

Summary Analysis

**2007-09
Governor's Budget**



**LEGISLATIVE FISCAL OFFICE
JANUARY 2007**

**STATE OF OREGON
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January 8, 2007

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

The Legislative Fiscal Office staff has prepared a *Summary Analysis of the 2007-09 Governor's Budget*. This report is intended to provide an overview of the major General Fund and Lottery Funds budget proposed by the Governor in December 2006, and, as such, will not answer every question you may have. A detailed analysis of the Governor's Budget by program area and agency is also available.

Please call LFO if you have any questions. Documents can be obtained online at <http://www.leg.state.or.us/comm/lfo/publications.htm>

A handwritten signature in black ink, appearing to read "Ken Rocco", written in a cursive style.

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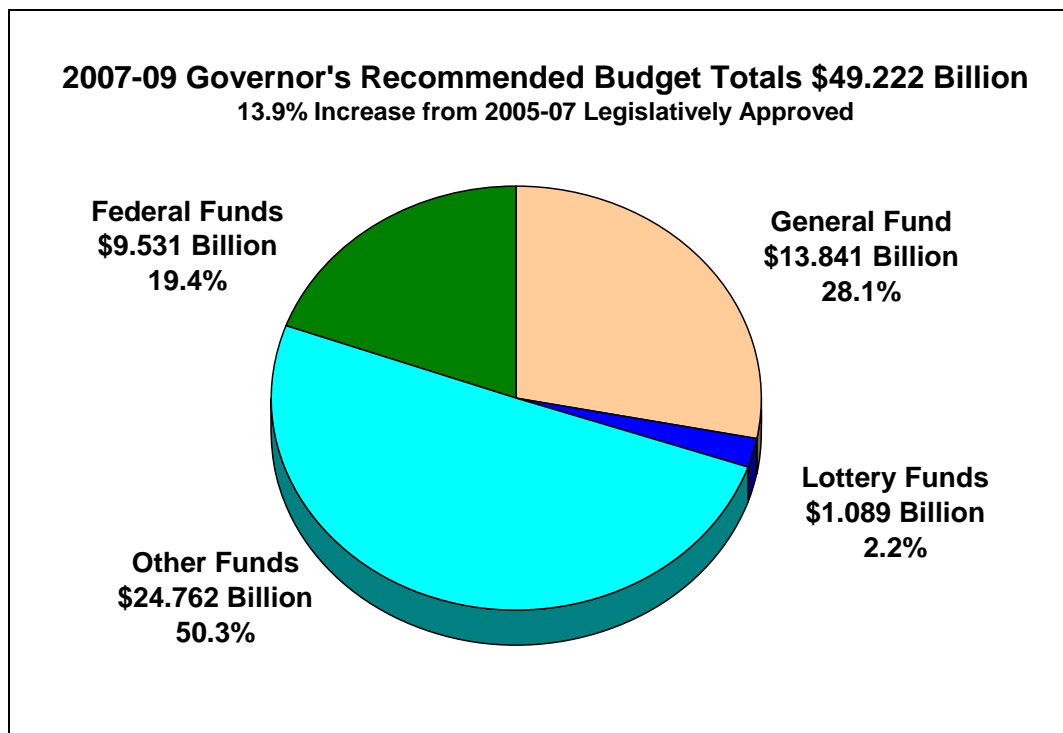
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Summary of 2007-09 Governor's Recommended Budget

Budget Overview

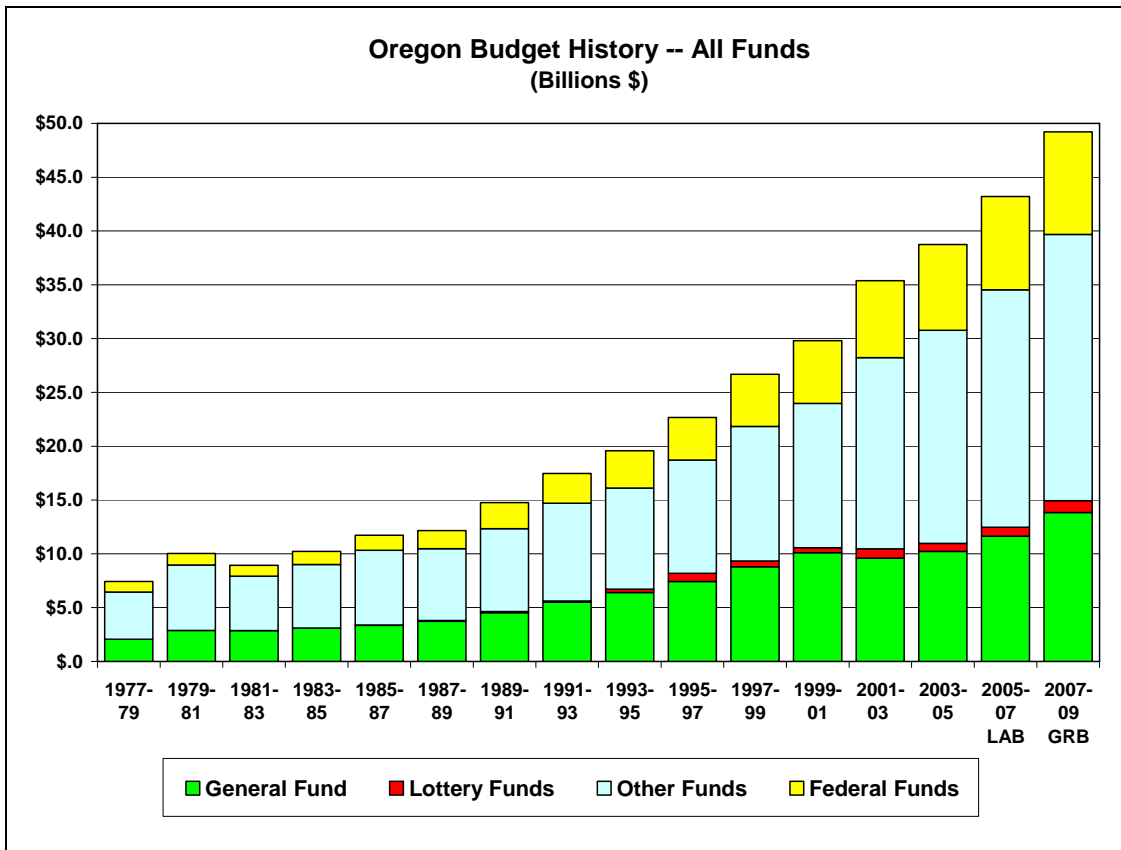
The total Governor's recommended budget (GRB) for the 2007-09 biennium is \$49.222 billion. The recommended budget includes \$14.929 billion in combined General Fund and Lottery Funds, \$24.762 billion Other Funds, and \$9.531 billion Federal Funds. The 2007-09 total recommended budget represents a 13.9% increase over the 2005-07 biennium's legislatively approved total budget of \$43.208 billion. The legislatively approved budget is the authorized budget following legislative actions through the December 2006 Emergency Board meeting.



If adopted by the Legislature, the Governor's recommended budget increase of 13.9% over the 2005-07 budget would be the largest percentage increase since the 2001-03 biennium. In terms of General Fund and Lottery Funds, the recommended expenditure increase of 19.6% over the 2005-07 legislatively approved level would be the largest percentage growth in spending since the 1995-97 biennium when the state-supported budget increased by 21.7% over the prior biennium.

The largest funding source in the budget, Other Funds, represents 50% of the total expenditures. Other Funds expenditures in the Governor's recommended budget are increased by 12.2% from the 2005-07 legislatively approved level. 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.

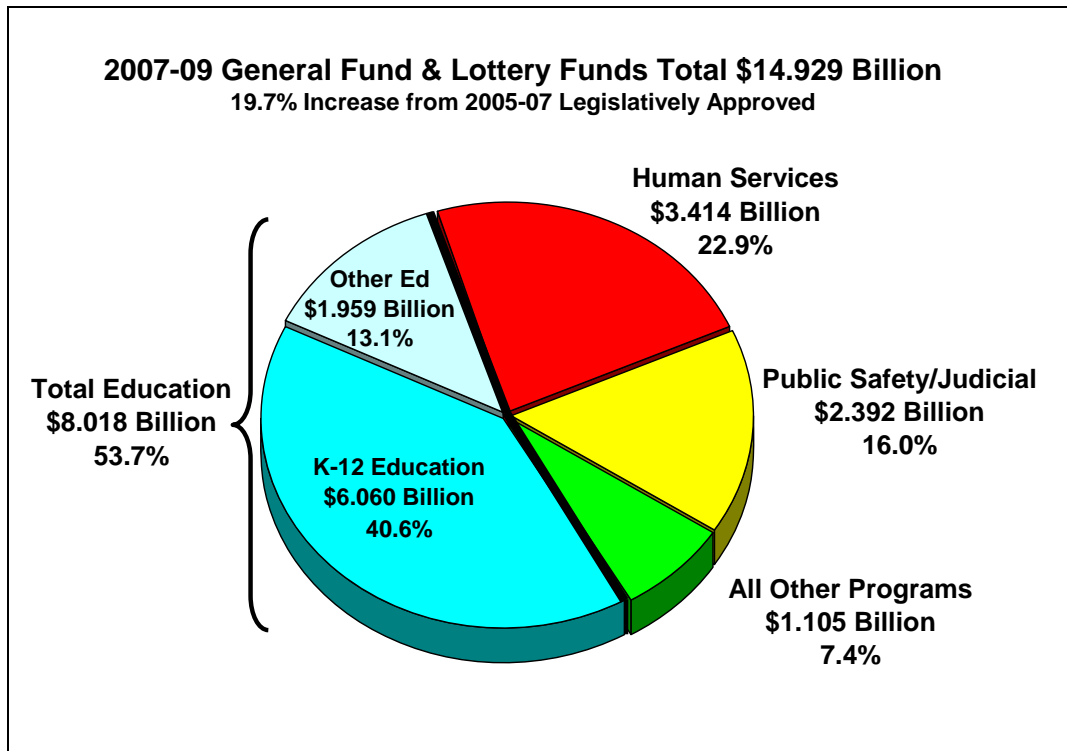
Nearly 20% of the 2007-09 Governor's recommended budget is made up of revenues from the federal government. Federal Funds expenditures are increased by 10.1% over the 2005-07 legislatively approved budget, after increasing by 8.7% the prior biennium. Nearly three-fourths of federal funds are received within the Human Services program area.



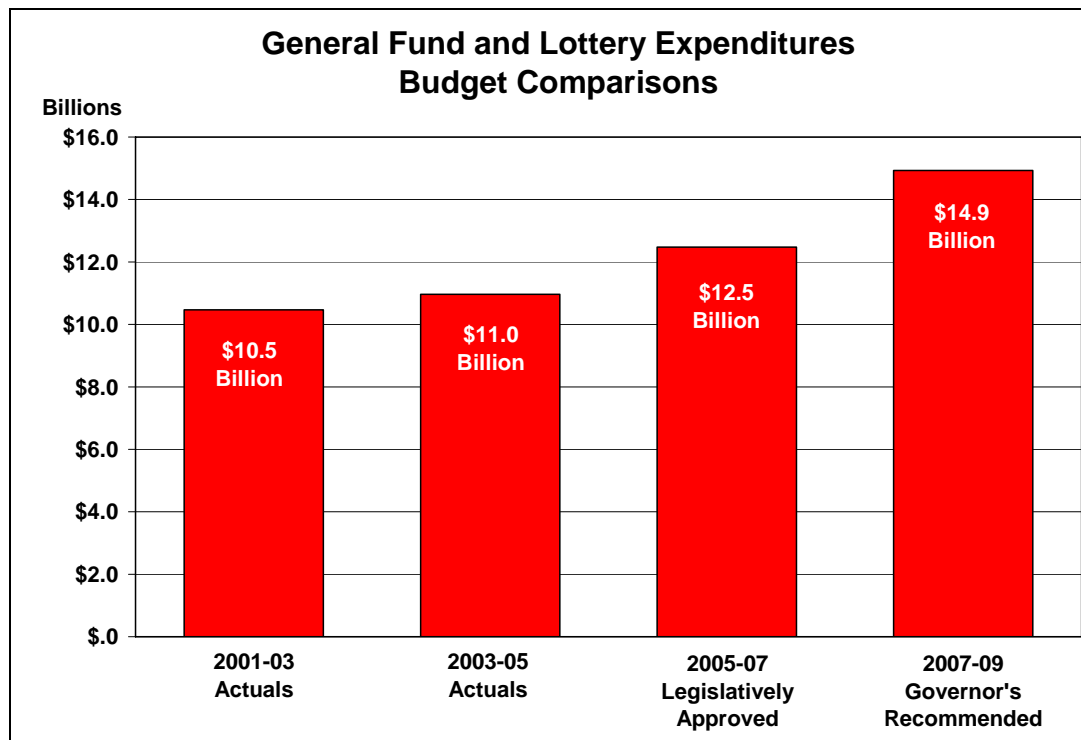
General Fund and Lottery Funds

General Fund and Lottery Funds expenditures, which total \$14.929 billion in the 2007-09 Governor’s recommended budget, represent 30.3% of the total proposed budget. Although this percentage is higher than the 28.9% share in 2005-07, it is well below the average 34% for the period from 1991 through 2001. The primary 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 \$14.929 billion in the 2007-09 recommended budget are nearly 20% higher than the 2005-07 legislatively approved budget of \$12.477 billion. The proposed increase in expenditures is largely made possible by the substantial growth in the state’s tax revenues. Total combined General Fund and Lottery Funds revenue available for the 2007-09 biennium is projected to be \$15.029 billion, an increase of 10% from revised 2005-07 amounts (based on the December 2006 economic and revenue forecast). The forecasted increase in available revenue for the 2007-09 biennium does not include amounts to cover the projected “kicker” payments. The current projected personal income tax kicker is estimated at \$1.098 billion, or 21.3% of the 2006 tax liability; under current law and practice, the personal kicker would be refunded to taxpayers in the fall of 2007. The current projected corporate income tax kicker is estimated at \$275.1 million, or 67.3% of the 2007 tax liability; under current law, the corporate kicker would be an offset to corporate taxes due in 2007. The Governor’s recommended budget assumes that the corporate income tax kicker would not be issued and would instead be used to establish some type of rainy day fund. This suspension of the 2005-07 corporate kicker would take legislative action with passage of legislation by a two-thirds majority in both chambers.



In the recommended budget, nearly 54% of the state's General Fund and Lottery expenditures are dedicated to education programs, including \$6.06 billion, or 41% of the total, to the K-12 State School Fund budget. Despite the Education program area being the largest single sector of the budget, the 53.7% of the total General Fund/Lottery Funds budget is the lowest percentage of the total since the 1991-93 biennium. Nearly 93% of the state's expenditures are found in the three major program areas of Education, Human Services, and Public Safety.



Additional details on proposed expenditures in each of these major program areas are included in the Program Area summaries later in this document.

About one-third of the \$1.5 billion General Fund and Lottery Funds increase from the 2003-05 budget to the 2005-07 legislatively approved budget was 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].)

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

- \$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
- \$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, which ultimately was not available due to withholding of settlement agreement payments by certain tobacco manufacturers as allowed under the terms of the agreement; the amount of the withholding is currently under litigation. The 2007-09 recommended budget does not include any of the previously used "one-time" revenues; all TMSA revenue received by the state is currently dedicated to debt service obligations and enforcement actions.

Nearly 86% of the \$2.452 billion increase in General Fund and Lottery Funds expenditures in the 2007-09 Governor's recommended budget from the 2005-07 biennium occurs in four program areas: Education, Human Services, Public Safety, and Economic Development.

- Education is increased by \$1.071 billion, or 15% growth from 2005-07. The State School Fund makes up \$755 million of the increase for a total of \$6.06 billion.
- Human Services is increased by \$632 million, or 23% growth from 2005-07.
- Public Safety is increased by \$308 million, or growth of 20% from 2005-07.
- Economic Development is increased by \$89 million, or growth of 66% from 2005-07.
- In addition, the Transportation program area also shows strong percentage growth in the Governor's recommended budget over 2005-07 levels; while only increasing in funding by \$30 million, the increase represents 95% growth.

The following table compares the 2007-09 Governor's recommended General Fund and Lottery Funds budget with 2001-03 and 2003-05 actual expenditures and with the 2005-07 legislatively approved budget for each program area.

General Fund & Lottery Spending by Major Program Area							
(Dollars in Millions) ¹							
	2001-03 Actuals ²	2003-05 Actuals ³	2005-07 Legislatively Adopted Budget	2005-07 Legislatively Approved Budget (LAB)	2007-09 Governor's Recommended Budget (GRB)	% Change 2007-09 Governor's Recommended from 2005-07 Leg. Adopted	% Change 2007-09 Governor's Recommended from 2005-07 Leg. Approved
Education							
K - 12 State School Fund ⁴	\$4,417	\$4,915	\$5,239	\$5,305	\$6,060	15.7%	14.2%
Higher Education ⁵	754	763	789	822	953	20.8%	15.9%
Community Colleges ⁶	382	416	433	434	508	17.3%	17.1%
All Other Education	335	342	376	387	498	<u>32.5%</u>	<u>28.7%</u>
Total Education	5,888	6,436	6,837	6,948	8,019	17.3%	15.4%
Human Services ⁷	2,393	2,333	2,614	2,782	3,414	30.6%	22.7%
Public Safety ⁸	1,236	1,234	1,495	1,543	1,851	23.8%	20.0%
Natural Resources	241	223	278	309	374	34.3%	21.0%
All Other Programs ⁹	710	743	1,047	895	1,271	21.4%	42.1%
Total Expenditures	\$10,468	\$10,969	\$12,272	\$12,477	\$14,929	21.7%	19.7%

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 2005-07 LAB includes \$11.5 million remaining the General Purpose Emergency Fund and a special purpose appropriation for the Department of Human Services. The 2007-09 GRB includes \$30 million General Purpose Emergency Fund; \$130 million for employee compensation; \$2 million special purpose appropriation for the Department of Justice.

Lottery Revenues and Expenditures

Lottery Revenues – Lottery revenue for the 2007-09 biennium is expected to increase by 20.4% above 2005-07. Revenue for 2005-07 increased 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 \$220.6 million in additional revenue for 2007-09.

Difference between 2005-07 and 2007-09 Lottery Revenue				
(\$ in millions)				
	2003-05 (5/05) Forecast	2005-07 (12/06) Forecast	2007-09 (12/06) Forecast	Difference 2003-05 to 2005-07
Total Earnings	\$780.6	\$1,051.9	\$1,228.6	\$176.6
Beginning Balance	11.1	0.0	57.1	57.1
Admin Savings and Contingency Transfers	0.0	26.7	14.7	(12.0)
Reversions	0.2	0.2	0.0	(0.2)
Interest Earnings	1.6	4.9	4.0	(0.9)
	\$793.5	\$1,083.8	\$1,304.4	\$220.6

For 2003-05, the 2003 Legislature made a contingent allocation of \$67 million to the State School Fund based on potential additional Lottery revenue. The funds were allocated when actual revenue exceeded the end of session forecast. The additional revenue was anticipated based on legislative actions that increased the maximum number of video lottery terminals in retail establishments from five to six, and the expectation that the Lottery Commission would generate additional revenue by exercising several options, including reduction in retailer commissions, increased transfer of administrative savings, and from the addition of new games. The Commission met the legislative expectation that the additional revenue be generated.

Continued growth in the lottery above forecasted revenues allowed the 2005 Legislature to allocate an additional \$42.2 million in Lottery Funds to supplement the 2005-07 State School Fund budget during the April 2006 special session. These additional revenues had not been included in the 2005 close-of-session forecast.

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.

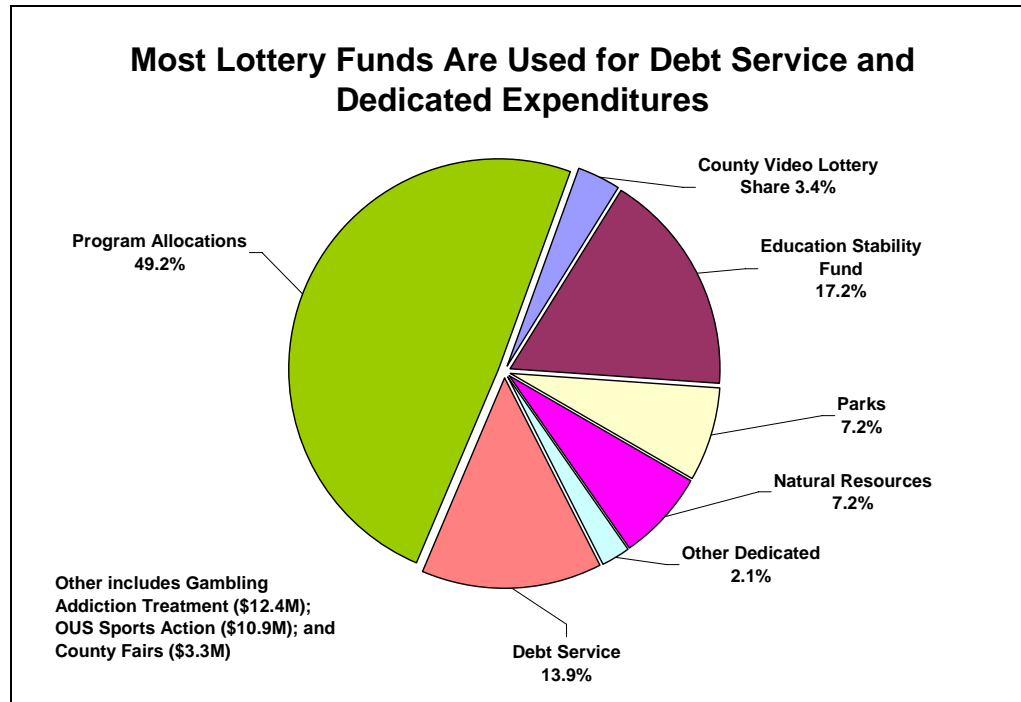
Other dedicated uses include:

- 15% for parks and natural resources (by a vote in 1998 – Ballot Measure 66).
- 1% of Lottery Funds for gambling addiction treatment programs.
- Effective July 1, 2007, 1% to Higher Education sports programs (and the Sports Action game will be eliminated).

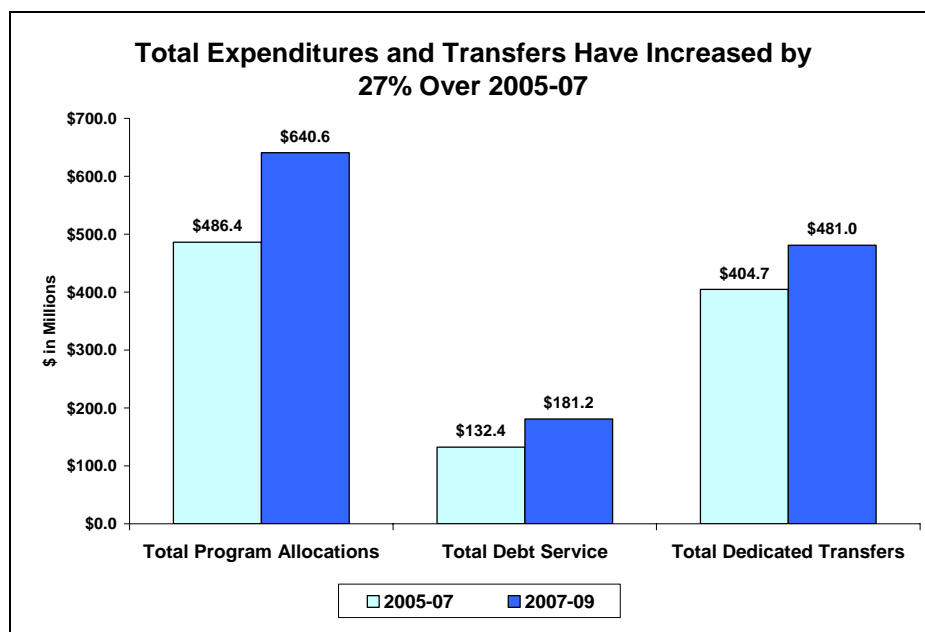
When the dedicated funds are combined with debt service on lottery-backed bonds, which also has priority, 51% of lottery proceeds are either dedicated or obligated in the 2007-09 biennium. This percentage will increase in future biennia when debt service payments increase as a result of bonding approved by the 2007 Legislature. The total increase in debt service does not include \$22 million for

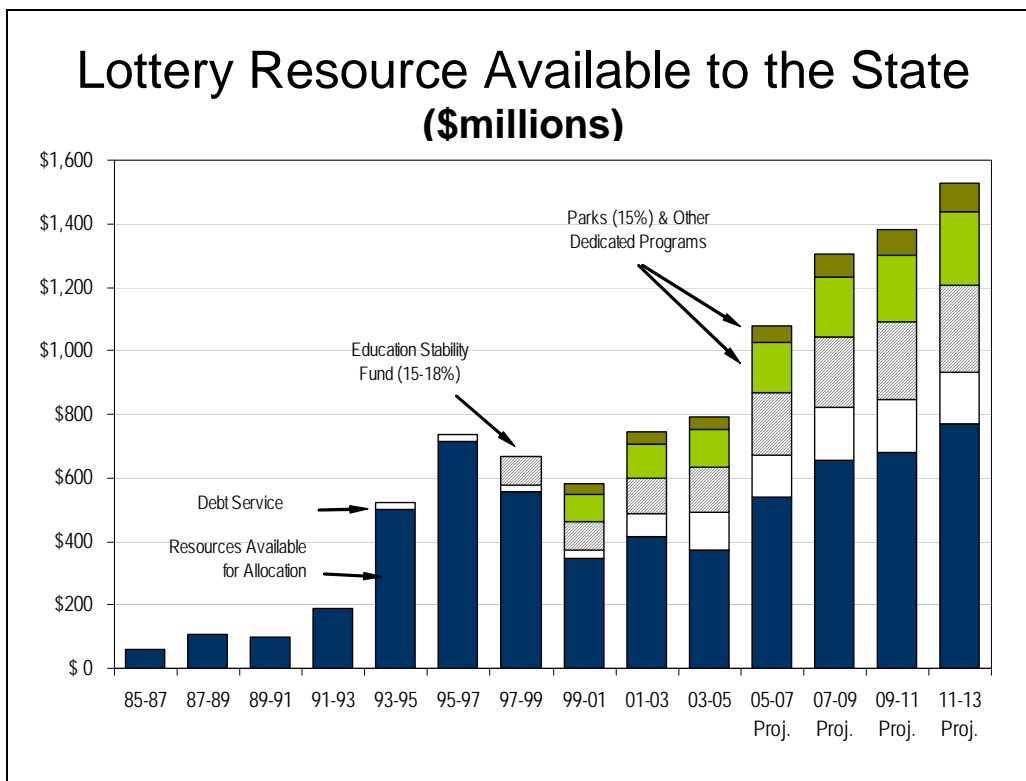
\$100 million in proposed lottery backed infrastructure bonds in the Economic and Community Development Department, which the Governor deferred into 2009-11 biennium.

The chart below illustrates the distribution of Lottery Funds among dedicated transfers, debt service and program allocations.



Lottery Distributions – In 2005-07, \$1,023.5 million in Lottery Funds will be allocated and transferred. This includes dedicated transfers to the Education Stability Fund, Parks and Natural Resources and counties, debt service, and program allocations. This represents all of the Lottery Funds resources projected at the close of session, plus unanticipated earnings that were allocated in the April 2006 special legislative session.





For 2007-09, \$829.8 million in lottery resources, just over 63.4% of the total, are used for education. This includes the State School Fund direct allocation of \$534.1 million and debt service direct allocation of \$43 million for K-12 lottery-backed bonds; \$223.8 million dedicated to the Education Stability Fund; and Sports Action revenue and debt service allocated to the Oregon University System. As illustrated below, 2007-09 debt service will increase by 36.9% over 2005-07. Interest earnings on the Education Stability Fund, which are used to pay debt service on K-12 lottery-backed bonds and to fund Oregon Student Assistance Commission Opportunity Grants, are not included in this percentage.

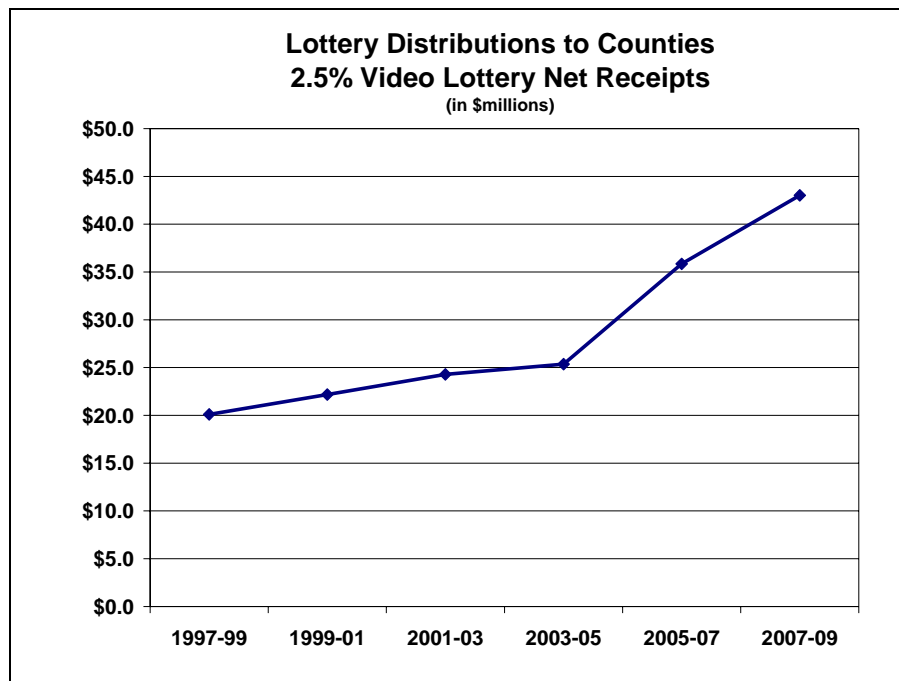
Total program allocations will increase by 31.7%. This includes an increase of \$96.3 million to the State School Fund and an increase of \$58.3 million to the Economic and Community Development Department. Dedicated transfers will increase by 18.9% in the Governor's recommended budget.

