ECONOMIC DEVELOPMENT

PROGRAM AREA

BUSINESS DEVELOPMENT DEPARTMENT, OREGON

Analyst: Beitel

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	14,811,095	54,568,667	61,822,937	73,532,542
Lottery Funds	100,496,117	117,789,412	119,156,968	127,365,166
Other Funds	62,403,430	383,574,013	407,723,679	555,318,109
Other Funds (NL)	125,309,446	239,123,192	245,544,035	280,544,035
Federal Funds	25,924,065	41,457,527	43,049,222	43,094,384
Total Funds	**$328,944,153**	**$836,512,811**	**$877,296,841**	**$1,079,854,236**
Positions	139	136	136	140
FTE	135.34	134.50	134.50	138.63

Overview

The mission of the Oregon Business Development Department (OBDD) is to invest in Oregon businesses, communities, and people to promote a globally competitive, diverse, and inclusive economy. OBDD is responsible for the state's economic development strategy, provides economic and community development and cultural enhancement throughout the state, and administers programs that aid businesses and communities, including the Seismic Rehabilitation Grant Program. The Department is overseen by a nine-member Commission, with seven members appointed by the Governor and confirmed by the Senate and two nonvoting legislative appointees. General Fund, Lottery Funds, Federal Funds, and Other Funds support OBDD's business retention, expansion, and recruitment; export promotion and international trade; innovation and entrepreneurship; community development and infrastructure finance; and arts and cultural programs. Proceeds from the issuance of lottery revenue bonds, general obligation bonds, and Oregon Bond Bank revenue bonds make up a significant portion of Other Funds revenues that are used to finance community infrastructure grants and loans.

The Department has six budgeted program areas:

- Operations – Includes the Director's Office and central agency administrative services that support both the business development (Business, Innovation, Trade) and the community development (Infrastructure) programs. The Operations Division includes 26% of the agency's employees and is financed primarily with Lottery Funds. Other Funds revenues generated from infrastructure and business finance programs and federal grant administration funds also support a portion of the budget.
- Business, Innovation, Trade – Includes the staff and resources used by the Department to support economic strategies and policy development, as well as provide support services, grants, and loans to assist businesses with job retention and creation, promote trade and innovation, and incentivize the production of solar power. This program area operates a variety of programs with multiple funding sources. Major lottery funded programs include the Oregon Innovation Council (Oregon InC) Innovation Plan, Strategic Reserve Fund (SRF), and Oregon Manufacturing and Innovation Center (OMIC) research and operations support. The Business, Innovation, and Trade program area is the agency's largest in terms of staffing, with 42% of the agency's employees, and is primarily financed with Lottery Funds. Other Funds generated from loan principal and interest repayments, investment earnings, and loan and service fees support business finance direct loan and loan guarantee programs. The Certification Office for Business Inclusion and Diversity (COBID) is funded with Other Funds from state agency assessments and revenue from the Oregon Department of Transportation (ODOT). General Fund supports the Solar Incentivization Program.
- Infrastructure – Includes the staff and the funding sources used by the Department to provide grants and loans to assist communities with infrastructure development projects, including projects developed within the Regional Solutions Program. In the 2013 legislative session, the Seismic Rehabilitation Grant Program was transferred from the Oregon Military Department to the OBDD Infrastructure program. Infrastructure also

houses the Brownfields, Industrial Lands, and Broadband programs. Special payments (loans and grants) to local governments, the nine federally recognized tribes, and other entities represent over 90% of budgeted expenditures in this program area. Expenditures also include the Department's associated costs to administer the community development programs and debt service on revenue bonds the state has issued to finance community infrastructure loans. Infrastructure operations and programs are primarily funded with Other Funds revenues generated from revolving loan funds, including loan principal and interest repayments and investment earnings, as well as lottery revenue and general obligation bond proceeds. Federal Funds are received for the Community Development Block Grant and Brownfields programs. The program area includes 24% of the agency's employees.

- Oregon Arts Commission and the Oregon Cultural Trust – Foster the arts and cultural development in Oregon. The Arts Commission is responsible for a number of activities including: evaluating the impact of arts on Oregon's economy; distributing National Endowment for the Arts (NEA) funding to arts programs in Oregon; providing services to arts organizations, individual artists, and communities; and managing Oregon's Percent for Art Program. The program also operates the Trust for Cultural Development (Oregon Cultural Trust), which was established in 2001 to support the arts and culture of the state. This program area houses 7% of the agency's employees and all operating expenses relating to the Arts Commission and Cultural Trust, including personal services expenditures and services and supplies expenditures, as well as funds awarded to arts and cultural nonprofit organizations and individual artists. The Arts Commission is the only part of the agency budget that regularly receives General Fund to support its operations (General Fund is also provided to pay debt service on general obligation bonds). The remaining portions of the program budget are financed by Other Funds (including donations to the Cultural Trust) and Federal Funds from the National Endowment for the Arts.
- Film and Video Office – Semi-independent agency that receives pass-through Lottery Funds support in the OBDD budget to promote and support the film, video, and multimedia industries in Oregon. The Office is not part of the Department, and its employees are not included in the agency employment count.
- Lottery and General Obligation Bond Debt Service – Used exclusively for debt service payments on outstanding lottery revenue bonds, Article XI-Q general obligation bonds, and Article XI-M and XI-N general obligation bonds. Debt service is funded almost entirely with Lottery Funds and General Fund, although Other Funds generated from bond interest earnings and excess proceeds are sometimes applied to pay debt service.

Budget Environment

The workload of the agency is driven by Oregon's economic and community development needs. This includes supporting Oregon businesses and assisting communities to build and maintain infrastructure, such as clean water and wastewater systems, seismic rehabilitation for schools, and port facilities. OBDD programs and services help businesses grow, support the retention and creation of jobs, develop and increase the competitiveness of Oregon industries, and align infrastructure investments with economic growth. The agency's budget has expanded significantly over the last several biennia, as the Legislature sought to promote job creation and retention in the face of a severe recession and assist community development projects in a low interest rate environment. Oregon's economy has recovered and continues to see gross domestic product (GDP), employment, and personal income growth. However, economic growth has not been experienced equally throughout the state or by all segments of the population. OBDD's economic strategy considers regional economic challenges and focuses on creating rural economic stability and providing economic opportunity for underrepresented populations. Strategic economic development priorities also include innovating the economy by expanding research and development capacity and growing small and medium-sized businesses and middle-wage jobs.

Over 50% of General Fund and Lottery Funds support in the budget is used to pay debt service on lottery revenue bonds and general obligation bonds that have been issued to support loans and grants for economic development, community development, and seismic rehabilitation projects. State support for debt service totals $104.5 million in the 2019-21 budget and represents a $16.1 million (or 18.3%) increase over the 2017-19 legislatively approved budget. Since the 2015-17 biennium, General Fund debt service has increased over 400% due to level of bonding authorized for the Seismic Rehabilitation Grant Program ($450 million between 2015-17 and 2019-21).

The Department began a strategic review in December 2016, with goals of enhancing service delivery and operational efficiency and flexibility. This review resulted in OBDD revising its organizational structure into four divisions: Economic Development; Operations and Finance; Equity, Strategies and Communications; and Arts and Culture. Two of the principal outcomes of the new structure include consolidating the previous Business, Innovation, and Trade and Infrastructure Divisions into a single Economic Development Division, combining the operation of business development and infrastructure finance programs into one agency unit; and establishing twelve Regional Development Officer and six Regional Project Manager positions to support program delivery through the state. The Legislature approved the budgetary actions necessary to implement the reorganization plan in the 2019-21 adopted budget. Positions were reclassified and transferred between the Operations, Business, Innovation, and Trade, and Infrastructure budgeted divisions to align staff and resources with the agency's organizational structure.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget for the Oregon Business Development Department totals $1,079.9 million, a $243.3 million (or 29.1%) increase over the prior biennium. The increase is the result of expanded support for bond-funded projects and programs, additional General Fund for debt service costs, and increased General Fund and Lottery Funds support for agency programs. These increases are partially offset by reductions in Lottery Funds debt service and Oregon InC program support.

General Fund and Lottery Funds support in the 2019-21 budget totals $200.9 million is $28.5 million (or 16.6%) more than the 2017-19 legislatively approved budget. The increase is primarily due to a new $10 million General Fund investment in the University Innovation Research Fund (UIRF) and debt service requirements on outstanding and authorized general obligation bonds. Other Funds expenditures increased $213.2 million (or 34.2%) over the 2017-19 budget as a result of limitation provided for new bond authorizations and for bond proceeds carried forward from the prior biennium budget. A significant portion of bonds approved in the 2017-19 biennium were not issued until spring 2019, so many of the expenditures financed by those bonds are included for disbursement in the 2019-21 budget. The approved budget provides $226.4 million of net proceeds from 2019-21 bond sales, including $120 million of general obligation bonds for the seismic program and $106.4 million of lottery revenue bonds for infrastructure and cultural projects, which represents an increase of 25.5% over the $180.4 million of net bond proceeds approved in the 2017-19 biennium.

Most Lottery Funds expenditures, excluding debt service payments for lottery revenue bonds, are in the Business, Innovation, and Trade (business development) program area, with a lesser amount supporting the Operations and Infrastructure program areas. The Infrastructure (community development) program area is primarily financed with Other Funds and Federal Funds, and beginning with the 2015-17 biennium budget, Lottery Funds to support the Broadband, Industrial Lands, and Seismic Rehabilitation Grant Program administration. General Fund is used for ongoing support of the Arts Commission, debt service on general obligation bonds, and the Solar Incentivization Program in the Business, Innovation, and Trade Division.

Operations

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Lottery Funds	7,230,709	7,242,756	7,599,017	8,773,826
Other Funds	1,697,342	1,891,471	2,018,889	2,838,201
Federal Funds	73,168	204,973	223,166	222,347
Total Funds	**$9,001,219**	**$9,339,200**	**$9,841,072**	**$11,834,374**
Positions	32	32	32	37
FTE	32.00	32.00	32.00	36.88

Program Description

The Operations program area includes the Director's Office, which provides leadership, governmental relations, and communications for the agency and the Operations Division, which provides Fiscal and Budget, Employee Services, Technology Services, Contract Services, and Facilities administrative functions to the other program areas. This separate Operations program area was established with the reorganization of the Department in 2009 to support the Business, Innovation, and Trade, Infrastructure, and Arts divisions.

Revenue Sources and Relationships

Operations is primarily financed with Lottery Funds (74%). Other Funds revenues of $2.5 million are transferred from the Business, Innovation, and Trade and Infrastructure divisions to cover a portion of their Other Funded programs' administrative costs. Other Funds transferred from the Business, Innovation, and Trade program area include interest earnings and other revenues generated from business finance loan programs and a lesser amount from the Certification Office for Business Inclusion and Diversity (COBID) state agency assessment revenue. Infrastructure Other Funds revenues are generated from revolving loan funds, including loan repayments and interest earnings on balances. Federal Funds are received from the U.S. Department of Housing and Urban Development (HUD) for the Community Development Block Grant program financial administration.

Budget Environment

Community and regional needs and the needs of businesses and industry drive the Department's programs and services. External forces, including changes in Oregon's economy, also have an impact on the agency. The Operations Division workload is directly connected to the number and complexity of the agency's economic development programs. Workload is also affected by changes in organization and staffing. The addition of new programs, such as the Safe Drinking Water Revolving Loan Program and the Seismic Rehabilitation Grant Program, or expansion of existing programs, increases administrative services workload and, correspondingly, the Operations budget. Personal services make up 76% of the costs to support operations functions.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $11.8 million for Operations is a $2.5 million (or 26.7%) increase over the prior biennium. The increase is attributable to the transfer of positions to the Operations program as part of the agency's budget alignment, as well as information technology and internal auditing investments. Operations expenditure limitation increased by $437,112 Lottery Funds and $689,983 Other Funds due to the transfer of four positions from the Business, Innovation, and Trade (2.00 FTE) and the Infrastructure (2.00 FTE) divisions to consolidate rulemaking and contracting functions, as well as the upward reclassification of four additional positions to accomodate staff duties. Additionally, the following packages were approved through a combination of Lottery Funds (85%) and Other Funds (15%) to increase capacity in Operations to meet the agency's needs:

- $700,000 to replace the agency's legacy financial portfolio management system with an application that will allow continued management of financial awards, as well as additional functionality for tracking tax incentives and meeting transparency and reporting requirements. The approved amount includes $550,000 for one-time project management and software replacement costs and $150,000 for ongoing annual software licensing costs.
- $206,294 to establish an Internal Auditor 3 position (0.88 FTE), including $194,794 for position costs and $11,500 for associated services and supplies expenditures.

Business, Innovation, Trade

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	156,906	8,559,846	3,773,331	13,438,798
Lottery Funds	46,457,012	57,016,079	56,546,647	61,553,892
Other Funds	8,432,108	18,338,919	21,180,051	32,052,272
Other Funds (NL)	5,589,721	12,483,098	12,976,785	12,976,785
Federal Funds	1,773,487	5,568,116	5,776,240	5,980,869
Total Funds	**$62,409,234**	**$101,966,058**	**$100,253,054**	**$126,002,616**
Positions	58	56	56	59
FTE	55.34	55.00	55.00	59.00

Program Description

The Business, Innovation, and Trade (BIT) program area houses the Department's business development programs that support business retention, expansion, and recruitment; international trade; and initiatives to increase innovation in the Oregon economy and improve the state's economic competitiveness. The Oregon Innovation Council (Oregon InC) Innovation Plan, Strategic Reserve Fund (SRF), and Oregon Manufacturing Innovation Center (OMIC) are the main programs in terms of Lottery Funds support. Lottery Funds also support the Industry Competitiveness Fund (ICF), Oregon Growth Fund (OGF), and small business services through the Small Business Development Centers (SBDCs) and Government Contract Assistance Program (GCAP). Other BIT programs include the Certification Office for Business Inclusion and Diversity (COBID), business finance direct loan and loan guarantee programs, and Solar Development Incentive program. BIT was established as a budgeted division in the reorganization of the Department in 2009. In the 2015-17 biennium, the Industrial Lands, Broadband, and Brownfields programs were transferred from BIT to the Infrastructure program area.

Revenue Sources and Relationships

Revenues for the 2019-21 biennium include General Fund, Other Funds, and Federal Funds, but the program area is primarily financed by Lottery Funds allocated to support business development and innovation programs. Other Funds revenues of $8.4 million generated through loan principal and interest repayments, royalties, investment earnings on revolving loan and loan guarantee fund balances, and loan and service fees support business finance direct loan and loan guarantee programs. COBID is funded with Other Funds from state agency assessments ($1.9 million) and revenue transferred from ODOT ($1.6 million). General Fund is appropriated for the Solar Incentivization Program and the new University Innovation Research Fund (UIRF). Federal Funds expenditures are funded from federal grants, including the State Small Business Credit Initiative (SSBCI) grant and the State Trade and Export (STEP) grant.

Budget Environment

The Business, Innovation, and Trade Division includes the agency's primary initiatives to create and retain jobs, and its budget has been substantially expanded in recent years. Even before the start of the Great Recession, the 2007 Legislative Assembly approved a 71% increase in Lottery Funds for distribution to businesses and non-profits, primarily to increase support for the Oregon InC Innovation Plan, which was expanded from $7 million Lottery Funds in the 2005-07 biennium to $28.2 million in 2007-09. Oregon InC support was reduced to $17.9 million in 2015-17; but was approved as part of the base budget beginning in 2017-19.

The first biennial budget developed after the start of the recession was in 2009-11. In that biennium, and in the 2011-13 biennium, the Legislature continued to expand support in an effort to promote job creation and retention. Budget expansion has continued through additional investments in existing programs and the addition of new programs, with the total BIT budget now exceeding $125 million. BIT programs and resources are utilized to implement the agency's economic development strategy, including growing the Oregon economy through investments in innovation and research and development, focusing on small and medium-sized business growth, building economic development capacity in rural communities, and providing economic opportunity for underrepresented populations.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $126 million total funds represents a 23.6% increase from the 2017-19 legislatively approved budget. General Fund and Lottery Funds support of $75 million is a $9.4 million (or 14.4%) increase over the prior biennium level. The increased support for BIT programs is net of the removal of one-time funding in the prior biennium that was phased-out during development of the 2019-21 budget and specified General Fund and Lottery Funds reductions. Phase-outs included $5 million General Fund for a one-time deposit in the Eastern Oregon Border Economic Development Board Fund; $3 million Lottery Funds for one-time program support; and $3 million Other Funds for OMIC operations and research. The removal of General Fund for the Eastern Oregon Border Economic Development Board Fund is partially offset by a $4.5 million increase in Other Funds limitation to expend the balance of the Fund in the 2019-21 biennium. Additionally, the Legislature approved the reductions to the following programs:

- Oregon InC – Lottery Funds support was reduced by $1.6 million, resulting in a total of $17.25 million authorized for Oregon InC initiatives, an 8.5% decrease from current service level. A budget note also directed the Department to evaluate and report back to the Emergency Board on the feasibility and impact of eliminating ongoing state support for the three Signature Research Centers: ONAMI, OTRADI, and VertueLab (formerly Oregon BEST).
- Oregon Regional Accelerator Innovation Network (RAIN) – Lottery Funds expenditure limitation was reduced by $519,000 to eliminate funding for Oregon RAIN.
- Solar Development Incentive – General Fund was reduced by $332,875 to adjust the budget to forecasted spending levels.

