NATURAL RESOURCES

PROGRAM AREA

DEPARTMENT OF AGRICULTURE

Analyst: Terpening

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	24,497,951	23,529,248	25,206,997	25,991,367
Lottery Funds	7,077,309	10,360,960	7,366,847	10,568,358
Other Funds	52,663,810	68,154,857	71,565,017	74,372,889
Federal Funds	12,712,955	17,615,623	15,857,812	17,472,153
Total Funds	**$96,952,025**	**$119,660,688**	**$119,996,673**	**$128,404,767**
Positions	527	505	475	509
FTE	378.48	376.86	359.09	383.77

Overview

The Department of Agriculture's mission is centered on three broad policy areas of ensuring food safety and providing consumer protection, protecting agricultural natural resources, and promoting economic development in the agricultural industry. The agency emphasizes public education and technical assistance in its provision of regulatory oversight on legislatively mandated programs. Oregon's agricultural industry is one of the state's most important economic sectors. Producers are active in over 225 major commodities with a farm level value of more than $5 billion per year. In addition, more than $2 billion per year can be counted as value-added through food processing activities.

The Department's budget is comprised of four policy areas.

- Administration and Support Services – Provides policy direction and support functions for the agency.
- Food Safety/Consumer Protection Policy Area – Consists of the Food Safety, Measurement Standards, Animal Health and Identification, and Laboratory Services Divisions. These divisions are primarily responsible for addressing public concerns over the safety of the food supply, the regulation of livestock diseases, and the accurate labeling and packaging of food products and other goods.
- Natural Resources Policy Area – Includes the Natural Resources, Pesticides, and Plant Divisions. These three divisions are responsible for protecting the state's agricultural natural resource base.
- Market Access, Development, Certification/Inspection Policy Area – Consists of the Market Access, Development, and Certification Division and the Commodity Inspection Division. These divisions work with the state's agricultural producers to increase sales through product and market development and assist in moving products into the domestic and international markets by providing inspection, grading, and certification of agricultural commodities.

Revenue Sources and Relationships

For the 2019-21 legislatively adopted budget, 28% of the Department's expenditures are financed by the General Fund and Lottery Funds. Historically, this percentage has been closer to 25%. The General Fund provides a significant amount of the total funding for food safety inspections, agriculture marketing, regulation of Confined Animal Feeding Operations, and predator control. Some General Fund is also used to fund the administrative support functions of the agency. Lottery Funds are from the constitutionally dedicated 7.5% of all Lottery revenues that are restricted to wildlife and habitat protection and restoration. These dedicated Ballot Measure 76 (M76) Lottery Funds provide most of the funding for agricultural water quality activities, grants to treat invasive weeds, and insect pest prevention and management. Each of these programs reside within the Natural Resource Policy Area of the Department. Most recently, much of the dedicated Lottery Funds have been provided specifically for eradication efforts of the Japanese Beetle and Apple Moth. While Apple Moth appears to have been eradicated, the work on Japanese Beetle in the NW Portland area is ongoing.

Other Funds account for around 60% of the Department's total revenues. The main source of agency Other Funds revenues is from license and fee payments for regulated activities, such as inspections of measuring devices to ensure accuracy and pesticide applicator fees. Other Funds also include revenue from reimbursable work and charges for services, cost reimbursements, management assessments for central administrative services, and transfers in from other federally funded programs which are spent as Other Funds.

Federal Funds are primarily received by the Natural Resources and Agricultural Development and Marketing policy areas. Federal Funds are used for Specialty Crop grants to promote certain agricultural products in the state, plant and animal health protection, invasive species management and prevention, pesticide regulation, implementing new federal food safety standards, and laboratory services.

Budget Environment

Population growth in Oregon has led to increased competition for available natural resources, including water and land. The Department's level of involvement with coordination and development of water use, land use, and conservation plans with other agencies and affected parties has been steadily increasing. Conservation issues are becoming more complex, requiring more planning and inter-agency cooperation. For Food Safety, population growth brings a corresponding increase in the number and complexity of food establishments. In addition, over 600 food product sampling and testing inspections are done under contract for the Food and Drug Administration (FDA) each year. Oregon agricultural producers currently sell about 80% of their products outside of the state and 40% outside the country. Assistance for farmers, ranchers, and specialty food producers in finding new domestic and global markets for their products is a priority for the Department. Building markets is accomplished through market research, attendance at trade shows, direct negotiations with international buyers, and promotional activities aimed at specific Oregon products. The Commodity Inspection Division validates and promotes Oregon agricultural products through inspection and certification services and communications with producers, wholesalers, and retailers and its activity level is driven solely by the demand for its services.

Additionally, the influx of cannabis producers and products has greatly impacted multiple programs within the agency, from Food Safety and Weights and Measures to the Pesticide Program and the Laboratory. While the Food Safety and Weights and Measures programs have a fee structure that can support the work related to cannabis in those respective programs, the Pesticide Program and Laboratory do not currently have a fee that covers its full costs related to cannabis. As a result, the Department is directed through a budget note to work with the Oregon Liquor Control Commission and the Oregon Health Authority to determine an appropriate funding mechanism for the Department's lab expenses for cannabis cases that are being referred by those respective agencies.

Finally, the federal 2018 Farm Bill provided that the production and distribution of commercial hemp is legal under federal law, which has rapidly expanded the Department's Hemp program and may require additional resources if the workload continues to increase.

Legislatively Adopted Budget

The adopted budget for the Department of Agriculture totals $128.4 million. The budget includes $26 million General Fund, $10.6 million Measure 76 Lottery Funds, $74.3 million Other Funds, and $17.5 million Federal Funds. The total funds budget is 7.3% higher than the 2017-19 legislatively approved budget level. The budget includes 509 positions (383.77 FTE), which is a four position increase from 2017-19.

The General Fund budget is 10.5% increase from 2017-19 levels and a 3.1% increase over the current service level. This increase is due largely to one-time General Fund investments included in legislation outside of the Department's budget bill (HB 5002). General Fund increases include:

- $316,133 to support a limited duration half-time position and startup costs related to passage of SB 883, which directs the State Veterinarian within the Department to be the regulating agency for animal rescue entities. This is one-time, as entity registration fees are anticipated to fund the program.

- $251,043 to support a permanent position related to passage of HB 2437 around removal-fill laws. The funding will allow the Department to oversee the notification review process and conduct site visits related to landowner plans to conduct maintenance activities in traditionally maintained channels. Of this amount, $60,000 is one-time.
- $200,000 of one-time General Fund to support a limited duration position to oversee the preapplication conference with prospective applicants for the cultivation of shellfish, related to passage of HB 2574.

The following increases to the General Fund, totaling $1.2 million were included in HB 5050 as one-time investments:
- $200,000 of one-time General Fund for the predator control program, which provides pass-through money to the U.S. Department of Agriculture Wildlife Services for predator control services in partnership with the Department of Fish and Wildlife (ODFW) and Oregon counties. A similar one-time appropriation was provided to ODFW.
- $300,000 General Fund for additional funding to the Invasive Species Council.
- $100,000 General Fund was added for the collection and testing of water samples from Klamath Lake to analyze for nutrients, including phosphorous which can lead to harmful algae bloom.
- $600,000 General Fund for the replacement of aging lab equipment.

The Department's budget bill, HB 5002, included three permanent fund shifts in the Natural Resources Policy area that moved program support from General Fund on to Other Funds fees or Federal Funds. The fund shifts from the General Fund include:
- $114,349 fund shift for a Plan Conservation Biologist from General Fund to Federal Funds. This fund shift is ongoing and will limit the Department's ability to provide permit and consultation work that is not specific to federal priority projects.
- $370,870 to support Pesticide Analytical Response Center operations was moved from General Fund to Other Funds (funded with pesticide license fees) on an ongoing basis.
- $588,322 General Fund was permanently shifted to M76 Lottery Funds for the Noxious Weed Control program.

Lottery Funds, which are all constitutionally dedicated M76 funds, increased by 43% over the 2019-21 current service level due largely to the addition of $2,581,772 in one-time Lottery Funds to continue Japanese Beetle eradication activities to protect watershed health. Eradication efforts first started in the spring of 2017. While previous eradication efforts for the Apple Moth were completed, efforts to control the Japanese Beetle are ongoing and are expected to be completed during the 2019-21 biennium. A record number of Japanese Beetles were found in the Department's traps in 2017 and recent efforts have shown good progress. ODA estimates the economic impact of allowing the pests to become established in Oregon to be over $45 million in damages. Additional increases to Lottery Funds include $99,881 to provide additional base funding for the Oregon Invasive Species Council, and the fund shifting of $588,322 General Fund to Lottery Funds for the Noxious Weed Control program.

Other Funds are $6.2 million, or 9.1% higher, than 2017-19 levels due in part to the shifting of some program funding from General Fund to Other Funds as outlined above, but also additional staffing both in the Natural Resources Policy area for the Fertilizer Program ($202,741), the Plant Program ($361,762), and Worker Protection Standards ($204,203) and in the Marketing Access Policy area for the Shipping Point Program ($565,098). The Food Safety Program ($343,629) received an additional manager position for the laboratory as well as Other Funds limitation for vendor hosting fees related to the labs' databases, and $332,936 was included across multiple programs to account for increases to legal costs paid by the agency to the Department of Justice. An increase of $200,000 was added to cover the costs of merchant fees for the processing of credit card charges and $200,000 was included as one-time funding related to a pre-design study and site analysis for a possible consolidation site of the five Department labs. Finally, HB 2579 provided the Department with $500,000 Other Funds to distribute as infrastructure and equipment grants to agricultural producers in consultation with the Department of Education as part of the Farm-to-School Program.

The 2019-21 budget includes several increases to fees that were administratively approved by the Department and then ratified by the Legislature. Fee increases ratified in HB 5003 include a 3% increase for Food Safety fees effective July 2019, two 5% increases for Weights and Measures effective July 2018 and July 2019, and changes to fees within the Certifications program to align the fees with U.S. Department of Agriculture (USDA) levels of service provided on behalf of USDA. A restructure of fees from flat registration fee to a fee for each industrial hemp grow site was also approved and is anticipated to generate $725,500 in revenue for that fast-growing program.

In addition to the fees ratified and approved within the Department's budget, the statutory caps on some fees were increased that will allow for the Department to increase fees administratively going forward. This includes increases to the statutory caps on Food Safety fees (HB 2059) and Weights and Measures (HB 2057). Confined Animal Feeding Operation permits were also increased with passage of HB 2061.

While the Department is constantly reviewing and analyzing fee revenue related to program costs and taking steps to administratively increase fees, there are a few programs that will likely need fee increases sooner as a result of changes to the budget environment. The impact of the increased cannabis workload, coupled with a fund shift of costs from General Fund to Pesticide Program fee revenue for the Pesticide Analytical Response Center, and the position related to Worker Protection Standard Training, may require the Department to look at a fee increase to pesticide licenses in the 2020 or 2021 session. The Fertilizer Registration program will likely need a fee increase by January 2022 for this program with the addition of a position approved in their budget. Additionally, with the fund shift from General Fund to license fees in 2017-19 for the Food Safety Program, the current practice of 3% annual fee increases are not sufficient to keep up with rising costs of the program. It is anticipated that a 20% fee increase may be likely in 2020 (effective July 1, 2021) to support the program going forward along with the 3% annual increases.

Federal Funds decreased by less than 1% over 2017-19 budget levels, but does include $1.4 million to continue to provide outreach, education, and technical assistance activities related to a U.S. Food and Drug Administration grant for implementation of new Manufactured Food Regulatory Program Standards called the Food Safety Modernization Act. In 2017-19 USDA provided $2 million for this purpose.

COLUMBIA RIVER GORGE COMMISSION

Analyst: Rocco

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	920,288	1,010,000	1,032,043	1,160,612
Total Funds	**$920,288**	**$1,010,000**	**$1,032,043**	**$1,160,612**

Overview

The Columbia River Gorge Commission (CRGC) was authorized by the 1986 Columbia River Gorge National Scenic Area Act and created as a regional agency through an interstate compact between Oregon and Washington. The agreement between the Governors' offices of Oregon and Washington, and legislative statutes, form the basis of the relationship between the states and the federal government. The Commission was established to implement the National Scenic Area Act's purposes of protecting and enhancing the scenic, cultural, recreational, and natural resources of the Gorge while encouraging compatible growth within existing urban areas of the Gorge region and allowing future economic growth.

The Commission functions as the permanent regional land use policy body for the Scenic Area, a 292,000-acre region stretching along both shores of the Columbia River for 80 miles, just east of the Portland OR-Vancouver WA metropolitan area to the mouth of the Deschutes River. The Columbia River Gorge encompasses parts of three counties in Oregon (Hood River, Multnomah, and Wasco) and three in Washington (Clark, Skamania, and Klickitat) and includes 13 designated Urban Areas. The Commission consists of 13 members, one appointed by each of the six counties within the Scenic Area, six appointed by the two states (three by each Governor), and one ex officio, non-voting member appointed by the U.S. Secretary of Agriculture. The Commission's office is in White Salmon, Washington, and functions with employees of the State of Washington.

The Commission has an oversight role for the entire Scenic Area and functions as a facilitator and resource for collaborative regional efforts. Commission responsibilities include the adoption and maintenance of a management plan, review and approval of local land use ordinances for the Scenic Area, appellate review of decisions made under the ordinances, and coordination of Gorge resource development efforts envisioned by the Scenic Act. The Commission adopted the initial management plan in 1991. Under the management plan, the Commission sets policy for land use and resource protection on non-federal lands in the Gorge, monitors implementation of the plan, ensures that Scenic Area ordinances are effective, and facilitates enhancements of the economic, natural, scenic, cultural, and recreational resource elements of the Scenic Area. Five of the counties are implementing the management plan through locally adopted land use ordinances. Klickitat County, Washington, has not adopted land use ordinances, leaving review of proposed developments to the Gorge Commission.

Revenue Sources and Relationships

The Scenic Act was approved at the federal level, and the intent of the states was to maintain a level of local control as expressed through a bi-state compact. The Columbia River Interstate Compact is a binding legal document that requires each state to pay its Commission members' expenses and to contribute equally to operating costs to perform all functions and responsibilities in accordance with the Compact and Act. The executive state offices and matching state statutes reflect this ongoing commitment. Because of this requirement, the budget is, in effect, set by the state appropriating the lesser amount for operational expenses. The Commission has also received grant funding for monitoring program activities and other special project work from the federal government. These grant funds are generally not factored into the development of the Commission's operating budget. The Commission collects no revenue from fees, licenses, or assessments.

Other Funds expenditure limitation had been included in the Commission's Oregon legislatively adopted budgets to allow the agency to spend any moneys received from donations. This practice was reversed during the 2015-17 biennium. The agency generally receives no money from donations and when it does the funds are spent under the State of Washington budget authority. No Other Funds expenditure limitation is included in the 2019-21 Oregon legislatively adopted budget.

Budget Environment

The proximity of the entire Gorge area to the Portland/Vancouver population base affects planning efforts with pressures for new development, changing composition of urban areas, availability of affordable housing, uses of resource lands, and increased visitation to tourism and recreation sites. As the regional planning agency, the Commission must work with stakeholders to ensure these pressures are dealt with in a manner consistent with the requirements of the National Scenic Area Act. The broad mission of the Commission results in many interpretations by the various individuals and groups that recreate and live in the Columbia River Gorge. This has led to controversy regardless of which side of an issue the Commission chooses.

According to the Commission, base funding levels for Commission activities represent the most limiting factor affecting fulfillment of key strategies and mandated responsibilities. Oregon and Washington frequently propose funding at different levels. This significantly impacts the Commission because any reduction in one state's funding of the joint expenses program will reduce the other state's contribution by the same amount. While Washington budgets biennially, they allot annually. Oregon now, like Washington, has two budget sessions during each biennium with the even numbered year session limited in time, but with the ability to adjust agency budgets.

While the public increasingly expects to obtain rapid and efficient responses for information, the Commission's staffing has not increased in recent biennia to meet these demands, until the 2019-21 biennium budget. The bi-state approved budget added one planner position and now supports eight positions for the 2019-21 biennium, including an executive director, legal counsel, three planners, an administrative analyst, GIS/planner, and an administrative secretary. The new position is a Vital Signs Indicator Land Use Planner that will be used to develop and implement the "Vital Sign Indicators" project which is designed to monitor and track measurable indicators to determine if the agency is effectively implementing the Management Plan for the Gorge. All of these positions are considered to be State of Washington employees.

The Commission is in the unique position of having its budget determined by two states. Oregon and Washington often experience revenue shortfalls due to economic downturns at different stages in each state's two-year budget cycle due to the differences in major revenue sources (Oregon personal income tax and Washington sales tax). During the 2015-17 biennium, Oregon adjusted the Commission's budget twice in order to stay matched with the Washington appropriation. In the 2016 session, Oregon increased its appropriation by $11,308 General Fund for Commission operational expenses; $6,000 of this increase was to fund Oregon's share of an audit required every five years. The other $5,000 was to replace Other Funds expenditure limitation which has erroneously been included as part of the Oregon matching operational expenses; this had actually been limitation with no revenue to support it in case donations were received by the Commission. In May 2016, following the end of both states' annual sessions, Oregon's Emergency Board allocated an additional $5,000 to the Commission. There had been some uncertainty about adjustments that Washington was going to make during its 2016 session. Since Oregon's 2016 session ended prior to Washington's, a decision was made to make any final adjustments using Oregon's Emergency Board process. The $5,000 requested and approved was the amount needed to match the post-2016 session Washington budget for joint operational expenses of the Commission.

A similar situation led to an Oregon Emergency Board adjustment to the Commission's budget for the 2017-19 biennium. An $18,000 General Fund increase was provided to the Commission by the Emergency Board in September 2018 to match budgetary changes made by Washington during its 2018 session. Due to timing differences between the sessions of the two states, Oregon was unable to match the budget increase during its 2018 session which led to the approval of the increase in September 2018.

Legislatively Adopted Budget

The Commission's legislatively adopted budget is comprised of two basic programs – Joint Expenses and Commissioner Expenses. The Joint Expenses program represents all operational activities of the Commission except for the expenses of each state's appointed commissioners. Expenditures for joint program activities are required by law to be equally shared by Oregon and Washington, but due to differing budget practices in Oregon and Washington, the states have recently matched the combined General Fund budgets for Joint Expenses and Commissioner Expenses.

The Columbia River Gorge Commission's legislatively adopted Oregon budget for the 2019-21 biennium totals $1,160,612 General Fund. The budget is a 14.9% increase from the 2017-19 legislatively approved budget and is 12.5% above the 2019-21 current service level. The Oregon adopted budget includes $1,128,000 for joint operational expenses and $32,612 for Oregon commissioner expenses. Due to budget development revenue concerns, Oregon initially passed a current service level budget for the Commission. That budget was then supplemented at the end of the Oregon session in HB 5050 with an additional $109,813 General Fund to finance Oregon's share of costs associated with a new Vital Sign Indicators Land Use Planner position ($90,000) and with the replacement of staff laptops and desktop computers ($19,813). This additional appropriation will allow the Commission to hire another staff land use planner since the Oregon action was made to match a previous appropriation made for the 2019-21 biennium by Washington. There are no Oregon positions or FTE associated with the Commission; all Commission staff are counted as State of Washington employees.

DEPARTMENT OF ENERGY

Analyst: Terpening

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	--	--	4,334,048	6,334,048
Lottery Funds	2,980,489	3,023,630	3,023,370	3,023,365
Other Funds	25,284,394	35,609,279	32,689,074	32,812,879
Other Funds (NL)	126,213,739	119,282,861	41,028,718	41,028,718
Federal Funds	2,337,024	2,455,398	2,482,702	2,196,096
Federal Funds (NL)	--	104,000	104,000	104,000
Total Funds	**$156,815,646**	**$160,475,168**	**$83,661,912**	**$85,499,106**
Positions	105	97	84	81
FTE	104.16	93.87	84.00	79.25

Overview

The mission of the Oregon Department of Energy (ODOE) is to lead Oregon to a safe, clean, and sustainable energy future. The Department works to ensure that Oregon has an adequate supply of reliable and affordable energy and is safe from nuclear contamination by helping Oregonians save energy, developing clean energy resources, promoting renewable energy, and cleaning up nuclear waste. ODOE encourages energy conservation through public information and incentive programs which provide loans or tax credits for implementing energy efficient technologies in residences, public sector buildings, and private sector businesses.

ODOE staffs the following statutory boards:

- The Energy Facility Siting Council, a seven-member citizen board appointed by the Governor, decides whether large energy facilities may be built in Oregon; regulates the construction, operation, and decommissioning of energy facilities; and oversees the disposal of low-level radioactive wastes.
- The Oregon Hanford Cleanup Board, a 20-member board, addresses clean up issues at the nuclear site and represents Oregon's interest in issues involving Hanford, with a focus on protecting the Columbia River and ensuring safe transportation routes for shipments of radioactive waste.
- The Global Warming Commission recommends ways to coordinate state and local efforts to reduce Oregon's greenhouse gas emissions consistent with Oregon's goals and recommends efforts to help the state, local governments, businesses, and residents prepare for the effects of climate change.

The Department also heads or lends expertise to a number of workgroups and advisory committees, including the following:

- The Northwest Power and Conservation Council (NWPCC) is responsible for adopting a regional energy conservation and electric power plan and a program to protect, mitigate, and enhance fish and wildlife on the Columbia River and its tributaries. The Council is set up as a regional agency with two members each appointed by the states of Idaho, Montana, Oregon, and Washington for three-year terms. The Bonneville Power Administration reimburses the Department for the costs associated with Oregon's NWPCC office and its two members.
- The Small Scale Local Energy Project Advisory Committee, composed of nine members appointed by ODOE, reviews applications made under the Small Scale Energy Loan Program (SELP). The program promotes energy conservation and renewable energy resource development and offers low-interest loans for projects that save energy; produce energy from renewable resources such as water, wind, geothermal, solar, biomass, waste materials, or waste heat; use recycled materials to create products; or use alternative fuels. Loans can be made to individuals, businesses, schools, cities, counties, special districts, state and federal agencies, public corporations, cooperatives, tribes, and non-profits. Projects must be primarily in Oregon.

The Department convenes rulemaking advisory committees on an as needed basis to assist in creating and updating proposed agency administrative rules.

The ODOE budget is comprised of five major program units: Energy Planning and Innovation, Energy Development Services, Nuclear Safety and Energy Emergency Preparedness, Energy Facility Siting, and Administrative Services.

- Energy Planning and Innovation - This program develops and recommends state policy and goals relating to energy conservation, alternative fuel and renewable energy resources for energy independence, economic development, and the reduction of greenhouse gas emissions. The Division provides research services and technical assistance, has a role in implementing Oregon's Renewable Portfolio Standard, operates the State Energy Efficiency Design (SEED) program and the Energy Efficient Schools program, and works to improve energy efficiency in buildings and vehicles. The program staffs the Global Warming Commission and assists with the Commission's biennial report to the Legislature. The Division is primarily funded with Other Fund revenues generated from a 3% public purpose charge from Portland General Electric and PacifiCorp customers to support the Energy Efficient Schools program; charges for certification of industrial energy efficiency projects; charges collected from state agencies for the SEED program; service charges from the Northwest Energy Efficiency Alliance (NEEA) for codes training; and the energy supplier assessment. Federal Funds are received through the U.S. Department of Energy's State Energy Program formula grant and competitive grant awards.

- Energy Development Services - This program administers financing and incentives for businesses, households, and the public sector to reduce the cost of energy for Oregonians through energy efficiency, renewable energy, and the use of alternative transportation. Most of the major programs have sunset or transferred to other state agencies, leaving SELP as the primary program remaining. Other Fund Nonlimited revenues generated through SELP, including loan principal and interest repayments and investment earnings, support 90% of the Division's budget. SELP earnings are used to make debt service payments on outstanding general obligation bonds issued to capitalize the program and support administration of the program. No bonding authority was provided by the Legislature to issue new loans in the 2017-19 or 2019-21 biennium. ODOE receives other revenue proceeds from the sale of tax credits for the Renewable Energy Development (RED) grant program; and interest earnings on beginning fund balances. Lottery Funds are allocated to support debt service on outstanding lottery revenue bonds.

- Nuclear Safety and Energy Emergency Preparedness - This program protects Oregonians from exposure to hazards by monitoring radioactive waste cleanup activities at the Hanford nuclear site, preparing and testing nuclear emergency preparedness plans, participating in emergency preparedness planning for Liquefied Natural Gas (LNG) terminals, and overseeing the transport of radioactive material through Oregon. Additionally, the Division manages the state's Petroleum Contingency Plan, which ensures that emergency and essential services receive priority access to fuel during emergency situations. The Division's main revenue source is Federal Funds from the U.S. Department of Energy, which are dedicated to oversight of the Hanford environmental cleanup and to Hanford-related emergency planning and response activities. Other revenue sources include federal grants for transportation-related emergency planning services, fees for transportation of radioactive waste, and charges for emergency planning services.

- Energy Facility Siting - This program works with energy facility developers and operating energy facilities to meet the state's energy needs by ensuring that large power plants, transmission lines, and natural gas pipelines are built to meet Oregon requirements. Siting is a long-term, multi-year endeavor involving multiple stakeholders, site visits, engineering studies, public hearings, and ongoing monitoring from planning, through to construction and operation of the facility. The program staffs the Energy Facility Siting Council (EFSC), coordinates the energy facility siting process, oversees compliance with existing site certificates, and coordinates federal energy siting projects for the state. The Siting Division is funded with cost recovery fees paid by facility siting applicants or site certificate holders (Other Funds). Energy supplier assessment supports EFSC and facility siting activities not attributable to a specific applicant or certificate holder.

- The Administrative Services Division includes the Director's Office, Central Services Division, Governor's Energy Policy Advisor, and Northwest Power and Conservation Council staff. The Director's Office provides operational and policy leadership and direction for the agency. Other Director's Office functions include internal audits, communications, human resources, and legislative coordination. Central Services provides shared support services, including budgeting, accounting, contracting, information technology, facilities, records management, and office reception. The Administrative Services Division budget is primarily funded with Other Funds revenues generated from the energy supplier assessment and funds transferred from the Department's other divisions through a federally-approved indirect cost recovery model. Revenues also include reimbursements received from Bonneville Power Administration for costs of the Northwest Power and Conservation Council. For the 2019-21 biennium, 34 of the 81 positions within the agency are within the Administrative Services Division, and the agency indirect rate is above 60%.