The Governor's recommended budget continues the pattern of expending all available lottery resources. The budget includes continued funding for actions approved by the 2005 Legislature:

- Increased the base budget for the Strategic Reserve Fund in the Economic and Community Development Department by \$3.5 million. The Department received a contingent allocation based on potential revenue increases in the 2005-07 biennium. The Department received these funds effective July 2006, after lottery revenues exceeded the 2005 close-of-session forecast.
- Increased funding for county fairs to \$3.6 million a biennium. This continues the shift from General Fund support for this program begun in the 2001-03 biennium.
- Continued the distribution of \$935,770 from Association of Oregon Counties 2.5% video lottery distribution, as the county share of the cost of the Economic Revitalization Team (ERT).
- Restored base budget funding of \$3.3 million for Small Business Development Centers and \$1.5 million for women, minority and small business development that the 2005 Legislature had shifted to one-time line item grants.

The Governor’s recommended budget includes a number of policy packages in the Economic and Community Development Department, including \$38.2 million to expand the investment in Signature Research Centers and the innovation economy, \$15 million for workforce development, and \$4.4 million to restore funding for the regional and rural investment program. As noted above, the Lottery Funds investment in K-12 education is increased by \$96 million.

County Video Lottery Distribution – Another use of lottery receipts that often is overlooked in the budget process is the statutory sharing of 2.5% of lottery receipts from video lottery games to counties for economic development purposes. Since this dedication goes directly to counties and does not flow through the state budget, these resources are not included as “available” lottery funds that can be used for state programs. This treatment is similar to how the lottery funds flowing into the Education Stability Fund are treated in the overall budget. As with the other percentage dedications of lottery resources, counties have experienced a significant increase in this funding source over the past four years. In the 2007-09 biennium, counties are anticipated to receive nearly \$45 million; approximately \$1 million is used in the Governor’s recommended budget for the county share of funding for Economic Development Revitalization Teams (ERTs) in the Governor’s Office. These funds are typically used by counties as part of their individual general purpose funds.



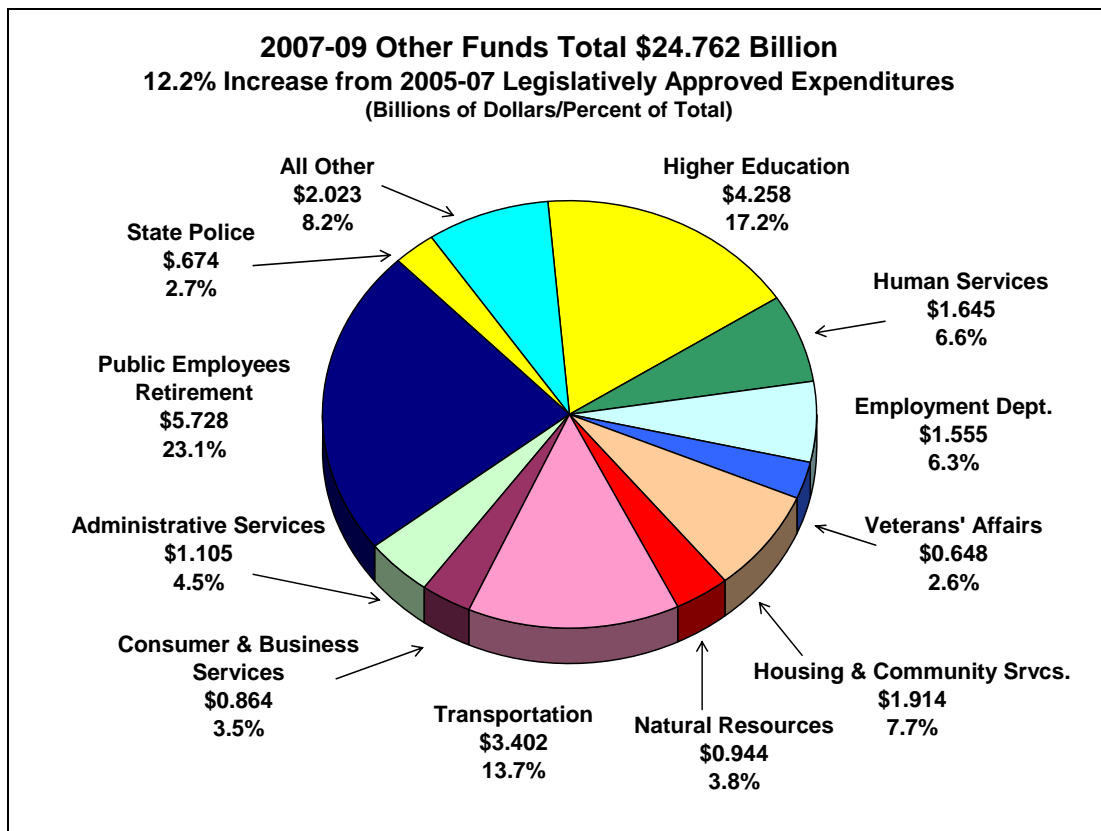
Other Funds Expenditures

The 2007-09 Governor’s recommended budget provides for the expenditure of \$24.762 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 2007-09 recommended Other Funds budget represents an increase of \$2.7 billion, or 12.2%, over the 2005-07 legislatively approved budget. Other Funds are comprised of three categories of

expenditures: Limited, Nonlimited, and Non-Adds. Of the \$24.762 billion Other Funds in the 2007-09 recommended budget, \$10.202 billion are Limited, \$13.843 billion are Nonlimited, and \$0.715 billion are Non-Adds. Nonlimited Other Funds expenditures are generally inestimable 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. Administrative actions that occurred after the close-of-session through Emergency Board actions and approved increases to Nonlimited expenditures requested by agencies and approved by the Department of Administrative Services are reflected in the legislatively approved budget calculation.

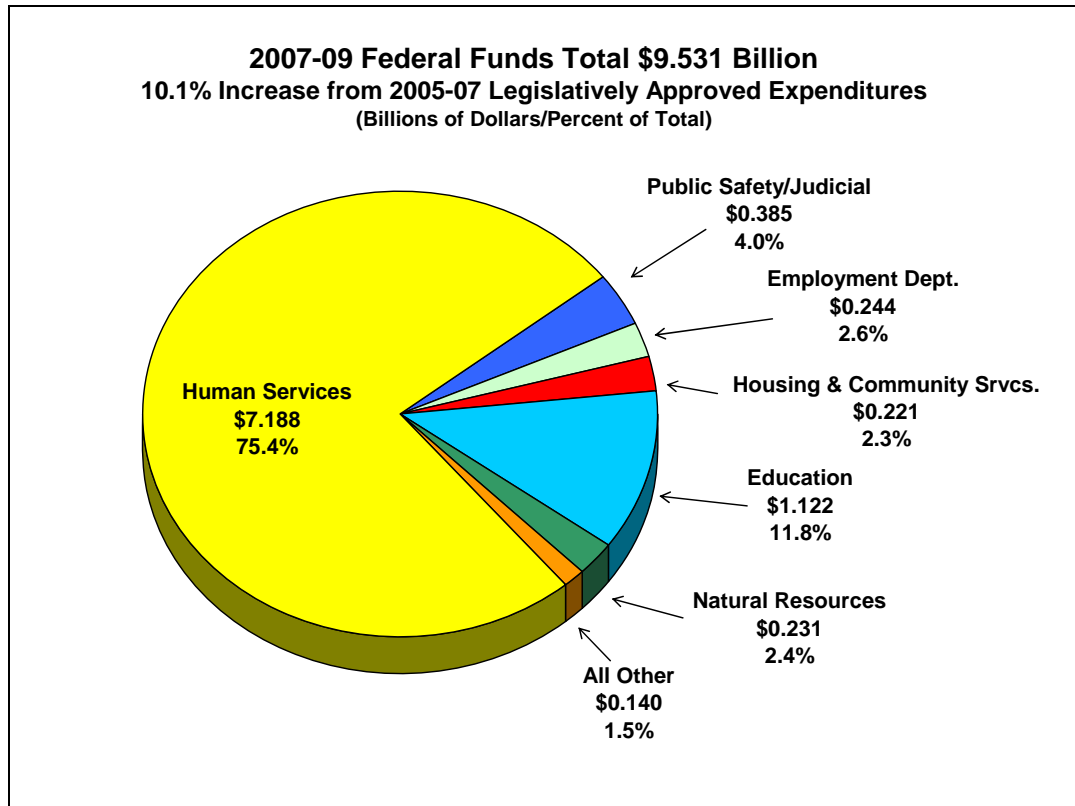


Federal Funds Expenditures

The 2007-09 Governor's recommended budget authorizes expenditure of \$9.531 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 2007-09 recommended Federal Funds budget represents an increase of \$872 million, or 10.1%, over the 2005-07 legislatively approved budget. Federal Funds are also separated into two categories of Limited and Nonlimited. Of the \$9.531 billion Federal Funds in the 2007-09 recommended budget, \$8.039 billion are under expenditure limitation and \$1.492 billion are Nonlimited. Nearly \$1.1 billion of the Nonlimited funds are found in the Department of Human Services, primarily in the Children,

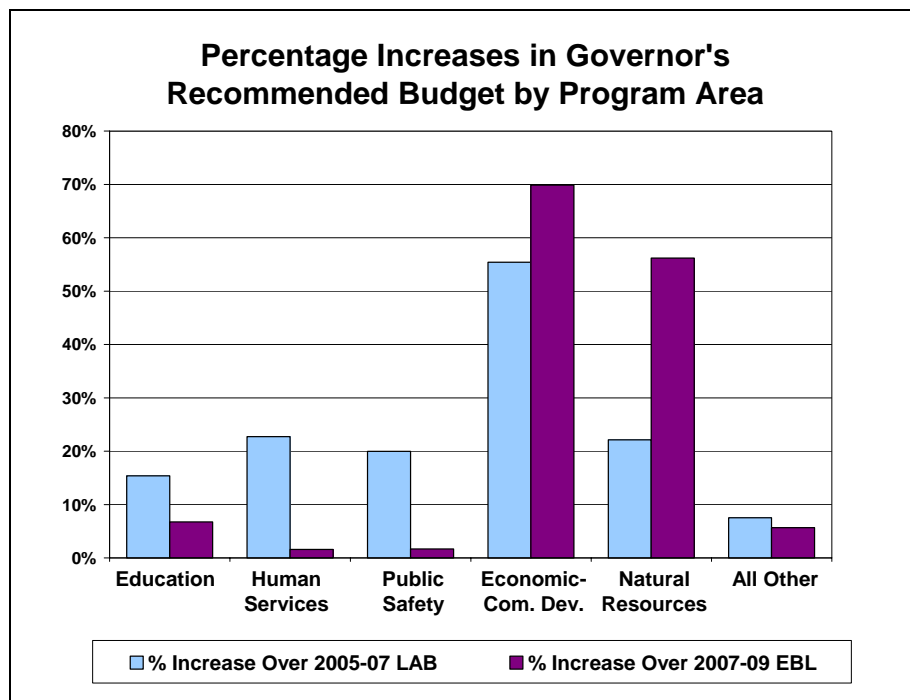
Adult and Families program area for Food Stamp benefits and Women, Infants and Children (WIC) program payments.



2007-09 Balanced Budget Proposal

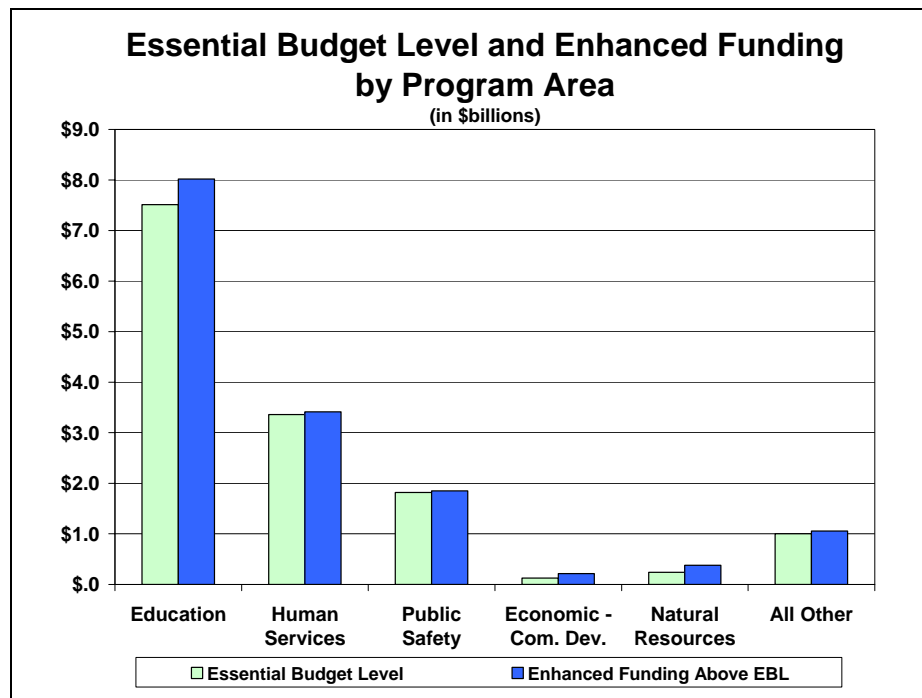
In the 2007-09 recommended budget, the Governor proposes spending nearly \$2.5 billion more General Fund and Lottery Funds than in the current biennium. As noted earlier, overall, this increase does not fund significant amounts of backfill for one-time resources used in the 2005-07 biennium, but is instead used toward program enhancements. Based on the estimated “essential budget level,” or the amount of funding needed to continue all programs and services in the 2005-07 biennial budget through the full two-year biennial period in 2007-09, an increase of approximately \$1.6 billion in expenditures was needed over the 2005-07 legislatively approved budget. The difference of about \$869 million between what was ultimately included in the Governor’s recommended budget and the amount needed to continue currently existing programs was used for program enhancements such as extra funding for schools, health programs, economic development activities, and for additional capital construction and the associated debt service. More information on these enhancements can be found in the Program Area Summaries section of this document and in the Legislative Fiscal Office’s publication, *Analysis of the 2007-09 Governor’s Recommended Budget*, which includes details by all individual agencies.

The following two charts graphically display where the \$869 million General Fund and Lottery Funds in excess of the essential budget level were spent in the Governor’s recommended budget. In terms of percentage growth over the amount necessary to continue all current law programs, the Economic and Community Development and Natural Resources program areas increased by 70% and 56%, respectively. The Human Services and Public Safety program areas were basically funded at the essential budget level, up only 1.6% and 1.7%, respectively. The Education program area increased by 6.7% over the 2007-09 essential budget level.



Despite the substantial percentage growth in the Economic and Community Development and Natural Resources program areas, the majority of the additional expenditure in terms of actual dollars is accounted for in the Education program area. Education programs comprise \$506 million of the \$869 million of state support spent in excess of the essential budget level. The Natural Resources program

area makes up \$136 million of the increase, followed by Economic and Community Development (\$87 million), Human Services (\$53 million), and Public Safety (\$30 million), with the miscellaneous All Other program area at \$57 million.



The Governor is required by statute to produce a balanced budget using current law revenues. The budget is generally based on the current law revenues from the economic and revenue forecast produced by the Department of Administrative Services' Office of Economic Analysis in the December immediately prior to the start of the legislative session. The December 2006 current law forecast identified total General Fund resources of \$13.966 billion and Lottery Funds resources of \$1.381 billion available for expenditure in the 2007-09 biennium. These amounts reflect beginning balances, interest earnings, and, in the case of Lottery Funds, carry forward revenues.

In addition to the currently projected state resources, the Governor's balanced budget relies upon several revenue changes that are not reflected in the December 2006 Office of Economic Analysis revenue forecast. Specifically, the Governor's budget relies upon the following revenue enhancements:

- \$84.5 million General Fund from a proposed increase in the corporate minimum tax; revenue from the tax increase is to be used for an expansion of the Oregon Pre-Kindergarten program, the Skill-Up program within the Department of Community Colleges and Workforce Development, and a further expansion of the Opportunity Grant program of the Oregon Student Assistance Commission.
- \$181.7 million Other Funds from a proposed increase in the tobacco tax of \$0.84 per pack and an increase of 30% in the tax on other tobacco products; revenue from the tax increase is to be used for funding the new Healthy Kids plan in both the Department of Human Services and the Office of Private Health Partnerships, expanding the Oregon Health Plan Standard Population program, an expansion of tobacco prevention education programs, and expanding various other health-related programs such as school based health centers, teen tobacco use surveys, and early assessment and support programs; \$1.7 million of the anticipated revenues from the tobacco tax increase is also

proposed to be used for Department of Revenue administrative costs in collecting the higher tax. The Legislative Fiscal Office has two primary concerns related to this proposal. First, the revenue estimate assumes a November 1, 2007 tax increase collection date, which may not be achievable. Second, the revenue projection may be structured on a revenue accrual basis and not a cash basis. Budgeting Other Funds revenue for the Department of Human Services on a revenue accrual rather than cash basis is one of the primary reasons the Department encounters end-of-the-biennium cash flow issues that require either General Fund cash infusions or short-term borrowing from the Treasury.

- \$25 million Other Funds from a proposed increase in auto insurance premiums by adding a surcharge on certain policies; revenue from the surcharge is to be used to finance 46 existing and 139 new State Police troopers to provide “24/7” patrol coverage on the state’s highways.
- \$191.4 million Other Funds from a proposed continuation of the provider taxes for Managed Care Organizations and hospitals; the current provider taxes are scheduled to sunset on December 31, 2007; funding is used in the Department of Human Services for the Oregon Health Plan Standard Population program; recent actions by Congress to lower the rate ceiling on provider taxes from 6% to 5.5% may reduce the amount of revenue available from this source. In addition, the estimated revenue from the continuation of these provider taxes may also be structured on a revenue accrual basis rather than a cash basis.
- \$40.4 million Other Funds from a proposed continuation of the provider tax on Nursing Facilities; funding is used in the Department of Human Services for paying nursing facility reimbursement rates; the current provider tax is scheduled to sunset on June 30, 2008. This projected revenue amount is also subject to the rate ceiling reduction recently enacted by Congress and may also be computed on a revenue accrual rather than cash basis.
- \$275.1 million Other Funds from a proposal to retain the 2007-09 biennium’s projected corporate kicker and instead deposit the amount into a “Rainy Day Fund.” It should be pointed out that, although the Governor has discussed these items, the Governor’s recommended budget does not include proposed legislation to do either of these suggestions, i.e., retain the corporate kicker or establish a rainy day fund.

These additional resources are partially offset by several reductions to General Fund resources anticipated in the recommended budget:

- \$57.8 million reduction to the General Fund due to the need to backfill programs funded by the Criminal Fines and Assessment Account (CFAA) revenues; statutory changes taking effect on July 1, 2007 from the 2005 legislative session allocate CFAA funds to specific programs rather than to the General Fund (see the following section on the CFAA revenues in this document).
- \$19.1 million reduction to the General Fund due to a proposal to allow the Department of Higher Education to retain interest earnings on fund balances; these earnings under current statutory law are accrued to the General Fund.
- \$9.5 million reduction to the General Fund due to a proposal to change the current distribution of liquor revenues; under the Governor’s recommended budget, 2% of the gross liquor revenues are transferred as Other Funds for enhanced alcohol and drug treatment programs in the Department of Human Services (\$13.4 million) and the Criminal Justice Commission’s Drug Court program (\$3.6 million); the proposal reduces the state’s General Fund by \$9.5 million and transfers to cities and counties by \$7.5 million.
- \$3.7 million reduction to the General Fund due to a proposal to establish a new tax expenditure (credit) related to biofuels and changes to the Business Energy Tax Credit and Residential Energy Tax Credit; the recommended budget continues 13 other tax expenditures that expire during the 2007-09 biennium, but allows the Pollution Control related tax credits to sunset.

The net result on the General Fund of the Governor's recommended revenue changes is a positive \$19.3 million General Fund. This does not include Other Fund increases from proposed increases in the cigarette and wholesale tobacco products taxes or the various Other Fund fee increases proposed by a number of individual agencies.

While the Governor has referred to his 2007-09 recommended budget as the "Hope and Opportunity Budget," the Legislative Fiscal Office has concerns about the sustainability of the proposed budget beyond the 2007-09 biennium. These concerns are based on a combination of the volatility of Oregon's revenue stream as demonstrated during the past six years, the significant commitment of funds in the proposed budget to a wide-ranging number of program enhancements many of which require considerable additional roll-up costs to continue into the 2009-11 biennium and beyond, the reliance on a variety of new taxes, surcharges, and fees for new programs that all require legislative approval, and the inclusion of an aggressive capital construction and bonding program leading to substantially increased debt service payments for several biennia to come. Details of these commitments can be found in the following sections of this document.

The following table provides a summary of the General Fund and Lottery Fund revenues assumed in the Governor's recommended budget and proposed expenditures by program area.

2007-09 Governor's Recommended Budget

	General Fund	Lottery Funds Discretionary	Lottery Funds Measure 66	TOTAL
December 2006 Forecast Revenues				
Beginning Balance	1,363,910,607	57,084,240	24,471,947	1,445,466,794
Projected Revenues	12,602,424,420	1,060,802,572	186,494,572	13,849,721,564
Total Resources	13,966,335,027	1,117,886,812	210,966,519	15,295,188,358
Dedicated Distributions				
County Economic Development	-	(44,784,458)	-	(44,784,458)
Education Stability Fund	-	(223,793,486)	-	(223,793,486)
Education Stability Fund Interest	-	26,717,480	-	26,717,480
Agency Beginning Balances	-	23,102,985	-	23,102,985
Interest and Other Earnings	-	2,250,886	-	2,250,886
Net Current Law Resources	13,966,335,027	901,380,219	210,966,519	15,078,681,765
Resources Beyond Forecast in GRB				
Resources:				
Corporate Minimum Tax Increase	84,450,000	-	-	84,450,000
State Agency Reversions	25,000,000	-	-	25,000,000
Adjustments:				
Liquor Revenue Reduction to GF	(9,545,760)	-	-	(9,545,760)
Biofuel and other Energy Tax Credits	(3,700,000)	-	-	(3,700,000)
CFAA Reduction to GF	(57,779,497)	-	-	(57,779,497)
University System Retain Interest	(19,100,000)	-	-	(19,100,000)
Economic Revitalization Team Funding	-	935,770	-	935,770
Total Resources in GRB	13,985,659,770	902,315,989	210,966,519	15,098,942,278
Expenditures by Program Area in GRB				
Education	7,386,748,402	631,554,417	-	8,018,302,819
Human Services	3,401,716,650	12,032,591	-	3,413,749,241
Public Safety	1,843,875,624	-	6,836,155	1,850,711,779
Judicial	541,087,149	-	-	541,087,149
Economic & Comm. Dev.	36,942,453	175,284,538	-	212,226,991
Natural Resources	175,976,406	35,190	201,179,553	377,191,149
Transportation	6,575,313	54,777,424	-	61,352,737
Consumer & Business Svcs.	12,592,154	-	-	12,592,154
Administration	202,636,696	6,821,861	-	209,458,557
Legislative	70,524,483	-	-	70,524,483
Emergency Fund	162,000,000	-	-	162,000,000
Total Expenditures	13,840,675,330	880,506,021	208,015,708	14,929,197,059
Final Fiscal Position	144,984,440	21,809,968	2,950,811	169,745,219

Note: The apparent ending balance for Lottery Funds-Discretionary is generally committed for future debt service and other program requirements. The ending balance for Lottery Funds-Measure 66 is reserved for salary adjustments.

Criminal Fines and Assessments

Criminal Fines and Assessment Account (CFAA) revenue is a major source of funding for public safety agencies. CFAA resources are generated by a variety of fines, assessments, and repayments received through the state circuit (district) court and through the local justice and municipal courts. The Governor's recommended budget assumes over \$127 million in CFAA revenues will be available for 2007-09. Over 80% of the CFAA revenues come from two sources – non-designated fines and the unitary assessment. The fines are mostly traffic and motor vehicle related but do not include parking violation fines. The unitary assessment is authorized under ORS 137.290 and is an amount over and above any other monetary obligation imposed by the court. The unitary assessment varies based on the type of crime. The 2005 Legislature passed HB 3497 which changed the distribution and allowable uses of CFAA funds beginning July 1, 2007. ORS 137.300 sets out a priority order for CFAA funds as follows: (1) public safety standards and training, (2) crime victims programs, (3) State Police forensics and medical examiner programs, and (4) the Law Enforcement Data System (LEDS). CFAA revenues can not be used for any other purpose, including debt service, than these programs. After allocations to these allowable programs, the remaining CFAA funds are deposited into the General Fund.

The Governor's budget reflects the distribution under the 2005 legislation as shown in the table below. The split between public safety programs and the General Fund has changed substantially between 2005-07 and the Governor's 2007-09 budget. In 2005-07 this split was 67.4% and 32.6% between General Fund and public safety programs while the Governor recommends a 2007-09 split of 22% and 78%, respectively. The major change in the split for 2007-09 is due to the use of over \$36 million of CFAA revenues for forensics, medical examiner, State Police Training, and LEDS programs funded in the past with General Fund. Major increases to programs at the Department of Public Safety Standards and Training (DPSST) and in the State Police programs (forensics and training) also significantly contribute to the shift from General Fund to public safety programs.

Criminal Fines and Assessment (CFAA) Allocations 2005-07 and 2007-09 – Millions of Dollars

	<u>Agency</u>	<u>2005-07 Allocation</u>	<u>2007-09 Allocation</u>
Total Available CFAA Revenues (2005-07 Leg Adopted)		119.1	127.5
Priority 1 Allocations			
DPSST Operations	DPSST	19.2	33.2
Public Safety Memorial Fund	DPSST	0.1	-
State Police Training	OSP	1.1	3.1
Priority 2 Allocations			
Child Abuse Medical Assessments	DOJ	0.7	0.8
Child Abuse Multidisciplinary Intervention (CAMI)	DOJ	7.3	8.5
Criminal Injuries Compensation Account (CICA)	DOJ	6.5	8.7
Regional Assessment Centers	DOJ	0.9	0.9
Domestic Violence Fund	DHS	2.2	2.2
Emergency Medical Services & Trauma Systems	DHS	0.3	0.3
Sexual Assault Victims Fund	DHS	0.5	0.5
Priority 3 Allocations			
Forensics Services	OSP	-	30.1
Medical Examiner	OSP	-	4.7
Priority 4 Allocations			
Law Enforcement Data Systems (LEDS)	OSP	-	6.3
Total Allocations to Public Safety Programs		38.8	99.4
<i>% of Total CFAA Revenue</i>		<i>32.6</i>	<i>78.0</i>
Total Distributed to the General Fund		80.3	28.1
<i>% of Total CFAA Revenue</i>		<i>67.4</i>	<i>22.0</i>

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.

Total General Fund plus Lottery Funds support for the Education Program Area in the Governor's budget is \$8.02 billion. This is up \$1.07 billion (or 15.4%) over the 2005-07 biennium level. This is significantly below the 19.6% increase in General Fund and Lottery Funds spending overall.

K-12 Education

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

Currently, the 2007-09 essential budget level for the state-supported portion of the State School Fund is estimated at \$5,806.1 million. The essential budget level is determined each interim by the School Revenue Forecast Committee, which was established by executive order in 1999. Assumptions made by the Committee for the 2007-09 essential budget level include, among other factors, a 17.66% PERS rate; increases of 9% annually in health benefits costs; about a 2% annual increase in teacher salaries; and growth in student counts of 0.64% for 2005-06 and 0.56% for 2006-07.

The Governor's budget is about \$254 million above the essential budget level and is comprised of two components. The first \$194 million brings the state-supported funding level to \$6 billion. The Governor is also proposing an additional \$60 million to be used as an investment fund. Currently, he is proposing distributing the funds through the process defined in statute for the School Improvement Fund. The funds are distributed as grants that school districts may apply for, from the Department of Education. The grants are designed to improve student achievement and the criteria include class size reductions, increases in instructional time, professional development and others. The budget would earmark \$10 million of the \$60 million for implementation of Oregon's new high school diploma requirements.

The Governor is proposing the continuation of the Oregon Virtual School District (OVSD). The 2005-07 legislatively approved budget transferred \$2 million from the State School Fund for the implementation of the OVSD. The Governor is proposing the same funding mechanism for the continuation of the program at a cost of \$1,800,598; therefore, the State School Fund available for distribution would be reduced by that amount.

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

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

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

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

Department of Education

The budget for the agency (not including the State School Fund) funds agency operations, the School for the Blind (OSB) and the School for the Deaf (OSD), the Youth Corrections Education Program (YCEP), the Grant-in-Aid program, Common School Fund distributions, and the debt service payments on bonds issued in the late 1990s.

