ADMINISTRATION

PROGRAM AREA

DEPARTMENT OF ADMINISTRATIVE SERVICES

Analyst: Siebert

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	15,830,496	24,998,687	9,078,145	31,517,185
Lottery Funds	10,658,858	13,940,628	20,255,163	17,457,806
Other Funds	908,829,826	1,027,206,922	910,975,927	1,134,383,875
Other Funds (NL)	194,774,768	129,986,751	133,988,178	133,988,178
Federal Funds	--	1,446,795	--	--
Total Funds	**$1,130,093,948**	**$1,197,579,793**	**$1,074,297,413**	**$1,317,347,044**
Positions	884	914	859	916
FTE	855.27	906.96	858.50	906.95

Totals are different from those in Executive Branch documents due to separate treatment by the Legislative Fiscal Office of: Lottery Funds for County Fairs, Oregon Public Broadcasting (OPB), and Oregon Historical Society (OHS) debt service and General Fund support for the State Fair, OPB, and OHS. *The Governor line-item vetoed a $500,000 General Fund appropriation made to DAS for distribution to the Association of Oregon Counties after the conclusion of the 2019 legislative session. This funding is included in this analysis since it is part of the 2019-21 Legislatively Adopted Budget.*

Overview

The Department of Administrative Services (DAS) is the central administrative agency that supports other agencies of state government and coordinates statewide services and administrative policies. The Department has numerous divisions responsible for a variety of disparate functions. It operates centrally located motor pools; operates and maintains facilities and the state data center; and provides printing, information technology, computer, payroll, and accounting services. The Department distributes federal, lottery, and state funds to cities, counties, and other state agencies. It also collects and distributes mass transit assessments.

Revenue Sources and Relationships

The Department's operating revenue primarily comes from assessments and fees charged for services provided to state agencies. DAS establishes rates for direct services and bills agencies based on usage. Costs of indirect services, such as those provided by the Chief Operating Office, Chief Financial Office, State Chief Information Office, and Chief Human Resource Office are recovered through a "statewide assessment" included in state agencies' budgets as part of the line item expense titled "State Government Service Charges."

Although assessment-supported services cannot be directly measured and tied to each agency receiving the service, the Department attempts to allocate the assessment equitably. Payments by state agencies to DAS are controlled through the budget review and approval process. Over 45% of DAS revenues received through assessments and charges for service originate in sending agency budgets as General Fund or Lottery Funds.

Budget Environment

The Department provides services along two primary tracks: 1) governance and policy direction, such as budget, accounting practices, and human resource policies; and 2) infrastructure and business services, such as printing, mail, fleet, and custodial services. Handling the simultaneous leadership and service-provision roles is an ongoing challenge for the Department. State agencies can be particularly sensitive to paying for policy oversight, which seemingly has less tangible value, and for services which they might prefer to forego, purchase elsewhere, or support on their own.

Chief Operating Office

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	285,200	5,354,057	2,654,792	3,106,551
Other Funds	18,873,420	22,014,905	21,685,814	25,021,400
Total Funds	**$19,158,620**	**$27,368,962**	**$24,340,606**	**$28,127,951**
Positions	62	64	59	63
FTE	60.84	61.95	59.00	62.40

Program Description

The DAS Director is responsible for managing and coordinating the policies, programs, and services of the divisions within the Department. The DAS director also serves as the Chief Operating Officer for Oregon and is tasked with reviewing systems and procedures, streamlining departments, and creating efficiencies and cost savings in state government. The Director is responsible for coordinating policy among state agencies and setting guidelines for developing the Governor's budget and executing the legislatively adopted and approved budgets. The Chief Operating Office (COO) has five primary functions:

- Agency Administration – Provides management oversight and policy direction to DAS divisions.
- Office of Economic Analysis – OEA produces the Oregon Economic and Revenue Forecast and Criminal Justice Population Forecast. It also contracts for the Highway Cost Allocation Study.
- Performance Management – Works with agencies on the most efficient and effective use of public funds.
- Government Affairs and External Relations – Coordinates legislation and communications.
- DAS Information Technology – Application Service Delivery and the agency Technology Support Center maintain the DAS technology environment.

Revenue Sources and Relationships

General Fund supports prison population forecasting. Otherwise, most COO functions are funded through an assessment on state agencies. The Department of Transportation pays for the cost of the Highway Cost Allocation Study conducted by OEA. DAS Information Technology receives funding from DAS Divisions through internal overhead charges and from client agencies that pay DAS for desktop computing support. HB 2600 (2017) temporarily moved General Fund pass-through funding for the Court Appointed Special Advocates (CASA) program from the Housing and Community Services Department to DAS on a temporary basis.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget is $1,758,989, or 6.4% higher, than the 2017-19 legislatively approved budget.

Changes to the budget for the Chief Operating Office include:

- Added $455,127 General Fund to bring state support for local CASA programs to the 2017-19 legislatively approved level, increased Other Funds expenditure limitation by $2,516,684, and established one permanent full-time Operations and Policy Analyst 4 position (0.88 FTE) to work on transitioning CASA funding to a non-state entity no later than the beginning of the 2023-25 biennium.
- Added Other Funds expenditure limitation of $800,000 for an independent study to determine the preparedness of DAS IT to support and administer the Oregon State Payroll System (OSPS) replacement project. This funding was added on a one-time basis as planning money.
- Increased Other Funds Expenditure limitation by $462,722 and established two permanent full-time IT positions (1.88 FTE) to implement OregonBuys as an end-to-end enterprise e-procurement system. The two positions will be part of the DAS IT unit. The cost of the new system, including positions, will be paid through a one percent administrative fee on purchases made through the new system.
- Added $393,864 Other Funds and established two permanent full-time positions (1.76 FTE) to DAS IT to work on compliance, equipment replacement schedules, mobility, and asset management.

- Added $232,594 Other Funds expenditure limitation for the establishment of a permanent full-time PEM F management position (0.88 FTE) to support coordination of state government internal auditors and to focus on statewide level audits.
- Other Funds expenditure limitation reductions included eliminating on-call pay for DAS IT which reduced Personal Services by $122,000 Other Funds. This reduction will result in the lack of IT support for DAS divisions and some Boards and Commissions outside of standard business hours. Additional reductions included eliminating standard inflation on services and supplies of $78,547 Other Funds, taking additional vacancy savings of $393,629 Other Funds, and reduced Other Funds expenditure limitation by $385,876 due to the elimination of a vacant Executive Assistant position (1.00 FTE) and a vacant Information System Specialist 6 position (1.00 FTE).

Chief Financial Office

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	15,120,583	14,374,941	15,291,178	14,953,500
Total Funds	**$15,120,583**	**$14,374,941**	**$15,291,178**	**$14,953,500**
Positions	46	44	44	44
FTE	44.23	44.00	44.00	44.00

Program Description

The Chief Financial Office (CFO) establishes and enforces statewide budget standards and monitors agencies to ensure funds are spent within legal and budgetary constraints. It is responsible for reviewing agency budget requests and developing and tracking the Governor's budget through the legislative process. The CFO helps to coordinate statewide bonded debt programs, including issuance and repayment of Article XI-Q bonds, pension obligation bonds, and lottery revenue bonds. The Office is responsible for developing and maintaining statewide budget systems. The CFO also supports accuracy and accountability in state government financial systems by providing services and controls in the management of statewide accounting, receivables, and financial reporting.

Revenue Sources and Relationships

The Chief Financial Office is funded through assessment of state agencies based on an agency's total funds budget and full-time equivalent positions.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget for the Chief Financial Office is 4% higher than the 2017-19 legislatively approved budget. This increase is due largely to standard growth in Personal Services. Budget adjustments included adding $269,579 Other Funds expenditure limitation to continue an existing Limited Duration Information System Specialist 8 position as a permanent full-time position in the Capital Facility Planning section. This position will continue development of Computer Assisted Design tools to better utilize state-owned and/or leased facilities. Reductions included $47,661 Other Funds from eliminating most standard inflation on services and supplies, $377,066 Other Funds expenditure limitation was removed to reflect holding vacant positions for a longer than normal period of time, and $131,925 Other Funds was cut due to the elimination of a vacant Administrative Specialist position.

Office of the State Chief Information Officer

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	--	271,144		
Other Funds	55,694,473	64,400,459	59,200,433	80,380,170
Total Funds	**$55,694,473**	**$64,671,603**	**$59,200,433**	**$80,380,170**
Positions	77	106	104	118
FTE	72.44	105.38	104.00	115.18

Program Description

The Office of the State Chief Information Officer (OSCIO) maintains policy and statewide information technology oversight functions. HB 3099 (2015) removed the State Chief Information Officer (SCIO) from under the authority of the DAS Director and made the SCIO report directly to the Governor, much like an agency head. HB 3099 directed the SCIO to: oversee operations of the State Data Center; implement an IT governance structure; provide oversight on IT projects over $1 million; oversee quality assurance contracts; and oversee the Stage Gate review process for proposed agency IT projects. With the passage of SB 90 (2017), IT security was added to this list of oversight functions.

There are a number of program units within OSCIO. The Enterprise Security Office identifies the state’s information security needs and is responsible for statewide information security policies and practices. IT Governance develops and implements state information technology strategies, rules, policies, standards, and processes. It provides support to the Chief Information Officer and information technology-related governance bodies. Enterprise Shared Services supports statewide functions including the Transparency Website and E-Government program. The Geospatial Enterprise Office provides statewide geographic information systems (GIS) coordination for Oregon government (state and local) to support enterprise-wide planning and decision-making.

Revenue Sources and Relationships

The Office of the State Chief Information Officer is funded primarily through assessment of state agencies based on the number of full-time equivalent positions. The 2017-19 legislatively adopted budget included $261,854 General Fund to hire a Chief Data Officer to maintain a central web portal for the publication of publishable data. For 2019-21, the costs of the new program were included in the OSCIO assessment rather than supported by the General Fund.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget for the Oregon State Chief Information Officer (OSCIO) is $15.7 million, or 24%, higher than 2017-19 legislatively approved budget levels due to the funding of several large-scale IT initiatives.

Major Other Funds expenditure limitation adjustments include:

- Added $13,600,000 to address federal security compliance findings, aging firewalls, and weaknesses in state IT Security. No positions were approved because OSCIO is still developing the division of security roles and responsibilities between the new OSCIO centralized IT security functions and state agencies. OSCIO will return during the 2020 Legislative Session to request personnel resources needed once a centralized IT security roles and responsibilities matrix is completed.
- $6,180,817 and one permanent full-time position (0.88 FTE) was added to migrate all executive branch agencies to an OSCIO managed and secured Enterprise Office 365 system. This project should lead to the elimination of independently housed and managed email systems by state agencies within the executive branch, which should create savings in individual agency budgets. Transitioning all executive branch agencies will improve security by having one single active directory, allow for calendaring across agencies, create a

single global address book, provide statewide video conferencing, and allow the state to get the best Office 365 pricing.

- Increased Other Funds expenditure limitation by $1,240,296 and established six permanent full-time Assistant State CIO positions (3.78 FTE) to work on coordination and approval of executive branch information technology modernization plans. The positions are phased in over the course of the 2019-21 biennium with two starting October 1, 2019, two starting April 1, 2020, and the final two starting October 1, 2020.
- Added $1,391,027 and established three permanent full-time positions (2.64 FTE) to expand the "middle-mile" broadband network through the Oregon Fiber Partnership with Oregon's four research universities. The positions will transition to other projects once the broadband project is completed.
- Increased Other Funds expenditure limitation by $800,000 to purchase hardware, software, and professional services to support disaster recovery services at the State Data Center.
- $529,270 Other Funds and two permanent full-time positions (2.00 FTE) were added to create, track, and monitor performance targets associated with the IT supply chain management. This is a continuation of past biennium procurement initiatives.
- Other Funds reductions included eliminating standard inflation on services and supplies of $824,262, taking additional vacancy savings of $845,272, and reducing funding for IT Professional Services by $924,793.

Chief Human Resource Office

	2015-17 Actual	**2017-19 Legislatively Approved**	**2019-21 Current Service Level**	**2019-21 Legislatively Adopted**
Other Funds	13,826,077	34,636,684	23,723,773	29,199,232
Total Funds	**$13,826,077**	**$34,636,684**	**$23,723,773**	**$29,199,232**
Positions	58	76	53	76
FTE	44.91	72.50	53.00	72.07

Program Description

The Chief Human Resource Office (CHRO) oversees personnel-related policies to help agencies recruit, hire, and retain a skilled workforce. Through administrative rules and policies and collective bargaining agreements, CHRO defines and manages the state's human resources system based upon equal employment opportunity and a merit-based compensation system. CHRO also provides executive recruitment services to state agencies and is responsible for implementing the pay equity statutory requirements passed in 2017.

Revenue Sources and Relationships

CHRO's principal revenue source is from assessment of state agencies. Legislative and Judicial Branch agencies and the Lottery Commission pay an assessment to use centralized employee databases.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget for the Chief Human Resource Office (CHRO) is $5.4 million, or 16%, lower than 2017-19 legislatively approved budget levels due to the removal of resources added in 2017-19 to implement a new human resources information system to replace the state's legacy system. The 2019-21 budget only includes on-going operational costs of the new Workday system.

Additional Other Funds expenditure limitation adjustments include:

- Added $3,548,121 and established eight limited duration positions (5.75 FTE) to support the implementation of the Learning Management module for Workday to modernize the state's online training systems and replace the legacy system, iLearn.
- Added 1,615,815 and established eight permanent full-time positions (7.04 FTE) to staff the Workday Support Team with subject matter experts. These positions will provide technical, help desk, and system administrative support to users of the new system.

- Added $686,177 and two limited duration positions (2.00 FTE) to manage the workday interface to the Oregon State Payroll System. This funding was approved on a one-time basis because once the Oregon State Payroll System replacement project is complete these positions will not be needed.
- Increased Other Funds expenditure limitation by $769,470 and established four permanent full-time positions (3.52 FTE), including one Executive Recruiter position and three positions to analyze, implement, and oversee the pay equity provisions of House Bill 2005 (2017). These three positions will receive, review, and respond to pay equity inquiries and appeals.
- Added $430,166 to support two permanent full-time positions (1.76 FTE) to assist in complex, highly sensitive internal agency investigations for the Executive Branch.
- Took a $773,000 Other Funds reduction to reflect savings from replacing the old Position and Personnel Data Base IT system with the new Workday system.
- Other reductions include eliminating standard inflation on services and supplies by $288,233 Other Funds, taking additional vacancy savings of $220,026 Other Funds, and $168,983 Other Funds from eliminating a long-term vacant position.

State Data Center

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	165,764,559	148,758,829	137,179,937	149,656,869
Total Funds	**$165,764,559**	**$148,758,829**	**$137,179,937**	**$149,656,869**
Positions	155	158	152	153
FTE	155.00	158.00	152.00	152.76

Program Description

The State Data Center (SDC) is overseen by the Office of the State Chief Information Officer (OSCIO) and provides centralized computing and application services by leveraging new and existing IT assets to support numerous business operations across government. The State Data Center is organized into six service delivery sections:

- Administration/Plans and Controls – Provide administrative support for the Division, including budgeting, strategic planning, along with financial, human resources, and project management.
- Service Solutions – Translates business needs into solution options to be built in-house or brokered.
- Engineering – Designs and builds the products and services that are delivered and supported by SDC.
- Service Delivery – Operates the shared SDC environment which includes computing hardware, operating systems, storage and backup solutions, production control, and enterprise and contracted applications.
- Technology Availability Management – Monitors, maintains, and supports the shared SDC environment to ensure the systems are available and maintains the equipment, systems, and services offered.
- Application Delivery – Responsible for Enterprise Applications and Internal DAS applications.

Revenue Sources and Relationships

SDC revenues come from usage fees and charges to state agencies and other customers and some assessments based on factors other than usage. Fee and charge methodology, allocation, and structure are often being fine-tuned to ensure service charges cover the full cost of services being delivered. Many rates are dependent on usage, and rates are determined by the type of SDC service being used. Four major service areas are provided: computing (mainframe, midrange, and distributed systems), network, storage, and voice.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget for the State Data Center is $898,040 lower than the 2017-19 legislatively approved budget, which is less than a one percent decrease.

Other Funds expenditure limitation adjustments included:

- Added $15,286,000 to continue the State Data Center lifecycle replacement plan. Included in this package is the replacement of computing and network equipment, as well as upgrading operation system licenses and the replacement of mission critical tools that have reached end of life. The total includes $3 million of one-time costs to replace mission critical tools for tracking and billing that have reached end of life and are no longer supported.
- Added $729,339 and two limited duration positions (1.76 FTE) to build out additional co-location services at the SDC and ensure protection of existing SDC co-location customers. The positions will work with agencies interested in co-location equipment at the SDC on their transition needs, including equipment needs and configurations.
- Eliminated a long-term vacancy resulting in savings of $297,487 Other Funds.
- Additional reductions included lowering offsite co-location services which saved $526,310, eliminating standard inflation on services and supplies by $1,470,279 and Capital Outlay by $394,823 Other Funds, and taking additional vacancy savings of $1,085,374 Other Funds.

Enterprise Asset Management

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	100,288,607	101,123,008	96,454,647	102,528,014
Total Funds	**$100,288,607**	**$101,123,008**	**$96,454,647**	**$102,528,014**
Positions	203	204	197	201
FTE	200.09	203.50	196.50	200.50

Program Description

Enterprise Asset Management (EAM) provides services related to facilities management, lease negotiation and supervision, space planning, statewide fleet administration and parking services, building operations and maintenance, landscape maintenance for agencies occupying state-owned space, and the Surplus Property program. Major acquisition, construction, capital improvement, and maintenance projects are planned and managed by EAM.

DAS operates and maintains 43 DAS-owned buildings and nine agency-owned buildings totaling over three million square feet of property. EAM also manages a portfolio of over 780 short-term and long-term leases for over 4.9 million square feet of space, mostly in the form of privately owned office space. These facilities are located across state. Growth in state agencies and demand for new or improved facilities has a direct impact on EAM activities.

The Statewide Fleet Administration program acquires and maintains vehicles for state agency use. The Surplus Property program provides a central distribution point for agencies' surplus inventory and actively markets the sale of those items to other governments and the public.

Revenue Sources and Relationships

EAM is funded from several sources, but its two major sources are uniform rent, assessed on all tenant agencies, and parking fees. Uniform rent includes a depreciation component that is deposited in a Capital Projects Fund, the balance of which is primarily used for the major rehabilitation of building space. EAM also receives funding from assessments on state agencies for the Capitol Mall landscaping, debt service, and general facilities coordination. For 2019-21, uniform rent was increased from $1.45 per square foot to $1.55 per square foot. Other revenue is generated from service agreements to perform maintenance and janitorial services for office buildings owned by other state agencies, managing specialized non-office facilities, and a number of other facilities-related services.

The Fleet Administration and Motor Pool operations are supported entirely through service fees, principally fleet rental charges, as well as parking fees. In addition, the unit charges agencies that own vehicles for fueling, service, and repair.

State and Federal Surplus Property operations generate revenue from service fees. For state surplus items, the fees are based on the value of the items sold for agencies disposing of the surplus property. For federal surplus property, the service fees are charged to agencies acquiring the property based on the value of the federal surplus property acquired.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget is 1.4% higher than the 2017-19 legislatively approved budget. A number of Other Funds reductions were made including reductions to services and supplies expenditures ($1,466,974), savings from lower utilities costs ($588,000) due to efficiencies gained in green materials and chemical use, cutting utility costs by $200,000 from lower building temperature set points, and removing surplus Other Funds expenditure limitation ($945,000). Additional Other Funds reductions included a $607,092 cut to reflect holding vacant positions for longer than normal to generate additional savings, and a $128,429 reduction from the elimination of a vacant custodial position. There were two major Other Funds expenditure limitation increases approved, $2 million to purchase additional fleet vehicles to replace existing fleet vehicles that have exceeded their useful life and $994,397 plus four permanent full-time Construction Project Manager positions (4.00 FTE) to address Planning and Construction Management workload demand from an increase in deferred maintenance and building renovation projects.

Enterprise Goods and Services

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	89,081,656	105,270,244	95,523,753	108,310,472
Other Funds (NL)	95,864,972	89,616,836	109,271,671	109,271,671
Total Funds	**$184,946,628**	**$194,887,080**	**$204,795,424**	**$217,582,143**
Positions	240	242	237	250
FTE	235.36	241.63	237.00	249.04

Program Description

Enterprise Goods and Services (EGS) consists of several programs focused on providing cost effective central services to state agencies. The Risk Management program purchases insurance for the state and is responsible for the management of the state's Self-Insurance Fund in order to maintain adequate balances for known and projected losses and to purchase excess coverage for the state. The section investigates and resolves claims against the state and its employees and devises strategies that encourage agencies to minimize loss-related costs.

The State Procurement Office provides statewide purchasing and contracting direction, while working to leverage the buying power of state and local governments. The Publishing and Distribution program offers a full array of design, printing, finishing, metering, delivery, and mailing services. Financial Business Services (FBS) is responsible for the statewide payroll and financial systems, as well as the Datamart that provides reporting data for both systems. FBS also provides shared payroll services for client agencies and DAS.

Revenue Sources and Relationships

The revenue source for the Risk Management program's operating expenses is the Insurance Fund. State agencies pay into the Insurance Fund through an assessment based on a share of forecasted statewide claims costs. Statewide needs are developed from independent actuarial forecasts for workers' compensation, property, and liability costs and estimated legal costs. The amount and types of property owned, the number of employees and their work, and the types of programs agencies operate all contribute to the need for risk management services and products, principally insurance.

The State Procurement Office operations are supported through charges for service and assessment, which is based on the number of agency positions. The Office also receives revenue through direct fees for services and purchasing, consulting, and training fees. Both Printing and Distribution and Financial Business Services are financed through charges for services.

Legislatively Adopted Budget
The 2019-21 legislatively adopted budget for Enterprise Goods and Services total Other Funds and Other Funds Nonlimited is $22.7 million, or 11.7%, higher than the 2017-19 legislatively approved budget. Other Funds Nonlimited increased by $4 million, or 3.8%, over the 2017-19 legislatively approved budget due to forecasted increases in payments into the state's Self-Insurance Fund for claims paid by Risk Management. Payments from the Risk Fund are not limited by the Legislature. The Legislature transferred $10 million from the Risk Fund to the General Fund for general governmental purposes to help address statewide General Fund budget needs.

Other Fund Limited expenditure changes include:
- Increased Other Funds expenditure limitation by $8,890,278 and added three positions (2.88 FTE) to implement OregonBuys as an end-to-end enterprise e-procurement system. Of the positions added in this package, two are limited duration and one is a permanent position. This package includes the implementation fee, ongoing SaaS fees, and technical support to decommission ORPIN, the legacy procurement system. Included is $800,000 in one-time costs for Quality Assurance consultants. The new system will be paid for through a one percent administrative fee on purchases.
- Added $3,891,234 on a one-time basis and establishes five limited duration positions (4.40 FTE) to support the planning phase of the Oregon State Payroll System and time tracking replacement project. This funding includes the cost of state staff, an Independent Quality Assurance vendor, and the price of the software subscription for one year. This planning funding should be sufficient to get the project to the February 2020 session, when DAS is expected to request funding to get the project to the end of the 2019-21 biennium.
- Increased Other Funds expenditure limitation by $3,239,109 and established two permanent full-time positions (1.76 FTE) to implement a multi-function printer program. This will be paid for through lease fees to agencies as a charge for services.
- Added $1,008,312 Other Funds to make four limited duration, full-time positions permanent. The positions work on project Basecamp, which is intended to simplify Information Technology procurement by negotiating standard IT supply chain agreements with vendors.
- $530,000 Other Funds expenditure limitation was added to provide funding for DAS Risk Management to replace the current Claims Management Information System. This new system will allow the program to replace manual programs and processes with current system and applications, communication with external systems, and more effectively manage claims.
- $847,237 was cut to reflect holding positions vacant for longer than normal, $735,850 Other Funds expenditure limitation was removed due to elimination of most standard inflation allowances for services and supplies, and $1,477,542 of postage savings was taken.

Enterprise Human Resource Services

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	7,217,848	2,239,581	--	--
Total Funds	**$7,217,848**	**$2,239,581**	**--**	**--**
Positions	25	7	--	--
FTE	24.64	7.00	--	--

Program Description
Enterprise Human Resource Services (EHRS) program unit was created as part of a past DAS reorganization. This reorganization was modified for the 2017-19 biennium with the transfer out to the Chief Human Resources Office of all programs formerly housed here except for seven positions providing direct Human Resources support for contracting agencies.

Revenue Sources and Relationships

Charges for providing HR services to other agencies are designed to cover the full cost of providing those services and are paid by client agencies with a variety of fund types but are spent by DAS as Other Funds.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget included direction to transfer the last seven positions in this program area to the Chief Human Resources Office. This was implemented in the 2019-21 legislatively adopted budget as a technical adjustment to Current Service Level, therefore nothing will be budgeted in EHRS going forward.

Business Services

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	6,398,006	12,316,126	16,853,394	15,661,008
Total Funds	**$6,398,006**	**$12,316,126**	**$16,853,394**	**$15,661,008**
Positions	18	13	13	11
FTE	17.76	13.00	13.00	11.00

Program Description

The DAS Business Services Division coordinates agency-wide programs and internal processes and oversees the Department's finances and budget.

Revenue Sources and Relationships

The Division's revenue comes from service charges to the Department's internal divisions and its external customers. The other DAS divisions receive their revenue from state agencies through assessments and charges.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget is $3.3 million, or 27% higher, than 2017-19 approved levels due almost entirely to increases in State Government Service Charges (SGSC) paid by DAS. All DAS-paid SGSC were consolidated from other program units into DAS Business Services. Other Funds expenditure reductions included $163,219 from the elimination of a long-term vacant position. A $273,725 reduction was taken in this program unit for a position being transferred to Enterprise Asset Management to work on efforts to reduce energy use by the agency. Additional reductions included eliminating standard inflation on services and supplies which reduced Other Funds by $42,309 and taking additional vacancy savings of $109,367 Other Funds.

Capital Improvements

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	3,993,650	4,403,176	4,570,497	4,570,497
Total Funds	**$3,993,650**	**$4,403,176**	**$4,570,497**	**$4,570,497**

Program Description

The Capital Improvements program pays for remodeling and renovation projects that cost less than $1 million.

Revenue Sources and Relationships

Capital improvement activities are funded out of the Capital Projects Fund, which was established to support a variety of capital needs for state facilities. The fund is supported primarily by the depreciation component of uniform rent and service agreements.

Legislatively Adopted Budget
The 2019-21 legislatively adopted budget is up slightly from the 2017-19 legislatively approved budget due to standard inflation allowances for Capital Outlay expenditures. The budget provides a sufficient level of resources to maintain buildings and facilities, includes projects deferred in prior budget periods, and does not require any debt financing.

Capital Construction

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	46,163,301	60,716,431	--	58,124,000
Total Funds	**$46,163,301**	**$60,716,431**	**--**	**$58,124,000**

Program Description
The Capital Construction Program includes major remodeling, renovation, and new construction or acquisition projects costing more than $1 million in aggregate. Capital Construction expenditure limitation is usable for six years after approval to allow time for projects to be completed. During each biennium's budget development, capital construction expenditure limitation is removed because it does not expire for six years whereas other expenditure limitation lasts only the two years of the biennium. This phase-out is why the current service level budget is always zero.

Revenue Sources and Relationships
Other Funds for capital construction can come from the Capital Projects Fund, which is funded through a portion of Uniform Rent charges, cash balances in programs, and from the sale of Article XI-Q bonds.

Legislatively Adopted Budget
The 2019-21 legislatively adopted capital construction budget funds a number of deferred maintenance projects to paid from the agency's Capital Projects Fund (no debt financing required) and four that are debt financed. The approved Capital Construction projects include:

- $10,524,000 Other Funds was approved for various capital and tenant improvements in multiple DAS-owned buildings to be paid from the Capital Projects Fund. These improvements include: roof replacements for the Executive Building, Human Services Building, Revenue Building, Publishing and Distribution, and the General Services Building Annex; resealing and flashing the roof of the State Data Center; energy efficient upgrades to lighting and control systems for the Agriculture Building, Public Service Building, and Department of Environmental Quality Building; addition of redundant power supply for the Agriculture Building; and upgrades to boilers, heaters, and HVAC systems in multiple buildings, including the Labor & Industry Building.
- $24,000,000 Other Funds, financed with Article XI-Q bonds, was approved to acquire a 175,000 sq. ft. facility in Wilsonville that offers warehouse, lab, and office space, as well as high-bay doors.
- $10,000,000 Other Funds, financed with Article XI-Q bonds, was approved to plan, design, and replace the electrical and HVAC system components of the Revenue Building.
- $8,600,000 Other Funds, financed with Article XI-Q bonds, was approved to repair the roof, replace exterior windows, update security, upgrade the HVAC system, and install high efficiency lighting and lighting controls at the Portland State Office Building.
- $5,000,000 Other Funds, financed with Article XI-Q bonds, was approved to replace wood window casements with double hung, vented, or sliding windows and install an additional ten secondary electrical distribution panels and feed power transformers and circuit breakers at the Justice Building.

Mass Transit Distributions

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds (NL)	17,891,759	24,716,507	24,716,507	24,716,507
Total Funds	**$17,891,759**	**$24,716,507**	**$24,716,507**	**$24,716,507**

Program Description

This program reflects the distribution of mass transit assessments collected from state agencies based on the number of employees working in certain mass transit and transportation districts. The assessment is then sent to those districts to reimburse them for the benefits they provide to state government. These payments are not limited by the Legislature.

Revenue Sources and Relationships

These Other Fund revenues come from state agency payments for mass transit taxes, which are collected by the state on behalf of some transit districts.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget supports anticipated mass transit assessment collections and distributions based on budgeted employment numbers.

Bonds

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	359,096,140	877,789	747,641	747,641
Other Funds (NL)	52,763,345	390,057,143	423,919,680	423,918,680
Total Funds	**$418,188,709**	**$390,934,932**	**$424,666,321**	**$424,666,321**

Program Description

This budget structure includes expenditures for debt service and debt management costs on Pension Obligation Bonds. This budget structure also includes Other Funds Nonlimited authority to disburse general obligation bonds sold during the 2013-15 biennium for the benefit of public universities. Starting in 2017-19, disbursement of bonds sold for the benefit of public universities is done by the Higher Education Coordinating Commission (HECC). DAS was given authority to disburse these proceeds during the transition to HECC.

Revenue Sources and Relationships

Pension Obligation Bond debt service is supported by an assessment on PERS employer payrolls. The debt service schedule was designed to increase payments over times as the bonds are repaid under the assumption that state revenues would increase over time as well.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget for Other Funds Limited is set at a level to cover treasury fees based on existing repayment schedules and budget projections. With the ending of the Department's duties to disburse proceeds from bonds sold to benefit public universities, all Other Funds Nonlimited related to this were removed from this program unit for 2017-19. The remaining Other Funds Nonlimited amount is for debt service payments on Pension Obligation Bonds.

DAS Debt Service

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	20,389,904	16,137,623	15,826,180	20,802,064
Total Funds	**$20,389,904**	**$16,137,623**	**$15,826,180**	**$20,802,064**

Program Description

This program unit includes only debt service payments that are specific to DAS. These payments are for debt instruments sold to pay for construction and improvements to state buildings owned by DAS. For the last few biennia, Article XI Q bonds have been used as debt instruments. Previously, certificates of participation (COPs) were used to finance debt, but an amendment to the Oregon Constitution passed in 2010 authorized the use of Q bonds to be sold to finance debt. Because Q bonds are state general obligation bonds, interest rates are lower than the previously used COPs.

Revenue Sources and Relationships

Debt service payments for construction or improvement of DAS-owned facilities are funded out of the Capital Projects Fund, which was established to support a variety of capital needs for state facilities. The fund is supported primarily by the depreciation component of uniform rent and service agreements.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget supports payments on previously approved debt. In addition, $4,976,424 Other Funds expenditure limitation was added to pay debt service payments on bonds that are to be issued early in the biennium to fund a number of projects, including purchase of the Wilsonville Building.

Special Governmental Payments

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	15,545,296	20,028,196	6,423,353	27,910,634
Lottery Funds	10,658,858	13,940,628	20,255,163	17,457,806
Other Funds	6,921,602	47,688,566	--	100,510,328
Other Funds (NL)	21,925,468	--	--	--
Total Funds	**$55,051,224**	**$81,657,390**	**$26,678,516**	**$145,878,768**

Program Description

This is a catch-all category that reports payments that are not directly related to the mission of the Department of Administrative Services. These are frequently for one-time special projects or legislative priorities.

Revenue Sources and Relationships

Revenues in this program come from a variety of sources and are usually specifically identified in the agency's budget bill or other legislation. Other Funds Nonlimited are due to the refunding of previously issued bonds, which are then reissued at a lower interest rate. Other Funds Limited are for disbursement of bond proceeds. The proceeds from the sale of bonds are always expended as Other Funds.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget adds one-time Other Funds expenditure limitation of $22,192,930 for 2017-19 approved grants funded through the issuance of Lottery Bonds not expected to be fully disbursed by the end of the 2017-19 biennium that need to be accommodated in the next biennium.

