

## 2025-27 Budget Review

### Department of Environmental Quality

	2021-23 Actual	2023-25 Legislatively Approved *	2025-27 Current Service Level	2025-27 Governor's Budget
General Fund	106,936,680	90,277,625	83,625,020	84,639,686
Lottery Funds	6,263,230	6,812,996	7,038,076	7,027,034
Other Funds	225,035,739	322,722,914	329,977,392	359,207,647
Other Funds (NL)	126,307,831	291,351,800	272,471,975	362,631,975
Federal Funds	21,407,829	69,463,861	44,036,857	43,232,998
<b>Total Funds</b>	<b>485,951,309</b>	<b>780,629,196</b>	<b>737,149,320</b>	<b>856,739,340</b>
Positions	833	873	862	894
FTE	815.86	857.59	856.30	881.64

\* Includes legislative and administrative actions through December 2024.

### PROGRAM DESCRIPTION

The mission of the Department of Environmental Quality (DEQ) is to be a leader in restoring, maintaining, and enhancing the quality of Oregon’s air, water, and land. The Department is charged with administering state and federal laws to limit and regulate all categories of pollution. Moreover, DEQ’s 2025-27 strategic goals have a strong focus on climate change mitigation, environmental justice, and public health.

The United States Environmental Protection Agency (EPA) has delegated its authority to DEQ for the implementation of federal environmental programs in Oregon. This includes both the federal Clean Air and Clean Water Acts; the Resource Conservation and Recovery Act; the Comprehensive Environmental, Response, Compensation and Liability Act; and the Oil Pollution Act. The Department regulates industrial air pollution and works to reduce vehicle pollution through emissions testing, clean vehicle incentive programs, and diesel emissions programs. DEQ sets and enforces water quality standards, monitors river basins, measures groundwater quality, and regulates waste discharges from city sewage treatment and industrial facilities. DEQ also regulates hazardous waste disposal, promotes solid waste reduction, regulates underground storage tanks, and enhances environmental cleanup. This work is done under the direction of the five-member Environmental Quality Commission (EQC) composed of citizens appointed by the Governor and confirmed by the Senate. The Department is organized into the following divisions: Air Quality, Water Quality, Land Quality, and Agency Management.

The Department is supported with revenue streams including General Fund, Lottery Funds, Other Funds (both Limited and Nonlimited), and Federal Funds. The revenue supporting DEQ’s Other Funds Limited programs is derived largely from licensing and permit fees, and to a lesser extent by charges for services.

Nonlimited revenue supports two programs at DEQ: the Clean Water State Revolving Fund (CWSRF), and the Orphan Site Cleanup program. The CWSRF is a federal financial assistance program designed to provide loans with below market interest rates to communities for clean water projects, such as wastewater treatment repairs or upgrades. The Orphan Site Cleanup program was established to fund investigations and cleanup at sites where parties responsible for the pollution are unknown, unable, or unwilling to perform the necessary cleanup actions. Nonlimited revenue includes proceeds from bond sales, loan repayments, interest earnings, cost recoveries, and Federal Funds expended as Other Funds.

## BUDGET ENVIRONMENT

**Fee supported programs and inflation** - DEQ's budget relies heavily on fees to support many of its ongoing regulatory programs. Excluding the Nonlimited programs, approximately 42% of the Department's total available revenue is fee-based for the 2023-25 biennium. Most of DEQ's fee supported programs have increases scheduled on a three-biennia cycle, intending to true-up program revenue with inflationary factors every six years. The challenge presented this biennium, for most fee-supported agencies, is the significant increase in personal services expenditures due to cost-of-living adjustments (COLA). In September 2023, state employees received a one-time bonus of \$1,500, and in December 2023, they received a 6.5% COLA, with another increase of 6.55% in early 2025. For program budgets driven by staffing cost, the inflationary impact has been significant. Furthermore, COLA costs will roll up to be fully phased-in for the 2025-27 biennium. For many of the agency's fee-based programs, this growth has eclipsed DEQ's anticipated and scheduled increases. While DEQ's 2025-27 budget includes fee increases for the Air Contaminant Discharge program, the Greenhouse Gas Reporting program, and various Water Quality programs, the Department is also faced with the need to explore off-cycle increases for some of their other programs. Unanticipated increases can be challenging for all involved, and DEQ will continue to work with partners and affected parties along the way.

**Reliance on Federal Funds** - Approximately 9% of DEQ's 2023-25 LAB is supported by Federal Funds. This means several programs which are reliant on federal funding streams may face significant challenges, or risks, in the 2025-27 biennium. The federal administration has committed to rolling back climate policy and funding. Oregon, through DEQ, has laid the groundwork and been awarded substantial climate grants during the current biennium, including nearly \$200 million for the Environmental Protection Agency's Climate Pollution Reduction Grant. These awards are provided on a reimbursement basis, and several of the federal grant programs have obligated funds, but expenditures are not fully realized yet because the projects are underway. This puts programs in a precarious position if potential federal policy changes and funding reductions come to pass.

