

WAYS AND MEANS CO-CHAIR BUDGET REVIEW
Attachments

Subcommittee on Natural Resources

| Bill | Agency | Analyst |
|---------|--|-----------|
| HB 5002 | Agriculture, Department of | Terpening |
| HB 5044 | Climate Authority, Oregon | Terpening |
| HB 5009 | Columbia River Gorge Commission | Rocco |
| HB 5017 | Environmental Quality, Department of | Terpening |
| SB 5510 | Fish and Wildlife, Department of | Terpening |
| HB 5019 | Forestry, Department of | Stayner |
| SB 5511 | Geology and Mineral Industries, Department of | Terpening |
| HB 5027 | Land Conservation and Development, Department of | Stayner |
| HB 5028 | Land Use Board of Appeals | Stayner |
| HB 5035 | Lands, Department of State | Stayner |
| SB 5521 | Marine Board | Walker |
| SB 5527 | Parks and Recreation Department | Stayner |
| HB 5043 | Water Resources Department | Stayner |
| SB 5539 | Watershed Enhancement Board, Oregon | Siebert |
| SB 5540 | Watershed Enhancement Board – Local Grants | Siebert |

State Lands

| | 2015-17 Actual | 2017-19 Legislavely Adopted | 2017-19 Legislatively Approved* | 2019-21 CSL LFO | 2019-21 Governor's Budget |
|--------------------------|-------------------|-----------------------------------|---------------------------------------|-----------------------|---------------------------------|
| General Fund | 242,904 | 5,000,000 | 5,000,000 | -- | -- |
| Lottery Funds | -- | -- | -- | 589,920 | 589,920 |
| Other Funds | 32,278,901 | 47,925,059 | 56,436,136 | 45,471,053 | 62,539,044 |
| Other Funds (Nonlimited) | 13,184,428 | 10,234,249 | 19,234,249 | 10,627,890 | 10,627,890 |
| Federal Funds | 1,541,286 | 2,261,458 | 2,466,188 | 2,225,284 | 2,475,477 |
| Total Funds | 47,247,519 | 65,420,766 | 83,136,573 | 58,914,147 | 76,232,331 |
| Positions | 107 | 111 | 113 | 106 | 116 |
| FTE | 107.00 | 109.33 | 110.67 | 105.50 | 114.33 |

* Includes Emergency Board and administrative actions through December 2018.

Program Description

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

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

- Common School Fund – (90 positions, 89 FTE) Consists of Land Management, Aquatic Resource Management, Business Operations and Support Services, and the Director's Office.
- Oregon Wetlands Revolving Fund – (0.50 FTE) Established by the 1987 Legislative Assembly to provide financial resources to acquire wetlands banking and wetlands mitigation sites; to accomplish wetlands restoration, enhancement, and creation; and to cover administrative costs.
- South Slough National Estuarine Research Reserve – (16 positions, 16.00 FTE) A tidal inlet of the Coos estuary six miles southwest of Coos Bay. The area was designated in 1974 as the first national estuarine research reserve and consists of 1,000 acres of tidelands and open water surrounded by a 3,800-acre upland border. The total South Slough National Estuarine Research Reserve (SSNERR) acreage

is part of the U. S. National Estuarine Research Reserve System established by the Coastal Zone Management Act of 1972. SSNERR operates an interpretive center and maintains nature trails for hikers and canoeists. It also conducts a variety of research, education, and stewardship programs. Its laboratory work is co-located with the Oregon Institute of Marine Biology in Charleston, which is operated by the University of Oregon.

- Capital Improvements – (no positions or FTE) Manages property as assets of the Common School Fund. Expenditures in this program include land rehabilitation and conversion; small infrastructure design and construction projects; facilities rehabilitation; general maintenance and repair; weed control; and response to environmental hazards.

CSL Summary and Issues

The current service level for the agency includes adjustments from the 2017-19 legislatively adopted budget for:

- 2018 session actions and Emergency Board actions through March 2018 including:
 - Position actions including collective bargaining agreements negotiated by the Governor; \$670,675
 - Expenditure authority for cleanup work at the Goble site; \$7.24 million
 - Expenditure authority for federal and other grant funds; \$390,815
- Net impact of the biennialization of position actions and the elimination of limited duration positions; a net reduction of \$392,458
- Projected adjustments for existing debt service costs; \$393,641
- Decrease in vacancy savings to reflect anticipated actual personal services expenditures; \$338,125
- Personal Services adjustments not included elsewhere including; temporary appointments, overtime, and associated taxes; \$70,809
- Phase-out of one-time funded activities or programs funded in the 2017-19 budget, including reductions for:
 - Funding for the development of a habitat conservation plan (HCP) and environmental impact statement (EIS) related to the management of the Elliot state forest; \$1.5 million
 - Purchase of all-terrain vehicles for the Common School Fund lands program; \$26,000
 - Bond issuance costs for the \$3.0 million spring 2019 bond sale, the proceeds of which are deposited in the Portland Harbor Cleanup Fund; \$57,587
 - Expenditure limitation for cleanup work at the Goble site; \$7.24 million
 - One-time grant funds; \$438,958
 - Legal expenses related to the Portland Harbor Superfund site; \$6.1 million
 - General Fund appropriation for deposit in the Portland Harbor Cleanup Fund; \$5.0 million
 - Limitation related to SB 912 (2015) work on historically filled lands \$116,800
- Inflation, both standard inflation at a rate of 3.8% for most Services and Supplies expenditures, and extraordinary inflation for certain authorized items; \$1.59 million
- Increases in state government service charges; \$282,951

Additional legislatively approved changes that were made to the 2017-19 budget for the Department of State Lands after April 2018 are not contemplated in the current service level budget for the agency, but are captured in the legislatively approved budget. Typically, adjustments made to the agency's budget during this part of the interim are for one-time funding or expenditure authority, and therefore, require no additional accommodation in the upcoming biennium's budget.

The current service level budget for the agency shrinks by \$6.5 million or 9.9% from the legislatively adopted budget. This is entirely attributable to one-time funding items, particularly the elimination of the \$5.0 million General Fund appropriation that was made to the agency to initially fund the Portland Harbor Cleanup Fund.

There are some significant errors included in the current service level due to the calculation of phased-out items contained in the essential budget package 022 and a base budget error due to incorrect position coding.

- A position that was authorized to be permanent, full-time position was established by the agency as limited-duration and therefore was eliminated in the current service level budget for the agency.
- A \$2.5 million deduction from the amount phased-out for the one-time legal costs related to the Portland Harbor Superfund site was included in error. The agency's stated that the intent of this entry was to capture anticipated insurance reimbursements that the agency was using to reduce booked expenditures. When an agency uses this scheme, recovered monies are not booked as revenue, but rather as negative expenditures, thus understating the total amount expended. Even in that case, the \$2.5 million reduction in phase-outs incorrectly adjusts the resulting budget expenditure authority upwards instead of downwards as would be desired under a recovered-revenue used to reduce expenditures scheme.
- Federal grant fund expenditure limitation of \$329,000 for a grant that was awarded to DSL in 2016 for the remodel at the Estuarine and Coastal Sciences (ECOS) Laboratory had been carried forward into the 2017-19 biennium and was anticipated to be phased-out of the budget for the 2019-21 biennium, but was not.
- Other Funds expenditure limitation of \$608,000 was provided to the agency in 2017-19 for fire patrol assessments on the Elliott when those costs were thought to be paid via the private management contract, but for 2019-21 those costs are included in the revenue transfer made to ODF from DSL and therefore must be removed from the expenditure limitation at CSL.
- Finally, DSL mistakenly included a reduction of \$200,000 Other Funds for capital improvement projects. This funding was included in the 2017-19 legislatively adopted budget and was intended to continue in the base budget for the agency.

Policy Issues

- Elliott Forest management. The Land Board elected to discontinue the management agreement between DSL and the Department of Forestry for the Elliott State Forest. Oregon Statute (ORS 530.490) provides that notwithstanding any other law, or authority granted thereunder, the State Forester is authorized to manage the Elliott State Forest. It is not clear if the Land Board had the legal authority to end the management of the Elliott by the State Forester. The Land Board subsequently contracted with a private party for the

custodial management of the Elliott. Under that contract, no new timber sales have been prepared and therefore no income is being produced from the land. In addition to the existing budgetary resources at the agency dedicated to the operation and management of the Elliott, 2019-21 biennium policy packages put forth by DSL include \$2.0 million for the private management contract, \$1.6 million for continued development of a habitat conservation plan and a public ownership transfer option for the Elliott, and \$180,000 for a dedicated forester position.

- Elliott Forest Bonding/Bond proceeds. The Legislature authorized the issuance of \$100 million in certificates of participation, the proceeds of which were to be used to release the Elliott from its obligation to the Common School Fund. The expenditure authority, and the associated debt service, were allocated to the Department of Forestry. At the October 2018 meeting of the Land Board, the intent was expressed that the payment of the \$100 million in bond proceeds to the Common School Fund would be applied as a “buy-down” reduction in the appraised value, thus reducing the additional amount required by a future purchaser. If the policy is not to have the Department of Forestry involved in the management or the ownership of the Elliott, it may be more appropriate to move the expenditure authority and debt service for the bonds to the Department of Administrative Services.
- Portland Harbor Cleanup Fund. Although \$8.0 million in funding was provided for the Portland Harbor Cleanup Fund, there was no requirement made to have the agency provide either a plan for the funds use or for a report to the legislature on planned expenditures or expenditures made from the funds. Expenditures from the fund in the 2017-19 biennium are anticipated to total just over \$200,000, leaving a fund balance carried forward in to 2019-21 of \$7.8 million. As of November 8, 2018, DSL reports that up to \$1.765 million has been identified for specific projects, but again, no specific timeline for expenditure has been set other than the amounts anticipated in the current biennium.
- Portland Harbor Cleanup Fund bonds. Bonds are due to be sold in April 2018 to produce a net \$3.0 million for deposit in the Portland Harbor Cleanup Fund. That amount, along with a transfer of \$5.0 million General fund provides a total of \$8.0 million in seed money for the fund as noted above. Absent a clear plan for expenditures for the upcoming biennium that requires the entire fund balance, it may be preferable to delay the sale of the bonds until the funding requirement is known.
- Portland Harbor Cleanup Generally. For the past four biennia (since 2011) the agency’s budget has included dedicated expenditure authority for dealing with legal and remedial project costs for the Portland Harbor. This expenditure authority is separate to the funding and expenditure authority provided for the Portland Harbor Cleanup Fund and comes from the Common School Fund. The current budget request is for \$6.8 million.

Governor’s Budget:

The Governor’s budget results in a 29.4% increase in total expenditures from the current service level. In addition to the proposed expenditures included in the policy issues discussed above, the Governor’s budget includes packages that carry-forward existing biennium work that was phased-out at CSL, including work on historically filled lands authorized by SB 921 (2015) and the continuation of an IT project manager to shepherd the lands database replacement project and other ongoing IT projects at the agency.

DSL was authorized to establish an ongoing, permanent, position for general project management of the Portland Harbor and Elliott State Forest work in the 2017-19 biennium. The agency mistakenly identified the position as limited-duration and phased it out of the current service level budget. The Governor's budget restores this position.

Although not originally included in the agency's requested budget, the Governor's budget includes expenditure authority for another \$5.0 million in lottery bond proceeds intended for deposit in the Portland Harbor Cleanup Fund.

There are four new items in the Governor's budget in addition to the continuing items discussed above:

1. A position at the South Slough National Estuarine Research Reserve (SSNERR) to manage GIS data;
2. A half-time, seasonal educational position at SSNERR;
3. An unclaimed property claims examiner; and
4. An internal auditor position at the agency.

Other Significant Issues and Background

Change in distribution to State School Fund resulting from SB 1566 (2018). Due to the volatility of distributions from the Common School Fund to the special PERS unfunded liability account for school districts as required under SB 1566, the Land Board adopted a maximum 3% distribution to the State School Fund from the Common School Fund; a reduction of one percent. The change was based on an actuarial review that was requested by the Land Board of impacts resulting from the implementation of SB 5166 to the Common School Fund.

| Oregon State Marine Board | | | | | |
|--|---------------------------|--|---|--|--------------------------------------|
| | 2015-17 Actual | 2017-19 Legislatively Adopted | 2017-19 Legislatively Approved * | 2019-21 Current Service Level | 2019-21 Governor's Budget |
| Other Funds | 25,175,987 | 26,923,945 | 27,142,592 | 27,428,626 | 28,268,239 |
| Federal Funds | 5,420,164 | 6,631,041 | 6,633,131 | 6,260,265 | 6,260,265 |
| Total Funds | 30,596,151 | 33,554,986 | 33,775,723 | 33,688,891 | 34,528,504 |
| Positions | 41 | 39 | 39 | 38 | 39 |
| FTE | 39.37 | 39.00 | 39.00 | 38.00 | 38.75 |
| * Includes Emergency Board and administrative actions through December 2018. | | | | | |

Program Description

The Board is responsible for registering and titling all recreational motorized and sailboats 12 feet and longer in the state, providing boater education, marine law enforcement, facility access and mitigating the effects of invasive species on native waters.

The Board is divided into four major program areas:

- The Administration and Education program contains all of the costs directly associated with the work of the actual Board, as well as performing a variety of administrative and registration functions.
- The Law Enforcement program unit contracts with 32 county sheriffs' offices and the Department of State Police for marine law enforcement services.
- The Facility Grants program offers assistance and awards grants to federal, state, and local governments for the design and construction of marine access facilities across the state.
- The Aquatic Invasive Species Prevention program is to protect against the introduction and spread of aquatic invasive species through education, enforcement, and inspection/decontamination services.

The Board's programs serve the over registered 170,000 users and approximately 190,000 users that are not registered.

The 2019-21 Governor's Budget is a 2.2% increase from the 2017-19 Legislatively Approved Budget.

Governor's Budget Summary and Issues

The Governor's Budget assumes passage of the boater registration fee increase and passage of the non-motorized boater access fee.

Policy Issues

The 2015 Legislature directed the Board to develop a non-motorized boaters licensing program. The Board returned to the 2017 Legislature with statutory changes to establish the non-motorized boater program. The bill did not make it out of the policy committee due to concerns over the life jacket requirements for all floating devices including inner tubes and air mattresses. The Board has submitted a proposal for a

non-motorized boat waterway access permit program. Currently, non-motorized boaters do not contribute for facilities maintenance or marine law enforcement. Roughly half of Oregon boating fatalities are attributed to non-motorized boaters and non-motorized boaters increasingly require more marine law enforcement resources.

Other Significant Issues and Background

The primary source of operating funds for the Board are boater registration fees and boater registrations have decreased from 177,634 in 2010 to 152,229 in 2017 a 14.3% decrease. As revenues decrease, fewer boating facility grants and marine law enforcement grants will be awarded, resulting in a potential degradation of boating facilities and a decrease in marine safety patrols. In addition, as boater registration decreases the share of Motor Fuel Taxes decreases proportionally. The Board has proposed a fee increase for motorized boats, from \$4.50 per foot to \$5.95 per foot (32% increase); an increase in the cost of a boater's education card from \$10 to \$20 (100%); and an increase for title transfer from \$50 to \$75 (50% increase). These increases are anticipated to raise an additional \$2.1 million over the 2019-21 biennium that will be used primarily for marine law enforcement training, boat repairs, and facility improvements.

