NATURAL RESOURCES

PROGRAM AREA

DEPARTMENT OF AGRICULTURE

Analyst: Siebert

Agency Totals

	2013-15 Actual	2015-17 Legislatively Approved	2017-19 Current Service Level	2017-19 Legislatively Adopted
General Fund	19,433,285	24,630,128	25,777,408	22,307,042
Lottery Funds	6,368,044	7,599,344	7,072,247	8,103,745
Other Funds	49,871,107	62,541,500	65,835,111	66,605,463
Federal Funds	10,334,960	17,630,167	15,958,792	17,452,844
Total Funds	**$86,007,396**	**$112,401,139**	**$114,643,558**	**$114,469,094**
Positions	479	527	523	489
FTE	350.54	378.84	375.94	370.46

Overview

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

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

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

Revenue Sources and Relationships

Around 25% of the Department's expenditures are financed by the General Fund and Lottery Funds. The General Fund provides a significant amount of the total funding for food safety inspections, agriculture marketing, regulation of Confined Animal Feeding Operations, and predator control. Some General Fund is also used to fund the administrative support functions of the agency. Lottery Funds are almost entirely from the constitutionally dedicated 7.5% of all Lottery revenues that are restricted to wildlife and habitat protection and restoration. Dedicated Lottery Funds provide most of the funding for agricultural water quality activities, grants to treat invasive weeds, and insect pest prevention and management.

Other Funds account for around 60% of the Department's total revenues. The main source of agency Other Fund revenues is from license and fee payments for regulated activities, such as inspections of measuring devices to ensure accuracy and pesticide applicator fees. Other Funds also include revenue from reimbursable work and charges for services, cost reimbursements, management assessments for central administrative services, and transfers in from other federally funded programs which are spent as Other Funds. Federal Funds are primarily received by the Natural Resources and Agricultural Development and Marketing policy areas. Federal Funds are used for Specialty Crop grants to promote certain agricultural products in the state, plant and animal health protection, invasive species management and prevention, pesticide regulation, implementing new federal food safety standards, and laboratory services.

Budget Environment

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

Legislatively Adopted Budget

The adopted budget for the Department of Agriculture totals $114.5 million. The budget includes $22.3 million General Fund, $8.1 million Measure 76 Lottery Funds, $66.6 million Other Funds, and $17.5 million Federal Funds. The total funds budget is 1.8% higher than the 2015-17 legislatively approved budget level. The budget includes 489 positions (370.46 FTE), which is a 38 position decrease from 2015-17. This decrease in positions is caused by the elimination of 48 vacant positions. The net reduction in positions is lower due to the addition of positions in a number of programs including food safety, weights and measures, and plants.

The General Fund budget is 9.4% lower than 2015-17 levels due to program reductions and fund shifts in a number of programs that moved program support from General Fund on to Other Funds. General Fund adjustments include:

- $1,378,946 fund shift in the food safety inspection program that reduced General Fund support and replaced it with Other Funds from fees to reduce the program's General Fund subsidy. The program's Other Funds fee balance is sufficient to allow this fund shift without a projected increase in fees during 2017-19.
- $356,685 to support Pesticide Analytical Response Center operations was moved from General Fund to Other Funds on a one-time basis due to General Fund constraints.
- $300,000 decrease in state support for administrative activities that was replaced with Other Funds. This partially reverses a 2015-17 action to cover the share of administrative costs that should be paid by Ballot Measure (BM) 76 Lottery Funds which support a number of agency programs; M76 funds are ineligible for use to pay general administrative functions due to constitutional restrictions on using these dedicated Lottery Funds.
- $250,000 reduction due to elimination of an agricultural marketing position.
- $172,000 that supports a position in Insect Pest Prevention and Management was moved from General Fund to Federal Funds expenditure limitation on a one-time basis.
- $816,655 cut to reflect reductions in Department of Administrative Services assessments and charges for service, Attorney General rates, elimination of the inflation allowance on certain services and supplies, and additional vacancy savings expected as a result of a statewide hiring slowdown.

Lottery Funds, which are all constitutionally dedicated Ballot Measure 76 funds, increased by 15% over the 2017-19 current service level due largely to the addition of $1,263,115 in one-time BM 76 Lottery Funds to continue Japanese Beetle and Apple Moth eradication activities to protect watershed health. Eradication efforts started in the spring of 2017. Eradication efforts for the Apple Moth are scheduled to be completed during 2017-19, but efforts to control the Japanese Beetle are not scheduled to be completed until the 2019-21 biennium. A record number of Japanese Beetles were found in the Department's traps in 2017. ODA estimates the economic impact of allowing the pests to become established in Oregon to be over $45 million in damages.

Other Funds are $4.1 million, or 6.5% higher, than 2015-17 levels due largely to the shifting of program funding from General Fund to Other Funds detailed above ($2 million), lab equipment purchases ($562,000), additional staffing in the Food Safety ($470,034) and Weights and Measures programs ($457,065), and the addition of a Human Resources position in Administrative Services ($263,675). Offsetting Other Funds expenditure limitation reductions included savings from statewide adjustments and elimination of vacant positions.

Federal Funds increased by 1% over 2015-17 budget levels, primarily due to the one-time addition of $2 million for on-going activities related to a U.S. Food and Drug Administration grant for implementation of new Manufactured Food Regulatory Program Standards. This increase was offset by a $486,416 reduction from the elimination of long-term vacant positions and reductions in Department of Administrative Services assessments and charges for service, Attorney General rates, certain services and supplies, and additional vacancy savings expected as a result of a statewide hiring slowdown.

COLUMBIA RIVER GORGE COMMISSION

Analyst: Rocco

Agency Totals

	2013-15 Actual	2015-17 Legislatively Approved	2017-19 Current Service Level	2017-19 Legislatively Adopted
General Fund	884,527	920,291	962,919	992,000
Total Funds	**$884,527**	**$920,291**	**$962,919**	**$992,000**

Overview

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

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

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

Revenue Sources and Relationships

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

Other Funds expenditure limitation had been included in the Commission's Oregon legislatively adopted budgets to allow the agency to spend any moneys received from donations. This practice was reversed during the 2015-17 biennium. The agency generally receives no money from donations and when it does the funds are spent under the State of Washington budget authority. No Other Funds expenditure limitation is included in the 2017-19 Oregon legislatively adopted budget.

Budget Environment

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

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

While the public increasingly expects to obtain rapid and efficient responses for information, the Commission's staffing has not increased in recent biennia to meet these demands. The bi-state approved budget supports seven positions for the 2017-19 biennium, including an executive director, legal counsel, two planners, an administrative analyst, GIS/planner, and an administrative secretary. All of these positions are considered to be State of Washington employees.

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

While the Commission has survived recent attempts at dissolution, it is likely that continued commentary will be generated about whether or not the Columbia River Gorge Commission should be funded and at what level. The Commission was directed by the Oregon Legislature through budget notes to obtain legal advice on whether or not the Commission could collect fees as a way to generate revenue for operational costs. A report was provided to the Emergency Board in December 2010 indicating that charging fees was not an authority provided by the laws of either of the two states and was not authorized in the National Scenic Act or in the bi-state compact. In order to provide this authority, all of these legal documents would need to be changed. In a similar vein, a decision to dissolve the Commission would require an agreement by both states and by Congress. During

Washington's 2011 legislative session, an effort was made to move the operational activities of the Commission into the Department of Ecology.

Legislatively Adopted Budget

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

The Columbia River Gorge Commission's legislatively adopted Oregon budget for the 2017-19 biennium totals $992,000 General Fund. The budget is a 7.8% increase from the 2015-17 legislatively approved budget and is 3% above the 2017-19 current service level. The Oregon adopted budget includes $960,000 for joint operational expenses and $32,000 for Oregon commissioner expenses. Due to the length of the Washington legislative session in 2017, Oregon passed its budget for the Commission first and then made final adjustments in HB 5006 at the end of the Oregon legislative session to match the amount budgeted for joint operational costs by Washington. There are no Oregon positions or FTE associated with the Commission; all Commission staff are counted as State of Washington employees.

DEPARTMENT OF ENERGY

Analyst: Beitel

Agency Totals

	2013-15 Actual	2015-17 Legislatively Approved	2017-19 Current Service Level	2017-19 Legislatively Adopted
Lottery Funds	2,166,048	2,980,496	3,023,630	3,023,630
Other Funds	33,214,314	35,104,816	35,412,377	35,206,624
Other Funds (NL)	83,385,513	212,753,963	119,282,861	119,282,861
Federal Funds	2,553,392	3,187,299	3,153,122	2,412,636
Federal Funds (NL)	--	104,000	104,000	104,000
Total Funds	**$121,319,267**	**$254,130,574**	**$160,975,990**	**$160,029,751**
Positions	113	105	102	97
FTE	111.92	104.50	96.91	93.87

Overview

The mission of the Oregon Department of Energy (ODOE) is to lead Oregon to a safe, clean, and sustainable energy future. The Department works to ensure that Oregon has an adequate supply of reliable and affordable energy and is safe from nuclear contamination by helping Oregonians save energy, developing clean energy resources, promoting renewable energy, and cleaning up nuclear waste. ODOE encourages energy conservation through public information and incentive programs which provide loans or tax credits for implementing energy efficient technologies in residences, public sector buildings, and private sector businesses. The Department currently receives no General Fund support for its activities.

ODOE staffs the following statutory boards:

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

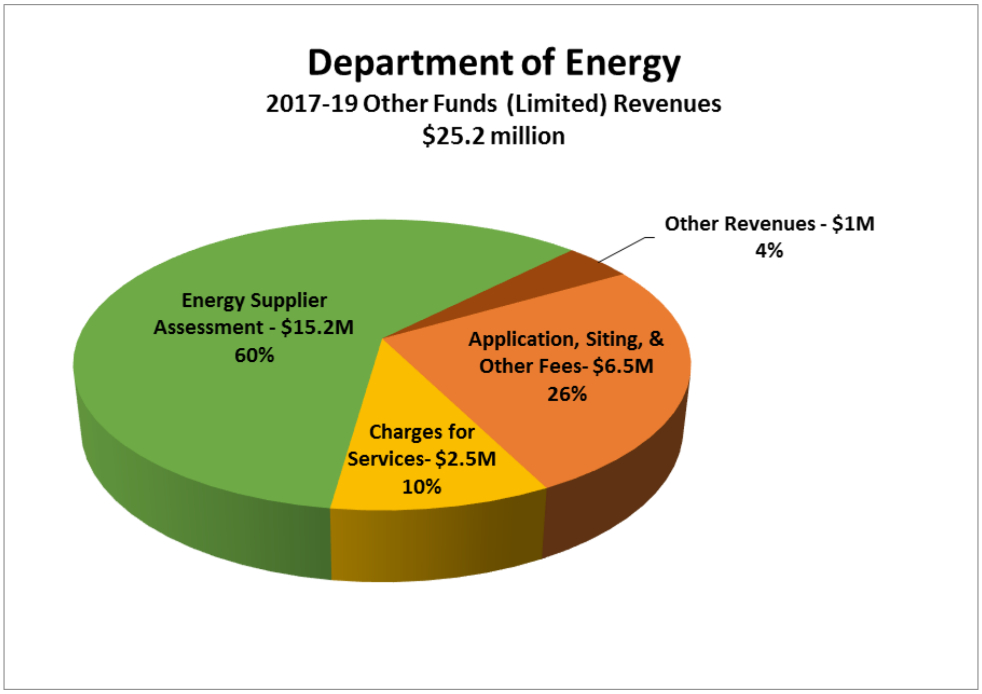
The Department also heads or lends expertise to a number of workgroups and advisory committees, including the following:

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

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

Revenue Sources and Relationships

Other Funds revenues support 96% of the Department of Energy's 2017-19 legislatively adopted budget. Other Funds Nonlimited revenues associated with the Small Scale Energy Loan Program, including loan repayments ($37.2 million) and interest and investment earnings ($21.1 million), are the largest source of revenue for the Department. Historically, the proceeds of general obligation bonds issued to capitalize SELP have also supported the program; however, no bonding was authorized during the 2017-19 biennium. Other Funds Limited revenues are generated through fees and assessments that fund most programs and services provided by the Department.



Fees support the agency's energy incentive and tax credit programs, energy facilities siting program, and radioactive waste transportation. Charges for services includes revenues received through the public purpose charge to provide administrative and technical support to schools, the State Energy Efficient Design (SEED) Program, and specific projects or organizations, such as the Jordan Cove Energy Project and the Northwest Power and Conservation Council. Other revenues include proceeds from the sale of tax credits used to fund the renewable energy development (RED) grant program, interest income, and miscellaneous revenues from smaller sources. ODOE's projected revenues do not include any new revenue from the petroleum supplier assessment that funds the State Home Oil Weatherization (SHOW) program. SB 100 (2017) transferred the SHOW program from ODOE to the Housing and Community Services Department (HCSD) effective January 1, 2018. The SHOW program beginning balance is sufficient to cover the first year of costs and HCSD will determine if an assessment will be required in the second year of the biennium after the program has transferred.

Policy development, planning, technical analysis, and agency support services are funded with an energy supplier assessment (ESA) levied annually on energy suppliers in Oregon. This assessment is capped in statute at 0.375% of an energy supplier's gross operating revenues on energy sales in the state, and is expected to generate $15.2 million in the 2017-19 biennium at a rate of about 0.134%. A budget note from the 2015 session instructed the Department to limit the energy supplier assessment to a total of $13.1 million in its 2017-19 agency request budget. ODOE included revenue shortfall packages to decrease expenditures supported by ESA; however, the adopted budget includes additional expenditures supported with ESA, increasing the total biennial assessment over the $13.1 million level.

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

Budget Environment

The Department of Energy has experienced a great deal of change and attention in recent years. In December 2015, the Governor requested that the Department of Administrative Services lead an internal review team to examine ODOE. Upon completion of that review, she recommended that the Department of Energy be preserved to focus on leading the state to a safe, clean, and sustainable energy future through the energy planning and innovation, nuclear safety, and energy facility siting divisions. The Legislature appointed the Joint Interim Committee on Department of Energy Oversight during the 2015-17 biennium to conduct a thorough review of the Department of Energy. The Committee completed its work in December 2016, and provided draft recommendations for the 2017 session. Multiple measures were introduced during the 2017 session by members of the Committee and several recommendations were passed, including the requirement that the ODOE director be confirmed by the Senate and the transfer of the SHOW program to HCSD. The Energy Incentive Program, Residential Energy Tax Credit (RETC), and Biomass Producer and Collector Tax Credit Programs were not extended and will sunset on January 1, 2018.

ODOE has been subject to closer scrutiny of its collection and use of energy supplier assessment funds by the stakeholders who pay the assessment. HB 2807 (2013) capped the ESA rate at 0.375% of an energy supplier's gross operating revenue from Oregon sales, and created a requirement that ODOE work with stakeholders to review the agency's ESA-funded programs and services during the agency's budget development process. In 2017, the Department of Energy was sued by a group representing ten publicly owned utilities in Oregon over the energy supplier assessment, asserting that the ESA is a tax, ODOE's budget bill is subject to the constitutional requirements for bills that raise revenue, and that ODOE did not follow the statutory procedures to provide a full accounting of the ESA revenue required to fund the agency's programs to energy resource suppliers. While the court did not find that the agency's budget bills raise revenue, it did rule that the ESA is a tax and that ODOE did not meet the statutory procedures required to include ESA in the 2015-17 agency request budget. Pending an appeal by the Department, the 2016 ESA will be refunded to the petitioners. ODOE estimates the settlement payment to be approximately $830,000 and would be covered through increases in future assessments.

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

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget for this agency is $160 million total funds, including 97 positions (93.87 FTE). Expenditures are 37% less than the 2015-17 legislatively approved budget. A significant portion of the decrease is attributable to the phase out of $71.9 million Other Funds Nonlimited associated with a refunding of outstanding SELP bonds and the removal of an additional $21.6 million of limitation to reflect limited activity in the SELP program. Excluding Nonlimited funds, the budget is a 1.5% decrease from the 2015-17 legislatively approved budget. Reductions approved in the 2017-19 budget include:

- $2.5 million and nine positions (6.66 FTE) to limit the amount assessed under the ESA and eliminate long-term vacant positions.
- $1.4 million and one position (5.25 FTE) to phase-out the energy incentive programs scheduled to sunset January 1, 2018.
- $745,867 to align the budget with anticipated federal awards.
- $568,250 to reflect the January 1, 2018 transfer of the SHOW program to HCSD.

Other Funds increases totaling $1.3 million, supported by ESA revenues, were approved to continue the limited duration Governor's Energy Policy Advisor position; implement an industry standard Customer Relationship Management (CRM) system that will allow the Department to manage and analyze customer interactions and data across divisions; and support increased Attorney General costs due to anticipated and ongoing litigation. In addition, $202,097 Other Funds was approved to make the Fiscal Analyst 2 responsible for the Energy Facility Siting Division's financial process controls a permanent position.

Energy Planning and Innovation

	2013-15 Actual	2015-17 Legislatively Approved	2017-19 Current Service Level	2017-19 Legislatively Adopted
Other Funds	4,917,252	5,900,410	6,474,154	5,372,058
Federal Funds	682,415	1,073,704	1,184,952	671,331
Total Funds	**$5,599,667**	**$6,974,114**	**$7,659,106**	**$6,043,389**
Positions	26	23	25	23
FTE	26.00	23.00	24.00	22.50

Program Description

The Energy Planning and Innovation (EPI) Division develops and recommends state policy and goals relating to energy conservation, alternative fuel and renewable energy resources for energy independence, economic development, and the reduction of greenhouse gas emissions. The Division provides research services and technical assistance, has a role in implementing Oregon's Renewable Portfolio Standard, operates the State Energy Efficiency Design (SEED) program and the Energy Efficient Schools program, and works to improve energy efficiency in buildings and vehicles. The program staffs the Global Warming Commission and assists with the Commission's biennial report to the Legislature.

Revenue Sources and Relationships

The EPI Division is primarily funded with Other Fund revenues generated from a 3% public purpose charge from Portland General Electric and PacifiCorp customers to support the Energy Efficient Schools program; charges for certification of industrial energy efficiency projects; charges collected from state agencies for the SEED program; service charges from the Northwest Energy Efficiency Alliance (NEEA) for codes training; and the energy supplier assessment.