The adopted budget includes the following new legislative priorities and special projects. A total of $22,192,930 General Fund was approved for local and special projects. Cash projects and amounts include:

- $7,500,000 for disbursement to the United Way for census outreach and coordination activities
- $2,000,000 for disbursement to Clatsop County for the Clatsop County Jail
- $2,000,000 for disbursement to the Innovation Law Lab for Immigration Defense
- $1,500,000 for disbursement to Josephine County for rural fire protection district start-up costs once the district is created
- $1,000,000 for disbursement to City of Salem for the Gerry Frank/Salem Rotary Amphitheater
- $1,000,000 for disbursement to Umatilla-Morrow Head Start for an Early Learning Center
- $1,000,000 for disbursement to Umatilla County for surface water pumping costs of groundwater rights holders in Critical Groundwater areas
- $700,000 for disbursement to Central Linn School District for the 6th-8th grade Cobra Academy
- $500,000 for disbursement to Siuslaw Regional Aquatics Center for renovations of the Mapleton Pool
- $500,000 for disbursement to Tucker Maxon School for capital improvements
- $500,000 for disbursement to Association of Oregon Counties for urban growth boundary planning grants to Eastern Oregon Counties *(This appropriation was line-item vetoed by the Governor after the conclusion of the 2019 Legislative Session)*
- $500,000 for disbursement to Oregon Thoroughbred Owners and Breeders Association for safety improvements at race tracks holding race meets and education for thoroughbred owners and breeders
- $500,000 for disbursement to Lutheran Community Services Northwest for drug abuse programs
- $500,000 for disbursement to Special Olympics Oregon for sports training and athletic competition
- $485,000 for disbursement to Clackamas County for Clackamas Women's Services
- $452,930 for disbursement to Douglas Timber Operators for a Rogue River Sediment Study
- $400,000 for disbursement to the Historic Portland Public Market Foundation for the James Beard Public Market
- $300,000 for disbursement to the City of Independence for a Mid-Willamette Valley Trolley
- $300,000 for disbursement to Ecumenical Ministries of Oregon for its runaway homeless youth program
- $250,000 for disbursement to the Liberty House of Salem for childhood abuse assessment and support services
- $175,000 for disbursement to Harney County School District #1J to drill a potable water well
- $100,000 for disbursement to Save the Salem Peace Mosaic to protect the River of Peace mosaic
- $30,000 for disbursement to Klamath County to acquire, install, and maintain stream gauges in the Klamath Basin

A total of $61,331,872 Other Funds expenditure limitation was added for the one-time cost of special payments associated with the disbursement of proceeds from Lottery Bond sales for local projects. Projects and amounts are detailed below. An additional $2,247,463 Other Funds was added for the cost of issuance associated with Lottery Bonds. There is no debt service allocated in the 2019-21 biennium, as the bonds will not be sold until the spring of 2021. Total debt service on all the projects described below is estimated at a total of $10,581,755 Lottery Funds for the 2021-23 biennium and $105,334,738 over the life of the bonds.

- $15,000,000 Other Funds for disbursement to the Eugene Family YMCA Facility
- $10,000,000 Other Funds for disbursement to City of Roseburg - Southern Oregon Medical Workforce Center
- $5,000,000 Other Funds for disbursement to the Oregon Coast Aquarium
- $5,000,000 Other Funds for disbursement to the YMCA of Columbia-Willamette to purchase the Beaverton Hoop YMCA
- $4,100,000 Other Funds for disbursement to Jefferson County - Health and Wellness Center
- $3,500,000 Other Funds for disbursement to Parrott Creek Child & Family Services - Building Renovation
- $2,500,000 Other Funds for disbursement to the Center for Hope and Safety - Hope Plaza
- $2,500,000 Other Funds for disbursement to the Wallowa Valley Center for Wellness

- $2,400,000 Other Funds for disbursement to the Port of Cascade Locks - Business Park Expansion
- $2,311,872 Other Funds for disbursement to Multnomah County School District #7 - Reynolds High School Health Center
- $2,000,000 Other Funds for disbursement to the City of Gresham - Gradin Community Sports Park
- $2,000,000 Other Funds for disbursement to the Curry Health District - Brookings Emergency Room
- $2,000,000 Other Funds for disbursement to the Hacienda Community Development Corporation - Las Adelitas Housing Project
- $1,600,000 Other Funds for disbursement to the Umatilla County Jail - Expansion/Mental Health Facility
- $1,400,000 Other Funds for disbursement to the Port of Morrow - Early Learning Center Expansion

Finally, $10,525,000 Other Funds expenditure limitation was added for one-time special payments associated with the disbursement of proceeds from Article XI-Q general obligation bond sales for the three listed projects below that will be repaid with General Fund. Cost of issuance for these projects totals $199,075. There is no debt service allocated in the 2019-21 biennium, as the bonds will not be sold until the spring of 2021. Total debt service on the projects described below is estimated at $2,257,480 General Fund for the 2021-23 biennium and $15,834,095 General Fund over the life of the bonds.

- $5,325,925 Other Funds for disbursement to the Oregon State Fair for facilities capital improvements
- $3,000,000 Other Funds for disbursement to the Oregon State Fair for improvements to and repairs of the Horse Barn
- $2,000,000 Other Funds for disbursement to the Oregon State Fair for improvements to and repairs of the Poultry Barn

ADVOCACY COMMISSIONS OFFICE

Analyst: Morse-Miller

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	623,646	720,802	760,506	756,596
Other Funds	2,640	9,481	9,841	9,841
Total Funds	**$626,286**	**$730,283**	**$770,347**	**$766,437**
Positions	3	3	3	3
FTE	2.50	2.50	2.50	2.50

Overview

The Oregon Advocacy Commissions Office (OACO) was established in 2005 to provide coordinated administrative support to four advocacy commissions: the Commission on Asian and Pacific Islander Affairs, the Commission on Black Affairs, the Commission on Hispanic Affairs, and the Commission for Women. The Commissions serve as liaisons between minority communities and government entities and work to establish economic, social, legal, and political equality in Oregon. The four commissions have 11 commission members each, for a combined total of 44 commissioners. The administrator of OACO is appointed by the chairpersons of the four commissions and the Commissioner of the Bureau of Labor and Industries.

Revenue Sources and Relationships

Agency operations are primarily funded with General Fund. OACO receives some Other Funds revenues from donations, which are dedicated to the Commission to which the donation was made. Donations have decreased since the OACO's early years, and Other Funds generally account for just one percent of the agency's budget.

Budget Environment

OACO supports the work of the individual Commissions by providing all administrative functions including coordinating meetings and speakers, taking minutes, preparing reports and media releases, partnering with stakeholder groups, providing information and referrals for members of the public and elected officials, managing distribution lists, maintaining Commission websites, and overseeing budget/financial support. OACO contracts with the Department of Administrative Services for budget and accounting support. OACO also researches potential legislative concepts prior to session, works with the Governor's Office and sponsoring legislators to write and submit bills, tracks legislation of interest, reports to the Commissions with customized reports on bills, helps the Chairs write testimony on bills, coordinates votes among the Commissions on bill support, and serves as the registered lobbyist for the four Commissions.

Legislatively Adopted Budget

The 2019-21 adopted budget for the OACO is a 5.0% increase from the 2017-19 legislatively approved budget. Statewide adjustments for state government service charges, including Attorney General and Department of Administrative assessments, were reduced in the amount of $3,910 General Fund, resulting in a total funds budget of $766,437 for the OACO.

EMPLOYMENT RELATIONS BOARD

Analyst: Borden

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	2,368,937	2,556,694	2,982,956	2,956,273
Other Funds	1,842,428	2,556,456	2,420,716	2,404,621
Total Funds	**$4,211,365**	**$5,113,150**	**$5,403,672**	**$5,360,894**
Positions	13	13	13	13
FTE	13.00	13.00	13.00	13.00

Overview

The Employment Relations Board's (ERB) mission is to resolve disputes concerning labor relations. ERB provides four main services to help employers, employees, and labor organizations resolve their disputes: labor mediation, contested case hearings, labor appeal cases, and union representation elections.

The Board for ERB, which acts as the state's "labor appeal court" for labor and management disputes within state and local government, is comprised of a three-member panel appointed by the Governor and approved by the Senate. The Board Chair, designated by the Governor, serves as the administrator of the agency. Only the Board Chair exercises administrative oversight over the agency.

ERB is responsible for administering the collective bargaining law that covers public employees of the State of Oregon and its cities, counties, school districts, and other local governmental units, such as special districts; State Personnel Relations Law, which creates appeal rights for some personnel actions regarding non-union state employees who believe they were treated unfairly in the workplace; and private sector labor-management relations law, which addresses collective bargaining for private sector employers who are exempt from federal law under the National Labor Relations Act.

Revenue Sources and Relationships

ERB is funded with 55% General Fund and 45% Other Funds. ERB receives General Fund revenue and charges fees to support labor relations functions conducted on behalf of local government while state government-related activities are supported by an Other Funds assessment on state agencies. When funding is compared to caseloads, local government represented 82% of cases and state agencies 18% for fiscal year 2019. A Legislative workgroup convened in 2011 evaluated a number of local government funding models and was unable to identify a viable alternative to fund local government cases other than state General Fund.

The ERB state agency assessment is based on the number of covered employees, including non-unionized employees from the Executive, Legislative, and Judicial branches, as well as temporary employees. The employer rather than the employee pays the assessment. The projected state agency assessment revenue for 2019-21 is $2.1 million, which is based on a $2.34 assessment per employee per month, which is up from the 2017-19 assessment of $2.14. State agency assessment revenue has a General Fund component since some agencies use General Fund to pay their assessment. Out of approximately 40,500 state employees budgeted for the 2019-21 biennium, the agency assumes 37,000 will be covered employees and pay the assessment. During the 2015-17 biennium, the agency identified and began assessing an additional 1,000 employees that the agency previously should have been assessing.

The agency charges fees for the following services: unfair labor practice complaints and answers, grievance mediations, arbitrator panel, training, an hourly rate charged for mediation facilitation, and miscellaneous fees for facsimile filing, copies, etc. There is anticipated to be $327,787 in such fee revenue for the 2019-21 biennium.

ERB may charge $1,000 total for the first two mediation sessions, up to $625 for the third and fourth mediation sessions, and $1,000 for any additional sessions. A mediation fee is evenly split by the participating parties. Most mediations rarely go beyond two sessions. The statutory application fee for inclusion on the State Conciliation Service's list of qualified arbitrators is $100 and the annual fee to remain on the list of qualified arbitrators is $150.

ERB expects to have $3 million in available Other Funds revenue to support its legislatively adopted budget of $2.4 million. This includes a beginning balance of $561,065 and an ending balance of $522,300, which represents 4.8 months of operating reserves.

<u>Budget Environment</u>

Beginning in the 2013-15 biennium, at the direction of the Legislature, ERB undertook a number of changes to improve its processes and procedures, including: establishing timelines for issuing orders; identifying specific types of contested cases for expedited processing; involving stakeholders in a review of the agency's processes and procedures; establishing a Rules Advisory Committee; completing an independent review of some recent Board orders; and involving stakeholders in a discussion of complaint or other actions that lack legal merit. The result has been an elimination of all case backlogs and a substantial improvement in the timelines for processing cases. The agency also reviewed and updated its key performance measures. ERB made a variety of technical changes to clarify and modernize statutes related to the agency. Additionally, over the last several biennia, the agency requested, and the Department of Administrative Services approved, compensation plan changes (increases) or reclassifications for all the agency's positions. Lastly, the Legislature approved an electronic case management application that includes an electronic filing feature.

For fiscal year 2019, the agency had 16 state cases, 50 local government cases, and no private sector cases. Public sector caseloads for ERB are cyclical (i.e., vary by fiscal year) and are influenced by the negotiation of multi-year labor contacts. Until 2011, ERB had not handled a private sector case since 2002. Private sector cases are infrequent because all but the smallest of companies with union representation fall under the jurisdiction of the federal government's National Labor Relations Board. The caseload for state government can be more complicated and time consuming than local government cases because they may involve single individuals seeking remedy under the state personnel law. The state's collective bargaining environment had generally been more contentious with diminished state and local government resources, which translated into more ERB cases, legal challenges, and appeals of Board decisions. Improved state and local revenues could help explain the reduction in caseload, but the cause of fewer cases has yet to be specifically identified.

The timely disposition of cases has many influences, including the volume of cases, case complexity, budget reductions (i.e., furloughs), employee turnover or vacancies, and new employee training, among others. ERB continues to see improvement in the timely disposition of cases across most case-types.

On June 27, 2018, the U.S. Supreme Court issued a ruling on a landmark labor law case concerning the power of labor unions to collect fees from non-union members. In *Janus v. AFSCME Council 51*, the United States Supreme Court held that public-sector "agency shop" arrangements were invalid under the First Amendment. "Fair share" and "agency shop" arrangements are part of Oregon's PECBA. For Oregon, that means that many public-sector employers and labor organizations had their fair-share provisions invalidated. Additionally, the decision means that numerous provisions of PECBA were also effectively invalidated. In response to the *Janus* decision, the Legislature enacted HB 2016, which made a number of changes, including allowing a public employee to enter into an agreement with the labor organization to authorize payroll deductions and expanding the definition of "employment relations" to include labor organization access to, and communication with, represented employees. Additionally, HB 2016 expanded the definition of an unfair labor practice and made disputes between a public employee and a labor organization about the existence, validity, or revocation of an authorization for the deductions and payment resolvable through an unfair labor practice proceeding before ERB. HB 2016 also makes attempting to influence an employee to resign from or decline to obtain membership in a labor organization or encouraging an employee to revoke an authorization for deductions for payment to a labor organization an unfair labor practices by a public employer. Given the expansion of unfair labor practices in HB 2016, ERB might experience an increase in unfair labor practice filings. Additionally, some aspects of HB 2016 may be challenged in federal court as being unconstitutional under the U.S. Constitution.

Legislatively Adopted Budget

The legislatively adopted budget for ERB is $5.4 million total funds, including $3 million General Fund and $2.4 million Other Funds. The total funds budget is $247,744 (or 4.8%) more than the 2017-19 legislatively approved budget. The budget includes 13 positions (13.00 FTE). The budget includes the following:

- $36,419 for a fund shift of one position from 30% General Fund and 70% Other Funds to 56% General Fund and 44% Other Funds to conform to the agency's overall position fund split.
- $38,224 General Fund decrease for a one-time General Fund to Other Funds (excess mediation fee revenue) shift in services and supplies.
- Statewide adjustments based on reductions in Department of Administrative Services assessments and charges for services and Attorney General rates.

Administration

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	1,192,460	1,199,776	1,582,594	1,524,787
Other Funds	920,242	1,185,291	1,234,018	1,258,728
Total Funds	**$2,112,702**	**$2,385,067**	**$2,816,618**	**$2,783,515**
Positions	5	5	5	5
FTE	5.00	5.00	5.00	5.00

Program Description

The three-member Board acts as an "appeal court" for labor and management disputes within state and local governments. The Board is appointed by the Governor and responsible for issuing final agency orders in declaratory rulings, contested case adjudications of unfair labor practice complaints, representation matters, and appeals from state personnel actions. Board orders may be appealed to the Oregon Court of Appeals.

The Board Chair acts as the agency's administrator. The Chair is assisted by an office/business administrator; this program unit includes not only the activities of the Board mentioned above, but also the day-to-day administration of the agency, including budgeting, payroll, information technology, reporting, administrative rules, and supervision of staff. ERB contracts with the Department of Administrative Services – Shared Client Services to provide additional support services.

Budget Environment

In most cases, the Board does not receive case filings or issue initial orders but acts on recommended orders written by Administrative Law Judges (ALJ) by either issuing a cover order for those cases without objection or issuing an order for those cases to which the parties have objected to the ALJ decision. Certain representation cases, as well as expedited cases and declaratory rulings, are handled by the Board in the first instance.

Over the last ten years, the Board averages 50 case filings each fiscal year with 55 Board orders issued. For fiscal year 2019, case filings totaled 51 with 56 Board orders issued. For fiscal year 2019, three board orders were appealed to the Oregon Court of Appeals, which is about five percent of the Board's 56 issued orders for that year. On average, nine percent of the Board's orders are appealed to the Oregon Court of Appeals and less than one percent are reversed or remanded back to ERB for reconsideration. Parties, rather than ERB, argue their case in front of the Court of Appeals, like an appeal of a circuit court decision.

Beginning with the 2015-17 biennium, ERB began managing a NICUSA information technology contract to design, develop, maintain and host an electronic case management system (phase-I) and then add a web-based electronic filing and electronic payment capability (phase-II). Phase-I and phase-II were scheduled to be complete in the Spring of 2019; however, the completion date for phase-I has been delayed until the spring of 2020. The timekeeping and reporting functions are left to be completed. All upfront development costs are being paid by NICUSA, per a statewide contract. NICUSA charges an annual licensing and hosting fee estimated at $120,000 per biennia to recover its costs and fund ongoing operations and maintenance of the application. These costs were included in ERB's current service level budget.

Legislatively Adopted Budget

The legislatively adopted budget for the Administration program consists of $1.5 million General Fund, $1.3 million Other Funds, and 5 positions (5.00 FTE). The budget represents a $398,448 (or 16.7%) increase from the 2017-19 legislatively approved budget. The budget includes the following:

- $38,224 General Fund decrease for a one-time General Fund to Other Funds (surplus mediation fee revenue) shift in services and supplies.

Mediation and Conciliation Services

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	546,013	657,246	669,414	666,918
Other Funds	428,668	770,158	530,832	528,871
Total Funds	**$974,681**	**$1,427,404**	**$1,200,246**	**$1,195,789**
Positions	4	4	4	4
FTE	3.50	3.50	3.50	3.50

Program Description

The Conciliation Services Office is comprised of the State Conciliator, two mediators, and a part-time (0.50 FTE) support position. The Office provides mediation and conciliation services to resolve a variety of disputes, including those related to collective bargaining, contract grievances, unfair labor practice allegations, State Personnel Labor Relations Law appeals, and representation matters. The program also participates in and sponsors a biennial Arbitrator Panel Conference and sends out information to panel members on case law and legislative changes. The program provides training on methods of alternative dispute resolution, collective bargaining, labor-management cooperation, and related issues. The contract mediation services that are provided are mandatory. Training and other mediation services are not mandatory.

The program also is responsible for maintaining a list of qualified arbitrators and providing related services and information. This includes processing arbitrator applications, handling questions from arbitrators and parties, responding to concerns and complaints from and about panel members, a biannual review of panel member selection rates, suspension or removal of arbitrators, processing requests for arbitration panels, maintaining a library of arbitration awards, and publishing interest arbitration awards on ERB's website.

Budget Environment

The Conciliation Services Office averages 91 cases for mediation services per fiscal year, of which 71 are local cases and 20 are state cases. For fiscal year 2019, there were 87 cases, of which 75 were local cases and 12 were state cases. On average, it takes 27 days for a mediator to become available after the submission of a request. For fiscal year 2019, a mediator was available in 21 days. Most disputes are resolved within two mediation sessions. On average, the agency's mediation/conciliation service resolved approximately 92% of contract negotiation disputes for strike-permitted employees and 72% for strike-prohibited employees. For fiscal year 2019, the agency resolved 100% of contract negotiation disputes for strike-permitted employees and 91% for strike-prohibited employees.

Legislatively Adopted Budget

The legislatively adopted budget consists of $666,918 General Fund, $528,871 Other Funds, and 4 positions (3.50 FTE). The budget represents a $231,615 (or 16.2%) decrease from the 2017-19 legislatively approved budget due to the restoration of a one-time $250,000 Other Funds fund shift from the prior biennium.

Hearings and Elections Program

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	630,464	699,672	730,948	764,568
Other Funds	493,518	601,007	655,866	617,022
Total Funds	**$1,123,982**	**$1,300,679**	**$1,386,816**	**$1,381,590**
Positions	4	4	4	4
FTE	4.50	4.50	4.50	4.50

Program Description

The Hearings Office is comprised of three Administrative Law Judges (ALJs), one part-time elections coordinator, and one support staff. The ALJs adjudicate unfair labor practice complaints filed by state and local government or labor organizations, appeals filed by state management and unrepresented classified employees, as well as contested representation (election) matters. ALJs have resumed traveling to the site of the dispute, if outside of Salem. Following the hearings, the ALJs issue “proposed” decisions. All proposed decisions are forwarded to the Board for review and the issuance of a final order. The Board does not have to concur with the ALJ-proposed decision. Parties who disagree with the ALJ-proposed decision have the right to object to the decision which will then be argued before the Board. Parties can appeal the Employment Relations Board’s final orders to the Oregon Court of Appeals. Decisions by ALJs do not establish legal precedent; however, final Board orders do.

The part-time (0.50 FTE) elections coordinator is responsible for conducting elections regarding employee union representation and certifying the results. The program also processes petitions involving union representation and composition of bargaining units. The agency reports that activity levels have declined slightly over the last biennium, perhaps due to prolonged labor contract periods and the merging or other changes in organization structure of some large labor organizations.

Budget Environment

ALJs average 130 cases per fiscal year and 119 days until an ALJ-proposed order is issued. For fiscal year 2019, ALJs received 60 cases and issued a proposed order in 89 days. In 2019, the agency had 32 representation (election) cases. Cases that did not require a hearing were resolved within 35 days, on average.

Legislatively Adopted Budget

The legislatively adopted budget consists of $764,568 General Fund, $617,022 Other Funds, and 4 positions (4.50 FTE). The budget represents an $80,911 (or 6.2%) increase from the 2017-19 legislatively approved budget. The budget includes the following:

- $36,419 for a fund shift of one position from 30% General Fund and 70% Other Funds to 56% General Fund and 44% Other Funds to conform to the agency’s overall position fund split.

FAIRS – COUNTY AND STATE

Analyst: Siebert

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	1,015,299	1,015,299	1,634,666	1,597,000
Lottery Funds	3,864,000	3,828,000	3,828,000	3,828,000
Total Funds	**$4,879,299**	**$4,843,299**	**$5,462,666**	**$5,425,000**

<u>Overview</u>

County Fairs are provided state support as a pass-through from the Department of Administrative Services (DAS). State funding is deposited into the County Fair Account. ORS 565.445 requires DAS to distribute the monies each January in equal shares to county fair boards. The state also provides support for the Oregon State Fair and Exposition Center in Salem through a General Fund grant to the Oregon State Fair Council, which assumed operational administration of the Oregon State Fairgrounds from the Parks and Recreation Department during the 2013-15 biennium. This operating subsidy was intended to be temporary as the Council works towards financial stability and operational self-sufficiency.

<u>Revenue Sources and Relationships</u>

ORS 565.447 allocates 1% of net lottery proceeds to the County Fair Account. The statute set an initial allocation cap of $1.53 million per year but allows a biennial adjustment to the cap based on the change in the Consumer Price Index since January 2001. SB 7 (2013) transferred operational control of the Oregon State Fair and Exposition Center from the Parks and Recreation Department to the non-governmental Oregon State Fair Council. As the Council is not a state agency, the budget does not reflect any Other Fund expenditure of State Fair revenue from rents, tickets, and other non-state sources.

Pass-through expenditures are technically included in the DAS budget, but are displayed separately in Legislative Fiscal Office publications.

<u>Legislatively Adopted Budget</u>

The 2019-21 budget set the amount going to county fairs at $3,828,000 Lottery Funds, which is the same level of Lottery Funds support allocated in the 2017-19 biennium.

The adopted budget also includes $1,015,299 General Fund for the Oregon State Fair that is transferred to the Oregon State Fair Council. An additional $581,701 General Fund was added in the 2019-21 adopted budget for debt service payments on bonds issued in 2015-17 to refurbish facilities on the State Fair grounds. The DAS adopted budget also includes Other Funds expenditure limitation for proceeds from the sale of Article X1-Q general obligation bonds. These funds will be transferred to the Oregon State Fair Council in the form of a grant to finance the capital costs of three projects. General Fund supported debt service will be paid through DAS in the 2021-23 biennium. These new bond projects are:

- $3,000,000 to make capital improvements and renovate the Horse Barn at the Oregon State Fairgrounds;
- $2,000,000 to make capital improvements and renovate the Poultry Barn at the Oregon State Fairgrounds; and
- $5,325,925 to make capital improvements and address deferred maintenance needs on multiple facilities at the Oregon State Fairgrounds.

GOVERNMENT ETHICS COMMISSION, OREGON

Analyst: Beitel

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	2,477,666	2,758,688	2,934,592	2,903,298
Total Funds	**$2,477,666**	**$2,758,688**	**$2,934,592**	**$2,903,298**
Positions	9	9	9	9
FTE	8.88	9.00	9.00	9.00

Overview

The mission of the Government Ethics Commission is to impartially and effectively administer and enforce Oregon's government ethics laws for the benefit of Oregon's citizens. Oregon Government Ethics law, Lobbying Regulation law, and the executive session provisions of Oregon Public Meetings law are within the regulatory jurisdiction of the Commission. The Commission emphasizes education in achieving its mission and, together with its staff, provides online and in-person training to public officials and lobbyists on government ethics, lobbying regulation, and executive session provisions of public meeting laws.

The Commission consists of nine volunteer members; eight members are appointed by the Governor upon recommendation by the Democratic and Republican leaders of the Oregon House and Senate, and one is appointed directly by the Governor. All members are confirmed by the Senate. Unlike most commissions, members are limited to one four-year term and may not be reappointed. Additionally, no more than three of the members may be from the same political party. The Executive Director is appointed by the Commission.

Commission actions fall along a continuum from education to formal sanction. The Commission's emphasis is on providing training, general advice, staff opinions, or formal Commission-issued advisory opinions. A complaint filed with the Commission requires a preliminary review by staff and may trigger an investigation, preliminary finding, or a contested case hearing. The Commission is required by law to meet specific timelines for the conduct of investigations. At any time during the process, a complaint can be dismissed, or a settlement negotiated through a stipulated final order issued by the Commission. A formal finding by the Commission may include a letter of reprimand, civil penalty, and/or forfeiture. Contested cases are handled through the state's administrative hearings process. Contested case decisions may be appealed to the state Court of Appeals.

Revenue Sources and Relationships

The Commission's 2019-21 legislatively adopted budget includes $3.7 million in available Other Funds revenue to support its legislatively adopted budget of $2.9 million. This includes assessment revenue of $3 million, a beginning balance of $738,168, and an estimated ending balance of $795,819, which represents slightly over six months of operating reserves.

The Commission was historically funded almost entirely by General Fund. Beginning with the 2009-11 biennium, the agency's funding was changed to an assessment model with operating costs equally shared between state agencies and local government entities. State agencies are assessed based upon their number of full-time equivalent positions. Local entities are assessed based upon a formula connected to the Municipal Audit charge collected by the Secretary of State. A portion of these assessment revenues originate as General Fund.

One-time special assessments were approved in the 2013-15 and 2015-17 biennia to support implementation of two electronic reporting systems. The 2013-15 budget included a special assessment of $800,000 for an electronic filing system for lobbyists and public officials who must file quarterly and annual reports, including lobbyist registrations, lobbying expenditure reports, legal expense trust fund reports, and annual statements of economic interest. The 2015-17 budget included a special assessment of $200,000 to implement an electronic case management system for the online posting of agency findings in a searchable format.

The Commission collects fines and forfeitures from the imposition of civil penalties. These revenues are transferred to the General Fund and are not used to support agency operations. The Commission collected $38,807 in actual fines and forfeitures during the 2015-17 biennium and estimates collecting $30,000 in the 2019-21 biennium.

Budget Environment

There are an estimated 200,000 public officials subject to the Commission's jurisdiction, with the vast majority serving at the local government level.

The Commission received 113 complaints in calendar year 2018, with 61 ethics (54%), 48 executive session (42.5%), and four lobby (3.5%) complaints and has one contested case outstanding. Complaints were for respondents from the following jurisdictions: cities (42%); counties (6%); state (5%); education (17%); special districts (19%); and other (11%). Complaints received in 2018 represent a 3.3% increase from the 97 average annual complaints received between 2013 and 2017. Complaints have continued to increase since a significant decrease in 2016 due to a change in how the Commission tracks complaints received. Prior to 2015, the Commission included complaints received that were outside of its jurisdiction as additional information would be requested if the letter or complaint form failed to allege violations within the Commission's jurisdiction. However, when the preliminary review period was reduced from 135 days to 30 days in 2015, the Commission no longer had sufficient time to request additional information prior to making a determination. Beginning in the second half of 2015, only complaints opened as a preliminary review have been included in the total complaints received. The Commission attributes increases in complaints to public awareness of ethics laws as a result of training programs and several high-profile ethics investigations.

During the 2015 session, the Legislature enacted a series of ethics reforms. HB 2019, in particular, had a significant budgetary impact on the agency. The measure expanded the membership of the Ethics Commission from seven to nine members, modified the appointment process for commissioners, reduced the number of days allowed for the preliminary review of an ethics investigation from 135 to 30 days, and directed that all advisory opinions and other statements be made available online by January 1, 2017. The Commission launched the electronic case management system in January 2017, providing online access to advice and final disposition of cases, as well as the ability to submit complaints electronically. The case management system creates efficiencies that help the Commission meet reduced review timelines, and together with the electronic filing system, provides increased transparency through the availability of online information.

Attorney General (AG) charges can be a major variable in the Commission's budget, but beginning with the 2011-13 biennium, the agency has been part of a program initiated by the Attorney General's office that changed its billings from a traditional variable to a flat (biennial) rate plan. In prior biennia, the Commission's Attorney General charges varied greatly depending upon whether the Commission faced any contested cases. Under the current assessment budget model, the Commission would look to its cash balance to cover extraordinary AG costs and seek an increase in expenditure limitation, if needed. The Commission could request General Fund support if its cash resources prove insufficient.

Legislatively Adopted Budget

The Commission's 2019-21 legislatively adopted budget is $2.9 million Other Funds and includes nine positions (9.00 FTE). The adopted budget is $144,610 (5.2%) more than the 2017-19 legislatively approved budget. The increase is attributable to standard personal services growth and inflation for services and supplies expenditures. Budgeted expenditures include $1.9 million (65%) for personal services and $1 million (35%) for services and supplies.

OFFICE OF THE GOVERNOR

Analyst: McHugh

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	11,529,028	13,660,135	15,362,514	16,491,702
Lottery Funds	3,434,970	3,723,949	4,094,546	3,932,736
Other Funds	2,451,565	3,413,769	3,621,636	3,910,275
Federal Funds	--	3,585,152	--	--
Total Funds	**$17,415,563**	**$24,383,005**	**$23,078,696**	**$24,334,713**
Positions	62	61	59	62
FTE	60.75	59.13	58.50	61.63

Overview

The Office of the Governor provides overall direction to state agencies within the Executive Branch to ensure compliance with statutes and efficient and effective management. The Office includes program area policy advisors; a Diversity, Equity and Inclusion Office; a citizen's input center; an Office of Intergovernmental and Regional Solutions; the Arrest and Return program; and provides clerical support for appointing members to boards and commissions. In the 2017 session, the Legislature transferred the Oregon Volunteers Commission for Voluntary Action and Service (Oregon Volunteers) from the Housing and Community Services Department to the Office of the Governor. That federally funded program was only housed in the Office of the Governor for a short period of time and was then transferred to the Higher Education Coordinating Commission.

Revenue Sources and Relationships

The Office of the Governor is supported mainly by General Fund. Lottery Funds are used for the Regional Solutions program. Other Funds include revenue transfers from other agencies. These transfers finance the Diversity and Inclusion and Economic and Business Equity programs. The Diversity and Inclusion program is funded from the transfer of a Department of Administrative Services assessment. The Economic and Business Equity program is funded from assessments on agencies that have capital construction in their budgets, and also receives funds from sponsoring conferences. Federal Funds expenditures in the 2017-19 budget were for the Oregon Volunteers program which, along with its funding, was transferred to the Higher Education Coordinating Commission.

Additional Other Funds are again provided this biennium through revenue transfers from a number of other state agencies to fund policy advisors and general support staff in the Office.

Budget Environment

The budget is driven by the number of staff and programs operated out of the Governor's Office. In the past, the Office has augmented its staff by borrowing staff from existing agencies, as well as by hiring staff and having other agencies pay the salaries. The Legislature attempted to end this practice and place these "off-budget" positions and costs in the budget of the Office of the Governor during the 2007-09 biennium, but the practice has continued since that time.

The Legislature still has concerns with the source of funding for positions in the Governor's Office, especially when the positions and funding sources are not explicitly part of the Governor's Office budget. As a result, a budget note was adopted requiring an evaluation of the funding methodology used by the Office for position costs. In addition, the budget note establishes that the policy going forward is that positions administratively assigned to the Governor's Office that are funded in another agency's budget or are otherwise "on loan" to the Governor's Office should be limited to needs that are temporary in nature.

Legislatively Adopted Budget

Excluding the federal funds associated with the Oregon Volunteers program, the 2019-21 legislatively adopted budget of $24.3 million is $3.5 million above the prior biennium level and is $1.3 million above the current service level. The budget included the addition of a position (Education Policy Advisor) transferred in from the former Chief Education Office and accommodated some reorganization and reclassification of staff; overall, there is an increase of three positions (3.13 FTE). Other specific changes to the budget include:

- A permanent, full-time Diversity and Coordinator position was added to analyze programs, policies, and practices related to statewide affirmative action, diversity and inclusion, and business equity programs. The cost of the new position for 2019-21 is $216,305 Other Funds.
- Continues one limited duration Census Coordinator position to serve as the primary point of contact for Oregon Census 2020 activities and issues. The cost of the position is $235,938 General Fund.
- Increased Other Funds expenditure limitation in the amount of $140,000 was provided for additional small business forums to be held around the state; the revenue source is an anticipated increase in donations to hold such events.
- Funding was approved to purchase two transport vans to be used by counties while transporting inmates between county facilities. The purchase is supported by cash balances within the Extradition program.
- Other standard statewide adjustments.