**Revenue shortfalls** - Federal support for Oregon's implementation of the Clean Water Act has remained programmatically constant for many years but has lacked the funding increases necessary to accommodate inflation. Federal distributions for the Water Pollution Control grant program have remained virtually flat since federal fiscal year 2013. As a result, the amount of Federal Funds received, relative to the program cost, has been in a continual decline. The 2025-27 biennial budget for DEQ's Water Quality program includes a reduction package to address the Federal Funds revenue shortfall. The package eliminates two positions (2.00 FTE), as well as associated services and supplies and special payments, totaling \$1 million in Federal Funds expenditure limitation.

The Water Quality program also reduces Other Funds expenditure limitation by approximately \$1 million to account for a shortfall in fee revenue due to inflationary factors. The reduction package eliminates three positions (3.00 FTE), as well as services and supplies, in the Onsite Septic System program.

**Aging laboratory equipment** - DEQ currently depends heavily upon aging laboratory equipment for the ability to provide environmental monitoring and testing in a reliable, timely, and cost-effective manner. Many critical instruments are at or beyond their recommended replacement age and some are no longer eligible for repairs, should they become inoperable. DEQ does not currently have laboratory equipment replacement costs included in their budget and has therefore included a request for \$1.4 million in Article XI-Q bonds to finance the capitalizable infrastructure identified as critical to operations.

**Indirect rate shortfall** - The Department funds shared and centralized services, such as accounting, information technology, and human resources, through an indirect rate. The Agency Management Division charges all programs for services based on a percentage of the program's actual personal services expenditures. The rate is negotiated annually with the U.S. Environmental Protection Agency and is used as the basis to assess all programs across all fund types. A challenge posed by the current model, is that the rate is applied against actual staffing expenditures in the month, not the program's budget. This means vacant positions do not generate indirect revenue; thus programs holding positions vacant for savings will also reduce the assessment to support Agency Management services, potentially creating a shortfall. Another issue is that the limitation for indirect expenditures is budgeted in the category of services and supplies, and subject to standard inflation. Indirect expenditures are predominantly for staffing costs, which inflate at a much higher rate than standard inflation. For example, the standard inflation rate for the 2025-27 biennium is 4.2%, and the inflation realized on salaries and wages between the 2023-25 legislatively approved budget and the 2025-27 Governor's budget was 6.6%. DEQ typically requests above-standard inflation when building CSL to offset this budget gap. However, the Department is carrying a historical indirect shortfall that has rolled forward from one biennium to the next. The current biennium COLA increases contribute to this shortfall by raising the cost of staff, without increasing the indirect budget and revenue sources. DEQ is pursuing strategies to mitigate the current indirect shortfall of approximately \$2.6 million in total funds. The Department has been administratively approved for exceptional inflation in the 2025-27 CSL; requested sufficient amounts of indirect in the agency's policy packages; and has requested an indirect increase as part of the 2025 early session omnibus bill to rebalance the Department's indirect funding for the 2023-25 biennium, commensurate to legislatively approved personal services adjustments.

## CURRENT SERVICE LEVEL

The 2025-27 current service level (CSL) budget for DEQ totals over \$737 million and supports 862 positions (856.30 FTE). This represents a decrease of more than \$43 million total funds, or 6% from the Department's 2023-25 legislatively approved budget (LAB). This decrease is the net result of several adjustments. Reductions include \$27 million in Federal Funds expenditure limitation for expended grant funds; \$4 million General Fund and \$19 million in Other Funds expenditure limitation related to base budget adjustments for bonding and debt service; and \$6 million General Fund and \$12 million Other Funds related to one-time investments during the 2023-25 biennium. These one-time investments include zero-emission vehicle incentives for medium and heavy-duty vehicles; infrastructure grants; legal expenses; costs related to bond issuance; and funding for the Water Data Portal project.

Reductions at CSL are offset by increases to staffing costs, totaling approximately \$11 million, and inflation on goods and services, totaling approximately \$13 million. Additionally, the Department was granted exceptional inflation for the cost of shared administrative services within the agency. This exception, based on increased staffing costs, amounts to approximately \$1 million General Fund and \$63,484 Lottery Funds.