Federal Funds are received through the U.S. Department of Energy's State Energy Program formula grant and competitive grant awards.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget is 13.3% less than the 2015-17 legislatively approved budget. Other Funds were reduced by $912,559 and two positions (1.50 FTE) to eliminate expenditures supported by the ESA, limiting the amount assessed. Reductions include two Operations and Policy Analyst positions, associated services and supplies expenditures, professional services, and special payments. Federal Funds were reduced by $573,076 to align the budget with anticipated federal awards. An increase of $186,584 Other Funds is included to reflect the transfer of an Operations and Policy Analyst position (1.00 FTE) from the Energy Development Services Division to the Energy Planning and Innovation Division to align workload with the appropriate division. The EPI Division budget also includes the shift of $77,393 from Other Funds to Federal Funds. Federal funds will be used to support 30% of a Facilities Engineer position that had been previously used to partially fund the RETC program, which is scheduled to sunset with the 2017 tax year.

Energy Development Services

	2013-15 Actual	2015-17 Legislatively Approved	2017-19 Current Service Level	2017-19 Legislatively Adopted
Lottery Funds	2,166,048	2,980,496	3,023,630	3,023,630
Other Funds	14,325,066	11,715,519	9,877,660	10,414,315
Other Funds (NL)	83,385,513	212,753,963	119,282,861	119,282,861
Federal Funds	487,198	358,352	322,760	278,440
Federal Funds (NL)	--	104,000	104,000	104,000
Total Funds	**$100,363,825**	**$227,912,330**	**$132,610,911**	**$133,103,246**
Positions	27	26	23	17
FTE	27.00	26.00	18.41	14.25

Program Description

The Energy Development Services Division administers financing and incentives for businesses, households, and the public sector to reduce the cost of energy for Oregonians through energy efficiency, renewable energy, and the use of alternative transportation. Major programs include:

- Energy Incentives Program (EIP) – Provides transportation tax credits for alternative fuel vehicle infrastructure projects; conservation tax credits for conservation projects; and renewable energy development (RED) grants. Funding for RED grants is generated by an annual auction of tax credits held in conjunction with the Oregon Department of Revenue. Sale of the credits is capped at $3 million per biennium. EIP programs are set to sunset on January 1, 2018.
- Residential Energy Tax Credit – Designed to encourage consumers to invest in energy efficient and renewable-energy products for their homes. The total volume of applications for RETCs has decreased since changes were made to the program in 2011. The program is set to sunset on January 1, 2018.
- Biomass Producer or Collector Tax Credits – Provides tax credits for agricultural producers or collectors of biomass for use as biofuels or to produce biofuel in Oregon. The program is set to sunset on January 1, 2018. In 2016, the sunset for animal manure and rendering offal was extended through the 2021 tax year. However, during the 2017 session, the extension was reversed and a new Bovine Manure Tax Credit Program will be administered by the Department of Agriculture beginning with the 2018 tax year.
- State Home Oil Weatherization – Supports Oregon homeowners and property owners who heat primarily with oil, wood, propane, butane, or kerosene to make homes more efficient and reduce the cost of utility bills. The program is supported with an assessment on oil companies doing business in Oregon. SHOW was transferred to HCSD, effective January 1, 2018, through the passage of SB 100 (2017).
- Small Scale Energy Loan Program – Designed to provide loan financing for energy-saving and renewable energy investments that support regional, local community, and tribal energy needs. Since the program began in 1980, ODOE has made 903 loans totaling approximately $612 million. The loans are funded through the sale of general obligation bonds issued under Article XI-J of the Oregon Constitution. Due to $30.5 million in losses on loans originated between 2007 and 2010, the fund is in a deficit position and not forecasted to be self-sustaining. Absent other mitigating strategies, SELP will require a General Fund appropriation to cover debt service on outstanding bonds. ODOE currently estimates a potential shortfall of approximately $8 million beginning in the 2021-23 biennium. The projected shortfall was decreased substantially by a 2017 bond refunding that reduced future debt service obligations through interest rate savings. Although no bond authority was provided in the 2017-19 biennium to issue new loans, ODOE continues to administer the existing loan portfolio.
- Energy Efficiency Financing – Oversees the Energy Efficiency and Sustainable Technology Act (EEAST); the grant to Clean Energy Works; and the Alternative Fuel Vehicle Revolving Fund Program. The EEAST program is not currently active and the Alternative Fuel Vehicle Revolving Fund Program was abolished during the 2017 session. The $3 million balance in the Alternative Fuel Vehicle Revolving Fund was transferred to the General Fund for general governmental purposes.

The Business Energy Tax Credit program ended June 30, 2014. It was a tax credit program designed to encourage businesses to invest in energy conservation, renewable energy resources, renewable energy resource manufacturing facilities, recycling, and alternative fuel vehicles.

Revenue Sources and Relationships

Other Fund Nonlimited revenues generated through SELP, including loan principal and interest repayments and investment earnings, support 90% of the Division's budget. SELP earnings are used to make debt service payments on outstanding general obligation bonds issued to capitalize the program and support administration of the program. No bonding authority was provided by the Legislature to issue new loans in the 2017-19 biennium. ODOE receives other revenues through the collection of application fees for the EIP, Biomass, and RETC programs; proceeds from the sale of tax credits for the RED grant program; and interest earnings on beginning fund balances.

Lottery Funds are allocated to support debt service on outstanding lottery revenue bonds and Federal Funds support the RETC and Energy Efficient Financing activities.

Legislatively Adopted Budget

The Energy Development Services Division 2017-19 legislatively adopted budget is 41.6% less than the 2015-17 legislatively approved budget. A significant portion of the decrease is attributable to the phase out of $71.9 million of Other Funds Nonlimited associated with the refunding of outstanding SELP bonds. An additional $21.6 million of Other Funds Nonlimited was removed to reflect the limited activity in the SELP program.

Excluding Nonlimited Funds, the Division's 2017-19 budget is 8.9% less than the 2015-17 legislatively approved budget. The decrease in the Division's budget is attributable to the following reductions:

- $1.4 million Other Funds, $58,379 Federal Funds, and one position (5.25 FTE) to phase-out costs related to administration of the energy incentive programs scheduled to sunset on January 1, 2018. The remaining positions and limitation will be phased-out during the development of the 2019-21 budget.
- $640,386 Other Funds to transfer two positions (2.00 FTE) to the Energy Planning and Innovation and Administration Divisions to align workload with the appropriate divisions.
- $236,440 Other Funds and one manager position (1.00 FTE) to address a revenue shortfall related to decreased activity in the EIP and SELP programs.
- $544,291 Other Funds to eliminate five long-term vacant positions (3.16 FTE) in the EIP and SELP programs.
- $568,250 Other Funds to transfer the SHOW program from ODOE to HCSD, effective January 1, 2018. The remaining program limitation will be phased-out during development of the 2019-21 budget.

Other Funds expenditure limitation was increased by $2 million to accommodate disbursement of RED grants that were awarded in prior biennia, but will be disbursed during 2017-19. RED grants are disbursed upon project completion and grantees have three years after award of the grant to complete projects.

Nuclear Safety and Energy Emergency Preparedness

	2013-15 Actual	2015-17 Legislatively Approved	2017-19 Current Service Level	2017-19 Legislatively Adopted
Other Funds	701,790	627,139	779,699	776,827
Federal Funds	1,364,154	1,683,340	1,592,251	1,448,040
Total Funds	**$2,065,944**	**$2,310,479**	**$2,371,950**	**$2,224,867**
Positions	6	6	6	6
FTE	6.00	6.00	6.00	6.00

Program Description

The Nuclear Safety and Energy Emergency Preparedness Division protects Oregonians from exposure to hazards by monitoring radioactive waste cleanup activities at the Hanford nuclear site, preparing and testing nuclear emergency preparedness plans, participating in emergency preparedness planning for Liquefied Natural Gas (LNG) terminals, and overseeing the transport of radioactive material through Oregon. Additionally, the Division manages the state's Petroleum Contingency Plan, which ensures that emergency and essential services receive priority access to fuel during emergency situations.

Revenue Sources and Relationships

The Division's main revenue source is Federal Funds from the U.S. Department of Energy, which are dedicated to oversight of the Hanford environmental cleanup and to Hanford-related emergency planning and response activities. Other revenue sources include federal grants for transportation-related emergency planning services, fees for transportation of radioactive waste, and charges for emergency planning services.

Legislatively Adopted Budget

The 2017-19 legislatively adopted total funds budget for the Nuclear Safety program is 3.7% less than the 2015-17 legislatively approved budget. The decrease is primarily due to a Federal Funds reduction of $135,000 to align expenditures with anticipated federal awards. The budget also includes a shift of $118,300 from Federal Funds to Other Funds to transfer a portion of funding for three positions to Other Funds to align expenditures with expected revenues.

Energy Facility Siting

	2013-15 Actual	2015-17 Legislatively Approved	2017-19 Current Service Level	2017-19 Legislatively Adopted
Other Funds	3,494,459	4,576,120	4,748,187	4,677,251
Federal Funds	5,559	--	--	--
Total Funds	**$3,500,018**	**$4,576,120**	**$4,748,187**	**$4,677,251**
Positions	14	12	11	11
FTE	14.00	12.00	11.00	11.00

Program Description

The Energy Facility Siting Division works with energy facility developers and operating energy facilities to meet the state's energy needs by ensuring that large power plants, transmission lines, and natural gas pipelines are built to meet Oregon requirements. Siting is a long-term, multi-year endeavor involving multiple stakeholders, site visits, engineering studies, public hearings, and ongoing monitoring from planning, through to construction and operation of the facility. The program staffs the Energy Facility Siting Council (EFSC), coordinates the energy facility siting process, oversees compliance with existing site certificates, and coordinates federal energy siting projects for the state.

Revenue Sources and Relationships

The Siting Division is funded with cost recovery fees paid by facility siting applicants or site certificate holders (Other Funds). Energy supplier assessment supports EFSC and facility siting activities not attributable to a specific applicant or certificate holder.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget is 2.2% greater than the 2015-17 legislatively approved budget. Other Funds adjustments in the Siting Division's budget include:

- $202,097 increase to make a Fiscal Analyst 2 position (1.00 FTE) in the siting division permanent. The position was first established as limited duration in 2013-15, and continued in 2015-17, to create more efficiency and controls in the financial processes of the Siting Division, reducing financial risk and ensuring timely cost recovery for ODOE and its state and local partners.

- $173,431 reduction to eliminate a Utility and Energy Analyst 2 positon (1.00 FTE) that had been vacant longer than 12 months.

Administrative Services

	2013-15 Actual	2015-17 Legislatively Approved	2017-19 Current Service Level	2017-19 Legislatively Adopted
Other Funds	9,775,747	12,285,628	13,532,677	13,966,173
Federal Funds	14,066	71,903	53,159	14,825
Total Funds	**$9,789,813**	**$12,357,531**	**$13,585,836**	**$13,980,998**
Positions	40	38	37	40
FTE	38.92	37.50	37.50	40.12

Program Description

The Administrative Services Division includes the Director's Office, Central Services Division, Governor's Energy Policy Advisor, and Northwest Power and Conservation Council staff. The Director's Office provides operational and policy leadership and direction for the agency. Other Director's Office functions include internal audits, communications, human resources, and legislative coordination. Central Services provides shared support services, including budgeting, accounting, contracting, information technology, facilities, records management, and office reception.

Revenue Sources and Relationships

The Administrative Services Division budget is primarily funded with Other Funds revenues generated from the energy supplier assessment and funds transferred from the Department's other divisions through a federally-approved indirect cost recovery model. Revenues also include reimbursements received from Bonneville Power Administration for costs of the Northwest Power and Conservation Council.

Legislatively Adopted Budget

The 2017-19 legislatively adopted total funds budget is 13.1% more than the 2015-17 legislatively approved budget. While reductions of $617,961 Other Funds and $37,791 Federal Funds were included in the budget to eliminate expenditure that no longer have associated activities, the following Other Funds increases contributed to the Division's budget growth:

- $343,395 to reauthorize the limited duration Governor's Energy Policy Advisor position (1.00 FTE). The Policy Advisor works with the Governor's Office staff, energy stakeholders, and the Department to define and advance Oregon's energy priorities.
- $667,641 and two positions (1.62 FTE) to implement an industry standard Customer Relationship Management (CRM) system. A CRM will allow the agency to manage and analyze customer interactions and data across divisions through business automation, standardized data collection, and consolidation of unsupported tools, resulting in improved data quality, business processes, and service delivery.
- $250,000 for extraordinary Attorney General costs due to anticipated and ongoing litigation related to the energy supplier assessment and Business Energy Tax Credit program.

A technical adjustment to move a position (1.00 FTE) from the Energy Development Services Division to the Administrative Services Division to align workload with the appropriate division and centralize the rent expenditures increased the division budget by $513,677 Other Funds.

DEPARTMENT OF ENVIRONMENTAL QUALITY

Analyst: Siebert

Agency Totals

	2013-15 Actual	2015-17 Legislatively Approved	2017-19 Current Service Level	2017-19 Legislatively Adopted
General Fund	30,960,731	38,164,101	39,963,680	44,629,011
Lottery Funds	3,873,253	4,084,177	4,187,950	4,610,577
Other Funds	120,390,027	153,167,568	160,645,627	169,639,110
Other Funds (NL)	104,790,547	131,264,767	91,216,687	131,686,687
Federal Funds	24,266,508	29,567,515	31,043,806	28,593,914
Total Funds	**$284,281,066**	**$356,248,128**	**$327,057,750**	**$379,159,299**
Positions	728	753	749	745
FTE	710.09	730.31	735.93	723.89

Overview

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

- Air Quality – This program area is responsible for compliance with federal and state air quality standards. The program monitors air quality to protect public health through the development and implementation of pollution reduction strategies. The primary sources of air pollution in Oregon are motor vehicles, forest slash burning, woodstoves, industrial facilities, field burning, and area sources. The federally delegated air quality program includes statewide air quality monitoring and emissions inventory, strategic planning for pollution reduction, and a permit system. Permits are issued under two industrial source air quality programs operated by the Department.

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

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

- Agency Management – This program provides leadership, coordination, and support for the Department and staff assistance for the Environmental Quality Commission. Agency Management includes the Office of the Director, the Public Affairs Office, and the Management Services Division. Management Services consists of the Accounting, Budget and Administration, Human Resources, Information Systems, Business Systems Development, and Health and Safety sections.

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

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

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

Most Land Quality programs are financed almost entirely from dedicated Other and Federal Funds. The Solid Waste program is funded entirely by revenue from solid waste permit and disposal fees. Solid waste disposal fees, also known as "tipping" fees, are collected on waste disposed at municipal solid waste sites. The state also operates the federally delegated hazardous waste management program. General Fund and fees provide the 25% match required for receipt of Federal Funds. Maintenance of a program approved by the U. S. Environmental Protection Agency (EPA) is a condition of program delegation. Agency Management is financed solely from indirect cost revenues. The indirect rate is calculated as a percentage of personal services. The actual rate is negotiated annually with EPA once the agency's total budget is established.

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

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

During the 2016 session, the Department received $2.5 million General Fund to expand DEQ's current Oregon Air Toxics Program through an initiative called Cleaner Air Oregon. This funding allowed increased air toxics monitoring for cadmium, arsenic, and chromium hotspots in Portland, as well as, expanding air toxics monitoring across the state. The increased funding was also used to develop a risk-based approach to air permitting for industrial sources through rulemaking. Over time this will allow DEQ to modify existing air permits to be risk-based.

- Water Quality – Under the federal Clean Water Act, either the state or federal government must operate programs to protect the quality of rivers, streams, lakes, and estuaries. DEQ must operate programs to carry out the mandatory requirements of the Clean Water Act that are acceptable to EPA in order to retain program delegation. The alternative would be EPA program assumption. Were EPA to operate the program, funding would possibly be limited to the amount EPA now allocates to the state and might only be sufficient to finance enforcement activities. In addition to the EPA required level of program activity, the Legislature has also required additional water quality programs to be maintained by the Department.

- Land Quality – Funding of the Orphan Site program continues to be a challenge. Orphan sites are contaminated sites where the owner is unknown, unable, or unwilling to pay for cleanup costs. Bonds are sold to conduct cleanup of Orphan Sites; however, due to General Fund constraints, state-backed bonds are approved on an intermittent basis. Bonds were approved in 2011-13, but the funding only allowed for the maintenance of existing sites that had already received remediation actions. The 2017-19 adopted budget includes authorization to sell $10 million in state-paid bonds to fund Orphan Site maintenance and remediation. This program is also involved in planning for the clean-up of the Portland Harbor Superfund site.

- Agency Management – All funding for Agency Management is generated through its indirect rate charge and is spent as Other Funds. The Department estimates the indirect rate for the biennium as part of its budget development. The actual indirect rate is negotiated each fiscal year, six months in advance. The Department endeavors to maintain an indirect rate where the ratio of Agency Management costs to program personal services is constant. As a result, lower personal service expenditures in the programs reduce Agency Management revenues and expenditures are adjusted accordingly.

- Pollution Control Bonds – The Clean Water State Revolving Loan Fund (CWSRF) program included a different mechanism to fund debt service. Debt service on CWSRF bonds is now paid with Other Funds using interest paid on past loans from the CWSRF. Interest paid on previous loans had been deposited back into the CWSRF and used to make new loans. Debt service on bond sales are now paid using interest proceeds. The CWSRF Program is now self-funding in the sense that all debt service can be paid out of proceeds from interest payments made by CWSRF loan recipients.

Legislatively Adopted Budget

The legislatively adopted budget for the Department of Environmental Quality is $44.6 million General Fund, $4.6 million Measure 76 Lottery Funds, $169.6 million Other Funds, $28.6 million Federal Funds, and 745 positions (723.89 FTE). The budget total also includes $132 million of Other Funds Nonlimited for Clean Water State Revolving Fund loan activities and debt service. The total funds budget is $22.9 million, or 6.4%, higher than the 2015-17 legislatively approved budget level.

The General Fund budget is $6.5 million, or 17%, higher than 2015-17. General Fund changes included:

- $2.5 million added to significantly improve DEQ's capacity to monitor the quality of air around specific sites of potential concern and across entire air sheds; $875,000 of the General Fund added is for the purchase of equipment and was therefore added on a one-time basis.
- An increase of $1.5 million in the onsite septic loan program. This funding includes $1.3 million General Fund for low cost loans to repair or replace failing septic systems and $200,000 for administrative costs. SB 1563 (2016) established this program. DEQ will use an outside contractor to run the program. If the full $200,000 is not needed for administration, the remaining funds are to be used to fund additional loans.
- Added $750,000 General Fund, $351,685 Other Funds expenditure limitation, and seven limited duration positions (3.63 FTE) to conduct planning and development through March 2018, of an environmental data management system (EDMS) that will provide interactive service to the public and stakeholders, while also standardizing and streamlining DEQ's internal business practices. DEQ will develop a funding request for the 2018 legislative session to continue the EDMS project through the remainder of the 2017-19 biennium. This funding was added on a one-time basis.
- $521,250 General Fund was added to pay debt service on the early sale of $10 million in state-paid bonds to fund Orphan Site maintenance and remediation costs.
- Increased General Fund by $500,000 on a one-time basis to complete an inventory of non-road diesel engines with the expectation that the Department would use a third-party contractor to conduct the statewide, multi-sector inventory of non-road diesel engines currently in use that will be used to inform and refine existing air quality models.
- A one-time increase of $250,000 to support the wood smoke reduction program, which works with local communities to reduce wood smoke emission through woodstove change outs, education and outreach, and woodstove use curtailment.
- Eliminated $350,000 General Fund associated with the cut of an eastern Oregon basin water quality position and additional services and supplies.
- $852,190 cut to reflect reductions in Department of Administrative Services assessments and charges for service, Attorney General rates, certain services and supplies, and additional vacancy savings expected as a result of a statewide hiring slowdown.