Revenue Sources and Relationships

Other Funds revenues support 86% of the Department's 2019-21 legislatively adopted budget. Other Funds Nonlimited revenues associated with SELP, including loan repayments and interest and investment earnings, are the largest source of revenue for the Department. Historically, the proceeds of general obligation bonds issued to capitalize SELP have also supported the program; however, no bonding has been authorized for the last two biennia and a $4.3 million General Fund appropriation is required to cover a budget shortfall related to debt service payments.

Other Funds Limited revenues are generated through fees and assessments that fund most programs and services provided by the Department. Fees support the agency's energy incentive and tax credit programs, energy facilities siting program, and radioactive waste transportation. Charges for services include revenues received through the public purpose charge to provide administrative and technical support to schools, the State Energy Efficient Design (SEED) Program, and specific projects or organizations, such as the Jordan Cove Energy Project and the Northwest Power and Conservation Council. Other revenues include proceeds from the sale of tax credits used to fund the RED grant program, interest income, and miscellaneous revenues from smaller sources.

Policy development, planning, technical analysis, and agency support services are funded with an energy supplier assessment (ESA) levied annually on energy suppliers in Oregon. This assessment is capped in statute at 0.375% of an energy supplier's gross operating revenues on energy sales in the state and is expected to generate $14 million in the 2019-21 biennium based on the legislatively adopted budget. To collect this amount, the assessed rate for Fiscal Year (FY) 2020 will be about 0.120%, while the percentage rate in FY 2021 will vary depending on the gross operating revenues. In 2017-19, the rate was 0.134% in FY 2018 and 0.129% in FY 2019.

Lottery Funds pay for debt service, and Federal Funds support nuclear safety programs and clean energy activities through the federal State Energy Program.

Budget Environment

The Department of Energy has experienced a great deal of change and attention in recent years and has seen many of its major programs meet their legislative sunset, transferred to another agency, or repealed including the Energy Incentive Program and Residential Energy Tax Credit (RETC), the Biomass Producer and Collector Tax Credit Program (transferred to the Department of Agriculture), the State Home Oil Weatherization program (transferred to the Housing and Community Services Department), and the Alternative Fuel Vehicle Revolving Fund Program.

ODOE has been subject to closer scrutiny of its collection and use of energy supplier assessment funds by the stakeholders who pay the assessment. HB 2807 (2013) capped the ESA rate at 0.375% of an energy supplier's gross operating revenue from Oregon sales, and created a requirement that ODOE work with stakeholders to review the agency's ESA-funded programs and services during the agency's budget development process. In 2017, the Department was sued by a group representing ten publicly owned utilities in Oregon over the energy supplier assessment, asserting that the ESA is a tax, ODOE's budget bill is subject to the constitutional requirements for bills that raise revenue, and that ODOE did not follow the statutory procedures to provide a full accounting of the ESA revenue required to fund the agency's programs to energy resource suppliers. The court ruling found that, while the ESA is a tax, it is not subject to constitutional requirements for bills that raise revenue, and the court also found that ODOE did not meet the statutory procedures to provide a full accounting in the 2015-17 agency request budget. The decision is currently under appeal by the Department. If the appeal is unsuccessful, the 2016 ESA will be refunded to the petitioners. ODOE estimates the settlement payment to be approximately $830,000. Similar lawsuits for the 2017 and 2018 ESA are in abeyance awaiting the outcome of the appeal. It should be noted that without another source of available funds, any settlement payments would need to be financed through increases in future assessments.

The SELP program is designed to provide loan financing for energy-saving and renewable energy investments that support regional, local community, and tribal energy needs. Since the program began in 1980, ODOE has made 903 loans totaling approximately $612 million. The loans are funded through the sale of general obligation bonds issued under Article XI-J of the Oregon Constitution. Due to $28 million in losses on loans originated between 2007 and 2008, the fund is currently in a deficit position and not forecasted to be self-sustaining. Absent other mitigating strategies, SELP requires a General Fund appropriation to cover debt service on outstanding bonds, the first payment of which will be due April 1, 2021. ODOE currently estimates a potential shortfall of approximately $8 million but it is dynamic and may be reduced based on revenue received. The projected shortfall was decreased substantially by a 2017 bond refunding that reduced future debt service obligations through interest rate savings. Although no bond authority has been provided in two biennia to issue new loans, ODOE continues to administer the existing loan portfolio. Other Fund Nonlimited revenues generated through SELP, including loan principal and interest repayments and investment earnings, support 90% of the Division's budget. SELP earnings are used to make debt service payments on outstanding general obligation bonds issued to capitalize the program and support administration of the program. No bonding authority was provided by the Legislature to issue new loans in the 2017-19 biennium. ODOE receives other revenues through the collection of application fees for the EIP, Biomass, and RETC programs; proceeds from the sale of tax credits for the RED grant program; and interest earnings on beginning fund balances.

The 2019 Governor's Budget proposed the Department be abolished and its current programs moved into a newly created agency called the Oregon Climate Authority. This new agency would have also included elements of the Carbon Policy Office created in HB 5201 (2018), four positions transferred from the Department of Environmental Quality's Greenhouse Gas Program, and the creation of a carbon cap-and-trade program. This concept was not approved by the Legislature in 2019, although the Department's future remained unknown throughout much of the session and is now currently depending on proposals put forward and the path the Legislature takes toward a carbon cap-and-trade system in the future.

While the future of the Department of Energy is still unclear, the agency continues to focus on the renewable energy portfolio standard to which Oregon's public and investor-owned utilities are expected to adhere; the state's responsibility to take on the challenges of climate change; providing a fair and comprehensive energy facility siting review process; and ensuring that Oregon is safe from nuclear contamination.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget for this agency is $85 million total funds, including 81 positions (79.25 FTE). Expenditures are 47% less than the 2017-19 legislatively approved budget. A significant portion of the decrease is attributable to the phase out of $78.3 million Other Funds Nonlimited to reflect limited activity in the SELP program. Excluding Nonlimited funds, the budget is a 18% decrease from the 2017-19 legislatively approved budget. Reductions approved in the 2019-21 budget include:

- $505,787 total funds and two positions (2.00 FTE) in the Energy Planning and Innovation Division to limit the amount assessed under the ESA and eliminate a long-term vacant position funded with Federal Funds for which there was insufficient revenue to support the position.
- $785,795 total funds and three positions (3.00 FTE) in the Energy Development Services Division. Two of the positions were within the SELP program held vacant for multiple years in anticipation of restarting lending,

with the third position vacant for nearly a year. There was also a fund shift within the Division to eliminate the Federal Funds expenditure limitation within the program for which there was no supporting federal revenue.

- $834,880 Other Funds and three positions (3.00 FTE) in the Administrative Services Division, including reducing limitation for rent that had not been adjusted to actuals since the agency moved to new facilities, and the elimination of three vacant positions. Two of the positions were Information Technology positions. These reductions were selected to limit the amount assessed under the ESA and to reduce the agency's level of administration and IT position classifications, which are both above statewide executive branch average ratios.
- Small reductions in Services and Supplies costs within the Nuclear Safety Division and the Energy Facility Siting Division to limit the amount assessed under the ESA.

Increases to the budget include $411,789 Other Funds and two limited duration Utility and Energy Analyst 2 positions (2.00 FTE) to provide capacity to handle increased workload related to Energy Facility Siting review applications. Applications are projected to increase 31% from 2015-17 to 2019-21. These positions are supported from cost recovery fees and a small percentage from the ESA.

Additionally, the Department received a one-time General Fund appropriation of $2 million for the solar rebate program established in HB 2618. The $2 million will fund the issuance of rebates and to pay the cost of the Department for implementation and administration of a solar rebate program. Of the $2 million, $1.5 million is available for rebates through Special Payments, with $500,000 available for administration.

Finally, due to the Governor's proposal to abolish the Department, and uncertainty around its future for much of the 2019 session, the 2019-21 budget includes direction for the Department to report back to the Joint Committee on Ways and Means during the 2020 session on its existing programs, key performance measures, and a review of agency administration, the agency's indirect rate, and usage of the ESA.

DEPARTMENT OF ENVIRONMENTAL QUALITY

Analyst: Terpening

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	38,163,023	48,757,650	48,676,792	53,777,160
Lottery Funds	4,084,180	4,732,711	5,332,415	5,300,822
Other Funds	129,989,706	194,863,032	202,486,131	222,204,270
Other Funds (NL)	107,343,731	134,186,687	138,028,330	148,048,330
Federal Funds	22,268,911	29,266,525	30,144,724	29,410,521
Total Funds	**$301,849,551**	**$411,806,605**	**$424,668,392**	**$458,741,103**
Positions	751	766	735	779
FTE	729.99	737.17	726.84	760.40

Overview

The Department of Environmental Quality (DEQ), with policy direction from the five-member Environmental Quality Commission, administers the state's laws regulating air, water, and land pollution. The Department establishes the standards for clean air, water, and land; determines whether or not these standards are being met; and takes action to enforce the standards when necessary. The agency attempts to use technical assistance and education whenever possible to enhance compliance. The Department also manages the federally delegated Clean Air, Clean Water, and Resource Conservation and Recovery Act programs. In addition to the federal environmental programs, DEQ administers the state environmental programs in the areas of solid waste management, planning, and recycling; groundwater protection; and environmental cleanup. The DEQ budget is comprised of five major program units: Air Quality, Water Quality, Land Quality, Agency Management, and Pollution Control Bonds.

- Air Quality – This program area is responsible for compliance with federal and state air quality standards. The program monitors air quality to protect public health through the development and implementation of pollution reduction strategies. The primary sources of air pollution in Oregon are motor vehicles, forest slash burning, woodstoves, industrial facilities, field burning, and area sources. The federally delegated air quality program includes statewide air quality monitoring and emissions inventory, strategic planning for pollution reduction, and a permit system. Permits are issued under two industrial source air quality programs operated by the Department, the federally delegated Title V permit for large industrial sources and the state Air Contaminant Discharge permit for medium and small sources. Other programs within Air Quality include, the Cleaner Air Oregon program, Green House Gas Reporting program, Vehicle Inspection Program, Electric Vehicle Rebate Program, and the Volkswagen Settlement Distribution Program.

- Water Quality – This program area's primary functions are setting and monitoring water quality standards and assessments, controlling wastewater through permits and certifications, providing financial and technical assistance, implementing the Oregon Plan for the restoration of salmon populations and watersheds, and implementing portions of the Safe Drinking Water Act. The Department is responsible for two permit systems, the federally delegated National Pollutant Discharge Elimination System (NPDES) for discharges into surface waters and the state Water Pollution Control Facility (WPCF) permit program for all discharges such as sewage lagoons and effluent irrigation. The Water Quality program also operates the nonpoint source pollution program in Oregon. Nonpoint source pollution is not attributable to a specific source point. Examples of nonpoint source pollution include storm water and agricultural runoff.

- Land Quality – This program area focuses on preventing and reducing waste generation, assuring that waste generated is properly managed, responding to emergency spills, and cleaning up sites contaminated with hazardous substances and uncontrolled releases of toxic chemicals. Activities are organized into the five main subprogram areas of solid waste: hazardous waste, environmental cleanup, underground storage tanks, and emergency management. In each area, the Land Quality program focuses on the hierarchy of waste management, starting with prevention, reduction, reuse, recycling, recovery, and ending with proper disposal. Land Quality operates the federally approved solid waste landfill compliance program and the federally delegated hazardous waste program.

- Agency Management – This program provides leadership, coordination, and support for DEQ and staff assistance for the Environmental Quality Commission. Agency Management includes the Office of the Director, the Office of Policy and External Affairs, and the Central Services Division. Central Services consists of Financial Services, Human Resources, Information Systems and Technology, Training and Organizational Development, Public Records, and Health and Safety sections.

- Pollution Control Bonds – The sale of pollution control bonds is used by the Department to finance the Clean Water State Revolving Fund (CWSRF), the Sewer Assessment Deferral Loan program, and the Orphan Site program. Bond proceeds are used to finance municipal waste water facility construction and other water pollution reduction projects, an assessment deferral program for low income households, and cleanup of hazardous waste sites where the responsible party is unknown, unwilling, or unable to pay for cleanup costs. CWSRF makes loans to local governments for construction of eligible waste water treatment facilities and is funded primarily with Other Funds Nonlimited.

Revenue Sources and Relationships

The federally delegated clean air program is primarily financed with permit and emission fees (such as the Air Contaminant Discharge Permit fee), supplemented by a General Fund appropriation and Federal Clean Air Act funds. Federal law requires that the cost of the permit program for major industrial sources be fully paid from emission fees through the Title V Permit Fee. Other non-General Fund sources include fees for asbestos certification and inspection, field burning permits, and the vehicle inspection program. The Vehicle Inspection Program is entirely supported by fees for certificates of vehicle emissions compliance, required as part of the vehicle's registration process in the Portland and Medford metropolitan areas.

The federally delegated and state water pollution permit programs are financed from a combination of sources – the General Fund, industrial and municipal fees, and Federal Clean Water Act funds. The primary Other Funds sources of revenue include industrial waste discharge permit fees, municipal wastewater permit fees, and subsurface sewage disposal fees. Other Funds sources also finance the administrative costs of the wastewater finance program. Federal Funds are received primarily under the Clean Water Act for operational expenses (Section 106) and for nonpoint source project grants (Section 319) and from other miscellaneous grant sources for a variety of program activities. The Water Quality program relies more heavily on state support for funding than any other program area and is the only program that receives dedicated Ballot Measure 76 Lottery Funds from the Oregon Watershed Enhancement Board.

Most Land Quality programs are financed almost entirely from dedicated Other and Federal Funds. The Solid Waste program is funded entirely by revenue from solid waste permit and disposal fees. Solid waste disposal fees, also known as "tipping" fees, are collected on waste disposed at municipal solid waste sites. DEQ also operates the federally delegated hazardous waste management program. General Fund and fees provide the 25% match required for receipt of Federal Funds. Maintenance of a program approved by the U.S. Environmental Protection Agency (EPA) is a condition of program delegation.

Finally, Agency Management programs are financed solely from indirect cost revenues. The indirect rate is calculated as a percentage of personal services. The actual rate is negotiated annually with EPA once the agency's total budget is established and has generally been around 21% in recent biennia.

Budget Environment

- Air Quality – The federal Clean Air Act requires compliance with federal air quality standards and prevention of air quality deterioration in areas that exceed federal standards. In addition to the negative health impacts on citizens, the penalties for failing to meet standards include increasingly costly control measures, limitations on the siting of new industry, and, ultimately, loss of Federal Highway Funds.

  In the past, nine areas in Oregon exceeded air quality standards and were officially declared nonattainment areas by the EPA: Portland, Salem, Eugene-Springfield area, Medford-Ashland area, Klamath Falls, Grants Pass, La Grande, Oakridge, and Lakeview. Each of these failed to meet standards for one or more of three criteria pollutants – ozone, carbon monoxide, and/or particulate matter. DEQ submitted attainment and maintenance plans to EPA for Portland, Salem, Medford-Ashland, Grants Pass, Lakeview, and La Grande areas and all plans have been approved. The Lane Regional Air Protection Agency (LRAPA) is responsible for air quality assessment and protection activities for cities in Lane County like Eugene, Springfield, and Oakridge and the LRAPA rules must be at least as stringent as DEQ's.

  During the 2016 session, the Department received $2.5 million General Fund to expand DEQ's current Oregon Air Toxics Program through an initiative called Cleaner Air Oregon. This funding allowed increased air toxics monitoring for cadmium, arsenic, and chromium hotspots in Portland, as well as expanding air toxics monitoring across the state. The increased funding was also used to develop a risk-based approach to air permitting for industrial sources through rulemaking. In the 2018 session, SB 1541 further provided the Department with authority to establish permanent rules for the Cleaner Air Oregon program along with a fee schedule. The 2019 Legislature ratified the new fee schedule that will fund the program going forward.

  The Department has been struggling to overcome a backlog in the Air Contaminant Discharge Permits (ACDP) for several years, with a recent Secretary of State audit finding that 40% of these permits were backlogged, attributed in the audit to lack of staffing to handle the increasing volume and complexity of permit writing. Increased staffing funded through a fee increase to the ACDP permits was approved in the 2019-21 legislatively adopted budget discussed further below.

  A relatively new program within the Department is the Electric Vehicle (EV) Rebate Program established through HB 2017 (2017) which requires DEQ to develop and implement a rebate program that incentivizes Oregonians to purchase or lease electric vehicles. A tax on the sale of new electric vehicles funds the rebate program, with the Department of Revenue transferring $24 million in tax revenue per biennium to DEQ. The Department will utilize a third-party vendor for virtually all the rebate program functions at a cost of around $1.3 million, well under the 10% allowable for administrative costs. This rebate program is funded through 2023.

  As part of the settlement with Volkswagen (VW) over its hiding of true emissions for its diesel vehicles, Oregon is eligible to receive up to $72.9 million into DEQ's Clean Diesel Engine Fund over a ten-year period. SB 1008 (2017) authorized DEQ to spend VW monies to provide grants for at least 450 diesel powered school buses to be retrofitted or replaced. This project is anticipated to cost around $18-20 million. The Department anticipates expending around $12 million of the VW settlement funds in 2019-21, with limitation already assumed in the budget. HB 2007 (2019) was approved by the Legislature extending the authorized use of the VW monies beyond school buses, however, no additional expenditure limitation is required to disburse VW settlement funds until the program is able to assess the additional need.

  Finally, the VIP program has a projected revenue shortfall and the Department has requested a fee increase to continue to fund the program at existing operational levels. Without the fee increase, the program would have a reduction of 8 positions (8.00 FTE). Currently the biennial fee for the Portland area is $21 (last raised in 1997) and the fee in the Medford area is $10. The Department proposal would have increased the Portland fee to $25, with the Medford fee increasing by $5 every two years until it also reached $25. The statutes around this program contain an unusual provision that requires the Environmental Quality Commission (EQC) to determine the most cost-effective method of conducting a vehicle pollution control system inspection program before establishing fees for the program. The EQC had not taken any action on that determination prior to session, so the fee increase request was not approved, but the Department and EQC are expected to formally act on a determination that may include a fee increase proposal prior to the 2020 session.

- Water Quality – Under the federal Clean Water Act, either the state or federal government must operate programs to protect the quality of rivers, streams, lakes, and estuaries. DEQ must operate programs to carry out the mandatory requirements of the Clean Water Act that are acceptable to EPA in order to retain program delegation. The alternative would be EPA program assumption. Were EPA to operate the program, funding would possibly be limited to the amount EPA now allocates to the state and might only be sufficient to finance enforcement activities. In addition to the EPA required level of program activity, the Legislature has also required additional water quality programs to be maintained by the Department. In the 2019 session, Oregon's water quality and quantity emerged as one of the Legislature's top priorities and resulted in a significant investment of General Fund across multiple agencies, including DEQ's Water Quality program. Additional information on those investments is detailed below.

  The Water Quality Program has had issues with a growing permit backlog for nearly two decades and the NPDES permit backlog had become one of the worst in the nation. The NPDES permit is required by the Clean Water Act to be updated every five years, but when it is not, it automatically becomes "administratively extended," meaning the permit-holder can still operate under the terms of the permit, even if water quality standards have changed since it was originally issued. This is a potential detriment to the water quality of the State and advantage to the permittee. In 2015, the Legislature directed the agency to hire a consultant to review the permitting program. The consultant's report concluded that the Department lacked sufficient staffing to write the permits, but also that the permit-writing crucially relies on other factors, like the availability of reliable data, and the development of water quality standards and Total Maximum Daily Loads (TMDLs). In late 2018, the Department was directed by a Multnomah County court order to issue new updated permits on all existing permits that are 10 years or older and to reduce the overall backlog from the current roughly 80% to under 10% within a decade.

  The Legislature has historically provided a one-time General Fund of $1.5 to $2 million for the onsite septic loan program which provides funding for low cost loans to repair or replace failing septic systems. SB 1563 (2016) established this program and DEQ has used an outside contractor to run the program. Demand for these loans has far exceeded the available funding. The 2019 Legislature approved SB 884, which provides the necessary statutory language for DEQ to utilize CWSRF funds for this loan program. This will allow qualified entities, required to be registered as community development financial institutions, to apply for loans from the state-revolving loan fund, which could then be used to provide the low-cost loans for septic system repair or replacement. This change will provide a more stable and substantial amount of money eligible to be used for onsite septic loans rather than relying on the General Fund. The Department anticipates being able to utilize CWSRF funds once rule-making is completed to implement the statutory change. This will effectively put the loan program on hold until the rules are in place, which is anticipated to be in late 2020.

- Land Quality – Funding of the Orphan Site program continues to be a challenge. Orphan sites are contaminated sites where the owner is unknown, unable, or unwilling to pay for cleanup costs. Bonds are sold to conduct cleanup of Orphan Sites; however, due to General Fund constraints, state-backed bonds are approved on an intermittent basis. Most recently, the 2017-19 budget included $10 million in bond authorization to fund Orphan Site maintenance and remediation. This program is also involved in planning for the clean-up of the Portland Harbor Superfund site.

  Emergency response and preparedness has also been a concern, as DEQ is the lead agency for cleanup of any oil spill or other hazardous materials. A train oil spill in Mosier in June 2016 severely tested the Department's ability to do this job and quickly exhausted its response resources.

- Agency Management – All funding for Agency Management is generated through its indirect rate charge and is spent as Other Funds. The Department estimates the indirect rate for the biennium as part of its budget development. The actual indirect rate is negotiated each fiscal year, six months in advance. The Department endeavors to maintain an indirect rate where the ratio of Agency Management costs to program personal services is constant. As a result, lower personal service expenditures in the programs reduce Agency Management revenues and expenditures are then adjusted accordingly. This can become problematic for a fully staffed Agency Management Division when the programs have numerous vacancies, as it results in less indirect revenue received.

  The Financial Services section has undergone significant turnover in recent years, and the Department finds itself reliant on antiquated and cumbersome systems for budget development and basic reporting. In the 2019 legislative session, DEQ, under the direction of the Department of Administrative Services Chief Financial Office, has been directed by a budget note to undertake a comprehensive review of its accounting and budget structures and its alignment with existing State budget systems. As part of this review the Department is also directed to contemplate better alignment of budget structures with actual organizational structure; alignment of the Department's current use of positions with legislatively authorized positions; establishment of distinct budget operating areas for dedicated funds; an assessment of the Department's current cost allocation system; and an assessment of the current indirect rate and possible solutions to provide a more stable funding model for Agency Management.

  The Environmental Data Management System (EDMS) is a large-scale modernization and process improvement project that is designed to update DEQ's multiple aging electronic (and sometimes paper) systems for management of data, workflow, and reporting to improve the agency's business practices across all programs. When fully implemented, EDMS should provide a common platform for permit tracking and issuance, inspections, enforcement, invoicing, reporting and more. Initial funding for this project was provided in 2017, with additional funds coming from the sale of $5 million in Article XI-Q bonds authorized by the Legislature in 2018. Another $5 million in bonds has been authorized for issuance in May 2020. The most recent total estimated development costs of the project are around $9.5 million.

- Pollution Control Bonds – The Clean Water State Revolving Loan Fund (CWSRF) program included a different mechanism to fund debt service. Debt service on CWSRF bonds is now paid with Other Funds using interest paid on past loans from the CWSRF. Interest paid on previous loans had been deposited back into the CWSRF and used to make new loans. Debt service on bond sales are now paid using interest proceeds. The CWSRF Program is now self-funding in the sense that all debt service can be paid out of proceeds from interest payments made by CWSRF loan recipients. Oregon receives around $15 million annually from the EPA to capitalize the CWSRF and must provide a match of 20%, or around $3 million per year.

<u>Legislatively Adopted Budget</u>
The legislatively adopted budget for the Department of Environmental Quality is $53.8 million General Fund, $5.3 million Measure 76 Lottery Funds, $222.2 million Other Funds, $29.4 million Federal Funds, and 779 positions (760.40 FTE). The budget total also includes $148 million of Other Funds Nonlimited for Clean Water State Revolving Fund loan activities and debt service. The total funds budget is $46.9 million, or 11.4%, higher than the 2017-19 legislatively approved budget level.

The General Fund budget is $5 million, or 10%, higher than 2017-19. Most of the General Fund increase is a result of the Legislature's overall investment in water quality and quantity issues across multiple agencies. For DEQ, water-related investments included:

- $2.6 million added to significantly improve DEQ's ability to issue water quality permits, work on water quality standards, and develop clean water plans (also known as TMDLs), and includes full or partial funding for 16 additional permanent positions. Some of the funding for the positions will come from a fee increase anticipated to generate $1.2 million Other Funds revenue in 2019-21. The fee increase represents a 17% increase to wastewater permit fees and, along with the General Fund investment, will retain the historical ratio of 60/40 fund split for this program between fees and General Fund support. The corresponding increases to the Other Funds limitation are discussed below.

- $579,590 General Fund was added to continue funding for two positions that monitor and analyze water samples as part of the Oregon Health Authority's rules for drinking water testing around Harmful Algal Bloom. The two positions were originally approved by the Emergency Board at its September 2018 meeting.
- $421,696 General Fund to support two permanent full-time Water Quality Specialist positions to work on the municipal separate storm sewer systems (MS4) permits.
- $232,603 General Fund for a position to support efforts to improve water quality and aquatic habitat specifically in the Klamath Basin where the Department has been working to develop clean water plans.

Other General Fund investments across the Department's programs included:

- $500,000 of one-time funds to support the wood smoke reduction program, which works with local communities to reduce wood smoke emission through woodstove change outs, education and outreach, and woodstove use curtailment. The Department's base budget includes $172,000 to support local programs regarding wood smoke.
- $407,718 General Fund to support two permanent positions related to passage of HB 2007 which directs the Department to develop a program for registration and titling requirements around retrofit diesel engines and establish a voluntary emission labeling program.
- $250,000 of one-time General Fund was provided in HB 5050 for the Department to provide grants to local communities for planning and implementation of smoke management plans consistent with Oregon's new smoke management rules.
- $392,302 General Fund for costs related to the EDMS project that are not eligible to be paid for with bond proceeds.
- $154,715 General Fund and $130,562 Other Funds to support a permanent internal auditor position.
- $651,246 General Fund reduction associated with the elimination of an administrative support position within the Cleaner Air Oregon program, a vacant groundwater hydrologist, and a regional solution position in the NW Region Office.
- $198,824 was reduced to reflect reductions in Department of Administrative Services assessments and charges for service, Attorney General rates, and certain services and supplies.

