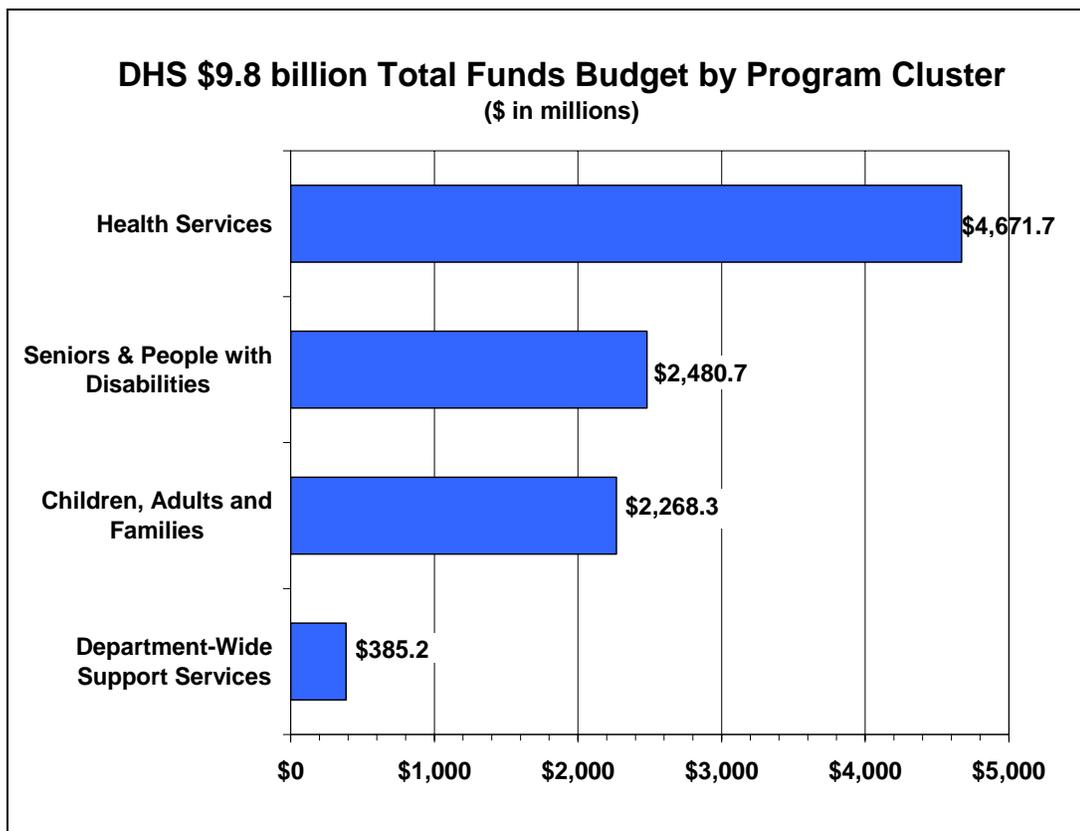
Measure 30, and an additional General Fund appropriation to the Department of Human Services of \$77.7 million to remedy cash flow problems in the Spring 2005.

The total Human Services program area budget for 2005-07 includes \$1.244 billion Other Funds, with \$344.7 million of this amount from tobacco tax revenues and \$24.5 million from tobacco settlement receipts. Federal Funds, primarily federal matching funds such as Medicaid, capped block grants such as Temporary Assistance to Needy Families (TANF), and Nonlimited funds such as food stamps, make up \$6.118 billion of the total budget.

Department of Human Services

Nearly 98% of the Human Services program area budget is in the Department of Human Services (DHS), which has a 2005-07 legislatively adopted budget of \$9.807 billion Total Funds. In addition, two special purpose appropriations totaling \$12.5 million General Fund were made to the Emergency Board for home care worker costs (\$10 million) and child welfare staffing and legal representation issues (\$2.5 million). DHS’s \$2.534 billion General Fund budget is 10% more than the 2003-05 legislatively approved budget at the close of the 2005 session. Much of the increase reflects General Fund needed to replace one-time or capped Other and Federal Funds revenues used in the 2003-05 budget. The Total Funds budget is up about 5% from the 2003-05 approved level.

The DHS budget is divided into four program clusters, as show in the chart below. Program highlights of the legislatively adopted budget for each cluster follow.



DHS Department-Wide Support Services

The Department-Wide Support Services (DWSS) budget funds central operations and support for DHS. The 2005-07 legislatively adopted budget is \$385.2 million Total Funds. This is higher than

funding for the 2003-05 biennium, primarily due to the Medicaid Management Information System (MMIS) replacement project and the new State Automated Child Welfare Information System (SACWIS) project. The projects are being funded with Certificates of Participation (COPs) and matching Federal Funds, with General Fund used to pay debt service on the COPs.

The budget includes some reductions in staffing and administrative costs, but it also adds staff and resources to complete security measures to comply with the federal Health Insurance Portability and Accountability Act (HIPAA) Security Rule, address new Medicaid quality control mandates, improve the ability of the Department to forecast client caseloads, and enhance overpayment collections. Some information technology staff will be phased out in this budget as they transfer to the new state data center during the biennium.

DHS Children, Adults and Families

The Children, Adults, and Families (CAF) cluster is responsible for programs that promote independence for families and adults, provide child welfare and adoption services, and administer vocational rehabilitation services. The adopted budget is \$422.6 million General Fund and \$2.268 billion Total Funds. This includes \$950.6 million in Nonlimited Federal Funds for Food Stamp benefits. The Legislature also approved a \$2.5 million General Fund special purpose appropriation to the Emergency Board, pending agreement on a plan to address legal representation issues for child welfare workers in court hearings.

The 2005 Legislature added back over \$27 million General Fund and \$36 million Total Funds to restore a number of program reductions proposed in the Governor's budget, including:

- \$11.2 million General Fund to avoid the proposed restriction of Employment Related Day Care (ERDC) to people leaving TANF;
- \$4.2 million General Fund and \$9.5 million Total Funds to restore the Governor's 20% cut in the rate paid to foster parents for children with diagnosed special needs;
- \$3.3 million General Fund to reinstate the minimum co-payment for new ERDC clients for the first month of program eligibility;
- \$3 million General Fund and \$3.8 million Total Funds for System of Care Flex Funds, which are used to fund individualized services for children in or at risk of placement in foster care;
- \$2.1 million General Fund to maintain TANF benefits for children in the care of non-parent relatives;
- \$2.1 million General Fund to restore TANF Domestic Violence services that were reduced by 15% in the Governor's budget;
- \$1 million General Fund and \$5.2 million matching Federal Funds to restore vocational rehabilitation client services and to ensure Oregon will meet its federal maintenance of effort requirement for this program; and
- \$0.3 million General Fund to restore a 10% cut in grants to local domestic violence and sexual assault service providers.

Budget reductions remain in field staffing for self-sufficiency and child welfare programs, the JOBS employment and training program, cost-of-living adjustments for clients and providers, and abstinence education and the Community Safety Net programs. The budget does not fully fund the projected need for TANF, ERDC, and some child welfare program services, which would be an estimated additional \$25.4 million General Fund cost. The Department testified that it has limited options to manage the unfunded workload if caseloads and costs in these programs hold at the projected levels, but it would probably change eligibility criteria, decrease client or provider payments, or take other management

actions to stay within the approved budget. It will report to the Emergency Board and discuss options on how to manage to the funding level, if needed.

DHS Seniors and People with Disabilities

The Seniors and People with Disabilities (SPD) cluster includes the Medicaid long-term care program and expenditures for persons with developmental disabilities. The legislatively adopted budget for the 2005-07 biennium is \$2.481 billion Total Funds (including \$856.4 million General Fund). The adopted budget also funds a \$10 million General Fund special purpose appropriation to the Emergency Board for wages and benefits for home care workers. Thus, the 2005-07 SPD legislatively adopted Total Funds budget (including the special purpose appropriation) is about 12% higher than the approved budget for the 2003-05 biennium and 11% higher than the Governor's budget for the 2005-07 biennium. The adopted budget is \$117.7 million General Fund, or 16%, more than the Governor's budget and \$127.5 million General Fund, or 17%, more than the 2003-05 legislatively approved budget.

Of the \$117.7 million General Fund amount above the Governor's budget, \$91.7 million is attributable to the "reshoot," or modification, of the Governor's budget submitted by DHS to the Legislature in May 2005. The reshoot included funding requests that reflected new and higher caseload forecasts as well as requests for increased staffing to assist with the impact of the Medicare Modernization Act. The reshoot also included proposals for funding that resulted from correcting errors in the Governor's budget – inappropriate assumptions about savings from program reductions or Other Funds revenue amounts, for example. The remaining \$26 million General Fund (\$82.8 million Total Funds) added by the Legislature to the Governor's budget restores a number of program reductions proposed in the Governor's budget and enhances two other programs. These adjustments include:

- \$16.9 million General Fund (\$43.5 million Total Funds) to maintain the current reimbursement rate structures for assisted living facilities and adult foster homes, and to add cost-of-living adjustments for both sets of providers;
- \$9.9 million General Fund (\$24.4 million Total Funds) to retain the relative adult foster care program;
- \$8.1 million General Fund (above the amount added in the reshoot) for the Oregon Project Independence (OPI) program, resulting in total funding of \$12 million for OPI in the adopted budget;
- \$2.1 million General Fund (\$5.2 million Total Funds) to avoid the imposition of a cap on the number of persons who would be allowed services under the Medicaid home and community-based care waiver;
- \$2 million General Fund (\$4 million Total Funds) to enhance reimbursement to Area Agencies on Aging for case management services;
- \$1 million General Fund (\$2.5 million Total Funds) to increase wages for providers of services to persons with developmental disabilities; and
- \$0.3 million General Fund to retain the Retired Senior Volunteer Program.

In addition to these adjustments, the Legislature reduced cost-of-living increases for providers by \$1.1 million General Fund (\$2.9 million Total Funds) and cut a proposed \$20 million special purpose appropriation for home care workers in the Governor's budget to \$10 million. The budget also reflects a 3% reduction, equal to \$0.3 million General Fund, to the cluster's services and supplies and capital outlay expenditure levels. The Legislature did not provide funding to restore the proposed elimination of the General Assistance program in the Governor's budget. The legislatively adopted budget includes funding to continue this program through September 2005. The Legislature enacted HB 3230, which transferred the Oregon Disabilities Commission into the Department of Human Services.

Despite solid support for the SPD budget, future legislators will need to confront the challenge of the long-term sustainability of Medicaid long-term care. As noted above, the General Fund portion of the 2005-07 legislatively adopted budget is 17% higher than the 2003-05 legislatively approved budget. Although some of this increase is attributable to using General Fund to replace federal fiscal relief funding that was temporarily available during the 2003-05 biennium, the bulk of the increase is the result of higher service costs and a growing caseload. Biennial double-digit increases in General Fund spending in the SPD budget can be maintained, but only at the expense of other state funding priorities.

DHS Health Services

The Health Services (HS) cluster includes Oregon Health Plan (OHP); mental health, alcohol and other drug treatment; and public health expenditures. The 2005-07 legislatively adopted budget is \$4.672 billion Total Funds (including \$1.133 billion General Fund). The Total Funds budget is about 2% higher than the 2003-05 legislatively approved budget, but it is about 2% lower than the Governor's budget. The General Fund portion of the budget is about 12% greater than the 2003-05 approved budget and 3% less than the Governor's budget for the 2005-07 biennium.

The "reshoot," or recalculation, of the Governor's budget – given new caseload, cost, and Other Funds revenue projections – lowered the Governor's initial budget by \$66 million Total Funds and \$25.9 million General Fund. This overall reduction was the net result of such changes as a lower tobacco tax revenue forecast, which required \$10.2 million of additional General Fund; lower expected savings from OHP program reductions that had been included in the Governor's initial budget (\$9 million General Fund); and lower anticipated OHP caseloads and costs (savings of \$38.1 million General Fund).

In addition to its approval of the proposed reshoot of the Governor's budget, the Legislature made a further overall reduction to the DHS Health Services budget of \$23.5 million Total Funds (including \$9.3 million General Fund). This was the net result of several restorations of reductions proposed in the Governor's budget, offset by an additional cutback of \$84.4 million Total Funds (\$32.3 million General Fund) to the hospital diagnostic-related grouping (DRG) reimbursement component embedded in the proposed capitation rate for managed care organizations. The restorations made to the Governor's budget include:

- \$11.7 million General Fund (\$30 million Total Funds) to restore most of the OHP Plus dental services;
- \$5.9 million General Fund to restore a variety of proposed reductions in the Governor's budget to mental health and alcohol and drug treatment and prevention services;
- \$5.2 million General Fund (\$16.9 million Total Funds) to reverse a proposal in the Governor's budget to control OHP fee-for-service prescription drug costs using a preferred drug list;
- \$4.5 million General Fund (\$11.9 million Total Funds) to restore OHP cuts made in conjunction with reductions to the Medicaid long-term care program in SPD that were subsequently restored;
- \$1.7 million General Fund to replace tobacco tax revenues in the OHP in order to use the revenues to fund the entire Tobacco Prevention and Education Program (TPEP) at its 2003-05 budget level of \$6.9 million; and
- \$1 million General Fund (\$2.5 million Total Funds) to restore the proposed elimination of a cost-of-living adjustment to the durable medical equipment reimbursement.

In addition to the above adjustments, the Legislature reduced cost-of-living increases for mental health and public health providers by \$0.7 million General Fund (\$1.6 million Total Funds). The budget also reflects a 3% reduction, or \$1.2 million General Fund, to the cluster's services and supplies and capital outlay expenditure levels. The Legislature did not provide funding to reverse proposed reductions in

the Governor's budget that would eliminate OHP Plus vision services or reduce the number of days per year for which DRG hospitals would be reimbursed

The Legislature passed SB 1088, which allows DHS to adopt rules in response to the Medicare Modernization Act. The budget anticipates that DHS will eliminate most Medicaid funding for persons eligible for both Medicaid and Medicare ("dual eligibles") because these persons will now receive a prescription drug benefit through Medicare.

Commission on Children and Families

The State Commission on Children and Families facilitates statewide planning for a system of services for children and families; supports 36 local commissions with policy direction, program information, and technical assistance; and distributes state and federal funds for local programs. The Commission's 2005-07 legislatively adopted budget is \$46 million General Fund and \$72.9 million Total Funds. This is 5% General Fund and 7.5% Total Funds above the 2003-05 legislatively approved budget. The increase reflects the transfer to this agency of juvenile crime prevention funding and staff previously administered by the Criminal Justice Commission. Without this transfer, the 2005-07 budget would be less than the Commission on Children and Families' 2003-05 budget.

The adopted budget maintains the current state and local commission structure with reductions as proposed by the Governor in local funding for programs and services. The Legislature reduced General Fund support for the Healthy Start home visitation program by \$4 million, but added \$350,000 General Fund to support two new relief nurseries in Albany and Medford.

Insurance Pool Governing Board (Office of Private Health Partnerships)

The primary function of the Insurance Pool Governing Board (IPGB) is to manage the Family Health Insurance Assistance Program (FHIAP), part of the OHP. FHIAP provides health insurance premium subsidies to eligible low-income individuals or employees. The 2005-07 budget for IPGB is \$22.1 million General Fund and \$79.5 million Total Funds, the latter about 66% higher than the 2003-05 legislatively approved budget. The significant increase is primarily the result of attempting to comply with an OHP 2 Medicaid waiver maintenance of effort requirement for FHIAP. This waiver condition requires Oregon to spend \$40.9 million of state funds over a five-year period, beginning November 1, 2002, on FHIAP premium subsidies.

The budget amount for 2005-07 does not include an additional \$4 million General Fund which was appropriated to the Emergency Board for either IPGB or the Department of Human Services. The Legislature established this special purpose appropriation after a policy discussion concerning the appropriate role of the FHIAP with respect to the other OHP programs. The Legislature directed the executive branch to approach the Centers for Medicare and Medicaid Services (CMS) about meeting the maintenance of effort requirement with additional expenditures in the OHP Standard program or the Children's Health Insurance Program. If CMS approves a waiver modification, the Emergency Board could allocate some or all of the \$4 million special purpose appropriation to DHS and still meet the FHIAP maintenance of effort requirement.

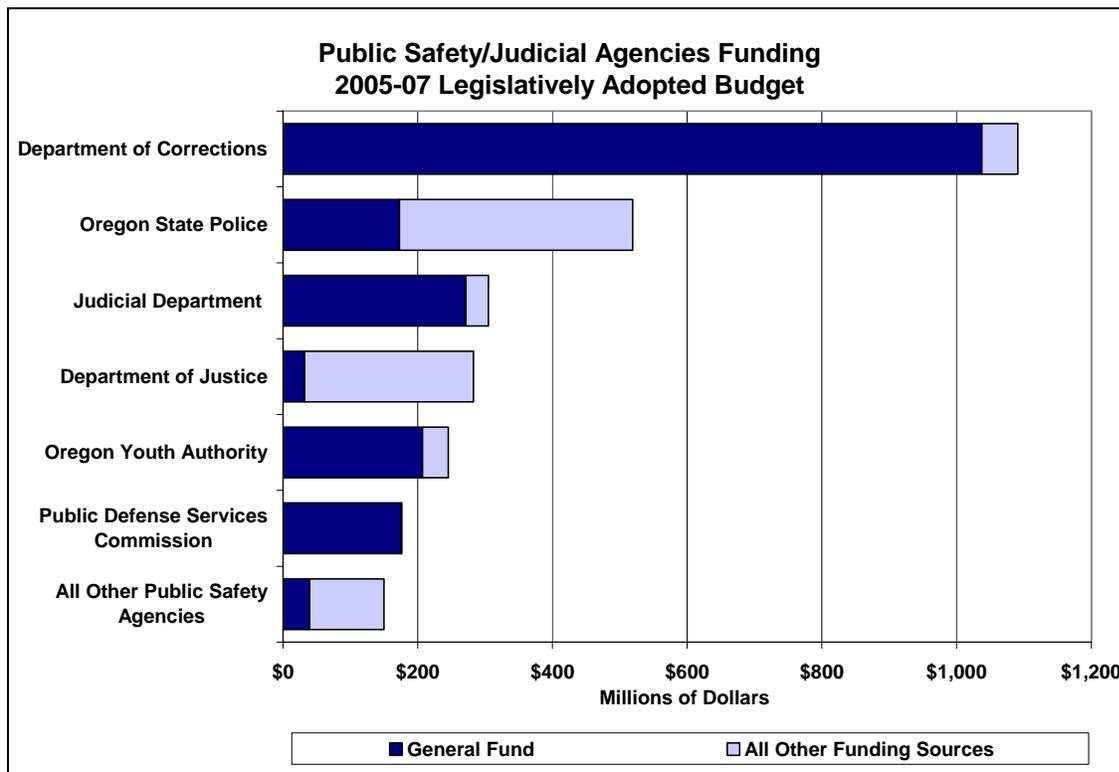
The Legislature passed SB 303, which abolished the IPGB and established the Office of Private Health Partnerships to assume the management of the FHIAP and the other IPGB budget unit, the Information, Education, and Outreach program.

Public Safety/Judicial Program Area

The agencies in the combined Public Safety and Judicial Branch program area generally provide services to insure the safety of Oregonians as it relates to criminal activities, civil disputes, highway safety, natural disasters, and homeland security. Relating to public safety activities, these agencies provide a systemic approach representing four major interconnected components: community safety, law enforcement, and resolution of civil matters; prosecution and defense services related to the court system; incarceration and related treatment services; and prevention and intervention programs.