Other Funds Limited are $16.5 million (or 10.6%) higher than 2015-17 totals due largely to the inclusion of $10.7 million for expenditure of Volkswagen diesel settlement funds, which were earmarked by the Legislature to replace school bus engines, a $2.5 million addition to solid waste disposal programs, and expenditure of $3.7 million of the $10 million in bond proceeds sold to support the orphan site program. Other Funds Nonlimited, which are attributed to the CWSRF program, are estimated to be down. The CWSRF makes loans to local governments for construction of eligible waste water treatment facilities and is funded primarily with Federal Funds. CWSRF expenditures are dependent on the number of loan applications received from eligible applicants. Federal Funds expenditure limitation is down $570,000, or 2%, from the prior biennium due to the statewide reductions and revenue shortfalls.

DEPARTMENT OF FISH AND WILDLIFE

Analyst: Siebert

Agency Totals

	2013-15 Actual	2015-17 Legislatively Approved	2017-19 Current Service Level	2017-19 Legislatively Adopted
General Fund	17,165,916	31,162,079	30,974,904	28,408,880
Lottery Funds	4,921,717	4,917,581	5,189,892	5,212,514
Other Funds	157,781,817	180,436,355	181,617,419	191,354,898
Federal Funds	110,892,069	142,766,627	144,836,135	133,139,592
Total Funds	**$290,761,519**	**$359,282,642**	**$362,618,350**	**$358,115,884**
Positions	1,541	1,474	1,456	1,375
FTE		1,199.26	1,187.56	1,154.05

Overview

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

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

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

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

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

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

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

<u>Revenue Sources and Relationships</u>

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

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

<u>Budget Environment</u>

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

Past General Fund reductions in the Department of Fish and Wildlife have most often been accomplished through fund shifts. That is by removing General Fund support for a program and shifting that program to another fund type; in the case of ODFW, this has been done most often using Other Funds revenue from the sale of hunting and fishing licenses and tags. These shifts increase the burden to support programs with revenues from hunters and fishers and caused the 2015 fee increases to be coupled with increases in General Fund support to reduce the needed increases in license and tag revenues.

Legislatively Adopted Budget

The Department of Fish and Wildlife 2017-19 budget totals $358.1 million, which includes $28.4 million General Fund, $5.2 million Measure 76 Lottery Funds, $191.4 million Other Funds, $133.1 million Federal Funds, and 1,375 positions (1,154.05 FTE). The Department's total funds budget is slightly lower than 2015-17 levels, but the total number of positions is 7.2% lower than the 2015-17 legislatively approved budget level due to the elimination of 82 long-term vacant positions.

General Fund support is 8.8% lower than approved 2015-17 budget levels. General Fund adjustments include:

- A $498,751 reduction from eliminating two of the five positions remaining in the Western Oregon Stream Restoration program. Reductions to this program were also made during the 2015 session.
- $425,717 in unspecified reductions to services and supplies across multiple programs.
- $381,557 savings from eliminating three fish monitoring positions.
- Eliminated the final $500,000 General Fund payment to the Columbia River Fisheries Transition Fund, which has never been accessed since its creation in the 2013-15 biennium. This action leaves $500,000 in the fund for commercial fishers adversely affected by the Columbia River fisheries reforms implemented during the 2013-15 biennium.
- $1,142,354 cut to reflect reductions in Department of Administrative Services assessments and charges for service, Attorney General rates, certain services and supplies, and additional vacancy savings expected as a result of a statewide hiring slowdown.
- Added $425,000 General Fund to continue a Sage Grouse Coordinator position working on sage grouse conservation efforts in eastern Oregon.
- Added $250,000 to restore and make permanent two positions working on water flow issues that ensure flows are of a necessary level to maintain fish habitats, as well as to work on reviews of in-stream water rights applications.

Other Funds expenditure limitation in the 2017-19 legislatively adopted budget is $10.9 million, or 6%, higher than 2015-17 due largely to the inclusion of $10 million in capital construction expenditure limitation from Article XI-Q bonds to be sold in Spring 2019, along with $215,000 cost of issuance expenditures. The bond proceeds will be used to complete deferred maintenance projects at agency facilities across the state. Additional Other Funds expenditure increases like $950,000 for tide gate replacements for agency land in the Coquilles Valley were offset by statewide reductions. Federal Funds expenditure limitation is 6.7% lower than 2015-17 due to elimination of vacant positions and reductions in unused federal funds expenditure limitation to better align the 2017-19 budget with historical patterns of federally supported expenditures.

DEPARTMENT OF FORESTRY

Analyst: Stayner

Agency Totals

	2013-15 Actual	2015-17 Legislatively Approved	2017-19 Current Service Level	2017-19 Legislatively Adopted
General Fund	118,966,690	102,150,421	69,716,672	68,242,727
Lottery Funds	5,130,718	7,554,096	2,606,595	2,601,001
Other Funds	282,455,808	297,854,801	242,283,417	340,602,781
Other Funds (NL)	10,473,812	1,731,484	--	--
Federal Funds	14,096,634	35,066,180	33,515,674	33,657,195
Total Funds	**$431,123,662**	**$444,356,982**	**$348,122,358**	**$445,103,704**
Positions	1,196	1,201	1,182	1,181
FTE	871.38	878.04	864.13	867.30

Overview

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

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

Budget Environment

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.

Following significant, prolonged fire seasons in 2013 and 2014 that totaled over $240 million in addition to the base fire protection budget, the 2015 fire season became the third significantly destructive fire season in a row for Oregon, with the number of fires and losses in the number of acres burned exceeding the ten-year average with over a thousand fires covering nearly 100,000 acres of Department of Forestry (ODF) protected lands. Gross large fire costs in excess of base fire protection budget were just under $86.4 million. After deducting those amounts that are billed to federal landowners or other entities for firefighting activities performed by ODF that are not on ODF protected lands, anticipated cost reimbursements from the Federal Emergency Management Agency (FEMA) for a portion of the firefighting costs when there is significant danger of structures or homes being damaged, and for the landowner portion of district deductibles, the net impact to the General Fund was just over $25 million. The 2016 fire season moderated slightly, with total large fire costs at $26.14 million and a net General Fund cost of $12.9 million that included $500,000 for the training of Oregon National Guard troops.

The cost of the 2013 and 2014 fire seasons resulted in claims against the state's catastrophic fire insurance policies in both years. The repeated losses, totaling $50 million for the insurers, cast doubt on the ability of ODF to obtain catastrophic fire insurance for the 2015 and 2016 fire seasons. A $25 million policy was obtained for the 2015 fire season, but at a premium cost of nearly $4 million, with a retention of $50 million. Due to the increased retention amount, no claim was filed for the 2015 or 2016 fire seasons and the policy was renewed for the 2017 fire season at a cost of $3.38 million.

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

Endangered or threatened species continue to factor into the operations of ODF, including in the management plan for state forests, the administration of the Forest Practices Act, and the support of rangeland protection associations. Federally listed species have affected the management of state forests over the last decade. Listings for fish and bird species influence the ability to manage the resource to achieve revenue goals on state forest lands, particularly impacting the revenue on lands owned by the Department of State Lands for the benefit of the Common School Fund. Concern over the possible listing of the Greater Sage Grouse as an endangered species has prompted statewide investment in programs to improve sage grouse habitat. This issue is of ongoing concern and includes the establishment of a multi-agency approach to preserve the habitat and prevent the future listing of the birds.

Water quality issues are anticipated to be an ongoing issue during the biennium. A January 2015 finding by the National Oceanic and Atmospheric Administration (NOAA) and the U.S. Environmental Protection Agency (EPA) regarding the multiple state-agency plan for the non-point source water quality program resulted in the withholding of certain federal funding under the Coastal Zone Management Act. The reduced grant funding for the Department of Land Conservation and Development and the Oregon Department of Environmental Quality in the upcoming federal fiscal years beginning October 1, 2017, is due, in part, to concerns about the efficacy of the riparian rules developed by the Oregon Board of Forestry.

The Department of Forestry is currently defending a class action lawsuit – brought by the counties and local taxing districts that receive revenue from the harvest of timber from state forest lands – regarding the management of state forests for multiple values. The counties allege that the current Board of Forestry management plan does not maximize revenues due to reduced harvest rates compared to what allegedly might be possible if the board was not also managing the forests for purposes other than revenue production. The Department denies these allegations and asserts that the court lacks jurisdiction. It is unknown if this action will be resolved during the 2017-19 biennium; however, the trial is expected to occur late in 2018.

The economy continues to grow and is anticipated to do so through the 2017-19 biennium. This will primarily impact the operations of the Private Forests program as industrial forest operators ramp up timber harvests on private land. Timber harvests on state forests are already at or near the maximum sustainable rates based on the current management plans.

Legislatively Adopted Budget

The 2017-19 total funds budget for the Department of Forestry equals $445,103,704 and supports 1,181 positions (867.3 FTE). This amount is 0.17% higher than the 2015-17 legislatively approved budget, however, $100 million of Other Funds expenditure authority included in the 2017-19 budget is for the expenditure of certificate of participation bond proceeds related to the Elliot State Forest and another $3.9 million for capital construction costs. The 2015-17 legislatively approved budget included $112.5 million in emergency fire costs. After removing the extraordinary items, the net operational budget change between the 2015-17 and the 2017-19 biennium is an increase of roughly $9.3 million, or 2.8%.

The legislatively adopted budget includes the conversion of the funding for an existing rangeland protection association support position from Federal Funds to General Fund ($76,482) and the addition of $200,000 General Fund to support Rangeland Fire Protection Association activities including subsidizing the cost of liability insurance for the associations.

The establishment of a position to act as an Aviation Coordinator was approved at a cost of $67,000 General Fund and $133,824 Other Funds. The position will primarily be managing severity resources aviation contracts.

General Fund totaling $1.5 million was appropriated to the agency to subsidize the cost of fire patrol assessments for low-productivity private woodlands east of the crest of the Cascades. This amount is a reduction of $500,000 from the $2 million General Fund appropriated in the prior biennium. A General Fund appropriation of $450,000 was added to the existing budget for work to contain or eliminate Sudden Oak Death. The additional funding is prioritized for the treatment of the European clonal lineage. Although not included in the total budget amounts above, the agency's budget bill also includes an appropriation of $6 million General Fund to the Emergency Board for allocation to the Department of Forestry for fire severity resources ($4 million) and anticipated catastrophic fire insurance premium costs ($2 million).

General Fund reductions of $1.38 million in the Fire Protection Division and $296,632 in the Private Forests Division for the support of agency administrative functions is included in the budget along with a corresponding reduction in Other Funds expenditure limitation for the Agency Administration Division.

Additional Other Funds expenditure limitation of $1,115,249 was provided to the agency and reductions from current service level were made to the General Fund budgets in the Fire Protection and Private Forests Divisions to reconcile the agency's budget to the projected cost of implementation of an electronic procurement and payment system that includes the establishment of a statewide instance of the software, the cost of which is shared by ODF and nine other agencies. Most this amount ($1.09 million Other Funds) is for one-time costs of program implementation, the majority of that amount funded from payments to ODF by participating agencies.

A reduction in Other Funds expenditure limitation of $3.46 million was made to the State Forests Division and includes the elimination of eleven positions (11.00 FTE) to account for reductions in revenues resulting from the reduction in the amount of Department of State Lands forest land under contract with ODF resulting from the Elliot State Forest being withdrawn from the management contract.

The legislatively approved budget provides ongoing funding for the Federal Forest Health Program that had previously been funded with one-time-only monies in prior biennia. A General Fund appropriation of $3 million is provided to the agency for the program along with $692,070 Other Funds and $510,798 Federal Funds expenditure limitation. The total funding of $4.2 million is split between collaborative group support, state and federal partnerships, and program administration. Five new positions (4.83 FTE) are established in the program. Prior biennium funding included $5 million Lottery Funds in the 2015-17 biennium, and $2.885 million Lottery Funds in the 2013-15 biennium.

Agency Administration and Centralized Business Services

	2013-15 Actual	2015-17 Legislatively Approved	2017-19 Current Service Level	2017-19 Legislatively Adopted
General Fund	2,987,870	5,023,448	3,260,821	5,329,152
Lottery Funds	5,130,718	7,554,096	2,606,595	2,601,001
Other Funds	43,436,660	59,680,076	62,529,379	166,346,495
Other Funds (NL)	10,473,812	1,731,483	--	--
Federal Funds	1,297,514	1,942,314	2,125,072	2,589,404
Total Funds	**$63,326,574**	**$75,931,417**	**$70,521,867**	**$176,866,052**
Positions	125	134	127	132
FTE	126.04	137.25	127.88	137.55

Program Overview

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

- Agency Administration – (103 positions, 107.82 FTE) Includes the State Forester's office, Board of Forestry support, and traditional support functions such as finance, property management, personnel, information services, and public relations. Agency Administration is also responsible for policy development, forest resource analysis and planning, administration of the log brand inspection program, and land use planning coordination.
- Equipment Pool – (29 positions, 29.73 FTE) Operates a motor pool and a radio pool. The motor pool manages 5 fleets, 16 mechanic shops, and an aviation unit with 3 aircraft. The radio pool supports and maintains 3,500 pieces of major communication equipment such as repeaters, base stations, and mobile and portable radios. The radio pool provides the equipment, engineering, maintenance, and support for the Department's cooperators: 3 fire protection associations, the Department of Fish and Wildlife, and the Oregon Parks and Recreation Department.
- Facilities Maintenance and Management – Provides oversight and coordinates preventive maintenance, repairs, improvement, planning and construction, and management for the agency's structures and facilities throughout the state. The program unit is charged with developing a statewide facilities rental pool program to charge other program and field operations the cost of constructing, operating, maintaining, repairing, replacing, equipping, improving, acquiring, and disposing of structures.
- Capital Budgeting – Includes Capital Improvement projects and Major Capital Construction projects. The Department owns and maintains 412 structures statewide. Examples include mountaintop lookout facilities, fuel facilities, remote forest fire guard stations, district and unit offices, seed processing facilities, and automotive maintenance shops. Many buildings need improvement or major construction because of age, type of construction, changing building codes, and growth of the agency. The Department's Long-Range Facilities Management Plan coupled with site master plans provides details on major construction needs over the coming ten-year period. Site master plans and feasibility studies are contracted for by the Department to determine major construction needs to meet workload projections at each site. The Department works with the Capital Projects Advisory Board for review of the agency's major construction, space, and maintenance needs.
- Debt service – Includes payments of principal and interest on certificates of participation (COPs) issued for the construction of the Salem Headquarters Office Complex and a portion of capital construction relocation projects in John Day and Sisters. General Obligation bond payments of principal and interest are included for a portion of the capital construction relocation projects in John Day and Sisters, Toledo facility replacement, and Gilchrist Forest land acquisition. Additionally, there is also debt service for lottery-backed bonds to purchase Gilchrist State Forest parcels.

Revenue Sources and Relationships

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

Agency Administration regularly performs a "widget study" for the purpose of allocating the costs of the Agency Administration program to the operating divisions of the agency. The widget study is the method that the agency uses to determine the distribution of costs due to administrative services functions among operating divisions of the agency. The study results in a percentage assigned to each operating program, the sum of which is 100% and accounts for nearly all of the Other Funds revenue for the administrative division. The current cost allocation is: Fire Protection 53.395%, Private Forests 16.211%, State Forests 25.473%, and Equipment Pool, 4.921%. The contribution paid by each of these programs is composed of the underlying fund sources of each. In the case of the Fire Protection Division, no administrative pro-rate is assessed to private land owners; the General Fund and public landowners are charged instead. ODF estimates that roughly 50.04% of the pro-rata revenue agency-wide is from the General Fund. In addition to the agency-wide functions of Agency Administration that are funded with the pro-rate charge, Agency Administration has a limited amount of project-specific revenue from General Fund, Other Funds, and Federal Funds.

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

Revenue to pay debt service comes from the General Fund (40.8%), Other Funds (13.6%), and Lottery Funds (45.6%). The associated Other Funds revenue is based on a square footage assessment to the Equipment Pool from the Radio and Motor Pool Funds; the State Forests program from the Forest Development and Common School Lands Funds; and the Private Forests program from the Forest Products Harvest Tax. Generally, costs are prorated among the funding sources of the programs that occupy the specific facility.

Federal Funds revenue in the Agency Administration program is nearly exclusively due to the administration of federal grants by the Partnership Development Section. This program manages roughly $38 to $40 million in federal grants awarded to the agency.

Budget Environment

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

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

Many of the Department's structures were built in the 1930s, 40s, and 50s. The Department's current building inventory includes 412 buildings with a current replacement value of $118 million. The Department uses a long-range facilities management plan to coordinate major maintenance, improvements, and construction projects on a statewide basis projected over a ten-year period. Site master plans prepared by private consultants are utilized for developing major construction proposals. These site master plans are coordinated with the long-range management plan in developing the agency capital budget.

Legislatively Adopted Budget

The Agency Administration and Central Business Services 2017-19 total funds budget is $176,866,052 and includes 132 positions (137.55 FTE). However, $100 million of Other Funds expenditure authority included in the 2017-19 budget is for the expenditure of lottery bond proceeds related to the Elliot State Forest and another $3.9 million for capital construction costs. After removing the extraordinary items, the net operational budget change between the 2015-17 and the 2017-19 biennium is an increase of roughly $2.4 million, or 3.5%. The General Fund budget for the program totals $5,329,152, which is a $2.07 million, or 63.4%, increase from the 2015-17 legislatively approved budget, but includes $3 million for the federal forest health program. The remaining General Fund is exclusively for debt service.