Other Funds Limited are $27.3 million (or 14%) higher than 2017-19 totals. Other Funds changes by program include:

- Air Quality
  - $5.7 million for the EV Rebate program, which will increase the total limitation for the program in 2019-21 up to the full $24 million that will be received from the Department of Revenue for EV rebate distribution and administration.
  - $2.6 million and continuation of 11 positions (11.00 FTE) for the air toxics program known as Cleaner Air Oregon. This is supported by revenue from fees ratified in HB 5018 which is discussed further below.
  - $636,574 to fund 8 permanent positions (3.66 FTE) that will be phased in to coincide with a fee increase to the state ACDP permit. The positions are to specifically address the air quality permit backlog. Six of the permit writers are funded through the fee increase, and two are for Title V work funded with Title V fees.
  - $615,723 was reduced to reflect reductions in Department of Administrative Services assessments and charges for service, Attorney General rates, and certain services and supplies.

- Water Quality
  - $1.2 million added to support positions related to water quality standards and permits. The funding for these positions comes from a fee increase anticipated to generate $1.2 million Other Funds revenue in 2019-21. The fee increase represents a 17% increase to wastewater permit fees and, along with the

General Fund investment, will retain the historical ratio of 60/40 fund split for this program between fees and General Fund support.
    - $500,000 one-time funding for the Department to hire a contract business analyst to assist with project planning for an eventual replacement of its CWSRF loan management software.
    - $152,143 and a limited duration position to work specifically on the Oregon Department of Transportation municipal separate storm sewer systems (MS4) permit renewal. The two agencies have reached an initial agreement for one year of funding for the position with the possibility of continuing the position into the second year of the biennium.
    - $169,392 to fund a Loan Specialist position to ensure stable and efficient loan services with the CWSRF program.

- Land Quality
    - $3.1 million and three limited duration positions for Solid Waste Orphan Site Account related work around creating an inventory of eligible solid waste disposal sites statewide and commence cleanup work.
    - $461,394 to support two positions that will work on planning, preparedness for, and response to oil and hazardous material spills along high hazard rail corridors. Funding for these positions comes from HB 2209, which establishes an annual fee of 0.05% of gross operating revenues of railroads as well as a fee of $20 on railroad oil tank cars.
    - $258,202 to support two positions, one of which is permanent, to create and oversee a drug take-back program established in HB 3272. After initial start-up, only one position will be needed in 2021-23 and beyond. Revenue for this program will come from fees assessed to manufacturers.
    - $224,097 to support a permanent position that will assist with preparing plans for oil and hazardous material spill response. Funding for this position comes from SB 41, which increased oil spill prevention fees paid by vessels and oil pipelines transporting bulk petroleum.

- Agency Management
    - $2,449,485 and the continuation of 7 limited duration positions to continue the next phase of the EDMS project. This limitation increase will allow the Department to expend the carry-over revenue from the May 2018 bond sale.
    - $1.3 million was reduced across multiple programs to reflect reductions in Department of Administrative Services assessments and charges for service, Attorney General rates, and certain services and supplies.

Other Funds Nonlimited, which are attributed to the CWSRF program, are increased $13.8 million over 2017-19, due largely to the debt service payments associated to meet the state match for up to three federal capitalization grants totaling around $30 million. The CWSRF makes loans to local governments for construction of eligible waste water treatment facilities and is funded primarily with Federal Funds. CWSRF expenditures are dependent on the number of loan applications received from eligible applicants.

The 2019-21 budget includes several increases to fees, either assumed within the Department’s budget (HB 5017), fee ratification bill (HB 5018), or in separate policy bills. In addition to the above-mentioned wastewater permit fees, anticipated to generate $1.2 million in revenue in 2019-21, the Department’s budget also assumes a 70% increase to the ACDP fee that will generate $3.1 million in 2019-21. This fee will be paid by small and medium industrial sources, of which there are currently around 2,600. This fee increase is expected to fund the program, including the additional positions phased-in in 2019-21, for around six years. Finally, the Department’s budget also assumes fee increases to the Hazardous Waste fees paid by hazardous waste generator businesses. These fees, which haven’t been raised since establishment in 2007, are anticipated to generate revenue of $1.9 million in 2019-21, and will fund existing staff and prevent the program from operating at a deficit by the end of the biennium.

HB 5018 contained fees administratively approved by the Department that required ratification by the Legislature. This includes air toxics fees which fund the Cleaner Air Oregon program and create an annual base fee and a one-time activity fee. The fees have been set at the statutory cap of 35% over base permit fees paid in 2018 and this cap will be in place until 2024. Underground Injection Control permit fee increases were also included in HB 5018, which represents a 7% increase. These fees have not been raised since establishment in 2007.

Finally, three policy bills were passed during the 2019 legislative session that also increased program fees:

- SB 40 increased Heating Oil Tank fees to generate $368,754 Other Funds revenue that will support the current four positions within the program. Current revenues only support three positions with a fund balance that is insufficient to continue the program. The Heating Oil Tank license fees were last set in 1999 and certification fees were last raised in 2007.
- SB 41 increased the oil spill prevention fees paid by vessels and oil pipelines transporting bulk petroleum. Revenue is anticipated to be just over $1 million in 2019-21. The last time these fees were raised was 2015.
- HB 2209 creates a new revenue stream through an annual fee of 0.05% of gross operating revenues of railroads and establishes a $20 fee on railroad oil tank cars. The gross operating revenue will fund DEQ's high hazard rail work and is estimated to generate $550,737 in 2019-21. The rail car fee revenue is to be distributed to the State Fire Marshal.

There were no significant additions to the Department's Lottery or Federal Funds budgets. Measure 76 Lottery Funds are up 12% from 2017-19 totals but is equal to the current service level budget and Federal Funds expenditure limitation is relatively flat, only 0.5% higher than 2017-19 levels.

DEPARTMENT OF FISH AND WILDLIFE

Analyst: Terpening

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	31,162,078	29,458,285	32,776,501	35,094,508
Lottery Funds	4,852,625	5,326,259	5,640,031	7,621,405
Other Funds	149,799,195	193,825,411	194,916,970	203,027,596
Federal Funds	108,738,152	135,922,685	141,948,710	144,438,993
Total Funds	**$294,552,050**	**$364,532,640**	**$375,282,212**	**$390,182,502**
Positions	1,463	1,375	1,333	1,357
FTE	1,197.51	1,154.05	1,131.31	1,154.69

Overview

The Oregon Department of Fish and Wildlife (ODFW), under direction of its seven-member Commission, manages the fish and wildlife resources of the state. The agency's mission is to "protect and enhance Oregon's fish and wildlife and their habitats for use and enjoyment by present and future generations." By law, the Department is charged with managing wildlife to prevent serious depletion of any indigenous species and with managing fish to provide the optimum economic, commercial, recreational, and aesthetic benefits. ODFW manages the state's fish and wildlife policies through three primary divisions: Fish, Wildlife, and Administrative Services. Enforcement of the state's fish and wildlife laws is provided by the Department of State Police, Fish and Wildlife Division.

The Fish Division consists of the Propagation, Natural Production, Marine Resources, and Interjurisdictional Fisheries programs and has primary responsibility for managing fish resources within the state:

- Fish Propagation program – Produces fish through artificial propagation to augment natural production and to provide fish for sport and commercial fisheries. More than 70% of all fish caught by recreational anglers and 75% of the salmon harvested commercially are hatchery produced fish.
- Natural Production program – Manages freshwater fish, trout, steelhead, and salmon within the state's rivers, streams, and lakes. The program directs the inventory of fish populations and their habitats, conducts genetic research, assesses freshwater fisheries, develops fish conservation and management plans, manages state and federally listed fishes, operates a fish screen program, and administers angling regulations.
- Marine Resources program – Recommends regulations and assesses harvest of commercial fisheries including ocean salmon, ocean groundfish, estuary bait fish, shrimp, crab, urchin, and other estuarine species.
- Interjurisdictional Fisheries program – Responsible for management of Columbia River anadromous fisheries, coordination of Columbia Basin activities, and participation in regional and international management councils for the management of marine and migratory fish.

The Wildlife Division consists of the Wildlife Management, Wildlife Habitat Resources, and Wildlife Conservation programs and has primary responsibility for managing wildlife resources throughout the state:

- Wildlife Management program – Manages game species including big game, furbearers, waterfowl, and upland game birds. Biologists, with the assistance of seasonal wildlife technicians, inventory big game species, develop and implement species management plans, respond to damage complaints, conduct hunter and harvest surveys, and assist in developing hunting regulations. The Access and Habitat program is used to provide both wildlife habitat improvement and improved hunter access to private lands.
- Wildlife Habitat Resources program – Provides guidance in the agency's development of statewide goals and objectives related to the management of wildlife and their habitat. The program operates state-owned game management areas and develops projects to maintain and improve wildlife habitat.
- Wildlife Conservation program – Responsible for the protection and recovery of non-game bird and animal species through the protection and enhancement of populations and habitat of native wildlife. This represents

88% of the total wildlife species in the state. Non-game biologists conduct species surveys, determine species management requirements, initiate efforts to preserve and improve critical habitats, and coordinate wildlife rehabilitation programs. The program provides consultation to other state agencies regarding threatened and endangered species, as required under the Oregon Endangered Species Act. The program is also responsible for creating and implementing the state's Comprehensive Wildlife Conservation Strategy and the aquatic invasive species program.

Agency Administration provides general support functions to all programs of the Department. The Division includes the Office of the Director, the Fish and Wildlife Commission, Commercial Fishery Permit Boards, and the divisions of Human Resources, Information and Education, Administrative Services, and Information Systems. Agency Administration is also responsible for management of the Point-of-Sale licensing system. ODFW provides funding through a contract with the Department of State Police, Fish and Wildlife Division to provide law enforcement services to ensure compliance with laws that protect and enhance the long-term health and use of the state's fish and wildlife resources, including recreational and commercial fishing laws and regulations and hunting laws. These enforcement positions are included in the State Police budget. Officers in the Fish and Wildlife Division are sworn police officers and can enforce traffic, criminal, boating, livestock, and environmental laws and respond to emergency situations.

Revenue Sources and Relationships

The Department relies heavily on Other Funds revenue from hunting and fishing license and tag sales. The Marine Resources program receives the majority of its Other Funds revenue from the commercial fishing industry through license fees, landing fees, and the proceeds from the sale of confiscated commercial fish which are deposited in the Commercial Fish Fund. The Wildlife Conservation program does not receive license and tag revenue since it deals with non-game species. Instead, the program receives Other Funds revenues from the nongame income tax check-off contributions, interest income, and the new voluntary wildlife conservation stamp.

The Fish Division's Federal Funds revenues are received from the U.S. Department of Energy through the Bonneville Power Administration (BPA), the U.S. Department of Commerce through the Mitchell Act, the U.S. Army Corps of Engineers, the National Marine Fisheries Service, and the U.S. Department of Interior through Sport Fish Restoration funds. The Marine Resources program Federal Funds are primarily from the U.S. Departments of Commerce and Interior for marine resource management. The Wildlife Management program receives Federal Funds through contracts with federal agencies and from the U.S. Department of Interior in the form of Pittman-Robertson Act funds (PR funds). The Habitat program's Federal Funds are derived from contracts with federal agencies, BPA through the BPA Wildlife Mitigation Program, and PR funds. The Wildlife Conservation program receives Federal Funds from the U.S. Department of Interior for threatened and endangered species activities through the State Wildlife Grant program and the Wildlife Conservation and Recovery program.

Budget Environment

The agency is facing a number of major issues including declining fish populations, listings and potential listings of native species as threatened and endangered, operation and maintenance of aging fish hatcheries, the perception of fewer hunting opportunities, landowner relationships and access for hunting, and livestock predation. The Department's Other Funds balances fluctuate over time as license and tag increases build balances early after adoption of increases, which are then depleted over time until a new fee increase is necessary. The Department's low operating balances coming into the 2015-17 biennium caused the Legislature to approve a fee increase during the 2015 legislative session that was phased-in over three years. The final stage of that fee increase will be implemented in 2020.

Past General Fund reductions in ODFW have most often been accomplished through fund shifts. That is by removing General Fund support for a program and shifting that program to another fund type; in the case of ODFW, this has been done most often using Other Funds revenue from the sale of hunting and fishing licenses and tags. These shifts increase the burden to support programs with revenues from hunters and fishers and caused the 2015 fee increases to be coupled with increases in General Fund support to reduce the needed increases in license and tag revenues. Additional fund shifts were implemented in the 2019-21 budget, described below, which will place increased pressure on license and tag revenues. As a result, the Department will likely need to investigate fee increases for the 2021 legislative session.

Legislatively Adopted Budget

The Department of Fish and Wildlife 2019-21 adopted budget totals $390.1 million, which includes $35 million General Fund, $7.6 million Measure 76 Lottery Funds, $203 million Other Funds, $144.4 million Federal Funds, and 1,357 positions (1,154.69 FTE). The Department's total funds budget is a 7% increase from 2017-19 levels.

General Fund support is 19.1% higher than approved 2017-19 budget levels. General Fund investments include:

- $3.9 million to implement the Department's Anti-Poaching Campaign, including funding for four trooper positions and a sergeant within the Oregon State Police Fish and Wildlife Division.
- $702,842 to establish three permanent positions to assist with implementation of the Department's Wolf Plan.
- $435,538 to restart production of summer steelhead for the Santiam river waterways.
- $493,657 for a position and costs associated with the monitoring and removal of sea lions at Willamette Falls and Bonneville Dam.
- $314,717 for two permanent positions to assist with implementing the integrated Water Resource Strategy and conduct base-flow studies for fish habitat.
- $200,000 of one-time funds for the predator control program, which provides pass-through money to the U.S. Department of Agriculture Wildlife Services in partnership with the Oregon Department of Agriculture and Oregon counties.

Other Funds expenditure limitation in the 2019-21 legislatively adopted budget is $9.2 million, or 4.7%, higher than 2017-19. Increases to Other Funds expenditure limitation include the following:

- $1,861,767 representing the shifting of expenditures from General Fund to Other Funds license dollars. Fund shifts were made in the Habitat Resources and Wildlife Management programs as well as at Bandon Hatchery and Nehalem Hatchery.
- $4.4 million for repairs to culverts that are used for fish passage. This is part of a four-year agreement with the Department of Transportation to prioritize road crossings.
- $251,910 to continue a position assisting with the Klamath River basin anadromous fish reintroduction plan.
- $214,916 to continue a position providing technical support to model stream flows and fish distributions.
- $193,947 to continue a Sage Grouse Coordinator position working on sage grouse conservation efforts in eastern Oregon.
- $1.3 million to continue operations of the Leaburg Hatchery.

Measure 76 Lottery Funds are increased 43% through a one-time fund shift from General Fund to Lottery Funds in the amount of $1,797,067, to utilize available balance from the May 2019 forecast. Federal Funds expenditure limitation is 6.3% higher than 2017-19 due largely to an increase in the Pittman-Robertson apportionment, funding for field biologists to assist with local implementation of federal Farm Bill programs, and additional funds for grants within the Volunteer Public access and Habitat Incentive Program, which provides grants to private landowners to allow public hunting access and improve habitat on private lands.

DEPARTMENT OF FORESTRY

Analyst: Stayner

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	102,048,469	135,840,659	91,726,893	90,604,264
Lottery Funds	6,987,642	2,601,001	2,605,450	2,543,451
Other Funds	270,189,305	450,358,882	249,425,178	260,068,337
Other Funds (NL)	1,731,479	--	--	--
Federal Funds	16,914,057	33,907,251	35,532,252	35,483,276
Total Funds	**$397,870,952**	**$622,707,793**	**$379,289,773**	**$388,699,328**
Positions	1,174	1,181	1,159	1,153
FTE	867.47	867.89	852.49	848.99

Overview

The Oregon Department of Forestry (ODF) was established in 1911. ODF is directed by the State Forester who is appointed by the State Board of Forestry. The Board's seven members are nominated by the Governor and confirmed by the Senate. ODF has three operating programs: Fire Protection, State Forests, and Private Forests. These programs are supplemented and supported by centralized business services divisions including Agency Administration, Equipment Pool, and Facilities Management.

The Fire Protection Division protects roughly 16 million acres of private and public forestland with a coordinated system of 12 fire districts comprised of 9 ODF operated districts and three private forest protection associations along with other associated federal, state, and local agencies.

State Forests operations include forest development and the management of Board of Forestry and Common School Trust lands. State Forests manage over 800,000 acres of state forestland for a variety of public purposes including timber sales that provide revenue for the counties in which a sale takes place, the Common School Fund, and to fund the operation of the program.

The Private Forests program is the primary administrator of the Oregon Forest Practices Act providing education, inspection, and enforcement of the lawful management of Oregon forestlands along with collaborative activities including monitoring and improving forest health, urban forestry, and family forestland assistance. The Private Forests program also oversees the operation of the tree-seed orchard.

Budget Environment

Fire protection continues to dominate the budget environment for the Department. The sustained pace and magnitude of wildfires has put a financial strain on the agency and exposed operational and organizational issues that require immediate attention and ongoing solutions. Other significant issues include forest health, climate change, environmental protection, forest management policies, and the general economic climate.

Firefighting on ODF protected lands for the past six seasons (2013-2018) has cost an average of $72 million per year. The six seasons prior to that (2007-2012), average costs were just over $9.3 million per year. This nearly eight-fold increase in magnitude has put a significant strain on the operational and financial structures at the agency. Although up to half of the costs on average have been recoverable through the Federal Emergency Management Agency (FEMA), U.S. Forest Service (USFS), Bureau of Land Management (BLM), or insurance, there is a disconnect between the payment of costs and the recovery of those costs that has been further compounded by organizational issues and personnel capacity issues that have resulted in financial distress for the agency coming in to the 2019-21 biennium.

The evolution of the operational structure at ODF has resulted in some managerial inefficiencies at the agency that are particularly manifest in the centralized business programs and the Fire Protection Division. The Fire Protection Division is comprised of twelve forest fire protection districts, with a "headquarters" function operating out of the Salem campus. All of the fire protection districts were at one time operated as independent organizations by the private land owners in the districts. Adequate protection against the start or spread of fire on or from those lands was provided by the landowners as required by statute through the independent fire protection associations. As the cost of providing fire protection through the associations became unsustainable for the landowners within certain districts, associations contracted with the state forester to operate the fire protection function within the districts on behalf of the associations. These associations are called "non-operating" associations. Nine of the twelve fire protection districts are run by ODF on behalf of non-operating associations via contract. The associations continue to exist, and they have boards and board members that continue to make operational and financial decisions on behalf of the associations. Some of the non-operating districts own and maintain their own motor pools, real property, and buildings. The three remaining fire protection districts are independently operated by "operating" fire protection associations. These are completely independent organizations and are not part of the Department, nor are they state agencies or special districts.

The Coos, Douglas, and Walker Range operating fire protection associations cover a substantial portion of south-western Oregon, a perennial high-risk wildfire area. These operating fire protection associations employee people directly and therefore are not subject to state personnel rules or hiring practices. Employees of the operating associations are not union represented. The operating associations have separate management, accounting, purchasing, and financial management systems. Although the operating associations are required to have annual financial statements certified by a Certified Public Accountant, there is no explicit contractual obligation to allow ODF, the Secretary of State, or any third party to audit their financial transactions or operations. Equipment owned by the operating associations is not required to conform to any standardized requirements as to manufacture or interoperability with the Department. Operating associations have access to and make use of state information technology resources, but do not have oversite by the state on information technology use or security policies.

So, what the casual observer sees as a unified organization, is functionally more like a holding company with nine semi-independent operations and three independent operations working in contractual partnership. This is reinforced again by the fact that the boundaries of the fire protection districts are not the same as the forest districts that are used for the State Forests and Private Forests Divisions. There appears also to be issues with making or implementing managerial decisions with the locus of control divided among the various entities.

There are two items that provide perennial challenges for the Agency Administration program. The first is that each of the fire protection districts or associations has a board elected by represented landowners in the district that develop a district budget on an annual basis that is entirely outside of the biennial budget development and implementation process for which the Agency Administration program is responsible. Although the individual annual budget proposals must be approved by the State Forester, the proposed budget may not comport with the strategic aims or the tactical plans of the agency as a whole. The annual budgets, once approved, have to be "shoe-horned" into the biennial budget, with over-runs being reflected as budgetary shortfalls at the district level that must be picked up by the following year's budget. This also may include requests for additional General Fund appropriations to accommodate the shortfall. The second, and compounding issue is that the fire protection districts have positions directly budgeted and working in the programs where their chain of supervision leads either explicitly or implicitly to the district board and not to agency management. This is particularly the case for certain administrative positions including accounting, budgeting, accounts payable and receivable, human resources, and purchasing.

There also appears to be some financial risk that is shifted from the operating districts to ODF. Although the operating districts are financially independent (administratively), fire costs in those districts are paid to vendors by the associations under the same 45-day time structure adopted by the agency. This often means that funds are passed to the operating association by ODF that are attributable to obligations of the Oregon Forest Land Protection Fund (OFLPF), FEMA, USFS, BLM, or the General Fund, prior to ODF receiving funding from those fund sources. This effectively makes ODF a bank that finances the costs of emergency fire protection in the operating associations to the possible detriment of ODF's other operations. This situation is exacerbated by the ability of the Emergency Fire Cost Committee (EFCC) to allocate OFLPF emergency fire liabilities to specific fires. The EFCC can effectively direct the available OFLPF funding to operating districts with emergency fire costs rather than allocating the funding across all districts with fire costs, providing the operating districts a disproportionate cash flow advantage.

Forest health management will continue to be a significant issue in the upcoming biennium. Forest insect outbreaks can cause significant tree mortality and damage leading to economic losses and increased fire danger. The significant insect risk in Oregon is from bark beetle outbreaks. Diseases, including Sudden Oak Death and Swiss Needle Cast, are expected to continue to spread in Oregon, although containment efforts and improved disease-resistant plantings are being implemented. Sudden Oak Death is an invasive, non-native pathogen that spreads its spores by air, but can also be spread by transporting infected plant material to uninfected areas. Swiss Needle Cast, a foliage disease of Douglas-fir, is affecting a significant portion of state forestlands in the Tillamook State Forest.

Endangered or threatened species continue to factor into the operations of ODF, including in the management plan for state forests, the administration of the Forest Practices Act, and the support of rangeland protection associations. Federally listed species have affected the management of state forests over the last decade. Listings for fish and bird species influence the ability to manage the resource to achieve revenue goals on state forest lands, particularly impacting the revenue on lands owned by the Department of State Lands (DSL) for the benefit of the Common School Fund. Concern over the possible listing of the Greater Sage Grouse as an endangered species has prompted statewide investment in programs to improve sage grouse habitat. This issue is of ongoing concern and includes the establishment of a multi-agency approach to preserve the habitat and prevent the future listing of the birds. A complaint was filed in June 2018 and alleges that timber harvest, road construction, use, and maintenance on Board of Forestry owned state forestlands are causing take of threatened Coho salmon on the Clatsop and Tillamook State Forests in violation of the federal Endangered Species Act

The Department is currently defending a class action lawsuit – brought by the counties and local taxing districts that receive revenue from the harvest of timber from state forest lands – regarding the management of state forests for multiple values. The counties allege that the current Board of Forestry management plan does not maximize revenues due to reduced harvest rates compared to what allegedly might be possible if the board was not also managing the forests for purposes other than revenue production. Trial is set for October 24, 2019 and is expected to last 3 weeks. As of October 1, 2019, pre-trial motions have all been filed and the agency is preparing for the trial.

Water quality issues are anticipated to be an ongoing issue during the biennium. A January 2015 finding by the National Oceanic and Atmospheric Administration (NOAA) and the U.S. Environmental Protection Agency (EPA) regarding the multiple state-agency plan for the non-point source water quality program resulted in the withholding of certain federal funding under the Coastal Zone Management Act. The reduced grant funding for the Department of Land Conservation and Development (DLCD) and the Oregon Department of Environmental Quality (DEQ) in the federal fiscal years beginning October 1, 2017, was due, in part, to concerns about the efficacy of the riparian rules developed by the Oregon Board of Forestry. This issue has not been resolved to date.

The Legislature, during the 2017 session, authorized the sale of certificates of participation (COPs) to provide net proceeds of $100 million and approved the establishment of an Other Funds expenditure limitation for ODF of $100 million plus roughly $1 million for bond issuance costs for the payment of monies to finance the release of all or a portion of the Elliott State Forest from restrictions resulting from ownership of that forest by the Common School Fund. No debt service was required to be in the prior biennium's budget since the bonds were issued in the spring of 2019, however General Fund debt service in the 2019-21 biennium for Elliott State Forest COPs is $14,591,040.

Legislatively Adopted Budget
The 2019-21 total funds budget for the Department of Forestry is $388,699,328 and supports 1,153 positions (848.99 FTE). This amount is $234 million less than the 2017-19 legislatively approved budget, however, the 2017-19 legislatively approved budget included $109.1 million in emergency fire costs and $100 million in Other Funds expenditure limitation for bond proceeds related to the Elliot State Forest. After removing these extraordinary items, and one-time funding provided in 2017-19, the net operational budget change between the 2017-19 biennium and the 2019-21 biennium is an increase of roughly $7.46 million, or 1.9%.