Overall, the 2005-07 legislatively adopted budget for the agencies in this program area total \$1.935 billion General Fund and \$2.769 billion Total Funds, a 19.1% increase from the 2003-05 legislatively approved budget in General Fund resources and a 10.2% increase in Total Funds. Three factors explain the majority of this General Fund increase:

- The number of inmates incarcerated in Department of Corrections' facilities is expected to grow by over 1,000, or 7.9%, during 2005-07 – exceeding 14,000 by the end of the biennium.
- The 2003-05 budget used one-time federal funding to offset over \$116 million in General Fund. Since these federal funds are no longer available, the 2005-07 General Fund budget is increased to backfill this funding. This represents half of the General Fund increase for the Department of Corrections' budget and over one-third of the General Fund increase for this program area.
- The majority of staffing costs for public safety agencies are financed with General Fund, so increases in state employee compensation and benefits have a significant ongoing impact on these budgets.



The 2005 Legislature also passed a methamphetamine-related package of bills that added General Fund resources to a number of agencies, including:

- \$2.5 million to the Criminal Justice Commission for a grant program for new drug courts or expanded capacity of existing drug courts;
- \$1.5 million for the Department of Corrections (DOC) for anticipated incarceration costs from expanded sentences;
- \$942,679 to the Judicial Department to continue selected drug court programs that have lost their federal funding;
- \$900,000 to DOC for housing and substance abuse treatment for offenders released from alternative incarceration programs;
- \$550,087 for additional attorney and investigative capacity at the Department of Justice to assist District Attorneys and local law enforcement agencies in the prosecution of methamphetamine-related crimes; and
- \$450,000 to the Public Defense Services Commission for the expected increase in the number of prosecutions resulting from the expanded sentences.

Department of Corrections

The Legislature adopted a 2005-07 budget for the Department of Corrections of \$1.038 billion General Fund and \$1.091 billion Total Funds. This represents a 28.7% increase in the General Fund from the 2003-05 legislatively approved budget and an increase of 14% growth in Total Funds. The \$231 million increase in General Fund is due, in large part, to the need to backfill \$116 million of one-time federal funds used in the 2003-05 budget, as noted earlier.

The 2005-07 budget relies upon the April 2005 prison population forecast, which estimates a 7.9% increase in the prison population during the biennium (growing by 1,032 – from 12,990 in July 2005 to 14,022 in July 2007). The Department will use a combination of new capacity and rental beds to meet this expected growth with the opening of the Warner Creek facility in Lakeview (400 beds), 100 new beds at the Shutter Creek facility, and 215 new beds for women at Coffee Creek in Wilsonville. The Legislature delayed the opening of the new Madras men’s facility until September 2007, saving \$10.6 million in start-up and operating costs this biennium. As a result, the Department will need to rely on over 500 rental or other temporary beds at the end of the biennium. The availability of these beds may become an issue. The construction of the Madras facility will continue and the \$11.8 million required for the 2005-07 debt service was capitalized so General Fund debt service will not be required.

Other General Fund issues in the DOC budget include:

- funding of \$190 million for community corrections, which reflects the April 2005 forecast and is sufficient to prevent any further counties from opting out of the program;
- undesignated reductions of \$10 million, which will likely be taken in personal services (as vacancy savings) and added to the Services and Supplies reductions included in the Governor’s budget;
- reduction of \$1 million in funding for capital improvements; and
- restoration of \$2 million of the \$2.8 million in reductions proposed in the Governor’s budget for alcohol and drug treatment programs and the Women in Community Services program.

Department of State Police

The 2005-07 legislatively adopted budget for the Department of State Police (OSP) is \$172 million General Fund and \$519.1 million Total Funds. This represents an increase from 2003-05 of 7.4% and 6%, respectively. The budget does not include two major proposals made in the Governor’s budget: 1) backfill of almost \$70 million of General Fund with Lottery Funds in the Patrol Services Division and the Fish and Wildlife Enforcement Services Division; and 2) the creation of a new homeland security agency, which would have transferred the Office of Emergency Management, Office of the State Fire Marshal, and the Criminal Justice Services Division to the new agency.

The Governor's budget did not address underfunding of a number of programs and activities. Since these activities are core functions of the agency or provide vital support for core functions, OSP would have had to identify vacancy savings or other savings to provide sufficient funding. The Legislature addressed these issues by new investments in the agency or by redirecting funds within the existing budget.

- For Services and Supplies funding for vehicle-related costs (e.g., gasoline), information management maintenance, forensics lab, and wireless communications, a total of \$3.7 million was added to the budget, but this amount was partially offset by a 3% reduction (equal to \$0.9 million General Fund) in Services and Supplies taken in most agency budgets.
- Ongoing costs of the Identification Services Unit (criminal background checks and fingerprints) were underfunded. As a result, \$1.4 million General Fund was added and an increase in fees was authorized to generate an estimated \$1.8 million in Other Funds revenue was approved.
- Nine positions were added at a cost of \$1.1 million to avoid double-filled positions in agency infrastructure, including finance, personnel, and facility management.

In addition, the Legislature took several other General Fund budgetary actions.

- Twenty patrol positions were eliminated, which provided \$3 million General Fund for a portion of the investments listed above. The agency is to evaluate positions across OSP to see if staff may be transferred to restore these lost positions.
- Twenty-one detective positions proposed to be eliminated in the Governor's budget were restored and assigned to major crime teams and drug teams (\$3.4 million General Fund).
- Eight detective positions and one forensic lab position were established to investigate methamphetamine-related crimes (\$1.9 million General Fund).

Military Department

The Oregon Military Department's 2005-07 Total Funds budget is \$96.1 million (including \$17.4 million General Fund). General Fund is used for wages and salaries of state employees, state matching funds for various facilities management activities, and matching funds for various Oregon National Guard activities.

General Fund resources increase by over 32% from 2003-05, primarily driven by new programs directed to Oregon National Guard members providing service during the Afghanistan and Iraq conflicts. The Legislature appropriated \$500,000 General Fund for tuition waivers to Oregon National Guard members or surviving family to attend college; \$500,000 General Fund and \$500,000 Other Funds to provide hardship grants and loans to members and immediate family of Oregon National Guard members; and \$350,000 General Fund to reimburse active members of the Armed Forces and certain retirees for the cost of hunting and angling licenses. The Youth Challenge program for at-risk youth is funded to maintain 100 cadets.

The federal government provides approximately 97% of the funding for the Oregon National Guard. Guard member salaries and operational costs, estimated at \$419 million and over 1,700 employees, are paid directly by the federal government and are not included within the legislatively adopted budget.

Total Funds decrease overall by 20.5% from 2003-05, primarily due to fewer federal funds for capital construction. Federally funded operational and maintenance costs increase from 2003-05, including funding for the Air National Guard bases in Portland and Klamath Falls (Kingsley Field); positions in the agency's operations program; family support programs at the Air National Guard bases; and operations and maintenance at facilities in Baker, Lane County, and Central Oregon.

Oregon Youth Authority

The 2005-07 legislatively adopted budget for the Oregon Youth Authority (OYA) is \$206.9 million General Fund and \$245.3 million Total Funds. This is 4% General Fund and 3% Total Funds more than the agency's 2003-05 legislatively approved budget. The increase reflects a full 24 months of funding for 50 beds reopened during the 2003-05 biennium at the Burns and Warrenton youth correctional facilities.

The budget as approved maintains the existing 850 close custody beds for youth offenders, but it does not add capacity to meet expected demand for lower level offenders. The 850 funded beds are, on average, 287 beds (25%) short of the 2005-07 biennium demand as forecast by the Department of Administrative Services' Office of Economic Analysis in April 2005. The constrained capacity will present a significant challenge to OYA and the counties to effectively manage youth offenders.

The 2005 Legislature restored the \$563,566 reduction in Multnomah County gang intervention services proposed by the Governor and approved an additional \$750,000 General Fund for gang issues in east Multnomah County. The adopted budget includes a total of \$3.3 million General Fund for Multnomah County gang enforcement and intervention services for the 2005-07 biennium.

Other Public Safety and Judicial Branch Agencies

The Legislature approved a Total Funds budget for the Judicial Department of \$304.8 million, a 10.2% increase over the 2003-05 budget. General Fund expenditures grew 14.2% during the same period to \$271.5 million. The 2005-07 legislatively adopted budget partially restores the Governor's \$24.7 million unspecified reduction below the essential budget level. Four new judge positions (16 positions for judges and support staff) were created in Umatilla/Morrow, Jackson, Clackamas, and Clatsop counties, costing \$720,200 General Fund for 2005-07 and rolling up to a cost of \$2.2 million for 2007-09.

The 2005-07 legislatively adopted budget for the Public Defense Services Commission of \$176.2 million Total Funds is 10.4% greater than the 2003-05 budget for the agency. The Legislature partially restored the Governor's 9% unspecified reduction. The Application and Contribution Program was moved from the Commission to the Judicial Department, resulting in a \$201,542 Other Funds reduction and 1.45 FTE.

The 2005-07 legislatively adopted budget for the Department of Justice of \$282.6 million Total Funds represents a 6.8% increase from 2003-05, while the \$31.8 million General Fund budget is 1% greater than 2003-05. This budget does not reflect the Governor's proposal to fund victims' compensation programs with General Fund, but it continues funding these programs with Criminal Fines and Assessment Account (CFAA) revenues. The Legislature also restored \$1.6 million to victims' compensation programs that were cut in the Governor's budget. The budget reflects the decrease in the hourly rate charged to state agencies for attorney services from the \$119 proposed in the Governor's budget to \$111. The legislatively adopted budget does include a \$1.3 million reduction for defense of criminal convictions, which will continue the backlogs and delays in defending these cases.

A 2005-07 legislatively adopted budget for the Department of Public Safety Standards and Training of \$39.8 million Total Funds represents a 70% increase over the 2003-05 budget. This increase is primarily driven by four major factors: 1) increased debt service on the new \$77 million training facility located in Salem (total debt service for 2005-07 is \$8.5 million General Fund); 2) start-up costs and operational costs for the new facility (\$4.6 million Other Funds and 23 positions); 3) an increase in the basic law enforcement training from 10 weeks to 16 weeks (\$2.6 million Other Funds and 26

positions); and 4) greater resources for regional training (\$1 million Other Funds). Since the operation of the facility and the expanded training will be phased in during the 2005-07 biennium, there will be significant roll-up costs for 2007-09. The Legislature reversed the Governor's proposal to fund agency operations with General Fund so the primary revenue source remains CFAA revenues.

The Legislature abolished the Oregon Board of Investigators and transferred its duties, functions, responsibilities, and cash balance to the Department of Public Safety Standards and Training (DPSST) effective January 1, 2006. The legislatively adopted budget of \$90,000 Other Funds reflects a temporary six-month budget that allows for the Board's phase-out and transition to DPSST. An increase to the DPSST budget of \$199,164 and 2 new positions (1.5 FTE) will allow the programs and services to continue for the remaining 18 months of the biennium.

The \$8.9 million General Fund budget for District Attorneys and Their Deputies is 4.5% less than the 2003-05 budget. The primary reason for this decrease is the elimination of all state support for supplemental payments for deputy district attorneys. The budget is now limited to the compensation for the 36 district attorneys and the administrative costs (e.g., liability coverage) of the agency. The budget does include a change in the compensation structure, which results in salary increases for 20 of the 36 district attorneys.

The Criminal Justice Commission's (CJC) \$1.3 million Total Funds budget reflects an 88.7% decrease from 2003-05, as the administration of the Juvenile Crime Prevention grants is transferred to the Commission on Children and Families. The CJC will retain its public policy analysis and coordination roles. It also will be responsible for administering the new drug court grant program that is part of the Legislature's methamphetamine package.

Economic Development and Consumer Services Program Area

Economic and Community Development Department

The 2005 Legislature authorized \$45 million in infrastructure bonding authority for the Oregon Economic and Community Development Department (OECDD). These bonds will be used to assist communities to meet needs for industrial land sites, including clean-up of contaminated mill sites and other sites that can be used for economic development. The Legislature provided dedicated lottery grant funding of \$3.3 million for Small Business Development Centers and \$1.5 million for women, minority, and small business development. OECDD will work with the Joint Legislative Audit Committee to establish performance standards and reporting on the outcome from the expenditure of these funds. The Legislature also approved an allocation of \$3.35 million Lottery Funds to the Oregon Community Development Fund to replace reductions to the Strategic Reserve Fund, if Lottery Funds revenue exceeds the close-of-session forecast.

The Legislature established a program to support the innovation economy within the OECDD. The Oregon Innovation Fund and the Oregon Innovation Council were established, and the Commercialized Research Fund and the Commercialized Research Advisory Council were created. OECDD also received \$7 million Lottery Funds for the new Oregon Innovation Council for purposes related to a signature research center.

The Legislature and the Association of Oregon Counties entered into an agreement that provides for a one-time distribution of \$861,329 from the 2.5% county share of the video lottery distribution for the county share of the cost of the Economic Revitalization Team. An interim work group, to be chaired

by the chair of the Senate Special Committee on Budget, was established to evaluate other shared state and county services.

The Department of Administrative Services was allocated \$600,000 Lottery Funds to establish a performance-based forgivable loan contract with the Oregon Association of Nurseries for creation of a transportation cooperative entity. These funds will be subject to the oversight of the Joint Legislative Audit Committee.

State Fair and Exposition Center

The Legislature transferred the management of the Oregon State Fair and Exposition Center (Fair) to the Parks and Recreation Department (Parks) based on certain legislative findings.

- The Fair and its management are isolated from state and local government partners and needs to strengthen ties to state and local partners to assure state-wide value; increase state, community and business partnerships; and optimize operational efficiency.
- The Fair is not self-sufficient and will need funding support for the foreseeable future. The current biennial estimate of General Fund operating support is \$4 million. However, a number of factors, including attendance at the annual state fair and net revenue from the multipurpose pavilion, will affect biennial support requirements.
- The Fair needs assistance with agency management so staff can focus on the statutory direction for the agency, which, pursuant to ORS 565.050, is to “disseminate knowledge concerning, and to encourage the growth and prosperity of all agricultural, stock raising, horticultural, mining, mechanical, artistic and industrial pursuits in this state...[and]...to conduct an annual state fair...” Management assistance includes developing management goals, objectives, measures, and outcomes as well as developing the necessary reports to track performance against these management objectives.
- The Fair needs a commission that is directly involved in the marketing and management of the Fair.

The Legislature noted that the state will give Parks a unique property that represents Oregon’s agricultural, artistic, and cultural heritage. Parks has the opportunity to turn the fairgrounds into an urban park that would attract visitors, not only from Oregon, but from around the nation. The Legislature expects that Parks will develop and implement a vision for the Fair that will make use of its unique assets, while generating sufficient resources to maintain its operations.

Department of Consumer and Business Services

The Department of Consumer and Business Services (DCBS) budget was increased by \$60.1 million (11%), primarily as a result of an increase of \$56 million Nonlimited Other Funds in the Oregon Medical Insurance Pool to fund increased claims and third-party administrator costs. This program provides medical insurance coverage for high-risk Oregonians who are otherwise ineligible for medical coverage and is funded through an assessment on medical insurers. The 2005 Legislature enacted a number of bills that affected statewide consumer and business services. Specifically, it passed SB 311 regulating medical examinations in workers’ compensation claims, SB 421 relating to the establishment of building code administrative regions, and HB 2717 which limits the postponement period for Workers’ Compensation Board hearings. Additional details on these bills are provided in the “Substantive Bills with Budget Effects” section later in this report.

Employment Department

While the legislatively adopted budget declined by 32%, most of the agency’s programs remain at the 2003-05 level. The significant decline in expenditures is attributed to an improving economic climate

and corresponding decrease in unemployment, thus reducing benefit payments by almost \$790 million. The 2005 Legislature approved an additional 6.5 weeks of benefits for those who had exhausted benefits (HB 3305). This extension ended August 13, 2005. Further legislation was approved to prohibit the disqualification from benefits for victims – or parents of minors who are victims – of domestic violence, sexual assault, or stalking (HB 2662).

Also, the JOBS Plus program and the Groundfish Transitional Income program were eliminated due to insufficient revenues (\$12.6 million Federal Funds and \$2.9 million Other Funds). The Child Care Division includes \$1.5 million Other Funds for distribution to qualified community agencies from the Child Care Contribution tax credit program. These will be the first distributions from the tax credit since it was first passed during the 2001 legislative session.

Housing and Community Services Department

The legislatively adopted budget of \$2.49 billion reflects an increase of \$324 million over the 2003-05 level. Most of the increase supports the anticipated bonding activity related to single-family and multi-family housing programs.

Department of Veterans' Affairs

The Legislature provided an additional \$3.7 million General Fund to the Department as part of its \$5.4 million Military/Veterans' Benefits package of various program bills. The money provided to the Department of Veterans' Affairs is for three specific purposes: \$2.6 million to be distributed to counties to fund additional efforts by County Veterans' Services Offices; \$0.5 million to provide emergency financial assistance to veterans and their immediate families; and \$0.6 million to increase the post-secondary education support for eligible veterans from \$50 per month to \$150 per month.

The remaining \$1.7 million General Fund of the Military/Veterans' Benefits package was provided to the Military Department (\$1.4 million), the Oregon Student Assistance Commission (\$0.2 million), and the Employment Department (\$0.1 million).

Natural Resources Program Area

The 2005-07 legislatively adopted budget for the Natural Resources program area totals \$1.345 billion, including \$123 million General Fund and expenditure limitation for \$155.5 million Lottery Funds, \$599.8 million Limited Other Funds, and \$223.1 million Federal Funds. The budget also includes \$243.7 million in Nonlimited Other Funds, mainly for bond sales proceeds and other loan program activity. Including Nonlimited Other Funds, the total program area budget for 2005-07 is approximately \$77.6 million, or 5.5%, below the 2003-05 approved budget, primarily due to a decrease in Nonlimited Other Funds. The combined Limited budget for the natural resource agencies, which is more representative of agency operational activities, is about 1% higher than the previous biennium.

General Fund resources for natural resource agencies increased by \$4.8 million, or 4.1%, over the 2003-05 approved levels. This includes an additional \$2.8 million General Fund for the Department of Agriculture, mainly for the food safety inspection program, and an additional \$2.4 million General Fund for the Department of Land Conservation and Development, primarily for processing Measure 37 claims and for the initial phases of a review of the state's 32-year-old land use system.

Lottery Funds limitation increased by a net \$46.5 million, or 42.6 %, largely due to additional lottery revenues expected from the addition of slot gaming. This resulted in a \$19.2 million increase in the

budget for the Oregon Watershed Enhancement Board and a \$26.9 million increase in the budget for the Parks and Recreation Department.

Limited Other Funds decreased slightly, by 2.6%, mainly due to the phase-out of limitation provided to the Department of Forestry in 2003-05 for the fire season. Expenditure limitation for Federal Funds decreased by 11.2%, primarily due to a phase-out of one-time costs incurred in 2003-05 for clean-up of the McCormick and Baxter Superfund site and a decrease in expected funding from the Pacific Coastal Salem Recovery Fund.

Nonlimited Other Funds decreased by a net \$85 million, or 25.9%. This decrease is largely due to HB 3183, which makes the Department of Education, rather than the Department of State Lands, responsible for distributions of Common School Fund earnings to school districts, but also is due to a lower level of projected activity for the loan programs in the Departments of Energy and Environmental Quality.