OREGON HISTORICAL SOCIETY

Analyst: Siebert

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2017-19 Current Service Level	2017-19 Legislatively Adopted
General Fund	1,125,000	900,000	750,000	2,000,000
Lottery Funds	210,392	360,652	412,392	412,392
Total Funds	**$1,335,392**	**$1,260,652**	**$1,162,392**	**$2,412,392**

Overview

The Oregon Historical Society (OHS) was chartered by the state in 1898 to gather and preserve documents, manuscripts, publications, films, recordings, and artifacts. The organization also supports local historical societies, museums, and heritage efforts statewide. Agency facilities include the Oregon History Center's regional research library and museum and other sites. OHS offers education programs through the Society's mobile museum and school services. The agency produces the *Oregon Historical Quarterly* and books from its press. The Society also coordinates the Century Farms and Ranch Program, the Oregon Geographic Names Board, and liaisons with heritage organizations statewide.

Revenue Sources and Relationships

OHS is a nonprofit organization that is financed largely by membership fees, contributions, and publication sales. State support has been intermittent over the years, but has been consistently provided in the last few biennia. The state grant accounts for only a small portion of the Society's operating budget. The balance of the Society's budget has come from restricted gifts and grants, memberships and unrestricted grants, grants from local governments, operations, and investment income and bequests. The base operations grant amount, or current service level is $750,000. This was reduced to $738,750 in 2013-15, raised by $375,00 on a one-time basis to $1,125,000 in 2015-17, and increased again on a one-time basis to $900,000 for 2017-19.

Pass-through grant expenditures and debt service costs are technically included in the budget of the Department of Administrative Services but are displayed separately in Legislative Fiscal Office publications.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget operations grant was increased to $2 million General Fund on a one-time basis. The grant for operational support is more than double the 2017-19 grant amount. The adopted budget also includes $412,392 Lottery Funds to cover debt service on $2.5 million in bonds authorized in 2011-13 to pay off the mortgage on the Society's storage facility in Gresham.

OREGON STATE LIBRARY

Analyst: McHugh

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	3,410,982	4,060,172	4,202,817	4,200,159
Other Funds	5,839,536	6,842,189	7,042,377	6,987,429
Federal Funds	4,171,184	5,449,791	5,504,648	5,221,519
Total Funds	**$13,421,702**	**$16,352,152**	**$16,749,842**	**$16,409,107**
Positions	42	42	41	41
FTE	40.04	40.04	39.04	39.04

Overview

The Oregon State Library (OSL) provides library services to support state government operations, reading materials for Oregonians with print-disabilities, and leadership and resources to support and promote the development of local library services.

The State Library Board is composed of nine voting members and serves as the policy and rule-making body for the State Library. Seven members are appointed by the Governor, after consultation with the Oregon Library Association, and confirmed by the Senate. The Deputy Superintendent of Public Instruction and the administrator of the Commission for the Blind or their designees serve as the remaining two members. The State Librarian is appointed by the Governor, subject to Senate confirmation, and oversees the operations of the State Library.

Revenue Sources and Relationships

OSL is funded with 25.6% General Fund, 42.6% Other Funds, and 31.8% Federal Funds.

OSL expects to have $8.5 million in Other Funds revenue, including a beginning balance of just under $800,000, to support its 2019-21 legislatively adopted budget. Other Funds revenues are mainly generated from the following four sources: an assessment on state agencies, donations, interest income, and miscellaneous receipts. The state agency assessment is based two-thirds on the number of state agency full-time equivalents and one-third on the use of OSL by agencies during the prior biennium. The projected state agency assessment revenue for 2019-21 is $7.1 million. While state agency assessment revenue is Other Funds in the State Library budget, it does include a General Fund component since some agencies use General Fund to pay the assessment.

Other Funds revenues received through donations and bequests are mostly attributable to the Talking Book and Braille Services (TBABS) Donation Fund and the TBABS Endowment Fund. Along with a beginning Other Funds balance of $784,228, OSL estimates receiving $450,000 in donations and earning $4,300 in interest during the 2019-21 biennium. Miscellaneous receipts are expected to total $172,050, of which $150,000 is attributable to statewide database licensing.

OSL receives Federal Funds from the Institute of Museum and Library Services under the Library Services and Technology Act (LSTA) per a population-based formula. The budget assumes Federal Funds pursuant to this grant in the amount of $5.3 million. The LSTA grant requires a 34% match rate as well as maintenance of effort (MOE) based on the average of the last three years of non-federal library expenditures relevant to the priorities of LSTA. Reductions in state funding result in an identical percentage reduction in LSTA funding, although a federal waiver process does exist. Federal Funds primarily support statewide services and competitive grants to libraries; though a limited amount may also be spent on administrative expenses (4%).

OSL has been able to meet LSTA match and MOE in part by including donation funding in its calculations. If there were reductions in state resources, it could make maintaining these federal requirements difficult with the result being the loss of some funds, unless a federal waiver is granted.

Budget Environment

Oregon's state library, like most state libraries across the county, continues to face a myriad of challenges from having to justify its business model and funding level to keep pace with technologic and demographic changes. The State Library is focused on taking actions to meet the needs of customers and remain viable in the digital age. The Legislature has been acutely aware of such challenges. In 2011, it directed that a workgroup, comprised of OSL, the Secretary of State, and the Judicial Department, review ways to consolidate services and restructure OSL. The workgroup provided recommendations, but few were implemented. The 2013-15 Governor's budget, keying off this lack of progress, recommended that only one year of funding be provided to the agency with the second-year contingent upon a reorganization. In 2013, the Legislature adopted the Governor's recommendations. OSL worked with the Department of Administrative Services on an agency restructuring, or "transformation," plan to present to the Legislature, but that effort was not well received by the Legislature. OSL and its Board of Trustees proceeded with their own reorganization, but that effort produced little tangible results and was of concern to legislators.

The Legislature introduced its own legislation to reorganize OSL. HB 3523 was signed into law on June 10, 2015 with an effective date of January 1, 2016. The measure incorporated many of the changes recommended in the 2012 workgroup report, but also restructured the mission and governance of the agency. The "Trustees of the State Library" was renamed the "State Library Board" and membership was expanded. The State Librarian position was changed from a board appointee to a gubernatorial appointee beginning in 2017. The State Reference Coordinating Council, consisting of the State Librarian, State Archivist, and State of Oregon Law Librarian was created to coordinate delivery of library services between state agencies and branches of government. OSL was also provided authority to approve selection, purchase, and maintenance of reference databases and subscriptions for state agencies to reduce duplication of state agency materials. There were no changes made to the OSL governance model during the 2019 session.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget totals $16.4 million, including 41 positions (39.04 FTE), and is $56,955 more than the 2017-19 legislatively approved budget. OSL's budget consists of $7.6 million (46%) personal services, $4.9 million (30%) services and supplies/capital outlay, and $3.9 million (24%) special payments, which are primarily disbursed to local libraries.

Administration

	2015-17 Actual	**2017-19 Legislatively Approved**	**2019-21 Current Service Level**	**2019-21 Legislatively Adopted**
General Fund	103,916	140,440	130,329	129,934
Other Funds	1,001,471	1,829,097	1,877,547	1,868,762
Federal Funds	109,099	184,597	186,754	167,011
Total Funds	**$1,214,486**	**$2,154,134**	**$2,194,630**	**$2,165,707**
Positions	5	8	7	7
FTE	4.68	7.68	6.68	6.68

Program Description

The Administration program coordinates the mission and goals of the agency and manages the finance, budget, accounting, personnel, and volunteer functions of the agency. OSL has contracted with the Department of Administrative Services for its human resource and accounting functions. The program also supports the activities of the State Library Board.

Revenue Sources and Relationships
The Administration program is funded with 6% General Fund, 86% Other Funds (state agency assessment), and 8% Federal Funds.

Legislatively Adopted Budget
The 2019-21 legislatively adopted budget totals almost $2.2 million, including seven positions (6.68 FTE), and is slightly more than the 2017-19 legislatively approved budget. The budget is sufficient to continue all current programs and services. The change that occurred between 2015-17 and 2017-19 was due to the movement of three information technology positions (3.00 FTE) and related expenses from the Government Research Services program to the Administration program. The adjustment aligned the budget to the agency's organizational structure.

Library Development

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	2,046,723	2,288,052	2,375,453	2,377,795
Other Funds	209	143,330	148,785	148,785
Federal Funds	4,025,995	5,124,563	5,317,894	5,054,508
Total Funds	**$6,201,446**	**$7,555,945**	**7,842,132**	**$7,581,088**
Positions	8	8	8	8
FTE	7.50	7.50	7.50	7.50

Program Description
The Library Development program is responsible for assisting local public and private libraries and improving the overall quality of library services in the state through distribution of federal (Library Services and Technology Act) and state (Ready to Read) grants; facilitating school and local library access to a variety of electronic databases; consultation and dissemination of information on youth services; compilation of library statistics; and documenting challenges to library materials.

The LSTA grant must be distributed through a "State Library Administrative Agency," which for Oregon is the State Library. LSTA grants are used to fund various statewide services and competitive grants to libraries and must be spent based on OSL's LSTA Five-Year plan submitted to the federal Institute of Museum and Library Services. OSL's 2018-22 plan includes: providing access to library services, materials, and information resources; using technology to increase capacity to provide access to library services, materials, and information resources; promoting evidence-based practice in libraries; developing information literacy skills; and fostering lifelong learning.

Ready to Read is a state grant program that makes grants available to any legally-established public library in Oregon and must be used to establish, develop, and improve early literacy and summer reading programs. Libraries are encouraged to use funding on three best practices in library youth service: early literacy training for caregivers, summer reading activities for youth, and outreach to underserved youth.

Revenue Sources and Relationships
The Library Development program is funded with 31% General Fund, 2% Other Funds, and 67% Federal Funds.

The budget for this program assumes federal funding from the Institute of Museum and Library Services under the LSTA grant. As mentioned above, the LSTA grant requires a 34% match rate as well as maintenance of effort based on the average of the last three years of non-federal library expenditures relevant to the priorities of LSTA. State General Fund in this program helps fulfill the federal LSTA match and maintenance of effort requirements.

Budget Environment

The Library Development program serves some of the approximately 1,600 local public and private libraries, including school and academic libraries, in Oregon.

Ready to Read grants are calculated using the statutory funding formula that distributes 80% of state funds based on the number of children up to 14 years of age in a given service area and 20% based on the square miles in each library's jurisdiction. Grants are on a per-library basis with the minimum of a $1,000 fiscal year grant for each library. OSL's Ready to Read Grant program is a component of the Oregon Early Reading Program Initiative (HB 3232, 2013). OSL works with local libraries to encourage participation, develop early learning activities, and to use the state's Ready to Read funds in cooperation with other local early learning efforts. Ready to Read Grants were distributed to 133 eligible libraries in all 36 counties. An additional 15 federal Library and Services and Technology Act grants were provided to improve services to public, academic, and school libraries.

OSL uses approximately 70% of the LSTA grant to fund statewide projects, such as virtual reference services, access to full-text databases, rural courier services, continuing education, technology development consulting, collection of library statistics, and its own administrative expenses. The remaining 30% of LSTA funding is used for competitive grants. These grants funded projects included oral histories, a shared ILS system, outreach to Spanish-speaking populations, support for early childhood education, and the digitizing of collections for greater access.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget totals $7.6 million, including eight positions (7.50 FTE), and is just under $40,000 less than the 2017-19 legislatively approved budget.

Talking Book and Braille Services

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	1,260,343	1,631,680	1,697,035	1,692,430
Other Funds	218,565	322,734	326,287	325,833
Total Funds	**$1,478,908**	**$1,954,414**	**$2,023,322**	**$2,018,263**
Positions	8	8	8	8
FTE	8.24	8.24	8.24	8.24

Program Description

In cooperation with the Library of Congress, which provides books, book players, and postage at no cost to Oregon, Talking Book and Braille Services (TBABS) is a statewide program that provides reading materials in audio-recorded or Braille formats to individuals with limited vision or other disabilities that prevent the use of traditional books and printed materials. OSL is responsible for maintaining the inventory and distribution of materials, as well as administering the program.

This federal-state cooperative partnership has been in place for over 80 years and helps local public libraries meet their requirements under the Americans with Disabilities Act. The program participants are not means-tested nor pay a fee for this service. The program also provides access to Braille and Audio Reading Download (BARD), which provides audio books via an internet download and a daily audio newspaper service for three of Oregon's newspapers to blind and print-disabled Oregonians.

Revenue Sources and Relationships

The program is funded with 84% General Fund and 16% Other Funds.

Other Funds revenues for the TBABS program include donations and bequests to the Talking Book and Braille Services (TBABS) Donation Fund and the TBABS Endowment Fund. The Board has adopted a policy of using Talking

Books TBABS Donation Funds for TBABS program enhancements (not regular operating funding); however, interest earnings from the Endowment Fund and donations continue to be used by the Legislature to fund operating expenses.

State General Fund and donation funds in this program help fulfill the federal LSTA match and maintenance of effort requirements. Outside of the state budget for OSL, the agency receives over $3 million per year in in-kind federal support for the TBABS program.

Budget Environment

In 2018, the program had 5,304 registered patrons, which is down from the 2005 high of 7,156 Oregonians served. Advances in technology have moved the program from tape players to digital players and now to BARD for patrons with internet capability. The program also served 415 institutions and checked out 378,476 books in the first year of the 2017-19 biennium.

While the switch to digital talking books in September 2009 has stemmed the decline in registered users, the program still only serves a small percentage of the total number of Oregonians who are eligible to participate. Approximately 79% of TBABS participants are over 60 years old and 41% are over 80 years old. The challenge for the program continues to be its registration penetration rate, and in particular, younger non-registrants. Apart from TBABS, the availability, either commercially or through public libraries, of books on compact disk or downloadable audio files is able to fill the needs of a certain segment of this particular population.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget totals $2 million, including eight positions (8.24 FTE), and is $63,849 more than the 2017-19 legislatively approved budget.

Government Research and Electronic Services

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	4,619,291	4,547,028	4,689,758	4,644,049
Federal Funds	36,090	631	-	-
Total Funds	**$4,655,381**	**$4,547,659**	**$4,689,758**	**$4,644,049**
Positions	21	18	18	18
FTE	19.62	16.62	16.62	16.62

Program Description

Government Research and Electronic Services (GRES) provides essential library services and resources to state government. Services include: the State Employee Information Center website; reference assistance from professional librarians; document delivery from the Library collection or other libraries via interlibrary loan; distribution of state agency publications to depository libraries; cataloging and archiving of state agency publications in print and electronic formats; electronic mailing list service; and the State Library eClips daily news briefing service and other current awareness services.

Since 1907, OSL has been responsible for the Oregon Documents Depository Program by providing permanent public access to Oregon state government publications. In 2006, OSL instituted the Oregon Documents Repository, which collects, preserves, and provides access to online publications of Oregon state government.

Revenue Sources and Relationships

The program is funded with 100% Other Funds; Federal Funds were no longer available after the 2017-19 biennium. The source of Other Funds is a state agency assessment based two-thirds on the number of state agency full-time equivalents and one-third on the use of OSL by agencies during the prior biennium. State agency assessment revenue has a General Fund component since some agencies use General Fund to pay the assessment.

Budget Environment

GRES-registered users have access to over 90 research databases, reference assistance, document delivery, and interlibrary loan services. Approximately 21% of state employees were registered library users in the 2017-19 biennium. During the first year of the 2017-19 biennium, the State Employee Information Center recorded 430,170 contacts with state employees for information and provided 2,006 answers to reference questions from state agencies. GRES staff also cataloged and distributed 4,864 state government publications to designated state documents depository libraries throughout Oregon.

During the 2015-17 biennium, OSL implemented an "embedded librarian" service that assigns reference librarians to groups of agencies to improve services to state government. OSL continues to assess and develop outreach and training to reach state employees and promote library resources.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget totals $4.6 million, including 18 positions (16.62 FTE), and is $96,390 (or 2.1%) more than the 2017-19 legislatively approved budget. The budgeted amount allows the agency to continue all current services and programs.

OREGON LIQUOR CONTROL COMMISSION

Analyst: Deister

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	182,910,731	215,634,618	226,691,665	247,046,671
Total Funds	**$182,910,731**	**$215,634,618**	**$226,691,665**	**$247,046,671**
Positions	265	326	326	364
FTE	254.91	312.62	324.00	362.00

Overview

The Oregon Liquor Control Commission (OLCC) regulates individuals and businesses that manufacture, sell, import, export, or serve alcoholic beverages. It also educates and trains liquor licensees, the public, and other groups, and investigates and takes action when necessary against those who violate liquor laws. The seven-member Commission is appointed by the Governor and confirmed by the Senate.

In November 2014, Oregon voters approved Ballot Measure 91, which legalized the sale and use of recreational marijuana in Oregon, and provided for a means of taxation and regulation of the product. The ballot measure named OLCC as the regulator, and OLCC began accepting license applications from growers, producers, wholesalers, and retailers on January 1, 2016; the first licenses were issued in April 2016. OLCC licenses and regulates marijuana licensees and marijuana worker permits, and tracks and inspects medical marijuana grow sites of 13 plants or more, medical marijuana processors, and medical marijuana dispensaries.

Revenue Sources and Relationships

The Commission is entirely supported by Other Funds revenues, from the regulation of liquor and recreational marijuana.

Revenue from marijuana is taxed at the point of sale and collected by the Department of Revenue. For the 2019-21 biennium, revenue will first be disbursed to the Department of Revenue for its administrative costs; $875,000 per quarter related to ongoing regulatory costs for medical marijuana licensees of the Oregon Health Authority; and then distributed for the following purposes per statute:

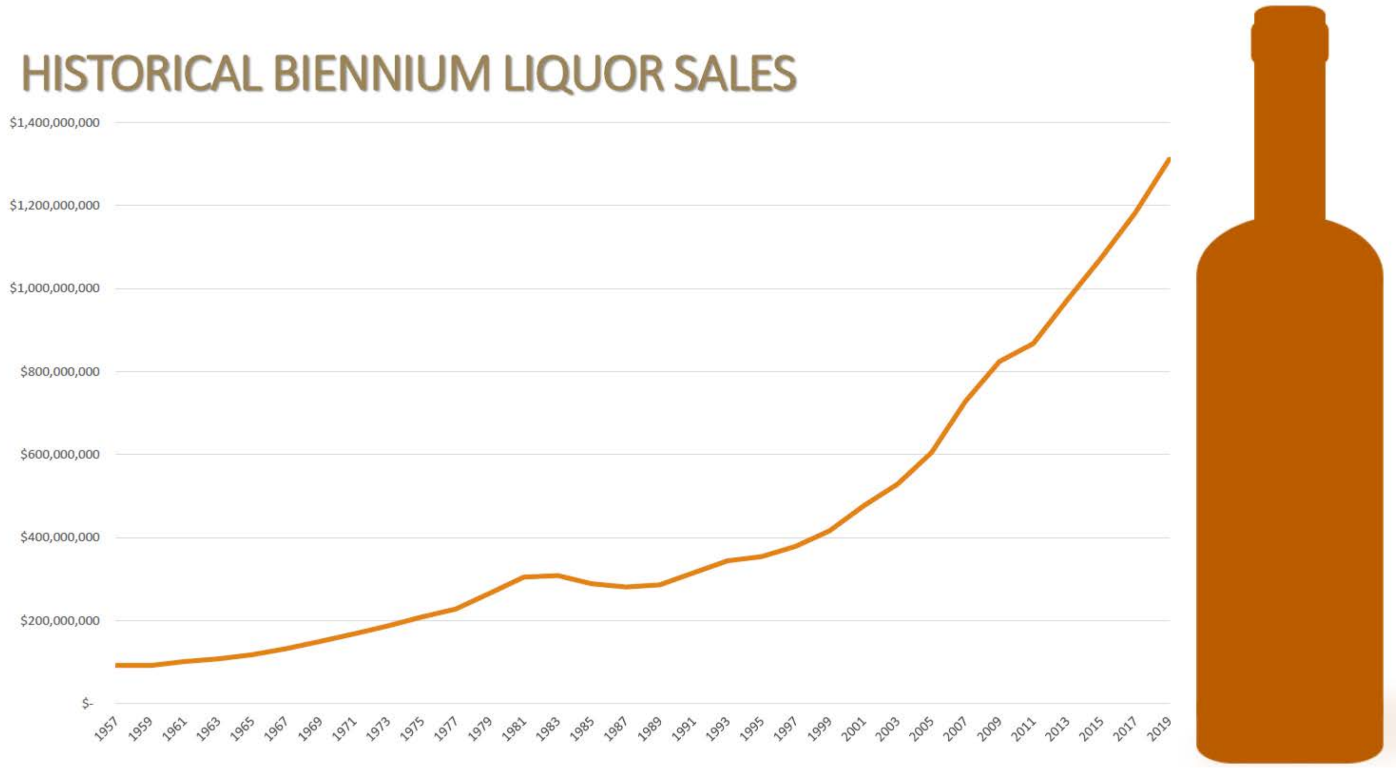
- 40% for the State School Fund
- 20% for purposes for which funds in the Mental Health, Alcoholism and Drug Services Account may be used
- 15% for state police
- 10% to cities, based on population and number of licensees
- 10% to counties, based on total available grow canopy size and number of licensees
- 5% for alcohol and drug abuse prevention, early intervention, and treatment services

The 2019 May revenue forecast $252.2 million in marijuana taxes available for distribution. The Legislature directed that OLCC's recreational marijuana regulatory costs are to be self-supporting, through fees charged to licensees estimated to generate $25 million in the 2019-21 biennium. The Legislature ratified OLCC's 2017-19 interim administrative increase to hemp fees, which generated an additional $325,000 in fee revenue.

Revenue generated from the liquor side of the agency's responsibilities is comprised of a markup on distilled spirits offered for sale in Oregon (96%, $1.54 billion); privilege taxes on malt beverages (beer) and wine (3%, $40 million); and license fees and fines, server education fees, and miscellaneous income (1.1%, $21.7 million). Unless otherwise directed, a statutory distribution formula specifies that 50% of the privilege tax revenues are first allocated for payments to the Mental Health Alcoholism and Drug Services Account ($19.7 million), and then

$697,000 is assumed to be transferred to the Wine Advisory Board (The Wine Board is also the recipient of $4 million in grape tonnage tax revenue). The remaining privilege tax revenues, along with all other revenues (primarily from liquor sales), are used to pay contracted liquor agents and to finance Commission operations (including liquor purchases). Any excess balance is apportioned to the state General Fund (56%), cities (20%), city revenue sharing (14%), and counties (10%). OLCC's alcohol sales represent the third largest generator of public funds, after income taxes and lottery receipts. Distributions for the 2019-21 biennium, per the legislatively adopted budget, are projected as follows: $341.5 million to the General Fund; $75.5 million for City Revenue Sharing; $107.9 million to cities; and $53.9 million to counties. A $0.50 per bottle surcharge is also imposed by the OLCC, with revenue dedicated exclusively to the General Fund. Of the $341.5 million General Fund share, $39.2 million is attributable to this surcharge.

The following illustrates historical liquor sales:



Even though Other Funds revenue supports OLCC operations, the agency's expenditures for liquor regulation directly affect the General Fund. Each dollar spent by the Commission represents 56 cents in liquor revenues that will not go into the state's General Fund and 44 cents that will not go to local governments. For this reason, an appropriate balance is sought between keeping operating costs as low as possible, making expenditures necessary to enhance the generation of revenue, and maintaining a controlled distribution environment.

Budget Environment

Since the passage of Ballot Measure 91 in November 2014, OLCC has struggled to keep up with the demand for information, statutory deadlines, and practical implementation issues needed to adequately enforce the state's marijuana laws. Historically, there has been no statutory limit on the number of licenses that may be issued and, as of September 2019, the OLCC reported 2,218 active licensees and 1,672 applications awaiting review. The degree of review required for marijuana licenses - involving criminal and financial background checks, facility security, and proposed business and partnership structures - has exceeded the agency's ability to review and grant these licenses in a timely manner, despite additional staffing resources made available at multiple points in time. Coupled with a supply of product that far exceeds demand (estimated by the OLCC in January 2019 as enough to sustain current demand for 6.5 years), legislation (SB 218) was approved in 2019 that allows the OLCC to stop issuing new producer licenses when supply exceeds demand; SB 218 sunsets on January 2, 2022.

The OLCC also issues hemp certificates for hemp products sold in recreational marijuana stores, and requires those retail products to be clearly marked and tested. The fees for hemp certificates were increased in March 2019 to $1,000, and the fee increase was ratified with the passage of the agency's budget. The OLCC anticipates as many as 650 transactions in 2019-21.

On the liquor side of OLCC responsibilities, enforcing the state's liquor laws requires a variety of approaches to assist individual licensees, as well as the general community, in understanding the laws and regulations governing the proper and lawful operation of a licensed liquor establishment. Preventing sales to minors and over service of alcohol continue to be areas of focus for the agency. In addition, OLCC is one of a few agencies that contribute resources to the General Fund. Licensee business models continue to change and OLCC strives to keep up. Examples include demand for direct shipment; e-commerce transactions related to beer, wine, cider, and spirits; and a growing craft distillery industry. Warehouse improvements approved as part of the 2015-17 budget have increased shipping volume to help meet consumer demand, as has OLCC approval of 36 new retail locations since 2015. The strong economy has resulted in about 424 new alcohol licensees per year. Meanwhile, OLCC must continue to do its part to help minimize the negative impacts of alcohol on local communities.

The agency has been in a near constant state of personnel recruitment, with the number of positions increasing by 54.2% since 2013-15. This growth in responsibility and corresponding personnel is driving major space constraints for the agency's administrative headquarters in Milwaukie. Information Technology needs reached a critical state, driving the approval of resources to integrate and replace aging equipment and liquor system platforms in both the interim and the 2019 legislative sessions.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget assumes total expenditures of $247 million and pays agents' compensation at an average rate of 9.02% of sales; this is an increase from the average of 8.93% in the 2019-21 biennium. The budget is a 14.6% increase from the 2019-21 legislatively approved budget and a 9% increase from the 2017-19 current service level budget. The 2019-21 legislatively adopted budget assumed $9 million in additional revenue from a doubling of alcohol-related license types, excepting service permits. Inflationary adjustments were made to reduce the rate of inflation applied to various divisions within the OLCC, and state agency assessments and charges related to the Department of Administrative Services, Department of Justice and the Public Employee Retirement System were also applied.

Distilled Spirits

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	28,292,146	26,375,880	27,507,922	29,997,381
Total Funds	**$28,292,146**	**$26,375,880**	**$27,507,922**	**$29,997,381**
Positions	66	68	68	79
FTE	66.00	68.00	68.00	79.00

Program Description

Responsibilities of the Distilled Spirits program relate to liquor sales and distribution. As a "control state," the Commission has sole authority to sell distilled spirits by the bottle. OLCC's current average markup based on the current sales mix is approximately 104%, plus a $0.50 per bottle surcharge, which generate funds to finance its expenses and produce revenue for state and local government. There are three divisions within the Program:

- Purchasing - Works with Retail Services Staff to provide distilled liquor to customers, manage inventory to meet customer demands and preferences, provide a varied selection, and represent Oregon's craft distillery industry.

- Wholesale Services – Responsibilities center around managing the liquor distribution center, including securely warehousing the liquor, filling merchandise orders and coordinating with carriers to ship products to liquor stores throughout the state, and settling claims for damaged or defective goods.
- Retail Services – Oversees operation of the statewide retail liquor store system, which consists of 284 approved retail outlets run by contract agents. Funding for agents' compensation is in a separate program, although it is related to the Retail Services Division of the Distilled Spirits program.

Budget Environment

OLCC continues to experience a positive rate of revenue growth. OLCC first topped $1 billion in gross sales during the 2013-15 biennium. The 2019-21 legislatively adopted budget assumes gross sales of $1.54 billion, which includes $39.2 million from continuation of the bottle surcharge.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget for the Distilled Spirits program is 13.7% more than the 2017-19 legislatively approved budget. The Legislature approved additional expenditures to meet shipping demands in the distilled spirits warehouse. Installation of a new conveyor system in 2016 and the ability to ship from multiple doors in the OLCC warehouse has inventory turning over faster. The OLCC had been utilizing temporary positions year-round to meet the on-going demand. The Legislature approved $2.2 million and 11 positions, consisting of a dedicated distilled spirits manager (previously, this duty had been handled by the agency's deputy director), distribution workers, and equipment operators. Related warehouse equipment, including cameras, shelving, new forklifts, dock shelters, locks, and conveyor belts, was also included and not intended to be part of calculations for purposes of estimating operating expenses in future biennia.

Public Safety Services

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	16,475,153	20,311,716	24,936,685	28,878,683
Total Funds	**$16,475,153**	**$20,311,716**	**$24,936,685**	**$28,878,683**
Positions	59	96	108	118
FTE	59.00	93.76	106.00	116.00

Program Description

The Public Safety Services program contains licensing, education, and public safety functions that promote the legal sale and service of alcohol and marijuana to responsible adults. The program consists of the following functional divisions:

- License Services – Investigates and processes license applications and renewals for alcohol and marijuana licensees, and issues alcohol service and marijuana worker permits.
- Alcohol Education Division – Oversees private industry server education providers and other programs that train people to sell and serve alcohol legally, and the development and implementation of the marijuana worker permit education program.
- Public Safety Division – Staff in five regional and eight satellite field offices conduct license investigations, respond to complaints, investigate liquor and marijuana law violations, and work with licensees and local communities to ensure compliance with liquor and marijuana laws and resolve problems created by licensed businesses or their patrons.
    - As of January 2019, OLCC had oversight of more than 14,337 alcohol licensees, including 12,497 restaurants, bars, grocery, and convenience stores; 1,543 wineries and brewers/brew pubs; 223 distributors/wholesalers; and 114 distilleries. In addition, OLCC issued 9,000 special event licenses, 2,993 out-of-state certificates, and 166,311 service permits.
    - As of March 2019, OLCC reported 2,109 approved marijuana licenses, including 21 laboratories; 210 processors; 1,121 producers; 610 retailers; and 147 wholesalers. Pending applications across

those same categories totaled 2,021. Worker permits totaled 40,913, with an additional 2,525 under review.

- Administrative Policy and Process Division - Reviews the final OLCC investigative reports for technical sufficiency; provides due process to OLCC stakeholders by developing the agency record at contested case hearings; applies consistent policies and laws; and coordinates rulemaking for the agency.

Budget Environment

The number of licensees has a direct impact on resources available to OLCC, as well as the number of investigative, licensing, and enforcement personnel needed for compliance.

The number of marijuana-related applications continues to be difficult to address, while enforcement continues to evolve in areas such as packaging, labeling, laboratories, testing of product, and related recalls. The agency has moved from an "education"-based approach with licensees to a more traditional enforcement approach, facilitated by routine inspections of facilities and sites, and analysis of Cannabis Tracking System data for sales and transfer aberrations. OLCC serves as an information hub for information coordination with other enforcement entities, including local law enforcement or the Oregon Health Authority (for potential medical marijuana violations). Meanwhile, for alcohol, the average ratio of liquor regulatory specialists to licensees climbed from 1:162 in 2002 to 1:349 in 2018.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget is a 37% increase from the 2017-19 legislatively approved budget. Expenditure limitation was provided to reclassify existing positions for more efficient utilization of staff, and to add two permanent public safety management positions – with associated training and services and supplies costs – to accommodate growth in the marijuana regulatory program that is not specifically attributable to SB 1057 (for which separate resources were approved in the Marijuana Program). Expenditure limitation was increased to provide for enhanced dispatch services with better coverage and updated equipment. Licensing staff was added (5.00 FTE) to meet demand for timely review and approval, as were regulatory personnel (4.00 FTE). Expenditure limitation to facilitate reclassifications that utilize existing staff more effectively and comply with labor agreements and reviews by the Department of Administrative Services Chief Human Resource Office were also approved. An additional permanent position was added to augment the sole staff person who administers and ensures compliance with container recycling and redemption laws and administrative rules.

Administration and Support Services

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	16,475,153	24,636,285	21,164,037	28,110,463
Total Funds	**$16,475,163**	**$24,636,285**	**$21,164,037**	**$28,110,463**
Positions	59	80	68	76
FTE	59.00	79.51	68.00	76.00

Program Description

The administration and support program is central to both the public and inward-facing day-to-day operations of the OLCC, including all of the following: public, legislative and licensee information, education, and outreach efforts; financial audits of privilege tax payers and liquor agents; payment of agency bills; managing the maintenance of OLCC buildings and equipment; agency procurement of supplies, personnel, and information systems; IT system design, management, and maintenance; development of policy alternatives; and Commission support. The Administration and Support Services program consists of the following divisions:

- Administration – Includes human resources and is responsible for ensuring that the goals of the agency are implemented, and policy as articulated by the Commission is carried out.

- Management Consulting and Audit Services – Includes performance measurement, statistical analysis, RFP development, research, economic, sales, and revenue forecasting.
- Administrative Services – Handles activities such as purchasing, contracting, motor pool, facilities maintenance, and mail.
- Government Affairs and Communications – Responsible for internal and external agency communications, including print and electronic materials.
- Financial Services – Develops and implements systems that provide fiscal accountability for Commission operations, produces and maintains fiscal records, external audit of liquor receipts, collection and recording of privilege taxes, and develops and monitors execution of the agency's budget.
- Information Technology – Develops and supports electronic data systems for staff ranging from desk top PCs to distribution center inventory control applications. The Division is responsible for helping to manage the selection and implementation of new licensing and tracking systems related to marijuana regulation.

<u>Budget Environment</u>
The central challenge faced by the Administration and Support division is accommodating growth that has resulted from additional licensees, sales, and responsibilities. After creating and further refining the regulatory environment for recreational marijuana, OLCC now finds itself in the position of catching up - ensuring that recruitments are filled, responsibilities are met, performance deficits are identified and effectively addressed, and systems are modernized to meet the expectations of stakeholders.