Enhancements approved in the budget include:

- University Innovation and Research Fund – $10 million General Fund was approved on a one-time basis for deposit in the new University Innovation Research Fund (UIRF) established in HB 2377 (2019). Other Funds limitation of $10 million was also established to accommodate distribution of monies from the UIRF. The UIRF will support grants to public universities and the Oregon Health and Science University to match competitive federal research awards.
- Oregon Manufacturing Innovation Center – Lottery Funds support for operating and research expenses of the Oregon Manufacturing Innovation Center (OMIC), a collaboration between business, academic, and government partners in Columbia County to enhance innovation and competitiveness in the metals manufacturing and advanced manufacturing sectors, was increased by $5 million, bringing ongoing OMIC support in the agency's budget to $8.7 million.
- Strategic Reserve Fund – $2 million was added to the Strategic Reserve Fund (SRF), bringing ongoing Lottery Funds support for new projects to $9 million and total Lottery and Other Funds combined support to $11.1 million. An additional $3.7 million Lottery Funds limitation is also included to expend the estimated beginning balance of SRF project awards. Other Funds revenues consist of Other Fund beginning balances accumulated from loan repayments.
- Rural Opportunities Initiative – $750,000 Lottery Funds was added on a one-time basis for the Rural Opportunities Initiative (ROI) grant program, which supports entrepreneurship-based economic development in rural communities. The program was piloted in 2015-17 through SRF and received one-time Lottery Funds support of $750,000 in 2017-19. A budget note requires the Department to report to the Emergency Board on the ROI grant program.
- Oregon Growth Fund – $629,199 Lottery Funds was added for the Oregon Growth Fund (OGF) to increase capital available to the state's early-stage small businesses and promote economic development. OGF investments are managed by the Oregon Growth Board and include private sector venture capital funds, Oregon angel conferences, community development finance institutions, and funds that provide access to capital and mentoring for Oregon small businesses and startups. Lottery Funds support for the OGF is approved as ongoing for the first time in the 2019-21 biennium. One-time Lottery Funds support was allocated in the 2017-19 ($1.25 million through a transfer from SRF) and 2015-17 ($500,000) biennia.

Lottery Funds expenditures decreased by $517,000 and Other and Federal Funds expenditures increased by $1.1 million and $204,629, respectively, due to the transfer of two positions (2.00 FTE) to the Operations Division, five positions (5.00 FTE) from the Infrastructure Division, downward reclassification of eight additional positions, and increase of two positions from half to full-time to align staff and resources with the agency's organizational structure. Transfers and reclassifications result in 12 Regional Development Officers, classified as Operations and Policy Analyst 4 positions, in the BIT Division to support statewide program service delivery.

Infrastructure

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	--	2,000,000	--	--
Lottery Funds	3,392,620	2,561,780	1,759,132	5,351,473
Other Funds	37,524,424	350,213,813	371,519,434	504,570,425
Other Funds (NL)	119,719,725	226,640,094	232,567,250	267,567,250
Federal Funds	22,548,513	33,727,325	35,018,268	34,859,620
Total Funds	**$183,185,282**	**$615,143,012**	**$640,864,084**	**$812,348,768**
Positions	38	37	37	34
FTE	37.00	37.00	37.00	33.25

Program Description

The Infrastructure program area houses the Department's community development initiatives that assist communities primarily through support of infrastructure improvements. Infrastructure programs finance projects for municipalities, schools, nonprofit, and private organizations that address public health, safety, and compliance issues and support business establishment and expansion within a community. The Special Public Works Fund, Water Fund, and Safe Drinking Water Revolving Loan Fund are the primary revolving loan programs. Other Infrastructure programs include the Community Development Block Grant, Port Revolving Loan Fund, Port Planning and Marketing Fund, and Marine Navigation Improvement Fund. The Department is also responsible for administering Regional Solutions projects funded through the Regional Infrastructure Fund. In the 2013 legislative session, the Legislature added the Seismic Rehabilitation Grant Program to the Infrastructure Division. The seismic program was transferred from the Oregon Military Department to OBDD effective January 1, 2014. Additionally, the Brownfields, Industrial Lands, and Broadband programs were transferred to the Infrastructure Division from BIT in the 2015-17 biennium budget. Infrastructure financing programs are overseen by an independent nine-member Infrastructure Finance Authority (IFA) Board. The Infrastructure program area was established to reflect the reorganization of the Department in 2009. The Division was originally called the Infrastructure Finance Authority but was renamed Infrastructure to reflect the addition of infrastructure programs that are not under the governance of the IFA Board.

Revenue Sources and Relationships

Infrastructure programs are primarily financed with Other Funds revenues generated from the issuance of bonds and earnings on revolving funds. Proceeds from the issuance of lottery revenue bonds are have been regularly approved to capitalize revolving loan funds to make infrastructure loans and grants. Net lottery bond proceeds of $30 million were deposited in the Special Public Works Fund (SPWF) in 2017-19, with $10 million specifically authorized for levee projects. The 2019-21 budget includes net lottery bond proceeds of $30 million for SPWF, $15 million for levee grants, and $5 million for the Brownfields Redevelopment Fund. Lottery bond proceeds also support designated infrastructure projects ($53.4 million in 2019-21 and $20.6 million in 2017-19), and Regional Solutions projects ($4 million in 2017-19). Revolving loan funds generate additional Other Funds revenues from loan principal and interest repayments, fees and service charges, and investment earnings. Oregon Bond Bank revenue bonds are also issued to finance infrastructure loans. The expenditures of the bond proceeds distributed to localities as loans or grants from revolving loan funds are budgeted as Other Funds Nonlimited (and not as Lottery Funds). Expenditures for program administrative costs are primarily funded with earnings generated from revolving loan funds are budgeted as limited Other Funds expenditures. Programs that exclusively award grants, such as Regional Solutions and the Levee Grant program, are also budgeted as Other Funds and not Other Funds Nonlimited.

Seismic Rehabilitation Grants are financed through the issuance of Article XI-M and XI-N general obligation bonds. Article XI-M bond proceeds finance grants for schools and Article XI-N proceeds finance grants for emergency services facilities. A total of $120 million of general obligation bond proceeds for seismic grants were approved in both the 2017-19 and 2019-21 budgets. Lottery Funds support the administration of the Seismic, Industrial Lands, and Broadband programs. Federal Funds are received for the Brownfields, Community Development Block Grant (CDBG), and Safe Drinking Water (SDW) programs. State match for CDBG and SDW is provided by SPWF. Although the SDW program is supported by both state and federal funds, the entire program is budgeted as Other Funds. The Oregon Health Authority Drinking Water Services manages the U.S. Environmental Protection Agency program grant, and transfers funds to OBDD's Infrastructure division to administer SDW loans.

Debt service costs on the lottery revenue bonds issued to finance Infrastructure programs are paid with Lottery Funds, and debt service on general obligation bonds issued for Seismic Rehabilitation Grants are paid with General Fund. However, debt service payments are shown in the Lottery and General Obligation Bond Debt Service program area, and not in the Infrastructure budget.

Budget Environment

The number of awards for community capital planning and construction projects has continued to increase with the economic recovery as communities have been able to invest in upgrading aging infrastructure. A total of 104 projects were awarded 2018 compared to 69 project awards in 2014. The amount committed has also continued to increase due to growth in the number of project awards, as well as escalating construction costs. Low-cost financing to build and maintain infrastructure remains an important rural economic development tool, with 87% of program funds being awarded to rural communities in 2018.

Infrastructure funds have been consistently capitalized over the last several biennia, which not only provides additional capital for near-term loans, but also increases the capacity of the programs to issue future loans through loan repayments and interest earnings. The 2011-13 biennium budget included $10 million of lottery revenue bonds for infrastructure funds and eliminated the use of those funds for business development programs. The 2013-15 biennium budget included $22 million of lottery revenue bond proceeds for infrastructure funds and Regional Solutions projects, and $30 million of general obligation bonds for the Seismic Rehabilitation Grant Program. Bond support increased dramatically in the 2015-17 biennium, particularly with the large increase in the Seismic Rehabilitation Grant Program: $205 million of general obligation bond proceeds were approved for Seismic Rehabilitation Grants, and a total of $38.6 million of lottery revenue bond proceeds were approved for recapitalizing revolving loan funds, Regional Solutions, and other projects. While general obligation bond proceeds for seismic grants decreased to $120 million in the 2017-19 and 2019-21 budgets, lottery bond proceeds for infrastructure projects and programs increased to $54.6 million in 2017-19 and $103.4 million in 2019-21. Bond proceeds are always approved in the budget on a one-time basis and are phased out in the calculation of the current service level.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $812.3 million total funds represents a 32.1% increase from the 2017-19 legislatively approved budget. General Fund support was eliminated in the budget due to the phase-out of a one-time infrastructure project grant approved in the 2017-19 budget. Lottery Funds support more than doubled due to added funding for the Broadband Office and an additional $3.6 million for one-time infrastructure project grants to the City of Sandy ($500,000), Levee Ready Columbia ($500,000), Port of Port Orford ($1.6 million), and City of Astoria ($1 million). Lottery Funds expenditure limitation of $1 was also provided for a new Tide Gates and Culverts Repair and Replacement Program. A lottery allocation of $6 million was approved for the program and expenditure limitation will be increased after the Department presents a request that includes a proposal for distributing grants and loans for the repair and replacement of tide gate and culvert infrastructure. Other Funds limited expenditures increased $154.4 million (or 44.1%) over the 2017-19 budget as a result of limitation provided for new bond authorizations and for bond proceeds carried forward from the prior biennium budget. The majority of bonds approved for the 2017-19 biennium were not issued until spring 2019, so many of the expenditures financed by those bonds are included in the 2019-21 budget. Bonding approved for infrastructure programs and projects represents a 27.9% increase over the prior biennium.

All bond proceeds in the budget are enhancements above current service level, even when the amount of bond funding is equal to or below the prior biennium level. Enhancements to the Infrastructure budget include:

- Seismic Rehabilitation Grant Program – $121.5 million of Article XI-M and XI-N general obligation bonds were authorized for the Seismic Rehabilitation Grant Program to issue competitive grants for the seismic rehabilitation of critical public buildings. The approved amount includes $100 million for seismic rehabilitation grants to schools, $20 million for grants to emergency services facilities, and $1.5 million for costs to issue the bonds. Funding is approved at the same level as the prior biennium. ($121.6 million Other Funds). Bonds are scheduled to be issued in spring 2020 ($60.7 million) and spring 2021 ($60.7 million). General Fund debt service on the approved bonds is projected to total $4.5 million in the 2019-21 biennium, rolling up to $18.8 million in 2021-23.
- Special Public Works Fund – $33.4 million of lottery revenue bonds were approved to capitalize the Special Public Works Fund (SPWF) to finance loans and grants for planning, purchasing, and improvement of municipally-owned infrastructure, such as water and wastewater systems, industrial land sites, and other community facilities. The amount approved includes $30 million for SPWF projects (Other Funds Nonlimited), $442,362 for bond costs of issuance (Other Funds), and $2.9 million to be held in debt service reserves. Funding is approved at the same level as the prior biennium, with the exception that $10 million of the 2017-19 authorization was dedicated to levee inspection and repair projects (SB 306, 2015). Levee project funding approved in 2019-21 was not deposited in SPWF, but a separate Levee Project Grant Fund.
- City of Salem Drinking Water Improvements – $22 million of lottery revenue bonds were approved for improvements to the City of Salem's drinking water system. The amount approved includes $20 million for the grant (Other Funds), $312,909 for bond costs of issuance (Other Funds), and $1.7 million to be held in debt service reserves.
- Levee Project Grant Fund – $16.6 million of lottery revenue bonds were approved for levee inspection, accreditation, certification, or repair project grants. The amount approved includes $15 million for levee project grants (Other Funds), $278,251 for bond costs of issuance (Other Funds), and $1.3 million to be held in debt service reserves. In prior biennia, amounts designated for levee projects ($10 million in 2017-19 and $5 million in 2015-17) were financed through SPWF, which is primarily a loan program and has statutory limits for grant awards. During the 2017-19 biennium, only $2 million of the $10 million authorized was issued for levee projects, due to a lack of loan requests. While a significant need to fund levee repair projects exists, many levee owners do not have sufficient income or resources to repay a loan. Net bond proceeds approved in the 2019-21 biennium will be deposited in a new Levee Project Grant Fund to allow funds to be distributed as grants.
- Port of Coos Bay Channel Improvements – $16.6 million of lottery revenue bonds were approved for the Port of Coos Bay Channel Project to deepen and widen the lower Coos Bay deep draft navigation channel. The amount approved includes $15 million for the Channel Deepening project (Other Funds), $278,251 for bond costs of issuance (Other Funds), and $1.3 million be held in debt service reserves. $15 million of net lottery bond proceeds were also approved for the for the project in the 2017-19 biennium; however, the statutory requirements for distribution of the bond proceeds were not met and the bonds were not issued.
- Confederated Tribes of Warm Springs Wastewater Treatment Plan Upgrade, Water Meter and Distribution Projects – $8.6 million of lottery revenue bonds were approved for the Confederated Tribes of the Warm Springs Reservation to improve to the Warm Springs Wastewater Treatment Plan, install water meters, and improve to the water distribution system. The amount approved includes $7.8 million for the grant (Other Funds), $123,719 for bond costs of issuance (Other Funds), and $671,281 to be held in debt service reserves.
- City of Sweet Home Wastewater Treatment Plant Upgrade – $7.7 million of lottery revenue bonds were approved for rehabilitation of the City of Sweet Home's Wastewater Treatment Plant. The amount approved

includes $7 million for the grant (Other Funds), $120,737 for bond costs of issuance (Other Funds), and $604,263 to be held in debt service reserves.

- Brownfields Redevelopment Fund – $5.6 million of lottery revenue bonds were approved to capitalize the Brownfields Redevelopment Fund for cleanup and redevelopment of brownfields properties. The amount approved includes $5 million for brownfields projects (Other Funds Nonlimited), $106,268 for bond costs of issuance (Other Funds), and $498,732 to be held in debt service reserves. The Brownfields Redevelopment Fund was last capitalized in 2015-17 with $7 million of net lottery bond proceeds.
- City of Mill City Storm Drainage Improvements – $2.1 million of lottery revenue bonds were approved for improvements to the City of Mill City's storm drainage system. The amount approved includes $1.9 million for the grant (Other Funds), $43,761 for bond costs of issuance (Other Funds), and $166,239 to be held in debt service reserves.
- Hood River Waterfront Stormwater Line – $1.9 million of lottery revenue bonds were approved for the City of Hood River to replace the Hood River waterfront storm water line. The amount approved includes $1.7 million for the grant (Other Funds), $43,098 for bond costs of issuance (Other Funds), and $151,902 to be held in debt service reserves.

Lottery bonds authorized for infrastructure programs and projects are scheduled to be sold in spring 2021, so no debt service payments are due in the 2019-21 biennium. Lottery Funds debt service on the approved bonds is estimated to be $18.6 million in the 2021-23 biennium.

In the 2019 session, the Oregon Broadband office was created within the OBDD Infrastructure Division through HB 2173. The Office is charged with supporting broadband infrastructure deployment, including awarding and managing funds allocated to OBDD for use by the Office to support broadband projects. Expenditure limitation was increased by $178,180 Lottery Funds and $764,939 Other Funds and four permanent positions (3.25 FTE) were added to establish the Broadband Office. Lottery Funds were allocated support the first six months of budgeted costs. Other Funds that would have been available from transfers to the Broadband Fund, established in HB 2184 (2019), were anticipated to support costs for the remainder of the biennium. However, HB 2184 was not passed by the Legislature during the 2019 session, resulting in a lack of funding for broadband project awards and costs to support the Broadband Office for the remaining 18 months of the 2019-21 biennium.

Lottery Funds expenditures increased by $79,888 and Other and Federal Funds expenditures decreased by $1.4 million and $153,389, respectively, due to the transfer of two positions (2.00 FTE) to the Operations Division, five positions (5.00 FTE) to the Business, Innovation, and Trade Division, upward reclassification of six additional positions, and increase in professional services for the Seismic Rehabilitation Grant Program. Transfers and reclassifications result six Regional Project Managers, classified as Operations and Policy Analyst 3 positions, in the Infrastructure Division to support statewide program service delivery.

Film and Video Office

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Lottery Funds	1,164,460	1,207,545	1,253,432	1,253,432
Total Funds	**$1,164,460**	**$1,207,545**	**$1,253,432**	**$1,253,432**

<u>Program Description</u>

The Film and Video Office is a semi-independent agency for Oregon's statewide promotion of the film, video, and multimedia industries. The 1995 Legislative Assembly authorized the semi-privatization of the Film and Video Office, which provides the program with greater flexibility in recruitment and marketing activities. OBDD is responsible for the pass-through of Lottery Funds to the Office. The Office recruits film productions through its marketing efforts, provides assistance to productions, creates public-private partnerships to support the industry, and administers the state's film and video incentive programs. While the Office has traditionally worked with film, television, and commercial producers, customers have expanded to the growing animation, digital media, and video game production industries.