Shift in Funding Sources

The Governor recommended using \$10.3 million in federal funding from the Pacific Coastal Salmon Recovery Fund (PCSRF) and \$1.4 million of lottery revenues dedicated to watershed, habitat, and salmon restoration by Ballot Measure 66 to support a variety of salmon recovery and watershed restoration activities in the Departments of Fish and Wildlife, Environmental Quality, Forestry, and Agriculture as well as the Water Resources Department. This proposal would have made \$11.7 million General Fund available to address other budget needs. The use of PCSRF monies to backfill for agency base programs became problematic when the federal granting authority, the National Oceanic and Atmospheric Administration Fisheries, expressed their opposition to many of the uses of PCSRF monies proposed by the Governor.

The Legislature developed and implemented a plan that addressed these concerns and made additional General Fund available for statewide needs over the amount the Governor had proposed. The legislative plan:

- removed PCSRF monies from the budgets for the Department of Forestry and Water Resources Department;
- replaced PCSRF monies and General Fund with a portion of the anticipated increase in Ballot Measure 66 lottery revenues from the introduction of slot gaming;
- added \$750,000 in PCSRF monies to the Department of Fish and Wildlife and the Oregon Watershed Enhancement Board to accelerate completion of federal recovery plans for listed salmonid stocks in Oregon; and
- funded state agency responsibilities under the Oregon Plan for Salmon and Watersheds at previous levels of support and avoided any reductions.

The 2005-07 legislatively adopted budget used \$13 million of PCSRF monies and Ballot Measure 66 lottery revenues to replace General Fund, which is \$7.4 million less than the amount used in the 2003-05 legislatively adopted budget. The table on the following page displays the allocation of watershed enhancement and salmon recovery funds to various state agencies involved in these activities.

2005-07 Measure 66 Lottery Funds and PCSRF Federal Allocations			
	Measure 66 Operations	Measure 66 Capital	PCSRF
Available Resources	\$ 27,326,728	\$ 50,749,655	\$ 15,780,793
May 2005 Measure 66 forecast and 2003-05 unallocated			
Department of Fish and Wildlife	2,060,974	5,050,940	5,718,984
Department of State Police/ Fish and Game Enforcement	5,421,826	774,207	0
Department of Environmental Quality	3,876,542	0	814,293
Oregon Watershed Enhancement Board	8,340,870	41,300,000	7,277,041
Department of Agriculture	7,621,030	3,623,710	1,967,233
Total Allocated	\$ 27,321,242	\$ 50,748,857	\$ 15,777,551

Other Significant Legislative Actions

For the Department of Forestry, the Legislature, in an effort to emphasize cooperative fire protection and smoke management: added 18.77 full-time equivalent positions primarily for federal National Fire Plan and State Forest Management Plan activities, including positions to staff the Tillamook Forest Interpretive Center; set aside \$3.5 million General Fund in the Emergency Fund for additional fire protection needs; used General Fund to backfill a \$2.2 million reduction in PCSRF support for current activities related to the Oregon Plan for Salmon and Watersheds; added \$2 million Federal Funds to establish a Federal Forest Legacy Program within urban growth boundaries of local governments in Oregon; and reduced the Private and Community Forests Program by \$0.9 million General Fund, \$0.6 million Other Funds, and 9.48 full-time equivalent positions to address statewide General Fund priorities.

The Legislature took other significant legislative actions in the natural resources program area as follows:

- Provided a total of \$41.3 million in Measure 66 capital funding to the Oregon Watershed Enhancement Board for grants to complete on-the-ground watershed enhancement projects, with the increased funding (70% more than 2003-05 levels) coming primarily from the addition of lottery slot gaming.
- Passed SB 290 – with \$2 million in funding split evenly between General Fund and Other Funds – to implement the Pesticide Use Reporting System, which includes setting reporting levels for urban users at 5-digit zip codes and for non-urban users at the third field hydrologic unit (or river basin).
- Added \$2 million General Fund over the Governor’s budget to the food safety inspection program and raised licensing fees to address a funding shortfall in the program.
- In the budget for the Department of Fish and Wildlife, used Other Funds reserves to replace \$1.4 million General Fund and added \$600,000 General Fund for restoration of Diamond Lake fisheries.
- Appropriated \$0.8 million to the Department of Environmental Quality to implement the Willamette River water quality plan or total maximum daily loads (TMDL).
- Removed \$0.7 million General Fund from the Governor’s budget for the Department of Agriculture to enhance agricultural marketing through technical assistance to the agricultural industry regarding various certification programs available and the standards to be met to qualify products for the programs.
- Provided \$0.5 million General Fund in SB 2 for the Department of Geology and Mineral Industries to complete seismic readiness surveys of schools, fire stations, police stations, and hospitals (the

Department will likely request additional funding from the Emergency Board since the initial estimate of completing all surveys is \$1.3 million).

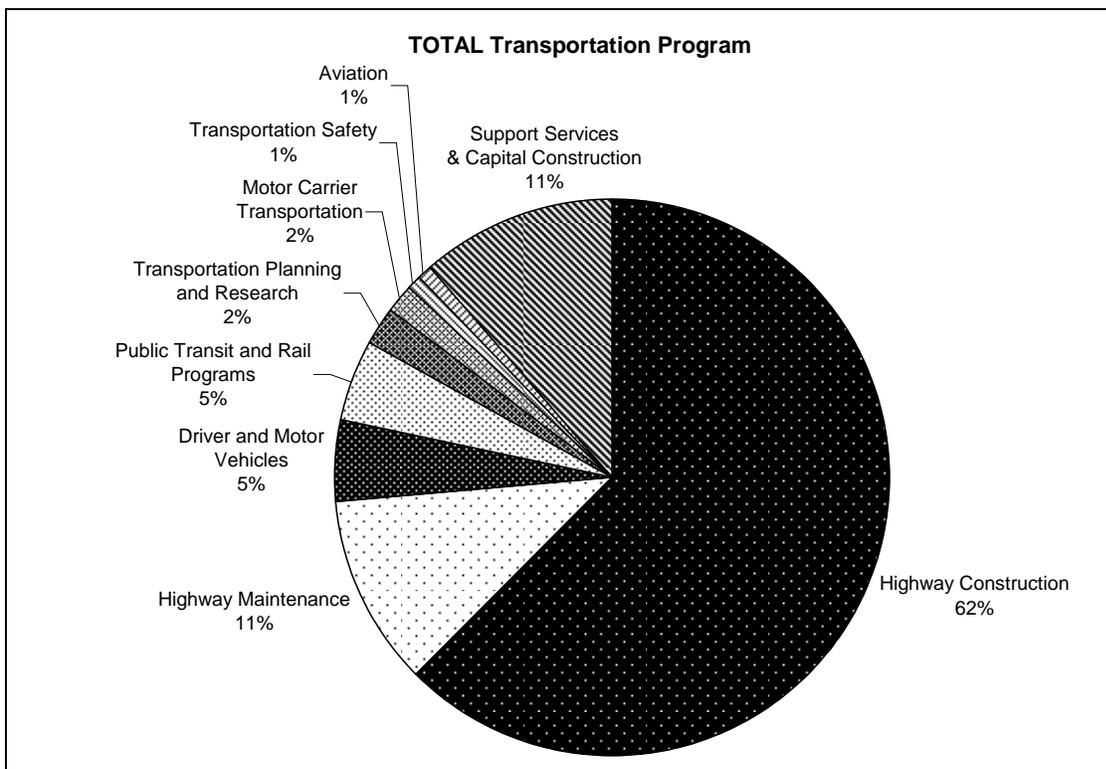
- Restored three positions that were recommended for elimination by the Governor in the field services and technical services programs of the Water Resources Department.
- For the Parks and Recreation Department: increased staff for four new parks (Hares Canyon, Fort Yamhill State Heritage Area, Thompson's Mills State Heritage Site, and Crissey Field State Recreation Site); provided resources for defeasance of the 1998 lottery-backed bond, saving \$3.2 million in future biennia; incorporated the Oregon State Fair and Exposition Center operations into the Parks and Recreation Department (HB 3502); and directed the Department to develop a strategic plan to guide the acquisition of new properties.
- Approved funding for the Marine Board to conduct a public service education campaign designed to clean air and water by providing technical advice and information to marina operators and boaters.
- Provided additional staff to the Department of State Lands to identify, prepare for sale, and complete sales transactions for isolated, unproductive tracts of state land.
- Added Other Funds limitation for the Department of State Lands' legal costs relating to the Portland Harbor clean-up.
- Provided \$0.6 million General Fund to the Department of Land Conservation and Development for the initial phases of a review of the state's 32-year-old land use system.
- Added \$1.5 million General Fund and 9 positions (8.5 FTE) to the Department of Land Conservation and Development for responding to Ballot Measure 37 claims. This funding is based on the agency's receipt of an average of 67 claims per month. At the end of the 2005 session, the agency was receiving an average of over 110 claims per month. The agency likely will appear before the Emergency Board during the 2005-07 biennium as a result.

Transportation Program Area

The Transportation Program Area includes the Department of Transportation and the Department of Aviation.

The Oregon Transportation Investment Act (OTIA) adopted by the Legislature in 2001 and 2003 reflects investments in the transportation bridge and modernization systems to enable the Department of Transportation to respond to the most important transportation needs of the state with added revenue through bond proceeds derived from increased driver and motor carrier fees and taxes. During the 2003-05 biennium, the Department made progress in implementing the projects contained in OTIA. More progress will be made in 2005-07. The 2005-07 legislatively adopted budget reflects substantial increases in these highway construction programs and commitment by the Legislature to invest in Oregon's transportation infrastructure.

Passage of SB 71 reflects additional investments in key non-highway facilities. The measure authorizes issuance of up to \$100 million in lottery bond revenues for multimodal transportation projects in Oregon. Improvements in public transit and air, rail, and marine transportation infrastructure will keep sectors of the economy connected to distribution points and allow the Transportation Commission to take advantage of the most efficient and cost-effective system for transporting products.



Department of Aviation

The Oregon Department of Aviation (Aviation) regulates public airports and provides financial and technical assistance for airport planning, land purchase, construction, and economic development projects. The Department is funded by jet fuel and aviation gasoline taxes; registration, license, and airport access fees; and federal aviation funding.

The 2005-07 legislatively adopted budget of \$17 million Total Funds is 22.3% higher than in 2003-05. The legislatively adopted budget includes \$10 million Federal Funds for the Federal Aviation Administration General Aviation Airport Entitlement Program for planning and construction of small public use airports. It also includes \$7.1 million to support Operation activities, including local grants for pavement maintenance and financial aid to municipalities.

SB 152 authorizes the sale of lottery-backed revenue bonds for grants to partially finance construction of a passenger terminal at the North Bend Airport. The measure reflects the Legislature’s ongoing commitment to regional economic development. Improved air travel will significantly aid economic development in Coos County and the southwestern Oregon region.

Department of Transportation

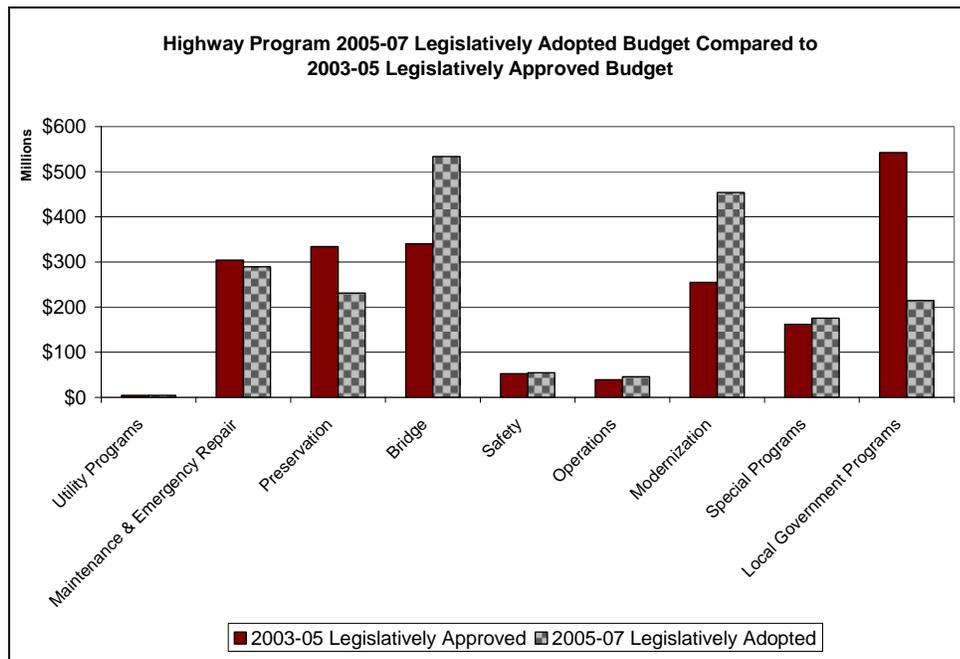
The Oregon Department of Transportation (ODOT) is funded largely through dedicated accounts and federal funds. ODOT is financed largely by revenue collected from the state’s 24-cent per gallon tax on gasoline, which is deposited into the State Highway Fund. Over 15% of ODOT’s budget consists of funds received from the federal government.

The legislatively adopted budget for the Department of Transportation totals \$2.72 billion. The budget is 2.74% higher than 2003-05 and 4.8% less than the Governor’s budget. Statewide reductions in various assessments result in an increased ending balance of \$65 million, if revenue projections materialize. The Legislature expects the Department to review the projected ending cash balances and

report to the Emergency Board during the interim on actions taken to align project pay-outs with current revenue streams, including accelerating projects where appropriate.

The adopted budget includes:

- \$2 billion Other Funds for highway programs (\$1.7 billion for construction programs and \$300 million for highway maintenance and emergency repair), including an increase of \$194 million for bridge preservation work and an additional \$198 million increase for modernization work (the total is 2.7% less than the 2003-05 legislatively approved level, primarily due to projected contract pay out reductions in Local Government and Preservation Projects).
- \$632 Federal Funds and Federal spent as Other Funds, including \$521 million for Highway Division programs, \$41 million for Planning, \$20 million for Rail programs, \$32 million for Public Transit programs, and \$18 million for Transportation Safety, with the expectation that ODOT will request additional limitation, if needed, as a result of Congressional action to reauthorize and increase federal highway funding to states.
- \$359 million Other Funds for support services, Driver and Motor Vehicles, and Motor Carrier Transportation services; \$74 million Other Funds for Public Transit and Rail programs; and \$10 million Other Funds for Transportation Safety programs.
- \$8.6 million General Fund and \$0.4 million Other Funds to continue support for the Willamette Valley High Speed Rail Program.
- Deferred issuance of \$35 million in lottery revenue bonds until March 2007 to save over \$8.5 million in debt service costs in 2005-07 for financing a portion of the South Metro Commuter Rail project. Washington County and ODOT have entered into a grant agreement to disburse funds. Washington County and the Federal Railroad Administration are each expected to provide an additional \$25 million.
- \$148 million Other Funds for debt service on highway revenue bonds and \$22 million in Lottery Funds for Westside Light Rail, Short Line, and infrastructure lottery-backed bonds.



Administration Program Area

The Legislature adopted a \$6.45 billion Total Funds budget for the Administration program area. This does not include \$475 million of Non-Add Other Funds expenditure limitation for services provided to, and paid by, other state agencies. Classifying these expenditures as Non-Add Other Funds prevents “double counting” of these inter-agency charges. The Legislature made a number of changes to agency budgets by limiting the types of Other Funds expenditures that, in prior biennia, had been exempted from expenditure limitation. This may well result in additional agency requests to the Emergency Board if, for example, additional expenditure authority is needed for increased gasoline costs for the motor pool. The purpose of limiting those exemptions was to improve legislative oversight and understanding of the impact of changing costs or demand for certain goods or services.

Other significant legislative actions include:

- Federal Funds expenditure authority was provided for the Secretary of State’s Elections Division to continue the computerized voter registration system under the Help America Vote Act. The Public Employees Retirement System was authorized to continue positions previously approved to deal with the continued workload backlog that resulted from unprecedented numbers of retirements and changes to the system in 2003. Lottery Funds were approved to fund the operation of the Community Solutions Team in the Office of the Governor. It was determined that the activities of the Community Solutions Team are directed toward economic development, and that the use of Lottery Funds is appropriate.
- A start-up for the new State Data Center with adjustments to the budgets of the twelve agencies whose data center operations will be consolidated in the new center. The consolidation of data center operations in one state-of-the-art data center will position state government to take advantage of numerous operational efficiencies and enable the state to implement new technological advances in a cost effective manner.
- \$333,203 General Fund for the newly-established Oregon Advocacy Commissions Office. This new state agency will provide administrative support to the four advocacy commissions: the Commission on Asian Affairs, the Commission on Black Affairs, the Commission on Hispanic Affairs, and the Commission for Women. The advocacy commissions received no General Fund support in the 2003-05 biennium.

Legislative Branch

The 2005 Legislature adopted a total budget of \$61.8 million General Fund for the six legislative branch agencies. The adopted budget is a \$0.6 million, or 1%, overall increase from the agency request budgets and a 5% increase from the 2003-05 legislatively approved budget. The increase is primarily due to personal services adjustments related to PERS, health benefits, pension obligation bond debt service, and merit increases for eligible employees.

The combined budgets were reduced by approximately \$1.4 million General Fund due to the elimination of two policy packages; the elimination of a vacant position; the reduction of four full-time positions to session-only positions; changes in the PERS employer contribution rate and the Attorney General hourly rate; and numerous services and supplies reductions. The savings from these reductions were then redirected toward costs to: 1) replace an electrical gear box that was installed in 1938; 2) replace the bill drafting system and perform related information system upgrades; 3) add resources to address increased fiscal impact and performance measure analysis workload; 4) establish a limited-duration committee assistant position to support the Public Commission on the Legislature

created by passage of SB 1084; and 5) provide one-time funding to contract with an experienced information technology consultant to provide quality assurance information and advice to interim committees reviewing agency technology projects.

Emergency Fund

The Oregon Constitution authorizes the Legislature to establish a joint committee, known as the Emergency Board, to exercise certain powers during the interim between sessions of the Legislative Assembly. These powers include allocating funds appropriated by the Legislature for emergencies, increasing expenditure limitations on continuously appropriated agency funds, establishing or revising budgets for new activities, and authorizing transfers within agency budgets.

The 2005-07 legislatively adopted budget includes 13 separate General Fund appropriations to the Emergency Board. Twelve of these appropriations are known as “special purpose appropriations” and are for specified uses in specified agencies. For general purposes, the Legislature appropriated \$30 million General Fund to the Emergency Board in HB 5077 to cover any unanticipated needs in approved agency budgets during the 2005-07 interim. The amount represents \$5 million more than that recommended by the Governor, but \$10 million less than the amount appropriated for each of the previous three biennia and is the smallest amount appropriated for general purposes since the 1993-95 biennium. The Legislature also has the authority to establish reservations of amounts within the General Purpose Emergency Fund; for the 2005-07 interim, no reservations were established.