The legislatively approved budget continues the federal forest health program at ODF that directly support activities intended to increase the pace, scale, and quality of active forest management on federal lands. The Lottery Funds that were provided on a one-time basis in previous biennia have been replaced by an ongoing $3 million General Fund appropriation along with $692,070 Other Funds expenditure limitation and $510,798 Federal Funds expenditure limitation; for total program funding of $4,202,868 split between collaborative group support, state/federal partnership, and program management and administration. Federal Fund and Other Fund expenditure limitation is provided for the Department to implement projects using the Good Neighbor Authority. The Other Funds revenue is from anticipated sales of federal timber; the Federal Funds revenue from cooperative agreements with the U.S. Forest Service (USFS). Up to $500,000 General Fund will be used to provide grants to collaborative groups that will be administered by the Oregon Watershed Enhancement Board. Five new, permanent positions are established in the program (4.83 FTE); an Operations and Policy Analyst 4 position to function as the Program Manager and four Natural Resource Specialist 2 positions to coordinate program activities at the field level. Twelve existing seasonal positions are to be extended by eight months each (4.84 FTE).

Following the abandonment by the State Land Board of a proposed sale of the Elliott State Forest, the Legislature authorized the sale of certificates of participation (COPs) to provide net proceeds of $100 million related to the Elliott. In addition to a $985,000 Other Funds expenditure limitation for the cost of issuance of the COPs, the Legislature also approved the establishment of an Other Funds expenditure limitation for ODF of $100,000,000 for the payment of monies to finance the release of all or a portion of the Elliott forest from restrictions resulting from ownership of that forest by the Common School Fund, or to compensate the Common School Fund for the preservation of non-economic benefits of the forest through the imposition, transfer, or sale of restrictions such as easements, use requirements or restrictions, or other methods that preserve non-economic benefits of the forest for the public. These non-economic benefits include recreation, aesthetics, wildlife or habitat preservation, or other environmental and quality of life considerations. The sale of the COPs is not anticipated until the spring of 2019 and, therefore, no additional related debt service is included in the 2017-19 budget for the Agency Administration program.

Capital Construction Other Fund expenditure limitation covering six years in the amount of $3,832,965 was provided to the agency for the replacement of a facility in Toledo that houses both Fire Protection and Private Forests programs. The building is shared with the Oregon Department of Transportation. Other Fund expenditure limitation was also provided for bond issuance costs ($50,000) and a portion of the debt service ($79,991). The remaining debt service of $57,568 is General Fund.

The Other Funds expenditure limitation in the Agency Administration program also includes an increase of $1,115,249 to provide a total Other Funds expenditure limitation of $1,928,843 ($813,594 is already included in the base budget) to pay the anticipated costs of the initial statewide implementation of the e-procurement system. ODF is anticipated to receive $1,228,843 of this amount from the other participating agencies for their portion of the one-time costs of the statewide implementation and the 2017-19 biennium maintenance costs. Of the total amount, at least $1,090,827 is anticipated to be one-time expenditures. Additional adjustments are likely to be included in the next biennium budget once ongoing costs are finalized.

A reduction in Other Funds expenditure authority of $1,320,395 is also included to facilitate the reduction in General Fund support for Agency Administration in the Private Forests and Fire Protection Divisions.

Fire Protection

	2013-15 Actual	2015-17 Legislatively Approved	2017-19 Current Service Level	2017-19 Legislatively Adopted
General Fund	101,694,755	79,481,430	48,631,655	46,357,900
Other Funds	156,126,354	134,465,753	72,439,209	71,676,758
Federal Funds	9,222,812	16,388,367	17,111,072	16,701,315
Total Funds	**$267,043,921**	**$230,335,550**	**$138,181,936**	**$134,735,973**
Positions	689	694	688	689
FTE	393.89	395.28	393.66	394.66

Program Overview

Forest wildfire protection in Oregon is provided through a coordinated effort among local, state, and federal resources. The Department's Fire Protection program protects 15.9 million acres of public and private forestland, about half of the state's total forest acreage. Of the total acreage protected, 10.7 million is privately owned, 2.3 million is state and local government land, and 2.9 million is federal, mostly Bureau of Land Management (BLM) western Oregon lands protected under contract. The program provides central and field administration, fire suppression crews, facilities maintenance, fire cache, communications, and weather and mapping services. Program services are delivered through 12 forest protection districts, including three locally managed Forest Protective Associations. Nearly 60% of all agency positions and 46% of all FTE are assigned to this program.

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

Revenue Sources and Relationships

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

- Base Protection – ODF's base protection program is delivered through local Forest Protection Districts. The establishment of the forest protection districts is codified in ORS 477.225. Revenue to support the Fire Protection Division (including the fire protection districts) comes from a combination of General Fund, Federal Funds, and Other Funds via forest patrol assessments on private and public forest landowners. Statute outlines a pro-rata cost per acre formula segregated between timberland east and west of the crest of the Cascades and grazing lands. The funding mechanism for the landowner assessment is codified in ORS 477.230. Forest patrol assessments charged against subject landowners vary by district, as each district budget is developed independently. Non-public landowner's contributions are capped at 50% of the per-acre rate established for the fire protection district in which the lands lie; the shortfall is funded with the General Fund. The remaining public landowners, including local, state, and federal entities, receive no General Fund match and pay the full cost of their per-acre fire protection assessment. In addition, the costs of the Agency Administration Division that are allocated to the Fire Protection Division are not shared between the General Fund and the private landowner assessment; those costs are borne entirely by the General Fund and public landowner assessments. The General Fund also provides a biennial subsidy of $1.5 million to offset a portion of the cost of private landowner assessments for fire protection on low-productivity lands.

Base protection revenues budgeted for the 2017-19 biennium are $127.8 million. Of this amount, public landowners through forest protection taxes ($7.16 million) and contracts ($30.89 million) account for $38.05 million (29.8%); General Fund accounts for $48.63 million (38.1%); private landowners through forest protection taxes account for $23.97 million (18.8%); and Federal Funds support $17.11 million (13.3%).

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

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

- Large Fire Protection – Large fire, or catastrophic fire, protection pays for emergency suppression costs. There is no state budget for large fires because these fires are unpredictable. Funding for emergency fire costs are provided by the General Fund, catastrophic fire insurance, and by the public and private landowner funded OFLPF. The fund is administered by ODF's Emergency Fire Cost Committee, a four-member committee composed of private landowners or their representatives appointed by the Board of Forestry. The OFLPF essentially serves as a reserve fund to provide for emergency fire cost funding in conjunction with the General Fund. Revenues to support the OFLPF are estimated to be $22.7 million in 2017-19. The taxes and assessments that generate revenue to the fund are assessed on all lands, public and private, that are in ODF protected districts and all commercial timber harvests. These include:
  - Harvest tax of $0.625/thousand board feet (mbf) on merchantable forest products ($4.98 million, 21.9%); the tax is reduced when the reserve base amount of the OFLPF is projected to exceed $22.5 million and is suspended when the reserve base exceeds $30 million.
  - Acreage assessment on all protected forest land ($0.05 per acre for protected western Oregon forestlands, $0.075 per acre for eastern Oregon protected forestland, and $0.075 per acre for all grazing lands) ($1.56 million, 6.9%).
  - Assessment of $3.75 per lot (out of the $18.75 minimum assessed for forest patrol) ($1.48 million, 6.5%).
  - Surcharge of $47.50 for each improved tax lot ($14.69 million, 64.7%).

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

- Equalization of emergency fire suppression costs in fire districts
- Administrative expenses
- Up to 50% of emergency fire insurance premium costs
- The purchase of non-routine supplemental fire prevention, detection, or suppression resources
- Up to $3 million for severity resources
- Up to $10 million for fire suppression costs

The first $20 million in large fire suppression costs are shared between the General Fund and the OFLPF. Prior to the 2013-15 biennium, the OFLPF was utilized prior to using General Fund. Over the next three biennia, the cost-share scheme shifted an increasing portion of the initial costs to the General Fund, ultimately resulting in a dollar for dollar split of the first $20 million in annual costs between the General Fund and OFLPF. In 2013-15, the General Fund and OFLPF equally shared the first $2 million per year of large fire costs. The next $9 million was covered by OFLPF, and the following $9 million from the General Fund. In the 2015-17 biennium, the General Fund and OFLPF equally shared up to the first $10 million per year with the next $5 million being OFLPF's responsibility and the subsequent $35 million, up to the $50 million retention amount required by the fire season catastrophic fire insurance policy, from the General Fund. In 2017-19, the General Fund and OFLPF share the first $20 million per year equally. Any amount in excess of the initial $20 million, up to the deductible/retention amount of the catastrophic fire insurance policy (if available) is the state's responsibility. Costs in excess of the deductible and the insurance proceeds also fall to the state, but statute does not specifically state that the costs are General Fund liabilities.

Federal Funds Programs – The budget includes $17.1 million in federal revenues to support fire protection activities. This amount is maintained to cover the estimated available federal funding received by ODF from various federal agencies, primarily the U.S. Forest Service through the Consolidated Payment Grant. The actual funding received varies each biennium as many of the programs include competitive grants and various short-duration grant opportunities. Some of the Federal Funds are one-time funding opportunities and others become annual programmatic grants. Ongoing federal grant funding includes:

- State Fire Assistance (SFA), U.S. Forest Service, ($3 million). Applied to a broad range of projects related to fire season readiness: training / RPA's / arson patrol / base level salaries / protection program development such as the FLAMES program and Detection Cameras.
- Western State Fire Managers Wildland Urban Interface Grant Program (WSFM WUI), U.S. Forest Service, ($3 million). Funds are directed toward fuels treatments and fire prevention efforts around communities.
- Joint Chiefs, U.S. Forest Service, ($550,000). Similar to WSFM grants but are applied across a landscape perspective on neighboring federal lands.
- Community Assistance, U.S. Forest Service ($1.5 million). Funds are directed toward fuels treatments and fire prevention efforts around communities.
- Cohesive Wildfire Strategy, U.S. Forest Service ($400,000). Strategic fire suppression and prevention efforts in targeted areas of the state.
- Volunteer Fire Assistance (VFA), U.S. Forest Service ($1 million). Used for fire prevention equipping, training, and organizing for state and local fire departments.
- Western Competitive Redesign Grant Western Wildfire Risk Assessment, U.S. Forest Service ($300,000). For the development of a web portal/viewer for professionals and the public to display wildland fire risk and assist in the development of Community Wildfire Protection Plans (CWPP).

Smoke Management/Fuels Program – This program receives its funding from registration and burning fees collected from public and private landowners (87%), contractual payments from other government agencies (12%), and landowner assessments (1%).

Budget Environment
Fire suppression efforts and costs are driven by factors that include forest fuel loads, forest health (insect and disease damage), weather (drought and lightning storms), and human behavior and cannot be predicted with certainty. The last decade of drought has significantly affected Oregon's forests.

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

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

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

Catastrophic Fire Insurance for the 2017 Fire Season – Due to the extraordinary losses by insurers during the 2013 and 2014 fire seasons ($50 million), it was questionable whether the state would be able to renew a catastrophic insurance policy for the 2015 fire season and, if so, at what terms. A 2015 fire season policy was secured by ODF with $25 million in loss coverage and a deductible (retention) of $50 million at an annual premium cost of roughly $3.75 million. Although the 2015 fire season was significant with respect to total costs, a large portion of the costs were covered by FEMA and other agencies. The General Fund paid $9.6 million in excess of the first $20 million in net costs shared between the OFLPF and the General Fund, but costs did not exceed the retention threshold of the insurance policy and, therefore, no claim was made for the 2015 fire season. The 2016 fire season insurance premium was slightly less ($3.53 million) than the 2015 premium, but since the policy had to be secured prior to the end of the fiscal year, the OFLPF had reached its statutory cap and was only able to provide $392,831 towards the total, with the General Fund paying $3.14 million (88.8%). For the 2017 fire season the quoted premium declined slightly once again to $3.37 million with no claims made against the 2016 fire season policy. The Emergency Fire Cost Committee (EFCC) recommended the purchase of the policy to the State Forester with the premium to be split between the General Fund and the OFLPF at $1.69 million each. Although the 2017 fire season is unlikely to produce net costs in excess of the $50 million policy retention, costs will once again exceed the $20 million shared cost obligation of the OFLPF.

Legislatively Adopted Budget
The Fire Protection Division 2017-19 total funds budget is $134,735,973 and includes 689 positions (394.66 FTE). This amount is 41.5% lower than the 2015-17 budget due primarily to the phase-out of $36.2 million General Fund and $74.6 million Other Funds for emergency fire costs related to the 2015 and 2016 fire seasons. The General Fund budget for the agency totals $46,357,900, a 7.18% increase from the 2015-17 legislatively approved budget net of large fire costs.

The legislatively adopted budget expands the Rangeland Fire Protection program providing project management and support to the Rangeland Protection Associations. The package converts half of the funding for one of the permanent full-time positons from Federal Funds to General Fund, reducing Federal Funds by $92,923 and increasing General Fund by $76,482. This change is to stabilize the funding support for the position since the Federal Funds have historically been received via competitive grants. Additionally, $66,000 of Federal Funds for services and supplies is supplanted with General Fund and an additional $200,000 General Fund is added to subsidize the liability insurance costs of the Rangeland Protection Associations.

The program supports rangeland owners in forming Rangeland Protection Associations, providing mapping support, Basic and Annual Refresher firefighter training, fire equipment acquisition through the Federal Excess Property Program and Department of Defense Fire Fighter Program, acquiring funding through various grants, reimbursement of insurance and administrative costs, technical support for the operation of the Rangeland Protection Associations, administrative support and coordination of association budgets, coordination with federal partners, and technical support and liaison during large fire operations.

An aviation coordinator position (1.00 FTE) was approved by the Legislature to provide full-time support of the contracting and management of aviation resources by the agency. The total position cost of $200,824 is shared between the General Fund and landowner assessments.

The Legislature included General Fund reductions to align the agency's budget with currently available resources. General Fund support for agency administration from the Fire Protection Division is reduced by $1,084,910. A reduction in current service level funding for implementation and ongoing costs of the agency's procurement and payment system of $290,882 General Fund is also included. The final adjustment includes a 25% reduction in the General Fund subsidy of forest patrol assessments for east-side, low-productivity woodlands. This includes a $500,000 General Fund reduction and a corresponding increase of $500,000 in Other Funds expenditure limitation.

The budget also includes a reduction in the Other Funds revenue transfer from the State Forests Division to the Fire Protection Division of $347,016 for Forest Patrol assessments related to the Common School Lands due to the reduced number of acres of Common School Lands under contract subsequent to the expiration of the management contract for the Elliott State Forest.

State Forests

	2013-15 Actual	2015-17 Legislatively Approved	2017-19 Current Service Level	2017-19 Legislatively Adopted
Other Funds	74,658,171	92,451,937	96,396,881	92,019,698
Federal Funds	40,560	3,874,672	896,874	876,165
Total Funds	**$74,698,731**	**$96,326,609**	**$97,293,755**	**$92,895,863**
Positions	268	258	255	248
FTE	241.73	233.08	232.27	224.77

Program Overview
The State Forests program manages 760,828 acres of forestlands including state forests owned by the Oregon Department of Forestry and forestlands owned by the State Land Board for the benefit of the Common School Fund. ODF owns around 95.9% (729,860) of these acres, including five state forests (Tillamook, Clatsop, Santiam, Sun Pass, and Gilchrist) and small, scattered parcels. The state acquired these lands primarily in the 1940s from counties that had received the cut-over or burned lands from private owners in lieu of delinquent property taxes. The Board began purchasing the Gilchrist tract in 2009. Board of Forestry lands are managed to achieve the greatest permanent value to the state. This definition includes providing a full range of social, economic, and environmental benefits.

The remaining 4.1%, or 30,968 acres, are the Common School Lands, which are managed by ODF under contract with the State Land Board. The Common School Lands are managed to obtain the greatest benefit for the people of the state, consistent with the conservation of this resource under sound techniques of land management. This has been determined to mean that the State Land Board should manage the land to maximize long-term revenue to the Common School Fund, within the context of environmentally sound management.

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

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

Revenue Sources and Relationships

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

Revenue from the sale of forest products produced and sold on Board of Forestry lands is divided according to a statutorily defined formula between the county in which the subject lands are situated and the State Forests program. Generally, this formula provides 36.25% of the revenue generated for the operation of the State Forests program, including the allocated costs of fire protection. The remaining 63.75% is distributed to the counties and local taxing districts where the forestland is located. The estimated total revenue in the 2017-19 biennium from forest product sales on ODF forestland is $190.36 million, of which $69 million is estimated to be the state’s share. The table to the right presents the revenue transfers to counties in FY 2016 from timber harvests on Board of Forestry Lands.

FY 2016 County Share of Revenue from Harvests on BOF Lands

County	Amount
Benton	$312,326
Clackamas	$64
Clatsop	$24,742,787
Columbia	$1,695,005
Coos	$0
Douglas	$632,281
Josephine	$2,315
Klamath	$1,004,754
Lane	$348,971
Lincoln	$1,692,088
Linn	$2,231,016
Marion	$647,555
Polk	$63
Tillamook	$17,728,557
Washington	$9,069,513
Total	$60,107,295

Council of Forest Trust Land Counties Annual Report for Fiscal Year 2016

A management fee is charged to the State Land Board for the operation and management of the Common School Trust forestlands. Beginning in fiscal year 2017, the State Land Board has elected to terminate the ODF management of the Elliott State Forest. This change results in a $6.659 million reduction in the contract for the management of the remaining Common School Fund forestlands after the removal of the Elliott forest from management. After making reductions in the amount of funding transferred to fire protection for forest patrol assessments, and shifting a portion of the administrative pro-rate to Board of Forestry lands program, the total net revenue reduction in the State Forests program is $5.4 million. The anticipated residual revenue from management fees charged to the Department of State Lands is $3.27 million in the 2017-19 biennium.

The Department of Parks and Recreation transfers roughly $1.25 million Other Funds to the State Forests program for trail and recreational opportunity enhancements from permit fees charged to users of All Terrain Vehicles (ATVs).

Budget Environment

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

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

The Department of Forestry is currently defending a class action lawsuit – brought by the counties and local taxing districts that receive revenue from the harvest of timber from state forest lands – regarding the management of state forests for multiple values. The counties allege that the current Board of Forestry management plan does not maximize revenues due to reduced harvest rates compared to what allegedly might be possible if the Board was not also managing the forests for purposes other than revenue production. The Department denies these allegations and asserts that the court lacks jurisdiction. It is unknown if this action will be resolved during the 2017-19 biennium; however, the trial is expected to occur late in 2018.

