

General Government Subcommittee

Legislative Fiscal Office

Legislatively Adopted 2015-17

Detailed Analysis*

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*For a complete copy of the 2015-17 Legislative Adopted Budget Detailed Analysis see:
<https://www.oregonlegislature.gov/lfo/Documents/2015-17%20LAB%20Detailed%20Analysis.pdf>

BOARD OF ACCOUNTANCY

Analyst: To

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	1,833,249	2,304,122	2,165,759	2,454,268
Total Funds	\$1,833,249	\$2,304,122	\$2,165,759	\$2,454,268
Positions	7	8	7	8
FTE	7.00	8.00	7.00	8.00

Overview

The Board of Accountancy is a seven-member citizen board that licenses and regulates public accountants. The Board administers examinations and licenses individual Certified Public Accountants (CPAs) and Public Accountants (PAs), and their firms. The Board is responsible for investigating complaints, renewing licenses, and monitoring the continuing education of its licensees. A staff of seven administers the Board's programs.

Revenue Sources and Relationships

The Board's Other Funds come primarily from business registration fees, biennial licensing fees, and examination fees. Additionally, a small amount of revenue is gained through the sale of public information and assessment of civil penalties. The Board projects \$2,959,453 of total available revenues for the 2015-17 biennium, which includes a beginning balance of \$1.2 million Other Funds. At the end of the 2015-17 biennium, the Board is expected to have an ending balance of \$487,980 Other Funds, which represents about 4.7 months of operating expense. The Board receives most of its revenue during annual renewals in June, and thus needs a higher balance to cover cash flow needs. In addition, included in the ending balance is the savings bank for the Board to cover unanticipated contested case expenses.

SB 581 (2015) increases the Individual Active Certified Public Accountants and Public Accountant licensure two-year renewal from \$160 to \$255. This \$95 increase impacts about 6,000 active individual licensees. The bill also increases the two-year renewal fee for the approximately 1,000 firms registered by the Board from \$175 to \$265. These fee increases are projected to raise \$403,500 in Other Funds revenues for the 2015-17 biennium, and will help the Board sustain daily operations and maintain an adequate cash flow and ending balance. The bill received input and approval from the Oregon Society of Certified Public Accountants and the Oregon Association of Independent Accountants.

Budget Environment

Examination applications and membership have stabilized, and Board operating costs are more predictable than they have been in the past. After peaking at above 9,300 during the 2009-11 biennium, the number of licensees, has leveled off and is holding steady at approximately 8,000 licensees. The Board expects the base of licensees to remain relatively consistent in the near future. The Board is challenged with regulating a changing profession and meeting the demand to provide more services to licensees, while ensuring more rigorous professional and ethical standards to protect the public without placing undue restrictions on licensees. Changes in federal and state regulations have increased the Board's ability to discipline based on the licensee's performance of public accounting services within a state, rather than restricting the Board's authority to only those holding a state license.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of \$2,454,268 represents a 6.5% increase from the 2013-15 legislatively approved budget and a 13.3% increase from the 2015-17 current service level budget. The legislatively adopted budget includes an expenditure limitation of \$205,714 Other Funds for the establishment of a Financial

Investigator position to allow the Board to address the increase in both the number and complexity of complaints from the public against licensees, due to both the public's sharpened awareness of potential accounting misconduct, and new rules and federal oversight in the accounting industry. The budget also includes \$100,000 Other Funds to provide the Board with contract investigators and Department of Justice resources to address the complaint backlog.

CONSTRUCTION CONTRACTORS BOARD

Analyst: Dauenhauer

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	12,623,574	16,287,732	15,829,174	14,659,027
Total Funds	\$12,623,574	\$16,287,732	\$15,829,174	\$14,659,027
Positions	75	75	69	62
FTE	75.00	74.50	69.00	62.00

Overview

The Construction Contractors Board (CCB) provides services to homeowners, contractors, subcontractors, construction suppliers, bonding and insurance companies, and state and local building officials. The Board regulates the profession of construction contracting and provides consumer protection and dispute resolution services. The Board licenses construction contractors and subcontractors, provides consumer information and education, and resolves disputes. The Board investigates complaints, imposes fines for violations of Oregon laws, including failure to carry workers' compensation coverage, and ensures that new contractors meet statutory pre-licensing educational and testing requirements. The nine-member board is appointed by the Governor and composed of representatives of different segments of the construction industry as well as the public and local government.

Revenue Sources and Relationships

CCB derives approximately 78% of its revenues from contractor licensing fees and 11% from fees associated with continuing education. The remainder of CCB revenue is derived from miscellaneous fees and civil penalties. Civil penalty collections do not make up a material portion of revenues, as the agency retains only 20% of the collections; the remaining 80% of the funds are transferred to the General Fund. The projected ending balance of \$2,212,333 will leave the Board with the equivalent of 3.6 months of operating expense reserves.

Budget Environment

During the 2013-15 biennium the CCB was directed to address budgetary concerns with expenditures that exceeded projected revenues. The Legislature requested the Department of Administrative Services to unschedule \$646,000 Other Funds expenditure limitation from the CCB budget until the agency demonstrated an ending balance sufficient to three-months of operating expense reserves. The Legislature also approved a budget note requiring the agency to report on a work plan to improve operating efficiencies and regulations and to encourage growth by attracting new contractors to the industry and maintaining current contractors. As a result of legislative direction, the CCB underwent an extensive internal evaluation and made significant strides to reduce expenses, close budget gaps, intensify communications with both employees and the public, as well as build stronger relationships with stakeholders and other government resources. CCB eliminated 7 positions and made plans to implement future cost saving measures such as relocating to a smaller space to accumulate savings on rent. CCB also sought a more cooperative working relationship with the Building Codes Division of the Department of Consumer and Business Services (DCBS) to streamline similar or overlapping workloads between the two agencies and develop efficiencies related to enforcement as well as information technology services.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget for the Construction Contractors Board is a 10% decrease from the prior biennium and reflects the agency's transformation from the previous biennium. Seven positions (7.00 FTE) were reduced from the budget resulting in a cost savings of \$1,056,806 Other Funds. The agency is now in compliance with legislative direction and has a projected ending balance equivalent to 3.6 months of operating expense reserves.

BOARD OF TAX PRACTITIONERS

Analyst: Dauenhauer

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	1,045,923	1,183,845	1,242,678	1,235,571
Total Funds	\$1,045,923	\$1,183,845	\$1,242,678	\$1,235,571
Positions	4	4	4	4
FTE	4.00	4.00	4.00	4.00

Overview

The Board of Tax Practitioners protects consumers by ensuring Oregon tax practitioners are competent and ethical in their professional activities. The Board licenses and oversees tax preparers, tax consultants, and tax businesses. The Board develops initial competency examinations and monitors required continuing education programs for tax preparers, as well as investigates complaints and takes disciplinary action when appropriate. The seven-member board is appointed by the Governor and is composed of six licensed tax consultants and one public member.

Revenue Sources and Relationships

The Board of Tax Practitioner's revenues are principally derived from annual licensing and business registration fees. Fees are also charged for the administration of licensing examinations. A small amount of revenue is derived from fines. The budget includes a revenue reduction in the amount of \$95,480 Other Funds. This reduction reflects the \$10 temporary licensing fee decrease that was implemented by the Board in August 2013. The projected ending balance of \$275,259 will leave the Board with revenues equivalent to 5.4 months of operating expense reserves.

Budget Environment

The demand for tax practitioner testing, licensure, and complaint investigations are expected to remain stagnant during the 2015-17 biennium. The agency has maintained the same staffing level of 4 total positions since 2008 and no additional budgetary assumptions beyond standard inflation have been made.

The Board is currently working with NIC-USA and DAS-ETS Application Development to create an on-line registration system. If the agency deems that additional expenditure limitation is needed for the licensing system project, a request will be made to the Legislature in the interim and the agency can present the project budget and other foundational documents necessary for additional expenditure authorization.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget is 4.4% above the 2013-15 legislatively approved budget. The budget maintains the agency's current service level and includes expenditure limitation adjustments for standard, statewide inflationary and personal services cost increases. The budget includes revenue reductions to account for a temporary licensing fee decrease.

DEPARTMENT OF ADMINISTRATIVE SERVICES

Analyst: Siebert

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	9,008,749	12,030,189	7,084,159	9,577,939
Lottery Funds	6,649,695	8,135,841	14,459,411	10,553,686
Other Funds	884,902,596	946,777,833	840,868,413	898,482,207
Other Funds (NL)	165,097,339	209,238,802	126,229,653	272,104,653
Total Funds	\$1,065,658,379	\$1,176,182,665	\$988,641,636	\$1,190,718,485
Positions	815	810	785	827
FTE	801.67	793.90	783.71	813.17

Totals are different from those in Executive Branch documents due to separate treatment by the Legislative Fiscal Office of: a) Lottery Funds for County Fairs, Oregon Public Broadcasting, and Oregon Historical Society debt service; b) General Fund support for the State Fair, OPB, and OHS; and c) Other Funds expenditure limitation for OPB investments funded with the sale of Lottery Bonds.

Overview

The Department of Administrative Services (DAS) is the central administrative agency that supports other agencies of state government and coordinates statewide services and administrative policies. The Department has numerous divisions responsible for a variety of disparate functions. It operates centrally located motor pools; operates and maintains facilities and the state data center; and provides printing, information technology, computer, payroll, and accounting services. The Department distributes federal, lottery, and state funds to cities, counties, and other state agencies. It also collects and distributes mass transit assessments.

Revenue Sources and Relationships

The Department's operating revenue comes generally from statewide assessments and fees charged for services provided to state agencies. DAS establishes rates for direct services and bills agencies based on usage. Costs of indirect services, such as those provided by the Chief Operating Office, Chief Financial Office, Chief Information Office, and Chief Human Resource Office are recovered through a "statewide assessment" included in state agencies' budgets as part of the line item expense titled "State Government Service Charges."

Although assessment-supported services cannot be directly measured and tied to each agency receiving the service, the Department makes an effort to allocate the assessment equitably. Payments by state agencies to DAS are controlled through their budget review and approval process. A significant portion of DAS revenues received through assessments and charges originate in agency budgets as General Fund or Lottery Funds.

Budget Environment

The Department provides services along two primary tracks: 1) governance and policy direction, such as budget, accounting practices, and human resource policies; and 2) infrastructure and business services, such as printing, mail, fleet, and custodial services. Handling the simultaneous leadership and service-provision roles is an ongoing challenge for the Department. Tension between DAS and state agencies has increased in recent biennia as General Fund constraints have reduced agency budgets, but not necessarily the need for DAS functions. State agencies are particularly sensitive to paying for policy oversight, which has less tangible value, and for services which they might prefer to forego, purchase elsewhere, or support on their own.

For the 2009-11 biennium, DAS received a budget note targeted at resolving the dichotomy between the agency's policy and service functions. The budget note directed the agency to convene a workgroup to review certain aspects of the agency, including: the potential benefits of separating the Department's policy functions from its service functions; validity of the current methodologies used to develop DAS assessments and service charges; and overall value and effectiveness of DAS functions and services.

Consequently, the Department chose Entrepreneurial Management (EM) as the primary tool it would use to improve services and provide clarity about its roles. An extensive EM reorganization took effect July 1, 2012 to implement this customer-focused entrepreneurial management model which changed the names of many divisions and generally split the Department into policy teams and service teams. This was done to allow the service side of the agency to focus on providing customer service while policy officers focus on over-arching issues that affect all state agencies. The 2015-17 legislatively adopted budget made a few adjustments to the previous reorganization, but the split between policy and service operations is continued.

Chief Operating Office

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	62,778	472,633	279,942	279,942
Other Funds	3,759,741	8,001,354	7,728,569	7,876,753
Total Funds	\$3,822,519	\$8,473,987	\$8,008,511	\$8,126,695
Positions	26	22	20	22
FTE	24.46	21.87	20.00	22.00

Program Description

The DAS Director is responsible for managing and coordinating the policies, programs, and services of the divisions within the Department. Currently, the DAS director also serves as the Chief Operating Officer for Oregon and is tasked with reviewing outdated systems, streamlining departments, and creating efficiencies and cost savings in state government. The Director is responsible for coordinating policy among state agencies and setting guidelines for developing and executing the Governor's budget. The Chief Operating Office (COO) has four primary functions:

- Agency Administration – Provides management oversight and policy direction to DAS divisions.
- Office of Economic Analysis – Produces the Oregon Economic and Revenue Forecast and Criminal Justice Population Forecast. It also contracts for the Highway Cost Allocation Study.
- Performance Management – Works with agencies on the most efficient and effective use of public funds.
- Government Affairs and External Relations – Coordinates legislation and communications.

Revenue Sources and Relationships

General Fund supports prison population forecasting. Otherwise, the COO is funded through an assessment of state agencies and a payment from the Department of Transportation for the cost of the Highway Cost Allocation Study.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget is 4% lower than the 2013-15 legislatively approved budget levels. This reduction is caused by continuing only 2 of 3 limited duration project manager positions from the 2013-15 biennium. In addition, an existing vacant Economist position was reclassified downward for a savings of \$114,233 Other Funds.

Chief Financial Office

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	4,703,559	14,363,896	13,789,517	16,240,520
Total Funds	\$4,703,559	\$14,363,896	\$13,789,517	\$16,240,520
Positions	40	40	42	45
FTE	40.00	39.75	42.00	44.76

Program Description

The Chief Financial Office (CFO) establishes and enforces statewide budget standards and monitors agencies to ensure that funds are spent within legal and budgetary constraints. It is responsible for reviewing agency budget requests and developing and tracking the Governor's budget through the legislative process. The CFO also helps to coordinate statewide bonded debt programs, including issuance and repayment of Article XI-Q bonds, pension obligation bonds, and lottery revenue bonds. The Office is responsible for development and maintenance of the statewide budget systems. Under the Department's Performance Management reorganization, the CFO also supports and ensures accuracy and accountability in state government financial systems by providing services and controls in the management of statewide accounting, receivables, financial reporting, and payroll functions.

Revenue Sources and Relationships

The Chief Financial Office is funded through assessment of state agencies based on an agency's total funds budget and Full-time Equivalent positions (FTE).

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget for the Chief Financial Office is 13% higher than the 2013-15 legislatively approved budget. Other Fund adjustments include:

- Added \$2 million to continue assessments of state-owned facilities begun in 2013-15 with reviews of DAS and Oregon Youth Authority facilities. The funds will be used to complete reviews of capital facilities operated by the Department of Corrections, Forestry Department, and the Department of Fish and Wildlife.
- Added \$637,294 in HB 3199 which divides administrative responsibilities for the public university bond program between DAS and the Higher Education Coordinating Commission (HECC). DAS will manage the administration of the bond programs, including preparation of sale documents, consultation with bond counsel and the Treasurer's Office, and oversight of federal tax compliance. Other Funds limitation was added to pay for a position to carry out DAS's responsibilities under the bill.
- Added \$220,533 to restore a position in the Statewide Audit and Budget Reporting Section that had been eliminated in previous biennia.
- Added \$219,051 to establish a permanent position in the Capital Finance and Planning Section to assist with management of growing outstanding debt and responsibility of managing sales of bonds.
- Transferred out \$1,595,563 Other Funds and 4 permanent full-time positions to Enterprise Goods and Services to recombine Procurement Staff.
- Transferred in \$612,269 and 2 positions from Enterprise Technology Services to recombine ORBITS staff.
- Eliminated a vacant administrative support position for a savings of \$144,088.

Chief Information Office

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	5,795,077	9,640,982	10,409,313	20,636,511
Total Funds	\$5,795,077	\$9,640,982	\$10,409,313	\$20,636,511
Positions	22	25	19	34
FTE	21.33	22.50	19.00	34.00

Program Description

The Chief Information Office (CIO) maintains certain policy and statewide information technology oversight functions. The CIO's Enterprise Security Office identifies the state's information security needs and is responsible for statewide information security policies and practices. IT Investment and Planning develops and implements state information technology strategies, rules, policies, standards, and processes. It provides support to the Chief Information Officer and information technology-related governance bodies. The Geospatial Enterprise Office provides statewide geographic information systems (GIS) coordination for Oregon government (state and local) to support enterprise-wide planning and decision-making.

Revenue Sources and Relationships

The Chief Information Office is funded primarily through assessment of state agencies based on FTE counts.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget for the Chief Information Office (CIO) more than doubled from 2013-15 legislatively approved budget levels due to significant initiatives around IT governance and fixing long-term expenditure limitation issues. Major Other Funds adjustments include:

- Added \$3,423,178 and 12 positions to supplement current staffing in the office of the State CIO to facilitate the strategic and coordinated investment, acquisition, and deployment of information technology resources to meet the business needs of state agencies.
- Added \$708,531 to continue a limited duration position for the Statewide Interoperability Executive Council and implement FirstNet, a broadband network designed to improve public safety data communications.
- Added a total of \$4,650,000 Other Funds expenditure limitation as pass-through payments for contracts, including a Geospatial contract (\$2.4 million); Quality Assurance (QA) contracts (\$2 million), which under state policy will be held by CIO but paid by state agencies whose project is reviewed; and \$250,000 on a one-time basis to complete the purchase of the new Project Portfolio Management (PPM) software.
- Added \$1,003,803 Other Funds for the following: \$372,203 for the maintenance costs of the new PPM software; \$131,600 for on-going costs of the Tenable Security Solutions software purchased in the 2013-15 biennium; and \$500,000 for use of the Geospatial software that will be paid through assessments.
- Transferred in \$530,907 and 2 positions from Enterprise Technology Services to recombine Geospatial staff in one budget unit.

Chief Human Resource Office

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	3,767,752	10,226,838	9,029,185	10,261,526
Total Funds	\$3,767,752	\$10,262,838	\$9,029,185	\$10,261,526
Positions	29	26	26	36
FTE	28.42	26.00	26.00	30.47

Program Description

The Chief Human Resource Office (CHRO) oversees personnel-related policies to help agencies obtain and retain a skilled workforce. Through administrative rules and policies and collective bargaining agreements, CHRO defines and manages the state's human resources system based upon equal employment opportunity and a merit-based compensation system. It also provides executive recruitment services to state agencies.

Revenue Sources and Relationships

CHRO's principal revenue source is from assessment of state agencies. Legislative and Judicial Branch agencies and the Lottery Commission pay an assessment to use the centralized employee database.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget is almost unchanged from the 2013-15 legislatively approved budget due in large part to the inclusion of \$1 million Other Funds and 6 limited duration positions to continue planning the replacement of the central Human Resource Information Systems (HRIS). DAS will use this funding to address some of the concerns surrounding the planning completed during 2013-15. Once the review is completed, DAS is expected to return to the 2016 Legislative Assembly with estimates of the total cost to purchase and install a new HRIS. Other additions included \$394,116 to hire 2 positions to develop workforce strategies and to improve the management of human resource information to better identify HR trends and needs in state government. Two limited duration positions were continued to continue to work on The Oregon Management Project. The purpose

of this project is to redesign and reconfigure the state's workforce systems (compensation, classification, performance management). The Project is initially focusing on management positions.

Enterprise Technology Services

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	86,731,272	197,804,927	216,039,542	198,489,621
Total Funds	\$86,731,272	\$197,804,927	\$216,039,542	\$198,489,621
Positions	232	239	229	225
FTE	225.29	229.86	229.00	219.00

Program Description

Enterprise Technology Services (ETS) provides centralized computing and application services by leveraging new and existing IT assets to support numerous business operations across government. ETS is organized into six service delivery sections:

- Administration/Plans and Controls – Provide administrative support for the Division, including budgeting, strategic planning, and financial, human resources, and project management.
- Service Solutions – Translates business needs into solution options to be built in-house or brokered.
- Engineering – Designs and builds the products and services that are delivered and supported by ETS.
- Service Delivery – Operates the shared ETS environment which includes computing hardware, operating systems, storage and backup solutions, security, production control, help-desk and desktop support, and enterprise and contracted applications.
- Technology Availability Management – Monitors, maintains, and supports the shared ETS environment to ensure the systems are available and maintains the equipment, systems, and services offered.
- Application Delivery – Responsible for Enterprise Applications and Internal DAS applications.

Revenue Sources and Relationships

ETS revenues come from usage fees and charges to state agencies and other customers. Fee and charge methodology, allocation, and structure are still being fine-tuned to ensure service charges cover the full cost of services being delivered. Many rates are dependent on usage, and rates are determined by the type of ETS service being used. Four major service areas are provided: computing (mainframe, midrange, and distributed systems), network, storage, and voice. During development of the 2015-17 rate structure for ETS, the Customer Utility Board for ETS proposed and adopted that assessments, based on agency budget size and total FTE, be used to fund 40% of ETS's budget request. This methodology was continued in the Governor's Budget. This move away from using a fee for service methodology to fund service provision drew concern from the Legislature to the point that a budget note was adopted directing DAS to return to the 2016 Legislative Assembly with recommendations on service lines provided, operational changes, and a revised funding methodology for ETS for the second year of the biennium. To help pay increased General Fund costs agencies might incur from these changes, a \$6.5 million special purpose appropriation was made to the Emergency Board.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget for Enterprise Technology Services is 0.4% higher than the 2013-15 legislatively approved budget due to offsetting increases and reductions. Other Funds adjustments include:

- Reduced \$4,320,355 due to elimination of 19 vacant positions.
- Reduced \$13.3 million related to services previously provided to the Oregon Lottery, as the Lottery has stopped using almost all ETS services.
- Reduced ETS assessments by \$10.1 million Other Funds through elimination of the depreciation costs component included in the assessment funding model. Inclusion of this assessment, when added on top of 2013-15 actions to increase ETS funding for equipment replacement by \$18.7 million for the 2015-17 biennium, effectively resulted in agencies being billed twice by DAS for replacement costs.

- Added \$12.3 million and 12 positions (6.00 FTE) to implement recent Secretary of State and independent auditor findings, as well as to accommodate growth in agency usage of IT services. Based on the uncertainty involving which services ETS will offer in the future given the ongoing “IT Common Service Delivery” review currently underway and concerns over management of ETS which has led to numerous reviews and audits, the positions are approved as limited duration for 12 months only.
- Transferred out \$530,907 and 2 positions to the CIO to recombine Geospatial program staff.
- Transferred out \$619,269 and 2 positions to the CFO to recombine ORBITS staff.
- Transferred out \$468,450 and 2 positions to Enterprise Goods and Services to recombine Publishing and Distribution staff.
- Added 9 full-time limited duration positions for 12 months at the request of the State CIO to assist in that office’s review of ETS operations, management, and funding structures. The positions are funded through an equal reduction in service and supplies, thus requiring no budget increase.

Enterprise Asset Management

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	58,899,549	95,664,529	98,760,419	99,531,186
Total Funds	\$58,899,549	\$95,664,529	\$98,760,419	\$99,531,186
Positions	197	198	195	193
FTE	196.21	196.21	194.50	192.50

Program Description

Enterprise Asset Management (EAM) provides services related to facilities management, lease negotiation and supervision, space planning, statewide fleet administration and parking services, building operations and maintenance, landscape maintenance for agencies occupying state-owned space, and the Surplus Property program. Major acquisition, construction, capital improvement, and maintenance projects are planned and managed by EAM.

DAS owns approximately 2.76 million square feet of property, primarily office space, which is about a fourth of the state’s total occupied square footage. EAM also manages a portfolio of over 600 short-term and long-term leases for over 4.4 million square feet of space, mostly in the form of privately owned office space. These facilities are located all over the state. Growth in state agencies and demand for new or improved facilities has a direct impact on EAM activities.

The Statewide Fleet Administration program acquires and maintains vehicles for state agency use. The Surplus Property program provides a central distribution point for agencies’ surplus inventory and actively markets the sale of those items to other governments and the public.

Revenue Sources and Relationships

EAM is funded from several sources, but its two major sources are uniform rent, assessed on all tenant agencies, and parking fees. Uniform rent includes a depreciation component that is deposited in a Capital Projects Fund, the balance of which is primarily used for the major rehabilitation of building space. EAM also receives funding from assessments on state agencies for the Capitol Mall landscaping, debt service, and general facilities coordination. Other revenue is generated from service agreements to perform maintenance and janitorial services for office buildings owned by other state agencies, managing specialized non-office facilities, and a number of other facilities-related services.

The Fleet Administration and Motor Pool operations are supported entirely through service fees, principally fleet rental charges. In addition, the unit charges agencies that own vehicles for fueling, service, and repair.

State and Federal Surplus Property operations generate revenue from service fees. For state surplus items, the fees are based on the value of the items sold for agencies disposing of the surplus property. For federal surplus property, the service fees are charged to agencies acquiring the property based on the value of the federal surplus property acquired.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget is 4% higher than the 2013-15 legislatively approved budget. The primary cause of this increase was the addition of over \$2 million Other Funds to purchase new fleet vehicles. In addition, \$432,900 Other Funds was added to appropriately account for rent payments at Regional Community Solutions Centers around the state. Participating agencies will be billed for the rent costs. No Other Funds expenditure limitation was initially provided for this expense in the DAS budget, which reduced limitation available for Real Estate Services' other programs. In addition, a vacant Program Analyst position was eliminated for a savings of \$186,001.

Enterprise Goods and Services

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	33,617,740	84,561,579	90,423,636	91,061,851
Other Funds (NL)	23,803,236	98,555,668	101,513,146	101,513,146
Total Funds	\$57,420,976	\$183,117,247	\$191,936,782	\$192,574,997
Positions	227	224	219	232
FTE	225.50	222.50	219.00	231.04

Program Description

Enterprise Goods and Services (EGS) consists of several programs focused on providing cost effective central services to state agencies. The Risk Management program purchases insurance for the state and is responsible for the management of the state's Self-Insurance Fund in order to maintain adequate balances for known and projected losses and to purchase excess coverage for the state. The section investigates and resolves claims against the state and its employees and devises strategies that encourage agencies to minimize loss-related costs.