Oregon Department of Energy (ODOE) / Oregon Climate Authority

| | 2015-17 Actual | 2017-19 Legislatively Adopted | 2017-19 Legislatively Approved * | 2019-21 Current Service Level | 2019-21 Governor's Budget** |
|--------------------|--------------------|-------------------------------------|--|-------------------------------------|-----------------------------------|
| General Fund | -- | -- | -- | 4,334,048 | 17,702,183 |
| Lottery Funds | 2,980,489 | 3,023,630 | 3,023,630 | 3,023,370 | 3,023,370 |
| Other Funds | 25,284,394 | 35,206,624 | 35,609,279 | 32,689,074 | 31,898,669 |
| Other Funds (NL) | 126,213,739 | 119,282,861 | 119,282,861 | 96,028,718 | 41,004,652 |
| Federal Funds | 2,337,024 | 2,412,636 | 2,455,398 | 2,482,702 | 2,435,545 |
| Federal Funds (NL) | -- | 104,000 | 104,000 | 104,000 | 104,000 |
| Total Funds | 156,815,646 | 160,029,751 | 160,475,168 | 138,661,912 | 96,168,419 |
| Positions | 105 | 97 | 97 | 84 | 112 |
| FTE | 104.16 | 93.87 | 93.87 | 84.00 | 112.00 |

* Includes Emergency Board and administrative actions through December 2018.

** 2019-21 Governor's Budget abolishes ODOE and moves existing programs to the newly established Oregon Climate Authority

Program Description

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

The Department currently receives no General Fund support for its activities. Other Funds revenues generated through fees and charges for services support the agency's energy incentive programs, facilities siting, and other specific projects. Policy development, planning, technical analysis and other agency support services are funded with an energy supplier assessment (ESA) levied annually on energy suppliers in Oregon. The largest source of Other Funds consists of the Small-Scale Energy Loan Program (SELP) revenues, including proceeds from the issuance of general obligation bonds, used to capitalize the program, loan principal and interest repayments, and investment earnings. Lottery Funds pay for debt service, and Federal Funds support nuclear safety programs and clean energy activities through the federal State Energy Program.

CSL Summary and Issues

The 2019-21 current service level (CSL) total funds budget of \$139 million is a 13.6% decrease from the 2017-19 legislatively approved budget. This is largely the result of a reduction of \$23.3 million of Nonlimited Other Funds expenditure limitation from the SELP program. Phase-outs of one-time funding include a Governor's Policy Advisor position, the CRM System project, and Attorney General costs for ESA

litigation. Additional phase-outs, include positions related to the sunset of the EIP and RETC program and the transfer of the SHOW program. Finally, CSL includes \$4,334,048 General Fund to cover a bond payment due April 1, 2021 for the SELP Fund, due to a projected cash flow deficit.

Policy Issues

ODOE has the following policy option packages in the Agency Request Budget:

1. Package 102 -- Data Research and Analysis -- \$0 Other Funds -- Repurposes a vacant PEM E within the Energy Development Services Division to fund a Research Analyst 3 position (1.00 FTE) to conduct research and perform data analysis and reports. The package also includes \$100,000 in Professional Services to contract with an outside firm for studies, research and analysis when necessary to supplement existing resources. The use of this funding for any studies would be at the discretion of the Director with input from the Energy Advisory Workgroup and the public. Total cost of the package is \$321,444 Other Funds moved from the Energy Development Services Division to the Energy Planning and Innovation Division. No additional limitation is required for this move.
2. Package 124 -- Bonding Authority -- \$1 OF NL -- Acts as a placeholder for the discussion of potentially providing the Department with additional bonding authority for the SELP program. The 2017 Legislature did not provide any bonding authority for the program.
3. Package 140 -- Energy Siting Analyst Support -- \$411,789 Other Funds -- Requests two limited duration positions (2.00 FTE) to meet the increased workload associated with the review of applications and amendment requests in the Energy Facility Siting review process. The positions will be funded by fees collected from developers and site certificate holders, as statute provides the Department's expenses for processing and evaluating an application for an energy project must be paid by the developer. No fee increase will be required to fund these positions.
4. Package 151 -- Internships -- \$50,000 Other Funds -- This package will allow the Department to provide a paid internship to up to three interns each year. Funding for this request comes from the Energy Supplier Assessment.

Other Significant Issues and Background

Many of the major programs ODOE has operated have met their legislative sunset, were transferred to another agency, or were repealed, including the Energy Incentives Programs and Residential Energy Tax Credit have sunset, Biomass Manure Tax Credit Program (moved to Oregon Department of Agriculture), State Home Oil Weatherization program (transferred to Housing and Community Services Department), and the Alternative Fuel Vehicle Revolving Fund Program.

Small-Scale Energy Loan Program (SELP) is designed to operate as an enterprise fund, using program fees and interest income earned on Article XI-J General Obligation Bond-funded energy loans to pay all program related-administrative expenses and bond debt service. However, due to more than \$28 million in loan losses sustained from loans originated in 2007-2008, the program is no longer forecasted to be self-sustaining. The SELP Fund is projected to have a cash flow deficit that will require \$4,334,048 General Fund Debt Service allotment to cover the bond payment due April 1, 2021. ODOE currently estimates a potential shortfall of approximately \$8.5 million between the years

2021 and 2024 to meet debt service obligations. The projected shortfall was decreased substantially by a 2017 bond refunding that reduced future debt service obligations through interest rate savings. The deficit is dynamic, and changes based on actual program costs incurred and revenues received. ODOE has elected to keep several positions within the program vacant pending additional clarity on the programs future and to help minimize costs. It should be noted that the 2017 Legislature did not provide ODOE with bonding authority and the State Treasurer has suspended the issuance of new bonds pending an evaluation and recommendation to the Legislature on the long-term viability of the program. The 2019-21 CSL budget includes \$55,000,000 Other Funds Nonlimited limitation for new SELP loan which was carried forward from the 2017-19 LAB but is not needed unless the SELP program is provided with bonding authority.

The energy supplier assessment (ESA) levied annually on energy suppliers in Oregon and is capped in statute at 0.375% of the energy suppliers gross operating revenues on energy sales in the state. The ESA is \$15.1 million in the 2019-21 CSL budget, equivalent to 0.129%, and is calculated by projecting the amount of revenue needed to fund the ODOE budget, after considering all other sources of revenue, and estimating the gross operating revenue of the energy suppliers that are subject to the ESA. In 2017, the Department was sued by a group representing ten publicly owned utilities in Oregon over the ESA, asserting that it is a tax and that ODOE did not follow statutory procedures to provide a full accounting of the ESA revenue to energy resource suppliers. The court ruling found that while the ESA is a tax, it is not subject to constitutional requirements for bills that raise revenue, but also that the Department did not meet its statutory procedures to provide a full accounting. This ruling would require the Department to refund the 2016 ESA to the petitioners (estimated to be \$830,000); however, the Department has appealed and is currently preparing for oral arguments. Similar lawsuits for the 2017 and 2018 ESA are in abeyance awaiting the outcome of the appeal. It should be noted that without another source of available funds, any settlement payments would need to be financed through increases in future assessments.

HB 5201 (2018) created a Carbon Policy Office to conduct research, analysis, and stakeholder engagement to recommend a statewide policy framework to achieve greenhouse gas reduction goals. Depending on the proposals put forward and the path the Legislature takes toward a carbon cap-and-trade system, the Department may be impacted.

Governor's Budget

The Governor's Budget abolishes the Department of Energy and moves the current ODOE programs into a newly created agency called the Oregon Climate Authority (OCA) that also includes elements of the Carbon Policy Office, transfers four positions from DEQ's Greenhouse Gas Program, and the creation of a carbon cap-and-trade program called Carbon Policy and Market. Funding for the Carbon Policy and Market Division in the Governor's Budget would be \$9.1 million General Fund and 18.00 FTE. The Governor's Budget also includes \$3,931,301 General Fund for 13 additional positions within the Administration Division bringing the total to 50. These positions include additional management, administrative support staff, and IT positions to work on whatever cap-and-trade software program is to be created. However, the budgeted amount, staffing levels, and IT software needs will need to be validated based on the accompanying legislation that creates the carbon cap-and-trade system. It should be noted that the Governor's Budget utilizes General Fund for positions previously funded through the ESA, and therefore decreases reliance on ESA funding within the agency by 25%.

| Department of Environmental Quality (DEQ) | | | | | |
|--|---------------------------|--|---|--|--------------------------------------|
| | 2015-17 Actual | 2017-19 Legislatively Adopted | 2017-19 Legislatively Approved * | 2019-21 Current Service Level | 2019-21 Governor's Budget |
| General Fund | 38,163,023 | 44,629,011 | 48,757,650 | 48,676,792 | 51,169,413 |
| Lottery Funds | 4,084,180 | 4,610,577 | 4,732,711 | 5,332,415 | 5,322,214 |
| Other Funds | 129,989,706 | 169,639,110 | 194,863,032 | 202,486,131 | 221,421,618 |
| Other Funds (NL) | 107,343,731 | 131,686,687 | 131,686,687 | 138,028,330 | 178,263,330 |
| Federal Funds | 22,268,911 | 28,593,914 | 29,266,525 | 30,144,724 | 29,461,797 |
| Total Funds | 301,849,551 | 379,159,299 | 409,306,605 | 424,668,392 | 485,638,372 |
| Positions | 751 | 745 | 766 | 735 | 788 |
| FTE | 729.99 | 723.89 | 737.17 | 726.84 | 767.53 |
| * Includes Emergency Board and administrative actions through December 2018. | | | | | |

Program Description

The Department of Environmental Quality (DEQ), with policy direction from the five-member Environmental Quality Commission, administers the state's laws regulating air, water, and land pollution. The Department establishes the standards for clean air, water, and land; determines whether these standards are being met; and then acts to enforce the standards when necessary. The DEQ budget is comprised of five major program units: Air Quality, Water Quality, Land Quality, Agency Management, and Pollution Control Bonds.

CSL Summary and Issues

The 2019-21 current service level (CSL) total funds budget of \$424 million is a 3.75% increase from the 2017-19 legislatively approved budget. Increases include personal services increases, standard inflation to services and supplies, and increases to the State Government Service Charges.

Air Quality - phased out one-time funding related to lab equipment for real-time metals monitoring, funding and limited duration positions related to SB 1541 (2018) Cleaner Air Oregon program, and one-time funding for local community wood smoke reduction program. The Cleaner Air Oregon and wood smoke reduction program support are proposed to be added back in POPs. Additionally, phased-in costs of permanent positions that were approved as partial FTE for real-time metals monitoring, the Volkswagen settlement award program, Greenhouse Gas Reporting program, and the Air Quality Permit backlog.

Water Quality - phased-in costs of two positions approved as partial FTE related to urban storm water NPDES permits and water quality permit program improvements. Phased-out one-time funding of \$1.5 million General Fund for low cost loans as part of the Onsite Septic System Loan Program established under SB 1563 (2016).

Land Quality - phased out \$50,000 General Fund to support a task force on lead paint.

Agency Management - phased out one-time funding of \$3,009,050 Other Funds and \$478,488 General Fund related to the Environmental Data Management System project.

Revenue Shortfalls - Air Quality Vehicle Inspection Program has a revenue shortfall requiring a fee increase to reinstate 8.00 FTE to continue operations (Pkg. 118); Water Quality has federal funds revenue shortfall due to a decline in federal revenues for programs like the Section 106 Water Pollution Control grants. In total, Water Quality is eliminating three federally funded FTE and 1.00 FTE Other Funds. Two of the four positions are being requested for restoration in policy packages.

Fee Increases - DEQ is requesting fee increases in the following program areas:

- Air Quality - Vehicle Inspection Program
- Air Quality - Air Toxics Program
- Water Quality - Onsite Septic System Program (both Small and Large Onsite Systems)
- Water Quality - Wastewater Permitting
- Land Quality - Heating Oil Tank Program (annual license and certification fees)
- Land Quality - Oil Spill Prevention and Contingency Planning Program

Policy Issues

Air Quality Permits - are issued under two industrial source air quality programs operated by the Department: the Air Contaminant Discharge Permit (ACDP) and the Title V Permit for major industrial sources. A 2018 Secretary of State audit found that about 40% of most complex air quality permits are not renewed on time. To address the backlog, DEQ is requesting 10 positions, totaling 5.00 FTE, with the positions phasing in on July 1, 2020 to coincide with a proposed fee increase to the ACDP program. Of the 10 positions, two are for Title V permits, funded with the standard CPI fee increase allowed by statute, and six are for the ACDP program funded with the proposed fee increase expected to generate \$3.1 million Other Funds. The final two positions are funded 75% General Fund and 25% Other Funds and are requested to deal with complaint response, which is currently addressed by permit writers, contributing to the backlog issue.

Vehicle Inspection Program - is entirely supported by fees for certificates of vehicle emissions compliance, required as part of a vehicles registration process in the Portland and Medford metropolitan areas. The program has not had a fee increase since inception in 1996. Currently, the Portland Metro area fee is \$21 every two years and \$10 every two years in Medford. Without a fee increase, DEQ has a revenue shortfall package (070) that would eliminate 8.00 FTE. The proposed fee increase would be \$25, with the fee increase in the Medford area increasing \$5 every two years until it reaches \$25. The fee increase is expected to generate \$5,136,000 in 2019-21.

Air Toxics Program - SB 1541 (2018) authorized the Environmental Quality Commission (EQC) to adopt a program and rules to reduce risks of toxic air contaminants from industrial and commercial sources. The bill directed the EQC to establish a fee schedule to cover direct and indirect costs of implementing the program and provided 11 limited duration positions and one-time funding to implement the program in 2018. The Department has a \$2.6 million Other Funds request to continue the program and make the 11 positions permanent. This will be funded with a proposed fee structure that includes a base annual fee and a one-time activity fee that would cover certain facilities requiring greater agency resources.

Water Quality Permits - Permits are issued under two systems, the federally delegated National Pollution Discharge Elimination System (NPDES) and the state Water Pollution Control Facility (WPCF). Based on an outside consultant's recommendations for improvement, the 2017 Legislature provided four positions to deal with the significant backlog and implement improvements to program efficiency. DEQ reports that additional positions are needed across multiple areas to effectively reduce the backlog over a five to ten-year plan, continue to issue quality permits, conduct inspections, and to assist NPDES facilities to comply with federal e-reporting requirements. Currently 233 minor and 3,097 general permit holders are not yet reporting electronically. The total position request is 27 positions and 19.80 FTE in 2019-21, with 23 positions continuing into 2021-23. Cost of this request is \$2,876,498 General Fund and \$1,700,764 Other Funds funded through proposed fee increases.

Agency Management - DEQ has a POP that would add three high-level management positions as part of an organizational restructure. These are new positions being requested, but have individuals already performing these functions as double-fills. The positions are: an Implementation Administrator that functions as oversight of the regional offices; a Policy and External Affairs Manager that oversees five program areas including policy and budget development; and a Water Quality Deputy Administrator focused on water quality standards and development of regulatory tools to implement those standards. Cost of the three positions is \$960,770 General Fund and \$377,967 Other Funds.

Other Significant Issues and Background

Air Quality Programs

EV Rebate Program - HB 2017 (2017) included a privilege tax of 0.5% on the sale of vehicles beginning January 1, 2018 with up to \$24 million of the tax revenue to be used for rebates on the purchase or lease of electric vehicles, with the program to be administered by DEQ. HB 5045 (2017) provided DEQ with one limited duration position and authority to issue \$18 million in rebates for the 2017-19 biennium. DEQ is planning to use a third party to issue the rebates to eligible applicants and is requesting the limited duration position be made permanent, and an Other Funds limitation increase of \$5,749,259 for administering the program, \$5.5 million of which goes to the third party contractors.

Wood Smoke Pollution - SB 5518 (2017) included a one-time increase of \$250,000 General Fund to support the wood smoke reduction program that works with local communities to reduce wood smoke emissions by woodstove change outs, and education and outreach. DEQ's

base budget includes about \$170,000 General Fund to support this program. Pkg 114 would add \$500,000 General Fund to expand the program.

Water Quality Programs

Storm water - SB 5518 (2017) included two positions in Pkg. 120 for storm water permitting, to be funded with a fee increase and a new fee for wastewater permitting. Additionally, the Department received a limited duration position funded through ODOT to administer the statewide MS4 permit program related to storm water requirements. DEQ is requesting continuation of the ODOT funded LD position and two additional General Fund positions be added to operate the program at a minimum level. Cost of this package \$421,696 General Fund and \$236,700 Other Funds transferred from ODOT.