Beginning in fiscal year 2017 the State Land Board has elected to terminate the ODF management of the Elliott State Forest. This change results in a $6.659 million reduction in the contract for the management of the remaining Common School Fund forestlands. The reduction in revenues present some budgetary challenges for the program since a number of positons are shared positions split between Board of Forestry and Common School Fund revenues. As noted in the section on the legislatively approved budget, a number of positions were consolidated or eliminated and additional costs were shifted to the Board of Forestry revenues to maintain program capacity.

Swiss Needle Cast, a foliage disease of Douglas-fir, is significantly affecting a portion of state forestlands in the Tillamook State Forest. Symptoms of this disease are also becoming evident in the Elliott State Forest. Federally listed species have also affected the management of state forests over the last decade. Listings for fish and bird species influence the ability to manage the resource to achieve revenue goals on state forest lands.

Legislatively Adopted Budget
The State Forests program 2017-19 total funds budget is $92,895,863 and includes 248 positions (224.77 FTE). This is a $3.43 million (or 3.6%) decrease from the 2015-17 legislatively approved budget. The decrease is entirely due to the discontinuation of the management agreement between the Department of State Lands and ODF for the Elliott State Forest.

The legislatively adopted budget makes revenue and expenditure adjustments in the State Forests program to align the program’s budget with anticipated revenues due to a reduction in the total number of acres of Common School forest lands managed by ODF.

The budget eliminates a total of 11 positions (11.00 FTE) funded from the Common School Lands program ($1,494,194 Other Funds) and the Board of Forestry Lands program ($641,193 Other Funds). An additional $917,089 Other Funds for 27 fractional positions (3.94 FTE) is shifted to the Board of Forestry Lands program from the Common School Lands program. An additional unspecified personal services reduction of $1,143,770 is included in the Common School Lands program for a total personal services reduction of $3,555,053 in that program. Services and supplies expenditures in the amount of $1,920,002 are also eliminated from the Common School Lands program for a total reduction in Other Funds expenditure authority for the Common School Lands program of $5.475 million.

The Other Funds revenue transfer from the State Forests Division to the Fire Protection Division for Forest Patrol assessment related to the Common School Lands is also reduced by $347,016 due to the reduced number of acres under contract.

An increase in services and supplies Other Funds expenditure authority of $1,739,948 is included in the budget of the Board of Forestry lands program for the purpose of managing log sort sale contracts. The program is increasing its capacity for log sort sales in order to increase overall revenues by maximizing the value received by marketing specific timber types and grades to specific buyers rather than allowing this value to be captured by a whole lot bidder that resells to specialized buyers. The increase expenditure authority assumes that additional revenues are resultant from these types of sales.

The Legislature included an increase in the Other Funds expenditure limitation established for the State Forests program of $300,000 for the initial work required for the development of a federal Habitat Conservation Plan (HCP) for the Elliott Forest. These monies are anticipated pursuant to a potential agreement with the Department of State Lands for the development of the HCP. DSL is under no obligation to enter into a contract for these services, but if funded, the Department of Forestry will use this funding to establish four limited duration positions (3.50 FTE) including a project leader (DFM), HCP coordinator (OPA3), threatened and endangered species coordinator (NRS4), and a data manager/analyst (NRS4) to work with federal agencies to develop a Request for Proposal (RFP) to complete all the technical work needed for completing the HCP. ODF is also anticipated to make a federal grant application for the cost of developing the Environmental Impact Statement (EIS) required for completion of the HCP. It is anticipated that ODF will seek additional expenditure limitation once the remaining project costs are better known.

Private Forests

	2013-15 Actual	2015-17 Legislatively Approved	2017-19 Current Service Level	2017-19 Legislatively Adopted
General Fund	14,284,065	17,645,543	17,824,196	16,555,675
Other Funds	8,234,623	11,257,035	10,917,948	10,559,830
Federal Funds	3,535,748	12,860,827	13,382,656	13,490,311
Total Funds	**$26,054,436**	**$41,763,405**	**$42,124,800**	**$40,605,816**
Positions	114	115	112	112
FTE	109.72	112.43	110.32	110.32

Program Overview

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

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

Revenue Sources and Relationships

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

Biennium	Volume (Billions of Board Feet)	Forest Practices Act Revenue
1997-99	7.6834	$5,099,180
1999-01	7.6009	$6,984,726
2001-03	7.1652	$6,944,788
2003-05	8.4321	$7,035,171
2005-07	8.429	$5,454,507
2007-09	6.8414	$6,142,754
2009-11	5.7955	$6,618,666
2011-13	7.3923	$7,002,281
2013-15	8.2933	$9,143,915
2015-17	7.3369	$7,737,610
2017-19	7.8599*	$11,034,389*
*Includes actual plus forecasted amounts		

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

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

Budget Environment

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

The economy has generally been growing in the past biennium and is expected to continue to expand slowly throughout the 2017-19 biennium. As the economy continues to grow and timber harvesting on private lands becomes more robust, workload will increase from notifications of operations (intent to conduct a forest operation), plus reviewing and commenting on written plans describing operating methods on sensitive sites. The number of on-site inspections for pre-operation planning and reforestation auditing is also expected to increase.

Water quality issues are anticipated to be an ongoing issue during the biennium. During the 2011-13 biennium, additional funding was provided to the agency to expand the program's forest practices effectiveness monitoring program. The program resumed its riparian monitoring project since that time to directly test the efficacy of riparian protection standards for fish bearing streams. A January 2015 finding, by the National Oceanic and Atmospheric Administration (NOAA) and the U.S. Environmental Protection Agency (EPA), regarding the state's multi-agency plan for the non-point source water quality program resulted in the possible withholding of certain federal funding under the Coastal Zone Management Act for the Department of Land Conservation and Development and the Oregon Department of Environmental Quality due, in part, to concerns about the efficacy of the riparian rules developed by the Board of Forestry.

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

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

<u>Legislatively Adopted Budget</u>
The Private Forests Division 2017-19 total funds budget is $40,605,816 and includes 112 positions (110.32 FTE). This amount is a 2.8% decrease from the 2015-17 legislatively approved budget.
The General Fund budget for the agency totals $16,555,675, a 6.2% decrease from the 2015-17 budget. This incudes reductions to align the agency's budget with currently available General Fund resources:

- A 40% reduction in the funding for the Oregon Plan for Salmon and Watersheds Administration that totals $325,000 General Fund.
- Reduction of funding for Forest Practices Act compliance audits. This reduction of $150,000 General Fund and $100,000 Other Funds will allow the compliance audit to be completed every two years.
- Reduction of support for the Watershed Research Cooperative, Trask Watershed Study that includes a reduction of pass-through funding for cooperative partners totaling $309,000 General Fund.
- Reduction in General Fund support for agency administration of $235,485 from the Private Forests Division.

The budget also included a reduction in funding for implementation and ongoing costs of the agency's procurement and payment system of $61,138 General Fund. Funding for two positions, an aerial survey coordinator and a stewardship forester, is shifted to 100% Federal Funds ($285,017) from General Fund ($244,240) and Other Funds ($40,777).

The budget for the Private Forests program includes funding specifically for the management and eradication of Sudden Oak Death (Phytophthora Ramorum) in Oregon. Along with the base budget support for personal services costs totaling $193,050 and funding for eradication treatments of $156,047 for a total of $349,457 split between General Fund and Federal Funds on a roughly 80/20 basis, the legislatively adopted budget includes an additional General Fund appropriation of $450,000 for Sudden Oak Death eradication treatments. The additional funding is to be prioritized for the treatment of the European clonal lineage (EU1) sites on both state and private lands.

DEPARTMENT OF GEOLOGY AND MINERAL INDUSTRIES

Analyst: Terpening

Agency Totals

	2013-15 Actual	2015-17 Legislatively Approved	2017-19 Current Service Level	2017-19 Legislatively Adopted
General Fund	4,040,945	4,806,968	3,665,822	4,631,168
Other Funds	7,732,500	6,278,059	6,447,304	6,787,859
Federal Funds	4,370,000	6,947,079	5,047,592	5,937,915
Total Funds	**$16,143,445**	**$18,032,106**	**$15,160,718**	**$17,356,942**
Positions	50	45	36	44
FTE	49.16	42.54	35.92	43.05

Overview

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

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

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

Revenue Sources and Relationships

The GS&S program is funded by General Fund, Other Funds, and Federal Funds. Historically, 10% to 15% of DOGAMI's Federal Funds are from grants that require matching General Fund. The Federal and Other Funds that DOGAMI receives are largely from cooperative agreements and fee-for-services on reimbursable projects; however, the availability of projects and amount of potential revenue has been difficult for the Department to predict. Much of the revenue the Department receives from partners in the LIDAR consortium for collection of map data is passed through to the LIDAR services contractor for the data collection.

The MLRR program is financed primarily from Other Funds derived from aggregate mine, oil and gas, and geothermal permit and production fees. The 2015 Legislative Assembly approved increases for fees related to mining operations and established an exemption fee for small surface mining operations (HB 3563). The Department did not receive additional expenditure limitation in conjunction with the fee increase; rather the fee increase is anticipated to support continued operations, provide a sufficient ending balance, and prevent the MLRR program from being supported by the GS&S program.

The Department is currently undertaking a comprehensive assessment of the MLRR program, including cash flow analysis of the current fee structure, to ensure that it is sufficient to support program expenses. The revenue from the 2015 fee increase has provided an operational ending balance. However, it should be noted that during the 2015-17 biennium, the MLRR program was not fully staffed due to turnover. Additionally, the MLRR program has not been charged a standard indirect rate to cover its share of central administrative services that are housed in the GS&S program, such as the Agency Director or Chief Financial Officer.

Budget Environment

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

The projects the Department pursues are primarily fee-for-service driven through the LIDAR program and many projects are seasonal in nature. The agency's practice has been to retain limited duration positions with subject matter expertise while in pursuit of projects and corresponding revenue, and then using General Fund to backfill for these positions until projects are realized. In the past, General Fund has been used to pay for administrative positions and to provide matching funds for project grants, while project positions are funded with Other and Federal Funds. The Department has been able to more effectively evaluate potential projects and identify costs involved, while reducing cost overruns for added project deliverables, which had been a problem in the past.

Legislatively Adopted Budget

The legislatively adopted budget for 2017-19 is $17.4 million total funds and is composed of $4.6 million General Fund, $6.8 million Other Funds, and $5.9 million Federal Funds. This is a 3.7% reduction in total funds from the 2015-17 legislatively approved budget. The General Fund portion of the 2017-19 legislatively adopted budget is 3.7% lower than 2015-17, and the Federal Fund portion is 14.5% lower based on the known Federal Fund grant opportunities identified by the Department. The total Other Funds portion of the 2017-19 legislatively adopted budget is up 8.1% from the 2015-17 budget; Other Funds approved for the MLRR program represent a 4.4% increase related to its share of the approved IT positions. The MLRR program is anticipated to have an ending balance of $460,742, which is approximately four months of operating expenses.

The 2017-19 budget for the Geologic Survey and Services Program includes making five full-time positions within the LIDAR and Hazards Assessment program permanent, after being limited duration for at least three biennia, in order to retain experienced highly technical subject matter experts. The budget includes the reclassification of four positions from an IT classification to a more appropriate Natural Resource Specialist (NRS) classification, and adds a supervisory designation to an existing NRS 5 to build leadership capacity within the Department. Additionally, the budget includes a full-time limited duration NRS 2 position associated with the USGS 3DEP grant approved by the Legislature at the September 2016 Emergency Board meeting. Finally, the GS&S program budget includes the elimination of a vacant permanent full-time Principal Executive Manager E position.

The 2015-17 legislatively approved budget included two budget notes requiring the Department to report back to the 2016 Legislature. The first report was to provide an update on the progress the Department made in reviewing the agency's business and organizational infrastructure, core operations, funding sources, cash flows, and the indirect rates that fund some administrative functions. DOGAMI has made significant progress in addressing these areas and has determined that the current operational model for the Geologic Survey and Services Program is the best fit, given statewide constraints on availability of General Fund, provided there is rigorous administrative oversight of the grant and project processes that ties into clear tracking and reporting of cash flows and fund sources. As mentioned above, the Department is continuing with a comprehensive assessment of the MLRR program and will provide an update at the 2018 legislative session.

The second report was to conduct an assessment with the Office of the State Chief Information Officer (OSCIO) of the agency's information technology operations and to follow-up with an IT remediation plan based on that assessment. The Department and OSCIO conducted the assessment, presented an IT remediation plan, and the Department received resources at the May 2016 Emergency Board meeting to implement that plan. Some of these resources carried forward, including a permanent full-time Information System Specialist (ISS) 5 position and funds for hardware lifecycle replacement and IT hosted services through the State Data Center. The 2017-19 budget includes additional resources for the IT remediation plan, including making permanent a full-time ISS 8 position established by the Emergency Board as limited duration.

DEPARTMENT OF LAND CONSERVATION AND DEVELOPMENT

Analyst: Stayner

Agency Totals

	2013-15 Actual	2015-17 Legislatively Approved	2017-19 Current Service Level	2017-19 Legislatively Adopted
General Fund	12,198,336	13,593,528	13,507,085	12,951,689
Other Funds	561,866	725,419	561,874	1,734,829
Federal Funds	5,247,072	6,396,794	6,629,806	6,421,857
Total Funds	**$18,007,274**	**$20,715,741**	**$20,698,765**	**$21,108,375**
Positions	61	58	56	58
FTE	57.55	56.57	54.90	56.90

Overview

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

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.

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

- Director's Office – Provides overall supervision and direction to the management and staff of the agency. In addition, the Director's Office functions include policy development and management of collaborative initiatives with other agencies and entities.
- Administrative Services – Provides internal agency financial services, support services, information systems, facilities management, inventory, property control, and reception services.
- Planning Services – Provides technical assistance and policy consultation in transportation, natural hazards, natural resources, and Measure 49 claims. Specific services include the Transportation and Growth Management (TGM) Program and the Natural Hazards Program. The TGM Program, a joint effort with the Department of Transportation (ODOT), focuses on helping communities manage urban growth, plan an efficient transportation network, and protect the function of state highway facilities. The program provides technical assistance and manages grants to special districts, cities, and counties. Federal funding received through ODOT is the program's primary revenue source. The Natural Hazards Program helps flood-prone communities maintain eligibility for participation in the National Flood Insurance Program and keeps floodplain maps and data up to date. Federal funding from the Federal Emergency Management Agency (FEMA) supports this program.

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

Revenue Sources and Relationships

General Fund comprises roughly 61.4% of the budget for DLCD. Discounting the $1.58 million dedicated to local grants, General Fund supports 58.2% of the agency's operational budget.

Federal Funds account for 30.4% of the total funds budget of the agency. DLCD receives federal grant funding from the National Oceanic and Atmospheric Administration (NOAA) for coastal zone management activities through the Coastal Zone Management Act of 1972 (CZMA) and subsequent reauthorizations. Section 306 of the CZMA provides funding for the administration of coastal zone management, broadly allowing the coverage of costs for land use planning and resource management within the coastal zone. Section 306A provides grant funding for small-scale construction, restoration, and acquisition projects. Section 309 funds coastal zone enhancements including development of plans and procedures for management and use of coastal lands. Section 310 provides funding for the provision of technical assistance to support the development and implementation of coastal management programs. Section 6217 of the Coastal Zone Act Reauthorization, administered jointly by NOAA and the U.S. Environmental Protection Agency, funds a portion of the cost to develop and maintain the state's Coastal Nonpoint Pollution Control Program. These programs require state matching funds which are provided by in-kind expenditures by DLCD and other participating state agencies.

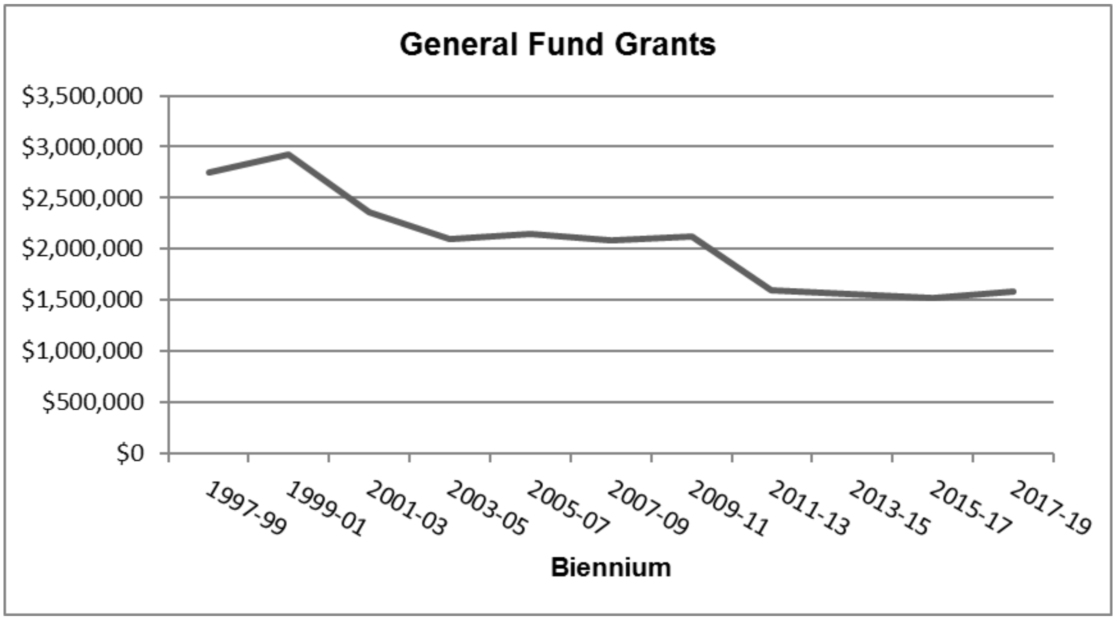
DLCD also receives Federal Funds from FEMA for natural hazards planning, specifically for addressing risks by mapping, analysis and planning, and for floodplain management activities. DLCD is the state coordinating agency for the National Flood Insurance Program.

Other Funds make up the smallest portion of the DLCD budget, accounting for just over 8.2% of the total funds budget. For the 2017-19 biennium Other Funds revenue increases by $1.08 million due to one-time funding to support hazard mitigation planning by local governments and to update the statewide natural hazard mitigation plan that is transferred to DLCD from the Office of Emergency Management. Most of the remaining Other Funds revenue is from a transfer of Federal Highway Administration funds from ODOT. This funding has historically been used to fund a joint DLCD and ODOT program for supporting local governments working on transportation growth management issues. A small amount of Other Funds revenue is derived from miscellaneous receipts, including the sale of publications and duplicating services and is used to cover the cost of providing those services.