The State Procurement Office provides statewide purchasing and contracting direction, while working to leverage the buying power of state and local governments. The Publishing and Distribution program offers a full array of design, printing, finishing, metering, delivery, and mailing services. Financial Business Services (FBS) is responsible for the statewide payroll and financial systems, as well as the datamart that provides reporting data for both systems. FBS also provides shared payroll services for client agencies and DAS.

Revenue Sources and Relationships

The revenue source for the Risk Management program's operating expenses is the Insurance Fund. State agencies pay into the Insurance Fund through an assessment based on a share of forecasted statewide claims costs. Statewide needs are developed from independent actuarial forecasts for workers' compensation, property, and liability costs and estimated legal costs. The amount and types of property owned, the number of employees and their work, and the types of programs agencies operate all contribute to the need for risk management services and products, principally insurance.

The State Procurement Office operations are supported through charges for service and assessment, which is based on the number of agency positions. The Office also receives revenue through direct fees for services and purchasing, consulting, and training fees. Both Printing and Distribution and Financial Business Services are financed through charges for services.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget for Enterprise Goods and Services is 5% higher than the 2013-15 legislatively approved budget. Other Fund adjustments include:

- Added \$293,314 and 2 positions in Shared Financial Services to accommodate service provision for the Department of Geology and Mineral Industries which will start using services in the 2015-17 biennium.
- \$198,647 and 2 positions were added to meet demand in Shuttle Delivery Services.
- \$153,389 was added to hire a position to provide additional training, claims management, and analytical work for Risk Management. Agency outreach on ways to reduce risk will be the main focus of this position.
- \$260,554 and 2 positions were added to meet demand in Shared Services programs and to reconcile retirement contributions to employee earnings, as required by PERS.
- Transferred in \$1,595,563 Other Funds and 4 permanent full-time positions from CFO to recombine Procurement Staff.
- Transferred in \$468,450 and 2 positions from ETS to recombine Publishing & Distribution staff.
- Reduced \$139,324 due to elimination of a vacant position.

Enterprise Human Resource Services

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	2,186,580	6,365,341	6,593,593	7,112,418
Total Funds	\$2,186,580	\$6,365,341	\$6,593,593	\$7,112,418
Positions	21	22	22	25
FTE	20.04	21.21	21.21	24.64

Program Description

Enterprise Human Resource Services (EHRS) is a new program unit created as part of the DAS reorganization. This Entrepreneurial Management reorganization separated the human resource management services functions from the human resource policy functions.

Revenue Sources and Relationships

In the past, the cost of EHRS services has been subsidized by state agency assessments. The objective for service functions is to have charges for services cover the full cost of providing those services. For the 2015-17 biennium, the majority of EHRS costs will be covered by service charges, with the remainder being paid from assessments. EHRS will continue to work with its Customer Utility Board to move toward 100% cost recovery in future biennia.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget is 13% higher than 2013-15 budget due to the addition of \$602,249 Other Funds to establish 3 permanent full-time positions and add months to an existing Human Resource Analyst 2 position (.50 FTE) to meet workload demands.

Business Services

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	1,753,575	4,414,169	4,323,556	6,547,336
Total Funds	\$1,753,575	\$4,414,169	\$4,323,556	\$6,547,336
Positions	21	14	13	15
FTE	20.42	14.00	13.00	14.76

Program Description

The Business Services Division coordinates agency-wide programs and internal processes, oversees the Department's finances and budget, and staffs Customer Utility Boards which govern DAS's service enterprises.

Revenue Sources and Relationships

The Division's revenue comes from service charges to the Department's internal divisions and its external customers. The other DAS divisions receive their revenue from state agencies through assessments and charges.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget is \$2,133,167 higher than 2013-15 approved levels due primarily to the addition of \$2 million Other Funds expenditure limitation for the Mass Ingenuity Master Contract, which was first approved at the December 2014 meeting of the Emergency Board. Mass Ingenuity provides process improvement software including the NOW Management System being offered to state agencies. The expenditure increase is considered pass-through limitation, since state agencies will pay DAS for use of the contracted services. In addition, 2 positions were added to help support the operations of Customer Utility Boards and address increased budget workload.

Capital Improvements

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	3,202,002	5,992,008	4,403,176	4,403,176
Total Funds	\$3,202,002	\$5,992,008	\$4,403,176	\$4,403,176

Program Description

The Capital Improvements program pays for remodeling and renovation projects that cost less than \$1 million.

Revenue Sources and Relationships

Capital improvement activities are funded out of the Capital Projects Fund, which was established to support a variety of capital needs for state facilities. The fund is supported primarily by the depreciation component of uniform rent and service agreements.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget is a 26% decrease from the 2013-15 legislatively approved budget. The budget provides a sufficient level of resources to maintain buildings and facilities, includes projects deferred in prior budget periods, and does not require any debt financing.

Capital Construction

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	7,945,041	17,521,286	--	\$35,927,261
Total Funds	\$7,945,041	\$17,521,286	--	\$35,927,261

Program Description

The Capital Construction Program includes major remodeling, renovation, and new construction or acquisition projects costing more than \$1 million in the aggregate.

Revenue Sources and Relationships

Other Funds for capital construction comes from the Capital Projects Fund with is funded through a portion of Uniform Rent charges and from the sale of bonds.

Legislatively Adopted Budget

The 2015-17 legislatively adopted capital construction budget funds nine projects, which will be supported by Other Funds from the agency's Capital Projects Fund (no debt financing required). These include demolition of structures and hazardous material abatement on the North Campus of the Oregon State Hospital in Salem (\$8,300,000), upgrades at the Employment Building (\$2,217,398), installation of an emergency generator at the Public Health Laboratory (\$2,926,140), replacement of the cooling tower at the Human Services Building (\$1,701,702), three Executive Building renovation projects (\$1,342,226), and planning for future projects (\$350,000). In addition, the Legislature approved the sale of \$17 million in self-financed Article XI-Q bonds for the purchase of an office building in Salem currently in use by a state agency.

Miscellaneous Distributions

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds (NL)	20,541,481	23,996,609	24,716,507	24,716,507
Total Funds	\$20,541,481	\$23,996,609	\$24,716,507	\$24,716,507

Program Description

This program primarily reflects the distribution of mass transit assessments collected from state agencies based on the number of employees working in certain mass transit and transportation districts. The assessment is then sent to those districts to reimburse them for the benefits they provide to state government.

Revenue Sources and Relationships

These Other Fund revenues come from state agency payments for mass transit taxes, which are collected by the state on behalf of some transit districts.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget supports anticipated mass transit assessment collections and distributions based on budgeted employment numbers.

Bonds

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	448,721,342	394,684,347	379,367,907	379,367,907
Other Funds (NL)	54,964,156	--	--	145,875,000
Total Funds	\$503,684,498	\$394,684,347	\$379,367,907	\$525,242,907

Program Description

This budget structure includes expenditures for debt service and debt management costs on Pension Obligation Bonds and debt service on Appropriation Bonds. Previously, these budget elements were captured in the Special Governmental Payments program unit. This budget structure also includes Other Funds Nonlimited authority to disburse general obligation bonds sold during the 2013-15 biennium for the benefit of public universities. Disbursement of future bond sales will be done by Higher Education Coordinating Commission (HECC), but DAS was given authority to disburse these proceeds during the 2013-15 biennium.

Revenue Sources and Relationships

Pension Obligation Bond debt service is supported by an assessment on the PERS employer payrolls. Tobacco Settlement revenues are used to pay the debt service on Appropriation Bonds; the debt service on these bonds was completed during the 2013-15 biennium. Revenue for disbursement of bond proceeds for the benefit of Public Universities comes from the sale of General Obligation and Lottery Bonds.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget is set at a level to cover bond debt service and treasury fees based on existing repayment schedules and budget projections. As stated earlier, the Department was given Other Funds Nonlimited expenditure authority to disburse general obligation bonds sold during the 2013-15 biennium for the benefit of public universities. As the bond project duties related to issuance of Article XI-F and XI-G general obligation bonds transition from DAS to HECC per HB 3199 (2015), both agencies were given Nonlimited authority to disburse proceeds of bonds issued during 2013-15. The total amount of undisbursed proceeds as of June 30, 2015, from 2013-15 bond sales, is \$196,523,642. The initial estimate of the amount of 2013-15 proceeds DAS will disburse in 2015-17, per agreements with public universities, is \$145,875,000, with HECC to disburse \$50,648,642. These amounts will likely change once the timing of final transition from DAS to HECC during the 2015-17 biennium is known.

Special Governmental Payments

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	8,938,954	8,760,736	6,804,217	9,297,997
Lottery Funds	6,649,695	11,135,841	14,459,411	10,553,686
Other Funds	32,743,327	36,533,616	--	21,056,140
Total Funds	\$48,331,976	\$56,430,193	\$21,263,628	\$40,907,823

Program Description

This is a catch-all category that reports payments that are not directly related to the mission of the Department of Administrative Services. These are frequently for one-time special projects or legislative priorities.

Revenue Sources and Relationships

Revenues in this program come a variety of sources and are usually specifically identified in the agency's budget bill or other legislation.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget adds one-time Other Funds expenditure limitation of \$5.5 million for disbursements of lottery bond proceeds for projects approved during 2013-15 and could not be completely disbursed in that biennium. The projects are for the Beaverton Healthcare Collaborative (\$1 million), the Umatilla Tribe (\$3 million), and the City of Stayton (\$1.5 million). The adopted budget includes the following new legislative priorities and special projects.

General Fund:

- \$1,100,000 for disbursement to the National Urban Housing and Economic Community Development Corporation for implementation of an affordable homes, skills training, and jobs program for unemployed prior-offenders, at-risk youth, and veterans.
- \$850,000 for disbursement to the Pine Valley Fire District for a new location and facility to house the Fire Department in the City of Halfway, Oregon.
- \$400,000 for disbursement to the YWCA of Greater Portland, to administer the Family Preservation Program (FPP) at Coffee Creek Correctional Facility. The FPP works with the Department of Corrections to serve the best interests of the children of incarcerated parents by increasing therapeutic visitation between children and parents.
- \$100,000 for disbursement to the City of Medford to pay for the completion of a feasibility study on development of a conference center in the Medford area.
- \$90,000 for disbursement to the City of Gold Hill for engineering work needed to construct the Gold Hill Whitewater Park at Ti'lomikh Falls on the Rogue River. The Whitewater Park is being built into the new Gold Hill Parks Master Plan. The goal of the project is to turn Gold Hill into a whitewater destination.

Other Funds from Lottery Bond sales late in the 2015-17 biennium (no debt service for 2015-17):

- \$750,000 for disbursement to Concordia University for the construction of the Faubion prekindergarten through grade eight school.
- \$1,250,000 for disbursement to the Elgin Health District for a rural health care clinic.
- \$1,000,000 for disbursement to Open Meadow for the construction of a new facility for the Open School in Portland.
- \$1,000,000 for disbursement to the Boys and Girls Clubs of Portland Metropolitan Area for a new Boys & Girls Club in Rockwood.
- \$500,000 for disbursement to the City of Grants Pass for the Riverside Park renovation project.
- \$1,000,000 Other Funds for disbursement to the Mountain West Career Technical Institute for the Career Technical Education Center in Salem.
- \$2,000,000 Other Funds for disbursement to Wheeler County for the construction of an underground fiber optic telecommunication line from Condon to Fossil.
- \$1,500,000 Other Funds for disbursement to the Port of Umatilla for facilities development at the Eastern Oregon Trade and Event Center in Hermiston.
- \$3,000,000 for disbursement to Trillium Family Services for improving and expanding the Children's Farm Home near Corvallis which houses the Secure Adolescent Inpatient Program.
- \$1,600,000 for disbursement to the Port of Morrow for development of an Early Childhood Development Center at the Port's workforce training center.
- \$1,500,000 for disbursement to the City of Tigard for the Hunziker Development Project.

Shared Services Fund

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	--	24,141,834	--	1
Total Funds	--	\$24,141,834	--	\$1

Program Description

In 2007, the Legislature established a new program, the Shared Services Fund, to provide state support to local taxing districts affected by participation in the Strategic Investment Program (SIP). Local taxing districts are now eligible to receive payments from the state that are calculated to equal 50% of the personal income tax revenue attributable to the earnings of persons hired or retained as result of a SIP property tax exemption. These income tax payments would otherwise have gone to the state General Fund.

Revenue Sources and Relationships

Other Fund revenues come from income tax receipts which are diverted into the Shared Services Fund before they are deposited by the Department of Revenue into the General Fund.

Legislatively Adopted Budget

The 2015 Legislative Assembly enacted a number of reforms to the Shared Services program with adoption of SB 129. SB 129 capped annual Shared Services program payments to any one county at \$16 million and extended the program sunset to July 15, 2024, after which distributions are prohibited. The bill also directed the Department of Revenue to distribute payments directly to counties. Previously, these payments were transferred to the Shared Services Fund and expended by the Department of Administrative Services as Other Funds. The Assembly approved a \$1 Other Funds placeholder during adoption of the DAS budget before SB 129 was passed in case Other Funds expenditure limitation was needed. With the changes in SB 129, Shared Services funding will cease to be included in the DAS budget in the future.

FAIRS – COUNTY AND STATE

Analyst: Siebert

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	--	--	--	1,015,299
Lottery Funds	3,435,817	3,669,380	3,648,000	3,864,000
Total Funds	\$3,435,817	\$3,669,380	\$3,648,000	\$4,879,299

Overview

County Fairs are provided state support as a pass-through from the Department of Administrative Services (DAS). State funding is deposited into the County Fair Account. ORS 565.445 requires DAS to distribute the monies each January in equal shares to county fair boards. The state also provides support for the Oregon State Fair and Exposition Center through a General Fund grant to the Oregon State Fair Council, which assumed operational administration of the Oregon State Fairgrounds from the Parks and Recreation Department during the 2013-15 biennium. This operating subsidy is intended to be temporary as the Council works towards financial stability and operational self-sufficiency. Pass-through expenditures are technically included in the DAS budget, but are displayed separately in Legislative Fiscal Office publications.

Revenue Sources and Relationships

ORS 565.447 allocates 1% of the net proceeds of the lottery to the County Fair Account. The statute set an initial allocation cap of \$1.53 million per year, but allows a biennial adjustment to the cap based on the change in the Consumer Price Index since January 2001. SB 7 (2013) transferred operational control of the Oregon State Fair and Exposition Center from the Parks and Recreation Department to the non-governmental Oregon State Fair Council. As the Council is not a state agency, the budget does not reflect any Other Fund expenditure of State Fair revenues from rents and tickets, for example.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget increased the amount going to county fairs above the \$3,648,000 Lottery Funds that represented 1% of the net proceeds of the lottery. The \$216,000 in additional Lottery Funds will increase county fair payments by \$6,000 per county. The adopted budget also included \$1,015,299 General Fund support for the Oregon State Fair that is transferred from the Parks and Recreation Department's budget, which had previously operated the State Fair, to the Oregon State Fair Council, a non-governmental organization, which now operates the State Fairgrounds.

OREGON HISTORICAL SOCIETY

Analyst: Siebert

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	--	738,750	750,000	1,125,000
Lottery Funds	208,513	210,392	210,392	210,392
Other Funds	2,520,863	--	--	--
Total Funds	\$2,729,376	\$949,142	\$960,392	\$1,335,392

Overview

The Oregon Historical Society (OHS) was chartered by the state in 1898 to gather and preserve documents, manuscripts, publications, films, recordings, and artifacts. The organization also supports local historical societies, museums, and heritage efforts statewide. Agency facilities include the Oregon History Center's regional research library and museum and other sites. OHS offers education programs through the Society's mobile museum and school services. The agency produces the *Oregon Historical Quarterly* and books from its press. The Society also coordinates the Century Farms and Ranch Program, the Oregon Geographic Names Board, and liaison with more than 120 heritage organizations statewide.

Revenue Sources and Relationships

OHS is a nonprofit organization that is financed largely by membership fees, contributions, and publication sales. State support has been intermittent in recent biennia. In the past, the state grant amounted to slightly more than 10% of the Society's operating budget. The balance of the Society's budget has come from restricted gifts and grants, memberships and unrestricted grants, grants from local governments, operations, and investment income and bequests.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget includes \$210,392 Lottery Funds to cover debt service on \$2.5 million in bonds authorized in the 2011-13 budget to pay off the mortgage on the Society's storage facility in Gresham. The adopted budget also contained \$1,125,000 General Fund for OHS operations, which was an increase of \$386,250 over the \$738,750 General Fund appropriated in 2013-15 for operational support.

OREGON PUBLIC BROADCASTING

Analyst: Siebert

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	--	492,500	500,000	750,000
Lottery Funds	1,558,359	546,157	2,013,018	2,013,018
Other Funds (NL)	2,862,769	--	--	--
Total Funds	\$4,421,128	\$1,038,657	\$2,513,018	\$2,763,018

Overview

Oregon Public Broadcasting (OPB) is an educational and public broadcasting network serving Oregon through noncommercial public television and radio stations. The network consists of five television and four radio stations, plus 48 translator/repeaters throughout Oregon. The television stations reach an estimated 90% of Oregonians and the radio stations reach between 80% and 90% of Oregonians. Educational programming (formal and informal) is a significant portion of television, while news and information is the main thrust of radio. OPB also is part of the state's Emergency Alert System.

Revenue Sources and Relationships

The 1993 Legislative Assembly privatized OPB and provided for a supplemental grant through the Department of Administrative Services. The original grant represented about 10% of OPB's estimated revenue. Most of OPB's revenue comes from private contributions. The federal government provides some funding, and OPB also receives sales and service revenue. The operating grant to OPB was eliminated beginning with the 2003-05 biennium, but was partially restored for the 2009-11 budget period. The 2011-13 legislatively approved budget continued to cover debt service on lottery bonds but did not provide any funding for OPB operations.

Over the last decade, the Legislature has provided OPB with grants for infrastructure development. These grants, \$7 million in 2001-03 and \$3 million in 2007-09, were supported with lottery bond proceeds. Lottery Funds are used to pay the debt service on the bonds. Pass-through grant expenditures and debt service costs are technically included in the budget of the Department of Administrative Services, but are displayed separately in Legislative Fiscal Office publications.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget continues to cover debt service on lottery bonds. In addition, the adopted budget also increased the operational support grant to \$750,000 General Fund over the \$492,500 appropriated during the 2013-15 biennium.

ADVOCACY COMMISSIONS OFFICE

Analyst: Dauenhauer

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	365,513	425,525	481,478	602,262
Other Funds	7,884	40,960	42,189	42,189
Total Funds	373,397	466,485	523,667	\$644,451
Positions	2	2	2	3
FTE	2.00	2.00	2.00	2.50

Overview

The Oregon Advocacy Commissions Office (OACO) was established in 2005 to provide coordinated administrative support to four advocacy commissions: Commission on Asian Affairs and Pacific Islander Affairs, the Commission on Black Affairs, the Commission on Hispanic Affairs, and the Commission for Women. The commissions themselves serve as liaisons between the minority communities and government entities and work to establish economic, social, legal, and political equality in Oregon. The four commissions have 11 commission members each, for a combined total of 44 commissioners. The administrator of OACO is appointed by the chairpersons of the four commissions and the Commissioner of the Bureau of Labor and Industries.

Revenue Sources and Relationships

Agency operations are funded with General Fund and the only other revenue source is donation funds. Donation funds are dedicated by statute to the commission to which the donation was made and can only be used by the agency for the purpose for which the donation was made.

Budget Environment

OACO supports the work of the individual Commissions by providing all administrative functions including coordinating meetings and speakers, taking minutes, preparing reports and media releases, partnering with stakeholder groups, providing information and referrals for members of the public and elected officials, managing distribution lists, maintaining Commission websites, and overseeing budget/financial support. OACO contracts with the Department of Administrative Services for budget and accounting support. The OACO also researches potential legislative concepts prior to session, works with the Governor's Office and sponsoring legislators to write and submit bills, tracks bills of interest, reports weekly to the Commissions with customized reports on bills, helps the Chairs write testimony on bills, coordinates votes among the Commissions on bill support, and serves as the registered lobbyist for the four Commissions. During the 2015 legislative session, OACO was directed to absorb costs associated with staffing a task force on Immigration Consultant Fraud (HB 3525). This is the first time the agency has staffed a task force and the associated workload, as well as the impact to other agency operations, will be monitored to consider the impact of similar legislation in the future. Should the agency staff additional work groups or task forces in the future, the OACO may require further budgetary resources; however, such impacts will be determined as the associated legislation is introduced.

Legislatively Adopted Budget

The budget for the OACO is a 38.2% increase from the 2013-15 legislatively approved budget and includes the reclassification of an Executive Support Specialist (ESS) 1 to an ESS 2 to reflect the increasing level of support provided by the position. Additionally, the budget establishes one permanent half-time (0.50 FTE) Operations and Policy Analyst 3 position to increase and enhance policy research and analytic support. This research will be accomplished by building relationships with state agencies and universities, researching and tracking legislation of interest in areas of strategic focus, and working with the four Commissions, Governor's Office, and legislators to draft legislative concepts.

EMPLOYMENT RELATIONS BOARD

Analyst: Borden

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	1,903,465	2,061,040	2,374,084	2,393,033
Other Funds	1,723,240	2,140,264	1,998,164	2,014,991
Total Funds	\$3,626,705	\$4,201,304	\$4,372,248	\$4,408,024
Positions	13	13	13	13
FTE	13.00	13.00	13.00	13.00

Overview

The Employment Relations Board's (ERB) mission is to resolve disputes concerning labor relations. ERB provides four main services to help employers, employees, and labor organizations resolve their disputes: labor mediation; contested case hearings; labor appeal cases; and union representation elections.

The Board for ERB, which acts as the state's "labor appeal court" for labor and management disputes within state and local government, is comprised of a three-member panel appointed by the Governor and approved by the Senate. The Board Chair, designated by the Governor, serves as the administrator of the agency. Only the Board Chair exercises administrative oversight over the agency.

ERB is responsible for administering the collective bargaining law that covers public employees of the State of Oregon and its cities, counties, school districts, and other local governmental units, such as special districts; State Personnel Relations Law, which creates appeal rights for non-union state employees who believe they were treated unfairly in the workplace; and private sector labor-management relations law, which addresses collective bargaining for private sector employers who are exempt from federal law under the National Labor Relations Act.

Revenue Sources and Relationships

ERB expects to have \$2.3 million in available Other Funds revenue to support its legislatively adopted budget of \$2 million. This includes a beginning balance of \$544,736 and an ending balance of \$268,594, which represents 3.2 months of reserves.

In concept, ERB receives General Fund revenue and charges fees to support labor relations functions conducted on behalf of local government while state government-related activities are supported by an Other Funds assessment on state agencies.

ERB is funded with 54% General Fund and 46% Other Funds after historically been essentially equally funded between General and Other Funds. The change in funding is due to SB 270 (2013), which exempted universities with an independent governing board from paying the ERB state agency assessment under ORS 240.167; however, ERB must still provide services to those universities because they are public employers, but with the cost now being a General Fund expense. The ERB budget fund shifts \$226,391 from Other Funds (assessment on universities) to General Fund. ERB will receive a nominal amount of fee revenue from universities.

When funding is compared to caseloads, local government represents 70% of contested and mediation cases versus 30% for state agencies, based on an average of the last five years of filings beginning in 2011.

The ERB state agency assessment is based on the number of covered employees, including non-unionized employees from the Executive, Legislative, and Judicial branches as well as temporary employees. The employer rather than the employee pays the assessment. The projected state agency assessment revenue for 2015-17 is

\$1.7 million, which is based on a \$1.92 assessment per month. State agency assessment revenue has a General Fund component since some agencies use General Fund to pay their assessment.

Out of approximately 40,500 state employees budgeted for the 2015-17 biennium, the agency assumes 36,000 will be covered employees and pay the assessment. This is down from 38,000 payers assumed in the 2013-15 biennium. The withdrawal of the OUS employees is partially offset by an additional 1,000 employees that the agency previously had not assessed, but should have been assessing.

The assessment is projected to increase significantly in the 2017-19 biennium. The projected increase is due to a significant draw-down of the agency's previously accumulated ending balance as expenses of the agency have increased.

ERB expects to receive \$90,100 in Other Funds from its statutory fees. The Board can charge \$1,000 total for the first two mediation sessions, \$500 for the third session, \$750 for the fourth session, and \$1,000 for each additional session. Mediation fees are split equally between the public employers and the labor organizations. Fees were last increased during the 2011 legislative session.

The agency charges fees for the following services: unfair labor practice complaints and answers, grievance mediations, arbitrator panel, training, an hourly rate charged for mediation facilitation, and miscellaneous fees for facsimile filing, copies, etc. These fees are estimated to generate \$147,309 for the 2015-17 biennium.

Budget Environment

ERB has emerged from an extended tumultuous period beginning in 2011, which included a 100% turnover in the Board, three successive Board chairs/administrators, and high employee turnover. The operation of the agency, the quality of its findings, and the timely disposition of its cases raised increasing concerns with its stakeholders and the Legislature.

Since the appointment of the current Board chair and Board, there has been a marked improvement in the agency's performance.

ERB has undertaken a number of administrative changes to improve its processes and procedures, including: establishing timelines for issuing orders; identifying specific types of contested cases for expedited processing; involving stakeholders in a review of the agency's processes and procedures; establishing a Rules Advisory Committee; completing an independent review of some recent Board orders; and involving stakeholders in a discussion of complaint or other actions that lack legal merit. The result has been an elimination of all case backlogs and a substantial improvement in the timelines for processing cases. The agency also reviewed and updated its key performance measures.

Lastly, toward the end of the 2013-15 biennium, the agency requested, and the Department of Administrative Services approved, compensation plan changes (increases) for the majority of the agency's positions.