Water Quality Standards - currently DEQ has 2.8 FTE dedicated to working on water quality standards, which serve as the basis for TMDL's, discharge limits, nonpoint source pollution control plans, etc. DEQ is proposing to double the number of positions to six by phasing-in three positions. The positions would be funded through a mix of General Fund and a proposed fee increase to wastewater permitting fees that would be in addition to the yearly three percent increase. Total cost of the package is \$253,976 General Fund and \$371,045 Other Funds generated from the fee increase.

Harmful Algae Blooms (HABs) - at the September 2018 meeting of the Emergency Board, DEQ was provided with \$380,000 General Fund and four limited duration positions to address the workload increase to the DEQ laboratory because of OHA's rules requiring drinking water systems susceptible to HABs be routinely tested for cyanotoxins. DEQ is requesting permanent funding for HAB testing totaling five positions (two of which would be seasonal) with a cost of \$983,919 General Fund.

Integrated Water Resources Strategy - DEQ is requesting \$260,741 General Fund for an Integrated Water Resources Strategy (IWRS) position. The position has been funded with General Fund in the past, however, in the Agency Request Budget, the Department has cut the IWRS position in favor of another position that would have been cut due to a shortfall of federal Section 106 dollars. This package requests that the position be restored.

Clean Water State Revolving Fund - the Department is requesting a new position to assist in effectively managing the loan program. Currently, there is one position that manages the 178 active loans, with 10 to 15 new loans added per year. For Fiscal Year 2019, DEQ anticipates having \$199 million available to loan for eligible projects. This new Loan Analyst position would be funded with CWSRF Administrative Funds totaling \$169,392 Other Funds. Additionally, DEQ is requesting \$3.65 million Other Funds limitation to procure an off-the-shelf software program to replace the current outdated loan management system. The Department is currently working with the OSCIO on the Stage Gate I process. Of the total amount, \$3.35 million would be transferred out of the non-limited budget and \$300,000 from existing loan fees.

Klamath Basin Water Quality - the Department is requesting three positions to support a multi-agency effort to improve water quality and aquatic habitat in the Klamath Basin after dam removals scheduled in 2021. The cost of the three positions is \$640,412 General Fund.

Water Quality Outcomes - the Department is requesting 7.00 FTE to build capacity to produce water quality and landscape information that can be used to identify priorities for types and location of restoration projects. This work is intended to be collaborative with other natural resource agencies. Cost of this request is \$1,920,899 General Fund.

Clean Water Plans - DEQ issues TMDLs for waterbody's that do not meet water quality standards for pollutants, as directed by federal law. Currently, DEQ estimates there are around 1,900 stream segments statewide that need TMDL development. The Department is requesting 5 positions, totaling \$1,202,728 General Fund, that would effectively increase the rate of TMDL issuance by an average of one basin every three years, and establish and maintain two permanent monitoring stations.

Onsite Septic Systems - the Department is requesting a fee increase for both the Small Onsite and Large Onsite Septic Systems and addition of four new permitting positions, one for the Small program, funded entirely through the fee increase, and three for the Large program, funded 60% OF and 40% GF. The additional positions would allow DEQ to increase inspection requirements, processing permit renewal, complaint response and maintenance compliance. Cost of this package is \$278,578 General Fund and \$418,356 Other Funds.

Onsite Septic System Loan Program - the program was established by SB 1563 (2016) for low cost loans to repair or replace failing septic systems. SB 5518 (2017) provided one-time funding for the program of \$1.5 million. DEQ is requesting \$2 million General Fund in 2019-21, of which \$100,000 would be used to cover program administrative costs.

Other Water Issues - the Department is requesting \$250,000 General Fund to partner with OWRD to contract with a consultant to gather a comprehensive inventory of status and conditions of existing wastewater and stormwater and is requesting \$250,000 General Fund to provide technical assistance to small communities who need help with operating wastewater treatment facilities and complying with permit requirements.

Laboratory Equipment - the Department is requesting \$550,000 General Fund to address ongoing maintenance and replacement of ageing lab equipment.

Land Quality Programs

Prescription Takeback Program - DEQ is proposing a legislative concept to create a statewide prescription drug takeback program. The program would have one permanent full-time position and one limited duration position, totaling \$261,908 Other Funds. The Department would partner with the Board of Pharmacy for inspection at collection kiosks during regular pharmacy inspections. Funds for the program would come from fees paid by pharmaceutical manufacturers included in the legislative concept.

Emergency Preparedness - the Department has three policy package requests in the Emergency Response program containing five new positions. Three of the positions are funded through fee increases and the other two are through General Fund. The positions include, an ISS5 position (\$224,097 OF) to provide GIS support to the Oil Spill Prevention program, two NRS4's (\$534,400 OF) to work on High Hazard Rail planning, preparedness and response, and two NRS positions to provide additional emergency management resources (\$604,559 GF).

Solid Waste Orphan Site Cleanups - DEQ is requesting \$3,147,316 Other Funds limitation and three limited duration positions to work on Solid Waste Orphan Site Account-related work. The Orphan Site Account is used to fund investigations and cleanup at sites where parties who are responsible for the pollution are unknown, unable or unwilling to perform cleanup related work. This limitation will allow the Department to expend a portion of the proceeds from \$10 million in general obligation bonds issued during 2017-19.

Other Programs

Environmental Data Management System Project - the Department is requesting \$5,123,293 Other Funds limitation and seven limited duration positions to complete core system implementation. DEQ is anticipating achieving Stage Gate 3 just prior to the 2019 Legislative Session, at which point final scope details for the core system and future functionality implementation can be determined.

Technology Infrastructure - DEQ is requesting \$630,000 General Fund to transfer server hosting from on-site to the State Data Center.

Administrative Staff - in anticipation of the position requests in Air, Land, and Water Quality Programs, the Department is requesting 7 positions totaling \$1,544,938 Other Funds to provide administrative support, including accounting staff, human resources staff, procurement, IT, an Ops and Policy Analyst and a Principle Executive Manager E. Additionally, DEQ is requesting an internal auditor position at a cost of \$154,715 General Fund and \$130,562 Other Funds to focus on addressing the nine findings and 22 risks identified by the Secretary of State. The Other Funds for these positions are through indirect charges to other agency programs.

Environmental Justice - the Department is requesting a permanent full-time position to coordinate Environmental Justice and Title VI (Civil Rights) activities across all agency programs. Currently the Department has 0.20 FTE of a position to serve as Environmental Justice Coordinator and the HR staff is responsible for agency compliance with Title VI. Cost of the position is split between \$160,364 General Fund and \$135,205 Other Funds through agency indirect charges to other agency programs.

Pollution Control Bonds & Debt Service - the sale of pollution control bonds is used by the Department to finance the Clean Water State Revolving Fund (CWSRF), the Sewer Assessment Deferral Loan program, and the Orphan Site program. The CWSRF program is funded primarily with Other Funds Nonlimited. DEQ is requesting Nonlimited expenditure of \$65,000 for costs of issuance associated with a request for \$5 million of XI-Q bonds to be issued to provide support for the EDMS project. The debt service amount is expected to be \$834,752 General Fund. Additionally, the Department is requesting Nonlimited expenditure of \$150,000 for costs of issuance associated with a request

for \$10 million in short-term XI-H bonds to be issued to provide the state match component of the federal capitalization grants for the Clean Water State Revolving Fund (CWSRF). The Department anticipates receiving an additional \$30 million of Nonlimited Other Funds to make CWSRF loans using the Federal Funds provided to Oregon. The debt service on the CWSRF bonds would be \$10 million and will be sources from the interest earnings received by the CWSRF.

The Governor's Budget (GB) is 14% overall increase from 2019-21 CSL and 19% above 2017-19 Leg Approved, with General Fund up 5%. The GB includes the following:

Air Quality Programs

- \$5.7 million OF for the EV Rebate Program
- \$1 million OF and 10 positions (5.00 FTE) to address the Air Quality Permitting backlog. This includes a fee increase for the ACDP permits
- \$1.5 million OF and 8 positions (8.00 FTE) and associated fee increases to restore the VIP program
- \$2.6 million OF and 11 positions (11.00 FTE) and associated fee schedule to make permanent the Air Toxics Permitting program
- Transfers four positions (4.00 FTE) with corresponding revenue from the Greenhouse Gas Program to the new Oregon Climate Authority as part of proposed legislation

Water Quality Programs

- \$4.6 million in total funds and 27 positions (19.80 FTE) to address water quality permitting backlog and program improvements, of this amount, \$2.9 million is GF and a proposed fee increase for Wastewater Permitting is also included
- \$640,412 GF and 3 positions to work on Klamath Basin Water Quality issues
- Other Funded position to manage the CWSRF Loan Portfolio
- \$250,000 GF for a comprehensive inventory of existing clean water infrastructure (WRD has similar POP)
- \$3.65 million OF for one-time purchase of an off-the-shelf loan management software for the CWSRF program; funding for this comes from the capitalization of grants

Land Quality Programs

- Two positions to provide additional emergency response to spill incidents (\$604,559 GF)
- Oil Spill Prevention position (\$224,097 OF) and fee increase to vessels transporting petroleum
- Two positions (\$534,400 OF) for emergency planning and response related to high hazard rail and creation of a fee based on gross tonnage of hazardous materials being transported
- Increase to Heating Oil Tank program fees to support existing program
- \$3.1 million OF and three limited duration positions to work on Solid Waste Orphan Account program

Other Programs

- \$5.1 million OF and 7 positions for the EDMS project moving forward into Stage Gate 3
- Internal Auditor position (\$154,715 GF/\$130,562 OF)
- Environmental Justice position (\$160,364 GF/\$135,205 OF)

- \$5 million of XI-Q bonding for the EDMS project (COA - \$65,000 and Debt Service - \$834,752 GF)
- \$10 million of XI-H bonding for the CWSRF program (COA - \$150,000 and Debt Service - \$10.02 million GF)

The GB does not include funding for wood smoke, storm water programs, onsite septic system programs (or associated fee increase requests), onsite septic loan program, harmful algae bloom, lab equipment replacement, collection of unwanted medication, and other water quality-related requests from the ARB. Positions related to an Integrated Water Resources Strategy were not approved, however the GB for ODFW has two positions related to this concept funded with GF. Additionally, the GB does not include requested funds for moving of DEQ servers to the State Data Center or approval of positions related to an organizational restructure.

Columbia River Gorge Commission

| | 2015-17 Actual | 2017-19 Legislatively Adopted | 2017-19 Legislatively Approved * | 2019-21 Current Service Level | 2019-21 Governor's Budget |
|--------------------|-------------------|-------------------------------------|--|-------------------------------------|------------------------------|
| General Fund | 920,288 | 992,000 | 1,010,000 | 1,032,043 | 1,366,856 |
| Total Funds | 920,288 | 992,000 | 1,010,000 | 1,032,043 | 1,366,856 |

* Includes Emergency Board and administrative actions through December 2018.

Program Description

The Columbia River Gorge Commission (CRGC) was authorized by the 1986 Columbia River Gorge National Scenic Area Act and created as a regional agency through an interstate compact between Oregon and Washington. The Commission was established to implement the National Scenic Area Act's purposes of protecting and enhancing the scenic, cultural, recreational, and natural resources of the Gorge while encouraging compatible growth within existing urban areas of the Gorge region and allowing future economic growth. The Commission acts as the primary regional planning agency for the Columbia River Gorge and is responsible for developing and implementing policy for land use and resource protection on non-federal lands in the National Scenic Area.

The Commission consists of 13 appointed members - six appointed by local governments (one each from the six Gorge counties in Oregon and Washington), six appointed by the states of Oregon and Washington (three each by each state's Governor), and one ex officio member appointed by the U.S. Secretary of Agriculture (generally filled by the manager of the U.S. Forest Services' National Scenic Area office). The Commission hires an Executive Director and has an office in White Salmon, Washington.

CSL Summary and Issues

By the interstate compact, Oregon and Washington are to equally share the operating costs of the Commission. The Commission's budget consists of two programs - Joint Expenses and Commissioner Expenses. Only the Joint Expenses program is required to be equally funded by the two states. The Current Service Level (CSL) budget for the Commission is generally only changed in the Oregon process for standard inflation (which is 3.8% for 2019-21) and any adjustments to the State Government Service Charge (SGSC). For the 2019-21 CSL, the Joint Expenses program was increased by \$39,431 for standard inflation and SGSC changes. One potential issue with this CSL approach is that the Oregon budget does not include any positions (the Commission employees are Washington employees), but Oregon pays for half of the position costs which are budgeted as professional services. The professional services category generally only receives the standard inflation amount. Since personal services costs tend to increase at a higher rate than standard inflation, an exceptional inflation increase is generally available for non-state employee personnel costs (contract providers). For the 2019-21 CSL development this rate is 4.2% and is usually applied to the professional services line in the budget. This was not done in the agency request budget. Since it is almost certain that Washington costs for the Commission employees will be higher than standard inflation, adjustments will likely be needed so the Oregon professional services payment will match the Washington personal services costs. More work between the two budget offices of Oregon and

Washington will be required once Washington personal services increases are finalized. The Commissioner Expense program CSL was increased by \$612 from the 2017-19 legislatively approved level, primarily due to standard inflation for services and supplies. The total 2019-21 CSL of \$1,032,043 is an increase of 2.2% from the 2017-19 legislatively approved level.

It has also become apparent that the State of Washington does not attempt to only match the Joint Expenses program and actually looks at the total Oregon appropriation for the Commission. Therefore, for simplification, Oregon will target the total for purposes of matching Washington's level of funding for Commission operating expenses.

Policy Issues

An adjustment to the Commission's budget was made by the Emergency Board in September 2018. This adjustment was an increase of \$18,000 General Fund to match budgetary changes made by Washington during the 2018 session. Oregon was unable to make this adjustment during its 2018 session, which led to a Commission request for the increase from the Emergency Board at its May 2018 meeting. That meeting was cancelled, however, and the requested amount was provided at the September 2018 meeting of the Board. This adjustment is not included in the current CSL calculation and will need to be included during the 2019 session as a Legislative Fiscal Office analyst policy option package.

Another issue facing the 2019-21 budget is the Commission's continuing interest in increasing staff to restore levels back to historic highs (and beyond) in order to complete required planning and review. The Commission established four priorities for the 2019-21 biennium as part of its required plan update process: 1) integrated planning for regional recreation; 2) urban area boundary revisions policy; 3) supporting economic vitality; and 4) measuring success in meeting the purposes of the National Scenic Area Act. The Commission is required by the Act to review, revise, and implement a Management Plan for the Columbia River Gorge National Scenic Area no less than every five years and no more than every ten years. The last plan was adopted in 2004; work on the new plan started in 2016 and is planned to be completed during the 2019-21 biennium. The agency has received no additional staff to address this review and is asking for additional resources in its agency request budget. The Commission is currently authorized to have 7.00 FTE (Washington employees), down from 10.00 FTE in 2009.