The Legislature appropriated \$130 million General Fund to the Emergency Board in HB 5077 as a special purpose appropriation for the increased cost of state employee health benefits and salary adjustments during the 2005-07 biennium based on negotiated settlements with collective bargaining units. The amount represents full coverage of the estimated General Fund cost to state agencies for the negotiated health benefits and salary adjustments. The Department of Administrative Services will develop a plan for the distribution of these funds based on the negotiated needs for the 2005-07 biennium. The Department will present the plan to the Emergency Board for approval. The plan will also include agency requests for related Other Funds and Federal Funds expenditure limitation adjustments for salary and benefit costs covered by these sources.

As noted earlier, in addition to the employee benefits and salary adjustments appropriation, the Legislature also established various special purpose appropriations for specific agency uses in HB 5077 and in agency budget bills. These include:

- \$10 million to address Home Care Worker collective bargaining changes;
- \$4.9 million for caseload growth in the Department of Education’s Early Intervention/Early Childhood Special Education program;
- \$4 million for either the Insurance Pool Governing Board or the Department of Human Services’ Medical Assistance Program for maintenance of effort requirements either in the FHIAP or OHP programs;
- \$3.6 million for the Department of Forestry for forest fire suppression severity and fire insurance premium costs;
- \$2.5 million for the Department of Human Services for child welfare staffing and legal representation issues;
- \$2.5 million for the Criminal Justice Commission for a drug court grant program related to the methamphetamine issue;

- \$2.1 million for the Department of Higher Education for costs related to the development of an integrated K-16 student data system;
- \$1.8 million for the Department of Education for costs related to the development of the integrated K-16 student data system;
- \$1 million for the Secretary of State for Voters' Pamphlet costs;
- \$0.8 million for the Department of Education for local option equalization grants; and
- \$0.7 million for the Department of Community Colleges and Workforce Development for costs related to the development of the integrated K-16 student data system.

Capital Construction and State Bonding Debt

Capital Construction

Higher Education and Community Colleges

The Legislature approved \$487.3 million of capital construction projects for post-secondary education. This total includes \$410.3 million for the Department of Higher Education and \$77 million for capital projects at community colleges. The projects will be funded from a number of sources, including direct General Fund appropriations and various categories of bonds, gifts, grants and other revenues.

A total of \$14.8 million General Fund was appropriated to the Department of Higher Education: \$11.8 million to support academic modernization, capital repair, deferred maintenance, and code and safety compliance projects, and \$3 million toward the construction of a joint instructional facility in Medford for use by Southern Oregon University and Rogue Community College.

The bonds approved for higher education and community college capital construction projects can be broadly categorized into two groups: state-supported debt and self-supported debt. State-supported debt is repaid with state discretionary funds, including General Fund and Lottery Funds. The Legislature approved a total of \$117.9 million of state-supported debt for higher education, including \$79.4 million for the Department of Higher Education and \$38.5 million for community colleges. This represents a large (263%) increase from the 2003-05 biennium level, when a total of \$32.5 million of state-supported debt was approved for the Department of Higher Education. The budget also authorizes \$32.7 million of State Energy Loan Program (SELP) bonds to support ten projects in the Department of Higher Education. These ten projects address facilities with deferred maintenance needs and help address the Department's large deferred maintenance backlog. This is the first time these types of bonds have been specifically identified as a source of funds for capital construction projects in higher education. Debt service costs on these bonds will be shared between the state and campus budgets. Campuses will finance their portion of debt service costs from the energy cost savings that the projects will allow them to realize. The energy cost savings are projected to be sufficient to allow campuses to finance about 40% of the projected debt service costs of the SELP bonds.

The remaining \$160.4 million of debt, all for the Department of Higher Education, is self-supported debt paid by student building fees and Oregon University System auxiliary enterprise income. The largest projects approved for self-supported debt include a \$42 million student recreation and fitness center and a \$30 million parking structure, both at Portland State University.

The Legislature approved the capital construction projects in the Governor's budget for the Department of Higher Education with two major exceptions. The first is that the expenditure limitation for the new Steam Plant at Oregon State University was reduced to four \$1 Other Funds expenditure limitations as placeholders when it became clear that the funding plan contained in the Governor's budget might not be possible. The Emergency Board will increase this expenditure limitation up to the \$55 million recommended in the Governor's budget after the financing plan becomes known. The second exception is that General Fund for the joint Southern Oregon University/Rogue Community College Medford facility was reduced from \$5.4 million to \$3 million. The Legislature also added \$110.6 million to the Governor's recommended Department of Higher Education budget to expand projects in that budget, or to approve new ones. These adjustments added

a total of \$30.7 million in state-supported debt to the amount in the Governor's projects to finance a new Education building, a theatre complex, and renovations to Gilbert Hall, all at the University of Oregon, and a new Animal Sciences pavilion at Oregon State University.

In a major policy shift, the budget includes state-paid debt for community college capital construction projects for the first time since the 1979-81 biennium. A total of \$38.5 million of Article XI-G bonds were approved for seven community college capital construction projects. Community colleges will provide the constitutionally-required \$38.5 million match from their bond levies or from other college sources. The approved projects, which range in size (Article XI-G portion) from \$2.3 to \$7.7 million, include new facilities for Clatsop, Columbia Gorge, Klamath, Oregon Coast, Rogue, Southwestern Oregon, and Tillamook Bay community colleges. The Governor's budget had included \$1 expenditure limitations for each of these projects, except Southwestern Oregon's, pending review of funding needs. The \$38.5 million that was approved compares to a total of \$91.2 million in bonds that the colleges had requested. The budget adopts a policy that total debt service costs for outstanding Article XI-G bonds, issued during or after 2005 for community college capital construction projects, not exceed \$6.5 million per biennium. The projects approved in the budget are estimated to generate debt service of \$5.5 million per biennium, leaving limited capacity for additional project approval.

All Other State Agencies

The Legislature approved a total of \$22.2 million for other new governmental capital construction projects. The new projects will be funded by various Other Funds and Federal Funds: \$14.5 million from Other Funds from Certificates of Participation, uniform rent charges, state gas tax revenue, and driver/vehicle-related fees, and \$7.7 million from federal National Guard Bureau funding. The new projects include:

- \$10.3 million for building renovation and upgrade projects for the Department of Administrative Services (DAS).
- \$9.7 million in Military Department improvements to Camp Rilea, Camp Withycombe, and a mail distribution center.
- \$2.2 million for the Department of Transportation to complete phase 3 of improvements to the Sylvan Maintenance Station.
- \$2 in placeholder funding authority for two Department of Human Services projects for which specific project detail was not yet available for discussion or approval. One project is for mental health care facility siting, design, and construction. An evaluation of existing mental health care facilities and state needs is underway. Based on the outcome of the evaluation, DHS may make a recommendation to the Emergency Board during the interim. The second project is for mental health community residential treatment facilities. DHS was directed to explore options and alternatives for expanding treatment capacity and provide a comprehensive plan to the Emergency Board before requesting authorization to construct any new facility.

The \$22.2 million in approved projects was a significant reduction from the \$46.5 million proposed by the Governor. The Legislature did not approve \$20 million requested for DAS to purchase and renovate the Transportation Building. Instead, the Legislature confirmed it expected more progress be made in statewide transportation improvement efforts before building improvements would be approved. ODOT's request for \$8 million for East Portland and Baker City maintenance station improvements was also not approved.

No new projects were approved for the Department of Corrections. However, the Legislature increased 2001-03 capital construction limitations related to expansion of the Shutter Creek facility and construction of the Madras prison by a net \$133 million, and reduced 1999-2001 limitations for the

Powder River facility and the women's prison and intake center by \$18.2 million due to lower than anticipated costs.

Bonding and State Debt

Authorized debt falls into two separate categories: net tax-supported debt and non-tax-supported debt. Net tax-supported debt includes general obligation bonds issued for higher education facilities and pollution control facilities, revenue bonds issued by the Department of Transportation, and Certificates of Participation. Non-tax-supported debt includes lottery-backed revenue bonds and other revenue and private activity bonds.

The State Debt Policy Advisory Commission, established in ORS 286.550 to 286.555, is charged with advising the Governor and the Legislative Assembly on actions and policies that preserve the state's credit rating. The Commission has established guidelines for the amount of tax-supported debt the state can safely issue. In January 2005, the Commission estimated the state could issue up to \$1 billion in new debt supported by the General Fund, but it recommended issuing debt in a phased approach with no more than \$500 million per biennium in order to retain the most efficient access to the capital market and to maintain fiscal flexibility in future biennia. In addition, the Commission estimated that the state had the capacity to issue about \$460 million in new lottery revenue bonds for the 2005-07 biennium. The debt capacity supported by General Fund was based on a target ratio of 5% of General Fund-supported debt to General Fund revenues. Based on lottery bond covenants, a minimum ratio of four times the unobligated net lottery proceeds or revenue to the maximum annual debt service on all outstanding bonds is required.

The state's net tax-supported debt programs did expand in 2003-05, primarily due to approval of a Transportation Improvement Plan and a plan to issue Public Employees Retirement System pension obligation bonds. The Transportation Improvement Plan will finance \$1.9 billion in highway user tax bonds for bridge repair and modernization projects over the next eight years. New revenue to retire the bond debt is derived from increases in titling and registration fees for cars, recreational vehicles, and commercial trucks as well as increases in truck weight-mile taxes and fees for various licenses, permits, endorsements, and tests. The PERS pension obligation bonds provide up to \$2 billion in less costly long-term debt (general obligation bonds) to pay down the unfunded PERS actuarial liability. Funds budgeted for employer contributions will be used to pay off the bonds.

For 2005-07, the Legislature approved issuance of various bonds totaling \$833 million of debt. It approved \$153.8 million in bonds backed by the General Fund, \$233.3 million in lottery-backed bonds, and \$445.9 million for projects financed with Certificates of Participation and other agreements.

The table on the following page summarizes the debt supported in full or in part by General Fund, Lottery Funds, or other discretionary funds. It identifies previously authorized outstanding debts, newly authorized debt amounts by agency, the next two biennia's debt service obligations, and 2007-09 roll-up costs. Past and present bonding backed by lottery revenues is discussed in more detail in a following section of this report.

Debt Type & Agency	Debt Amount	Repayment Fund Type(s)	2005-07 Debt Service	2007-09 Debt Service	2007-09 Roll-up Costs
General Fund-Backed Bonds					
DHED (Art XI-G) - Previously Approved & Still Outstanding ¹	175,161,624	GF	26,781,734	21,953,991	(4,827,743)
Dept. of Higher Education (Art XI-G)	82,565,329	GF	1,087,900	12,332,100	11,244,200
DHED Deferred Maintenance- Energy Loans ²	32,750,000	GF	0	3,566,000	3,566,000
CCWD (Art XI-G) - Previously Approved & Still Outstanding ¹	2,675,000	GF	2,258,575	704,845	(1,553,730)
Community College (Art XI-G)	38,500,000	GF	0	5,586,200	5,586,200
DEQ - Previously Approved & Still Outstanding ³	44,400,000	GF/OF	8,621,765	9,235,482	613,717
DAS - Previously Approved & Still Outstanding ⁴	791,904,000	GF	91,042,203	97,757,712	6,715,510
Sub-Total	1,167,955,953	-	129,792,177	151,136,330	21,344,154
Lottery Fund-Backed Bonds					
Previously Approved & Still Outstanding ¹	585,940,000	LF	149,081,330	149,071,485	(9,845)
Economic and Community Development	57,885,000	LF	2,579,353	11,228,760	8,649,407
Dept. of Transportation	153,725,000	LF	1,893,517	28,978,551	27,085,034
Department of Higher Education	21,715,000	LF	0	3,643,405	3,643,405
Sub-Total	819,265,000	-	153,554,200	192,922,201	39,368,001
Tobacco Settlement-Backed Bonds					
DAS - Previously Approved & Outstanding (Appropriation Bonds - 2001-03 deficit) ¹	431,560,000	TMSA	86,694,854	105,513,728	18,818,874
Previously Approved & Outstanding (OHSU Series 2002 Bonds and 2003 Bonds) ¹	199,885,000	TMSA	31,907,550	31,912,193	4,643
Sub-Total	631,445,000	-	118,602,404	137,425,921	18,823,517
Pension Obligation Bonds-Other Funds					
Other Funded Agencies based on payroll	1,292,055,200	OF	148,542,541	159,499,426	10,956,884
Sub-Total	1,292,055,200	-	148,542,541	159,499,426	10,956,884
Certificates of Participation (COPs)					
Previously Approved & Still Outstanding ¹	916,120,000	Various	187,240,244	184,532,995	(2,707,249)
Dept. of Administrative Services ⁵	114,185,000	Various	18,532,142	34,450,390	15,918,248
Dept. of Aviation	2,070,000	OF	278,823	425,105	146,282
Legislative Administration	2,855,000	GF	658,802	1,283,491	624,689
Dept. of Higher Education	20,460,000	OF	1,954,553	6,252,550	4,297,997
Dept. of Human Services	33,460,000	GF	2,692,633	11,223,724	8,531,091
Dept. of Corrections ⁶	209,015,000	GF	569,334	33,139,963	32,570,629
Dept. of State Police	1,620,000	GF	389,159	706,080	316,921
Sub-Total	1,299,785,000	-	212,315,690	272,014,298	59,698,608
TOTAL	5,210,506,153	-	762,807,012	912,998,176	150,191,164

¹ Outstanding as of June 30, 2005

² Assumes 30 year loans at 6%, 25% repaid with energy savings

³ Outstanding August 15, 2005 includes 2005 Series A refinancing

⁴ Outstanding June 30, 2005 Pension Obligation Bonds (38%)

⁵ 2005-07 Interest (\$1.14 million) on DEQ/Health lab is capitalized

⁶ 2005-07 Interest (\$12.44 million) on Madras project is capitalized

As shown, the table confirms that there is over \$5.2 billion in outstanding debt authorized under these programs. The 2005-07 debt service obligation is \$762.8 million, and the 2007-09 debt service obligation will increase to \$913 million. This is a 20%, or \$150 million, increase from 2005-07 to 2007-09.

Lottery-Backed Bonding

In April 2004, the State Debt Policy Advisory Commission estimated the lottery-backed bonding capacity for 2005-07 at \$460 million. The 2005 Legislature approved bonding authority of \$233.3 million (including costs of issuance and reserves); however, \$40.3 million (again, including the cost of issuance and reserves) of this amount relates to reauthorized bonding authority for the South Metro Rail Project. This means \$193 million in new bonding capacity was approved, leaving approximately \$267 million of unused capacity.

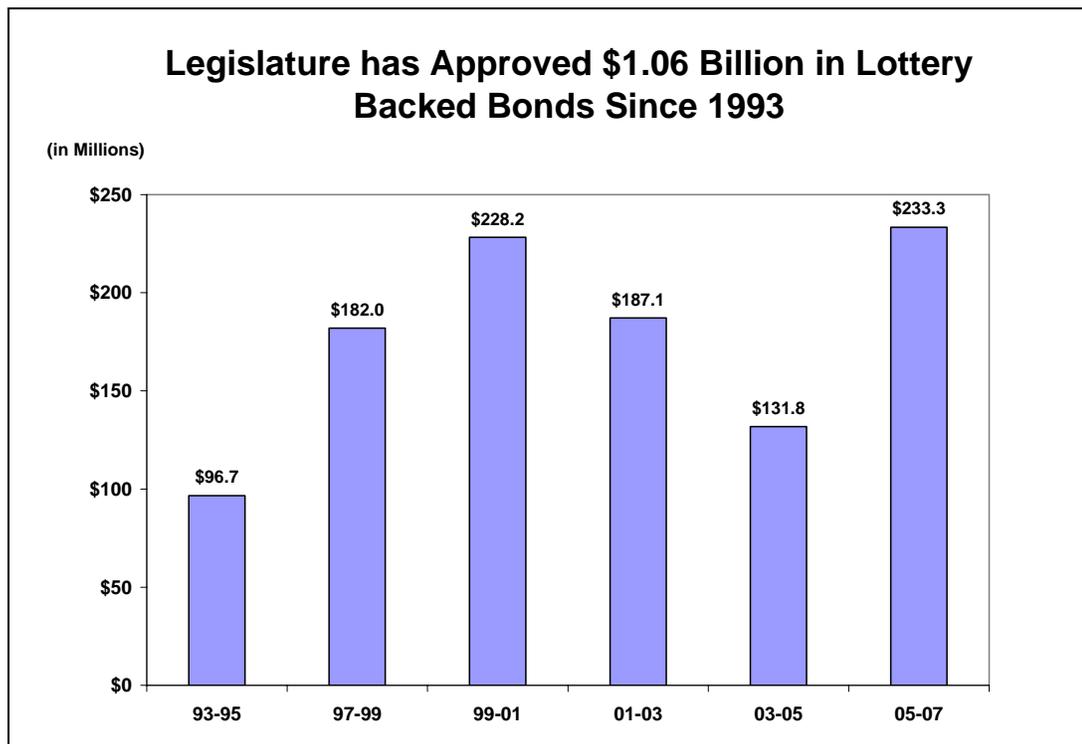
Not including the cost of issuance and reserves, \$206 million is authorized for projects financed with lottery-backed bonding in 2005-07. Included in this amount is \$170 million for new projects and \$35.5 million in reauthorized authority for the South Metro Rail Project. The Legislature approved deferral of the issuance date for these latter bonds until March 2007. New projects include:

- \$100 million for the Department of Transportation's Connect Oregon transportation projects;

- \$45 million for the Economic and Community Development Department’s industrial site infrastructure;
- \$6 million for the Economic and Community Development Department for North Bend airport improvements; and
- \$19 million for the Department of Higher Education for facilities deferred maintenance.

Lottery bonding capacity is based on a number of factors, including the proceeds available from lottery games. Should circumstances change, such as adding new games that generate new revenue or reductions in revenue, bonding capacity could change.

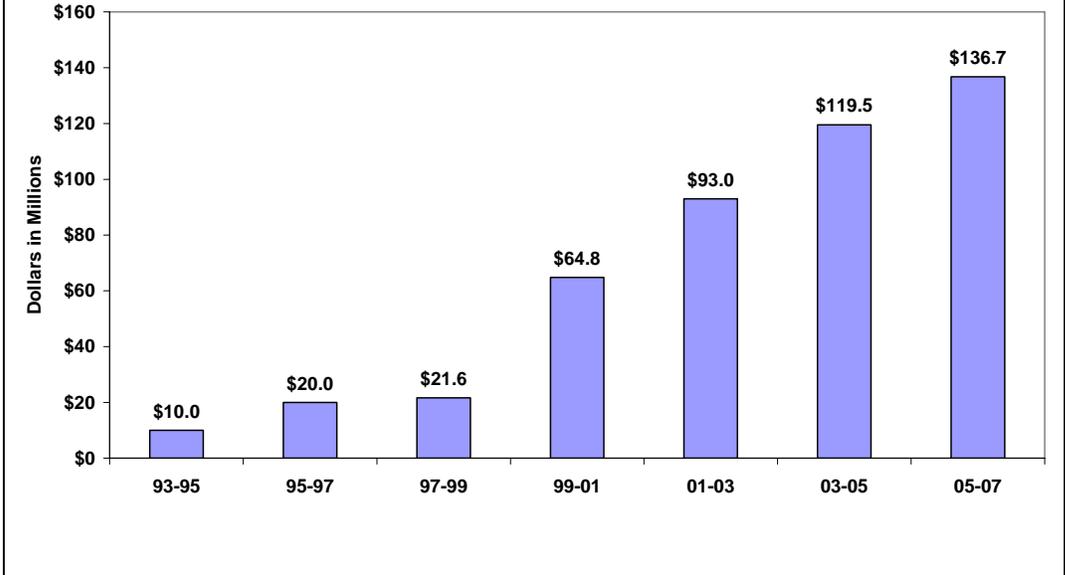
To date, the Legislature has approved the issuance of over \$1 billion in lottery-backed bonds as reflected in the following chart. See Appendix A for a history of lottery-backed bonds.