<u>Legislatively Adopted Budget</u>
The 2019-21 legislatively adopted budget for Administration and Support represents a 32.8% increase from the 2019-21 current service level. The majority of new expenditures are the result of enhancing information services, through a series of projects to modernize information systems and equipment, as follows:

- Integrating financial information, auditing, inventory, and retail systems, and providing online payments are the goals of the distilled spirits supply chain system, which involves replacing and linking several financial and inventory data systems ($1.5 million, representing partial project funding).
- Finishing the electronic privilege tax system as required by the passage of House Bill 2150 (2017) will enable beer and wine data to be electronically reported by producers and distributors and will allow for electronic payment of taxes owed which, in 2019, was still being done by mail ($2.5 million).
- Modernizing the data systems used by licensing and enforcement personnel will transfer and link data so that it can be easily referenced, updated, cross-checked, and utilized to determine if licensees are in good standing ($756,250, representing partial project funding).
- Limitation for State Data Center charges related to a new hosting agreement approved in 2018.

Expenditure limitation was also approved for IT system improvements related to recreational marijuana regulation, and is budgeted under the Recreational Marijuana program.

Four permanent, full-time positions were approved to plan, manage, and provide preliminary staffing for these projects, at a cost of $1,010,681 Other Funds. Additional expenditure limitation for the distilled spirits supply chain and the licensing and enforcement systems are expected to be required, and OLCC was directed to report and request the additional expenditure limitation it will need as the agency advances through the joint LFO/CIO information technology stage gate review process.

Three new positions were added to provide additional capacity in human resources and accounting functions, which have not kept pace with the growth in agency staff or licensees over time. Limitation was approved to develop an internal communications platform and to reclassify an existing position to resolve work out of class issues ($89,192). A permanent, full-time internal auditor position was also approved ($233,400).

Store Operating Expenses

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	105,588,568	123,927,415	129,132,366	135,385,704
Total Funds	**$105,588,568**	**$123,927,415**	**$129,132,366**	**$135,385,704**

Program Description

This program includes expenditure limitation for liquor revenues to pay contract agents who operate the state's retail liquor outlets. Agents are paid monthly using a formula based primarily on store sales and whether the store is exclusive (i.e., sells only liquor and related items) or non-exclusive (store is run in conjunction with another business, such as a drug or grocery store). Out of the compensation, agents pay liquor store rent, insurance, telephone, utilities, business taxes, employee salaries and benefits, and other operating costs. From the remainder, they pay their own salaries, benefits, and personal taxes.

Budget Environment

ORS 471.750(3) gives the Commission authority to determine the compensation of liquor agents. Agents' compensation comprises 54.8% of all OLCC expenditures and is by far the largest program in the agency's budget. Changes to the rate or amount of compensation approved could have major implications to OLCC expenditures, and, by extension, the amount of revenue distributed to the General Fund and the budgets of other state agencies. By limiting the amount available for agents' compensation and utilizing the Emergency Board to grant additional limitation when sales exceed initial projections, the state is afforded the certainty needed to maintain a balanced budget.

The rate of monthly compensation for agents was originally determined annually. In 1979, the Commission started calculating compensation monthly as a percentage of actual monthly sales. Biennial adjustments were made to this basic formula until 1980. From 1980 to 1985, the basic formula did not change, but the Legislature added annual cost of living increases to the formula. In 1985, the Legislature directed OLCC to allocate agents' compensation based on a re-designed compensation schedule. The store formula is reviewed and adjusted by the agency every six months. The goal is to provide basic support, while encouraging sound retail practices and rewarding sales performance. Agents' compensation increases when consumption or prices increase. OLCC requests an increase in the expenditure limitation from the Emergency Board if actual sales exceed forecasted amounts. The amount of actual compensation received by an agent is influenced by the following factors: class of store, base commission, consumer sales, licensee sales, and the amount of deferred compensation agents elect to have matched by OLCC. To the extent any of the factors change, the actual monthly rate earned by an agent will change to maintain the system-wide average on which compensation is budgeted. If sales exceed budgeted projections, OLCC will request additional expenditure limitation to maintain the average budgeted percentage of sales. The formula is complicated enough that questions regarding its application persist.

Legislatively adopted budgets have included expenditure limitation to produce average rates of compensation based on the above formula and sales, as noted in the following table:

1995 to 1997	8.2%
1997 to 2003	8.54%
2003 to 2015	8.88%
2015 to 2019	8.93%
2019 to present	9.02%

During a special session of the Legislature in 2003, OLCC's request for additional expenditure limitation to maintain agents' compensation at an average of 8.54% was not entirely granted, resulting in an effective average rate of 8.48% of sales. A $1.9 million reduction to agents' compensation in 2009 was partially restored by imposition of a $0.50 per bottle surcharge; $1.4 million was restored with surcharge revenue, resulting in an effective average rate of compensation of 8.82% versus the legislatively adopted budget average rate of 8.88%.

Legislatively Adopted Budget
Expenditure limitation in the amount of $135,385,704 is authorized for the 2019-21 legislatively adopted budget, equivalent to an average rate of 9.02% of forecast sales for retail liquor agents (in liquor stores) and $2,941,000 for distillery agent's compensation, which will be paid separately, and is equivalent to an average of 17% of sales. The legislatively adopted budget is a 4.8% increase from the 2019-21 current service level, due to the approval of $1.34 million in additional expenditure limitation for retail liquor agents. In the event that actual sales exceed the forecast, OLCC is expected to request additional expenditure limitation from the Emergency Board to maintain this level of compensation to contracted liquor agents, which will be facilitated by the quarterly reports that OLCC makes to the Legislative Fiscal Office.

OLCC committed to working with agents during the 2019-21 biennium to develop recommendations related to changes to the agents' compensation formula, in an effort to promote clarity, consistency, and address concerns brought forward by liquor agents and legislators. In addition, the following budget note was approved:

> **Budget Note**
> As of April 2019, the Oregon Liquor Control Commission was withholding bank card fees based on sales data for related items that had last been provided and analyzed at least a decade ago, resulting in payments that do not accurately reflect the recent sales experience of contract liquor store agents. The Oregon Liquor Control Commission is directed to update the rates or amounts withheld from agents, by requesting and analyzing data on liquor and related item purchases. OLCC is directed to utilize the same methodology as in previous biennia, but based on sales data from the previous calendar year (2018). Failure of an agent to present data requested by OLCC could result in the Commission assigning a withholding rate that may not accurately reflect the actual rate of bank card sales for related items of that store. The Oregon Liquor Control Commission is directed to report back to the Legislative Fiscal Office on the change in payments to each agent, based on this updated information. It is intended that going forward, OLCC will request and receive sales data on related items purchases a minimum of once per biennium so that compensation related to bank card fees can be based on more accurate and up-to-date information.

Marijuana Program Regulation

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	8,531,492	14,749,592	16,936,284	19,686,383
Total Funds	**$8,531,942**	**$14,749,592**	**$16,936,284**	**$19,686,383**
Positions	37	59	59	68
FTE	29.16	54.63	59.00	68.00

Program Description
In November 2014, Oregon voters approved Ballot Measure 91. OLCC was tasked with regulating the new industry. This was a major change to the responsibilities of OLCC and required the agency to develop a regulatory framework in a short period of time. The program moved from creating the initial recreational marijuana regulatory framework and initial licensing to annual licensing and compliance for 2017-19, while evaluating still more applicants thanks to wider-than-anticipated interest. OLCC responsibilities include the following:

- Adoption and enforcement of regulations relating to growers, wholesalers, processors, and retailers.
- Ensuring utilization and reporting through a product tracking system which must be used by licensees when transferring marijuana-related products.
- Processing permits for workers in marijuana businesses.

- Inspections, seizures, citations, and arrest authority for recreational marijuana facilities.
- Regulation of marijuana concentrates and extracts in products.
- Oversight of OLCC Medical Marijuana staff who work with the Oregon Health Authority to incorporate medical marijuana growers, producers, and dispensaries into tracing technology;
- Overseeing testing requirements and standards for product testing, packaging, and labeling of marijuana items.
- Working with the Department of Revenue to reconcile product movement with taxes paid.

Budget Environment

Regulatory expenses related to recreational marijuana are intended to be borne by licensees; this requires that OLCC closely monitor its fee revenue and regulatory expenses to ensure that marijuana-related costs are not being subsidized by the alcohol program. OLCC allocates a portion of agency overhead (central services and management expenses) to marijuana programs based on FTE.

When recreational marijuana was first legalized, OLCC concentrated its efforts on educating its licensees and the public, working with the former to come into compliance before applying sanctions when appropriate. This was because of the newness of the environment and the evolution of rules and processes in response to questions and scenarios. Now that the industry has begun to mature, OLCC has begun to more actively regulate its recreational marijuana licensees, performing over 1,600 inspections in 2018. While it still educates in an effort to help licensees come into compliance with minor violations, OLCC has developed a better sense of the tools and information systems requirements needed to effectively monitor licensees, in conjunctions with the regulatory responsibilities of its various partners, as follows:

- Local jurisdictions - law enforcement, code enforcement, siting;
- Oregon Health Authority (OHA) - medical marijuana activities/businesses, testing standards and requirements (although OLCC performs inspections and reports findings and concerns to OHA regarding medical marijuana producers);
- Department of Revenue (DOR) - tax collection (OLCC shares information with DOR regarding product production and movement to facilitate accurate tax collection activities);
- Department of Agriculture - commercial kitchens, scale certification, food handling activities, and pesticides

A Secretary of State audit looked at the regulatory framework as it existed in 2018 among OLCC, OHA, and the Oregon Environmental Laboratory Accreditation Program (ORELAP). Eight of a total of 23 recommendations were directed at OLCC, and included improving data controls and monitoring practices; establishing inspection frequency goals and metrics; utilizing the cannabis tracking system to store lab reports and analysis information; and reviewing lab staffing and expertise in conjunction with ORELAP. OLCC also produced a supply and demand study that found that Oregon's supply of recreational marijuana at January 1, 2019 was enough to meet projected recreational consumer demand for the next six years. Even while prices of legal recreational cannabis were falling, sales and tax revenues continued to show year over year gains.

The market has continued to consolidate, with larger companies buying up smaller producers and retailers. There are now only three exclusive medical marijuana retailers in Oregon, since recreational marijuana stores can accept products from medical growers and sell them to medical patients. Licensees continue to adjust their business plans, ownership structures, and foot prints to respond to changing market dynamics, creating just as much for OLCC to review for a license renewal as it might for a new license.

In response to the oversupply and the complexity of license renewals, SB 218 placed a 2-year moratorium on processing new producer licenses, with the exception of those applicants who applied prior to June 15, 2018.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget included adjustments to align the number of licensees with anticipated use of the agency's cannabis tracking system. Revenue was adjusted to reflect the ratification of a fee imposed by

OLCC on hemp producers who want their products in recreational marijuana stores. Also included in the legislatively adopted budget is additional expenditure limitation related to the marijuana program's share of enhanced dispatch services ($280,416), and limitation to reclassify regulatory positions consistent with labor agreements and duties ($53,588). Partial funding for the estimated cost of replacing the marijuana licensing and compliance system was also approved ($756,250), with the expectation that OLCC will request additional limitation as it proceeds through the stage gate approval process and more precise cost estimates are known. Nine positions were added and two existing positions were reclassified to match staffing resources to inspection and monitoring protocols, and to resolve existing work out of class issues ($2.3 million, including attendant services and supplies related to the new positions).

Medical Marijuana Program

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	--	5,255,787	6,786,428	5,610,114
Total Funds	**--**	**$5,255,787**	**$6,786,428**	**$5,610,114**
Positions	--	23	23	23
FTE	--	16.72	23.00	23.00

<u>Program Description</u>

The Medical Marijuana Program provides tracking of marijuana sales and production by OHA medical marijuana licensees with more than 12 plants, or growing for more than two medical cardholders. Violations of laws, tracking requirements, and other rules discovered by OLCC are reported to OHA for enforcement. In the past year, 335 separate violation cases were forwarded to OHA for review.

<u>Budget Environment</u>

The passage of SB 1057 in 2017 resulted in new laws and responsibilities for the regulation of medical marijuana. OLCC inspection, tracking, and management functions are funded by a transfer from DOR to OLCC of up to $875,000 per calendar quarter of recreational marijuana tax revenue. A separate budgeting structure was created to differentiate these costs and the unique funding source from the recreational marijuana program, to better track resource needs and uses.

AS Oregon Medical Marijuana Program registrants elect to transfer to the OLCC program or discontinue operations, the number of exclusively medical marijuana registrants has fallen; the number of registered medical marijuana growers as of September 2019 was 582. At the same time, there were 3 exclusive medical marijuana dispensaries and one processor.

<u>Legislatively Adopted Budget</u>

The budget was adjusted to reflect updated estimates of medical marijuana licensees subject to Cannabis Tracking System usage requirements and remove excess limitation and transfers. Enhanced dispatch services attributable to Medical Marijuana division personnel were included, as was expenditure limitation necessary to reclassify a position, a portion of the cost of which was offset by reducing allowed inflation on the Medical Marijuana division's services and supplies expenditures. In total, the Legislature approved a budget of $5,610,114 and 23 positions (23.00 FTE) for the Medical Marijuana program.

Capital Improvements and Construction

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	4,953,678	377,943	277,943	377,943
Total Funds	**$4,953,678**	**$377,943**	**$277,943**	**$377,943**

Program Description

The Capital Improvement program reflects OLCC costs for major deferred maintenance and improvements to OLCC facilities. OLCC owns an office and distribution center complex in Milwaukie, which ships all bottled distilled liquor and houses most agency personnel. In 2007, OLCC purchased a warehouse adjacent to its distribution center and made improvements to both facilities. OLCC has developed and routinely updates a 10-year facility maintenance plan, which are reflected in this program.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget is equivalent to the 2017-19 legislatively approved budget. Expenditure limitation in the amount of $150,000 was approved for patching and skylight repairs to stop water damage in the Milwaukie warehouse. This action is anticipated to result in a 2-6-year fix, during which time OLCC will evaluate longer-term facility needs, considering projected growth, ongoing maintenance expenses, and the cost of required seismic upgrades in its current warehouse. The Legislature included the following budget note:

> Budget Note
>
> The OLCC shall work with the Department of Administrative Services and the Capital Projects Advisory Board to evaluate costs and risks associated with remaining at its existing Milwaukie headquarters, and to identify available facility alternatives that could better meet the Department's long-term needs for storage, shipping, future growth, office space, maintenance, and ease of access to markets. The OLCC is directed to report back to the Emergency Board prior to the submission of its 2021 Agency Request Budget, present findings and seek input on identified alternatives, or request additional funding for further analysis if warranted.

OREGON PUBLIC BROADCASTING

Analyst: Siebert

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	750,000	500,000	500,000	1,000,000
Lottery Funds	2,013,018	1,572,415	915,135	915,135
Total Funds	**$2,763,018**	**$2,072,415**	**$1,415,135**	**$1,915,135**

Overview

Oregon Public Broadcasting (OPB) is an educational and public broadcasting network serving Oregon through noncommercial public television and radio stations. The network consists of five television and over 20 radio stations, plus numerous translator/repeaters throughout Oregon and provides coverage for almost all parts of the state. Educational programming (formal and informal) is a significant portion of television, while news and information is the main thrust of radio. OPB also is part of the state's Emergency Alert System.

Revenue Sources and Relationships

The 1993 Legislative Assembly privatized OPB and provided for a supplemental grant through the Department of Administrative Services. The original grant represented about 10% of OPB's estimated revenue. Most of OPB's revenue comes from private contributions. The federal government provides some funding, and OPB also receives sales and service revenue. The 2011-13 legislatively approved budget continued to cover debt service on lottery bonds but did not provide any funding for OPB operations. The base grant amount, or current service level, is $500,000 General Fund. This was reduced to $492,500 in 2013-15, raised by $250,00 on a one-time basis to $750,000 in 2015-17, and went back to the $500,000 base level of support for 2017-19.

In the past the Legislature has provided OPB with debt-financed grants for infrastructure development. These grants, $7 million in 2001-03 and $3 million in 2007-09, were supported with lottery bond proceeds. Lottery Funds are used to pay the debt service on these bonds.

Pass-through grant expenditures and debt service costs are technically included in the budget of the Department of Administrative Services but are displayed separately in Legislative Fiscal Office publications.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget continues to cover debt service on lottery bonds. These payments for 2017-19 were lower than previously estimated, which is why Lottery Funds are down from previous biennia. The adopted budget also doubled the operational support grant, on a one-time basis, to $1 million General Fund for the 2019-21 biennium.

PUBLIC EMPLOYEES RETIREMENT SYSTEM

Analyst: Borden

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	--	--	--	$100,000,000
Other Funds	98,827,001	101,657,012	105,912,270	263,256,648
Other Funds (NL)	9,856,259,772	11,094,000	12,493,087,721	12,504,627,192
Total Funds	**$9,955,086,773**	**$11,195,828,012**	**$12,598,999,991**	**$12,867,883,840**
Positions	381	379	369	419
FTE	379.26	375.18	369.00	414.32

Overview

The Public Employees Retirement System (PERS) administers the retirement system covering most employees of state agencies; public universities, community colleges, public school districts; statutory judges; and participating cities, counties, and special districts in Oregon. The agency also administers a retiree health insurance program and a voluntary deferred compensation program for state agencies and some local governmental units. It is responsible for most fiduciary activities performed on behalf of system members. This includes receipt of contributions into the retirement and deferred compensation trust funds, retirement counseling, retirement benefit determination, and retirement benefit payment.

The five-member Public Employees Retirement Board has broad authority for operation of the system. Day-to-day operations are carried out by the Board-appointed executive director and agency staff. The agency executive director is also an ex-officio non-voting member of the Oregon Investment Council (OIC). The OIC, with the assistance of the Investment Division of the State Treasury, oversees the investment of retirement system and deferred compensation trust fund assets that are mostly managed by private investment firms.

Revenue Sources and Relationships

PERS revenue comes from net (of investment expenses) investment earnings, employer contributions, employee contributions, and health insurance premium payments. There is also an administrative charge on the deferred compensation program (0.20% of participant assets held in the trust) and an administrative fee assessed on participants and employers for Social Security Administration activities (rate of 50 cents per employee per year, or $15, whichever is higher), plus nominal miscellaneous revenue. PERS' Other Funds is funded by transfers of General, Lottery, Other, and Federal Funds from participating PERS employers. In total, the agency expects to receive $15.7 billion in biennial Other Funds revenues, including investment earnings - $10.2 billion; contributions - $4.6 billion; insurance premiums - $532.3 million, and other revenues - $102.7 million. ORS 238.610 directs that the administrative operations expenses for the agency are to be paid from earnings on the Public Employees Retirement Fund or, in years when such earnings are insufficient, through a direct charge to participating public employers. Administrative expenses, which equate to the agency's Other Funds Limited budget, are estimated to total $263.3 million and will be paid from earnings.

For the first time, the budget includes a direct General Fund appropriation in the amount of $100 million to match employer contributions into side accounts. PERS may eventually receive revenues from SB 1566 (2018), such as federal tax decouple revenue, excess capital gains, excess estate taxes, and excess debt collections. PERS has already received $11.5 million in excess interest on unclaimed properties that was transferred to the agency by the Division of State Lands. PERS may eventually receive Sport Gambling revenues from SB 1049 (2019).

Budget Environment

The budget environment for PERS is complex and evolving. Structurally, past legislative reforms have been effective in reducing PERS benefits; however, employer costs will continue to rise to pay the legacy costs of retirees and active and inactive members, as well as to offset lower assumed investment assumptions. Options for further reform, while possible, are constrained by the effectiveness of prior benefit reforms, legally by Supreme Court rulings allowing only prospective benefit reform, and, financially, by the current investment environment (i.e., lower return environment, high equity valuations, and low interest rates), and bonding capacity. Additionally, any future reform may disproportionately impact the retirement of employees whose pension benefits have yet-to-be earned. Oregon's PERS system is a mature system, with 176,000 active members supporting about 146,000 retirees and beneficiaries (1.19 active member per retiree/beneficiary). The system has approximately 45,993 inactive members or those members who are no longer in PERS-covered employment. The PERS system is consistently ranked as one of the most complex retirement systems in North America and one of the most expensive to administer. Lastly, recent legislation requires to the agency to undertake a number of new activities aimed at improving the funded status of the PERS system.

The PERS pension system funding level, as of December 31, 2017, was $61.8 billion in assets and $84.1 billion in liabilities for a deficit of $22.3 billion; however, there is $5.6 billion of pre-paid employer contributions ("side accounts") that reduce the deficit to $16.7 billion and a funded status of 80.1%. Employer side account assets are primarily from the proceeds of pension obligation bonds (POB). While some local jurisdictions continue to issue POBs, including school districts, no additional issuances are expected by state government. Approximately 72% of the UAL is attributable to members who are no longer in PERS-covered employment.

The PERS Board establishes employer rates for approximately 900 employers including state agencies, universities, judges, school districts, and participating cities, counties, and special districts. Approximately 95% of Oregon's public sector employees are PERS members. The rates vary by pension plan and for general service and police and fire employees. In addition to pension and healthcare rates, employee contributions, some of which are paid by employers, can add an additional 6% to the employer contribution. PERS employer contribution rates do not include debt service costs on pension obligation bonds.

System-wide, the average employer rate in 2019-21 will be 31.30%, which includes 11.6% for normal costs, 13.7% for the unfunded liability, and 6% for the employee contribution. Rates, however, vary significantly by employer and account for adjustments due to rate collaring and employer side account contributions. The statewide average rate has also been reduced by the application of a rate collar methodology, which limits the biennium to biennium change in employer contribution rates. Investment income provided approximately 74.9% of PERS' revenue from 1970-2017. Employer contributions provided 20.03% and employee contributions provided the remaining 4.8%. The PERS Board recently voted to keep the assumed earnings rate unchanged at 7.2%.

Finally, long-standing information technology deficiencies at PERS, including cybersecurity, business continuity, and disaster recovery were of significant concern to the Legislature in 2017. The Legislature, at that time, provided direction and funding to PERS to resolve the deficiencies during the 2017-19 biennium. While some work has been completed, it remains to be seen if all the issues have been resolved completely.

Legislatively Adopted Budget

The budget for the Public Employees Retirement System totals $12.9 billion Other Funds. Of the total, $12.5 billion is for benefit payments to retirees. The budget includes, for the first time, a General Fund appropriation in the amount of $100 million to match employer contributions into side accounts. The administrative budget totals an additional $263.3 million Other Funds and is a $161.6 million (or 159%) increase from the 2017-19 legislatively approved budget. The budget includes 419 positions (414.32 FTE).

The single largest budget increase, besides the $100 million General Fund appropriation and the corresponding $100 million in Other Funds expenditure limitation, is $40 million Other Funds and 43 positions for the implementation of SB 1049 (2019) - the PERS reform measure. Another material increase is $11.5 million for the

School District Unfunded Liability Fund which reflects a transfer of revenue from the Common School Fund under SB 1566 (2018). Continued funding is provided for: Oregon Growth Savings Plan ($1.6 million); an accountant position for the Individual Account Program's target-date fund earnings reporting ($198,066); cybersecurity/business continuity/disaster recovery ($442,191); the agency's move to the State Data Center ($1.7 million); and a limited duration Accounting Technician 3 for collections activities related to the 2012 Oregon Supreme Court Decision to retroactively reduce the earnings credited to member accounts ($357,679).

New funding was provided for: a one-time increase in deferred maintenance ($1.2 million); cybersecurity/business continuity/disaster recovery ($638,291); a Quality Assurance Engineer and an Electronic Content Management analyst for the Information Services Division ($356,295); a Benefit Calculations Supervisor, an Operations and Policy Analyst for the Individual Account Program's target-date fund, two Retirement Counselors, and an Office Specialist for Intake and Review for the Operations Division ($568,790).

Reductions in the budget include: the elimination of two long-term vacant positions ($631,523), as well as the elimination of excess or unneeded budget authority for rent and temporary staff ($644,528). There were also statewide adjustments based on reductions in Department of Administrative Services assessments and charges for services and Attorney General rates.

Tiers One and Two Pension Plans

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds (NL)	8,590,606,787	9,183,000,000	10,261,052,242	10,272,591,713
Total Funds	**$8,590,606,787**	**$9,183,000,000**	**$10,261,052,242**	**$10,272,591,713**

Program Description

The Tiers One and Two Plans program includes account balance refunds and retirement benefit payments for two retirement plans that are closed due to PERS reform legislation passed during the 2003 legislative session. Tier One plan members are employees hired before January 1, 1996. Tier Two members are employees hired on or after January 1, 1996 and before August 28, 2003, and have a different level of benefits from Tier One members. Tier One and Two are employer-funded retirement benefits. The Tier One and Two average replacement of a retirees' final average salary for those retirees with an average of 25 years of service was 53% between the years 1990-2017; however, this percentage drops to 44% for the year 2017 only. The average monthly benefit for all retirees between 1990-2017 is $2,390 and is $3,036 for the year 2017.

Revenue Sources and Relationships

Other Funds revenue is mainly from employer contributions to the retirement system ($2.3 billion) and retirement trust fund investment earnings (about $12.5 billion). A nominal amount of revenue comes from employee contributions by employees, primarily judge members. Employer contribution rates are established by the Public Employees Retirement Board based upon advice from its consulting actuary. This program unit's administrative costs are budgeted under various operational programs and are supported by revenue transfers from this program to those programs.

Tier 1/Tier 2 has a combined actuarial accrued liability of $78.4 billion and actuarial value of assets of $57.7 billion leaving an unfunded accrued liability of $20.8 billion (73.5% funded), as of the December 31, 2017 valuation; however, these figures exclude $5.6 billion in pre-paid employer contributions or side accounts. By including side accounts, the funded status improves to 80.1%. Tier 1/Tier 2 revenue totaled $14.7 million from employer contributions and investment earnings totaled $8.2 billion. During this period, these two benefit plans paid out $4.5 billion in benefits and administrative expense.

Tier One accounts earn an assumed earnings rate, as set administratively by the PERS Board. Tier One member regular accounts were credited at the calendar year 2017 assumed earnings rate of 7.50%. For years when market earnings are less than the assumed earnings rate, a reserve balance is used to make up the difference. Tier Two account earnings are based on actual market returns as produced by the Oregon Investment Council. Tier Two regular member accounts received earnings crediting of 0.2% in calendar year 2018.

Budget Environment

Tier One has a total of 190,740 members, as of the December 31, 2017 valuation. Of this number, there are 22,749 active, 15,525 inactive, and 152,466 retired members and beneficiaries. Tier Two has a total of 67,706 members, as of the December 31, 2017 valuation. Of this number, there are 35,958 active, 17,306 inactive, and 14,442 are retired members and beneficiaries.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $10.3 billion Other Funds Nonlimited is $1.1 billion (or 11.9%) more than the 2017-19 legislatively approved budget and is set at a level expected to cover projected retirement system benefit payments. The budget was increased based on an updated agency forecast of benefit payments.

Employer Resolution Programs

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	--	--	--	$100,000,000
Other Funds	--	--	--	$100,000,000
Total Funds	**--**	**--**	**--**	**$200,000,000**

Program Description

The Employer Resolution Programs is a newly established program structure related to recent PERS reform legislation from the 2018 and 2019 sessions. SB 1566 (2018) established an Employer Incentive Fund to be used for a one-time match program. The match rate is up to 25% of a PERS employer's contribution. Once matched, state funds would be transferred into a new or existing employer's side account, at which time the state would relinquish all financial interest in the match. All PERS entities, including school districts, community colleges, and public universities, are eligible to participate in the matching funds program; however, in order to become eligible for matching funds, an employer must have an approved Unfunded Actuarial Liability Resolution plan.

SB 1566 (2018) also established the School Districts Unfunded Liability Fund (SDULF). The PERS Board is planning to transfer available funds into a newly created school districts pooled side account, at which time the state would relinquish financial interest in the funds. The PERS Board is to proportionately distribute, based upon administrative rule and an amortized basis, the pooled school district side account among all school districts as an offset to employer contribution rates. The pooled school districts side account will be counted as an asset for actuarial valuation purposes.

Revenue Sources and Relationships

SB 1049 (2019) appropriated $100 million of General Fund, on a time-time basis, for expenditure into the Employer Incentive Fund to be used for state matching funds. The corresponding employer match, up to 75%, is assumed to be at least $400 million for a total increase in assets of $500 million. The General Fund will be expended as Other Funds and the budget provides for $100 million of Other Funds expenditure limitation for the Fund. Once matched, Employer Incentive Funds will be expended to fund lumpsum employer side accounts, which are separately budgeted as Nonlimited Other Funds expenditures.

PERS may eventually receive revenues from SB 1566 (2018), such as federal tax decouple revenue, excess capital gains, excess estate taxes, and excess debt collections. PERS has received $11.7 million in excess interest on unclaimed properties that was transferred to the agency by the Division of State Lands. PERS may eventually receive Sport Gambling revenues from SB 1049 (2019). The following table summarizes the various revenue stream estimates by fund.

Fund	Revenue Source	2019-21 Estimate
School District Unfunded Liability Fund [SB 1566 (2018)]	Federal decoupled revenue (82%) Excess capital gains Excess Estate Taxes Excess debt collections Excess interest on unclaimed property	$129.8 million Indeterminate Indeterminate Indeterminate $11.5 million
Employer Incentive Fund [SB 1566 (2018) and SB 1049 (2019)]	Federal decoupled revenue (18%) Sports Gambling revenue (Lottery) General Fund appropriation Employer matching funds	$28.4 million Indeterminate $100 million Up to $400 million

PERS may need to request additional expenditure limitation depending upon the availability of revenue.

Budget Environment

SB 1566 (2018) created in PERS an Unfunded Accrued Liability Resolution program to assist an employer in the development of a plan to improve the employer's funded status and to manage projected employer rate changes. Employer participation in the program is voluntary. The PERS Board shall set, by administrative rule, the minimum requirements for an employer plan, and shall provide technical expertise in the development of an employer's plan upon request of the employer. Expenses of the Board related to the program are authorized to be paid from the Employer Incentive Fund.

PERS has received $53.6 million from 26 employers that may be eligible for $13.4 million in state matching funds as early as September 2019. PERS will continue to accept employer applications for matching funds until early December 2019 for employers with an Unfunded Accrued Liability greater than 200% of PERS-eligible payroll. Then, after a 180-day period has passed, which is the early December deadline, any PERS employer may apply for the remaining matching funds.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget is $200 million, including $100 million General Fund and $100 million Other Funds. The Department of Administrative Services was requested to unschedule $75 million of the General Fund appropriation, which may be scheduled once employer matching funds become available.

Oregon Public Service Retirement Pension Plan

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds (NL)	36,637,883	39,000,000	75,188,960	75,188,960
Total Funds	**$36,637,883**	**$39,000,000**	**$75,188,960**	**$75,188,960**

Program Description

The 2003 Legislative Assembly established a new Oregon Public Service Retirement Plan (OPSRP) with a different benefit structure for employees hired after August 28, 2003. The OPSRP pension is an employer-funded retirement benefit.

Revenue Sources and Relationships

Other Funds revenue is only from employer contributions and retirement trust fund investment earnings. Employer contribution rates are established by the Public Employees Retirement Board based upon advice from its consulting actuary. The program unit's administrative costs are budgeted under various operational programs and are supported by revenue transfers from this program to those programs.

OPSRP has an actuarial accrued liability of $5.6 billion and actuarial value of assets of $4.1 billion, leaving an unfunded accrued liability of $1.5 billion (73.1% funded), as of the December 31, 2017 valuation. OPSRP revenue totaled $571.1 million for employer contributions and investment earnings totaled $554.6 million. During this period, OPSRP paid out $30.5 million in benefits and administrative expense.

OPSRP accounts have no guaranteed return. Returns are based on market returns produced by the Oregon Investment Council. Member accounts earnings crediting occurs once each calendar year and was 0.2% for 2018.

Budget Environment

OPSRP has a total of 135,759 members, as of the December 31, 2017 valuation. Of this number, there are 114,295 active, 17,349 inactive, and 4,115 retired members and beneficiaries. Program growth continues to be significant as OPSRP is the only open PERS retirement plan for new employees.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $75.2 million Other Funds Nonlimited is $36.2 million (or 92.8%) more than the 2017-19 legislatively approved budget and is set at a level expected to cover projected retirement system benefit payments.

Individual Account Program

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds (NL)	783,690,283	1,056,900,000	1,423,365,167	1,423,365,167
Total Funds	**$783,690,283**	**$1,056,900,000**	**$1,423,365,167**	**$1,423,365,167**

Program Description

The Individual Account Program (IAP) is the defined contribution component of the PERS retirement plan that was instituted as part of PERS reform legislation passed during the 2003 legislative session. The program includes member accounts for Tier One, Tier Two, and OPSRP benefit plans. The IAP was originally estimated to pay approximately 15-20% of retiree's final average salary (for a 30-year career) based upon the assumed earnings rate at the time the program was created (8%). The program unit's administrative costs are budgeted under various operational programs and are supported by revenue transfers from this program to those programs. The cost of a third-party administrator contract totals $4.6 million.

The IAP is funded with member contributions, which is 6% of a member's salary. Prior to the system reforms in 2003, member contributions were made directly into Tier One and Two member accounts. Reform legislation redirected subsequent Tier One and Two member contributions into IAP accounts beginning January 1, 2004.

At retirement, IAP dollars are paid in either a lump-sum payment or in equal installments over 5, 10, 15, or 20 years, or over the member's expected lifetime. IAP payouts may also be transferred to the Oregon Growth Savings plan accounts, or any other qualified plan, upon withdrawal or retirement.