Budget Environment

The budget environment for DLCD continues to be dominated by the pace and complexity of local land use planning activities, which are impacted by population growth, demographic changes, natural environmental factors, economic development, and shifting economic drivers. General Fund continues to be the primary funding source for the agency, but as the state begins to stabilize and recover from the most recent recession, there is pressure to restore or expand General Fund supported functions.

General Fund grants are administered throughout the operating divisions of the agency for various purposes including local and regional planning, technical assistance, and natural hazard identification and mitigation. Over the past ten biennia, the General Fund dedicated to grants has been declining. The slight uptick in the 2017-19 biennium is due to standard inflationary adjustments in the budget.



The legislatively adopted budget for 2017-19 biennium includes $1,578,835 of General Fund for local assistance grants. The funding typically represents roughly one-third of the funding requested. Grant awards are made once a biennium based on the amount of funding available and as recommended by a grants advisory committee composed of local government representatives and other stakeholders.

A January 2015 finding by the National Oceanic and Atmospheric Administration and the U.S. Environmental Protection Agency regarding the multiple state-agency plan for the non-point source water quality program resulted in the reduction of certain Federal Funds under the Coastal Zone Management Act. The state agencies involved with the plan, including the Department of Environmental Quality, Department of Forestry, Department of Agriculture, and DLCD are continuing to work with the federal government to resolve the issue.

Legislatively Adopted Budget

The Department of Land Conservation and Development's 2017-19 total funds budget is $21,108,375 and includes 58 positions (56.90 FTE). This amount is 1.9% higher than the 2015-17 legislatively approved budget. General Fund, which makes up roughly 61.4% of the agency's budget, totals $12,951,689, a 4.7% decrease from the 2015-17 legislatively approved budget as $888,000 in one-time General Fund appropriations that were included in the 2015-17 budget are phased-out. Additional General Fund reductions for increased vacancy savings, reduced use of temporary employees, and unspecified reductions in services and supplies totaling $148,938 were included as well.

Two long-term, federally-funded positions were eliminated from the agency's budget due to the ongoing reduction in federal grant funding for the Ocean and Coastal Planning program as a result of deficiencies in the state's nonpoint pollution control program as determined by the National Oceanic and Atmospheric Administration (NOAA).

Additional Other Funds expenditure limitation of $1.08 million is included in the agency's budget along with the establishment of three limited duration positions (3.00 FTE) to support hazard mitigation planning by local governments and to update the statewide natural hazard mitigation plan which is due for re-approval in 2020. The funding for this work is from a transfer of federal Pre-Disaster Mitigation (PDM) grant funding from the Office of Emergency Management (OEM), which is the designated agency to receive federal PDM grant funds. This funding is received by DLCD as Other Funds.

HB 2743 (2017) provided a $90,660 Other Funds expenditure limitation increase to the Department of Land Conservation and Development to pay for the expenses of the City Economic Development Pilot Program. The revenue is anticipated to come from the nominating city in the Pilot Program.

Federal Funds expenditure limitation of $329,804 was added to the budget for RiskMAP work and for assistance to local governments in compliance with the Endangered Species Act in local floodplain regulations. This federal funding is from anticipated FEMA grants and supports a single limited duration position (1.00 FTE) to support the local planning work.

LAND USE BOARD OF APPEALS

Analyst: Jolivette

Agency Totals

	2013-15 Actual	2015-17 Legislatively Approved	2017-19 Current Service Level	2017-19 Legislatively Adopted
General Fund	1,573,758	1,846,330	1,926,784	1,927,050
Other Funds	30,252	28,641	29,700	33,700
Total Funds	**$1,604,010**	**$1,874,971**	**$1,956,484**	**$1,960,750**
Positions	6	6	6	6
FTE	5.75	6.00	6.00	6.00

Overview

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

Revenue Sources and Relationships

Over 98.3% of LUBA's 2017-19 biennium budget revenue is General Fund. The remainder is Other Funds primarily from the production and sale of LUBA Reports. The price of the LUBA Reports is $175 per volume and it is estimated that four volumes will be produced and distributed to 50 subscribers in the 2017-19 biennium.

LUBA collects appeal filing fees and fees from intervening parties, which are transferred to the General Fund. The appeal filing fee of $200 and intervener fee of $100 are set in statute. LUBA estimates receiving $103,100 from these fees in 2017-19, which is consistent with handling about 187 appeals and 140 intervening parties annually. This amount represents a 77% increase over the 2015-17 biennium.

Budget Environment

The workload of LUBA is dictated by the number and complexities of appeals filed each year. These numbers are significantly influenced by general economic activity and population growth, and, to a lesser degree, by shifts in the structure of the state's economy. The Board is statutorily limited to three members, so this portion of the budget is relatively fixed. A large increase in the number or complexity of cases manifests itself in delays and backlogs that negatively impact the ability of the Board to meet the 77-day statutory deadline for the issuance of a final order. The Board has processed an average of roughly 185 appeals per year over the last 20 years. From 2008 to 2013, this number fell well below 150 appeals, but is expected to return to the long-term average as the economic recovery continues.

Legislatively Adopted Budget

The Land Use Board of Appeals 2017-19 total funds budget is $1,960,750 and includes 6 positions (6.00 FTE). This amount is 4.6% higher than the 2015-17 budget. The General Fund budget for the agency totals $1,927,050, a 4.4% increase from the 2015-17 legislatively approved budget and includes $11,650 to reclassify a position from an Executive Support Specialist I to an Executive Support Specialist II. The budget also includes $4,000 Other Funds expenditure limitation to cover the annual cost of continuing legal education for the agency's attorneys.

DEPARTMENT OF STATE LANDS

Analyst: Stayner

Agency Totals

	2013-15 Actual	2015-17 Legislatively Approved	2017-19 Current Service Level	2017-19 Legislatively Adopted
General Fund	--	346,082	--	5,000,000
Other Funds	28,187,651	41,925,846	29,340,595	47,925,059
Other Funds (NL)	11,594,220	13,334,249	10,234,249	10,234,249
Federal Funds	2,475,172	2,396,484	1,723,318	2,261,458
Total Funds	**$42,257,043**	**$58,002,661**	**$41,298,162**	**$65,420,766**
Positions	103	112	103	111
FTE	103.00	111.00	103.00	109.33

Overview

The Department of State Lands (DSL) is the administrative arm of the State Land Board. The Board, created under the Oregon Constitution, consists of the Governor, the Secretary of State, and the State Treasurer. The Board is responsible for managing the assets of the Common School Fund. 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 – (95 positions, 92.83 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.

Revenue Sources and Relationships

Other Funds revenue for the Department is derived from program operations and investment income. Statutory program operations generate revenue from waterway, hydroelectric, sand, and gravel leases; unclaimed property dividends; and removal-fill permit fees. Income from these sources is expected to remain fairly stable. Fee and leasing revenue is projected to generate $10.6 million in 2017-19.

Constitutional revenue is generated from periodic land sales and other revenue generated from property holdings for deposit in the Common School Fund. Revenue from land management activities is projected to remain flat during the 2017-19 biennium.

Common School Fund revenues also include receipts from timber harvests on Common School forest land. The Department of Forestry (ODF) manages forest land for DSL and projects 15 million board feet in harvest in 2017-19 from all Common School forests. This is significantly less than usual, due to the withdrawal of the Elliott State Forest from the ODF management contract.

The State Land Board has elected to terminate the ODF management of the Elliott State Forest as of June 30, 2017. ODF will continue to manage 30,968 acres of forestlands for DSL throughout the state. This change results in a $4.9 million reduction in the anticipated revenue transfer from ODF, however, it also produces a $6.7 million reduction in the ODF contract for the management of the Common School Fund forestlands; a net savings for DSL of $1.8 million. DSL has entered into a custodial management agreement with a private forest management company to manage the Elliott for the 2017-19 biennium at a cost of $1.6 million. The custodial management will not involve new timber sales, only the continued activities required under the Oregon Forest Practices Act, maintenance of roads, and public access.

Common School Fund revenue distributions to the Department of Education are forecast to be $110.2 million in 2017-19. Because these funds are directly transferred to the Department of Education, they are not included as part of the DSL budget.

Federal Funds received by the Department from the U.S. Environmental Protection Agency (EPA); Office of Coastal Resource Management, National Oceanic Atmospheric Administration, Department of Commerce; and U.S. Fish and Wildlife Service support the wetlands program, permit streamlining efforts, and the SSNERR. Federal Fund receipts are estimated at $3.93 million for the 2017-19 biennium. If other federal funds become available during the biennium, DSL will need to request additional expenditure limitation. State match requirements range from 30% to 50% depending on the individual grants and is provided from in-kind contributions, private donations, and some Common School Fund expenditures.

Budget Environment

The Common School Fund (CSF) is a constitutional trust created to manage the assets derived from the common school trust lands granted to Oregon by the federal government at statehood. These lands originally comprised 6% of the state's land for the support of schools, plus land for a state university. Revenues from these lands and any associated mineral, timber, or other resources are dedicated to the Common School Fund. The state holds title to the mineral rights for approximately four million acres. From 1999 to 2009, distributions were based on a sliding scale of percentages of a three-year rolling average of the annual growth in the CSF's market value, with lower percentages used when fund growth was relatively sluggish. The current distribution method is 4% of the past three years' rolling average CSF balance. The Oregon constitution (Article VIII) requires the Legislative Assembly to provide by law how moneys in the Common School Fund shall be invested and distributed, and to appropriate, in each biennium, money from the fund for public education. ORS 273.105 delegates this responsibility to the State Land Board.

The Portland harbor superfund site remains a looming issue for the agency. The site is the result of more than a century of industrial use along the Willamette River. The EPA listed the site (from the Columbia Slough to the Broadway Bridge) in December 2000. Clean-up costs are anticipated to be significant. The state's interest is in DSL's management of state-owned submerged and submersible lands in the area.

Currently the agency is engaged in a strategy of building a legal argument that limits the state's liability for the cost of the Portland harbor clean-up. Forensic work is needed to determine what entities leased sites from the state and, in the course of their use, released toxins into the river. Beginning in 2007, DSL has been contracting for site assessment and sediment evaluation. A draft record of decision was issued by the U.S. Environmental

Protection Agency that outlines a thirteen-year clean-up period with a total non-discounted cost of roughly $1.7 billion. The portion of these costs attributed to the State of Oregon has not yet been determined. DSL has been using payments received from insurance companies on policies purchased by former owners and lessees of state lands to pay a portion of the Attorney General costs for the legal defense, but those funds are not anticipated to cover ongoing costs. Funding or expenditure limitation has been approved from 2009 forward. Total costs for DSL through March 2017 are $19.2 million, $11.3 million of which has been reimbursed to DSL from insurance claims. The final EPA Record of Decision is expected in 2018. After that, cleanup is expected to begin in 2020.

SB 847 (2017) establishes a process by which the Department of State Lands (DSL) and the Legislative Assembly may identify tracts of trust lands that have limited performance potential as assets of the Common School Fund, and submit proposals to the Legislative Assembly for the transfer of those lands to another state agency, federal agency, or tribe.

The process of identifying and valuing underperforming tracts of trust lands can be absorbed within the existing resources of DSL, and is expected to have a minimal impact to the Department. However, the potential future transfer of large tracts of trust lands to another state agency may pose a significant fiscal impact to both DSL and the receiving agency. It is assumed that the receiving state agency would be responsible for the expenses related to operating the transferred land.

It is important to note that DSL is mandated by the Oregon Constitution to manage trust lands for the primary purpose of generating revenues for K-12 public education. The management of these lands under a different state agency would be done so in a different manner and under the guidance of an alternate mission, which would likely alter the amount of funds required to manage the land.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget for the Department of State Lands is $65,420,766 total funds supporting 111 positions (109.33 FTE). This is $7.42 million, or 12.8%, higher than the 2015-17 legislatively approved budget.

The budget includes a General Fund appropriation of $5,000,000 to the Department of State Lands for deposit into the Portland Harbor Cleanup Fund established in SB 5530. The funding is for the coordination of, and participation in, any contracts or agreements relating to or arising out of the Portland Harbor Superfund Site that may include investigation of baseline conditions, investigation of key sediment sites, potential infrastructure needs related to contaminated sediments, development and administration of a comprehensive data management system for the site, satisfaction of obligations under any settlement or administrative order, work required by the U.S. EPA in connection with the site, and other activities directly related to minimizing the state's liability for costs related to the Portland Harbor Superfund Site. An additional $3 million of net proceeds from lottery bonds are also budgeted for deposit in the fund.

The budget includes the establishment of an $8,000,000 Other Funds expenditure limitation from the Portland Harbor Cleanup Fund. The limitation is provided so that the Department can expend monies deposited in the account, including the $5 million General Fund and the $3 million net lottery bond proceeds allocated to the account as noted above.

In addition to the $8 million expenditure limitation for direct costs from the Portland Harbor Cleanup Fund, an Other Funds expenditure limitation of $6.33 million from the Common School Fund is included in the budget for legal expertise related to the Portland Harbor Superfund site. This is the third consecutive biennium that additional expenditure authority has been established for the agency for this purpose. The funding includes the establishment of a limited duration Natural Resource Specialist 4 position (1.00 FTE), $3.6 million for professional (legal) services, and $2.5 million for Attorney General expenses. Related budget packages were approved in the 2011-13, 2013-15 and 2015-17 biennia. The cost allocation process and legal questions are expected to continue through the 2017-19 biennium. The position classification is the same as the 2015-17 position.

As a result of the State Land Board's decision to retain public ownership of the Elliott State Forest, and the discontinuance of the Elliott Forest management contract with the State Department of Forestry, the Legislature approved an increase in Other Funds expenditure limitation totaling $3,985,377 and the establishment of a Project Manger 3 position (1.00 FTE) for work related to the Elliott State Forest. Specifically:

- $1,608,930 of the total amount is for the payment of costs associated with a custodial forest management contract. Under the contract, the manager will be responsible for three primary tasks including: (1) maintaining road systems for safe public access and for fire protection activities, and ensuring compliance with all applicable laws; (2) reforestation activities to comply with Oregon's Forest Practices Act; and (3) providing general forest management and oversight, including being the first point of contact for any questions, as well as identifying problems specific to the property and coordinating with local officials and DSL as necessary, to manage access to the property and to coordinate proper disposal of trash and abandoned property removal.
- $608,000 is for the estimated cost of fire patrol assessments to be paid to the Department of Forestry for wildfire protection.
- $268,447 is for the costs associated with the establishment of a Project Manager 3 position that will provide general coordination for the Elliott Forest, as well as providing project management for the Portland Harbor Superfund Site and Goble cleanup site.
- $1.5 million of the total is for the development of a federal Habitat Conservation Plan (HCP) and an Environmental Impact Statement (EIS) related to the HCP for the Elliott Forest. The HCP development will be via an agreement with the Oregon Department of Forestry (ODF). ODF will lead the collaborative work with other state, federal, and private entities. The initial work at ODF is anticipated to cost $300,000, the remaining $1.2 million is to be administratively unscheduled until a better estimate of the total cost to develop the HCP and EIS can be established. ODF anticipates that it will apply for federal grant funding for at least a portion of the cost to develop the EIS.

Other Funds expenditure limitation of $574,321 for the continuation of work on historical filled lands that began in the prior biennium due to SB 912 (2015) is included in the budget along with the addition of four limited duration positions (2.83 FTE); two of which (0.83 FTE) are extended from the prior biennium. The other two positions (2.00 FTE) will begin notifications to affected land owners and perform the actions necessary to begin the appropriate divestment of these lands. SB 912 requires DSL to research whether the state of Oregon has remaining interests in historically filled lands in tidally-influenced waterways and legally navigable waterways. This requirement also applies to lands where state-asserted ownership occurred prior to September 9, 1995. The measure further allows DSL to sell, lease, or trade historically filled lands owned by the state.

Other Funds expenditure limitation is included in the budget for the addition of a Natural Resource Specialist 3 position (1.00 FTE) to work on transactions including real property. Currently there is only one property manager for about 60,000 acres of land. The new position will allow the agency to address project backlogs. The agency has three agricultural development projects in progress and has 90 transactions pending; some of the pending projects are in the initial stages while others are in the final stages. A seasonal Natural Resource Specialist 1 position (0.50 FTE) was also established in the budget to monitor compliance with the Candidate Conservation Agreement with Assurances for the Greater Sage Grouse and to help install conservation measures such as fence markers and water tank escape ramps.

Other Funds expenditure limitation of $280,576 is provided to replace five agency-owned vehicles with leased vehicles from the Department of Administrative Services (DAS) motor pool. Of this amount, $54,576 is ongoing funding for those lease costs, $26,000 is one-time funding for the outright purchase of a standard ATV and a Side-by-side ATV in addition to the leased vehicles, and $200,000 is for additional capital improvement expenditure limitation to upgrade the lighting in the underground parking garage and replace and repair the structure on the roof that protects the HVAC system from the elements.

The budget re-established the $329,000 Federal Funds expenditure limitation for the South Slough National Estuarian Reserve (SSNER) lab remodel at the Oregon Institute of Marine Biology. This was approved by the

Emergency Board at its September 2016 meeting, but the agency was not able to complete the work in the 2015-17 biennium. The project includes expansion of existing laboratory facilities, additional office spaces, reorientation of the garage to expand storage capacity, and additional parking.

Federal Funds expenditure limitation of $212,313 was included for Wetland Program development grants from EPA. DSL has consistently received grant funds through this program for over 15 years, but has typically phased-out the expenditure limitation for federal grant funds from the common school program when developing its budget. The limitation will allow the agency to expend anticipated funding through the current grant period ending December 31, 2017.

MARINE BOARD

Analyst: Walker

Agency Totals

	2013-15 Actual	2015-17 Legislatively Approved	2017-19 Current Service Level	2017-19 Legislatively Adopted
Other Funds	24,438,979	26,508,351	27,578,318	26,923,945
Federal Funds	5,711,179	7,467,774	6,632,414	6,631,041
Total Funds	**$30,150,158**	**$33,976,125**	**$34,210,732**	**$33,554,986**
Positions	40	38	38	39
FTE	39.50	38.00	38.00	39.00

Overview

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

Revenue Sources and Relationships

OSMB programs and services are funded with Other Funds (80.2% of total funds) and Federal Funds (19.8% of total funds). The agency receives no General Fund or Lottery Funds support. Other Funds revenues for the 2017-19 biennium are projected to total $32.3 million and Federal Funds are projected to equal the amount of budgeted federal fund limitation ($6,631,041).