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

The Governor's budget includes:

- A package to implement Phase III of the Pre-K-12 Integrated Data Systems (KIDS) project. This project allows school districts to electronically transfer comparable data and is helping to meet federal No Child Left Behind (NCLB) and Adequate Yearly Progress reporting requirements. Phase II is currently piloting this project. Phase III is expected to roll-out the project on a statewide basis. The cost of Phase III is \$8,440,894 General Fund and includes 11 positions (9.00 FTE).
- The continuation of the Oregon Virtual School District (OVSD). In the 2005-07 legislatively approved budget, \$2 million was transferred from the State School Fund to fund the implementation of the OVSD. The Governor proposes continuing the program with the same funding mechanism. While this program is funded with \$1,800,598 Other Funds expenditure limitation, the source of the funds would be the State School Fund.
- The development and implementation of strategies needed for the creation of a growth model for assessing academic achievement at the student, school, and district levels. This will allow the agency to measure student learning growth over time. Currently, Adequate Yearly Progress reporting looks at the percentage of students in certain categories without tracking their progress. The total cost is \$1,830,787 General Fund and includes two positions (1.25 FTE).
- Providing support to teachers and administrators in the use of statewide and local assessment data (assessment literacy). The cost is \$1,652,562 General Fund and includes 2 positions (2.00 FTE).
- Implementation of a cross-office data management system. The project is designed to streamline data flow in the agency. The cost is \$493,877 General Fund and includes 4 positions (3.58 FTE).

The Governor's recommended budget for the School for the Blind, the School for the Deaf, and the Youth Corrections Education Program funds these programs at essentially the same level with increases for standard inflation. The budget does not address the issue of potentially moving the School for the Blind program to the School for the Deaf campus.

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

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

- Pass-through funding to the Commission on Children and Families for the partial funding of a position and grants for Community Schools (\$500,000 General Fund).
- Grants for faculty professional training on civics (\$175,000 General Fund) and a grant to the Chess for Success Program (\$75,000 General Fund).

The budget has distributions from the Common School Fund estimated to be \$72.7 million. That is a reduction of about 19% from the 2005-07 legislatively approved level. The reduction can be attributed to a new policy of building projections on a three year rolling average. The policy should take out some of the volatility of the amounts available from biennium to biennium.

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 \$1.6 billion of General Fund and Lottery Funds to support post-secondary education. This is an increase of \$240.8 million, or 18%, over the 2005-07 biennium level. This is slightly below the 19.6% increase in General Fund and Lottery Funds spending overall.

The budgets of the post-secondary education agencies also include \$4.4 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 \$858.6 million. This is an increase of \$109.7 million, or 14.6%, from the 2005-07 biennium level. The Department budget also includes \$4 billion Other Funds for a total of \$4.9 billion from all fund sources. The Legislative Fiscal Office notes that the Department would additionally receive approximately \$34 million General Fund from the Emergency Board, if the Emergency Board allocates the full \$130 million special purpose appropriation available in the Governor's budget for state employee compensation changes, and the Department receives the same percentage of the total allocation as it did from the 2005-07 biennium allocation for the same purpose. If this special purpose appropriation is received by the Department, its state support will be approximately \$144 million, or 19.2%, above 2005-07 biennium levels.

General Fund support for the Education and General Services program (all remaining figures exclude the expected special purpose appropriation money) totals \$671.5 million, which is a \$78.7 million (or

13.3%) increase over the prior biennium level. The General Fund appropriation is combined with limited Other Funds to finance Education and General Services program expenditures. Combined limited expenditures for the Education and General Services program total \$1.85 billion in the Governor's budget, which is 10.5% above the level approved by the Legislature in the prior biennium.

Notable changes to existing program levels for the Department of Higher Education in the Governor's budget include:

- \$14.6 million in General Fund and \$26 million in Other Funds to support enrollment growth. Included in this is expenditure of projected tuition and resource fee revenues resulting from rate increases averaging 3.4% per year.
- \$26.1 million General Fund distributed to campuses for general operational support, including: a) an additional \$9 million for the four smallest campuses (Eastern Oregon University, Oregon Institute of Technology, Southern Oregon University, Western Oregon University) and the Cascades branch campus of Oregon State University, b) \$8 million to support faculty salary increases (this is in addition to potential increases to be funded from the \$130 million special purpose appropriation for compensation), c) \$2.2 million for support of recent utility cost increases, and d) \$6.9 million to hire additional faculty to reduce class sizes.
- \$17 million General Fund and \$11.8 million in Other Funds certificates of participation to support an 82% increase in state funding of engineering program initiatives developed by the Engineering and Technology Industry Council (ETIC).
- \$7.4 million General Fund to expand Oregon Institute of Technology allied health programs, and pre-nursing programs on all OUS campuses.
- \$1.6 million General Fund for Eastern Oregon University's efforts to increase college attendance rates in eastern Oregon.
- \$1.5 million General Fund for Portland State University's Oregon Solutions program.
- \$8.5 million Lottery Funds for debt service on bonds for capital projects proposed in the Governor's 2007-09 budget.
- \$2.8 million in combined General Fund/Lottery Funds for intercollegiate athletic programs and graduate student scholarships. This represents the net effect of an additional \$7.7 million of Lottery Funds for the Sports Action Lottery program partially offset by a \$4.9 million cut in General Fund support for intercollegiate athletics.

The budget also includes General Fund support for program enhancements in the Statewide Public Service Programs (Agricultural Experiment Station, Extension Service, and Forest Research Laboratory) totaling \$5.5 million. General Fund for these programs will increase between 9.5% and 19.4% 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, Extension Service, and Forest Research Laboratory range from a decline of 5.9% to an increase of 3.7% compared to the levels approved for the prior biennium. These growth rates are reduced by adjustments in the Governor's budget to more accurately reflect the amount of actual Other Funds revenues. Last biennium, the approved Other Funds expenditure limitations did not, in some cases, reflect the actual levels of Other Fund revenues available for these programs.

The Department of Higher Education budget also anticipates a \$120.2 million Other Funds increase in tuition and resource fee net revenues over the prior biennium level. The increase results from rate increases and from enrollment growth.

Capital construction for the Department is discussed in the "Capital Construction" section of this report found on page 53.

Community Colleges

General Fund support in the Governor's budget for the Department of Community Colleges and Workforce Development (CCWD) totals \$508 million. This is an increase of \$74.3 million, or 17.1%, over the 2005-07 biennium level. Most of the General Fund is transferred to community colleges, either through the Community College Support Fund (CCSF), or for specified activities. Of the total General Fund in the budget, \$496.2 million is allocated for community college support, \$6.7 million is for the state office operations of the Department, and \$5.2 million is to pay debt service on bonds previously issued to finance capital construction projects on community college campuses.

The state provides most funding to community colleges through the Community College Support Fund. Of the total \$496.2 million of General Fund for community college support, \$483 million is distributed to colleges through the CCSF. These monies are not dedicated to any particular purpose and are used by the colleges to support all of their operations. These unrestricted funds are distributed to the colleges primarily on an enrollment basis. The CCSF appropriation is \$54.9 million (or 12.8%) above the prior biennium level. The budget also includes an additional \$13.2 million for community colleges for specified programs. This additional funding brings the increase in total state support to colleges to \$67.4 million (or 15.7%) over the 2005-07 biennium level.

General Fund enhancements in the Governor's budget include:

- \$55 million for the Community College Support Fund.
- \$10 million for Skill-up Oregon, a new funding initiative to provide training services to workers who are unemployed, on public assistance, or who are deficient in certain basic job skills. The Governor has indicated, however, that his support for this funding is contingent on approval of an increase in the minimum corporate income tax.
- \$2.2 million for the Healthcare Workforce Initiative supporting expansions in community college nursing and other healthcare training programs.
- \$1.7 million for an Integrated Management Information System to consolidate the Department's five existing data systems and develop a central system that collects required financial data in a standard format from all 17 community colleges.
- \$1.1 million for a Workforce & Career Readiness Certification program, to develop a credential for career and workforce readiness that employees could earn in support of their employment efforts.
- \$1.1 million to add nine positions to the agency to support its accounting and financial management functions, its role in the community college capital construction program, and its research, program development, and performance evaluation functions.
- \$1 million for Career Pathways, an initiative to revise college curriculums to enable students to more quickly attain skills needed for certain identified high-demand occupations, and to expedite professional and technical certificate and degree programs.

The Department's budget also includes \$308.4 million of Federal and Other Funds, for a total of \$816.4 million from all fund sources. Expenditure limitations are proposed 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. Federal Funds of \$129.8 million, down \$13.4 million (or 9.4%) from the prior biennium level, support the agency's workforce programs through the Workforce Investment Act (WIA Title IB) and Adult Education and Family Literacy (WIA Title II) programs. Most of the Other Funds, \$174.3 million, consist of \$87.15 million of state (Article XI-G) bonds matched by an equal amount of community college funds, to finance capital construction projects on 12 community college campuses.

The Governor's budget continues a policy reinstated in the 2005-07 biennium of issuing state bonds for community college capital construction. The CCWD budget includes \$174.3 million Other Funds for community college capital construction projects. This represents a 126% increase over the \$77 million Other Funds in the 2005-07 budget. Details on capital construction for the Department are discussed in the "Capital Construction" section of this report which begins on page 53.

OHSU Public Corporation

The General Fund grants to the Oregon Health and Science University (OHSU) public corporation total \$94.2 million, including \$81.4 million General Fund for OHSU's Education and General program, \$10 million for the Child Development and Rehabilitation Center, and \$2.8 million for the Hospital and Clinics. The appropriated amount represents a \$20.9 million (or 28.5%) increase over the prior biennium. The entire increase, except for a small component for inflation, is for the Education and General program. State support for the Education and General program is increased by 33.7% over the prior biennium level.

General Fund program enhancements include:

- \$4.1 million to compensate for costs associated with the 2005-07 biennium expansion of the MD program cohort from 108 to 120 students.
- \$7.1 million to develop five School of Medicine hub sites throughout the state to help support further expanding the MD program cohort to 160 students.
- \$1.7 million to expand OHSU support for community college and OUS pre-nursing programs.
- \$1.5 million to expand the BS Nursing program cohort by an additional 50 students.
- \$1 million to expand the Master's Nursing program cohort by an additional 20 students.
- \$1.4 million to establish a satellite nursing program on the Western Oregon University campus.
- \$300,000 for unspecified program enhancements in the School of Dentistry.
- \$1.5 million in enhanced funding for the Area Health Education Centers (AHEC) program.

The budget also includes \$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 are unchanged from the prior biennium level.

Oregon Student Assistance Commission

State funding for the Oregon Student Assistance Commission totals \$114.3 million. This is an increase of \$36 million (46%) over the 2005-07 biennium level. The budget increases funding for the state's principal student aid program, the Opportunity Grant, to \$110 million total funds, up \$31.9 million (41%) over the amount approved for the prior biennium, but up \$50 million (or 83%) over the amount now estimated to be spent in 2005-07. (Opportunity Grant awards in the 2005-07 biennium are expected to be \$18.1 million below the level budgeted because of lower-than-anticipated demand for the program.) The Opportunity Grant funding increase expands the program significantly – from an estimated 26,000 students in 2006-07 to 42,000 in 2008-09. The 16,000 student per year increase expands the number of grant recipients by 61%.

This expansion would occur in the second year of the biennium, when the Governor's budget expands the Opportunity Grant by adopting the Shared Responsibility Model. The Shared Responsibility Model, which is based on Minnesota's student grant program, would adjust grant award amounts with the student's income level and include a significant expansion of the program, expanding the average

award amounts and the number of students served. The Governor's budget would extend eligibility for the Opportunity Grant to middle income students. Awards would be available to students, generally, with family incomes of up to \$60,000. The Governor's budget makes this expansion, however, contingent upon approval of an increase in the minimum corporate income tax.

The budget includes a number of other General Fund adjustments in addition to expanding the Opportunity Grant. These include:

- \$1.35 million to shift ASPIRE program costs to the General Fund and to expand the ASPIRE program. The ASPIRE program trains volunteers who mentor high school students through the college admission and financial aid application process.
- \$1 million to support the transfer of the Student Child Care program from the Department of Human Services to OSAC.
- \$623,000 for a 138% expansion of the Rural Health Services program, which repays the education loans of health care professionals who practice in qualifying rural health care shortage areas.
- \$250,000 to shift Office of Degree Authorization program costs to the General Fund and to expand the ODA program.

Through a combination of these funding increases, agency employment is increased by 11.48 FTE (or 51%) over the prior biennium level.

Human Services Program Area

The agencies in the Human Services program area work with local governments, private for-profit and non-profit organizations, communities, and individuals to provide cash and employment assistance, food stamps, medical coverage, long-term care and other support to low-income individuals and families, including Oregonians with disabilities; 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 residents of long-term care facilities.

The Governor's 2007-09 budget for the Human Services program area is \$12.247 billion total funds, including \$3.402 billion General Fund and \$12 million Lottery Funds. The combined General Fund and Lottery Funds budget is 23% more than the 2005-07 legislatively approved budget for this program area. The \$12.2 billion total funds budget is about 18% higher than the 2005-07 approved budget.

The total Human Services program area budget for 2007-09 includes \$1.645 billion Other Funds. About \$560 million of this amount is from tobacco tax revenues – \$180 million from a tobacco tax rate increase proposed in the Governor's budget. Program area Other Funds also include Medicaid provider tax revenue, certificates of participation revenue for the Oregon State Hospital replacement project, transfers from other state agencies, and a variety of fee revenues. 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 \$7.188 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 2007-09 Governor's recommended budget of \$12.017 billion total funds. DHS' \$3.310 billion General Fund budget is 23% more than the 2005-07 legislatively approved budget. This increase reflects funding for higher anticipated costs (because of inflationary pressures), greater health care service utilization, and caseload changes. The DHS budget is divided into four main program areas and two smaller capital improvement and construction budgets, as shown in the following table.

Department of Human Services Budget (\$\$ in millions)

Program Area or Budget	General Fund	% of General Fund	Total Funds	% of Total Funds
Department-Wide Support Services	\$ 176.9	5	\$ 484.8	4
Children, Adults and Families	569.0	17	2,527.9	21
Health Services	1,546.6	47	6,084.6	51
Seniors & People with Disabilities	1,016.0	31	2,836.5	24
Capital Improvement	1.2	<1	1.2	<1
Capital Construction	0	0	81.6	<1
Total DHS Budget	\$ 3,309.7	100	\$ 12,016.5	100

The Governor's budget enhances a number of program budgets within DHS. Most notable are the Governor's Healthy Kids Plan, expanding the OHP Standard program by 10,000 average monthly cases, developing more community-based mental health care, initiating the replacement of the Oregon State Hospital, increasing the availability and affordability of child care for low income families, and restructuring welfare services for families with children. Some of these increases are supported with tobacco tax from a proposed rate increase, others with revenue from certificates of participation, and still others with General Fund. Program highlights of the Governor's budget for each of the four main program areas follow.

DHS Department-Wide Support Services

The Department-Wide Support Services (DWSS) budget funds central operations and support for DHS. The 2007-09 Governor's recommended budget is \$484.8 million total funds. This is 16% higher than funding for the 2005-07 biennium, primarily due to higher State Government Service Charges paid by DWSS for the agency, major information systems and Oregon State Hospital project costs, initiatives for operational improvements, and DWSS' share of costs for policy and program enhancements in other areas of the agency.

The operational improvements in DWSS include new management staffing, actuarial and caseload forecasting improvements, expanded internal audits, enhanced overpayment collection efforts, initial work on a unified eligibility and case management system for DHS' self-sufficiency programs, and development of a Criminal Records Information Management System. The 2007-09 cost totals \$6.5 million General Fund and \$12.5 million total funds.

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 Governor's recommended budget is \$569 million General Fund and \$2.528 billion total funds. This includes \$983.9 million in Nonlimited Federal Funds for Food

Stamp benefits. The budget is 28.6% General Fund and 10.8% total funds higher than the 2005-07 legislatively approved budget.

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

- \$34.9 million General Fund to restore child care program eligibility to 185% of the federal poverty level, reduce client co-payments, and increase provider rates in October 2007.
- \$19.5 million General Fund, \$31.6 million total funds to restructure the TANF program, expand JOBS and JOBS Plus, fund post-TANF employment support, and make other program changes to meet new federal TANF requirements and improve outcomes for clients.
- \$1.6 million General Fund and \$1.6 million Federal Funds to restructure child welfare staffing to improve child safety, and \$3.1 million General Fund and \$2 million Federal Funds to increase legal representation for child welfare workers in court.
- \$2.7 million General Fund to pay relative foster caregivers, and \$1.4 million General Fund, \$2.6 million total funds to increase rates for Behavioral Rehabilitation Services providers.
- Added eligibility determination staff for the Healthy Kids Plan and the Oregon Health Plan Standard expansion (\$846,083 General Fund, \$6.6 million total funds).

The budget also reduces the size of the increase in the CAF budget through improved management of foster care payments, limiting Vocational Rehabilitation Services special payment funds, and making unspecified administrative reductions. The savings are \$4.4 million General Fund, \$11.7 million total funds.

DHS Seniors and People with Disabilities

The Seniors and People with Disabilities (SPD) program area includes the Medicaid long-term care program and expenditures for persons with developmental disabilities. The Governor's recommended budget for the 2007-09 biennium is \$2.836 billion total funds (including \$1.016 billion General Fund). The 2007-09 SPD recommended total funds budget is about 12% higher than the approved budget for the 2005-07 biennium. The recommended budget is \$129.4 million General Fund, or 15%, more than the 2005-07 legislatively approved budget.

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

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

- Reimbursement increases for providers of services for people with developmental disabilities of about \$29 million. This reimbursement change assumes wages would be increased by \$1.00/hour and other payroll expenses (OPE) would increase from 28% of wages to 34% for the last 10 months of the biennium.
- \$3 million General Fund and \$7.4 million total funds to implement recommendations from the Nursing Facility Staffing Commission on CNA staffing standards in nursing facilities.
- \$5.8 million General Fund and \$11.6 million total funds to improve reimbursement for Area Agencies on Aging who perform Medicaid eligibility and case management services.

- \$2.3 million General Fund and \$4.3 million total funds to address field staff workload issues related to helping clients eligible for both Medicare and Medicaid with their Medicare Part D prescription drug benefit.
- \$338,204 General Fund and \$676,408 total funds to improve the quality of care within community-based facilities.
- \$1.9 million General Fund to develop services for juveniles with developmental disabilities who will be adjudicated under SB 232 (2005). The bill establishes a juvenile panel of the Psychiatric Security Review Board for disposition of youths with serious mental conditions. DHS does not have specific services for youths who also have developmental disabilities.

The Governor's budget also reflects several General Fund reductions including:

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

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 2007-09 Governor's recommended budget is \$6.085 billion total funds (including \$1.547 billion General Fund). The total funds budget is about 23% higher than the 2005-07 legislatively approved budget. The General Fund portion of the recommended budget is about 26% greater than the 2005-07 approved budget.

The Governor's budget reflects funding for caseload changes; the phasing in (or out) of several program reductions from the 2005-07 biennium as well as the effects of the Medicare Modernization Act Part D prescription drug benefit on the OHP budget; the impact of medical cost inflation and more intensive medical service utilization; and numerous enhancements to the OHP, Children's Health Insurance Program (CHIP), mental health and addiction services, and public health programs. The most notable of these program expansions are listed below:

- The Governor's Healthy Kids Plan which expands health care services in the OHP Payments and CHIP budgets (\$53.8 million Other Funds from new tobacco tax, \$100.8 million total funds). In addition, the budget adds new school-based health clinics within the public health and program support budgets.
- An expansion of the OHP Standard program which would add 10,000 average monthly cases in the 2007-09 biennium (\$50.4 Other Funds – primarily from new tobacco tax, \$127.3 million total funds).
- An extension of the Medicaid provider tax for Managed Care Organizations and Hospitals which is, under existing law, scheduled to end January 2008.
- The addition of a pre-natal care benefit to the Citizens Alien Waived Emergency Medical program (\$4.5 million Other Funds, \$23.3 million total funds).
- A continuation of staffing ratio improvements at the Oregon State Hospital in accordance with the Harmon v. Fickle lawsuit settlement agreement (\$11.2 million General Fund, \$15.4 million total funds).
- Funding for the ongoing development of mental health community-based projects consistent with recommendations of the Oregon State Hospital Phase II report (\$10 million General Fund).
- Early assessment and support teams to provide better mental health services are funded with \$4.3 million tobacco tax.

- An expansion of the Tobacco Prevention and Education Program (TPEP) with \$17.9 million of new tobacco tax.
- Increased funding for improved addictions treatment and prevention of youth substance abuse (\$13.4 million Other Funds from the Oregon Liquor Control Commission).

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 Governor's 2007-09 budget is \$64.5 million General Fund and \$92.6 million total funds. This is 39.8% General Fund and 26.8% total funds above the 2005-07 legislatively approved budget. This budget restores many of the program reductions made in prior biennia, and makes additional investments in programs and the Commission system infrastructure.

The Governor's General Fund investments for the Commission include:

- \$6 million for local Healthy Start home visitation programs.
- \$3 million for local commission operations.
- \$2.3 million for relief nurseries, plus \$200,000 for state staff and evaluation.
- \$2 million for juvenile crime prevention grants.
- \$1 million for the Court Appointed Special Advocates program.
- \$1 million for homeless and runaway youth services, including state staff support.
- \$500,000 for grants for community schools, with additional funding for state staff support.

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

Office of Private Health Partnerships

The primary function of the Office of Private Health Partnerships (OPHP) is to manage the Family Health Insurance Assistance Program (FHIAP) – part of the OHP, and in the Governor's budget, a portion of the Healthy Kids Plan. FHIAP provides health insurance premium subsidies to eligible low-income individuals or employees. The 2007-09 Governor's recommended budget for OPHP is \$23.9 million General Fund and \$119.7 million total funds, a total budget increase of 36% above the 2005-07 legislatively approved budget. (The General Fund budget proposed by the Governor is 5% less than the 2005-07 legislatively approved budget, reflecting a 10% reduction to the FHIAP.) The total funds increase is the result of adding \$22.6 million of tobacco tax generated from a proposed rate increase in the Governor's budget. The tobacco tax revenue, along with federal matching funds from the Department of Human Services, will be used to support the Governor's Healthy Kids initiative.

The OPHP role in the Healthy Kids initiative is three-fold. First, the agency is charged with promoting the entire Healthy Kids Plan – both the OPHP and the DHS components. To do this, the budget includes funding for agency marketing efforts as well as community organizational outreach grants. Second, OPHP will expand eligibility for employer sponsored insurance subsidies to households with incomes up to 350% of the federal poverty level (FPL). For families with incomes less than 200% FPL, a full subsidy will be offered to pay for children's health insurance coverage. Today, all families with incomes less than 185% FPL may receive some contribution towards the health insurance premium cost. Third, OPHP will work with insurance carriers to develop a "private insurance

product” that can be purchased by any family, without regard to income, which does not have access to employer sponsored insurance. Subsidies will be offered to families with incomes up to 350% FPL.

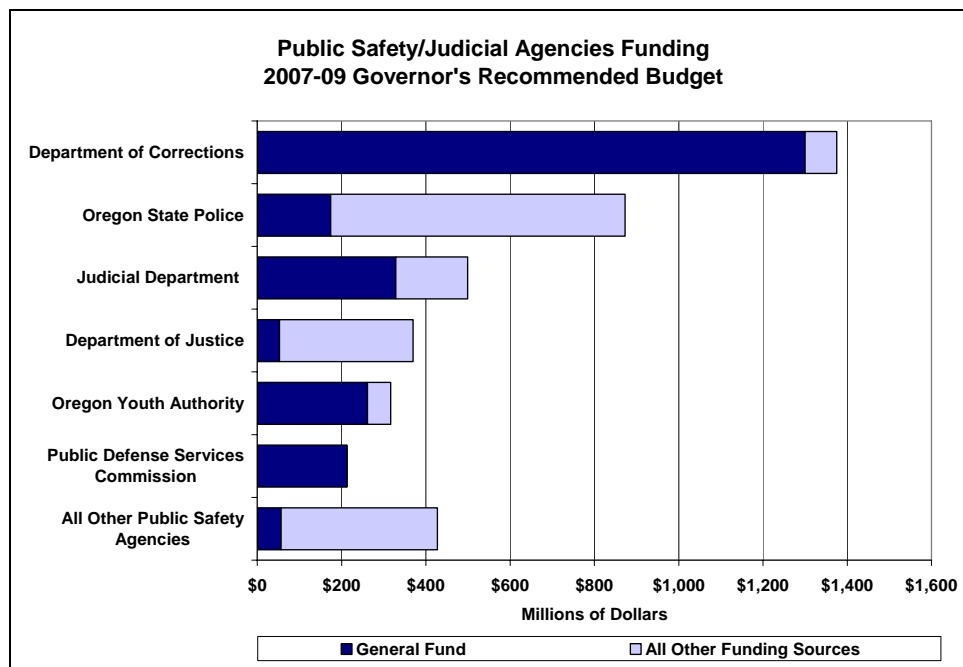
The Governor’s Healthy Kids Plan seeks to provide medical insurance to all of the state’s uninsured children, partly by extending eligibility up to 350% of the FPL, but also through extensive outreach (funded in OPHP) to families whose children are eligible under current program requirements, as well as other eligibility changes such as the elimination of an asset test, the reduction of an un-insurance period from six months to two months, and a simplified application process.

The fact that many of Oregon’s uninsured children are eligible today, however, raises questions about the barriers that apparently prevent them from receiving medical benefits and how to effectively overcome those barriers. According to a study conducted by Oregon Health and Science University and the Office for Oregon Health Policy and Research, there is a strong linkage between parental un-insurance and a child’s lack of medical insurance: 81% of uninsured children also had an uninsured parent. While the Governor’s budget also proposes to expand OHP Standard somewhat, the Healthy Kids Plan appears to rely primarily on outreach and other program changes. Can rigorous outreach and the other changes help overcome this linkage – that is, can parents who are uninsured be persuaded through state outreach efforts to acquire health insurance for their children even if they themselves remain uninsured? Or, is it critical to insure parents if the goal is to insure their children? These are key policy questions that the Legislature and executive branch will need to answer as they consider the proposed Healthy Kids Plan.

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 2007-09 Governor’s budget for the agencies in this program area total \$2.385 billion General Fund and \$4.074 billion total funds, a 19.3% increase from the 2005-07 legislatively approved budget in General Fund resources and a 41.6% increase in total funds. The significant growth in total funds is largely due to an increase of almost \$600 million in capital construction limitation in public safety agencies. After factoring out capital construction, the total funds increase by 21.3% between 2005-07 and 2007-09.



Department of Corrections

The Governor's budget for the Department of Corrections (DOC) of \$1.375 billion total funds represents an increase of \$245.8 million, or 21.8%, over the legislatively approved budget for 2005-07. The General Fund budget of \$1.30 billion increases 22.3%, or \$236.4 million, for the same period. The 2007-09 Governor's budget relies on the October 2006 prison population forecast which estimates the number of inmates will grow by 578 (4.2% increase) between July 1, 2007 and June 30, 2009. During the same period, the community corrections population is expected to increase by almost 1,300, or 3.7%. This anticipated growth and the "roll-up" costs of a full 24 months of this population during 2007-09 accounts for over \$150 million General Fund (over 500 positions and over 460.00 FTE) of the increased 2007-09 proposed budget. Other major reasons for the increase in the 2007-09 DOC budget include:

- Adjustments for inflation and other cost growth account for \$25 million General Fund. The increased cost of medical and pharmacy services is included in this amount.
- The rates that drive the distribution of the community corrections funding are "rebased" at a cost of almost \$25 million after factoring in information from recently completed actual cost studies. This is over and above the increases for caseload growth and general increases for inflation.
- New funding is added to address mental health related issues across the agency by adding permanent staff and opening up further mental health special unit beds at Snake River (\$4.1 million General Fund).
- A new pre-release program for high risk sex offenders is created (\$0.8 million General Fund) as well as more transition/reentry coordinators are added (\$0.9 million General Fund).
- Critical infrastructure needs are addressed by providing over \$24 million Other Funds for priority 1 deferred maintenance projects and \$6.5 million Other Funds to replace the wireless communications systems at two facilities.

For the first biennium since the mid 1990s, the proposed budget does not include any capital construction funds for new prison construction or major expansion of an existing prison. The budget does include \$10.6 million Other Funds for the initial planning and design of the next prison which is not scheduled to be opened until late 2012.

Department of State Police

The Governor's 2007-09 budget for the Department of State Police of \$873.1 million total funds represents a \$336.5 million, or 62.7%, increase from the 2005-07 legislatively approved budget. The increase is even more dramatic after factoring out the units that are proposed to be transferred in the Governor's budget. Without the Office of Emergency Management and other programs that the Governor proposes to move in his budget, the increase is over \$575 million total funds over the same period; but \$548.2 million represents proposed spending for the Oregon Wireless Interoperability Network (OWIN) program (\$485.7 million capital construction). Debt service for the OWIN project totals \$16.3 million General Fund as proposed in the Governor's budget, but is anticipated to grow to over \$113 million for 2011-13.

The General Fund resources in the Governor's 2007-09 budget actually decreases by over \$5 million from the 2005-07 legislatively approved budget. Two major fund shifts are the primary reason for this decrease: (1) almost \$36.3 million in Criminal Fines and Assessment (CFAA) revenues are used to replace General Fund resources in the Forensics Division, Office of the Medical Examiner, Law Enforcement Data System program (LEDS), and for training; and (2) \$23.8 million Other Funds generated from a proposed surcharge on certain auto insurance coverage is used to fund a net increase of 139 new troopers and backfill General Fund resources for 46 existing trooper positions. Other major features of this budget include:

- 15 detective positions (\$2.3 million General Fund) are added to address the growing fraud and identity theft problems as well as to provide more resources for methamphetamine and other drug investigations.
- 47 positions (\$5.9 million General Fund and \$7.9 million total funds) are added to strengthen the infrastructure of the agency and restore many of the positions lost over the past few biennia through budget reductions. Positions include fiscal staff, evidence technicians, vehicle maintenance technicians, dispatch personnel, and information systems staff.
- 15 forensic lab positions (\$3.1 million CFAA Other Funds) are restored representing half of the positions necessary to what the Governor's budget considers full staffing for the lab system. The plan is to add another 15 positions in 2009-11.