Revenue Sources and Relationships

The IAP requires PERS members to contribute an amount equal to 6% of eligible salary to an IAP account; however, some employers "pick-up" or pay the 6% employee contribution based upon collective bargaining contracts. While historically the "pick-up" was in lieu of a salary increase, some recently negotiated collective bargaining agreements, beginning with the 2015-17 biennium, have the employee paying the 6% contribution in exchange for off-setting salary and wage increases. Other Funds revenue from employer contributions totals $1.4 billion with $1.1 billion in investment earnings.

An IAP account has no guaranteed return. Returns are based on market returns produced by the Oregon Investment Council. Member accounts earnings crediting occurs once each calendar year and was a negative

0.72% for 2018, as compared to a marginally positive 0.11% return for the Oregon Public Employees Retirement Fund.

Budget Environment

There were 269,812 active IAP accounts, as of December 31, 2017, with an average IAP account balance of $33,210. The total value of all IAP accounts was $8.9 billion.

After the close of the legislative session in 2017, the Oregon Investment Council (OIC) voted to move the IAP to a target-date fund solution beginning January 2, 2018. This is an age-based approach that moves a member's IAP assets into an increasingly conservative investment portfolio, which may impact member earnings and, ultimately, their retirement benefit. Since inception on January 1, 2004, the IAP had been invested no differently than other assets in the Oregon Public Employees Retirement Fund. The OIC decision impacts all IAP member accounts.

The OIC decision was mandatory and provided for no member choice to make individual investment decisions. The 2018 Legislature enacted a member choice option (HB 4159; Chapter 118, Oregon Laws) effective January 1, 2019; however, a provision in the measure required the State Treasurer to notify the PERS Board by December 31, 2018 if legal and fiduciary standards prohibit implementation. In May of 2018, State Treasury (OST) made the determination, based upon the advice of outside legal counsel, rather than the Department of Justice, that legal and fiduciary standards prohibited implementation. Apparently, OIC and OST need legal immunity from liability if an IAP member were to lose funds ("safe harbor" provision). OST also noted that IAP members require information (i.e., disclosures) related to making a member choice investment selection. These two concerns require, according to OST, a legislative change that was characterized as minor in nature. SB 1049 (2019) provides Individual Account members a choice in selecting investment options beginning January 1, 2021.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $1.4 billion is $366.5 million (or 34.7%) more than the 2017-19 legislatively approved budget and is set at a level expected to cover projected retirement system benefit payments. This program is made up entirely of Other Funds Nonlimited expenditures. The increase is due to anticipated retirements.

Oregon Savings Growth Plan (non-budgeted program)

	2015-17 Actual	**2017-19 Legislatively Approved**	**2019-21 Current Service Level**	**2019-21 Legislatively Adopted**
Other Funds (NL)	--	--	--	--
Total Funds	**--**	**--**	**--**	**--**

Program Description

The Legislature in 1997 established a *voluntary* deferred compensation plan for state and local governments entitled the Oregon Savings Growth Plan (OSGP), with a seven-member Deferred Compensation Advisory Committee that reports to the PERS Board. State agencies offer the OSGP, as well as approximately 288 local governments; however, some local governments, public universities, community colleges, and school districts cannot offer the OSGP because they offer alternative 457 or 403(b) plans not administered by PERS.

The OGSP is a federally authorized Internal Revenue Service 457(b) deferred compensation plan. Traditional 457 (pre-tax) and Roth 457 (after-tax) plans are offered as options. There is no state funding of the OSGP, state matching funds, or guarantees of underlying investments or investment returns. The plan is administered by PERS, but funds are deposited with, and invested by, a private third-party administrator.

The OGSP is funded with voluntary member contributions and member self-directed investments from approximately 19 options with varying degrees of risk. Funds are distributed at the time of an employee's retirement, resignation from state service, death, disability, unforeseen emergency, or de minims distribution from inactive accounts valued at less than $5,000. OSGP also offers a loan program to eligible participants.

Revenue Sources and Relationships

An OGSP account earns a market rate of return based on selected investment option. PERS may assess a charge to deferred compensation plan participants not to exceed 2% on amounts deferred, both contributions and investment earnings, to cover the cost of administering the program. The current annual participant fee is 0.20% of participant assets held in the trust. The costs of a third-party administrator contract for recordkeeping and financial services are an additional cost above those of PERS.

The OGSP has no guaranteed return. Returns are based on the investment choices of plan participants, which include options for age-based investing, mutual fund-type investments, or self-directed investments through a private brokerage firm.

Budget Environment

In total, the OSGP has assets of $2.4 billion and 31,989 total participants, as of July 2019. An average of these two amounts equals $73,760 per participant. The state government plan has assets of $2.1 billion and 27,057 participants and the local government plan has assets of $267.4 million and 4,932 participants. For the state plan, approximately 60% of participants are actively contributing with an average contribution across all age groups of $445.93 per month. A small percentage of participants have loans against their account balance of which the loans are either general or residential in nature.

By statute, the State Treasurer is the fund custodian and State Treasury provides, through an interagency agreement with PERS, contracts with private vendors for custodial banking services, investment advisors, and investment consultants. By statute, the Oregon Investment Council establishes a program for the investment of funds. ORS 243.472(4) provides that contributions to and benefits and refunds from the OSGP are not subject to state budgetary control.

Beginning in 2018, most OSGP administrative expenses were placed under expenditure limitation except those related to the third-party defined compensation administrator and investment management fees charged by the various investment funds to individual member accounts, which must remain non-budgeted. Such an action would increase the transparency of OSGP expenses, but more importantly would increase the level of accountability PERS exercises over supplemental funding provided to the third-party defined compensation administrator for such services as an account manager, a communication consultant, and field representatives. The contract also provides for marketing and electronic communications materials. The budget now includes the cost of custodial banking services, investment advisory services, and State Treasury investment advice.

The defined compensation administrator contract resources are in addition to state staff employed by PERS for the OSGP program, which includes seven state positions (7.00 FTE). These positions are for administration of the OSGP and to provide counseling and outreach to current or potential members. The revenue to support the PERS expense comes from gross revenues and earnings from the OSGP.

Legislatively Adopted Budget

OGSP funds and distributions are not included in the state budget as they are deposited with, and invested by, a private third-party administrator (Voya Financial). PERS costs to administer the program are budgeted under the Financial and Administrative Services Division.

Retirement Health Insurance Programs

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds (NL)	445,324,819	815,271,000	733,481,352	733,481,352
Total Funds	**$445,324,819**	**$815,271,000**	**$733,481,352**	**$733,481,352**

Program Description

The PERS Health Insurance Program offers optional medical, dental, and long-term care insurance plans to eligible Tier One/Tier Two retired members, their spouses, and dependents. Upon retirement, these insurance options become a choice available to all PERS retired members. While primarily serving the Medicare-eligible population (age 65 and over), the PERS Health Insurance Program (PHIP) also offers insurance coverage options for those not yet Medicare eligible. Active members, their spouses, and dependents are not eligible for this program.

The PERS Retiree Health Insurance program (RHIP) is available for Tier One, Tier Two, and Oregon Public Service Retirement (OPSRP) retired members and their spouses and dependents that meet enrollment and eligibility requirements. Premiums are paid by PERS to the carriers that participate in the program with funding from member benefits, premium subsidies (as discussed below), and member payments. Those payments are administered through the Standard Retiree Health Insurance Account (SRHIA). Only Tier One and Tier Two retired members are eligible for the following subsidies, which are funded as part of participating employer's rates.

Retiree Health Insurance Premium Account (RHIPA): Provides an insurance premium subsidy for non-Medicare coverage. The subsidy is a percentage of the cost difference between the retired member coverage available through PHIP and the state employee coverage available under the Public Employees Benefits Board. Only retired members who have eight or more years of State of Oregon qualifying service and retire from a state agency are eligible. The amount of the subsidy varies with years of state service, from 50% to 100% of the difference.

Retirement Health Insurance Account (RHIA): Provides a $60 health insurance premium subsidy for eligible retired members who had eight or more years of qualifying service with any PERS employer and are eligible and enrolled in the federal Medicare program. Member health and dental insurance premiums are paid by the member through pension deductions, direct payments, and electronic funds transfer. Premium payments are then remitted by PERS to the health insurance carriers.

Revenue Sources and Relationships

SRHIA revenues come from member-paid insurance premiums with additional revenues provided from federal sources (Medicare and Medicaid) and investment earnings on those contributions. The RHIPA and RHIA programs are funded from employer contributions and the return on investment of those contributions, which include funding for any unfunded liability. These funds are held in the Public Employees Retirement Fund. The program unit's administrative costs are budgeted under various operational programs and are supported by revenue transfers from this program to those programs. RHIA and RHPA revenues totaled $61.8 million for employer contributions and investment earnings totaled $75.7 million.

Budget Environment

RHIA has 46,656 retired members receiving benefits, 24,568 retied members eligible to receive benefits, and 13,535 dormant members. RHIPA has 15,785 active Tier 1/Tier 2 employees and 1,082 retired members receiving benefits. The RHIA funding level, as of December 31, 2017, was $553.3 million in assets and $437.6 million in liabilities for a surplus of $115.7 million and a funded status of 126.4%. RHIPA has $29.8 million in assets and $69.4 million in liabilities for an unfunded liability of $39.5 million and a funded status of 43%.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $733.5 million is $81.82 million (or 10%) less than the 2017-19 legislatively approved budget and is set at a level expected to cover projected retirement system benefit payments. This program is made up entirely of Other Funds Nonlimited expenditures. This particular Nonlimited budget is overstated when compared to historic expenditures and will receive closer legislative scrutiny in future sessions to better align the budget with projected expenditures.

Central Administration Division

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	3,401,149	4,341,844	4,445,979	5,527,774
Total Funds	**$3,401,149**	**$4,341,844**	**$4,445,979**	**$5,527,774**
Positions	11	19	15	21
FTE	11.00	16.50	15.00	20.92

Program Description

Central Administration, in conjunction with the PERS Board, provides the direction, planning, and leadership for PERS. The division consists of the Board, executive director, deputy director, and policy staff.

Revenue Sources and Relationships

ORS 238.610 directs that the administrative operations expenses for the agency are to be paid from earnings on the Public Employees Retirement Fund or, in years when such earnings are insufficient, through a direct charge to participating public employers.

Budget Environment

The PERS Board announced the appointment of a new Executive Director on June 1, 2018. The long-serving Board Chair was replaced at the end of the member's term and at least one other board member will be replaced with the expiration of the member's term.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $5.5 million is $1.2 million (or 27.3%), more than the 2017-19 legislatively approved budget and includes 21 positions (20.92 FTE). The budget includes:

- $704,393 Other Funds and four positions (4.00 FTE) as a transfer from the Operations Division in order to re-establish a Communications Section.
- $388,736 Other Funds and two permanent full-time positions (1.92 FTE) to address communications issues related to the PERS reform measure (SB 1049).

Financial and Administrative Services Division

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	29,032,261	23,951,731	29,524,168	44,827,511
Total Funds	**$29,032,261**	**$23,951,731**	**$29,524,168**	**$44,827,511**
Positions	63	63	59	64
FTE	62.05	62.88	59.00	63.52

Program Description

The Financial and Administrative Services Division (FASD) provides comprehensive financial and administrative services to the agency. This includes financial accounting, reporting, and tax services for all PERS' Trust and agency fund activities, including the Retirement Fund, Deferred Compensation funds, Benefit Equalization Fund, and health insurance programs. Other activities include preparation, maintenance, and reporting of the agency's biennial budget, coordination of actuarial services, fiscal analysis, accounts receivable, accounts payable, contracts, and procurement. FASD also contains the Facilities Services Section that manages office supplies, general building maintenance, shipping and receiving, and other ancillary tasks. Human Resources, Retiree Health Insurance, and Deferred Compensation programs are also located within FASD.

The Division is comprised of the following sections: Financial Reporting, including actuarial services; Accounting and Cash Transactions; Budget and Fiscal Analysis; Procurement, Facilities and Logistics; Oregon Savings Growth Plan; Heath Insurance Program; and Human Resources.

Revenue Sources and Relationships

ORS 238.610 directs that the administrative operations expenses for the agency are to be paid from earnings on the Public Employees Retirement Fund or, in years when such earnings are insufficient, through a direct charge to participating public employers. PERS has received $11.5 million in excess interest on unclaimed properties that was transferred to the agency by the Division of State Lands.

Budget Environment

Annually, PERS contracts with a firm to benchmark the agency's benefit administrative efficiency against peer retirement systems. According to the most recent study (2017), PERS has one of the highest plan design complexity scores in North America. High complexity can negatively impact service, front office productivity, and back-office costs. The study further notes that PERS "...pension administration cost was $144 per active member and annuitant. This was $38 above the peer average of $106." The reasons are lower transactions per full-time equivalent and higher costs for back-office activities, primarily information technology. PERS multiple retirement plan types are 51% more complicated than peer retirement systems and contribution rates are 30% more complicated. PERS had a relative complexity score of 93, which was among the highest in the database; the peer mean was 69.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $44.8 million is $20.9 million (or 87.2%) more than the 2017-19 legislatively approved budget and includes 64 positions (63.52 FTE). The budget includes:

- $11.5 million for the School District Unfunded Liability Fund and the Employer Incentive Fund established by SB 1566 (2018).
- $1.7 million for the Oregon Growth Savings Plan.
- $1.2 million for deferred maintenance.
- $357,679 Other Funds and one limited duration position (1.00 FTE) for collections of over-credited funds.
- $595,862 Other Funds and four permanent full-time positions (3.52 FTE) to address accounting and earnings crediting issues related to the PERS reform measure (SB 1049).
- $250,886 Other Funds reduction and the abolishment of one position (1.00 FTE) vacant position.
- $198,066 Other Funds and one permanent full-time position (1.00) for Target Date Fund accounting.
- $183,430 Other Funds reduction to reduce unneeded rent line-item.

Information Services Division

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	26,718,047	28,575,232	24,202,121	26,080,183
Total Funds	**$26,718,047**	**$28,575,232**	**$24,202,121**	**$26,080,183**
Positions	74	73	69	70
FTE	73.96	70.88	69.00	69.76

Program Description

The Information Services Division (ISD) provides technical support to all divisions of the agency. ISD ensures agency staff have the tools and automation necessary to perform their duties and provide customer service to members, employers, and other stakeholders. The division supervises the development and operation of PERS' complex IT systems and supports the desktop computers used by staff. Help Desk support, installation and training, software development, application support, database management, network support, and quality assurance all fall under ISD's responsibilities. In addition, the Imaging and Information Management unit within the Business Information and Technology section maintains records from numerous sources.

The Division is comprised of the following sections: Enterprise Applications; Enterprise Content Management; Technical Operations; and Support Administration.

Revenue Sources and Relationships
ORS 238.610 directs that the administrative operations expenses for the agency are to be paid from earnings on the Public Employees Retirement Fund or, in years when such earnings are insufficient, through a direct charge to participating public employers.

Budget Environment
The Information Services Division operates in a complex and demanding information technology environment. The Legislature's direction to the agency to establish a warm-site and move to the State Data Center still have yet-to-be completed, even after funding and direction was provided by the Legislature. The Division, along with the agency as a whole, received a major setback for the Individual Account Program Administration information technology project, which the Legislature chose not to continue funding and the Department of Administrative Services - Office of the Chief Information Office rescinded all three Stage Gate approvals for the project. The project was out-of-scope, off-schedule, and significantly overbudget. PERS recently reported that the entire amount spent to date on the project is unsalvageable.

The agency has reported that the industry-standard Disaster Recovery and Business Continuity programs have been successfully completed and are now fully operational. PERS is also reporting that all cybersecurity concerns have been remedied. These three programs, however, still require review by the Legislative Fiscal Office. An information modernization effort of the agency has yet to advance legislatively due to outstanding concerns with the agency's Cybersecurity, Disaster Recovery, and Business Continuity deficiencies.

Legislatively Adopted Budget
The 2019-21 legislatively adopted budget of $26.1 million is $1.5 million (or 5.4%) less than the 2017-19 legislatively approved budget and includes 70 positions (69.76 FTE). The budget includes funding for three information technology related packages:

- $1.7 million Other Funds and two permanent full-time positions (1.76 FTE) transition to the State Data Center.
- $356,295 Other Funds and four permanent full-time positions (3.52 FTE) for Quality Assurance Engineering and Electronic Content Management.
- $129,751 Other Funds reduction and the abolishment of one vacant position (1.00 FTE).

Operations Division

	2015-17 Actual*	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	$32,608,969	38,080,978	40,285,930	39,297,301
Total Funds	**$32,608,969**	**$38,080,978**	**$40,285,930**	**$39,297,301**
Positions	208	204	208	207
FTE	207.29	206.71	208.00	206.52

**Sum of former Benefit Payments and Customer Services Divisions.*

Program Description
The Operations Division is comprised of the former Benefits, Customer Service, and parts of the Policy, Planning and Communications Divisions as part of an agency-requested reorganization plan. The new Division houses the

Benefit Application and Intake and Processing section, as well as the Retirement Services and Specialty Services sections. Benefit payments is responsible for processing all incoming benefit applications and related documents, as well as calculating and establishing service retirement, disability, and death benefits. Responsibilities also include determining eligibility for disability retirements, administering divorce decrees, and validating beneficiaries. The new Division also includes Customer Service, which provides the window for member, employer, and public interaction with PERS, including Member Information and Employer Service Centers, which directly interface with members and employers. Customer Services answers member queries from the Online Member Services internet tool, an in-house phone team, and in person where it conducts group and individual counseling through various retirement planning sessions. Customer Services is also responsible for producing benefit estimates and member account statements. Additionally, Customer Services houses the Membership and Employer Relations section (MERS). MERS enrolls and manages member data and accounts and also handles employer reporting, training, outreach, and communication including the annual reconciliation process.

The Division is comprised of the following sections: Member Services; Data Services; Benefit Preparation; Benefit Calculations; Operations Technical Section; and Strategic Operations Resource Team.

Revenue Sources and Relationships

ORS 238.610 directs that the administrative operations expenses for the agency are to be paid from earnings on the Public Employees Retirement Fund or, in years when such earnings are insufficient, through a direct charge to participating public employers.

Budget Environment

In 2017, the Operations Division processed approximately 13,500 employer reports containing 3.5 million member records. The Member Information Center handled 197,783 incoming/outgoing member phone calls. The Employer Service Center handled 42,574 of incoming/outgoing employer phone calls, 23,664 incoming member emails, and 86,717 employer emails. The Division conducted 12,331 retirement education presentations and 3,822 retirement application assistance sessions.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $39.3 million is $1.2 million (or 3.2%) more than the 2017-19 legislatively approved budget and includes 207 positions (206.52 FTE). The budget includes:

- $704,393 Other Funds and four positions (4.00 FTE) as a transfer from the Operations Division in order to re-establish a Communications Section.
- $461,098 Other Funds reduction to reduce unneeded expenditure limitation.
- $250,886 Other Funds reduction and abolishment of one vacant position (1.00 FTE).
- $568,790 Other Funds and four permanent full-time positions (3.52 FTE) to assist with retirement calculations, intake and reviews, and target date fund data reconciliations.

Compliance, Audit, and Risk Division

	2015-17 Actual*	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	5,775,826	$7,707,227	$7,444,052	8,464,165
Total Funds	**$5,775,826**	**$7,707,227**	**$7,444,052**	**$8,464,165**
Positions	25	20	18	20
FTE	24.96	18.21	18.00	20.00

*Former *Policy, Planning & Communications Division.*

Program Description

The Compliance, Audit, and Risk Division handles policy and compliance functions to insure state and federal law requirements are being met through agency policy development, administrative rules, and appeals and contested cases over agency determinations. This division also is responsible for enterprise risk management and information security, internal audit services, and the state's Social Security Program. In addition, the Division also supports the PERS Board's Audit Committee. PERS, by statute, prepares a Comprehensive Annual Financial Report. PERS is also audited annually by an external audit firm hired by the Secretary of State's Audits Division.

The Division is comprised of four sections: Internal Audit; Policy Analysis and Compliance; State Social Security Program; and Security and Risk Management.

<u>Revenue Sources and Relationships</u>
ORS 238.610 directs that the administrative operations expenses for the agency are to be paid from earnings on the Public Employees Retirement Fund or, in years when such earnings are insufficient, through a direct charge to participating public employers. ORS 237.420 allows PERS to set a rate to cover the cost of administering the Social Security program. PERS has set a rate of 70 cents per employee per year, or $15, whichever is higher. This will raise approximately $477,870 a biennium.

<u>Budget Environment</u>
Over the last five calendar years, the Internal Audit Section issued an average of 5.4 reports a year with an average of 25.6 recommendations. For calendar year 2018, the Section issued four reports with 13 recommendations. During the prior four and a half years, the Policy Analysis and Compliance Section averaged 354.9 appeals and 48.7 contested cases. For calendar year 2017, the Section had 170 appeals and 34 contested cases. Over the last five calendar years, the State Social Security Program averaged three referendums on employee votes on whether to obtain Social Security coverage and received 86.2 employer issues related to Social Security coverage, taxation, or benefits. For calendar year 2018, there was one referendum and 87 employer issues received. The Security and Risk Management Section, a recently formed section, has been in the process of standing up a Cybersecurity, Business Continuity, and Disaster Recovery program for the agency.

<u>Legislatively Adopted Budget</u>
The 2017-19 legislatively adopted budget of $8.5 million is $756,938 (or 9.8%) more than the 2017-19 legislatively approved budget and includes 20 positions (20.00 FTE). The budget includes:

- $442,191 Other Funds and two permanent full-time positions (2.00 FTE) for cybersecurity controls, disaster recovery, and continuity management.
- $638,291 for contracted vendor support of cybersecurity controls, disaster recovery, and continuity management programs.

Debt Service

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	1,290,750	--	--	--
Total Funds	**$1,290,750**	**--**	**--**	**--**

<u>Program Description</u>
The Debt Service Program provides the funding to make payments on principal, interest, and financing costs associated with previously issued certificates of participation (COPs), which are tax exempt government securities. COPs were issued for purchase of land and construction of the agency headquarters in Tigard. COPs were also issued in 2003 for the acquisition of the *jClarety* pension system for the new OPSRP; this debt was paid off in May 2009. The remaining debt was fully repaid by May 2017.

<u>Revenue Sources and Relationships</u>
Revenue transfers from earnings on the invested funds support the program.

Legislatively Adopted Budget
With the retirement of all outstanding debt, Debt Service funding is no longer required.

Core Retirement System

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	--	--	--	39,059,714
Total Funds	**--**	**--**	**--**	**$39,059,714**
Positions	--	--	--	37
FTE	--	--	--	33.60

Program Description
The Core Retirement Systems Applications Division was established to budget for project-related positions and contracts related to PERS' implementation of Senate Bill 1049 (2019). SB 1049 was a legislative initiative to primarily address future PERS employer contribution rate increases. SB 1049 is expected to reduce system-wide collared employer contribution rates by 5.43% and employer contributions by between $1.2 to $1.8 billion a biennium beginning with the 2021-23 biennium and into the future. To achieve these savings, SB 1049 made the following changes:

- Tier 1 and Tier 2 Unfunded Actuarial Labilities are re-amortized, on a one-time basis, from 20-years to 22-years after which point the amortization schedule for these benefit plans reverts to 20-years. This change is for the 2019 actuarial valuation only.
- Redirects a portion of employee contributions from the employee's defined contribution plan, the Individual Account Program (IAP), to partially fund prospectively an employee's defined benefit or pension plan ("Employee Pension Stability Account"), if the PERS funded status is less than 90% funded and an employee's earnings are more than $2,500/month or approximately $30,000 per year. Redirected funds will lower or offset the employer contribution resulting in employer savings. The redirect for each benefit plan, which begins on July 1, 2020, are as follows: (a) Tier One - 2.5% of eligible salary and wages; (b) Tier Two - 2.5% of eligible salary and wages; and (c) Oregon Public Service Retirement Plan (OPSRP) - 0.75% of eligible salary and wages. Employees can opt to voluntarily contribute into their IAP account the amount of redirected funds on an after-tax basis.
- Places a limit on the Final Average Salary, or salary used for pension benefit calculations, of $195,000 for Tier 1, Tier 2, and OPSRP employees retiring under Formula Plus Annuity and Full Formula benefit plans and for service beginning on or after January 1, 2020. The $195,000 cap is indexed to inflation on an annual basis.
- Eliminates restrictions on annual hours of employment for retired workers and the exemption on employers paying contributions on retired member payroll, beginning January 1, 2020. Employer's must continue to make employer contributions with regard to a participating retired member; however, such retirees will accrue no additional PERS retirement benefits. The employer contribution will be credited to an employer account as an additional payment above normal contributions. The return-to-work provision sunsets on January 2, 2025.

SB 1049 makes other changes to improve PERS system financing, including:
- Appropriating $100 million of General Fund, on a time-time basis, for expenditure into the Employer Incentive Fund, the purpose of which is to provide a state 25% match on pre-paid employer contributions, or side accounts, for school districts, community colleges, and public universities, under certain eligibility requirements. The corresponding employer match is up to 75%. The $100 million appropriation is assumed to generate $400 million in matching funds for a total increase in PERS assets of $500 million.
- Adds assets to the system by dedicating all net lottery revenues from sports betting games revenue to the Employer Incentive Fund to fund the state's 25% match on qualifying employer side accounts. The transfer of sports betting proceeds will sunset on December 31, 2041 due to the sunset of the Employer Incentive Fund

on July 1, 2042. The corresponding employer match is indeterminate at this time until the amount of sports betting games net lottery revenue deposited into the fund becomes known.
- Allows employers making lump sum or side account payments in excess of $10 million to choose the starting date for the amortization period to begin offsetting employer contributions, allowing the employer to time the use of side accounts with an anticipated spike in employer contribution rate increases. At least one public entity (Port of Portland) anticipates making a $10 million side account contribution under this authority.

SB 1049 also provides Individual Account members a choice in selecting investment options beginning January 1, 2021, provides for enhanced review of local government Pension Obligation Bond issuances, and requires the PERS Board to report to the Legislature on changes to actuarial methods and assumptions.

Revenue Sources and Relationships
ORS 238.610 directs that the administrative operations expenses for the agency are to be paid from earnings on the Public Employees Retirement Fund or, in years when such earnings are insufficient, through a direct charge to participating public employers.

Budget Environment
The Legislature fully funded the PERS request for SB 1049 plus added $500,000 in contingency funding. The implementation of SB 1049 presents a major challenge for PERS which may struggle to manage the project risks and schedule. PERS has contracted with project management firms and various information technology vendors. The Department of Administrative Services - Office of the State Chief Information Officer is providing technical expertise and oversight support to PERS, including that related to the Stage Gate Process. The Department of Administrative Services - Chief Financial Office is providing financial management guidance and oversight. The Department of Administrative Services is also providing technical expertise related to procurement, human resources, and facilities management. Independent Quality Assurance will eventually be onboarded to provide additional oversight and quality control reports.

SB 1049 provides for an expedited review by the Oregon Supreme Court and the measure has been challenged in court. A decision of the Supreme Court is not expected until sometime in 2020.

Legislatively Adopted Budget
The 2019-21 legislatively adopted budget is $39.1 million and includes 37 positions (33.60 FTE), all as one-time funding. The budget includes:
- $2.5 million Other Funds for quality assurance and testing.
- $2.5 million Other Funds for project management.
- $4.7 million Other Funds for temporary information technology solutions.
- $21.3 million Other Funds for permanent information technology solutions.
- $1 million Other Funds and four limited duration positions (3.84 FTE) for the Central Administration Division.
- $1.7 million Other Funds and four limited duration positions (3.64 FTE) for the Financial and Administrative Services Division.
- $588,506 Other Funds and three limited duration positions (2.76 FTE) for the Information Services Division.
- $3.3 million Other Funds and 22 limited duration positions (19.68 FTE) for the Operations Division.
- $897,577 million Other Funds and four limited duration positions (3.68 FTE) for the Compliance Audit and Risk Division.
- $500,000 Other Funds for a contingency reserve.

The budget report includes one budget note related to reporting back to the Legislature in 2020.

RACING COMMISSION

Analyst: Deister

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	5,871,560	6,422,599	6,866,762	3,899,658
Total Funds	**5,871,560**	**6,422,599**	**6,866,762**	**3,899,658**
Positions	14	14	14	14
FTE	12.27	12.27	12.27	6.14

Overview

The Oregon Racing Commission regulates the pari-mutuel industry in Oregon. The commission oversees horse racing at five county fair race meets, and, through 2019, at Portland Meadows, which was Oregon's only commercial race meet. The Commission regulates off-site simulcast wagering facilities, Multi-jurisdictional Simulcasting and Interactive Wagering Totalizer Hubs, and pari-mutuel matters by auditing financial transactions and ensuring proper remittance, as well as licensing and technology review. The Commission background-checks and licenses all race meet participants, including trainers, jockeys, wranglers, and bet-takers. Staff inspectors investigate irregularities and safety issues, while race stewards are responsible for monitoring races with the goal of ensuring the integrity of the sport; safeguarding the well-being of participants, animals, and the public; and promoting horse racing in Oregon. There are approximately 3,700 licensed race meet participants, ten multi-jurisdictional hubs, and 8 off-track betting locations in Oregon.

Revenue Sources and Relationships

The Oregon Racing Commission is funded exclusively with Other Funds derived from the agency's take of live horseracing, simulcast wagering, and off-track betting sites; participant licensee fees; business licenses from companies that process pari-mutuel wagers, fines, unclaimed winnings; and historic racing wagers. The Commission receives one percent of bets made at live Oregon race meets and on simulcast events.

Racing Development funds support live racing at county fairs in the form of purses and other expenses or activities that benefit the Oregon horse racing industry. These dollars are generated from a fee on the gross wagering receipts of the ten Multi-Jurisdictional Simulcasting and Interactive Wagering Totalizer Hubs currently licensed in Oregon. Revenue from these internet-based wagering companies consists of a per diem licensing fee of $200 per day and a fee structure calculated on a percentage basis according to options set out in administrative rule, not to exceed $705,005 for fiscal year 2019; an automatic escalator of 2.5% per year has been included. Hub revenue is divided between agency operations and racing development (75%) and the state's General Fund (25%). Oregon faces competition from other states to attract Hub businesses and must provide a consistent regulatory structure as well as a predictable tax environment if these businesses are to remain in Oregon.

The agency will need to work with the Legislative Fiscal Office and Department of Administrative Services Chief Financial Office to adjust revenue projections for the second year of the biennium due to changes as a result of the sale of Portland Meadows, the site of what had been the state's only commercial race meet.

Budget Environment

Demographic trends, competition from other gambling opportunities, and the potential for wagering companies to relocate their operations to other states could hasten the steady decline of horse racing in Oregon. The owners of Portland Meadows announced that the property on which the track sits would be sold. In response, the Oregon Racing Commission allowed applications for simulcasting rights to be submitted, in anticipation of the passage of SB 77, which would allow simulcasting to be awarded to an entity other than Portland Meadows.

On March 27, 2019, at a special meeting of the Oregon Racing Commission, TMB Racing, LLC was awarded a license to conduct a live race meet together with the exclusive right to conduct simulcast wagering in Oregon. The effective date of the license was July 1, 2019. TMB Racing, LLC intends to conduct live racing at the Josephine County Fairgrounds in Grants Pass. The current application calls for 14 race days in 2019 and 35 race days in 2020. Plans include improvements to the race track and grounds in order to support the race meet, simulcast center, and historic racing facility. A "purse and condition contract" was executed between the Oregon Horseman's Benevolent and Protective Association and TMB Racing, LLC in mid-July 2019.

At the time of the agency's budget hearing and work session, none of these plans had solidified; the Legislature opted to approve a budget equivalent to approximately one year of operating funding with a budget note directing the agency to report back to the Legislature on the status of its operations, as follows:

> **Budget Note:**
> **Report to 2020 Joint Committee on Ways and Means**
> The Oregon Racing Commission is directed to report to the Joint Committee on Ways and Means during the 2020 Legislative Session for the purpose of receiving additional expenditure limitation and position authority for the 2019-21 biennium. The report is to include the following:
> - A status report on the sale of Portland Meadows.
> - The likelihood of commercial race meets in 2020 or 2021.
> - The conveyance of simulcast licensing authority and projected resultant revenue, as compared to the 2019-21 Agency Request Budget.
> - Any changes in activity related to advanced deposit wagering companies or multijurisdictional simulcasting and interactive wagering hubs since the adoption of the Oregon Racing Commission's 2019-21 budget.
> - Changes in the number of race participants, live race days, starts, and wagers at summer fairs and county race meets, from 2018 to 2019.
> - Updated projections on agency revenue and expenditures and number of licensees, as compared to the 2019-21 Agency Request Budget.
> - Identification of positions and related expenditures reduced or eliminated in the absence of a commercial race meet, as compared to the 2019-21 Agency Request Budget.
> - A request -- based on experienced and anticipated changes in resources and the need for regulatory oversight -- for additional expenditure limitation and full-time equivalent positions for the 2020-21 fiscal year.

Legislatively Adopted Budget
The 2019-21 legislatively adopted budget of 3,899,658 represents a 39.3% decrease from the 2017-19 legislatively approved budget and a 43.2% decrease from the 2019-21 current service level. The budget included expenditure limitation to provide for the reclassification of an administrative specialist position to reflect additional duties. As noted above, the approved budget is equivalent to roughly one year of operating expenditures, with the expectation of a report to the Legislature and a request for additional funding based on projected work load and the likelihood of commercial race meets in 2020 or 2021.