Agency Administration and Centralized Business Services

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	4,921,496	5,880,472	22,191,327	19,747,765
Lottery Funds	6,987,642	2,601,001	2,605,450	2,543,451
Other Funds	47,675,221	166,947,463	64,885,972	64,243,822
Other Funds (NL)	1,731,479	--	--	--
Federal Funds	1,105,364	2,633,233	2,780,898	2,799,114
Total Funds	**$62,421,202**	**$178,062,169**	**$92,463,647**	**$89,334,152**
Positions	145	132	139	140
FTE	139.09	138.14	137.36	138.49

Program Overview
The Agency Administration, Equipment Pool, and other centralized business programs support the operating divisions of the agency. These programs provide agency-wide services including leadership, planning, policy development, finance and accounting, payroll and human services, asset management, and debt service. The table above illustrates the combined budget for the following budgetary units:

- Agency Administration – 111 positions, 108.76 FTE. Includes the State Forester's office, Board of Forestry support, and traditional support functions such as finance, property management, personnel, information services, and public relations. Agency Administration is also responsible for policy development, forest resource analysis and planning, administration of the log brand inspection program, and land use planning coordination.
- Equipment Pool – 29 positions, 29.73 FTE. Operates a motor pool and a radio pool. The motor pool manages 5 fleets, 16 mechanic shops, and an aviation unit with one aircraft. The radio pool supports and maintains 3,500 pieces of major communication equipment such as repeaters, base stations, and mobile and portable radios. The radio pool provides the equipment, engineering, maintenance, and support for the Department's cooperators: 3 fire protection associations, the Department of Fish and Wildlife (ODFW), and the Oregon Parks and Recreation Department (OPRD).
- Facilities Maintenance and Management – Provides oversight and coordinates preventive maintenance, repairs, improvement, planning and construction, and management for the agency's structures and facilities throughout the state. The program unit is charged with developing a statewide facilities rental pool program to charge other program and field operations the cost of constructing, operating, maintaining, repairing, replacing, equipping, improving, acquiring, and disposing of structures.
- Capital Budgeting – Includes Capital Improvement projects and Major Capital Construction projects. The Department owns and maintains 412 structures statewide. Examples include mountaintop lookout facilities, fuel facilities, remote forest fire guard stations, district and unit offices, seed processing facilities, and automotive maintenance shops. Many buildings need improvement or major construction because of age, type of construction, changing building codes, and growth of the agency. The Department's Long-Range Facilities Management Plan coupled with site master plans provides details on major construction needs over

the coming ten-year period. Site master plans and feasibility studies are contracted for by the Department to determine major construction needs to meet workload projections at each site. The Department works with the Capital Projects Advisory Board for review of the agency's major construction, space, and maintenance needs.

- Debt service – Includes payments of principal and interest on certificates of participation (COPs) issued for the construction of the Salem Headquarters Office Complex and a portion of capital construction relocation projects in John Day and Sisters. General Obligation bond payments of principal and interest are included for a portion of the capital construction relocation projects in John Day and Sisters, the Toledo facility replacement, the Gilchrist Forest land acquisition, and the Elliott State Forest.

Revenue Sources and Relationships

The centralized services programs are funded by revenue transfers from, or fees charged to, the operating divisions. This revenue appears as Other Funds in the centralized services programs, but the underlying funding source depends on the funding structure of the operating program. Where an operating division is funded with General Fund, the transfer of the General Fund portion of the central service program cost is budgeted as an expenditure in the operating division and counted again when expended as Other Funds in the centralized services program. The only exception to this process is in the Debt Service program where General Fund or Lottery Funds are appropriated directly.

Agency Administration regularly performs a "widget study" for the purpose of allocating the costs of the Agency Administration. The widget study is the method that the agency uses to determine the distribution of costs due to administrative services functions among operating divisions of the agency. The study results in a percentage of costs assigned to each operating program, the sum of which is 100% and accounts for nearly all of the Other Funds revenue for the administrative division. The current cost allocation is: Fire Protection 52.39%, Private Forests 12.71%, State Forests 29.96%, Equipment Pool 4.34%, and Federal Forest Health 0.60%. The contribution paid by each of these programs is composed of the underlying fund sources of each. In the case of the Fire Protection Division, no administrative pro-rate is assessed to private land owners; the General Fund and public landowners are charged instead. ODF estimates that roughly 48.58% of the pro-rata revenue agency-wide is from the General Fund. In addition to the agency-wide functions of Agency Administration that are funded with the pro-rate charge, Agency Administration has a limited amount of project-specific revenue from General Fund, Other Funds, and Federal Funds.

Expenditures for the Equipment Pool program are completely financed from fees charged to equipment pool users. As noted above, these are from multiple fund sources, depending on the funding structure of the users. The program also receives Other Funds from the ODFW and OPRD for participation in the radio pool.

Revenue to pay debt service comes from the General Fund (83.7%), Lottery Funds (12.9%), and Other Funds (3.4%). The associated Other Funds revenue is based on a square footage assessment to the Equipment Pool from the Radio and Motor Pool Funds; the State Forests program from the Forest Development and Common School Lands Funds; and the Private Forests program from the Forest Products Harvest Tax. Generally, costs are prorated among the funding sources of the programs that occupy the specific facility.

Federal Funds revenue in the Agency Administration program is nearly exclusively due to the administration of federal grants by the Partnership Development Section. This program manages roughly $20 to $30 million in federal grants awarded to the agency.

Budget Environment

Agency Administration performs roles in interagency communications with federal government agencies, the Governor's Office, and other state agencies involved in natural resource activities. The program has experienced increasing information needs to address public involvement in areas such as the development of forest management plans in the State Forests Program, including the Northwest Oregon Forest Management Plan. Due to a strong interest in the social, economic, and environmental aspects of forest management generally, public interest and involvement in all Department programs and activities is high and will likely increase.

Motor pool operations are affected by changes in fuel prices. The radio pool is affected by changing telecommunications technology (narrowband and digital), Homeland Security, and the Statewide Interoperability Executive Committee, which is requiring new strategies to provide the most efficient and effective exchange of information.

Many of the Department's structures were built in the 1930s, 40s, and 50s. The Department's current building inventory includes 432 buildings or other facilities with a current replacement value of $229.6 million. The Department uses a long-range facilities management plan to coordinate major maintenance, improvements, and construction projects on a statewide basis projected over a ten-year period. Site master plans prepared by private consultants are utilized for developing major construction proposals. These site master plans are coordinated with the long-range management plan in developing the agency capital budget.

Legislatively Adopted Budget

The Agency Administration and Central Business Services' 2019-21 total funds budget is $89,334,152 and includes 140 positions (138.49 FTE). The net change from the 2017-19 legislatively approved budget is a decrease of $88.73 million, or 49.83%. The vast majority of this change is due to the phase-out of Other Funds expenditure limitation totaling $101 million for bond proceeds related to the Elliot State Forest offset by an increase in General Fund for the debt service on those bonds. The General Fund budget for the program totals $19,747,765, which is a $13.87 million, or 235.8%, increase from the 2017-19 legislatively approved budget.

The precipitous fall in Other Funds expenditure limitation in the Agency Administration program is due to the phase-out expenditures related to the partial decoupling of the Elliott State Forest from the Common School Fund. Following the abandonment by the State Land Board of a proposed sale of the Elliott State Forest, the Legislature, during the 2017 session, authorized the sale of COPs to provide net proceeds of $100 million and approved the establishment of an Other Funds expenditure limitation for ODF of $100 million plus roughly $1 million for bond issuance costs for the payment of monies to finance the release of all or a portion of the Elliott forest from restrictions resulting from ownership of that forest by the Common School Fund. No debt service was required to be in the prior biennium's budget since the bonds were issued in the spring of 2019, however General Fund debt service in the 2019-21 biennium for Elliott State Forest COPs is $14,591,040.

Although there was not a significant impact to the program's expenditures, the budget recognizes a reorganization of the Administrative Services Division. The reorganization moves the Administrative Services Division chief to a Deputy Director for Administration position that continues management of the Division and adds supervision of Public Affairs, Human Resources, and Internal Auditing functions. The remaining operational divisions including Fire Protection, State Forests, and Private Forests remain under the Deputy Director for Operations (Deputy State Forester). The former Administrative Services manager position is utilized as an Assistant Deputy Director for Administration. Six additional positions were repurposed including the elimination of redundant managerial positions in favor of the creation of two accounting positions directly working on FEMA claims and payments processing. An additional Information Specialist Position (1.00 FTE) is also established. The agency believes that by clearly bifurcating the operational and administrative functions of the agency that it can more effectively and efficiently manage the organization. The net budgetary result of the reorganization is a reduction of $4,924 Other Funds expenditure limitation and the addition of 1 position (1.27 FTE).

Capital Construction Other Fund expenditure limitation covering six years in the amount of $3,832,965 was provided to the agency during the 2017 legislative session (SB 5506) for the replacement of a facility in Toledo that houses both Fire Protection and Private Forests programs. The building will be shared with the Oregon Department of Transportation (ODOT). A portion of the bonds to fund the construction of the building were issued during the prior biennium with a par-value totaling $900,000, the remaining $2,932,965 required for the project will be funded by bond proceeds from bonds authorized to be issued in the 2019-21 biennium. The debt service on the bond is anticipated to be $290,463 total funds ($168,904 Other Funds and $121,559 General Fund).

Fire Protection

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	79,691,252	111,987,734	52,152,969	51,701,898
Other Funds	132,257,298	178,759,523	76,635,706	76,368,736
Federal Funds	8,274,020	16,799,716	17,756,258	17,711,687
Total Funds	**$220,222,570**	**$307,546,973**	**$146,544,933**	**$145,782,321**
Positions	674	689	677	675
FTE	391.16	394.66	390.67	390.59

Program Overview

Forest wildfire protection in Oregon is provided through a coordinated effort among local, state, and federal resources. The Department's Fire Protection program protects 13.17 million acres of public and private forestland, about half of the state's total forest acreage, and 3.17 million acres of grazing land for a total of 16.34 million acres protected. Of the total acreage protected, 12.53 million is privately owned, 1.42 million is state and local government land, and 2.39 million is federal, mostly BLM western Oregon lands protected under contract. The program provides central and field administration, fire suppression crews, facilities maintenance, fire cache, communications, and weather and mapping services. Program services are delivered through 12 forest protection districts, including three locally managed Forest Protective Associations. Nearly 60% of all agency positions and 46% of all FTE are assigned to this program.

Until 1965, landowners paid the entire cost of fire protection. Then, the Legislature established a cost-share model by limiting landowner costs depending on the use and geographic location of the property. The state was responsible for costs above the limitations. In 1973, the Legislature established the "pro-rata" share per acre concept whereby landowners are assessed for base-level fire protection on the basis of the number of acres they own within a specific fire protection district. In 1989, the law was modified to provide for a 50/50 landowner/General Fund split of the cost for base-level fire protection on privately owned lands. For a few years in the mid-1990s, the General Fund share dropped to 45%. Since 1999, the ratio has been 50/50; however, private landowners do not pay for the portion of the agency administrative costs allocated to the Fire Protection program. These administrative costs are paid by the General Fund and assessments on public forestlands. The subsidization of the agency administration costs results in an average cost share on private land of 55% General Fund and 45% private landowner assessments. With private lands representing roughly 77% of the total acres of lands protected, private landowner assessments represent about 34.5% of the program's budget.

Revenue Sources and Relationships

The state provides protection from forest fires in three layers: base protection, severity resources, and large fire protection. Base protection funding ensures readiness and initial attack response at the local district level. That cost has been shared by private landowners and the state since 1991. ODF also draws on a special appropriation of General Fund combined with public and private landowner dollars through the OFLPF to provide retardant-dropping air tankers, water-dropping helicopters, and other resources that can be placed where the immediate or projected threat is highest. Firefighting costs for large fires are covered through a mix of General Fund, Federal Funds, public and private landowner funds, and a catastrophic wildfire insurance policy.

- Base Protection – ODF's base protection program is delivered through local Forest Protection Districts. The establishment of the forest protection districts is codified in ORS 477.225. Revenue to support the Fire Protection Division (including the fire protection districts) comes from a combination of General Fund, Federal Funds, and Other Funds via forest patrol assessments on private and public forest landowners. Statute outlines a pro-rata cost per acre formula segregated between timberland east and west of the crest of the Cascades and grazing lands. The funding mechanism for the landowner assessment is codified in ORS 477.230. Forest patrol assessments charged against subject landowners vary by district, as each district budget is developed independently. Non-public landowner's contributions are capped at 50% of the per-acre rate established for the fire protection district in which the lands lie; the shortfall is funded with the General Fund. The remaining public landowners, including local, state, and federal entities, receive no General Fund match and pay the full cost of their per-acre fire protection assessment. In addition, the costs of the Agency Administration Division that are allocated to the Fire Protection Division are not shared between the General Fund and the private landowner assessment; those costs are borne entirely by the General Fund and public landowner assessments. The General Fund also provides a biennial subsidy of $2 million to offset a portion of the cost of private landowner assessments for fire protection on low-productivity lands.

- Severity Resources – These resources, primarily aviation, are meant to span both the base protection and large fire protection layers. Each season, ODF contracts with a number of local and national resources to provide air and ground support with the aim of preventing small fires from growing into large, costly fires. These provide fast-attack resources during periods of multiple fire starts and heightened fire danger. When severity resources are utilized on large fires, those expenses are allocated to large fire costs and are not charged against the severity resources budget. Therefore, ODF contracts for severity resources typically exceed the amount of funding provided, but this ensures the availability of the resource during heavy fire seasons. The revenue that supports these expenditures comes from both the General Fund and Other Funds from the OFLPF. Additional revenue information is provided in the following section for the OFLPF. In the event of a qualified fire, FEMA also provides funding for the pre-positioning of severity resources.

  The General Fund share of severity resource funding, $4 million, is appropriated to the Emergency Board and allocated to the Department of Forestry after each fire season. The OFLPF share of severity resource funding in the amount of $6 million is included in the agency's budget.

- Large Fire Protection – Large fire, or catastrophic fire, protection pays for emergency suppression costs. There is no state budget for large fires because these fires are unpredictable. Funding for emergency fire costs are provided by the General Fund, catastrophic fire insurance, and by the public and private landowner funded OFLPF. The fund is administered by ODF's Emergency Fire Cost Committee, a four-member committee composed of private landowners or their representatives appointed by the Board of Forestry. The OFLPF essentially serves as a reserve fund to provide for emergency fire cost funding in conjunction with the General Fund. Revenues to support the OFLPF are estimated to be $10.9 million in fiscal year 2020. The taxes and assessments that generate revenue to the fund are assessed on all lands, public and private, that are in ODF protected districts and all commercial timber harvests. These include:
  - Harvest tax of $0.625/thousand board feet (mbf) on merchantable forest products ($1.73 million, 15.7%); the tax is reduced when the reserve base amount of the OFLPF is projected to exceed $22.5 million and is suspended when the reserve base exceeds $30 million.
  - Acreage assessment on all protected forest land ($0.05 per acre for protected western Oregon forestlands, $0.075 per acre for eastern Oregon protected forestland, and $0.075 per acre for all grazing lands) ($833,198, 7.6%).
  - Assessment of $3.75 per lot (out of the $18.75 minimum assessed for forest patrol) ($716,402, 6.5%).
  - Surcharge of $47.50 for each improved tax lot ($7.42 million, 67.7%).
  - Interest Earnings ($265,079, 2.5%).

The OFLPF expenditures are capped at $13.5 million annually as defined in ORS 477.755. Authorized expenditures of the OFLPF include:

- Equalization of emergency fire suppression costs in fire districts
- Administrative expenses
- Up to 50% of emergency fire insurance premium costs
- The purchase of non-routine supplemental fire prevention, detection, or suppression resources

- Up to $3 million for severity resources
- Up to $10 million for fire suppression costs

The first $20 million in large fire suppression costs in a fire year are shared between the General Fund and the OFLPF equally. Any amount in excess of the initial $20 million, up to the deductible/retention amount of the catastrophic fire insurance policy (if available) is the state's responsibility. Costs in excess of the deductible and the insurance proceeds also fall to the state, but statute does not specifically state that the costs are General Fund liabilities.

Federal Funds Programs – The budget includes $17.7 million in federal revenues to support fire protection activities. This amount is maintained to cover the estimated available federal funding received by ODF from various federal agencies, primarily the USFS through the Consolidated Payment Grant. The actual funding received varies each biennium as many of the programs include competitive grants and various short-duration grant opportunities. Some of the Federal Funds are one-time funding opportunities and others become annual programmatic grants.

Smoke Management/Fuels Program – This program receives its funding from registration and burning fees collected from public and private landowners, contractual payments from other government agencies, and landowner assessments.

<u>Budget Environment</u>
Fire suppression efforts and costs are driven by factors that include forest fuel loads, forest health (insect and disease damage), weather (drought and lightning storms), and human behavior and cannot be predicted with certainty.

The siting of dwellings and other improvements on forestlands continues to increase the challenges to fire managers. The increasing number of homes located in forests complicates protection priorities, results in higher costs and greater damages, and requires additional coordination by fire protection agencies. Numerous structures located on forestland have not been included within the boundaries of rural fire districts and are unprotected.

With diminished harvests on federal lands, private sector resources such as logging crews and equipment that could be used for contract firefighting have declined. Federal fire management policies vary significantly between different federal forest lands. Some of these policies are considered to be counterproductive to fire protection activities, including allowing the build-up of fuels and the closure or non-maintenance of access roads.

The increase in the occurrence and severity of wildfires across the nation continues to put stress on the availability of firefighting resources such as aviation equipment and trained fire crews. ODF consistently over-contracts for aviation resources to ensure the availability of these resources in a severe fire season. In the 2017 fire season, the shortage of trained fire crews required many states to utilize National Guard troops to assist in firefighting. The cost of these National Guard crews is substantially more expensive than contract crews due to the additional training and equipment necessary.

Firefighting on ODF protected lands for the past six seasons (2013-2018) has cost an average of $72 million per year. The six seasons prior to that (2007-2012), average costs were just over $9.3 million per year. This nearly eight-fold increase in magnitude has put a significant strain on the operational and financial structures at the agency. Although up to half of the costs on average have been recoverable through FEMA, USFS, BLM, or insurance, there is a disconnect between the payment of costs and the recovery of those costs that has been further compounded by organizational issues (as discussed in the Agency Overview section) and personnel capacity issues that have resulted in financial distress for the agency coming into the 2019-21 biennium. ODF has "carried" the cost of emergency fire suppression by utilizing temporary lines of credit provided by the State Treasury and using operating cash on hand from revenues to the forest development fund, harvest tax revenues, federal revenues, and OFLPF balances while awaiting General Fund appropriations and federal agency reimbursements. When the average fire costs were smaller, the impact to the cash flow of the agency and its non-fire operations were minimal. With the sharp rise in costs, the agency lacks the financial capacity to carry these costs and that lack of resources has highlighted operational shortfalls in how the costs are accounted and recovered. Just prior to the beginning of the 2020 fiscal year, ODF had to restructure an emergency firefighting line of credit with the State Treasury to extend the due date of that line of credit to better align with anticipated recovery of funds to alleviate immediate cash flow concerns. Without a steep reduction in average fire costs, the agency will continue to have cash flow issues even if operational issues are resolved unless a fire cost funding facility is established outside of the agency's operational cash reserves.

Due to the extraordinary losses by insurers during the 2013 and 2014 fire seasons ($50 million), it was questionable whether the state would be able to renew a catastrophic insurance policy for the 2015 fire season and, if so, at what terms. A 2015 fire season policy was secured by ODF with $25 million in loss coverage and a deductible (retention) of $50 million at an annual premium cost of roughly $3.75 million. Although the 2015 fire season was significant with respect to total costs, a large portion of the costs were covered by FEMA and other agencies. The General Fund paid $9.6 million in excess of the first $20 million in net costs, those first $20 million in costs being shared between the OFLPF and the General Fund, but total costs did not exceed the retention threshold of the insurance policy and, therefore, no claim was made for the 2015 fire season. The 2016 fire season insurance premium was slightly less ($3.53 million) than the 2015 premium, but the OFLPF had reached its statutory cap and was only able to provide $392,831 towards the total, with the General Fund paying $3.14 million (88.8%).

For the 2017 fire season the quoted premium declined slightly once again to $3.38 million with no claims made against the 2016 fire season policy. The EFCC recommended the purchase of the policy to the State Forester with the premium to be split between the General Fund and the OFLPF at $1.69 million each. The fire insurance premium for the 2018 fire season increased to $3.58 million. Although the 2017 fire season did not produce net costs in excess of the $50 million policy retention, costs once again exceed the $20 million shared cost obligation of the OFLPF and leaving the OFLPF with roughly only $400,000 available for insurance premium costs before hitting its statutory cap on expenditures for the year. General Fund of $1,764,690 was included in the agency's budget for the 2018 fire year insurance premium costs, leaving a shortfall of $1.42 million after applying the available funding from the General Fund and the OFLPF. That shortfall was not resolved pending the resolution of 2014 fire season costs which may have been overestimated, and overfunded by the General Fund, by up to $2.8 million. For the 2019 fire season, the premium rose once again to $3.73 million. Available funding from the OFLPF totaled $532,747. The remaining $3.2 million obligation was funded in HB 5019 (2019).

Legislatively Adopted Budget

The Fire Protection Division 2019-21 total funds budget is $145,782,321 and includes 675 positions (390.59 FTE). This amount is 52.6% lower than the 2017-19 legislatively approved budget due to the phase-out of $64.4 million General Fund and $102.8 million Other Funds for costs related to the 2017 and 2018 fire seasons. The General Fund budget for the program totals $51,701,898, an 11.5% increase from the 2017-19 legislatively adopted budget.

The legislatively adopted budget for the Fire Protection Division is substantially equal to the current service level for the program with minor adjustments that were made to all agencies for inflation, Attorney General costs, and state government surcharges.

In addition to the 2019-21 budget for ODF, the budget bill for the agency (HB 5019) established a special purpose appropriation of $8 million General Fund to the Emergency Board. This appropriation to the Emergency Board is for ODF for the purpose of fire severity resources ($4 million), anticipated catastrophic wildfire insurance premium costs ($2 million) and supplemental Fire Protection program personnel costs due to extended fire seasons ($2 million).

A budget note was adopted by the Legislature regarding the appropriation to the Emergency Board for supplemental Fire Program personnel costs:

> The special purpose appropriation made to the Emergency Board for supplemental Fire Program personnel costs due to extended fire seasons is intended to only be allocated to ODF in the event that an early fire season, or an extended fire season warrants the need for additional or extended employment of personnel that the agency cannot accommodate with budgetary resources otherwise.

State Forests

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	--	--	--	200,000
Other Funds	80,792,866	93,706,996	94,886,246	106,513,000
Federal Funds	3,041,880	878,085	909,460	909,381
Total Funds	**$83,834,746**	**$94,585,081**	**$95,795,706**	**$107,622,381**
Positions	231	248	220	216
FTE	222.37	224.77	210.82	205.92

Program Overview

The State Forests program manages 762,722 acres of forestlands including state forests owned by the Department and forestlands owned by the State Land Board for the benefit of the Common School Fund. ODF owns around 95.7% (729,718) of these acres, including five state forests (Tillamook, Clatsop, Santiam, Sun Pass, and Gilchrist) and small, scattered parcels. The state acquired these lands primarily in the 1940s from counties that had received the cut-over or burned lands from private owners in lieu of delinquent property taxes. The Board began purchasing the Gilchrist tract in 2009. Board of Forestry lands are managed to achieve the greatest permanent value to the state. This definition includes providing a full range of social, economic, and environmental benefits.

The remaining 4.3%, or 33,004 acres, are the Common School Lands, which are managed by ODF under contract with the State Land Board. The Common School Lands are managed to obtain the greatest benefit for the people of the state, consistent with the conservation of this resource under sound techniques of land management. This has been determined to mean that the State Land Board should manage the land to maximize long-term revenue to the Common School Fund, within the context of environmentally sound management.

The State Forests program co-operates the South Fork Forest Camp (SFFC) with the Oregon Department of Corrections. The camp is a satellite facility to the Columbia River Correctional Institution. The camp provides aid in the restoration and administration of state forests and provides work crews for emergency forest fires. The inmate population supports up to 15 ODF crews.

Revenue Sources and Relationships

The State Forest program is funded primarily by Other Funds that are produced by the sale of forest products on Oregon Board of Forestry lands and secondarily by management fees for Common School Trust lands. Federal funds revenue included in the budget is generally in the form of grant funds, including funding for the purchase of certain lands in the Gilchrist State Forest.

Revenue from the sale of forest products produced and sold on Board of Forestry lands is divided according to a statutorily defined formula between the county in which the subject lands are situated and the State Forests program. Generally, this formula provides 36.25% of the revenue generated for the operation of the State Forests program, including the allocated costs of fire protection. The remaining 63.75% is distributed to the counties and local taxing districts where the forestland is located. The estimated total revenue in the 2019-21 biennium from forest product sales on Oregon Board of Forestry forestland is $234.36 million. The table to the right presents the revenue transfers to counties in FY 2018 from timber harvests on Board of Forestry Lands.

FY 2018 County Share of Revenue from Harvests on BOF Lands	
County	Amount
Benton	$750,958
Clackamas	$618,091
Clatsop	$32,267,665
Columbia	$970,033
Coos	$54
Douglas	$791,755
Josephine	$42,279
Klamath	$2,494,103
Lane	$4,510,877
Lincoln	$4,081,104
Linn	$3,989,617
Marion	$1,145,705
Polk	$72,031
Tillamook	$17,336,819
Washington	$11,820,105
Total	$80,891,196

Council of Forest Trust Land Counties Annual Report for Fiscal Year 2018

Revenues from harvests on Common School Trust forestland managed by the State Forests Division are anticipated to be $6.76 million in the upcoming biennium. A management fee is charged to the State Land Board for the operation and management of the Common School Trust forestlands. The anticipated revenue to ODF from management fees charged to DSL is $4.82 million in the 2017-19 biennium. This provides $1.94 million in net income to the Common School Fund.

OPRD transfers roughly $1.6 million Other Funds to the State Forests program for trail and recreational opportunity enhancements from permit fees charged to users of All Terrain Vehicles (ATVs).

Budget Environment

The program manages State Forests to meet the statutory and constitutional fiduciary responsibilities through timber harvests while protecting and making available other forest values – social, recreational, educational, and environmental benefits. Under the current state forest management plan, timber harvests are close to or at the maximum sustainable level. Increased income from state forests can only come through a change to the management plan or an increase in funds received through timber sales.

The varied uses of the state forests put pressure on the budgetary resources of the program. Since the state forests are managed for more than just the ability to produce revenue, including social and environmental benefits, the sometimes competing uses put a strain on the ability of the program to manage and fund all of the uses effectively. Environmental preservation and recreational uses continue to grow and are often in direct conflict with the revenue model of the program.

ODF is currently defending a class action lawsuit – brought by certain counties and local taxing districts that receive revenue from the harvest of timber from state forest lands – regarding the management of state forests for multiple values. The counties allege a breach of statutory conduct due to the current Board of Forestry management plan not maximizing revenues as a result of reduced harvest rates compared to what allegedly might be possible if the Board was not also managing the forests for purposes other than revenue production.