The state's collective bargaining environment had generally been more contentious with diminished state and local government resources, which translated into more ERB cases, legal challenges, and appeals of Board decisions. Improved state and local revenues could help explain the fiscal year 2015 reduction in caseload, but the cause of fewer contested and represented cases has yet to be specifically identified.

Public sector caseloads for ERB are cyclical (i.e., vary by fiscal year) and are influenced by the negotiation of multi-year labor contracts. Until 2011, ERB had not handled a private sector case since 2002. Private sector cases are infrequent because all but the smallest of companies with union representation fall under the jurisdiction of the federal government's National Labor Relations Board.

The caseload for state government can be more complicated and time consuming than local government cases because they may involve single individuals seeking remedy under the state personnel law.

The following table details overall caseload statistics for the agency.

Case Filings (fiscal year)

Case Filings by Case-Type	Prior 5-Year Average	Prior 3-Year Average	2014	2015
Administrative Law Judge	112	118	111	78
Mediation	99	95	88	99
Elections	33	33	25	22
Total	244	246	224	199

The 2015 fiscal year case filings are below historic averages and well below the prior fiscal year. From just the prior fiscal year, there has been a drop of 25 case filings (-11%), with the largest reductions being 33 fewer administrative hearings (-30%) and three fewer elections (-12%). Only the number of mediation filings saw an increase of 11 cases (5%).

The issuance of board orders has fallen to 48 for 2015, which is below the five-year average of 65; however, the board issued 82 orders in 2013 and otherwise disposed of 23 cases in 2015 reflecting a major clean-up of its case backlog.

Historically, five cases are appealed to the Oregon Court of Appeals. Of these cases, the Court has affirmed or dismissed three cases and reversed or remanded two cases. Of the Court decided cases for the past two fiscal years, no ERB decision has been reversed or remanded.

The timely disposition of cases has many influences, including the volume of cases, case complexity, budget reductions (i.e., furloughs), employee turnover or vacancies, and new employee training, among others. The timely disposition of cases continues to see significant improvement across almost all case-types.

The following table details the timely disposition of case-types, with the exception of Board orders.

Timely Disposition (fiscal year)

Timely Disposition of Cases by Case-Type	Prior 5-Year Average	Prior 3-Year Average	2014	2015
Hearings – average number of days to process a case from hearing to final order	498	505	428	354
Recommended Order – average number of days for an Administrative Law Judge to issue recommended order after the record is closed	156	153	100	80
Board Order – average number of days from the submission of a case to the date of the final Board order	94	82	49	44
Mediation – average number of days following a request for mediation that a mediation was held	51	47	47	46
Elections – average number of days to resolve a petition for a union representation when hearings is required	297	316	222	201
Elections – average number of days to resolve a petition for a union representation when hearings is not required	58	61	54	58

From just the prior fiscal year, the number of days to process a case from a hearing to final order was reduced by 74 days (-17%). The number of days for an Administrative Law Judge (ALJ) to issue a recommended order was reduced by 20 days (-20%). The number of days for the Board to issue a Board order was reduced by five days (-10%). The number of days until a mediation session was held was reduced by one day (-2%), but this is a timeframe not entirely under the control of the agency. The average number of days for a union representation election with a hearing was reduced by 21 days (-9%). The only average increase was in the number of days for a union representation election without a hearing, which increased from 54 to 58 days (7%). These statistics are almost all below historic averages, with again the exception of union representation election without a hearing.

Legislatively Adopted Budget

The legislatively adopted budget for ERB consists of \$2.4 million General Fund, \$2 million Other Funds, and 13 positions (13.00 FTE). The budget is \$206,720 (or 4.9%) more than the 2013-15 legislatively approved budget.

The budget is comprised of \$3.6 million personal services (81%) and \$838,637 services and supplies (19%).

The adopted budget eliminates all pay-line equity differentials of up to 15% paid to 8 of the agency's 13 employees. Instead, the compensation in terms of salary and wages was increased for 8 positions. This change, requested by the agency, was approved by the Department of Administrative Services.

The inability of parties to file cases electronically is a developing issue for the agency, which has limited information technology resources and capability. The single approved policy package enhancement was to fund an electronic filing/case management system. This package increases the budget by \$45,320 total funds; \$25,379 General Fund and \$19,941 Other Funds. The Board will procure a vendor who will design, develop, maintain, and host an electronic case management system at no initial cost to the agency. The agency will be charged an estimated \$45,320 annual licensing and hosting fee beginning July 2016. ERB will have to rely upon the Department of Administrative Services for project oversight, management, and procurement support. The project has no statutory deadline nor is any required by state or federal statutes.

The adopted budget included standard adjustments for state government service charge and other agency assessments (\$9,544).

Administration

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	1,134,032	1,220,122	1,191,890	1,210,839
Other Funds	641,043	745,434	916,241	933,068
Total Funds	\$1,775,075	\$1,965,556	\$2,108,131	\$2,243,907
Positions	5	5	5	5
FTE	5.00	5.00	5.00	5.00

Program Description

The three-member Board acts as an "appeal court" for labor and management disputes within state and local governments. The Board is appointed by the Governor and is responsible for issuing final agency orders in declaratory rulings, contested case adjudications of unfair labor practice complaints, representation matters, and appeals from state personnel actions. Board orders may be appealed to the Oregon Court of Appeals.

The Board Chair acts as the agency's administrator. The Chair is assisted by an office/business administrator, and this program unit includes not only the activities of the Board mentioned above, but also the day-to-day administration of the agency, including budgeting, payroll, information technology, reporting, administrative

rules, and supervision of staff. ERB contracts with the Department of Administrative Services – Shared Client Services to provide additional support services.

Budget Environment

The Board does not receive case filings, but instead acts on recommended orders written by Administrative Law Judges by either issuing a cover order for those cases without objection or issuing an order for those cases to which the parties have objected to the ALJ decision. In fiscal year 2015, the Board began the year with eight pending recommended orders to which were added 18 new recommended orders. The number of new recommended orders was well below the prior year of 51 filings and the 5-year average of 50 orders. The Board issued 48 final orders, 23 cases were closed, withdrawn, or otherwise disposed of, with three cases being carried over to 2016.

For fiscal year 2015, four board orders were appealed to the Oregon Court of Appeals, which is about 8% of board's 48 issued orders for that year. This is well below the 5-year average of 12%. The Court of Appeals decided one case in fiscal year 2015, which affirmed the Board's order. Parties, rather than ERB, argue their case in front of the Court of Appeals, similar to an appeal of a circuit court decision.

Legislatively Adopted Budget

The legislatively adopted budget for the Administration program consists of \$1.2 million General Fund, \$933,068 Other Funds, and 5 positions (5.00 FTE). The budget represents a \$278,351 (or 14.2%) increase from the 2013-15 legislatively approved budget.

Mediation and Conciliation Services

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	343,010	332,565	501,633	526,586
Other Funds	417,279	580,773	490,811	490,811
Total Funds	\$760,289	\$913,338	\$992,444	\$1,017,397
Positions	4	4	4	4
FTE	3.50	3.50	3.50	3.50

Program Description

The Conciliation Services Office is comprised of the State Conciliator, two mediators, and a part-time (0.50 FTE) support position, and is responsible for the following:

- Providing mediation and conciliation services to resolve a variety of disputes, including those related to collective bargaining, contract grievances, unfair labor practice allegations, State Personnel Labor Relations Law appeals, and representation matters.
- Maintaining a list of qualified arbitrators and providing related services and information. This includes processing arbitrator applications; handling questions from arbitrators and parties; responding to concerns and complaints from and about panel members; a biannual review of panel member selection rates; suspension or removal of arbitrators; processing requests for arbitration panels; maintaining a library of arbitration awards; and publishing interest arbitration awards on ERB's website. The program also participates in and sponsors a biennial Arbitrator Panel Conference and sends out information to panel members on case law and legislative changes.
- Training in methods of alternative dispute resolution, collective bargaining, labor-management cooperation, and related issues.

Contract mediation services are mandatory. Training and other mediation services are not mandatory.

Budget Environment

In fiscal year 2015, ERB had 99 requests for mediation services. The average for the prior five fiscal years is 99 requests. For fiscal year 2015, it took 46 days following a request for the first mediation session to be held. The average for the prior five fiscal years is 51 days. It typically takes multiple mediation sessions to resolve a dispute.

In fiscal year 2015, the agency's mediation/conciliation service resolved approximately 94% of contract negotiation disputes for strike-permitted employees and 71% for non-strike-prohibited employees.

Legislatively Adopted Budget

The legislatively adopted budget consists of \$526,586 General Fund, \$490,811 Other Funds, and 4 positions (3.50 FTE). The budget represents a \$104,059 (or 11.4%) increase from the 2013-15 legislatively approved budget.

Hearings (and former Elections Program)

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	426,423	508,353	680,561	655,608
Other Funds	664,918	814,057	591,112	591,112
Total Funds	\$1,091,341	\$1,322,410	\$1,271,673	\$1,246,720
Positions	4	4	4	4
FTE	4.50	4.50	4.50	4.50

Program Description

The Hearings Office is comprised of three Administrative Law Judges (ALJ), one part-time elections coordinator, and one support staff. The Administrative Law Judges adjudicate unfair labor practice complaints filed by state and local government or labor organizations, appeals filed by state management and unrepresented classified employees, as well as contested representation (election) matters. ALJ's have resumed traveling to the site of the dispute, if outside of Salem. Following the hearings, the Administrative Law Judges issue "proposed" decisions. All proposed decisions are forwarded to the Board for review and the issuance of a final order. The Board does not have to concur with the ALJ proposed decision. Parties, who disagree with the ALJ's proposed decision, have the right to object to the decision, which will then be argued before the Board. Parties can appeal the Employment Relations Board's final orders to the Oregon Court of Appeals. Decisions by ALJ's do not establish legal precedent; however, final Board orders do.

The part-time (0.50 FTE) elections coordinator is responsible for conducting elections regarding employee union representation and certifying the results. The program also processes petitions involving union representation and composition of bargaining units. The agency reports that activity levels have declined slightly over the last biennium, perhaps due to prolonged labor contract periods and the merging or other changes in organization structure of some large labor organizations.

Budget Environment

In fiscal year 2015, ALJs began the year with 31 pending cases to which were added 78 new case filings. The number of new case filings was well below the prior year of 111 filings and the 5-year average of 112 cases. ALJ's issued 19 recommended orders, 74 cases were closed, withdrawn, or otherwise disposed of, with 31 cases being carried over to 2016.

The settlement or withdrawal rate of administrative hearings cases remains around its historic average of 38%.

In fiscal year 2015, Elections began the year with 17 pending cases to which were added 22 new case filings. The number of new case filings was below the prior year of 25 filings and the 5-year average of 33 cases. Elections closed 19 cases with 11 cases being carried over to 2016.

For fiscal year 2015, it took 201 days to resolve a petition for a union representation election when a hearing was required and 58 days when a hearing was not required. The average for the prior five fiscal years is 297 and 58 days, respectively.

Legislatively Adopted Budget

The legislatively adopted budget consists of \$655,608 General Fund, \$591,112 Other Funds, and 4 positions (4.50 FTE). The budget represents a \$75,690 (or -5.7%) decrease from the 2013-15 legislatively approved budget. The decrease in the budget is due to the elimination of one-time costs for the program and the transfer of \$24,953 for in-state travel to the Mediation program.

GOVERNMENT ETHICS COMMISSION

Analyst: Borden

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	1,518,135	2,110,362	1,956,828	2,720,429
Total Funds	\$1,518,135	\$2,110,362	\$1,956,828	\$2,720,429
Positions	8	8	8	9
FTE	8.00	7.88	8.00	8.88

Overview

The mission of the Government Ethics Commission is to impartially administer the regulatory provisions of Oregon government ethics, lobby regulation, and certain public meeting laws. The Commission and its staff educate public officials and lobbyists on the provisions of Government Ethics Law, Executive Session of the Public Meetings Law, and lobbying regulations, through either online or in-person training.

The Commission consists of nine volunteer members; eight members are appointed by the Governor upon recommendation by legislative leaders and one is appointed directly by the Governor. All members are confirmed by the Senate. Unlike most commissions, members are limited to one four-year term and may not be reappointed. The executive director is appointed by the Commission.

The Commission actions fall along a continuum from educational to formal sanction. The Commission's emphasis is on providing training, general advice, staff advice, or a more formal staff and/or Commission issued advisory opinion. A formal complaint requires a preliminary review by staff and may trigger an investigation, preliminary finding, or a contested case hearing. The Commission is required by law to meet specific timelines for the conduct of investigations. At any time during the process, a complaint can be dismissed or a settlement negotiated through a stipulated final order issued by the Commission. A formal finding by the Commission may include a letter of reprimand, a civil penalty, and/or a forfeiture. Contested cases are handled through the state's administrative hearings process. Contested case decisions may be appealed to the state Court of Appeals.

Revenue Sources and Relationships

The Commission's 2015-17 legislatively adopted budget includes \$3.2 million in available Other Funds revenue to support its legislatively adopted budget of \$2.7 million. This includes a beginning balance of \$1.2 million and an estimated ending balance of \$621,272, which represents 5.5 months of reserves.

The Commission was historically funded almost entirely by General Fund. Beginning with the 2009-11 biennium, the agency's funding was changed to an assessment model with operating costs equally shared between state agencies and local government entities. State agencies are assessed based upon their number of full-time equivalent positions. Local entities are assessed based upon a formula connected to the Municipal Audit charge collected by the Secretary of State. A portion of these assessment revenues originates as General Fund.

During the 2013-15 biennium, the Legislature approved a one-time special assessment of \$800,000 for an electronic reporting system for lobbyists and public officials who must file annual Statements of Economic Interest. During the 2013-15 biennium, the agency spent an estimated \$333,560 on the project with plans to spend another \$200,000 during the 2015-17 biennium. The total project cost is estimated to be \$583,560, which would leave a cash balance of \$216,440. Of this amount, \$127,000 will be used to fund two years of annual subscription fees for the new system. The remaining balance of \$89,440 will be used to offset the agency's regular assessment.

For the 2015-17 biennium, the Legislature approved an assessment increase of \$455,076 related to the reform of ethics law (see HB 2019). Of this amount, \$200,000 is a one-time special assessment for an electronic case management system.

From imposing civil penalties, the Commission collects fines and forfeitures. These revenues are transferred to the General Fund and are not used to support agency operations. The Commission collected \$25,988 in actual fines and forfeitures during 2011-13 and estimates collecting \$30,000 in the 2015-17 biennium.

Budget Environment

There are an estimated 200,000 public officials subject to the Commission's jurisdiction, with the vast majority serving at the local government level.

The Commission received 112 complaints in calendar year 2014, with 86 (48%) outside its jurisdiction, 13 ethics (20%), 5 executive session (18%), and 8 lobby (9%) complaints and had no contested case hearings or appeals. These complaints were tracked by jurisdiction: state 4 (8%); cities 17 (33%); counties 8 (16%); education 8 (16%); special districts 4 (8%); and other 10 (20%).

An ethics investigation of the former Governor was challenging for the agency, but which was suspended due to the initiation of both a state and federal criminal investigation. The agency is currently responding to a federal subpoena request for records related to its ethics investigation.

The alleged ethical and criminal complaints against the former Governor prompted the Legislature to enact a series of ethics reforms. One measure in particular had a significant budgetary impact on the agency. The measure, HB 2019, expanded the membership of the Ethics Commission from seven to nine members, modified the appointment process for commissioners, reduced the number of days allowed for the preliminary review of an ethics investigation from 135 to 30 days, and directed that all advisory opinions and other statements be made available online by January 1, 2017 (i.e., case management system).

Attorney General (AG) charges can be a major variable in the Commission's budget, but beginning with the 2011-13 biennium, the agency has been part of a pilot program initiated by the Attorney General's office that changed its billings from a traditional variable to a flat (biennial) rate plan. In prior biennia, the Commission's Attorney General charges varied greatly depending upon whether the Commission faced any contested cases. Under the current assessment budget model, the Commission would look to its cash balance to cover extraordinary AG costs, such as those related to the investigation of the former Governor, and seek an increase in expenditure limitation, if needed. The Commission could request General Fund support, if its cash resources prove insufficient.

Legislatively Adopted Budget

The Commission's 2015-17 legislatively adopted budget is \$2.7 million Other Funds and includes 9 positions (8.88 FTE). The budget is \$610,067 (29%) more than the 2013-15 legislatively approved budget.

The budget is about \$1.5 million (56%) personal services and \$1.2 million (44%) services and supplies.

The budget includes \$200,000 to complete its electronic reporting system and \$127,000 for two years' worth of annual subscription fees for that system. Ethics reform legislation added one permanent full-time Compliance Specialist 3 position (0.88 FTE) at a cost of \$152,309 with associated services and supplies of \$27,317. There is a one-time expense of \$10,000 for the construction of office space for this position. The measure also added \$200,000 for a private vendor to develop a case management system and \$47,450 for one annual subscription fee. Commissioner per diem cost was increased by \$18,000 due to additional workload required under reform legislation. The budget included state government service charges and other agency assessment reductions of \$18,475.

OFFICE OF THE GOVERNOR

Analyst: Hill

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	50,737,961	11,386,541	11,493,196	12,448,211
Lottery Funds	1,758,023	3,376,215	2,730,536	4,058,418
Other Funds	15,557,628	2,910,655	3,155,147	3,152,058
Federal Funds	2,744,411	--	--	--
Total Funds	\$70,798,023	\$17,673,411	\$17,378,879	\$19,658,687
Positions	76	57	54	63
FTE	70.47	56.50	53.50	61.67

Overview

The Office of the Governor provides overall direction to state agencies within the Executive Branch to ensure compliance with statutes and efficient and effective management. The Office includes program area policy advisors, a Diversity and Inclusion Office, a citizen's input center, an Office of Intergovernmental and Regional Solutions, an Economic and Business Equity function, the Arrest and Return program, and provides clerical support for appointing members to boards and commissions. SB 909 (2011) created the Oregon Education Investment Board and the Early Learning Council. Both of these functions were located in the Governor's Office during the 2011-13 biennium, but were transferred out for the subsequent biennia.

Revenue Sources and Relationships

The Office of the Governor is supported mainly by General Fund. Lottery Funds are used for the Regional Solutions program. Other Funds includes revenue transfers from other agencies. These transfers finance the Diversity and Inclusion and Economic and Business Equity programs. The Diversity and Inclusion program is funded from the transfer of a Department of Administrative Services Human Resource Services Division assessment estimated at \$975,000 for the biennium. The Economic and Business Equity program is funded from assessments on agencies that have capital construction funded in their budgets and also receives funds from sponsoring conferences. The Federal Funds in 2011-13 were part of the temporary transfer of early childhood and youth development programs into the Governor's Office. Those programs have been transferred to the Department of Education.

Additional Other Funds are again provided this biennium through revenue transfers from a number of other state agencies to fund policy advisors and general support staff in the Office.

Budget Environment

The budget is driven by the number of staff and programs operated out of the Governor's Office. In the past, the Office has augmented its staff by borrowing staff from existing agencies, hiring staff and having other agencies pay their salaries by double filling positions, or hiring staff and having agencies reimburse the Office for the costs. The Legislature attempted to end this practice and place these "off-budget" positions and costs in the budget of the Office of the Governor during the 2007-09 biennium. The Legislature still has concerns with the number and funding of positions in the Governor's Office. Given the unexpected change in the Governorship just prior to the 2015 legislative session, the agency did not have time to properly prepare a budget request. A budget note directs the agency to return to the 2016 Legislative Assembly with a budget plan and a report showing the positions that are funded by other agencies, the total cost of those positions, and a proposal to reduce, eliminate, or realign those positions.

Legislatively Adopted Budget

The 2015-17 adopted budget for the Office of the Governor is \$1,061,670 General Fund (9.3%) and \$241,403 Other Funds (8.3%) more than the 2013-15 approved budget. Lottery Funds are \$682,203 (20.2%) more than the 2013-15 approved budget level.

For the reasons noted above, the Legislature passed a current service level budget for the agency's main budget bill. The agency will come to the 2016 Legislative Assembly with a proposed budget for the remainder of the biennium. There were three other bills that affected the budget. They are:

- HB 2270 created the office of the State Resilience Officer within the agency. The bill included \$304,653 General Fund and 2 positions (1.50 FTE). The Legislative Fiscal Office recommends moving this function to an appropriate Executive Branch agency in the future.
- SB 222 included \$175,707 General Fund and 1 position (0.75 FTE) to staff the Task Force on Legal Representation in Childhood Dependency. The function and position are one-time for the 2015-17 biennium.
- SB 5507 included \$500,000 General Fund and \$1,332,517 Lottery Funds and 6 positions (5.92 FTE). The Lottery funds will support 5 Regional Solutions positions (4.92 FTE). Three of the positions were in the Office of the Governor on a limited duration basis during the 2013-15 biennium. The other 2 positions were in the Oregon Business Development Department on a limited duration basis during the 2013-15 biennium. The General Fund supports a federal programs coordination position (1.00 FTE) and the functions associated with the position.

OREGON STATE LIBRARY

Analyst: Borden

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	2,868,303	3,314,923	\$1,863,415	3,536,497
Other Funds	5,684,714	5,932,223	3,218,775	6,227,861
Federal Funds	4,514,751	4,887,539	2,543,056	5,061,853
Total Funds	\$13,067,768	\$14,134,685	\$7,625,246	\$14,826,211
Positions	43	41	41	42
FTE	41.26	39.26	19.63	40.26

Overview

The Oregon State Library (OSL) provides information services to state agencies, reading materials to blind and print-disabled individuals, and leadership, grants, and other assistance to improve local library service.

Currently, the Oregon State Library Board of Trustees consists of seven members appointed by the Governor who are responsible for setting policy for OSL and adopting long-range plans for library services statewide. The State Librarian is appointed by the Board of Trustees and oversees the day-to-day operations of the agency.

HB 3523 (2015) changed the governance structure of the agency by renaming the “Board of Trustees” to the “State Library Board” and expanding the Board’s membership. Additionally, the State Librarian position was changed from a board appointee to a gubernatorial appointee beginning in 2017.

Revenue Sources and Relationships

OSL is funded with 24% General Fund, 42% Other Funds, and 34% Federal Funds.

OSL expects to have \$6.2 million in Other Funds revenue to support its 2015-17 legislatively adopted budget, which includes a beginning balance of \$3.4 million. Other Funds revenues are generated from four main sources as follows: an assessment on all state agencies, except the Oregon University System; donations; interest income; and miscellaneous receipts.

The state agency assessment is based two-thirds on the number of state agency full-time equivalents and one-third on the use of OSL by agencies during the prior biennium. The projected state agency assessment revenue for 2015-17 is \$5,213,598. State agency assessment revenue has a General Fund component since some agencies use General Fund to pay their assessment.

OSL’s Other Funds include donations and bequests, most of which are attributable to the Talking Book and Braille Library Services (TBABS) Donation Fund and the Talking Books Endowment Fund. The Funds have a projected beginning balance of \$115,343 and \$1,568,388, respectively. ORS 357.015(6) gives the Library Board of Trustees (State Library Board) authority to “have control of, use and administer the Donation Fund for the benefit of the State Library, except that every gift, devise or bequest for a specific purpose shall be administered according to its terms.” The trustees (Board) have adopted a policy of using Talking Books TBABS Donation Funds for TBABS program enhancements (not regular operating funding), however, recently interest earnings from the Endowment Fund and donations have been used for operating expenses at the direction of the Legislature. OSL plans to expend approximately \$201,000 TBABS donation funds on operations and enhancements, leaving a projected combined ending balance for the Talking Books TBABS Donation and Endowment Funds of \$1,984,708.

OSL receives Federal Funds from the Institute of Museum and Library Services under the Library Services and Technology Act (LSTA) per a population-based formula. The budget assumes Federal Funds pursuant to this grant in the amount of \$5.1 million. The LSTA grant requires a 34% match rate as well as maintenance of effort (MOE) based on the average of the last three years of non-federal library expenditures relevant to the priorities of LSTA. Reductions in state funding result in an identical percentage reduction in LSTA funding, although a federal waiver process does exist.

OSL has been able to meet LSTA match and MOE in part due to a new practice of including donation funding in its calculations. Reductions in state resources may make maintaining these federal requirements difficult with the result being the loss of some federal funds, unless a federal waiver is granted.

Miscellaneous receipts total \$172,050, of which \$150,000 is attributable to statewide database licensing.

Budget Environment

Oregon's state library, like practically every other state library across the country, is facing a myriad of challenges from having to justify its business model and funding level to keeping pace with technologic and demographic changes. State libraries are struggling to reconstitute themselves to remain viable in the digital age and in an environment of declining resources.

The Legislature has been acutely aware of such challenges. In 2011 it directed that a workgroup, comprised of OSL, the Secretary of State, and the Judicial Department, review ways to consolidate services and restructure OSL. The workgroup provided solid recommendations, but ultimately few were implemented. The 2013-15 Governor's budget, keying off this lack of progress, recommended that only one year of funding be provided the agency with the second year contingent upon a reorganization. The Legislature in 2013 adopted the Governor's recommendations after its frustration with the lack of progress. OSL worked with the Department of Administrative Services on an agency restructuring, or "transformation," plan to present to the Legislature, but that effort was not well received by the Legislature. OSL and its Board of Trustees proceeded with their own reorganization, but that effort produced little tangible results and was of concern to legislators. Finally, the Legislature itself introduced legislation to reorganize OSL. HB 3523 (2015) was signed into law on June 10, 2015 with an effective date of January 1, 2016. The measure incorporated many of the changes recommended in a 2012 workgroup report, but also changed the governance structure of the agency.

