

**74th OREGON LEGISLATIVE ASSEMBLY – 2007 Regular Session
BUDGET REPORT AND MEASURE SUMMARY**

MEASURE: HB 5035-A

JOINT COMMITTEE ON WAYS AND MEANS

**Carrier – House: Rep. Galizio
Carrier – Senate: Sen. Schrader**

Action: Do Pass as Amended and Be Printed A-Engrossed

Vote: 18 – 0 – 4

House – Yeas: D. Edwards, Galizio, Garrard, Hanna, Nathanson, Nolan, Shields

– Nays:

– Exc: Jenson, Morgan

Senate – Yeas: Bates, Brown, Courtney, Devlin, Johnson, Morse, Nelson, Schrader, Verger, Westlund, Whitsett

– Nays:

– Exc: Gordly, Winters

Prepared By: Linda Ames, Department of Administrative Services

Reviewed By: Robin LaMonte, Legislative Fiscal Office

Meeting Date: 6/23/07

Agency

Economic and Community Development Department

Department of Administrative Services

Various Agencies

Budget Page

LFO Analysis Page

Biennium

2007-09

Senators: Bates, Carter, Devlin, Gordly, Johnson, Morse, Nelson,
Schrader, Verger, Westlund, Whitsett, Winters

Senator Kurt Schrader, Co-Chair

Representatives: D. Edwards, Galizio, Garrard, Hanna, Jenson,
Morgan, Nathanson, Nolan, Shields

Representative Mary Nolan, Co-Chair

Capital Construction and Bonding Subcommittee

Budget Summary*

	2005-07		2007-09		Percentage Committee
	Legislatively Approved Budget (1)	Governor's Budget	Committee Recommendation	Difference from Governor's Budget	Change from Governor's Budget
<u>Economic and Community Development Department</u>					
Lottery Funds	0	0	5,450,000	+5,450,000	+100.0%
Lottery Funds Debt Service	0	0	389,882	+389,882	+100.0%
Other Funds Debt Service	0	0	2,130,000	+2,130,000	+100.0%
Total	\$ 0	\$ 0	\$ 7,969,882	\$ +7,969,882	+100.0%
<u>Department of Administrative Services</u>					
Lottery Funds Debt Service	0	0	168,703	+168,703	+100.0%

(1) Includes adjustments through the December 2006 meeting of the Emergency Board

* Excludes Capital Construction expenditures

Summary of Revenue Changes

The Oregon Lottery collects revenues from traditional and video lottery gaming. It pays player prizes and its operating expenses out of these revenues and then transfers the balance (net profits) to the Department of Administrative Services (DAS) Economic Development Fund (EDF). DAS then distributes funds from the EDF in adherence with constitutional and statutory funding priorities, including specific Legislative allocations. The amounts outlined in this bill are based on the Lottery forecast from the DAS Office of Economic Analysis as of May 15, 2007. As actual amounts vary, the allocations or distributions set forth within may also vary – in some cases requiring related expenditure limitation adjustments.

The Oregon Lottery transfers Lottery Funds to the Administrative Services Economic Development Fund (EDF) on a quarterly basis. From each quarterly transfer, a number of dedicated distributions are required by the Oregon Constitution or are provided for in Oregon Revised Statutes (ORS), including:

- The Oregon Constitution requires that 18 percent of net proceeds be distributed to the Education Stability Fund;
- The Oregon Constitution requires that 15 percent of net proceeds be distributed to the Parks and Natural Resources Fund;
- Oregon Statute requires that 2.5 percent of net proceeds of video lottery gaming be distributed to the counties for economic development projects. Beginning with the 2005-07 biennium, 50 percent of the operating costs for the Economic Revitalization Team (ERT) established by ORS 284.555 are also funded from this source;

- Effective July 1, 2007, Oregon Statute eliminates sports-related lottery games and instead requires that one percent of net profits be distributed to the Sports Lottery Account for sports programs at state institutions of higher education and for scholarships. This results in 7 quarters of distribution under the new program during the 2007-09 biennium;
- Oregon Statute requires that one percent of net profits be transferred to the Department of Human Services for Gambling Addiction treatment. During the 2007-09 biennium, the Department will be directed to return \$2,000,000 of unspent funds distributed but for which expenditure limitation is not provided;
- Oregon Statute requires that one percent of the net profits, not to exceed \$1.53 million annually, adjusted biennially pursuant to certain changes in the Consumer Price Index, be transferred to the County Fair account;
- Oregon Statute requires that annual debt service payments for outstanding Lottery Bonds be satisfied before allocating for other purposes.

Finally, the Legislature makes other allocations from the EDF within authorized public purposes. These purposes include job creation, economic development and public education. Currently, the bulk of allocations are made to the Department of Education for the State School Fund and to the Oregon Economic and Community Development Department for various program expenditures. During the 2007-09 biennium, debt service requirements will comprise approximately 12 percent of the total distributions from this account.