Revenue Sources and Relationships
Lottery Funds support the Film and Video Office's operating costs, including personnel costs for the Office's four staff. As a semi-independent agency, the Office's employees are not considered state employees and are not included in the OBDD position count. The Office administers two film incentive programs: the Oregon Production Investment Fund (OPIF) and Greenlight Oregon Labor Rebate. These programs are financed through tax credits which impact the state budget as reductions in revenue. No expenditure limitation is included in the OBDD budget for the incentive programs.

Legislatively Adopted Budget
The 2019-21 legislatively adopted budget of $1.3 million for the Film and Video Office represents a 3.8% increase over the prior biennium level and is equal to the current service level amount.

Support for the Film and Video Office's incentive programs is also provided in the 2019-21 biennium, though rebates awarded under the programs are not included in budgeted expenditures. The Oregon Production Investment Fund (OPIF) provides film producers with a cash rebate of up to 20% on qualified goods and services expenditures and up to 10% of Oregon payroll costs. OPIF rebates are financed through an annual tax credit auction conducted by the Department of Revenue. The Film and Video Tax Credit was extended through January 1, 2024 in the 2015 session. Total credits are limited to $28 million per biennium beginning in 2017-19; up from $22 million in the 2015-17 biennium. The Greenlight Oregon Labor Rebate program provides a rebate of up to 6.2% of Oregon payroll costs for qualifying projects that spend more than $1 million in Oregon. In the 2017 session, the Greenlight Labor Rebate was extended through January 1, 2024.

Arts

	2015-17 Actual	**2017-19 Legislatively Approved**	**2019-21 Current Service Level**	**2019-21 Legislatively Adopted**
General Fund	4,094,494	5,417,287	3,922,866	3,916,920
Lottery Funds	--	--	--	2,125,000
Other Funds	10,158,271	13,021,701	13,005,305	15,699,921
Federal Funds	1,528,897	1,957,113	2,031,548	2,031,548
Total Funds	**$15,781,662**	**$20,396,101**	**$18,959,719**	**$23,773,389**
Positions	11	11	11	10
FTE	11.00	10.50	10.50	9.50

Program Description
The mission of the Oregon Arts Commission is to enhance the quality of life for all Oregonians through the arts by stimulating creativity, leadership, and economic vitality. The Arts Commission is responsible for a number of activities including: evaluating the impact of arts on Oregon's economy; distributing National Endowment for the Arts (NEA) funding to arts programs in Oregon; providing services to arts organizations, individual artists, and communities; and managing Oregon's Percent for Art Program. The Commission coordinates regional efforts and arts education programs through a network of regional arts councils and collaborates to advance arts education for all students. The Arts Commission was established in 1967 to foster the arts in Oregon and became a part of OBDD in 1993. Nine commission members, appointed by the Governor, develop statewide arts policy and oversee the grant-making activities of the Arts Commission.

The Arts program area also includes the Trust for Cultural Development (Oregon Cultural Trust). In 2001, the Oregon Cultural Trust was established to lead Oregon in cultivating, growing, and valuing culture as an integral part of communities. A Cultural Tax Credit was created to encourage contributions to support and provide ongoing funding for the Cultural Trust. Subject to certain restrictions and limitations, donors are eligible for a credit against Oregon income taxes for the full amount of their donations to the Trust. The Trust also receives funds from the sale of Cultural Trust vehicle license plates. An eleven-member Trust for Cultural Development Board, appointed by the Governor, governs the Trust's activities.

Revenue Sources and Relationships

General Fund supports the Arts Commission operations, grant programs, and provides the required 1:1 match for federal NEA funds. The Arts Commission receives both designated and competitive federal NEA funding that is used to support grant programs. Other Funds received by the Arts Commission include donations and grants from partner organizations, such as the Oregon Cultural Trust, Oregon Community Foundation, and Ford Family Foundation, as well as revenue from the Percent for Art Program. Oregon Percent for Art is a statutory program that requires that 1% of the cost to construct or renovate most state buildings be used for the acquisition of artwork. The Arts Commission receives up to 10% of the Percent for Art revenue to administer the program, which is dependent upon the state building projects approved each biennium.

The Oregon Cultural Trust is primarily supported with Other Funds from donations received through the Cultural Tax Credit, but also receives interest earnings on the Trust for Cultural Development Account (Trust Account), and revenue from the sale of Oregon Cultural Trust license plates. ODOT transfers revenue from the plate surcharge ($30 per biennium) to the Cultural Trust for marketing and promotional costs. In the 2019-21 biennium, the Trust estimates receiving approximately $750,000 in cultural license plate revenue that will be used to market the tax credit and increase donations.

Annual donations of approximately $4-5 million are utilized to support the Trust through a statutory distribution formula that specifies that 40-50% of annual donations are to be deposited in the Trust Account. The remaining 50-60%, plus interest earnings on the Trust Account, are to be distributed as Cultural Development Grants (50%), Community Cultural Participation grants (25%), and grants to core partner agencies (25%), with up to $400,000 (adjusted annually for inflation) for operation of the Trust. The permanent Trust Account had a balance of approximately $27 million at the end of 2018. In the 2019 session, the Cultural Trust Tax Credit was extended through January 1, 2026.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $23.8 million for the Arts Division is a $3.4 million (or 16.6%) increase over the prior biennium level and is 25.4% above the current service level. General Fund decreased 27.7% from the prior biennium due to the phase-out of $1.65 million of one-time cultural project grants. Additionally, Lottery Funds support of $2.1 million was added to the 2019-21 budget for one-time cultural project grants to the Cottage Theatre ($375,000), High Desert Museum ($250,000), Liberty Theatre ($1 million), and Oregon Nikkei Legacy Center ($500,000). Other Funds limited expenditures increased $2.7 million (or 20.6%) over the 2017-19 budget due to limitation provided for bond authorizations and for bond proceeds carried forward from the prior biennium budget. Lottery bonds approved for cultural projects in the 2017-19 biennium were not issued until spring 2019, so the majority of expenditures financed by those bonds are included in the 2019-21 budget. The following legislatively-directed cultural organization capital projects were approved in the 2019-21 budget:

- Beaverton Arts Foundation - Patricia Reser Center for the Arts – $1.7 million of lottery revenue bonds were approved for the Beaverton Arts Foundation to construct the Patricia Reser Center for the Arts. The amount approved includes $1.5 million for the grant (Other Funds), $39,469 for bond costs of issuance (Other Funds), and $135,531 to be held in debt service reserves.
- Lincoln City Cultural Center - Cultural plaza and Exterior Grounds – $1.7 million of lottery revenue bonds were approved for the development and renovation of the Lincoln City Cultural Center's cultural plaza and exterior grounds. The amount approved includes $1.5 million for the grant (Other Funds), $39,469 for bond costs of issuance (Other Funds), and $135,531 to be held in debt service reserves.

Lottery bonds authorized for cultural capital projects are scheduled to be sold in spring 2021, so no debt service payments are due in the 2019-21 biennium. Lottery Funds debt service on the approved bonds is estimated to be $527,718 in the 2021-23 biennium.

The Cultural Trust's administrative expenditures were reduced by $250,399 Other Funds to align costs with operating revenues. The Arts Assistant Director position (1.00 FTE) was abolished, resulting in a General Fund reduction of $125,961 and an Other Funds reduction of $125,961. General Fund savings of $124,438 was used shift the Arts Executive Director position from 50% General Fund and 50% Other Funds to 90% General Fund and 10% Other Funds, resulting in an Other Funds reduction of $124,438. Remaining General Fund savings of $1,523 were used to increase the Arts Commission other services and supplies budget.

Lottery and General Obligation Bond Debt Service

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	10,559,695	38,591,534	54,126,740	56,176,824
Lottery Funds	42,251,316	49,761,252	51,998,740	48,307,543
Other Funds	4,591,285	108,109	--	157,290
Total Funds	**$57,402,296**	**$88,460,895**	**$106,125,480**	**$104,641,657**

Program Description
The Lottery and General Obligation Bond Debt Service program includes debt service payments on all lottery revenue bonds and general obligation bonds that have been issued to support OBDD programs, and lottery revenue bonds issued to finance legislatively-specified projects promoting economic development. Debt service on lottery revenue bonds is paid by Lottery Funds and debt service on general obligation bonds is paid by General Fund. Other Funds (primarily interest earnings on bond proceeds) may also be used to pay debt service. Debt service on revenue bonds issued through the Oregon Bond Bank is included in Other Funds Nonlimited in the Infrastructure program area.

Prior to the 2013-15 biennium, only lottery revenue bonds, and not general obligation bonds, were issued for OBDD programs. The 2013-15 legislatively approved budget included Article XI-M and XI-N general obligation bond authorizations for the Seismic Rehabilitation Grant Program, as well as Article XI-Q bond authority for innovation infrastructure. Article XI-M and XI-N bonds have been authorized in each subsequent biennium, but no additional Article XI-Q bonds have been authorized since 2013-15. The 2019-21 budget authorizes a total of $121.5 million of general obligation bonds, to provide $120 million of bond proceeds to the Department for the Seismic Rehabilitation Grant Program. Funding for the Seismic program is approved at the same level as the prior biennium. This total includes:

- $101.2 million of Article XI-M bonds to finance $100 million of seismic rehabilitation projects for public education buildings; $50.6 million of the approved bonding is scheduled to be issued in spring 2020 and the remaining $50.6 million will be issued in spring 2021. Debt service payments are estimated to total $3.8 million General Fund in the 2019-21 biennium, increasing to $15.7 million in 2021-23.
- $20.3 million of Article XI-N bonds to finance $20 million of seismic rehabilitation projects for emergency services buildings; $10.1 million of the approved bonding is scheduled to be issued in spring 2020 and the remaining $10.1 million will be issued in spring 2021. Debt service payments are estimated to total $757,045 General Fund in the 2019-21 biennium, increasing to $3.1 million in 2021-23.

The 2019-21 legislatively adopted budget also authorizes $117.8 million of lottery revenue bonds (a 75.3% increase over the prior biennium level) for the Department, including:

- $42.3 million for legislatively-designated infrastructure projects.
- $33.4 million to increase the corpus of the Special Public Works Fund for municipal infrastructure projects.
- $16.6 million for levee inspection, accreditation, certification, or repair project grants.

- $16.6 million to reauthorize the Port of Poos Bay Channel Deepening project.
- $5.6 million to capitalize the Brownfields Redevelopment Fund for cleanup and redevelopment of brownfields properties.
- $3.4 million for legislatively-designated cultural capital projects.

Lottery revenue bonds are scheduled to be issued in spring 2021, so no debt service payments are due in the 2019-21 biennium. Beginning in 2021-23, debt service costs on the newly-approved lottery bonds are projected to equal $19.1 million per biennium.

Earnings on Article XI-M and XI-N bond proceeds issued for the Seismic Rehabilitation Grant Program were used to reduce general obligation bonds issued for the program in the 2017-19 biennium. Interest of $6.5 million was used to replace a portion of the $75 million Article XI-M bonds and $1.2 million used to replace a portion of the $10 million Article XI-N bonds authorized for the spring 2019 sale. Proceeds of 2018 and 2019 bond sales ($112.3 million), plus the interest earnings ($7.7 million), will be used to fund seismic grant awards at the level approved in the 2017-19 budget. The reduced general obligation bond issuance, combined with favorable terms on the spring 2019 lottery revenue bond and general obligation bond sales, decreased 2019-21 current service level debt service by $2.4 million General Fund and $3.6 million Lottery Funds.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget includes $56.2 million General Fund to pay debt service on general obligation bonds. General Fund debt service represents a 45.6% increase over the prior biennium level. The expenditures support $51.6 million of debt service costs on outstanding general obligation bonds, plus $4.5 million of debt service costs on $60.7 million of Article XI-M and Article XI-N bonds that will be issued to support Seismic Rehabilitation Grants for public education and emergency services facilities in spring 2020. The remaining $60.7 million of Article XI-M and Article XI-N bonds authorized in the budget will not be issued until spring 2021, and thus impose no debt service costs on the 2019-21 budget. Debt service costs for the $121.5 million of new bonds authorized for Seismic Rehabilitation Grants are projected to total $18.8 million per biennium, beginning in 2021-23.

The 2019-21 budget includes $48.3 million Lottery Funds for debt service payments on outstanding lottery bonds. All payments are for bonds authorized and issued prior to the 2019-21 biennium. Lottery Funds debt service is a 2.9% decrease from the prior biennium level. The decrease is attributable to the net impact of additional debt service on bonds issued during the 2019-21 biennium and the payoff of older lottery bond series. Debt service payments on the $117.8 million of lottery revenue bonds authorized to be issued in 2019-21 are projected to equal $19.1 million per biennium, beginning in 2021-23.

Other Funds debt service expenditure limitation of $157,290 is also included in the budget to allow the agency to apply interest earnings to debt service payments in the 2019-21 biennium, reducing associated General Fund ($109,152) and Lottery Funds ($48,138) debt service expenditures.

EMPLOYMENT DEPARTMENT

Analyst: Deister

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	5,868,497	--	--	15,688,586
Other Funds	125,985,221	152,904,308	169,980,964	192,385,467
Other Funds (NL)	1,012,699,018	1,424,000,000	1,582,000,000	1,582,000,000
Federal Funds	134,330,971	159,644,348	153,562,854	154,315,171
Federal Funds (NL)	60,480,860	70,000,000	100,000,000	100,000,000
Total Funds	**1,339,364,567**	**1,806,548,657**	**2,005,543,818**	**2,044,389,224**
Positions	1,259	1,320	1,270	1,389
FTE	1,226.45	1,259.03	1,225.20	1,323.58

2015-17 Actual by program/division do not add to the 2015-17 Actual Agency Total due to the transfer of the Oregon Talent Council to the Higher Education Coordinating Commission in 2017.

Overview

The Oregon Employment Department (OED) offers services in the following program areas:

- Unemployment Insurance (UI) provides wage replacement income to workers who are unemployed through no fault of their own.
- Workforce Operations offers job listing and referrals services and career development resources.
- Workforce and Economic Research (Research) coordinates the collection and dissemination of occupational and economic climate data for the state, workforce regions, and counties.
- The Paid Family and Medical Leave Insurance program, created through HB 2005 (2019).

OED also provides administrative support to the independent Office of Administrative Hearings (OAH), which conducts contested case hearings for approximately 70 state agencies.

Shared Services encompasses the following: Office of the Director of the Employment Department; information technology services; administrative business services such as budgeting, accounting, procurement, and facilities; legislative affairs and communications; and human resources functions.

A Modernization Initiative budget structure was created beginning in 2017-19 to better enable the monitoring of multi-year planning and execution costs related to modernizing the Employment Department's aging information technology and business systems infrastructure. Modernizing these systems is expected to be a multi-year endeavor, and expenditures pertaining to this effort will support managing budget and position authority devoted to the project.

The passage of HB 2005 late in the 2019 legislative session resulted in a new responsibility for OED: creation of a paid family and medical leave insurance program (often referred to as FAMLI) to provide eligible employees with a portion of wage replacement when the employee is out on family or medical leave. HB 2005 established operative dates for administrative rules (September 1, 2021), beginning to collect contributions (January 1, 2022), and payment of benefits (January 1, 2023). A new division will be created to plan, create, and determine how the new program will be administered (legislation left open the possibility of contracting with another entity).

Revenue Sources and Relationships

The Employment Department revenue sources include both Federal and Other Fund sources, and several of these sources are expended across multiple divisions in the Employment Department. What immediately follows is a summary of total amounts of revenue, by source, expected to be received by OED in the 2017-19 biennium; the amounts expended will be discussed in the detail of each respective OED division later in this document.

Sources of Other Funds revenues include:

- Oregon UI Trust Fund – Balance totaled $4.8 billion in June of 2019. These funds are designated for unemployment insurance compensation payments to qualified individuals and are budgeted as Nonlimited.
- Special Administrative Fund – Also called "Penalty and Interest Revenue", these are revenues from penalties and interest on delinquent payment of employer taxes. These funds are designated for administrative expenses or other needs as determined by the OED Director. For the 2019-21 biennium, the Department expects to have $56.5 million available, based on $19.7 million of estimated new revenue and $36.8 million of estimated carryover from 2017-19.
- Supplemental Employment Department Administrative Fund (SEDAF) – Funded by a 0.09% unemployment tax diversion from employer Unemployment Insurance payroll taxes to fund OED administrative expenses. The 2019-21 legislatively adopted budget assumes that the diversion will generate $89.2 million, which supplements $20.2 million in carryover from 2017-19. All SEDAF monies are continuously appropriated to the Department for the payment of administrative expenses for which federal funding has been reduced, eliminated, or is otherwise not available due to federal restrictions on use.
- Fraud Control Fund – Supported by interest earnings on delinquent repayments of UI benefit overpayments for costs associated with the prevention, discovery, and collection of those overpayments. In 2019-21, OED projects $5.6 million in interest collections, supplementing $30.6 million in carryover from 2017-19.
- Unemployment Insurance Modernization Funds are one-time revenue in the amount of $85.6 million that OED received during June and July of 2009 as a result of adopting several changes to the UI program, including an alternative base year calculation for unemployment insurance benefits. The money can only be used for expenditures relating to UI and Employment Services administration. The funds are held in the UI Trust Fund and expended as Other Funds. As of June 30, 2019, the balance of these funds was $81.9 million.
- Supplemental Nutritional Assistance Program (SNAP) Employment and Training funds are passed to OED from the Department of Human Services, which receives a grant from U.S. Department of Health and Human Services. OED is one of several partners that are reimbursed, in whole or in part depending on the specific programs the clients are served by, for employment and training services provided to SNAP recipients. The legislatively adopted budget includes $16.9 million in revenue related to SNAP services.

