



Oregon

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March 28, 2013

The Honorable Jackie Winters, Co-Chair
The Honorable Jennifer Williamson, Co-Chair
Subcommittee on Public Safety
Joint Committee on Ways and Means
Oregon State Capitol
900 Court Street N.E.
Salem, Oregon 97301

Re: Responses to Subcommittee questions of Art Ayre, March 14, 2013

Dear Senator Winters and Representative Williamson,

This letter contains my answers to two questions asked of me by the Subcommittee during my presentation on the Governor's Budget for the Oregon State Police on March 14, 2013.

Question: Why is State Police's proposed budget growth of 3.4 percent from the 2011-13 Legislatively Approved Budget so much lower than that of the Department of Corrections.

Answer: The Governor's 2013-15 biennium all-funds budget for the Oregon State Police is proposed to grow by 3.4 percent from the 2011-13 Legislatively Approved Budget. The Governor's all-funds budget for the Department of Corrections is proposed to grow by 9.2 percent over the same period. The majority of the difference in percentages is due to differences in growth rates in Other Funds and Lottery Funds. While DOC's Other Funds rose by \$7.5 million (+24%), OSP's Other Funds dropped by \$2.6 million (-2.7%) and its Lottery Funds dropped by \$1.9 million (-28%). The decline in OSP's Other Funds expenditure limitation was due largely to the phase-out of a 2011 limitation for the agency's new computer aided dispatch system and records management system and for the match portion of a 2007 Community Oriented Policing Services (COPS) grant to fund improvements to the agency's wireless communications system. The decline in Lottery Funds expenditure limitation was due to a Lottery Funds revenue shortfall.

In the Governor's 2013-15 biennium budget, General Fund grows by 9.0 percent in DOC and by 7.4 percent in OSP. All of the difference in growth rate can be explained by OSP's \$4.3 million reduction in risk charges, which contributes to a \$2.0 million General Fund reduction in OSP's total State Government Service Charge.

Question: In regard to Lottery Funds shortfall, is there a statutory limitation that says that the Lottery payment that would be coming to State Police is limited? Are we limited

in that, in the total bucket, that we can't reach our hand in a little deeper into Lottery? That is, we don't have a prioritized level?

Answer: There is a Constitutional dedication of 15 percent of net Lottery proceeds to a parks and natural resources fund (Article XV, Section 8). These Lottery Funds are commonly known as Measure 76 Lottery Funds. The Constitution provides that half of this amount (7.5 percent of net Lottery proceeds) is deposited in a parks subaccount. The other half is deposited in a natural resources subaccount from which funding is drawn for the restoration and protection of native fish and wildlife, watersheds, and water quality. The Constitution says, "The Legislative Assembly shall not limit expenditures from the parks and natural resources fund, or from the parks or natural resources subaccounts." In order to increase Lottery funding for Oregon State Police, Lottery funding for some other agency or agencies would have to be reduced. I am not aware of a statute that prevents this from being done.

Question: Are other agencies with Lottery Funds taking a similar level reduction in their Lottery Fund contribution?

Answer: The projected shortfall in Measure 76 Lottery Funds from the Current Service Level in the 2013-15 biennium was \$5.4 million (17%). This shortfall was allocated to four of the five agencies receiving Measure 76 Lottery Funds. Three of those agencies took a 17 percent reduction from Current Service Level in their Lottery Funds, while State Police took a 33 percent reduction (\$1.2 million). All of these Lottery Funds revenue shortfalls in the Governor's Budget are fully offset by General Fund increases. The reason that the Lottery Funds revenue shortfall was not shared equally was that the budget process allowed a General Fund backfill to offset the shortfall and one of the five agencies, the Oregon Watershed Enhancement Board, has not received General Fund in the past and was considered unlikely to be allowed to receive any General Fund backfill for a Lottery Funds shortfall. Instead of dividing the shortfall equally between the remaining four agencies, OWEB's share of the shortfall was assigned to the Oregon State Police Fish and Wildlife Division. The Division's share of its funding from General Fund rises from about 7 percent of total funds in the 2011-13 biennium to about 14 percent in the Governor's Budget for the 2013-15 biennium. The backfill with General Fund allowed the Division to continue its mission without any negative impact from the shift in source of funding.

Question: What was the agency's increase in PERS payments in the 2011-13 biennium?

Answer: According to ORBITS, the agency's actual expenditures for contributions to the Public Employees Retirement System in the 2009-11 biennium were \$19.4 million, of which \$13.9 million were General Fund. The 2011-13 biennium's projected PERS payments are \$28.2 million, of which \$20.7 million were General Fund. The change between the 2009-11 biennium and the 2011-13 biennium is likely to be \$8.8 million (+45%), of which \$6.8 million would be General Fund (+49%). The large increase in PERS payments was due to a large increase in PERS premium rates. According to PERS,

strong stock market gains in the mid-2000s resulted in unusually low premium rates in the 2009-11 biennium. Large investment losses in the 2008 stock market decline resulted in high premium rates in the 2011-13 biennium. There is a time lag of up to three years between stock market gains and losses and changes in premium rates. Also, due to rate collaring, rates could not be raised sufficiently in the 2011-13 biennium to fully offset the 2008 investment losses, so additional rate increases are necessary in the 2013-15 biennium.

Question: What would the 2013-15 biennium increase in contributions to PERS be assuming a flat FTE with the proposed PERS Board's increases?

Answer: Calculating this value with exactly flat FTE would be either quite difficult or impossible for me to do. However, I am able to provide information on the increase in contributions to PERS between the 2011-13 Legislatively Approved Budget and the 2013-15 Current Service Level budget. The latter is lower by 5 positions (down from 1,220 to 1,215, a 0.4% decline) and by 3.88 FTE (down from 1,216.63 to 1,212.75, a 0.3% decline). With that slight decline in FTE, PERS contributions would rise by \$6.4 million (from \$30.9 million to \$37.3 million), a 21 percent increase. This increase does not include reductions to PERS contributions in the two PERS policy packages in the Governor's Budget. It also does not include changes to expenditures on the Pension Obligation Bond, which rose by 3.2 percent, from \$9.8 million in the 2011-13 LAB to \$10.1 million in the 2013-15 Governor's Budget.

Question: What would be the 2015-17 biennium increase in contributions to PERS assuming a flat FTE with the proposed PERS Board's increases?

Answer: Information from PERS shows the "net employer rate" rising from 13.8 percent of total payroll in the 2013-15 biennium to 16.0 percent of total payroll in the 2015-17 biennium. Assuming a flat FTE, the contributions to PERS would change by the product of total payroll change (unknown at this time) and the PERS rate increase (projected as a 15.9% increase from 13.8 to 16.0).

I hope my answers provide the information the Subcommittee desired. Please let me know if I can help further.

Sincerely,

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