The agency's primary Other Fund revenue sources are:

- Marine fuel taxes – Each year, the Department of Administrative Services certifies the amount of motor vehicle fuel taxes imposed during the preceding fiscal year on fuel purchased and used to operate motor boats. The amount, less refunds for commercially used motor boats, is transferred to the Marine Board's Boating Safety, Law Enforcement, and Facility Account. The estimated amount of revenue is based on the results of the Oregon Motorboat Fuel Use Survey that is conducted every four years to determine the amount of fuel consumed for a variety of vessel sizes and types, which is then used to determine the tax to be transferred from the Department of Transportation.
- Registration and title fees – Registration fees are set by statute and vary based on type and size of vessel. Registrations are valid for two years. A boat owner must also secure a one-time certificate of title from the Marine Board. The Legislature last adjusted these fees in 2015; the fees are based on a flat fee of $4.50 per foot for a two-year registration and one-time title fees of $50.
- Invasive species fees – The fees for invasive species permits are $5 for motor boats and manually propelled boats over ten feet in length, and $20 for nonresidents and annual fees for operators of boat liveries. These fees were instituted during the 2009 legislative session and are deposited into a dedicated account.

The sources of the agency's Federal Funds are:

- U.S. Coast Guard's Recreation Boating Safety (RBS) grant program, which requires a 50% state match.
- Boating Infrastructure Grant program, which includes both a base grant and competitive grants.
- Clean Vessel Act program grant funds for vessel waste pump out facilities and dump stations to reduce the effects of untreated sewage from boats.

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

Budget Environment

Over the last several biennia, the average number of boats registered by OSMB declined from a peak of 197,591 in 2003. The Board notes that the trend has started to stabilize and is currently titling and registering approximately 157,000 recreational boats; only a minimal increase in registrations is anticipated to occur in 2017-19. The agency has noted that even though the number of registered boats has declined, there is an increased utilization of waterways by non-registered water craft, such as canoes, kayaks, rafts, and inner tubes. A measure was introduced to institute user fees for such water craft, but was not approved. Overall, the Board's programs serve over 170,000 registered users, as well as approximately 190,000 users that are not registered. This demand results in increased needs for parking, restrooms, law enforcement patrol resources, and more launch ramps, and comes at the same time that local matching funds for these purposes are shrinking.

It should be noted that the Board prepares and maintains the Statewide Boating Access and Improvement Plan. This plan includes projects identified by users and boating facility managers at 770 public boating access sites in Oregon. The current plan lists $179 million in such projects. In addition to such projects, the agency is also responsible for the removal of abandoned or derelict vessels from state waterways. During 2015-17, the agency removed 31 such vessels, the most in any biennium.

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

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget of $33.6 million total funds is a slight decrease (1.2%) from the 2015-17 legislatively approved budget. This decrease is largely due to statewide reductions taken to balance the 2017-19 budget. The budget includes 39 positions and FTE, which includes one newly authorized position for the Outfitters and Guides program, making permanent a limited duration position.

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

Administration and Education – This program is responsible for vessel titling and registration activities including floating homes and boathouses, outfitter and guide registration, and ocean charter boat licensing. The program also administers state boating laws, develops waterway management plans, serves as a liaison with other government entities, conducts boating analysis and boater surveys, coordinates the Adopt-a-River program, provides numerous educational activities, and is responsible for the agency's central business functions. This program was granted an increase in Other Funds expenditure limitation in the amount of $125,323 and one permanent position (1.00 FTE) for the guide and outfitter program. While only 21.7% of the agency's budget is dedicated to this area, the majority of the agency's staff (25 positions and 25.10 FTE) are in this program unit.

Law Enforcement – By statute, funding of law enforcement activities is the first priority for the Marine Board after administrative expenses are covered. The Law Enforcement program provides on-water safety patrol and boating law enforcement for 300 miles of coastline, over 5,500 miles of navigable rivers, 1,400 named lakes, and 889 square miles of inland water. Services are provided through contracts with county sheriffs and the Department of State Police. The program also provides patrol boats and specialized enforcement equipment, develops and offers basic and advanced training for county marine patrol officers, maintains a marine law enforcement database and reporting system, performs contract administration functions, and retains responsibility for the waterway marking system. This program area receives the largest portion (43.4%) of the agency total budget, but most of the funds are spent on county and State Police contracts rather than direct agency expenses. The budget does provide for 5 staff positions (4.55 FTE).

Facilities – This program provides for the maintenance and improvement of boating facilities throughout the state. The Board provides technical and financial assistance to local government and state agencies to acquire, develop, improve, and rehabilitate public boating facilities. Projects eligible for Board funding include boat launch ramps, parking areas, restrooms, courtesy docks, transient tie-up facilities, and other boating-related facilities. Priority consideration will be given to the rehabilitation and expansion of existing sites, followed by the development of new sites. Grants rely on partnerships and the leveraging of other financial resources such as federal funds, private funds, donations, and other local and state funds. Priorities for funding are established in the Board's Statewide Boating Access and Improvement Plan. Federal funds for the Clean Vessel Act program target water quality protection through the provision of facilities for boat pump out and dumping of waste. In addition, the Board's Maintenance Assistance program provides financial support to local governments and the Oregon Parks and Recreation Department for the maintenance and operation of boating facilities in park areas. This includes providing engineering services for local governments and state and federal agencies lacking the specialized skills needed to design and build boat facilities. This is the second largest component of the budget (30.1%) and includes 8 positions and FTE.

Aquatic and Invasive Species – The purpose of this program is to mitigate the effects of invasive species on native waters through the inspection and decontamination of watercraft. The program was established during the 2009-11 biennium and is operated in coordination with the Oregon Department of Fish and Wildlife (ODFW), the Department of Agriculture (ODA), and the Department of State Police. Boat inspections are conducted through mobile check stations operated by ODFW, ODA, and the Marine Board. This is the smallest program area in the agency, accounting for 4.7% of the budget **a**nd including 1 position (1.35 FTE).

PARKS AND RECREATION DEPARTMENT

Analyst: Stayner

Agency Totals

	2013-15 Actual	2015-17 Legislatively Approved	2017-19 Current Service Level	2017-19 Legislatively Adopted
General Fund	979,999	--	--	218,894
Lottery Funds	79,666,375	83,259,675	99,719,970	100,597,217
Other Funds	99,602,710	111,939,526	91,628,295	99,889,179
Federal Funds	9,358,198	12,874,261	9,871,343	16,389,923
Total Funds	**$189,607,282**	**$208,073,462**	**$201,219,608**	**$217,095,213**
Positions	864	847	845	867
FTE	593.33	576.20	575.20	596.05

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

The Department manages park lands covering 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, 4.88 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 – (78 positions, 76.85 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 – (13 positions 13.00 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 – (742 positions, 472.32 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.

Revenue Sources and Relationships

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

The following display shows funding amounts for 2009-11 through projected revenue for 2017-19. In 2009-11, the local grant amount is less than 12% of the net lottery available because the measure passed and was effective mid-biennium.

Parks Dedicated Lottery Funding

	2009-11	2011-13	2013-15	2015-17	2017-19*
$ Millions	$ 81.5	$ 81.0	$ 79.6	$ 92.7	$ 93.5
Percent Change from 2009-11 Biennium		-0.6%	-2.4%	13.7%	14.7%
12% for Local Grant Program	$ 6.5	$ 9.7	$ 9.6	$ 11.1	$ 11.2

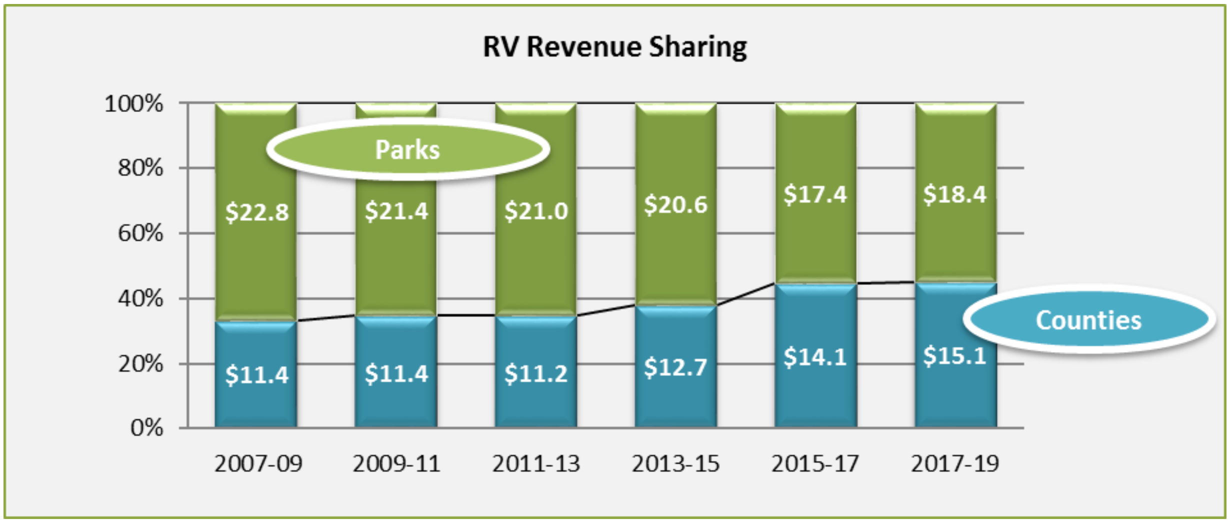
*May 2017 Forecast

The 2017-19 legislatively adopted budget assumes $93.5 million Lottery Funds revenue will be generated for the State Parks and Recreation Department sub-account, as of the May 2017 forecast. Of that amount, $11.2 million is required to be appropriated by the Legislature to local park grant programs. The remaining amount, $82.3 million, is projected to be available for the Department's operating programs. The legislatively adopted budget includes distributions:

To Cities	$3,996,816
To Counties	$4,639,948
To Other Local Governmental Units	$2,574,179

Park user fees represent 22.4% of total revenues and 44.5% of Other Funds revenues. User fees are expected to generate $50.7 million in 2017-19.

Recreational vehicle (RV) registration fees are currently shared 45% counties and 55% state.



The current revenue split was effective July 1, 2015, due to the Legislature modifying the distribution in SB 1514 during the 2014 legislative session. Prior to that legislation, the counties were receiving 35%, and there was a sunset that would have reduced their share to 30% on June 30, 2015. SB 1514 eliminated the sunset and increased the counties' share. For 2017-19, the RV revenue is expected to total $33.5 million, $18.4 million for the state parks system and $15.1 million for transfer to counties, including $1.5 million for county opportunity grants. The current estimate of RV registration fees reflects an increase of approximately $1.9 million from 2015-17. The increase in RV registrations and trip permit fees contained in HB 2017 will have a nominal impact on the RV revenues transferred to OPRD from the Department of Transportation (ODOT).

HB 2017, passed in the 2017 session, phases in a number of changes that will impact the revenues of OPRD over the 2017-19 biennium. At the end of each fiscal year, OPRD receives a transfer from ODOT for the estimated amount of unrefunded fuel tax associated with purchase and use of fuel by valid all-terrain vehicles (ATV) permit holders. OPRD uses this revenue to provide safety outreach and support through community grants to maintain ATV riding areas throughout the state. Valid ATV permits are counted for a two-year time period; from May through June. Fuel tax is calculated by multiplying the number of valid permits by the estimated number of gallons of fuel used in a year for each ATV class, which is determined by a survey conducted by Oregon State University every four years. The total estimated number of gallons is multiplied by the current fuel tax rate of $0.30 per gallon. The gradual increase in fuel taxes contained in the bill beginning in January of 2018 will increase the amount of ATV revenues from the $10.4 million that is assumed in the legislatively approved budget by an estimated $578,596 in the 2017-19 biennium. ATV funds are used for payments to the Department of State Police for troopers and to the Department of Forestry for ATV trails operations and maintenance in addition to ATV parks and trails developed by OPRD. OPRD refunds a portion of fuel tax attributable to Class 1 ATVs back to ODOT for the development and maintenance of snowmobile facilities. Historically, this has been approximately 5.2% of the total fuel tax transfer.

The measure also directs the Oregon Travel Information Council (TIC) to manage three of the OPRD properties serving as safety rest areas in Oregon along interstate and state highways. The properties that TIC will be managing are: Van Duzer, Ellmaker, and Peter Skene Ogden. OPRD would maintain ownership these properties, but the responsibility to manage, maintain, and improve the properties as rest areas would transition to TIC. Since OPRD would still own the properties, and these properties can be used by visitors for recreation beyond a rest area function, OPRD would presumably still have some level of maintenance and operations responsibilities for these properties. Currently, OPRD receives $2,554,706 per biennium of funding from ODOT to help with the costs of maintaining and operating all of the OPRD safety rest areas. With the transfer of rest area management responsibilities for the three properties indicated in the bill to TIC, OPRD would likely see a decrease in that funding from ODOT; the estimated reduction in the transfer is $512,000 per biennium.

The Legislature also created a “salmon” license plate that has a premium surcharge above the standard license plate fees. OPRD anticipates receiving $438,303 in the 2017-19 biennium from the salmon license plate. OPRD expends its share of proceeds from the sale of these plates on salmon habitat restoration needs and related projects.

Other dedicated revenue sources include $1.2 million from ODOT for the maintenance of state highways in state parks, and $400,000 from the Marine Board for boater facility maintenance and rehabilitation. Assorted Other Funds from the Deschutes River boater pass, rental of park property, sale of publications, and other donations and miscellaneous sources are also collected.

The Department also expects to receive $16.4 million in Federal Funds. This figure includes $1.05 million in carryover revenues that were not able to be used by grant recipients in the 2015-17 biennium.
Federal revenues fund a number of ongoing programs including: land and water protection and enhancements, heritage preservation, recreational trails, and natural heritage preservation.

Budget Environment

Property Acquisition is a fundamental component of ensuring an adequate supply of land is available for the recreational enjoyment of Oregonians and to preserve an area of outstanding natural, scenic, or historical value. Opinions vary widely on how much new parkland is needed. On average since 1997, there are 27.3 acres of state park land per 1,000 population. The addition of new parks and recreation sites exert upward pressure on ongoing operational and maintenance costs. Lottery Funds have made these acquisitions and new developments possible. Managing the increase in operating costs over time, however, is a major issue. Changing demographics may result in promoting different forms of recreational activity other than camping. The 2017-19 budget includes $2.2 million Lottery Funds and $770,020 Other Funds for acquisition.

In the 1999-01 biennium, dedicated Lottery Funds from Measure 66 (1998) provided 35% of available revenue and Other Funds provided 63%. Then, until the 2009-11 biennium, Lottery Funds increased relative to Other Funds. In the 2007-09 biennium, Lottery Funds provided 46% of the revenue and Other Funds 52%. This trend resulted from expanding programs during periods when Lottery revenues escalated; fee rates were able to be held flat since the last increase in 1996. As Lottery revenue growth has slowed, park user fee increases were needed to maintain services; increases were approved by the 2009 Legislative Assembly and the 2013 Legislative Assembly to maintain current service levels, provide adequate operating ending balances, and allow continued upkeep and upgrade of the system. In 2015-17, Lottery Funds were 43% and Other Funds were 50% of available revenues. For the 2017-19 biennium, Lottery Funds increase to 46.5% of available revenues as a result of lower than anticipated expenditures and increasing forecasted Lottery Fund revenues in the 2015-17 biennium creating a surplus beginning fund balance for the 2017-19 biennium.

Legislatively Adopted Budget

The total funds budget for the Department equals $217,095,213 for the 2017-19 biennium and supports 867 positions (596.05 FTE). The agency’s budget is 4.3% higher than the 2015-17 legislatively approved budget. The budget recognizes revenue estimates from anticipated fees, transfers, and Lottery Funds as projected in the May 2017 forecast; corresponding adjustments to revenue distributions to counties and local governments are included.

A General Fund appropriation to the Department of $218,894 was included in HB 3350 for the establishment of an Associate Director of Outdoor Recreation to oversee the State Office of Outdoor Recreation, providing among other things, the coordination of outdoor recreation policy; assisting in the development or updating the outdoor recreation management strategies of the Department; coordinating with the Oregon Tourism Commission and Travel Information Council; and serving as a clearing house and information center for outdoor recreation stakeholders.

The adopted budget recognizes additional revenue resulting from an increase in most camping rates by $2.00 per night. The change would primarily affect hookup rates and standard yurt rates. The $1.23 million additional Other Funds revenue will be used to support additional park staff and park maintenance work. Additional expenditure limitation from the parks preventive maintenance account of $42,910 Other Funds was approved in conjunction with the additional revenue to accommodate for the 3.5% of anticipated additional revenues transferred to that account. In addition to the specific increase in camping fees, HB 2318 was adopted by the Legislature allowing for the State Parks and Recreation Commission to establish a schedule that sets forth a range of charges within which the State Parks and Recreation Director may set, adjust, and assess fees for use of areas established and maintained by the Department up to four times each year. Although the bill exempts the fees set or adjusted by the OPRD Director from the requirements of ORS 291.055, relating to the ratification of fees set during the biennium, the range of fees established by the State Parks and Recreation Commission will still be subject to legislative approval, or ratification, if established during the interim. The OPRD budget anticipates an overall increase of $800,840 Other Funds in fee revenues resulting from the measure in the 2017-19 biennium.

The budget makes a substantial investment ($3.5 million total funds) in additional staffing (21 net positions, 19.97 FTE) for predominately front-line positions to address the increase in park use and the increase in the number of park properties. The number of net positions is a result of the establishment of 27 permanent positions (23.13 FTE) and additional associated services and supplies expenditures in the Direct Services program including 21 Park Ranger 1 positions (18.38 FTE), four Park Ranger Supervisors (3.25 FTE), and two Natural Resource Specialist 4 positions (1.50 FTE) offset by the elimination of six long-term vacant positions (3.16 FTE). All of the new positions are full-time, permanent positions, phased-in during the biennium. The Other Funds component of the increase is funded from the increase in camping fees and flexible fee schedule revenues.

Three individual increases in expenditure limitation for somewhat technical budget adjustments were included in the budget; for costs that exceed the standard rate of inflation; for aligning Preventive Maintenance Account revenues and expenditures; and for additional use of the Park Stewardship Dedicated Account. Individual adjustments are:

- $153,861 Lottery Funds and $161,557 Other Funds for projected costs of utilities at parks and for seasonal fleet vehicles. Both of these expenditure items are regularly above the standard allowable inflation factors.
- $800,000 Other Funds – additional authority to expend preventive maintenance funds. The Preventive Maintenance Account receives a percentage of park user fees; when fee revenue increases, so do the amounts transferred to the account. The increased limitation aligns expenditures with anticipated fund revenues.
- $100,000 Other Funds – additional authority to expend funds from the Parks Stewardship Dedicated Account. These funds are from lease of park property plus percentage of revenue from forestry management and ocean shores permits. The increase in expenditure limitation is in conjunction with anticipated additional revenues and will allow for additional work on natural resource protection, forest health management, and ocean shores.