OED also receives Other Funds revenues from other state agencies as reimbursement for providing job placement services and for custom research services. The Office of Administrative Hearings charges for its conducted case hearings service.

Sources of Federal Funds revenue include:

- Unemployment Insurance Administrative Grant – Employer payroll taxes are collected by the Internal Revenue Service under authority of the Federal Unemployment Tax Act (FUTA) and used to finance the bulk of the administration of the UI program. Distribution to states is based on a complex cost formula incorporating economic data and forecasts, UI workload and spending history, and federal appropriation levels. UI Administration Grant funds may only be used to pay for administration of the UI program. Based on its May 2019 revenue forecast, the Employment Department anticipates $95.4 million will be distributed by the U.S. Department of Labor for the 2019-21 biennium.
- Reemployment Services and Eligibility Assessment Program – The U.S. Department of Labor provides funding specifically for the review of UI claimant eligibility, for the provision of their reemployment plans, and for the distribution of labor market information to UI claimants. The amount of funding expected to be received by the agency in 2019-21 is $9.5 million.
- Wagner-Peyser – $16.1 million is expected for Business and Employment Services provided by the Workforce Operations and Research division under the Wagner-Peyser Act.
- The Trade Adjustment Act funds training and case management services for displaced workers. In 2019-21, $30 million is anticipated from this source.
- Veterans' placement services are assumed to amount to $5.3 million in 2019-21.

- Estimates of funding for federal unemployment insurance benefits – payments to federal workers and trade impacted workers – are expected to amount to $100 million in 2019-21.
- Bureau of Labor Statistics funding for workforce and economic research is anticipated to be $2.2 million in 2019-21.
- Workforce Information Grant funds are provided for investing in research and distributing labor market information. An estimated $960,000 is anticipated for 2019-21.
- The U.S. Department of Labor provides a federal tax credit, known as the Work Opportunity Tax Credit, to employers that hire employees from certain target populations. The Employment Department expects to receive $350,000 from the U.S. Department of Labor to administer this program in 2019-21.
- Foreign Labor Certification Grant funds are anticipated at $600,000.

Budget Environment

Economic conditions and trends directly affect OED's policy decisions and workload. During times of economic recession, high unemployment rates increase the number of clients served through unemployment insurance payments and employment services in field offices. Unemployment rates in Oregon continue to be low and the labor supply tight, despite projected slow-down in the rate of economic growth. U.S. trade policies could have implications for the national and state economy, and a lack of housing affordability is a risk for Oregon's labor market and growth prospects. The Bureau of Labor statistics reported that the June 2019 seasonally adjusted unemployment rate in Oregon was 4.0% (matching a record low for Oregon), and employers reported six of every ten job vacancies as "difficult to fill," often due to a lack of applicants.

Population growth in Oregon has been driven largely by in-migration. Coupled with an aging workforce and looming retirements, gaps are being created that employers struggle to fill. Because unemployment rates are at a historic low, those long-term unemployed are often those who have particular challenges. Automation, technology, Artificial Intelligence, and the emerging "gig economy" combine to create unique challenges to the Department's focus of matching qualified workers to job opportunities and helping to connect potential employers to training opportunities to facilitate filling specific skilled labor positions. The Department works in partnership with the Higher Education Coordinating Commission (which administered several federally funded workforce and education programs) and the Bureau of Labor and Industries' Apprenticeship and Training Division. An example of one such partnership is the cooperative effort among these agencies to educate employers about the benefits of apprenticeship, and potentially help them create an apprenticeship program that meets their training needs in a non-traditional/non-building trade field.

The Department is a member of the Interagency Compliance Network. Member agencies share wage, tax, and reporting information to improving employers' and workers' compliance with Oregon tax and employment laws. Other agency members include the Bureau of Labor and Industries, Construction Contractors Board, Department of Consumer and Business Services, Department of Justice, Department of Revenue, and the Landscape Contractors Board.

OED continues its methodic planning and procurement efforts aimed at replacing its unemployment insurance tax and benefit system technology, which has involved assessing and mapping business practices, as well as thoroughly detailing what features will be required for security, federal compliance, and maintenance of inter-agency collaborations (such as for collections and reporting functions in conjunction with the Oregon Department of Revenue).

A new division will be created within OED to take on the task of creating the paid family and medical leave insurance program (Oregon will be one of just 6 states with a state paid leave insurance program). The Department will need to assess the risks inherent in planning for a massive new business operation, with the potential for new and detailed information systems, at the same time it is replacing core business system functions. It is possible that creation of the new program will require much of the same skills and expertise being utilized in the systems replacement project; OED may be challenged in successful implementation for both efforts simultaneously.

Legislatively Adopted Budget
The 2019-21 legislatively adopted budget is a 13.2% total funds increase from the 2017-19 legislatively approved budget. This increase is due to increases in projected unemployment insurance benefits (budgeted as Nonlimited), additional expenditures for IT modernization, an anticipated growth in services to clients of the Department of Human Services, and spending related to establishing the new paid family and medical leave insurance program.

In each agency program, the 2019-21 budget includes reductions based on service charge reductions and rate adjustments in the budgets of the Department of Justice, the Secretary of State, the Public Employees Retirement System, and the Department of Administrative Services. Position reclassifications were approved across all divisions to enable the Department to better utilize existing position authority, and all reclassifications were approved by the Department of Administrative Services Chief Human Resource Office. These position actions resulted in a net increase of $158,387 total funds additional expenditure limitation, and no net increase in the number of positions or FTE.

Specific spending changes in each division are discussed below.

Unemployment Insurance

	2015-17 Actual	**2017-19 Legislatively Approved**	**2019-21 Current Service Level**	**2019-21 Legislatively Adopted**
Other Funds	17,379,872	31,504,638	40,857,869	40,486,443
Federal Funds	111,619,873	90,757,336	83,917,650	83,789,137
Total Funds	**128,999,745**	**122,261,974**	**124,775,519**	**124,275,580**
Positions	626	563	532	533
FTE	597.23	513.49	489.07	490.07

Program Description
The Unemployment Insurance (UI) program determines eligibility for benefits, processes benefit payments, enforces UI laws, collects employer payroll taxes, and provides support to the Employment Appeals Board (EAB). EAB, made up of three Governor-appointed members, is a separate and federally funded entity located within OED for administrative purposes and is responsible for reviewing decisions of the Office of Administrative Hearings on UI benefit cases.

Revenue Sources and Relationships
The 2019-21 legislatively adopted budget projects expenditures of Federal Funds to support the UI program in the following amounts:

- UI Administration Grant: $76.4 million
- Reemployment Services and Eligibility Assessment: $300,000

Legislatively Adopted Budget
The 2019-21 legislatively adopted budget is a 1.6% increase from the 2017-19 legislatively approved level. In 2017, a total of 79 positions (77.91 FTE) and $24.6 million in attendant funding was transferred from the UI program to the newly established Shared Services budget structure. Position reclassifications were approved, along with one additional position (1.00 FTE) being added, an Operations and Policy Analyst 2, in response to additional analysis and reporting required by the U.S. Department of Labor.

Shared Services

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	--	15,544,924	16,778,300	16,778,300
Federal Funds	--	27,308,246	25,722,402	25,662,789
Total Funds	**--**	**42,853,170**	**42,500,702**	**42,441,089**
Positions	--	138	131	131
FTE	--	136.91	131.00	130.50

Program Description

The Shared Services budget structure was created in 2017 and includes the offices of the Director and Deputy Director; Internal audit; agency Information and Technology services; Administrative and Business Support (budgeting, accounting, payroll, safety/risk, facilities, and procurement); Legislative Affairs and Communications; and Human Resources.

Revenue Sources and Relationships

This program is funded primarily with Federal Funds (61%) with actual expenditures charged directly to benefitting program funding sources and indirect expenditures allocated pursuant to an approved U.S. Department of Labor cost allocation plan. Federal Funds supporting this program are as follows:

- UI State Administration Grant: $19 million
- Reemployment Services and Eligibility Assessment Grant: $1.7 million
- Trade Act Administration: $2.1 million
- Veteran’s Employment Services: $800,000
- Wagner-Peyser Funds: $1.63 million
- Work Opportunity Tax Credit: $10,000
- Bureau of Labor Statistics: $300,000
- Foreign Labor Certification: $50,000
- Workforce Information Grant: $110,000

Other Funds utilized in the program come primarily from SEDAF ($4.6 million). Penalty and Interest ($10.5 million) and an administrative allowance related to SNAP funds ($1.5 million) are also used for Shared Services.

Legislatively Adopted Budget

The legislatively adopted budget reduced Federal Funds expenditures from the 2017-19 legislatively approved budget by 6.03% and 6.41 FTE. The reduction was part of an agency-wide package of reclassifications to better utilize existing position authority. Months were reduced on an existing Accounting Technician 3 in the financial services section due to a decrease in workload, and to finance reclassifications in this division and elsewhere throughout the agency. Four positions in the Shared Services program were reclassified, including an Information systems support position, two Principle Executive Managers, and an Operations and Policy Analyst 3 (reclassified to a Project Manager 2).

Workforce Operations

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	74,350,322	66,945,957	69,136,314	78,262,794
Federal Funds	16,046,978	33,871,234	35,896,845	37,099,221
Total Funds	**90,397,300**	**100,817,191**	**105,033,159**	**115,362,015**
Positions	455	443	431	480
FTE	454.75	438.30	430.75	479.75

Program Description
The Workforce Operations program supports businesses and promotes employment. Services are provided through field offices which recruit and refer qualified applicants to employers by matching the skills of the job seeker with employer job openings. Job seekers and employers can access employment information through interactive job services on OED's website. OED coordinates services with other Workforce partners to help customers access training, skills assessment counseling, and employability planning. The division operates 37 regional WorkSource Oregon centers, often co-locating with other partners, including the Department of Human Services, Veterans Administration, and local Workforce Investment and Training entities.

Revenue Sources and Relationships
Other Funds account for 67.8% of the Workforce Operation's program revenue. The primary source of Other Funds is $53.6 million from SEDAF. SNAP Employment and Training Funds support $15.4 million of total Other Funds expenditures, which represent services to those clients. The primary source of Federal Funds supporting the Workforce Operations program is $11.5 million of Trade Act funds, followed by $9.2 million of Wagner-Peyser funds, $7.5 million of Reemployment Eligibility Assessment funds, $7.5 million of Reemployment Eligibility Assessment funds, and $4.5 million of funds for Veterans programs. The Workforce Opportunity Tax Credit supports $340,000 of program expenditures, and Foreign Labor Certification comprises $550,000.

Legislatively Adopted Budget
The 2019-21 legislatively adopted budget is a $14.5 million total funds increase from the 2017-19 legislatively approved budget.

The Legislature approved 18 permanent and 23 limited duration positions (41.00 FTE) to provide job placement services for clients of the Department of Human Services under the Job Opportunity Basic Skills (JOBS) program, the Supplemental Nutrition Assistance Program Training and Employment Plan (STEP), and the Able-Bodied Adults Without Dependents (ABAWD) programs. Clients in the JOBS and ABAWD programs must complete federally mandated work participation requirements to receive benefits. The STEP program is voluntary and participating clients are assessed and proved limited training if needed. ABAWD clients receive STEP services as part of their required participation. Basic skills assessment and training have been provided under contract with DHS for the past eight biennia. This is the third year for the JOBS and ABAWD programs; these more intensive services were initially offered in seven counties in 2017-19, and expanded to an additional six in January 2019.

Requests for additional foreign labor certification, plus additional workers eligible for retraining, casework, and job placement services under the Trade Act drove the approval of $1,468,736 in additional Federal Funds expenditure limitation and 8 permanent full-time positions to meet additional workload in these programs.

Realigning existing position authority with agency needs resulted in the downward reclassification of a management position, and the abolishment of a Business and Employment Specialist position in favor of the establishment of an Operations and Policy Analyst position reclassification. Approval of these actions increased Other Funds expenditure limitation by $28,631.

Office of Administrative Hearings

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	25,981,919	27,423,763	29,379,031	29,236,295
Total Funds	**25,981,919**	**27,423,763**	**29,379,031**	**29,236,295**
Positions	112	104	103	103
FTE	110.38	102.88	101.88	101.88

Program Description

The Office of Administrative Hearings is an independent entity directed by a Chief Administrative Law Judge appointed by the Governor. The program's mission is to be an independent and impartial forum for citizens and businesses to adjudicate their disputes with state agencies. Approximately 70 state agencies and two municipalities utilize the services of the Office of Administrative Hearings for their contested case proceedings. Costs for the program are driven by the volume of hearings referred by agencies and the complexity of the issues involved. Administrative support to the OAH is provided by the Employment Department.

Revenue Sources and Relationships

The Office of Administrative Hearings (OAH) is funded by the agencies which refer cases for hearing. The OAH charges fees in an amount calculated to recover the cost of providing an administrative law judge, the cost of conducting the hearing, and all associated administrative costs. The amount charged to each agency, board, or commission is based on the actual use of OAH services.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget is a 6.6% increase from the 2017-19 legislatively approved budget. The only adjustments to the current service level for this program were due to changes in statewide assessments and rates.

Workforce and Economic Research

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	8,305,034	6,664,428	7,671,751	7,668,142
Federal Funds	6,664,120	7,707,533	8,025,957	7,764,023
Total Funds	**14,969,154**	**14,371,964**	**15,697,708**	**15,432,165**
Positions	64	54	55	54
FTE	62.42	53.50	54.50	54.00

Program Description

This division coordinates the collection and dissemination of occupational and labor force data for the state, workforce regions, and counties, and is Oregon's designated employment statistics agency under the federal Workforce Innovation and Opportunity Act. Data can be accessed through monthly and annual publications such as *Labor Trends*, which outlines payroll, unemployment, and other economic-related issues by workforce region, or through online resources such as the Oregon Labor Market Information System. The program also conducts specialized employment surveys mandated by the U.S. Bureau of Labor Statistics, and responds to requests from local workforce investment boards, private businesses, and industry consortiums.

Revenue Sources and Relationships

The Workforce and Economic Research division is funded with a mix of Federal and Other Funds. Revenue sources include Federal Funds from the U. S. Department of Labor ($8 million); Other Funds from SEDAF funds ($6.5 million); and contracts for customized analysis ($880,000).

Legislatively Adopted Budget
The 2019-21 legislatively adopted budget is a 7.4% increase from the legislatively approved budget. One position was eliminated (0.5 FTE) to refinance the reclassification of positions in this division and elsewhere in the agency.

Modernization Initiative

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	--	4,820,598	6,157,699	19,953,564
Total Funds	**--**	**4,820,598**	**6,157,699**	**19,953,564**
Positions	--	18	18	55
FTE	--	13.95	18.00	46.63

Program Description
The Employment Department began tentative steps to modernize its information systems and business processes in 2015-17. Existing systems were designed in the 1990s and did not incorporate web-based applications. The age of systems, modifications overtime, and complex interdependencies between OED divisions and other agencies have contributed to an unstable computing environment, compatibility problems, manual processes, and increasing costs of maintenance as vendor support phases out and employees retire. OED must also take steps to increase its IT security and protect its information from cyber-attacks. The projects initiated will require planning, procurement, testing, and deployment, and are expected to take several biennia. Authorization to begin planning and $4 million in associated expenditure limitation was first approved by the 2015 Legislature. However, by April of 2017, the Employment Department had utilized only $1.4 million associated with the project. New leadership within the agency prompted a careful look at 2015-17 project plans and what could be reasonably and successfully accomplished during the 2015-17 biennium and would get completed during the 2017-19 biennium.

Planning efforts related to the replacement of Unemployment Insurance-related systems gained momentum in the 2017-19 legislatively approved budget. In that biennium, OED created a separate administrative division to manage and track these efforts, with an approved 2017-19 modernization budget of $3,072,547, plus $2,298,614 in base budget expenditures. However, updated projections assumed total expenditures would be about $3.6 million for the 2017-19 biennium. OED has also identified at least one other division, the Workforce Operations Division, as needing modernized systems. Analysis of system requirements and mapping of processes will begin in earnest when UI systems have been procured and tested in anticipation of deployment.

Revenue Sources and Relationships
Core business and systems modernization efforts are supported by one-time revenue in the amount of $85.6 million that OED received during June and July of 2009, and is referred to as UI Modernization Funds. These dollars can be used for agency administration, but rather than expending them on ongoing day-to-day operating expenses, OED has earmarked these dollars for efforts associated with upgrading and modernizing its business systems, in lieu of requesting a General Fund appropriation. Assuming the project remains on schedule, there is an anticipated $81.95 million ending balance at the close of the 2019-21 biennium. For the 2019-21 biennium, OED plans to use a combination of SEDAF funds ($4.1 million), penalty and interest funds ($12.2 million), and Fraud Control Funding ($3.6 million) to support IT modernization expenditures in the 2019-21 biennium, which should help to ensure sufficient revenue for future phases and business systems.

