

## 2025-27 Budget Review

### Water Resources Department

	2021-23 Actual	2023-25 Legislatively Approved *	2025-27 Current Service Level	2025-27 Governor's Budget
General Fund	64,196,283	88,114,428	80,870,715	88,047,620
Lottery Funds	6,976,595	14,102,838	24,352,512	24,352,512
Other Funds	38,535,738	179,581,877	125,603,884	149,384,845
Federal Funds	972,372	2,153,385	2,190,179	2,190,179
<b>Total Funds</b>	<b>110,680,988</b>	<b>283,952,528</b>	<b>233,017,290</b>	<b>263,975,156</b>
Positions	241	259	248	250
FTE	216.97	248.71	245.25	246.63

\* Includes legislative and administrative actions through December 2024.

#### PROGRAM DESCRIPTION

The Water Resources Department (WRD) is responsible for allocating, distributing, and managing water in Oregon. WRD issues and protects water rights and implements water policy for the state. Moreover, the Department is focused on providing timely decisions on water right applications and transactions; distributing water in accordance with the water rights of record; collecting and analyzing groundwater and surface water data to support responsible management and planning; protecting public health, safety and water resources through well construction and dam safety programs; and working with partners to help identify solutions to water supply issues. Additionally, WRD is the administrative arm of the Water Resources Commission, a seven-member citizen board appointed by the Governor and confirmed by the Senate.

The Department is organized into the following five divisions:

- **Administrative Services** - The Division supports critical business services for the agency and is organized into three sections: Employee Services, Information Services, and Business Services. Collectively, the section responsibilities include human resources; employee training; risk management; information technology; financial management and oversight; procurement and contracting; facilities management; mailroom; transportation coordination; records management; public records; emergency operations planning; and sustainability.
- **Field Services** - The Division enforces the state's water laws and implements the Water Resources Commission's policies in the field. Responsibilities include distributing and managing water; working with water users to enforce the appropriation system; and preventing illegal use and water waste. Duties include well inspections for the protection of groundwater resources;

dam inspections for public safety and environmental protection; collecting hydrologic data for management and planning purposes; and assisting landowners with water measurements.

- **Technical Services** - The Division is focused on improving water quantity information. Technical Services collects, analyzes, and publishes surface water and groundwater data, providing the Department with the best available information for water management decisions. The Division also administers the dam safety program and oversees well construction standards to prevent groundwater contamination and waste.
- **Water Rights Services** - The Division supports the allocation of water for instream and out-of-stream purposes. Water Rights Services is responsible for supporting both the economy and a healthy environment by processing and evaluating all of Oregon's water right transactions.
- **Director's Office** - Responsibilities include developing and supervising the policies and programs that ensure water is managed according to Oregon Water Law and supports efforts to meet current and future instream and out-of-stream water needs. The Director's Office oversees policy-related functions affecting the entire Department and supports activities of the Water Resources Commission.

The Department's 2023-25 legislatively approved budget is funded with General Fund (31%), Lottery Funds (5%), Other Funds (63%), and Federal Funds (1%) revenues. General Fund supports the largest portion of the Department's operating expenditures, providing the majority of funding for agency personnel, services and supplies. Lottery Funds are provided exclusively in support of debt service expenditures.

Other Funds expenditure limitation is supported by bond proceeds, fee revenues, and contracts for work performed. The 2023 legislative session authorized the sale of \$60 million in lottery bonds for water infrastructure projects. Proceeds were transferred to WRD for deposit into the Water Supply Development Account, and the Department received a commensurate amount of Other Funds expenditure limitation to issue grants and loans. Two separate bond issuances were authorized including \$10 million to support the Water Project Grants and Loan program, which provides funding to support instream and out-of-stream water supply projects; and \$50 million for issuing grants and loans in support of irrigation modernization projects.

Fee revenue comes from several sources. The most significant revenue streams include hydroelectric fees (46%) used to finance the licensing and monitoring of hydroelectric projects; water rights fees (19%), which are collected to support the processing of water rights transactions; well start card fees (18%) to support the inspection of new well construction; groundwater use recording fees (12%) for evaluating and monitoring groundwater supplies; and dam safety fees (3%), which are paid by dam owners for Dam Safety program costs. In accordance with ORS 536.015, 67% of hydroelectric fee revenue is disbursed through an interagency transfer to the Department of Fish and Wildlife, and 10.3% is transferred to the Department of Environmental Quality, leaving the remainder for WRD's hydroelectric program costs.