The original Linn County judge hearing the complaint retired over the 2019 summer and a new judge was assigned to hear the complaint. The new judge assigned also took over as presiding judge of the Linn County Circuit Court. Trial is set for October 24, 2019 and is expected to last 3 weeks. As of October 1, 2019, pre-trial motions have all been filed and the agency is preparing for the trial.

The Court has determined there is a statutory contract, but the terms are ambiguous, so a jury will be asked to decide: what the terms of the contract are, if there are damages, and the amount of the damages, if any.

A settlement conference was requested by the plaintiffs and discussions have been ongoing since early summer. This is a step required by the courts to ensure a trial is needed, it does not necessarily indicate that the state is moving toward a settlement in the case, but the settlement conference may determine if the expense of a trial can be avoided. Cost as of September 2019 for ODF are $1,986,993, including Department of Justice legal fees ($1,102,789); and expert witness, data storage, and document processing fees ($884,204). Through the completion of the trial, total costs are expected to approach $2.5 million.

A second lawsuit being defended by the State Forests Division was filed by the Center for Biological Diversity, Native Fish Society, Cascadia Wildlands, the Pacific Coast Federation of Fishermen's Associations, and the Institute for Fisheries Resources. The complaint was filed in June 2018 and alleges that timber harvest, road construction, use, and maintenance are causing take of threatened Coho salmon on the Clatsop and Tillamook State Forests in violation of the federal Endangered Species Act. The Oregon Forest Industries Council and Tillamook County are intervenors in the case. Unlike the county class-action suit, this case is covered by the Department of Administrative Services, Risk Management.

The case has been assigned to U.S. District Court, Portland Division. A hearing was held in January on certain motions and the presiding judge directed the plaintiffs to amend their complaint to include more specificity. In May, the plaintiffs amended the complaint, and at the same time the Pacific Coast Federation of Fishermen's Associations and the Institute for Fisheries Resources withdrew from the lawsuit.

ODF received the First Amended Complaint (amended to integrate the rulings from January) in May 2019 and filed an answer to the complaint in July. The amended complaint includes fiscal year 2020 planned timber sales, as well as other sales going back to fiscal year 2015. Over 60 total named sales are included in the amended complaint.

The plaintiffs seek a commitment to stop logging in landslide prone areas, new road construction, and an increase in riparian buffers, or that the State obtain a Habitat Conservation Plan (HCP). The plaintiffs have not yet asked the court for a preliminary injunction, so ODF operations will continue as planned, consistent with its operational policies and procedures. The State Forests Division continues to pursue an HCP and has begun phase 2 of the HCP project, following a Board decision in November 2018 to continue that work.

Legislatively Adopted Budget

The State Forests program 2019-21 total funds budget is $107,622,381 and includes 216 positions (205.92 FTE). This is a $13 million (or 13.8%) increase from the 2017-19 legislatively approved budget. The increase in Other Funds expenditure authority for log sort sales accounts for nearly all of the overall increase in funding.

The budget adds an additional $12 million Other Funds expenditure limitation for the State Forests program and works in tandem with a technical budget adjustment that moves authority between expenditure categories; increasing contracted services and decreasing capital expenditures. Between the two actions, the budget provides a total of $30 million in additional professional services contract expenditure authority that allows the Division to expand log sort sales with the goal of increasing net income from state forests. The additional expenditure authority allows the agency to independently contract for activities that are associated with a log sale such as building roads, replanting, etc., that would have normally been netted out of a log sale; i.e., the purchaser of the logs doing these activities and reducing the bid on the value of the logs to account for the cost of the activities. In this way, a larger up-front revenue is recognized, but a larger expenditure limitation is required to account for the cost of contracting out the individual activities.

A reduction of $643,664 Other Funds expenditure limitation and the elimination of four positions (-4.90 FTE) from the State Forests Division is included in the budget. This reduction recognizes a workforce restructuring in the Division. The restructuring is a result of a multi-year effort to create a sustainable organization through a combination of business improvements and organizational structure changes. The reorganization involves 55 individual positions with an agency-wide net budget reduction of $650,423, total funds, and the elimination of 7 positions (-4.77 FTE).

A one-time General Fund appropriation of $200,000 to ODF, for the State Forests Division, was approved to purchase a tract of timber land adjacent to the Santiam State Forest, for inclusion in the Santiam State Forest. The current owner has asserted that access to the roughly 160-acre parcel is limited do to the condition and availability of a logging road crossing existing state forest property which would require rebuilding and was the subject of a legal dispute between the current owner and the Department of Forestry. The purchase of the property is intended to resolve the dispute.

A technical adjustment re-established $534,435 Other Funds expenditure authority in the State Forest Division to restore an ongoing personal services reduction that was included in the agency's base budget in error. The reduction had been taken to align the State Forests budget with anticipated ongoing resources, however, that reduction was duplicated by a personal services reconciliation adjustment resulting from a permanent finance plan that had been approved, but not accounted for at the time of budget development.

Private Forests

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	17,435,721	17,972,453	17,382,597	18,954,601
Other Funds	9,463,920	10,944,900	13,017,254	12,942,779
Federal Funds	4,492,793	13,596,217	14,085,636	14,063,094
Total Funds	**$31,392,434**	**$42,513,570**	**$44,485,487**	**$45,960,474**
Positions	124	112	123	122
FTE	114.85	110.32	113.64	113.99

Program Overview

Oregon contains about 30 million acres of forestlands, second only to Alaska. Of these, 10.7 million, or about 35%, are privately owned. These private forestlands produce about 77% of the harvested timber in the state. The Private Forests program helps ensure the health, appropriate management, resiliency, and productivity of those forestlands. The four primary activities of the Private Forests program are:

- Enforcement of the Oregon Forest Practices Act.
- Monitoring and improving forest health through monitoring insect and disease conditions, applying integrated pest management strategies, controlling/eradicating invasive species, and assisting landowners in conducting stand management prescriptions through technical and financial assistance.
- Family forestland assistance to family forestland owners, providing for forest sustainability including timber availability and the maintenance and enhancement of ecosystem services such as clean water, fish and wildlife habitat, carbon sequestration, and aesthetics through education, financial assistance, and technical services.
- Urban Forestry, providing technical information on tree risk assessment, care, planting, and selection; ordinances; inventories; and urban forest management.

The J.E. Schroeder Tree Seed Orchard is also now operated by the Private Forests program. The orchard, previously operated under the State Forests program, is located near St. Paul, Oregon and operates as a cooperative whereby partners in over twenty different orchards reimburse the Seed Orchard at the end of each fiscal year for all of its yearly operational and personnel costs. Then, each year, the cooperators equitably divide the resulting tree seed produced by their respective shares in the different orchards. The cooperators mostly consist of private sector entities but include the State Forests program, which is one of the largest cooperators. BLM is also a cooperator in one of the orchards.

Revenue Sources and Relationships

The Forest Practices sub-program, charged with the implementation and enforcement of the Oregon Forest Practices Act, is funded by a combination of 60% General Fund and 40% Other Funds from the Forest Products Harvest Tax (FPHT). The harvest tax rate is set in statute each biennium once the Forest Practices program budget is finalized, based on projections of harvest levels and the amount of revenue needed for program operations. The following table shows the historical revenue dedicated to the administration of the Forest Practices Act from the FPHT.

Biennium	Volume (Billions of Board Feet)	Forest Practices Act Revenue
1997-99	7.6834	$5,099,180
1999-2001	7.6009	$6,984,726
2001-03	7.1652	$6,944,788
2003-05	8.4321	$7,035,171
2005-07	8.429	$5,454,507
2007-09	6.8414	$6,142,754
2009-11	5.7955	$6,618,666
2011-13	7.3923	$7,002,281
2013-15	8.2933	$9,143,915
2015-17	7.3369	$7,737,610
2017-19	7.6718	$10,688,725
2019-21	7.2289*	* $10,518,299
* Includes actual plus forecasted amounts		

General Fund is also used as a one-to-one match for federal funding, providing support for the Forest Health staff and Field Foresters, the annual insect and disease surveys, the delivery of forest pest data and maps, and technical assistance to forest landowners and policy decision makers. General Fund also provides for the Oregon Plan for Salmon and Watersheds activity.

Federal Funds provide exclusive funding for family forest landowner financial and technical assistance, technical assistance for tree improvement, Forest Legacy program administration, and insect and disease monitoring and mitigation. Federal Funds are also used exclusively for the Urban Forestry sub-program.

Budget Environment

The Private Forests program is constantly responding to the changing demands of the forest products industry, environmental concerns, forest health and pest management issues, and social factors including the conversion of forestlands for non-forestry use.

The economy has generally been growing in the past biennium and is expected to continue to expand slowly throughout the 2019-21 biennium. Timber harvesting on private lands is forecasted to continue at roughly the same pace and volume as the prior biennium. Workload of the Division is anticipated to continue at the current service level with notifications of operations (intent to conduct a forest operation), plus reviewing and commenting on written plans describing operating methods on sensitive sites continuing. The number of on-site inspections for pre-operation planning and reforestation auditing is also expected to be maintained at the prior biennium level.

During the 2011-13 biennium, additional funding was provided to the agency to expand the program's forest practices effectiveness monitoring program. The program resumed its riparian monitoring project since that time to directly test the efficacy of riparian protection standards for fish bearing streams. A January 2015 finding, by NOAA and EPA, regarding the state's multi-agency plan for the non-point source water quality program resulted in the possible withholding of certain federal funding under the Coastal Zone Management Act for DLCD and DEQ due, in part, to concerns about the efficacy of the riparian rules developed by the Board of Forestry. This issue still remains unresolved.

A significant portion of Oregon's private forestlands, 4.7 million acres, are considered family forestlands. These lands are often under pressure to be converted to non-forest uses as property values exceed the value of timber production on these lands. The owners of these lands also require a disproportional amount of assistance in complying with the Forest Protection Act than larger industrial forest owners due to a lack of experience, institutional knowledge, and access to financial resources.

Forest health management will continue to be a dominant issue in the upcoming biennium. Forest insect outbreaks can cause significant tree mortality and damage leading to economic losses and increased fire danger. The significant insect risk in Oregon is from bark beetle outbreaks. Diseases, including Sudden Oak Death and Swiss Needle Cast are expected to continue to spread in Oregon although containment efforts and improved disease resistant plantings are being implemented.

Legislatively Adopted Budget
The Private Forests Division 2019-21 total funds budget is $45,960,474 and includes 122 positions (113.99 FTE). This amount is an 8.11% increase from the 2017-19 legislatively approved budget. The General Fund budget for the agency totals $18,954,601, a 5.46% increase from the 2017-19 budget.

Generally, the legislatively adopted budget for the Private Forests Division continues funding for the program at the current service level. In the prior biennium, the base-budget funding for the management and eradication of Sudden Oak Death (Phytophthora Ramorum) in Oregon was amended to include an additional General Fund appropriation of $450,000 for Sudden Oak Death eradication treatments. For the current biennium, the Legislature provided an additional one-time General Fund appropriation of $1.7 million to continue the activities related to slowing or stopping the spread of the pathogen.

DEPARTMENT OF GEOLOGY AND MINERAL INDUSTRIES

Analyst: Terpening

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	4,806,968	5,3595,949	5,119,592	2,534,180
Other Funds	4,917,107	7,731,528	7,252,383	2,817,896
Federal Funds	5,410,687	6,040,857	6,225,649	2,902,495
Total Funds	**$15,134,762**	**$19,132,334**	**$18,597,624**	**$8,254,571**
Positions	45	43	42	39
FTE	42.43	42.92	41.92	19.46

Overview

The Department of Geology and Mineral Industries (DOGAMI) is the state's primary source of geoscientific information. DOGAMI has two program areas: the Geologic Survey and Services Program and the Mineral Land Regulation and Reclamation Program. Department headquarters are in Portland, with the Mineral Land Reclamation Program located in Albany. Two small Geologic Survey offices are in Baker City and Newport. Employees of the Department are primarily geologists and other geotechnical experts.

The Geologic Survey and Services (GS&S) Program gathers geoscientific data and maps mineral resources and hazards. Geographic areas needing tsunami hazard mapping, landslide hazard studies, flooding hazard studies, and earthquake risk mapping have been prioritized by the agency. The information is shared with state and local policy-makers for land use planning, facility siting, building code and zoning changes, and emergency planning. The GS&S program also provides publication and outreach functions and houses the agency's administrative functions, including budgeting, accounting, and human resource services.

The Mineral Land Regulation and Reclamation (MLRR) Program is responsible for regulating the exploration, extraction, production, and reclamation of mineral and energy resources for the purposes of conservation and second beneficial uses of mined lands. The objectives are to conserve mineral resources and protect the environment while providing for the economic uses of the mined materials. The MLRR program regulates oil, natural gas, geothermal exploration, and extraction. The program is funded through fees, and no General Fund, Lottery Funds, or Federal Funds support in the program. A separate Other Funds expenditure limitation is provided in order to more efficiently track the revenues and expenditures of the program.

Revenue Sources and Relationships

The GS&S program is funded by General Fund, Other Funds, and Federal Funds. Historically, 10% to 15% of DOGAMI's Federal Funds are from grants that require matching General Fund. The Federal and Other Funds that DOGAMI receives are largely from cooperative agreements and fee-for-services on reimbursable projects; however, the availability of projects and amount of potential revenue has been difficult for the Department to predict. The program is reliant on developing funding partnerships with local, state, and federal agencies. Much of the revenue the Department receives from partners in the LIDAR consortium for collection of map data is passed through to the LIDAR services contractor for the data collection and LIDAR work is generally determined by the priorities of its funding partners. While the Department is a regular recipient of grants from the U.S. Geologic Survey, Federal Emergency Management Agency, and National Oceanic and Atmospheric Administration, federal funding will always be a somewhat volatile revenue source that makes up roughly 33% of the agency budget. When project or grant revenue does not materialize, the Department must rely on General Fund to cover program costs.

The MLRR program is financed primarily from Other Funds derived from aggregate mine, oil and gas, and geothermal permit and production fees. The program currently administers around 1,000 active mining permits. The fees related to mining operations were last increased by the 2015 Legislative Assembly. Additionally, the MLRR program is coordinating the process for permitting the first chemical gold mine in Oregon, located in Malheur County, where Department expenditures related to the permitting are reimbursed under contract by the mining company.

Budget Environment

Oregon is a state with a wide range of geologic hazards, varied geologic conditions, and diverse geologic resources. Population increases, along with greater interest in renewable energy sources and climate change, have contributed to an increase in demand for geoscientific information. Increased demand combined with previous biennia General Fund reductions has resulted in DOGAMI becoming more dependent upon obtaining funding partners to support projects, rather than pursuing projects that are of highest priority to the state.

The Department's GS&S program pursues projects that are primarily fee-for-service driven through the LIDAR program and many projects are seasonal in nature. In the past, General Fund has been used to pay for administrative positions and to provide matching funds for project grants, while the highly technical project positions are budgeted with Other and Federal Funds. The budgeting of positions in this manner creates problems when project funding is not sufficiently available and General Fund must be utilized to backfill position costs until projects or grants are realized.

Additionally, the Department has had problems effectively evaluating potential projects and identifying costs involved. This has led to project cost overruns for added project deliverables that are believed to be beneficial to the Department, stakeholders, or the public, but which are not identified within the scope of the project agreement and therefore must be funded with General Fund. The Department was directed by a budget note in 2015 to review its operational model for the GS&S program and determined that the current model is the best fit, provided there is rigorous administrative oversight of the grant and project processes that ties into clear tracking and reporting of cash flows and fund sources. This rigorous oversight did not occur, resulting in the agency overspending its General Fund appropriation for the second time in the last four years, bringing into question the viability of the Department's current structure and funding mechanism.

The Department's MLRR program has 11 positions that administer the permitting program. A budget note in 2015 directed the Department to undertake a comprehensive review of the MLRR program, including cash flow analysis of the current fee structure, to ensure that it is sufficient to support program expenses. This review revealed that the program did not have a standard indirect cost methodology to fund its share of centralized services costs and that the program was not recovering its costs related to the permit application process. The program has been working to streamline and modernize its permitting process and reducing the backlog of permits, although at a cost of not having capacity to conduct biennial inspections of mine sites, which has fallen to 6%. The fee increases approved in 2015 and implemented in 2016 were determined to be no longer sufficient to cover both the program and indirect costs beyond 2019-21 with the program fully staffed.

Moreover, the program's oversight of the permitting process related to the proposed chemical gold mine in Malheur County has come under increased scrutiny. Without having the internal capacity to provide oversight of this project, the Department received a position on loan from the Department of Environmental Quality and utilized contractors to administer the process. While the program expenditures related to the permitting are reimbursed under contract by the mining company, there were significant invoicing delays and many of the expenditures were challenged, resulting in reimbursements not being received and the program having cash flow issues. These cash flow issues have impaired the Department's ability to determine an appropriate level of fee increase necessary to fund the program.

Legislatively Adopted Budget

The legislatively adopted budget for 2019-21 is $8.3 million total funds and includes 39 positions (19.46 FTE). This reflects a one-year budget for the agency due to financial uncertainty caused by the Department having cash flow issues in both of its programs. The budget is comprised of $2.5 million General Fund, $2.8 million Other Funds, and $2.9 million Federal Funds. This is a 56.9% reduction in total funds from the 2015-17 legislatively approved budget. The General Fund portion of the 2019-21 legislatively adopted budget is 52.7% lower than 2017-19, and the Federal Fund portion is 52% lower based on the known Federal Fund grant opportunities identified by the Department. The total Other Funds portion of the 2019-21 legislatively adopted budget is down 63.6% from the 2017-19 budget. The MLRR program is anticipated to have a beginning balance of under $300,000, which is approximately less than two months of operating expenses for the 2019-21 biennium. The proposed fee increase for the MLRR program was not approved by the Legislature given the uncertainty around the permitting process related to the proposed chemical gold mine and its impact on program cash flow. The Department will need to develop a fee increase proposal for the 2020 Legislature to consider in order to have sufficient cash flow going forward.

The 2019-21 budget for the Geologic Survey and Services Program includes the elimination of five positions that will provide the General Fund savings necessary to fund two new financial support positions within the agency to provide additional grant and contract oversight. The positions eliminated include a Natural Resource Specialist 5 position, two Natural Resources Specialist 4's, a vacant Earth Sciences Field Geologist, and a vacant Public Affairs Specialist. The General Fund made available by eliminating these positions will be used to fund financial support positions, including a Grants Accountant 3 and a Procurement and Contracts Specialist 2. These new positions will be financed 100% General Fund and will provide additional grant and contract oversight for the GS&S program to eliminate project overspending. Additionally, the existing Fiscal Analyst 1 position is reclassified to a Fiscal Analyst 3 position to provide more financial oversight support to the Chief Financial Officer. Finally, there is a fund shift for the existing Information Systems Specialist 8 position budgeted from Other Funds to General Fund, as there was no Other Funds revenue source to support the position.

The 2019-21 legislatively approved budget includes three budget notes. The first budget note requires DOGAMI to provide monthly financial reports to the Legislative Fiscal Office and the Department of Administrative Services (DAS) Chief Financial Office. The second budget note directs the Department to review the projected revenue and expenditures for the MLRR program and report to the Legislature in the 2020 session with a detailed fee increase proposal to fund the existing program, including appropriate indirect costs, that will also provide a sufficient ending fund balance. And finally, the third budget note directs the Governor's Office and the Department of Administrative Services to report to the Joint Committee on Ways and Means in the 2020 session on a detailed strategic plan for the future of the agency, including evaluating if the Department should continue to exist as an independent agency or recommendations to abolish the Department and move the individual programs to other entities.

DEPARTMENT OF LAND CONSERVATION AND DEVELOPMENT

Analyst: Stayner

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	13,211,189	15,160,953	13,906,741	20,231,675
Other Funds	546,079	1,785,545	616,655	1,460,817
Federal Funds	4,260,687	6,487,739	6,484,945	6,755,041
Total Funds	**$18,017,955**	**$23,434,237**	**$21,008,341**	**$28,447,533**
Positions	58	58	54	64
FTE	56.46	56.9	52.79	62.09

Overview

The Department of Land Conservation and Development (DLCD) is the administrative arm of the Land Conservation and Development Commission (LCDC). DLCD administers Oregon’s statewide land use planning program and Oregon’s federally-approved coastal management program.

Oregon’s land use planning system is based on a set of 19 statewide goals expressing the state’s policies on land use and related topics such as preservation of farm and forest lands, citizen involvement, housing, and natural resources. DLCD personnel assist the Land Conservation and Development Commission in the implementation and adoption of those land use goals in local planning. By law, each of Oregon’s cities and counties are required to have comprehensive development plans and also to adopt the zoning and ordinances necessary to implement those plans. Approval of local plans is done through an “acknowledgement” process by LCDC. After a plan is officially acknowledged, local plans can be modified as necessary through plan amendments, or through the periodic review process. Periodic review of locally adopted plans and the provision of both direct technical assistance and planning grants to local jurisdictions are key elements of the system administered by the agency. DLCD also oversees coordination between state and local planning activities generally and operates the coastal zone management and natural hazards mitigation programs.

In addition to a main office in Salem, the agency maintains field offices in Portland, Eugene, La Grande, Tillamook, Newport, Medford, and Bend. DLCD is divided into two budgetary programs: Planning and Grants. All of the operational programs and administrative functions of the agency are contained in the Planning program, whereas the Grants program is only for the purpose of segregating grant funding available to local planning units from the operational budget of the agency. The Grants program utilizes General Fund to provide grants to cities and counties for planning activities including economic development opportunity analysis, land inventories, infrastructure, and development planning. Over the past few biennia, the agency has moved away from providing grant funds directly to local planning units and towards a model of using grant funding to provide contracted planning resources with DLCD providing co-management of the contracted services. In particular, this is done when local planning units do not have the resources to manage the contracted services directly, or when economies of scale are realized from a single contract providing assistance for multiple planning units.

The functions of the primary divisions of the agency are as follows:

- Director’s Office – Provides overall supervision and direction to the management and staff of the agency. In addition, the Director’s Office functions include policy development and management of collaborative initiatives with other agencies and entities.
- Administrative Services – Provides internal agency financial services, support services, information systems, facilities management, inventory, property control, and reception services.
- Planning Services – Provides technical assistance and policy consultation in transportation, natural hazards, natural resources, and Measure 49 claims. Specific services include the Transportation and Growth

Management (TGM) Program and the Natural Hazards Program. The TGM Program, a joint effort with the Department of Transportation (ODOT), focuses on helping communities manage urban growth, plan an efficient transportation network, and protect the function of state highway facilities. The program provides technical assistance and manages grants to special districts, cities, and counties. Federal funding received through ODOT is the program's primary revenue source. The Natural Hazards Program helps flood-prone communities maintain eligibility for participation in the National Flood Insurance Program and keeps floodplain maps and data up to date. Federal funding from the Federal Emergency Management Agency (FEMA) supports this program.

- Community Services – Assists local governments in the implementation of the statewide land use program through technical assistance, administration of grants, periodic review of local plans and land use regulations, and plan amendment review. The Division maintains a staff presence within the five Regional Solution Centers and administers General Fund grants to local governments.
- Ocean and Coastal Services – Manages the implementation of the federally-approved Oregon Ocean and Coastal Management Program and the Oregon Ocean Resources Management Program. The agency provides technical assistance, administration of coastal grants, coordination of state and federal programs in the coastal zone, and support to the Ocean Policy Advisory Council. These activities are primarily supported by Federal Funds.

Revenue Sources and Relationships

General Fund comprises roughly 71% of the 2019-21 total funds budget for DLCD. Discounting the $1.64 million General Fund dedicated to local planning grants and $6.7 million General Fund dedicated to one-time projects, General Fund supports about 59% of the agency's ongoing operational budget.

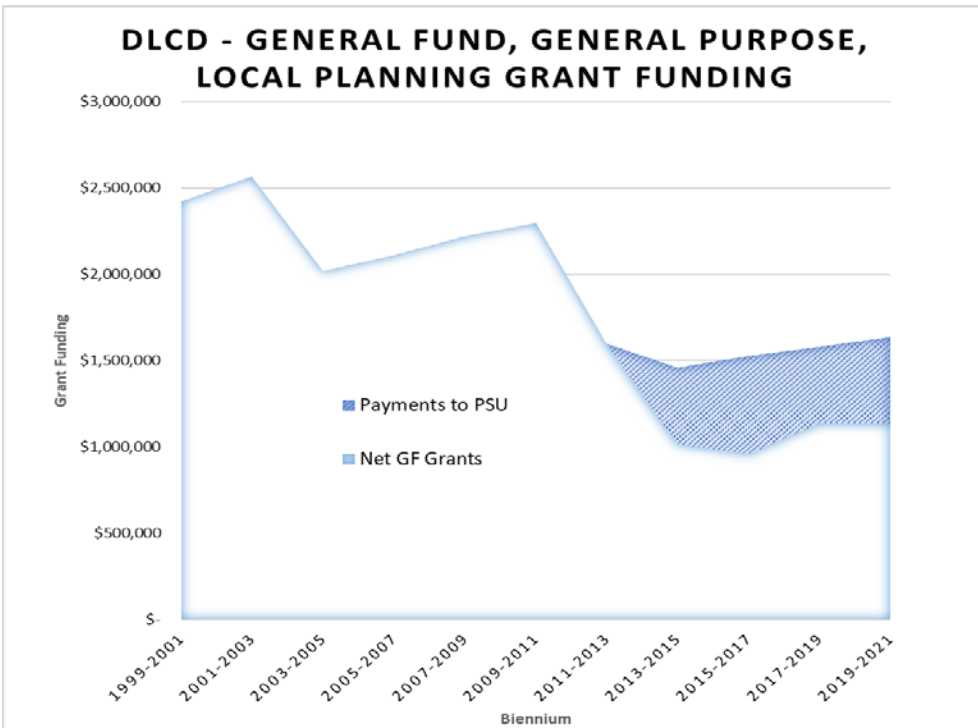
Federal Funds account for 33.7% of the total funds budget of the agency exclusive of one-time funded programs and local grant funding. DLCD receives federal grant funding from the National Oceanic and Atmospheric Administration (NOAA) for coastal zone management activities through the Coastal Zone Management Act of 1972 (CZMA) and subsequent reauthorizations. Section 306 of the CZMA provides funding for the administration of coastal zone management, broadly allowing the coverage of costs for land use planning and resource management within the coastal zone. Section 306A provides grant funding for small-scale construction, restoration, and acquisition projects. Section 309 funds coastal zone enhancements including development of plans and procedures for management and use of coastal lands. Section 310 provides funding for the provision of technical assistance to support the development and implementation of coastal management programs. Section 6217 of the Coastal Zone Act Reauthorization, administered jointly by NOAA and the U.S. Environmental Protection Agency, funds a portion of the cost to develop and maintain the state's Coastal Nonpoint Pollution Control Program. This program continues to be subject to a 30% reduction in funding due to ongoing concerns by the federal agencies with riparian protections under the Oregon Forest Practices Act. These programs require state matching funds which are provided by in-kind expenditures by DLCD and other participating state agencies.