Legislatively Adopted Budget
The legislatively adopted budget authorizes just under $20 million in Other Funds expenditure limitation and 55 positions (46.63 FTE) devoted to the modernization project in the 2019-21 biennium. A policy option package totaling $13.7 million and 37 positions (28.63) was added to current service level expenditures of $6.2 million and 18 positions (18.00 FTE). The legislatively adopted budget will enable OED to initiate the procurement and begin implementation of a replacement system for Unemployment Insurance tax and benefit administration. Independent quality management services are included. Project deliverables include completion and posting for

the project Request for Proposals, solution vendor selection and contracting, project team and staff recruitments; facility preparation; equipment installation; data analysis, cleansing, and conversion; updated business case, risk assessment, and project management plans; and independent quality review and oversight. Status reports are due to the Office of the Chief Information Officer and the Legislative Fiscal Office throughout the project's lifecycle, as well as a status report to the Legislature during the 2020 annual legislative session or interim legislative committees as required.

Nonlimited

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds (NL)	1,012,699,018	1,424,000,000	1,582,000,000	1,582,000,000
Federal Funds (NL)	60,480,860	70,000,000	100,000,000	100,000,000
Total Funds	**1,073,179,878**	**1,494,000,000**	**1,682,000,000**	**1,682,000,000**

Program Description

Payments of unemployment benefits (associated with the UI program) and certain payments associated with the federal Trade Adjustment Act (associated with the Workforce Operations' Business and Employment Services program and the UI program) are budgeted as Nonlimited.

Legislatively Adopted Budget

Oregon's UI system is funded through a counter-cyclical strategy of raising revenue to pay benefits from employers when the economy is strong. Employer premiums are set in law and adjust annually so that sufficient reserves are on hand to cover 18 months of a recession. Unlike other states with a "pay-as-you-go" UI system, Oregon's employers are more insulated from sharp increases in premiums and the risk for insolvency is minimized.

The 2019-21 legislatively adopted budget estimates nearly $1.7 billion in UI and Trade Act benefit payments, a 12.6% increase from the 2017-19 legislatively approved budget. This increase reflects growth in wages and overall employment (since more people have been working, the amount and volume of benefits due to seasonal adjustments in the employment cycle may be slightly higher than in the previous biennium). Benefit payments to federal employees are included in the "Federal Funds Nonlimited" category since these payments are paid by federal, not state, UI taxes.

Family and Medical Leave Insurance Program

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	--	--	--	15,688,586
Other Funds	--	--	--	--
Other Funds (NL)	--	--	--	--
Federal Funds	--	--	--	--
Federal Funds (NL)	--	--	--	--
Total Funds	--	--	--	**15,688,586**
Positions	--	--	--	33
FTE	--	--	--	20.75

The passage of HB 2005 resulted in the creation of a paid family and medical leave insurance (FAMLI) program to provide employees who are eligible for coverage with a portion of their wages while the employee is out on family or medical leave. The program is to be administered by OED or a third-party contract with OED and will provide compensated time off from work in specific circumstances including arrival of a child through birth, adoption, or foster care; care of a family member with a serious health condition; recovery of their own serious health condition; or for safe leave. Per the bill, rules for the program must be established by September 1, 2021; employer and employee contributions will be collected beginning January 1, 2022; and benefits are payable beginning January 1, 2023.

<u>Revenue Sources and Relationships</u>
The Legislature provided a General Fund appropriation to cover start-up costs for establishing the FAMLI program. The appropriation is reimbursable to the General Fund, without interest, when OED determines the balance in the paid family and medical leave insurance program fund for benefit administration is sufficient, but no later than January 1, 2023. The estimated expenditures associated with this appropriation represent only costs associated with planning and designing the program. Ongoing administrative costs, the cost of benefits, the cost of contributions for the state as an employer, and other costs are indeterminate until OED establishes rules and operational processes for the program.

<u>Legislatively Adopted Budget</u>
The legislatively adopted budget assumes the creation of a new division within OED to plan, create, and administer the new statewide paid family and medical leave insurance program or conduct research to examine the efficacy of contracting with a third party to administer the program. The appropriation enables the establishment of eight permanent full-time positions (6.58 FTE) and 25 full-time limited duration positions (14.17 FTE), as well as associated Services and Supplies costs.

The initial planning team consists of 13 positions at OED to oversee development of the program rules and functions as specified in the bill. A director, executive support specialist, information systems project manager, business analyst, third party and other state solutions (research) analyst, actuary, budget analyst, and project lead architect are all assumed to be permanent positions, hired between October and December 2019. A second team of 20 positions (10.28 FTE) is anticipated to brought on in March 2020 and will begin tasks related to establishing ongoing operations and planning for the information technology solution. An initial implementation plan will be presented to the Legislature during the February 2020 session, and help to guide the evaluation of which division positions may be designated as permanent in the future. OED's ability to successfully plan, manage, and implement simultaneous IT projects will also be the subject of further reports to the Legislature.

HOUSING AND COMMUNITY SERVICES DEPARTMENT

Analyst: Deister

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	27,328,954	59,450,196	32,992,739	106,468,486
Lottery Funds	11,676,461	17,507,282	21,868,790	21,789,335
Other Funds	199,406,100	324,497,248	266,077,019	554,281,275
Other Funds (NL)	721,451,233	902,349,381	816,988,340	1,056,668,660
Federal Funds	118,193,644	122,817,211	127,694,100	126,659,025
Federal Funds (NL)	119,200,845	133,265,609	133,231,68	152,131,628
Total Funds	**1,197,257,245**	**1,559,886,927**	**1,398,852,616**	**2,017,998,409**
Positions	151	171	138	224
FTE	137.65	155.62	136.00	216.71

Overview

The Housing and Community Services Department (HCSD) provides financing and program support for the development and preservation of affordable housing to low -and very low-income Oregonians, and administers federal and state antipoverty, homeless, and energy assistance programs. The Oregon Housing Stability Council, a nine-member panel appointed by the Governor, advises the Governor, Legislature, HCSD, and local governments on affordable housing issues.

Revenue Sources and Relationships

The Housing and Community Services Department is supported by a variety of revenue sources. General Fund is a significant source of support for the agency's safety net and anti-poverty programs, and helps to fund administrative costs that cannot be borne by interest earnings or proceeds of bond sales. General Fund support is provided to the following safety net programs:

- Statewide Homeless Assistance Program – $12,007,455 for emergency shelter programs and associated services.
- Emergency Housing Assistance Program – $32,999,965 (of which $5 million is a one-time investment, not anticipated as part of the current service level in future biennia) for supportive services, emergency mortgage, rent, or utility payments to those who are homeless or at risk of becoming homeless.
- Housing Choice Landlord Guarantee Program – $310,920 for reimbursement of up to $5,000 for damages caused by renters receiving federal tenant-based assistance payments.
- Elderly Rental Assistance Program – $1,463,580 for payment assistance and homelessness prevention for low-income seniors.
- A one-time investment of $5 million for expansion of shelter capacity; and
- A one-time investment of $3 million for resources to help renters access available housing.

Multi-Family Housing development programs which receive General Fund include the Local Innovation and Fast Track (LIFT) Housing Program; $449,827 is included for underwriting, management, and ongoing monitoring of affordable housing projects constructed with Article XI-Q bonds. Database maintenance costs of $255,255 related to affordable housing preservation under HB 2002 (2017) are also funded with General Fund. A one-time General Fund investment of $5 million for the Greater Oregon Housing Accelerator pilot program continuation also is included in the Multi-Family Housing division of the Department.

Foreclosure counseling services will receive $1.5 million of General Fund support in the Department's Single-Family Housing section for 2019-21; this investment is not intended to be ongoing for the purpose of calculating current service level in future biennia. Similarly, $15 million in one-time General Fund was provided for various preservation and remediation efforts associated with manufactured housing.

Just over $900,000 General Fund partially supports position costs in the agency's Central Services and Bond and Debt Service divisions. General Fund also is used to pay debt service on bonds issued under article XI-Q of the Oregon constitution for affordable housing constructed under the Low-Income Fast Track (LIFT) housing program, and new Permanent Supportive Housing units which will be funded with bonds approved in 2019. Budgeted debt service payments on Article XI-Q bonds account for $28.6 million of HCSD's 2019-21 legislatively adopted General Fund appropriation, up from $9.1 million in 2017-19.

Lottery Funds in the amount of $21.8 million are provided for debt service payments on bonds issued in previous biennia for the following purposes:
- The Community Incentive Program, dating to 2001: $0.2 million
- The Housing PLUS program which provides low-income housing with on-site personal support: $2.1 million
- Housing for people with mental health and addiction issues: $4.6 million
- Debt service payments on a cumulative, multi-biennia total of $61.6 million in bonds to preserve affordable housing and manufactured home parks: $14.8 million

HCSD has numerous sources of Other Funds that include the following: proceeds from the sale of bonds ($550 million); mortgage and down payment assistance repayments ($322 million); Federal HUD contract administration fees for service ($6 million); Homeownership Stabilization Initiative fees for service ($3.9 million); loan, tax credit, and other fees for service ($20.1 million); the energy bill payment assistance charge ($40 million); a portion of the public purpose charge ($31.4 million); and special assessments on manufactured dwellings ($1.1 million). The passage of the document recording fee (HB 2436, 2009) adds an estimated $88.8 million, including $22 million expected to be dedicated to veterans' housing. Lottery bond proceeds are also part of the legislatively adopted budget and are budgeted as Other Funds; the 2019-21 legislatively approved budget includes bond proceeds that built on similar investments in previous biennia as follows: $25 million in bond proceeds for affordable housing preservation for 2019-21 biennium and $15 million for acquiring market rate (or "naturally occurring") affordable housing. The 2019 Legislatively Assembly also approved $150 million in XI-Q bonds for the LIFT program; cumulatively, the LIFT program now totals $270 million for affordable housing financing. The Legislature also approved the issuance of $50 million in XI-Q bonds to finance an expected 500 units of permanent supportive housing for chronically homeless Oregonians. The Permanent Supportive Housing program involves a cooperative effort with the Oregon Health Authority to provide funds for rental assistance payments (which will be transferred to HCSD) and supportive services.

In addition to the direct sources of Other Funds revenues, a portion of the General Fund appropriation is transferred to the Oregon Housing Fund and expended as Other Funds to support grants and loans for low-income housing, transitional housing services and/or emergency payments of rents, mortgages, or utilities, and longer-term construction or planning expenses related to the Greater Oregon Housing Accelerator pilot program and manufactured home and park improvements. General Fund for the Housing Choice Landlord Guarantee program is also transferred and expended as Other Funds.

Federal Funds are received primarily as formula grants for weatherization and anti-poverty programs. The 2019-21 legislatively adopted budget assumes Federal Funds revenues as follows:
- Community Services Block Grant: $11.5 million
- Homeless Assistance Grants: $3.8 million
- HOME tenant-based rental assistance: $2.6 million
- Low Income Energy Assistance Program: $75.6 million
- Federal weatherization funding: $9.1 million
- HOME funds for housing development from Housing and Urban Development: $15.8 million
- National Trust Fund for housing development: $6.4 million

- Section 8 rent subsidy (Federal Funds Nonlimited): $152 million
- HUD 811 Project Rental Assistance Program grant: $1.1 million
- Neighborhood Stabilization Program $0.8 million

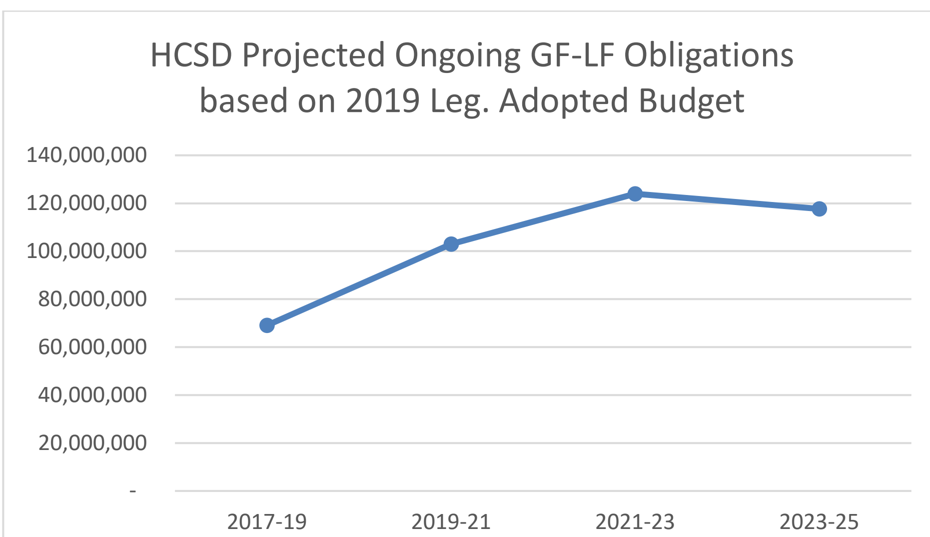
<u>Budget Environment</u>

Despite a strong Oregon economy, housing affordability in Oregon continues to be a significant issue. Builders have still not caught up with demand for additional units stemming from the recession and population increases. Historic investments in affordable housing have been made in the past two legislative sessions. The number of anticipated affordable multi-and single-family units created as a result of HCSD financed-investments in 2017-19 is estimated at 7,700 (not including purchase assistance for qualifying buyers), and the number of new units to be funded from 2019 legislative action is assumed to be in the neighborhood of 9,678. To put it into perspective, HCSD has $240 million in new debt-financed investment and $77.9 million in General Fund program/and operating resources for the 2019-21 biennium as a result of decisions made in the 2019 legislative session. This is an increase of 170% in bond-financed investments and 53% for General Fund program investments. More funding also means more applicants, more project reviews, and more ongoing compliance monitoring.

There are a number of challenges to HCSD being able to effectively deploy this additional funding in support of the agency's 5-year strategic plan. While new positions were approved to manage programs, evaluate impacts, and support the agency as a whole, the timely hiring of staff with adequate expertise in a tight labor market may be an issue. HCSD may hit its limitation for tax-exempt private activity bonds used to finance projects by the end of 2021, which could slow the production of additional housing units. Changes in interest rates may have an impact on the cost of borrowing for development partners, as will increases in construction costs. In addition, siting larger multi-family housing projects creates neighborhood concerns that can slow completion of projects.

While the Legislature has made these historic investments, local governments are also planning to deploy revenue from local bond approvals to increase the affordable housing supply. Metro approved a $653 million housing bond and the City of Portland approved a local housing bond of $258 million. Developers working on projects associated with this funding may seek low-income housing tax credits from HCSD to stretch local funding awards.

It may be unrealistic to expect similar levels of General Fund program investment and bond-financed projects in future biennia. Projected General Fund Debt Service and Lottery Funds Debt Service costs for 2019-21 are expected to climb by 215% and 36%, respectively, from 2017-19 levels and further escalate in 2021-23 when all the bonds are fully issued.



HCSD is seeing a gradual expansion of programs and responsibilities after efforts were made in 2015 to streamline its programs, procedures, and administrative processes in an effort to focus activities on those things providing the greatest return on investment. The Department's primary focus has traditionally been the financing of affordable housing and the deployment of longstanding program funding to local partners to alleviate poverty. New programs such as the Greater Oregon Housing Accelerator, regional housing needs analysis and data sharing responsibilities, manufactured park loan program, and new collaborations to pilot the use of additional TANF funds for housing and homelessness prevention for families with children represent forays into non-traditional areas of policy and program administration.

Legislatively Adopted Budget

For the 2019-21 biennium, the Legislature again increased its investment in affordable housing to historic levels in an effort to address the need for affordable housing. The 2019-21 legislatively adopted budget for HCSD is $2,017,998,409, a 46.5% increase from the 2017-19 legislatively approved budget.

New investments and ongoing programs will result in an estimated 6,492 units of affordable housing, preserve approximately 1326 existing units – including manufactured homes – as affordable, assist 138,449 Oregonians who are homeless or at risk of becoming homeless, and provide homeownership opportunities for an estimated 3,186 median-to-low income Oregonians.

The legislatively adopted budget contains standard rate adjustments related to state government service charges and employee costs common to all state agencies in addition to the adjustments detailed in the following sections.

Housing Stabilization

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	21,227,856	47,922,481	12,794,151	54,781,920
Lottery Funds	--	350,000	--	--
Other Funds	88,540,662	104,011,751	84,481,327	104,793,054
Federal Funds	97,364,004	98,803,016	102,696,148	101,688,985
Federal Funds (NL)	119,200,845	133,265,609	133,231,628	152,131,628
Total Funds	**326,333,367**	**384,352,857**	**333,203,254**	**413,395,587**
Positions	29	31	32	47
FTE	28.25	29.50	30.50	45.67

Program Description

The Housing Stabilization division of HCSD provides services to very low-income Oregonians to help meet short-term, daily needs of vulnerable populations. The types of assistance provided include the following:

- Rental Assistance – Includes subsidizing housing costs and, in some cases, developing a self-sufficiency plan to assist individuals with other support, counseling, and training to avoid on-going reliance on assistance. The Housing Choice Landlord Guarantee program provides for payments to landlords in the event that their property is damaged, and federal rent subsidy payments are also included in this category.
- Homeless Assistance – Targets homeless individuals, or those at risk of becoming homeless, to provide emergency shelter, street outreach, transitional housing, and prevention activities such as emergency assistance payments, and some counseling/casework services. HCSD receives both General Fund and Federal Funds, as well as a share of Oregon's Document Recording Fee, for homeless programs. HUD funds the Emergency Solutions Grant Program. The majority of Federal Funds for homelessness assistance in Oregon are provided directly to Continuum of Care providers and are directed to not-for-profits for housing, mental health, and other services to holistically address homelessness in rural counties.