The program no longer provides staffing for the Legislature's library during sessions.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget totals \$14.8 million and is \$691,526 (4.9%) more than the 2013-15 legislatively approved budget and includes 42 positions (40.26 FTE). The adopted budget included standard adjustments for state government service charges and other agency assessments (\$68,630). OSL's budget is comprised of \$6.7 million (45%) personal services, \$4.2 million (28%) services and supplies/capital outlay, and \$4 million (27%) special payments primarily to local libraries.

Administration

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	186,656	116,957	64,428	120,776
Other Funds	914,661	893,827	489,005	1,188,033
Federal Funds	98,793	97,117	52,164	128,651
Total Funds	\$1,200,110	\$1,107,901	\$605,597	\$1,437,460
Positions	6	5	5	5
FTE	5.68	4.68	2.34	6.18

Program Description

The Administration program coordinates the mission and goals of the agency and manages the finance, budget, accounting, personnel, and volunteer functions of the agency. The agency recently began contracting with the Department of Administrative Services for its Human Resource (HR) needs, after the elimination of the agency's HR staff person. The program also supports the activities of the Library Board of Trustees (State Library Board).

Revenue Sources and Relationships

The Administration program is funded with 8% General Fund, 83% Other Funds (state agency assessment), and 9% Federal Funds.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget totals \$1.4 million and is \$329,559 (or 29.7%) more than the 2013-15 legislatively approved budget and includes 5 positions (6.18 FTE).

Library Development

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	1,650,160	1,897,555	1,095,525	2,093,101
Other Funds	44,224	136,055	65,649	140,286
Federal Funds	4,388,913	4,738,021	2,458,737	4,901,047
Total Funds	\$6,083,297	\$6,771,631	3,619,911	\$7,134,434
Positions	7	6	7	8
FTE	6.50	6.00	3.25	7.50

Program Description

The Library Development program is responsible for assisting local public and private libraries and improving the overall quality of library services in the state through distribution of federal (Library Services and Technology Act) and state (Ready to Read) grants; facilitating school and local library access to a variety of electronic databases; consultation and dissemination of information on youth services; compilation of library statistics; and documenting challenges to library materials.

The LSTA grant must be distributed through a "State Library Administrative Agency," which for Oregon is the State Library. LSTA grant funds are used to fund various statewide services and competitive grants to libraries. LSTA funds must be spent based on OSL's LSTA Five Year plan submitted to the Institute of Museum and Library Services. OSL's plan includes: providing access for information resources and library services; use of technology to provide library services and expand access to libraries; develop culture in libraries; and develop information literacy skills; among others.

Ready to Read is a state grant program that makes grants available to any legally-established public library in Oregon and must be used to provide early literacy services/training for parents and caregivers and summer reading programs.

Revenue Sources and Relationships

The program is funded with 29% General Fund, 2% Other Funds, and 69% Federal Funds.

Federal funding is from the Institute of Museum and Library Services under the Library Services and Technology Act (LSTA) per a population-based formula. The budget for this program assumes Federal Funds pursuant to this grant in the amount of \$4.9 million. The LSTA grant requires a 34% match rate as well as a maintenance of effort based on the average of the last three years of non-federal library expenditures relevant to the priorities of LSTA.

Reductions in state funding result in an identical percentage reduction in LSTA funding. LSTA allows for a 4% administrative expense, which may be low compared to other federal grants.

State General Fund in this program helps fulfill the federal LSTA match and maintenance of effort requirements.

Budget Environment

The Library Development program serves some of the approximately 1,600 local public and private libraries, including school and academic libraries, in Oregon.

Ready to Read grants are based on a formula of the number of children up to 14 years of age in a given service area, plus a factor for the square miles in the county. Grants are on a per-library basis with the minimum of a \$1,000 fiscal year grant for each library. The budget of \$1.4 million General Fund is based on 715,600 children in 2016 and 718,373 children in 2017 in the 0-14 age group at \$0.94 per child. Grants are distributed to 132 libraries in all 36 counties. Fifty-three libraries receive the \$1,000 minimum grant (40%). Comparable funding in recent biennia has ranged from a low of \$0.67 per child to a high of \$1.00 per child, for the 2007-09 biennium.

About 250,143 children participated in Summer Reading Programs in fiscal year 2014, which is its highest point in the last five fiscal years, but represents only 36% of the eligible population.

OSL's Ready to Read Grant program is a component of the Oregon Early Reading Program Initiative (HB 3232 from 2013). OSL is working with local libraries to encourage participation and develop early learning activities and to use the state's Ready to Read funds in cooperation with other local early learning efforts. Expansion of the program to serve the 15-17 year old population is something that the agency is actively reconsidering, after being initially rejected during the 2013 and 2015 legislative sessions.

OSL uses approximately 70% of the LSTA grant to fund statewide projects, such as virtual reference services, access to full-text databases, rural courier services, services to the underserved, youth services, technology development consulting, and its own administrative expenses.

OSL uses the remaining 30% of LSTA funding for competitive grants. Recently funded grants were provided to some local libraries, but also public and private universities. These grants funded such things as oral histories, shared ILS system, outreach to Spanish-speaking population, supporting early childhood education, and the Oregon architecture mobile project, among others.

LSTA funding for the last 12 federal fiscal years (FFY), beginning in FFY 2004 thru FFY 2015, has totaled \$26 million with the average grant being \$2.2 million. Funding for FFY2004 was \$2.1 million as was FFY2015. The overall federal appropriation was reduced due to federal budget cuts thereby reducing state allocations.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of \$7.2 million and is \$362,803 (or 5.4%) more than the 2013-15 legislatively approved budget and includes 8 positions (7.50 FTE).

Talking Book and Braille Services

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	1,031,487	1,300,411	703,462	1,322,620
Other Funds	293,413	386,447	215,859	363,425
Total Funds	\$1,324,900	\$1,686,858	\$919,321	\$1,686,045
Positions	8	9	8	8
FTE	8.24	8.74	4.12	8.24

Program Description

In cooperation with the Library of Congress, which provides books, book players, and postage at no cost to Oregon, Talking Book and Braille Services (TBABS) is a statewide program that provides reading materials in audio-recorded or Braille formats to individuals with limited vision or other disabilities that prevent the use of traditional books and printed materials. OSL is responsible for maintaining the inventory and distribution of materials, as well as administering the program.

This federal-state cooperative partnership has been in place for 80 years and helps local public libraries meet their requirements under the Americans with Disabilities Act. The program participants are not means-tested nor pay a fee for this service.

The program also provides access to Braille and Audio Reading Download (BARD), which provides audio books via an internet download. It provides a daily audio newspaper service for three of Oregon's newspapers to blind and print-disabled Oregonians.

Revenue Sources and Relationships

The program is funded with 78% General Fund and 22% Other Funds (donations).

OSL's Other Funds include donations and bequests, most of which are attributable to the Talking Book and Braille Services (TBABS) Donation Fund and the TBABS Endowment Fund. The Funds have a projected beginning balance of \$123,728 and \$1.9 million, respectively. ORS 357.015(6) gives the Library Board of Trustees (State Library Board) authority to "have control of, use and administer the Donation Fund for the benefit of the State Library, except that every gift, devise or bequest for a specific purpose shall be administered according to its terms." The trustees (Board) have adopted a policy of using TBABS Donation Funds for TBABS program enhancements (not regular operating funding), however, interest earnings from the Endowment Fund and money from the donation fund continue to be used by the Legislature in order to fund agency operating expenses. OSL is spending \$48,000 of donation funding it receives per year on core services and averages about \$88,000 per year in new donations.

State General Fund and donation funds in this program help fulfill the federal LSTA match and maintenance of effort requirements.

Outside of the state budget for OSL, the agency estimates that it receives approximately \$2.7 million per year in in-kind federal support for the TBABS program for the players, books, and postage it receives.

Budget Environment

The program has 5,208 registered patrons, which is down from the 2005 high of 7,156 Oregonians served. Advances in technology have moved the program from tape players to digital players and now to BARD for patrons with internet capability. Of the registered patrons, 28% are registered for BARD. However, accessibility issues for some patrons means that a complete transition to BARD will likely not occur.

While the switch to digital talking books in September of 2009 has stemmed the decline in registered users, the program still only services approximately 8% of the total number of Oregonians who are eligible to participate (64,000), which is down from the 2005 high of 14%. Over 76% of TBABS participants are 60 years or older and 42% are over 80 years old. The challenge for the program continues to be its registration penetration rate, and in particular, younger non-registrants.

Apart from TBABS, the availability, either commercially or through public libraries, of books on compact disk or downloadable audio files is able to fill the needs of a certain segment of this particular population.

OSL contracts with the State of Utah to provide braille print materials.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget totals \$1.7 million and is \$813 (or 0.05%) less than the 2013-15 legislatively approved budget and includes 8 positions (8.24 FTE).

Government Research and Electronic Services

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	4,432,416	4,515,894	2,448,262	4,536,117
Federal Funds	27,045	52,401	32,155	32,155
Total Funds	\$4,459,461	\$4,568,295	\$2,480,417	\$4,568,272
Positions	22	21	21	21
FTE	20.84	19.84	9.92	18.34

Program Description

Government Research and Electronic Services (GRES) provides research assistance to state government. Services include: the State Employee Information Center website; reference assistance from professional librarians; document delivery from the Library collection or other libraries via interlibrary loan; distribution of state agency publications to depository libraries; cataloging and archiving of state agency publications in print and electronic formats; electronic mailing list service; maintenance of the search box on the Oregon.gov website; and the State Library eClips daily news briefing service and other current awareness services. The program no longer provides staffing for the Legislature's library during sessions.

Since 1907, OSL has been responsible for the Oregon Documents Depository Program by providing permanent public access to Oregon state government publications. In 2006, OSL instituted the Oregon Documents Repository, which collects, preserves, and provides access to online publications of Oregon state government.

During the 2013-15 biennium, OSL closed its reference room and discontinued its partnership with the Willamette Valley Genealogical Society, which is now housed at the Salem Public Library.

Revenue Sources and Relationships

The program is funded with 99% Other Fund and 1% Federal Funds.

The source of Other Funds is a state agency assessment that is based two-thirds on the number of state agency full-time equivalents and one-third on the use of OSL by agencies during the prior biennium. The projected state agency assessment revenue for 2015-17 is \$5.2 million. State agency assessment revenue has a General Fund component since some agencies use General Fund to pay their assessment.

The program also receives a \$32,155 in federal funding, which pays for approximately 10% of information technology staff time attributable to the LSTA grant.

Budget Environment

GRES-registered users have access to library databases, reference assistance, document delivery, and interlibrary loan services. There were 8,900 registered library users in the 2013-15 biennium. Over the course of the biennium, the State Employee Information Center recorded 39,057 logins for accessing library services.

OSL provides access for state employees to over 80 electronic resources. During a 24 month period, 239,729 full text records were viewed or downloaded. These include journal articles, book pages, business records, maps, news articles, and congressional/state regulatory and legislative materials.

GRES made 1,166,220 contacts reaching over 65% of state agencies, including 16,281 transactions for reference assistance, document delivery, and trainings, with the delivery of an average of 514 journal articles and physical library materials per month. However, only 10 agencies account for 84% of GRES usage, with one of those agencies (Oregon Health Authority) accounting for over half of the usage (42.2%).

In the 2013-15 biennium there were 1,457 eClips subscribers from 60 different agencies and 830 mailing lists with 718,482 total subscribers from 57 different agencies.

The challenge for the GRES program is what value-add does it provide to state agencies and at what cost and whether a centralized model of government research remains viable in the digital age.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget totals \$4.6 million and is \$23 (or .001%) less than the 2013-15 legislatively approved budget and includes 21 positions (18.34 FTE).

PUBLIC EMPLOYEES RETIREMENT SYSTEM

Analyst: Borden

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	75,017,618	88,153,980	89,655,192	\$95,161,904
Other Funds (NL)	7,779,837,107	9,277,875,000	8,476,114,000	9,723,458,062
Total Funds	\$7,854,854,725	\$9,366,028,980	\$8,565,769,192	\$9,818,619,966
Positions	369	369	364	380
FTE	363.99	367.23	364.00	380.00

Overview

The Public Employees Retirement System (PERS) administers the retirement system covering employees of state agencies; public universities, community colleges, public school districts; statutory judges; and participating cities, counties, and special districts in Oregon. The agency also administers a retiree health insurance program and a voluntary deferred compensation program for state agencies and some local governmental units. It is responsible for most fiduciary activities performed on behalf of system members. This includes receipt of contributions into the retirement trust and deferred compensation trust funds, retirement counseling, retirement benefit determination, and retirement benefit payment.

The Oregon Investment Council (OIC), with the assistance of the Investment Division of the State Treasury, oversees the investment of retirement system and deferred compensation trust fund assets that are mostly managed by private investment firms.

The five-member Public Employees Retirement Board has broad authority for operation of the system. Day-to-day operations are carried out by the Board-appointed executive director and agency staff. The agency executive director is also an ex-officio non-voting member of OIC.

Revenue Sources and Relationships

PERS revenue comes from net (of investment expenses) investment earnings, employer contributions, employee contributions, and insurance premium payments. There is also an administrative charge on the deferred compensation program and an administrative fee assessed on participants and employers for Social Security Administration activities, plus other miscellaneous revenues. The agency receives nominal miscellaneous revenue. In total, the agency expects to receive \$18.4 billion in biennial revenues.

PERS assets total an estimated \$68.7 billion, including all reserve accounts and pension obligation bond proceeds. Investment earnings are expected to generate \$14.3 billion for the biennium. Employer contribution rates established by the PERS Board and based upon advice from its consulting actuary are expected to generate and additional \$3.5 billion in revenue.

ORS 238.610 directs that the administrative operations expenses for the agency are to be paid from earnings on the Public Employees Retirement Fund or, in years when such earnings are insufficient, through a direct charge to participating public employers. Such expenses are estimated to total \$95.2 million from earnings.

PERS estimates \$488.1 million in insurance premiums revenue.

PERS may assess a charge to deferred compensation plan participants not to exceed 2% on amounts deferred, both contributions and investment earnings, to cover the cost of administering the program. The current annual participant fee is 0.08% (.0008) of participants assets held in the trust.

In order for PERS to fund the administration of the Social Security program, PERS has set a rate of 50 cents per employee per year, or \$15, whichever is higher. This will raise an estimated \$398,000.

Budget Environment

PERS serves 914 employers, including 488 political subdivisions, 293 school districts, 114 state agencies and public universities, and 17 community colleges. Approximately 95% of Oregon's public sector employees are PERS members, which totals 162,185 active members. School districts are the largest PERS employer group (63,154), followed by local government (54,560) and then state government (44,471). PERS also has 41,213 inactive members, who have vested in PERS during previous qualifying employment but are no longer employed in a PERS-covered position. There are an additional 128,117 retirees/beneficiaries. In total, between retirees/beneficiaries and active/inactive members, PERS comprises 331,515 individuals. These figures are as of the last actuarial valuation completed on December 31, 2013 and which is done every other year.

Approximately 70,265 active and inactive members, or 35% of all members, are eligible to retire. The number of actual retirements has risen from 5,749 (2007) to 7,621 (2014) with retirements peaking at 9,546 (2013). A proposed lowering of the assumed earnings rate by the PERS Board, discussed below, could spur additional retirements in 2015.

PERS is a mature retirement system with only 1.27 active members per beneficiary, which may decline further as a significant portion of the active members are eligible to retire.

The PERS system funding level, as of December 31, 2014, was \$68.9 billion in assets and \$71.8 billion in liabilities for a funded status of 96%. Assets include employer side accounts, which are pre-paid deposits primarily from the proceeds of pension obligation bonds. The unfunded liability has essentially remained unchanged from calendar year 2013. A restatement of these figures due to the Moro Supreme Court decision, discussed below, adjusted assets to \$61.4 billion and liabilities to \$73.5 billion for an unfunded actuarial liability of \$12.1 billion.

After a prolonged period of an 8% assumed earnings rate, the PERS Board changed the rate to 7.75% effective January 1, 2014. The PERS Board recently voted to further lower the assumed earnings rate to 7.5% on January 1, 2015. Such an action will increase future employer contribution rates beginning with the 2017-19 biennium. A budget note directs PERS to report to the Legislative Assembly in 2016, or to the Emergency Board at its next meeting, if the PERS Board adopts any change to the assumed earnings rate.

The following table details system-wide employer rates for general services employees (i.e., non-police and fire). These rates exclude the Individual Account Program or 6% employee contribution.

Statewide (excludes Individual Account Program)

Net Pension Rate for General Service	2011-13	2013-15	2015-17*	2017-19**
Tier One and Tier Two	10.84%	11.64%	12.85%	17.01%
Oregon Public Service Retirement Plan	8.4%	8.91%	7.00%	10.23%

*Pre-Oregon Supreme Court Moro ruling

**Post-Oregon Supreme Court Moro ruling advisory rates

The 2013-15 and the 2015-17 rates reflect the Legislature's decision in 2013 to modify retiree's cost-of-living (COLA) adjustment, eliminate the supplementary tax remedy payments for non-Oregon residents, and direct the PERS Board to take an unspecified, one-time administrative action to further reduce employer rates by up to 1.9%. The combined effects reduced the scheduled 2013-15 employer rate increase by a system-wide average of 4.28% and produced an estimated \$790 million in system wide savings for participating employers and reduced the PERS' unfunded liability by \$2.6 billion. Employer rates for 2015-17 were adopted by the PERS Board assuming the continued legality of the PERS reforms. However, after becoming law, reforms were challenged in court and an expedited review was conducted by the Oregon Supreme Court. In the spring of 2015, a court decision was issued that upheld the elimination of the tax remedy payments for non-residents. The COLA change was ruled

unconstitutional, but only for benefits earned prior to the effective date of the reform. The court found that a reduced COLA could only be applied to benefits earned after reform legislation became effective. This introduces a blended COLA for some PERS members.

The Supreme Court's decision to overturn some of the reforms added about \$5.1 billion to the system's unfunded actuarial liability, as of December 31, 2014. Similar to what was done following the Supreme Court's March 2005 ruling on the 2003 PERS reforms, the Supreme Court's reversal of PERS reforms would not increase the currently projected PERS employer costs for the 2015-17 biennium. Rather, the liability increase from restoring the COLA would be reflected when the PERS Board adopts employer contribution rates for the 2017-19 biennium. This follows the PERS Board normal employer rate setting cycle. A PERS Board administrative process ("rate collaring") will be triggered that will spread employer rate increases across multiple biennia. On an uncollared basis, system wide employer rates will increase an additional 4.5% as a result of the court's decision.

In addition to employer contribution rates, some employers also must fund debt service on pension obligation bond issuances (POB), which is a cost discrete from employer contributions with debt service being paid by each state agency/participating entity that chose to issue POBs. Employer side accounts, which hold a total of about \$5.5 billion in employer-issued POB proceeds and other lump-sum payments, play a major role in pre-funding employer contributions. POB proceeds are invested alongside employer contributions by OIC.

The State of Oregon issued \$2.1 billion in POBs in 2003. Debt service on those POBs will cost approximately \$266 million for the 2015-17 biennium, an increase of \$18.4 million (7.4%), from the prior biennium cost of \$248.3 million. POB debt service will continue to increase 8.7% each biennium until the debt is paid off in 2027. While some local jurisdictions continue to issue POBs, no additional issuances are expected by state government, whose authority to issue such bonds is derived from the Oregon Constitution.

PERS works with Cost Effectiveness Measurement, Inc. (CEM) to compare its administration to peer retirement systems. In its most recent report, CEM noted that Oregon PERS' adjusted cost was \$129.82 per year per active and retired member, which is above the peer average of \$98.74. One of the reasons behind the added cost is the underlying complexity of PERS plans and benefit calculations compared to other comparatively simple peer plans.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of \$9.8 billion is \$452.6 million (or 4.8%) more than the 2013-15 legislatively approved budget and includes 380 positions (380.00 FTE). The budget is composed of \$66.5 million (0.7%) personal services, \$127 million (1.29%) services and supplies/capital outlay, \$9.6 billion (98%) special payments, and \$1.3 million (0.01%) debt service. The budget includes standard adjustments for state government service charges and other agency assessments (\$802,812).

Tiers One and Two Pension Plans

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds (NL)	6,854,601,568	8,132,220,000	7,339,085,328	8,262,947,862
Total Funds	\$6,854,601,568	\$8,132,220,000	\$7,339,085,328	\$8,262,947,862

Program Description

The Tiers One and Two Plans program includes account balance refunds and retirement benefit payments for two retirement plans that are closed due to PERS reform legislation passed during the 2003 legislative session. Tier One plan members are employees hired before January 1, 1996. Tier Two members are employees hired on or after January 1, 1996 and before August 28, 2003, and have a different level of benefits from Tier One members. Tier One and Two are employer funded retirement benefits. The Tier One and Two average replacement of a retirees' final average salary for those retirees with 30 years of service varies by retirement calculation option:

full formula (56% salary replacement), formula plus annuity (60% salary replacement), and money match (73% salary replacement), based on calendar year 2013 data.

Revenue Sources and Relationships

The Other Funds revenue is mainly from employer contributions to the retirement system (\$827.1 million) and retirement trust fund investment earnings (about \$10.8 billion). A nominal amount of revenue comes from employee contributions by employees, primarily judge members. Employer contribution rates are established by the Public Employees Retirement Board based upon advice from its consulting actuary.

Tier One accounts earn an assumed earnings rate, as set administratively by the PERS Board. Tier One member regular accounts were credited at the calendar year 2014 assumed earnings rate of 7.75%, which in previous years had been 8%. The PERS Board recently voted to reduce the assumed earnings rate to 7.50% beginning in calendar year 2015. For years when market earnings are less than the assumed earnings rate, a reserve balance is used to make up the difference. For example, reserve crediting was needed in calendar year 2014 as net earnings on the Oregon Public Employees Retirement Fund totaled only 7.2%.

Tier Two account earnings are based on actual market returns as produced by the Oregon Investment Council. Tier Two regular member accounts received earnings crediting of 7.25% in calendar year 2014.

The program unit's administrative costs are budgeted under various operational programs and are supported by revenue transfers from this program to those programs.

Budget Environment

Active and inactive membership totals 67,134 for Tier One for members (hired before January 1, 1996) and 65,319 for Tier Two members (hired on or after January 1, 1996 but before August 28, 2003).

There are 22,552 active and 9,552 inactive Tier One members and 15,138 active and 4,236 inactive Tier Two members eligible to retire as of December 2014.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of \$8.3 billion Nonlimited Other Funds is \$130.8 million (or 1.6%), more than the 2013-15 legislatively approved budget and is set at a level expected to cover projected retirement system benefit payments. The budget was increased by \$756.5 million based on an updated agency forecast of expenditures and by \$167.4 million for benefit payments associated with the recent Moro Supreme Court decision.

Oregon Public Service Retirement Pension Plan

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds (NL)	11,141,211	15,814,000	16,844,601	28,926,864
Total Funds	\$11,141,211	\$15,814,000	\$16,844,601	\$28,926,864

Program Description

The 2003 Legislative Assembly established a new Oregon Public Service Retirement Plan (OPSRP) with a different benefit structure for employees hired after August 28, 2003. The OPSRP pension is an employer funded retirement benefit.

Revenue Sources and Relationships

Other Funds revenue is only from employer contributions and retirement trust fund investment earnings. Employer contribution rates are established by the Public Employees Retirement Board based upon advice from its consulting actuary. OPSRP revenue totals approximately \$654.8 million for employer contributions and \$480

million in retirement trust fund investment earnings. The OPSRP employer rate includes a component for unfunded actuarial liabilities associated with the pension plan as well as Tier One and Tier Two plans.

OPSRP accounts have no guaranteed return. Returns are based on market returns produced by the Oregon Investment Council. Member accounts earnings crediting, which occurs once each calendar years, was 7.09% for 2014.

The program unit's administrative costs are budgeted under various operational programs and are supported by revenue transfers from this program to those programs.

Budget Environment

There are 80,303 active and 8,194 inactive ORSRP members with 15,772 active and 3,015 inactive OPSRP members eligible to retire as of December 2014.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of \$28.9 million Nonlimited Other Funds is \$13.1 million (or 82.9%), more than the 2013-15 legislatively approved budget and is set at a level expected to cover projected retirement system benefit payments. The budget was increased by \$9.9 million based on an updated agency forecast of expenditures and by \$2.2 million for benefit payments associated with the recent Moro Supreme Court decision.

Individual Account Program

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds (NL)	461,093,184	721,200,000	649,014,640	873,488,891
Total Funds	\$461,093,184	\$721,200,000	\$649,014,640	\$873,488,891

Program Description

The Individual Account Program (IAP) is the defined contribution component of the PERS retirement plan that was instituted as part of PERS reform legislation passed during the 2003 legislative session. The program includes member accounts for Tier One, Tier Two, and OPSRP benefit plans. The IAP was originally estimated to pay approximately 15-20% of retiree's final average salary (for a 30-year career) based upon the assumed earnings rate at the time the program was created (8%).

The IAP is funded with member contributions, which is 6% of a member's salary. Prior to the passage of system reforms in 2003, member contributions were made directly into Tiers One and Two member accounts. Reform legislation redirected subsequent Tier One and Tier Two member contributions into IAP accounts beginning January 1, 2004. IAP payouts can also be transferred to the Oregon Growth Savings plan accounts, or any other qualified plan, upon withdrawal or retirement.

At retirement, IAP dollars are paid in either a lump-sum payment or in equal installments over 5, 10, 15, or 20 years, or over the member's expected lifetime.

Revenue Sources and Relationships

The IAP requires PERS members to contribute an amount equal to 6% of eligible salary to an IAP account; however, most employers (+/- 70%) "pick-up" or pay the 6% employee contribution based upon collective bargaining contracts. While historically the "pick-up" was in lieu of a salary increase, some recently negotiated collective bargaining agreements for the 2015-17 biennium have the employee paying the 6% contribution in exchange for off-setting salary and wage increases. Other Funds revenue from employer contributions totals \$1.04 billion with \$1.8 billion in investment earnings.