Federal Funds revenue is received through grants, cooperative agreements, and contracts with partners including the United States Geological Survey, Bureau of Reclamation, and Federal Emergency Management Agency (FEMA). Some grants are long-standing and recurring, such as the National Dam Safety Program grant provided through FEMA.

## BUDGET ENVIRONMENT

**Revenue shortfalls** - The Department will be facing several revenue shortfalls for fee-based programs in the next two biennia. The most pressing, anticipated during the 2025-27 biennium, is driven by a marked decline in water right transaction fees coupled with an increase in operational costs. This projected shortfall has necessitated reduction packages for the Administrative Services Division and the Water Rights Services Division, eliminating close to \$2 million in Other Funds expenditure limitation and seven positions (7.00 FTE).

The current water right fee schedule, set in statute, is projected to provide approximately \$2 million in new revenue during the 2025-27 biennium. This revenue is intended to support 18 positions (14.93 FTE) throughout the agency. Most positions are in the Water Right Services Division, leaving two technicians in the Administrative Services Division, and half of a position in the Technical Services Division.

Due to the adoption of new groundwater allocation rules, WRD anticipates a 30% decline in water rights fees related to groundwater applications. This decline is projected for both the 2025-27 and 2027-29 biennia and is likely to be accompanied by a slight uptick in transfer applications. Based on estimates from the Department of Administrative Services, WRD expects personnel costs to increase by 14.5% in the 2025-27 biennium and by 9% in the 2027-29 biennium; and services and supplies expenditures to increase by over 4% each biennium. The Department typically carries at least a six-month operating balance in programs to account for revenue seasonality. However, this significant decline in new revenue, combined with rising labor costs and inflationary increases, has led to the depletion of the program's beginning balance and the inability to support seven positions (7.00 FTE) in the coming biennium. Accordingly, a revenue shortfall package reduces the total fee funded positions from 18 to 11. To maintain existing services levels and staffing, WRD will ask for a water right transaction fee increase of 135%. This calculation incorporates the restoration of a six-month ending balance, as existing balances have been depleted due to insufficient increases. WRD will be submitting a legislative concept for the 2025 legislative session and has included a corresponding policy option package in their 2025-27 biennial budget request.

In addition to the shortfall projected for water right transaction fees during the 2025-27 biennium, WRD is also anticipating a revenue shortfall for annual dam safety fees, beginning in the 2027-29 biennium. Annual dam safety fees provide about \$330,000 in revenue to cover approximately 25% of the 2023-25 LAB Dam Safety program budget, which supports portions of two dam safety engineers (0.95 FTE). The Department estimates an increase of 56% percent is necessary to continue current services and restore a nine-month ending balance. Because of the timing, no revenue shortfall package is needed in the 2025-27 biennial budget; however, WRD will be submitting a legislative concept and associated policy option package to pursue a fee increase and mitigate program impacts.

**Water allocation and related issues** - With Oregon's water resources fully allocated in many parts of the state, it is becoming more challenging to meet the needs of both new and existing instream and out-of-stream demands. Surface water throughout most of the state is fully appropriated, except during periods outside of irrigation season when stream flows are generally higher. Additionally, several areas in Oregon are experiencing reductions in ground water supplies. This is a complex issue, likely driven by several factors including demand and climate change. The effect of climate change on Oregon's water supply is in an early stage of analysis, and according to Objective 3 in Oregon's Integrated Water

Resources Strategy, the Department will continue to work with partners to support continued basin-scale climate change research efforts to better understand impacts to water rights, crop production, habitats, and migration patterns.

Since there are few new water rights available, the agency has an increased focus on identifying, developing, and managing the available water. However, there is a short supply of water data, which limits the Department's ability to effectively identify, analyze, and manage water sources. Moreover, there is not an identified revenue source to accomplish this work and over the past four biennia, General Fund has increased from 49% of the operating budget (less bond proceeds, one-time funding, and debt service) in the 2013-15 biennium, to a high of 77% in the 2021-23 biennial budget, and approximately 76% of the current operating budget.

Also due to the near full allocation of water, a significant body of work has developed in the processing of water right transfers. This has resulted in a large backlog of protests to decisions made on transfer applications and on new water right applications, as well as increased legal costs.

Additionally, federal water laws impact state water management, especially in relation to the Endangered Species Act. Listings and potential listings under Act and water quality issues increase the complexity of water allocation decisions. For example, the habitat of the Oregon spotted frog continues to be a critical factor in water allocation and management, particularly in the Deschutes River basin, where water quality, quantity, and illegal use further complicate allocation issues for the Department.