- Community Services Block Grant (CSBG) – Funded by the federal Department of Health and Human Services, CSBGs serves all 36 Oregon counties, and provides the foundation funding for community-based organizations that coordinate and administer a variety of services to assist low-income Oregonians.
- Individual Development Accounts (IDA) – Assists low-income individuals who enroll in personal development plans to obtain appropriate financial counseling, career or business planning, and other services. IDAs can be used for a variety of purposes that help account holders achieve financial stability, including post-secondary education, job training, housing, transportation, or to capitalize or expand a small business.
- Energy Assistance programs – State and federal funding for utility bill payment assistance include the Oregon Energy Assistance Program (funded through a meter charge on customers of investor-owned electrical utilities) and the Low-Income Home Energy Assistance Program (Federal Funds). Weatherization services receive funding from the U.S. Department of Energy, the Bonneville Power Administration, public purpose charges to rate payers of investor-owned utilities (for the Energy Conservation Helping Oregonians program), and Federal Funds associated with the Low-Income Heating Assistance Program for weatherization services.
- The agency also monitors the condition, management, and tenant eligibility of housing projects that have received funding, and serves as the Performance Based Contract Administrator for project-based, federal Housing and Urban Development funded Section 8 housing, providing inspection and monitoring to ensure these projects meet federal affordability requirements. Federal Rent subsidy payments are budgeted as Federal Funds Nonlimited.

Legislatively Adopted Budget

2019-21 General Fund support for various housing stabilization programs consists of a mix of permanent and one-time investments, as shown in the following table:

Program Name	Ongoing/Base Funding	One-time Investment	Total 2019-21 Leg. Adopted
Emergency Housing Assistance (EHA)	27,999,965	5,000,000	32,999,965
State Homeless Assistance Program (SHAP)	12,007,455	-	12,007,455
Elderly Rental Assistance	1,463,580	-	1,463,580
Housing Choice Landlord Guarantee	310,920	-	310,920
Rental Market Resources (HB 2006)	-	3,000,000	3,000,000
Shelter Expansion and Capacity	-	5,000,000	5,000,000

The 2019-21 budget includes funding and direction that, for purposes of calculating ongoing costs in future biennia, funding amounts for EHA and SHAP were to be set at $28 million and $12 million, respectively. In addition to these amounts, another $5 million in one-time funding was provided for EHA. Two associated positions were also approved to ensure accountability and data driven decisions associated with the ongoing level of additional funds, and will be funded with administrative allowances on the General Fund approved for the programs.

The passage of House Bill 2006 resulted in a $3 million General Fund appropriation to HCSD for the 2019-21 biennium for grants to support or develop programs that help people to obtain and retain housing. Examples include tenant education programs, technology solutions that help low-income people find housing, and fair housing training for tenants and landlords. One limited duration position was approved to support this effort. The bill also appropriated $3 million to the Department of Justice for assistance to victims of domestic violence and sexual assault who have housing needs.

The agency's budget includes 2019-21 support of $5 million for projects and program administration to strengthen and support shelter capacity in high need areas. HCSD will use results from its Statewide Shelter Survey to guide funding awards. One additional limited duration position was approved to support this effort.

Other Funds expenditure limitation was increased by $1.6 million to support seven additional permanent positions and add months to an existing position to enable the agency to better deliver services, work with stakeholders, and monitor outcomes related to its housing stabilization programs. Further Other Funds expenditure limitation was approved to support a policy analyst position that will divide time between identifying weatherization recipients with elevated health risks and matching appropriate funding for remediation, and designing and managing a program to replace aging, unsafe, or inefficient manufactured housing.

Two new programs were approved that resulted in additional Other Funds expenditure limitation and position authority for the Housing stabilization program. HB 5050, the omnibus 2019 budget reconciliation bill, contained these changes. The first new program was rental assistance payment and administration, totaling $2.9 million transferred from the Oregon Health Authority and associated with an estimated 200 units of permanent supportive housing expected to be completed by the end of the biennium, targeted toward populations that experience chronic homelessness; two additional positions are associated with administering the rental assistance payments on an ongoing basis. The second new program approved as part of HB 5050 is a pilot program that utilizes $15.5 million in Temporary Assistance for Needy Families (TANF) dollars transferred from the Department of Human Services. The program is intended to allow for coalitions of service providers to provide extended financial supports to families with children who are at risk of becoming homeless. One position and Other Funds expenditure limitation was approved in HB 5050 for HCSD's management of this effort, while the policy was outlined in HB 2032.

Multifamily Rental Housing Programs

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	169,351	1,048,109	923,598	5,652,873
Lottery Funds	--	760,000	--	--
Other Funds	48,821,505	110,012,924	150,822,922	201,380,116
Other Funds (NL)	340,809	1,850,000	1,350,000	1,350,000
Federal Funds	12,458,110	20,644,455	21,406,327	21,402,790
Total Funds	**61,789,775**	**134,315,488**	**174,502,847**	**229,785,779**
Positions	40	53	48	70
FTE	39.17	44.93	47.50	68.41

In 2017-19, Lottery Funds were used to develop a veterans' housing project – Ash Creek Terrace.

Program Description

HCSD assists in making available housing options for low-income and fragile Oregonians. The agency promotes affordable housing development and rehabilitation of existing rental housing through the issuance of tax-exempt bonds, provision of conduit financing and loan programs, and administration of three housing tax credit programs. Several of the grants and tax credits are allocated through the semi-annual, competitive Notice of Funding Availability. These resources are one piece of an often-complex financing plan used by affordable housing developers, often in conjunction with other resources which may include federal grants, foundation monies, loans, and private-sector investment.

Also included here is the manufactured communities resource center, which promotes cooperative relationships and alternatives to court action among owners and tenants. The program is funded through an annual assessment on manufactured homes and park registration fees.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget is a 71.1% total funds increase from the 2017-19 legislatively approved budget.

General Fund in the amount of $5 million was allocated to fund the continuation through 2019-21 of a pilot program begun in the 2017-19 biennium. The Greater Oregon Rural Housing Accelerator will fund an estimated dozen "collaborative partnerships" between employers, developers, and local government in small towns and rural communities. The program is focused on awarding funds to develop housing, further technical assistance and pre-development work in communities that are not prepared to meet their demonstrated workforce housing needs, and prioritizing projects involving an employer or developer willing to invest in workforce housing. Examples of eligible investments may include down payment assistance, land acquisition funding, technical assistance funding, and investments in housing developments. One limited duration position is included to oversee project selection and investment, and $4.7 million will be spent as Other Funds to ensure that projects with a completion horizon exceeding June 30, 2021 are not disrupted.

Other Funds expenditure limitation was increased to accommodate additional expenditures as follows:

- $25 million in one-time Other Funds expenditure limitation was associated with the approval of $25 million in lottery bond proceeds for preservation of affordable housing that is at risk of converting to market rate rents due to expiring affordability contracts or pending sale to new owners.
- $15 million in one-time Other Funds expenditure limitation is associated with lottery bond proceeds related to the acquisition of market-rate "naturally occurring" affordable housing, which will be rehabbed as needed and conferred with future affordability restrictions.
- Expanding the Lift Program (a further $150 million in Article XI-Q bonds was approved by the 2019 Legislative Assembly) will drive the need for two additional positions (1.50 FTE) to evaluate funding applications and monitor awards. These position costs total $345,594 and will be paid with application and project fees.
- $2.4 million and 11.50 FTE were included to better deliver services, work with stakeholders, and enhance accountability. The additional staffing needs are driven by the increase in program funding approved since 2017. Additional program funding means more applications that need to be evaluated, more awards and grant agreements, and more project approvals that require ongoing compliance monitoring.
- $1.5 million for Attorney general expenses that are increasing due to an increase in the number of multifamily housing transactions requiring legal review;
- $1.2 million and 6.16 FTE in response to new federal inspection requirements for low income multi-family units. These positions are supported by fees assessed on property owners when developments receive financing.
- Ongoing multi-family housing finance programs will comprise the following amounts of Other Fund expenditure limitation in 2019-21:
  - $86.2 million – General Housing Assistance Program financing (comprised primarily of document recording fee revenue)
  - $19.2 million – Housing Development Grant Program (comprised of Public Purpose Charge revenue)
  - $1.1 million – Manufactured Communities Resource Center program (funded by assessments on manufactured homes and park registration fees)
  - $13.9 million – tax credit and miscellaneous program awards (funded by program fees, loan repayments, and interest earnings)
  - Carry-over from lottery bond proceeds issued in previous biennia but not yet fully expended.

The majority of Federal Funds expenditure limitation in the Multi-Family Rental Housing Program division is comprised of $15.1 million from the federal Housing and Urban Development agency for the HOME investment Partnership Program, which provides a federal source of funding for low-income housing development. In addition, $6.3 million of Federal Funds expenditure limitation is attributable to the National Housing Trust Fund program as a source of funding affordable housing preservation and rehabilitation. The balance of Federal Funds expenditure limitation is associated with Section 811 Project-based rental assistance.

Expenditure limitation and position authority is also included to accommodate the passage of SB 586 (2019). The bill made mediation in manufactured home parks between owners and tenants mandatory, increased registration fees, and added marinas to agency oversight in the 2021-23 biennium. One position (0.75 FTE) and expenditure limitation was added for oversight of these new provisions.

Single Family Housing

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	2,905,351	1,300,000	--	16,500,000
Other Funds	3,832,221	8,674,717	13,100,666	18,980,559
Federal Funds	376,623	721,901	749,110	749,032
Total Funds	**7,114,195**	**10,696,618**	**13,849,776**	**36,229,591**
Positions	4	8	8	12
FTE	4.00	6.96	8.00	11.50

Program Description

HCSD promotes homeownership by supporting below-market-rate loans financed through the sale of tax-exempt mortgage revenue bonds, providing down-payment and closing cost assistance, and funding home ownership education. Also included are counseling services to prospective homebuyers and homeowners, including those facing foreclosure.

Legislatively Approved Budget

The 2019-21 legislatively adopted budget for single family housing programs is a 238.7% increase 2017-19 legislatively approved budget.

General Fund supports investments not assumed to be ongoing in future biennia, comprised of $1.5 million for homeownership counseling services. HCSD will administer these funds pursuant to eligibility and payment rules established by the Homeownership Assistance Program and the Oregon Foreclosure Avoidance Program, created in response to high rates of foreclosure experienced during and following the most recent recession. Likewise, a one-time General Fund investment for 2019-21 of $15 million was appropriated for manufactured park related investments due to the passage of HB 2896. The legislation specifies that $9.5 million will be used to seed a loan program for park preservation and affordability; $2.5 million will allow for manufactured dwelling replacement, decommissioning, and expenses of an advisory committee; and $3 million will be utilized for infrastructure development at a manufactured dwelling park in Springfield, Oregon.

Of the $19 million in Other Funds expenditures, $12.2 million is attributable to document recording fee-financed down payment assistance to low -and very low-income families and individuals, as well as support for housing centers, counseling, and veteran home rehab and repair. Another $5.5 million represents a transfer of a portion of funds resulting from the passage of HB 2896, which will be spent as Other Funds.

The budget provides Other Funds expenditure limitation for a limited duration manager of this division (previously, it was managed by the same team responsible for the Multi-Family Rental Housing division; the need for permanency will be reevaluated). Other Funds expenditure limitation is also included for 1.00 FTE in this division to underwrite loans for a new down payment lending assistance product created by the Department. For the new lending product, HCSD will originate mortgages that can offer home buyers a prospective down payment between zero and five percent; in exchange, the homebuyer will pay a slightly higher interest rate. The down payment assistance amount will be provided as a zero percent interest loan, due on sale of the home and payable to HCSD. The program will leverage private sector capital, created through pools of securities backed by the mortgage loans. Financial market investors will pay a premium for the federally guaranteed loans and an expected favorable rate of return, which in turn covers program administration and the source of the down payment assistance. Financial oversight of this program consists of another position that is budgeted in the Central Services Division of the agency.

Homeownership Stabilization Initiative

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	2,855,768	4,072,991	--	3,885,174
Total Funds	**2,855,768**	**4,072,991**	**--**	**3,885,174**
Positions	27	25	--	20
FTE	16.17	21.43	--	17.25

Program Description

The Homeownership Stabilization Program is a program that was set up to administer an initial disbursement of $220 million in federal Troubled Asset Relief Program dollars. This was followed by a further allocation in 2015 of $95.4 million. The funding is required to be fully expended by December 2021.

Oregon was one of 18 states to receive “Hardest Hit” funding due to high unemployment and home foreclosure rates experienced during the economic recession. The program has provided, to qualified applicants, temporary mortgage payment assistance, loan refinancing assistance for borrowers who owe more in mortgage loan than the market value of their home, and help with fees and charges amassed through late payments. HCSD administers the Hardest Hit funds under contract with the Oregon Affordable Housing Assistance Corporation, a not-for-profit corporation formed at the direction of the U.S. Treasury. Only costs associated with this contract are included in HCSD’s budget, and are classified as Other Funds expenditure limitation. The Oregon Affordable Housing Assistance Corporation administers direct assistance payments to homeowners and these payments do not show up in HCSD’s Budget. As of the first calendar quarter of 2019, the program had provided $264 million in direct assistance to 33,550 Oregon applicants.

Legislatively Approved Budget

Oregon had expended nearly all of the $220 million initially allocated for this program in 2015, when it was announced in late 2015 that Congress had committed additional funding to the program and Oregon would receive another $95.4 million. This announcement required HCSD to ramp the program back up. The 2019-21 legislatively adopted budget authorizes Other Funds expenditure limitation of $3.9 million, along with 20 limited duration positions (17.25 FTE). Funding is required to be fully expended by December 2021.

Central Services

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	3,026,396	625,920	470,939	895,515
Lottery Funds	--	390,000	--	--
Other Funds	12,987,250	11,799,107	13,103,667	17,687,050
Federal Funds	7,994,907	2,647,839	2,842,515	2,818,218
Total Funds	**24,008,553**	**15,462,866**	**16,417,121**	**21,400,783**
Positions	45	48	44	68
FTE	44.06	46.80	44.00	67.38

Program Description

The Central Services program includes the administrative functions of the department, and contains four separate divisions:

- Director’s Office – Provides leadership and policy direction for the Department and includes the Director and the executive assistant to the director. Also included is the Housing Stability Council, consisting of nine members who are appointed by the Governor and confirmed by the Senate to develop policies and provide guidance on proposed projects to stimulate and increase the supply of affordable housing.

- Public Affairs Division – includes the Assistant Director of Public Affairs, Government Relations and Communications, policy staff, and Housing Integrators.
- Chief Financial Office – Comprises several administrative support sections. Budget development and implementation, accounting, contract and grant awards, compliance and monitoring, and research analysis are among the activities performed by this unit.
- Chief Operating Office – Facilities management, information services, and human resources services are also included in this division.

Other Funds and Federal Funds are derived from each program contributing a share pursuant to a federally approved cost allocation plan.

Legislatively Adopted Budget

The 2019-21 Legislatively Adopted budget for Central Services includes significant additional staffing resources. The approved positions support the agency as a whole (as opposed to program-specific oversight), providing centralized functions in response to growth of programmatic resources since the 2013-15 biennium. While the agency had received some additional program staff in previous biennia to administer programmatic funds, it had not received commensurate central services/support positions. A couple of position reclassifications were approved and nineteen permanent and two limited duration positions (20.50 FTE) were added in 2019-21 that fall into the category of "catch up," supported by Other Funds. Functions that were augmented include executive and administrative support, an internal auditor, procurement and contracts professionals, human resource specialists, information systems, public and legislative affairs support, a facilities specialist, information systems support, policy and program support related to financial services, and research capabilities.

A Fiscal Analyst 3 position associated with the launching and sustaining the new down payment assistance lending product described above was approved and will be funded through the new program's loan origination proceeds.

Legislation that passed in 2019 also contributed to increases in position authority. HB 2003's directive to develop a methodology for a regional housing needs analysis which includes estimates of housing necessary to accommodate growth in cities and regions throughout the state resulted in $655,274 General fund being appropriated to HCSD to fund a permanent Economist 3 position and a limited duration management position for assistance in conducting and managing the necessary research efforts, as well as for Services and Supplies to design or procure needed software and analytic services. Manufactured home initiatives that will be undertaken due to the passage of HB 2896 require an additional financial accounting position to service loans over the life of the loan terms ($123,771 Other Funds and 0.50 FTE).

Bond Activities and Debt Service

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	--	9,006,521	18,804,051	28,585,969
Lottery Funds	11,676,461	16,007,282	21,868,790	21,789,335
Other Funds	2,368,702	5,925,758	4,568,437	7,647,567
Other Funds (NL)	721,110,424	729,999,381	815,638,340	1,055,318,660
Total Funds	**290,974,053**	**760,998,942**	**860,879,618**	**1,113,341,531**
Positions	6	6	6	7
FTE	6.00	6.00	6.00	6.50

Program Description

The Bond Activities and Debt Service program combines reporting for "Bond-Related Activities" and "Bond Debt Service" that were budgeted separately in the 2015-17 biennium. Costs captured here are those related to staffing, bond counsel, debt service, refinancing, and cost of issuance associated with issuing and monitoring bond sales payments over time.