An IAP account has no guaranteed return. Returns are based on market returns produced by the Oregon Investment Council. Member accounts earnings crediting, which occurs once each calendar year, was 7.05% for 2014.

The program unit's administrative costs are budgeted under various operational programs and are supported by revenue transfers from this program to those programs. The cost of a third-party administrator contract totals \$4.6 million.

Budget Environment

There were 245,768 active IAP accounts, as of December 31, 2014 with an average IAP account balance of \$24,821. That same year there were 15,118 withdrawals and the total value of all IAP accounts was \$6 billion.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of \$873.5 million is \$152.3 million (or 21.1%), more than the 2013-15 legislatively approved budget and is set at a level expected to cover projected retirement system benefit payments. This program is made up entirely of Nonlimited Other Funds expenditures. The budget was increased by \$224.5 million based on an updated agency forecast of expenditures.

Retirement Health Insurance Programs

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds (NL)	449,860,818	408,661,000	471,169,431	558,094,445
Total Funds	\$449,860,818	\$408,661,000	\$471,169,431	\$558,094,445

Program Description

The PERS Health Insurance Program offers optional medical, dental, and long-term care insurance plans to eligible Tier One/Tier Two retired members, their spouses, and dependents. Upon retirement, these insurance options become a choice available to all PERS retired members. While primarily serving the Medicare-eligible population (age 65 and over), the PERS Health Insurance Program (PHIP) also offers insurance coverage options for those not yet Medicare eligible. Active members, their spouses, and dependents are not eligible for this program.

The PERS Retiree Health Insurance program (RHIP) is available for Tier One, Tier Two, and Oregon Public Service Retirement (OPSRP) retired members and their spouses and dependents that meet enrollment and eligibility requirements. Premiums are paid by PERS to the carriers that participate in the program, with funding from member benefits, premium subsidies, as discussed below, and member payments. Those payments are administered through the Standard Retiree Health Insurance Account (SRHIA).

Only Tier One and Tier Two retired members are eligible for the following subsidies, which are funded as part of participating employer's rates.

Retiree Health Insurance Premium Account (RHIPA): Provides an insurance premium subsidy for non-Medicare coverage. The subsidy is a percentage of the cost difference between the retired member coverage available through PHIP and the state employee coverage available under the Public Employees Benefits Board. Only retired members who have eight or more years of State of Oregon qualifying service and who retire from a state agency are eligible. The amount of the subsidy varies with years of state service, from 50% to 100% of the difference.

Retirement Health Insurance Account (RHIA): Provides a \$60 health insurance premium subsidy for eligible retired members who had eight or more years of qualifying service with any PERS employer and who are eligible and enrolled in the federal Medicare program. Member health and dental insurance premiums are paid by the member through pension deductions, direct payments, and through electronic funds transfer. Premium payments are then remitted by PERS to the health insurance carriers.

Revenue Sources and Relationships

SRHIA revenues come from member paid insurance premiums with additional revenues provided from federal sources (Medicare and Medicaid) and investment earnings on those contributions.

The RHIPA and RHIA programs are funded from employer contributions and the return on investment of those contributions. These funds are held in the Public Employees Retirement Fund. RHIA rate is 0.59% and the RHIPA (state government only) rate is 0.27% of payroll for the 2015-17 biennium and includes each plan's actuarial unfunded liabilities.

The program unit's administrative costs are budgeted under various operational programs and are supported by revenue transfers from this program to those programs.

Budget Environment

In 2014, there were 59,076 SRHIA members in one of four medical plans, of which 56,387 were Medicare and 2,689 were non-Medicare. There were 35,985 members in one of two dental plans and 2,096 members in a long-term care plan. Statutory health insurance premium subsidies are provided to 44,364 RHIA members and 1,278 RHIPA members.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of \$558.1 million is \$149.4 million (or 36.6%), more than the 2013-15 legislatively approved budget and is set at a level expected to cover projected retirement system benefit payments. This program is made up entirely of Nonlimited Other Funds expenditures. The budget was increased by \$86.9 million based on an updated agency forecast of expenditures.

Central Administration Division

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	2,273,544	3,456,375	3,634,278	3,639,324
Total Funds	\$2,273,544	\$3,456,375	\$3,634,278	\$3,639,324
Positions	9	11	10	10
FTE	9.00	10.13	10.00	10.00

Program Description

Central Administration, in conjunction with the PERS Board, provides the direction, planning, and leadership for PERS. The division consists of the executive director, deputy director, Internal Audits, and Social Security Program.

Revenue Sources and Relationships

Revenue transfers from earnings on the invested funds support the program.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of \$3.6 million is \$182,949 (or 5.3%), more than the 2013-15 legislatively approved budget and includes 10 positions (10.00 FTE). The budget includes a reduction of \$44,386 for additional vacancy and services and supplies savings.

Benefits Payments Division

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	11,233,344	13,339,611	13,484,716	14,181,869
Total Funds	\$11,233,344	\$13,339,611	\$13,484,716	\$14,181,869
Positions	79	80	79	80
FTE	79.00	80.00	79.00	80.00

Program Description

The Benefit Payments Division (BPD) houses the Benefit Application and Intake and Processing section, as well as the Retirement Services and Specialty Services sections. BPD is responsible for processing all incoming benefit applications and related documents, as well as calculating and establishing service retirement, disability, and death benefits. Responsibilities also include determining eligibility for disability retirements, administering divorce decrees, and validating beneficiaries.

Revenue Sources and Relationships

Revenue transfers from earnings on the invested funds support the program.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of \$14.2 million is \$842,258 (or 6.3%), more than the 2013-15 legislatively approved budget and includes 80 positions (80.00 FTE). The budget includes \$139,706 for one permanent position (1.00 FTE) to handle increasing numbers of retirements and a reduction of \$139,373 for additional vacancy and services and supplies savings. The budget was increased by \$696,820 for implementing the Moro Supreme Court decision.

Financial and Administrative Services Division

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	17,476,710	18,920,783	22,670,629	21,615,658
Total Funds	\$17,476,710	\$18,920,783	\$22,670,629	\$21,615,658
Positions	63	61	61	62
FTE	58.78	60.84	61.00	62.00

Program Description

The Financial and Administrative Services Division (FASD) provides comprehensive financial and administrative services to the agency. This includes financial accounting, reporting, and tax services for all PERS' Trust and agency fund activities, including the Retirement Fund, Deferred Compensation funds, Benefit Equalization Fund, health insurance programs, and Social Security program. Other fiscal activities include preparation, maintenance, and reporting of the agency's biennial budget, coordination of actuarial services, fiscal analysis, accounts receivable, accounts payable, contracts, and procurement. FASD also contains the Facilities Services Section that manages office supplies, general building maintenance, shipping and receiving, and other various ancillary tasks. Human Resources, Retiree Health Insurance, and Deferred Compensation programs are also located within FASD.

The Oregon Savings Growth Plan is a federally authorized Internal Revenue Service 457(b) deferred compensation plan offering both a state government and a local government plan. The plan(s) is administered by PERS, but funds are deposited with, and invested by, a private third-party administrator. Therefore, the funds do not pass-through the state budget. In total, the OSGP has assets of \$1.7 billion and 25,958 total participants. An average of these two amounts equals \$65,810 per participant. The state government plan has assets of \$1.5 billion and 22,243 participants and the local government plan has assets of \$169.9 million and 3,715 participants.

Revenue Sources and Relationships

Revenue transfers from earnings on the invested funds support the program.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of \$21.6 million is \$2.7 million (or 14.2%), more than the 2013-15 legislatively approved budget and includes 62 positions (62.00 FTE). The budget includes one permanent position (1.00 FTE) for daytime custodial maintenance of the building. There is not a net expenditure change associated with this package as this position was previously funded with services and supplies. The budget includes a reduction of \$308,398 for additional vacancy and services and supplies savings.

Information Services Division

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	20,758,784	24,715,700	22,075,005	26,839,436
Total Funds	\$20,758,784	\$24,715,700	\$22,075,005	\$26,839,436
Positions	76	74	72	75
FTE	76.00	74.00	72.00	75.00

Program Description

The Information Services Division (ISD) provides technical support to all divisions of the agency. ISD ensures agency staff have the appropriate tools and automation necessary to perform their duties and provide customer service to members, employers, and other stakeholders. The division supervises the development and operation of PERS' complex IT systems and supports the many desktop computers used by staff. Help Desk support, installation and training, software development, application support, database management, network support, and quality assurance all fall under ISD's responsibilities. In addition, the Imaging and Information Management unit within the Business Information and Technology section maintains records from numerous sources.

Revenue Sources and Relationships

Revenue transfers from earnings on the invested funds support the program.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of \$26.8 million is \$2.1 million (or 8.6%) more than the 2013-15 legislatively approved budget and includes 75 positions (75.00 FTE). The budget includes funding for three information technology related packages: Individual Account Program (\$1.9 million and 3 limited duration positions [3.00 FTE]); detailed assessment of the current jClarety environment (\$250,000); and Disaster Recovery and Business Continuity planning and infrastructure (\$1.6 million). The budget also includes a reduction of \$355,076 for additional vacancy and services and supplies savings and \$906,708 for implementing the Moro Supreme Court decision.

The adopted budget further includes \$509,960 for the estimated fiscal impacts of HB 3495 (\$284,960) and SB 370 (\$225,000).

Two budget information technology budget notes were approved for the agency directing reports back to the Legislature. The first budget note is in consideration of a future information technology upgrade and directs the agency to undertake a statutory review to identify recommendations for simplifying and reducing the costs of the statutory benefits structure and its administration. The second budget note directs the agency to conduct a detailed health check and risk assessment of the current state of its disaster recovery and business continuity environment, including the state of its current disaster recovery and business continuity plans and develop a plan to correct all identified deficiencies.

Customer Service Division

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	16,297,739	19,459,644	19,607,688	20,877,552
Total Funds	\$16,297,739	\$19,459,644	\$19,607,688	\$20,877,552
Positions	115	116	116	127
FTE	114.75	115.26	116.00	127.00

Program Description

The Customer Services Division (CSD) provides the window for member, employer, and public interaction with PERS. One of the larger PERS divisions, CSD answers member queries from the Online Member Services internet tool, an in-house phone team, and in person where it conducts group and individual counseling through various retirement planning sessions. CSD is also responsible for producing benefit estimates and member account statements. Additionally, CSD houses the Membership and Employer Relations section (MERS). MERS enrolls and manages member data and accounts and also handles employer reporting, training, outreach, and communication including the annual reconciliation process.

Revenue Sources and Relationships

Revenue transfers from earnings on the invested funds support the program.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of \$20.9 million is \$1.4 million (or 7.3%), more than the 2013-15 legislatively approved budget and includes 127 positions (127.00 FTE). The budget includes funding for four call center staff that were previously limited duration positions (4.00 FTE and \$504,377) and 7 permanent full-time staff to eliminate a backlog of member data verifications (7.00 FTE and \$956,875). The budget includes a reduction of \$221,848 for additional vacancy and services and supplies savings.

Policy, Planning, and Communications Division

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	5,690,924	6,959,017	6,892,126	6,717,315
Total Funds	\$5,690,924	\$6,959,017	\$6,892,126	\$6,717,315
Positions	27	27	26	26
FTE	26.46	27.00	26.00	26.00

Program Description

The Policy, Planning, and Communications Division provides services related to legislative policy, rulemaking, legal counsel coordination, legal services, agency determination review, and contested case activities including compliance with state and federal statutes, rules, and court decisions. This division also includes all strategic and operational planning for both short and long range goals, enterprise-wide project management, and process improvement initiatives. Communication of all events and activities are provided to internal staff, PERS members, and the local media through a variety of sources.

Revenue Sources and Relationships

Revenue transfers from earnings on the invested funds support the program.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of \$6.7 million is \$241,702 (or -3.5%) less than the 2013-15 legislatively approved budget and includes 26 positions (26.00 FTE). The budget includes a reduction of \$81,440 for additional vacancy and services and supplies savings.

Debt Service

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	3,140,326	1,302,850	1,290,750	1,290,750
Other Funds (NL)	1,286,573	--	--	--
Total Funds	\$4,426,899	\$1,302,850	\$1,290,750	\$1,290,750

Program Description

The Debt Service Program provides the funding to make payments on principal, interest, and financing costs associated with previously issued certificates of participation (COPs), which are tax exempt government securities. COPs were issued for purchase of land and construction of the agency headquarters in Tigard. COPs were also issued in 2003 for the acquisition of the *jClarety* pension system for the new OPSRP; this debt was paid off in May 2009. The remaining debt will be fully repaid by May 2017.

Revenue Sources and Relationships

Revenue transfers from earnings on the invested funds support the program.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of \$1.3 million is \$12,100 (or -1%), less than the 2013-15 legislatively approved budget. The legislatively adopted budget funds all existing debt service requirements.

DEPARTMENT OF REVENUE

Analyst: Borden

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	146,312,349	166,486,971	182,285,108	186,702,371
Other Funds	28,771,284	64,202,113	44,411,510	130,931,438
Other Funds (NL)	261,337	--	--	--
Total Funds	\$175,344,970	\$230,689,084	\$226,696,618	\$317,633,809
Positions	1,050	1,074	1,065	1,082
FTE	990.52	1,016.66	1,011.34	1,012.41

Overview

The Department of Revenue (DOR) is the tax administration agency for state government. The agency is responsible for administering 30 separate tax programs, including personal income and corporate excise taxes, as well as a variety of other taxes and fees. DOR is also responsible for providing oversight of local property tax administration by counties, valuing most industrial and other large-scale properties, and administering several property relief programs. DOR provides debt collection services for more than 180 state agencies and local governments.

The director of the Department is appointed by the Governor, subject to Senate confirmation, to a four-year term of office.

Revenue Sources and Relationships

DOR has two categories of revenue: (1) General and Other Fund revenues collected and distributed according to statute and (2) General and Other Fund revenues required to operate the agency.

DOR's tax programs generate approximately \$17.1 billion (96%) of the state's General Fund revenue through a combination of personal income, corporate income, and excise, estate, tobacco, gift, and other taxes. The agency collects an additional \$1.4 billion in Other Funds taxes and fees that are transferred to state agencies and local government.

DOR's operating budget is funded with a combination of General and Other Funds; however a portion of the Other Funds revenue is special payments primarily to counties.

DOR's administrative Other Funds revenue is derived from administrative charges to various Other Funds taxes, fees, assessments, and collections. Also, the agency retains, by statute, 10% of County Assessment Function Funding Assessment account revenue. The remaining 90% is distributed to counties. A portion of each recording fee (\$1) is dedicated to the development and support of a statewide digital base map to improve the administration of the property tax system. Other Funds revenue is also received from the payment of mapping contracts, deferred property taxes and interest, recreational marijuana tax revenue, and Article XI-Q bonds (for the Core Systems Replacement project).

There are long-standing and systemic revenue issues in the Property Tax Division that need to be resolved, including declining County Assessment Function Funding Assessment account revenue. The Legislature set-aside a \$1.8 million General Fund special purpose appropriation in the event additional funding is needed.

Budget Environment

DOR faces a series of complex challenges over the next several biennia, which include successfully completing the modernization of its information technology applications and business processes, which will have staffing and organizational implications; improving accounts receivable debt collection and managing a likely increase in the volume of accounts receivable assigned to the agency; reducing unidentified and unpaid taxes ("tax gap"); implementing the point-of-sale emergency communications tax and the recreational marijuana tax; and the prevention of tax fraud. The agency has struggled in balancing the goal of collecting the debt owed the state with what has at times been overly aggressive collections tactics.

While 97% of tax compliance is done voluntarily through income tax withholding, quarterly estimated tax payments, and payments submitted with tax returns, DOR expends the majority of its efforts on the remaining 3% through auditing, collection, and other enforcement efforts.

Continued interest in restructuring and reforming the state's tax structure and reforming inequities in the property tax system will place additional demands on the agency.

There is a general cyclical or seasonal nature to the agency's operations centered on income and property tax filing deadlines. Most agency functions are centralized in Salem, but the agency does operate five district and three satellite offices across the state.

Counties have been able to adequately maintain their assessment and taxation programs without requiring further state assistance due to the federal funding of timber payments for some counties. If a county cannot commit adequate resources to its assessment and taxation program, that county may lose its share of County Assessment Function Funding Assessment grant funding. Additionally, ORS 308.062 requires DOR to take responsibility for a county's assessment and taxation function if a county fails to perform its statutory duties.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of \$317.6 million is \$87 million (or 37.7%) more than the 2013-15 legislatively approved budget and includes 1,082 positions (1,012.41 FTE). The large increase in the agency's Other Funds budget reflects moving \$63.6 million in existing payments to counties for County Assessment Function Funding Assessment grants and the Senior Citizens' Property Tax Deferral program into the budget. In prior biennia, these payments had been transfers of revenue outside of the budget process. This action was undertaken to increase the transparency of the agency's budget.

The budget is comprised of \$155 million (67%) personal services, \$68 million (30%) services and supplies/capital outlay, \$5.8 million (2.5%) special payments, and \$1.5 million (0.7%) debt service. The adopted budget included standard adjustments for state government service charges and other agency assessments (\$673,989).

Executive Section

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	5,486,243	6,796,889	7,332,696	7,332,696
Other Funds	1,054,248	920,734	977,107	1,047,184
Total Funds	\$6,540,491	\$7,717,623	\$8,309,803	\$8,379,880
Positions	17	32	38	39
FTE	17.00	32.00	37.20	37.58

Program Description

The Executive Section is responsible for overall administration of the agency and for coordinating the agency's legislative, rulemaking, communications, human resources, facilities, and internal audit functions.

Revenue Sources and Relationships

Most of the Division's budget is supported by General Fund. Other Funds revenue is derived from administrative charges to various Other Funds taxes, fees, assessments, and collections.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of \$8.4 million is \$662,257 (or 8.6%) more than the 2013-15 legislatively approved budget and includes 39 positions (37.58 FTE).

General Services Section (Agency Program Management Office)

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	13,641,678	10,613,170	12,339,730	12,339,730
Other Funds	2,557,947	3,434,312	3,643,588	3,704,214
Total Funds	\$16,199,625	\$14,047,482	\$15,983,318	\$16,043,944
Positions	11	2	13	14
FTE	11.00	2.00	13.00	13.25

Program Description

Historically, as the General Services Section, this program unit was used to budget for a portion of expected central agency costs for postage, legal expenses, and other expenditures that tend to vary from biennium to biennium between operating divisions. Beginning in 2011, the agency has reorganized this unit, called the Agency Program Management Office (APMO), to also include the agency's resources and budget for strategic planning activities. This program is now primarily focused on the implementation of the Core System Replacement project and the Property Valuation System, which are discussed in greater detail under the "Core Systems Replacement" program area.

The Division also contains the Research Section that provides economic analysis and statistical research to other program areas and produces the biennial Tax Expenditure Report in partnership with the Legislative Revenue Office and Department of Administrative Services' Office of Economic Analysis.

Revenue Sources and Relationships

Most of the Division's budget is supported by General Fund. Other Funds revenue is derived from administrative charges to various Other Funds taxes, fees, assessments, and collections. For internal budgetary purposes, the receipt and distribution of the various tax revenues are accounted for in this section.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of \$16 million is \$2 million (or 14.2%) more than the 2013-15 legislatively approved budget and includes 14 positions (13.25 FTE). Services and supplies were increased by \$15,384 for Attorney General costs.

Administrative Services Division

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	39,908,624	43,484,635	47,763,397	45,345,606
Other Funds	7,144,439	7,326,675	7,934,877	7,773,663
Total Funds	\$47,053,063	\$50,811,310	\$55,698,274	53,119,269
Positions	297	261	245	246
FTE	253.56	217.17	205.66	205.85

Program Description

The Administrative Services Division provides support services to the agency's other divisions, including information technology, purchasing, accounting, and fiscal support, as well as the processing of incoming tax returns, data entry, and hardcopy file storage. This Division contains the agency-wide budget for Attorney General and information technology charges.

Revenue Sources and Relationships

Most of the Division's budget is supported by General Fund. Other Funds revenue is derived from administrative charges to various Other Funds taxes, fees, assessments, and collections.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of \$53.1 million is \$2.3 million (4.5%) more than the 2013-15 legislatively approved budget and includes 246 positions (205.85 FTE). The budget includes a \$537,171 General Fund reduction to eliminate duplicate data processing costs for the Core Systems Replacement project and a \$750,000 General Fund reduction for additional vacancy and services and supplies savings.

Property Tax Division

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	13,043,600	12,195,227	12,619,830	12,245,989
Other Funds	5,647,006	9,065,051	9,286,909	40,354,202
Total Funds	\$18,690,606	\$21,260,278	\$21,906,739	\$52,600,191
Positions	105	97	95	87
FTE	10.233	95.26	93.26	76.76

Program Description

The Property Tax Division (PTD) monitors the state's property tax system to ensure that Oregon's 36 counties comply with all property tax laws and rules. The Division develops procedures, advises and trains county staff, and conducts reviews of county actions. Statutorily, DOR is responsible for conducting appraisals on all industrial manufacturing plants valued at \$1 million or more; appraising all utility, transmission, communication, and transportation properties; and administering several timber tax programs. The Division also handles certain property tax appeals primarily through the state's tax court.

PTD also manages the Senior Property Deferral Program, the Oregon Map Project (ORMAP), and the Cadastral Information Systems program.

Revenue Sources and Relationships

Most of the Division's budget is supported by General Fund. Since 1989, the Division has received Other Funds from the County Assessment Function Funding Assistance (CAFFA) account, which is supported by document recording fees and a portion of the interest from delinquent property taxes.

Each biennium, 90% of CAFFA monies are distributed to counties to pay for essential assessment and taxation functions. These include valuation, administration, appeals, tax collection and distribution, mapping, and information processing support. The remaining 10% of CAFFA funds are used by the PTD to pay for a portion of the Division's industrial and utility property appraisal responsibilities and the administration of the CAFFA program.

CAFFA is supported by two revenue streams: (a) document recording fees (\$9.00) and (b) a portion of the interest from delinquent property taxes. These revenue streams originate with counties and are transferred to the state.

The most recent CAFFA revenue forecast for the 2015-17 biennium is projected to total \$37 million (spring of 2015).

Funding for ORMAP comes from a \$1 addition to document recording fees. Declining contract services revenue is creating a revenue shortfall in the Cadastral program.

Long-standing and systemic funding issues in the Property Tax Division need to be resolved. The Legislature set-aside a \$1.8 million General Fund special purpose appropriation in the event additional funding is needed.

Budget Environment

There are approximately 850 industrial sites and 600 central assessment companies across the state.

ORMAP is responsible for development of a statewide property tax lot base map that is digital, continually maintained, and publicly accessible. The move from paper to a digit base map will improve the administration of Oregon's property tax system and will support an array of public and private geographic information systems applications with a target date of completion by October 2016, after at least one extension.

The Cadastral Information Systems program provides mapping services to a number of mostly small, eastside counties and performs statutorily required work, including boundary change approvals. The number of counties requiring mapping support from the Cadastral program has decreased over the past several years from 14 to nine, due to a variety of factors, including improved collaboration between counties and enhanced technologies. The number of dedicated staff has been reduced from 20 in 2003, to approximately 9 today. In addition, the majority of remaining resources are now focused on training and oversight of all 36 counties.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of \$52.6 million is \$31.3 million (or 147.4%) more than the 2013-15 legislatively approved budget and includes 87 positions (76.76 FTE). The budget was reduced by \$1.8 million for a revenue shortfall in County Assessment Function Funding Assessment account funding; provides \$33.6 million for CAFFA payments to counties; and transfers \$373,841 General Fund and \$695,871 Other Funds and 8 positions (6.50 FTE) to the Senior Property Deferral Program.

Personal Tax and Compliance Division

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	51,662,084	63,917,584	67,372,046	67,083,250
Other Funds	830,404	1,491,333	1,478,630	1,478,630
Total Funds	\$52,492,488	\$65,408,917	\$68,850,676	\$68,561,880
Positions	393	431	430	430
FTE	384.82	423.32	422.81	422.81

Program Description

The Personal Tax and Compliance Division administers the personal income tax program. Responsibilities include auditing and encouraging voluntary compliance for the personal income tax, collecting delinquent personal income taxes, and collecting local option taxes. In addition, the Division provides help to taxpayers by telephone (Tax Services Unit), in person at field office locations, and through informational publications.

Revenue Sources and Relationships

Most of the Division's budget is supported by General Fund. Other Funds revenue is derived from administrative charges to various Other Funds taxes, fees, assessments, and collections.

Budget Environment

Voluntary payments of income tax withholdings, quarterly estimated tax payments, and payments submitted with tax returns account for 97% of personal income revenues. The remaining 3% are from audit and collection activities undertaken by the program. The number of personal income tax returns filed annually is about 1.9 million. Over 80% of returns are filed electronically. As more taxpayer data becomes available from federal and other sources, the Department has increased its efforts to pursue non-filers, and those that may have under- or not-reported income or over-reported deductions.

Personal income tax refund fraud attempts are increasing. In 2014, the Department stopped 4,779 fraudulent state refunds (out of 1.9 million returns overall), totaling \$7.85 million. The Department paid \$145,279 in fraudulent refunds where fraud determinations were made after refunds were processed and sent. DOR is in the process of implementing new tools to reduce fraudulent return processing such as third-party data analytics; an identity theft quiz; and real time matching of state income tax withholding claimed on personal income tax returns against that reported by employers.

Lastly, the program is continuing in its effort to write-off past-due accounts receivables.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of \$68.6 million is \$3.2 million (or 4.8%) more than the 2013-15 legislatively approved budget and includes 430 positions (422.81 FTE). The adopted budget added \$1.1 million General Fund to enhance fraud analytics and detection as part of the Core Systems Replacement project and a \$1.4 million General Fund reduction for additional vacancy and services and supplies savings.