DEPARTMENT OF REVENUE

Analyst: Borden

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	185,042,400	194,420,886	204,875,450	213,103,682
Other Funds	125,282,327	129,930,437	123,681,615	126,095,425
Total Funds	**$310,324,727**	**$324,351,323**	**$328,557,065**	**$339,199,107**
Positions	1,083	1,102	1,024	1,057
FTE	1,023.35	963.68	969.22	983.39

Overview

The Department of Revenue (DOR) is the tax administration agency for state government. The agency is responsible for administering approximately 30 separate tax programs, including personal income and corporate excise taxes, a corporate activities tax, state marijuana tax, as well as a variety of other taxes and fees. DOR is also responsible for providing oversight of local property tax administration by counties, valuing most industrial and other large-scale properties, and administering several property relief programs. DOR provides debt collection services for more than 180 state agencies and local governments. DOR is overseen by a director who is a gubernatorial appointment, subject to Senate confirmation, to a four-year term of office.

Revenue Sources and Relationships

Administratively, DOR is funded with a combination of General Fund (63%) and Other Funds (37%). DOR's Other Funds revenue is derived from three primary sources: (a) administrative prorate charges to various Other Fund taxes, fees, assessments, and collection activities; (b) direct charges to program revenues, such as the Corporate Activity Tax, collections, and the Marijuana Tax; and (c) revenue from the recovery of agency cost when administering local government taxes. In addition to these revenues supporting administrative work, the agency retains, by statute, 10% of County Assessment Function Funding Assessment account revenue. The remaining 90% is distributed to counties. Also, a portion of each recording fee ($1) is dedicated to the development and support of a statewide digital base map to improve the administration of the property tax system. Other Funds revenue is also received from the payment of mapping contracts.

DOR collects and distributes taxes and fees on behalf of the state, other state agencies, and local governments. For the 2019-21 biennium, DOR is estimated to collect $18.3 billion in personal income taxes, $1.2 billion in corporate excise and income taxes, and $1.6 billion in Corporate Activity Tax. DOR is responsible for collecting a variety of other taxes, including: Other Employee-Employer Taxes, Cigarette Tax, Other Tobacco Products Tax, marijuana tax, severance taxes, amusement taxes, privilege taxes, inheritance taxes, business license and fees, and fines and forfeitures. DOR's budget transfers this revenue to the General Fund, and other state and local governments. DOR also has the statutory responsibility for the Criminal Fines Account that is funded from fines for which the agency does not administer or collect, but which are sent to the agency for distribution.

Budget Environment

DOR relies upon a voluntary tax compliance model. While 97% of tax compliance is done voluntarily through income tax withholding, quarterly estimated tax payments, and payments submitted with tax returns, DOR expends the majority of its efforts on the remaining 3% through auditing, collection, and other enforcement efforts. There is a general cyclical or seasonal nature to the agency's operations centered on income and property tax filing deadlines. Most agency functions are centralized in Salem, but the agency does operate five district and three satellite offices across the state. A remote call center was recently added in Fossil, Oregon.

The Core Systems Replacement (CSR) project was the implementation of a new, state-of-the-art revenue management system and has been a needed and important investment for Oregon. Adoption of the new application, a major paradigm shift for the agency, has been challenging, but something the agency has to-date managed successfully. While the CSR project has been concluded, and the core GENTAX application implemented, more work of a critical nature remains to be accomplished before the application can be optimized. The project highlights the challenges between implementing an information technology project and integrating the technology into the day-to-day business operations of an agency.

DOR has successfully completed a number of key legislative initiatives, including: implementation of the recreational marijuana tax program; transportation taxes; Heavy Equipment Rental Tax, and the centralization of all debt collection practices across state government within DOR. There has been some continued interest in restructuring and reforming inequities in the property tax system, which could place additional demands on the agency. An emergent issue is DOR's ability to provide local tax administration services given competing new state tax programs.

Beginning in 2017, the Legislature has sought improvements to the agency's operations, which included nine budget notes as follows: a feasibility study related to the establishment of a Collections Division; a comprehensive external audit; a state accounting and budget review; an external Outcome-Based Management assessment; a review of personnel practices and legislatively authorized positions; restarting the Processing Center Modernization Project; improving delivery of taxpayer assistance; a 2018 Tax Season Readiness report; and Core Systems Replacement Project reporting. DOR successfully completed reporting on these budget notes; however, the Legislature noted continued interest in monitoring agency performance and outcomes across these primarily administrative functions.

<u>Legislatively Adopted Budget</u>
The budget for the Department of Revenue is $339.2 million total funds, which is a $14.9 million (or 4.6%) increase from the 2017-19 legislatively approved budget. The budget includes $213.1 million General Fund, $126.1 million Other Funds, and 1,057 positions (983.39 FTE).

Continued funding is provided for: The Core [tax] Systems Replacement project (CSR) for post-implementation vendor support ($7.1 million); document scanner project ($847,833); administration of transportation taxes ($1.5 million); and the administration of the Heavy Equipment Rental Tax ($876,361).

New funding was provided for Corporate Activities Tax ($4 million); a fund shift from Other Funds to General Fund was undertaken in the Property Tax Division to resolve long-standing funding issues ($495,238); auditing of marijuana tax filings ($833,216); state and local lodging taxes enforcement ($883,936); and updating the Property Valuation System business case ($210,500). Reductions in the budget include the elimination of 26 vacant positions ($3.2 million) and an expired vendor support contract ($510,000).

Lastly, DOR undertook a number of organizational changes to improve the tracking and transparency of the agency's financial activities, including the consolidation of administrative divisions, the establishment of new divisions (Information Technology Division, Corporate Tax Division, and Collections Division), and other changes.

Administrative Services Division

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level*	2019-21 Legislatively Adopted*
General Fund	30,290,281	24,331,873	29,902,812	28,515,247
Other Funds	7,559,183	7,528,338	8,064,389	7,592,490
Total Funds	**$37,849,464**	**$31,860,211**	**$37,967,201**	**$36,107,737**
Positions	60	67	72	71
FTE	56.81	62.37	72.00	71.00

*Includes former Executive and General Services Division as well as Information Technology Services and Project Management Office.

Program Description

The Administration Division provides overall Department leadership and supports the work of the rest of the agency by providing services in the following areas: The Director's Office, Finance (including the Accounting, Procurement, Budget, and Payroll sections), Communications, Legislative and Rulemaking Coordination, Facilities, Agency Project Management Office, the Disclosure Office, Human Resources, Internal Audit, and Research.

Beginning with the 2019-21 biennium, the Administrative Services Division is a consolidated division and now includes the former Executive Division and portions of the General Services Division. The Administrative Services Division, however, excludes Information Technology Services, the Processing Center, and portions of the Agency Project Management Office, which were re-organized into a new Information Technology Services Division.

The Communications unit provides for the agency to educate and communicate with taxpayers, stakeholders, and external partners. This unit creates forms and publications, maintains the agency's web site, and handles media contacts. The Human Resources Unit provides general oversight of the agency's relationship with its employees. The Division also contains the Research Section that provides economic analysis and statistical research to other program areas and produces the biennial Tax Expenditure Report in partnership with the Legislative Revenue Office and Department of Administrative Services' Office of Economic Analysis. In 2018, the Legislature added two economists dedicated to supporting the internal efforts of the agency.

Revenue Sources and Relationships

Most of the Division's budget is supported by General Fund. Other Funds revenue is derived from administrative charges to various Other Funds taxes, fees, assessments, and collections.

Budget Environment

A series of budget notes last biennium directed the undertaking of: a comprehensive external audit; a state accounting and budget review; an external Outcome-Based Management assessment; and a review of personnel practices. The findings and reports found deficiencies in areas of financial and budget management, human resource management, and performance management. DOR has made good progress addressing the findings and outcomes from these various external reviews, which remain of continued interest to the Legislature.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $36.1 million is $4.2 million (or 13.3%) more than the 2017-19 legislatively approved budget and includes 71 positions (71.00 FTE). The adopted budget includes the following:

- $219,918 General Fund and $19,124 Other Funds reduction and the abolishment of one permanent full-time vacant position (1.00 FTE).

Property Tax Division

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	13,260,387	14,856,849	16,486,789	17,608,206
Other Funds	42,544,723	42,785,162	44,587,367	43,752,297
Total Funds	**$55,805,110**	**$57,642,011**	**$61,074,156**	**$61,360,503**
Positions	87	81	81	81
FTE	83.66	77.87	77.93	80.13

Program Description

The Property Tax Division (PTD) monitors the state's property tax system to ensure that Oregon's 36 counties comply with all property tax laws and rules. The Division develops procedures, advises and trains county staff, and conducts reviews of county actions. Statutorily, DOR is responsible for conducting appraisals on all industrial manufacturing plants valued at $1 million or more; appraising all utility, transmission, communication, and transportation properties; and administering several timber tax programs. The Division also handles certain property tax appeals primarily through the state's tax court.

The Division manages the Oregon Map Project (ORMAP) and the Cadastral Information Systems program. ORMAP is responsible for development of a statewide property tax lot base map that is digital, continually maintained, and publicly accessible. The move from paper to a digital base map will improve the administration of Oregon's property tax system and will support an array of public and private geographic information systems applications with a target date of completion by October 2016, after at least one extension. The Cadastral Information Systems program provides mapping services to a number of mostly small, eastside counties and performs statutorily required work, including boundary change approvals. PTD also manages the Senior Property Deferral Program, which is discussed in greater detail under the "Senior Property Deferral Program" program area.

Revenue Sources and Relationships

PTD is supported by General Fund and Other Funds. Since 1989, the Division has received Other Funds from the County Assessment Function Funding Assistance account (CAFFA). CAFFA is supported by two revenue streams: (a) document recording fees ($9.00) and (b) a portion of the interest from delinquent property taxes. These revenue streams originate with counties and are transferred to the state. The most recent CAFFA revenue forecast for the 2019-21 biennium is projected to total approximately $40 million (spring of 2019). Each biennium, 90% of CAFFA monies are distributed to counties to pay for essential assessment and taxation functions. These include valuation, administration, appeals, tax collection and distribution, mapping, and information processing support. The remaining 10% of CAFFA funds are used by the PTD to pay for a portion of the Division's industrial and utility property appraisal responsibilities and the administration of the CAFFA program. Beginning as early as 2004, the PTD began to experience a revenue shortfall with CAFFA. CAFFA revenues began a general decline after reaching $50 million in revenue during the 2001-03 biennia and are now estimated to be approximately $40 million per biennium. CAFFA funding supplements both state and local General Fund dollars.

Funding for ORMAP comes from a $1 addition to document recording fees. Declining contract services revenue due to lack of county participation is creating a revenue shortfall in the Cadastral program. The number of counties requiring mapping support from the Cadastral program has decreased over the past several years from 14 to nine, due to a variety of factors, including improved collaboration between counties and enhanced technologies. The number of dedicated staff has been reduced from 20 in 2003 to approximately 9 today. In addition, the majority of remaining resources are now focused on training and oversight of all 36 counties. The Division also receives revenue for the administration of smaller tax programs.

Budget Environment

There are approximately 850 industrial sites and 600 central assessment companies across the state. PTD has administratively "managed" CAFFA and other revenue shortfalls in the Division primarily by holding positions vacant. For example, the PTD has had to disband an entire appraisal section in recent biennia. Other non-valuation activities within the PTD were also curtailed as vacancy savings in subprograms have been needed to fund appraisals and support county assessment activities. Long-standing and systemic funding issues with the CAFFA and the PTD remain to be resolved; however, the Legislature did provide supplemental General Fund support to the program during the 2019-21 budget cycle.

In addition to the revenue shortfall, underlying financial practices of the PTD are a problem. Irregular budget, accounting, and other financial management practices include: (a) the indirect expenditure of funds though an outdated cost allocation system comingles General and Other Funds and degrades the ability to track actual expenditures; (b) defaulting to using General Fund when a source of Other Funds is exhausted; (c) inability to align specific revenue sources with the budget; (d) not expending funds in accordance with the approved budget; and (e) no realignment of budget with planned expenditures. DOR is continuing to work to resolve these issues.

Additionally, there is concern that if a county cannot commit adequate resources to its assessment and taxation program, that county may lose its share of CAFFA grant funding. ORS 308.062 requires DOR to take responsibility for a county's assessment and taxation function if a county fails to perform its statutory duties. Legislation passed during the 2013 session provides additional remedies if a county cannot meet its statutory duties.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $61.4 million is $3.7 million (or 6.5%) more than the 2017-19 legislatively approved budget and includes 81 positions (80.13 FTE). The budget includes:

- $1.2 million General Fund increase, $724,252 Other Funds decrease, and an increase in positions by 2.57 FTE to fund a comprehensive, division-wide reconciliation of position funding.
- $210,500 General Fund and one limited duration Information Systems Specialist 8 position (0.88 FTE) to update the Property Valuation System business case.
- $181,556 General Fund and $90,093 Other Funds reductions and the abolishment of two long-term vacant positions (1.25 FTE).

Personal Tax and Compliance Division

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	66,483,290	72,951,663	80,053,791	79,740,978
Other Funds	522,405	1,652,483	1,829,203	1,851,154
Total Funds	**$67,005,695**	**$74,604,146**	**$81,882,994**	**$81,592,132**
Positions	427	400	393	391
FTE	421.07	390.02	392.17	390.76

Program Description

The Personal Tax and Compliance Division administers the personal income tax program. Responsibilities include auditing and encouraging voluntary compliance for the personal income tax, collecting delinquent personal income taxes, and collecting local option taxes. In addition, the Division provides help to taxpayers by telephone (Tax Services Unit), in person at field office locations, and through informational publications.

Revenue Sources and Relationships

Most of the Division's budget is supported by General Fund. Other Funds revenue is derived from administrative charges to various Other Funds taxes, fees, assessments, and collections.

Budget Environment

Voluntary payments of income tax withholdings, quarterly estimated tax payments, and payments submitted with tax returns account for 97% of personal income revenues. The remaining 3% are from audit and collection activities undertaken by the program. The number of personal income tax returns filed annually is about 1.9 million. Over 80% of returns are filed electronically. As more taxpayer data becomes available from federal and other sources, the Department has increased its efforts to pursue non-filers, and those that may have under- or not-reported income or over-reported deductions. The Division also began using financial institution data matching to locate debtor assets. Personal income tax refund fraud attempts are increasing. DOR has implemented new tools to reduce fraudulent return processing such as third-party data analytics; an identity theft quiz; and real time matching of state income tax withholding claimed on personal income tax returns against that reported by employers. This effort has sometimes had unintended consequences for legitimate tax filers whose return may have been mistakenly suspected as being fraudulent. Lastly, the program is continuing in its effort to write-off past-due accounts receivable.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $81.6 million is $7 million (or 9.4%) more than the 2017-19 legislatively approved budget and includes 391 positions (390.76 FTE). The budget includes:

- $408,276 General Fund and an increase in Other Funds expenditure limitation by $8,332 to establish two permanent full-time Tax Auditor 2 positions (1.76 FTE). These positions are to audit the personal income tax returns of licensed marijuana business owners.
- $166,029 General Fund and an increase in Other Funds expenditure limitation by $29,299 to pay fees to banks for the state's bank account data matching function, as well as for a third-party service provider to ensure the bank information is up to date.
- $482,208 General Fund and $9,841 Other Funds reductions and abolishment of four vacant positions (3.17 FTE).

Business Division

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level*	2019-21 Legislatively Adopted*
General Fund	19,501,791	21,350,670	23,775,091	23,431,030
Other Funds	16,665,815	20,062,584	11,621,735	12,037,892
Total Funds	**$36,167,606**	**$41,413,254**	**$35,396,826**	**$35,468,892**
Positions	217	239	154	155
FTE	211.74	214.22	152.75	153.13

*Includes Multistate Tax Commission, which formally had been a unique budget structure.

Program Description

The Business Division administers state and select local taxes. For state taxes, the Division administers corporate income, excise taxes, transportation taxes, Heavy Equipment Rental Tax (HERT), employer withholding tax, transient lodging, fiduciary, estate, cigarette, and other tobacco product taxes. For participating local governments, and by agreement, the Division administers the transit payroll and self-employment taxes and the local lodging taxes. Responsibilities include auditing tax returns and collecting delinquent taxes and other delinquent accounts for both state and local taxpayers.

Oregon is a compact member of the Multistate Tax Commission (MTC), which has 17 dues-paying members (states). The Commission works on behalf of states to equitably administer tax laws that apply to multistate enterprises. It also promotes uniformity or compatibility in tax systems and taxpayer convenience. Revenue is from MTC audits. Dues to the Commission are proportional to the amount of tax revenue each state collects. The Commission expects to maintain its current level of services to members. Account balances in excess of $150,000 are transferred to the General Fund on June 30 of each year.

Revenue Sources and Relationships

The Division's budget is supported by General Fund and Other Funds. Other Funds revenue is derived from administrative charges to various Other Funds taxes, fees, and assessments. DOR also earns revenue from the recovery of agency cost when administering local government taxes. The MTC is funded from all moneys received by DOR as a result of audits performed by the MTC.

Budget Environment

Each year the program processes approximately 30,000 corporate tax returns, 1,200 inheritance returns, 28,000 trust returns, and 5,000 fiduciary returns. Cigarette taxes are collected through the purchase of tax stamps by over 30 licensed cigarette distributors. There are another 250 other tobacco product distributors that also file returns. There are approximately 250 to 300 taxpayers related to the emergency telecommunications tax, incluidng quarterly returns for the recently instituted point-of-sale collection method. The program administers the Tri-Met and Lane County transit and self-employment taxes.

The Legislature enacted HB 3136 (2019) that provides funding to implement a program under which DOR will administer local lodging taxes under agreements with local governments. DOR will contract with a vendor to collect data from online travel companies to enforce state lodging taxes and conduct a pilot project with select local governments to improve local transient lodging tax collections which DOR administers. This builds on work the Department has been undertaking to confidentially share lodging tax data with local governments for purposes of enforcement, as authorized by HB 3180 (2017).

HERT imposes a two percent tax at the point-of-sale on the rental price of most heavy equipment (tax or calendar year basis with quarterly filings). HERT replaces the existing (ad valorem) personal property taxes on such equipment, which was assessed and collected by county assessors. HERT was estimated, using industry data, to replace $18 million of existing personal property taxes, once fully implemented. Of this amount, five percent ($450,000/year or $900,000/biennium) is estimated to be retained by DOR. DOR's administrative costs associated with HERT may not become self-supporting until the 2021-23 biennium or perhaps the 2023-25 biennium. The cash flow of the HERT tax has been of concern to the agency and is not yet fully resolved.

DOR also is a member of the Interagency Compliance Network (ICN), a group of seven state agencies working together to improve compliance with tax and employment laws by sharing information, collaborating on enforcement activities, and conducting educational outreach with the public.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $35.5 million is $6.2 million (or 14.4%) less than the 2017-19 legislatively approved budget and includes 155 positions (153.15 FTE). The budget includes:

- $341,361 Other Funds and authorizes the establishment of three positions (1.50 FTE) to complete the implementation of the Heavy Equipment Rental Tax.
- $309,403 Other Funds and authorizes the establishment of one permanent full-time Tax Auditor 2 position (0.88 FTE) to audit State Lodging Tax returns and increase rates of compliance.
- $158,533 Other Funds and authorizes the establishment of one limited duration position for the implementation of HB 3136 and a pilot program to collect local lodging taxes under agreements with local governments.
- $26,790 Other Funds to complete the rollout of its data matching portal for the state lodging tax.
- $179,406 General Fund and $362,381 Other Funds reductions and the abolishment of four vacant positions (2.75 FTE).

Corporate Division

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	--	--	--	2,789,362
Other Funds	--	--	--	1
Total Funds	**--**	**--**	**--**	**$2,789,363**
Positions	--	--	--	38
FTE	--	--	--	9.29

Program Description

The Corporate Division was established to administer the Corporate Activity Tax (CAT) established by HB 3427 (2019). The CAT is a tax on the commercial activities of Oregon businesses. The tax is $250 plus 0.57% on taxable commercial activities above $1 million, including a subtraction equal to 35 percent of the greater of input costs or labor costs. The CAT is effective for the tax year beginning January 1, 2020; proceeds from the tax will support investments in education. The primary budget authority for implementing the CAT was provided to the Department of Revenue via HB 5047 (2019). The adopted budget establishes the *Corporate Division* as a separate and unique program for the tracking of budget and expenditures. Objectively identifying DOR CAT expenses will be of importance when determining the amount of net revenue transfers to the Fund for Student Success.

Revenue Sources and Relationships

The CAT is estimated to generate $1.6 billion in revenue for 2019-21, less the cost of a reduction of personal income tax rates of $311 million as well as other changes in HB 3427 which affected the existing General Fund revenue stream for net revenue of $1.2 billion before DOR's administrative costs. For the 2021-23 biennium, gross CAT revenue is estimated to be $2.8 billion, less the cost of a reduction of personal income tax rates of $699 million for net revenue of $2.1 billion before DOR's administrative costs.

DOR's initial start-up costs, through April of 2020, are funded with General Fund prior to the availability of CAT revenue. There is no statutory cap on the level of administrative and enforcement expense DOR may retain. What typically would have been a General Fund revenue source is, by design and legislation, Other Funds. Thereafter, DOR's administrative costs will be funded by Other Funds from CAT revenue, for which DOR will need to request expenditure limitation and possibly additional position authority from the Legislature in 2020. The one-time costs to modify the GENTAX application, which is estimated to be $1.1 million General Fund, is budgeted in *Core Systems Replacement* program.

Budget Environment

The implementation of an entirely new form of taxation will be challenging; however, DOR's successful implementation of the state marijuana tax in 2016 and transportation taxes in 2017 have shown the that the agency is adept at facing such challenges. DOR will implement the CAT primarily on the agency's model of voluntary compliance, with a focus on taxpayer education, outreach, and customer service. Once implemented, DOR will begin filing enforcement and auditing activities in the spring of 2021.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget is $2.8 million General Fund, $1 Other Funds, and 38 positions (9.29 FTE). This is a one-time appropriation to implement the measure through April 30, 2020. The costs for May 2020 to June 30, 2021 is estimated to total $9.6 million Other Funds (corporate activity tax) and an additional 31 positions (19.04 FTE). Of note is that an additional $1.2 million General Fund is budgeted for the GENTAX application under the Core System Replacement budget structure.

Information Technology Division

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	34,604,410	42,266,535	36,051,227	41,524,773
Other Funds	5,934,472	7,874,331	5,138,808	7,036,887
Total Funds	**$40,538,882**	**$50,140,866**	**$41,190,035**	**$48,561,660**
Positions	244	270	227	224
FTE	205.40	192.62	178.62	182.57

Program Description

The Information Technology Services Division (ITSD) supports the technology platforms on which DOR operates, processes incoming paper returns and correspondence, and processes and deposits all payments received by the Department. The Division includes Engineering Services, which manages DOR's network, databases, middleware, systems, and servers; the Service Desk, which provides end-user support for DOR's employees; the Core Systems group, which supports DOR's core system (i.e., operations and maintenance), GENTAX; and Application Services, which develops and supports in-house applications DOR uses to administer its tax portfolio. The Division also includes the Processing Center, which processes all incoming paper returns, payments, and correspondence and deposits all payments. Lastly, the Division's budget also includes Department of Administrative Service charges for Enterprise Technology Services and the State Data Center. The one-time costs to modify the GENTAX application is budgeted in *Core Systems Replacement* program.

Revenue Sources and Relationships

This Division is supported by General Fund and by charges to Other Funds programs for their share of the Department's information technology expense.

Budget Environment

The Division manages 60 business applications, over 1,700 desktop and laptop computers, and the agency's phone system. The Division's developers continue to grow proficient in making changes to the GENTAX application. The Processing Center processes approximately 2.5 million pieces of mail and 1 million paper payments annually.

Post-implementation costs of GENTAX for other than routine operations and maintenance, and new legislative initiatives, are likely to increase. The funding of such costs may become critical to the underlying success of the project; there is legislative concern about why such costs are necessary so soon after the project's implementation and closeout.

The Processing Center Modernization Project is a commercial-off-the-shelf product intended to move DOR from 5% to 100% imaging of all incoming paper documents. The original attempt at this project was unsuccessful. The project, due to its critical importance, was re-initiated and funded by the Legislature in 2017. The re-initiated project is being managed in a more disciplined approach and has sought to address each of the failings of the original project. The project will be completed by 2021.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget is $48.6 million, $1.6 million less than the 2017-19 legislatively approved budget, and includes 224 positions (182.57 FTE). The adopted budget establishes the ITSD as a separate program. The budget includes:

- $6.5 million General Fund and $564,254 Other Funds expenditure limitation for the ongoing maintenance and support of the Department's GENTAX application. The package funds Level 2 maintenance from the vendor and includes five vendor augmentation staff for 2019 and four augmentation staff for 2020. One-half of the

approved budget was unscheduled pending a report to the Legislature in 2020 on the status of outstanding issues related to the GENTAX implementation.
- $1.5 million Other Funds and 11 limited duration positions (11.00 FTE) to handle paper returns and correspondence related to the statewide transit tax enacted by the Legislature in 2017.
- $780,007 General Fund and $67,826 Other Funds to complete the Processing Center Modernization project.
- $428,400 General Fund and $81,600 Other Funds reductions to eliminate funding for contracts supporting document scanners the agency no longer needs due to the Processing Center Modernization project Phase 1.
- $1.3 million General Fund and $142,836 Other Funds reductions and the abolishment of 14 vacant positions (7.05 FTE).

Marijuana Program

	2015-17 Actual*	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	--	4,659,957	4,093,306	4,455,308
Total Funds	**--**	**$4,659,957**	**$4,093,306**	**$4,455,308**
Positions	**--**	**15**	**15**	16
FTE	**--**	**14.25**	**14.25**	15.76

*The 2015-17 legislatively approved budget and current service level are budgeted under the Executive, Administration, and Business Divisions. The first budget for the marijuana state tax was authorized during the 2017-19 biennium and thus there are no actual expenditures for prior biennia under this budget structure.

Program Description

The Marijuana Program is for the costs of administering the state Marijuana Tax and administering select local government marijuana taxes. The 2015 Legislature passed a series of measures to implement Ballot Measure 91 to provide for the sale of recreational marijuana, subject to the approval of local jurisdictions. DOR was assigned responsibility to collect recreational marijuana tax receipts. During the 2016 session, DOR received the statutory authority to also collect local taxes. During the 2017 and 2019 sessions, the statutory authority surrounding the recreational marijuana tax, tax distributions, forecasting, and revenue allocation were either added or modified.

Revenue Sources and Relationships

DOR's expenses are funded from gross marijuana tax proceeds received by the agency with the remainder to be deposited into the Oregon Marijuana Account. The funds in this account are now subject to allocation and a slightly modified statutory distribution. There is no statutory cap on the level of administrative and enforcement expense DOR may retain. Statute now assigns the Department of Administrative Services, Office of Economic Analysis with the responsibility of producing quarterly marijuana revenue forecasts. DOR also earns revenue from the recovery of agency costs when administering local government marijuana taxes.

Budget Environment

Overall questions remain about Congressional action and the federal government's enforcement of federal law related to recreational marijuana. The ancillary impact has been to constrain recreational marijuana vendors use of the banking system, resulting in a substantially cash-driven economic model.

All recreational marijuana cash collection, statewide, is occurring at the agency's Salem headquarters building. Taxpayers must make appointments with DOR in order to make marijuana related tax payments. While taxes are to be paid quarterly, by administrative rule, DOR has directed monthly payments. DOR's processing of marijuana cash receipts is accomplished in an integrated fashion with the agency's current banking, electronic funds transfer, and miscellaneous cash receipting. The agency reports that recreational marijuana cash unit staff are being used for other activities when not needed for recreational marijuana cash processing. The volume of cash processing has resulted in security investments in the agency, primarily contracts with the Department of State Police. The Legislature invested over $1.2 million in marijuana tax revenues for a DOR headquarters building upgrade for a cash processing center. DOR had originally anticipated a high compliance rate by marijuana retailers due to licensure requirements and other regulatory authorities of the Oregon Liquor Control Commission; therefore, no resources were added for enforcement. DOR then requested, and the Legislature in 2019 approved, tax auditors for the program.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $4.5 million is $204,649 (or 4.4%) less than the 2017-19 legislatively approved budget and includes 16 positions (15.76 FTE). The budget includes:

- $416,608 Other Funds and two permanent full-time Tax Auditor 2 positions (1.76 FTE). The purpose of this package is to audit Marijuana Tax returns of licensed marijuana businesses.
- $43,472 Other Funds reduction and abolishment of one vacant position (0.25 FTE).

Collections Division

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	--	--	190,154	--
Other Funds	--	--	13,195,426	$13,326,479
Total Funds	**--**	**--**	**$13,385,580**	**$13,326,479**
Positions	--	--	73	73
FTE	--	--	73.00	73.00

Program Description

During the development of the 2019-21 budget, DOR formally established a Collections Division framework by transferring the Business Division's Other Agency Accounts (OAA) section and staffing into a new programmatic or division structure. In 2018, the Legislature established one permanent full-time Principal Executive Manager G position to serve as the agency's Collections Administrator. The Division acts as an in-house collection agency for state government, collecting on debts for 180 state departments, boards, and commissions. The Division provides debt collection services for state and local agencies and for state and municipal courts in all 36 counties.

DOR currently has a decentralized debt collection model that is organized by the type of tax or external collection effort (i.e., private collection firm). The Personal Income Tax and Compliance Division collects personal income tax debt. The Business Division collects business tax debt. While decentralized, DOR does attempt to undertake cross-divisional activities to pursue consistent collection practices.

The proposed consolidation of DOR's collections activities was at the original suggestion of the agency; however, a feasibility study of this proposed change was at the instruction of the Legislature. DOR's feasibility study evaluated five potential organization structures from the current structure to complete outsourcing to private collection firms. The report concludes that the centralization of all of the agency's collection functions into a single division best aligns with the agency's strategic priorities. DOR's proposed plan is to undertake this consolidation over the course of the next two biennia, subject to the review and approval of the Legislature.

DOR collects the debts and transfers the amount collected less a fee for its work. SB 1067 (2017) expanded the work of the section by requiring Executive Branch agencies send their liquidated and delinquent debt to OAA sooner. OAA now manages all of the debt assigned to private collection firms. One of the more notable changes in practice is that DOR will begin to manage private collection firm accounts of various agencies rather than those agencies managing the private collection firm process themselves. Previously, legal authority to send debt to private collections resided with the state agency responsible for the collection of the debt. The centralization of debt collection activities is an important efficiency measure with the anticipated outcome of timelier and improved statewide debt recovery. Centralization provides for the consolidation of debtor accounts, increased use of data analytics, consistent application of specialized collection practices, standardization of debtor customer service, and cost savings due to economies of scale.

Revenue Sources and Relationships
The Collections Division recovers its costs through fees charged against the debt it collects. Direct revenues are received from collection costs recovered through fees charged to the client agencies.

Budget Environment
Of the 98 executive branch agencies, 55 have debt eligible for collections with DOR, with the remaining 43 having no debt collectable by DOR. The Oregon Judicial Department and semi-independent agencies are not required to submit debt to DOR for collections. Of note is that the Department of Administrative Services - Statewide Accounts Receivable Management has granted no administrative exception to any executive branch agency from the centralized collections provisions of SB 1067. Agencies will transfer an estimated $12.7 million in new debt to DOR annually under SB 1067, of which DOR estimates $634,100 in predominantly Other Funds will be collected, under an assumed collection rate of five percent.

DOR collection rates for the past nine fiscal years (2008 to 2018) have averaged 17.45% for tax debt (outside the Collections Division) and 6.85% for non-tax debt. Two of the most powerful collection tools available to DOR are its ability to intercept federal and state income tax refunds to pay down various forms of debt owed the state and the non-judicial garnishment authority given to the Department by the Legislature. Private collection firm (PCF) collection rates for this same period averaged 2.1 percent for tax debt and 1.38 percent for non-tax debt, albeit with less collection tools than DOR and for debt that has become more challenging to collect. The maturing of DOR's collection function, coupled with the deployment of information technology, is leading to a more sophisticated understanding of the use of PCFs, and their collection rates and cost effectiveness as compared to DOR's in-house collection efforts and costs.

Legislatively Adopted Budget
The 2019-21 legislatively adopted budget is $13.3 million and includes 73 positions (73.00 FTE). The adopted budget establishes the Collections Division as a separate program. The budget includes:

- $190,154 fund shift from General Fund to Other Funds for one position to match the revenue source that supports the program's work.

Non-Profit Housing Program

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	4,508,575	3,226,364	3,348,966	3,348,966
Total Funds	**$4,508,575**	**$3,226,364**	**$3,348,966**	**$3,348,966**

Program Description
This property tax relief program includes the Nonprofit Housing program (NPH), which is a state-funded property tax exemption. Under the NPH, counties grant a property tax exemption to qualifying nonprofit corporations that provide housing to individuals age 62 or older who are within certain income limits. Through this program, payments are also made to local governments in lieu of property taxes on certain tax-exempt housing for the elderly. The nonprofit entity passes the property tax exemption on to eligible tenants in the form of reduced rent. DOR reimburses local government and schools for the exemption amount in November each year.

Formerly, this program area was also comprised of the Elderly Rental Assistance program (ERA); however, in 2015 the Legislature transferred the ERA program from DOR to the Housing and Community Services Department. This transfer was in the amount of $1.5 million General Fund. The ERA program provides direct rent relief to elderly, low-income renters by offsetting a portion of their rent attributable to property tax. Benefits are based on income levels and the amount of rent, fuel, and utilities paid. The benefits are available to renters age 58 or over with household incomes under $10,000, with household assets (if under age 65) that do not exceed $25,000, and having gross rent in excess of 20% of household income.

Revenue Sources and Relationships
A General Fund appropriation funds the NPH program.

Budget Environment
For the 2017-18 tax year, there were approximately 40 NPH-eligible dwellings in 14 counties for which DOR made an average payment to the counties of $37,500 per dwelling. NPH exemptions fluctuate on an annual basis due to county exemption practices and the need to pay for some prior year exemptions. As this is a pass-through program, DOR does not have data on the nonprofits receiving the exemption or their tenants and, therefore, the agency is not positioned to evaluate program performance or provide robust program oversight.