Debt service on lottery-backed bonds continues to increase and will absorb a significant portion of the available lottery resources in future biennia. Debt service in the 2003-05 biennium was \$119.4 million. This increases to \$136.7 million in 2005-07 based on all previously authorized bond issuance (excluding debt service on the parks bonds issued in 1998, which is paid out of the 15% of Lottery Funds dedicated to parks and natural resources, and a small portion of the debt service on K-12 education bonds, which is paid out of interest earnings on the Education Stability Fund). In 2005-07, debt service will absorb 24% of the unobligated net lottery proceeds. As noted in the “Lottery Funds” section of this report, dedicated Lottery Funds expenditures, including debt service, are more than 52% of all Lottery Funds expenditures.

The chart on the following page shows the growth in total debt service costs (excluding debt service on the parks bonds and K-12 education bonds).

Cumulative Debt Service Expenditures are Just Under \$470 million



2005 Substantive Bills with Budget Effects

The 2005 Legislature approved a number of substantive measures that had a direct and measurable budgetary impact. These include the Legislature's methamphetamine package, the veterans' package, and other substantive legislation.

Methamphetamine Package

In addition to the funding provided in certain agency budget bills, the Legislature approved two substantive measures (HB 2485 and SB 907) and two companion appropriation measures (HB 5174 and SB 5630) to deal with the state's methamphetamine ("meth") epidemic.

SB 907 creates or modifies a number of crimes relating to the manufacture, possession, or distribution of meth and its precursors as well as crimes of arson. The seriousness level of the crimes of child neglect and mistreatment of a dependent are increased where meth and other controlled substances are manufactured. Courts are also authorized to suspend child visitation rights when a parent's abuse of a controlled substance may contribute to the harm of the child. The Department of Corrections is given the authority to alter its current Alternative Incarceration Program to be more focused on substance abuse treatment.

SB 5630 appropriates \$3.4 million General Fund to various state agencies in support of SB 907. The Department of Corrections will receive \$2.4 million General Fund for increased incarceration costs and for transitional housing and treatment for graduates of the Department's Alternative Incarceration Programs. The Department of Justice's District Attorney assistance program will receive \$550,087 General Fund for 3 positions (2.58 FTE) to provide additional assistance for the investigation and prosecution of meth crimes. Also, \$450,000 in General Fund is directed to the Public Defense Services Commission for the anticipated increase in indigent defense services. In 2007-2009, these agencies' roll-up costs are estimated at approximately \$6.8 million.

HB 2485 creates or modifies crimes relating to arson, theft, public nuisance, disposition of meth manufacturing waste, and distribution of certain equipment or substances with the intent to manufacture a controlled substance. The Criminal Justice Commission is authorized to establish a drug court grant program to create new courts or expand existing courts. In addition, the Board of Pharmacy is required to list products with ephedrine or pseudoephedrine as a Schedule III controlled substance, which requires a prescription. This bill also authorizes the Department of Human Services to terminate food stamps for specific actions relating to manufacture or distribution of meth. In addition, the Department of Agriculture is to develop a program to certify non-toxic additives to anhydrous ammonia to prevent its use in the manufacture of meth.

HB 5174 appropriates \$3.7 million General Fund to various state agencies and the Emergency Board in support of HB 2485. This measure provides \$2.5 million General Fund as a special purpose appropriation to the Emergency Board for the creation of new drug courts or expansion of existing drug courts. The Criminal Justice Commission must first report to the interim Judiciary Committees on the development of the grant program and progress in developing performance measures before requesting the \$2.5 million from the Emergency Board. The 2007 Legislature will need to evaluate continuation of the grant program and its funding for the 2007-2009 biennium. The Commission will receive \$158,054 for a position at the Commission (1.00 FTE) to develop, operate, and evaluate the grant program. The position's cost for 2007-2009 is estimated to be \$164,926. This bill provides

\$942,679 General Fund to the Judicial Department (OJD) for 9 positions (7.75 FTE) to continue four existing drug courts which have lost their federal funding. OJD's 2007-2009 cost will be similar to that of the 2005-2007 biennium.

The Department of Agriculture (ODA) is to receive \$40,000 in General Fund for a position (0.25 FTE) to support the certification and other activities relating to non-toxic additives to anhydrous ammonia. ODA's cost for 2007-2009 are expected to be similar to that of the 2005-2007 biennium. Also, \$88,143 General Fund is provided to the Department of State Police for a position (0.50 FTE) to meet the expected increase in the demand for forensics laboratory work. OSP's 2007-2009 cost is estimated to be \$176,286 for the position (1.00 FTE). For this measure, the total 2007-2009 roll-up cost is estimated to be \$1.3 million, exclusive of the \$2.5 million for which refunding will be decided during the 2007 legislative session.

Veterans' Package

The Legislature approved four substantive measures (SB 486, SB 1100, HB 2795, and HB 3504) and two companion appropriation measures (SB 5629 and HB 5163) to benefit the state's veterans and their families. The appropriations are one-time in nature unless continued by the 2007 Legislature.

SB 1100 creates the Oregon Military Emergency Financial Assistance Fund for the Military Department to provide hardship grants and loans to members and immediate family of Oregon National Guard members on active duty. The measure provides for a tax refund check-off to contribute to the Fund. Additionally, it establishes a program in the Department of Veterans' Affairs to enhance and expand services to be provided by county veterans' service offices. Finally, the measure provides students attending post-secondary schools who have been called to active duty with options to complete their course work or withdraw from courses without penalty.

SB 486 extends the tuition waiver program of the Military Department to surviving spouses and dependents of Oregon National Guard members killed while on active duty. It increases the percentage of tuition waiver from 90% to 100% of resident tuition charges at eligible post-secondary institutions.

SB 5629 appropriates \$3.6 million General Fund and \$500,000 Other Funds to various state agencies for benefit programs that are established in SB 1100 and SB 486.

The Military Department receives \$500,000 General Fund for tuition waivers to Oregon National Guard members or surviving family members to attend college, and appropriates \$500,000 General Fund to the Oregon Military Emergency Financial Assistance Fund for hardship grants and loans to members and immediate family of Oregon National Guard members on active duty. An Other Funds expenditure limitation of \$500,000 is established for the Department to make payments from the Fund.

The bill also provides \$2.6 million General Fund to the Department of Veterans' Affairs for payments to counties for county veterans' services offices. The Legislature instructed the Department to report to the Emergency Board by December 31, 2005 with rules for a formula to distribute the funding.

HB 3504 increases the education benefit allowance provided by the Department of Veterans' Affairs from \$50 per month to \$150 per month. It also creates the Oregon Troops to Teachers program in the Oregon Student Assistance Commission to pay tuition to veterans attending college who agree to teach in Oregon. The measure requires the Military Department to reimburse active members of the Armed Forces and certain retirees for the cost of hunting and angling licenses. It also creates the Oregon

Veterans' Emergency Financial Assistance Fund in the Department of Veterans' Affairs to provide emergency financial assistance to veterans and their immediate families.

HB 5163 appropriates moneys for benefit programs that are established or modified in HB 3504. The measure appropriates \$1.7 million General Fund to various state agencies:

- \$350,000 General Fund to the Military Department to cover the estimated reimbursements for active military members and certain retirees' hunting and angling licenses.
- \$165,000 General Fund to the Oregon Student Assistance Commission for the Oregon Troops to Teachers Program to cover tuition for veterans who agree to teach in public or charter schools.
- \$1.1 million General Fund to the Department of Veterans' Affairs as follows: \$631,000 for the increased education benefit, and \$500,000 to provide emergency financial assistance to veterans and their immediate families.
- \$54,000 General Fund to the Employment Department for transportation needs of veterans seeking employment.

HB 2795 appropriates \$100,000 General Fund to the Oregon Department of Veterans' Affairs to apply towards the construction of a memorial to Oregon military personnel who died in the conflicts in Afghanistan and Iraq.

Other Substantive Measures

The Legislature approved 16 other substantive measures that either included a direct appropriation or were a source of revenue.

SB 2 directs the Department of Geology and Mineral Industries to develop statewide seismic needs assessments of public school buildings, fire stations, police stations, and hospitals. It provides \$500,000 General Fund for the Department to begin this work. Because the Department's initial estimate to complete all assessment work was \$1.3 million, the Department is directed to use existing resources to the greatest extent possible to supplement the initial appropriation. The Department will report to the Emergency Board with a work plan and an estimate of the additional funding necessary to complete the needs assessment.

SB 232 establishes insanity as an affirmative defense in juvenile delinquency matters, provides the procedure and standards for the defense, and creates dispositional options for those found Responsible Except for Insanity. The Psychiatric Security Review Board (PSRB) is expanded to include a five-member juvenile panel for disposition of youth who have a serious mental condition or who present a danger to themselves or others. Because the bill takes effect January 1, 2007, there is a minimal fiscal impact in 2005-07. PSRB is provided an additional \$15,000 General Fund appropriation to cover the expenses of the juvenile panel. Roll-up costs in the Department of Human Services' Mental Health Program Services are estimated to increase by \$4.9 million in 2007-09 and \$12.5 million in 2009-11; about half of the costs would be General Fund. The Oregon Youth Authority would see 2007-09 savings of less than \$100,000 based on a small reduction in caseload.

SB 289 appropriated \$49,000 General Fund to the Department of Human Services to support the Women, Infants and Children Farmers' Market Nutrition Program during the 2005-07 biennium. The program provides vouchers to low income women and children to be used at local farmers' markets from June through October each year.

SB 290 appropriated \$956,287 General Fund and provided \$948,366 Other Funds expenditure limitation to the Department of Agriculture to complete and operate a Pesticide Use Reporting System.

One-time expenditures will be phased out for the 2007-09 biennium, leaving about \$695,000 General Fund and \$685,000 Other Funds to operate the system in that biennium.

SB 311 requires the Department of Consumer and Business Services to adopt rules regulating medical examinations in workers' compensation claims and creates a program to certify physicians performing required independent medical examinations. This expense is funded out of the workers' compensation assessment. DCBS is provided Other Funds expenditure limitation of \$525,608, and 7 positions (4.63 FTE). Program costs in the 2007-09 biennium are estimated to be \$635,000.

SB 359 creates the Oregon Advocacy Commissions Office and provides \$333,000 General Fund and two permanent, full-time positions for its 2005-07 biennium operations. The Office will provide administrative support to the Commission on Asian Affairs, the Commission on Black Affairs, the Commission on Hispanic Affairs, and the Commission for Women. The measure also provides \$185,000 Other Funds expenditure limitation and limited duration positions for an Americorps grant, and various other commission activities that are funded with gifts, grants and donations.

SB 364 creates the Workforce 2005 Task Force to examine and make recommendations related to professional and technical education in grades 7 through 12 and higher education. The Legislature appropriated \$83,411 General Fund to the Department of Education to provide staff support to the task force. The Legislature authorized two limited duration positions as well. Since the Department may accept contributions from any source to help support the task force, the agency is directed to use contributions instead of General Fund, if any become available.

SB 421 requires the Department of Consumer and Business Services to establish building code administrative regions for all areas of the state. The bill provides for appointment of DCBS staff for each region to administer and enforce the state building code and imposes a surcharge on permit fees and hourly charges to defray the costs of administering and enforcing the state building code. DCBS received \$320,634 Other Funds expenditure limitation and 3 positions (2.25 FTE) to implement the provisions of the bill. Full 2007-09 biennium costs are estimated to be \$402,300.

SB 467 requires the Department of Education to reimburse school districts, government agencies, and community groups for lunches served during the summer as part of a food service program or national school lunch program. The bill appropriates \$150,000 General Fund to the Department for grants to reimburse lunch providers.

SB 838 creates the Oregon Innovation Fund and the Oregon Innovation Council. The measure provides \$7 million Lottery Funds expenditure limitation for the Oregon Innovation Council for purposes related to a signature research center. The resources will be administered by the Economic and Community Development Department. The measure also creates the Commercialized Research Fund and the Commercialized Research Advisory Council. Staff support for the Oregon Innovation Council and operating funds for the two councils is funded at \$280,000 in the OECD budget. A mechanism to fund the Commercialized Research Fund is created by SB 853.

SB 870 establishes the Oregon Project Independence (OPI) Fund and directs the Department of Human Services to pay the Fund \$12 million within 30 days of the measure's enactment. The measure also transfers \$250,000 from the Senior Property Tax Deferral Revolving Account to the OPI Fund. Moneys in the OPI Fund are continuously appropriated to the Department of Human Services for the purpose of funding Oregon Project Independence. Expenditures from the Fund in the 2005-07 biennium are limited to \$12 million.

Further, beginning July 1, 2007, the Department of Revenue is no longer required to repay to the General Fund the amounts advanced to the Senior Property Tax Deferral Revolving Account. Instead, excess funds in the Account will be transferred into the newly established OPI Fund. To the extent there are excess funds in the Account, this provides a mechanism for the ongoing funding of OPI.

HB 2101 addresses emergency communications issues in two ways: 1) the Office of Emergency Management is directed to coordinate the development of a public safety wireless infrastructure replacement plan for state agencies, including the Department of State Police, the Department of Corrections, the Department of Forestry, and the Department of Transportation; and 2) the State Interoperability Executive Council is established to develop an Oregon Interoperability Communications Plan. This plan is to provide both short and longer term strategies in addressing the need for the various public safety agencies and first responders to communicate during natural disasters, acts of terrorism, and other emergencies. Within existing federal Homeland Security grant funds, \$382,000 is designated to hire outside contractors to help the Office of Emergency Management and others develop these plans.

HB 2278 establishes four new circuit court judgeships, appropriates \$722,200 General Fund to the Judicial Department, and establishes 16 new positions (4.00 FTE) for the final six months of the 2005-07 biennium. Full 2007-09 biennium costs for the 16 positions are an estimated \$2.2 million. Only the 5th Judicial District receives \$131,702 for one-time start-up costs for equipment and furnishings. The remaining three judicial districts will use existing facilities and equipment.

HB 2717 maintains the requirement that a hearing on appeal of a decision by the Department of Consumer and Business Services director be scheduled by the Workers' Compensation Board within 90 days of receiving the request, and allows for postponement. However, the measure limits the postponement period to 120 days from the original hearing date. The Department is provided with a \$247,562 Other Funds expenditure limitation for one-time expenditures related to rescheduled hearings during the first 10 months after the measure takes effect on January 1, 2006.

HB 2792 establishes the State Court Facilities Security Account to be used for developing and implementing security improvements, emergency preparedness, and business continuity plans relating to structures used by the Supreme Court, Court of Appeals, Oregon Tax Court, and the Office of the State Court Administrator, as well as security training for all court employees. Excess funds in the Account will be used for similar purposes in circuit, justice, and municipal courts. Revenue comes from a \$3 to \$7 increase in circuit, municipal, and justice court assessments, with the increase dependent upon the amount of the underlying fine or forfeiture. Revenue is estimated at \$1.74 million for 18 months of the 2005-07 biennium and \$2.31 million in 2007-09.

The measure provides an Other Funds expenditure limitation of \$139,671 for the Judicial Department and establishes one permanent full-time position. The Department will bring a request to the Emergency Board for additional Other Funds limitation for security audit and training funds. Once the security audit is complete, the Department will develop a formal security plan to implement during the 2007-09 biennium.

HB 3124 is related to court filing fees and surcharges. This measure delays the effective date of the approximate 10% base filing fee increase authorized by chapter 737, Oregon Laws 2003, from July 1, 2005 to January 1, 2007 and extends to December 31, 2006 the temporary fees or surcharges authorized by chapter 737, Oregon Laws 2003 (originally scheduled to sunset on June 30, 2005). Revenues are deposited into the state General Fund after the deduction of a Judicial Department

administrative collection prorate. The directing of revenue to the General Fund differs from the 2003-2005 biennium when revenue generated from the 30% filing fee surcharge was deposited into the OJD Operating Account. The collection of filing fees and surcharges under this measure applies only to the state's circuit and appellate courts.

The measure is expected to generate General Fund revenues of \$5.4 million for the 2005-2007 biennium after the deduction of an 8% OJD Collection Account charge of \$311,358. For the 2007-2009 biennium, General Fund revenues are estimated at \$348,585 and OJD Collection Account revenues at \$30,312.

Potential 2005-07 Budget Risks and 2007-09 Tentative Budget Issues

2005-07 Budget Risks

The legislatively adopted budget for the 2005-07 biennium is based on a number of program, policy, and environmental factors that are subject to change over the two-year budget period. A number of budgetary or financial risks that could adversely affect its ultimate execution are discussed below.

Revenue Forecast – The May 2005 economic forecast, which is the basis for the 2005-07 legislatively adopted budget, anticipated \$11.6 billion in available General Fund resources. This represents an increase of 11% above the \$10.4 billion May 2005 projection for the 2003-05 biennium. The May forecast for available 2005-07 resources was substantially increased – by \$224 million – from the March 2005 forecast, based primarily on Oregon’s index of leading indicators. If projected increases in job growth, manufacturing, and personal income do not occur, this could reduce actual resources available.

It is important to note that the September 2003 close-of-session revenue forecast estimated there would be \$10.8 billion of General Fund resources, or \$0.3 billion (3%), more than the \$10.5 billion amount reflected in the May 2005 forecast for 2003-05. If a similar 3% variance occurs during 2005-07, projected revenues would vary by about \$331 million.

Ending Balance – The legislatively adopted budget anticipates a General Fund ending balance of about \$50 million, including estimated reversions from the 2003-05 state agency budgets, with an additional \$75 million in reserve. The actual ending balance amount will depend on the elements included in the close-of-session revenue forecast. Bond rating agencies and best practices suggest a balance between 2 and 2.5% of revenues. Application of this standard would require a balance of \$230 to \$290 million. In periods of uncertainty, even greater balances should be considered. It is possible that changes in the economy could lead to a deficit situation for the adopted budget at some point during the biennium.

Emergency Fund – The adopted budget provides for a general purpose Emergency Fund of \$30 million. This is only 75% of the amount included in each of the two prior biennial budgets. Given actions that have been taken during the last two biennia to capture efficiencies and to reduce administrative costs, agencies continue to have limited management flexibility to address significant budget issues as they arise. As a result, agencies may bring more issues to the Emergency Board for evaluation, funding, and/or changes in legislative expectations. Additionally, it appears, for the first time in several biennia, 2005 fire season costs will require an Emergency Fund allocation. If an additional allocation is necessary after the 2006 fire season, Emergency Fund resources may not be available for other unbudgeted expenses.

General Uncertainty – Although difficult to quantify, there is a cost to the uncertainty with respect to the state’s budget. One of the most direct costs is the potential for further downgrades of the state’s credit rating. A lower credit rating generally translates into increased costs for debt financing. Economic development efforts can also be adversely affected by uncertain fiscal conditions. Uncertainty regarding the state’s tax system and the level of support provided to the educational system and other government services can hamper the ability to recruit businesses and skilled workers to the state.