Judicial Branch Agencies

The Governor, while making no recommendations on Judicial Branch agencies, included unspecified reductions to the requested budgets. The adjustments bring the total requested budgets in line with the average increases for Executive Branch agencies. The Governor's reduction is \$19.7 million General Fund for the Public Defense Services Commission and \$45.1 million for the Judicial Department.

The Governor recommended a total funds budget for the **Judicial Department** of \$498.9 million, a 57.2% increase over the 2005-07 budget. The Chief Justice's recommended budget includes a new mandated caseload calculation for workload growth in the trial and appellate courts that adds \$9.3 million General Fund (68.64 FTE) to the base budget for the Department. This revision to essential budget calculations has not been reviewed or approved by the Legislature. If this adjustment and the policy packages are approved, General Fund expenditures would grow by 17.5% to \$328.7 million.

The Judicial Department budget includes initiatives that have potentially significant roll-up costs in future biennia. If the Legislature passes legislation to add 13 judges, there will be a 2009-11 General Fund roll-up cost of \$8.7 million. Legislation would also be required to authorize state assumption of the responsibility for the replacement of aging courthouse facilities. The 2007-09 policy package includes \$101.9 million Other Funds from proceeds from certificates of participation (COPs), and \$5.4 million General Fund for debt service. The General Fund roll-up cost for future biennia is unknown for

the debt service on the COPs for replacement of courthouse facilities. This has previously been a county obligation. There is also a potential future General Fund impact from a proposal to replace the aging Oregon Judicial Information Network. The policy package for 2007-09 includes \$20 million General Fund and \$25.5 million Other Funds for this initiative. Total estimated project costs could exceed \$100 million total funds.

The Governor's recommended budget for the *Public Defense Services Commission* is an increase of 16.2% General Fund (\$29.6 million) above the 2005-07 legislatively approved budget. However, the Legislative Fiscal Office is recommending an essential budget level revision that would add \$9 million for mandated caseload, to reflect actual workload and costs. If the Legislature approves this adjustment, there is a potential shortfall in the funds required to provide representation to eligible persons. The amount of the shortfall will depend on decisions made about the level of funding that should be provided for policy packages to provide parity between public defense attorneys and their district attorney and Department of Justice counterparts.

The *Council on Court Procedures'* recommended budget is \$123,646, which is 587% more than its 2005-07 legislatively adopted budget of \$18,000. This increase is due to a General Fund enhancement package of \$102,812 that seeks to restore General Fund support to the Council. With the level of requested funding provided in the budget, there is a presumption that the Council will need to continue to receive in-kind support from entities which have historically supported Council operations.

Military Department

The Governor's recommended budget for the Military Department of \$352 million total funds (including \$23.9 million General Fund and 485.46 FTE) is \$251 million, or 248%, more than the Department's 2005-07 legislatively approved budget of \$101 million. This includes the proposed transfer of the Office of Emergency Management (OEM), and a portion of the Criminal Justice Services Division related to homeland security, from the Department of State Police to the Department (\$180.9 million; 40.88 FTE). In absence of this transfer, the Department's recommended budget would have been \$170.8 million (including \$21.8 million General Fund and 444.58 FTE), which is \$69.7 million, or 69%, above its 2005-07 legislatively approved budget. The notable enhancements to the Department's budget include:

- Veterans Reintegration Program funding (\$234,427 General Fund; 2.00 FTE).
- Re-authorization of the 9-1-1 revenue source and program (\$41.8 million Other Funds).
- OEM and homeland security positions (\$850,814 General and Federal Funds).
- Oregon Youth Challenge Program fund shift, positions, and services and supplies (\$506,201 General Fund, Other, and Federal Funds).
- Six major construction projects (\$70.1 million Other and Federal Funds) with associated debt service (\$1.2 million General Funds) and deferred maintenance expenditures for existing installations (\$1.4 million General Fund).

Debt service and operations and maintenance costs of new or updated facilities will result in significant roll-up costs in the 2009-11 biennium. Debt service will increase to \$5.5 million General Fund during the 2009-11 biennium.

Lastly, the Department receives direct federal support from the National Guard Bureau of approximately \$425 million (2,132 FTE). These funds, which are not budgeted by the state, are in addition to the \$226.4 million in Federal Funds from various federal agencies that are contained within the Department's state budget.

Oregon Youth Authority

The 2007-09 Governor's budget for the Oregon Youth Authority (OYA) is \$261.3 million General Fund and \$316.7 million total funds. This is 22% General Fund and 26% total funds more than OYA's 2005-07 legislatively approved budget. The increase reflects added capacity in the close custody facilities and community programs, as well as restoration of previous reductions in grants to communities. Notable changes from the 2005-07 budget include:

- \$11.4 million General Fund to phase in 145 close custody beds during the biennium, for a total of 995 beds by February 2009. This capacity meets about 90% of the forecast demand for close custody beds. The Oak Creek Youth Correctional Facility in Albany will reopen with 75 beds; the other beds will be added in Warrenton, LaGrande, and Salem.
- \$3.8 million General Fund will add facility staffing at MacLaren and Hillcrest Youth Correctional Facilities to meet safety and security needs, fully fund expected medical and pharmacy costs, and improve programs and services for young women in OYA's facilities.
- \$3.5 million General Fund will support caseload growth in community parole and probation supervision, foster care, and treatment services.
- \$6.3 million General Fund will increase grants to counties for juvenile crime prevention basic services, county diversion, and youth gang funding. This restores funding for these grants to their original 2001-03 budgeted levels plus inflation.
- \$6.6 million General Fund is added to enhance reimbursement for federal Medicaid Behavioral Rehabilitation Services residential treatment providers. Staffing to provide technical assistance and monitor use of the Medicaid funding is also added.
- \$8.6 million in Capital Construction Other Funds, from certificates of participation to be issued in 2007-09 and 2009-11, will allow OYA to begin replacement of Whiteaker Hall at MacLaren, remodel the Corvallis House, and address deferred maintenance needs statewide.

Department of Justice

The 2007-09 Governor's budget for the Department of Justice of \$369.7 million total funds grows by almost \$70 million, or 23.2%, from the 2005-07 legislatively approved budget, but \$23.2 million of this growth is attributable to a change in the methodology in how the accounting for the indirect administrative costs is treated. This does not change the actual spending levels but does duplicate these expenditures for budget purposes. General Fund resources grow by \$18.6 million, or 54.6%, to \$52.8 million because of:

- Growth in the mandated caseload for the Defense of Criminal Convictions (\$8.1 million).
- Shift in the funding mix for the Child Support Division from Federal Funds to General Fund resulting from a change in federal law (\$4.9 million).
- Increase of \$1 million for providing services to victims of domestic and sexual violence.
- Allocation of \$2.5 million as a placeholder to cover the legal costs of defending the revenues generated from the Master Settlement Agreement with tobacco companies.
- Restoration of the reductions made in 2005-07 in the District Attorney Assist program and the Organized Crime unit (\$0.9 million).

Other enhancements to the budget include increased staffing for further review of child welfare cases and greater representation of Department of Human Services staff (\$4.7 million Other Funds including \$2 million for payments to District Attorneys), additional staff to keep pace with the workload resulting from the increased number of Measure 37 claims (\$1.9 million Other Funds), and an increase of \$3 million in Criminal Fines and Assessment Account (CFAA) resources for crime victims programs.

Other Public Safety and Judicial Branch Agencies

The 2007-09 Governor's budget for the *Department of Public Safety Standards and Training* of \$50.8 million total funds represents a 24.5% increase over the 2005-07 budget. Roughly half of the overall growth in this budget is due to the net change of roll-up costs for increases made during 2005-07, while the remaining half represents enhancements to the budget. These enhancements include:

- 16 additional positions (\$2.5 million Other Funds – CFAA) to meet the demands of the new 16 week basic law enforcement course, including the emphasis on scenario based training.
- Seven additional positions and other resources (\$813,100 Other Funds - CFAA) for maintaining the buildings and grounds of the newly opened facility and for information management systems.
- Three positions and equipment purchases (\$1.2 million Other Funds) to strengthen the training for firefighters across the state.

The \$10.7 million General Fund budget for *District Attorneys and Their Deputies* is 16.2% more than the 2005-07 legislatively approved budget. This \$1.5 million budget increase is due primarily to compensation increases for the district attorneys (\$284,816 General Fund), restoration of assistance with paying deputy district attorneys (\$810,290 General Fund), and two positions (\$382,710 General Fund) to provide staffing for the Oregon District Attorneys Association.

The *Criminal Justice Commission's* budget of \$10.2 million total funds (\$6.5 million General Fund) represents a 161% increase from the 2005-07 legislatively approved budget. This budget reflects providing 24 months of the drug court grants initiated in 2005-07 (\$2.5 million General Fund increase) and the backfill of \$3.6 million Other Funds of one-time federal grant funds used in 2005-07 to provide drug court related grants. The source of these backfill funds is liquor related revenue.

Economic Development and Consumer Services Program Areas

Economic and Community Development Department

The Governor's budget includes \$67.4 million in Lottery Funds and \$2.9 million General Fund expenditures for a number of policy packages, including:

- \$38.2 million Lottery Funds for nanoscience and technology initiatives, including a potential third Signature Research Center and public/private investments in industry initiatives.
- \$15 million for targeted workforce training.
- \$5.6 million to continue the one-time dedicated lottery grant funding of \$3.3 million for Small Business Development Centers and \$1.5 million for women, minority, and small business development approved by the 2005-07 Legislature. OECD will report to the 2007 Legislature on the outcome of contractual performance standards for these programs.
- \$4.4 million to restore regional and rural development funding to pre-2003 levels.
- \$2.9 million General Fund to the Arts Commission for the Creative Oregon Initiative, to stimulate activity in the creative sector to improve economic development competitiveness.
- \$2.1 million Lottery Funds for Brand Oregon campaigns and promotions for Oregon industries.

The Governor's budget includes \$102 million Nonlimited Other Funds in infrastructure bonding authority for the Oregon Economic and Community Development Department (OECD). These bonds will be used for infrastructure development for industrial land sites, water and wastewater systems, and other economic development-related infrastructure. The Governor plans to delay issuance of the bonds until late in the biennium, to avoid any debt service in the 2007-09 biennium.

The 2009-11 roll-up cost for this delayed bond sale is projected to be \$22.1 million Lottery Funds debt service.

The Governor's budget assumes that the Association of Oregon Counties will continue to expend a portion of revenues from the 2.5% county share of the video lottery distribution for the county share of the cost of the Economic Revitalization Team.

Department of Consumer and Business Services

The Department of Consumer and Business Services budget was increased by \$23 million Other Funds (11.5%), primarily as a result of standard adjustments for personal services, inflation, and state government service charges and a \$4.6 million policy package to implement statewide electronic permitting, plan reviews, and inspections. The budget has a net increase of \$4.9 million in Nonlimited Other Funds primarily from an increase of \$19.8 million in the Oregon Medical Insurance Pool to fund increased claims and third-party administrator costs and a decrease of \$14.8 million in Nonlimited workers compensation funds. The Oregon Medical Insurance Pool provides medical insurance coverage for high-risk Oregonians who are otherwise ineligible for medical coverage and is funded through an assessment on medical insurers.

Employment Department

The Governor's recommended budget reflects a total increase of 6.5% over the legislatively approved budget for the Employment Department. However, this increase is not enough to offset the increase in Department expenses, particularly those related to personal services. As a result, the Governor's budget for OED reflects a reduction in FTE positions of 143 compared to the 2005-07 legislatively approved budget.

The economic improvement experienced in Oregon since 2005 is expected to continue through the 2007-09 biennium. Fewer Oregonians are unemployed, resulting in a decrease in workload for the Unemployment Insurance division; as a result, the 2007-09 essential budget level reduces 20.00 FTE in this division.

Federal funding for OED is flat or declining in the 2007-09 biennium and for the foreseeable future. By contrast, the agency's expenses (particularly in the area of personal services) are rising faster than the historically assumed annual inflation factor of 3.5%. To ensure a balanced budget in 2007-09, OED unveiled a downsizing plan in the spring of 2006. The plan called for achieving reductions of FTE through attrition, reducing services and supplies costs, consolidating field offices from 48 to 37 locations, and shifting some positions from federal funding sources to sustainable Other Funds sources where possible. The Governor's recommended budget incorporates the downsizing plan by including a revenue reduction package that affects all divisions of the agency with the exception of the Child Care division.

Nonlimited Other Funds are expected to increase by \$108 million in the Employment Department due to assumed wage inflation associated with unemployment insurance benefits.

Housing and Community Services Department

The Governor's budget for HCSA reflects a 13.62% decline from the 2005-07 legislatively approved budget largely due to savings achieved through changes in short-term debt issuance. The Governor's budget increases General and Other Fund support for the agency to increase support for food programs, agency administration, and additional funding for affordable housing development and preservation with wraparound services for the homeless, as follows:

- \$8.1 million General Fund for affordable housing preservation.
- \$2 million General Fund capital infusion to the HCSD Housing Finance Fund, the primary source of operating funding for the agency.
- \$1.5 million General Fund for the Oregon Food Bank Network and creation of a new Food Policy Council.
- \$24.5 million Other Funds from lottery bond proceeds issued for preservation through subsidies and development of affordable housing with services for the homeless population.

Department of Veterans' Affairs

The Department of Veterans' Affairs budget includes General Fund support to continue a number of enhancements for which the Legislature provided one-time funding for in 2005. Specifically, \$2.6 million to be distributed to counties to fund additional efforts by County Veterans' Services Offices and \$0.5 million to provide emergency financial assistance to veterans and their immediate families.

Oregon Historical Society

The Oregon Historical Society (OHS) is provided with a grant of \$2.8 million of Lottery Funds through the Department of Parks and Recreation's Heritage Program. Prior to 2003, the OHS was provided General Fund grants through the budget of the Department of Administrative Services. No grant funding was provided after the 2001-03 biennium due to budgetary constraints.

Oregon Public Broadcasting

Oregon Public Broadcasting (OPB) is provided with a General Fund grant of \$3.75 million through the Department of Administrative Services. Prior to 2003, the OPB was provided General Fund grants through the budget of the Department of Administrative Services. No grant funding was provided after the 2001-03 biennium due to budgetary constraints. In addition to the General Fund support, the Governor's recommended budget includes \$1.6 million of Lottery Funds to pay the debt service on \$7 million of Lottery Bonds issued for OPB infrastructure improvements in 2001.

Public Utility Commission

The Governor's budget for the PUC enhances revenue for the Public Utility Commission by:

- Reversing action taken by the 1997 Legislature that converted the rate electric utilities pay the PUC from a percentage of gross revenue to a fee based on the volume of energy moving through the lines owned by the utility.
- Allowing the PUC to assess telecommunications cooperatives, consumer-owned utilities, and cable organizations a gross revenue fee of up to 0.02% of their annual revenues. Currently, these entities do not pay utility regulation fees, although they are subject to some PUC oversight.
- Allowing the PUC to capture a portion SB 1149 public purpose charges to offset the cost of statutory reports to the Legislature which detail the use of public purpose funds.

All of these enhancements would require legislation, and amount to nearly \$2 million in additional Other Funds revenue for the agency.

Natural Resources Program Area

The 2007-09 Governor's budget for the Natural Resources program area totals \$1.549 billion, including \$176 million General Fund and expenditure limitation for \$198.4 million Lottery Funds, \$671.5 million Limited Other Funds, and \$231 million Federal Funds. The budget also includes \$272.6 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 2007-09 is approximately \$18.4 million, or 1%, above the 2005-07 approved budget, primarily due to increased availability of Lottery Funds and enhancements that restore agency services reduced in the past three biennia. The combined limited budget for the natural resource agencies, which is more representative of agency operational activities, is about 4% more than the previous biennium.

General Fund resources for natural resource agencies increased by \$32.8 million, or 23%, over the 2005-07 approved levels. Notable increases include:

- \$16.5 million General Fund for the Department of Environmental Quality, mainly for the restoration of reductions made in previous biennia in the Air and Water Quality programs, backfilling anticipated reductions in federal support for state delegated pollution control programs, and starting new programs such as \$1.8 million for a water toxics program and \$3 million for a new Clean Diesel program for grants to reduce emissions from older diesel engines.
- \$8.9 million General Fund for the Department of Energy primarily to forgive \$4.6 million of the \$15.77 million owed by the Oregon Museum of Science and Industry (OMSI) on a loan from the State Energy Loan Program; to create a new energy audit function in the agency; and to make grants available to schools to install small-scale solar systems and fund energy efficient improvements in rural public school facilities.
- \$7 million General Fund for the Department of Fish and Wildlife caused primarily by replacing \$4.3 million in Other Funds from the Pacific Coastal Salmon Recovery Fund (PCSRF) with General Fund due to significant reductions in the amount of PCSRF monies the state expects to receive during 2007-09. PCSRF monies had been used in the past to replace General Fund support in salmon recovery and watershed improvement programs to make those General Fund dollars available for statewide needs. The Governor's budget also adds back \$0.9 million General Fund to support hatchery operations that had been shifted in 2001-03 to Other Funds from angling licenses.

Lottery Funds limitation increased by a net \$32.7 million, or 21%, largely due to additional lottery revenues expected from the addition of slot gaming. This resulted in a \$25.5 million increase in the budget for the Oregon Watershed Enhancement Board and a \$5.4 million increase in the budget for the State Parks and Recreation Department. An additional \$1 million was added to the Department of Agriculture for grants by the Weed Board for projects to control noxious weeds.

Limited Other Funds remain virtually unchanged from 2005-07 with Other Funds growth caused by a number of fee increases proposed in the Governor's budget needed to meet the higher costs of continuing current programs and proposed fees for new programs. The Other Funds increase from fees is partially offset by decreases in the Department of State Lands (DSL) budget for the reduction in one-time expenses related to removal of the New Carissa, a proposal in the Governor's recommended budget to transfer the DSL Unclaimed Property Section to the Office of the State Treasurer, and to the phase-out of limitation provided to the Department of Forestry in 2005-07 for the fire season.

Expenditure limitation for Federal Funds decreased by 10% primarily due to a phase-out of one-time costs incurred in 2005-07 for clean-up of the McCormick and Baxter Superfund site as well as decreases in expected federal funding from the Pacific Coastal Salmon Recovery Fund for salmon recovery activities and from the Environmental Protection Agency for DEQ programs.

Nonlimited Other Funds decreased by a net \$61.8 million, or 8%. This decrease is largely due to reductions to the number of loans the Department of Environmental Quality anticipates making from the Clean Water State Revolving Loan Fund.

Shift in Funding Sources

In the past, significant portions of Oregon's Pacific Coast Salmon Recovery Funds (PCSRF) grants have been used to replace General Fund in other natural resource agencies' budgets to support salmonid recovery and watershed enhancement and protection activities. Because of concerns that lower federal funding support for PCSRF will continue into 2007-09, the Governor's budget reverses 2005-07 shifts made in the Departments of Agriculture, Fish and Wildlife, and Environmental Quality budgets by adding back \$6.6 million General Fund to support this work in 2007-09 instead of using PCSRF monies. The Governor's budget proposes that all 2007-09 PCSRF funds be expended by OWEB for grants.

2007-09 Measure 66 Lottery Fund Allocations

	M-66 LF Operations	M-66 LF Capital
Available Resources <small>December '06 Lottery Forecast and 2005-07 unallocated</small>	38,314,530	71,860,409
Department of Fish and Wildlife	3,234,395	5,000,000
OSP/ Fish and Wildlife Enforcement	6,056,880	996,405
Department of Agriculture	7,734,760	5,274,890
Department of Environmental Quality	3,897,947	0
Oregon Watershed Enhancement Board	17,390,528	60,589,114

Transportation Program Area

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

The 2007-09 Governor's budget for the Transportation program area totals \$3.550 billion, including \$6.6 million General Fund and expenditure limitation for \$54.8 million Lottery Funds, \$3.384 billion Limited Other Funds, and \$87.8 million Federal Funds. The budget also includes \$17.6 million in Nonlimited Other Funds for the Infrastructure Bank Loan program activity. Including Nonlimited Other Funds, the total program area budget for 2007-09 is approximately \$654 million, or 23%, above the 2005-07 approved budget primarily due to increased project activity in the Bridge Program for the Department of Transportation. The Governor's recommended budget for the Department of Aviation is proposed at the same level as the 2005-07 legislatively approved budget.

General Fund resources for transportation agencies decreased by \$2 million, or 24%, from the 2005-07 approved levels primarily due to a proposal to dedicate \$4 million of certain Other Funds revenue collected for customized vehicle registration plates to the Passenger Rail Program. The proposed budget includes \$2 million General Fund to fund a study of Oregon's freight and passenger rail system.

Lottery Funds limitation increased by a net \$31.9 million, or 140%, largely due to additional debt service from lottery-backed bonds for the multi-modal transportation initiative known as "Connect Oregon." The Governor's budget includes additional Lottery Fund resource for debt service on another \$100 million in lottery-backed bonds for additional multi-modal transportation projects in 2007-09. Debt service for 2007-09 is estimated at \$6.5 million which will increase to \$21 million in the 2009-11 biennium.

Other Funds limitation increased \$612 million, or 22%. The 2007-09 Governor's budget reflects substantial increases in highway construction programs and commitment by the Legislature to invest in Oregon's transportation infrastructure. Of the total Other Funds increase, \$400 million is planned for bridge construction contractor payments, \$100 million is proposed to continue investments in key non-highway facilities, and \$46.5 million is planned for federal highway funds passed through to local governments during 2007-09. The budget also includes proposals to respond to mandates outlined by SB 640 (2005) to utilize biometrics in the issuance of driver licenses, permits, and identification cards and respond to requirements of the Federal Real ID Act.

Federal Funds limitation increased \$12.2 million, or 16%. Most of the increase in Federal Funds, \$10.2 million, is for increased funding from the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) enacted August 10, 2005 for Public Transit programs. Another \$519,219 Federal Funds is proposed for a federal grant from the Federal Motor Carrier Safety Administration to implement a 10-year driver history check with other states before issuing a commercial driver license.

Administration Program Area

The Administration program area provides centralized support and guidance to other Executive Branch program areas. It includes budgets for the three constitutionally established executive offices: the Offices of the Governor, Treasurer of State, and Secretary of State. Other agencies whose operations are not related to the other program areas are also placed in this program area. They include the Department of Revenue, Oregon Liquor Control Commission, and Public Employees Retirement System.

The Governor's recommended budget includes a number of program enhancements and fund shifts throughout the program area.

Office of the Governor

The General Fund budget for the Office of the Governor is 33% higher than its 2005-07 budget. A significant portion of the increase is to: restore prior budget reductions absorbed during the recession (\$298,000); shift funding for the Office of Rural Policy from Other and Federal Funds to General Fund (\$398,000); add two policy staff in Salem (\$340,000); and add staff and office space in Washington D.C. (\$479,000). It also provides General Fund to upgrade office technology (\$431,000), remodel office space (\$250,000), and for additional air travel (\$161,000).

Treasurer of State

The Treasurer's budget anticipates passage of legislation that would transfer the responsibility of collecting and disbursing unclaimed property from the Department of State Lands (DSL). The budget includes significant one-time costs to relocate staff due to increased space needs created by the addition of unclaimed property staff transferred from DSL.

Secretary of State

The Secretary of State's total funds budget is a 9.8% increase over the 2005-07 legislatively approved budget. Policy packages include \$1.2 million Other Funds for the continuation of E-business projects, \$1.9 million Federal Funds for the continuation of the Elections Business System, \$85,000 Other Funds to enable the use of the Deposit Interface System, \$1.5 million Other Funds to implement an

Electronic Records Management System and Center, and \$482,048 Other Funds to establish three new auditor positions (3.00 FTE) to conduct school district performance audits.

Department of Administrative Services

The Department of Administrative Services total funds budget is \$136 million, or 13.7% above the 2005-07 budget. It should be noted that 33% (\$370.6 million) of the Department's budget is for debt service and debt management costs on appropriation and pension obligation bonds. The increased debt service cost accounts for \$44 million of the Other Funds increase in the Department's budget. Other significant increases include: \$24 million Other Funds for capital construction; \$5 million General Fund each for development of a geospatial information system and to support a proposed Oregon Educators Benefit Board. Funding of the Oregon Education Benefit Board anticipates passage of legislation. Another \$45 million Other Funds Nonlimited authority is requested for self insurance payments for health care benefits (\$30 million) and other self insured liability costs (\$15 million). Increased facilities costs, which include operating costs and all utilities, account for another \$10 million Other Funds.

Oregon Liquor Control Commission

The Governor's budget proposes a significant change in revenue distribution, dedicating 2% of gross liquor sales revenues for alcohol and drug substance abuse prevention and addictions treatment. Approximately \$17 million in revenue – before OLCC expenditures – will be transferred to the Department of Human Services, who will then allocate special payments to local treatment providers. This package will divert revenue that would otherwise go to the state General Fund (- \$9.5 million), and shared revenue distributions to cities (- \$5.8 million) and counties (- \$2.4 million).

Oregon State Library

The Governor's budget provides \$286,900 in additional General Fund to increase the Ready to Read grant program to local libraries to \$1 per child and provide a minimum grant level of \$1,000 for all libraries, regardless of program size. This package restores the program to 1999-2001 levels.

Department of Revenue

The recommended budget for the Department of Revenue includes a number of enhancements. Modernization of payment processing equipment will cost \$340,000 total funds. Additional staff to verify eligibility of taxpayers claiming refundable credits is budgeted at \$1.4 million General Fund. A new electronic document management system (imaging) is proposed to begin with the corporate tax program and is budgeted at \$890,000. Three enhancements anticipate passage of legislation. One would eliminate the sunset date for use of cigarette and other tobacco taxes and continue the Tobacco Compliance Task Force (\$3.3 million). One provides \$450,000 General Fund to administer a proposed change in the Corporate Minimum Tax. The third provides \$1.7 million to administer a proposed increase in the cigarette tax. Additionally, the General Fund support for elderly rental assistance is reduced by \$500,000 in recognition of the shrinking number of persons eligible for the assistance.

Government Standards and Practices Commission

The recommended budget for the Government Standards and Practices Commission is a 42% increase in General Fund from the 2005-07 legislatively approved level. The proposed budget adds two new positions and reclasses an existing position for administrative support realignment and training responsibilities. The staffing increase raises the number of positions for the agency to the highest level since 1995-97.

Public Employees Retirement System

The Governor's recommended budget for the Public Employees Retirement System (PERS) provides for the payment of all benefits, refunds, and health insurance premiums. It also provides PERS with 102 additional limited duration positions to deal with the temporary workload created by the 2003 reform legislation and resulting court decisions and settlements. Additionally, 37 new permanent staff are included to deal with the more permanent workload required to process increasing numbers of retirements and payment of benefits from two separate programs. The PERS Other Funds budget increase of \$644 million is principally due to increasing numbers of retirees receiving retirement benefits and purchasing health care insurance through the system.

Legislative Branch

The recommended budget for the six legislative branch agencies is sufficient to fund the agency request budget of \$69.6 million General Fund, \$75.9 total funds, and also includes an additional \$971,293 General Fund above the agency request level for the Legislative Branch (\$3.6 million General Fund above the essential budget level). This is an adjustment to allow for the same average amount of increase the Governor has recommended for Executive Branch agencies.

The budget provides for continuation of agency operations, including increases for personal services adjustments, pension obligation bond debt service costs, and merit increases for eligible employees. The requested budget also includes policy packages to continue the technology transition program, remodel and renovate the Capitol wings, and address other administrative and building needs.

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 2007-09 Governor's recommended budget for the Emergency Board totals \$162 million which includes a \$30 million general purpose Emergency Fund and two separate special purpose appropriations totaling \$132 million (\$130 million for state employee salary and benefit adjustments and \$2 million for the Defense of Criminal Convictions program in the Department of Justice). Special purpose appropriations are made for specific uses, often designated for individual agencies, and are generally made available for general uses if not allocated within a specified period of time.

The \$30 million general purpose Emergency Fund in the recommended budget is at the same level as adopted by the Legislature for the 2005-07 biennium. Between the 1995-97 and 2003-05 biennia, the average amount appropriated to the Emergency Board was in excess of \$39 million. During the 2005-07 biennium, the Emergency Board was often placed in a situation of having to defer requests for Emergency Fund allocations because of the low cash balance in the Fund. At the December 2006 meeting of the Board, transfers of \$12.1 million of unused special purpose appropriations to the general purpose account were required in order to address requests for allocations, including one request for an allocation of \$10 million required by a court order. Even with this transfer, the Board

was forced to defer nearly \$5 million in requests to the 2007 legislative session due to inadequate Emergency Fund resources.

The \$130 million special purpose appropriation for state employee salary and benefit adjustments again represents projected full coverage of the estimated General Fund cost to state agencies for the salary and health benefit adjustments that will be determined by negotiated settlements with collective bargaining units. The Department of Administrative Services will develop a plan for the distribution of these funds based on the negotiated needs for the 2007-09 biennium and request an allocation of the funds from the Emergency Board or Legislature. The plan will also include agency requests for related Other Funds and Federal Funds expenditure limitation adjustments for salary and benefit costs covered by these sources. A portion of the \$130 million is also designated in the Governor's recommended budget for specific management compensation issues.

The Governor's recommended 2007-09 budget also includes one other special purpose appropriation of \$2 million for the Department of Justice for increasing, but unable to be precisely determined, costs in the Defense of Criminal Convictions Program.