As an initial step toward the proposed restoration of functionality, the Commission's agency request budget includes four policy option packages:

1. Package 101 – Vital Sign Indicators Land Use Planner – \$90,000 General Fund/Oregon share – funding is for a dedicated land use planner position to develop and implement the “Vital Sign Indicators” project; the project is designed to monitor and track measurable indicators to ascertain if the agency is effectively implementing the Management Plan. This package would add the funding for one additional FTE. ***This package was included in the Oregon Governor's budget.***

2. Package 102 – Public Records Coordinator and IT Support – \$82,000 General Fund/Oregon share – funding is for one position that would provide public records management to be in compliance with Washington and Oregon public records retention, indexing, and disclosure laws. The position would also be used to provide in-house information management and technology services instead of the current contracting out to a private sector provider for services related to agency hardware and software maintenance and IT security. This package would add the funding for one additional FTE. ***This package was not included in the Oregon Governor’s budget.***
3. Package 103 – Community and Landowner Outreach Planner – \$90,000 General Fund/Oregon share – funding is for one position with expertise in landowner engagement, community outreach, and communications to lead the public process for the agency and to design and publish the “Gorge 2020”: Ten-Year Management Plan and the “Building in the Scenic Area” handbook. This package would add funding for one additional FTE. ***This package was not included in the Oregon Governor’s budget.***
4. Package 104 – IT Equipment/Data Management Systems Upgrade – \$20,000 General Fund/Oregon share – funding is to replace staff computers that are beyond warranty and to replace a large format plotter that is used to make maps and other large format materials for public meetings. Funds would also be used to replace an out-of-date database system with an upgraded system to track development reviews and link those reviews with GIS data for the National Scenic Area. ***This package was included in the Oregon Governor’s budget at \$15,400 General Fund.***

The total of requested policy packages for the Commission is \$282,000 General Fund/Oregon share, which is a 27.3% increase over the current 2019-21 current service level.

In addition, the Oregon Governor’s budget included an investment of \$212,500 General Fund that was not requested by the agency for Oregon’s share of the cost of an Access Database Replacement project. This Information Technology project has a total cost for the 2019-21 biennium of \$425,000 and would be implemented through the purchase of an industry standard, customizable, off the shelf cloud-based (SaaS) workflow license with enough seats for all Commission planners and staff. The agency plans to work with Salesforce.com to execute the purchase and replacement project.

The Oregon Governor’s 2019-21 budget for the Commission is a 35.3% increase over the 2017-19 legislatively approved budget and is a 32.4% increase over the current service level.

Other Significant Issues and Background

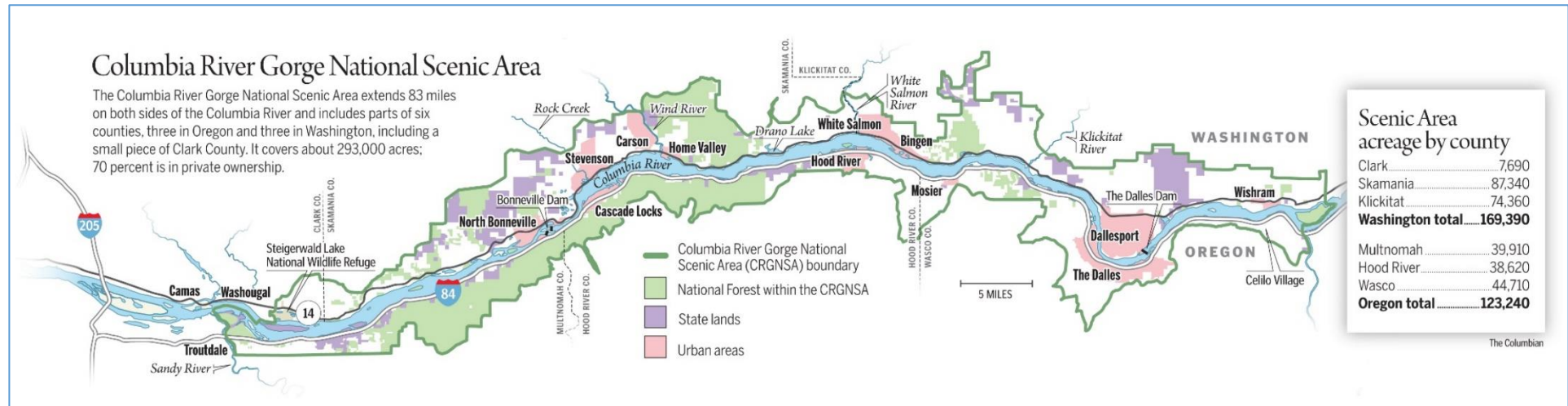
Audit Reports – a financial audit of the Commission was released in January 2018. No significant findings were reported. The report can be found on the Secretary of State website:

Report No. 2018-02

Columbia River Gorge Commission: July 1, 2016 through June 30, 2017

Potential Reduction Options: the agency identified reduction options equivalent to 10% of the current service level in five increments (all of these would result in an equivalent reduction for the Washington budget):

1. First 2.5% - \$25,801 - reduce travel, services and supplies, and other services; eliminates all outside support services including IT support, facility and equipment maintenance, communications maintenance, commissioner/employee training, and other core services.
2. Second 1.4% - \$14,449 - reduce contracts; reduces ability to contract for any needed service including technical assistance and other support for local communities.
3. Third 1.1% - \$11,352 - eliminate legal services and State Attorney General services; eliminates ability to coordinate between the Attorney Generals of the two states on legal issues; day-to-day legal needs and litigation services would be maintained with in-house attorney staff.
4. Fourth 4.0% - \$41,282 - eliminate contracts; stop work on current projects such as regional recreation planning, regional urban area policy, regional monitoring, and bi-state coordination on rail transport policy.
5. Fifth 1.0% - \$10,320 - eliminate non-essential travel; eliminates face-to-face discussions with local governments, Tribes, state and federal agencies, citizens, and, in some cases, with commissioners.



| Oregon Department of Agriculture (ODA) | | | | | |
|--|---------------------------|--|---|--|--------------------------------------|
| | 2015-17 Actual | 2017-19 Legislatively Adopted | 2017-19 Legislatively Approved * | 2019-21 Current Service Level | 2019-21 Governor's Budget |
| General Fund | 24,497,951 | 22,307,042 | 23,529,248 | 25,206,997 | 25,970,034 |
| Lottery Funds | 7,077,309 | 8,103,745 | 10,360,960 | 7,366,847 | 7,570,661 |
| Other Funds | 52,663,810 | 66,605,463 | 68,154,857 | 71,565,017 | 73,488,500 |
| Federal Funds | 12,712,955 | 17,452,844 | 17,615,623 | 15,857,812 | 17,371,337 |
| Total Funds | 96,952,025 | 114,469,094 | 119,660,688 | 119,996,673 | 124,400,532 |
| Positions | 527 | 489 | 505 | 475 | 495 |
| FTE | 378.48 | 370.46 | 376.86 | 359.09 | 378.53 |
| * Includes Emergency Board and administrative actions through December 2018. | | | | | |

Program Description

The Department of Agriculture's mission is centered on three broad policy areas of ensuring food safety and providing consumer protection, protecting agricultural natural resources, and promoting economic development in the agricultural industry. The agency emphasizes public education and technical assistance in its provision of regulatory oversight on legislatively mandated programs. Oregon's agricultural industry is one of the state's most important economic sectors.

CSL Summary and Issues

The 2019-21 current service level (CSL) total funds budget of \$119.9 million is less than 1% increase from the 2017-19 legislatively approved budget. While there is very little overall change between CSL and the legislatively approved budget, the amount of General Fund in CSL is a 7% increase due to one-time fund shifts in SB 5502 (2017) for the Pesticide Analytical Response Center and Insect Pest Prevention and Management within the natural resources program and a one-time shift from federal funds in the market access program for work on the Food Safety Modernization Act.

Policy Issues

Food Safety Program - Due to General Fund constraints, the 2017 Legislature approved a fund shift in the food safety inspection program of \$1,378,946 that reduced General Fund support and replaced it with Other Funds from fees. Included in this fund shift was two food safety inspector positions to help the program reduce its backlog of overdue inspections. Currently, the food safety program is funded with 21% General Fund, 64% Other Funds, and 15% Federal Funds. With the fund shift, ODA is projecting that the operating cash reserves of the program will fall below 3 months by the 2021-23 biennium. The Department has a policy option package request to shift that funding back to the General Fund, totaling \$1,470,431. Additionally, ODA has a proposed a 3% license fee increase for this program discussed below, however that proposal alone would not be enough to sustain an appropriate ending balance through 2021-23. The Department is also requesting a

permanent full-time food safety data analyst position at total cost of \$236,113 Other Funds. This position was part of the recommendation by the 2016 Secretary of State audit of the program to help address the backlog of inspections and would provide data analysis and auditing of inspection staff reports.

ODA is requesting \$1,266,050 total funds for laboratory equipment replacement, annual vendor hosting fees for the Lab Information Management System, and a new management position within the food safety lab. Of the \$1.2 million, \$846,224 would be General Fund. The package includes a PEM C Operations Manager (\$173,602 Other Funds) as the lab currently only has one manager for 21 staff. Laboratory equipment replacement includes \$600,000 for an LC Triple Quad and Dairy Scanner, \$193,648 for preventative maintenance, and \$49,800 for other equipment and supplies. The food safety lab received \$200,000 Other Funds in 2017 for one-time lab equipment purchases, and \$450,000 General Fund for a one-time purchase of equipment from the September 2018 Emergency Board related to cyanotoxin testing of manufactured food.

Summary of Fee Changes - the Department has administratively raised fees for the food safety program, weights and measures program, and certifications program since the 2018 session that must be ratified by the legislature. Additionally, ODA has proposals to increase the statutory cap or fee structure tied to budget requests in 2019-21 for the food safety program, weights and measures program, and the confined animal feeding operation (CAFO) program.

- Food Safety - HB 4003 (2012) provided for annual fee increases to the Food Safety program until July 1, 2019. ODA is requesting this annual 3% increase be continued. This is projected to provide \$107,233 Other Funds revenue in 2019-21. However, it should be noted that this fee increase is not projected to be substantial enough to provide for an appropriate operating cash balance within the program if the requested fund shift of some expenditures back to General Fund is not approved.
- Weights & Measures - ODA administratively increased fees by 5% on July 1, 2018 and is scheduled to increase fees by 5% again July 1, 2019. The July 2019 increase will put the current fee at the statutory cap and ODA is requesting the maximum limits be increased by 15% with the actual future fee increases done by administrative rule in the future to be capped at a maximum of 3% annually beginning July 1, 2021 through July 1, 2026.
- Certification Fees - the certification program provides a variety of third party verification and certification services. Among those are USDA certifications that, by cooperative agreement, are required to charge the fees set by the USDA. The fee changes have been implemented administratively and must be ratified. Estimated revenue is \$325,232 Other Funds for 2019-21.
- CAFO - current fees do not support the 1 FTE and associated costs and provide an appropriate operating balance. The Department is proposing increasing the statutory cap and then administratively increasing the annual fee for small, medium, and large CAFO. Estimated revenue is \$171,899 Other Funds in 2019-21.
- Hemp - currently industrial hemp growers are charged a flat registration fee regardless of the number of grow sites or size of the operation. A new proposed fee structure would reduce the application fee and then add a per grow site registration fee. This should provide more equity between small and large-scale growers while reducing the overall registration fee for small scale

growers with two or fewer sites. These fees have been administratively adopted and require ratification by the Legislature before implementation for December 2019.

Cannabis Funding - the Department has incorporated marijuana programs into its existing inspection and regulatory responsibilities and currently does not receive corresponding funding. Programs that have been impacted by this work include the Pesticides, Food Safety, Laboratory Services, and Weights and Measures. ODA has put a placeholder until funding has been identified but has not yet provided an estimate of the funding need.

Invasive Species - the Department is requesting \$2,403,742 M76 Lottery Funds for continued efforts to eradicate Japanese Beetle in NW Portland. ODA received some Lottery Funds in the 2017 session and another allocation from the September Emergency Board. Included in this funding request are 13 limited duration positions totaling 6.00 FTE. Additionally, ODA is requesting \$100,000 of Lottery Funds be used to fund the Invasive Species Council.

Water Quality Monitoring - the Department is requesting \$100,000 General Fund to collect water quality samples from Klamath Lake and support laboratory expenses to monitor the water for nutrients, including phosphorus. The data collected will help to gain understanding of the contribution local landowners have on the lake's water quality from pumping excess water from crop fields. Additionally, ODA is requesting \$250,000 General Fund to facilitate coordination between state agencies and an advisory group regarding the Lower Umatilla Basin Groundwater Management Area (GWMA). DEQ declared the GWMA designation for the area in 1990 due to elevated nitrate levels in groundwater. ODA and local partners hope to establish a strategic plan to remove the GWMA designation. Finally, ODA is requesting 4 positions dedicated to working with partner agencies and organizations to achieve water quality goals as part of a coordinated streamside management effort along with DEQ, ODFW, and OWEB. Costs of this package is \$1.7 million General Fund.

Noxious Weed Program - the current noxious weed program is supported primarily with Other Funds and Federal Funds. The Department is proposing to shift more of the program to General Fund, which would allow staff to work on higher priority projects for the state rather than lower priority projects that are federally funded. Additionally, some of these funds could be used to establish the county grant program allowed by statute. Under this proposal, \$949,495 General Fund would essentially replace \$106,040 Other Funds and \$581,060 Federal Funds, while enhancing the program to pursue non-federal projects.

Food Safety Modernization Act - ODA is requesting continuation of federal grant funds totaling \$1.4 million and four limited duration positions to conduct outreach and education to produce farmers and build an inventory of produce farms (as required by the grant) as part of the efforts to comply with the new federal laws.

Other Significant Issues and Background

Lab Consolidation Planning - ODA currently operates four separate laboratories in Salem and the fifth, and largest, is the Regulatory Lab at the Food Innovation Center in Portland. Except for the lab in Portland, the laboratories are in locations that were not originally intended for lab functions or analytical lab use, but the Department has made due with various modifications. ODA is requesting \$200,000 Other Funds to conduct a study to evaluate moving the labs into one consolidating lab building in Salem.

Merchant Fees - the Department is requesting \$200,000 Other Funds limitation to pay for increased merchant fees associated with online payments of license and permit fee renewals. Currently, approximately 90% of licensees opt to renew licenses online. This includes around 95 different license types with two major license renewal periods; 12,000 annually in December and 29,000 annually in June.

Administrative Overhead Parity - this request is an attempt to increase the amount of state support (General Fund) that is used to pay for the overall administration of the Department. Currently, the administration program of ODA is funded predominately with Other Funds and Federal indirect costs, while more General Fund is used for food safety, agriculture marketing, CAFO, and predator control. This policy option package would fund shift \$766,534 from Other Funds to General Fund, putting Administration at 24% funded with General Fund.

Summary of Program Staffing - ODA is requesting additional staffing support in the following areas:

- Market Development - \$371,983 General Fund and one position to work on identifying opportunities and develop activities for promotion of Oregon products, particularly in the emerging Asian markets.
- Fertilizer Registration - one position totaling \$202,741 Other Funds to conduct technical reviews of product registration and lab analyses. The program is funded through product registration and tonnage fees and revenue projections would support an additional position without a fee increase in 2019-21.
- Plant Program - adds five positions using \$370,196 Other Funds and shifting \$425,784 Federal Funds between budget categories for the Nursery Program, Hemp Program, and the Insect Pest Prevention and Management Program.
- Shipping Point Program - adds three assistant manager positions totaling \$569,822 Other Funds to the three largest shipping point districts for shipping point inspection services.
- Internal Auditor - the Department is requesting a permanent full-time internal auditor position to be funded between General Fund (\$60,913) and Other Funds (\$192,896) with a total cost of \$253,809.
- Other Position Changes - the Department is requesting abolishing of some positions across different programs and then re-establishing the position in a different classification. The most notable change would be the fund shift of a management position from Other Funds to General Fund, for an increase of \$188,943 General Fund.

IT Security - the Department is requesting three positions, split between General Fund (\$215,709) and Other Funds (\$683,083) for a total cost of \$898,792. The positions are an IT Security Analyst, Project Manager, and Business Analyst, however, SB 90 (2017) transferred IT security functions to the Office of the State Chief Information Officer executive branch agencies.

Legal Cost Limitation - ODA is requesting \$606,000 in total funds, including \$252,000 General Fund with the rest Other Funds, to address the rising legal costs incurred by the Department.