**Water infrastructure** - The condition of water supply infrastructure is a growing area of concern, as evidenced by this biennium's investments in grants and loans for water infrastructure projects. SB 5506 (2023) provided \$60 million in Other Funds expenditure limitation, supported by lottery bond proceeds, as well as over \$11 million General Fund for specified water supply projects. Many local governments and water districts are faced with the prospect of repair or replacement of aging infrastructure, as well as the hardening of infrastructure to resist natural hazards including earthquakes and wildfire. While there may be capacity within existing state loan programs for the financing of public works projects, the ability of local governments and constituents to support major projects varies widely throughout the state.

## CURRENT SERVICE LEVEL

The 2025-27 current service level (CSL) budget for WRD totals approximately \$233 million and supports 248 positions (245.25 FTE). This represents a decrease of nearly \$51 million total funds, or 22%, from the Department's 2023-25 legislatively approved budget (LAB). This reduction is the net result of adjustments to debt service and personal services expenditures, inflation, phased-in programs that were funded for less than 24 months, and phased-outs related to one-time investments included in the 2023-25 LAB. CSL increases include \$6 million in personal services expenditure adjustments; \$279,412 in phased-in program costs; about \$4 million in inflation; and over \$10 million in Lottery Funds debt service adjustments. However, the primary factor in the net reduction at CSL is the phase-out of nearly \$71 million total funds; including \$17 million General Fund and \$54 million in Other Funds expenditure limitation. The most significant one-time investments include:

- \$11 million General Fund to provide grants to several specific entities for water supply projects, as detailed by SB 5506 (2023).

- \$2 million General Fund for one-time Drought Package investments including capitalization of the Place Based Planning fund, appropriated in HB 2010 (2023), and a commensurate amount of Other Funds expenditure limitation.
- \$2 million General Fund for deposit into the agency's Water Supply Development Account for the City of Riddle's Habitat for Humanity water storage reservoir, appropriated in SB 1530 (2024), and a commensurate amount of Other Funds expenditure limitation.
- \$1 million General Fund for one-time assistance with Department of Justice costs related to water right protests and efforts to reduce the backlog, appropriated in HB 5043 (2023).
- \$1 million General Fund for a one-time deposit into the Water Well Abandonment, Repair and Replacement Fund, as directed in SB 5701 (2024), as well as the commensurate amount of Other Funds expenditure limitation.
- \$32 million Other Funds expenditure limitation for one-time lottery bond supported projects that have either been completed or partially completed.
- \$15 million Other Funds expenditure limitation for one-time American Rescue Plan Act funding provided to WRD for support of fee-based programs, authorized in HB 5043 (2023).
- \$2 million Other Funds expenditure limitation used to apply interest earned on lottery bond proceeds to pay down debt service costs, as provided for in SB 5701 (2024)

The agency's CSL also includes a net-zero technical adjustment package shifting positions and budget across divisions to better align anticipated program expenditures to budget and revenue streams.

## GOVERNOR'S BUDGET SUMMARY

The 2025-27 Governor's Budget includes nearly \$264 million total funds, comprised of over \$88 million General Fund, \$24 million Lottery Funds, \$149 million Other Funds expenditure limitation, \$2 million Federal Funds expenditure limitation, and 250 positions (246.63 FTE). The total funds budget represents an increase of approximately \$31 million, or 13%, above CSL, and includes a net increase of two positions (1.38 FTE). The Governor's Budget recommends a total of 10 policy packages, including three technical adjustment packages, which provide WRD with approximately \$7 million General Fund and over \$25 million in Other Funds expenditure limitation. Much of this increase above CSL is related to grants awarded in the 2023-25 biennium, but not fully expended, requiring a carry-forward of \$37.5 million in Lottery Funds, \$3 million in Other Funds, and \$9 million in Federal Funds expenditure limitation. Overall, the Governor's budget funds operational cost increases, provides funding for constitutionally required local grants, and recommends bonding and expenditure authority for the Main Street grant program of \$10 million. Additional details for major package investments, reductions and adjustments follow:

- **Packages 090, 092, and 093** - These packages are added by the Department of Administrative Services, Chief Financial Office, as technical adjustments, Attorney General rate adjustments, and statewide service charge adjustments, respectively. Collectively, they include \$3 million in General Fund reductions to services and supplies as well as inflation; \$100,000 General Fund for planning a water use tracking system; over \$4 million General Fund for additional legal costs; over \$3 million in reappropriated General Fund to carry forward unspent one-time investments; an Attorney General rate reduction of 7.5% amounting to \$187,634 General Fund and \$2,125

Other Funds; and a reduction of statewide charges and assessments totaling \$386,271 General Fund and \$12,615 Other Funds expenditure limitation.