Debt service allocations are paid annually in the first quarter of each fiscal year. Interest earned on the EDF remains within the fund itself. If at the end of any quarter funds remain undistributed, they will remain in the EDF for allocation in future quarters. If in any quarter, revenue in the EDF is insufficient to pay for quarterly distribution of allocations, DAS will first fund debt service obligations. Remaining revenues will be distributed in a prorated manner.

Summary of Subcommittee Action

Allocation of Lottery Revenue

House Bill 5035 allocates lottery revenue from the EDF. The amounts outlined in this bill are based on the Lottery forecast from the DAS Office of Economic Analysis as of May 15, 2007. The attached Table A-1 displays the Lottery Funds allocated by the Subcommittee from the EDF. The allocations are summarized below.

- A total of \$167.5 million Lottery Funds is allocated for debt service for outstanding and proposed bonds to the Department of Education, Department of Higher Education, Housing and Community Development Department, Economic and Community Development Department, Department of Transportation, and the Department of Administrative Services (for Oregon Public Broadcasting bonds). New lottery bonds for the 2007-09 biennium include the following:

Connect Oregon II

The Legislature authorized the sale of lottery bonds for the second phase of an initiative funding multimodal transportation projects. The funds will finance loans and grants to public bodies and private entities for public transit and air, marine, and rail transportation projects.

Housing: Homeless Assistance

The sale of lottery bonds was authorized to leverage existing state and local resources to create 150 new units of permanent housing for homeless families, adults, and youth. Support services for the homeless will also be funded.

Infrastructure Funds

The Legislature authorized lottery bonds to recapitalize the community infrastructure fund administered by the Oregon Economic and Community Development Department. These funds are primarily used by local communities for public works and water/wastewater infrastructure projects. Because the bonds will be issued late in the biennium, no funding was needed for debt service in 2007-09. The debt service for the 2009-11 biennium is expected to be about \$4.3 million.

Higher Education Capital Repair

The sale of lottery bonds was authorized for capital repair projects in the Oregon University System in order to maintain facilities and keep the deferred maintenance backlog from growing.

Coos Bay Channel Project

The Legislature authorized lottery bonds to deepen and widen the deep draft navigation channel in the Port of Coos Bay. The State's investment is critical in securing federal Corps of Engineers support and approval. This project is essential to developing a major intermodal container terminal for Coos Bay Harbor in partnership with private sector investors.

TriMet South Corridor Project

The Legislature authorized lottery bonds to extend the light rail system from downtown Portland to Milwaukie. The State's investment is expected to leverage significant levels of federal matching funds. Because the bonds will be issued late in the biennium, no funding was needed for debt service in 2007-09. The debt service for the 2009-11 biennium is expected to be about \$44.9 million.

Streetcars

The sale of lottery bonds was authorized to provide funds for the manufacture of streetcars for the Eastside Streetcar Line in Portland. This will assist in the expansion of the fixed rail transit system and is expected to foster development of an important industry in Oregon. Because the bonds will be issued late in the biennium, no funding was needed for debt service in 2007-09. The debt service for the 2009-11 biennium is expected to be about \$3.6 million.

Oregon Public Broadcasting

The Legislature authorized lottery bonds for Oregon Public Broadcasting, who must respond to a federal mandate to switch to digital from analog television broadcasting. Investment of State funds will ensure that towers and other necessary infrastructure is in place before the February 2009 deadline so that service will not be interrupted in more remote areas of the state – including the Columbia Gorge, the Oregon coast, and much of Eastern and Southern Oregon. Bonds authorized in 2001 helped fund the switch to digital in the more populated areas of Oregon.

Hillsboro Parking Structure

The Legislature authorized lottery bonds to build a parking structure associated with a medical facility in Hillsboro. Because the bonds will be issued late in the biennium, no funding was needed for debt service in 2007-09. The debt service for the 2009-11 biennium is expected to be about \$1.3 million.

- The State School Fund is allocated \$634.1 million Lottery Funds.
- The Department of Administrative Services is allocated \$35,190 for transfer to the Department of Agriculture for administration of county fairs.
- A total of \$67.4 million Lottery Funds is allocated for the Economic and Community Development Department. This includes \$18.5 million for Operations, \$43.3 million for the Oregon Community Development Fund, and \$1.3 million for the Film and Video Office. It also includes a number of targeted enhancements:
 - \$1.7 million Strategic Reserve for workforce investments;
 - \$1.4 million for Targeted Service Providers, to support the under-served populations of minority- and women-owned businesses and small businesses in rural or distressed communities;
 - \$500,000 for the Oregon Main Street Program, to preserve and restore Oregon’s historic downtowns;
 - \$250,000 for targeted workforce training;
 - \$500,000 for a grant to the City of Eugene for facilities and other costs related to the 2008 Olympic Trials.
- The Office of the Governor is allocated \$2.1 million Lottery Funds for the Economic Revitalization Team. Half of this funding will come from the 2.5 percent of video lottery proceeds that are dedicated to county economic development.