The Governor's Budget (GB) includes increases from CSL of around 3% for General Fund, Lottery Funds, and Other Funds, and a 9.5% increase in Federal Funds along with 20 positions and 19.44 FTE.

The GB includes approval of:

- All proposed fee increases and statutory cap changes
- Increases for merchant fees and Attorney General costs,
- Food Safety Modernization package,
- \$600,000 General Fund for laboratory equipment,
- \$200,000 for the lab consolidation planning
- \$1.7 million General Fund for water quality coordination
- \$141,278 Lottery Funds for Japanese Beetle eradication efforts and \$100,000 for the Invasive Species Council
- \$100,000 General Fund for Klamath water data collection
- \$250,000 General Fund for Umatilla Basin groundwater monitoring
- Internal auditor, market development specialist, fertilizer registration position, and additional shipping point staff
- Avian influenza LD position funded with federal grant
- State Grants Coordinator to leverage Federal Fund grants for NR agencies (\$294,099 GF)

It should be noted that the GB includes a Department proposed reduction of \$481,840 General Fund for the Predator Control Program and does not provide adequate funding to continue the Japanese Beetle eradication effort.

Department of Forestry

| | 2015-17 Actual | 2017-19 Legislavely Adopted | 2017-19 Legislatively Approved* | 2019-21 CSL LFO | 2019-21 Governor's Budget |
|--------------------------|--------------------|-----------------------------------|---------------------------------------|-----------------------|---------------------------------|
| General Fund | 102,048,469 | 68,242,727 | 101,093,654 | 91,726,893 | 88,317,235 |
| Lottery Funds | 6,987,642 | 2,601,001 | 2,601,001 | 2,605,450 | 2,605,450 |
| Other Funds | 273,327,609 | 340,602,781 | 449,870,771 | 249,425,178 | 262,398,892 |
| Other Funds (Nonlimited) | 6,192 | - | - | - | |
| Federal Funds | 16,914,057 | 33,657,195 | 33,907,251 | 35,532,252 | 35,363,903 |
| Total Funds | 399,283,969 | 445,103,704 | 587,472,677 | 399,283,969 | 388,685,480 |
| Positions | 1,174 | 1,181 | 1,181 | 1,159 | 1,150 |
| FTE | 867.47 | 867.30 | 867.89 | 852.49 | 845.83 |

* Includes Emergency Board and administrative actions through December 2018.

Program Description

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

The Fire Protection Division protects roughly 16 million acres of private and public forestland with a coordinated system of 12 fire districts comprised of 9 ODF operated districts and three private forest protection associations along with other associated federal, state, and local agencies. State Forests operations include forest development, management of Board of Forestry and Common School Trust lands, and the operation of the tree-seed orchard. State Forests manage over 800,000 acres of state forestland for a variety of public purposes including timber sales that provide revenue for the counties in which a sale takes place, the Common School Fund, and to fund the operation of the program. The Private Forests program is the primary administrator of the Oregon Forest Practices Act providing education, inspection, and enforcement of the lawful management of Oregon forestlands along with collaborative activities including monitoring and improving forest health, urban forestry, and family forestland assistance.

CSL Summary and Issues

The current service level for the agency includes adjustments from the 2017-19 legislatively adopted budget for:

- Legislative actions taken subsequent to the legislatively adopted budget, including 2018 legislative session actions and Emergency Board actions through March 2018

- \$2.5 million General Fund for the funding of severity resources used in the 2017 wildfire season
- \$63,561 for Treasury loan interest costs
- \$36.95 million in unbudgeted fire costs for the 2017 wildfire season
- \$2.43 million for unbudgeted fire district deductibles
- \$7.0 million expenditure limitation to pass-through federal reimbursements to other agencies
- \$5.23 million for position actions including collective bargaining agreements negotiated by the Governor
- \$500,000 funding for Good Neighbor Authority projects
- Biennial reconciliation of positions and position actions: \$3.02 million (including Services and Supplies)
- Debt service for bonds issued in the 2017-19 biennium: \$16.38 million
- Vacancy savings reduction (increase in budgeted expenditures) of \$3.7 million
- Personal Services adjustments not included elsewhere including; temporary appointments, overtime, and associated taxes: \$566,778
- Phase-out of one-time funded activities or programs funded in the 2017-19 budget, including reductions for:
 - \$48.94 million for 2017 fire season costs
 - \$485,993 one-time funded Good Neighbor Authority expenditures
 - \$101 million for bond proceeds and one-time bond issuance costs for the Elliott State Forest
 - \$50,000 for one-time bond issuance costs for Toledo capital construction project
 - \$78,056 for non-position related one-time funding for development of a Habitat Conservation Plan (HCP) for the Elliott State Forest
 - \$1.09 million for one-time costs related to the statewide instance of the Oregon Buys procurement system.
- Inflation, both standard inflation at a rate of 3.8% for most Services and Supplies expenditures, and extraordinary inflation for certain authorized items: \$8.47 million
- Increases in state government service charges: \$2.24 million

Additional changes that were made in the 2017-19 budget for the Department of Forestry after April 2018 are not contemplated in the current service level budget for the agency, but are captured in the legislatively approved budget. Typically, adjustments made to the agency's budget during this part of the interim are for one-time funding or expenditure authority, and therefore, require no additional accommodation in the upcoming biennium's budget. These include an initial increase in expenditure authority of \$68.4 million for 2018 fire season costs and \$1.0 million for additional treatment of Sudden Oak Death.

The current service level budget shows a significant decrease (\$65.8 million or 14.8%) from the legislatively adopted budget, however, the 2017 legislatively adopted budget includes \$102 million of one-time funded items, most notably \$100 million in bond proceeds for the Elliott State Forest. After adjusting the one-time items out of the legislatively adopted budget, the current service level represents a \$36.4 million or 10.6% increase. The three primary contributors of this increase are: debt service, decreased allowance for vacant positions, and inflation.

General fund debt service increases by \$16.63 million due to the issuance of bonds with net proceeds of \$100 million for the Elliott State Forest. Vacancy savings were artificially increased due to statewide adjustments made to produce budgetary reductions in the 2017-19 biennium. Therefore, the base budget for vacancy savings carried forward to the 2019-21 biennium is overstated by \$3.7 million, thus necessitating the significant upward adjustment to bring vacancy savings in line with actual anticipated savings.

Policy Issues

Fire protection continues to dominate the budget environment for the Department. Other significant issues include forest health, climate change, environmental protection, forest management policies, and the general economic climate.

Fire Cost Funding

Large fire costs have totaled \$506.54 million during the seven-year period from 2012 through 2018, an average of \$72.36 million per year. The following table illustrates the budgeted funding by fund source.

| Summary of Emergency Fire Costs | | | | | | | | | | | |
|--|----------------|--------------|----------------|--------|----------------|--------|---------------|--------|---------------|--------|----------------|
| | General Fund | Public Other | Public Total | | Federal Funds | | Insurance | | Private | | Total Funds |
| 2012 Fire Season | \$ 3,216,407 | \$ 723,278 | \$ 3,939,685 | 39.57% | \$ - | 0.00% | \$ - | 0.00% | \$ 6,016,571 | 60.43% | \$ 9,956,256 |
| 2013 Fire Season | \$ 43,044,839 | \$ 1,573,417 | \$ 44,618,256 | 33.98% | \$ 47,500,000 | 36.18% | \$ 25,000,000 | 19.04% | \$ 14,184,515 | 10.80% | \$ 131,302,771 |
| 2014 Fire Season | \$ 18,259,057 | \$ 1,483,355 | \$ 19,742,412 | 22.35% | \$ 30,851,232 | 34.92% | \$ 25,000,000 | 28.30% | \$ 12,748,628 | 14.43% | \$ 88,342,272 |
| 2015 Fire Season | \$ 25,033,277 | \$ 1,429,705 | \$ 26,462,982 | 30.64% | \$ 45,172,387 | 52.30% | \$ - | 0.00% | \$ 14,732,705 | 17.06% | \$ 86,368,074 |
| 2016 Fire Season | \$ 12,902,268 | \$ 972,639 | \$ 13,874,907 | 53.09% | \$ 2,772,625 | 10.61% | \$ - | 0.00% | \$ 9,488,971 | 36.31% | \$ 26,136,504 |
| 2017 Fire Season | \$ 27,883,296 | \$ 1,552,669 | \$ 29,435,965 | 53.21% | \$ 11,101,866 | 20.07% | \$ - | 0.00% | \$ 14,778,458 | 26.72% | \$ 55,316,289 |
| 2018 Fire Season* | \$ 36,798,359 | \$ 1,348,012 | \$ 38,146,371 | 34.96% | \$ 58,172,078 | 53.31% | \$ - | 0.00% | \$ 12,796,988 | 11.73% | \$ 109,115,437 |
| Total | \$ 167,137,503 | \$ 9,083,075 | \$ 176,220,578 | 34.79% | \$ 195,570,188 | 38.61% | \$ 50,000,000 | 9.87% | \$ 84,746,837 | 16.73% | \$ 506,537,603 |

*The 2018 fire season costs are estimated as of 11/15/18

The first \$20 million of emergency fire costs are split evenly between the Oregon Forest Land Protection Fund (predominately private landowner funds) and the General Fund. The OFLPF however, is statutorily capped at \$13.5 million per-year, inclusive of an ostensible \$3.0 million contribution to severity resources funding and up to \$500,000 for administrative costs of the Emergency Fire Cost Committee. Above the first \$20 million, the liability of the General Fund is unlimited, save that amount that might be recovered from the state's catastrophic fire insurance policy after the retention amount is met; \$50 million in the 2017 and 2018 fire seasons. This means that in a fire season with a net cost (total costs less federal and insurance funds) of \$50 million, the General Fund would be responsible for \$40 million or 80% of the costs. As shown in the table above, the General Fund share of total fire season costs net of federal funds and insurance proceeds over the past seven fire seasons has totaled 64% and state-based public funds generally totaled 67.5%. In comparison, over this same time, the division of land ownership on lands protected by ODF was 77% private landowner and 23% public landowner.

Elliott State Forest

The Oregon State Land Board elected to discontinue the management agreement between the Department of State Land and the Department of Forestry for the Elliott State Forest. Oregon Statute (ORS 530.490) provides that notwithstanding any other law, or authority granted thereunder, the State Forester is authorized to manage the Elliott State Forest. It is not clear if the Land Board had the legal authority to end the management of the Elliott by the State Forester. Additionally, The Legislature authorized the issuance of \$100 million in certificates of participation, the proceeds of which were to be used to release the Elliott from its obligation to the Common School Fund. The expenditure authority, and the associated debt service, were allocated to the Department of Forestry. At the October 2018 meeting of the Land Board, the intent was expressed that the payment of the \$100 million in bond proceeds to the Common School Fund would be applied as a “buy-down” reduction in the appraised value, thus reducing the additional amount required by a future purchaser. If the policy is not to have the Department of Forestry involved in the management or the ownership of the Elliott, it may be more appropriate to move the expenditure authority and debt service for the bonds to the Department of Administrative Services.

County Law Suit

The original complaint was filed in March 2016 as a class action involving all but one county that has state forest land, plus the majority of the approximately 130 local taxing districts. The suit alleges a breach of statutory contract, which class members argue requires the state to maximize revenue as the underlying meaning of “greatest permanent value”. Pre-trial motions have all been filed and the discovery process is being completed. Trial is set for October of 2019, and is expected to last 3-4 weeks. A settlement conference is set for early May 2019. This is a step required by the courts to ensure a trial is needed, but doesn’t mean the state is moving toward a settlement in the case. Total costs as of December 2018 are about \$1.2 million.

Militia Staffing of Emergency Fires

The Oregon Department of Forestry uses a militia approach to staffing key personnel roles during fire seasons. What this means is that although part-time, seasonal, and contracted resources are generally called upon to do a significant amount of the ground work, the command, control, and operational functions of any given incident are staffed by trained, experienced staff that work in the other operating divisions such as State Forests, Private Forests, and Agency Administration. With the increased severity and length of fire seasons, the use of these non-fire program staff has put operational stresses on the agency. This issue manifests itself budgetarily in the use of overtime, temporary appointments, and overstaffing of non-fire programs.

Other Significant Issues and Background

There are several additional factors to consider when addressing the budgetary needs of the Department of Forestry. Environmental changes have increased the average length of the fire season substantially over the past fifty years. Fire complexity has also increased with many fires now occurring in either remote, roadless areas of difficult terrain or within the urban-forest interface. The use of the militia model by ODF, pulling personnel from other departments outside of the fire protection division, to fight fires has significant impacts on the operational missions of the other divisions.

For the 2018 fire season, The United States Bureau of Land Management (BLM) decided to forgo the renewal of a fire-protection contract wherein BLM acted as a private landowner making assessed contributions to the Oregon Forest Land Protection Fund (OFLPF) and receiving large-fire protection services on BLM owned forestlands from ODF. This contract limited, generally, BLM's financial risk exposure from fire to the amount contributed to the OFLPF. Instead, BLM entered in to a one-year contract with ODF for the 2018 fire season whereby the terms of the agreement require BLM to pay the actual cost of firefighting on BLM lands protected by ODF. This was a significant change in policy for BLM. Fire costs on BLM lands have totaled over \$18.6 million in the 2018 fire season. Had ODF and BLM entered into a contract with similar terms to the five-year agreement preceding the 2018 fire season, roughly \$10 million of the additional cost would have been borne on the General Fund with the remaining \$8.6 coming from insurance proceeds.

Managing cash flow remains and ongoing issue for ODF. A significant portion (46.6%) of the total cost of unbudgeted fire costs for the past six years are subject to reimbursement from federal funds or insurance proceeds. There is a large time gap between the statutory vendor payment obligation that ODF is subject to and the finalization of payment from reimbursable sources. A lesser portion of this has been due to operational constraints of ODF due to the personnel demands of fire seasons and budgetary limitations within the Administrative Services Division. The majority of the delay is due to the finalization of fire costs, which can take several years and often span multiple biennia. The increasing financial severity of fire seasons has exacerbated this situation and ODF has had to use credit facilities from the Oregon State Treasurer. The Treasury charges ODF interest on these loans, however the interest expenses are paid from the General Fund; a wash for the agency, but an overall loss to the state of foregone interest earnings for the General Fund.

Governor's Proposed Budget:

There are three significant items in the Governor's budget proposal. Two of these require statutory changes to enact.

1. The Governor has proposed creating a "blue-ribbon" panel for examining the funding and organizational structures of forest firefighting in Oregon. The ODF budget proposed by the Governor includes \$400,000 General Fund to engage a contract consultant to facilitate this work. During the 2015-17 biennium, ODF dedicated a substantial amount of time and resources to this same question. The agency convened a panel of stakeholders and ultimately divided the question in to three subgroups; one to address ongoing funding, one to address organizational issues related to firefighting, and the other to address wildfire policy. The few recommendations that were produced by this process tended to support the status quo while advocating small increases to existing funding sources or shifting the public portion of large fire costs to lottery funds.
2. Shifting the cost of administering the Forest Practices Act (FPA) so that it is funded on a 50/50 basis from the General Fund and Harvest Excise Tax. Currently statute limits the use of Harvest Tax proceeds to no more than 40% of the cost to administer the FPA. The resulting change would create a General Fund savings of \$2.0 million in the 2019-21 biennium. The statutory limitation is contained in ORS 321.015 which is contemplated in the "Harvest Tax Bill" (LC 478) although the language affecting the change is not

yet included in the bill. Based on the average harvest volume over the past 22 years, the change would result in a cost of roughly \$0.255 per thousand board feet.