DLCD receives Federal Funds from FEMA for natural hazards planning, specifically to support DLCD as the state coordinating agency for the National Flood Insurance Program, and for floodplain management activities. Just prior to the current biennium, FEMA shifted the program slightly to retain responsibility for assisting local governments in adopting new flood maps, making a federally-funded position at DLCD redundant. Therefore, DLCD is no longer applying for federal grant funds to support that position, although it is still receiving funds under the program for specific projects.

Other Funds make up the smallest portion of the DLCD budget, accounting for just over 5% of the total funds budget and 7.3% of the ongoing operational budget. For the 2019-21 biennium, Other Funds revenues include funding to support hazard mitigation planning by local governments and to update the statewide natural hazard mitigation plan. This is federal funding that is transferred to DLCD from the Office of Emergency Management. Most of the remaining Other Funds revenue is from a transfer of Federal Highway Administration funds from ODOT. This funding has historically been used to fund a joint DLCD and ODOT program for supporting local governments working on transportation growth management issues. A small amount of Other Funds revenue is derived from miscellaneous receipts, including the sale of publications and duplicating services and is used to cover the cost of providing those services.

<u>Budget Environment</u>
The budget environment for DLCD continues to be dominated by the pace and complexity of local land use planning activities, which are impacted by population growth, demographic changes, natural environmental factors, economic development, and shifting economic drivers. Housing and economic development are two rapidly evolving issues that provide both opportunity and challenges for local governments. Many of these local governments are constrained by their available resources for adequate planning to take advantage of these opportunities or to address these challenges. DLCD estimates that only about one-third of the demand for planning assistance by local governments will be able to be addressed with the agency's resources.

Grant funds are administered throughout the operating divisions of the agency for various purposes including local and regional planning, technical assistance, and natural hazard identification and mitigation. Over the past ten biennia, the General Fund dedicated to general-purpose local assistance grants has been declining.



The passage of HB 2253 (2013) required the Portland State University (PSU) Population Research Center to produce population forecasts for specified geographic areas throughout the state no less than once every four years. To accomplish this, PSU creates forecasts on a schedule of 25% of the subject areas each year. HB 2253 provided an appropriation to DLCD of $250,000 in the 2013-15 biennium for paying PSU for the population forecast. This funding amount has been continued in subsequent biennia (including inflationary adjustments) and is included in the grant funding for local planning grants as expressed in the graph above. Although HB 2253 provided $250,000 for this purpose, the actual costs of the population forecasts have averaged $488,867 per biennium from 2013 to 2019. The estimated cost for the 2019-21 biennium is $505,000. With total non-specified, General Fund local grant funding totaling $1,638,830, this leaves an estimated net amount available to award of $1,133,830. The funding typically represents roughly one-third of the funding requested. Grant awards are made once a biennium based on the amount of funding available and as recommended by a grants advisory committee composed of local government representatives and other stakeholders.

In addition to the general-purpose General Fund local planning grant funding, the Legislature has provided periodic appropriations of grant funding for specified purposes; particularly in the previous and current biennium. During the 2018 legislative session, a one-time increase of $300,000 in the General Fund appropriation made to DLCD for the local government grants program was approved for the provisioning of technical assistance grants to eastern Oregon counties for conducting economic opportunity analyses. HB 4006 (2018) provided a one-time appropriation of $1,730,000 General Fund to fund contracted technical assistance to local governments through housing needs analysis, code audit assistance, code updates, and housing strategy implementation plans.

Legislatively Adopted Budget

DLCD's 2019-21 total funds budget is $28,447,533 and includes 64 positions (62.09 FTE). This amount represents a 21.4% increase from the 2017-19 legislatively approved budget. General Fund, which makes up roughly 71.1% of the agency's budget, totals $20,231,675, a 33.5% increase from the 2017-19 legislatively approved budget.

A General Fund appropriation of $200,000 was made to the agency in HB 2574. The bill requires DLCD to receive, consolidate, and organize public records of federal, state, or local governments concerning shellfish mariculture in Oregon and to make that information publicly available.

Two additional pieces of substantive legislation account for nearly all of the increase in the General Fund budget for the agency. Each of the following bills included a General Fund appropriation for technical assistance and planning grants for the local governments impacted by the measures. An additional General Fund appropriation of $2,005,563 was made in HB 5050 to support the operational needs of the agency, including the establishment of 7 limited-duration positions (6.00 FTE).

HB 2001 outlines regulations related to middle housing, including where middle housing is allowed and how it can be regulated. Cities are directed under the measure, to update their land use regulations or amend comprehensive plans in order to encourage middle housing. The bill directs the Land Conservation and Development Commission to develop a model middle housing ordinance which local governments must use if they have not developed their own housing ordinance. The measure appropriates $3.5 million General Fund to DLCD to provide technical assistance to local governments to assist with the adoption of regulations or amendments to comprehensive plans as required.

HB 2003 directs the Department of Land Conservation and Development, the Housing and Community Services Department, and the Department of Administrative Services to develop a methodology to assess existing housing stock and housing needs throughout the state and conduct a regional housing needs analysis by September 1, 2020, and to identify the number of housing units needed to accommodate anticipated populations in each region over the next 20 years. The bill also directs cities with populations over 10,000 to develop and adopt a housing production strategy, which is to be submitted to the Department of Land Conservation and Development for review and approval. A $1 million General Fund appropriation to DLCD was included in the measure to assist cities with the development of their housing production strategies.

The budget continues funding ($846,294 Other Funds and $242,014 Federal Funds) and supplants the three limited duration positions that were authorized in the 2017-19 biennium with two permanent Planner 2 positions (2.00 FTE), one limited-duration Planner 2 position (1.00 FTE), and one permanent Planner 3 position (1.00 FTE). The funding will be used to support hazard mitigation planning by local governments and special districts to update the statewide natural hazard mitigation plan which is due for re-approval in 2020. Federal Funds revenue for the program comes from grants from FEMA to assist communities in working with the National Flood Insurance Program. Other Funds revenue is from a transfer of federal Pre-Disaster Mitigation (PDM) grant funding from the Office of Emergency Management (OEM), which is the designated agency to receive federal PDM grant funds. The required state match will be met through existing General Fund expenditures and from local governments.

An increase in the Coastal Zone Management grant from NOAA provided $273,060 Federal Funds, allowing for the addition of one permanent Planner 4 position (1.00 FTE) in the agency's budget to update Oregon's Climate Change Adaptation Framework. The position will work with local governments, state agencies, and federal agencies to incorporate climate change adaptation into local and state plans and projects.

Reductions of $169,822 General Fund and $227,796 Federal Funds and the elimination of two vacant positions (1.70 FTE) are included in the agency's budget. As noted in the revenue section above, FEMA realigned the federal Risk MAP program so that funding that was previously provided to DLCD for a coordinator position to work with local governments as they adopted new natural hazard maps is no longer available for that purpose. Therefore, the Federal Funds expenditure limitation and position have been eliminated. The budget also includes the elimination of a vacant planner position funded with General Fund.

LAND USE BOARD OF APPEALS

Analyst: Stayner

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	1,817,892	2,014,924	2,083,485	2,061,858
Other Funds	24,228	33,700	34,981	34,981
Total Funds	**$1,842,120**	**$2,048,624**	**$2,118,466**	**$2,096,839**
Positions	6	6	6	6
FTE	6.00	6.00	6.00	6.00

Overview

The Land Use Board of Appeals (LUBA) was created in 1979 to simplify the land use appeal process and has exclusive jurisdiction to review all local and state governmental land use decisions. LUBA hears appeals of land use decisions made by state agencies, special districts, and local governments. LUBA decisions may be appealed to the Court of Appeals and ultimately to the state Supreme Court via discretionary review. Private parties and public agencies, including agricultural interests, developers, environmental groups, individual property owners, and state and local governments can bring issues to LUBA for review. The Board consists of three members appointed by the Governor and confirmed by the Senate. In addition to the Board, the agency employs an administrative and support staff of three.

Revenue Sources and Relationships

The General Fund supports just over 98.3% of LUBA's 2019-21 biennium budget. The remainder is Other Funds primarily from the production and sale of LUBA Reports. The price of the LUBA Reports is $175 per volume and it is estimated that four volumes will be produced and distributed to 50 subscribers in the 2019-21 biennium.

LUBA collects appeal filing fees and fees from intervening parties, which are transferred to the General Fund. The appeal filing fee of $200 and the intervener fee of $100 are set in statute. LUBA estimates that it will receive $103,100 from these fees during the 2019-21 biennium, which is consistent with handling about 187 appeals and 140 intervening parties annually; the same as the prior biennium.

Budget Environment

The workload of LUBA is dictated by the number and complexities of appeals filed each year. These numbers are significantly influenced by general economic activity and population growth, and, to a lesser degree, by shifts in the structure of the state's economy. The budget for the agency is dominated by personal services expenditures. The Board is statutorily limited to three members, so this portion of the budget moves in step with personal services inflationary changes. A large increase in the number or complexity of cases in any given year manifests itself in delays and backlogs that negatively impact the ability of the Board to meet the 77-day statutory deadline for the issuance of a final order. The Board has processed an average of roughly 185 appeals per year over the last 20 years. From 2012 to 2015, LUBA experienced its lowest average caseloads since 1995, but is beginning to show an upward trend as the economic recovery continues.

Legislatively Adopted Budget

The budget for the Land Use Board of Appeals totals $2,096,839 and 6 positions (6.00 FTE), including $2.06 million General Fund and $34,981 Other Funds. The budget increases 5.6% from the legislatively approved budget for the 2017-19 biennium and continues funding for the agency at the current service level.

DEPARTMENT OF STATE LANDS

Analyst: Stayner

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	242,904	5,000,000	--	--
Lottery Funds	--	--	589,920	--
Other Funds	32,278,901	55,124,108	45,471,053	54,079,207
Other Funds (NL)	13,184,428	19,234,249	10,627,890	10,627,890
Federal Funds	1,541,286	2,466,188	2,225,284	2,295,209
Total Funds	**$47,247,519**	**$81,824,545**	**$58,914,147**	**$67,002,306**
Positions	112	113	106	115
FTE	111.00	110.67	105.50	113.00

Overview

The Department of State Lands (DSL) is the administrative arm of the State Land Board. The Board, created under the Oregon Constitution, consists of the Governor, the Secretary of State, and the State Treasurer. The Board is responsible for managing the assets of the Common School Fund (CSF). These assets include equity investments managed by the Oregon Investment Council and the State Treasurer on behalf of the Board and over two million acres of state lands deeded at statehood in trust for education, other lands designated by statute, and escheated and forfeited property. In managing these assets, the Board adheres to the constitutional standard of "obtaining the greatest benefit for the people of the state, consistent with the conservation of… [the]…resource under sound techniques of land management." By statute, related programs, such as removal-fill, wetlands, and unclaimed property, are assigned to DSL. The agency also manages the South Slough National Estuarine Research Reserve.

For budget purposes, the Department is organized around four areas:

- Common School Fund – 97 positions, 95.50 FTE. Consists of Land Management, Aquatic Resource Management, Business Operations and Support Services, and the Director's Office.
- Oregon Wetlands Revolving Fund – 0.50 FTE. Established by the 1987 Legislative Assembly to provide financial resources to acquire wetlands banking and wetlands mitigation sites; to accomplish wetlands restoration, enhancement, and creation; and to cover administrative costs.
- South Slough National Estuarine Research Reserve – 18 positions, 17.00 FTE. A tidal inlet of the Coos estuary six miles southwest of Coos Bay. The area was designated in 1974 as the first national estuarine research reserve and consists of 1,000 acres of tidelands and open water surrounded by a 3,800-acre upland border. The total South Slough National Estuarine Research Reserve (SSNERR) acreage is part of the U.S. National Estuarine Research Reserve System established by the Coastal Zone Management Act of 1972. SSNERR operates an interpretive center and maintains nature trails for hikers and canoeists. It also conducts a variety of research, education, and stewardship programs. Its laboratory work is co-located with the Oregon Institute of Marine Biology in Charleston, which is operated by the University of Oregon.
- Capital Improvements – no positions or FTE. Manages property as assets of the Common School Fund. Expenditures in this program include land rehabilitation and conversion; small infrastructure design and construction projects; facilities rehabilitation; general maintenance and repair; weed control; and response to environmental hazards.

Revenue Sources and Relationships

Other Funds revenue for the Department is derived from program operations and investment income. Statutory program operations generate revenue from waterway, hydroelectric, sand, and gravel leases; unclaimed property dividends; and removal-fill permit fees. Fee and leasing revenue are projected to generate $17.2 million in the 2019-21 biennium.

The value of unclaimed property held in trust within the Common School Fund was $628.7 million as of the end of fiscal year 2018. Net investment income from the unclaimed property totaled $55.1 million. Net revenues to the Common School Fund from the unclaimed property program are expected to be reduced in the upcoming biennium due to the implementation of SB 1566 (2018). Under the measure, DSL is required to, in any given year, transfer the lesser of: investment earnings associated with the unclaimed property program from the prior year, or the net inflows of unclaimed property less investment expenses of the Common School Fund, and operating expenses of the program in the prior year, to the School Districts Unfunded Liability Fund (SDULF). Transfers for the 2017-19 biennium total $11.54 million (represents a single year due to effective date of the bill). The transferred funding is appropriated to the Public Employees Retirement Board to be used as a pooled account for reducing the PERS liabilities of certain school districts.

Constitutional revenue is primarily investment income on that portion of the of the Common School Fund derived from assets generated from periodic land sales and other revenue generated from property holdings for deposit in the Common School Fund.

Common School Fund revenues also include receipts from timber harvests on Common School forest land. The Department of Forestry (ODF) manages forest land for DSL, other than the Elliott Sate Forest, and projects 18.1 million board feet in harvest in the 2019-21 biennium from all remaining Common School forest lands under ODF management. Budgeted revenues from timber sales on CSF lands managed by ODF are $6.76 million and budgeted costs of ODF management on those lands is $4.82 million.

Common School Fund revenue distributions to the Department of Education were $118.5 million in the 2017-19 biennium. Because these funds are directly transferred to the Department of Education, they are not included as part of the DSL budget. Estimated distributions for the 2019-21 biennium are $116.7 million.

Federal Funds received by the Department from the U.S. Environmental Protection Agency (EPA), Office of Coastal Resource Management; National Oceanic Atmospheric Administration, Department of Commerce; and U.S. Fish and Wildlife Service support the wetlands program, permit streamlining efforts, and the SSNERR. Federal Fund receipts are estimated at $4.27 million for the 2019-21 biennium. If other federal funds become available during the biennium, DSL will need to request additional expenditure limitation. State match requirements range from 30% to 50% depending on the individual grants and is provided from in-kind contributions, private donations, and some Common School Fund expenditures.

Budget Environment

The Common School Fund (CSF) is a constitutional trust created to manage the assets derived from the common school trust lands granted to Oregon by the federal government at statehood. These lands originally comprised 6% of the state's land for the support of schools, plus land for a state university. Revenues from these lands and any associated mineral, timber, or other resources are dedicated to the Common School Fund. The state holds title to the mineral rights for approximately four million acres.

The Oregon constitution (Article VIII) requires the Legislative Assembly to provide by law how moneys in the Common School Fund shall be invested and distributed, and to appropriate, in each biennium, money from the fund for public education. ORS 273.105 delegates this responsibility to the State Land Board. From 1999 to 2009, distributions were based on a sliding scale of percentages of a three-year rolling average of the annual growth in the CSF's market value, with lower percentages used when fund growth was relatively sluggish.

From 2010 through 2018, the distribution target had been fixed at a rate of 4% of the past three years' rolling average CSF balance when the average balance of the fund has increased by 11% or less and 5% when the average balance has increased by 11% or greater. Following the passage of SB 1566 (2017), the State Land Board was presented an updated distribution study that was requested by State Treasury staff from a third-party consulting firm. Based on a number of factors including the target asset allocation of the fund, growth of unclaimed property inflows, and the distribution provisions of SB 1566, the report recommended that the distribution policy for the earnings of the Common School Fund to the State School Fund be limited to no more than 3.5% of the balance of the Common School Fund in order to maintain the stable real asset value of the fund.

The Portland Harbor Superfund Site remains an issue for the agency. The site is the result of more than a century of industrial use along the Willamette River. The EPA listed the site (from the Columbia Slough to the Broadway Bridge) in December 2000. Clean-up costs are anticipated to be significant. The state's potential exposure to liability for the cleanup costs are due to state-owned submerged and submersible lands in the area as well as contaminations due to run-offs from Oregon Department of Transportation (ODOT) owned bridges, abutments, and adjoining lands.

Currently the agency is engaged in a strategy of building a legal argument that limits the state's liability for the cost of the Portland harbor clean-up. A record of decision was issued by EPA in January of 2017 that outlines a thirteen-year clean-up period with a total non-discounted cost of roughly $1.7 billion. The portion of these costs attributed to the state has not yet been determined. DSL has been using payments received from insurance companies on policies purchased by former owners and lessees of state lands to pay a portion of the Attorney General costs for the legal defense, but those funds are not anticipated to cover ongoing costs. Funding or expenditure limitation has been approved from 2009 forward. Total costs for DSL as estimated by the Oregon Department of Justice through June 2019 are $27.47 million, $14.35 million of which has been reimbursed from insurance claims.

In addition to the funding for the legal defense costs above, SB 5530 (2017) established the Portland Harbor Cleanup Fund to support the coordination of, and participation in, any contracts or agreements relating to or arising out of the Portland Harbor Superfund Site that may include investigation of baseline conditions, investigation of key sediment sites, potential infrastructure needs related to contaminated sediments, development and administration of a comprehensive data management system for the site, satisfaction of obligations under any settlement or administrative order, work required by EPA in connection with the site, and other activities directly related to minimizing the state's liability for costs related to the Portland Harbor Superfund Site. During the 2017 legislative session, a $5 million appropriation of General Fund (HB 5006, 2017) and an allocation of $3 million in lottery bond proceeds were made for deposit in the fund (SB 5530, 2017). The agency's 2017-19 budget included the establishment of an $8 million Other Funds expenditure limitation from the Portland Harbor Cleanup Fund, corresponding to the funding allocated. The lottery bonds authorization and funding allocation to the Portland Harbor Cleanup Fund was repealed by SB 5542 (2019) and the General Fund appropriation to the fund was reduced by $3 million in HB 2377 (2019), leaving $2 million of net funding provided.

Four initial projects were initiated with the intent of being at least partially funded from the Portland Harbor Cleanup Fund:

- Feasibility Study for a possible landfill in St. Helens for Portland Harbor contaminated sediments; cost share of $500,000.
- Pre-remedial design investigation for field studies and sampling necessary to support remedial design at Willamette Cove location; cost share of $400,000.
- Data management plan and institutional controls assurance and implementation plan development; cost share of $600,000.
- Two-year support for Multnomah County Health Department's fish advisory community outreach and education program; cost share of $115,000.

These programs, along with an environmental consulting contract providing assistance with the projects above, account for $1.765 million of the net funding provided.

During the initial weeks of the 2019 legislative session, the Department, in partnership with ODOT and the City of Portland negotiated a settlement with EPA limiting the state's liability for remedial design work. As a part of that settlement, the state agreed to provide up to $12 million in funding to pay a portion of the per-acre cost for remedial design work by potentially responsible parties who volunteered to fund that work prior to EPA issuing an administrative order for the work to be completed. The City of Portland provided a matching funding commitment under the same terms. In order to facilitate the agreement and consolidate the state's non-legal-defense expenditures of DSL and ODOT, transfers of $12 million each were made from the State Highway Fund and the Common School Fund to the Portland Harbor Cleanup Fund in HB 5046 (2019). An increase in expenditure limitation of $6 million was provided to DSL from the Portland Harbor Cleanup Fund in HB 5050 (2019) to facilitate the transfer of a portion of that funding to a joint trust fund held by the state and the City of Portland to fulfill the joint obligations to EPA under the negotiated agreement.

A significant change in the operations of DSL will take place in the 2021-23 biennium due to the passage of SB 454 during the 2019 session. The bill transfers the administration of the Unclaimed Property, Unclaimed Estates, and Escheating funds from DSL to the State Treasurer (OST), with various operative dates beginning July 1, 2021. DSL must transfer to OST all records, property, and employees primarily engaged in those duties.

The Unclaimed Property Program has been operated by DSL for the last 62 years since first being assigned the administration of the program by the Legislature in 1957. DSL has dedicated program staff for the program and staff who provide indirect program administrative support. Dedicated or direct program support includes 13 positions (13.00 FTE) with an estimated cost of $2.8 million per biennium. There are approximately 27 indirect support positions for the program that charge a portion of their budgeted full-time equivalent position costs to the program. These include such position duties as: executive management, human resources, procurement, accounting, budget, facilities, and information technology. DSL has estimated that there is a total of 9.00 FTE spread across the 27 positions at a cost of roughly $1.8 million per biennium for personal services that is charged to the unclaimed property program for indirect support.

In addition to the personal services costs of the program, there are direct and indirect operational costs for services and supplies, including information technology resources, that are estimated to be $2.8 million per biennium. Although some of these costs will directly transfer, a portion will have to be reallocated from residual DSL programs.

The transfer of the program to OST will create a funding shortfall at DSL for the indirect support positions and the indirect services and supplies costs. DSL will need to either consolidate and eliminate positions to accommodate the shortfall or reallocate costs of these positions to other programs. With the operative date for the program transfer of July 1, 2021, the Legislative Fiscal Office (LFO) anticipates a detailed transition plan to be developed that is reflected in the agency's proposed budget for the 2021-23 biennium through appropriate policy option packages that clearly outline the reduced direct program revenues and expenditures resultant from the transfer and the reallocation or elimination of residual indirect costs.

Legislatively Adopted Budget

The 2019-21 biennium total funds budget for DSL is $67,002,306 and 115 positions (113.00 FTE). This is a $14.8 million, or 18.11%, reduction from the 2017-19 legislatively approved budget. The reduction is due primarily from the elimination of one-time expenditures that were authorized in the prior biennium.

In addition to ongoing program operations, the budget includes funding for continued protection of the state's interests in the cost allocation and natural resource damage assessment work for the Portland Harbor Superfund Site. The funding includes anticipated Department of Justice legal expenses for defending the state's interests specifically connected to the State Land Board's jurisdiction and authorities, continues a 1.00 FTE limited-duration Natural Resource Specialist-4 project coordinator position, and provides funding for professional services contract work for environmental consulting and remediation project design development. This funding has been included in the agency's budget since the 2011-13 biennium as shown in the following table.

	Personal Services for Project Coordinator	Attorney General	Professional Services	Total
2011-13 (pop 103)		200,000	500,000	700,000
2013-15 (pop 101)	171,374	708,027	2,635,369	3,514,770
2015-17 (pop 101)	186,916	639,633	3,912,000	4,738,549
Dec. 2016 E-board	0	1,625,000	2,084,000	3,709,000
2017-19 (pop 101)	218,857	2,500,000	3,607,680	6,326,537
2019-21 (pop 101)	251,873	2,293,604	4,218,582	6,764,059
Total	**$829,020**	**$7,966,264**	**$16,957,631**	**$25,752,915**

As detailed in the Budget Environment section above, expenditure limitation totaling $7.765 million in addition to the legal defense costs detailed here was provided for remediation design work and initial project work within the site through the Portland Harbor Cleanup Fund.

The budget includes $4.06 million for costs related to the Elliott State Forest. These costs include: $2 million for a third-party management contract that covers road maintenance, reforestation, and general property oversight of the forest, $1.58 million for the continued development of a habitat conservation plan and public affairs consulting, and $382,000 for a forester position and project management position related to the forest.

The budget includes expenditure limitation of $450,000 to continue the planning phase for the replacement of the agency's Land Administration System. The current system was initially deployed in 1999. The foundational technologies that underpin the current system are no longer supported. The agency received Stage Gate 1 endorsement from the State Chief Information Office in July 2018 to continue the planning phase for the project. This continues funding that was approved during the 2018 legislative session but augments that original package by eliminating the support for a limited-duration project management position and providing funding for contracted professional project management. Two budget notes were included with the agency's budget bill in association with the funding.

Budget Note #1 directs DSL to work with the Office of the State Chief Information Officer (OSCIO) to conduct a comprehensive assessment of the agency's information technology-related operations. A report on this comprehensive assessment is to be submitted to LFO in December 2019 and jointly presented by DSL and OSCIO to the Joint Legislative Committee on Information Management and Technology and to the Joint Committee on Ways and Means during the 2020 legislative session. Budget Note #2 directs DSL to conform with standard protocols related to IT projects and report to OSCIO and LFO throughout the project. This includes contracting with outside consultants as needed and completing all documentation and reporting requirements.

The budget includes an increase in the agency's Other Funds expenditure limitation of $432,746 and the authorization to establish two limited-duration positions to continue the implementation of 2015's SB 912, which directed DSL to inventory historically filled lands in tidally-influenced waterways and legally navigable waterways, providing notification to property owners of any remaining state interest in those lands. The agency anticipates that the project will be completed by the end of 2025.

Other Funds expenditure authority of $355,776 and the establishment of two limited-duration positions is included in the budget for the implementation of HB 2436 to develop a proposal for the state's partial assumption of section 404 of the federal Clean Water Act.

Federal Funds expenditure limitation of $137,000 and Other Funds expenditure limitation were included to allow the agency to expend grant funds awarded in the prior biennium for activities at the South Slough National Estuarian Research Reserve (SSNERR). An additional increase in Other Funds expenditure limitation of $178,476 and the authority to establish a seasonal, part-time position providing summer season programming for visiting school-aged children and a part-time Information Specialist position to provide GIS and data management services for the reserve was also included in the budget.