Other Funds Revenue Sources – Projections for major Other Funds revenue sources relied upon in the legislatively adopted budget such as Tobacco Master Settlement Agreement payments, tobacco tax compliance revenues, and cigarette taxes may not materialize at the anticipated level. Cigarette sales, for example, continue to drop nationwide and in Oregon, which will likely result in reductions to Tobacco Master Settlement Agreement and tobacco tax revenues.

Initiative and Referendum – Many of the state’s current fiscal issues have developed on the basis of the initiative and referendum processes, such as Measures 5 and 50 (property tax limitation) and Measure 11 (mandatory minimum sentencing). The current risk is a referral of a measure that would impose spending restrictions and prompt significant reductions in funded state services.

Lawsuits – The legislatively adopted budget assumes savings from certain changes in the levels of services, potentially exposing the state to litigation. Numerous lawsuits are still pending from actions taken in prior biennia. It is not possible to quantify the cost of defending the state against such legal actions or estimate the ongoing financial obligations that may result. To the extent that plaintiff challenges create a state obligation, this puts further demands on limited resources. It may be necessary to provide Emergency Fund allocations to address any extraordinary expenses related to litigation against the state.

Caseload Costs – The legislatively adopted budget is based on forecasts of program caseloads in the human services and public safety areas. Actual caseloads typically differ from these forecasts and may affect the ability of state agencies in these areas to implement their budgets. Some caseloads, such as the Medicaid caseload, are – under federal and state law – considered mandated: if a person meets eligibility requirements, then he or she must be provided benefits whether or not the existing budget is sufficient. Many of these caseloads are affected by external factors such as the economic health or demographic shifts of Oregon and are beyond the control of agency managers. Other caseloads are affected by policy changes directed by the Legislature or the electorate, such as enhancing or limiting services, tightening eligibility requirements, or imposing longer or mandatory prison sentences.

Federal Policy Changes – Changes in federal policy can have a budget impact on the state by either providing additional or reduced funding. The 2003-05 budget, for example, included \$216 million from temporary federal fiscal relief payments. Because that funding was temporary, the 2005-07 legislatively adopted budget replaces the federal funding with state funding. The 2005-07 budget includes significant amounts of Medicaid provider taxes that are used to enhance nursing facility reimbursement and to fund the Oregon Health Plan Standard program. The President’s proposed 2006 budget (for the fiscal year October 1, 2005 – September 30, 2006) included reductions to the federal Medicaid budget by limiting federal payments related to state provider taxes. Analysts do not believe these reductions will be made during the 2006 federal fiscal year, but variants of these proposed reductions could be implemented during the 2007 federal fiscal year, thereby affecting revenue for the Department of Human Services in 2005-07.

Federal Decisions – Federal approval is required in many instances before state agencies can implement changes that are assumed in the state’s budget. For example, the 2005-07 Department of Human Services budget assumes several reductions in Oregon Health Plan services, including a limitation on dental services, the elimination of vision services, and reductions to the number of patient days per year for which DHS will provide hospital reimbursement. Before these services can be reduced or eliminated, however, the federal Centers for Medicare and Medicaid Services must give its approval. Without this approval, the cost of the OHP will be higher than budgeted, unless it is offset by lower caseloads or other less costly services.

Binding Interest Arbitration – Some state workers represented by labor unions are prohibited from striking, but they ultimately have the right of binding interest arbitration to settle contracts. In such cases, it is possible that compensation costs for those agencies will exceed the currently budgeted personal services funds. The Department of Corrections is the primary agency at risk.

Inflation – The adopted budget did include funding for inflation anticipated for the state’s purchase of goods and delivery of services, with a few exceptions. To the extent that the costs of certain goods and services (e.g., gasoline and electricity) increase more than anticipated due to inflationary effects, agencies will be required to manage to the higher expenses within their approved budgets.

2007-09 Tentative Budget Issues

The majority of the potential risks identified above for the 2005-07 legislatively adopted budget may also have a significant impact on the 2007-09 tentative budget. There are several additional cost issues that will affect the 2007-09 budget, including:

Roll-Up Costs of 2005-07 Budget Decisions – Decisions on increasing the state debt will reduce the amount of General Fund, Lottery Funds, and Tobacco Master Settlement Agreement resources available for general purposes since debt service must be paid.

Employee Compensation and Benefits – The 2005-07 adopted budget includes \$130 million General Fund in a special purpose appropriation for anticipated compensation and benefit cost increases. The estimated 2007-09 roll-up costs for existing bargained benefits is approximately \$206 million.

Forecast and Sustained Economic Growth – The May 2005 economic and revenue forecast projects a 12% growth in General Fund revenues for the 2007-09 biennium from the projected 2005-07 revenue total. This basically represents a return to the long-term growth trend after a 7.5% decline in General Fund from 1999-2001 to 2001-03, an 11% increase from 2001-03 to 2003-05, and an 8.6% increase from 2003-05 to 2005-07.

Appendix A

History of Lottery Bond Expenditures

1993-95

The 1993 Legislature approved the issuance of \$96.7 million in bonds for construction of the Westside Light Rail project.

1997-99

The 1997 Legislature approved a total of \$182.2 million in bonds, which included \$150 million for education facilities and equipment, \$5 million for the state match to the Federal Safe Drinking Water Revolving Loan Fund, and \$12 million for the acquisition of state parks property.

1999-2001

The 1999 Legislature established a lottery bond cap of \$228.1 million, contingent on voter approval of the Coos Bay pipeline and congressional authorization of the Columbia River channel deepening project, including \$124 million for primary and secondary education facilities and equipment and potential bond issuance of up to \$70 million for economic and community development programs. This included another \$5 million for the safe drinking water match; up to \$17.7 million for Columbia River channel deepening; a potential \$20 million for a Coos Bay natural gas pipeline (contingent on voter approval); and \$40 million for infrastructure grants and loans. The Legislature authorized \$25 million for the Community Development Incentive Project in the Department of Housing and Community Services and \$5 million for park acquisition. The Legislature also authorized \$10.2 million for renovation of Oregon State Fair and Exposition Center facilities and \$1 million for the Oregon Gardens (through the Economic and Community Development Department).

2001-03

The 2001 Legislature approved a total of \$274.7 million of lottery-backed bonds, but subsequent actions deferred over \$80 million of this bonding authority to the 2003-05 biennium. Specifically, lottery-backed bonding was approved for the following:

- Economic and Community Development Department – \$181.1 million in infrastructure bonds, with the expectation that revolving loan payments would create a sustainable funding stream (\$32.4 million was deferred to 2003-05); \$28 million for extension of the bonding authority for the Columbia River channel deepening project, with the understanding that the bonds could not be sold until all required funding and agreements were in place from the federal government and the State of Washington (the amount was increased to \$31.4 million and deferred to 2003-05); \$2.3 million for the purchase of a railroad in Wallowa and Union Counties; and \$890,000 to be used for a study of the Columbia River estuary and for renovation projects (the amount was deferred to 2003-05).
- Department of Transportation – \$23 million to finance a portion of the South Metro Commuter Rail project (deferred to 2003-05 and increased by \$17.2 million to a total of \$40.2 million, based on the 2001 legislative commitment to fund an additional share of the cost of the project; Washington County and the Federal Railroad Administration are each expected to provide an additional \$25 million); and \$2.3 million for financial assistance for short-line railroads for short rail projects.

- Other Projects – \$20 million remaining from the \$25 million approved in 1999 for the Community Development Incentive Project in the Department of Housing and Community Services; \$15.9 million to construct facilities at Eastern and Southern Oregon Universities; \$10 million for facilities renovation at the Oregon State Fair; \$9.1 million to purchase and install digital equipment for Oregon Public Broadcasting; and \$9.1 million for water pollution control projects in the Department of Environmental Quality.

2003-05

The 2003 Legislature, as noted above, reauthorized \$84.3 million in bonding authority for the Economic and Community Development Department infrastructure and Columbia River channel deepening projects as well as for the Department of Transportation South Metro Commuter Rail project. The Legislature approved an increase of \$17.2 million for the previously authorized South Metro Commuter Rail and an increase of \$3.4 million in bonding authority for the previously authorized Columbia River channel deepening project. The Legislature approved additional new bonding authority as follows: \$11.4 million in the Department of Transportation for improvements to connector spurs and for short rail line improvements; \$11.4 million to the Department of Higher Education for facilities construction for Signature Research Centers; and \$4 million in the Economic and Community Development Department for small port improvements (the Department used existing debt service capacity in the 2003-05 biennium to fund the debt service for projects funded with these bonds).

Appendix B

Number of Full-Time Equivalent Positions By Program Area and Agency

	2001-03 ACTUAL	2003-05 LEGISLATIVELY APPROVED	2005-07 GOVERNOR'S RECOMMENDED	2005-07 LEGISLATIVELY ADOPTED
PROGRAM AREA: EDUCATION				
COMMUNITY COLLEGES & WORKFORCE DEV, DEPT OF	47.07	45.70	48.74	49.70
EDUCATION, DEPT OF	457.14	447.32	440.00	441.05
HIGHER EDUCATION, DEPT OF	11,155.90	12,061.26	11,301.52	11,876.52
STUDENT ASSISTANCE COMMISSION	91.72	87.00	26.00	22.35
TEACHER STANDARDS & PRACTICES COMM	17.75	20.00	21.50	21.50
EDUCATION TOTAL	11,769.58	12,661.28	11,837.76	12,411.12
PROGRAM AREA: HUMAN SERVICES				
BLIND, COMMISSION FOR THE	52.10	41.33	44.60	44.60
CHILDREN & FAMILIES, COMM ON	33.90	23.50	29.50	29.50
OREGON DISABILITIES COMM*	5.20	4.00	3.00	0.00
HUMAN SERVICES, DEPT OF*	8,813.94	9,135.31	9,184.52	9,061.51
INSURANCE POOL GOVERNING BOARD	40.79	51.50	51.50	51.50
LONG TERM CARE OMBUDSMAN	8.00	8.00	8.00	8.00
PSYCHIATRIC SECURITY REVIEW BOARD	4.00	4.00	5.00	4.75
HUMAN SERVICES TOTAL	8,957.93	9,267.64	9,326.12	9,199.86
PROGRAM AREA: PUBLIC SAFETY				
CORRECTIONS, DEPT OF	3,772.81	3,898.03	4,318.22	4,181.91
CRIMINAL JUSTICE COMMISSION	12.41	10.91	7.00	6.00
DISTRICT ATTORNEYS & THEIR DEPUTIES	36.00	36.00	36.00	36.00
JUSTICE, DEPT OF	1,171.69	1,191.09	1,207.27	1,198.54
MILITARY, DEPT OF	369.59	411.41	424.41	429.91
PAROLE & POST PRISON SUPERVISION BRD	15.75	14.75	14.75	15.00
PUBLIC SAFETY STANDARDS & TRAINING, DEPT. OF***	108.17	91.25	128.66	134.84
STATE POLICE, DEPT OF**	1,414.71	1,165.21	1,129.78	1,140.07
YOUTH AUTHORITY, DEPT OF	1,251.27	1,032.29	1,044.21	1,045.21
PUBLIC SAFETY TOTAL	8,152.40	7,850.94	8,310.30	8,187.48
PROGRAM AREA: JUDICIAL BRANCH				
COURT PROCEDURES, COUNCIL ON	0.71	0.00	0.71	0.00
JUDICIAL DEPARTMENT	1,778.79	1,841.73	1,888.96	1,851.25
JUDICIAL FITNESS	0.75	0.50	0.50	0.50
PUBLIC DEFENSE SERVICES COMMISSION	61.44	58.45	59.45	55.45
JUDICIAL BRANCH TOTAL	1,841.69	1,900.68	1,949.62	1,907.20
PROGRAM AREA: ECONOMIC & COMMUNITY DEVELOPMENT				
ECONOMIC & COMMUNITY DEVELOPMENT DEPT	148.10	116.39	113.00	115.00
EMPLOYMENT DEPARTMENT	1,432.03	1,421.51	1,368.54	1,368.12
FAIR & EXPO CENTER, STATE***	32.92	37.18	37.05	10.71
HOUSING & COMMUNITY SERVICES DEPT.	143.49	148.34	150.58	147.08
VETERANS' AFFAIRS, DEPT OF	163.14	139.00	113.00	112.50
ECONOMIC & COMMUNITY DEVELOPMENT TOTAL	1,919.68	1,862.42	1,782.17	1,753.41

	2001-03 ACTUAL	2003-05 LEGISLATIVELY APPROVED	2005-07 GOVERNOR'S RECOMMENDED	2005-07 LEGISLATIVELY ADOPTED
PROGRAM AREA: NATURAL RESOURCES				
AGRICULTURE, DEPT OF	423.42	382.56	348.57	368.93
ENERGY, OFFICE OF	80.35	82.49	86.02	84.71
ENVIRONMENTAL QUALITY, DEPT OF	857.50	814.53	778.35	776.57
FISH & WILDLIFE, DEPT OF	1,127.03	1,108.37	1,150.02	1,163.26
FORESTRY DEPARTMENT	932.99	880.42	917.58	913.71
GEOLOGY & MINERAL INDUSTRIES, DEPT OF	34.66	34.33	35.20	36.70
LAND CONSERVATION & DEVELOPMENT, DEPT OF	60.81	52.47	61.96	66.96
LAND USE BOARD OF APPEALS	6.00	6.00	6.00	6.00
LANDS, DEPT. OF STATE	80.75	86.26	93.50	90.68
MARINE BOARD	38.00	38.00	39.00	39.00
PARKS & RECREATION, DEPT OF***	517.13	524.44	539.61	560.82
WATER RESOURCES DEPT	152.15	140.21	136.00	138.00
WATERSHED ENHANCEMENT BRD	25.96	22.50	26.00	26.38
NATURAL RESOURCES TOTAL	4,336.75	4,172.58	4,217.81	4,271.72
PROGRAM AREA: TRANSPORTATION				
AVIATION, DEPT OF	16.00	16.00	16.00	16.00
TRANSPORTATION, DEPT OF	4,693.62	4,585.68	4,589.58	4,562.87
TRANSPORTATION TOTAL	4,709.62	4,601.68	4,605.58	4,578.87
PROGRAM AREA: CONSUMER AND BUSINESS SERVICES				
ACCOUNTANCY, BRD OF	7.00	7.00	7.00	7.00
CHIROPRACTIC EXAMINERS, BRD OF	4.50	4.50	4.50	4.50
CLINICAL SOCIAL WORKERS, BOARD OF	2.50	2.50	2.50	2.50
CONSTRUCTION CONTRACTORS BOARD	63.75	60.75	61.38	60.38
CONSUMER & BUSINESS SERVICES, DEPT OF	1,098.50	1,076.95	1,060.42	1,068.47
COUNSELORS AND THERAPISTS, BOARD OF LICENSEI	2.00	2.00	2.00	2.00
DENTISTRY, BOARD OF	7.00	7.00	7.00	7.00
HEALTH LICENSING OFFICE	26.92	26.92	27.00	27.00
HEALTH RELATED LICENSING BOARDS				
LICENSED DIETICIANS	0.30	0.30	0.30	0.30
MORTUARY & CEMETERY BOARD	6.00	5.75	6.00	6.00
NATUROPATHIC EXAMINERS	1.75	1.75	2.00	2.00
NURSING HOME ADMINISTRATORS	1.00	1.00	1.00	1.00
OCC THERAPY LICENSING BOARD	1.25	1.25	1.25	1.25
PHARMACY, BRD OF	15.00	15.50	19.46	17.50
RADIOLOGIC TECHNICIANS	2.79	2.65	3.00	3.00
SPEECH PATHOLOGY AND AUDIOLOGY	0.85	0.85	1.40	1.40
VETERINARY MEDICAL EXAM BRD	2.25	2.25	2.25	2.25
HEALTH RELATED LICENSING BOARD TOTAL	31.19	31.30	36.66	34.70
INVESTIGATORS, BRD OF****	2.50	2.50	2.50	0.25
LABOR & INDUSTRIES, BUREAU OF	113.75	106.24	109.00	108.00
MEDICAL EXAMINERS, BRD OF	31.00	32.60	34.50	34.30
NURSING, BRD OF	35.50	39.25	44.25	44.25
PSYCHOLOGIST EXAMINERS	2.50	2.50	3.00	3.00
PUBLIC UTILITY COMMISSION	123.00	123.50	124.00	124.00
REAL ESTATE AGENCY	30.29	30.00	29.63	18.52
TAX PRACTITIONERS, STATE BOARD OF	5.00	4.00	4.00	4.00
CONSUMER & BUSINESS SERVICES TOTAL	1,586.90	1,559.51	1,559.34	1,549.87

	2001-03 ACTUAL	2003-05 LEGISLATIVELY APPROVED	2005-07 GOVERNOR'S RECOMMENDED	2005-07 LEGISLATIVELY ADOPTED
PROGRAM AREA: ADMINISTRATION				
ADMINISTRATIVE SERVICES, DEPT OF	925.38	898.23	875.03	892.74
ADVOCACY COMMISSIONS OFFICE	0.00	0.00	2.26	2.26
ASIAN AFFAIRS, COMM ON	1.00	1.00	0.00	0.00
BLACK AFFAIRS, COMM ON	1.00	1.00	0.00	0.00
CAPITOL PLANNING COMMISSION	1.63	0.00	0.00	0.00
EMPLOYMENT RELATIONS BOARD	16.00	12.50	13.33	12.00
GOVERNMENT STANDARDS & PRACTICES COMM	4.00	2.80	4.00	3.00
GOVERNOR, OFFICE OF	53.00	44.50	45.50	45.50
HISPANIC AFFAIRS, COMM ON	1.00	1.00	0.00	0.00
LIBRARY, STATE	44.38	43.63	42.72	42.47
LIQUOR CONTROL COMM	216.77	202.27	214.27	211.27
PUBLIC EMPLOYEES RETIREMENT SYSTEM	226.33	356.09	368.00	379.00
RACING COMMISSION	17.68	17.50	17.50	12.98
REVENUE, DEPT OF	947.74	987.73	1,007.06	1,004.91
SECRETARY OF STATE	205.67	207.50	230.50	198.08
TREASURER OF STATE	77.25	74.60	74.60	74.60
WOMEN, COMMISSION FOR	2.80	3.00	0.00	0.00
ADMINISTRATION TOTAL	2,741.63	2,853.35	2,894.77	2,878.81
PROGRAM AREA: LEGISLATIVE BRANCH				
INDIAN SERVICES, COMM	2.00	2.00	2.00	2.00
LEGISLATIVE ADMINISTRATION	117.63	107.39	107.39	103.39
LEGISLATIVE ASSEMBLY	223.62	216.31	216.20	216.95
LEGISLATIVE COUNSEL	50.50	45.77	46.27	46.27
LEGISLATIVE FISCAL OFFICER	17.00	17.00	17.00	18.75
LEGISLATIVE REVENUE OFFICER	6.00	6.00	6.00	6.00
LEGISLATIVE BRANCH TOTAL	416.75	394.47	394.86	393.36
STATE OF OREGON TOTAL FTE POSITIONS	46,432.93	47,124.55	46,878.33	47,131.70

* Reflects transition of Oregon Disabilities Commission to Department of Human Services

** Governor's recommended budget reflected a new Department of Homeland Security; the Legislature did not approve; totals included in OSP

*** Reflects transition of State Fair and Exposition Center to Parks and Recreation Department

**** Reflects transition of Board of Investigators to Department of Public Safety Standards and Training

Appendix C

Summary of Expenditures by Program Area and Fund

Program Area	General Fund	Lottery Funds	GF & LF Total	Other Funds	Federal Funds	All Funds
Education	6,362,958,001	474,469,546	6,837,427,547	4,181,876,221	1,106,404,635	12,125,708,403
Human Services	2,605,065,256	9,312,000	2,614,377,256	1,243,564,149	6,117,713,688	9,975,655,093
Public Safety	1,488,299,092	6,357,583	1,494,656,675	407,580,641	385,184,729	2,287,422,045
Judicial Branch	447,009,297	0	447,009,297	32,822,756	1,390,110	481,222,163
Natural Resources	122,981,314	155,452,826	278,434,140	843,454,784	223,076,995	1,344,965,919
Economic Development	21,951,241	111,123,624	133,074,865	4,672,730,908	491,301,688	5,297,107,461
Consumer and Business Svs.	11,320,999	0	11,320,999	820,752,170	1,771,424	833,844,593
Transportation	8,626,167	22,162,072	30,788,239	2,632,849,013	75,290,422	2,738,927,674
Administration	164,940,789	3,944,726	168,885,515	6,840,025,677	9,970,143	7,018,881,335
Legislative Branch	61,786,370	0	61,786,370	7,367,442	0	69,153,812
Miscellaneous (E Fund)	193,800,764	0	193,800,764			193,800,764
Total	11,488,739,290	782,822,377	12,271,561,667	21,683,023,761	8,412,103,834	42,366,689,262

Appendix D

Summary of Expenditures by Program Area, Agency, and Fund

Notes:

- Special purpose appropriations to the Emergency Board that were allocated to specific agencies are included within the agency General Fund budgets for the 2003-05 legislatively approved column. Special purpose appropriations for specific agencies are not included within the agency General Fund budgets for the 2005-07 legislatively adopted amounts, but are included in the legislatively adopted amount appropriated to the Emergency Board.
- The 2003-05 legislatively approved amounts represent expenditure authorizations through all 2003-05 Emergency Board actions (except for state employee benefit plan adjustments made at the November 2004 meeting of the Emergency Board), the most recent Department of Human Services rebalance (adopted in HB 5077), and other 2003-05 budget adjustments addressed during the 2005 legislative session. The 2003-05 legislatively approved budget also does not include certain administrative actions taken by the Department of Administrative Services approving increases to Nonlimited Other Funds and Federal Funds.
- The 2005-07 Governor's recommended amounts reflect the original December 2004 recommendations in the Governor's budget proposal. They do not include any subsequent revisions to accommodate changes to the revenue forecast.
- Non-Add Other Funds represent charges between state agencies; they are listed separately for informational purposes since they reflect double counting of expenditures.