3. Changing the allocation of emergency forest fire costs so that they are split evenly between the General Fund and landowner funds. Currently, the General Fund and the Oregon Forest Land Protection Fund (revenue from a number of landowner assessments and a portion of Harvest tax receipts) split the first \$20 million of emergency fire costs dollar for dollar. After that first \$20 million, however, the General Fund pays all costs save those amounts that may be eligible for reimbursement under the state's catastrophic wildfire insurance policy; the retention amount of which is currently \$50 million. ORS 477.750 through 477.777 provide the statutory outline for the OFLPF and include specific limitation on the use and amount of funds available for any given fire season. The Governor's proposed budget calls out the amount retained in the General-Purpose Emergency Fund as inclusive of a 50-50 split between private landowners and the General Fund for large fire costs. LFO is not aware of currently proposed legislation to affect this change.

| Department of Geology and Mineral Industries | | | | | |
|--|-------------------|-------------------------------------|--|-------------------------------------|------------------------------|
| | 2015-17 Actual | 2017-19 Legislatively Adopted | 2017-19 Legislatively Approved * | 2019-21 Current Service Level | 2019-21 Governor's Budget |
| General Fund | 4,806,968 | 4,631,168 | 4,709,949 | 5,119,592 | 5,374,205 |
| Other Funds | 4,917,107 | 6,787,859 | 7,331,528 | 7,252,383 | 7,164,219 |
| Federal Funds | 5,410,687 | 5,937,915 | 6,040,857 | 6,225,649 | 5,500,972 |
| Total Funds | 15,134,762 | 17,356,942 | 18,082,334 | 18,597,624 | 18,039,396 |
| Positions | 45 | 43 | 43 | 42 | 44 |
| FTE | 42.43 | 42.92 | 42.92 | 41.92 | 42.42 |
| * Includes Emergency Board and administrative actions through December 2018. | | | | | |

Program Description

The Department of Geology and Mineral Industries (DOGAMI) is the state's primary source of geoscientific information. DOGAMI has two program areas the Geologic Survey and Services (GS&S) Program and the Mined Land Regulation and Reclamation (MLRR) Program.

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

The MLRR Program is responsible for regulating the exploration, extraction, production, and reclamation of mineral and energy resources for the purposes of conservation and second beneficial uses of mined lands. MLRR regulates oil, natural gas, geothermal exploration and extraction, and receives no General Fund or Lottery Funds support.

CSL Summary and Issues

The 2019-21 current service level (CSL) total funds budget of \$18.6 million is a 2.8% increase from the 2017-19 legislatively approved budget, with the General Fund portion of CSL up 8.7% from 2017-19. This is largely the result of increases to personal services, state government service charges, rent, data processing, and professional services.

Policy Issues

GS&S Program -- Other Funds and Federal Funds revenue stability is always an issue within the program; however, they have significantly improved project and grant tracking to reduce project overrun. The program is reliant on developing funding partnerships with local, state

and federal agencies. The availability of projects with federal partners has continued to grow over the past biennia, while the Other Funds revenue has slowly declined (the agency has a \$1 million OF revenue shortfall). While the Department is a regular recipient of grants from the US Geologic Survey, FEMA, and NOAA, federal funding will always be a somewhat volatile revenue source that makes up roughly 33% of the agency budget. The LIDAR work the agency does is determined by the priorities of its funding partners, which is why the agency routinely requests a General Fund appropriation for LIDAR to work on State-prioritized projects.

MLRR Program -- As part of the effort to improve business practices, the Department has been conducting a comprehensive internal review of the MLRR program. The review revealed that the program did not have a standard indirect cost methodology to fund its share of centralized service costs and that the program was not recovering its costs related to the permit application process. The program initially held three positions vacant to ensure that licensing revenue was sufficient for the 2017-19 biennium, but the Department has found that the fee increases approved in 2015 and implemented in 2016 are no longer sufficient to cover both program and indirect costs beyond 2019-21 with the program fully staffed. The Department is proposing fee increases to better cover the costs of permitting, fund current activities beyond 2019-21, and to fund four additional positions described in POP 101. The program currently does not have capacity to conduct inspections on mine sites, which it had done in the past, although in a very inefficient manner that also contributed to permit processing backlog. Adding the three inspector positions will allow the Department to better meet its KPM #4 goal of inspecting 50% of all mine sites biennially (currently only 6.5% of mines have been inspected).

Other Significant Issues and Background

Business and IT Practices -- the 2015 Legislature directed the Department to improve its business practices related to its accounting structure, financial controls and cash flow and to implement an information technology remediation plan to improve outdated IT practices. The Department has taken significant steps to improve both the business and IT practices and is no longer required to provide follow-up reports on these improvements.

DOGAMI has the following policy option packages in the Agency Request Budget:

1. Package 101 -- MLRR Program Capacity -- \$698,705 Other Funds -- would fund four permanent positions (3.50 FTE) within the MLRR program. Three of the positions would be site inspectors, with the fourth position a half-time ISS-5 position to support the acquisition and maintenance of an electronic online permitting and inspection system. KPM #4 tracks the number of mine sites inspected biennial. Currently, MLRR has 865 surface mining operating permits, and over 1,000 different types of permit sites when including geothermal, oil and gas wells, but does not have the capacity to conduct site visits. The funding for this package is dependent on the approval of increases for the application, licensing and permitting fees received by the program.
2. Package 102 - Expansion of LIDAR Mapping -- \$1,000,000 General Fund -- would provide funding to collect LIDAR mapping data for areas that are a priority to the state. While DOGAMI has GF and OF/FF limitation included in its budget for LIDAR mapping, this

additional amount would allow DOGAMI to prioritize the state's mapping needs rather than being obligated to the prioritization of its potential funding partners.

3. Package 103 -- Mineral Study Continuation -- \$422,156 General Fund -- would provide funding to digitize paper maps, reports and documents that are related to the state's mineral data. DOGAMI has a large collection of legacy mineral data that could be turned into a valuable resource for potential mining activities if digitized and published in a modern online geospatial database format. This package includes two limited duration positions (2.0 FTE) to work on the digitizing, indexing, cross-referencing, and publishing of the state's mineral data online.

While the MLRR program would require a fee increase to support the additional positions included in Package 101, based on current revenue projections, the program would also require a fee increase in order to continue operating at the current service level budget.

Finally, the program is regulating the first chemical mine permitting process to occur in Oregon, where Department expenditures related to the permitting are reimbursed under contract by the mining company. Additional limitation for this permitting process was approved by the September 2018 Emergency Board. If current expenditure trends continue, the MLRR program may need additional limitation in the 2019-21 budget for further reimbursement of expenses.

Overall, the Governor's Budget increases the General Fund budget within the GS&S Program 14.10% from 2017-19 Leg Approved, and 5% from CSL. The MLRR Program budget is increased 36% above 2017-19 Leg Approved, and 32% above CSL.

In the Geologic Survey Program, the Governor's Budget includes a 6% reduction of agency's General Fund totaling \$307,177 and reduces empty Federal Funds limitation by \$700,000. Additions to the GS&S Program include:

- \$300,000 General Fund for a study to relocate or to build vertical evacuation options for coastal schools and hospitals that are within the Tsunami Inundation Zone, evaluate earthquake early warning sites, improve evacuation routes, and building defensive wall structures;
- \$300,000 General Fund for LIDAR natural hazard mapping and mitigation work;

Additions to the Mined Land Reclamation Program includes:

- \$611,103 Other Funds limitation for continued work on the Grassy Mountain chemical mine;
- Approves the fee increase requested in Package 101, but modifies the ARB amounts to reflect the timing of the fee increase taking effect January 2020. Due to the corresponding decrease in fee revenue, the Governor's Budget reduces the requested positions in the package from four to two, approving an NRS2 position and an ISS5 position, both being phased in at 18 months;
- One-time increase of \$250,000 OF limitation, are for the projected cost of the online permitting system.

Parks and Recreation Department

| | 2015-17 Actual | 2017-19 Legislavely Adopted | 2017-19 Legislatively Approved* | 2019-21 CSL LFO | 2019-21 Governor's Budget |
|--------------------|--------------------|-----------------------------------|---------------------------------------|-----------------------|---------------------------------|
| General Fund | | 218,894 | 228,729 | 273,580 | 273,580 |
| Lottery Funds | 78,504,001 | 100,597,217 | 108,856,337 | 109,690,538 | 116,823,167 |
| Other Funds | 102,346,202 | 99,889,179 | 101,632,140 | 98,722,769 | 126,010,604 |
| Federal Funds | 7,266,847 | 16,389,923 | 16,422,002 | 10,294,950 | 16,690,443 |
| Total Funds | 188,117,050 | 217,095,213 | 227,139,208 | 218,981,837 | 259,797,794 |
| Positions | 847 | 867 | 867 | 867 | 871 |
| FTE | 576.26 | 596.05 | 596.05 | 599.79 | 603.43 |

* Includes Emergency Board and administrative actions through December 2018.

Program Description

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

OPRD operates under the direction of a seven-member Commission. The Parks Commission establishes OPRD policy, rules, and goals, approves acquisitions of property for state parks, sets rates for use of park facilities, and establishes the department's biennial budget request.

The Department manages park lands covering 109,551 acres. These include 58 campgrounds, 256 day-use areas (some include campgrounds), about 1,000 miles of recreation trails, 362 miles of ocean shore, and other special sites such as boating and fishing docks, group meeting halls, interpretive centers, museums, and 2 historic inns.

The Department operates through the following programs:

- Director's Office – (5 positions, 5.00 FTE) Responsible for overall agency management; support of Commission activities; coordination with the Governor, Legislature, and other government entities; and development of broad policy direction. It also provides public information, agency program review, internal audits, and coordinates rulemaking in its efforts to improve agency performance.
- Central Services – (81 positions, 79.69 FTE) Provides budget and fiscal resources management, staff recruitment and training, safety and risk management, information technology services including managing the park reservation system, and centralized business services such as fleet and managing procurements.
- Park Development – (9 positions 9.00 FTE) Responsible for engineering design, survey, and construction oversight for statewide park development projects focused on reducing the backlog of repairs and deferred maintenance. This budget also includes funding for the purchase of new real property.
- Direct Services – (743 positions, 477.10 FTE) Supports park operations; park planning and recreation programs, along with property and resource management; and engineering services for operations. The program is responsible for operation of the state park system on a daily basis. It also provides labor, materials, and products for state parks through partnerships with state, county, and local corrections and youth crew programs.
- Community Support and Grants – (29 positions, 29.00 FTE) Responsible for direction and management of the Department's major grant programs and Heritage programs. The grant programs include the All-Terrain Vehicle (ATV) grant program, the Land and Water Conservation Fund, the Local Government Grant Program, the Recreational Trails Grant Program, Natural Heritage (Section 6) grants, and the Recreational Vehicle Grant Program. The Heritage program administers federal and state programs for historic and archeological resource planning and preservation, and provides the services required of the State Historic Preservation Office.

CSL Summary and Issues

The current service level for the agency includes adjustments from the 2017-19 legislatively adopted budget for:

- Biennial reconciliation of permanent positions authorized in the 2017-19 budget: \$4.55 million (including Services and Supplies)
- Legislative actions taken subsequent to the legislatively adopted budget, including Emergency Board actions through March 2018
 - \$200,000 for Sudden Oak Death treatment
 - \$20,000 for trail repair in Chetco Bar area
 - \$2.66 million for authorized position adjustments and collective bargaining agreements negotiated by the Governor
- Debt service for bonds issued in the 2017-19 biennium: \$221,510
- Vacancy savings reduction (increase in budgeted expenditures) of \$2.66 million
- Personal Services adjustments not included elsewhere including; temporary appointments, overtime, and associated taxes: \$356,384
- Phase-out of one-time funded activities or programs funded in the 2017-19 budget, including reductions for:
 - \$200,000 for Sudden Oak Death treatment
 - \$20,000 for trail repair in Chetco Bar area
 - \$7.6 million for bond proceeds and bond issuance costs for the Main Street program
 - \$1.4 million for FEMA funded clean-up and repair projects

- \$6.6 million for federally funded grant programs
- Inflation, both standard inflation at a rate of 3.8% for most Services and Supplies expenditures, and extraordinary inflation for certain authorized items: \$5.14 million
- Increases in state government service charges: \$1.93 million

Additional changes that were made in the 2017-19 budget for the Parks Department after April 2018 are not contemplated in the current service level budget for the agency, but are captured in the legislatively approved budget. Typically, adjustments made to the agency's budget during this part of the interim are for one-time funding or expenditure authority, and therefore, require no additional accommodation in the upcoming biennium's budget.

The current service level budget shows minimal growth of \$1.9 million (0.9%) over the legislatively adopted budget, however, the agency has pursued the policy of phasing-out all grant funding from the current service level and subsequently including those carried-over or anticipated grant funds in policy option packages. This artificially lowers the current service level by not accounting for grant expenditures that are either extremely likely or statutorily required.

Biennialized costs of position actions totaling \$4.4 million included the full roll-up of the 27 positions that were established in the 2017 session, biennialization of salary pot distributions made in the 2018 session for position actions during the 2017-19 biennium, and adjustments to the minimum floor salary for certain represented employees.

Vacancy savings were artificially increased due to statewide adjustments made to produce budgetary reductions in the 2017-19 biennium. Therefore, the base budget for vacancy savings carried forward to the 2019-21 biennium is overstated by \$2.8 million, thus necessitating the significant adjustment noted above to bring vacancy savings in line with actual anticipated savings.

Amounts above standard inflation total roughly \$1.6 million and are accounted for by increased charges from the Department of Administrative Services for rent and fleet services, increased utilities costs, and additional projected lottery funds revenue dedicated to local government grant programs.

Lottery revenue projections increased by \$14 million in the 2017-19 biennium adding an additional \$6.6 million to the beginning lottery funds balance for the upcoming biennium, however, lottery revenues are anticipated to level off and perhaps decrease slightly in 2019-21.

Policy Issues

Governor's Budget

The Governor's budget adds just over \$40.8 million in additional spending over the current service level for the 2019-21 biennium; an increase of 18.6%. The expenditures are heavily weighted towards the use of Other Funds, predominately funded with park user fees. It is also notable that the proposed expenditures rely significantly on the use of fund balances rather than new revenues; \$9.8 million from Lottery Funds and \$19.1 million from Other Funds.

Two of the proposed policy option packages reestablish and update spending on existing activities. \$12.0 million in expenditure authority is reestablished for federal and state grant programs and another \$4.0 million in expenditure authority is added for special projects funded from specific revenue sources.

A budgetary shortfall in the agency's current service level was created when the agency moved to contracted call-center operations. The positions that were previously used for this purpose were repurposed to other uses rather than being eliminated without the agency making a budgetary provision for the contracted services that were being used, thus creating a \$1.2 million budget shortfall. OPRD was provided a one-time increase in expenditure limitation by the Emergency Board for the 2017-19 biennium. The Governor's budget includes an ongoing increase in Other Funds expenditure limitation for this purpose.

The Governor's proposal invests an additional \$10.5 million in upgrades, improvements, and new acquisitions for state park properties and another \$7.5 million to create "signature" projects to commemorate the 100th anniversary of the Parks Department in 2022.

Four additional positions are requested in the Governor's proposal. One limited-duration position to map underground infrastructure at state parks, one limited-duration position to manage the Salmonberry Trail project, an ongoing park region manager, and a project manager to implement a concessions strategy that is being developed by a contracted consultant.

| Oregon Department of Fish and Wildlife (ODFW) | | | | | |
|--|---------------------------|--|---|--|--------------------------------------|
| | 2015-17 Actual | 2017-19 Legislatively Adopted | 2017-19 Legislatively Approved * | 2019-21 Current Service Level | 2019-21 Governor's Budget |
| General Fund | 31,162,078 | 28,408,880 | 29,458,285 | 32,776,501 | 33,208,714 |
| Lottery Funds | 4,852,625 | 5,212,514 | 5,326,259 | 5,640,031 | 5,640,031 |
| Other Funds | 159,519,582 | 191,354,898 | 193,825,411 | 194,916,970 | 197,595,177 |
| Federal Funds | 112,180,191 | 133,139,592 | 135,922,685 | 141,948,710 | 144,994,699 |
| Total Funds | 307,714,476 | 358,115,884 | 364,532,640 | 375,282,212 | 381,438,621 |
| Positions | 1,463 | 1,375 | 1,375 | 1,346 | 1,353 |
| FTE | 1,197.51 | 1,154.05 | 1,154.05 | 1,140.13 | 1,151.31 |
| * Includes Emergency Board and administrative actions through December 2018. | | | | | |

Program Description

The Oregon Department of Fish and Wildlife (ODFW), under direction of its seven-member Commission, manages the fish and wildlife resources of the state. The agency's mission is to "protect and enhance Oregon's fish and wildlife and their habits for use and enjoyment by present and future generations."