A budget note directs DOR to conduct detailed reviews of its enterprise cash management practices, debt cancellation and write-off practices, and audit selection processes, and report to the Legislature in 2016. A second budget note directs DOR to report on its implementation of HB 2550 (2011), which allows the agency to enter into an agreement to recover non-tax debt owed the state or federal government.

Business Division

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	17,170,836	19,228,758	20,114,379	19,664,379
Other Funds	11,537,240	14,637,362	14,807,228	15,749,061
Total Funds	\$28,708,076	\$33,866,120	\$34,921,607	\$35,413,440
Positions	227	220	212	217
FTE	221.81	215.91	207.41	211.74

Program Description

The Business Division administers several tax programs, including corporate income and excise taxes; the employer withholding tax; the transit payroll and self-employment taxes; fiduciary, estate, cigarette, and other tobacco product taxes; and other agency accounts and special programs. Responsibilities include auditing tax returns and collecting delinquent taxes and other delinquent accounts. The Division provides debt collection services for state and local agencies and for state and municipal courts in all 36 counties. Beginning with the 2015 biennium, the Division became responsible for the collection and distribution of recreational marijuana tax revenue.

Revenue Sources and Relationships

Most of the Division's budget is supported by General Fund. Other Funds revenue is derived from administrative charges to various Other Funds taxes, fees, assessments, and collections. Direct revenues are received from

collection costs recovered through fees charged to the client agencies, the emergency communications tax, and recreational marijuana revenue tax receipts.

Budget Environment

Each year the program processes approximately 30,000 corporate tax returns, 1,200 inheritance returns, 28,000 trust returns, and 5,000 fiduciary returns. Cigarette taxes are collected through the purchase of tax stamps by over 30 licensed cigarette distributors. There is another 250 other tobacco product distributors that also file returns. There are approximately 250 to 300 taxpayers related to the emergency telecommunications tax and the agency expects a significant increase in the number of quarterly returns after implementing the new point-of-sale collection method. The program administers the Tri-Met and Lane County transit and self-employment taxes.

The implementation of a new administrative tax structure for recreational marijuana will be a challenge to the agency, and, in particular, for the agency's cash management activities.

Other Agency Accounts (OAA) offers two collection services: refund offsets only and full collection services. OAA collected \$28 million from offsets only and nearly \$74 million from full collection services during the 2013-15 biennium. As of June 30, 2015, OAA is collecting on 355,000 liabilities totaling over \$2.3 billion for refund offset only and 259,000 liabilities totaling \$356 million for full collection services, owed to 180 public sector agencies. Approximately 60% of liabilities are collected through an offset of a tax refund. Private collection firms are also utilized by other agencies for debt collection.

The amount of personal income tax accounts receivables being placed with private collection firms has almost doubled to over 26%. Monthly collection rates for in house activities are below 4% of the total accounts receivable balance and for private collection firms the monthly collection rate is less than 0.3% of the total subject to collection by these firms, which are illustrative of the challenges of collection. Two of the most powerful collection tools available to DOR are its ability to intercept federal and state income tax refunds to pay down various forms of debt owed the state, and the non-judicial garnishment authority given to the Department by the Legislature.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of \$35.4 million is \$1.6 million (or 4.6%) more than the 2013-15 legislatively approved budget and includes 217 positions (211.74 FTE). The adopted budget includes one Tax Auditor 2 and one Administrative Specialist 2 to support the increased return processing and enforcement activities resulting from a change in the Emergency Telecommunication tax enacted during the 2014 legislative session and a \$450,000 General Fund reduction for additional vacancy and services and supplies savings.

Multistate Tax Commission

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	--	276,646	\$284,945	284,945
Other Funds (NL)	261,337	--	--	--
Total Funds	\$261,337	\$276,646	\$284,945	\$284,945

Program Description

Through DOR, Oregon is a compact member of the Multistate Tax Commission (MTC), which has 17 dues-paying members (states). The Commission works on behalf of states to equitably administer tax laws that apply to multistate enterprises. It also promotes uniformity or compatibility in tax systems and taxpayer convenience.

Revenue Sources and Relationships

Revenue is from MTC audits. Account balances in excess of \$150,000 are transferred to the General Fund on June 30 of each year.

Budget Environment

Dues to the Commission are proportional to the amount of tax revenue each state collects. The Commission expects to maintain its current level of services to members.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of \$284,945 is \$8,299 (or 3%) more than the 2013-15 legislatively approved budget.

Elderly Rental Assistance and Nonprofit Housing

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	5,399,284	5,558,560	5,672,000	5,672,000
Total Funds	\$5,399,284	\$5,558,560	\$5,672,000	\$5,672,000

Program Description

This property tax relief program includes the Elderly Rental Assistance (ERA) and the Nonprofit Housing programs (NPH). ERA is a state funded rental assistance program. NPH is a state funded property tax exemption.

The ERA program provides direct rent relief to elderly, low-income renters by offsetting a portion of their rent attributable to property tax. Benefits are based on income levels and the amount of rent, fuel, and utilities paid. The benefits are available to renters age 58 or over with household incomes under \$10,000, with household assets (if under age 65) that do not exceed \$25,000, and having gross rent in excess of 20% of household income.

Under the NPH program, counties grant a property tax exemption to qualifying nonprofit corporations that provide housing to individuals age 62 or older who are within certain income limits. Through this program, payments are also made to local governments in lieu of property taxes on certain tax-exempt housing for the elderly. The nonprofit entity passes the property tax exemption on to eligible tenants in the form of reduced rent. DOR reimburses local government and schools for the exemption amount in November of each year. NPH exemptions fluctuate on an annual basis due to county exemption practices and the need to pay for some prior year exemptions. As this is a pass-through program, DOR does not have data on the nonprofits receiving the exemption or their tenants and therefore the agency is not positioned to evaluate program performance or provide robust program oversight.

Revenue Sources and Relationships

A single General Fund appropriation is made for both programs. Statute allows DOR to prorate the available funding between the two programs.

Budget Environment

For the ERA program, DOR makes payments directly to approximately 1,963 renters in November of each year who receive on average of \$401 annually. Since 2011, program participation has declined 19%. The decline has been because fewer individuals are meeting the program's financial eligibility criteria, which is not indexed to inflation. ERA payments are expected to continue to decline, but that decline in payments to renters is being offset by an increase in NPH payments to local governments for tax-exempt housing for the elderly.

There are approximately 47 (2014) exempt NPH dwellings that DOR makes an average payment to the counties of \$35,615 per dwelling in each property tax year.

Legislation was passed during the 2015 legislative session that will transfer the ERA program from DOR to the Housing and Community Services Department at the beginning of the 2017-19 biennium.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of \$5.7 million is \$113,440 (or 2%) more than the 2013-15 legislatively approved budget. The 2015-17 legislatively adopted budget fully funds both programs, based on DOR's forecast. There are no positions budgeted under this program. The cost to administer the program, which is a program expense, is budgeted by DOR under the Property Tax and Personal Tax and Compliance Divisions.

Senior Citizens' and Disabled Citizens' Property Tax Deferral

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	--	--	--	373,841
Other Funds	--	--	--	31,175,099
Total Funds	--	--	--	\$31,548,940
Positions	--	--	--	15
FTE	--	--	--	10.50

Program Description

Enacted in 1963, the Senior Citizens' Property Tax Deferral program (SCPTD) allows homeowners age 62 and over who meet program income limits to defer payment of property taxes and special assessments until the owner dies, sells the property, or stops using it as a principal residence. The state pays the tax and obtains a lien on the property for the tax and for accrued interest. For the Disabled Citizen's Property Tax Deferral, applicants must also meet income tests and be determined eligible to receive, or are receiving federal Social Security disability benefits. Under this program DOR makes annual property tax payments to counties on behalf of participants.

Revenue Sources and Relationships

Most of the Division's budget is supported by Other Funds with some General Fund. Other Funds are from the Senior and Disabled Property Tax Deferral account. The deferred taxes and interest are collected when the property is disqualified. These proceeds are used to pay counties for the property taxes of homeowners that still qualify under the program.

The program makes approximately \$14 million in property tax payments each year and receives an estimated \$19.8 million in repayments. The balance of the account will be approximately \$13 million in November of 2015.

Due to past legislative action and a recovering housing market, the liquidity of the program has improved.

Budget Environment

The program is designed to help low-income seniors and disabled citizens remain in their homes by allowing them to defer their property taxes until the home is sold. Initially, the Legislature funded the program through General Fund appropriations. However, as homes were sold and revenue began flowing back into the program, surpluses were generated starting in the mid-1990s. The Legislature allocated these surpluses to other purposes over the last decade due to the surplus of funds.

Starting in 2007, the collapse of the housing market in Oregon sharply reduced the inflow of revenue as home sales slowed dramatically. At the same time, the number of new applicants increased as financially stressed individuals looked for ways to cut costs. During 2009-11, the program experienced a severe cash flow problem and had to delay payments to counties in the last fiscal year of the biennium. The Legislature passed legislation in 2011 and 2012 to make structural changes to the program in order to keep it solvent for the long-term, however, the program still required a short-term loan of \$19 million from the Common School Fund for the 2011-13 biennium. Due to legislative action and a recovering housing market, the liquidity of the program has been stabilized and was able to repay the \$19 million loan on time.

Legislatively Adopted Budget

In prior biennia, SCPTD operated by transferring revenue to counties rather than being subject to expenditure limitation. The 2015-17 legislatively adopted budget is \$31.6 million and includes 15 positions (10.50 FTE). The adopted budget for the program includes \$30 million in payments for deferred property taxes; the transfers of \$373,841 General Fund and \$695,871 Other Funds and 8 positions (6.50 FTE) from the Property Tax Division Program; and the increase of \$479,228 Other Funds and 7 positions (4.00 FTE) for the administration of the program. Formerly, the cost to administer this program was budgeted under the Property Tax Division.

Core System(s) Replacement

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	--	3,137,432	--	3,935,414
Other Funds	--	26,528,818	5,477,044	28,909,440
Total Funds	--	\$29,666,250	\$5,477,044	\$32,844,854
Positions	--	31	32	34
FTE	--	31.00	32.00	33.92

Program Description

The Core System(s) Replacement program is comprised of two information technology projects: (1) an integrated state-wide tax, revenue collection, and management applications ("Core Systems Replacement project") and (b) a computer assisted mass appraisal software system ("Property Valuation System").

Revenue Sources and Relationships

The program is funded with a combination of General and Other Funds. Other Funds come from two sources: Article XI-Q bond financing and the recreational marijuana tax. Other Fund revenue also includes an estimated \$6.9 million in bond proceeds that were authorized and issued during the 2013-15 biennium, but remained unexpended.

General Fund supports payments to the Department of Administrative Services, State Data Center and for vendor contract maintenance, both of which are costs that are ineligible for Article XI-Q financing.

Budget Environment

CSR is implementing a commercial-off-the-shelf (COTS) product (GenTax) to provide integrated system support for state-wide tax, revenue collection, and management. The agency has adopted a "no customization" strategy, to the extent possible, and will use an iterative COTS implementation approach to configure the system. This means that DOR must adopt many GenTax business processes resulting in the reengineering of the agency's business process and procedures in order to avoid customization. The GenTax system, however, is being highly configured to meet DOR requirements.

The estimated one-time cost currently totals \$64.8 million and is to be funded with \$9.3 million of General Fund, \$54.4 million of Article XI-Q bonds, and \$1.1 million of marijuana tax proceeds. Costs above these figures include General Fund Debt Service and a \$7.3 million General Fund expenditure that occurred prior to the 2013-15 biennium for project planning.

During the 2013-15 biennium, phase-I of the project was completed and implemented on November 12, 2014 and included the corporate, cigarette, and tobacco tax programs. This phase was implemented within scope, on schedule, and within budget at a cost of \$21.5 million.

During the 2015-17 biennium, phase-II of the project is scheduled to be implemented in the fall of 2015 and includes personal income tax, emergency telecommunications tax, self-employment transit tax, senior and

disabled deferral program, and estate tax. The current “go-live” target date for this phase of the project is December 1, 2015. Phase-III, which will be implemented in the fall of 2016, includes the withholding taxes, transit payroll tax, Other Agency Accounts (i.e., collections), recreational marijuana tax, and various small programs. The budgeted cost of both phases is \$32.1 million. Enhanced fraud detection services will also be implemented this biennium, but funded outside of the Core Systems Replacement (CSR) project (\$1.1 million General Fund).

During the 2017-19 biennium, the final phase, phase-IV, is scheduled to be implemented in the fall of 2017, and will roll-out all remaining, mostly minor programs. The estimated cost of this phase is \$10.9 million.

The positions budgeted for the Core Systems Replacement project are established as permanent full-time positions, which is somewhat unusual for a project with a temporary funding source. However, most if not all of these positions will be filled by existing agency staff being transferred to the program. This is thought to help with the installation of the vendor’s product as well as provide for a more seamless transition to product maintenance and support. The transferred positions will be backfilled with limited duration staff.

The Property Valuation System (PVS) project would put in place a COTS application for the appraisal of principal and secondary industrial sites, similar to the mass property tax appraisal applications used by county governments. The PVS application would modernize a mostly manual appraisal process.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of \$32.8 million is \$3.2 million (or 10.7%) more than the 2013-15 legislatively approved budget and includes 34 positions (33.92 FTE).

The CSR General Fund budget includes: \$3,935,414 General Fund for the agency’s payments to the Department of Administrative Services for State Data Center charges related to phase-I of the project (\$1.3 million), vendor contract maintenance costs to support the ongoing maintenance of the vendor product after installation (\$2.4 million), and non-bondable expenditures related to phase-II of the project (\$240,000).

The CSR Other Funds budget of \$28.9 million includes: personal services of \$7 million, including 33 positons (33.00 FTE); \$532,500 for facility costs; \$12.6 million for vendor contract payments; \$1.3 million for independent quality assurance; \$592,900 for project management costs; \$532,500 for change leadership; \$279,000 for hardware and software; and \$3 million for a contingency reserve.

In addition, CSR Other Funds includes another \$1.1 million for vendor contract payments for recreational marijuana, but which is funded with marijuana tax.

The PVS Other Funds budget totals \$1.88 million and includes: personal services of \$175,260, including 1 position (0.92 FTE); \$56,704 for capital outlay; \$1.5 million for vendor contract payments; and \$150,000 for an independent quality assurance vendor.

Capital Debt Service and Related Costs

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	--	1,554,716	9,071,030	12,709,466
Other Funds	--	521,182	521,182	455,000
Total Funds	--	\$2,075,898	9,592,212	\$13,164,466

Program Description

The Debt Service Program provides the funding to make payments on principal, interest, and financing costs associated with the issuance of Article XI-Q bonds, which are tax exempt government securities. This program segregates Debt Service and financing costs from the agency’s operating budget.

Revenue Sources and Relationships

The Department's debt service is funded with General Fund. Financing of issuance costs are paid as Other Funds from bond proceeds with agencies receiving net proceeds for project costs.

Budget Environment

The legislative decision was to fund the Core System Replacement project using debt financing rather than the benefits-based funding model originally proposed by the agency. Article XI-Q bonds for information technology projects are financed over a 7-year period.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of \$13.2 million is \$11.1 million (or 534.2%) more than the 2013-15 legislatively approved budget. The legislatively adopted budget totals \$12.7 million General Fund and \$455,000 Other Funds. The budget includes a reduction of \$521,182 Other Funds for cost of issuance related to the prior biennium, but includes new expenditure limitation for the cost of issuance of bonds for phase-II and PVS.

The adopted budget includes \$3,684,413 in additional General Fund Debt Service added for the repayment of phase-II project cost for the Core Systems Replacement project and \$375,000 Other Funds for the cost of issuance on the new bonds. The associated debt service roll-up costs for 2017-19 biennium totals \$7 million General Fund.

The budget also includes General Fund debt service of \$71,843 for the Property Valuation System and \$80,000 Other Funds for bond issuance costs. The associated debt service roll-up costs for 2017-19 biennium totals \$872,289 General Fund.

SECRETARY OF STATE

Analyst: Bender

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	12,500,138	8,663,845	9,109,410	9,422,659
Other Funds	36,900,243	50,265,885	49,566,983	54,607,321
Federal Funds	4,115,805	5,045,103	5,144,079	6,242,689
Total Funds	\$53,516,186	\$63,974,833	\$63,820,472	\$70,272,669
Positions	197	202	199	212
FTE	195.69	200.61	198.19	210.71

Overview

The Office of the Secretary of State (SOS) is one of three constitutional offices established at statehood. The Secretary is the auditor of public accounts, the chief elections officer, and the manager of the state's records, a role that includes preserving official acts of the Legislative Assembly and the Executive Branch. The Secretary of State serves with the Governor and State Treasurer on the State Land Board which manages state-owned lands.

The agency's major divisions include:

- Elections Division – Administers state and federal elections laws, provides training to county and city election officials, political party representatives, and candidates; publishes statewide voter's pamphlets; and administers the filing and verification of initiative, referendum, and recall petitions.
- Audits Division – Carries out the Secretary's constitutional duties as auditor of public accounts to assure that public funds are properly accounted for and spent in accordance with legal requirements; the Division performs, or contracts for, financial and compliance audits and performance audits of state agencies.
- Archives Division – Stores public records and protects and provides public access to Oregon's documentary heritage; the Division provides records management advice and assistance to state and local agencies and publishes the state's administrative rules.
- Corporation Division – Responsible for four major programs: Business Registry – the filing of business names, Uniform Commercial Code (UCC) – the filing of secured transactions, Notary Public – commissioning and regulating notaries, and Office of Small Business Assistance – helping small businesses resolve disputes with state agencies.. The agency also has an Administrative Services Division that provides administrative support and executive oversight. The Administrative Services Division includes the Executive Office which houses the Secretary and her immediate staff.

Revenue Sources and Relationships

The \$9.4 million of General Fund in the 2015-17 biennium legislatively adopted budget finances 13.4% of total agency expenditures, down from 23.4% in the 2011-13 biennium. The decline reflects the replacement, in the 2013-15 budget, of General Fund support for the Archives Division with revenues from a new Other Funds assessment on state agencies. Remaining General Fund supports the Elections Division and the Administrative Services Division. The General Fund supports 51% of the Elections Division budget (\$7.6 million General Fund), and 10% of central administrative expenses in the Administrative Services Division (\$1.8 million General Fund).

The Audits, Archives, and Corporation Divisions receive no General Fund and are fully supported by Other Funds, however, portions of the Audits Division and Archives Division assessments to state agencies are financed by General Fund appropriations to those agencies. Prior to the 2013-15 biennium, the Archives Division was also supported by General Fund. In the 2011-13 biennium, the Division received \$3.5 million of General Fund which covered 63% of its total expenditures. The 2013-15 biennium legislatively adopted budget, however, replaced General Fund support with a new state government service charge assessed to state agencies.

Other Funds revenues are received from various sources, including:

- Assessments to state agencies, based on a pro-rata share of four risk factors (cash, revenues, expenditures, and full-time equivalent positions), which are the primary funding source for the Audits Division. Agencies whose operations are predominately funded with dedicated trust funds (e.g., Department of Transportation), however, are billed for actual audit costs rather than an assessment. Audits Division assessments and billings are projected to total \$25.2 million in 2015-17, and will support the Division's direct costs plus a portion of the agency's central administrative costs (the Executive Office, the Information Systems Division, and internal administrative functions). The Audits Division houses 72 full-time positions (approximately 34% of agency staff) and is fully funded from these revenues.

The Archives Division is also supported by assessments and charges to state agencies. A new assessment, established in the 2013-15 biennium budget, replaced General Fund support for the Division. The assessment is based on full-time equivalent positions and will generate \$4.7 million Other Funds in the 2015-17 biennium. This amount includes approximately \$3.8 million for ongoing expenditures, \$400,000 to establish an adequate ending fund balance (this action was not initially taken when the budget was transferred from General Fund in the 2013-15 biennium budget), plus \$500,000 in one-time assessments for new shelving in the Archives Building. The Division also assesses agencies for the storage and retrieval of inactive, non-permanent records maintained by the Division, and for publication of administrative rules. Those assessments are projected to total \$1.4 million in 2015-17. Charges for use of the State Records Center are also projected to total \$1.4 million. The Archives Division houses 22 full-time positions (approximately 10% of agency staff).

- Licenses and fees are collected from business filings, secured transactions, and notaries public to support the General Fund and the Corporation Division. Revenues from these sources are projected to total \$77.1 million in the 2015-17 biennium. The legislatively adopted budget transfers \$61.6 million of Corporation Division revenue to the General Fund. The remaining \$15.5 million is retained by the agency. The retained revenues plus the use of \$3.8 million for the Division's beginning Other Funds fund balance fully support the Division's operations (\$9.3 million Other Funds), and provide \$10 million of Other Funds for the Administrative Services Division (approximately 54% of the Administrative Services Division total budget). The Corporation Division houses 35 positions (approximately 17% of agency staff), and is fully funded by these Division licenses and fees.

In 2009, the Legislature passed HB 3405 which was subsequently referred by petition to the voters and approved as Measure 67. The measure doubled the fee to obtain a notary public commission, and increased the UCC filing fee by 50%. It also increased business registry fees, but allocated the full amount of the increase to the General Fund. The agency continues to retain the revenue from the first \$20 of each business registration fee. Significantly for the agency budget, however, was a provision in HB 3405 that allowed the agency to retain all of the fee revenues dedicated to it. Previously, the agency had only been able to retain a cash balance equivalent to two months of operating expenditures for the Corporation Division, from the notary public commissions, UCC filing fees, and the initial \$20 of the business registry fee it received. HB 3405 allows the agency to retain all of these proceeds.

- Sale of publications, including the annual Oregon Administrative Rules Compilation, the monthly Oregon Bulletin which provides updates to the Compilation, and the Oregon Blue Book, generate revenues for the Archives Division. Sales income is projected to total approximately \$220,000 in the 2015-17 biennium.
- County payments for the Oregon Centralized Voter Registration (OCVR) system. Counties support a portion of OCVR operating costs. County payments in the 2015-17 biennium will total approximately \$1 million.
- Internal transfers of Other Funds revenues are made to the Administrative Services Division by the Audits and Corporations Divisions for a proportionate share of administrative costs.

In past biennia, Federal Funds revenues were received under the Help America Vote Act (HAVA) and the Federal Voting Assistance Program (FVAP). No further support from the federal government is expected for either of these two programs. As was the case for the past several biennia, however, the HAVA and FVAP programs will spend Federal Funds revenues already received by the state, and almost all of the agency's Federal Funds expenditures will be for these programs. Furthermore, approximately \$620,000 of Federal Funds revenue is projected from interest earnings on previously-received HAVA funds. The 2015-17 biennium began with approximately \$7.4 million of program funds remaining. These fund balances, plus the interest earnings, will be sufficient to finance \$6.2 million of Federal Funds program expenditures in the 2015-17 biennium budget; however, the \$1.8 million that will remain at the end of the biennium will be insufficient to continue fully supporting the programs starting in 2017-19.

The agency is also budgeted to receive Federal Funds revenues from previously-awarded federal grants. The 2015-17 biennium budget includes \$40,000 of Federal Funds in the Archives Division from these grants.

Budget Environment

The Secretary of State is a separately elected, constitutional office, and as such, has not been subject to the Governor's budget review. In 2005, the Legislature modified the statutes relating to the Governor's budget development and allotment system to include the Secretary of State and the State Treasurer in those processes. In 2007, however, the Legislature reversed this action and again excluded the two offices from the Governor's review process.

General Fund expenditures for the Secretary of State will fluctuate depending on the number and type of elections conducted. For primary and general elections, the counties are responsible for the costs of conducting the elections. When statewide special elections are held, the Secretary reimburses counties for those costs. Costs associated with the production and distribution of voters' pamphlets will also vary depending on the number of candidates, measures, and measure arguments filed. In the 2015 session the Legislature passed HB 2177, which directs the Secretary to use Oregon Department of Transportation electronic records to add eligible voters to voter registration rolls. The Legislature appropriated \$384,000 General Fund for payments to counties to address costs associated with the consequent increase in the number of registered voters, plus an additional \$384,000 General Fund to the Emergency Board to also be available for this purpose if needed.

Ongoing HAVA requirements will continue to influence the Secretary of State's budget for the foreseeable future. HAVA was passed in October 2002 and contains minimum federal standards for various aspects of election administration, which include developing a centralized voter registration system, replacement of punch card machines, privacy and independence in the voting process, access for people with disabilities, and voter outreach. Although the agency still holds approximately \$7.4 million of Federal Funds from previous appropriations of HAVA funds, no further support from the federal government for HAVA activities is anticipated.

Legislatively Adopted Budget

The Secretary of State's total funds budget of \$70.3 million is a \$6.3 million (or 9.8%) increase over the 2013-15 legislatively approved budget, and is 10.1% above the current service level. The budget includes 212 positions (210.71 FTE), a 5% increase over the 2013-15 biennium level. General Fund support of \$9.4 million represents an 8.8% increase over the prior biennium. Approximately \$1 million of the increase in Other Funds (and in the total funds budget) reflects a re-categorization of county support payments for the Oregon Centralized Voter Registration system within the SOS budget. The increase is a technical adjustment to correctly include the county payments in the agency budget, and does not represent an actual increase in expenditures or revenues.

The budget supports a number of programs above the current service level, paid for with both General Fund and Other Funds. These budget enhancements include \$1.8 million and 9 positions to enhance Information Systems Division services, \$1.1 million for implementation of HB 2177 (Motor Voter) with an additional \$384,000 special purpose appropriation to the Emergency Board for the bill, \$624,000 for Oregon Business Registry enhancements, \$500,000 for additional shelving in the Archives Building, \$347,928 and two Auditor positions for the Audits

Division, and \$229,952 and one additional position for the Office of Small Business Assistance. Finally, the budget transfers \$6.2 million of Corporation Division revenues to the General Fund, in addition to revenues that are already transferred by statute. This increases total Corporation Division revenue transfers to the General Fund to a total of \$61.6 million in 2015-17.