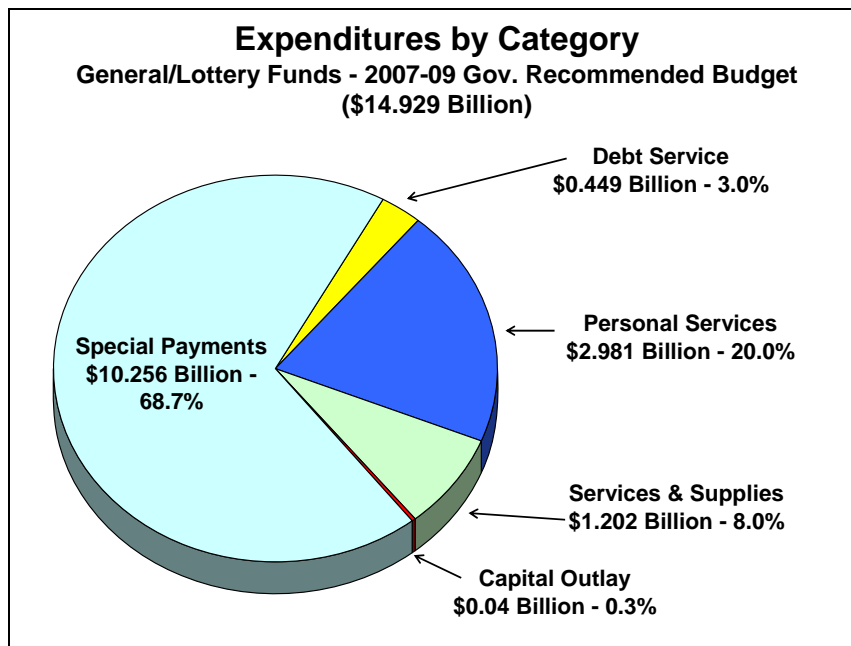
Summary of Governor's Proposals Affecting the 2007-09 Budget

Budget Expenditures by Category

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

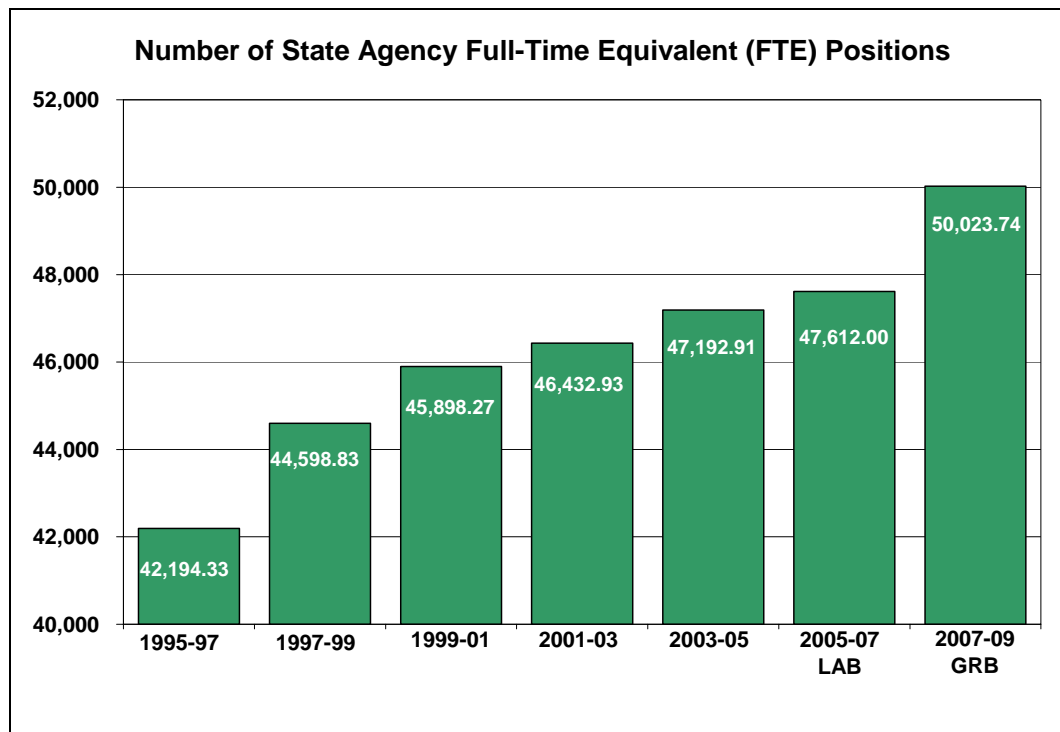
- Personal Services – state employee compensation including salary and wages, social security taxes, health benefits, retirement contributions, and workers' compensation assessments.
- Services and Supplies – agency expenses for current operations (excluding employee compensation), including consumable materials, travel, publishing, utilities, rent, telecommunications, personal service contracts, training, office expenses, and assessments and fees for central government services, such as costs related to the Department of Administrative Services.
- 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 Governor's recommended 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 \$6.06 billion in the Governor's budget proposal, or slightly over 40% of the state's combined General Fund and Lottery Funds budget. This is the lowest percentage allocation to the State School Fund since the early 1990s, before the costs of Ballot Measure 5 were fully phased in.

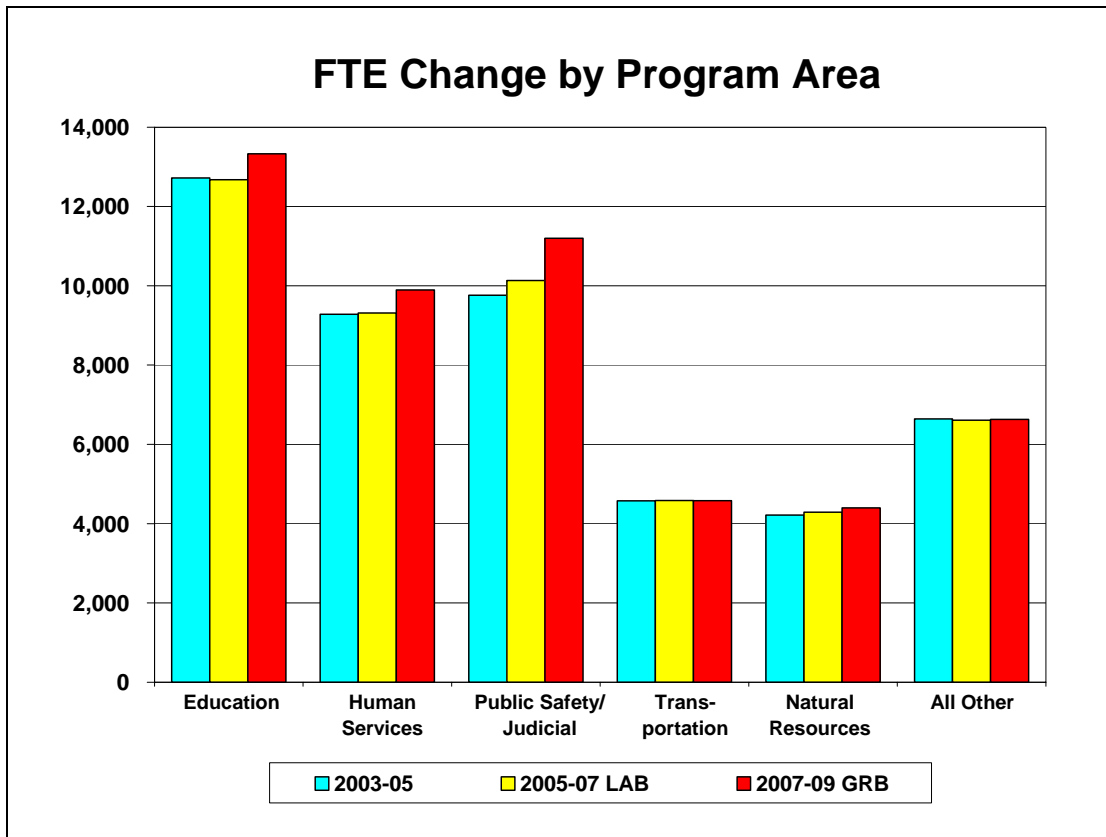


State Employees

The Governor's recommended total funds budget supports 50,024 state 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, 2006, the state's population was estimated at 3,683,300; the state's population is projected to be 3,789,100 in July 2008. The FTE limit at the beginning of the biennium is therefore 55,250 and 56,837 at the end of the biennium, substantially higher than the number included in the Governor's recommended 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 43,721. Over 76% of the FTE subject to the limit are in three areas: Education (primarily higher education), Human Services, and Public Safety.



Despite being under the statutory cap on state positions, the increase in the number of FTE between 2005-07 and the Governor's recommended 2007-09 budget is striking. The increase of 2,411.74 FTE, or 5.1%, is the largest increase since the 1997-99 budget when an equivalent number of positions were added to the state's workforce. The majority of the new positions are added in the Public Safety/Judicial (+ 1,065.32 FTE), Education (+ 649.94 FTE), and Human Services (+576.40 FTE) program areas. The agency with the largest increase is the Department of Higher Education with the addition of the equivalent of 612.49 FTE. The Department of Human Services adds 534.16 FTE in the Governor's recommended budget. The Department of Corrections is increased by over 500 positions due to the phased-in opening of new prison facilities.



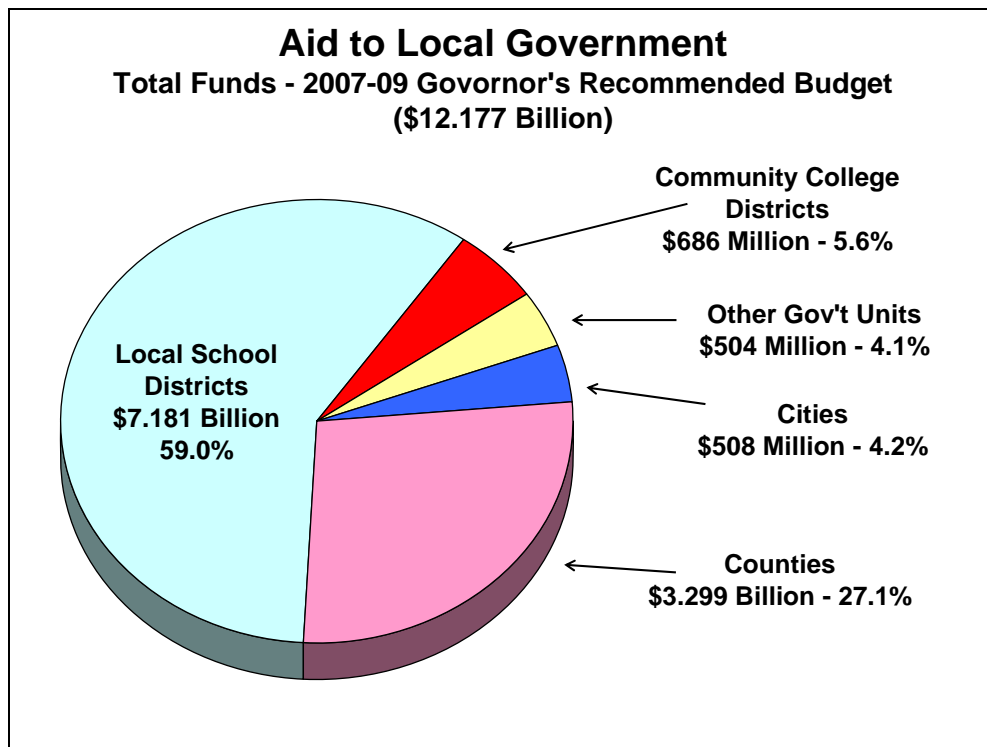
State Employee Salary and Benefit Actions

A \$130 million special purpose appropriation to the Emergency Board is proposed in the Governor’s recommended budget for state employee salary and benefit issues. The final need will be determined by negotiated agreements with employees in 32 separately represented groups and by decisions on equivalent changes to be provided to employees who are not represented by a bargaining unit. The \$130 million was estimated to cover increases for two cost-of-living adjustments of 2% and 3%, health insurance benefits of approximately 10.3% and 9.3% in each of the two calendar years of the biennium, and changes to selective salary ranges, including supplemental distributions to avoid reductions in programs reliant upon capped block federal grant funds to cover 2007-09 bargained salary and benefit cost increases. The cost in the 2009-11 biennium for the employee salary and benefit actions implemented during 2007-09 could be approximately \$200 million. This figure is dependent upon the actual amounts and timing of increases in 2007-09.

Aid to Local Government

The state provides three types of aid to local government: 1) direct payments by state agencies to local government 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 state’s budget only explicitly reflects some of these funds, with most of the shared revenue being sent directly to local government and not being accounted for in the state budget. For example, 2.5% of video lottery proceeds are sent directly to the counties, which is projected to amount to \$43.8 million in the 2007-09 biennium, and an estimated \$133.6 million from liquor sales will also be transferred directly to cities and counties.

The Governor's recommended budget includes a total of \$12.2 billion total funds as aid to local government. Again, this accounts for only the funds that flow through the budget and are explicitly identified as aid to local government.



Approximately 63% of the aid to local government, or \$7.7 billion, is combined General Fund (\$7.1) and Lottery Funds (\$614 million). The remaining 37% is nearly evenly split between Other Funds (\$2.3 billion) and Federal Funds (\$2.2 billion). It is not surprising that the majority of funds budgeted for local governments are consistent with the major funding components of the statewide budget – education, human services, and public safety. The following are selected examples of aid to local government included in the Governor's recommended budget:

- **Education Program Support** – The majority of the state's budget for educational services is aid to local government, accounting for \$7.9 billion. 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.
- **Health Services Program Support** – The state and local governments have moved toward developing partnerships in the delivery of social support services. State agencies in the Human Services program area account for \$1.44 billion total funds in aid to local government. The Governor's recommended budget, for example, allocates \$78.1 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.
- **Public Safety/Judicial Branch Program Support** – The state's public safety agencies and the Judicial Branch provide approximately \$515 million total funds in aid to local government. This support is used for a number of programs, including juvenile crime prevention activities;

community corrections; partial funding of district attorneys and deputy district attorneys; drug courts; crime victim assistance and domestic violence programs; disaster relief and recovery assistance programs; 9-1-1; and autopsy services. In addition, the Governor's recommended budget would add 139 new State Police officers funded with new revenue, which is not direct aid to local government, but would provide additional law enforcement services across Oregon. Also of note is a proposed \$554.3 million investment in the Oregon Wireless Interoperability Network, a statewide public safety communicate system.

The Governor's recommended budget does not include any provision for counties if Congress does not extend P.L. 106-393, the Secure Rural Schools and Community Self-Determination Act. PL 106-393 expired on September 30, 2006, and counties are scheduled to receive their last payment under the law in January 2007. There is some indication that Congress may take action on extending the law when it reconvenes in 2007. The Association of Oregon Counties estimates that the potential loss to the state (based on fiscal year 2006-06) is approximately \$453.8 million (\$60.6 million – School Fund, \$181.7 – Road Fund, and \$211.5 million – County General Fund). The federal law does not directly affect the state budget, however, if the federal law is not extended, the effect on shared and critical services to Oregonians will need to be reviewed during the state budget process.

Performance Measures

ORS 291.110(2)(d) specifies that each state agency will “use performance measures to work toward achievement of identified missions, goals, objectives and any applicable benchmarks.” HB 3358 (2001) required the Oregon Progress Board to establish, with the Legislative Fiscal Office (LFO), Secretary of State Audits Division, and Department of Administrative Services (DAS), guidelines for state agencies to link performance measures to Oregon Benchmarks. For the last three budget cycles, the Progress Board, LFO, and DAS Budget and Management Division have worked together to update the *Performance Measures Guidelines for Oregon State Agencies* and publish them in the *DAS Budget and Legislative Concepts Instructions* and on the Progress Board's website.

The state's Key Performance Measures (KPMs) system intends to establish a set of core state agency performance measures that remain generally stable over time. Legislative review of performance measures ensures that agencies remain focused on reporting the results they are achieving for the resources provided, and that future decision makers have critical agency performance information as they consider funding requests. State agencies report annually on KPM progress. These reports are available at each state agency and on the Progress Board's websites.

Each biennium the Joint Committee on Ways and Means recommends legislatively approved KPMs and targets, which are attached to an agency's official budget report. The Committee can also establish performance measure-related budget notes and direct an agency to report to the Joint Legislative Audit Committee (JLAC). During the 2005 legislative session, 27 state agencies received performance measure-related budget notes. As a result, JLAC spent approximately 40% of their official meeting time during 2006 reviewing and approving agency KPMs.

Included in state agencies 2007-09 budget requests are proposed KPMs for the 2007-09 biennium, and related performance targets (Budget Form #107BF04a). Agencies also include a copy of their most current Annual Performance Progress Report (Budget Form #107BF04c). Historically, proposed measures have been reviewed against eight criteria, described in detail in the KPM guidelines. Based on the criteria review feedback, agencies can opt to make changes to their proposed measures to meet criteria requirements or make other suggested improvements. This budget cycle, LFO took the lead on

providing criteria review feedback to state agencies. The hope is that by having LFO involved earlier in the process, agencies might face fewer surprises and be better prepared to have more substantive performance discussions during the legislative budget review process. As of December 20, 2006, LFO had completed 48 criteria reviews or 58% of the potential reviews. Reviews cannot be completed until agencies submit complete and final proposed KPMs.

LFO recently filled a new position that allocates 0.50 FTE to the coordination of performance measurement activities. This staff resource is expected to ultimately increase the Legislature's ability to be more informed about state agency's efforts to enhance performance management and accountability.

Prioritization Process for Agency Programs

Balancing the state budget necessitates resource allocation decisions concerning public services and programs. During the 2005 legislative session, 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 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). In the 2005 legislative session, 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 Fund should be reduced through alternate fund sources, service reductions, or fee increases; or should be eliminated. For services supported by Other Funds and Federal Funds, the results were used to formulate expenditure plans based on legislative program priorities.

Planning for the 2007 legislative session anticipate continuing the prioritization exercise initiated in 2005.

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 December 2006 economic forecast of personal income for the 2007-09 biennium of \$278.96 billion, the statutory limit on appropriations for governmental activities is \$22.3 billion. The Governor's recommended budget for 2007-09 provides for expenditures of approximately \$21.6 billion for governmental activities – \$700 million under the limit, or 7.74%, of projected personal income.

The Governor's recommended budget totals \$49.2 billion. For purposes of the appropriation limit, however, governmental activities exclude the fiduciary and business activities of government. The

largest fiduciary activity in the budget is the Public Employees Retirement System (PERS), with a total budget approaching \$6.4 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. Also excluded are Federal Funds (including Federal Funds as Other Funds) and expenditures 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 2007-09 Governor's Recommended Budget

In building the budget, various assumptions regarding rates and assessments need to be made. Since these are statewide assumptions, they affect nearly every agency budget.

Inflation – The biennial inflation factors used in the recommended budget are 3.1% for general inflation and for non-state employee contract providers and 5.4% 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 the Oregon Health Plan provider payments, child foster care costs, programs for the developmentally disabled, mental health services, and nursing home and residential care.

Merit Increases – The budget assumes the equivalent of one salary step increase for the 2007-09 biennium for eligible employees of agencies with more than 10.00 FTE. Smaller agencies are fully funded for merit increases since they are less likely to incur vacancy savings or other budget savings in order to finance the total cost of step increases. The estimated General Fund cost of non-base budget merit increases for 2007-09 is \$39.6 million. This is in addition to the \$130 million appropriated to the Emergency Board in the Governor's budget for employee compensation issues.

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 Employee Retirement System (PERS) contribution rates, workers' compensation charges, Employment Relations Board (ERB) assessments, and Flexible Benefits. This category also includes pension obligation bonds debt service, which is discussed below. The following table shows the OPE rates applicable to 2003-05, 2005-07, and the proposed budget for 2007-09.

OPE Rate Comparison			
OPE Factors	2003-05 LAB	2005-07 LAB	2007-09 GRB
ERB (per employee)	\$1.63/month	\$1.35/month	\$1.50/month
PERS (% of salary)	10.49%	14.63%	12.71%
Social Security (% of salary)	7.65%	7.65%	7.65%
Workers' Comp (per employee)	\$3.47/month	\$2.95/month	\$2.60/month
Flexible Benefits (per employee)	\$665/month	\$769/month	\$952/month

As the chart shows, PERS and workers' compensation assessment rates are reduced, while ERB and Flexible Benefits (health insurance) rates increase.

- The ERB increase is the first since 2001 and would allow for the addition of one Administrative Law Judge. The budget does assume an increase in filing and arbitrator panel fees to cover agency costs and to provide more equity in the fee structure.
- 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, Workers' Benefit Fund. The \$2.60 rate is based on 1.5 cents-per-hour per employee. (Note: 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.) For 2007-09, state agencies are being assessed

approximately \$57 million total funds by Department of Administrative Services (DAS) Risk Management.

- The PERS rate decrease to 12.71% (6.71% employer rate and 6% employee “pick-up”) was developed by the PERS actuary to produce a reasonable budgetary (or blended) rate. The rate is based on rates approved by the PERS Board. The primary drivers for the rate decrease are prior years’ investment earnings and the effect of 2003 legislation that made changes to PERS.
- The 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 initially built into agency budgets generally does not cover the actual costs that will be incurred, so the Governor’s budget commonly recommends that a special purpose appropriation to the Emergency Fund be established to, at least partially, cover these costs. Specifically, the Governor’s budget proposes \$130 million for employee compensation issues. More specific information on the timing and amount of proposed increases is necessary to determine whether \$130 million is sufficient to cover 2007-09 compensation and benefit increases.

Attorney General Charges – The Governor’s budget is based on an Assistant Attorney General hourly rate of \$128, up from \$111 an hour for the 2005-07 legislatively adopted budget. Adjustments to individual state agency budgets for Attorney General charges will be necessary since some of the costs drivers for the \$128/hour charge were reduced during the Governor’s budget development process. Additional changes to agency budgets may be required to reflect legislatively adopted budgets.

State Government Service Charges – Each agency budget includes a “State Government Service Charge” 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 during the 2007-09 biennium. As the Legislature makes changes to the proposed budgets for agencies that assess state government service charges, budget adjustments for other agencies that pay the affected assessment may be required.

Pension Obligation Bonds (POBs) – 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 under “State Government Service Charges.” For 2005-07, the debt service assessment was moved to each agency’s personal services budget under “Other Payroll Expenses,” since the assessment is charged against PERS subject payroll. The 2005-07 legislatively adopted budget included 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. The 2007-09 Governor’s budget includes approximately \$258 million to cover this cost.

State Bonding and Capital Construction in the 2007-09 Governor's Recommended Budget

The Governor's recommended budget relies on the passage of several bills that establish or increase authority to issue various types of bonds or certificates of participation (COPs). The planned capital construction projects will provide planning and land acquisition for new State Hospital facilities; develop statewide public safety interoperability communications; improve facilities in higher education, National Guard, and state office buildings; and address deferred maintenance issues in higher education, adult prisons, and other state-owned facilities.

The State Debt Policy Advisory Commission (SDPAC) issued a report in April of 2006 that made estimates on General Fund and Lottery Funds debt capacity. At that time, the recommended capacity was \$1.05 billion for General Fund and Lottery funds capacity was estimated at \$746 million for the next two biennia. The Commission also recommended using a phased approach that would not issue more than \$525 million per biennium in General Fund debt. The Governor's budget uses new capacity limits based on the most recent revenue forecast. His budget increases the General Fund cap by 42.9% from the SDPAC recommendation to \$1.5 billion. The Lottery cap is increased by 50.7% to \$1.123 billion. SDPAC had not officially raised the debt capacity limits at the time the Governor's recommended budget was developed. The Commission is charged by statute (ORS 286.555) with developing debt capacity targets and establishing net available debt capacity estimates.

To finance various projects and provide financing capital for state self-supporting lending programs, the Governor's budget proposes issuance of \$1,031.8 million of General Obligation bonds, \$2,888.7 million of direct revenue and pass-through revenue bonds, \$519.1 million in DAS issued COPs, and \$443.4 million in lottery bonds.

Of the General Obligation bonds, \$249.4 million is funded with General Fund and \$782.4 million is funded with dedicated funds. More than 85% will go to fund projects for Higher Education with the rest funding projects for veterans, housing, energy, and environmental quality.

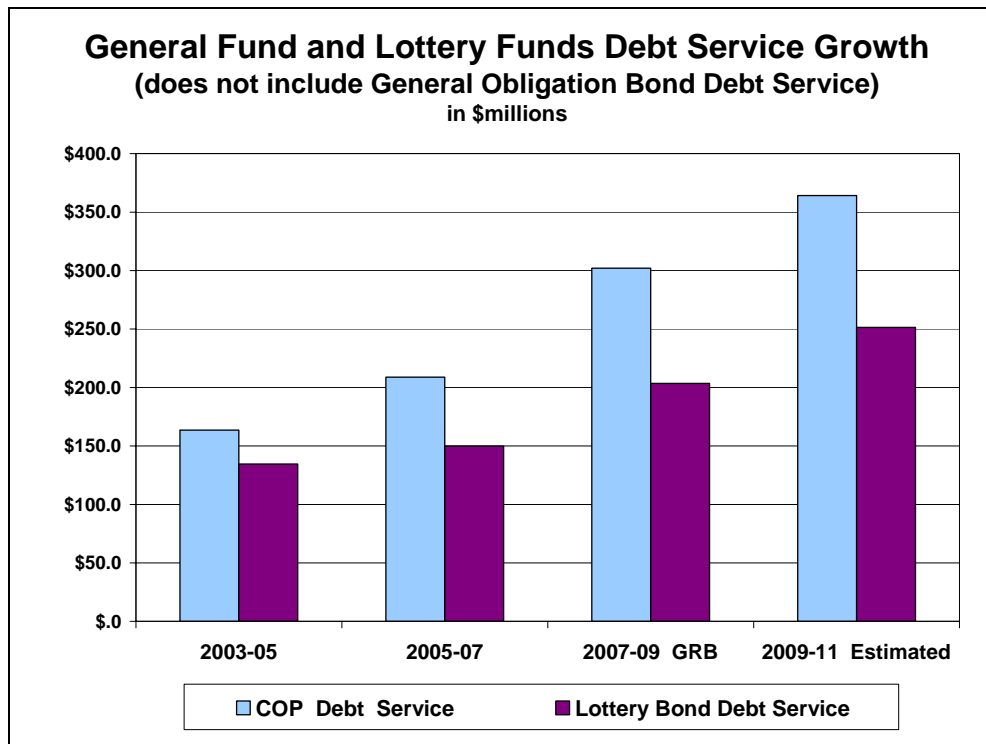
Direct revenue bonds total \$1,738.7 million and include \$938.7 million for Highway User Tax and Infrastructure Fund, \$600 million for housing bonds, and \$200 million for economic and community development.

Pass-thru revenue bonds total \$1,150 million and include \$400 million in Industrial Development bonds, \$500 million for the Oregon Facilities Authority, and \$250 million for housing projects.

The largest COP-funded projects include \$238.6 million for the OWIN project, \$91.1 million for the new State Hospital, \$32.3 million for corrections, and \$30.7 million for higher education. A complete list of COP projects is available in Appendix B. It should be noted that debt service on these new COP projects is estimated to increase from \$46.4 million in 2007-09 to \$127.7 million in 2009-11.

The Governor is recommending substantial debt service increases for General Fund and Lottery Funds. The debt service covers the costs of new and existing debt. Debt service is increased by 35.7% for General Fund, from the legislatively adopted amount for the current biennium, and lottery supported debt service is increased 35%. Other Funds debt service will be reduced by 6.3%.

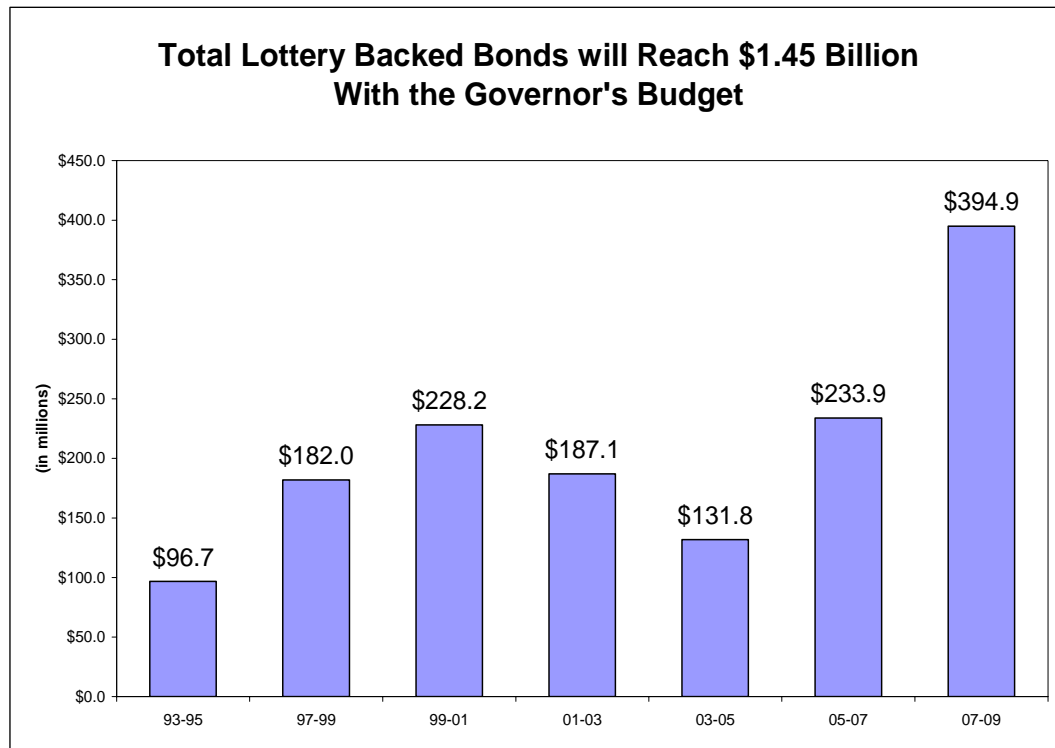
The following chart shows the magnitude of the recent growth in the amounts of General Fund and Lottery Funds needing to be paid out for debt service. With respect to the General Fund, total debt service is even greater than that portrayed since the chart only shows debt service related to the issuance of COPs and does not include debt service on General Obligation bonds issued for higher education and other projects eligible for bonding under the state constitution.