CSL Summary and Issues

The 2019-21 current service level (CSL) total funds budget of \$375 million is a 3% increase from the 2017-19 legislatively approved budget with the General Fund portion up 11%. Increases include personal services increases, standard inflation to services and supplies, and increases to the State Government Service Charges.

Policy Issues

Oregon Conservation Strategy - The Oregon Conservation Strategy works to ensure the long-term health of Oregon's native fish and wildlife and their habitats. In order to implement the strategy, including research, monitoring, and conducting conservation actions, the Department is requesting \$1 million General Fund and three permanent full-time NRS3's to double the number of regional conservation biologists in the state. These biologists would be housed in Burns, La Grande, and Newport, to go along with the current biologists in Bend, Central Point, and Clackamas. Department also has two packages specifically related to implementing conservation programs within the Farm Bill in partnership with the federal Natural Resources Conservation Service (NRCS). The first package includes \$142,501 Lottery Funds and \$570,000 Federal Funds to continue 3 field biologist positions in the Wildlife program and the second package is \$60,516 Lottery Funds and 242,064 Federal Funds to continue one position in the Inland Fisheries program. The NRCS does not have the capacity to implement these programs. Finally, the Department is requesting \$200,000 Federal Fund limitation for monies from the Pacific States Marine Fisheries Commission to continue funding the Aquatic Invasive Species Prevention Program.

Cougar/Wolf/Pinniped Management - Management plans have been developed for both Cougar (2017) and Wolf (2018) populations. Oregon's wolf population has increased 53% per year over the last four years, and is projected to continue, which will increase the amount of resources required for monitoring, education, depredation investigation and prevention. ODFW is requesting \$1,175,000 General Fund and five permanent full-time positions to continue the wolf plan implementation. Pinniped populations have increased predation on salmon, steelhead and sturgeon in the Columbia River Basin. At Willamette Falls, pinniped predation is significantly increasing the extinction risk to ESA listed fish stocks. The Department has received authority under Section 120 of the Marine Mammal Protection Act to lethally remove California sea lions from Willamette Falls. As part of the pinniped management effort, the Department had requested \$852,750 General Fund for resources to evaluate and manage sea lion predation in the lower Columbia and lower Willamette. However, they have taken measures through repurposing existing staff to begin addressing the pinniped issue in early 2019.

Anti-Poaching Campaign - HB 5010 (2017) included a budget note for the Department to develop a proposal for a broad anti-poaching public awareness campaign and reported to the 2018 Legislature on the details and budget for that work. ODFW is requesting funding to implement the proposal, including providing funds for five additional permanent OSP positions, two DOJ positions dedicated to assisting local jurisdictions with poaching prosecution cases, and a media campaign. Total cost of the package is \$4,292,197 General Fund.

Sage Grouse initiative - \$425,000 General Fund was added in 2017-19 to continue a Sage Grouse Coordinator position working on sage grouse conservation efforts in eastern Oregon. The Department is requesting \$194,000 Other Funds via an OWEB grant to fund a limited duration position for additional coordination for the Baker Sage-grouse Local Implementation Team.

Leaburg Hatchery - HB 5201 (2018) authorized a one-time \$350,000 General Fund appropriation to the Department to operate the Leaburg Fish Hatchery for the second year of the 2017-19 biennium after the US Army Core of Engineers withdrew federal support for the hatchery. The Corps is instead contracting with a private entity to purchase trout and will continue to pay ODFW to produce steelhead at another ODFW facility. The state support allowed the Department to continue production of trout at the facility, but ODFW is requesting \$1,744,086 General Fund to continue operating the hatchery. Without funding, the hatchery will close.

Columbia River Fisheries Reform Strategies - SB 830 (2013) established several reforms to fisheries management on the Columbia River and setup the Columbia River Fisheries Transition Fund (CRFTF) with \$500,000 General Fund to be used to provide grants to counties to establish their own programs. These county programs would make payments to commercial fishers that are economically harmed by the ban on gill net fishing. No counties had established a program and applied for funding until Clatsop County in 2018. ODFW has determined that the county's program is consistent with the statutory requirements and will transfer the money to Clatsop County when it has finished processing applications. If qualified applicants for the county program total less than the \$500,000, the remainder of the funds are transferred to the Columbia River Fisheries Enhancement Fund to be used for Columbia River fish management and reforms adopted by the Commission.

Klamath Anadromous Fish Reintroduction - As part of the anticipated removal of the four main stem dams located on the Klamath River, ODFW is committed to leading the efforts to reintroduce salmon and steelhead trout to the Upper Klamath Basin. For this effort, ODFW is requesting to continue to use funds from the National Fish and Wildlife Foundation to extend a limited duration biologist position working on developing an implementation plan for reintroduction at a cost of \$252,000 Other Funds. Additionally, the Department is requesting 6 new positions to conduct the research, monitoring, and evaluation necessary for reintroduction and to facilitate production of spring chinook at Klamath Hatchery for reintroduction. In addition to the six new positions, the package includes shifting two positions (0.43 FTE) from Federal Funds to General Funds for a total cost of \$1,275,091 General Fund. Finally, the Department is requesting \$1.35 million in M76 Lottery Funds to modify a portion of the existing Klamath Fish Hatchery to provide necessary infrastructure to support reintroduction, including construction of three raceways capable of rearing up to 250,000 chinook salmon smolts annually.

Other Significant Issues and Background

Revenues - The Department relies heavily on Other Funds revenue from hunting and fishing license and tag sales. When needed, General Fund reductions in ODFW have most often been accomplished by removing General Fund support for a program and shifting that program to another fund type, most often using Other Funds revenue from the sale of licenses and tags. These shifts increased the burden to support programs with revenues from hunters and fishers and caused severe cash flow issues. The 2015 Legislature addressed these revenue issues by providing \$11.6 million General Fund to shift some programs off license and tag revenue, and approved fee increases to be implemented in January 2016, January 2018 and January 2020. The receives Federal Funds from a variety of sources, including Pittman-Robertson funds that support the wildlife programs, which is expected to increase by about \$3 million in 2019-21 (apportionment increase is included in a POP). The Department's Measure 76 Lottery Funds are constitutionally dedicated to protecting fish and wildlife habitat.

Culvert Fish Passage - ODOT and ODFW negotiated a three-year pilot program in the 2015-17 biennium for culvert repair to allow for fish passage. A new culvert repair agreement has been negotiated by ODOT and ODFW and ODOT will provide \$4,467,300 Other Funds to resolve barriers identified in the Oregon Fish Passage Priority List. This new collaborative agreement is set-up for five-years.

OregonBuys System Implementation - OregonBuys is an electronic procurement system that ODFW has procured, along with a handful of other state agencies, that has been in the works since 2014. The 2017-19 legislatively adopted budget provided funding for this system, and the Department is requesting \$340,148 Other Funds to complete implementation in 2019-21. The Department anticipates ongoing biennial costs of the program to be about \$95,148.

Electronic Licensing System (ELS) - the online licensing system went live December 1, 2018 with the sale of 2019 licenses and tags and the Department has reported only very minor issues. The Department estimates that the new system is expected to save around \$2 million annually.

Deferred Maintenance - A 2005 Secretary of State audit estimated the Department had nearly \$100 million in deferred maintenance needs at their various facilities. To begin addressing those needs, the 2017 Legislature approved \$10 million in capital construction expenditure limitation from Article XI-Q bonds to be sold in the Spring 2019, along with \$215,000 cost of issuance expenditures. The bond proceeds will be used as the first part of a multi-biennium plan to rehabilitate the agency's capital assets across the state. The Department is requesting another \$10 million in bonding in 2019 for phase 2 of the deferred maintenance plan, along with \$135,000 cost of issuance expenditures. They are requesting an early bond sale (October 2019), and have included \$1,135,006 General Fund for debt service.

Nearshore Fishery Independent Survey - The Department is requesting the establishment of a research team to perform at-sea surveys to provide data on nearshore ground fish stock. The package includes six permanent full-time positions, survey equipment, and funds to charter a vessel to use to conduct the surveys. Total cost of the package is \$1,898,350 General Fund.

Marine Harmful Algal Bloom Monitoring - ODFW is requesting General Fund to create a small field sampling team of three positions to monitor species associated with harmful algal bloom coast-wide. This program would complement related programs at the Oregon Health Authority and Department of Environmental Quality that monitor inland waters for freshwater blooms, by monitoring coastal waters before seafood becomes contaminated. Total cost is \$379,300 General Fund.

Restore & Enhance Water Quality - ODFW is requesting 4 permanent positions and \$714,600 General Fund to study, evaluate and prioritize in-stream needs as part of the Integrated Water Resource Strategy. An additional \$65,400 Other Funds is anticipated from Water Resources Department through implementation of HB 3315 (2015) which required ODFW to track and bill other agencies for consultation work that was previously not compensated.

Restore Western OR Stream Program - The Western Oregon Stream Program was cut in the 2015 and 2017 session. The most recent reduction eliminated two of five positions within the program. Currently the three remaining biologists in the program are in Clackamas, Tillamook and Roseburg. The Department is requesting restoration of three permanent NRS2 positions at a cost of \$537,650 General Fund.

The Governor's Budget is 1.6% overall increase over 2019-21 CSL and 12.7% above 2017-19 Leg Approved. The Governor's Budget includes the following:

- \$1.5 million for the Oregon Conservation Strategy Implementation, including two positions funded with General Fund rather than Lottery Fund as proposed in ARB
- Five positions to implement the Wolf Plan (\$702,842 GF/\$471,588 OF)
- Two positions to implement an Integrated Water Resources Strategy (\$314,717 GF)
- \$4.4 million in Other Funds from ODOT for culvert fish passage
- \$4 million for increases to the Pittman-Robertson Apportionment (\$3 million FF/\$1 million OF)
- Real Property Manager position (\$229,000 OF)

- Jordan Cove Project Gas Pipeline Liaison (\$300,000 OF)
- Klamath Andromous Fish Reintroduction plan (\$252,000 OF)
- Habitat Assessment position for Oregon Coast (\$215,000 OF)
- Sage Grouse Coordinator position (\$194,000 OF)

The Governor's Budget does not include funding for the Anti-Poaching Campaign, Leaburg Hatchery, Marine Harmful Algal Bloom, a second round of bonding for deferred maintenance, or funding to modify the existing Klamath Fish Hatchery to support anadromous fish. As mentioned above, the Department has taken internal steps to address pinniped predation, so funding is not included. The Governor's Budget includes a decrease of \$387,456 General Fund for the Predator Control Program and elimination of four positions related to the Interagency Coordination Program. Additionally, it does not include funding to continue the implementation of the OregonBuys procurement system, as a larger state-wide implementation may be taking place through DAS.

Department of Land Conservation and Development

| | 2015-17 Actual | 2017-19 Legislavely Adopted | 2017-19 Legislatively Approved | 2019-21 CSL LFO | 2019-21 Governor's Budget |
|--------------------|-------------------|-----------------------------------|--------------------------------------|-----------------------|---------------------------------|
| General Fund | 13,211,189 | 12,951,689 | 15,160,953 | 13,906,741 | 15,069,903 |
| Other Funds | 546,079 | 1,734,829 | 1,785,545 | 616,655 | 1,460,719 |
| Federal Funds | 4,260,687 | 6,421,857 | 6,487,739 | 6,484,945 | 6,964,297 |
| Total Funds | 18,017,955 | 21,108,375 | 23,434,237 | 21,008,341 | 23,494,919 |
| Positions | 58 | 58 | 58 | 54 | 59 |
| FTE | 56.46 | 56.90 | 56.90 | 52.79 | 57.79 |

*Includes Emergency Board and administrative actions through December 2018

Program Description

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

DLCD personnel assist LCDC in adopting state land use goals, enforcing compliance of local land use planning with the goals, coordinating state and local planning activities, and managing the coastal zone and natural hazards programs. Oregon's land use planning system is based on a set of 19 statewide goals expressing the state's policies on land use and related topics such as citizen involvement, housing, and natural resources. Periodic review of locally adopted plans and the provision of both direct technical assistance and planning grants to local jurisdictions are key elements of the program. Under that program, all cities and counties have adopted comprehensive plans that meet mandatory state standards.

In addition to a main office in Salem, the agency maintains field offices in Central Point, Springfield, La Grande, Portland, Newport, and Bend. DLCD is divided into two budgetary programs: Planning and Grants. All of the operational programs and administrative functions of the agency are contained in the Planning program, whereas the Grants program is only for the purpose of segregating grant funding available to local planning units from the operational budget of the agency. The Grants program utilizes General Fund to provide grants to cities and counties for planning activities including economic development opportunity analysis, land inventories, infrastructure, and development planning.

CSL Summary and Issues

The current service level for the agency includes adjustments from the 2017-19 legislatively adopted budget for:

- Legislative actions taken subsequent to the legislatively adopted budget, including 2018 legislative session actions and Emergency Board actions through March 2018
 - \$295,862 for position actions including collective bargaining agreements negotiated by the Governor
 - \$300,000 for Eastern Oregon Economic Analysis Grants
 - \$1.73 million for local housing technical assistance authorized by HB 4006 (2018)
- Biennial reconciliation of positions and the elimination of limited-duration positions: -\$337,675
- Vacancy savings reduction (increase in budgeted expenditures) of \$283,639
- Personal Services adjustments not included elsewhere including; temporary appointments, overtime, and associated taxes: \$14,522
- Phase-out of one-time funded activities or programs funded in the 2017-19 budget, including reductions for:
 - \$90,660 Other Funds for a local economic development pilot project authorized by HB 2743 (2017)
 - \$1.73 million for local housing technical assistance authorized by HB 4006 (2018)
 - \$300,000 for Eastern Oregon Economic Analysis Grants
 - \$593,992 for non-position related one-time funding for development of local floodplain regulations related to the Endangered Species Act and for hazard mitigation planning
- Inflation, both standard inflation at a rate of 3.8% for most Services and Supplies expenditures, and extraordinary inflation for certain authorized items: \$356,752

The 2019-21 biennium current service level budget for DLCD decreases by \$2.46 million or 10.4% from the legislatively approved budget for 2017-19. This decrease is resultant from the removal of \$2.0 million in one-time General Fund appropriations that were used for technical assistance for local affordable housing planning and economic analysis grants in eastern Oregon. One-time funding from the Oregon Office of Emergency Management for hazard mitigation planning was also removed.

Policy Issues

During the 2017-19 biennium, DLCD was provided with General Fund appropriations to provide technical assistance grants to local communities for specific purposes. This is within the context of general planning grant funding supported by the General Fund resting just above a 20-year low of \$1.5 million per biennium. Although additional funding that supports any type of local planning efforts is welcomed by local planning offices, the current policy of specificity of use shifts the prioritization of planning efforts from the local authorities to the state regarding the grant funding.