## GOVERNOR'S BUDGET SUMMARY

The 2025-27 Governor's Budget includes nearly \$857 million total funds, comprised of approximately \$85 million General Fund, \$7 million Lottery Funds, \$359 million Other Funds, \$363 million Other Funds Nonlimited, \$43 million Federal Funds, and 894 positions (881.64 FTE). The total funds budget represents an increase of \$120 million, or 16%, above CSL, and includes 32 additional positions (25.34 FTE), representing a staffing increase of 4%. The Governor's Budget recommends net reductions to Lottery Funds and Federal Funds of \$11,042 and approximately \$1 million, respectively, and net increases for General Fund and Other Funds expenditure limitation in the amounts of \$1 million and \$29 million, respectively. The Department's Other Funds Nonlimited increased by more than \$90 million over CSL, related to investments in the Clean Water State Revolving Fund. To support some of the expenditure increases, the Governor's Budget includes nearly \$3 million in additional fee revenue for the Air Contaminant Discharge program, the Greenhouse Gas Reporting program, and a variety of Water Quality programs. Additional package details for major 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 abolish two long-term vacancies in the Air Quality division, for a reduction of \$0.5 million General Fund; increase Other Funds expenditure limitation by \$10 million, supported by general obligation bond proceeds for the Orphan Site Cleanup program; reduce Attorney General rates by 7.5%, for a total reduction of \$0.4 million across all Limited fund types; and reduce statewide charges and assessments by \$0.2 million Other Funds.
- Package 110 - Air Contaminant Discharge Permitting Support - This package includes a 20% fee increase effective in 2026 to maintain service levels and establishes five positions (5.00 FTE) focused on permitting growing sectors, such as semiconductor manufacturing.
- Package 111 - Greenhouse Gas (GHG) Reporting Program - This revenue package includes a revision to the GHG reporting fee schedule, modifying the existing cap to maintain current service levels.
- Package 112 - Accelerate Cleaner Air Oregon Risk Assessments - This package establishes three positions (3.00 FTE) in the Cleaner Air Oregon program, using existing funds, to accelerate the pace of risk assessments.
- Package 120 - Maintain Fee-Funded Water Quality Programs - This package includes fee increases to maintain current service levels for a variety of water quality programs. The Onsite Septic System Permitting fee is increased by 30%; the 401 Dredge and Fill fee is increased by 20%; the Wastewater Operator Certification fee is increased by 30%; and the Underground Injection Control fee is increased by 15%.

- Package 133 - Support Materials Management Implementation - This package supports implementation of the Recycling Modernization Act by establishing two positions (1.84 FTE) and converting two limited duration positions (1.66 FTE) to permanent using existing funds.
- Package 134 - Orphan Limitation for 2023-25 Bond Proceeds - This package includes \$10 million in Other Funds expenditure limitation supported by general obligation bond proceeds approved in HB 5005 (2023). The proceeds will replenish the Orphan Site Account, funding investigations and cleanup activities, and meeting Oregon's match requirements for federal Superfund sites.
- Package 140 - Maintain Agency Support Staff - This package requests \$2.4 million in Other Funds expenditure limitation, supported by revenue from the agency's indirect rate assessment, and the establishment of 13 positions (7.64 FTE) for the Central Services Division. The positions would help meet increased demands for human resources, contract management, facilities, IT, and financial services.
- Package 142 and 192 - Laboratory Capital Equipment - Package 142 requests \$1.4 million in Other Funds expenditure limitation, supported by bond proceeds for capitalizable expenditures to maintain the on-going operations of DEQ's laboratory. Package 192 requests \$0.4 million General Fund for debt service expenditures associated with the bond sale.
- Package 181 and 191 - Clean Water State Revolving Fund Bonds, Loans and Debt Service - The CWSRF program is funded with federal capitalization grants and repayments of principal and interest on existing loans to public agencies. Each biennium, DEQ seeks legislative authorization to issue general obligation bonds to meet the 20% state match requirement. Collectively, these packages request \$70 million in Other Funds Nonlimited to provide additional loans using federal grant monies; authority to issue up to \$20 million in general obligation bonds during the 2025-27 biennium to meet the state match requirement; and about \$20 million in Other Funds Nonlimited for cost of issuance and debt service expenditures.
- Package 500 - Housing Production Framework Support - This package requests nearly \$1 million General Fund and establishment of three positions (2.64 FTE) to improve the Water Quality division's service delivery and technical assistance related permitting and/or certification for high-priority housing production projects. This package is part of the Governor's Housing Production Framework and is considered a Housing and Homelessness Initiative.

## OTHER SIGNIFICANT ISSUES

In April 2024, the Secretary of State, Audits Division, published a performance audit of DEQ titled "Ongoing Strategic Planning Can Help DEQ Address Obstacles to Achieving its Goals." The report acknowledged Oregon faces numerous environmental challenges and DEQ is a large, complex regulatory agency working to meet growing demands. The focus of the audit was DEQ's strategic planning development process. The report discussed both internal and external concerns, including staffing challenges, and growing or changing demands alongside continuing budget constraints. The audit highlighted three key findings: 1) DEQ faces some pressing challenges to delivering its mission, including climate change, a broad scope of work, and persistent funding limitations; 2) Internal obstacles include recruitment and retention, particularly with BIPOC staff, and a work environment that presents challenges to staff; 3) The agency should use the strategic planning process to address both internal and external challenges.

To address some of the audit findings, and align to the 2021 State of Oregon DEI Action Plan, DEQ reports the Department is not only working to enhance staff support and promote a healthy work environment but is also in the process of developing an agencywide strategic plan in alignment with the Governor's expectations and requirements. However, due to the ongoing and iterative nature of strategic planning, this may take several years to achieve.

## KEY PERFORMANCE MEASURES

A copy of the Department of Environmental Quality Annual Performance Progress Report can be found on the LFO website: [https://www.oregonlegislature.gov/lfo/APPR/APPRProposed\\_DEQ\\_2024-10-16.pdf](https://www.oregonlegislature.gov/lfo/APPR/APPRProposed_DEQ_2024-10-16.pdf)

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