- **Package 102 - Maintain Water Right and Dam Safety Services** - This package requests fee increases of 135% for water right transaction fees and 56% for dam safety fees. The increases would raise \$3.5 million in revenue, which would restore seven positions (7.00 FTE) abolished in WRD's revenue shortfall package and provide for half a position (0.50 FTE) in the Dam Safety program. The fees would be effective July 1, 2025 – at the start of the fiscal year. The water right fee schedule is reviewed every four years and was last modified in 2021.
- **Package 103 - Harney Conservation Resource Enhancement Fund** - The Department has an accompanying legislative concept for this policy package proposing establishment of a fund in which to deposit General Fund appropriated to WRD for the Harney Conservation Reserve Enhancement program. The program incentivizes landowners to voluntarily cancel groundwater rights within the Greater Harney Valley Groundwater Area of Concern. The program is intended to provide payments to landowners for up to 15 years. This package requests \$544,000 in Other Funds expenditure limitation, which would only be needed if the fund is established and a commensurate amount of General Fund is deposited.
- **Package 104 - Feasibility Studies, Water Projects, and Wells** - This package requests a one-time appropriation of \$2 million General Fund and over \$20 million in Other Funds expenditure limitation supported by lottery bond proceeds. An appropriation of \$1 million General Fund is intended for the Feasibility Study Grants program, which funds studies to evaluate the feasibility of developing water conservation, reuse, and storage projects. The remaining \$1 million is intended for deposit into the Water Well Repair, and Replacement Fund to provide financial assistance to permanently abandon, repair, or replace a water well used for household purposes. The \$20 million in bond proceeds would support the Department's Water Projects Grants and Loans program which addresses instream and out-of-stream water supply needs, providing direct investment in supply solutions and may serve as match for federal programs.
- **Package 106 - American Rescue Plan Act Carryover** - This package requests over \$3 million in Other Funds expenditure limitation to carry forward and expend the remaining American Rescue Plan Act funding authorized in the 2021-23 LAB. This carry-forward represents approximately 22% of the original authorizations. ARRA federal funding must be obligated by December 31, 2024, and expended by 2026.
- **Package 107 - Strategic Modernization of IT Systems and Tools** - This package request \$251,331 General Fund to support one new permanent Business Analyst (0.88 FTE) to advance the Department's IT Strategic Plan in support of the agency's strategic objectives.
- **Package 110 - State Scenic Waterway Revenue Gap** - The Department is charged with supporting Scenic Waterways work for the state, and funding available for this purpose has not kept pace with personnel increases. Six positions (6.00 FTE) are partially funded by the General Fund and partially funded with Scenic Waterways funds transferred from the Oregon Parks and Recreation Department. In order to maintain services, WRD has been using General Fund vacancy savings and other means to cover Other Funds position costs above the contracted amount. This package requests \$290,165 General Fund as a fund shift from Other Funds expenditure limitation to backfill the six existing split-funded positions above the existing contracted amount with the Oregon Parks and Recreation Department.

- **Package 111 - Improving Accessibility of Agency Website** - This package requests \$127,851 General Fund and establishment of one permanent, part-time, Web Coordinator (0.50 FTE) to ensure the Department's website is up to date, while also considering ease of use, transparency and website accessibility.

## OTHER SIGNIFICANT ISSUES

Oregon's Integrated Water Resources Strategy (IWRS) provides a statewide inter-agency framework for better understanding and meeting Oregon's instream and out-of-stream water needs. Statute requires the IWRS to be updated every five years (ORS 536.220). Oregon's Water Resources Commission adopted the first IWRS in 2012 and the second in 2017; and the Department, in partnership with other state agencies, has been working towards the 2025 update. The latest draft was released in March 2024, with an increased focus on equity. In April 2024, the Governor's Office asked agencies to pause further development work until new leadership at WRD and other state agencies (Department of Agriculture, Department of Fish and Wildlife, and Oregon Watershed Enhancement Board) could be involved in the process. With the recent appointment of new agency directors, including WRD, work on Oregon's latest Strategy has resumed. WRD anticipates the next draft will be released early in 2025.

## KEY PERFORMANCE MEASURES

A copy of the Water Resources Department Annual Performance Progress Report can be found on the LFO website: [https://www.oregonlegislature.gov/lfo/APPR/APPR\\_WRD\\_2024-09-30.pdf](https://www.oregonlegislature.gov/lfo/APPR/APPR_WRD_2024-09-30.pdf)

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