HCSD sells tax-exempt bonds to investors and uses the proceeds to finance multifamily and residential (single family) mortgage loans. Investors accept lower interest yields because the interest earned is generally exempt from income tax; the result is lower borrowing costs, which are passed on to borrowers in the form of below-market interest rates on their loans. Because of their tax-exempt status, the bonds are subject to certain federal requirements: for multi-family housing projects, a certain number of units must be affordable to people with incomes within a specific range; and single-family loans must be for owner-occupied homes with purchase price limitations for low-to-median income first-time home buyers. Bonds issued for projects take one of two approaches: issuance of direct revenue bonds (for single family loans and some multifamily projects which remain within the agency's multifamily loan portfolio); and pass-through (or "conduit") revenue bonds, which simply provide borrowers with access to lower financing rates. The latter are sold as private placements to large commercial banks, which underwrite the projects and negotiate specific transaction terms with the borrower, and depend on commercial bank capacity and willingness to participate as lenders.

Expenditures related to the program include disbursement of bond proceeds for loans, mortgages, and down payment assistance; bond issuance costs for sales fees and bond re-marketing; administrative expenses including fees attributable to underwriting, attorneys, financial advisors, trustees, state treasury assessments, and liquidity necessary to assure compliance with tax code requirements and bond covenants throughout the outstanding life of the bonds; and asset protection expenses, including insurance and maintenance.

Legislatively Adopted Budget

The 2019-21 Legislature approved record levels of debt issuance to fund affordable housing for low-income Oregonians. As in 2017-19, $25 million in Lottery Bonds will be issued for preservation of affordable housing. 2019-21 approved issuances of XI-Q bonds for the LIFT program dwarfed previous biennia, totaling $150 million. A new program was authorized with XI-Q bonds to construct permanent supportive housing for populations that traditionally experience chronic homelessness; services and rental assistance payments will be paid with funds transferred from the Oregon Health Authority. Lottery bonds will also be issued for the purchase of market-rate "naturally occurring affordable housing" which will be rehabilitated as necessary and given affordability restrictions.

At the same time, debt service for previous issuances is accumulating. Lottery Funds and General Fund in this division are related to debt service for the following projects/amounts:

Project/Year Authorized	Approved Issuance	Debt Service
Preservation – Previous biennia	$61.6 million	$14.8 million (LF)
Preservation 2019-21	$25.0 million	$0 in 2019-21
"Naturally Occurring" Affordable Housing	$15 million	$0 in 2019-21
Mental Health Housing 2015-17	$20.0 million	$4.7 million (LF)
Community Incentive Fund 2001-03	$22.8 million	$0.2 million (LF)
Housing PLUS 2007-09	$15.8 million	$2.1 million (LF)
LIFT 2015-17	$40.0 million	$17.2 million (GF)
LIFT 2017-19	$80.0 million	$3.4 million (GF)
Permanent Supportive Housing	$50 million	$4.9 million GF
Total		$21.8 million LF $25.5 million GF

Other Funds Nonlimited expenditures are largely related to loan purchases, debt service, and other expenses required to issue and manage the Department's outstanding debt.

Capital Construction

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	40,000,000	80,000,000	--	200,000,000
Total Funds	**40,000,000**	**80,000,000**	**--**	**200,000,000**

Legislatively Adopted Budget

This program provides expenditure limitation for a period of six years (expires June 30, 2025) for the construction of affordable housing that is financed with proceeds of bonds issued under the authority of Article XI-Q of the Constitution. The housing to be developed with the bonds will be targeted to low income individuals and families. A state ownership interest in the affordable housing that is developed with Article XI-Q bonds must be maintained, which HCSD will meet through maintaining a first position in the loan agreement, appointing property managers, setting rents, and establishing requirements related to leases, use of reserves, and terms of loan satisfaction.

The estimated financed cost per unit for the LIFT-financed projects continues to rise. Back in 2015, HCSD estimated that 965 units could be financed with $40 million in bond proceeds (for an estimated per unit amount of $41,451). The number of units from $80 million in bonds approved for 2017 was 1,406 (driving a per unit average of $56,899). For the $150 million in 2019 approved XI-Q bond proceeds, HCSD estimates being able to produce approximately 2,168 units; put another way, an 87% increase in funding is estimated to produce 44.5% more units, compared to the 2017-19 biennium.

The Legislature approved the use of Article XI-Q bonds for new "permanent supportive housing." Permanent supportive housing provides service-enriched housing affordable at extremely low incomes to serve very vulnerable populations. In this case, $50 million in bonds is authorized to help finance an estimated 500 units in total, targeted at those who are already homeless or most likely to become homeless (e.g. adults coming out of incarceration, those with severe or persistent mental health or addiction issues, transition-aged youth in the justice or foster care systems, etc.). Two hundred units are targeted for completion by the end of the 2019-21 biennium. The bonds will be used to finance construction of the units, whereas the services will be funded from budgeted dollars at the Oregon Health Authority. Rental assistance payments will be administered by the Housing and Community Services Department (see related discussion under Housing Stabilization, above), and funding for rental assistance will be transferred from Oregon Health Authority and spent at HCSD as Other Funds. The Oregon Health Authority estimates that commitments for supportive services to 500 units of completed housing in 2021-23 will total $8 million, while rental assistance costs will be $10 million in that biennium.

DEPARTMENT OF VETERANS' AFFAIRS

Analyst: Beitel

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	12,954,681	8,568,114	10,275,406	8,352,877
Lottery Funds	--	15,400,349	14,779,342	20,559,847
Other Funds	79,801,323	116,893,607	103,405,833	108,523,336
Other Funds (NL)	235,863,557	447,546,159	408,779,089	408,779,089
Federal Funds	3,403,376	7,347,138	1,000,000	1,525,000
Total Funds	**$332,022,937**	**$595,755,367**	**$538,239,670**	**$547,740,149**
Positions	88	100	97	105
FTE	87.55	97.13	96.71	104.47

Overview

The mission of the Oregon Department of Veteran's Affairs (ODVA) is to serve and honor veterans through leadership, advocacy, and strong partnerships. ODVA has three primary program areas supported by the agency's core operations: the Veterans' Loan Program, the Veterans' Services Program, and Aging Veteran Services, which includes the two Veterans' Homes. The Veterans' Loan Program, funded entirely with Other Funds, provides home loans to qualified veterans. Loan origination and servicing functions, as well as the agency's administration costs, are included in the Loan Program budget. The Veterans' Services Program provides claims and appeals assistance and partnerships with counties and national veterans' service organizations to assist veterans. The Veterans' Services Program is primarily funded through a combination of General Fund and Lottery Funds. Aging Veteran Services provides oversight of the two skilled-nursing and memory care facilities in The Dalles and Lebanon, expertise in aging veterans' benefits and services, and conservatorship and representative payee services. General Fund, Lottery Funds, and Other Funds generated from conservatorship fees support Aging Veteran Services. The operational costs of the facilities are funded with Other Funds from resident-related income.

Revenue Sources and Relationships

Other Funds revenues for the Veterans' Loan Program are derived from the proceeds of general obligation bond sales and refundings ($245 million), veteran loan and contract-related repayments ($95 million), and interest earnings ($53 million). The balance of revenue comes from service charges, rent, licenses, fees, and miscellaneous revenues totaling approximately $4.3 million. Available revenues and reserves are expected to be sufficient to cover operations and debt service. The Home Loan Program's administrative costs are Other Funds Limited in the budget, while direct loan activity expenditures (i.e., loans made to veterans, pass-through payments made on behalf of borrowers, and debt service on general obligation bonds issued to finance the program) are Nonlimited.

The Veterans' Services Program has historically been funded with General Fund and Other Funds primarily generated from conservatorship fees. Beginning in the 2017-19 biennium, the Veterans' Services Program funding also includes Lottery Funds available through the passage of Measure 96, which dedicated 1.5% of state lottery net proceeds towards veterans' services. Total lottery revenue dedicated to veterans' services is projected to be $21.9 million for the 2019-21 biennium, based on the Office of Economic Analysis' May 2019 revenue forecast, with an additional $4.9 million beginning balance in the Veterans' Services Fund, for total 2019-21 lottery resources of $26.8 million. Lottery revenues of $20.6 million will be allocated to the Department for the Lottery Funds expenditure limitation included in the Department's budget and an additional $3.3 million allocated for veterans' programs and services in other agencies, with an estimated ending balance of $3 million being retained in the constitutionally dedicated Veterans' Services Fund. Collectively, General Fund and Lottery Funds support ODVA's statewide veteran services, including Veteran Service Officer positions, a small emergency assistance program, and service delivery partnership programs, where funding is passed through as special payments to counties and national service organizations. General Fund and Lottery Funds also support aging veteran services, including conservatorship and representative services; the veteran volunteer program; and outreach to aging veterans which have historically been part of the Veterans' Services Program, but were established as a separate program area in the 2019-21 budget. Lottery Funds directly support a veterans' crisis support and suicide prevention telephone hotline, tribal veteran representative programs and partnerships, veterans' services grant fund, veterans' health care transportation grants, and grants to public universities and community colleges for campus veteran resource centers. In addition to General Fund and Lottery Funds support, the Conservatorship program receives Other Funds revenue from fees charged to manage the finances of conservatorship clients (7.0% of the protected person's income). Conservatorship fee income in the 2019-21 biennium is estimated to total approximately $900,000.

The Oregon Veterans' Home Program operational costs are financed entirely with Other Funds. Revenues are primarily moneys received from the residents of the facilities, Medicare and Medicaid payments, and a per diem amount received directly from the U.S. Department of Veterans Affairs (VA). Veterans who reside in the Homes receive benefits not available to them if they reside elsewhere. Many veterans receive aid and attendant benefits along with disability compensation or income-based VA pensions, which, combined with their social security benefits, provides the revenue with which to pay for their care in the Homes. Home Program charges for services are estimated to total $96.1 million in the 2019-21 biennium. The total amount of revenue is based, in part, on occupancy projections from the Homes' contractor. Other Funds revenue is also received from the sale of veterans' license plates and the Charitable Check Off program. ODVA projects a 2019-21 beginning balance of $24.1 million in the Veterans' Home Program. Cash reserves will be used during the biennium for working capital, capital improvements, and contingencies.

Budget Environment

An estimated 303,689 veterans live in Oregon who have served over the following five eras: World War II (3.7%), Korea (7.2%), Vietnam (37.5%), Gulf/Post 9-11 (28.8%), and during times of peace (22.8%). ODVA continues to focus on serving more veterans and reaching the seven out of ten veterans who are not accessing their federal benefits for education, health care, disability, or retirement, including special advocacy for women, LGBTQ, incarcerated, student, and tribal veterans. Additionally, over 50% of veterans are 65 or older, placing an emphasis on the need for aging veteran services.

The Veterans' Home Loan program is funded through the issuance of tax-exempt Qualified Veteran Mortgage Bonds (QVMBs). Oregon is one of five states, including Alaska, California, Texas, and Wisconsin, that are grandfathered under federal tax law to offer a state veteran home loan program. Federal law limits the use of QVMBs, requiring that borrowers must apply for a loan within 25 years of discharge from military service and that proceeds may not be used to refinance homes. In 2010, Oregon voters passed Measure 70, making the Home Loan Program a state lifetime benefit for veterans. Loans for this eligible group must be funded from reserves or older bond proceeds. While more veterans are eligible, and the product to serve them is restricted, reserves from the loan program have been used in prior biennia to subsidize costs of the veterans' services and administrative functions of the Department. In response to a General Fund shortfall in the 1991-93 biennium, Veterans' Home Loan Program revenues were used to supplement veterans' services funding. This practice was a contributing factor to losses and a decrease in the overall net position of the Home Loan Program. A portion of the subsidy was eliminated in the 2013-15 biennium when the cost of Veteran Service Officer positions performing non-loan program work was shifted back to General Fund. The remaining direct veterans' services and administration costs being supported by home loan revenues were shifted to Lottery Funds in the 2017-19 budget to help strengthen, stabilize, and sustain the Home Loan Program for future generations of veterans.

The 2008 recession and housing crisis, low conventional mortgage rates, and the inability to refinance significantly decreased ODVA's home loan originations, reducing the outstanding portfolio to a low of $197.3 million at June 30, 2013. However, as the economy has recovered, the demand for veteran home loans has increased. Loan originations in fiscal year 2018 totaled $76.9 million and represent a 38.6% increase over the average annual loan volume of $55.5 million between 2013 and 2017. However, this growth continues to be limited by low housing inventory and rising prices. ODVA also continues to focus on increasing lending partners, including mortgage bankers and brokers that provide the Department's loan supply. As of June 30, 2018, the loan portfolio was approximately 1,877 loans totaling $331.7 million.

The Dalles Veterans' Home was built in 1997 and the Lebanon Veterans' Home was opened in 2014. Expenditures for the Oregon Veterans' Homes relate to the cost of providing skilled-nursing and memory-related care, with personnel comprising approximately 70% of total operating costs. Operation of the facilities is contracted out to a health care service provider. Obtaining and maintaining a high occupancy rate is important to each facility's financial condition. Retaining affordability continues to be a challenge as medical costs increase at a rate faster than the federal VA pension and Social Security income of most residents. As the facilities age, maintenance and capital improvements are necessary and the Department leverages available U.S. Department of Veterans Affairs grants for renovations and upgrades.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget for the Department of Veterans' Affairs is $547.7 million total funds and 105 positions (104.47 FTE), which is an 8.1% decrease from the 2017-19 legislatively approved budget. Other Funds Nonlimited of $408.8 million for the Veterans' Loan program bond-related activities, debt service, and loans to borrowers make up 74.6% of the total budget. Excluding Nonlimited funds, the 2019-21 legislatively adopted budget is a 6.2% decrease from the 2017-19 legislatively approved budget. The decrease is primarily attributable to reductions in Other and Federal Funds limitation to phase-out capital construction projects approved in the 2017-19 biennium. Lottery Funds expenditure limitation of $20.6 million, available through the passage of Measure 96, is included in the budget and represents a 33.5% increase over the prior biennium. The budget also includes $8.4 million of General Fund, which consists of $8 million for veterans' services and $378,020 for debt service on outstanding bonds.

Loan Program

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	12,160,347	16,626,806	16,297,237	17,268,255
Other Funds (NL)	235,863,557	447,546,159	408,779,089	408,779,089
Total Funds	**$248,023,904**	**$464,172,965**	**$425,076,326**	**$426,047,344**
Positions	51	46	46	47
FTE	50.89	46.00	45.79	46.79

Program Description

The Veterans' Home Loan Program was created in 1945 to provide a benefit to World War II veterans returning home. The Loan Program provides qualified veterans low-interest rate mortgages on single-family owner-occupied homes through the issuance of general obligation bonds authorized under Article XI-A of the Oregon Constitution. Since the Loan Program's inception, the Department has made over 336,000 home and farm loans with a principal amount of over $8 billion. The program budget consists of:

- Director's Office – policy, public information, and communications.
- Veterans' Home Loan Services – functions dealing with the loan program, including originating and servicing loans.
- Financial Services – overall financial oversight of the Department, including budgeting, accounting, cashiering, and financial management.
- Support Services – human resource services, information services, and facility services.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $426 million Other Funds is an 8.2% decrease from the 2017-19 legislatively approved budget. Other Funds Nonlimited of $408.8 million for loans to veterans ($180 million), expenditures related to making loans and issuing bonds ($13 million), and debt service ($215.8 million) make up 95.9% of the program budget and represents an 8.6% decrease from the 2017-19 legislatively approved budget. The decrease is primarily attributable to limitation that was administratively added after development of the 2019-21 current service level budget to accommodate increased veterans' home loan originations in the 2017-19 biennium. Limited Other Funds of $17.3 million for loan services and ODVA operations is a 3.9% increase from the 2017-19 legislatively approved budget. The following Other Funds increases were approved:

- $500,000 on a one-time basis to continue the refresh of the Department of Veterans' Affairs' office building and complete renovation of the second floor, including replacing the carpet and painting the walls. Additional funding for this project is also included in the Veterans' Services and Aging Veteran Services programs for total 2019-21 renovation costs of $975,000.
- $250,000 on a one-time basis to purchase and install a home loan system that combines loan origination and servicing functions into one application, creating efficiencies and reducing errors. ODVA also requested and received approval for this project in the 2017-19 legislatively approved budget; however, a determination was made that further development of the business requirements was required prior to implementation.
- $227,517 and one position (1.00 FTE) to increase the number of home loans, including those in underserved markets. A Business Development Representative position is established to identify new contractual lending partners, including mortgage brokers and lenders, enhance business relationships with existing clients, and provide training and education to lenders and real estate professionals.
- $120,000 for agency-wide technology investments that will enable the Department to accommodate enterprise information security policy changes, expand network capability, consolidate database solutions, and modernize application support and services. Additional funding for this investment is also included in the Aging Veteran Services program.