MARINE BOARD

Analyst: Walker

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	25,175,987	27,142,592	27,428,626	28,362,989
Federal Funds	5,420,164	6,633,131	6,260,265	6,317,622
Total Funds	**30,596,151**	**33,775,723**	**33,688,891**	**34,680,611**
Positions	41	39	38	39
FTE	39.37	39.00	38.00	38.75

Overview

The Oregon State Marine Board (OSMB) was established in 1959 and is responsible for registering and titling all recreational motorized boats and sailboats 12 feet and longer in the state; providing boater education, marine law enforcement, and facility access; and mitigating the effects of invasive species on native waters. OSMB provides boating safety and clean boating educational programs, marine law enforcement, and improved boating facilities. The Board consists of five members appointed by the Governor for four-year terms.

Revenue Sources and Relationships

OSMB programs and services are funded with Other Funds (81.8% of total funds) and Federal Funds (18.2% of total funds). The agency receives no General Fund or Lottery Funds support. Other Funds revenues for the 2019-21 biennium are projected to total $28.8 million and Federal Funds are projected to equal the amount of budgeted federal fund limitation $6.3 million.

The agency's primary Other Fund revenue sources are:

- Marine fuel taxes – Each year, the Department of Administrative Services certifies the amount of motor vehicle fuel taxes imposed during the preceding fiscal year on fuel purchased and used to operate motor boats. The amount, less refunds for commercially used motor boats, is transferred to the Marine Board's Boating Safety, Law Enforcement, and Facility Account. The estimated amount of revenue is based on the results of the Oregon Motorboat Fuel Use Survey that is conducted every four years to determine the amount of fuel consumed for a variety of vessel sizes and types, which is then used to determine the tax to be transferred from the Department of Transportation.
- Registration and title fees – Registration fees are set by statute and vary based on type and size of vessel. Registrations are valid for two years. A boat owner must also secure a one-time certificate of title from the Marine Board. HB 2080 (2019) raised registration fees from $4.50 per foot to $5.95 per foot and the title fee from $50 to $75. The Legislature last adjusted these fees in 2015.
- Invasive species fees – The fees for invasive species permits are $5 for motor boats and manually propelled boats over ten feet in length, and $20 for nonresidents and annual fees for operators of boat liveries. These fees were instituted during the 2009 legislative session and are deposited into a dedicated account.
- Nonmotorized watercraft establishes fees on nonmotorized boats over ten feet dedicating the revenues to the Waterway Access Fund within OSMB for the purpose of awarding grants. Grants will fund land acquisition for, construction of, and maintenance of boating facilities that serve non-motorized boaters; as well as grants to public bodies, tribal governments, and non-profits for boater safety education courses and purchasing boat equipment to use for projects that reduce barriers for under-served communities.

The sources of the agency's Federal Funds are:

- U.S. Coast Guard's Recreation Boating Safety (RBS) grant program, which requires a 50% state match.
- Boating Infrastructure Grant program, which includes both a base grant and competitive grants.

- Clean Vessel Act program grant funds for vessel waste pump out facilities and dump stations to reduce the effects of untreated sewage from boats.

Matching funds, when needed, come from local government funds, local in-kind support, and OSMB Other Funds sources.

Budget Environment

Over the last several biennia, the average number of boats registered by OSMB declined from a peak of 197,591 in 2003. The Board notes that the trend has started to stabilize and is currently titling and registering approximately 157,000 recreational boats; only a minimal increase in registrations is anticipated to occur in 2019-21. The agency has noted that even though the number of registered boats has declined, there is an increased utilization of waterways by non-registered water craft, such as canoes, kayaks, rafts, and inner tubes. Overall, the Board's programs serve over 170,000 registered users, as well as approximately 190,000 users that are not registered. This demand results in increased needs for parking, restrooms, law enforcement patrol resources, and more launch ramps, and comes at the same time that local matching funds for these purposes are shrinking.

The Board prepares and maintains the Statewide Boating Access and Improvement Plan. This plan includes projects identified by users and boating facility managers at 770 public boating access sites in Oregon. The current plan lists $225 million in such projects. In addition to such projects, the agency is also responsible for the removal of abandoned or derelict vessels from state waterways.

Other cost drivers include increases in demand for services and associated staffing costs, general personnel costs, and construction costs for boating facilities. Current revenue projections in federal funds, the number of anticipated registrations, and a drop in the amount of fuel usage per boat are challenges to the OSMB budget. Current revenue sources may be insufficient in future biennia to continue all services and programs currently provided by OSMB.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $34.6 million total funds is a slight increase (2.6%) from the 2017-19 legislatively approved budget. The budget includes 39 positions and 38.75 FTE.

The agency budget is divided into four program areas, as described below:

Administration and Education – This program is responsible for vessel titling and registration activities including floating homes and boathouses, outfitter and guide registration, and ocean charter boat licensing. The program also administers state boating laws, develops waterway management plans, serves as a liaison with other government entities, conducts boating analysis and boater surveys, coordinates the Adopt-a-River program, provides numerous educational activities, and is responsible for the agency's central business functions. While only 21.7% of the agency's budget is dedicated to this area, the majority of the agency's staff (25 positions and 25.10 FTE) are in this program unit.

Law Enforcement – By statute, funding of law enforcement activities is the first priority for the Marine Board after administrative expenses are covered. The Law Enforcement program provides on-water safety patrol and boating law enforcement for 300 miles of coastline, over 5,500 miles of navigable rivers, 1,400 named lakes, and 889 square miles of inland water. Services are provided through contracts with county sheriffs and the Department of State Police. The program also provides patrol boats and specialized enforcement equipment, develops and offers basic and advanced training for county marine patrol officers, maintains a marine law enforcement database and reporting system, performs contract administration functions, and retains responsibility for the waterway marking system. This program area receives the largest portion (43%) of the agency total budget, but most of the funds are spent on county and State Police contracts rather than direct agency expenses. The budget does provide for 8 staff positions (5.20 FTE).

Facilities – This program provides for the maintenance and improvement of boating facilities throughout the state. The Board provides technical and financial assistance to local governments and state agencies to acquire, develop, improve, and rehabilitate public boating facilities. Projects eligible for Board funding include boat launch ramps, parking areas, restrooms, courtesy docks, transient tie-up facilities, and other boating-related facilities. Priority consideration will be given to the rehabilitation and expansion of existing sites, followed by the development of new sites. Grants rely on partnerships and the leveraging of other financial resources such as federal funds, private funds, donations, and other local and state funds. Priorities for funding are established in the Board's Statewide Boating Access and Improvement Plan. Federal funds for the Clean Vessel Act program target water quality protection through the provision of facilities for boat pump out and dumping of waste. In addition, the Board's Maintenance Assistance program provides financial support to local governments and the Oregon Parks and Recreation Department for the maintenance and operation of boating facilities in park areas. This includes providing engineering services for local governments and state and federal agencies lacking the specialized skills needed to design and build boat facilities. This is the second largest component of the budget (30.5%) and includes 8 positions and 8.75FTE.

Aquatic and Invasive Species – The purpose of this program is to mitigate the effects of invasive species on native waters through the inspection and decontamination of watercraft. The program was established during the 2009-11 biennium and is operated in coordination with the Oregon Department of Fish and Wildlife (ODFW), the Department of Agriculture (ODA), and the Department of State Police. Boat inspections are conducted through mobile check stations operated by ODFW, ODA, and the Marine Board. This is the smallest program area in the agency, accounting for 4.7% of the budget **a**nd including 3 position (1.20 FTE).

The following bills were enacted by the 2019 Legislative Assembly and directly affect the Board:

HB 2080 raised the biennial boat registration fee from $4.50 a foot length to $5.95 a foot length, a 32% increase. The title fee is raised from $50 to $75 (50%), and the fee for a boater education card is increased from a maximum of $10 to a maximum of $20 (100%). The measure repeals the requirement for an Oregon registered motorboat to carry an aquatic invasive species permit. Instead, $5 is added to the registration fee and that $5 is transferred to the Aquatic Invasive Species Prevention Fund under ORS 830.585. The measure is projected to raise $3.2 million per biennium and will fund Law Enforcement grants, Facilities grants, and current operations.

SB 47 established new fees on nonmotorized boats over ten feet dedicating the revenues to the Board's Waterway Access Fund for the purpose of awarding grants. Grants will fund land acquisition for, construction of, and maintenance of boating facilities that serve non-motorized boaters; as well as grants to public bodies, tribal governments, and non-profits for boater safety education courses and purchasing boat equipment to use for projects that reduce barriers for under-served communities. The legislation also establishes a new 1-week waterway access permit which would dedicate $1 of every permit sale to the Aquatic Invasive Species Prevention Fund. In addition, the bill directs the Board to return to the Legislative Assembly in 2020 and 2021 and report on the implementation of the program. When fully enacted the measure will generate approximately $1 million per biennium.

HB 2352 created a towed watersports program within the State Marine Board (OSMB) and authorizes the collection of a fee for the issuance and renewal of a two-year towed watersports endorsement decal. The program must provide safety and best practices education, address wave management techniques, compile information regarding motor boats for which the towed watersports decal was issued, set minimum standards of competency for licensing, create a towed watersports endorsement course, and create an equivalency examination to substitute for the course. The program will charge a fee of $95 for each bi-annual towed watersport endorsement. With an estimated 5,000 transactions per biennium, the projected revenue for the program is $475,000 Other Funds per biennium.

PARKS AND RECREATION DEPARTMENT

Analyst: Stayner

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	--	228,729	273,580	--
Lottery Funds	78,504,001	108,856,337	109,690,538	116,785,574
Other Funds	102,346,202	101,632,140	98,722,769	130,655,323
Federal Funds	7,266,847	16,422,002	10,294,950	16,685,823
Total Funds	**$188,117,050**	**$227,139,208**	**$218,981,837**	**$264,126,720**
Positions	846	867	867	870
FTE	576.11	596.05	599.79	602.55

Overview

The State Parks and Recreation Department (OPRD) operates under the direction of a seven-member Commission. The Department operates the state's system of more than 250 recreational properties, managing various programs including: ocean shores protection; scenic waterways; the Willamette River Greenway; recreational trails; all-terrain vehicles program; recreation grants to counties and local governments; and state park land use and outdoor recreation planning. The OPRD director is also designated as the State Historic Preservation Officer and oversees activities of the Oregon Heritage Commission and Oregon Commission on Historic Cemeteries. In addition, the Department manages Natural Resource Lottery Funds programs including local park development grants; state park land acquisition; operations and maintenance; the parks-prisons inmate work program; state park facilities; and development projects.

The Department manages park lands covering 113,000 acres. These include 56 campgrounds, 256 day-use areas (some include campgrounds), about 1,000 miles of recreation trails, 362 miles of ocean shore, and other special sites such as boating and fishing docks, group meeting halls, interpretive centers, museums, and 2 historic inns.

The Department operates through the following programs:

- Director's Office – (6 positions, 6.00 FTE) Responsible for overall agency management; support of Commission activities; coordination with the Governor, Legislature, and other government entities; and development of broad policy direction. It also provides public information, agency program review, internal audits, and coordinates rulemaking in its efforts to improve agency performance.
- Central Services – (79 positions, 77.57 FTE) Provides budget and fiscal resources management, staff recruitment and training, safety and risk management, information technology services including managing the park reservation system, and centralized business services such as fleet and managing procurements.
- Park Development – (9 positions, 9.00 FTE) Responsible for engineering design, survey, and construction oversight for statewide park development projects focused on reducing the backlog of repairs and deferred maintenance. This budget also includes funding for the purchase of new real property.
- Direct Services – (748 positions, 481.98 FTE) Supports park operations; park planning and recreation programs, along with property and resource management; and engineering services for operations. The program is responsible for operation of the state park system on a daily basis. It also provides labor, materials, and products for state parks through partnerships with state, county, and local corrections and youth crew programs.
- Community Support and Grants – (28 positions, 28.00 FTE) Responsible for direction and management of the Department's major grant programs and Heritage programs. The grant programs include the All-Terrain Vehicle (ATV) grant program, the Land and Water Conservation Fund, the Local Government Grant Program, the Recreational Trails Grant Program, Natural Heritage (Section 6) grants, and the Recreational Vehicle Grant Program. The Heritage program administers federal and state programs for historic and archeological

resource planning and preservation, and provides the services required of the State Historic Preservation Office.

Revenue Sources and Relationships

In November 1998 and again in November 2010, voters approved measures constitutionally dedicating 15% of the net proceeds of Oregon's lottery revenues to a Parks and Natural Resources Fund. Half of the fund is allocated to OPRD; the remainder is allocated primarily to the Oregon Watershed Enhancement Board. The election in 2010 amended the original measure to dedicate at least 12% of OPRD's share to local grant programs and requires that costs to administer the local grants be borne by the remaining 88% of the Lottery revenue. It also requires that the local grant amount be increased to 25% if the net proceeds deposited into the fund increase more than 50% above the amount deposited in the 2009-11 biennium. The net Lottery fund revenue would need to be over $123 million to trigger the larger local grant percentage. If this amount was just met, net revenues available for operations would be less than currently available by roughly $5 million.

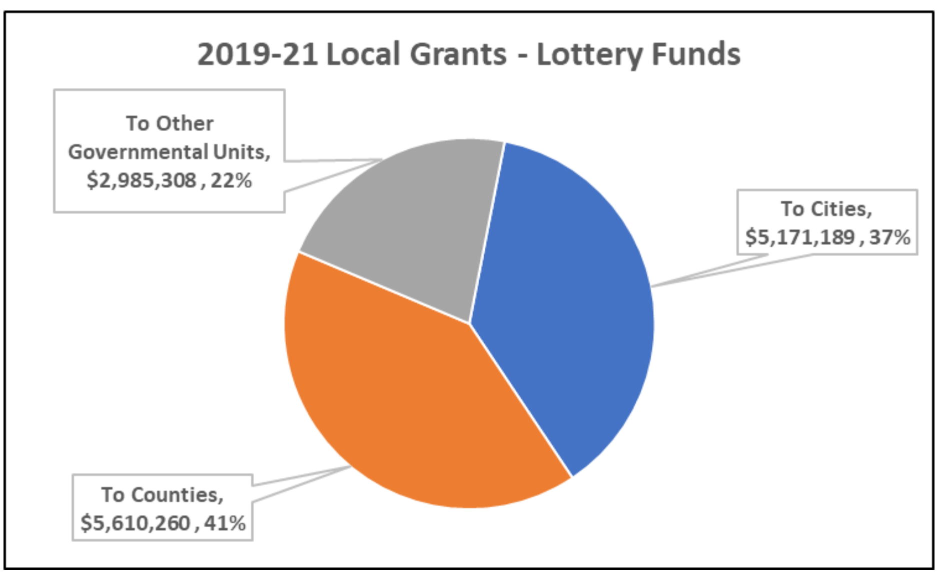
The following display shows funding amounts for 2009-11 through projected revenue for 2019-21. In 2009-11, the local grant amount is less than 12% of the net lottery available because the measure passed and was effective mid-biennium.

Parks Dedicated Lottery Funding

	2009-11	2011-13	2013-15	2015-17	2017-19	2019-21*
$ Millions	$ 81.5	$ 81.0	$ 79.6	$ 92.7	$ 96.1	$ 110.4
Percent Change from 2009-11 Biennium		-0.6%	-2.4%	13.7%	17.9%	35.4%
12% for Local Grant Program	$ 6.5	$ 9.7	$ 9.6	$ 11.1	$ 11.5	$ 13.2

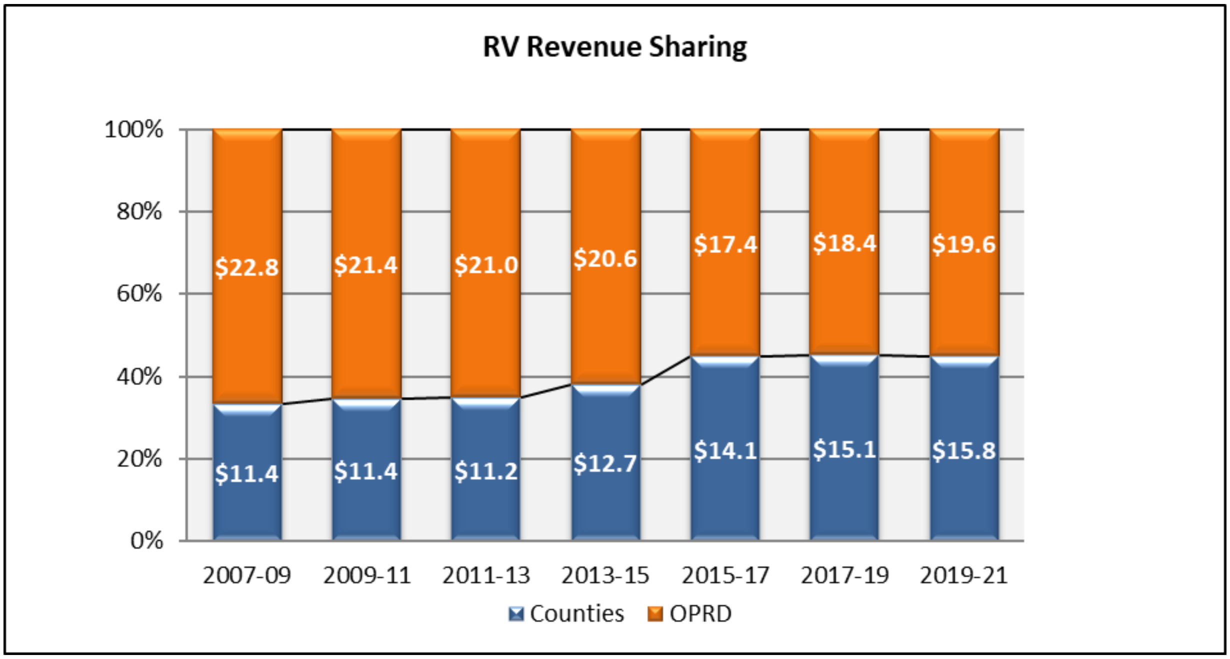
*September 2019 Forecast

The 2019-21 legislatively adopted budget assumes $110.4 million Lottery Funds revenue will be generated for the State Parks and Recreation Department sub-account, as of the September 2019 forecast. Of that amount, $13.2 million is required to be appropriated by the Legislature to local park grant programs. Actual budgeted amounts for local grant funding may vary due to the carry-forward of unexpended funding. The remaining amount, $97.2 million, is projected to be available for the Department's operating programs. The legislatively adopted budget includes these distributions:



Park user fees represent 21.7% of total revenues and 43.1% of Other Funds revenues. User fees are expected to generate $56.3 million in 2019-21.

The OPRD budget anticipates transfers from the Oregon Department of Transportation (ODOT) totaling $50.53 million. Of that amount, $35.39 million is from recreational vehicle (RV) registration fees. These revenues are split between counties and OPRD at a current rate of 45% counties and 55% state.



The current revenue split was effective July 1, 2015, due to the Legislature modifying the distribution in SB 1514 during the 2014 legislative session. Prior to that legislation, the counties were receiving 35%, and there was a sunset that would have reduced their share to 30% on June 30, 2015. SB 1514 eliminated the sunset and increased the counties' share. For 2019-21, the RV revenue is expected to total $35.39 million, $19.6 million for the state parks system and $15.8 million for transfer to counties, including $1.6 million for county opportunity grants. The current estimate of RV registration fees reflects an increase of approximately $1.9 million from 2017-19.

A portion of the transfer that OPRD receives from ODOT is for the estimated amount of unrefunded fuel tax associated with purchase and use of fuel by valid all-terrain vehicles (ATV) permit holders. The estimated revenues for 2019-21 are $11.3 million. OPRD uses this revenue to provide safety outreach and support through community grants to maintain ATV riding areas throughout the state. Valid ATV permits are counted for a two-year time period; from May through June. Fuel tax is calculated by multiplying the number of valid permits by the estimated number of gallons of fuel used in a year for each ATV class, which is determined by a survey conducted by Oregon State University every four years. The total estimated number of gallons is multiplied by the current fuel tax rate of $0.34 per gallon. ATV funds are used for payments to the Department of State Police for troopers and to the Department of Forestry for ATV trails operations and maintenance in addition to ATV parks and trails developed by OPRD. OPRD refunds a portion of fuel tax attributable to Class 1 ATVs back to ODOT for the development and maintenance of snowmobile facilities. Historically, this has been approximately 5.2% of the total fuel tax transfer and for the 2019-21 biennium this is anticipated to be $580,308.

The Oregon Travel Information Council (TIC) currently manages three of the OPRD properties serving as safety rest areas in Oregon along interstate and state highways. The properties that TIC manages are: Van Duzer, Ellmaker, and Peter Skene Ogden. OPRD maintains ownership of these properties, but the responsibility to manage, maintain, and improve the properties as rest areas has been transitioned to TIC. Since OPRD still owns the properties, and these properties can be used by visitors for recreation beyond a rest area function, OPRD still has certain maintenance and operations responsibilities for these properties. In the 2017-19 biennium, OPRD was budgeted to receive $2,554,706 of funding from ODOT to help with the costs of maintaining and operating all of the OPRD safety rest areas. With the transfer of rest area management responsibilities for the three properties indicated to TIC, OPRD has seen a decrease in that funding from ODOT. The 2019-21 budgeted transfer from ODOT is $2,189,748; a reduction of $364,958.

The Legislature also created a "salmon" license plate that has a premium surcharge above the standard license plate fees. OPRD anticipates receiving $393,967 in the 2019-21 biennium from the salmon license plate. OPRD expends its share of proceeds from the sale of these plates on salmon habitat restoration needs and related projects.

Other dedicated revenue sources include $1.24 million from ODOT for the maintenance of state highways in state parks, and $400,000 from the Marine Board for boater facility maintenance and rehabilitation. Assorted Other Funds from the Deschutes River boater pass, rental of park property, sale of publications, and other donations and miscellaneous sources are also collected.

The Department also expects to receive $16.7 million in Federal Funds. Federal revenues fund a number of ongoing programs including: land and water protection and enhancements, heritage preservation, recreational trails, and natural heritage preservation.

Budget Environment

Property acquisition is a fundamental component of ensuring an adequate supply of land is available for the recreational enjoyment of Oregonians and to preserve an area of outstanding natural, scenic, or historical value. Opinions vary widely on how much new parkland is needed. On average since 1997, there are 27.3 acres of state park land per 1,000 population. The addition of new parks and recreation sites exert upward pressure on ongoing operational and maintenance costs. Lottery Funds have made these acquisitions and new developments possible. Managing the increase in operating costs over time, however, is a major issue. Changing demographics may result in promoting different forms of recreational activity other than camping.

Funding for OPRD is primarily a mix of Lottery Funds and Other Funds revenues, with supplemental funding from Federal Funds. In the 1999-01 biennium, dedicated Lottery Funds from Measure 66 (1998) provided 35% of available revenue and Other Funds provided 63%. Up until the 2009-11 biennium, Lottery Funds increased relative to Other Funds. This trend resulted from expanding programs during periods when Lottery revenues escalated; fee rates were able to be held flat since the last increase in 1996. As Lottery revenue growth has slowed, park user fee increases were needed to maintain services; increases were approved by the 2009 Legislative Assembly and the 2013 Legislative Assembly to maintain current service levels, provide adequate operating ending balances, and allow continued upkeep and upgrade of the system. Available funding from Lottery Funds peaked in the 2017-19 biennium at 46.5% as a result of lower than anticipated expenditures and increasing forecasted Lottery Fund revenues in the 2015-17 biennium creating a surplus beginning fund balance for the 2017-19 biennium. At the beginning of the 2019-21 biennium, available funding from Lottery Funds is 44.2% of the total budget.

Legislatively Adopted Budget

The legislatively adopted budget for the Oregon Parks and Recreation Department totals $264.1 million which includes $116,785,754 Lottery Funds, $130,655,323 Other Funds, $16,685,823 Federal Funds, and 870 positions (602.55 FTE). The budget is a 16.3% increase from the 2017-19 legislatively approved budget. The budget recognizes fee revenues from a flexible fee schedule adopted by the Parks Commission and includes $13 million in Lottery Funds for local park grants. The budget includes $5 million Other Funds expenditure limitation for bond proceeds funding local Main Street program grants. The budget makes significant investments in accessibility improvements, facilities maintenance, and development of existing parks and trail systems. Operational investments include funding for inclusivity programs to address recreation and service needs of under-represented and non-traditional users, increased costs of contracted services, and initial reservation system replacement planning.

The budget provides one-time-only expenditure limitation of $1.5 million Lottery Funds and $2 million Other Funds to provide for increased accessibility improvements in existing day use and overnight facilities throughout the park system and to enhance overnight camping options along the coast. The funding will be allocated across three projects. The first is $500,000 for expanding ADA enhancements to picnic facilities, campgrounds, trail systems, and viewpoints. The second is $1,000,000 to allow for an accelerated schedule of restroom replacement. The remaining $2,000,000 will allow OPRD to selectively add additional camping along the Oregon coast, including the addition of a small tent walk-in loop at Fort Stevens State Park, and make improvements to older sites along the coast where campgrounds are built to capacity.

One-time-only expenditure limitation of $341,460 Lottery Funds and $358,540 Other Funds is included in the budget to fund internal and external work to broaden OPRD's reach to a more diverse staff and visitor base. The plan involves investment into internal training to ensure staff understand recreation and service needs of under-represented and non-traditional users. It will also include work to recruit a work force that better represents the changing demographics in Oregon. Of the total expenditure limitation provided, $100,000 total funds are to implement an ongoing inclusion competency training for all OPRD staff, and $100,000 total funds are to develop an effective branding strategy for the Department.

The budget provides expenditure limitation of $112,591 Lottery Funds and $118,222 Other Funds and authorizes the establishment of one position (0.88 FTE) as an additional Park Region Manager. This will allow OPRD to divide the existing three regions of the state into four regions, reducing the travel of two positions to balance work load, geographic distance, and responsiveness to stakeholders.