Legislatively Adopted Budget
The 2019-21 legislatively adopted budget of $3.4 million is $122,602 (or 3.8%) more than the 2017-19 legislatively approved budget and fully funds the NPH program, based on DOR's forecast. There are no positions budgeted under this program. The cost to administer the program, which is a program expense, is budgeted by DOR under the Property Tax and Personal Tax and Compliance Divisions.

Senior Citizens' and Disabled Citizens' Property Tax Deferral

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	28,421,537	32,584,756	33,913,551	33,764,117
Total Funds	**$28,369,719**	**$32,584,756**	**$33,913,551**	**$33,764,117**
Positions	14	9	9	8
FTE	10.75	8.50	8.50	7.75

*2013-15 actual expenditures are under the Property Tax Division program, where this program was formerly budgeted.

Program Description
Enacted in 1963, the Senior Citizens' Property Tax Deferral program (SCPTD) allows homeowners age 62 and over who meet program income limits to defer payment of property taxes and special assessments until the owner dies, sells the property, or stops using it as a principal residence. The state pays the tax and obtains a lien on the property for the tax and accrued interest. For the Disabled Citizen's Property Tax Deferral, applicants must also meet income tests and be determined eligible to receive, or are receiving, federal Social Security disability benefits. Under this program, DOR makes annual property tax payments to counties on behalf of participants.

Revenue Sources and Relationships
The Division's budget is supported by Other Funds from the Senior and Disabled Property Tax Deferral account. The deferred taxes and interest are collected when the property is disqualified. These proceeds are used to pay counties for the property taxes of homeowners that still qualify under the program. The program makes approximately $15 million in property tax payments each year and receives an estimated $21 million in repayments. Due to past legislative action and a recovering housing market, the liquidity of the program has improved substantially.

Budget Environment
The program is designed to help low-income seniors and disabled citizens remain in their homes by allowing them to defer their property taxes until the home is sold. Initially, the Legislature funded the program through General Fund appropriations; however, as homes were sold and revenue began flowing back into the program, surpluses were generated starting in the mid-1990s. The Legislature sometimes allocated these surpluses to other general governmental purposes over the last decade.

Starting in 2007, the collapse of the housing market in Oregon sharply reduced the inflow of revenue as home sales slowed dramatically. At the same time, the number of new applicants increased as financially stressed individuals looked for ways to cut costs. During 2009-11, the program experienced a severe cash flow problem and had to delay payments to counties in the last fiscal year of the biennium. The Legislature passed legislation in 2011 and 2012 to make structural changes to the program to keep it solvent for the long-term; however, the program still required a short-term loan of $19 million from the Common School Fund for the 2011-13 biennium. Due to legislative action and a recovering housing market, the liquidity of the program has stabilized and DOR was able to repay the $19 million loan on time. The current balance in the Senior Property Deferral Account is $50.8 million as of the first quarter of the 2020 fiscal year, which is the highest reported balance since 1977.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $33.8 million is $1.2 million (or 3.6%) more than the 2017-19 legislatively approved budget and includes eight positions (7.75 FTE). The budget includes:

- $140,504 Other Funds reduction and abolishment of one vacant position (0.75 FTE).

Core System(s) Replacement

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	$4,661,835	1,060,000	--	1,165,000
Other Funds	23,212,636	$11,233,110	--	951,000
Total Funds	**$27,874,471**	**$12,293,110**	**--**	**$2,116,000**
Positions	33	32	--	--
FTE	33.00	8.00	--	--

Program Description

The Core System(s) Replacement (CSR) program is comprised of two information technology projects: (1) an integrated state-wide tax, revenue collection, and management application ("Core Systems Replacement project") and (b) a computer-assisted mass appraisal software system ("Property Valuation System"). CSR is implementing a commercial-off-the-shelf (COTS) product (GENTAX) to provide integrated system support for state-wide tax, revenue collection, and management. The agency has adopted a "no customization" strategy, to the extent possible, and will use an iterative COTS implementation approach to configure the system. This means DOR must adopt many GENTAX business processes resulting in the reengineering of the agency's business procedures in order to avoid customization. The GENTAX system, however, is being highly configured to meet DOR requirements.

The Property Valuation System (PVS) project is also budgeted under this program. PVS would put in place a COTS application for the appraisal of principal and secondary industrial sites, similar to the mass property tax appraisal applications used by county governments. The PVS application would modernize a mostly manual appraisal process. Continued funding for the PVS project was not approved due to issues with the project, including schedule delays, scope changes, and significant estimated cost increases.

Revenue Sources and Relationships

The program is funded with a combination of General and Other Funds. General Fund funds the development of the Corporate Activities Tax. Other Funds come from the Heavy Equipment Rental Tax and state and local lodging taxes. In prior biennia, CSR development costs were funded with Article XI-Q bonds and General Fund was used to pay for costs ineligible for Article XI-Q bond financing, such as the Department of Administrative Services' State Data Center charges and CSR contracted maintenance costs.

Budget Environment
While the core functionality of the project has been mostly completed and is operational, more work is left to be done. Post-implementation costs, for other than routine operations and maintenance and new legislative initiatives, are likely to increase. The funding of such costs may become critical to the underlying success of the project. The Legislature continues to question why CSR was not fully operationalized after DOR announced that the project had been completed. Other recent GENTAX investments include application updates for the following taxes: corporate activities tax, state marijuana tax, transportation taxes, Heavy Equipment Rental Tax, and State and local lodging taxes.

Legislatively Adopted Budget
The 2019-21 legislatively adopted budget of $2.1 million is $10.2 million (or 82.8%) less than the 2017-19 legislatively approved budget. The reduction is due to the normal phase-out of the original CSR project funding. There are no positions budgeted under this program. The budget includes:

- $1.2 million General Fund for the implementation of the Corporate Activities Tax.
- $535,000 Other Funds for the implementation of the Heavy Equipment Rental Tax.
- $416,000 Other Funds for the implementation of HB 3136, the administration of local transient lodging taxes.

Capital Debt Service and Related Costs

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	11,783,649	14,376,932	15,066,620	14,980,120
Other Funds	55,516	1,254,228	1,237,830	1,327,830
Total Funds	**$11,839,165**	**$15,631,160**	**$16,304,450**	**$16,307,950**

Program Description
The Debt Service Program provides the funding to make payments on principal, interest, and financing costs associated with the issuance of Article XI-Q bonds, which are tax exempt government securities. This program segregates debt service and financing costs from the agency's operating budget.

Revenue Sources and Relationships
The Department's debt service is funded with General Fund and Other Funds. Other Funds revenue is derived from administrative charges to various Other Funds taxes, fees, and assessments.

Budget Environment
The legislative decision was to fund the Core System Replacement project using debt financing rather than the benefits-based funding model originally proposed by the agency. Article XI-Q bonds for information technology projects are financed over a 7-year period. With the exception of cash financed projects, Article XI-Q bonding for the project has been completed.

Legislatively Adopted Budget
The 2019-21 legislatively adopted budget of $16.3 million is $676,790 (or 4.3%) more than the 2017-19 legislatively approved budget. DOR made no request for additional Article XI-Q bond authority and therefore the only change in Debt Service was the normal costs of previously authorized bonds. There are no positions budgeted under this program.

Revenue Clearing House

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	--	--	--	--
Other Funds	--	--	--	--
Total Funds	**--**	**--**	**--**	**--**

Program Description

The Revenue Clearing House Division is newly created revenue-only structure to receive and distribute pass-through revenues by DOR on behalf of the state, other state agencies, and local governments. Previously, such revenue tracking occurred under the General Services Division.

Revenue Sources and Relationships

Revenue is derived from various taxes, fees, assessments, and collections.

Budget Environment

The Revenue Clearing House Division serves a key function in the tracking, budgeting, and distribution of revenues. DOR undertook an extensive and long-overdue effort to detail each revenue stream received by the agency by identifying the origin of the revenue, the revenue’s statutory-basis and distribution requirements, allowable administrative costs, as well as updated revenue forecast information. The accuracy of this information is important for recipient agencies. This information also helps DOR better understand internal cash flows and working capital requirements.

Legislatively Adopted Budget

Revenue Clearing House Division is a non-budgeted structure or, in other words, has no associated appropriation or expenditure limitation or position authority. DOR costs to administer the Division are budgeted under various operating divisions.

SECRETARY OF STATE

Analyst: Rocco

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	10,285,700	14,357,322	11,261,921	14,158,129
Other Funds	51,509,990	58,170,519	62,088,686	63,888,057
Federal Funds	1,845,372	8,132,619	4,960,337	5,387,041
Total Funds	**$63,641,062**	**$80,660,460**	**$78,310,944**	**$83,433,227**
Positions	210	215	212	224
FTE	208.46	214.03	211.72	223.50

Overview

The Office of the Secretary of State (SOS) is one of three constitutional offices established at statehood. The Secretary is the auditor of public accounts, the chief elections officer, and the manager of the state's records, a role that includes preserving official acts of the Legislative Assembly and the Executive Branch. The Secretary of State serves with the Governor and State Treasurer on the State Land Board which manages state-owned lands.

The agency's major divisions include:

- Elections Division – Administers state and federal elections laws, provides training to county and city election officials, political party representatives, and candidates; maintains a centralized voter registration system, publishes statewide voter's pamphlets; and administers the filing and verification of initiative, referendum, and recall petitions.
- Audits Division – Carries out the Secretary's constitutional duties as auditor of public accounts to assure that public funds are properly accounted for and spent in accordance with legal requirements; the Division performs, or contracts for, financial and compliance audits and performance audits of state agencies.
- Archives Division – Stores public records and protects and provides public access to Oregon's documentary heritage; provides records management advice and assistance to state and local agencies and publishes the state's administrative rules and the Oregon Blue Book.
- Corporation Division – Responsible for four major programs: Business Registry – the filing of business names, Uniform Commercial Code (UCC) – the filing of secured transactions, Notary Public – commissioning and regulating notaries, and Office of Small Business Assistance – helping small businesses resolve disputes with state agencies.

The agency also has an Administrative Services Division that provides administrative support and executive oversight. The Administrative Services Division also includes the Executive Office which houses the Secretary and immediate staff. The Division includes 66 positions and is the second largest division after the Audits Division.

Revenue Sources and Relationships

The $14.2 million of General Fund in the 2019-21 biennium legislatively adopted budget finances 17% of total agency expenditures, down slightly from 18% in the 2017-19 biennium. The funding split for the agency was modified in the 2013-15 budget when General Fund support for the Archives Division was replaced with revenues from a new Other Funds assessment on state agencies. General Fund now primarily supports the Elections Division and the Administrative Services Division. The General Fund supports 62% of the Elections Division budget ($10.7 million General Fund), and 15.2% of central administrative expenses in the Administrative Services Division ($3.5 million General Fund).

The Audits, Archives, and Corporation Divisions receive no General Fund and are fully supported by Other Funds; however, portions of the Audits Division and Archives Division assessments to state agencies are financed by

General Fund appropriations to those agencies. Prior to the 2013-15 biennium, the Archives Division was also supported by General Fund. In the 2011-13 biennium, the Division received $3.5 million of General Fund which covered 63% of its total expenditures. The 2013-15 biennium legislatively adopted budget replaced General Fund support with a new state government service charge assessed to state agencies.

As part of the 2019-21 adopted budget, statewide adjustments were made to all state agency budgets due to changes made to assessments and rates by the Department of Administrative Services, Attorney General, Secretary of State, and others. Statewide these reductions totaled $37.1 million total funds; changes made to the Secretary of State assessments on state agencies totaled $1.3 million total funds (including $561,000 in General Fund reductions).

Other Funds revenues are received from various sources, including:

- Assessments to state agencies, based on a pro-rata share of four risk factors (cash, revenues, expenditures, and full-time equivalent positions), are the primary funding source for the Audits Division. Agencies whose operations are predominately funded with dedicated trust funds (e.g., Department of Transportation) are billed for actual audit costs rather than an assessment. Audits Division assessments and billings are projected to total $28.1 million in 2019-21 and will support the Division's direct costs plus a portion of the agency's central administrative costs (the Executive Office, the Information Systems Division, and internal administrative functions). The Audits Division is the Secretary of State's largest unit; it houses 72 full-time positions (approximately 32% of agency staff) and is fully funded from these revenues.

  The Archives Division is also supported by assessments and charges to state agencies. A new assessment, established in the 2013-15 biennium budget, replaced General Fund support for the Division. The assessment is based on full-time equivalent positions. Charges for services will generate $11.3 million Other Funds in the 2019-21 biennium. The Division also assesses agencies for the storage and retrieval of inactive, non-permanent records maintained by the Division and for publication of administrative rules. The Archives Division houses 22 full-time positions (approximately 10% of agency staff).

- Licenses and fees are collected from business filings, secured transactions, and notaries public to support the General Fund and the Corporation Division. Revenues from these sources are projected to total $91.6 million in the 2019-21 biennium. The legislatively adopted budget transfers $73.3 million of Corporation Division revenue to the General Fund. The $18.3 million remaining is retained by the agency. The retained revenues plus the use of the Division's beginning Other Funds fund balance support the Division's operations and provide $9.7 million of Other Funds for the Administrative Services Division (approximately 43% of the Administrative Services Division total budget). The Corporation Division houses 39 positions (approximately 17% of agency staff) and is fully funded by these license and fee revenues.

  In 2009, the Legislature doubled the fee to obtain a notary public commission and increased the UCC filing fee by 50%. It also increased business registry fees but allocated the full amount of the increase to the General Fund. The agency continues to retain the revenue from the first $20 of each business registration fee. Significantly for the budget, however, was a provision that allowed the agency to retain all of the fee revenues dedicated to it. Previously, the agency had only been able to retain a cash balance equivalent to two months of operating expenditures for the Corporation Division, from the notary public commissions, UCC filing fees, and the initial $20 of the business registry fee it received. Beginning with the 2009-11 biennium, the agency has retained all of these proceeds, absent specific legislation transferring additional amounts to the General Fund.

- Sale of publications, including the annual Oregon Administrative Rules Compilation, the monthly Oregon Bulletin which provides updates to the Compilation, and the Oregon Blue Book, generates revenues for the Archives Division. Sales income is projected to total approximately $135,000 in the 2019-21 biennium.

- County payments for the Oregon Centralized Voter Registration (OCVR) system. Counties support a portion of OCVR operating costs. County payments in the 2019-21 biennium will total approximately $1 million.

- Internal transfers of Other Funds revenues are made to the Administrative Services Division by the Audits and Corporations Divisions for a proportionate share of administrative costs.

In past biennia, Federal Funds were received under the Help America Vote Act (HAVA) and the Federal Voting Assistance Program (FVAP). No further support from the federal government is expected for these two programs. As was the case for the past several biennia, however, the HAVA program will spend Federal Funds revenues already received by the state, and almost all of the agency's Federal Funds expenditures will be for this program. HAVA fund balances are no longer sufficient to support current service level Federal Funds expenditures.

The agency is also budgeted to receive Federal Funds revenues from federal grants. Due to declining receipt of these federal dollars, the 2019-21 biennium budget only includes $20,000 of Federal Funds in the Archives Division from these grants, down from $41,559 in the 2017-19 legislatively approved budget.

Budget Environment

The Secretary of State is a separately elected, constitutional office, and as such, has not been subject to the Governor's budget review. In 2005, the Legislature modified the statutes relating to the Governor's budget development and allotment system to include the Secretary of State and the State Treasurer in those processes. In 2007, however, the Legislature reversed this action and again excluded the two offices from the Governor's review process.

General Fund expenditures for the Secretary of State fluctuate depending on the number and type of elections conducted. For primary and general elections, the counties are responsible for the costs of conducting the elections. When statewide special elections are held, the Secretary reimburses counties for the costs. Costs associated with the production and distribution of voters' pamphlets also vary depending on the number of candidates, measures, and measure arguments filed. In the 2015 session, the Legislature passed HB 2177, known as the Oregon Motor Voter (OMV) law, which directs the Secretary to use Oregon Department of Transportation electronic records to add eligible voters to voter registration rolls. The Legislature committed to appropriating General Fund for payments to counties to address costs associated with the increase in the number of registered voters. The 2019-21 budget includes $879,248 General Fund for OMV, representing the third biennium of a four-phase implementation schedule.

During the 2019 session, the Legislature passed SB 861 which requires pre-paid postage for ballots on all elections held on or after January 1, 2020. To cover costs for this new election law, the Legislature appropriated $1.7 million General Fund to the Secretary of State and established a special purpose appropriation for the Emergency Board in the amount of $1.15 million. The Emergency Board appropriation was made since there is some uncertainty in how many ballots will be returned using pre-paid postage versus continued use of drop-off.

Ongoing HAVA requirements continue to influence the Secretary of State's budget for the foreseeable future. HAVA was passed in October 2002 and contains federal standards for various aspects of election administration, which include developing a centralized voter registration system, replacement of punch card machines, privacy and independence in the voting process, access for people with disabilities, and voter outreach. Congress approved additional HAVA funds in 2018 for improving election administration and enhancing election security. Oregon was eligible for $5.4 million and the Emergency Board authorized the agency to spend $3.3 million of the new HAVA funds for the 2017-19 biennium at its May 2018 meeting. Although the agency still holds approximately $7 million of Federal Funds from previous appropriations of HAVA funds, no further support from the federal government for HAVA-required activities is anticipated.

Legislatively Adopted Budget

The Secretary of State's total funds budget of $83.4 million is a $2.8 million (or 3.4%) increase from the 2017-19 legislatively approved budget and is 6.5% above the current service level. The budget includes 224 positions (223.50 FTE), a 4.2% increase over the 2017-19 biennium level. General Fund support of $14.2 million represents a 1.4% decrease over the prior biennium.

The budget includes six agency-specific adjustments affecting General Fund support levels:

- $1,668,783 General Fund to pay postage costs for ballots returned by mail in all Oregon elections during the biennium held on or after January 1, 2020; this funding is associated with the passage of SB 861 and includes a special purpose appropriation to the Emergency Board of $1,146,094 in case costs are higher than initially projected due to enhanced ballot return by mail.
- $879,248 General Fund for county costs associated with expanded voter registration rolls generated by the Motor Voter program. Funding is essentially unchanged from the prior-biennium level; this expenditure represents the third of a four-biennium phase-in.
- $336,696 General Fund for the establishment of two new limited duration Compliance Specialist 2 positions (1.75 FTE) to manually accept, review, and maintain lists of campaign finance filings, answer questions, conduct investigations, oversee civil penalties and case hearings, and fulfill public records requests associated with campaign finance changes in HB 2983.
- $197,841 General Fund for the establishment of a new Operations and Policy Analyst 2 position to work with counties on the Oregon Centralized Voter Registration system and organize enhancement requests by operating a call center help desk.
- A $75,000 General Fund reduction in services and supplies by eliminating the Oregon Motor Voter return letters and replacing them with a postcard that does not have a return envelope option.
- $20,000 General Fund to enhance the Secretary's ability to travel both in-state and out-of-state on official business.

Principal Other Funds adjustments in the Secretary of State budget include:

- $727,933 Other Funds to add five Public Service Representative 4 positions for the Corporation Division call center and for the Office of Small Business Assistance.
- $502,044 Other Funds to continue a limited duration Training and Development Specialist 2 position as permanent and to add a new Principal Executive Manager C position as a Service Desk Manager for the Network Operations Security Center.
- $500,000 Other Funds for phase three of the Archives Building compact shelving project.
- $500,000 Other Funds for increased merchant fees due to the growing use of credit cards to pay for report filing and business registration fees.
- $271,528 Other Funds to finalize the migration of business information systems to the Cloud.
- $80,700 Other Funds for maintenance of new security systems put into place during the 2017-19 biennium.
- $50,000 Other Funds to allow the translation of 70 business forms used by the Secretary of State into five specified languages as required under HB 2998.

A $465,550 Federal Funds expenditure limitation increase was also included in the adopted budget to continue two IT security positions approved at the May 2018 meeting of the Emergency Board for voting system security as part of the federal Help America Vote Act.

Finally, in the 2015-17 biennium, the budget transferred $6.2 million of Corporation Division revenues to the General Fund, in addition to revenues that are already transferred by statute. That increased total Corporation Division revenue transfers to the General Fund to a total of $61.6 million in 2015-17. No such additional transfer was included in the 2017-19 biennium budget, nonetheless, Corporate Division transfers to the General Fund are projected to total $73.5 million in 2017-19, up from a projected $64.7 million at the close of the 2017 session. The current revenue forecast for 2019-21 includes a projected $70.8 million transfer to the General Fund from

Secretary of State fees, but the adopted budget assumes a total transfer of $73.3 million. The difference is expected to be transferred on a monthly basis and will eventually be included in the Office of Economic Analysis official revenue forecast.

Administrative Services Division

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	1,833,979	3,123,091	3,456,717	3,457,202
Other Funds	16,752,217	17,724,878	18,768,645	19,273,295
Total Funds	**$18,586,196**	**$20,847,969**	**$22,225,362**	**$22,730,497**
Positions	62	65	64	66
FTE	61.37	64.15	63.97	66.00

Program Description

The Administrative Services Division provides policy direction for the agency and administrative support functions to support the Elections, Audits, Archives, and Corporation Divisions. Administrative Services is organized functionally into four areas: 1) the Executive Office, 2) the Business Services Division, 3) the Information Systems Division, and 4) the Human Resources Division.

The Executive Office includes the Secretary and the Secretary's immediate staff. The office provides policy direction and daily management of the agency. The executive staff is responsible for strategic planning, policy development, and legislative and press relations. In addition, the office staffs the State Land Board. The Business Services Division provides accounting, budgeting, cashiering, payroll, purchasing, contract administration, safety and risk management, fixed assets, and inventory control services for the agency. The Information Systems Division provides centralized information technology services including database administration, Internet development, and application development and maintenance for the agency. The Human Resources Division provides advice on human resources policies and procedures, maintains employee records, and provides recruitment and training services for the agency. A majority of the Division's budget supports Information Systems. The 66 positions funded in the 2019-21 legislatively adopted budget are apportioned to the four areas as follows: Executive Office – 7 positions; Business Services Division – 15 positions; Information Systems Division – 40 positions; Human Resources Division – 4 positions.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget is a $1,882,528 (or 9%) increase over the prior biennium but is only 2.3% above the current service level (CSL). General Fund is increased by 10.7% over the prior biennium but is basically unchanged from the current service level. The magnitude of the increase is affected by the reversal of a one-time fund shift included in the prior biennium budget, and that does not therefore increase total expenditures. Two full-time positions were added, including the continuation of one position that was established as limited duration in the 2017-19 budget but is now continued as permanent, plus the addition of one new full-time Service Desk Manager for the Network Operations Security Center in the Information Systems Division.

Enhancements and reductions to the Administrative Services Division budget include:

- $7,056 General Fund and $52,681 Other Funds to reclass 10 positions in the Executive Office, including the Chief of Staff, Procurement Officer, Budget Officer, and seven Information Systems positions; reclasses are related to pay equity and to align positions with budgeted responsibilities.
- $502,044 Other Funds to make a Training and Development Specialist 2 position (1.00 FTE) in Human Resources permanent from limited duration status and to establish a new Principal Executive Manager C (1.00 FTE) in Information Systems to act as a Service Desk Manager for the Network Operations Security Center.
- $20,000 General Fund to increase funding available for travel for the Secretary.

- $271,528 Other Funds to finalize the migration of business information systems to the Cloud, a project that was initiated in the 2017-19 biennium.
- $80,700 Other Funds for maintenance of new security systems put into place in the 2017-19 biennium.
- $250,000 Other Funds reduction to eliminate expenditure limitation for one-time IT security project costs in 2017-19 that were not phased-out during 2019-21 budget development.
- Added 0.03 FTE to an existing Human Resource Analyst 3 position to make it a full-time position.
- $26,571 General Fund and $152,303 Other Funds reductions for the Administrative Services Division portion of standard statewide adjustments made in the final legislatively adopted budget from reductions in the assessments and charges for certain agencies, including the Department of Administrative Services, the Department of Justice, the Public Employees Retirement System, and the Secretary of State.

Elections Division

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	8,451,721	11,234,231	7,805,204	10,700,927
Other Funds	616,823	1,136,554	1,183,925	1,183,903
Federal Funds	1,845,372	8,091,060	4,917,115	5,367,041
Total Funds	**$10,913,916**	**$20,461,845**	**$13,906,244**	**$17,251,871**
Positions	21	20	20	25
FTE	20.50	20.00	20.00	24.75

Program Description

The Elections Division administers state and federal elections laws, provides training to county and city election officials, political party representatives, and candidates; publishes statewide voter's pamphlets; and administers the filing and verification of initiative, referendum, and recall petitions.

Federal Funds in the Elections Division budget come from two sources. The federal Help America Vote Act (HAVA) requires states to implement a variety of election process reforms including replacement of punch card voting systems, purchasing voting equipment that is accessible to people with disabilities, and developing a centralized voter registration system. Oregon, along with other states, received funds under HAVA to support these activities. The Federal Voting Assistance Program grant funds are one-time Federal Funds available to provide voting assistance to uniformed service members, their families, and citizens living outside the U.S.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget for the Elections Division is a 15.7% decrease from the prior biennium level but is 24.1% above the current service level. Most of the decrease reflects the phase-out of funding provided in the prior biennium for payments to counties and the Elections Division to offset its costs of the Motor Voter program, and the phase-outs of one-time appropriations for a special election in January 2018.

General Fund in the budget is reduced 4.7% from the prior biennium level but is 37.1% above the current service level. Enhancements and reductions to the Elections Division budget include:

- $197,841 General Fund to establish an Operations and Policy Analyst 2 position (1.00 FTE) to work with counties on the Oregon Centralized Voter Registration System and organize enhancement requests by operating a call center help desk.
- $879,248 General Fund to continue payments to counties for the Oregon Motor Voter Law to help cover costs for an increase in voter registrations and additional costs for ballots and elections; this appropriation represents the third of four two-year payments to cover an eight- year Driver and Motor Vehicle Services (DMV) license and registration renewal cycle.
- $1,668,783 General Fund to pay postage costs for ballots returned by mail in all Oregon elections during the biennium held on or after January 1, 2020; this funding was provided in conjunction with the passage of SB

861 and also includes an appropriation to the Emergency Board for the Secretary of State of another $1,146,094 General Fund in case costs are higher than initially projected due to enhanced ballot return by mail rather than by drop-off.

- $336,696 General Fund to establish two new limited duration Compliance Specialist 2 positions (1.75 FTE) to manually accept, review, and maintain lists of campaign finance filings, answer questions, conduct investigations, oversee civil penalties and case hearings, and fulfill public records requests associated with campaign finance changes in HB 2983 (2019).
- $465,550 Federal Funds to continue two IT security positions (2.00 FTE) approved at the May 2018 Emergency Board meeting using HAVA funds provided in 2018 to ensure voting system security.
- $75,000 General Fund reduction to eliminate the Oregon Motor Voter return letters with a pre-paid postage envelope and replace the letter with a post card that does not have a return envelope option.
- $111,845 General Fund and $6,624 Federal Funds reductions for the Elections Division portion of standard statewide adjustments made in the final legislatively adopted budget from reductions in the assessments and charges for certain agencies, including the Department of Administrative Services, the Department of Justice, the Public Employees Retirement System, and the Secretary of State.

Audits Division

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	17,739,595	21,528,056	23,241,406	23,104,941
Total Funds	**$17,739,595**	**$21,528,056**	**$23,241,406**	**23,104,941**
Positions	72	72	72	72
FTE	71.84	72.00	72.00	72.00

Program Description

The Audits Division carries out the Secretary's constitutional duties as auditor of public accounts to assure that public funds are properly accounted for and spent in accordance with legal requirements. The Division performs, or contracts for, financial and compliance audits and performance audits of state agencies, and information technology audits of state computer systems. The Division further monitors approximately 1,700 local government audits and operates the Government Waste Hotline.

The Division's budget is entirely supported by Other Funds assessments and billings to state agencies and local governments. Revenue from these sources will total $28.1 million in the 2019-21 biennium, a 4.9% increase over the prior biennium level. The Division will transfer $6.1 million of these revenues to the Administrative Services Division to support central administrative functions and retain $25.7 million (including a 2019-21 beginning balance) to operate the Audits Division.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget for the Audits Division is a 7.3% increase over the prior biennium level but is 0.6% below the current service level. Enhancements and reductions to the Audits Division budget include:

- $58,604 Other Funds to reclass four entry level State Auditor positions to the State Auditor 2 level to align the budget with actual hiring practices.
- $195,069 Other Funds reduction for the Audits Division portion of standard statewide adjustments made in the final legislatively adopted budget from reductions in the assessments and charges for certain agencies, including the Department of Administrative Services, the Department of Justice, the Public Employees Retirement System, and the Secretary of State.

Archives Division

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	6,867,120	7,592,564	8,111,645	8,361,423
Federal Funds		41,559	43,222	20,000
Total Funds	**$6,867,120**	**$7,634,123**	**$7,575,636**	**$8,381,423**
Positions	22	22	22	22
FTE	21.75	22.00	21.75	21.75

Program Description

The Archives Division stores public records and protects and provides public access to Oregon's documentary heritage. The Division provides records management advice and assistance to state and local agencies and publishes the state's administrative rules. The Division also publishes the Oregon Blue Book and since 2017 has managed the Oregon Kid Governor Program, a civics education tool available to all Oregon fifth graders.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget for the Archives Division is a 9.8% increase from the prior biennium level and is 2.8% above the current service level. The budget continues the elimination of General Fund support first implemented in the 2013-15 budget. The Division is fully supported by Other Funds primarily from assessments and charges for services, with some additional revenue from sales and federal grants.

The budget continues a new state government service charge established in the 2013-15 biennium to finance the operations of the Archives Division that were previously supported by the General Fund. This charge is apportioned to state agencies on the basis of their full-time equivalent employment counts. The new Archives Division assessment revenues are spent as Other Funds. The assessment is expected to generate $11.3 million Other Funds in the 2019-21 biennium. In addition, the division had a beginning balance of $1.8 million Other Funds that included $500,000 in one-time assessments initially extended to finance new shelving in the Archives Building. The third phase of the shelving project was not approved in 2017-19, but assessments were not reduced. The Archives Division therefore collected and held the $500,000 it received. The division's budget request asked for expenditure limitation to spend this previously collected $500,000 for the shelving project and to collect another additional $750,000 for the final phase of the project. The expenditure limitation for the previously collected funds was approved, but the new assessment was denied and was part of the Secretary of State assessment reduction applied to the statewide budget.

Enhancements and reductions to the Archives Division budget include:

- $4,148 Other Funds to reclass four positions including an Electronic Design Specialist 2 to an Operations and Policy Analyst 1, two Electronic Design Specialist 1 positions to the Public Service Representative 4 classification, and one Program Analyst 2 to a Records Management Analyst 3.
- $500,000 Other Funds for phase three of the compact shelving project; a request to collect an additional $750,000 Other Funds from agencies for phase four (the final phase) of the project was not approved.
- $23,222 Federal Funds reduction to true up the expenditure limitation for the division and to recognize lower federal fund grant receipts.
- 103,649 Other Funds reduction for the Archives Division portion of standard statewide adjustments made as cost containment measures. These include reductions to standard inflation adjustments, reductions based on expectations regarding hiring practices and the filling of vacant positions, and reductions in the assessments and charges of the Department of Administrative Services and the Department of Justice.
- $254,370 Other Funds reduction, for the Archives Division portion of standard statewide adjustments in the final legislatively adopted budget from reductions in the assessments and charges for certain agencies, including the Department of Administrative Services, the Department of Justice, the Public Employees Retirement System, and the Secretary of State.

- A request for $1.2 million General Fund to provide a backup generator to the environmentally and climate controlled areas of the Archives Building was not approved, but Enterprise Asset Management of the Department of Administrative Services (who owns the building) was directed to work with the Secretary of State to determine if the project is feasible and to include it on a list of projects to be funded by the Department through uniform rent.

Corporation Division

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	9,534,235	10,188,467	10,783,065	11,964,495
Total Funds	**$9,534,235**	**$10,188,467**	**$10,783,065**	**$11,964,495**
Positions	33	36	34	39
FTE	33.00	35.88	34.00	39.00

Program Description

The Corporation Division is responsible for four major programs: 1) Business Registry – the filing of business names; 2) Uniform Commercial Code – the filing of secured transactions; 3) Notary Public – commissioning and regulating notaries; and 4) the Office of Small Business Assistance – added in the 2013 legislative session, this office works with small businesses as an ombudsman to resolve issues with state agencies.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget for the Corporation Division is a 17.4% increase over the prior biennium level and represents an 11% increase over the current service level. The budget establishes five new positions from the current service level, a 14.7% increase in FTE.

The Corporation Division receives no General Fund and is entirely funded by fee revenues. The primary funding source is fees charged to register business entities in the state. The agency retains $20 of each business registration fee. The rest of the fee amount is transferred to the General Fund. Under current law, approximately 25% of total business registration fee revenues are retained by the agency and approximately 75% are transferred to the General Fund. Revenues from these sources are projected to total $91.6 million in the 2019-21 biennium. The legislatively adopted budget transfers $73.3 million of Corporation Division revenue to the General Fund.

The remaining $18.3 million of Other Funds revenues are retained by the agency. The retained revenues, plus the use of the Division's beginning Other Funds fund balance, support the transfer of $9.7 million Other Funds to the Administrative Services Division (funding approximately 43% of the Administrative Services Division total budget), plus the Corporation Division's own $12 million Other Funds operating budget.