Administrative Services Division

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	1,794,821	1,998,063	2,071,613	1,800,242
Other Funds	13,001,846	15,602,557	13,971,497	16,614,384
Total Funds	\$14,796,667	\$17,600,620	\$16,043,110	\$18,414,626
Positions	51	55	53	62
FTE	50.69	54.61	52.69	61.37

Program Description

The Administrative Services Division provides policy direction for the agency and administrative support functions to support the Elections, Audits, Archives, and Corporation Divisions. Administrative Services is organized functionally into four areas: 1) the Executive Office, 2) the Business Services Division, 3) the Information Systems Division, and 4) the Human Resources Division.

The Executive Office includes the Secretary and the Secretary's immediate staff. The office provides policy direction and daily management of the agency. The executive staff is responsible for strategic planning, policy development, and legislative and press relations. In addition, the office staffs the State Land Board. The Business Services Division provides accounting, budgeting, cashiering, payroll, purchasing, contract administration, safety and risk management, fixed assets, and inventory control services for the agency. The Information Systems Division provides centralized information technology services including database administration, Internet development, and application development and maintenance for the agency. The Human Resources Division provides advice on human resources policies and procedures, maintains employee records, and provides recruitment and training services for the agency. A majority of the Division's budget supports Information Systems. The 62 positions funded in the 2015-17 legislatively adopted budget are apportioned to the four areas as follows: Executive Office – 6 positions; Business Services Division – 15 positions; Information Systems Division – 38 positions; Human Resources Division – 3 positions.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget is an \$814,006 (or 4.6%) increase over the prior biennium level, and is 14.8% above the current service level (CSL). General Fund is reduced 9.9% below the prior biennium and is 13.1% below the current service level, however, the reduction is a result of a one-time fund shift and does not require a reduction in total expenditures. Nine full-time positions are established, resulting in a net position count increase of 7 (because 2 limited duration positions were phased out in the CSL). This increased the position count from 55 in the prior biennium to 62 (a 12.7% increase).

Adjustments to the Administrative Services Division budget include:

- New Information Technology Positions – (\$533,529 General Fund, \$1,253,371 Other Funds, and 9 full-time positions [8.68 FTE]) The budget adds new positions to the agency's Information Systems Division, to support IT infrastructure security and application development and enhancements. The positions include 7 permanent and two limited duration positions. Two General Fund-supported positions established to support Elections Division IT systems were approved on a limited duration basis, pending a planned review of development plans for the Oregon Election System for Tracking and Reporting (ORESTAR) system.
- Oregon Business Registry Enhancements – (\$624,000 Other Funds) The budget also supports a one-time information technology project at a cost of \$624,000 Other Funds, to continue the modernization of the

Business Entity Registration and Information (BERI) system and Oregon Central Business Registry initiated in the prior biennium budget. Funding for the project is supported with Corporation Division revenues. Modernization components include expanding online filing capability to additional registration filing types, including additional local government business licensing capabilities into BERI, and expanding the Oregon Central Business Registry to accommodate additional state agency business licenses.

- Fund Shift – (-\$800,000 General Fund, +\$800,000 Other Fund) \$800,000 of personal services expenditures in the Administrative Services Division were shifted from General Fund to Other Funds. The shift is approved on a one-biennium basis only, and the fund source for the expenditures will be restored to General Fund in the development of the agency's 2017-19 biennium current service level budget. This action reduced the General Fund required to support the agency budget, but it does not require any reduction in expenditures. The agency will use \$800,000 of accumulated Other Funds fund balances in lieu of General Fund.

Elections Division

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	7,195,378	6,665,782	7,037,797	7,622,417
Other Funds	4,976	128,032	131,974	1,145,922
Federal Funds	4,085,347	4,876,234	4,969,755	6,202,689
Total Funds	\$11,285,701	\$11,670,048	\$12,139,526	\$14,971,028
Positions	20	20	20	21
FTE	20.00	20.00	20.00	20.50

Program Description

The Elections Division administers state and federal elections laws, provides training to county and city election officials, political party representatives, and candidates; publishes statewide voter's pamphlets; and administers the filing and verification of initiative, referendum, and recall petitions.

Federal Funds in the Elections Division budget come from two sources. The federal Help America Vote Act (HAVA) requires states to implement a variety of election process reforms including replacement of punch card voting systems, purchasing voting equipment that is accessible to people with disabilities, and developing a centralized voter registration system. Oregon, along with other states, received funds under HAVA to support these activities. The Federal Voting Assistance Program (FVAP) grant funds are one-time Federal Funds available to provide voting assistance to uniformed service members, their families, and citizens living outside the U.S.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget for the Elections Division is a 28.3% increase over the prior biennium level, and is 23.3% above the current service level. Approximately \$1 million of the increase, however, represents bringing ongoing county-supported expenditures for the OCVR into the SOS budget. Although these expenditures have been made by the Elections Division in the past, they were not included in the Division's budget. Bringing the expenditures into the budget does not reflect any increases in expenditures. Excluding the additional expenditures that are included solely due to this action, the budget shows a 19.6% increase over the prior biennium, and a funding level 15% above CSL.

General Fund in the budget is increased 14.4% over the prior biennium level, and is 8.3% above the current service level. The General Fund budget funds the following program enhancements:

- HB 2177 (Motor Voter) Implementation – (\$384,000 General Fund, \$753,445 Federal Funds, and one limited duration position [0.50 FTE]) HB 2177, passed in the 2015 legislative session, allows Oregon Department of Transportation (ODOT) electronic records to be constituted as a completed voter registration card. The Secretary of State is directed to use the ODOT records to add persons who are qualified to vote, but not

already registered, to the elector registration list, unless they decline registration within 21 calendar days of notification.

The budget adds \$384,000 General Fund for payments to counties for costs associated with the impact of HB 2177 on voter registration rolls. It also establishes a \$384,000 General Fund special purpose appropriation to the Emergency Board, for the Secretary of State, for payments to counties for additional costs incurred in implementing HB 2177. The Secretary may request allocation of these moneys after submitting a report to the Emergency Board on the impact of HB 2177 on voter registration rolls and county costs.

The budget also increases Federal Funds expenditure limitation by \$753,445, and establishes one limited duration position (0.50 FTE) with the Secretary of State, for costs to the Elections Division to implement HB 2177. The position will serve as the project manager. These expenditures, which will be funded by federal Help America Vote Act funds, include Oregon Centralized Voter Registration software and hardware upgrades. An amount of \$710,829 of the total Federal Funds expenditure limitation is approved on a one-time basis, and will be phased out in the development of the agency's 2017-19 current service level budget.

- ORESTAR Upgrades – (\$285,000 General Fund) Funding will be used to upgrade the Oregon Election System for Tracking and Reporting (ORESTAR) system. ORESTAR is an in-house system maintained by the Secretary of State. The funding addresses the agency's short-term plan to implement ORESTAR improvements and maintenance needed for the 2016 primary and general elections.

The agency requested an additional \$1.9 million to implement a long-term ORESTAR plan for the 2018 elections and beyond, but this request was not funded. The long-term plan could include outsourcing all or part of the maintenance and support of the system. A specific plan, however, has not been developed. The Secretary may submit a detailed long-term plan for ORESTAR upgrades and an associated funding request to the 2016 Legislative Assembly.

The budget includes one additional enhancement to the Elections Division that has no General Fund component:

- Oregon Centralized Voter Registration Modernization and Other Funds Limitation Increase – (\$488,710 Federal Funds and \$1,013,990 Other Funds) The budget increases Federal Funds expenditure limitation by \$488,710, including \$383,710 to fix bugs in the Oregon Centralized Voter Registration (OCVR) system and \$105,000 for testing of technology improvements to OCVR. Federal HAVA funds will finance these projects. The budget also increases Other Funds expenditure limitation by \$1,013,990, the amount of OCVR program maintenance costs that the Division finances from county payments for use of the system. The increase in Other Funds expenditures is a technical adjustment to correctly include the ongoing county payments in the agency budget, and does not represent an actual expenditure increase.

HAVA requirements will continue to impact the Secretary of State's budget in the future. HAVA was passed in October 2002 and mandates minimum federal standards on various aspects of election administration, including maintenance of a centralized voter registration system, replacement of punch card machines, privacy and independence in the voting process, access for people with disabilities, and voter outreach. Although the agency still holds approximately \$7.4 million of Federal Funds from prior-biennia appropriations of HAVA and FVAP funds, no additional funding from the federal government is anticipated for these programs.

As was the case in prior biennia, the HAVA and FVAP programs will spend Federal Funds revenues already received by the state, and interest earnings on those revenues. Almost all of the agency's Federal Funds expenditures will be for these programs. The \$7.4 million of remaining Federal Funds plus \$620,000 of interest earnings are sufficient to finance \$6.2 million of program expenditures in the 2015-17 biennium budget; however, the \$1.8 million that will remain at the end of the biennium will not be sufficient to fund the programs in the 2017-19 budget and beyond.

Audits Division

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	14,288,665	18,852,866	19,634,571	19,907,171
Total Funds	\$14,288,665	\$18,852,866	\$19,634,571	\$19,907,171
Positions	71	71	70	72
FTE	71.00	71.00	70.00	71.84

Program Description

The Audits Division carries out the Secretary's constitutional duties as auditor of public accounts to assure that public funds are properly accounted for and spent in accordance with legal requirements. The Division performs, or contracts for, financial and compliance audits and performance audits of state agencies, and information technology audits of state computer systems. The Division further monitors approximately 1,700 local government audits, and operates the Government Waste Hotline.

The Division's budget is entirely supported by Other Funds assessments and billings to state agencies and local governments. Revenue from these sources will total \$25.2 million in the 2015-17 biennium, a 5.8% increase over the prior biennium level. The agency will transfer \$5.9 million of these revenues to the Administrative Services Division to support central administrative functions, and retain \$19.3 million to operate the Audits Division.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget for the Audits Division is a 5.6% increase over the prior biennium level, and is 1.4% above current service level. The budget increased Other Funds by \$347,928, and added two full-time positions (1.84 FTE), to establish one additional Information Technology Audit team. The team will include one State Auditor 3 position and one State Auditor 2 position, with funding effective September 1, 2015.

Archives Division

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	3,509,939	--	--	--
Other Funds	2,057,747	7,450,661	7,126,702	7,610,470
Federal Funds	30,458	168,869	174,324	40,000
Total Funds	\$5,598,144	\$7,619,530	\$7,301,026	\$7,650,470
Positions	22	22	22	22
FTE	22.00	22.00	22.00	22.00

Program Description

The Archives Division stores public records and protects and provides public access to Oregon's documentary heritage. The Division provides records management advice and assistance to state and local agencies and publishes the state's administrative rules.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget for the Archives Division is a 0.4% increase over the prior biennium level, and is 4.8% above the current service level. The budget continues the elimination of General Fund support implemented in the 2013-15 budget. The Division is fully supported by Other Funds primarily from assessments and charges for services, with some additional revenue from sales and federal grants.

The budget continues a new state government service charge established in the 2013-15 biennium to finance the operations of the Archives Division that were previously supported by the General Fund. This charge is

apportioned to state agencies on the basis of their full-time equivalent employment counts. The new Archives Division assessment revenues are spent in the Secretary of State's budget as Other Funds. The assessment will generate a total of \$4.7 million Other Funds in the 2015-17 biennium, of which approximately \$3.8 million is for ongoing expenditures, and \$400,000 is to establish an adequate ending balance (this action was not initially taken when the budget was transferred from General Fund in the 2013-15 biennium budget). The assessment revenue also funds one program enhancement: \$500,000 of Other Funds assessment revenue is provided in one-time funding to replace approximately one-quarter of the original shelving in the Archives Building with compact shelving, to increase capacity to store the permanent records of the state. The funded shelving project is the second phase of a replacement project first supported in the 2013-15 budget, also at the \$500,000 level. The decline in Federal Funds expenditures reflects the expiration of a Federal grant that had supported expansion of the Electronic Record Management System.

Corporation Division

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	7,547,009	8,231,769	8,702,239	9,329,374
Total Funds	\$7,547,009	\$8,231,769	\$8,702,239	\$9,329,374
Positions	33	34	34	35
FTE	32.00	33.00	33.50	35.00

Program Description

The Corporation Division is responsible for four major programs: 1) Business Registry – the filing of business names; 2) Uniform Commercial Code – the filing of secured transactions; 3) Notary Public – commissioning and regulating notaries; and 4) the Office of Small Business Assistance – added in the 2013 legislative session, this office works with small businesses to resolve issues with state agencies.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget for the Corporation Division is a 13.3% increase over the prior biennium level, and represents a 7.2% increase over the current service level. The budget establishes a new position and expands an existing half-time position to full-time, representing a 4.5% increase in FTE over the current service level.

The Corporation Division receives no General Fund, and is entirely funded by fee revenues. The primary funding source is fees charged to register business entities in the state. The agency retains \$20 of each business registration fee. The rest of the fee amount is transferred to the General Fund. Under current law, approximately 25% of total business registration fee revenues are currently retained by the agency and approximately 75% are transferred to the General Fund. The approved budget, however, includes a one-time additional transfer to the General Fund in the amount of \$6.2 million for the 2015-17 biennium, which will bring the total transfer amount for the biennium to \$61.6 million.

The remaining \$15.5 million of revenues are retained by the agency. The retained revenues, plus the use of \$3.8 million for the Division's beginning Other Funds fund balance, fully support the Division's operations (\$9.3 million Other Funds). Furthermore, an additional \$10 million of the revenues are transferred to support Other Funds expenditures in the Administrative Services Division budget. The budget will allow the agency to retain a \$2.7 million Other Funds ending balance in the Corporation Division, sufficient to finance 3.4 months of operations.

The budget adds for the Division includes the following enhancements:

- Staffing – (\$229,952 Other Funds, 1 position [1.50 FTE]) The budget adds a third full-time position (1.00 FTE) for the Office of Small Business Assistance, to address workload increases. The Office facilitates interactions

between small businesses and state regulatory agencies, and works to resolve issues and complaints arising from these interactions. Expenditures are paid from business registry fee revenues that would otherwise be available for transfer to the General Fund. The budget also increases one existing position from half-time to full-time (plus 0.50 FTE) to address workload increases that have resulted from the relocation of the Division's Call Center. Operation of the Call Center was transferred from the Oregon State Correctional Institute to agency staff in 2014, after core systems were migrated to an internet-based technology. Call Center operations needed to be relocated at that point since inmate access to the internet is restricted by Department of Corrections policy.

- Fee and License Charges – (\$432,000 Other Funds) Other Funds increases were approved to address new costs to the Division's operations. Businesses and individuals are increasingly using credit cards and paying Corporation Division fees online. Credit card merchant fees increased from approximately \$720,000 in the 2011-13 biennium to approximately \$960,000 in 2013-15. The budget adds \$240,000 Other Funds for the impact of the cost increase. The budget also includes \$192,000 Other Funds for a subscription to a vendor service to update the License Directory, Business Wizard, and Business Information Center applications. The agency did not spend \$850,000 included in the 2013-15 budget to finance an in-house solution, and will purchase upgrade services on a subscription basis from the vendor instead.

STATE TREASURER

Analyst: Borden

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	--	--	--	1,658,284
Other Funds	33,698,125	47,996,510	49,103,524	61,114,368
Other Funds (NL)	3,542,141	--	--	--
Total Funds	\$37,240,266	\$47,996,510	\$49,103,524	62,772,652
Positions	85	96	92	123
FTE	83.48	91.30	90.60	117.45

Overview

The Oregon State Treasurer (OST) acts as the “banker” for the State of Oregon by maintaining all state agency financial accounts, and by investing state funds that are not needed to meet current expenditure demands, including the state’s Trust Funds and bond fund proceeds. OST coordinates and approves state bond sales, manages the public funds collateralization program for all financial institutions holding public funds, and pays on bonds submitted by bondholders. Additionally, OST invests excess funds for participating local governments. OST is also responsible for administration of the Oregon 529 Savings plan(s).

OST is overseen by the State Treasurer, which is a statewide elected official whose authority is established by Article VI, Section 1 of the Oregon Constitution and by various state laws. The Treasurer is the investment officer for the Oregon Investment Council (OIC), which is responsible for establishing the state’s investment policy. Statute designates the State Treasurer as the sole banking and cash management officer of the state. The Treasurer also serves on the State Land Board and chairs the State Debt Policy Advisory Commission, among other duties and responsibilities.

Although considered an Executive Branch agency, OST, as a separately elected, constitutional office, operates independent of the Governor and the rest of the Executive Branch. The Executive Branch makes no recommendation and exercises no budgetary control over the State Treasurer’s budget. That responsibility falls solely to the Legislature.

OIC has even broader statutory authority. OIC is not subject to legislative budgetary control (i.e., expenditure limitation) and any expense incurred by OIC is netted against investment earnings.

Revenue Sources and Relationships

OST is funded with both General and Other Funds. General Fund loans support the development of the Oregon Retirement Savings Board and the Achieving a Better Life Experience Act (ABLE) program, an Oregon 529 Savings plan. Agency-wide Other Funds revenue totals \$52.1 million. The agency’s 2015-17 beginning cash balance is \$15.3 million and its estimated ending cash balance is equal to \$6.3 million, which equates to 2.5 months of operating reserves.

Most OST programs are supported by their own fees and charges. OST has broad authority to set its fees within statutory limits. The revenue is generated primarily from charges based on the value of managed portfolios, fees charged for the number and type of banking transactions it processes, the proportion of outstanding debt held by agencies, fees for new bond issuances, charges for bond and coupon redemptions, and on holdings of state funds in excess of FDIC insurance levels. Of note is that as the value of managed investment portfolios increase, so too does the agency’s ability to generate fee revenue while remaining within its statutory limits.

The agency's central administrative functions are financed by a portion of each program's revenues that are internally assessed to support those functions.

Budget Environment

The OST budget is driven by the number and complexity of financial transactions, the complexity and diversity of investments, the number and kinds of bond transactions, and the participation levels in other programs such as the Public Funds Collateralization Program and the Oregon 529 Savings Network. The agency processes an estimated 37 million financial transactions biennially, including deposits, electronic fund transfers, and check issuances.

OST manages, under the direction of the OIC, approximately \$90 billion in short, intermediate, and long-term assets, the largest of which is the \$68.9 billion Oregon Public Employees Retirement Fund (OPERF). SB 270 (2013), which moved Oregon's public universities to independent status, has resulted in some university funds being withdrawn and managed by the institutions rather than OIC.

Long-term asset values have recovered from pre-2008 financial crisis levels. However, the OIC and OST investment staff expect lower long-term investment performance going forward. The expectation is for returns around 7.5% on an average annual basis. This has broad budgetary implications for state and local governments as investment returns fund approximately 73% of Public Employee Retirement System pension costs.

Beginning in 2011, OST and OIC hired seven vendors to conduct 18 studies of various aspects of the Investment Program at a cost of over \$750,000. These studies range from a current state assessment to a target operating model. Most of the studies pertained primarily to the operational, rather than investment risk of the Investment Division. The studies identified significant and systemic deficiencies within the Investment Division. Remaining unaddressed for years, these deficiencies include misaligned roles and responsibilities, inadequate internal controls, insufficient risk management, weak investment compliance, insufficient management reporting, lack of a formal approval process for decision-making, segregation of duties issues, outdated policies and procedures, inadequate investment decision support systems, and overreliance on manual processes.

The Legislature, after some consideration, again rejected the State Treasurer's renewed proposal to establish the OIC as a public corporation, which would have placed OIC and the OST Investment Division outside of legislative control (SB 134/HB 2733). Instead, the Legislature significantly increased the staffing and resources devoted to the Investment Division as the first step in addressing the deficiencies within the OST's Investment Division.

In addition to, but apart from, the State Treasurer's budget, OIC has also expended trust funds to address operating deficiencies within OST's Investment Management Division. These expenditures include contracting with BlackRock Solutions for middle office services and enhancing the work performed by State Street Bank as custodian and provider of back office services.

The Legislature enacted HB 2960, which created the Oregon Retirement Savings Board. The Board is charged with establishing a defined contribution retirement plan for people whose employers do not offer a qualified retirement plan under federal law. Also, SB 777 became law, which permits the creation of tax-free, state-based savings accounts to pay for disability-related expenses. HB 3199 put in place a permanent framework that divides administrative responsibilities for the public university bond program between the Department of Administrative Services and the Higher Education Coordinating Commission thereby relieving OST of these responsibilities.

A measure (HB 2748) transferring responsibility for the Public Infrastructure Commission to the Department of Administrative Services failed to become law and there is no longer funding in OST's budget for these activities.

The Legislature expressed concern that HB 2140 (2013), which expanded local government participation in the intermediate term pool, had not been fully implemented. OST is assessing approaches to potential

implementation, including local government demand in terms of participation and level of investment, options for program structure, cost and resource needs, and other related factors.

The Legislature continued another major information technology investment to upgrade and modernization the agency's cash management applications.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of \$62.8 million is \$14.8 million (or 30.8%) more than the 2013-15 legislatively approved budget and includes 92 positions (89.89 FTE). The budget also includes employee compensation that provides merit, cost-of-living, and performance-based compensation. The adopted budget included standard adjustments for state government service charges and other agency assessments (\$170,653).

Treasury Services

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	\$30,187,753	43,055,075	44,072,940	55,789,369
Other Funds (NL)	3,542,141	--	--	--
Total Funds	\$33,729,894	\$43,055,075	\$44,072,940	\$55,789,369
Positions	83	93	90	116
FTE	81.48	88.88	88.60	112.20

Program Description

Treasury Services houses the following activities:

- Investment Management Program/Investment Operations/Investment Compliance/Incentive Compensation – Invests short, intermediate, and long-term state-held funds. Investment Officer compensation has a performance-based component, which ties a portion of Investment Officer maximum compensation to the performance of the investment portfolios that an Investment Officer manages.
- Cash Management Program/Oregon Short-Term Fund/Financial Institution Banking Fees – Processes monetary transactions for all state agencies and over 1,500 local government accounts and pays the cost of banking services provided the state.
- Debt Management Program – Coordinates and approves issuance of state agency and authority bonds. The program also issues Tax Anticipation Notes.
- Public Funds Collateralization Program – Assures that public funds held in more than 40 participating Oregon banks and credit unions are properly collateralized.
- Executive Services/Information Technology – Provides the general administrative functions of the agency, including information technology, information technology security, human resources, project management, procurement, and the State Treasurer's salary and staff. The agency procures budget and accounting services from the Department of Administration Services.

There are additional Investment Division costs borne by OIC that occur as revenue transfers rather than as expenses and therefore are not subject to legislative expenditure limitation. These costs include investment fees, commissions, and other expenses for private third-party investment managers and brokerage commissions, charged against OIC-supervised investment funds. For just the Oregon Public Employees Retirement Fund, these charges exceed \$504.7 million, or \$1 billion on a biennial basis, based on fiscal year 2014.

Revenue Sources and Relationships

Treasury Services program expenditures are financed with Other Funds, although portions of the banking and Debt Management program charges to state agencies are financed by General Fund appropriations to those agencies. Each OST program is supported by its own charges. The agency's central administrative functions, in turn, are financed by a portion of each program's revenues that are internally assessed to support those

functions. The combined sum of these Other Funds revenues is projected to total \$46.7 million in the 2015-17 biennium.

Investment Management fees are estimated to generate \$25.6 million. OST may deduct monthly a maximum of 0.25 of a basis point (.0025%) of the most recent market value of assets under management for administration and portfolio management fees. The fee is calculated on a sliding scale as noted below:

Graduated Scale (Monthly Valuation)	Flat Fee	Basis Point Charge	Percent Charge
< \$10 million	--	0.25	0.0025%
\$10 to \$100 million	\$250	0.25	0.0025%
\$100 to \$500 million	\$2,500	0.24	0.0024%
\$500 to \$1 billion	\$12,100	0.22	0.0022%
>\$1 billion	\$23,100	0.12	0.0012%

OST estimates that it will receive \$10.3 million in fees from the Oregon Short Term Fund (OSTF). OSTF invests excess cash for durations of less than one year. The value of the OSTF was \$13.5 billion, as of June 30, 2015. This includes the assets of the Oregon Local Government Investment Pool (OLGIP), which is the vehicle for local governments and Oregon's nine federally recognized tribes to invest in the OSTF. The proceeds from Tax Anticipation Notes issued by OST and a portion of the Oregon Public Employees Retirement Fund are also invested in the OSTF. Statutorily, OST may deduct monthly 0.435 of a basis point of the most recent market value of assets under management directly from the OSTF for administration and portfolio management fee. The current monthly rate OST charges this Fund is 0.3 of a basis point (0.003%).

OST estimates that it will receive \$140,090 in fees from the Oregon Intermediate Term Pool (OITP). OITP invests excess cash for durations of up to 10 years. HB 2140 (2013) allows local governments to invest in a commingled intermediate term pool that might look like the OITP, but would likely be administered separately from the OITP. Such an option was previously only available to state agencies. The value of the OITP was \$285.1 million as of June 30, 2015. The Pool began on June 30, 2010. OST may deduct monthly 0.435 basis points of the most recent market value of assets under management directly from the OITP for administration and portfolio management fee. The current monthly rate OST charges the Pool is 0.435 of a basis point (0.00435%).

OST may pass along charges to each state agency for private banking services based on the number and type of transactions processed on their behalf. Local government investment pool participants are also charged for LGIP banking services in a similar manner. Banking fee revenues are estimated to be \$5.2 million.