Lottery Funds Expenditure Limitation

Lottery Funds expenditure limitation related to these allocations are generally contained within the respective agency budget bills. However, in some cases, decisions were made after agency budgets were finalized. The Subcommittee approved the following Lottery Funds expenditure limitation actions within this bill:

Department of Administrative Services

- An increase of \$168,703 Lottery Funds expenditure limitation for debt service on bonds authorized for Oregon Public Broadcasting.

Oregon Economic and Community Development Department

- An increase of \$449,647 Lottery Funds expenditure limitation for debt service on bonds authorized for the Coos Bay Channel project.
- A decrease of \$59,765 Lottery Funds expenditure limitation and an increase of \$2,130,000 Other Funds expenditure limitation for debt service on existing bonds, to correct the agency's budget bill, Senate Bill 5508.
- An increase of \$5,250,000 Lottery Funds expenditure limitation for the Oregon Translational Research and Drug Development Institute (OTRADI), which is a signature research center in support of drug development in the area of infectious diseases. There is also an increase in Lottery Funds expenditure limitation of \$200,000 for the Strategic Reserve to provide leadership training.

The Subcommittee discussed the performance measures related to the policy package for the Oregon Innovation Council (Oregon InC) as detailed in the budget note below.

Budget Note

The Oregon Innovation Council (Oregon InC) is directed to identify the targets related to the following performance measures and report on those targets to the Joint Legislative Audit Committee at the first meeting following adjournment of the 74th legislative assembly, and to report to the 75th meeting of the legislative assembly on the outcomes from these measures.

1. Package Outcome Measure #1: Leverage of federal, private and foundation dollars.
2. Package Outcome Measure #2: Successful commercialization of Oregon technology resulting in one or more of the following: new jobs, retained jobs, increased state revenue, new start-up companies and/or recruitment of companies to Oregon.
3. Program Specific Outcomes:
 - a. Food Processing Initiative: Proposed Outcome Measure: Estimated productivity enhancements (in millions of dollars) for Oregon companies as a result of: 1) direct assistance from the Innovation and Productivity Center; and/or 2) the adoption of new technology facilitated by the Innovation and Productivity Center.
 - b. Seafood Initiative: Proposed Outcome Measure: Number of direct jobs retained and direct jobs created in Oregon's seafood industry.
 - c. Manufacturing Initiative: Proposed Outcome Measure: Increase (by percentage and in millions of dollars) in the volume of applied manufacturing research conducted at Oregon Universities with federal funding and/or industry match.
 - d. Wave Energy: Proposed Outcome Measure: Megawatts generated from ocean wave energy facilities on the Oregon Coast.

- e. Bio-Economy and Sustainable Technologies (BEST) Signature Research Center (SRC): Proposed Outcome Measure: Increase (by percentage and in millions of dollars) in the volume of research in the areas of bio-fuels, bio-products and/or green building conducted at Oregon Universities with federal funding and/or industry match.
- f. Oregon Nanoscience and Microtechnologies Institute (ONAMI) SRC: Proposed Outcome Measure: Number of technologies developed in partnership with ONAMI that are commercialized by start-up and/or existing Oregon companies; and leverage of federal and private funding for ONAMI research.
- g. Translational Research and Drug Development Institute (OTRADI) SRC : Proposed Outcome Measure: Revenue (in millions of dollars) generated by royalties and licenses for translational research conducted by OTRADI; and increase (by percentage and in millions of dollars) in the amount of federal, private and foundation funding for research and development in the areas of drug discovery and infectious diseases.

Education Stability Fund

A constitutional amendment approved by Oregon voters in 1997, and amended in 2002, requires that 18 percent of net lottery proceeds be transferred to the Education Stability Fund. Interest earnings on this fund are continuously appropriated for the benefit of education programs. These earnings are split 75 percent to the Oregon Education Fund, which is currently used to help pay debt service on Lottery bonds that were previously issued for the Department of Education, and 25 percent to the Oregon Student Assistance Commission (OSAC).

Parks and Natural Resources Fund

Ballot Measure 66, approved by Oregon voters in 1998, requires 15 percent of net lottery proceeds to be transferred to the Parks and Natural Resources Fund. This fund is continuously appropriated for the benefit of State Parks and other natural resource agencies.

County Economic Development

Oregon Statutes require that 2.5 percent of net proceeds of video lottery gaming be distributed to the counties for economic development projects. Beginning with the 2005-07 biennium, 50 percent of the operating costs for the Economic Revitalization Team (ERT) established by ORS 284.555 have also been funded from this source.

Gambling Addiction

The 1999 Legislature statutorily dedicated one percent of net lottery proceeds to be transferred to the Department of Human Services to fund gambling addiction programs in the state. The Department will be directed to return \$2.0 million of unspent funds previously distributed, but for which expenditure limitation is not provided in the 2007-09 biennium.

Higher Education Sports Programs

Effective July 1, 2007, the 2005 Legislature statutorily dedicated one percent of net lottery proceeds to be transferred to the Department of Higher Education for distribution to institutions to offset the costs of intercollegiate athletic programs and for academic scholarships.

County Fairs

The 2001 Legislature statutorily dedicated one percent of net lottery proceeds, with certain limitations, for distribution to county fair programs throughout the state.