	2001-03 Actual \$	2003-05 Legislatively Approved \$	2005-07 Governor's Recommended \$	2005-07 Legislatively Adopted \$
EDUCATION				
Community College Services and Workforce Development				
General Fund	382,129,816	416,420,326	393,642,264	433,067,380
Lottery Funds	-	49,000	-	-
Other Funds	13,908,964	13,564,684	13,557,139	90,488,832
Federal Funds	146,092,209	128,945,159	139,459,844	143,173,928
Total Expenditures	542,130,989	558,979,169	546,659,247	666,730,140
Education, Dept of				
General Fund	241,770,929	240,930,318	237,416,647	240,899,950
Lottery Funds	55,999,998	55,699,162	56,929,095	56,466,744
Other Funds	63,141,165	55,243,488	55,951,629	148,922,953
Federal Funds	694,639,174	934,021,747	1,044,085,927	961,126,847
Total Expenditures	1,055,551,266	1,285,894,715	1,394,383,298	1,407,416,494
State School Fund & Other K-12 Grants				
General Fund	3,802,109,714	4,462,368,481	4,703,817,141	4,834,392,341
Lottery Funds	614,555,682	452,100,536	295,732,859	405,057,659
Other Funds	267,626,128	17,191,710	950,000	950,000
Total Expenditures	4,684,291,524	4,931,660,727	5,000,500,000	5,240,400,000
Higher Education, Dept. of				
General Fund	746,014,010	671,431,645	685,450,858	704,436,524
Lottery Funds	4,869,745	8,123,462	11,998,734	11,417,524
Other Funds	2,933,389,589	3,567,557,466	3,834,006,174	3,893,046,538
Total Expenditures	3,684,273,344	4,247,112,573	4,531,455,766	4,608,900,586
Oregon Health and Science University				
General Fund	3,058,672	84,379,467	52,986,575	73,337,168
Other Funds	191,658,978	128,391,300	31,975,150	31,975,150
Total Expenditures	194,717,650	212,770,767	84,961,725	105,312,318
Student Assistance Commission				
General Fund	35,812,991	45,333,618	94,812,378	76,824,638
Lottery Funds	1,648,271	647,977	761,190	1,527,619
Other Funds	74,152,772	69,518,013	12,903,810	12,577,293
Federal Funds	1,097,891	1,239,605	2,103,860	2,103,860
Total Expenditures	112,711,925	116,739,213	110,581,238	93,033,410
Teacher Standards & Practices Comm				
Other Funds	3,320,018	3,639,664	3,820,753	3,915,455
EDUCATION PROGRAM AREA TOTAL				
General Fund	5,210,896,132	5,920,863,855	6,168,125,863	6,362,958,001
Lottery Funds	677,073,696	516,620,137	365,421,878	474,469,546
Other Funds	3,547,197,614	3,855,106,325	3,953,164,655	4,181,876,221
Federal Funds	841,829,274	1,064,206,511	1,185,649,631	1,106,404,635
Total	10,276,996,716	11,356,796,828	11,672,362,027	12,125,708,403

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
	\$	\$	\$	\$
HUMAN SERVICES				
Blind Commission				
General Fund	1,219,568	1,170,546	1,206,100	1,192,304
Other Funds	2,262,705	2,463,120	2,579,710	2,579,765
Federal Funds	8,449,139	9,087,419	9,657,702	9,610,163
Total Expenditures	11,931,412	12,721,085	13,443,512	13,382,232
Children and Families, Commission on				
General Fund	51,074,837	43,807,497	49,756,320	45,995,966
Other Funds	18,291,914	23,591,506	23,049,232	23,043,849
Federal Funds	288,658	377,404	3,825,865	3,823,717
Total Expenditures	69,655,409	67,776,407	76,631,417	72,863,532
Disabilities Comm, Oregon				
General Fund	281,641	-	-	-
Other Funds	509,749	719,087	584,797	-
Federal Funds	895,792	829,445	248,058	-
Total Expenditures	1,687,182	1,548,532	832,855	-
Human Services, Department of *				
General Fund	2,333,137,095	2,302,317,245	2,429,486,799	2,534,422,673
Lottery Funds	5,875,507	5,600,000	7,804,844	9,312,000
Other Funds	1,212,568,353	1,122,980,781	1,189,705,980	1,159,073,320
Federal Funds	5,409,535,564	5,898,097,224	5,940,102,733	6,104,279,808
Total Expenditures	8,961,116,519	9,328,995,250	9,567,100,356	9,807,087,801
Insurance Pool Governing Board				
General Fund	423,222	14,979,067	26,906,352	22,061,644
Other Funds	21,067,016	32,818,293	54,560,858	57,419,279
Total Expenditures	21,490,238	47,797,360	81,467,210	79,480,923
Long Term Care Ombudsman				
General Fund	593,600	580,101	545,205	545,205
Other Funds	1,226,298	1,432,753	1,475,316	1,445,936
Total Expenditures	1,819,898	2,012,854	2,020,521	1,991,141
Psychiatric Security Review Board				
General Fund	673,540	735,777	873,182	847,464
Other Funds	-	2,000	2,000	2,000
Total Expenditures	673,540	737,777	875,182	849,464
HUMAN SERVICES PROGRAM AREA				
General Fund	2,387,403,503	2,363,590,233	2,508,773,958	2,605,065,256
Lottery Funds	5,875,507	5,600,000	7,804,844	9,312,000
Other Funds	1,255,926,035	1,184,007,540	1,271,957,893	1,243,564,149
Federal Funds	5,419,169,153	5,908,391,492	5,953,834,358	6,117,713,688
Total	9,068,374,198	9,461,589,265	9,742,371,053	9,975,655,093

* The 2003-05 legislatively approved column includes \$77,718,040 General Fund appropriated for short-term cash flow needs but expected to be reverted at the close of the 2003-05 biennium.

	<u>2001-03</u> <u>Actual</u> \$	<u>2003-05</u> <u>Legislatively</u> <u>Approved</u> \$	<u>2005-07</u> <u>Governor's</u> <u>Recommended</u> \$	<u>2005-07</u> <u>Legislatively</u> <u>Adopted</u> \$
PUBLIC SAFETY				
Corrections, Dept of				
General Fund	784,092,076	806,474,509	1,072,350,875	1,037,460,522
Other Funds	180,670,931	27,887,655	177,567,420	49,071,585
Federal Funds	10,187,930	121,829,812	4,339,146	4,404,146
Total Expenditures	974,950,937	956,191,976	1,254,257,441	1,090,936,253
Criminal Justice Commission				
General Fund	15,803,707	7,339,264	1,224,264	1,126,359
Other Funds	40,266	378,742	31,839	106,541
Federal Funds	2,876,529	4,060,812	100,000	99,437
Total Expenditures	18,720,502	11,778,818	1,356,103	1,332,337
District Attorneys and Their Deputies				
General Fund	9,272,891	9,275,216	9,609,157	8,857,799
Justice, Dept of				
General Fund	22,862,361	31,486,940	46,964,008	31,804,268
Other Funds	186,366,312	148,081,289	145,359,754	159,143,262
Federal Funds	11,725,704	84,902,391	91,936,165	91,702,318
Total Expenditures	220,954,377	264,470,620	284,259,927	282,649,848
Military Department				
General Fund	13,080,588	14,203,531	16,771,846	17,378,874
Other Funds	9,243,878	13,139,619	7,950,565	8,663,334
Federal Funds	51,895,969	98,682,557	69,831,291	70,037,613
Total Expenditures	74,220,435	126,025,707	94,553,702	96,079,821
Oregon Youth Authority				
General Fund	211,706,933	198,050,268	208,202,251	206,903,481
Other Funds	15,034,313	12,801,776	13,033,457	12,582,327
Federal Funds	22,890,223	26,051,097	25,657,502	25,788,647
Total Expenditures	249,631,469	236,903,141	246,893,210	245,274,455
Parole & Post Prison Supervision, Bd. of				
General Fund	3,000,346	3,237,956	3,422,405	3,344,973
Other Funds	3,424	9,294	9,517	9,517
Total Expenditures	3,003,770	3,247,250	3,431,922	3,354,490
Police, Dept of State				
General Fund	171,408,744	160,815,210	96,947,696	172,907,032
Lottery Funds	4,412,022	5,566,608	76,015,514	6,357,583
Other Funds	109,811,407	134,116,388	50,062,434	146,764,490
Federal Funds	71,647,684	187,534,641	7,763,865	193,099,576
Total Expenditures	357,279,857	488,032,847	230,789,509	519,128,681

	<u>2001-03 Actual</u>	<u>2003-05 Legislatively Approved</u>	<u>2005-07 Governor's Recommended</u>	<u>2005-07 Legislatively Adopted</u>
	\$	\$	\$	\$
Oregon Homeland Security				
General Fund	-	-	3,396,145	-
Other Funds	-	-	84,353,670	-
Federal Funds	-	-	141,568,513	-
Total Expenditures	-	-	229,318,328	-

Public Safety Standards & Training, Dept of				
General Fund	-	-	28,187,052	8,515,784
Other Funds	92,263,788	23,203,488	12,310,023	31,239,585
Federal Funds	204,158	217,350	52,992	52,992
Total Expenditures	92,467,946	23,420,838	40,550,067	39,808,361

PUBLIC SAFETY PROGRAM AREA				
General Fund	1,231,227,646	1,230,882,894	1,487,075,699	1,488,299,092
Lottery Funds	4,412,022	5,566,608	76,015,514	6,357,583
Other Funds	593,434,319	359,618,251	490,678,679	407,580,641
Federal Funds	171,428,197	523,278,660	341,249,474	385,184,729
Total	2,000,502,184	2,119,346,413	2,395,019,366	2,287,422,045

	<u>2001-03</u> <u>Actual</u> \$	<u>2003-05</u> <u>Legislatively</u> <u>Approved</u> \$	<u>2005-07</u> <u>Governor's</u> <u>Recommended</u> \$	<u>2005-07</u> <u>Legislatively</u> <u>Adopted</u> \$
JUDICIAL BRANCH				
Court Procedures, Council on				
General Fund	79,612	-	101,671	10,000
Other Funds	8,000	8,000	8,000	8,000
Total Expenditures	87,612	8,000	109,671	18,000
Judicial Department				
General Fund	222,154,156	237,654,982	249,762,817	271,530,503
Other Funds	17,424,895	36,725,018	31,730,818	31,861,550
Federal Funds	1,189,291	2,333,247	892,247	1,390,110
Total Expenditures	240,768,342	276,713,247	282,385,882	304,782,163
Judicial Fitness, Commission on				
General Fund	185,580	161,762	179,066	175,983
Public Defense Services Commission				
General Fund	151,553,739	165,421,598	159,440,519	175,292,811
Other Funds	531,989	1,107,063	957,723	953,206
Total Expenditures	152,085,728	166,528,661	160,398,242	176,246,017
JUDICIAL BRANCH PROGRAM AREA				
General Fund	373,973,087	403,238,342	409,484,073	447,009,297
Other Funds	17,964,884	37,840,081	32,696,541	32,822,756
Federal Funds	1,189,291	2,333,247	892,247	1,390,110
Total	393,127,262	443,411,670	443,072,861	481,222,163

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
	\$	\$	\$	\$
ECONOMIC AND COMMUNITY DEVELOPMENT				
Economic & Community Development Dept				
General Fund	2,324,751	1,168,674	1,284,569	1,268,049
Lottery Funds*	72,661,873	83,293,120	109,837,897	103,318,259
Other Funds	185,644,055	229,472,592	341,145,708	327,777,593
Federal Funds	35,525,030	36,862,390	36,067,899	36,037,984
Total Expenditures	296,155,709	350,796,776	488,336,073	468,401,885
Employment Department				
General Fund	1,946,632	3,426,181	3,586,694	3,584,245
Other Funds	2,406,115,883	2,225,843,565	1,432,715,120	1,431,675,757
Federal Funds	260,744,308	266,335,469	251,666,439	250,290,816
Total Expenditures	2,668,806,823	2,495,605,215	1,687,968,253	1,685,550,818
Housing & Community Services Dept				
General Fund	7,163,258	9,794,031	9,792,104	10,868,769
Lottery Funds	1,905,233	4,462,311	4,460,538	4,460,538
Other Funds	1,239,323,957	1,945,430,998	2,275,122,477	2,273,793,644
Federal Funds	193,545,310	210,621,381	206,509,464	204,972,888
Total Expenditures	1,441,937,758	2,170,308,721	2,495,884,583	2,494,095,839
State Fair & Exposition Center				
General Fund	1,328,779	1,837,333	1,346,117	-
Lottery Funds	2,510,282	3,718,261	4,235,235	-
Other Funds	21,296,818	12,894,341	13,597,187	7,040,489
Total Expenditures	25,135,879	18,449,935	19,178,539	7,040,489
Veterans' Affairs, Department of				
General Fund	2,059,501	2,389,793	2,416,625	6,230,178
Other Funds	686,073,343	843,070,099	632,663,091	632,443,425
Total Expenditures	688,132,844	845,459,892	635,079,716	638,673,603
County Fairs**				
Lottery Funds	-	2,530,173	3,330,656	3,344,827
Historical Society				
General Fund	1,101,343	-	-	-
Oregon Public Broadcasting				
General Fund	2,049,379	-	-	-
Other Funds	7,000,000	-	-	-
Total Expenditures	9,049,379	-	-	-
Oregon Tourism Commission***				
Lottery Funds	-	2,729,366	-	-
Total Expenditures	-	2,729,366	-	-

	<u>2001-03</u> <u>Actual</u> \$	<u>2003-05</u> <u>Legislatively</u> <u>Approved</u> \$	<u>2005-07</u> <u>Governor's</u> <u>Recommended</u> \$	<u>2005-07</u> <u>Legislatively</u> <u>Adopted</u> \$
ECONOMIC AND COMMUNITY DEVELOPMENT PROGRAM AREA				
General Fund	17,973,643	18,616,012	18,426,109	21,951,241
Lottery Funds	77,077,388	96,733,231	121,864,326	111,123,624
Other Funds	4,545,454,056	5,256,711,595	4,695,243,583	4,672,730,908
Federal Funds	489,814,648	513,819,240	494,243,802	491,301,688
Total	5,130,319,735	5,885,880,078	5,329,777,820	5,297,107,461

* Amount includes \$3.35 million Lottery Funds in 05-07 that will be triggered if Econ. Dev. Fund revenue exceeds the end of session forecast.

** County Fair Lottery Funds recorded in Department of Agriculture budget for 2001-03

*** Tourism Commission was established as a semi-independent state agency in 2003; amount reflects one year of state operations support.