Other Significant Issues and Background

Significant budgetary policy issues in the Governor's proposed budget:

- A \$500,000 General Fund appropriation is included in The Governor’s budget for Sage Grouse planning, with no detailed information or expenditure plan. The funding was not included in the agency’s requested budget.
- The Governor’s budget includes a policy package appropriating \$1.36 million General Fund for “Development Readiness”. This includes the establishment of a full-time position and \$1.1 million for grants to local governments for housing and economic development planning technical assistance. The funding request is coupled with proposed legislation (LC 487) that would establish a new “Development Readiness” program within DLCD and create specific criteria for financial or technical assistance. The proposed legislation would explicitly create an Other Funds fund wherein the General Fund appropriation proposed in the package would be deposited, allowing the agency to carry-forward any unexpended funds to subsequent biennia. There is no apparent reason that the agency could not prioritize additional General Fund grant monies to the issues highlighted in the proposed legislation at the direction of the Legislature. Also, when a program is established without a dedicated, ongoing funding source, the General Fund ostensibly becomes the funding source for the program.

Land Use Board of Appeals

| | 2015-17 Actual | 2017-19 Legislavely Adopted | 2017-19 Legislatively Approved | 2019-21 CSL LFO | 2019-21 Governor's Budget |
|--------------------|-------------------|-----------------------------------|--------------------------------------|-----------------------|---------------------------------|
| General Fund | 1,817,892 | 1,927,050 | 1,952,556 | 2,083,485 | 2,071,330 |
| Other Funds | 24,228 | 33,700 | 33,700 | 34,981 | 34,981 |
| Total Funds | 1,842,120 | 1,960,750 | 1,986,256 | 2,118,466 | 2,106,311 |
| Positions | 6 | 6 | 6 | 6 | 6 |
| FTE | 6.00 | 6.00 | 6.00 | 6.00 | 6.00 |

*Includes Emergency Board and administrative actions through December 2018

Program Description

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

CSL Summary and Issues

The current service level budget for the Land Use Board of Appeals increases by \$157,716 or 8.04% from the 2017-19 legislatively adopted budget due to the biennial reconciliation of positions, including collective bargaining agreements negotiated by the Governor, and standard inflationary adjustments.

Policy Issues

There are no significant budgetary policy issues with the agency.

Other Significant Issues and Background

The Governor's recommended budget for the agency assumes a \$12,155 reduction in state government surcharges and assessments from the current service level.

Water Resources Department

| | 2015-17 Actual | 2017-19 Legislative Adopted | 2017-19 Legislatively Approved* | 2019-21 CSL LFO | 2019-21 Governor's Budget |
|--------------------|-------------------|-----------------------------------|---------------------------------------|-----------------------|---------------------------------|
| General Fund | 31,151,280 | 31,483,809 | 33,503,512 | 34,710,206 | 38,894,484 |
| Lottery Funds | 2,511,474 | 3,953,969 | 3,953,969 | 8,493,320 | 8,493,320 |
| Other Funds | 12,105,217 | 61,306,369 | 66,864,861 | 44,268,986 | 59,718,058 |
| Federal Funds | 629,631 | 1,879,534 | 1,905,917 | 876,734 | 876,734 |
| Total Funds | 46,397,602 | 98,623,681 | 106,228,259 | 88,349,246 | 107,982,596 |
| Positions | 166 | 170 | 170 | 169 | 184 |
| FTE | 163.43 | 167.59 | 167.59 | 164.51 | 177.59 |

* Includes Emergency Board and administrative actions through December 2018.

Program Description

The Water Resources Department (WRD) implements water quantity and availability policy for the state, including the issuance and protection of water rights. WRD is the administrative arm of the Water Resources Commission, a seven-member citizen board appointed by the Governor and confirmed by the Senate. WRD functions include enforcing the state's water laws, recording and enforcing water rights, developing water resources, inspecting wells and dams, and providing scientific and technical analysis of surface and groundwater resources. The agency is organized into six divisions: Administrative Services, Field Services, Technical Services, Water Rights Services, Water Development Loan Program, and the Director's Office. By law, all surface and groundwater in Oregon belongs to the public.

The Department operates through the following six programs:

- Administrative Services – Provides human resource, accounting, payroll, contracting, facilities management, risk management, training services, and budget preparation and execution. The program operates the Water Conservation, Reuse, and Storage Grant Program established by SB 1069 (2008) providing funding for feasibility studies. The program also operates the Water Supply Development Fund established by SB 839 (2013) to provide loans and grants for water resources development projects that evaluate and plan projects to provide access to new water supplies for in-stream and out-of-stream uses.
- Field Services – Administers water laws, including dam and well inspections, and water right regulation and enforcement. The Department organized the state's 21 watermaster districts into five regions for more efficient use of field personnel. Field staff responsibilities include dam inspections, enforcing water distribution among water right holders, processing water right transfers, hydrologic data gathering, well construction inspections, well monitoring, and water right record maintenance.

- Technical Services – Manages data and technical analyses of the state’s surface and ground water. Technical Services’ programs include hydrologic analysis, ground water investigations, surface water availability, hydrographics, dam safety, stream gauging, geographic and water rights information systems, well construction and enforcement, and water use reporting.
- Water Right Services – Evaluates both in-stream and out-of-stream water right applications, and administers programs such as water right certification, permit administration, water right transfers, stream flow restoration, water supply and conservation planning, adjudication of pre-1909 and federal reserved water rights, and hydroelectric licensing. It also has the lead responsibility for Oregon’s hydroelectric water right and licensing program.
- Director’s Office – Oversees all policy-related functions of the agency. The Office coordinates the development of administrative rules, provides citizen response and information services, supports the Water Resources Commission activities, develops legislative proposals, and provides oversight of agency activities related to the Oregon Plan for restoration of salmon and watersheds, the Global Warming Commission, Government-to-Government tribal activities, and Sustainability and Streamlining Efforts. The Director’s office also houses the Integrated Water Resource Strategy (IWRS) Coordinator position, providing policy direction and leadership for the agency’s IWRS program.
- Water Development Loan Program – Established by the Legislature in 1977 as a general obligation bond program to finance irrigation and drainage projects. The loan program was expanded in 1982 and 1988 through constitutional amendments approved by voters to also include community water supply, fish protection, and watershed enhancement projects.

CSL Summary and Issues

The current service level for the agency includes adjustments from the 2017-19 legislatively adopted budget for:

- 2018 legislative session actions and Emergency Board actions through March 2018 including:
 - Position actions including collective bargaining agreements negotiated by the Governor; \$982,419
 - Additional expenditure limitation for Lottery Bond proceeds for City of Carlton water projects \$5.15 million
- Net impact of the biennialization of position actions and the elimination of limited duration positions; \$642,065
- Projected adjustments for existing debt service costs; \$4.54 million
- Decrease in vacancy savings to reflect anticipated actual personal services expenditures; \$947,365
- Personal Services adjustments not included elsewhere including; temporary appointments, overtime, and associated taxes; \$31,400
- Phase-out of one-time funded activities or programs funded in the 2017-19 budget, including reductions for:
 - Federal Funds expenditure limitation not supported by federal revenues; \$625,673
 - Bond issuance costs; \$542,169
 - Expended bond proceeds from bonds issued in 2015; \$5.75 million
 - Expended bond proceeds from bonds issued in 2017; \$16.65 million
- Inflation, both standard inflation at a rate of 3.8% for most Services and Supplies expenditures, and extraordinary inflation for certain authorized items; \$636,837
- Increases in state government service charges; \$427,664

Additional legislatively approved changes that were made to the 2017-19 budget for the Water Resources Department after April 2018 are not contemplated in the current service level budget for the agency, but are captured in the legislatively approved budget. Typically, adjustments made to the agency's budget during this part of the interim are for one-time funding or expenditure authority, and therefore, require no additional accommodation in the upcoming biennium's budget. Of note, an allocation of \$1.35 million General Fund was made to the agency from the Emergency Fund by the Emergency Board in September 2018. The additional funding was for legal costs primarily related to legal challenges over regulatory actions taken by the agency based on determined claims in the Klamath Basin.

The current service level for the agency carries-forward expenditure limitation of \$1.0 million for bond proceeds for feasibility studies (SB 1069 programs) and \$2.65 million for water project grants and loans (SB 839 projects) from bonds issued in 2017. Additionally, \$15 million for water project grants and loans, \$1.5 million for feasibility studies, and \$10.85 million for specified projects from bonds anticipated to be issued in April 2019 is also carried-forward into the 19-21 biennium.

While the current service level budget decreases by \$10.3 million or 10.4% from the legislatively adopted budget for 2017-19, those numbers are heavily impacted by the large amount of bond proceeds in the agency's budget. When the changes in budget due to bond funding are removed, the current service level budget for 2019-21 increases by \$6.98 million, or 13.85% from the legislatively adopted budget for 2017-19. This change is significantly attributable to the \$4.54 million increase in debt service related to the increased use of bond financing.

Policy Issues

- Increasing debt service due to bond financing
- Ongoing issues with regulatory actions in the Klamath basin, including the resulting increase in A/G costs
- Lingered issues identified in December 2016 Secretary of State audit including:
 - Long-term agency-specific strategic planning
 - Use of data collected by agency
 - Workload

Other Significant Issues and Background

Governor's Budget

The Governor's budget uses additional vacancy savings and reductions in statewide assessments to reduce General Fund expenditures from the current service level by \$1.76 million before adding roughly \$6.0 million in new General Fund spending for the agency. \$1.0 million is slated to address ongoing Attorney General costs primarily associated with water regulation in the Klamath basin. The remaining funds are primarily to augment staffing throughout the agency. Two of the policy packages readdress requests for funding that were not approved by

the Legislature in the 2017-19 biennium. These involve expansion of field staff for workload issues, additional well inspectors, and an additional basin groundwater study team. One of the packages deals with workload issues around managing water rights and supporting the work of watermasters. Although this workload is driven by water users, there is no fee mechanism to support this work and therefore the agency has defaulted to the use of General Fund in the past and has requested the use of General Fund to expand the program in the current budget request.

The Governor's budget seeks to continue the placed-based planning pilot program by extending the existing program sunset date of June 30, 2019 to 2023 via legislative concept 509. Assuming that the sunset can be pushed back, the budget adds a permanent full-time position to the program to replace the limited-duration position that was authorized in the 2017-19 budget. The package would also include \$550,000 GF for grants to the four participating groups and \$200,000 GF for the agency to provide technical assistance.

The agency is also provided \$15.0 million Other Funds expenditure in anticipation of a requested bond issuance to fund water supply development loans and grants under the SB 839 program. This amount would be in addition to the \$17.65 million carried forward in the current service level for the program.

A General Fund request of \$600,000 for an "in-depth" assessment of the Wallowa Lake Dam seems to be a singular item in the Governor's budget, but is really part of a larger look at dam regulation and safety in Oregon. Along with the funding in the WRD budget, the Governor has requested \$16.0 million in bond funding for dam upgrades and repairs. While this package is not dependent on the legislation, LC 509 revamps the dam program administered by the agency. WRD presented a report on high-hazard dams to the Emergency Board during the December 2018 legislative days.

| Oregon Watershed Enhancement Board | | | | | |
|--|---------------------------|--|---|--|--------------------------------------|
| | 2015-17 Actual | 2017-19 Legislatively Adopted | 2017-19 Legislatively Approved * | 2019-21 Current Service Level | 2019-21 Governor's Budget |
| General Fund | -- | 190,000 | 190,000 | -- | -- |
| Lottery Funds | 62,490,494 | 74,415,091 | 79,589,460 | 82,674,272 | 84,173,659 |
| Other Funds | 2,709,180 | 3,009,486 | 3,009,486 | 1,670,646 | 5,570,646 |
| Federal Funds | 24,324,998 | 41,671,381 | 41,759,143 | 28,044,683 | 58,710,763 |
| Total Funds | 89,524,672 | 119,285,958 | 124,548,089 | 112,389,601 | 148,455,068 |
| Positions | 35 | 33 | 33 | 31 | 36 |
| FTE | 34.25 | 33.00 | 33.00 | 31.00 | 35.88 |
| * Includes Emergency Board and administrative actions through December 2018. | | | | | |

Program Description

OWEB was established in 1999 by the legislation implementing Ballot Measure 66, which established the framework for the full allocation of the measure's constitutionally dedicated lottery revenue. Ballot Measure 66, passed by the voters in November 1998, amended the Oregon Constitution to dedicate 15% of net lottery proceeds to be split between state parks and salmon, watershed, and habitat restoration. Ballot Measure 66 was replaced by Ballot Measure 76, which passed in November 2010, and reauthorized the dedication of 15% of net lottery proceeds to state parks (7.5%) and fish, wildlife, and habitat conservation (7.5%). The Ballot Measure 76 reauthorization changed the way the dedicated Lottery Funds could be spent. Previously, Lottery revenues were divided into two parts, 65% for capital expenditures and 35% for operations expenditures and state agencies were eligible to receive Lottery Funds from either category. Under Ballot Measure 76, 65% is now restricted to grants for non-state agencies. Only the 35% for operations can be used to directly support state agency programs.

OWEB is designated as the single state agency charged with administration of the salmon and watershed portion of the dedicated lottery revenues required under the state constitution. OWEB consists of 11 voting members, including five voting members from state natural resource agency boards and commissions and six public members appointed by the Governor and confirmed by the Senate. OWEB distributes funding for projects, offers technical assistance on grant proposals, and coordinates with other state natural resource agencies.

CSL Summary and Issues

Operations - The current M76 Operations projected revenue for 2019-21 is sufficient to fully fund all agency M76 Ops CSL as of the September 2018 Lottery forecast. As of the September 2018 Revenue Forecast there is an estimated \$4.7 million beginning balance in M76 Ops from higher than anticipated revenues during the 2017-19 biennium.

Grants - Based on the September 2019 lottery forecast, there will be \$69.2 million in new revenue dedicated to grants in the 2019-21 biennium. In addition, there is approximately \$4.6 million in additional funding available due to higher than forecasted collections during the 2017-19 biennium.

Oregon Agricultural Heritage Program (OAHP) - HB 3249 (2017) established the Oregon Agricultural Heritage Commission and the Oregon Agricultural Heritage Fund. OAHP is designed to establish grant programs and other tools to benefit owners of working land for succession planning, conservation management planning, covenants and easements. \$190,000 General Fund was appropriated to OWEB, on a one-time basis, to staff the commission and setup the grants program. There was no money for making grants included in the bill or in the legislatively adopted budget for 2017-19. This \$190,000 General Fund was phased-out and is not included in 2019-21 CSL.

Policy Issues

Septic System Loans - Programs to provide loans for individuals to address failing septic systems have been funded on a one-time basis the last two biennia through General Fund appropriations to the Department of Environmental Quality (DEQ), with \$1.5 million provided in 2017-19. During the interim OWEB worked with the third-party entity operating the program on behalf of DEQ to explore other funding options for these loans. OWEB is proposing to apply for Other Funds from DEQ's Clean Water State Revolving Fund (only governmental entities are eligible to apply) that would then be passed on to the third-party entity to make low interest loans to homeowners for septic system repairs.

Other Significant Issues and Background

Oregon Agricultural Heritage Program (OAHP) - OWEB is requesting \$9,250,000 General Fund to fully implement the grant program envisioned in HB 3249. Of this amount, \$667,167 General Fund would be used to pay for administering this new program, including 3 new positions (2.50 FTE). The remainder of the funding would be available for making grants.

OWEB is also requesting funding (\$195,000 M76 Lottery Funds and \$266,000 Federal Funds) to continue two limited duration positions. The federally funding position is requested to be made permanent. In addition, OWEB is requesting \$450,000 M76 Lottery Funds to establish two limited duration positions to work on the Focused Investment Partnerships and continue work on their online grant management systems and \$375,000 M76 Lottery Funds for contracted services. \$325,000 Lottery Funds for personal services contract to assist with conservation policy and strategy coordination.

Governor's Budget - While the Governor's Budget funded almost all OWEB requests, no funding was provided for OAHP. In addition, \$183,000 Lottery Funds was added to fund a full-time Internal Auditor position not included in ARB. OWEB was one of the agencies identified in the audit on internal auditors as meeting the criteria in DAS rules for having an internal audit position due to the size of the budget. Almost all OWEB project grants are paid on a reimbursable basis after documentation is provided by grantees.