Lottery-Backed Bonding

Not including the cost of issuance and reserves, \$394.9 million is authorized for projects financed with lottery-backed bonding in 2007-09. Included in this amount is \$390.9 million for new projects and \$4 million in previously authorized bonding for the Coos County Airport project. This project was authorized in SB 152 and provided for the sale of \$6 million for the Economic and Community Development Department for North Bend airport improvements. Two (\$2) million of those bonds were sold in the 2005-07 biennium. New projects include:

- \$100 million for the Department of Transportation’s Connect Oregon transportation projects. This is in addition to the \$100 million Connect Oregon bond sale authorized for the 2005-07 biennium.
- \$100 million for the Economic and Community Development Department for infrastructure development, including industrial sites and other infrastructure needed for economic and community development.
- \$12 million for the Housing and Community Services Department to develop affordable housing.
- \$4 million for the Housing and Community Services Department for social services to the homeless. This will provide \$3.8 million for grants to community action agencies and \$200,000 for 0.50 FTE for project coordination.
- \$174.9 million for the Department of Higher Education for facilities deferred maintenance.



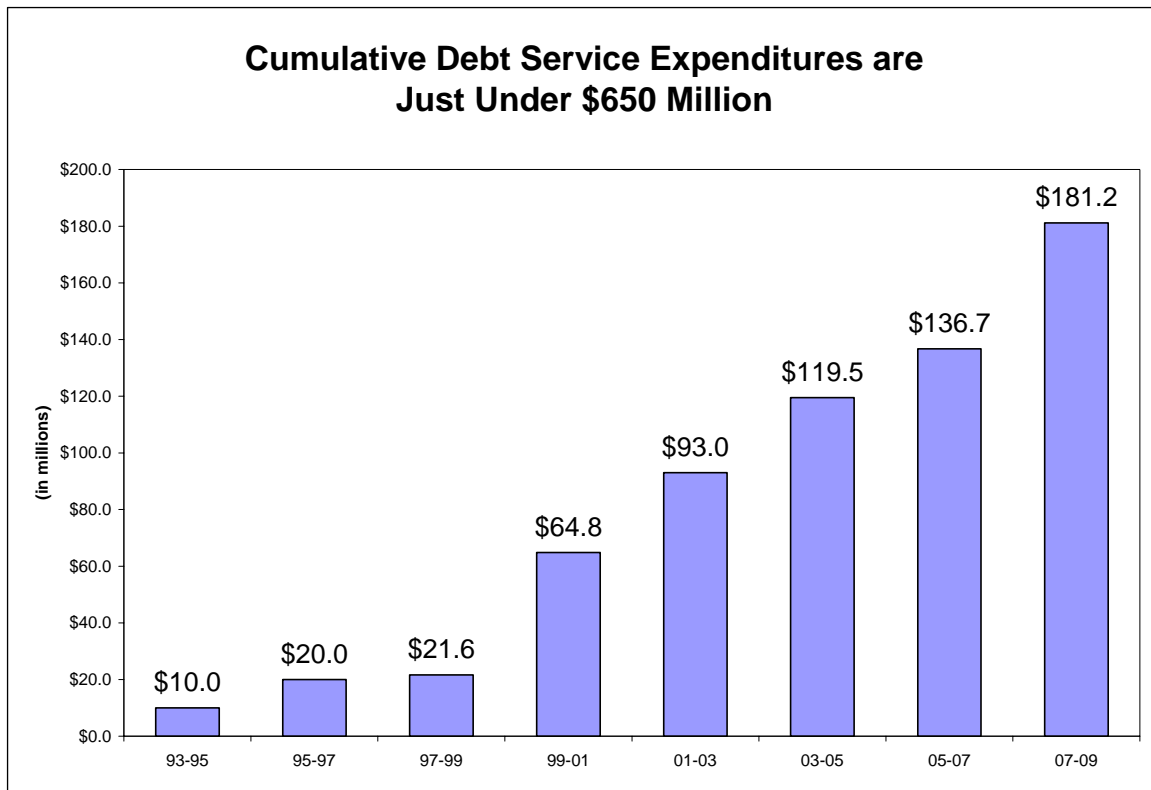
To date, the Legislature has approved the issuance of over \$1 billion in lottery-backed bonds as reflected in the chart above. With the bonding recommended in the Governor's budget, total issuance will exceed \$1.4 billion. *See Appendix A for a history of lottery-backed bonds.*

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 increased 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 the Governor's budget, debt service for 2007-09 will increase to \$181.2 million. This does not include approximately \$22 million in debt service on \$100 million in bonds recommended for the Economic and Community Development Department. The Governor delayed the sale of these bonds until March 2009, so no debt service will be due on those bonds in 2007-09. Debt service on all new projects funded with lottery bonds in the Governor's recommended budget are estimated to increase from \$16.1 million in 2007-09 to \$81.6 million in 2009-11.

In 2005-07, debt service absorbed 24% of the unobligated net lottery proceeds. If all of the bond sales recommended by the Governor are approved, 2007-09 debt service will absorb 28% of unobligated net lottery proceeds. As noted in the "Lottery Funds" section of this report, dedicated Lottery Funds expenditures, including debt service, are 51% 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 \$650 Million



Capital Construction

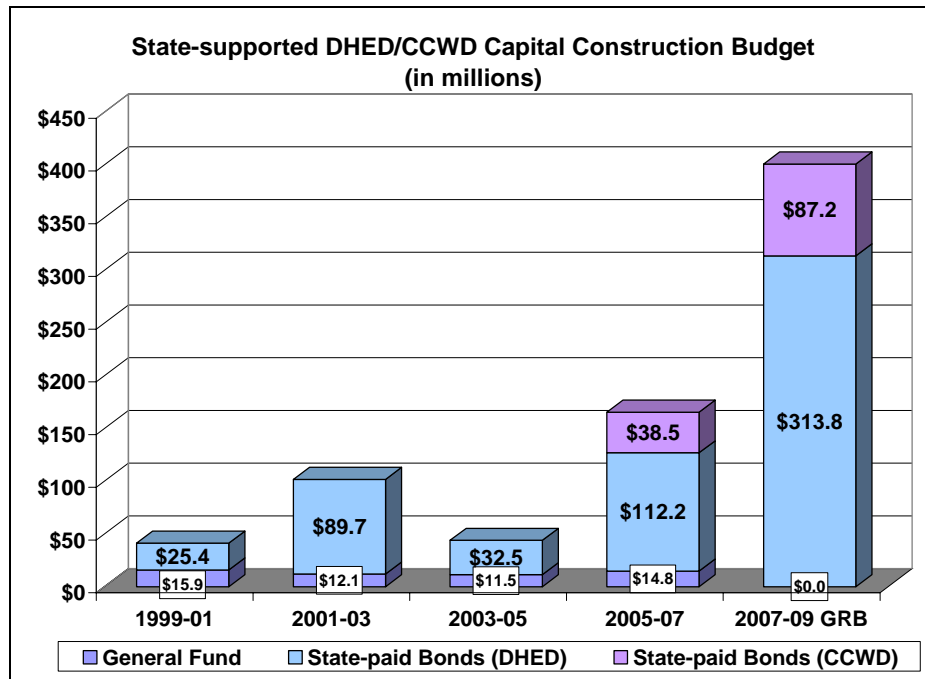
The proposed capital construction projects total \$1,505.2 million. There are no projects proposed to be funded with General Fund directly. Other Funds projects total \$1,451.6 million, including \$768.8 million for higher education facilities improvements and deferred maintenance, \$485.7 million for the Oregon Wireless Interoperability Network (OWIN), and \$81.6 million for the new State Hospital facility. Federal Funds expenditures for projects total \$53.6 million and include \$51.6 million for Military facilities and \$2 million for the Aurora Airport taxiway.

Higher Education and Community Colleges

The Governor's budget approves \$768.8 million for capital construction projects for post-secondary education. This total includes \$594.5 million for the Department of Higher Education and \$174.3 million for capital projects at community colleges. The projects will be funded from a number of sources, including various categories of bonds, gifts, grants, and other revenues including community college funds. All of these expenditures are Other Funds. There is no General Fund for capital construction. This ends a long-standing practice of appropriating General Fund to the Department of Higher Education for academic modernization, capital repair, deferred maintenance, and code and safety compliance projects. In the 2005-07 biennium, the Department received \$14.8 million of General Fund.

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 budget proposes a total of \$401 million of state-supported debt for post-secondary education capital

construction, including \$313.8 million for the Department of Higher Education and \$87.2 million for community colleges. This represents a very large (166%) increase from the 2005-07 biennium level, when a total of \$112.2 million of state-supported debt was approved for the Department of Higher Education and \$38.5 million of state-supported debt was approved for community colleges. General Fund and Lottery Funds debt service costs on the proposed 2007-09 biennium state-supported debt, would total \$8.5 million in 2007-09, and total \$69.8 million in the 2009-11 biennium when they fully phase in. This amount represents a 115% increase over what debt service costs would be without these additional bonds.



The budget for the Department of Higher Education supports 45 projects, and includes \$80.4 million of Lottery bond proceeds to address capital repair and deferred maintenance needs. This level of funding, along with \$87.3 million of Lottery bonds and SELP bonds for six deferred maintenance capital projects, would significantly address the backlog of deferred maintenance on OUS campuses, now estimated to total \$600 million. The budget also includes \$20 million of state-supported debt toward financing \$25 million of renewal energy demonstration projects. The projects involve research into renewable energy resources. The inclusion of these projects in the agency’s capital construction budget is unusual in that the campuses did not request them. The other projects included in the budget are all based on campus requests that went through a department-wide prioritization process.

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

The Governor’s budget does not conform to the budget policy that the Legislature adopted in the 2005 session, i.e., that total debt service costs on outstanding Article XI-G bonds, issued on or after July 1,

2005 for community college capital construction projects, not exceed \$6.5 million per biennium. That policy limits new Article XI-G bond authorizations for 2007-09 to no more than \$6.2 million. The \$87.15 million of Article XI-G bonds in the Governor's budget alone will generate projected biennial General Fund debt service costs, beginning in the 2009-11 biennium, of approximately \$12.7 million. This debt service, added to the debt service on bonds approved in 2005, will yield total General Fund debt service costs of \$18.3 million per biennium, or almost triple (2.8 times) the approved policy limit.

Human Services

The Governor's recommended capital construction budget includes funding associated with the development of replacement facilities for the Oregon State Hospital (OSH) building in Salem. The Department of Human Services released a report on the OSH in February 2006 that contained an analysis of the demand for hospital services over the next 25 years and presented three options to meet the expected demand. The Governor, President of the Senate, and Speaker of the House announced their support of the second option contained in the report. This option calls for the construction of a 620-bed facility in the north Willamette Valley, a 360-bed facility south of Linn County on the west side of the Cascade Mountains, and at least two non-hospital level 16-bed secure residential treatment facilities east of the Cascades. The anticipated construction cost is projected to be between \$324 and \$334 million; the estimate does not include the cost for the possible purchase of land, demolition costs for the current existing structures, or the assumed enhancement and expansion of the community-based portion of Oregon's public mental health system.

The capital construction budget includes \$81.6 million Other Funds from COP proceeds to initiate the development of the OSH replacement facilities. There are still a number of unknowns including site selection and cost. Final site selection is anticipated to occur in February or March 2007. The funding proposed in the Governor's recommended budget is primarily designed to cover any costs of purchasing property and other related planning and development expenses. The vast majority of the anticipated construction costs of the project of \$324 to \$334 million will not be included in the state budget until the 2009-11 biennium with debt service extending out for 25 years. These costs are also subject to change based on final siting and design decisions.

Public Safety

The Oregon Wireless Interoperability Network (OWIN) is a major project to replace and enhance the wireless communications systems of four state agencies and to strengthen the public safety communications infrastructure statewide. This project is driven by federal mandates, the current condition of the existing state wireless systems, and the need to enable various public safety agencies across the state to "talk" to each other during emergencies (statewide interoperability). The Governor's recommended budget includes \$485.7 million of capital construction limitation (Other Funds) for this project with an estimated \$266.1 million allocated for 2007-09. In addition, the project estimates include another \$136 million over three biennia (\$38.1 million in 2007-09) in equipment purchases which do not meet the criteria for capital construction. These resources will be used for the construction of towers and other facilities at over 200 sites, development of a micro-wave or alternative systems to link the tower site, radio transmission equipment, and vehicle and handheld radios by the end users. The current project plan anticipates construction and development of the system for central and eastern Oregon during 2007-09 with other areas of the state being "rolled-out" during 2009-11 and 2011-13.

2007-09 Budget Risks and 2009-11 Tentative Budget Issues

2007-09 Budget Risks

The Governor's recommended budget is accompanied by a number of budgetary or financial risks.

- **Revenue Forecast** – The December 2006 economic forecast, which is the basis for 2007-09 projected revenues, anticipates \$13,966 billion General Fund after paying out kicker refunds. The forecast is based on the belief that the economy will continue to grow. However, economists indicate that Oregon's economy is still facing some downside risks that could adversely impact revenues, such as a slowing housing market or geopolitical disruptions. The recession of the early part of this decade, which was underestimated by economists, is a reminder that if the economy slows down the revenue forecast will follow suit. It is also important to remember that since the state is largely dependent on income tax revenue, the effect of a recession on the state General Fund is usually much deeper than other states might experience.
- **Ending Balance** – The Governor's budget proposes a General Fund ending balance of almost \$145 million, which assumes there will be approximately \$25 million from unspent 2005-07 appropriations to state agencies. This balance is significantly more than has been proposed in the past, but is still significantly less than the amount that would be needed if the economy were to go into another downturn. Bond rating agencies and best practices suggest a minimum ending balance of approximately 5% of revenues. Application of this standard would require a balance of almost \$700 million.
- **Ballot Measure 37 Costs** – The recommended budget does not include any funding for compensation to landowners that may now be required under the provisions of Ballot Measure 37, which took effect on December 2, 2004. The measure requires the state to pay landowners or forego or modify land use regulations under certain conditions. There is continued uncertainty as to the level of costs that might be incurred by state agencies and how such costs will be covered. The Governor's budget provides funding for the Department of Administrative Services and the Department of Land Conservation and Development to continue their administrative and coordination roles regarding the measure, but, once again, no funding source is identified for the payment of claims nor is another solution identified to prevent such costs.
- **Emergency Fund** – The recommended budget provides for a general purpose Emergency Fund of \$30 million. The Governor proposes that \$130 million be made available for employee compensation issues and \$2 million for the Defense of Criminal Convictions program in the Department of Justice. The recommended general purpose Emergency Fund of \$30 million matches the amount in the 2005-07 legislatively adopted budget, but remains below the average general purpose Emergency Fund appropriation (\$40 million) over the past several biennial periods. During the 2005-07 biennium, the Emergency Board had to defer requests for Emergency Fund allocations because of the low cash balance in the Fund. At the December 2006 meeting of the Board, transfers of \$12.1 million of unused special purpose appropriations to the general purpose account were required in order to address requests for allocations, including one request for an allocation of \$10 million required by a court order. Even with this

transfer, the Board was forced to defer nearly \$5 million in requests to the 2007 legislative session due to inadequate Emergency Fund resources.

- **Employee Compensation/Benefits** – The recommended budget is built on the assumption that state employee pay and health benefit costs will increase and require the use of \$130 million in lieu of reductions to programs and services. Without legislation that specifically sets or limits salaries or state contribution for health benefits in future contracts and/or eliminates interest arbitration awards, this level of funding may not be adequate to cover actual costs.
- **Caseload-Related Costs** – While the Governor’s recommended budget appears to fully fund most caseload-related costs, this category is always a budget risk due to the volatility of the caseloads for many programs and the magnitude of the dollars spent on caseload. While a 5% caseload variance may or may not result in a proportional budgetary change, a relatively small 5% budgetary variance in the Oregon Health Plan is equal, in the Governor’s budget for 2007-09, to about \$80 million of state funds. The primary hedge against this kind of risk has been three-fold: the agency may have savings in other programs to offset higher caseload costs; the Emergency Board may allocate a portion of its general purpose Emergency Fund to supplement an agency’s budget, or the Legislature may meet in special session to either reduce program expenditures or appropriate additional funds, if available.
- **Legislative and Governmental Decisions** – The Governor’s recommended budget assumes that the Legislature will pass legislation (in addition to the appropriation bill) or that other governmental units will take actions necessary to implement certain decisions included in the recommended budget. The 2007-09 budget includes several programs that require the passage of legislation to increase revenues. These revenues are used in the budget to pay for specific programs, most of which are program enhancements, but some of which are current base programs. For example, the budget proposes a tobacco tax increase to raise \$181.7 million to pay for a new health care program for children and enhance tobacco prevention programs, but also to pay for a portion of the Oregon Health Plan. (See program area discussions for other major items that require passage of legislation, some of which has not been pre-session filed, to support the proposed budget.)
- **Matching Revenues and Expenditures** – Another factor that needs to be considered in evaluating a budgetary proposal is whether there are adequate revenues to support the proposed expenditures. This seems self-evident, yet in the past, various program expenditures have been proposed and approved without assuring that the supporting revenue source would provide enough cash to cover program expenditures. For example, anticipated Tobacco Tax revenue was used to replace significant amounts of General Fund in the Oregon Health Plan budget – without understanding that these anticipated revenues included accrued revenue – revenue that is earned during a particular time period, but not actually received as cash until after that time period. This created a mismatch between program expenditures which occurred earlier than the revenue was received. To solve this kind of cash flow problem requires an infusion of cash (through an additional General Fund appropriation, a requirement to hasten revenue receipts, or a loan from the state Treasury) or a program expenditure reduction which decreases the need for cash.

Another example involves a proposed accounting rule change for the Department of Human Services (DHS). DHS is currently allowed to account for expenditures at the time payments for

services are made rather than at the time services are received either by the agency or its clients. A proposed accounting rule change would require DHS to record an expenditure at the time service is rendered. While this proposed accounting rule change would have no direct effect on cash flow (payments would still be made as they always have been), the change would shift an estimated \$60 million of expenditures to an earlier time period, or from a later biennium to an earlier biennium, and the earlier biennium's budget would need to be increased by \$60 million. If this accounting change is implemented during the 2007-09 biennium, an estimated \$60 million of expenditures would be shifted from the 2009-11 biennium, and the 2007-09 DHS budget would need to be increased. If this increase were funded with General Fund, DHS cash flow would indeed improve – the agency would have \$60 million more cash with no change to cash outflows. The Governor's recommended budget does not include funding for this possible accounting rule change.

- **Federal Budget Changes** – As a major funding source for a number of state agencies, decisions made by the federal government can result in additional cost to the state. This can be as the result of an automatic adjustment (such as the Medicaid match rate), it can be a decision to reduce or eliminate support for programs or services, or it can be the creation of new requirements that states must implement in order to continue to receive funding.

It is important to note that Congress has not yet extended P.L. 106-393, the Secure Rural Schools and Community Self-Determination Act. The potential loss to Oregon counties of \$453.8 million is likely to have a significant impact on shared services to Oregonians that would need to be considered during budget hearings.

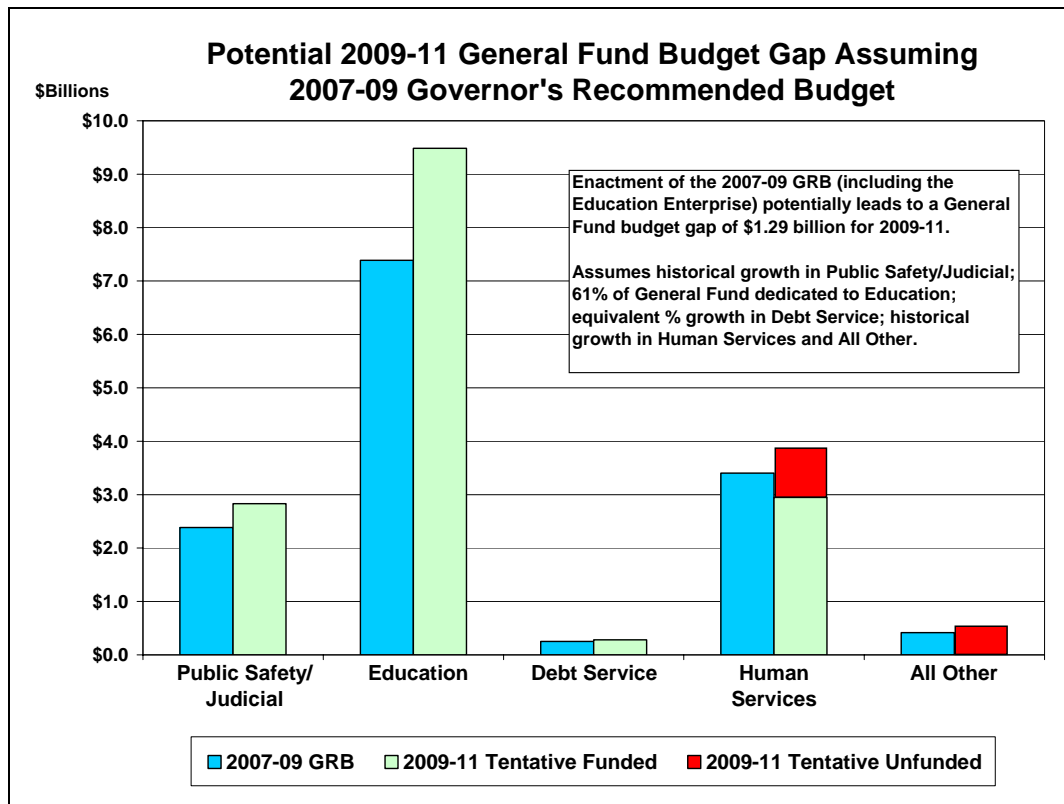
- **Lawsuits** – The State faces a number of lawsuits, some of which have a potentially significant fiscal risk. For example, in *Clark v. Oregon Health Sciences University (OHSU)* the State's cap on liability of public bodies of \$200,000 for individual claims is challenged. Not only does OHSU face a possible \$12 million claim for this specific case, but a decision against OHSU by the Supreme Court could put other state agencies at risk under similar cases. Another example of legal actions currently under way involving the State is the dispute between major tobacco companies and 45 states over the payments under the Non-participating Manufacturing section of the Master Settlement Agreement. Currently, tobacco companies have withheld \$8 million of the \$75 million due April 2006 and further withholding is possible in future years until the dispute is resolved. 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, but to the extent that legal challenges create a state obligation, this puts further demands on limited resources. It may be necessary to appropriate additional funds to the Emergency Board to address these contingencies.
- **Future Liability** – Based on current revenue projections for 2009-11, it appears that the Governor's recommended budget may not be sustainable into the future without additional revenue increases above those anticipated in the proposed budget. This is due to the combined effect of a number of factors, including roll-up costs for new programs and expenses proposed in the budget, projected increases for 2009-11 for some programs is likely to exceed the projected increase in revenues used to fund those same programs, and the dedication of funds to specific programs or program areas. (For more information, see discussion under *Tentative Budget Issues for 2009-11.*)

Tentative Budget Issues for 2009-11

There are a number of potential 2009-11 budget issues that are raised if the Governor's recommended budget is enacted as presented. First, it is important to note that there is a significant amount of General Fund spent on items, such as debt service, that are not discretionary. In addition, there are programs and services that are mandated by the constitution, federal law, or court decisions.

In the Governor's recommended budget, \$250.3 million General Fund is proposed to be spent on debt service. The vast majority of this amount is to pay for debt that has already been issued rather than new debt being proposed. In fact, much of the new debt being proposed in the budget has minimal debt service costs in the current biennium, resulting in a significant additional cost in 2009-11 for debt service that likely, in terms of growth rate, will exceed the projected revenue growth rate. And, even if revenue grows at a faster rate than officially projected at the close of session, the kicker law would likely come into play and the additional revenue would be returned to taxpayers. (The Governor's budget assumes that the corporate kicker will not be returned in 2007 and will be used to establish a rainy day fund, however, no legislation has been pre-session filed to support either of these proposals.)

Another example is the increased costs in the Public Safety program area as a result of the passage of Measure 11 in 1994. Since the passage of the measure, the Public Safety program area has grown by an average of almost 21% per biennium. Given that the full costs of Ballot Measure 11 are still being phased in, it is expected that the essential budget level will continue to grow at a similar rate at least into the next two or three biennia. As with debt service, this rate of growth will exceed the projected revenue growth. If the Governor's proposed Education Enterprise is enacted and the debt service and public safety program area grow as anticipated, \$2.95 billion is left for all other state programs. This amount is over \$450 million less than what the Governor is proposing to spend in the Human Services program area in 2007-09. The potential 2009-11 effect is illustrated in the following chart.



There is no indication in the Governor's proposed budget of actions to reduce programs or services that would significantly reduce this type of growth pattern. In fact, the Governor's budget relies on a new funding source, increased tobacco tax revenues, to phase in the Healthy Kids initiative. It is questionable whether the revenues that would be available in 2009-11 from the additional tobacco revenues would be sufficient to continue the program as proposed, potentially producing a new General Fund liability.

One of the growing concerns noted by those reviewing Oregon's budget and budget process is the amount of the budget that is nondiscretionary in nature, providing less flexibility for the state to respond to recessions, address crises, or simply to reprioritize what services and programs are of the greatest immediate need. This deserves special note here because the Governor's proposed budget calls for the dedication of 61% of the General Fund (the only completely fungible revenue source available to the state) to the Education program area, or the "Education Enterprise."

The Education Enterprise plan would also guarantee a 10% increase in expenditures from biennium to biennium. The increase would not be applied to the enterprise as a whole, but to each of the agencies individually. The Governor's plan would create a guaranteed funding level for Pre-kindergarten through college education. The Education Enterprise, as proposed, includes the Oregon Department of Education (operations and State School Fund), the Oregon University System, Community Colleges and Workforce Development, Oregon Student Assistance Commission, and the Oregon Health and Science University.

The plan guarantees that 61% of *net* General Fund revenues would be applied to the enterprise. If the amount of revenue is more than sufficient to fund the 10% increase, then the proposal would take two-thirds of the excess and deposit it in the Education Stability Fund. The other one-third would be used for an Innovation Fund, which the state boards of education would allocate proportionately to all levels of the enterprise. The Governor did not apply this part of the proposed plan in his current proposal, but intends to in the 2009-11 biennium.

The plan's use of net General Fund revenues versus General Fund available resources can make a significant impact on the amount of funding available to the education enterprise. By definition the net General Fund revenues include all new revenues, less the total kicker refunds that are required for the previous biennium. It also does not include any beginning balance that is to be transferred into the new biennium. For 2007-09, the net General Fund revenue number is \$12,602.4 million. The General Fund available resources (the total amount available to be spent) are \$13,966.3 million.

The difference between these two numbers has a significant impact on the funding of the Education Enterprise for the 2007-09 biennium; 61% of the net General Fund revenues are estimated to be \$7,687.5 million, while 61% of the General Fund available resources would be \$8,519.4 million or about \$832 million more. The Governor's budget actually funds the education enterprise at \$8,018.3 million, or about 63.6% of net General Fund revenues. That equates to 55% of the total General Fund budget proposed by the Governor. To achieve 61% of the total General Fund budget, an additional \$500 million would have been spent on the education enterprise.

If the Education Enterprise is enacted as proposed, it is possible that, in future budgets, agencies in the Education program area would receive enhanced funding beyond what is needed to continue current programs at the same time that the Legislature was having to reduce programs and services in other non-mandated parts of the budget, or ignore pressing needs in other program areas. If a decision were made to increase General Fund revenues to accommodate other needs, it is important to remember that

61% of every new dollar raised would be dedicated to the Education program area. So, for example, if a decision was made to increase General Fund revenues to cover \$100 million in costs for the Human Services program area, the revenue solution would actually need to raise over \$256 million in new General Fund. It is also important to note, under such a scenario, that new programs instituted in the Education program area using the additional funds are guaranteed a 10% increase each biennium.

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).

2005-07

The 2005 Legislature authorized \$100 million to the Department of Transportation for the Connect Oregon (multi-modal transportation) investment. Also approved were \$45 million in infrastructure bonding authority for the Oregon Economic and Community Development Department (OECDD). These bonds are 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; \$19.4 million for deferred maintenance in the Oregon University System; and \$40.3 million for reauthorization of the South Metro Commuter Rail project.

2007-09

The Governor's budget includes \$394.9 million is authorized for projects financed with lottery-backed bonding, excluding the cost of issuance and reserves. Included in this amount is \$390.9 million for new projects and \$4 million in previously authorized bonding for the Coos County Airport project. This project was authorized in SB 152 and provided for the sale of \$6 million for the Economic and Community Development Department for North Bend airport improvements. Two (\$2) million of those bonds were sold in the 2005-07 biennium. New projects include \$100 million for the Department of Transportation's Connect Oregon transportation projects. This is in addition to the \$100 million Connect Oregon bond sale authorized for the 2005-07 biennium; \$100 million for the Economic and Community Development Department for infrastructure development, including industrial sites and other infrastructure needed for economic and community development; \$12 million for the Housing and Community Services Department to develop affordable housing; \$4 million for the Housing and Community Services Department for social services to the homeless. This will provide \$3.8 million for grants to community action agencies and \$0.02 million for 0.5 FTE for project coordination; and \$174.9 million for the Department of Higher Education for facilities deferred maintenance.