The budget for the Division includes the following enhancements and reductions:

- $33,065 Other Funds to reclass three positions including a Public Services Representative 4 to a Principal Executive Manager (PEM) B, a Public Services Representative 4 to a Program Analyst 3, and a Program Analyst 4 to a PEM D.
- $727,933 Other Funds to add five Public Service Representative 4 positions (5.00 FTE); four of these positions eliminate the need for double-filling existing positions and true up the need for staffing in the division's call center and one position is added to assist the Office of Small Business Assistance and to serve as a backup for the Corporation Division call center.
- $500,000 Other Funds to cover the increase in merchant fees due to additional business registrations, reporting filing, and the payment of fees online using credit cards which increase the fees on credit card purchases.

- $50,000 Other Funds to allow the translation of 70 business forms used by the Secretary of State into five specified languages (Spanish, Chinese, Vietnamese, Russian, and Korean) by July 1, 2021 as required by HB 2998 (2019).
- $129,568 Other Funds reduction for the Corporation Division portion of standard statewide adjustments in the final legislatively adopted budget from reductions in the assessments and charges for certain agencies, including the Department of Administrative Services, the Department of Justice, the Public Employees Retirement System, and the Secretary of State.

STATE TREASURER

Analyst: Borden

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	1,904,631	5,361,270	1,463,607	--
Other Funds	54,259,279	82,003,898	88,422,190	92,726,560
Total Funds	**$56,163,910**	**$87,365,168**	**$89,885,797**	**$92,726,560**
Positions	123	160	162	166
FTE	117.85	150.09	161.00	164.47

Overview

The Oregon State Treasurer (OST) acts as the “banker” for the State of Oregon by maintaining all state agency financial accounts, and by investing state funds that are not needed to meet current expenditure demands, including the state’s Trust Funds and bond fund proceeds. OST coordinates and approves state bond sales, manages the public funds collateralization program for all financial institutions holding public funds, and pays on bonds submitted by bondholders. Additionally, OST invests excess funds for participating local governments. OST is also responsible for administration of the Oregon 529 Savings plan(s) and the Oregon Retirement Savings Board.

The State Treasurer is a statewide elected official whose authority is established by Article VI, Section 1 of the Oregon Constitution and by various state laws. The Treasurer is the statutorily-designated investment officer of the state and for the Oregon Investment Council (OIC), which is responsible for establishing the state’s investment policy. Statute also designates the State Treasurer as the sole banking and cash management officer of the state. The Treasurer also serves on the State Land Board, chairs the State Debt Policy Advisory Commission, and chairs the Oregon Retirement Savings Board, among other duties and responsibilities. State Treasury, the agency, is overseen by the State Treasurer, who is assisted by a Chief of Staff and a Deputy State Treasurer. The Deputy State Treasurer provides operational leadership to Treasury.

Although considered an Executive Branch agency, the State Treasurer, as a separately elected, constitutional office, operates independent of the Governor and the rest of the Executive Branch. The Executive Branch makes no recommendation and exercises no budgetary control over the State Treasurer’s budget. That responsibility falls solely to the Legislature. OIC has even broader statutory authority. By legislative decision, OIC is not subject to legislative budgetary control.

Revenue Sources and Relationships

OST is funded with Other Funds, which total $119.7 million. The agency’s 2019-21 beginning cash balance is $11.3 million and its estimated ending cash balance is equal to $11.4 million, which equates to over eight months of operating reserves. OST has broad authority to set its fees within statutory limits and most OST programs are supported by their own fees and charges. The revenue is generated primarily from charges based on the value of managed portfolios, fees charged for the number and type of banking transactions it processes, account fees, the proportion of outstanding debt held by agencies, fees for new bond issuances, charges for bond and coupon redemptions, and on holdings of state funds in excess of FDIC insurance levels. Of note is that as the value of managed investment portfolios increase, so too does the agency’s ability to generate fee revenue while remaining within its statutory limits.

Up until the 2019-21 biennium, General Fund loans supported the development and implementation of the Oregon Retirement Savings Board and the Achieving a Better Life Experience Act (ABLE) program, an Oregon 529 Savings plan. These programs are now self-supporting with application, account, or administrative fees although repayment of the General Fund has not yet occurred. OST expects to start the repayment of outstanding General Fund loans during the 2023-25 biennium, if not sooner.

Revenues from each operating program are used to fund shared services and administrative programs that provide direct and indirect services necessary for the operational programs to function via a cost allocation process utilizing fund transfers.

Budget Environment

The OST budget is driven by the number and complexity of financial transactions, the complexity and diversity of investments, the number and kinds of bond transactions, and the participation levels in other programs such as the Public Funds Collateralization Program, the Oregon 529 Savings Network, and the Oregon Retirement Savings Board or "OregonSaves" plan. The agency processes in excess of 37 million financial transactions biennially, including deposits, electronic fund transfers, and check issuances.

OST manages, under the direction of the OIC, approximately $102 billion in short, intermediate, and long-term assets, the largest of which is the approximately $70 billion Oregon Public Employees Retirement Fund (OPERF). OST-generated returns on these funds have broad budgetary implications for state and local governments as such investment returns play an important role in funding operational activities.

SB 454 (2019) transfers administration of the Uniform Disposition of Unclaimed Property Act, unclaimed estates, and escheated property and funds from the Department of State Lands to the State Treasury with an operative date of July 1, 2021. The budgetary and financial details of the transfer have not yet been worked out. For the 2021-23 biennium, the two affected agencies will need to develop budget proposals for consideration by the Legislature in 2021.

The Legislature in 2019 enacted SB 1049, which requires a public body or intergovernmental entity, prior to issuing pension obligation bonds, to obtain a statistically based assessment from an independent economic or financial consulting firm. The public body or intergovernmental agency will be required to submit the assessment to the State Treasurer who will then provide an annual report to the State Debt Policy Advisory Commission.

A budget note was included to improve the public transparency and understanding of the State Treasury budget by establishing an appropriation for each major division or program activity. Such a structure is to be in place for the 2021-23 biennium. State Treasury is to report to the Legislature in 2020 on how the agency has overcome any potential barriers related to implementing this change.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget is $92.7 million Other Funds which is a $5.4 million (or 6.1%) increase from the 2017-19 legislatively approved budget. The adopted budget includes 166 positions and 164.47 FTE.

The Legislature continued, for the third consecutive biennium, an investment in the level of resources dedicated to the Investment Program ($1.5 million). Supplemental funding was also approved for information security ($780,691). The Legislature approved the consolidation and reorganization of the 529 College Savings and Achieving-a-Better-Life (ABLE) programs as well as other related changes to the Oregon Retirement Savings Board (ORSB), which included moving the ABLE and ORSB from General Fund to entirely Other Funds support ($1.5 million). Reductions in the budget include: the elimination of one long-term vacant position ($212,877).

There were also statewide adjustments based on reductions in Department of Administrative Services assessments and charges for services, Attorney General rates, certain services and supplies, and additional vacancy savings expected as a result of a hiring slowdown.

Treasury Services

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	49,375,489	75,626,071	79,702,832	81,042,493
Total Funds	**$49,375,489**	**$75,626,071**	**$79,702,832**	**$81,042,493**
Positions	116	151	153	157
FTE	112.60	141.25	152.00	155.47

Program Description

Treasury Services is a warehouse for the following programs and activities: Investment Program; Finance Program; Public Funds Collateralization Program; Debt Management Program; Public Infrastructure Commission; State Treasurer Policy Staff; Shared (Administrative) Services; and the Information Technology Program. The agency has staff across three locations: the State Capitol; the Labor and Industries Building on the Capitol Mall; and at a facility in Tigard, Oregon.

Investment Program

The Investment Program manages short, intermediate, and long-term investments of state and local governments, including: the Oregon Public Employees Retirement Fund (OPERF); the State Accident Insurance Fund; the Oregon Short Term Fund; the Oregon Local Government Intermediate Fund; the Common School Fund; and several state agency fixed income funds. The Program invests and reinvests moneys, subject to statutory standards of prudence, judgement, and care, other statutory standards, and Oregon Investment Council policy guidelines. OST does not investment funds for: Oregon Savings Growth Plan; Oregon College Savings plan(s); Achieving a Better Life Experience Act; or the Oregon Retirement Savings Board program; however, the program, in consultation with OIC, does oversee investment contract selections.

The program is organized into the following major sections: Chief Investment Officer; Director of Investment Operations; Chief Compliance Officer; and Incentive Compensation. Investment Officers are organized around the types of investments, for example, public equities, private equities, fixed income, real estate, alternative, and opportunity investments. Of note is that OPERF is 92% externally managed and 91% actively managed.

Investment Officer compensation has a performance-based component, which ties a portion of Investment Officer maximum compensation to the performance of the investment portfolios that an Investment Officer manages. In other words, a portion of an Investment Officer's compensation is deferred, not considered earned and not paid, until certain fund investment performance metrics are met. Incentive compensation is determined based on calendar year performance relative to peers. The budgeted amount for incentive compensation is approximately $3.5 million plus Other Payroll Expenses.

Revenue Sources and Relationships

The Investment Program may deduct monthly a maximum of 0.25 of a basis point (.0025%) of the most recent market value of assets under management for administration and portfolio management fees. The fees are calculated on a sliding scale depending upon the level of assets under management. Revenues are expected to total $56.9 million for the biennium.

OST invests excess cash for durations of less than one year in the Oregon Short Term Fund (OSTF). Statutorily, OST may deduct monthly 0.435 of a basis point of the most recent market value of assets under management directly from the OSTF for an administration and portfolio management fee. The value of the OSTF was $15.5 billion, as of June 30, 2017. This includes the assets of the Oregon Local Government Investment Pool (OLGIP), which is the vehicle for local governments and Oregon's nine federally recognized tribes to invest in the OSTF. The proceeds from Tax Anticipation Notes issued by OST and a portion of the OPERF are also invested in the OSTF.

The Oregon Intermediate Term Pool (OITP) invests excess cash for durations of up to 10 years. HB 2140 (2013) allows local governments to invest in a commingled intermediate term pool that might look like the OITP, but would likely be administered separately from the OITP. The value of the OITP was $122.9 million as of June 30, 2019. The Pool began on June 30, 2010. OST may deduct monthly 0.435 of a basis point of the most recent market value of assets under management directly from the OITP for an administration and portfolio management fee.

Budget Environment

The Investment Program, operating under the direction of the State Treasurer as the state's investment officer, and with policy set by the OIC, manages a portfolio of over $102 billion as of July 31, 2018. Institutional investment standards, industry best practices, as well as broad and deliberate diversification efforts have historically produced good results. OPERF's 3, 5, and 10 year performance record ranks at the top of similar-sized public investment funds. The strategy employed by the Investment Program is designed to produce positive returns in bull market conditions, while mitigating portfolio volatility and protecting against sharp or protracted downturns.

Beginning in 2011, OST and OIC hired seven vendors to conduct 18 studies of various aspects of the Investment Program at a cost of over $750,000. These studies range from a current state assessment to a target operating model. Most of the studies pertained primarily to the operational, rather than investment risk of the Investment Program. The studies identified significant and systemic deficiencies within the Investment Program. Remaining unaddressed for years, these deficiencies included misaligned roles and responsibilities, inadequate internal controls, insufficient risk management, weak investment compliance, insufficient management reporting, lack of a formal approval process for decision-making, segregation of duties issues, outdated policies and procedures, inadequate investment decision support systems, and overreliance on manual processes. In response, the Legislature, for three consecutive biennia, has significantly increased the staffing and resources devoted to the investment program in order to address these deficiencies.

After the close of the legislative session in 2017, OIC voted to move the Individual Account Program (IAP), a Public Employee Retirement System (PERS) benefit, to a target-date fund solution beginning January 2, 2018. This is an age-based approach that moves a member's IAP assets into an increasingly conservative investment portfolio, which may impact member earnings and ultimately their retirement benefit. Since inception on January 1, 2004, the IAP had been invested no differently than other assets in the OPERF. The OIC change initiated a glidepath to begin moving IAP assets into a newly established target-date fund structure at initial implementation. OIC's target-date solution is a mandatory change for IAP members. The original target-date solution provided for no member choice to make individual investment decisions. The OIC decision appears to have been made in absence of any IAP member involvement or input; however, State Treasury notes that there were discussions with various union officers, PERS agency staff, and the Governor's Office. The primary impact of this decision is to reduce the account-based or defined contribution benefit of IAP members by lowering the potential earnings on member contributions as the investment allocation becomes more conservative. Subsequent legislation, in both 2018 and 2019, provides IAP members with a choice of investment options; however, the operative date has been pushed out to January 1, 2021.

Oregon Investment Council

The Oregon Investment Council (OIC) is established by statute and comprised of five voting members. Four members are appointed by the Governor and confirmed by the Senate and must have experience in the field of investment or finance. The State Treasurer serves as the fifth member. The executive director of PERS serves as an ex-offico non-voting member.

Statute defines the statutory funds over which OIC has the responsibility to make investment decisions. OIC is a policymaking body that sets investment policy, asset allocation targets, benchmark return targets, and makes portfolio decisions on investment purchases and sales. OIC, however, may delegate to the State Treasurer some limited investment decision-making. OIC also selects external investment managers and consultants. OIC has responsibility for risk management. OIC also exercises the fiduciary responsibility of shareholders by voting for corporate board members.

OIC is not permanently staffed. Instead, OIC receives advice from outside investment and management consultants, but relies primarily upon the statutory Chief Investment Officer (i.e., State Treasurer) and the State Treasury Investment Program for staffing, including for investment analysis and recommendations.

Revenue Sources and Relationships

OIC is not subject to legislative budgetary control (i.e., expenditure limitation) and, by statute, has the unusual authority to charge any expense against gross investment earnings. These costs include investment fees, commissions, and other expenses for private third-party investment managers and brokerage commissions, charged against OIC-supervised investment funds. This type of carte blanc “expenditure authority” is unique in state government and demonstrates the unrestricted autonomy in which OIC is allowed to operate. Additionally, since OIC is not designated as a state agency, nor subject to expenditure limitation, there is no requirement that OIC appear before the Legislature. The PERS Comprehensive Annual Financial Report for fiscal year 2017 shows that investment expenses for OPERF have increased to $704.2 million, or by $151 million (+27%) above the $533.7 million in investment costs for 2016 and have attained their highest level to-date.

There are other Investment Program costs borne by OIC that occur as revenue transfers rather than as expenses and therefore are not subject to legislative expenditure limitation. OIC expends trust fund earnings to contracting with BlackRock Solutions for middle office services and enhancing the work performed by State Street Bank as custodian and provider of back office services. Traditionally, such operational expenses are the financial responsibly of a state agency subject to budgetary control, rather than a board, commission, or council.

Budget Environment

There is perhaps no other actuarial assumption more financially significant to Oregon’s public pension system than the assumed earnings rate, which is currently 7.2%. The assumed earnings rate is generally defined as the rate of investment return that the PERS Board expects the Public Employees Retirement Fund to earn over the long-term, which is defined as 20-years. Technically, the assumed earnings rate is comprised of a series of assumptions about current and projected interest rates and rates of inflation; and projected market rates of returns for various asset classes. Financial modeling does not take into consideration past returns on the PERS portfolio.

The National Association of State Retirement Administrators median assumed rate of return across public pension plans is 7.25%. The PERS actuary calculated a geometric median return of 6.87% over a 20-year period and at the 50th percentile return and then an arithmetic mean return of 7.55%. OIC received a consultant’s report that calculated a geometric median return over 10 years at 7.32%, which is higher than the current assumed rate. The OPERF actual 20-year return between 1999-2018 is 7.72%, including the 2008 financial crisis.

Finance Program

The State Treasurer is the sole banking and cash management officer for the state. The Finance Program provides centralized cash management services to state agencies and other entities. These services include deposits, electronic funds transfers, merchant card acceptance, prepaid card issuance, and check and warrant issuance. The Finance Program also establishes procedures for the handling of moneys under state agency control and reviews the effectiveness of agencies’ cash management practices. The Program makes loans to state agencies and the General Fund to manage temporary cash flow insufficiencies. The Program also coordinates with the Debt Management Program to issue bonds, commonly referred to as Tax Anticipation Notes, to finance current expenses of the state when a cash flow deficit is forecasted. The Finance Program provides administrative and operational support for the Oregon Short Term Fund (OSTF), which includes state agency funds and the Local Government Investment Pool (LGIP), as a short and intermediate-term cash investment vehicles.

Revenue Sources and Relationships
Banking charges are set to provide sufficient revenue to pay fees charged by Treasury's partner private sector banks as well as to provide a portion of the revenue required to support Treasury's internal costs related to banking activities. Charges for each type of service are detailed on a per transaction basis within the Oregon State Government Price List of Goods and Services. OST may pass along charges to each state agency for private banking services based on the number and type of transactions processed on its behalf. Local government investment pool participants are also charged for LGIP banking services in a similar manner. Revenues are expected to total $19.3 million for the biennium.

Budget Environment
The state's cash management system is a highly-integrated suite of 19 cash management applications that operate as a conduit between financial institutions, state treasury accounts, the state's financial management applications (accounting system), state agencies, and local governments. The Program continues to work on upgrading and modernization of the agency's cash management applications and private banking contractual relationships.

Approximately 76 state agencies and 10 public university entities have 827 open accounts with an aggregate balance of $10.2 billion. There are approximately 983 local governments with 1,592 accounts with an aggregate balance of $7.8 billion.

Overall questions remain about Congressional action and the federal government's enforcement of federal law related to recreational marijuana given the change in the federal administration. The ancillary impact has been to constrain recreational marijuana vendors use of the banking system thereby resulting in a substantially cash-driven economic model.

Public Funds Collateralization Program

The Public Funds Collateralization Program assures that public funds held in more than 40 participating Oregon banks and credit unions are properly collateralized. The Finance Program administers the Public Funds Collateralization Program, which monitors commercial banks and credit unions that accept public funds to ensure that the institutions pledge sufficient and appropriate collateral against any public fund deposits in excess of deposit insurance amounts.

Revenue Sources and Relationships
OST charges bank and credit union depositories for the reasonable expenses of the agency in connection with the services, duties, and activities of the Public Funds Collateralization Program. Charges are calculated quarterly as follows: each bank and credit union depository is charged a flat fee of $250 for their participation in the pool; and program expenses not covered by the $250 flat fee are allocated to bank and credit union depositories holding state funds in excess of FDIC insurance levels. Combined, these fees are estimated to total $669,723 for the biennium.

Budget Environment
There are approximately 29 banks with $2.3 billion in public funds deposits and 10 credit unions with $22 million in public funds deposits participate in the program and were assessed the quarterly charges.

Debt Management Program

The Debt Management Program coordinates the sale and issuance of all state revenue and general obligation bonds, certificates of participation, and other financing agreements, including coordination of the sale of Tax Anticipation Notes. The Program also issues bonds for Oregon Business Development Commission projects, Oregon Facilities Authority projects, and revenue bonds for state universities. The Debt Management Program also determines state policy for the appropriate use and structure of interest rate exchange agreements and oversees the execution of specific interest rate swap transactions for various state bonding programs. The Program serves as a clearinghouse for all information related to the issuance of state and local government debt, including the publication of a state bond calendar and annual reports summarizing trends in local government debt. It administers the Oregon School Bond Guaranty Act, which permits the State to guarantee general obligation bonds issued by qualified school districts, education service districts, and community college districts.

The Program staffs the State Debt Policy Advisory Commission, which advises the Governor and the Legislature regarding policies and actions that will enhance and preserve the State of Oregon's credit rating and maintain access to credit markets and low-cost capital financing. The Commission maintains a multi-year forecast of Oregon's general fund and lottery debt capacity, as well as all tax-supported debt programs.

The Program assists local government debt issuance and management by staffing the Municipal Debt Advisory Commission, which tracks and reports on the issuance of all local government bonds. Debt Management Program staff also review and approve all local government advance refundings. The program also is responsible for the Oregon Facilities Authority, which connects nonprofits large and small statewide with tax-exempt "conduit" bonds, and for the Private Activity Bond Committee.

Revenue Sources and Relationships

The Program may charge state agencies and municipalities fees to offset the costs of providing bond issuance, tracking, and reporting services. If the fees are not sufficient to fully fund OST debt management operations, an assessment is made quarterly against each state agency with outstanding debt issuances. Revenue is expected to total $4.2 million for the biennium.

Budget Environment

State-backed, long-term debt outstanding was roughly $10.9 billion (June 30, 2018). The Legislature in 2019 enacted SB 1049, which requires a public body or intergovernmental entity, prior to issuing pension obligation bonds, to obtain a statistically based assessment from an independent economic or financial consulting firm. The assessment would need to determine the likelihood that investment returns on bond proceeds would exceed the interest cost of the bonds under various market conditions. Upon receipt of the assessment, the public body or intergovernmental entity needs to make the results available to the public and disclose whether it has retained the services of an independent SEC-registered advisor. The public body or intergovernmental agency is required to submit the assessment to the State Treasurer at least 30 days before issuing the bonds. The State Treasurer is to then provide an annual report on local entities pension obligation bonds issued to the State Debt Policy Advisory Commission. The measure also limits diversion agreements to no more than 100% of an entity's State School Fund distribution.

Public Infrastructure Program

The executive branches of Oregon, California, Washington, and British Columbia formed the West Coast Infrastructure Exchange (WCX) to identify new methods for financing and facilitating infrastructure development needs. In 2013, the Legislative Assembly enacted HB 2345, creating the Oregon Innovation in Infrastructure Task Force to make recommendations regarding innovative practices relating to public infrastructure, as well as a recommendation regarding Oregon's participation in the WCX. HB 4111 (2014) created the Public Infrastructure Commission. A measure in 2015 (HB 2748) to transfer responsibility for the Public Infrastructure Commission to the Department of Administrative Services failed to become law and there is no longer funding in OST's budget for this activity.

Executive Services - Office of the State Treasurer

The Office of the State Treasurer is comprised of the State Treasurer, the Treasurer's Chief of Staff, legislative affairs, communications, policy, and executive support staff.

Revenue Sources and Relationships

The Office of the State Treasurer function is financed by a portion of each program's revenues that are internally assessed to support those functions. The State Treasurer's salary is set by statute ($77,000 per year plus Other Payroll Expenses). Revenue is expected to total $2.6 million for the biennium.

Budget Environment

State finance, of which State Treasury plays a key role, continues to become more complex given changes in investing, investment management, cash management, bonding, and relatively recent new program additions, such as the ABLE and ORSB programs.

Executive Services - Shared (Administrative) Services

Shared Services includes Treasury-wide business and support services, which include budget, accounting, human resources, procurement, data and records management, facilities operations, risk management, and project management; however, OST does procure accounting services from the Department of Administration Services (DAS) - Shared Client Services and from DAS for procurement services.

Revenue Sources and Relationships

The Shared Services function is financed by a portion of each program's revenues that are internally assessed to support those functions. Revenue is expected to total $11.4 million for the biennium.

Budget Environment

During the 2013-15 biennium, Treasury transitioned to utilizing DAS - Shared Client Services for payroll, accounting, and budget services. The Legislature approved OST's request for a Budget Officer in 2017. This began what OST would like to see as the return of DAS contracted services to Treasury; however, this re-insourcing was not approved by the Legislature in 2019.

Executive Services - Information Technology Services

Information Technology Services provides network, application development, and information security services.

Revenue Sources and Relationships

The Information Technology Services function is financed by a portion of each program's revenues that are internally assessed to support those functions. Revenue is expected to total $12.8 million for the biennium.

Budget Environment

Review and approval of the State Treasurer's information technology program and security plans by the Department of Administrative Services is not required by statute. OST continues to build upon an Information Security Management program that was originally started and funded by the Emergency Board in May of 2014.

Treasury Services Program

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $81 million is $5.4 million (or 7.2%) more than the 2017-19 legislatively approved budget and includes 157 positions (155.47 FTE). The budget includes select employee performance-based compensation. The budget includes the following:

- $1.5 million Other Funds expenditure limitation and establishes four positions (3.55 FTE), and reclassifies one position for the Investment Program.
- 780,691 Other Funds expenditure limitation to establish one limited duration Information Systems Specialist 8 position (0.92 FTE) and to purchase and implement additional information security tools and services.
- $212,877 Other Funds expenditure limitation and the abolishment of one permanent full-time Principal Executive Manager D position (1.00 FTE), which had been vacant since October 2017.

Oregon 529 Savings Network

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	647,040	1,334,466	441,787	--
Other Funds	4,883,790	6,377,827	6,151,635	7,517,661
Total Funds	**$5,580,830**	**$7,712,293**	**$6,593,422**	**$7,517,661**
Positions	5	5	5	5
FTE	3.75	5.00	5.00	5.75

Program Description

The Legislature enacted SB 777 (2015), which broadened the scope of Oregon's existing 529 savings plan. The measure formed a single Oregon 529 program by merging the existing Oregon 529 College Savings Network with a newly established Achieving a Better Life Experience Act (ABLE) program. Both of the Oregon plans are overseen by the five-member Oregon 529 Savings Board.

Oregon 529 College Savings Network Program

The Oregon 529 [College] Savings Network administers two college savings programs designed to encourage people to save money for future education costs: a state plan and a plan offered through private investment advisors. Participants can choose from a variety of investment options. Earnings on the investments are exempt from income taxes if used for qualified educational expenses when withdrawn, and some contributions may be claimed as a deduction against income for state income tax purposes. The maximum contribution for joint returns is $4,750 and $2,375 for all other filers, for 2018, and is adjusted annually for inflation. Under federal law, contributions to College Savings programs are not tax deductible; however, the earnings on accounts are excluded from taxable income.

Revenue Sources and Relationships

The College Savings program has two revenue impacts: program operating revenues and state tax expenditure, which is the reduction of General Fund revenues due to the tax deductibility of contributions. The Program receives Other Funds from an annual assessment on plan assets equal to 5 basis points (0.05%) of total plan assets and is calculated and remitted to the Network monthly by the Oregon College Savings Plan and MFS 529 Savings Plan, sold through financial advisors. Revenues are projected to total $5.6 million for the biennium. The state tax expenditure, or measure of the General Fund revenue impact (loss), is estimated to be $33.2 million for the 2019-21 biennium.

Budget Environment

The Oregon 529 [College] Savings Network state plan (direct-sold) has 113,756 accounts (total assets of $2.1 billion), and the plan sold through private financial advisors has 84,381 accounts (total assets of $1.6 billion), as of June 30, 2019. In tax year 2016, 42,740 full year residence personal income tax filers took an average subtraction of $2,910 and 1,290 part-year residence personal income tax filers took an average subtraction of $2,960. Of note is that 87% of the revenue impact accrues to those whose income is above $92,700 a year.

Although administered by the Treasurer, participant enrollment, investment management, and participant support is provided by third party contractors. A recent switch in plan administrators for the 529 College Savings Plans was poorly executed and resulted in a number of customer complaints; however, the program expects to see improved service and performance from the new vendor.

Achieving a Better Life Experience Act (ABLE) Program

The Stephen Beck Jr., Achieving a Better Life Experience Act program (ABLE) is open to individuals diagnosed with a disability before the age of 26. ABLE program expenses qualify as disability-related if they are for the benefit of an individual with a disability and are related to the disability (including education, housing, transportation, employment support, health, prevention, and wellness costs; assistive technology; personal support services; and other expenses). An ABLE account holder's balance is meant to supplement, but not supplant, benefits provided through private insurances, the Medicaid program, the supplemental security income program, the beneficiary's employment, and other sources.

Up to $100,000 can be saved within an ABLE account without the assets affecting federal and state benefits and $15,000 can be contributed in 2018. The maximum contribution for joint returns is $4,750 and $2,375 for all other filers, for 2018, and is adjusted annually for inflation. Contributions and distributions are tax deductible under state law; however, the plan limits the tax exempt contributions to those made before the beneficiary of the account attains 21 years of age. Pre-tax contributions by individuals will be deposited directly into individual accounts held in trust by private third party investment administrators. The ABLE plan may accept deposits from out-of-state residents. There will be a federal tax benefit on the earnings and withdrawals from the account, if used for qualified expenses. The measure provides for the taxation of distributions that are not for qualified disability expenses.

Revenue Sources and Relationships

The ABLE program has two revenue impacts: program operating revenues and state tax expenditure, which is the reduction of General Fund revenues due to the tax deductibility of contributions. The current state administrative fee for the Oregon ABLE Savings Plan is 30 basis points (0.30 percent) annualized based on average daily net asset value and $40 per year per account. Such fees are estimated to total $1.6 million for the biennium. This is a material change from the prior biennium as the Program had to be supported by a General Fund loan. The state tax expenditure, or measure of the General Fund revenue impact (loss), is estimated to be $300,000 for the 2019-21 biennium. Under federal law, contributions to ABLE are not tax deductible; however, the earnings on accounts are excluded from taxable income.

OST expects to start the repayment of outstanding General Fund loans during the 2023-25 biennium, based on revenue and expenditure forecasts from the initial program launch. The General Fund loan for the ABLE totals $1,983,266 for the 2015-17 and 2017-19 biennia.

Budget Environment

ABLE launched in December 2016, and as of March 31, 2018, had nearly $7.5 million in assets and 1,589 total accounts. In tax year 2016, about 120 personal income taxpayers saved approximately $200, on average, using the tax deduction. Although administered by the Treasurer, participant enrollment, investment management, and participant support is provided by third party contractors. SB 163 (2019) permits the Oregon 529 Savings Board to collect application, account, or administrative fees to defray the costs of the ABLE program. Prior to the measure's passage, OST did not have explicit statutory authority to impose or collect administrative fees in relation to the ABLE program.

In an attempt to achieve administrative efficiencies, the 529 College Savings, ABLE Savings, and OregonSaves programs will be jointly administered by the 529 Program staff.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget totals $7.5 million Other Funds and is $194,632 (or 2.5%) less than the 2017-19 legislatively approved budget and includes five positions (5.75 FTE). The budget includes the following:

- Package 104 reduces General Fund by $441,787, increases Other Funds expenditure limitation by $1,379,682, and increases existing positions allocated to the program by 0.75 FTE in aggregate. The package also reclassifies the Director and Deputy Director positions upward from salary ranges 40X to 45 and 32 to 38, respectively. The package makes permanent the network consolidation and reorganization of the 529 College Savings, ABLE Savings, and OregonSaves programs; and shifts the ABLE Savings Plan budget from General Fund to Other Funds.

Oregon Retirement Savings Board

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	1,257,591	4,026,804	1,021,820	--
Other Funds	--	--	2,567,723	4,166,406
Total Funds	**$1,257,591**	**$4,026,804**	**$3,589,543**	**$4,166,406**
Positions	4	4	4	4
FTE	3.84	3.84	4.00	3.25

Program Description

The Oregon Retirement Savings Board (ORSB) is a program created by HB 2960 during the 2015 session. (The program has rebranded itself as the "OregonSaves" program.) ORSB is a seven member board, which includes two non-voting legislator members. The ORSB is charged with the establishment of a defined contribution retirement plan for people whose employers do not offer a qualified retirement plan under federal law. The ORSB plan may only be established if the plan does not qualify as an employee benefit plan under federal law. Before establishing a plan, the ORSB had to conduct market and legal analysis of the plan. The ORSB is required to establish rules for employees to be automatically enrolled and to opt out of the plan, to determine contribution and withdrawal processes, and to establish exemptions for employers that provide alternative plans.

The ORSB has determined that employee contributions will be to ROTH individual retirement accounts on a post-tax basis. Employee contributions from employer payroll withholdings will be transferred from employers to a specific plan provider with which the ORSB contracts to manage participants' individual accounts. The State of Oregon will not be responsible for transferring or holding in trust any employee's contribution or account.

Revenue Sources and Relationships

The ORSB charges administrative fees on assets under management in the program. Fees are collected by the plan administrator who remits monthly to Treasury a portion of those fees along with an annual minimum fee. The current state administrative fee for the OregonSaves program is 15 basis points (0.15 percent) annualized based on average daily net asset value, and $500,000 per year for program advertising costs. Revenues are expected to total $4.4 million for the biennium. This is a material change from prior biennium as the Program had to be supported by a General Fund loan. OST expects to start the repayment of outstanding General Fund loans during the 2023-25 biennium, based on revenue and expenditure forecasts from the initial program launch. The General Fund loan for the ORSB totals $5,318,384 for the 2015-17 and 2017-19 biennia.

Budget Environment

The plan has approximately $22.8 million in plan assets from over 16,000 contributing participant accounts as of August 2019. There are approximately 1.9 million employees in Oregon that are employed by 120,000 employers. Around 1.1 million employees (55%) have access to employer-sponsored retirement plans and 873,000 (45%) are without access to an employer-sponsored retirement plan. The program officially launched on July 1, 2017 with the first of two pilot programs. A phased implementation plan, based on the number of employees an employer has, will roll-out the program through May 2020. Employers with 100 or more employees are scheduled to go first in the implementation schedule and employers with four or fewer employees will go last. Although administered by the Treasurer, participant enrollment, investment management, and participant support is provided by third party contractors.

SB 166 (2019) permits the ORSB to enter into agreements with other states relating to retirement savings plans in those states and SB 164 (2019) makes employers failure to comply with the requirements of the ORSB an unlawful employment practice.

In an attempt to achieve administrative efficiencies, the 529 College Savings, ABLE Savings, and OregonSaves programs will be jointly administered by the 529 Program staff.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget totals $4.2 million Other Funds and is $139,602 (or 3.5%) more than the 2017-19 legislatively approved budget and includes four positions (3.25 FTE). The budget includes:

- Package 104, Oregon Savings Network. The package reduces General Fund by $1,021,820, increases Other Funds expenditure limitation by $1,618,118, and reduces existing positions allocated to the program by 0.75 FTE in aggregate. The package makes permanent the network consolidation and reorganization of the 529 College Savings, ABLE Savings, and OregonSaves programs; and shifts the OregonSaves budgets from General Fund to Other Funds.