OPRD transitioned to using contracted call center services in December 2016. Of the nine call center positions that had been established at OPRD, three were eliminated and the six remaining were abolished in favor of the creation of three positions; a design specialist, a public affairs specialist, and a research analyst, as part of a permanent finance plan that was approved in the 2017-19 biennium. Since the agency repurposed the funding of the six positions for the three new positions rather than using that funding to pay for the contracted call center services, a funding shortfall was created in the agency's budget. At its September 2018 meeting, the Emergency Board provided a one-time increase in expenditure limitation to address the budgetary shortfall. The legislatively adopted budget makes that correction permanent by increasing combined Other Funds and Lottery Funds expenditure limitation by $1,168,224 is for costs associated with the reservation system and increases of $40,006 for costs associated with merchant fees and $55,591 for costs associated with Department of Administrative Services (DAS) financial systems use.

The budget provides increased expenditure limitation of $1,211,806 Other Funds and $201,717 Lottery Funds for specific budget items where costs are increasing faster than inflation and the cost is generally outside of the Department's control. These include:

- Expenditures from the user-fee supported preventative maintenance fund,
- Extraordinary inflation for Utilities, Fleet, and Fire Protection,
- Expenditure limitation for "enterprise" activities related to vended goods or services at campgrounds, like firewood sales, and
- Additional expenditure limitation for the "lower Deschutes river dedicated account" for the funding of allowable projects from the account.

To allow OPRD to distribute increased funding available from the increase in fuels tax approved during the 2017 legislative session, an additional $3,000,000 Other Funds expenditure limitation is included in the budget. The increased limitation will be used to award grants for operations, maintenance, and law enforcement of ATV riding areas.

A one-time-only increase in Federal Funds expenditure limitation of $118,000 is included in the budget, supported by additional revenue from the U.S. Bureau of Reclamation. Funding will be used for construction projects in the Prineville management unit.

A one-time-only Other Funds limitation increase of $3,000,000 was included in the budget to address fish passage and habitat concerns at Bates State Park. The existing Bates State Park pond dam fish ladder does not meet current fish passage requirements. The project will allow for renovations or rebuilding, if necessary, of the fish ladder to meet current standards including a fish stream bypass. The addition of the stream bypass will also reduce the effects of the higher water temperature caused by the pond.

The Legislature approved inclusion of one-time-only expenditure limitation of $7,000,000 Other Funds to allow for the construction of several projects in commemoration of the State Parks Centennial. The projects currently planned include development of a new overnight camping facility at Fogerty Creek State Park; a new parking area, visitor orientation/education facilities, and projects to mitigate congestion at Silver Falls State Park; and implementation of visitor/traffic management strategies in the Smith Rock master plan, including the development of new entrance areas and a visitor welcome facility at Smith Rock State Park.

A one-time-only expenditure limitation increase of $2,250,000 Other Funds was included in the budget to provide funding for work on closing gaps in the Oregon Coast Trail and for improvements associated with the extension of the Historic Columbia River Highway Trail. Of this amount, $1.25 million will be used to conduct an assessment of existing Coast Trail conditions and facility needs, provide restoration or trail reroutes to achieve maintenance goals, design and construct identified trail side facilities and improve trail signage as needed, and $1 million would be used in conjunction with ODOT funded projects to make improvements at Viento State Park where the Columbia River Highway Trail would intersect and overlay a portion of the existing shop access road. OPRD would work with ODOT on site grading, construction of a new shop access road, and an employee parking area.

The budget includes an increase of $3 million Lottery Funds for park property acquisition. In conjunction with the funding the following budget note was included in the budget report for the agency's budget bill:

> Budget Note
> In addition to any other required materials, the Oregon Parks and Recreation Department shall provide a report to the Joint Committee on Ways and Means during the budget presentation hearings for the 2021-23 biennium detailing purchases of additional park property completed or anticipated to be completed during the 2019-21 biennium. The report must include, at a minimum, the specific location, acres, and price paid for each property, and the initial development and management plan for each property.

Ongoing expenditure limitation of $100,000 total funds ($48,750 Lottery Funds and $51,220 Other Funds) to develop and implement comprehensive archaeological testing projects at state parks is provided in the budget. Each project entails contracting with an archaeological services contractor to research known archaeological resources, soliciting a permit from the State Historic Preservation Office to perform site testing, and the development and implementation of a testing protocol which could include test pits, ground penetrating radar, or other methods as appropriate. This information will be used to identify key archaeological features and sites, delineate site boundaries and provide critical archaeological background information to expedite clearances on needed projects such as repairs to critical park infrastructure like water, electric, and sewer facilities where archeological testing is often a legal requirement.

The budget provides $490,000 in Lottery Funds expenditure limitation to supplement existing funding in four community grant programs. This funding includes: $150,000 Lottery Funds to the Diamond in the Rough historic preservation grant program that is currently only supported by Other Funds from the Cultural Trust and Special Assessment application fees, increased funding for the Preserving Oregon historic and archaeology grant program by $150,000, increased funding for the Heritage grant program by $150,000 for non-building heritage projects, and increased funding for the Museum grant program by $40,000.

Expenditure limitation of $12 million is included in the budget for grants that were awarded, but not fully drawn down in the 2017-19 biennium. These include: $5.18 million Other Funds for the Main Street Grant program; $613,000 Other Funds for the County Opportunity Grant program, and $6.27 million Federal Funds for the Land and Water Conservation Fund and the Recreational Trails program. Additionally, one-time-only expenditure limitation of $633,694 total funds was included in the budget to complete work under a grant awarded to OPRD from the Federal Emergency Management Agency (FEMA) for state park properties damaged in the Willamette Valley and along the Oregon coast due to 2015 winter storms. Not all work was completed during the 2017-19 biennium as anticipated.

The budget provides one-time-only expenditure limitation of $243,900 Lottery Funds and $256,100 Other Funds for reservation system replacement planning. Of this total, expenditure limitation of $283,412 Lottery Funds and $297,588 Other Funds (of which $73,170 Lottery Funds and $76,830 Other Funds is one-time-only) is for costs related to the transition to Office 365, ongoing expenditure limitation of $185,364 Lottery Funds and $194,636 Other Funds is for increased costs of Enterprise Technology Services (ETS) from the Department of Administrative Services, and expenditure limitation of $122,865 Lottery Funds and $129,011 Other Funds is to establish a limited duration position (0.88 FTE) to initiate the process of infrastructure evaluation by mapping locations of underground infrastructure in state parks.

The budget contains ongoing expenditure limitation of $9,607 Lottery Funds and $7,503 Federal Funds ($17,110 total funds) to reclassify two positions. An administrative specialist position will be converted to a natural resource specialist archaeologist position reviewing projects for compliance with applicable state and federal requirements. An information systems specialist position will be upwardly reclassified to better reflect current duties.

The budget provides one-time-only Other Funds expenditure limitation of $400,000 for the Department to conduct an evaluation of necessary repairs at the State Capitol Park. The funding for the evaluation is transferred to OPRD from the Department of Administrative Services for this purpose.

One-time-only $500,000 Other Funds expenditure limitation and the authorization to establish a limited-duration position (1.00 FTE) to work as a project manager on the Salmonberry Trail Project was included in the budget. OPRD has been working with the Department of Forestry and other local partners toward the goal of creating the Salmonberry Trail. The package recognizes $425,000 in new revenues from grants and donated funds raised for the project. The remaining funding for the project is carried-forward from prior biennia.

WATER RESOURCES DEPARTMENT

Analyst: Stayner

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	31,151,280	33,503,512	34,710,206	36,722,794
Lottery Funds	2,511,474	3,953,969	8,493,320	7,566,502
Other Funds	12,105,217	66,864,861	44,268,986	99,151,093
Federal Funds	629,631	1,905,917	876,734	875,519
Total Funds	**$46,397,602**	**$106,228,259**	**$88,349,246**	**$144,315,908**
Positions	166	170	169	177
FTE	163.43	167.59	164.51	171.79

Overview

The Water Resources Department (WRD) issues and protects water rights and implements water policy for the state. WRD is the administrative arm of the Water Resources Commission, a seven-member citizen board appointed by the Governor and confirmed by the Senate. WRD functions include enforcing the state's water laws, recording and enforcing water rights, developing water resources, inspecting wells and dams, and providing scientific and technical analysis of surface and groundwater resources. The agency is organized into six divisions: Administrative Services, Field Services, Technical Services, Water Rights Services, Water Development Loan Program, and the Director's Office. By law, all surface and groundwater in Oregon belongs to the public. The agency mission is to "serve the public by practicing and promoting wise long-term water management" through the restoration and protection of stream flows and watersheds and by directly addressing Oregon's water supply needs. Informally, WRD is known as the state's water quantity regulator as opposed to the water quality regulator, the Department of Environmental Quality.

The Department operates through the following six programs:

- Administrative Services – (13 positions, 12.50 FTE) Provides human resource, accounting, payroll, contracting, facilities management, risk management, training services, and budget preparation and execution. The program operates the Water Conservation, Reuse, and Storage Grant Program established by SB 1069 (2008) providing funding for feasibility studies. The program also operates the Water Supply Development Fund established by SB 839 (2013) to provide loans and grants for water resources development projects that evaluate and plan projects to provide access to new water supplies for in-stream and out-of-stream uses.
- Field Services – (61 positions, 58.71 FTE) Administers water laws, including dam and well inspections, and water right regulation and enforcement. The Division regulates water use in order to protect senior water rights for both in-stream and out-of-stream purposes. The Department organized the state's 21 watermaster districts into five regions for more efficient use of field personnel. Field staff include region managers, watermasters, technicians, and assistant watermasters. Field staff responsibilities include dam inspections, enforcing water distribution among water right holders, processing water right transfers, hydrologic data gathering, well construction inspections, well monitoring, and water right record maintenance. In addition, field staff act as liaisons with Watershed Councils, municipal water suppliers, local governments, and irrigation districts to explain Commission and Department policies, review water management plans, provide information on water availability and water rights, and bring regional policy issues back to the Department.
- Technical Services – (51 positions, 50.28 FTE) Manages data and technical analyses of the state's surface and ground water. The Division supports both current and long-term water management needs by collecting, analyzing, and applying information on ground water and surface water resources. Technical Services' programs include hydrologic analysis, ground water investigations, surface water availability, hydrographics, dam safety, stream gauging, geographic and water rights information systems, well construction and enforcement, and water use reporting.

- Water Right Services – (38 positions, 37.17 FTE) Evaluates both in-stream and out-of-stream water right applications, and administers programs such as water right certification, permit administration, water right transfers, stream flow restoration, water supply and conservation planning, adjudication of pre-1909 and federal reserved water rights, and hydroelectric licensing. It also has the lead responsibility for Oregon's hydroelectric water right and licensing program. Approximately 154 currently authorized licensed hydroelectric projects pay annual fees to support the coordinated programs in the Departments of Water Resources, Fish and Wildlife, and Environmental Quality.
- Director's Office – (14 positions, 13.13 FTE) Oversees all policy-related functions of the agency. The Office coordinates the development of administrative rules, provides citizen response and information services, supports the Water Resources Commission activities, develops legislative proposals, and provides oversight of agency activities related to the Oregon Plan for restoration of salmon and watersheds, the Global Warming Commission, Government-to-Government tribal activities, and Sustainability and Streamlining Efforts. The Director's office also houses the Integrated Water Resource Strategy (IWRS) Coordinator position, providing policy direction and leadership for the agency's IWRS program.
- Water Development Loan Program – Established by the Legislature in 1977 as a general obligation bond program to finance irrigation and drainage projects. The loan program was expanded in 1982 and 1988 through constitutional amendments approved by voters to also include community water supply, fish protection, and watershed enhancement projects.

<u>Revenue Sources and Relationships</u>
The legislatively adopted budget includes expenditure limitation of $85.85 million Other Funds for lottery revenue bond proceeds including bond issuance costs. An additional $7.57 million Lottery Funds expenditure limitation is also included for debt service on bonds issued in the 2015-17 and 2017-19 biennia. These amounts heavily skewed the total revenue picture for the Water Resources Department as these amounts are roughly twice the ongoing operating budget of the agency and therefore effectively triple the total available revenue for the agency in the 2019-21 budget.

Exclusive of the additional Other Funds expenditure limitation for bond proceeds and Lottery Funds expenditure limitation for debt service, the Department's operating budget is primarily General Fund, representing 72.15% of the operating program revenue. General Fund is used throughout the agency. In some of the operating divisions that charge fees for certain transactions and services, General Fund is used to cover a portion of the cost to provide those services where the revenue generated from the fees have limitations imposed by statute, contract, or legislative policy on the percentage of the revenue that can be used to cover the actual cost of providing the services.

Other Funds revenue from fees and charges for services comprises 25.9% of the operating revenue for WRD, not including bond proceeds and debt service. Other Funds revenue sources include start card fees (well drilling), water right and transfer fees, exempt ground water use fees, geotechnical hole fees, hydroelectric fees, interest earnings, and payments from various county and state agencies for contracted services. The Department assumed $12.1 million of fee revenue, including $1.45 million in federal service contract revenues for the 2019-21 biennium.

Lottery Funds are used exclusively to pay debt service on lottery revenue bonds. Lottery Funds make up 13% of the agency's operating budget net of bond proceeds.

Federal Funds received through the Federal Emergency Management Agency (FEMA), Bureau of Reclamation, and other federal agencies represents about 1.5% of the agency's operating budget.

<u>Budget Environment</u>
Surface waters in most of the state are fully appropriated by existing out-of-stream and in-stream uses, except during periods that fall outside of the irrigation season when stream flows are generally higher. There are also a number of areas in Oregon that are experiencing reductions in ground water supplies. The effects of climate

change on Oregon's water supply is in an early stage of analysis requiring a close look at how it may affect water rights, crop production, and migration patterns.

Since there are few new water rights available, the agency has shifted significantly towards identifying, developing, and managing the water. There is not an identified revenue source to accomplish this work and over the past four biennia, General Fund has gone from 48.76% of the operating budget (less bond proceeds and debt service) in 2013-15 to 72.15% of the operating budget in the current biennium. It is likely that this trend will continue unless alternate ongoing funding is identified. There were discussions regarding the implementation of an annual water rights management fee of $100 per water right. With roughly 90,000 water right holders, there is a potential biennial revenue of $18 million.

Listings and potential listings under the Endangered Species Act and water quality issues increase the complexity of water allocation decisions. The habitat of the spotted frog continues to be an issue, particularly in the Deschutes River basin.

Most of Oregon's river basins east of the Cascade Mountains have been adjudicated of pre-1909 water rights, tribal water rights, and other federal reserved water rights. Only a few of the river basins west of the Cascades have been adjudicated. The Klamath basin water rights have now been adjudicated and the agency has begun enforcing those rights. This has engendered a significant amount of legal cost for WRD in the past two biennia and is anticipated to continue in the 2019-21 biennium.

Legislatively Adopted Budget

The legislatively adopted budget for the Water Resources Department totals $144,315,908; a $38,087,649, or 35.9% increase from the legislatively approved budget for the 2017-19 biennium. The budget supports 177 positions, 171.79 FTE. The budget continues support for place-based integrated water resources planning, makes permanent, a position participating in shared payroll services that serves six agencies, and provides funding for a second basin groundwater study team.

The majority of the budget increase is due to the provision of Other Funds expenditure authority for lottery revenue bond proceeds. Although $22.9 million of a total of $53.6 million in Other Funds expenditure authority that was approved for bond-funded projects in the 2017-19 biennium was scheduled to be phased-out of the 2019-21 biennium budget, the adopted budget carried-forward $42 million in expenditure authority from the 2017-19 budget to the 2019-21 biennium and added another $43.8 million for projects funded from lottery revenue bonds in the current biennium. Other Funds expenditure authority for bond funded projects total $85.85 million, or 59.5%, of the 2019-21 biennial budget for the Department. Lottery Funds debt service expenditures have increased at a compound annual growth rate of 53.7% since fiscal year 2013. Lottery Funds supported debt service totals $7.6 million, or 13% of the agency's budget excluding bond proceeds for the 2019-21 biennium.

Two vehicles are used to distribute the new bond proceeds in the agency's budget. An increase of $25.5 million in Other Funds expenditure limitation was established for the purpose of making grants, loans, and paying the cost of bond issuance from lottery bond proceeds deposited into the Water Supply Development Fund, commonly referred to as the SB 839 fund. Of this amount, $15 million is for Water Supply Development grants and loans to evaluate, plan, and develop in-stream and out-of-stream water development projects that: repair or replace infrastructure to increase the efficiency of water use; provide new or expanded water storage; improve or alter operations of existing water storage facilities in connection with newly developed water; create new, expanded, improved, or altered water distribution, conveyance, or delivery systems in connection with newly developed water; allocate federally stored water; promote water reuse or conservation; provide streamflow protection or restoration; provide for water management or measurement in connection with newly developed water; and, determine seasonally varying flows in connection with newly developed water. Of the amount, $521,689 is for the payment of bond issuance costs. The remaining $10 million expenditure limitation is for bond proceeds allocated to the fund for the Deschutes Basin Board of Control Piping Project. The funding will be combined with additional state, local, and federal funds to allow the Board of Control to pipe currently open canals with a total project cost of $99.38 million.

The second increase of $18.3 million in Other Funds expenditure limitation was for making grants, loans, and paying the cost of bond issuance from lottery bond proceeds deposited into the Water Supply Fund. Of the total increase, $327,563 is for the estimated cost of bond issuance, $14 million is for a grant to the Wallowa Lake Irrigation District for the rehabilitation of the Wallowa Lake Dam, and the remaining $4 million is for a grant to the City of Newport for the planning, environmental permitting, and design costs of replacing the Big Creek Dams.

In addition to the new bond funding, the budget includes another $42 million of Other Funds expenditure limitation for bond proceeds from bonds that were issued in the 2015-17 and 2017-19 biennia but had not been expended prior to the end of the prior biennium. The following table details the original bond authorization biennium, the original net bond proceeds, and the remaining unexpended funding.

Purpose	Originally Authorized	Original Amount	2019-21 Remaining Unspent Funds
Water Supply Development (SB 839) Grants and Loans	2015-17	$6,250,000	$2,650,000
For the purpose of making grants and paying the direct service costs of planning studies performed to evaluate the feasibility of developing a water conservation, reuse, or storage project (SB 1069)	2015-17	$2,000,000	$1,000,000
For the purpose of making grants or entering into contracts to facilitate water supply projects in the Umatilla Basin	2015-17	$11,000,000	$11,000,000
Water Supply Development (SB 839) Grants and Loans	2017-19	$15,000,000	$15,000,000
For the purpose of making grants and paying the direct service costs of planning studies performed to evaluate the feasibility of developing a water conservation, reuse, or storage project (SB 1069)	2017-19	$1,500,000	$1,500,000
For water supply and storage projects at the City of Carlton	2017-19	$4,500,000	$4,500,000
For water supply projects at the Santiam Water Control District	2017-19	$1,200,000	$1,200,000
For water supply and storage projects at the City of Carlton (2018 Session adjustments)	2017-19	$5,150,000	$5,150,000
Total		$46,600,000	$42,000,000

The budget provides a General Fund appropriation of $788,561 and authorizes the establishment of a limited-duration Natural Resources Specialist 4, Planning Coordinator position (1.00 FTE) to provide financial and technical assistance to help support the four planning groups participating in a pilot, place-based integrated water resources planning project. The funding and position authority are provided in conjunction with the four-year extension of the statutory sunset of the program contained in HB 2084. The participating basins are: Upper Grand Ronde, Lower John Day, Malheur Land, and the Mid-Coast. The funding will be used by the Water Resources Department and the participating groups to complete the planning phase and transition to plan implementation.

A General Fund appropriation of $1,659,740 and the authorization to establish six permanent positions (5.28 FTE) for the evaluation of groundwater basin studies in cooperation with the U.S. Geological Society and the Oregon

Department of Geology and Mineral Industries is included in the adopted budget for the agency. Each basin study takes between five and six years to complete. This package will double the agency's capacity to conduct the studies. In addition to the funding in the package, the agency will be using existing Other Funds expenditure limitation of $300,000 for cost-share expenses related to the studies from exempt well use fee funds.

The budget includes an Other Funds expenditure limitation increase of $146,808 and authorizes the establishment of permanent Accounting Tech 3 position (1.00 FTE) to support the shared payroll services program.   During the initial pilot phase of the of project, the position was limited duration. The shared payroll team is currently supporting 550 employees in six agencies including the Department of State Lands, the Department of Land Conservation and Development, the Land Use Board of Appeals, Housing and Community Services Department, and the Oregon Watershed Enhancement Board.

Additional statewide adjustments were included to reconcile the agency's budget with anticipated statewide administrative service fees, Attorney General charges, and personal services contracts.

OREGON WATERSHED ENHANCEMENT BOARD

Analyst: Siebert

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	--	190,000	--	--
Lottery Funds	62,490,494	79,589,460	82,674,272	90,535,226
Other Funds	2,709,180	3,009,486	1,670,646	3,070,646
Federal Funds	23,324,998	41,759,143	28,044,683	45,304,270
Total Funds	**$89,524,672**	**$124,548,089**	**$112,389,601**	**$138,910,142**
Positions	35	33	31	34
FTE	34.25	33.00	31.00	34.00

Overview
The Oregon Watershed Enhancement Board (OWEB) was established in 1999 by the legislation implementing Ballot Measure 66, which established the framework for the full allocation of the measure's constitutionally dedicated lottery revenue. Ballot Measure 66, passed by the voters in November 1998, amended Section 4, Article XV of the Oregon Constitution to dedicate 15% of net lottery proceeds to be split between state parks and salmon, watershed, and habitat restoration. Ballot Measure 66 was replaced by Ballot Measure 76, which passed in November 2010, and reauthorized the dedication of 15% of net lottery proceeds to state parks (7.5%) and fish, wildlife, and habitat conservation (7.5%). The Ballot Measure 76 reauthorization changed the way the dedicated Lottery Funds could be spent. Under the old dedication, the Lottery revenues were divided into two parts, 65% for capital expenditures and 35% for operations expenditures. Under the reauthorization of this dedication, 65% is now restricted to grants for non-state agencies. Only the other 35% can be used to support state agency programs and state agencies are prohibited from directly receiving any of the 65% dedicated to grants. Previously, state agency programs could be funded under either the capital or operations funding split as long as it was a qualifying expenditure.

OWEB is designated as the single state agency charged with administration of the salmon and watershed portion of the dedicated lottery revenues required under Ballot Measure 76. OWEB consists of 11 voting members, including five voting members from state natural resource agency boards and commissions and six public members appointed by the Governor and confirmed by the Senate. OWEB is also authorized to include up to seven additional non-voting members, including the director of Oregon State University's agricultural extension service and representatives from six federal land and natural resource agencies. OWEB distributes funding for projects, offers technical assistance on grant proposals, and coordinates with other state natural resource agencies.

Revenue Sources and Relationships
Total Lottery revenues are forecasted to increase slightly in the 2019-21 biennium. Original assumptions that the opening of a new casino in southern Washington would reduce Lottery revenues appears to have overstated the effect on reducing Oregon's Lottery revenues. No revenues from offering sports betting were assumed in the May 2019 Lottery Forecast, which means that if such betting is available in the Fall of 2019 as currently planned, some additional resources may be available above the initial 2019-21 forecast.

Federal Funds are derived primarily from the National Oceanic and Atmospheric Administration – Fisheries, an agency within the U.S. Department of Commerce, which administers the Pacific Coastal Salmon Recovery Fund (PCSRF). PCSRF monies were first authorized by Congress in 2000 and are for salmon habitat restoration, stock enhancement, and research. The Legislature assumed about $40 million Federal Funds from PCSRF would be available for expenditure in 2019-21. This amount includes one year of federal funding and $15 million of carry-forward funds. OWEB is hopeful it will receive a second similar grant amount in the second half of the 2019-21 biennium, which would bring PCSRF funding slightly above historical levels. Over $10 million of the PCSRF grant funds total is transferred to the Oregon Department of Fish and Wildlife to support programs that protect and enhance native fish species. Other Funds are also received from the Department of Transportation for one-half of the proceeds from the sale of salmon license plates, from various non-governmental sources in the form of donations and grants, and monies from the Department of Forestry for a grant program administered by OWEB.

Budget Environment

While Lottery revenues are forecasted to increase, cost increases experienced by the programs that rely on constitutionally dedicated Lottery Funds for support, such as employee compensation, mean that almost all the 35% of Ballot Measure 76 Lottery Funds allowable for operations expenditures revenues must be used to support existing programs. This includes additional funding for the Department of Agriculture to combat invasive pest outbreaks in Washington and Polk counties.

Legislatively Adopted Budget

The adopted budget for OWEB is divided into two program areas, Grants and Operations. The 2019-21 legislatively adopted budget for Operations included a total of $8.3 million in Operations Lottery Funds, $17,926 Other Funds, $2.5 million Federal Funds, and 35 positions (an increase from 34 positions in 2017-19) to support administration of the grant program. A Conservation Outcome Coordinator and a Conservation Outcome Specialist were continued from 2017-19. The Coordinator position was made permanent and supported with Federal Funds from the PCSRF grant and the Specialist position was continued as limited-duration and supported with Measure 76 operating Lottery Funds. In addition, a new limited-duration Natural Resources 4 position was added to coordinate the Focused Investment Partnership program paid for with Measure 76 operating Lottery Funds.

The legislatively adopted budget for the Grant program established an $82.2 million Lottery Funds grant fund for 2019-21, which is $9.6 million (or 13%) more than the legislatively approved grant fund for the 2017-19 biennium. Higher than forecasted 2017-19 revenues being carried forward into the 2019-21 biennium accounts for $5.9 million of the increase. The Grant program budget also includes $3 million Other Funds and $42.8 million Federal Funds. The Other Funds expenditure limitation includes $900,000 carry-over to accommodate grants awarded in 2017-19 that will continue into 2019-21. Likewise, the Federal Funds total includes $15 million of carry-forward expenditure limitation for projects approved last biennium that will continue into 2019-21.

The following table shows the legislatively adopted budget's 2019-21 expenditure limitation of all Measure 76 Lottery Funds.

2019-21 Measure 76 Lottery Fund Expenditures

	M-76 LF 35% Operations	**M-76 LF 65% Grants**
Department of Agriculture	$10,568,358	
State Police / Fish and Wildlife Enforcement	$10,004,076	
Department of Fish and Wildlife	$7,621,405	
Department of Environmental Quality	$5,300,822	
Oregon Watershed Enhancement Board	$8,304,034	$82,231,192