Veterans' Services Program

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	10,335,744	7,550,791	7,469,372	7,424,337
Lottery Funds	--	15,400,349	12,488,911	17,358,524
Other Funds	969,206	107,623	--	4,164,332
Federal Funds	100,485	1,000,000	1,000,000	1,525,000
Total Funds	**$11,405,435**	**$24,058,763**	**$20,958,283**	**$30,472,193**
Positions	32	49	35	41
FTE	31.66	46.13	34.92	40.68

<u>Program Description</u>

The Veterans' Services Program provides advocacy and benefits to veterans, their dependents, and survivors through the following activities:

- Statewide Veteran Services – Assists veterans and their dependents/survivors to obtain service-connected and non-service related benefits from the U.S. Department of Veterans Affairs. Federally accredited and state certified veteran service officers (VSOs) provide claims and appellate representation through ODVA's power of attorney. In 2018, ODVA received 11,997 new powers of attorney, and over 25,000 new claims were filed in fiscal years 2017 and 2018. This program also provides training, certification, and accreditation for county and state VSOs.
- County Veteran Service Officers Program (CVSOs) – Pass-through funding to counties supports a network of trained county veteran service officers. This partnership began in 1947 to aid counties in promoting veteran services at the local level. Historically, CVSOs have existed in 34 of the 36 counties and ODVA provided services for Marion and Polk counties. However, a Polk County Veteran Service Office was established in January 2017 and Marion County opened a Veteran Service Office in 2018.
- National Service Organizations (NSOs) – Pass-through funding supports national veteran service officers that provide benefit and claims representation. ODVA's partnership with national veteran service organizations in

Oregon was established in 1949. Currently, the Disabled American Veterans, National Association of Black Veterans, American Legion, and Veterans of Foreign Wars participate in this funding. In prior biennia, the Military Order of the Purple Heart also received funding, but recently determined that it will not continue to provide a Veteran Service Officer in Portland through its National Service Program.

- Tribal Veteran Representatives Program – Pass-through funding to support Tribal Veteran Representatives Service Offices to expand and enhance services for tribal veterans to obtain federal VA benefits.
- Veterans' Emergency Financial Assistance Program – Provides emergency aid to Oregon veterans and their immediate families through an emergency assistance program established by the Legislature in 2005. One-time grants are provided to help with health and welfare emergencies.
- Grant Programs and Partnerships – Leverage existing state programs and partner with federal, state, and non-profit organizations to expand services in the key areas of health, education, and economic opportunity. Grant programs include the Veteran Services Grant Fund, Campus Veteran Grant Program, and federal Highly Rural Transportation Grant (HRTG). During the 2019 session, funding was also approved for a Veterans' Healthcare Transportation Grant Program that expands transportation services grants for veteran healthcare access in rural counties and the Veteran Education Bridge Grant Program that will provide grants to veterans to further their education.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $30.5 million total funds represents a 26.7% increase from the 2017-19 legislatively approved budget. General Fund support for veterans' services is a 1.7% decrease from the prior biennium, which reflects the transfer of $556,594 for aging veteran services functions to a new budgeted program area. Lottery Funds expenditure limitation of $17.4 million for the Veterans' Services Program represents a 12.7% increase from the 2017-19 legislatively adopted budget. This increase is net of a $2.3 million reduction to reflect the transfer of aging veteran services expenditures and associated positions (11.00 FTE) to the Aging Veteran Services program. Specific investments with lottery dollars dedicated by Measure 96 to expand services to veterans include:

- $1 million to renew funding, on a one-time basis, for the Campus Veteran Grant Program for grants to Oregon community colleges and public universities to expand and enhance veteran programs on college campuses that help veterans successfully transition from military service to college life, succeed in college, complete education goals, and transition from college to the workforce and community.
- $1 million for a one-time grant to the YMCA of Marion and Polk Counties to construct veterans' affordable housing in Salem. An additional $4 million of lottery bond proceeds were also approved for a total grant to the YMCA of $5 million.
- $500,000 to support Tribal Veteran Representative programs and partnerships, including the addition of a Tribal Veteran Coordinator position (1.00 FTE) to serve as a liaison between ODVA and Tribal Veteran Offices and assist with connecting tribal veterans to federal VA services. The approved amount includes $200,000 of pass-through funding to Tribal Veteran Offices to expand and enhance their programs and services.
- $500,000 to establish a new Veterans' Healthcare Transportation Grant Program that will expand existing federally funded Highly Rural Transportation Grants for veterans' healthcare transportation services in rural counties. Initial funding for the new program is approved as one-time.
- $500,000 to increase support for the Veteran Services Grant Fund, on a one-time basis, for total 2019-21 funding of $1.1 million, expanding the number and amount of grants available to community partners for services and programs that benefit veterans, including mental and physical healthcare, housing security, employment opportunities, education, and transportation accessibility.
- $447,719 to establish the Veteran Educational Bridge Grant Program that will provide grants of up to $5,000 to veterans who are pursuing and enrolled in an approved course of study, eligible to receive federal financial assistance based on prior service in the U.S. Armed Forces, and unable to complete a degree program within the expected completion period due to course availability. Approved funding includes $300,000 for grants and $147,719 for the establishment of a limited duration Program Analyst 1 position (0.88 FTE) to conduct outreach and administer the program (HB 2201, 2019).

- $354,708 to increase support for the National Service Organizations (NSO), bringing total pass-through funding to $600,000. Approved funding is to expand the work of NSOs to provide critical services to veterans, including filing disability compensation benefit claims and increasing availability of local veteran services.
- $237,500, on a one-time basis, to continue the refresh of the Department of Veterans' Affairs' office building and complete renovation of the second floor, including replacing the carpet and painting the walls. Additional funding is also included in the Home Loan and Aging Veteran Services programs for total 2019-21 renovation costs of $975,000.
- $145,930, plus an additional $525,000 Federal Funds expenditure limitation, to establish three positions (3.00 FTE) that will allow the agency to serve as the U.S. Department of Veterans Affairs (USDVA) State Approving Agency (SAA) for veterans' education programs. USDVA oversees the administration of GI Bill education benefits through annual performance contracts with designated SAAs. ODVA has requested to be designated as Oregon SAA beginning October 1, 2019, and funding provides ODVA with the necessary resources to assume the responsibilities.
- $107,729, plus an additional $107,729 Other Funds, to establish an Internal Auditor 3 position (0.88 FTE) that will provide ODVA with an effective internal audit function, allowing the agency to examine its program and services for effectiveness, efficiency, and compliance with applicable rules and regulations.
- An additional $95,000 was also provided to enhance training for state, county, tribal, and NSO veteran service officers and cover costs incurred to administer grant programs, including providing state and regional training conferences to share best practices, innovations, and strategic planning.

There is a significant increase in Other Funds in the 2019-21 veterans' services budget over the prior biennium due to the addition of $4.1 million in expenditure limitation to accommodate distribution of lottery bond proceeds for the YMCA veterans' affordable housing project and associated bond costs of issuance. Federal Funds expenditures increased 52.5% over the 2017-19 veterans' service budget for costs associated with ODVA serving as the USDVA State Approving Agency for veterans' education programs beginning October 1, 2019. SAAs approve education and training programs that are eligible to receive GI benefits and provide technical assistance and outreach to schools and veterans. USDVA reimburses SAAs for direct costs incurred to perform SAA functions, including salaries and benefits, travel, and other administrative expenses, up to a maximum annual contract amount (approximately $300,000 for Oregon). Prior to October 1, 2018, the Higher Education Coordinating Commission (HECC) served as the SAA for Oregon; however, USDVA did not renew the annual contract with HECC for the 2019 federal fiscal year.

The 2019-21 legislatively adopted budget funds ongoing veterans' services programs at the following levels:
- Statewide Veteran Services: $5,319,867 General Fund, $5,133,131 Lottery Funds, 37.68 FTE
- State Approving Agency: $145,930 Lottery Funds, $525,000 Federal Funds, 3.00 FTE
- County Veterans' Service Officers: $1,874,183 General Fund, $7,166,509 Lottery Funds
- National Service Organizations: $122,646 General Fund, $477,354 Lottery Funds
- Tribal Veteran Offices: $200,000 Lottery Funds
- Emergency Assistance: $107,641 General Fund
- Partnerships:
  - Campus Veteran Resource Centers grant program: $1,000,000 Lottery Funds
  - Veterans' Services Grant Fund: $1,070,900 Lottery Funds
  - Suicide Prevention Hotline: $364,700 Lottery Funds
  - Transportation Grants: $500,000 Lottery Funds, $1,000,000 Federal Funds
  - Veteran Educational Bridge Grants: $300,000 Lottery Funds

Oregon Veterans' Home Program

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	2,618,937	1,017,323	2,249,440	378,020
Other Funds	64,195,794	83,791,488	87,108,596	87,090,749
Total Funds	**$66,814,731**	**$84,808,811**	**$89,358,036**	**$87,468,769**
Positions	5	5	5	5
FTE	5.00	5.00	5.00	5.00

Program Description

The Oregon Veterans' Home Program provides skilled nursing, Alzheimer's and memory-related, and rehabilitative care to Oregon veterans and their spouses, and to parents who have lost a child to war-time service, through two Veterans' Homes in Oregon. The Dalles Veterans' Home opened in November 1997 and has a bed capacity of 151 residents. Funding for construction and equipping of the facility was from a 65% federal grant matched with a 35% state obligation contributed by Wasco County. As of June 30, 2018, The Dalles Veterans' Home had an occupancy rate of 80%. Occupancy was intentionally lowered during the 2017-19 biennium to complete interior renovations. The Dalles Veterans' Home has been in operation for over 20 years and ongoing repairs, maintenance, and capital renewal are necessary to keep the facility in good operating condition. Health and safety improvements were completed in 2011-13, and interior renovations were completed in the 2017-19 biennium through a federal grant approved in 2015-17. ODVA also received approval and submitted a construction grant application to USDVA for exterior upgrades to the facility in 2018.

A second Veteran's Home in Lebanon opened in 2014. The Edward C. Allworth Veterans' Home has capacity for 154 residents. Skilled nursing, including inpatient rehabilitative care, is provided using a small house model, providing a home-like setting with "neighborhoods" that include landscaped courtyards and a community center. While census levels were lower as the facility began operations, as of June 30, 2018, the Lebanon Veterans' Home was at 97% capacity.

The facilities provide care at lower-than-market rates to veterans and their families because veterans' benefits can be utilized toward the cost of care. Home operations are funded entirely by Other Funds, consisting primarily of resident-related income, including federal VA payments, Medicare, Medicaid, insurance, and private payments. The program also receives monies from the sale of veterans' license plates and donations from the charitable checkoff income tax program. ODVA contracts with Veterans Care Centers of Oregon (VCCO), a non-profit organization, for the day-to-day operation of the facilities, utilizing the state's competitive procurement process.

Legislatively Adopted Budget

The legislatively adopted budget of $87.5 million is a 3.1% increase over the 2017-19 legislatively approved budget. General Fund of $378,020 is appropriated for debt service on Article XI-Q bonds issued in 2019 to construct a new educational building to train nursing staff at The Dalles Veterans' Home and to build a parking lot at the Lebanon Veterans' Home. Outstanding debt service on Article XI-Q bonds issued in 2013 to fund a shortfall in the state/local share of the Lebanon home construction costs was paid off in 2017-19, resulting in a General Fund decrease of 62.8% from the prior biennium. The increase in Other Funds expenditure limitation is attributable to inflation, net of a $310,000 decrease to phase out costs of issuing bonds in the 2017-19 biennium.

Aging Veteran Services

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	--	--	556,594	550,520
Lottery Funds	--	--	2,290,431	3,201,323
Total Funds	**--**	**--**	**$2,847,025**	**$3,751,843**
Positions	--	--	11	12
FTE	--	--	11.00	12.00

Program Description

The Aging Veteran Services Program provides expertise in aging veterans' benefits and services, oversees the veteran volunteer program to coordinate a statewide network of volunteers to locate and assist veterans, provides outreach and education to partner agencies related to benefits and assistance for aging veterans, and files claims for veterans residing in ODVA's veterans' homes or receiving conservatorship and representative payee services. The Program provides conservatorship and representative payee services for veterans and their dependents who are determined to be "protected persons" and who are recipients of U.S. Department of Veterans Affairs' benefits. Conservatorship services are provided when no other entity or person is willing or able to act as conservator and the agency is appointed as fiduciary. The staff serve as trust officers, file required legal reports, apply for all benefits due the veteran, and counsel with families, hospital personnel, social workers, and protected persons to ensure their needs are met within the resources available. Representative payee services are more limited in scope, with staff paying bills and advocating on behalf of veterans. As of June 30, 2018, ODVA had 155 Conservatorship clients and 143 Representative Payee clients. In prior biennia, Aging Veteran Services was budgeted as part of the Veterans' Services Program. Aging Veteran Services was established as a new program area to reflect the needs of the growing aging veteran population and provide additional transparency in budgeted program expenditures.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $3.8 million reflects the transfer of $2.8 million and associated positions (11.00 FTE) for aging veteran service functions from the Veterans' Services Program to the Aging Veteran Services Program. The following Lottery Funds investments were also approved:

- $400,000 to continue replacement of the conservatorship system, which enables court-appointed ODVA conservators and trust officers to effectively and efficiently deliver conservatorship and representative payee services. ODVA also requested and received $600,000 for this project in the 2017-19 budget and one-time funding in 2019-21 budget is approved for additional project management, business analysis, system integration, development, and implementation costs.
- $237,500, on a one-time basis, to continue the refresh of the Department of Veterans' Affairs' office building and complete renovation of the second floor, including replacing the carpet and painting the walls. Additional funding for this project is also included in the Home Loan and Veterans' Services programs for total 2019-21 renovation costs of $975,000.
- $172,753 and one position (1.00 FTE) for conservatorship and representative payee services. A Representative Payee position is established to accommodate increased caseload, allowing ODVA to better serve existing clients and accept new clients. The amount approved also includes $20,000 for statutorily mandated initial and continuing education and training required for conservatorship and representative payee staff certification.
- $120,000 for agency-wide technology investments that will enable the Department to accommodate enterprise information security policy changes, expand network capability, consolidate database solutions, and modernize application support and services. Additional funding for this investment is also included in the Home Loan program.

Capital Construction

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	2,475,976	16,367,690	--	--
Federal Funds	3,302,891	6,347,138	--	--
Total Funds	**5,778,867**	**$22,714,828**	**--**	**--**

<u>Legislatively Adopted Budget</u>
The 2019-21 legislatively adopted budget does not include any expenditure limitation for new capital construction projects. Other Funds and Federal Funds capital construction expenditure limitation of $22.7 million was included in the 2017-19 legislatively approved budget for multiple Veterans' Home capital projects. Federal Funds capital construction limitation totaling $3.9 million was provided for a U.S. Department of Veterans Affairs (USDVA) construction grant to complete exterior upgrades to The Dalles Veterans' Home, including replacing the roof, siding, and fascia; adding airlock areas near exterior doors; upgrading exterior garden areas; replacing an industrial water heater; and replacing interior window sills. Federal Funds capital construction limitation of $2.4 million was also provided for a second USDVA construction grant to upgrade the Lebanon Veterans' Home, including addition of a memory-care activity room; construction of a multi-purpose building and storage room; and upgrading the heating and cooling system. Other Funds capital construction limitation of $3.4 million, funded with Veterans' Home Program cash reserves, was approved for the two federal grants match requirements.

The 2017-19 budget also included Other Funds capital construction limitation for the following three projects funded with the proceeds of Article XI-Q general obligation bonds:
- $10.5 million to build a new veterans' home in Roseburg.
- $1.3 million to build a new parking lot at the Lebanon Veterans' Home.
- $1.2 million for capital improvements to The Dalles Veterans' Home, including construction of new educational and daycare buildings, upgrades to wireless and security infrastructure, and phone system replacement.

Bonds for the Lebanon Veterans' Home parking lot and The Dalles Veterans' Home capital improvements were issued in February 2019; however, the $10.5 million authorized for construction of a new home in Roseburg was not included in the sale as the Department continued to complete preliminary work and remaining funding for the project has not been identified or awarded. Lottery bonds in the amount of $10.5 million were originally authorized in the 2011-13 biennium and reauthorized in the two subsequent biennia for a third veterans' home in Roseburg. Capital construction limitation established in 2011-13 for the Roseburg Veterans' Home (HB 5006, 2011) expired on June 30, 2017. Limitation was re-established for a new six-year period in the 2017-19 budget (SB 5506, 2017) and general obligation bonds were authorized to support funding for the home. Construction of the third home is dependent upon award of a USDVA construction grant that would provide 65% of the funding and identification of the required 35% state and local match. State bonds approved in prior biennia have only provided a portion of the matching requirement based on estimated construction costs, with additional funds needed from state or local resources. In addition to the challenges in securing the required state or local match, prior analysis by the Department identified risks that the facility may not be able to maintain the necessary staffing and occupancy levels to operate at a sustainable level.

Lack of progress prompted legislation in the 2018 session that required ODVA to study and report on the progress of establishing the Roseburg Veterans' Home. ODVA's September 2018 report, and associated December 2018 update, maintained that the Roseburg Veterans' Home be built on the Roseburg Veterans Affairs Health Care System campus adjacent to the new main VA hospital. USDVA has agreed to transfer land to the State of Oregon, through a federal land grant, for the site of the home, as well as provide parking lots and utility infrastructure. However, the transfer of land and construction of the new home will not begin until ODVA has been awarded a competitive USDVA construction grant and secured the required match. The December 2018 report estimated total construction costs of approximately $48 million for a 126-bed facility. USDVA construction grant funds would potentially cover $31.2 million (65%) with $16.8 million (35%) needed from state and/or local funds. Capital construction limitation approved in the 2017 session is authorized through June 30, 2023, but no state bonds were authorized in the 2019-21 biennium and no local matching funds have been identified. Absent required matching funds for the project, ODVA is unable to submit an updated grant application to the USDVA that includes certification of available match, preventing a federal grant award necessary to begin construction of the home.