Appendix B

2007-09 Certificates of Participation Estimated Debt Service as of Agency Request Budget

Agency Division	Agency Sale Date	Project	Par	Project Amount	Cost of Issuance	Debt Service 2007-09	Debt Service 2009-11
Administrative Services							
FACILITIES							
DAS-Fac	10/1/2007	Capital Mall Parking Structure	\$ 24,440,000	\$ 21,500,000	\$ 567,563	\$ 2,372,437	\$ 3,942,976
DAS-Fac	5/1/2008	Executive Bldg. Renovation	4,900,000	4,500,000	117,720	282,281	1,052,434
Subtotal:			\$ 29,340,000	\$ 26,000,000	\$ 685,283	\$ 2,654,718	\$ 4,995,410
DAS-Fac	5/1/2008	Acquisition (purchase office bldg)	\$ 5,105,000	\$ 5,000,000	\$ 105,000		
DAS-Fac	5/1/2008	Space Management (Statewide)	1,050,000	1,000,000	50,000		
Subtotal:			\$ 12,155,000	\$ 6,000,000	\$ 155,000	\$ -	\$ -
Office of Enterprise Information Technology							
HRSD							
DAS-HRSD	10/1/2007	HRIS Project	\$ 1,285,000	\$ 1,225,000	\$ 60,000	\$ 326,497	\$ 581,795
Subtotal:			\$ 1,285,000	\$ 1,225,000	\$ 60,000	\$ 326,497	\$ 581,795
Forestry							
Forestry	10/1/2007	John Day \$.5 M - Oct 2007	\$ 535,000	\$ 500,000	\$ 35,000	\$ 48,892	\$ 109,276
Forestry	5/1/2008	John Day \$1 M - May 2008	1,035,000	1,000,000	35,000	59,674	221,873
Forestry-Salem	10/1/2007	State Forester \$.25 M - Oct 2007	270,000	250,000	20,000	24,597	59,581
Forestry-Salem	10/1/2007	Agy. Bus. System Modernization \$1.2 M - Oct 2007	1,270,000	1,200,000	70,000	325,298	575,652
Forestry-Salem	5/1/2008	Agy. Bus. System Modernization \$2.2 M - May 2008	2,280,000	2,200,000	80,000	529,475	1,056,499
Forestry-Salem	5/1/2008	State Forester \$1.25 M - May 2008	1,290,000	1,250,000	40,000	74,347	275,477
Forestry-Salem	3/1/2009	Agy. Bus. System Modernization \$.8 M - March 2009	840,000	800,000	40,000		389,261
Forestry	10/1/2007	Sisters \$.25 M - Oct 2007	270,000	250,000	20,000	24,597	59,581
Forestry	5/1/2008	Sisters \$1 M - May 2008	1,035,000	1,000,000	35,000	59,674	221,873
Subtotal:			\$ 8,825,000	\$ 8,450,000	\$ 375,000	\$ 1,146,554	\$ 2,969,071
ODFW							
ODFW	10/1/2007	Deferred Maintenance	\$ 750,000	\$ 732,000	\$ 18,000	\$ 122,545	\$ 193,874
ODFW	5/1/2008	Deferred Maintenance	750,000	732,000	18,000	100,437	196,987
Subtotal:			\$ 1,500,000	\$ 1,464,000	\$ 36,000	\$ 222,982	\$ 390,861

Agency Division	Agency Sale Date	Project	Par	Project Amount	Cost of Issuance	Debt Service 2007-09	Debt Service 2009-11
Oregon University System							
OUS - EOU	10/1/2007	EOU - Oct 2007 - \$200 K	\$ 205,000	\$ 200,000	\$ 5,000	\$ 50,438	\$ 93,167
OUS - PSU	10/1/2007	Storage and Server Expansion	310,000	300,000	10,000	78,294	139,755
OUS - PSU	10/1/2007	Classroom Technology Refresh & New Building Technology	310,000	300,000	10,000	78,294	139,755
OUS - PSU	10/1/2007	Network Equipment Upgrades	310,000	300,000	10,000	78,294	139,755
OUS - PSU	10/1/2007	Desktop and Security Upgrades	155,000	150,000	5,000	41,580	69,625
OUS - PSU	10/1/2007	Campus Fiber Expansion and Telecom Facility Upgrades	105,000	100,000	5,000	27,856	46,588
OUS - ETIC	5/1/2008	ETIC \$1,760,000 Gross Project Amt	12,065,000	11,760,000	305,000	1,605,178	3,206,692
OUS - OSU	5/1/2008	OSU Enterprise Computing - May 2008 - \$.5 M	510,000	500,000	10,000	115,616	232,655
OUS - OSU	5/1/2008	OSU-Rewiring - May 2008 - \$.2 M	2,045,000	2,000,000	45,000	270,256	546,320
OUS - PSU	5/1/2008	Storage and Server Expansion	310,000	300,000	10,000	70,568	142,743
OUS - PSU	5/1/2008	Classroom Technology Refresh & New Building Technology	160,000	150,000	10,000	38,034	71,624
OUS - PSU	5/1/2008	Network Equipment Upgrades	160,000	150,000	10,000	38,034	71,624
OUS - PSU	5/1/2008	Desktop and Security Upgrades	160,000	150,000	10,000	38,034	71,624
OUS - PSU	5/1/2008	Document Imaging and Workflow System	665,000	650,000	15,000	153,397	303,774
OUS - PSU	5/1/2008	Campus Fiber Expansion and Telecom Facility Upgrades	205,000	200,000	5,000	45,295	95,159
OUS - PSU	5/1/2008	Building Access Control Systems	255,000	250,000	5,000	57,803	118,694
OUS - U of O	5/1/2008	Classroom & Lab Upgrades \$2.5 M - May 2008	2,550,000	2,500,000	50,000	588,038	1,181,713
OUS - OSU	3/1/2009	OSU Enterprise Computing - Mar 2009 - \$.2.5 M	2,555,000	2,500,000	55,000		1,191,058
OUS - OSU	3/1/2009	OSU-Rewiring - March 2009 - \$.3 M	3,065,000	3,000,000	65,000		822,354
OUS - PSU	3/1/2009	Desktop and Security Upgrades	105,000	100,000	5,000		50,439
OUS - PSU	3/1/2009	Document Imaging and Workflow System	205,000	200,000	5,000		95,580
OUS - PSU	3/1/2009	Campus Fiber Expansion and Telecom Facility Upgrades	715,000	700,000	15,000		331,639
OUS - PSU	3/1/2009	Research Equipment	1,025,000	1,000,000	25,000		477,658
OUS - U of O	3/1/2009	Classroom & Lab Upgrades \$2.5 M - March 2009	2,555,000	2,500,000	55,000		1,191,058
Subtotal:			\$ 30,705,000	\$ 29,960,000	\$ 745,000	\$ 3,375,004	\$ 10,831,052
Military							
Military	10/1/2007	Ontario Readiness	\$ 3,330,000	\$ 3,232,267	\$ 97,733	\$ 286,404	\$ 937,378
Military	10/1/2007	4 Armories - 1st Installment	1,045,000	1,000,000	45,000	89,766	298,826
Military	5/1/2008	4 Armories - 2nd Installment	10,685,000	10,448,000	237,000	580,045	3,082,569
Military	5/1/2008	Camp Withycombe	3,990,000	3,887,200	102,800	216,627	1,150,434
Subtotal:			\$ 19,050,000	\$ 18,567,467	\$ 482,533	\$ 1,172,842	\$ 5,469,207

Agency Division	Agency Sale Date	Project	Par	Project Amount	Cost of Issuance	Debt Service 2007-09	Debt Service 2009-11
Legislative Admin							
LegAdm	10/1/2007	Bill Writing Software	\$ 1,205,000	\$ 1,135,000	\$ 70,000	\$ 305,510	\$ 546,735
Subtotal:			\$ 1,205,000	\$ 1,135,000	\$ 70,000	\$ 305,510	\$ 546,735
Human Services							
DHS	10/1/2007	State Hospital Project-25 Year amortization	\$ 74,760,000	\$ 66,536,754	\$ 1,262,658	\$ 7,257,137	\$ 12,053,067
DHS	10/1/2007	State Hospital Project-5 Year amortization	3,085,000	2,756,565	92,288	246,247	1,704,173
DHS	10/1/2007	State Hospital-Deferred Maintenance	2,395,000	2,340,000	55,000	389,763	619,900
DHS	10/1/2007	State Hospital-Deferred Maintenance	795,000	775,000	20,000	126,456	208,317
DHS	5/1/2008	State Hospital Project-25 Year amortization	7,795,000	7,113,246	218,283	477,459	1,271,998
DHS	5/1/2008	State Hospital Project-5 Year amortization	2,255,000	2,062,710	81,943	113,677	1,276,367
DHS	10/1/2007	SACWIS Phase II	14,555,000	14,235,665	319,335	3,722,342	6,584,797
DHS							
Subtotal:			\$ 105,640,000	\$ 95,819,940	\$ 2,049,507	\$ 12,333,081	\$ 23,718,619
DOGAMI							
DOGAMI	5/1/2008	LIDAR Phase I	\$ 2,280,000	\$ 2,200,000	\$ 80,000	\$ 116,903	\$ 1,058,510
DOGAMI	03/01/09	LIDAR Phase 2	2,225,000	2,145,000	80,000		1,037,870
Subtotal:			\$ 4,505,000	\$ 4,345,000	\$ 160,000	\$ 116,903	\$ 2,096,380
Corrections							
DOC	10/01/07	Construction Staffing-Madras	675,000	638,693	36,307	170,708	307,923
DOC	10/01/07	Deferred Maintenance	4,110,000	4,000,000	110,000	548,406	824,095
DOC	10/01/07	Deferred Maint. Staffing	655,000	622,070	32,930	169,113	296,404
DOC	10/01/07	Salem Firing Range	1,480,000	1,408,888	71,112	238,528	386,111
DOC	10/01/07	OSCI	1,070,000	1,000,000	70,000	174,288	278,114
DOC	10/01/07	Wireless Communication	4,105,000	4,000,000	105,000	435,097	1,597,207
DOC	05/01/08	Deferred Maintenance	3,495,000	3,395,858	99,142	360,097	716,250
DOC	05/01/08	Junction City Planning	9,795,000	9,560,210	234,790	1,000,719	2,005,036
DOC	05/01/08	Wireless Communication	2,585,000	2,500,000	85,000	448,725	904,809
DOC	03/01/09	Construction Staffing-Madras	635,000	600,000	35,000		293,685
DOC	03/01/09	Deferred Maintenance	3,095,000	3,000,000	95,000		643,548
DOC	03/01/09	Deferred Maint. Staffing	635,000	600,000	35,000		293,685
Subtotal:			\$ 32,335,000	\$ 31,325,719	\$ 1,009,281	\$ 3,545,681	\$ 8,546,864

Agency Division	Agency Sale Date	Project	Par	Project Amount	Cost of Issuance	Debt Service 2007-09	Debt Service 2009-11
Oregon Youth Authority							
OYA	5/1/2008	Whiteaker Bldg.	\$ 1,400,000	\$ 1,366,667	\$ 33,333	\$ 185,474	\$ 369,409
OYA	5/1/2008	Corvallis House	855,000	833,334	21,666	111,128	227,382
OYA	10/1/2007	Deferred Maintenance	975,000	952,500	22,500	156,336	254,612
OYA	5/1/2008	Deferred Maintenance	975,000	952,500	22,500	127,538	258,721
			\$ 4,205,000	\$ 4,105,001	\$ 99,999	\$ 580,476	\$ 1,110,123
Judicial Department							
Judicial	10/1/2007	OJIN Development	\$ 8,205,000	\$ 8,000,000	\$ 205,000	\$ 1,832,815	\$ 3,176,643
Judicial	5/1/2008	OJIN Development	9,215,000	9,000,000	215,000	2,132,697	4,259,106
Judicial	3/1/2009	OJIN Development	3,090,000	3,000,000	90,000		1,439,592
			\$ 20,510,000	\$ 20,000,000	\$ 510,000	\$ 3,965,512	\$ 8,875,341
State Police							
OSP	10/1/2007	OWIN Phase I - First Issue	\$ 112,145,000	\$ 109,900,000	\$ 2,245,000	\$ 10,576,662	\$ 19,964,218
OSP	5/1/2008	OWIN Phase I - Second Issue	2,770,000	2,705,843	64,157	139,646	1,562,611
OSP	5/1/2008	OWIN Second Issue (BackFill)	102,790,000	101,344,157	1,445,843	5,579,973	29,666,824
OSP	3/1/2009	OWIN Phase I - Third Issue	19,555,000	19,050,000	505,000		5,791,134
OSP	10/1/2007	Video cameras	1,370,000	1,300,000	70,000	347,887	622,240
			\$ 238,630,000	\$ 234,300,000	\$ 4,330,000	\$ 16,644,168	\$ 57,607,027
Unidentified Financing Needs:							
			\$ 15,225,000	\$ 15,000,000	\$ 225,000		
GRAND TOTAL:			\$ 519,115,000	\$ 497,697,127	# \$ 10,992,603	\$ 46,389,927	\$ 127,738,484

Appendix C

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

	2003-05 ACTUAL	2005-07 LEGISLATIVELY APPROVED	2007-09 GOVERNOR'S RECOMMENDED	Change	
				#	%
PROGRAM AREA: EDUCATION					
COMMUNITY COLLEGES & WORKFORCE DEV, DEPT	45.70	49.70	64.20	14.50	29.2
EDUCATION, DEPT OF	445.39	442.89	452.86	9.97	2.3
HIGHER EDUCATION, DEPT OF	12,121.42	12,140.62	12,753.11	612.49	5.0
STUDENT ASSISTANCE COMMISSION	84.00	22.35	33.83	11.48	51.4
TEACHER STANDARDS & PRACTICES COMM	20.00	21.50	23.00	1.50	7.0
EDUCATION TOTAL	12,716.51	12,677.06	13,327.00	649.94	5.1
PROGRAM AREA: HUMAN SERVICES					
BLIND, COMMISSION FOR THE	43.35	44.60	47.60	3.00	6.7
CHILDREN & FAMILIES, COMM ON	24.72	29.50	31.17	1.67	5.7
OREGON DISABILITIES COMM*	4.00	0.00	0.00	0.00	0.0
HUMAN SERVICES, DEPT OF*	9,148.13	9,173.17	9,707.33	534.16	5.8
LONG TERM CARE OMBUDSMAN	8.00	8.00	10.00	2.00	25.0
PRIVATE HEALTH PARTNERSHIPS, OFFICE OF	51.50	56.80	92.12	35.32	62.2
PSYCHIATRIC SECURITY REVIEW BOARD	4.00	4.75	5.00	0.25	5.3
HUMAN SERVICES TOTAL	9,283.70	9,316.82	9,893.22	576.40	6.2
PROGRAM AREA: PUBLIC SAFETY					
CORRECTIONS, DEPT OF	3,902.76	4,181.91	4,684.40	502.49	12.0
CRIMINAL JUSTICE COMMISSION	11.29	6.00	6.00	0.00	0.0
DISTRICT ATTORNEYS & THEIR DEPUTIES	36.00	36.00	38.00	2.00	5.6
JUSTICE, DEPT OF	1,190.07	1,212.01	1,258.49	46.48	3.8
MILITARY, DEPT OF**	411.84	432.82	485.46	52.64	12.2
PAROLE & POST PRISON SUPERVISION BRD	14.88	14.75	15.00	0.25	1.7
PUBLIC SAFETY STANDARDS & TRAINING, DEPT. OF****	93.84	134.84	180.25	45.41	33.7
STATE POLICE, DEPT OF**	1,163.53	1,154.71	1,269.10	114.39	9.9
YOUTH AUTHORITY, DEPT OF	1,023.91	1,047.22	1,149.33	102.11	9.8
PUBLIC SAFETY TOTAL	7,848.12	8,220.26	9,086.03	865.77	10.5
PROGRAM AREA: JUDICIAL BRANCH					
COURT PROCEDURES, COUNCIL ON	0.00	0.00	0.71	0.71	NA
JUDICIAL DEPARTMENT	1,855.25	1,856.24	2,047.08	190.84	10.3
JUDICIAL FITNESS AND DISABILITY, COMM. ON	0.50	0.50	0.50	0.00	0.0
PUBLIC DEFENSE SERVICES COMMISSION	56.90	55.25	63.25	8.00	14.5
JUDICIAL BRANCH TOTAL	1,912.65	1,911.99	2,111.54	199.55	10.4
PROGRAM AREA: ECONOMIC & COMMUNITY DEVELOPMENT					
ECONOMIC & COMMUNITY DEVELOPMENT DEPT	115.91	118.58	127.92	9.34	7.9
EMPLOYMENT DEPARTMENT	1,414.02	1,368.12	1,273.35	(94.77)	(6.9)
FAIR & EXPO CENTER, STATE***	37.05	0.00	0.00	0.00	0.0
HOUSING & COMMUNITY SERVICES DEPT.	148.46	147.08	142.92	(4.16)	(2.8)
VETERANS' AFFAIRS, DEPT OF	137.48	112.50	110.53	(1.97)	(1.8)
ECONOMIC & COMMUNITY DEVELOPMENT TOTAL	1,852.92	1,746.28	1,654.72	(91.56)	(5.2)

	2003-05 ACTUAL	2005-07 LEGISLATIVELY APPROVED	2007-09 GOVERNOR'S RECOMMENDED	Change #	%
PROGRAM AREA: NATURAL RESOURCES					
AGRICULTURE, DEPT OF	376.67	369.44	379.05	9.61	2.6
ENERGY, DEPT. OF	84.71	84.71	98.38	13.67	16.1
ENVIRONMENTAL QUALITY, DEPT OF	812.45	776.57	788.64	12.07	1.6
FISH & WILDLIFE, DEPT OF	1,141.91	1,163.26	1,162.99	(0.27)	0.0
FORESTRY DEPARTMENT	885.37	912.69	932.89	20.20	2.2
GEOLOGY & MINERAL INDUSTRIES, DEPT OF	35.70	36.70	34.20	(2.50)	(6.8)
LAND CONSERVATION & DEVELOPMENT, DEPT OF	51.31	70.40	74.71	4.31	6.1
LAND USE BOARD OF APPEALS	6.00	6.00	6.00	0.00	0.0
LANDS, DEPT. OF STATE	87.26	96.26	106.04	9.78	10.2
MARINE BOARD	38.00	39.00	39.00	0.00	0.0
PARKS & RECREATION, DEPT OF***	528.39	570.75	599.33	28.58	5.0
WATER RESOURCES DEPT	143.18	138.00	147.00	9.00	6.5
WATERSHED ENHANCEMENT BRD	24.32	26.38	28.00	1.62	6.1
NATURAL RESOURCES TOTAL	4,215.27	4,290.16	4,396.23	106.07	2.5
PROGRAM AREA: TRANSPORTATION					
AVIATION, DEPT OF	16.00	16.00	19.34	3.34	20.9
TRANSPORTATION, DEPT OF	4,559.61	4,568.37	4,559.19	(9.18)	(0.2)
TRANSPORTATION TOTAL	4,575.61	4,584.37	4,578.53	(5.84)	(0.1)
PROGRAM AREA: CONSUMER AND BUSINESS SERVICES					
ACCOUNTANCY, BRD OF	7.00	7.00	7.00	0.00	0.0
CHIROPRACTIC EXAMINERS, BRD OF	4.50	4.50	4.50	0.00	0.0
CLINICAL SOCIAL WORKERS, BOARD OF	2.50	2.50	3.00	0.50	20.0
CONSTRUCTION CONTRACTORS BOARD	60.38	60.38	63.92	3.54	5.9
CONSUMER & BUSINESS SERVICES, DEPT OF	1,063.32	1,068.47	1,067.42	(1.05)	(0.1)
COUNSELORS AND THERAPISTS, BOARD OF LICENSED	2.00	2.00	3.00	1.00	50.0
DENTISTRY, BOARD OF	7.00	7.00	7.00	0.00	0.0
HEALTH LICENSING AGENCY	27.00	27.00	31.40	4.40	16.3
<i>HEALTH RELATED LICENSING BOARDS</i>					
LICENSED DIETICIANS	0.30	0.30	0.30	0.00	0.0
MORTUARY & CEMETERY BOARD	5.75	6.00	5.00	(1.00)	(16.7)
NATUROPATHIC EXAMINERS	1.75	2.00	2.00	0.00	0.0
NURSING HOME ADMINISTRATORS	1.00	1.00	1.00	0.00	0.0
OCC THERAPY LICENSING BOARD	1.25	1.25	1.25	0.00	0.0
PHARMACY, BRD OF	16.50	17.50	20.50	3.00	17.1
RADIOLOGIC TECHNICIANS	2.65	3.00	3.00	0.00	0.0
SPEECH PATHOLOGY AND AUDIOLOGY	0.85	1.40	1.40	0.00	0.0
VETERINARY MEDICAL EXAM BRD	2.25	2.25	2.25	0.00	0.0
INVESTIGATORS, BRD OF****	2.50	0.00	0.00	0.00	0.0
LABOR & INDUSTRIES, BUREAU OF	106.26	108.38	110.50	2.12	2.0
MEDICAL EXAMINERS, BRD OF	32.60	34.30	35.30	1.00	2.9
NURSING, BRD OF	42.00	44.25	41.75	(2.50)	(5.6)
PSYCHOLOGIST EXAMINERS, BRD OF	3.00	3.00	3.00	0.00	0.0
PUBLIC UTILITY COMMISSION	123.56	124.00	123.50	(0.50)	(0.4)
REAL ESTATE AGENCY	29.63	30.27	36.00	5.73	18.9
TAX PRACTITIONERS, STATE BOARD OF	4.00	4.00	5.00	1.00	25.0
CONSUMER & BUSINESS SERVICES TOTAL	1,549.55	1,561.75	1,578.99	17.24	1.1

	2003-05 ACTUAL	2005-07 LEGISLATIVELY APPROVED	2007-09 GOVERNOR'S RECOMMENDED	Change # %	
PROGRAM AREA: ADMINISTRATION					
ADMINISTRATIVE SERVICES, DEPT OF	889.76	902.93	967.54	64.61	7.2
ADVOCACY COMMISSIONS OFFICE	6.00	2.18	2.00	(0.18)	(8.3)
EMPLOYMENT RELATIONS BOARD	12.17	12.00	13.00	1.00	8.3
GOVERNMENT STANDARDS & PRACTICES COMM	2.80	3.00	5.00	2.00	66.7
GOVERNOR, OFFICE OF	45.46	45.50	48.50	3.00	6.6
LIBRARY, STATE	43.47	42.47	42.47	0.00	0.0
LIQUOR CONTROL COMM	205.61	215.02	229.68	14.66	6.8
PUBLIC EMPLOYEES RETIREMENT SYSTEM	366.36	390.92	401.63	10.71	2.7
RACING COMMISSION	17.50	13.42	14.52	1.10	8.2
REVENUE, DEPT OF	976.15	1,004.91	985.62	(19.29)	(1.9)
SECRETARY OF STATE	204.50	202.46	207.50	5.04	2.5
TREASURER OF STATE	74.10	74.60	83.10	8.50	11.4
ADMINISTRATION TOTAL	2,843.88	2,909.41	3,000.56	91.15	3.1
PROGRAM AREA: LEGISLATIVE BRANCH					
INDIAN SERVICES, COMM	2.00	2.00	2.00	0.00	0.0
LEGISLATIVE ADMINISTRATION	107.39	103.39	106.45	3.06	3.0
LEGISLATIVE ASSEMBLY	216.54	216.95	216.20	(0.75)	(0.3)
LEGISLATIVE COUNSEL	45.77	46.81	47.27	0.46	1.0
LEGISLATIVE FISCAL OFFICER	17.00	18.75	19.00	0.25	1.3
LEGISLATIVE REVENUE OFFICER	6.00	6.00	6.00	0.00	0.0
LEGISLATIVE BRANCH TOTAL	394.70	393.90	396.92	3.02	0.8
STATE OF OREGON TOTAL FTE POSITIONS	47,192.91	47,612.00	50,023.74	2,411.74	5.1

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

** Governor's recommended budget transfers Homeland Security functions from Oregon State Police to Military

*** 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 D

Summary of Expenditures by Program Area and Fund

2007-09 Governor's Recommended Budget

Program Area	General Fund	Lottery Funds	GF&LF Total	Other Funds	Federal Funds	All Funds
Education	7,386,748,402	631,554,417	8,018,302,819	4,415,666,104	1,122,489,175	13,556,458,098
Human Services	3,401,716,650	12,032,591	3,413,749,241	1,645,361,405	7,188,274,944	12,247,385,590
Public Safety	1,843,875,624	6,836,155	1,850,711,779	1,127,566,040	383,681,946	3,361,959,765
Judicial Branch	541,087,149	0	541,087,149	169,882,184	922,381	711,891,714
Natural Resources	175,976,406	198,396,743	374,373,149	944,133,335	230,501,863	1,549,008,347
Economic Development	40,692,453	183,069,345	223,761,798	4,458,804,905	501,376,530	5,183,943,233
Consumer and Business Svcs.	12,592,154	0	12,592,154	864,074,879	2,328,373	878,995,406
Transportation	6,575,313	54,777,424	61,352,737	3,401,600,183	87,783,333	3,550,736,253
Administration	198,886,696	1,855,054	200,741,750	7,728,189,346	13,747,117	7,942,678,213
Legislative Branch	70,524,483	0	70,524,483	6,318,512	0	76,842,995
Miscellaneous (E Fund)	162,000,000	0	162,000,000	0	0	162,000,000
Total	13,840,675,330	1,088,521,729	14,929,197,059	24,761,596,893	9,531,105,662	49,221,899,614

Appendix E

DAS Economic Development Fund (Lottery Funds) 2007-09 GRB Detail			
	Revenues	Carryover & GRB Adjust.	Total
Beginning Balance	57,084,240		57,084,240
Interest Income	4,000,000		4,000,000
Reversions			-
Administrative Savings	14,716,523		14,716,523
Net Lottery Proceeds	1,228,580,621		1,228,580,621
Total Revenue	1,304,381,384		1,304,381,384
	Expenditures & Transfers		Total Limitation
Dedicated Transfers			
County Video Poker 2.5%	44,784,458		44,784,458
Gov ERT Alloc from County Video	(935,770)		(935,770)
Ed Stability Fund 18%	223,793,486		223,793,486
Parks & Natural Resources 15%	186,494,572		186,494,572
Higher Education Sports Action	12,432,971	(1,554,121)	10,878,850
Gambling Addiction Treatment 1%	12,432,971	(400,380)	12,032,591
County Fairs	3,557,141	-	3,557,141
Total Dedicated Transfers	482,559,829	(1,954,501)	480,605,328
Debt Service			
Department of Education	43,000,003	2,400,831	45,400,834
Department of Higher Education	17,987,120	21,492	18,008,612
Housing and Community Services Dept.	6,048,291	37,652	6,085,943
Economic and Community Development Dept.	57,786,037	212,499	57,998,536
ODOT - Westside Light Rail/Short Line Rail	-	-	-
ODOT - Commuter Rail		-	-
ODOT - Connect Oregon			-
ODOT Subtotal	54,767,020	10,404	54,777,424
DAS - OPB bonds	1,615,754	6,226	1,621,980
DEQ - Clean Water Revolving Loan Fund	-	-	-
Total Debt Service	181,204,225	2,689,104	183,893,329
Program Allocations			
Dept. of Education - State School Fund	534,142,231	-	534,142,231
Governor's Office - Econ. Revitalization Team	-	-	-
Direct LF	1,871,541	(16,487)	1,855,054
Department of Agriculture - County Fair Admin	35,190	-	35,190
Economic & Community Development Dept.	104,568,368	6,631,691	111,200,059
Total Program Allocations	640,617,330	6,615,204	640,617,330
			-
Total Revenue	1,304,381,384	7,349,807	1,311,731,191
Total Expenditures	1,304,381,384	7,349,807	1,311,731,191
Balance Remaining	-	-	-

Appendix F

Summary of Expenditures by Program Area, Agency, and Fund

Notes:

- The 2003-05 Actual and 2005-07 Legislatively Approved expenditures include certain administrative actions taken by the Department of Administrative Services approving increases to Nonlimited Other Funds.
- The 2005-07 Legislatively Approved expenditures reflected in this table may differ from those included in the Governor's Recommended Budget, due to the inclusion of Emergency Board and other administrative actions through December 2006.
- Special purpose appropriations to the Emergency Board in the 2007-09 Governor's Recommended Budget are not included within individual agency totals.
- The 2007-09 Governor's Recommended Budget amounts reflect the original December 2006 recommendations in the printed Governor's Budget document, except as noted.
- Non-Add Other Funds represent charges between state agencies; they are listed separately for informational purposes since they reflect double counting of expenditures.