	<u>2001-03 Actual</u>	<u>2003-05 Legislatively Approved</u>	<u>2005-07 Governor's Recommended</u>	<u>2005-07 Legislatively Adopted</u>
	\$	\$	\$	\$
NATURAL RESOURCES				
Agriculture, Department of				
General Fund	17,498,207	11,295,439	17,900,969	14,082,794
Lottery Funds	7,506,927	7,835,034	6,408,093	11,240,762
Other Funds	38,682,242	51,140,076	46,519,559	46,762,046
Federal Funds	6,798,922	6,877,314	4,970,843	5,148,005
Total Expenditures	<u>70,486,298</u>	<u>77,147,863</u>	<u>75,799,464</u>	<u>77,233,607</u>
Columbia River Gorge Commission				
General Fund	664,440	631,600	869,247	864,694
Energy, Office of				
General Fund	867,872	-	-	-
Other Funds	98,646,345	169,421,613	202,854,894	157,563,635
Federal Funds	4,468,271	6,302,370	5,446,266	5,425,892
Total Expenditures	<u>103,982,488</u>	<u>175,723,983</u>	<u>208,301,160</u>	<u>162,989,527</u>
Environmental Quality, Department of				
General Fund	35,919,156	23,384,838	24,131,944	22,661,089
Lottery Funds	2,160,080	3,286,418	3,534,936	3,683,380
Other Funds	147,379,378	216,070,520	200,059,975	200,380,697
Federal Funds	33,202,479	51,917,943	35,839,459	37,883,426
Total Expenditures	<u>218,661,093</u>	<u>294,659,719</u>	<u>263,566,314</u>	<u>264,608,592</u>
Fish & Wildlife, Department of				
General Fund	14,328,508	10,650,611	10,815,450	10,749,697
Lottery Funds	8,201,579	10,297,061	7,891,858	6,896,737
Other Funds	85,525,386	115,882,874	112,073,231	119,161,047
Federal Funds	75,723,980	94,932,601	97,176,639	95,472,053
Total Expenditures	<u>183,779,453</u>	<u>231,763,147</u>	<u>227,957,178</u>	<u>232,279,534</u>
Forestry, Department of				
General Fund	38,865,203	39,782,341	37,149,257	37,682,391
Other Funds	232,092,851	204,478,905	177,635,171	172,983,199
Federal Funds	9,720,030	19,059,519	23,527,700	24,724,173
Total Expenditures	<u>280,678,084</u>	<u>263,320,765</u>	<u>238,312,128</u>	<u>235,389,763</u>
Geology & Mineral Industries, Dept of				
General Fund	2,875,283	2,887,346	2,948,178	3,377,365
Other Funds	2,989,196	2,942,813	3,241,881	3,148,288
Federal Funds	974,236	1,963,208	2,159,064	2,146,476
Total Expenditures	<u>6,838,715</u>	<u>7,793,367</u>	<u>8,349,123</u>	<u>8,672,129</u>
Land Conservation & Development, Dept of				
General Fund	9,024,454	9,122,690	10,403,607	11,539,656
Other Funds	1,456,897	873,425	905,290	897,056
Federal Funds	3,974,216	5,684,425	6,530,552	5,735,131
Total Expenditures	<u>14,455,567</u>	<u>15,680,540</u>	<u>17,839,449</u>	<u>18,171,843</u>

	<u>2001-03 Actual</u> \$	<u>2003-05 Legislatively Approved</u> \$	<u>2005-07 Governor's Recommended</u> \$	<u>2005-07 Legislatively Adopted</u> \$
Land Use Board of Appeals				
General Fund	1,193,214	1,205,116	1,290,791	1,282,198
Other Funds	44,018	60,507	67,940	64,677
Total Expenditures	<u>1,237,232</u>	<u>1,265,623</u>	<u>1,358,731</u>	<u>1,346,875</u>
State Lands, Department of				
General Fund	127,690	139,311	181,099	178,807
Other Funds	63,814,901	69,316,351	54,903,706	17,747,548
Federal Funds	1,950,719	2,243,166	1,865,892	2,030,733
Total Expenditures	<u>65,893,310</u>	<u>71,698,828</u>	<u>56,950,697</u>	<u>19,957,088</u>
Marine Board				
Other Funds	16,348,190	22,817,871	23,631,913	23,580,047
Federal Funds	4,150,008	4,972,307	5,100,277	5,099,625
Total Expenditures	<u>20,498,198</u>	<u>27,790,178</u>	<u>28,732,190</u>	<u>28,679,672</u>
Parks & Recreation Department				
Lottery Funds	48,213,949	57,173,958	72,303,818	84,066,848
Other Funds	69,961,983	80,887,398	85,013,108	91,712,078
Federal Funds	4,867,375	8,976,693	8,972,654	8,964,578
Total Expenditures	<u>123,043,307</u>	<u>147,038,049</u>	<u>166,289,580</u>	<u>184,743,504</u>
Water Resources Department				
General Fund	22,083,182	19,086,885	19,502,806	20,562,623
Other Funds	5,123,110	8,630,225	8,857,267	7,171,054
Federal Funds	825,914	1,264,700	1,137,968	1,137,424
Total Expenditures	<u>28,032,206</u>	<u>28,981,810</u>	<u>29,498,041</u>	<u>28,871,101</u>
Oregon Watershed Enhancement Board				
General Fund	1,036,753	-	-	-
Lottery Funds	30,734,280	30,408,498	43,403,113	49,565,099
Other Funds	1,536,855	2,377,089	2,283,412	2,283,412
Federal Funds	18,398,527	46,978,858	27,271,273	29,309,479
Total Expenditures	<u>51,706,415</u>	<u>79,764,445</u>	<u>72,957,798</u>	<u>81,157,990</u>
NATURAL RESOURCES PROGRAM AREA				
General Fund	144,483,962	118,186,177	125,193,348	122,981,314
Lottery Funds	96,816,815	109,000,969	133,541,818	155,452,826
Other Funds	763,601,352	944,899,667	918,047,347	843,454,784
Federal Funds	165,054,677	251,173,104	219,998,587	223,076,995
Total	<u>1,169,956,806</u>	<u>1,423,259,917</u>	<u>1,396,781,100</u>	<u>1,344,965,919</u>

	<u>2001-03 Actual</u> \$	<u>2003-05 Legislatively Approved</u> \$	<u>2005-07 Governor's Recommended</u> \$	<u>2005-07 Legislatively Adopted</u> \$
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TRANSPORTATION	-
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Aviation, Department of

Other Funds	11,446,996	13,990,208	7,074,411	6,604,588
Federal Funds	-	-	10,510,000	10,510,000
Total Expenditures	<u>11,446,996</u>	<u>13,990,208</u>	<u>17,584,411</u>	<u>17,114,588</u>

Transportation, Department of

General Fund	17,113,741	3,914,616	9,026,167	8,626,167
Lottery Funds	10,108,962	21,145,902	33,187,224	22,162,072
Other Funds	1,782,193,774	2,561,884,898	2,749,911,103	2,626,244,425
Federal Funds	<u>50,560,257</u>	<u>69,297,154</u>	<u>66,600,703</u>	<u>64,780,422</u>
Total Expenditures	<u>1,859,976,734</u>	<u>2,656,242,570</u>	<u>2,858,725,197</u>	<u>2,721,813,086</u>

TRANSPORTATION PROGRAM AREA				
General Fund	17,113,741	3,914,616	9,026,167	8,626,167
Lottery Funds	10,108,962	21,145,902	33,187,224	22,162,072
Other Funds	1,793,640,770	2,575,875,106	2,756,985,514	2,632,849,013
Federal Funds	<u>50,560,257</u>	<u>69,297,154</u>	<u>77,110,703</u>	<u>75,290,422</u>
Total	<u>1,871,423,730</u>	<u>2,670,232,778</u>	<u>2,876,309,608</u>	<u>2,738,927,674</u>

	2001-03 Actual \$	2003-05 Legislatively Approved \$	2005-07 Governor's Recommended \$	2005-07 Legislatively Adopted \$
CONSUMER AND BUSINESS SERVICES				
Accountancy, Board of				
Other Funds	1,425,564	1,565,639	1,487,963	1,473,306
Chiropractic Examiners, Board of				
Other Funds	848,146	916,244	1,003,043	991,183
Clinical Social Workers, Board of				
Other Funds	462,801	488,074	579,239	567,514
Construction Contractors Board				
Other Funds	9,924,535	11,403,490	12,074,409	11,821,224
Consumer and Business Services, Dept of				
Other Funds	460,652,047	559,859,019	621,921,690	620,007,221
Dentistry, Board of				
Other Funds	1,505,679	1,674,449	1,722,703	1,710,028
Health Licensing Office				
Other Funds	3,737,761	4,649,116	5,043,843	4,992,324
Health Related Licensing Boards:				
Licensed Dietitians				
Other Funds	50,671	59,029	69,122	69,264
Mortuary and Cemetery Board				
Other Funds	934,957	1,055,485	1,129,509	1,117,605
Naturopathic Examiners				
Other Funds	270,297	323,132	389,864	382,260
Nursing Home Administrators				
Other Funds	181,712	189,693	204,047	201,982
Occupational Therapy Licensing Bd				
Other Funds	225,375	249,107	274,504	269,139
Pharmacy, Board of				
Other Funds	2,620,729	3,012,517	3,745,957	3,604,033
Federal Funds	-	-	350,000	-
Total Expenditures	2,620,729	3,012,517	4,095,957	3,604,033
Radiologic Technology				
Other Funds	442,156	414,418	471,619	467,148
Speech-Language Path. and Audio.				
Other Funds	154,378	153,663	237,115	234,753

	<u>2001-03 Actual</u>	<u>2003-05 Legislatively Approved</u>	<u>2005-07 Governor's Recommended</u>	<u>2005-07 Legislatively Adopted</u>
	\$	\$	\$	\$
Veterinary Medical Examiners Bd				
Other Funds	442,458	477,212	517,975	512,596
Health Related Licensing Boards Total				
Other Funds	5,322,733	5,934,256	7,039,712	6,858,780
Federal Funds	-	-	350,000	-
Total Expenditures	5,322,733	5,934,256	7,389,712	6,858,780
Investigators, Board of				
Other Funds	333,254	429,045	497,383	90,000
Labor & Industries, Bureau of				
General Fund	11,459,227	10,935,047	11,585,348	11,320,999
Other Funds	5,892,018	7,338,744	7,996,091	7,796,590
Federal Funds	942,829	1,317,039	1,366,187	1,352,321
Total Expenditures	18,294,074	19,590,830	20,947,626	20,469,910
Licensed Prof Counselors and Therapists, Bd				
Other Funds	389,186	499,493	477,947	550,168
Medical Examiners, Board of				
Other Funds	5,759,309	6,505,650	7,234,868	7,054,369
Nursing, Board of				
Other Funds	7,077,409	7,938,514	9,106,095	9,405,198
Psychologist Examiners, Board of				
Other Funds	539,763	622,492	724,427	701,432
Public Utility Commission				
Other Funds	121,963,811	155,142,299	142,346,628	141,945,143
Federal Funds	302,957	334,915	421,609	419,103
Total Expenditures	122,266,768	155,477,214	142,768,237	142,364,246
Real Estate Agency				
Other Funds	5,615,329	6,311,101	6,239,626	3,874,655
Tax Practitioners, Board of				
Other Funds	763,247	825,317	922,639	913,035
CONSUMER AND BUSINESS SERVICES PROGRAM AREA				
General Fund	11,459,227	10,935,047	11,585,348	11,320,999
Other Funds	632,212,592	772,102,942	826,418,306	820,752,170
Federal Funds	1,245,786	1,651,954	2,137,796	1,771,424
Total	644,917,605	784,689,943	840,141,450	833,844,593

	2001-03 Actual \$	2003-05 Legislatively Approved \$	2005-07 Governor's Recommended \$	2005-07 Legislatively Adopted \$
ADMINISTRATION				-
Administrative Services, Dept of				
General Fund	3,193,409	1,784,538	8,012,086	9,437,182
Lottery Funds	275,805	1,622,874	1,622,118	2,222,118
Other Funds	528,850,245	826,394,712	914,108,706	909,570,130
Federal Funds	877,272	380,000	59,000	59,000
Total Expenditures	533,196,731	830,182,124	923,801,910	921,288,430
Asian Affairs, Comm on				
General Fund	133,295	-	-	-
Other Funds	11,586	173,648	-	-
Total Expenditures	144,881	173,648	-	-
Black Affairs, Comm on				
General Fund	119,478	-	-	-
Other Funds	3,348	171,969	-	-
Total Expenditures	122,826	171,969	-	-
Hispanic Affairs, Comm on				
General Fund	109,914	-	-	-
Other Funds	13,212	224,441	-	-
Total Expenditures	123,126	224,441	-	-
Women, Comm for				
General Fund	113,014	-	-	-
Other Funds	731,068	1,136,003	-	-
Total Expenditures	844,082	1,136,003	-	-
Advocacy Commissions Office				
General Fund	-	-	375,000	333,203
Other Funds	-	-	84,129	184,672
Total Expenditures	-	-	459,129	517,875
Employment Relations Board				
General Fund	1,280,057	1,299,312	1,556,444	1,401,242
Other Funds	1,513,208	1,345,626	1,347,405	1,383,118
Total Expenditures	2,793,265	2,644,938	2,903,849	2,784,360
Government Standards & Practices Comm				
General Fund	860,622	559,701	763,527	634,757
Other Funds	6,978	5,902	3,500	3,285
Total Expenditures	867,600	565,603	767,027	638,042
Governor, Office of the				
General Fund	9,952,667	8,087,646	8,465,814	7,905,686
Lottery Funds	-	610,000	663,456	1,722,608
Other Funds	1,020,701	1,581,417	1,775,434	1,137,334
Federal Funds	-	65,000	129,996	129,143
Total Expenditures	10,973,368	10,344,063	11,034,700	10,894,771

	<u>2001-03 Actual</u>	<u>2003-05 Legislatively Approved</u>	<u>2005-07 Governor's Recommended</u>	<u>2005-07 Legislatively Adopted</u>
	\$	\$	\$	\$
Oregon Liquor Control Comm				
Other Funds	78,945,948	90,740,107	97,269,639	98,875,123
Public Employees Retirement System				
Other Funds	3,922,102,375	5,797,463,163	5,727,166,939	5,728,468,783
Racing Commission, Oregon				
Other Funds	3,986,857	5,575,855	5,296,621	4,253,696
Revenue, Dept of				
General Fund	116,288,504	120,434,536	138,510,750	132,677,797
Other Funds	18,671,855	54,810,442	28,872,590	29,462,819
Total Expenditures	134,960,359	175,244,978	167,383,340	162,140,616
Secretary of State				
General Fund	14,029,181	12,968,535	8,161,716	9,639,608
Other Funds	27,627,999	31,508,519	41,273,017	33,345,432
Federal Funds	102,137	10,530,177	5,543,662	5,151,161
Total Expenditures	41,759,317	55,007,231	54,978,395	48,136,201
State Library				
General Fund	3,022,929	2,594,626	2,942,475	2,911,314
Other Funds	4,926,116	6,112,874	6,712,480	6,569,000
Federal Funds	3,945,263	4,128,563	4,635,649	4,630,839
Total Expenditures	11,894,308	12,836,063	14,290,604	14,111,153
Treasury, Oregon State				
General Fund	160,973	-	-	-
Other Funds	22,591,074	24,016,357	26,068,914	26,772,285
Total Expenditures	22,752,047	24,016,357	26,068,914	26,772,285
ADMINISTRATION PROGRAM AREA				
General Fund	149,264,043	147,728,894	168,787,812	164,940,789
Lottery Funds	275,805	2,232,874	2,285,574	3,944,726
Other Funds	4,611,002,570	6,841,261,035	6,849,979,374	6,840,025,677
Federal Funds	4,924,672	15,103,740	10,368,307	9,970,143
Total	4,765,467,090	7,006,326,543	7,031,421,067	7,018,881,335

	2001-03 Actual \$	2003-05 Legislatively Approved \$	2005-07 Governor's Recommended \$	2005-07 Legislatively Adopted \$
LEGISLATIVE BRANCH				
Indian Services, Commission on				
General Fund	287,198	299,011	337,335	336,132
Other Funds	463	5,786	5,925	5,925
Total Expenditures	<u>287,661</u>	<u>304,797</u>	<u>343,260</u>	<u>342,057</u>
Legislative Administration Committee				
General Fund	18,691,131	19,390,674	15,641,282	21,554,179
Other Funds	4,970,308	2,547,202	2,425,482	4,954,725
Total Expenditures	<u>23,661,439</u>	<u>21,937,876</u>	<u>18,066,764</u>	<u>26,508,904</u>
Legislative Assembly				
General Fund	22,654,440	27,428,488	26,712,343	26,907,691
Other Funds	250,286	279,971	283,777	283,777
Total Expenditures	<u>22,904,726</u>	<u>27,708,459</u>	<u>26,996,120</u>	<u>27,191,468</u>
Legislative Counsel Committee				
General Fund	5,853,492	6,286,407	7,021,010	6,836,661
Other Funds	2,018,195	2,130,059	2,128,602	2,123,015
Total Expenditures	<u>7,871,687</u>	<u>8,416,466</u>	<u>9,149,612</u>	<u>8,959,676</u>
Legislative Fiscal Officer				
General Fund	<u>3,688,524</u>	<u>4,025,515</u>	<u>4,402,679</u>	<u>4,598,743</u>
Legislative Revenue Officer				
General Fund	<u>1,396,109</u>	<u>1,464,474</u>	<u>1,551,594</u>	<u>1,552,964</u>
LEGISLATIVE BRANCH PROGRAM AREA				
General Fund	52,570,894	58,894,569	55,666,243	61,786,370
Other Funds	7,239,252	4,963,018	4,843,786	7,367,442
Total	<u>59,810,146</u>	<u>63,857,587</u>	<u>60,510,029</u>	<u>69,153,812</u>

	<u>2001-03 Actual</u> \$	<u>2003-05 Legislatively Approved</u> \$	<u>2005-07 Governor's Recommended</u> \$	<u>2005-07 Legislatively Adopted</u> \$
MISCELLANEOUS				
Emergency Board*				
General Fund	-	18,639,980	25,000,000	30,000,000
Total Expenditures	-	18,639,980	25,000,000	30,000,000
Special Purpose Appropriations (details below)			150,000,000	163,800,764
MISCELLANEOUS PROGRAM TOTAL				
General Fund	-	18,639,980	175,000,000	193,800,764
Total	-	18,639,980	175,000,000	193,800,764

* All remaining 2001-03 Emergency Fund disappropriated by Legislature in February 2003. 2003-05 Legislatively Approved includes \$9.6 million unallocated by the Emergency Board that reverted to the General Fund and \$9 million in a special purpose appropriation allocated to state agencies for health benefit adjustments; this amount is not reflected in individual agency totals.

Special Purpose Appropriations (SPA)

State Employee Compensation - HB 5023	130,000,000
Home Care Workers Compensation - HB 5023	10,000,000
ODE - Local Option Equalization Grants - HB 5023	800,000
DHS - Child welfare staffing & legal representation - HB 5148	2,500,000
CCWD - Integrated K-16 data system - SB 5617	664,400
ODE - EI/ECSE - SB 5543	4,893,114
ODE - PreK-12 Integrated Data Systems - SB 5543	1,800,000
DHED - Integrated K-16 student data systems - HB 5153	2,081,250
IPGB or OMAP for MOE requirements either in FHIAP or OHP - SB 5576	4,000,000
Forestry - Fire suppression and fire insurance premium - SB 5612	3,562,000
SOS - 2006 Voter's Pamphlet - SB 5602	1,000,000
CJC - Drug Court Program - HB 5174	2,500,000
SPA Totals	163,800,764

	<u>2001-03 Actual</u> \$	<u>2003-05 Legislatively Approved</u> \$	<u>2005-07 Governor's Recommended</u> \$	<u>2005-07 Legislatively Adopted</u> \$
STATE OF OREGON TOTAL EXPENDITURES				
General Fund	9,596,365,878	10,295,490,619	11,137,144,620	11,488,739,290
Lottery Funds	871,640,195	756,899,721	740,121,178	782,822,377
Other Funds	17,767,673,444	21,832,385,560	21,800,015,678	21,683,023,761
Federal Funds	7,145,215,955	8,349,255,102	8,285,484,905	8,412,103,834
Total Expenditures	<u>35,380,895,472</u>	<u>41,234,031,002</u>	<u>41,962,766,381</u>	<u>42,366,689,262</u>

	<u>2001-03 Actual</u> \$	<u>2003-05 Legislatively Approved</u> \$	<u>2005-07 Governor's Recommended</u> \$	<u>2005-07 Legislatively Adopted</u> \$
NON-ADD EXPENDITURES*				
Administrative Services, Dept. of	382,303,405	637,736,489	411,804,914	437,949,174
Employment Department	21,507,598	20,878,109	21,871,363	21,639,882
Human Services, Department of	54,081,700	38,467,496	60,807,132	-
Justice, Department of	136,467,312	84,902,391	103,833,205	96,876,380
Transportation, Department of	34,522,987	37,036,654	50,994,737	-
Secretary of State	11,894,881	12,773,460	16,733,944	12,959,302
Treasurer of State	22,494,140	22,759,444	26,068,914	24,580,823
Total Non-Add Expenditures	<u>663,272,023</u>	<u>854,554,043</u>	<u>692,114,209</u>	<u>594,005,561</u>

* Non-Add expenditures are included in agency Total Expenditures; Non-Add expenditures are generally intra-agency transfers that fund administrative functions and are paid for by agency programs.