OST charges bank and credit union depositories for the reasonable expenses of the agency in connection with the services, duties, and activities of the Public Funds Collateralization Program. Charges are calculated quarterly as follows: each bank and credit union depository is charged a flat fee of \$250 for their participation in the pool; and program expenses not covered by the \$250 flat fee are allocated to bank and credit union depositories holding state funds in excess of FDIC insurance levels. Combined, these fees are estimated to total \$886,835 for the biennium.

OST may charge state agencies and municipalities fees to offset the costs of providing bond issuance, tracking, and reporting services. If the fees are not sufficient to fully fund OST debt management operations, an assessment is made quarterly against each state agency with outstanding debt issuances. Debt Management revenues are estimated to total \$4.1 million.

Budget Environment

The state's cash management system is a highly integrated suite of 19 cash management applications that operate as a conduit between financial institutions, state treasury accounts, the state's financial management applications (accounting system), state agencies, and local governments.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of \$55.8 million is \$12.7 million (or 29.6%) more than the 2013-15 legislatively approved budget and includes 116 positions (112.2 FTE). The budget also includes employee compensation increases providing merit, cost-of-living, and performance-based compensation. Other budget changes include:

- \$552,330 Other Funds for the Investment Management Program to add one permanent full-time position (1.00 FTE) as a Senior Private Equity Investment Officer.
- \$5.2 million Other Funds for the Investment Management Program to add 17 permanent full-time positions (15.01 FTE). This package adds investment officer staff, research staff, information technology staff, administrative staff, and establishes an investment compliance office.
- \$1.6 million Other Funds for the Investment Management Program to add 6 permanent full-time positions (5.59 FTE). This package adds additional investment officer staff, including a director of investment operations, a chief compliance officer, a data architect, a data steward, and a senior internal auditor.
- \$922,171 Other Funds for the Information Security Management Program to establish an enterprise-wide Information Security Management Program and to add two positions (2.00 FTE).
- \$4.5 million Other Funds for the Cash Management Business Systems Renewal Project.
- \$832,438 Other Funds reduction to phase-out \$1,115,640 for the Public Infrastructure Commission and the West Coast Infrastructure Exchange and add \$283,202 for a contract for budget and accounting services with the Department of Administrative Services, Shared Client Services.

In addition to, but apart from, the OST's budget, OIC has also expended funds to address deficiencies at the OST's Investment Division. OIC is expending an estimated \$15.2 million in one-time and ongoing costs for a state of the art investment operations platform providing securities trading, risk management, investment accounting, and market data services. The project is expected to be completed by the fall of 2015.

A budget note directs OST to report on its hiring of newly authorized positions and associated improvements to the areas of risk management; compliance; investment decision support systems; investment analysis; data security; management reporting; internal controls; segregation of duties issues; internal auditing; and the updating of policies and procedures.

Oregon 529 Savings Network

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	--	--	--	\$664,743
Other Funds	3,510,372	4,941,435	5,030,584	5,324,999
Total Funds	\$3,510,372	\$4,941,435	\$5,030,584	\$5,989,742
Positions	2	3	2	5
FTE	2.00	2.42	2.00	3.75

Program Description

The Legislature enacted SB 777, which broadened the scope of Oregon's existing 529 savings plan. The measure formed a single Oregon 529 program by merging the existing Oregon 529 College Savings Network with a newly established Achieving a Better Life Experience Act (ABLE) program that permits the creation of tax-free, state-based savings accounts to pay for disability-related expenses.

Both of the Oregon plans are overseen by the five-member Oregon 529 Savings Board.

Revenue Sources and Relationships

The ABLE Program is supported by a General Fund appropriation; however, the General Fund appropriation is to be repaid with future administrative fees.

The 529 [College] Savings Network receives Other Funds from an annual assessment on plan assets equal to 5 basis points (0.05%) of total plan assets (and is calculated and remitted to the Network monthly by the Oregon College Savings Plan and MFS 529 Savings Plan, sold through financial advisors. The [College] Savings Network revenues are projected to total at least \$5.4 million with interest earnings of \$20,070.

Budget Environment

ABLE program expenses qualify as disability-related if they are for the benefit of an individual with a disability and are related to the disability (including education, housing, transportation, employment support, health, prevention, and wellness costs; assistive technology; personal support services; and other expenses). An ABLE account holder's balance is meant to supplement, but not supplant, benefits provided through private insurances, the Medicaid program, the supplemental security income program, the beneficiary's employment, and other sources.

The Oregon 529 [College] Savings Network administers two college savings programs designed to encourage people to save money for future education costs: a state plan and a plan offered through private investment advisors. Participants can choose from a variety of investment options. Earnings on the investments are exempt from income taxes if used for qualified educational expenses when withdrawn, and some contributions may be claimed as a deduction against income for state income tax purposes. Although administered by the Treasurer, participant enrollment, investment management, and participant support is provided by third party contractors.

The Oregon 529 [College] Savings Network has approximately 154,688 accounts, 149,964 unique beneficiaries, with a total value of \$2.3 billion, of which \$836.3 million (or 37%) is held for out-of-state participants. The state plan (direct-sold) had 80,064 accounts (total assets of \$1.2 billion), and the plan sold through private financial advisors had 74,604, accounts (total assets of \$1.1 billion), as of December 31, 2014. The participation rate of Oregon residents 25 years and younger is 8.6%, as of June 30, 2014.

Legislatively Adopted Budget

The legislatively adopted budget totals \$6 million and includes \$664,743 General Fund, \$5.3 million Other Funds, and five positions (3.75 FTE). This is \$1.1 million (or 21.2%) more than the 2013-15 legislatively approved budget. The budget also includes employee compensation providing merit and cost-of-living increases. Two enhancements above the current service level are included in the agency budget:

- \$306,018 Other Funds for the 529 College Savings program to add one permanent full-time position whose duties include statewide outreach, outreach to financial advisors, and work on a marketing plan (1.00 FTE).
- \$664,743 General Fund for the ABLE program to add two permanent, full-time positions (0.75 FTE).

Oregon Retirement Savings Board

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	--	--	--	993,541
Total Funds	--	--	--	\$993,541
Positions	--	--	--	2
FTE	--	--	--	1.50

Program Description

The Oregon Retirement Savings Board (ORSB) is a new program created by HB 2960. The ORSB is charged with the establishment of a defined contribution retirement plan for people whose employers do not offer a qualified retirement plan under federal law. The ORSB plan may only be established if the plan does not qualify as an employee benefit plan under federal law.

Before establishing a plan, the ORSB must conduct market and legal analysis of the plan. The ORSB is required to establish rules for employees to be automatically enrolled and to opt out of the plan, to determine contribution and withdrawal processes, and to establish exemptions for employers that provide alternative plans.

Employee contributions will have some tax benefit under current law, depending on whether the ORSB establishes traditional or ROTH individual retirement accounts. Employee contributions from employer payroll withholdings will be transferred from employers to a specific plan provider with which the ORSB contracts to manage participants' individual accounts. The revenue impact (i.e., tax expenditure) is at this time undetermined.

Revenue Sources and Relationships

A General Fund appropriation is required to fund the Board's operating expenses until the Retirement Savings Plan Administrative Fund has sufficient revenue to support the Board. General Fund expenditures are to be repaid with future administrative fees. Fee revenue would come from a portion of administrative fees collected by the third-party plan administrator, approved by the Board, and charged to individual accounts. Administrative fee revenue is anticipated to begin during the 2017-19 biennium after the ORSB administratively establishes the fee levels.

Budget Environment

There are approximately 1.9 million employees in Oregon that are employed by 120,000 employers. Around 1.1 million employees (55%) have access to employer-sponsored retirement plans and 873,000 (45%) are without access to an employer-sponsored retirement plan.

Legislatively Adopted Budget

The legislatively adopted budget of \$993,541 General Fund includes 2 positions (1.50 FTE) to establish the program. This includes one permanent full-time executive director (1.00 FTE) and one permanent part-time program analyst (0.50 FTE) to staff the Board and manage contracts at a cost of \$296,457 for personal services and \$27,084 for services and supplies. There is \$420,000 General Fund for a market analysis and to obtain legal advice related to the applicability of the federal Employee Retirement Income Security Act and \$250,000 General Fund for one-time expenses to reimburse agencies for providing outreach or technical assistance services, but there is no specification that compliance services provided by agencies are reimbursable.

LEGISLATIVE BRANCH

Analyst: Hill

Branch Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	77,361,703	94,366,607	98,379,893	91,939,095
Other Funds	3,775,879	43,075,574	7,011,539	7,416,501
Other Funds (NL)	970,753	10,690,023	1,220,428	1,220,428
Total Funds	\$82,108,335	\$148,132,204	\$106,611,860	\$100,576,024
Positions	652	650	650	654
FTE	426.91	428.52	428.52	431.77

Overview

The Legislative Branch includes members of the Legislative Assembly and their employees, the costs of four statutory committees or offices, and the Commission on Indian Services. The statutory committees, which provide either administrative and operations support or specialized analysis, include: 1) the Legislative Administration Committee; 2) the Legislative Counsel Committee; 3) the Legislative Fiscal Office; and 4) the Legislative Revenue Office.

The 2015-17 adopted budget for the Legislative Branch is \$2,427,512 General Fund (or 2.6%) less than the 2013-15 legislatively approved budget. Total Funds are \$47,556,180 (or 32.1%) less than the legislatively approved budget. The two main reasons for the Other Funds decrease is the elimination of \$34.5 million of one-time Other Funds for the Capitol Master Plan and a bond refunding of \$9.1 million Nonlimited Other Funds that was done by the Department of Administrative Services.

The main reason for the decrease in General Fund across the Branch is reductions to each of the agencies to account for anticipated reversions. The Legislative Branch is allowed to keep any unspent General Fund. It is anticipated that about \$6 million will be carried forward into the 2015-17 biennium.

Legislative Assembly

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	33,225,889	42,069,611	42,987,670	39,090,875
Other Funds	61,617	278,847	285,390	225,352
Other Funds (NL)	84,354	93,5531	96,360	96,360
Total Funds	\$33,371,860	\$42,442,011	\$43,369,420	\$39,412,587
Positions	422	422	422	423
FTE	251.27	251.27	251.27	251.52

Program Description

The Legislative Assembly budget includes salaries and per diem for legislative members and their staffs, the leadership and caucus offices, the Secretary of the Senate, the Chief Clerk of the House, session staff, and Senate Executive Appointments.

Revenue Sources and Relationships

The General Fund supports 99% of the Legislative Assembly's activities. Other Funds revenue subject to expenditure limitation comes from reimbursements for duplicating services. The Nonlimited Other Funds are from

the Lounge Revolving Account, established in ORS 171.117, which receives payments from legislative members for food services, to be used to pay for the costs of food served in members' lounges.

Budget Environment

The primary responsibility of the Legislative Assembly is to produce a balanced budget that complies with state and federal laws, represents the priorities established by the Legislature, receives an affirmative vote by a majority of each chamber, and is signed into law by the Governor. The Legislature also considers thousands of policy issues each biennium and, ultimately, enacts laws on behalf of the citizens it represents.

The Legislature meets in a longer session every odd-numbered year and enacts a biennial budget. Voters approved a shorter annual session in November 2010 that meets during even-numbered years. During the interim, interim committees examine specific topics or program areas and a Joint Committee, the Emergency Board, is appointed to meet periodically to address certain fiscal issues that cannot be put off until the next regular session. The Emergency Board has limited authority, so there are fiscal circumstances that can require the full Legislature to meet in a special session to ensure the budget remains balanced.

The portion of the Legislative Assembly budget to cover the costs for members is divided to reflect session and interim activities as well as Senate and House costs. The remainder of the budget which covers the costs of leadership offices and the Office of the Secretary of the Senate and the Office of the Chief Clerk of the House is provided for the normal biennial period.

Legislatively Adopted Budget

The 2015-17 adopted budget for the Legislative Assembly is \$2,978,736 General Fund (or 7.1%) less than the 2013-15 legislatively approved budget level. Total Funds are \$3,029,424 (or 7.1%) less than the 2013-15 legislatively approved budget.

The Assembly budget includes adjustments for the following:

- An increase of \$2,000 General Fund to each member's session budget, for a total of \$180,000 General Fund.
- A net-zero change to the Secretary of the Senate budget to better reflect actual expenditures, increasing General Fund Personal Services by \$103,535 and decreasing General Fund Services and Supplies by the same amount.
- A reduction of \$2,000 General Fund to the Presiding Officer's change reserve account.
- An increase of \$30,000 General Fund for caucus office transition funds.
- An increase of \$29,255 General Fund and 1 permanent part-time position (0.25 FTE) for an additional page/doorkeeper for the House.
- A fund shift for the Member Lounge staff, resulting in an increase of \$60,038 General Fund and a decrease of \$60,038 Other Funds.
- A reduction of \$24,611 General Fund that eliminates the Assembly Post Session Account.
- An increase of \$5,000 General Fund to facilitate additional field hearings.
- A reduction of \$4,100,000 General Fund for anticipated reversions.

Legislative Administration Committee

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	28,217,422	34,695,320	36,972,843	34,865,791
Other Funds	2,422,050	37,929,526	1,860,416	2,225,416
Other Funds (NL)	345,550	10,033,667	597,932	597,932
Total Funds	\$30,985,022	\$82,658,513	\$39,431,191	\$37,689,139
Positions	143	142	142	142
FTE	100.86	100.65	100.65	100.65

Program Description

The Legislative Administration Committee (LAC) appoints an administrator to direct and manage the service and support systems for the Legislative Assembly and Legislative Branch agencies. Services include: 1) substantive committee staffing; 2) information systems and technology support; 3) building operations and maintenance for the State Capitol; 4) accounting, payroll, and personnel functions; and 5) public information.

Revenue Sources and Relationships

The General Fund supports 92.5% of LAC's requested expenditures. There is Other Funds revenue from Capitol Building office space and hearing room rent, parking fees, donations for Holidays at the Capitol, equipment rentals, sales of publications and audio tapes, and copy/vending machine usage. LAC adopts the same rental rate for Non-Branch occupants of the Capitol as the rate imposed by the Department of Administrative Services for occupants of other state buildings. Parking fees and revenue from rentals, pay phones, and vending machines go into the State Capitol Operating Account which is used to partially cover expenses incurred in operating, maintaining, protecting, and insuring the Capitol. A Nonlimited Stores Revolving Account accommodates revenue from retail sales in the Capitol Gift Shop and a Nonlimited Property and Supply Stores Account accommodates revenue from the sale of supplies to legislative agencies.

Budget Environment

The most significant impact on the budget centers on the Oregon State Capitol Renovation project. There was \$34.5 million approved for the design phase of the project during the 2013-15 biennium. That portion of the project came in under budget at about \$29.1 million. The construction phase of the project was not approved during the 2015 legislative session.

Other significant factors affecting LAC costs are the continued demand for improved information systems; maintenance and repair of the Capitol, including security needs; and meeting the needs of legislative committees. The length of legislative sessions and the number of bill introductions, amendments, and committee hearings also affect the agency's workload and costs.

Legislatively Adopted Budget

The 2015-17 adopted budget for the Legislative Administration Committee is \$170,471 General Fund (or 0.4%) more than the 2013-15 legislatively approved budget. Total Funds are \$44,969,374 (or 54.4%) less than the 2013-15 approved budget. Most of the decrease can be attributed to bond proceeds for the first phase of the Capitol Master Plan that were not included in the 2015-17 budget. There was also a bond refunding that contributed about \$9 million to the Nonlimited Other Funds.

The LAC budget includes adjustments for the following:

- A reduction of \$200,000 General Fund to account for implementation of expanded policy support for the Branch after the 2016 legislative session.
- An increase of \$105,890 General Fund for a Disaster Recovery Cold Site.
- An increase of \$364,000 General Fund for three facilities projects. The projects include repair to the basement ceiling in the Capitol (\$180,000), fire suppression and server room upgrades (\$94,000), and panic button upgrades (\$90,000).
- A reduction of \$1,251,629 General Fund and an increase of \$365,000 Other Funds for debt service adjustments.
- A reduction of \$1,100,000 General Fund for anticipated reversions.

Legislative Counsel

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	8,039,603	10,427,834	10,888,581	10,841,717
Other Funds	1,290,567	1,681,068	1,515,091	1,515,091
Other Funds (NL)	540,846	562,803	526,136	526,136
Total Funds	\$9,871,019	\$12,671,705	\$12,929,808	\$12,882,944
Positions	57	55	55	57
FTE	45.28	45.60	45.60	47.60

Program Description

The Office of the Legislative Counsel (LC) drafts legislation for legislators, legislative committees, and state agencies. LC also provides research services and legal advice to legislators and legislative committees. LC prepares indexes and tables for all measures introduced during a legislative session and, every two years following each session creates, annotates, indexes, publishes, and sells the only official codification of the *Oregon Revised Statutes (ORS)* and session laws (*Oregon Laws*). LC also conducts a review of all new administrative rules adopted by state agencies to determine if they are consistent with the agencies' statutory authority.

Legislative Counsel is charged by statute (ORS 173.335) with providing necessary drafting services "as legislative priorities permit" to the Oregon Law Commission. The Commission was established in 1997 to identify defects or anachronisms in the law and recommend needed reforms to the Legislative Assembly.

Revenue Sources and Relationships

The General Fund supports 84.2% of LC's expenditures. Other Funds are derived from sales of the *Oregon Revised Statutes*, *Oregon Laws*, bill drafting services, and other LC publications. A small portion of the publication sales income is expended as limited Other Funds and used to defray that part of the agency's General Program expenses that are related to *ORS* publication editing. The balance of the publication sales income is expended as Nonlimited within the *ORS* Publications Program. LC has statutory authority to charge state agencies and other entities for drafting legislation, and has been doing so since 2001-03.

Budget Environment

The number of bills and amendments drafted fluctuates from session to session, but overall the trends are fairly flat. The primary driver of drafting increases in the recent past has been agency requests. When workload increases, it creates additional pressure on LC staff, which ripples throughout the institution as these bills are drafted, introduced, amended, and finalized.

During legislative sessions, the agency hires temporary employees that serve primarily as copy editors for staff attorneys and to assist with workload issues. However, the agency has worked to reduce its reliance on temporary staff over the last several biennia and the budget now includes more full-time permanent positions.

Publication sales of *Oregon Revised Statutes* and *Oregon Laws* have declined in recent biennia due, in part, to the availability from free or low-cost Internet sources. Overall, Other Funds receipts have remained stable because of increased efficiencies in operations and increased sales of specialty publications. Specialty publications include the criminal code; family law code; landlord-tenant laws; labor, employment, and workers' compensation laws; and construction and building trade laws. If Other Funds receipts were to decline, additional General Fund support may be needed for *ORS* publication.

Legislatively Adopted Budget

The 2015-17 adopted budget for Legislative Counsel is \$413,883 General Fund (or 4%) more than the 2013-15 legislatively approved budget. Total Funds are \$211,239 (or 1.7%) more than the 2013-15 approved budget.

The LAC budget includes adjustments for the following:

- An increase of \$366,665 General Fund for the establishment of 2 full-time editor positions (2.00 FTE) (\$312,804), the reclassification of a position for the bill drafting project (\$37,891), and the reclassification of the computer services coordinator position (\$15,970).
- A reduction of \$400,000 General Fund for anticipated reversions.

Legislative Fiscal Office

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	5,532,954	3,888,952	4,170,986	4,324,440
Other Funds	--	3,179,547	3,343,858	3,443,858
Total Funds	\$5,532,954	\$7,068,499	\$7,514,844	\$7,768,298
Positions	21	21	21	22
FTE	20.50	21.00	21.00	22.00

Program Description

The Legislative Fiscal Office (LFO) is a non-partisan, legislative service agency created by statute in 1959. The Office researches, analyzes, and makes recommendations concerning state expenditures, financial affairs, program administration, and agency organization. The Office reports to the Joint Committee on Ways and Means during legislative sessions and to the Emergency Board and the interim Joint Committee on Ways and Means during the interim between sessions. LFO determines the fiscal impact of all legislative measures and, when applicable, publishes fiscal impact statements that accompany bills through the legislative process. The Office also provides budget analysis and policy recommendations concerning state agency information systems projects. LFO produces various publications to guide the Joint Committee on Ways and Means processes; address specific budgetary topics; provide legislative members, agencies, and the public with detailed and summary information as each budget is presented and after it is adopted; and annually report on the status of all liquidated and delinquent accounts, as well as agency efforts to collect on such accounts.

Revenue Sources and Relationships

The Legislative Fiscal Office had been traditionally supported completely by General Fund. The 2013 Legislative Assembly approved Other Funds for the operations of the agency. The source of the revenue is a portion of the Central Government Service Charge (CGSC) assessment. In the past, all of the CGSC revenues were transferred to the General Fund. A portion of the CGSC formula is driven by costs associated with the Legislative Fiscal Office, so the Legislature decided to target the funds directly to the Office.

Budget Environment

As with other committee staffs, the work of LFO changes between legislative sessions and the interim. During sessions, budget analysis and the number of bill introductions and amendments is the primary driver of workload for the agency. LFO reviews all measures to determine if they have a fiscal impact and prepares fiscal impact statements.

During the interim, workload is driven by the number, length, and complexity of special sessions necessary to rebalance the statewide budget; the number and complexity of Emergency Board requests; and the number of other program and fiscal issues that require analysis. The Office also spends a significant amount of time educating and providing information to members, legislative staff, and other stakeholders about the budget process and current budget issues.

Legislatively Adopted Budget

The 2015-17 adopted budget for the Legislative Fiscal Office is \$699,799 Total Funds (or 9.9%) more than the 2013-15 legislatively approved budget. As mentioned above, Other Funds now account for 44.3% of the agency's budget.

The LFO budget includes adjustments for the following:

- An increase of \$260,000 General Fund, \$100,000 Other Funds, and 1 permanent position (1.00 FTE) for a Principal Legislative Analyst that will focus on bonding and capital construction.
- A reduction of \$100,000 General Fund for anticipated reversions.

Legislative Revenue Office

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	1,969,632	2,796,123	2,867,874	2,414,923
Total Funds	\$1,969,632	\$2,796,123	\$2,867,874	\$2,414,923
Positions	7	8	8	8
FTE	7.00	8.00	8.00	8.00

Program Description

The Legislative Revenue Office (LRO) provides staff assistance to the House and Senate Revenue Committees during legislative sessions and to interim revenue committees, task forces, and work groups between sessions. The Office was established in 1975 to provide non-partisan analysis of tax and school-finance issues. The Office prepares research reports and writes revenue impact statements on initiatives, proposed legislation affecting state or local public finance, personal and corporate income taxes, property taxes, consumption taxes, school finance, and distribution of the State School Fund.

Revenue Sources and Relationships

The Legislative Revenue Office is completely supported by General Fund.

Budget Environment

As with other committee staffs, the number of bill introductions and amendments create the workload for the agency during regular and special sessions. Increases in bills and amendments, along with tax-related voter initiatives and legislative referrals, require the staff to write more revenue impact statements. The number of revenue, school finance committee, task force, and workgroup meetings and related research and analysis projects determines the interim workload.

Legislatively Adopted Budget

The 2015-17 adopted budget for the Legislative Revenue Office is \$381,200 General Fund (or 13.6%) less than the 2013-15 legislatively approved budget.

The LRO budget includes adjustments for the following:

- A technical adjustment that removes \$200,000 General Fund related to one-time funding for a clean air fee/tax report that was funded in 2013-15 and was inadvertently left in the 2015-17 budget.
- A reduction of \$250,000 General Fund for anticipated reversions.

Commission on Indian Services

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	376,203	488,767	491,939	401,349
Other Funds	1,645	6,586	6,784	6,784
Total Funds	\$377,848	\$495,353	\$498,723	\$408,133
Positions	2	2	2	2
FTE	2.00	2.00	2.00	2.00

Program Description

The Commission on Indian Services compiles information on services available to Indians, assesses state programs and services, serves as a forum for considering Indian problems, and advises on matters relating to the preservation and protection of Indian historic and archaeological resources. The Commission, created in 1975, has 13 members appointed by the President of the Senate and Speaker of the House of Representatives for two-year terms. In addition to one senator and one state representative, each of Oregon's nine federally recognized tribal groups is entitled to one member. The remaining two members are from the Portland area and Willamette Valley Indian communities.

Various statutes require that the Commission be consulted on matters related to the preservation and protection of Indian fish, wildlife, historic, and archaeological resources. State agencies are required to take into account Oregon's nine federally recognized tribal governments when developing policies and implementing programs that may affect tribal interests. The law also requires the Governor to annually convene a meeting of agency representatives and the tribes; the Department of Administrative Services to provide annual training to agency managers and employees that have regular contact with tribes; and state agencies to submit annual reports to the Governor and the Commission on their activities with tribes.

Revenue Sources and Relationships

Other Funds revenue is from registration and other fees derived from sponsorship of special meetings. The funds are used to cover costs associated with the events.

Budget Environment

Staff salaries and Commission member travel are the primary costs in this budget. The Commission holds regular quarterly meetings, as well as special meetings at the call of the Chair. It advises the legislative and executive branches on ways to improve communication and coordination with tribes in an effort to avoid unnecessary court disputes and highlight shared interests.

The Commission reports that governmental (federal, state, and local) and non-governmental entities are increasingly relying on the Commission for technical and coordination services and the volume of phone and mail transactions is increasing. It is also increasingly being asked to provide trainings for effective government-to-government relationships; conduct meetings with agencies and their tribal counterparts by program and issue area; answer questions from various state agencies on how to establish and maintain effective relationships with tribes; and discuss various points of law and strategies. Tribal initiated activities related to their various programs and significant events have also increased.

Legislatively Adopted Budget

The 2015-17 adopted budget for the Commission on Indian Services is \$87,220 (or 17.6%) Total Funds less than the 2013-15 legislatively approved budget.

The Commission's budget includes a reduction of \$90,000 General Fund for anticipated reversions.