With a shift away from telephone reservations and towards on-line booking of reservations, the Department moved eight call center positions from the Director's Office to the Central Services program where they will continue their work on customer service and outreach, but with more of a marketing and relationship management focus rather than simply responding to inbound customer service and reservation calls. No expenditure adjustments were required for this organizational change.

The budget carries forward unexpended $1.05 million federal grant funding and limitation from the 2015-17 biennium to the 2017-19 biennium that was authorized at the December 2016 meeting of the Emergency Board related to storm damage in Oregon caused in December of 2015. In addition, additional limitation is provided for an expanded number of projects that have subsequently been approved for federal cost reimbursement. The federal funding is received at the state level and distributed by the Oregon Office of Emergency Management and therefore budgeted at OPRD as Other Funds. An additional $349,409 Lottery Funds expenditure limitation is also included for the required 25% state matching funds for the federal grant funding.

The budget includes $7.5 million in Other Funds expenditure limitation for lottery bond proceeds funding the Oregon Main Street Revitalization program, for preservation-based community revitalization and economic development. This amount includes a carry-forward limitation of $2.5 million associated with bonds issued in the 2015-17 biennium and $5 million for bonds anticipated to be issued in the current biennium. An additional $6.5 million of increased Federal Funds expenditure limitation is authorized in the budget for maritime grants, land and water conservation grants, and the recreational trails grant program.

The budgeted expenditures approved by the Legislature are commensurate with the anticipated available revenues. Expenditures are apportioned to Lottery Funds (46.3%), Other Funds (46%), and Federal Funds (7.6%) leaving sufficient ending balances for operational needs, local grant reimbursements, salary and benefit reserve, and other dedicated cash flow needs.

WATER RESOURCES DEPARTMENT

Analyst: Stayner

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2017-19 Current Service Level	2017-19 Legislatively Adopted
General Fund	27,202,391	31,220,037	32,932,622	31,483,809
Lottery Funds	571,605	2,511,482	6.032,844	3,953,969
Other Funds	7,700,475	74,257,142	41,237,275	61,306,369
Other Funds (NL)	2,296,497	--	--	--
Federal Funds	641,182	1,312,338	1,323,257	1,879,534
Total Funds	**$38,412,150**	**$109,300,999**	**$81,525,998**	**$98,623,681**
Positions	157	165	163	170
FTE	153.81	163.25	160.59	167.59

Overview

The Water Resources Department (WRD) implements water policy for the state and issues and protects 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 agency mission is to "serve the public by practicing and promoting wise long-term water management" through the restoration and protection of stream flows and watersheds and by directly addressing Oregon's water supply needs. Informally, WRD is known as the state's water quantity regulator as opposed to the water quality regulator, the Department of Environmental Quality.

The Department operates through the following six programs:

- Administrative Services – (14 positions, 12.75 FTE) Provides human resource, accounting, payroll, contracting, facilities management, risk management, training services, and budget preparation and execution. The program operates the Water Conservation, Reuse, and Storage Grant Program established by SB 1069 (2008) providing funding for feasibility studies. The program also operates the Water Supply Development Fund established by SB 839 (2013) to provide loans and grants for water resources development projects that evaluate and plan projects to provide access to new water supplies for in-stream and out-of-stream uses.
- Field Services – (62 positions, 61.42 FTE) Administers water laws, including dam and well inspections, and water right regulation and enforcement. The Division regulates water use in order to protect senior water rights for both in-stream and out-of-stream purposes. The Department organized the state's 21 watermaster districts into five regions for more efficient use of field personnel. Field staff include region managers, watermasters, technicians, and locally-funded assistant watermasters. Field staff responsibilities include dam inspections, enforcing water distribution among water right holders, processing water right transfers, hydrologic data gathering, well construction inspections, well monitoring, and water right record maintenance. In addition, field staff act as liaisons with Watershed Councils, municipal water suppliers, local governments, and irrigation districts to explain Commission and Department policies, review water management plans, provide information on water availability and water rights, and bring regional policy issues back to the Department.
- Technical Services – (46 positions, 46.00 FTE) Manages data and technical analyses of the state's surface and ground water. The Division supports both current and long-term water management needs by collecting, analyzing, and applying information on ground water and surface water resources. Technical Services' programs include hydrologic analysis, ground water investigations, surface water availability, hydrographics,

dam safety, stream gauging, geographic and water rights information systems, well construction and enforcement, and water use reporting.

- Water Right Services – (38 positions, 37.42 FTE) Evaluates both in-stream and out-of-stream water right applications, and administers programs such as water right certification, permit administration, water right transfers, stream flow restoration, water supply and conservation planning, adjudication of pre-1909 and federal reserved water rights, and hydroelectric licensing. It also has the lead responsibility for Oregon's hydroelectric water right and licensing program. Approximately 154 currently authorized licensed hydroelectric projects pay annual fees to support the coordinated programs in the Departments of Water Resources, Fish and Wildlife, and Environmental Quality.
- Director's Office – (10 positions, 10.00 FTE) Oversees all policy-related functions of the agency. The Office coordinates the development of administrative rules, provides citizen response and information services, supports the Water Resources Commission activities, develops legislative proposals, and provides oversight of agency activities related to the Oregon Plan for restoration of salmon and watersheds, the Global Warming Commission, Government-to-Government tribal activities, and Sustainability and Streamlining Efforts. The Director's office also houses the Integrated Water Resource Strategy (IWRS) Coordinator position, providing policy direction and leadership for the agency's IWRS program.
- Water Development Loan Program – Established by the Legislature in 1977 as a general obligation bond program to finance irrigation and drainage projects. The loan program was expanded in 1982 and 1988 through constitutional amendments approved by voters to also include community water supply, fish protection, and watershed enhancement projects.

Revenue Sources and Relationships

The legislatively adopted budget includes expenditure limitation of $48.6 million Other Funds for lottery revenue bond proceeds including bond issuance costs. An additional $3.95 million Other Funds expenditure limitation is also included for debt service on bonds issued in the 2013-15 and 2015-17 biennia. These amounts heavily skewed the total revenue picture for the Water Resources Department as these amounts are roughly equal to the ongoing operating budget of the agency and therefore effectively double the total revenue for the agency in the 2017-19 budget.

Exclusive of the additional Other Funds expenditure limitation for bond proceeds, the Department's operating budget is primarily General Fund, representing 57% of the operating program revenue. General Fund is used throughout the agency. In some of the operating divisions that charge fees for certain transactions and services, General Fund is used to cover a portion of the cost to provide those services where the revenue generated from the fees have limitations imposed by statute, contract, or legislative policy on the percentage of the revenue that can be used to cover the actual cost of providing the services.

Other Funds revenue from fees and charges for services comprises 29% of the operating revenue for WRD, not including bond proceeds. Other Funds revenue sources include start card fees (well drilling), water right and transfer fees, exempt ground water use fees, geotechnical hole fees, hydroelectric fees, interest earnings, and payments from various county and state agencies for contracted services. The Department assumed $11 million of fee revenue for the 2017-19 biennium.

Certain water right fees that were established in 2013 were scheduled to sunset at the end of the prior biennium, reverting to 2009 rate levels. HB 2295 (2017) eliminated the sunset and increased those fees an average of 15.88%. Additionally, HB 2296 included an increase in landowner-dug well permit fees. Together, these fee changes are anticipated to generate just over $500,000 in Other Funds revenue during the 2017-19 biennium.

Lottery Funds are used exclusively to pay debt service on lottery revenue bonds Lottery Funds make up 4.63% of the agency's operating budget net of current biennium bond proceeds.

Federal Funds received through the Federal Emergency Management Agency (FEMA), Bureau of Reclamation, and other federal agencies represents about 3.3% of the agency's operating budget.

Budget Environment

Surface waters in most of the state are fully appropriated by existing out-of-stream and in-stream uses, except during periods that fall outside of the irrigation season when stream flows are generally higher. There are also a number of areas in Oregon that are experiencing reductions in ground water supplies. The effects of climate change on Oregon's water supply is in an early stage of analysis requiring a close look at how it may affect water rights, crop production, and migration patterns.

Listings and potential listings under the Endangered Species Act and water quality issues increase the complexity of water allocation decisions.

Most of Oregon's river basins east of the Cascade Mountains have been adjudicated of pre-1909 water rights, tribal water rights, and other federal reserved water rights. Only a few of the river basins west of the Cascades have been adjudicated. The administrative phase of the Klamath Basin Adjudication has been completed and the case has been transferred to the Klamath County Circuit Court.

Legislatively Adopted Budget

The Department's 2017-19 total funds budget is $98,623,681 supporting 170 positions (167.59 FTE). This amount is 9.8% below the 2015-17 legislatively approved budget. That reduction is entirely attributable to the phase-out of $33.4 million Other Funds expenditure limitation related to the Water Development Administration and Bond Sinking Fund. The General Fund budget for the agency totals $31,483,809, an 0.84% increase from the 2015-17 legislatively approved budget.

The budget includes the authorization to establish a permanent, full-time dam safety engineer position that had been a limited duration position in the prior biennium, to support the existing inspection workload and the additional inspection workload anticipated from the passage of HB 3427. The $245,222 total cost of the position is funded from dam inspection fees and monies from the Federal Emergency Management Agency.

The budget includes $203,870 General Fund and the authorization to establish a limited duration, Natural Resource Specialist 4 position (1.00 FTE) supporting place-based planning pilot programs in several locations throughout the state. The Water Resources Department was allocated $750,000 in lottery bond proceeds during the 2015-17 biennium to make grants and provide technical assistance to local governments to establish place-based water resource planning pilot programs. The legislatively approved budget for the Department carries forward $600,000 of this funding into the 2017-19 biennium, $56,000 of that amount remains unobligated. The position authorized by the Legislature is a continuation of the limited duration position that was established in the prior biennium to assist in the administration of the program and the distribution of the grant funding.

The Legislature approved an increase in the agency's General Fund appropriation of $333,677 to provide funding for two Assistant Watermaster positions and an Office Specialist position in Umatilla County; in the Pendleton and Milton-Freewater offices. These former Umatilla County positions were authorized to be established at the Water Resources Department in the agency's budget bill (SB 5542), but the funding in that bill assumed the total position cost of $433,677 would be paid by Umatilla County. Instead, due to limited available county funding, only a portion ($100,000) will be paid to the Water Resources Department by Umatilla County via contract for the cost of the positions.

Lottery bond issuance was approved to fund various programs within the Department. The budget for the agency includes an additional $22,622,536 Other Funds expenditure limitation for the proceeds of lottery bonds anticipated to be issued in the 2017-19 biennium, including $422,536 for bond issuance costs. No debt service expenditures are included in this biennium's budget for these bonds since the bonds are not anticipated to be issued until the end of the biennium. However, Lottery Funds for debt service of $3.95 million is included in the budget for bonds issued in prior biennia. The bond proceeds net of issuance costs are allocated as follows:

- $1.5 million for feasibility studies and initial implementation of water conservation, reuse, and storage projects.
- $15 million additional capitalization of the Water Supply Development Fund.
- $4.5 million for water supply and storage projects at the City of Carlton.
- $1.2 million for water supply projects at the Santiam Water Control District.

In addition, the budget includes another $26 million of Other Funds expenditure limitation for bond proceeds from bonds that were issued in the 2013-15 and 2015-17 biennia, but had not been expended prior to the end of the prior biennium. The following table details the original bond authorization biennium, the original net bond proceeds, and the remaining unexpended funding.

Purpose	Originally Authorized	Original Amount	2017-19 Remaining Unspent Funds
Cooperative costs of the comprehensive study of the Willamette River basin in conjunction with the U.S. Army Corps of Engineers	2013-15	$1,500,000	$400,000
Cooperative costs of the comprehensive study of the Deschutes River basin in conjunction with the U.S. Army Corps of Engineers	2013-15	$750,000	$100,000
Water Supply Development (SB 839) Grants and Loans	2013-15	$7,750,000	$5,150,000
Water Supply Development (SB 839) Grants and Loans	2015-17	$6,250,000	$6,250,000
For the purpose of making grants and paying the direct service costs of planning studies performed to evaluate the feasibility of developing a water conservation, reuse, or storage project (SB 1069)	2015-17	$2,000,000	$1,500,000
To facilitate the preparation of place-based integrated water resources strategies by providing grants and technical assistance	2015-17	$750,000	$600,000
For the purpose of making grants or entering into contracts to facilitate water supply projects in the Umatilla Basin	2015-17	$11,000,000	$11,000,000
For the purpose of making one or more grants to individuals or entities to repair, replace, or remediate water wells in the Mosier Creek area	2015-17	$1,000,000	$1,000,000
Total		$31,000,000	$26,000,000

General Fund expenditure reductions were included in all of the agency's operating programs to meet General Fund expenditure reduction targets set forth by the Joint Committee on Ways and Means. These reductions include: a $400,000 reduction in ongoing funding for water supply development feasibility studies; a $100,000 reduction in funding for observation wells; a reduction of $50,000 for gauging stations; and a $100,000 reduction in personal services funding.

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

OREGON WATERSHED ENHANCEMENT BOARD

Analyst: Siebert

Agency Totals

	2013-15 Actual	2015-17 Legislatively Approved	2017-19 Current Service Level	2017-19 Legislatively Adopted
General Fund	--	--	--	190,000
Lottery Funds	57,997,623	62,490,496	66,920,000	74,415,091
Other Funds	1,075,106	3,618,093	1,609,486	3,009,486
Federal Funds	23,075,625	37,274,113	25,924,237	41,671,381
Total Funds	**$82,148,354**	**$103,382,702**	**$94,453,723**	**$119,285,958**
Positions	32	35	29	33
FTE	32.00	34.25	28.99	33.00

Overview

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

OWEB is designated as the single state agency charged with administration of the salmon and watershed portion of the dedicated lottery revenues required under Ballot Measure 66 and 76. OWEB consists of 11 voting members, including five voting members from state natural resource agency boards and commissions and six public members appointed by the Governor and confirmed by the Senate. OWEB is also authorized to include up to seven additional non-voting members, including the director of Oregon State University's agricultural extension service and representatives from six federal land and natural resource agencies. OWEB distributes funding for projects, offers technical assistance on grant proposals, and coordinates with other state natural resource agencies.

Revenue Sources and Relationships

Total Lottery revenues are forecasted to increase slightly in the 2017-19 biennium. Original assumptions that the opening of a new casino in southern Washington would reduce Lottery revenues appears to have overstated the effect on reducing Oregon's Lottery revenues, meaning some additional resources may be available above initial 2017-19 forecasts. While Lottery revenues are forecasted to increase, cost increases experienced by the programs that rely on constitutionally dedicated Lottery Funds for support, such as employee compensation, mean that almost all the 35% of Ballot Measure 76 Lottery Funds allowable for operations expenditures revenues must be used to support existing programs. Due to higher than forecasted 2015-17 Lottery receipts, $2.1 million dedicated to operations and $5.7 million dedicated to grants were carried over into the 2017-19 biennium. Much of the additional operating funds were transferred to the Department of Agriculture to combat invasive pest outbreaks in Washington and Polk counties.

Federal Funds are derived primarily from National Oceanic and Atmospheric Administration – Fisheries, an agency within the U.S. Department of Commerce, which administers the Pacific Coastal Salmon Recovery Fund (PCSRF). PCSRF monies were first authorized by Congress in 2000 and are for salmon habitat restoration, stock enhancement, and research. The Legislature assumed $37 million from PCSRF would be available for expenditure in 2015-17. This amount includes one year of federal funding and $13 million of carry-forward funds. OWEB is hopeful it will receive a second similar grant amount in the second half of the 2017-19 biennium, which would bring PCSRF funding slightly above historical levels. Over $10 million of the PCSRF grant funds total is transferred to the Oregon Department of Fish and Wildlife to support programs that protect and enhance native fish species. Other Funds are received from the Department of Transportation for one-half of the proceeds from the sale of salmon license plates, from various non-governmental sources in the form of donations and grants, and from other state agencies, such as the Department of Forestry, for grant programs administered by OWEB.

Budget Environment

The nature of the constitutional dedication of 7.5% of all lottery revenues for wildlife and habitat protection, restoration, and enhancement was changed by Ballot Measure 76, which was passed by the voters in November 2010. In the 2009-11 approved budget, more that 45% of the dedicated Lottery Funds went directly to state agencies. This could not continue under Ballot Measure 76 requirements. Solutions included simply cutting agency programs that rely on dedicated Lottery Funds, moving eligible activities from the 35% Operations Fund to the 65% Grant Fund, and moving program support on to other revenues sources, including the General Fund.

Legislatively Adopted Budget

The adopted budget for OWEB is divided into two program areas, Grants and Operations. The 2017-19 legislatively adopted budget for Operations included a total of $6.8 million in Operations Lottery Funds, $50,000 Other Funds, $2.3 million Federal Funds, and 33 positions (a decrease from 35 positions in 2015-17) to support administration of the grant program. The Operations budget also includes $190,000 General Fund, on a one-time basis, to implement HB 3249 (2017), which establishes the Oregon Agricultural Heritage Commission with 12 members appointed by OWEB. Under the bill, OWEB is to establish programs providing grants to owners of working land for succession planning, conservation management plans, covenants, and easements. It is important to note that the Legislature provided no identified funding for grants for this new program.

The 2017-19 legislatively adopted budget for the Grant program establishes a $67.6 million Lottery Funds grant fund for 2017-19, which is $12 million, or 22% more than the adopted grant fund for the 2015-17 biennium. Higher than forecasted 2015-17 revenues being carried forward into the 2017-19 biennium for expenditure accounts for $5.7 million of the increase. The Grant program budget also includes $3 million Other Funds and $39.3 million Federal Funds. The Other Funds expenditure limitation includes $1.5 million carry-over to accommodate grants awarded in 2015-17 that will continue into 2017-19. Likewise, the Federal Funds total includes $15 million of carry-forward expenditure limitation for projects approved last biennium that will continue into 2017-19.

The following table shows the legislatively adopted budget's 2017-19 expenditure limitation of all Measure 76 Lottery Funds.

2017-19 Measure 76 Lottery Fund Expenditures

	M-76 LF 35% Operations	**M-76 LF 65% Grants**
Department of Fish and Wildlife	$5,212,514	
OSP/ Fish and Wildlife Enforcement	$8,069,250	
Department of Agriculture	$8,103,745	
Department of Environmental Quality	$4,610,577	
Oregon Watershed Enhancement Board	$6,820,790	$67,594,301