	<u>2003-05</u> <u>Actual</u> \$	<u>2005-07</u> <u>Legislatively</u> <u>Approved</u> \$	<u>2007-09</u> <u>Governor's</u> <u>Recommended</u> \$
EDUCATION			
Community Colleges and Workforce Development			
General Fund	416,402,144	433,770,398	508,038,707
Lottery Funds	49,000	-	-
Other Funds	11,789,583	90,688,831	178,621,379
Federal Funds	135,596,206	143,173,928	129,760,579
Total Expenditures	563,836,933	667,633,157	816,420,665
Education, Dept of			
General Fund	241,317,272	252,051,790	326,984,903
Lottery Funds	55,699,162	56,466,744	56,415,089
Other Funds	141,213,493	151,536,830	135,923,013
Federal Funds	882,043,188	983,329,948	990,623,941
Total Expenditures	1,320,273,115	1,443,385,312	1,509,946,946
State School Fund & Other K-12 Grants			
General Fund	4,462,358,462	4,858,192,341	5,525,615,769
Lottery Funds	452,100,536	447,302,659	534,142,231
Other Funds	1,570,220	950,000	242,000
Total Expenditures	4,916,029,218	5,306,445,000	6,060,000,000
Higher Education, Dept. of			
General Fund	671,431,645	737,484,478	827,064,220
Lottery Funds	7,507,597	11,417,524	31,490,061
Other Funds	3,136,168,416	3,814,042,349	4,047,714,175
Total Expenditures	3,815,107,658	4,562,944,351	4,906,268,456
Oregon Health and Science University			
General Fund	84,379,467	73,337,168	94,235,981
Other Funds	124,669,705	31,975,150	31,978,666
Total Expenditures	209,049,172	105,312,318	126,214,647
Student Assistance Commission			
General Fund	45,126,877	76,824,638	104,808,822
Lottery Funds	-	1,527,619	9,507,036
Other Funds	52,319,648	12,875,262	16,594,003
Federal Funds	1,480,969	2,103,860	2,104,655
Total Expenditures	98,927,494	93,331,379	133,014,516
Teacher Standards & Practices Comm			
Other Funds	3,672,701	4,255,660	4,592,868
EDUCATION PROGRAM AREA TOTAL			
General Fund	5,921,015,867	6,431,660,813	7,386,748,402
Lottery Funds	515,356,295	516,714,546	631,554,417
Other Funds	3,471,403,766	4,106,324,082	4,415,666,104
Federal Funds	1,019,120,363	1,128,607,736	1,122,489,175
Total	10,926,896,291	12,183,307,177	13,556,458,098

	2003-05 Actual \$	2005-07 Legislatively Approved \$	2007-09 Governor's Recommended \$
HUMAN SERVICES			
Blind Commission			
General Fund	1,170,784	1,233,746	1,570,084
Other Funds	2,303,008	3,051,665	2,490,777
Federal Funds	8,564,933	11,368,124	10,699,909
Total Expenditures	<u>12,038,725</u>	<u>15,653,535</u>	<u>14,760,770</u>
Children and Families, Commission on			
General Fund	41,517,568	46,137,781	64,519,003
Other Funds	18,967,385	23,043,849	23,538,795
Federal Funds	217,002	3,823,717	4,501,054
Total Expenditures	<u>60,701,955</u>	<u>73,005,347</u>	<u>92,558,852</u>
Disabilities Comm, Oregon			
Other Funds	603,643	-	-
Federal Funds	829,982	-	-
Total Expenditures	<u>1,433,625</u>	<u>-</u>	<u>-</u>
Human Services, Department of			
General Fund	2,268,588,095	2,698,690,305	3,309,709,877
Lottery Funds	5,528,967	9,312,000	12,032,591
Other Funds	1,114,444,006	1,169,063,114	1,521,708,265
Federal Funds	5,714,201,147	6,279,937,317	7,173,073,981
Total Expenditures	<u>9,102,762,215</u>	<u>10,157,002,736</u>	<u>12,016,524,714</u>
Long Term Care Ombudsman			
General Fund	580,293	581,337	934,144
Other Funds	1,430,912	1,495,761	1,765,750
Total Expenditures	<u>2,011,205</u>	<u>2,077,098</u>	<u>2,699,894</u>
Private Health Partnerships, Office of			
General Fund	14,770,356	25,125,635	23,873,528
Other Funds	23,582,905	62,806,834	95,855,818
Total Expenditures	<u>38,353,261</u>	<u>87,932,469</u>	<u>119,729,346</u>
Psychiatric Security Review Board			
General Fund	732,047	879,245	1,110,014
Other Funds	-	2,000	2,000
Total Expenditures	<u>732,047</u>	<u>881,245</u>	<u>1,112,014</u>
HUMAN SERVICES PROGRAM AREA			
General Fund	2,327,359,143	2,772,648,049	3,401,716,650
Lottery Funds	5,528,967	9,312,000	12,032,591
Other Funds	1,161,331,859	1,259,463,223	1,645,361,405
Federal Funds	5,723,813,064	6,295,129,158	7,188,274,944
Total	<u>9,218,033,033</u>	<u>10,336,552,430</u>	<u>12,247,385,590</u>

	2003-05 Actual \$	2005-07 Legislatively Approved \$	2007-09 Governor's Recommended \$
PUBLIC SAFETY			
Corrections, Dept of			
General Fund	808,397,321	1,063,363,569	1,299,776,563
Other Funds	45,912,317	60,579,733	71,156,897
Federal Funds	120,208,050	5,609,146	4,473,659
Total Expenditures	<u>974,517,688</u>	<u>1,129,552,448</u>	<u>1,375,407,119</u>
Criminal Justice Commission			
General Fund	6,865,328	3,655,061	6,474,041
Other Funds	293,852	106,541	3,630,475
Federal Funds	1,535,359	101,293	100,000
Total Expenditures	<u>8,694,539</u>	<u>3,862,895</u>	<u>10,204,516</u>
District Attorneys and Their Deputies			
General Fund	<u>9,327,704</u>	<u>9,170,797</u>	<u>10,658,236</u>
Justice, Dept of			
General Fund	31,610,875	34,170,674	52,833,644
Other Funds	138,813,158	167,829,019	215,218,006
Federal Funds	82,407,915	98,186,323	101,636,299
Total Expenditures	<u>252,831,948</u>	<u>300,186,016</u>	<u>369,687,949</u>
Military Department			
General Fund	14,290,303	18,418,816	23,902,616
Other Funds	18,403,819	11,918,602	101,407,465
Federal Funds	98,475,956	70,799,561	226,440,900
Total Expenditures	<u>131,170,078</u>	<u>101,136,979</u>	<u>351,750,981</u>
Oregon Youth Authority			
General Fund	194,086,074	213,625,158	261,273,205
Other Funds	12,709,101	12,597,516	22,552,795
Federal Funds	20,842,983	25,969,651	32,841,168
Total Expenditures	<u>227,638,158</u>	<u>252,192,325</u>	<u>316,667,168</u>
Parole & Post Prison Supervision, Bd. of			
General Fund	3,260,365	3,534,784	3,702,255
Other Funds	9,281	9,517	9,812
Total Expenditures	<u>3,269,646</u>	<u>3,544,301</u>	<u>3,712,067</u>
Police, Dept of State			
General Fund	160,900,644	181,808,308	173,913,061
Lottery Funds	5,537,710	6,567,977	6,836,155
Other Funds	129,017,815	151,394,675	674,215,256
Federal Funds	133,329,394	196,807,247	18,135,285
Total Expenditures	<u>428,785,563</u>	<u>536,578,207</u>	<u>873,099,757</u>

	2003-05	2005-07	2007-09
	Actual	Legislatively	Governor's
	\$	Approved	Recommended
	\$	\$	\$
Public Safety Standards & Training, Dept of			
General Fund	-	8,515,784	11,342,003
Other Funds	20,679,937	32,221,806	39,375,334
Federal Funds	81,005	52,992	54,635
Total Expenditures	20,760,942	40,790,582	50,771,972

PUBLIC SAFETY PROGRAM AREA			
General Fund	1,228,738,614	1,536,262,951	1,843,875,624
Lottery Funds	5,537,710	6,567,977	6,836,155
Other Funds	365,839,280	436,657,409	1,127,566,040
Federal Funds	456,880,662	397,526,213	383,681,946
Total	2,056,996,266	2,377,014,550	3,361,959,765

	<u>2003-05</u> <u>Actual</u> \$	<u>2005-07</u> <u>Legislatively</u> <u>Approved</u> \$	<u>2007-09</u> <u>Governor's</u> <u>Recommended</u> \$
JUDICIAL BRANCH			
Court Procedures, Council on			
General Fund	-	10,000	115,646
Other Funds	7,127	8,000	8,000
Total Expenditures	<u>7,127</u>	<u>18,000</u>	<u>123,646</u>
Judicial Department			
General Fund	235,682,100	280,404,310	328,691,998
Other Funds	33,426,446	35,043,724	169,268,476
Federal Funds	1,458,872	1,912,896	922,381
Total Expenditures	<u>270,567,418</u>	<u>317,360,930</u>	<u>498,882,855</u>
Judicial Fitness, Commission on			
General Fund	<u>162,483</u>	<u>243,032</u>	<u>181,290</u>
Public Defense Services Commission			
General Fund	165,497,979	182,477,879	212,098,215
Other Funds	297,745	991,474	605,708
Total Expenditures	<u>165,795,724</u>	<u>183,469,353</u>	<u>212,703,923</u>
JUDICIAL BRANCH PROGRAM AREA			
General Fund	401,342,562	463,135,221	541,087,149
Other Funds	33,731,318	36,043,198	169,882,184
Federal Funds	1,458,872	1,912,896	922,381
Total	<u>436,532,752</u>	<u>501,091,315</u>	<u>711,891,714</u>

	<u>2003-05</u> <u>Actual</u> \$	<u>2005-07</u> <u>Legislatively</u> <u>Approved</u> \$	<u>2007-09</u> <u>Governor's</u> <u>Recommended</u> \$
ECONOMIC AND COMMUNITY DEVELOPMENT			
Economic & Community Development Dept			
General Fund	1,175,089	1,797,951	4,220,781
Lottery Funds	75,443,282	104,453,292	169,198,595
Other Funds	254,241,642	331,269,780	341,830,258
Federal Funds	29,096,098	36,067,401	36,340,253
Total Expenditures	<u>359,956,111</u>	<u>473,588,424</u>	<u>551,589,887</u>
Employment Department			
General Fund	3,458,184	3,714,007	3,891,934
Other Funds	1,797,880,466	1,437,471,084	1,554,566,333
Federal Funds	255,651,773	250,528,265	243,709,505
Total Expenditures	<u>2,056,990,423</u>	<u>1,691,713,356</u>	<u>1,802,167,772</u>
Housing & Community Services Dept			
General Fund	9,795,633	10,872,777	22,922,600
Lottery Funds	4,462,310	4,460,538	6,085,943
Other Funds	1,771,251,654	2,274,562,329	1,913,934,821
Federal Funds	209,722,564	215,726,588	221,326,772
Total Expenditures	<u>1,995,232,161</u>	<u>2,505,622,232</u>	<u>2,164,270,136</u>
State Fair & Exposition Center			
General Fund	1,846,314	-	-
Lottery Funds	4,062,984	-	-
Other Funds	16,912,267	7,040,489	-
Total Expenditures	<u>22,821,565</u>	<u>7,040,489</u>	<u>-</u>
Veterans' Affairs, Department of			
General Fund	2,358,941	6,295,313	5,907,138
Other Funds	564,008,814	632,545,413	648,473,493
Total Expenditures	<u>566,367,755</u>	<u>638,840,726</u>	<u>654,380,631</u>
County Fairs			
Lottery Funds	<u>2,530,174</u>	<u>3,344,827</u>	<u>3,347,494</u>
Historical Society*			
Lottery Funds	<u>-</u>	<u>-</u>	<u>2,818,000</u>
Oregon Public Broadcasting**			
General Fund	-	-	3,750,000
Lottery Funds	1,618,965	1,622,118	1,619,313
Total Expenditures	<u>1,618,965</u>	<u>1,622,118</u>	<u>5,369,313</u>
Oregon Tourism Commission***			
Lottery Funds	<u>2,729,366</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>2,729,366</u>	<u>-</u>	<u>-</u>

	<u>2003-05</u> <u>Actual</u> \$	<u>2005-07</u> <u>Legislatively</u> <u>Approved</u> \$	<u>2007-09</u> <u>Governor's</u> <u>Recommended</u> \$
ECONOMIC AND COMMUNITY DEVELOPMENT PROGRAM AREA			
General Fund	18,634,161	22,680,048	40,692,453
Lottery Funds	90,847,081	113,880,775	183,069,345
Other Funds	4,404,294,843	4,682,889,095	4,458,804,905
Federal Funds	494,470,435	502,322,254	501,376,530
Total	5,008,246,520	5,321,772,172	5,183,943,233

- * Historical Society included in Governor's recommended budget as part of Parks and Recreation Department.
- ** Oregon Public Broadcasting included in Governor's recommended budget in the Dept. of Administrative Services.
- ** Tourism Commission was established as a semi-independent state agency in 2003; amount reflects one year of state operations support.

	<u>2003-05</u> <u>Actual</u> \$	<u>2005-07</u> <u>Legislatively</u> <u>Approved</u> \$	<u>2007-09</u> <u>Governor's</u> <u>Recommended</u> \$
NATURAL RESOURCES			
Agriculture, Department of			
General Fund	11,204,657	14,838,124	18,820,314
Lottery Funds	7,467,285	11,508,206	12,790,339
Other Funds	39,840,385	48,752,017	48,770,535
Federal Funds	5,936,307	7,439,425	4,527,315
Total Expenditures	<u>64,448,634</u>	<u>82,537,772</u>	<u>84,908,503</u>
Columbia River Gorge Commission			
General Fund	615,706	864,694	902,863
Energy, Department of			
General Fund	-	-	8,900,000
Other Funds	103,493,244	158,082,724	178,538,032
Federal Funds	3,893,848	5,507,683	5,533,258
Total Expenditures	<u>107,387,092</u>	<u>163,590,407</u>	<u>192,971,290</u>
Environmental Quality, Department of			
General Fund	22,190,558	23,193,203	39,734,399
Lottery Funds	3,308,381	3,799,400	3,794,870
Other Funds	193,966,916	263,695,253	224,247,432
Federal Funds	47,702,736	38,803,709	30,523,391
Total Expenditures	<u>267,168,591</u>	<u>329,491,565</u>	<u>298,300,092</u>
Fish & Wildlife, Department of			
General Fund	10,628,378	11,068,607	18,136,719
Lottery Funds	10,171,308	7,292,483	7,851,592
Other Funds	105,899,777	124,893,957	125,129,512
Federal Funds	77,898,469	102,347,590	110,093,920
Total Expenditures	<u>204,597,932</u>	<u>245,602,637</u>	<u>261,211,743</u>
Forestry, Department of			
General Fund	38,795,674	52,711,325	43,906,134
Other Funds	170,492,607	211,411,407	196,130,571
Federal Funds	15,762,682	24,724,173	26,025,712
Total Expenditures	<u>225,050,963</u>	<u>288,846,905</u>	<u>266,062,417</u>
Geology & Mineral Industries, Dept of			
General Fund	2,906,001	3,598,160	3,306,931
Other Funds	2,867,638	3,850,631	7,803,343
Federal Funds	1,287,336	2,200,767	2,219,955
Total Expenditures	<u>7,060,975</u>	<u>9,649,558</u>	<u>13,330,229</u>
Land Conservation & Development, Dept of			
General Fund	8,433,934	14,058,366	15,984,821
Other Funds	746,449	922,472	799,347
Federal Funds	5,043,007	5,882,984	6,353,901
Total Expenditures	<u>14,223,390</u>	<u>20,863,822</u>	<u>23,138,069</u>

	2003-05 Actual \$	2005-07 Legislatively Approved \$	2007-09 Governor's Recommended \$
Land Use Board of Appeals			
General Fund	1,176,036	1,330,824	1,405,426
Other Funds	45,616	67,381	75,149
Total Expenditures	1,221,652	1,398,205	1,480,575
State Lands, Department of			
General Fund	124,284	190,043	587,814
Other Funds	69,139,717	37,342,460	21,028,871
Federal Funds	1,449,271	3,617,090	3,054,205
Total Expenditures	70,713,272	41,149,593	24,670,890
Marine Board			
Other Funds	21,407,213	23,812,183	25,241,906
Federal Funds	3,911,348	6,189,251	8,583,252
Total Expenditures	25,318,561	30,001,434	33,825,158
Parks & Recreation Department			
Lottery Funds*	56,588,242	90,719,992	96,123,473
Other Funds	72,604,560	97,909,366	107,144,129
Federal Funds	5,699,248	8,964,578	6,493,033
Total Expenditures	134,892,050	197,593,936	209,760,635
Water Resources Department			
General Fund	19,191,983	21,282,467	24,290,985
Other Funds	6,872,379	8,205,022	7,029,646
Federal Funds	800,717	1,146,313	1,176,003
Total Expenditures	26,865,079	30,633,802	32,496,634
Oregon Watershed Enhancement Board			
Lottery Funds	30,121,113	52,333,961	77,836,469
Other Funds	1,140,918	2,283,412	2,194,862
Federal Funds	33,813,437	34,450,279	25,917,918
Total Expenditures	65,075,468	89,067,652	105,949,249
NATURAL RESOURCES PROGRAM AREA			
General Fund	115,267,211	143,135,813	175,976,406
Lottery Funds	107,656,329	165,654,042	198,396,743
Other Funds	788,517,419	981,228,285	944,133,335
Federal Funds	203,198,406	241,273,842	230,501,863
Total	1,214,639,365	1,531,291,982	1,549,008,347

* 2007-09 Governor's recommended budget includes \$2,818,000 Lottery Funds for the Oregon Historical Society; in this publication, OHS is shown as a separate line in the Economic Development Program Area.

	<u>2003-05</u> <u>Actual</u> \$	<u>2005-07</u> <u>Legislatively</u> <u>Approved</u> \$	<u>2007-09</u> <u>Governor's</u> <u>Recommended</u> \$
TRANSPORTATION			
Aviation, Department of			
Other Funds	15,769,226	11,690,149	7,024,120
Federal Funds	-	10,510,000	9,635,252
Total Expenditures	<u>15,769,226</u>	<u>22,200,149</u>	<u>16,659,372</u>
Transportation, Department of			
General Fund	3,914,616	8,626,167	6,575,313
Lottery Funds	20,903,444	22,819,951	54,777,424
Other Funds	2,603,436,660	2,777,974,456	3,394,576,063
Federal Funds	52,388,014	65,054,123	78,148,081
Total Expenditures	<u>2,680,642,734</u>	<u>2,874,474,697</u>	<u>3,534,076,881</u>
TRANSPORTATION PROGRAM AREA			
General Fund	3,914,616	8,626,167	6,575,313
Lottery Funds	20,903,444	22,819,951	54,777,424
Other Funds	2,619,205,886	2,789,664,605	3,401,600,183
Federal Funds	52,388,014	75,564,123	87,783,333
Total	<u>2,696,411,960</u>	<u>2,896,674,846</u>	<u>3,550,736,253</u>

	<u>2003-05</u> <u>Actual</u> \$	<u>2005-07</u> <u>Legislatively</u> <u>Approved</u> \$	<u>2007-09</u> <u>Governor's</u> <u>Recommended</u> \$
CONSUMER AND BUSINESS SERVICES			
Accountancy, Board of			
Other Funds	1,418,935	1,515,510	1,642,874
Chiropractic Examiners, Board of			
Other Funds	890,126	1,019,000	1,125,027
Clinical Social Workers, Board of			
Other Funds	493,964	582,042	680,647
Construction Contractors Board			
Other Funds	10,315,217	12,151,281	13,646,145
Consumer and Business Services, Dept of			
Other Funds	496,578,750	627,491,912	648,794,098
Dentistry, Board of			
Other Funds	1,498,398	1,757,952	1,870,184
Health Licensing Agency			
Other Funds	4,444,249	5,139,112	6,082,884
Health Related Licensing Boards:			
Licensed Dietitians			
Other Funds	49,947	73,747	78,616
Mortuary and Cemetery Board			
Other Funds	961,296	1,153,567	1,064,292
Naturopathic Examiners			
Other Funds	299,667	394,365	400,576
Nursing Home Administrators			
Other Funds	180,729	209,162	223,518
Occupational Therapy Licensing Bd			
Other Funds	200,096	276,925	290,133
Pharmacy, Board of			
Other Funds	2,977,555	3,714,707	4,134,117
Federal Funds	-	50,000	340,000
Total Expenditures	2,977,555	3,764,707	4,474,117
Radiologic Technology			
Other Funds	384,518	483,289	529,670
Speech-Language Path. and Audio.			
Other Funds	163,379	245,204	273,732

	<u>2003-05</u> <u>Actual</u> \$	<u>2005-07</u> <u>Legislatively</u> <u>Approved</u> \$	<u>2007-09</u> <u>Governor's</u> <u>Recommended</u> \$
Veterinary Medical Examiners Bd			
Other Funds	468,193	527,928	545,131
Health Related Licensing Boards Total			
Other Funds	5,685,380	7,078,894	7,539,785
Federal Funds	-	50,000	340,000
Total Expenditures	5,685,380	7,128,894	7,879,785
Investigators, Board of			
Other Funds	414,032	90,000	-
Labor & Industries, Bureau of			
General Fund	11,029,548	11,708,250	12,592,154
Other Funds	6,831,465	8,454,762	8,728,886
Federal Funds	1,112,723	1,409,131	1,520,108
Total Expenditures	18,973,736	21,572,143	22,841,148
Licensed Prof Counselors and Therapists, Bd			
Other Funds	498,467	563,656	742,102
Medical Examiners, Board of			
Other Funds	6,315,094	7,267,070	8,691,966
Nursing, Board of			
Other Funds	7,091,311	9,667,662	9,756,845
Psychologist Examiners, Board of			
Other Funds	572,351	720,720	864,027
Public Utility Commission			
Other Funds	134,648,831	142,766,609	144,510,812
Federal Funds	292,416	434,799	468,265
Total Expenditures	134,941,247	143,201,408	144,979,077
Real Estate Agency			
Other Funds	6,162,766	6,922,082	8,322,612
Tax Practitioners, Board of			
Other Funds	782,394	935,709	1,075,985
CONSUMER AND BUSINESS SERVICES PROGRAM AREA			
General Fund	11,029,548	11,708,250	12,592,154
Other Funds	684,641,730	834,123,973	864,074,879
Federal Funds	1,405,139	1,893,930	2,328,373
Total	697,076,417	847,726,153	878,995,406

	<u>2003-05</u> <u>Actual</u> \$	<u>2005-07</u> <u>Legislatively</u> <u>Approved</u> \$	<u>2007-09</u> <u>Governor's</u> <u>Recommended</u> \$
ADMINISTRATION			
Administrative Services, Dept of*			
General Fund	1,780,512	9,976,764	20,045,019
Lottery Funds	-	600,000	-
Other Funds	788,277,118	978,408,793	1,105,105,549
Federal Funds	316,928	461,707	-
Total Expenditures	<u>790,374,558</u>	<u>989,447,264</u>	<u>1,125,150,568</u>
Advocacy Commissions Office			
General Fund	-	349,197	401,916
Other Funds	871,910	184,672	103,785
Total Expenditures	<u>871,910</u>	<u>533,869</u>	<u>505,701</u>
Employment Relations Board			
General Fund	1,307,322	1,449,920	1,661,913
Other Funds	1,315,550	1,427,990	1,619,712
Total Expenditures	<u>2,622,872</u>	<u>2,877,910</u>	<u>3,281,625</u>
Government Standards & Practices Comm			
General Fund	572,817	653,700	927,210
Other Funds	2,111	3,285	3,368
Total Expenditures	<u>574,928</u>	<u>656,985</u>	<u>930,578</u>
Governor, Office of the			
General Fund	8,125,041	8,161,919	10,915,109
Lottery Funds	576,536	1,771,546	1,855,054
Other Funds	1,270,087	1,182,352	1,120,460
Federal Funds	50,323	140,634	-
Total Expenditures	<u>10,021,987</u>	<u>11,256,451</u>	<u>13,890,623</u>
Oregon Liquor Control Comm			
Other Funds	<u>90,218,879</u>	<u>119,250,564</u>	<u>123,988,091</u>
Public Employees Retirement System			
Other Funds	<u>5,294,977,715</u>	<u>5,730,857,817</u>	<u>6,374,923,419</u>
Racing Commission, Oregon			
Other Funds	<u>4,945,952</u>	<u>5,039,488</u>	<u>4,704,272</u>
Revenue, Dept of			
General Fund	114,586,226	137,502,492	149,961,692
Other Funds	33,368,411	30,922,100	34,284,495
Total Expenditures	<u>147,954,637</u>	<u>168,424,592</u>	<u>184,246,187</u>
Secretary of State			
General Fund	13,024,284	11,462,627	11,614,930
Other Funds	29,097,295	34,324,182	39,712,282
Federal Funds	10,085,707	9,293,472	9,158,195
Total Expenditures	<u>52,207,286</u>	<u>55,080,281</u>	<u>60,485,407</u>

	2003-05 Actual \$	2005-07 Legislatively Approved \$	2007-09 Governor's Recommended \$
State Library			
General Fund	2,584,772	2,987,812	3,358,907
Other Funds	5,946,514	6,710,305	6,843,722
Federal Funds	3,917,623	4,670,500	4,588,922
Total Expenditures	12,448,909	14,368,617	14,791,551
Treasury, Oregon State			
Other Funds	22,767,070	27,344,759	35,780,191
ADMINISTRATION PROGRAM AREA			
General Fund	141,980,974	172,544,431	198,886,696
Lottery Funds	576,536	2,371,546	1,855,054
Other Funds	6,273,058,612	6,935,656,307	7,728,189,346
Federal Funds	14,370,581	14,566,313	13,747,117
Total	6,429,986,703	7,125,138,597	7,942,678,213

* Oregon Public Broadcasting and County Fairs are included in Governor's recommended budget as part of the Department of Administrative Services as pass-throughs.

	<u>2003-05</u> <u>Actual</u> \$	<u>2005-07</u> <u>Legislatively</u> <u>Approved</u> \$	<u>2007-09</u> <u>Governor's</u> <u>Recommended</u> \$
LEGISLATIVE BRANCH			
Indian Services, Commission on			
General Fund	267,167	346,475	368,382
Other Funds	1,073	5,925	6,109
Total Expenditures	<u>268,240</u>	<u>352,400</u>	<u>374,491</u>
Legislative Administration Committee			
General Fund	18,631,399	22,275,910	25,862,654
Other Funds	2,128,954	5,972,202	3,748,119
Total Expenditures	<u>20,760,353</u>	<u>28,248,112</u>	<u>29,610,773</u>
Legislative Assembly			
General Fund	23,414,111	30,777,516	29,442,014
Other Funds	265,322	283,777	289,758
Total Expenditures	<u>23,679,433</u>	<u>31,061,293</u>	<u>29,731,772</u>
Legislative Counsel Committee			
General Fund	6,324,050	7,299,165	8,098,683
Other Funds	1,879,579	2,185,003	2,274,526
Total Expenditures	<u>8,203,629</u>	<u>9,484,168</u>	<u>10,373,209</u>
Legislative Fiscal Officer			
General Fund	<u>3,874,002</u>	<u>4,784,615</u>	<u>5,070,473</u>
Legislative Revenue Officer			
General Fund	<u>1,404,150</u>	<u>1,605,001</u>	<u>1,682,277</u>
LEGISLATIVE BRANCH PROGRAM AREA			
General Fund	53,914,879	67,088,682	70,524,483
Other Funds	4,274,928	8,446,907	6,318,512
Total	<u>58,189,807</u>	<u>75,535,589</u>	<u>76,842,995</u>

	<u>2003-05 Actual</u> \$	<u>2005-07 Legislatively Approved</u> \$	<u>2007-09 Governor's Recommended</u> \$
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MISCELLANEOUS

Emergency Board			
General Fund	-	1,657,119	30,000,000
Total Expenditures	-	1,657,119	30,000,000
Special Purpose Appropriations (details below)		9,861,271	132,000,000

MISCELLANEOUS PROGRAM TOTAL

General Fund	-	11,518,390	162,000,000
Total	-	11,518,390	162,000,000

Special Purpose Appropriations (SPA)	<u>Remaining</u>	<u>Recommended</u>
State Employee Compensation	-	130,000,000
DOJ - Defense of Criminal Convictions	-	2,000,000
DHS - Caseload, cost-per-case, program needs (April 2006)	9,861,271	-
SPA Totals	9,861,271	132,000,000

	<u>2003-05</u> <u>Actual</u> \$	<u>2005-07</u> <u>Legislatively</u> <u>Approved</u> \$	<u>2007-09</u> <u>Governor's</u> <u>Recommended</u> \$
STATE OF OREGON TOTAL EXPENDITURES			
General Fund	10,223,197,575	11,641,008,815	13,840,675,330
Lottery Funds	746,406,362	837,320,837	1,088,521,729
Other Funds	19,806,299,641	22,070,497,084	24,761,596,893
Federal Funds	7,967,105,536	8,658,796,465	9,531,105,662
Total Expenditures	<u>38,743,009,114</u>	<u>43,207,623,201</u>	<u>49,221,899,614</u>

	<u>2003-05 Actual</u> \$	<u>2005-07 Legislatively Approved</u> \$	<u>2007-09 Governor's Recommended</u> \$
NON-ADD EXPENDITURES*			
Administrative Services, Dept. of	394,755,673	456,703,386	455,802,539
Employment Department	20,975,945	21,639,882	23,302,437
Human Services, Department of	16,354,865	38,378,682	45,527,074
Justice, Department of	86,017,433	101,534,472	144,002,137
Transportation, Department of	39,960,258	-	-
Secretary of State	12,174,133	13,420,142	15,115,794
Treasurer of State	22,007,344	25,139,627	31,447,934
Total Non-Add Expenditures	<u>592,245,651</u>	<u>656,816,191</u>	<u>715,197,915</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 and reflect double-counts of expenditures in the statewide budget.