

**WAYS AND MEANS CO-CHAIR BUDGET REVIEW**  
**Attachments**

**Subcommittee on General Government**

Bill	Agency	Analyst
SB 5501	Accountancy, Board of	To
SB 5502	Administrative Services, Department of	Siebert
HB 5001	Advocacy Commissions Office	Dauenhauer
HB 5010	Construction Contractors Board	Dauenhauer
SB 5507	Emergency Board/Emergency Fund	Rocco
SB 5509	Employment Relations Board	Borden
HB 5020	Government Ethics Commission	Beitel
HB 5021	Governor, Office of the	McHugh
SB 5517	Legislative Branch Agencies	McHugh
SB 5518	Library, Oregon State	McHugh
HB 5032	Public Employees Retirement System	Borden
HB 5033	Revenue, Department of	Borden
HB 5034	Secretary of State	Rocco
HB 5036	Tax Practitioners, Board of	Dauenhauer
HB 5042	Treasurer of State	Borden

## Oregon Advocacy Commissions Office

	2015-17 Actual	2017-19 Legislatively Adopted	2017-19 Legislatively Approved *	2019-21 Current Service Level	2019-21 Governor's Budget
General Fund	623,646	697,136	720,802	760,506	861,675
Other Funds	2,640	9,481	9,481	9,841	9,841
<b>Total Funds</b>	<b>626,286</b>	<b>706,617</b>	<b>730,283</b>	<b>770,347</b>	<b>871,516</b>
Positions	3	3	3	3	3
FTE	2.50	2.50	2.50	2.50	3.00

\* Includes Emergency Board and administrative actions through December 2018.

### Program Description

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 further economic, social, legal, and political equality in Oregon. The four commissions have 11 commission members each, for a combined total of 44 commissioners. OACO supports the Commissions administratively through coordination of meetings and speakers, preparation of reports and media releases, stakeholder partnerships, information and referrals for the public and elected officials, management of distribution lists, website maintenance, and financial management.

### CSL Summary and Issues

Total Revenues and Expenditures in the 2017-19 CSL budget do not match; there is a discrepancy of \$3,959 Other Funds, which can be easily adjusted in LAB.

### Policy Issues

The OACO requests the following policy option packages for 2019-21:

- Package 100 - Increases the agency's Operations and Policy Analyst 3 (OPA3) position to full-time (0.50 FTE) for a cost of \$103,697 General Fund. The OPA3 works with the Commissions on effective policy work during session, policy research projects, talking points, and briefing sheets on legislative issues. The package includes funding for the OPA3 to attend state leadership development and networking events.
- Package 101 - Funds one (0.75 FTE) Office Specialist 1 (OS1) position for a cost of \$114,956 General Fund. This position will support routine office activities such as scheduling, reimbursements, web posts, and building stakeholder listservs. This work is currently completed by the full-time Executive Support Specialist 2 position, which will focus on project management and increasing Commission policy outcomes if this package is approved.

### Other Significant Issues and Background

Given the evolution of the Legislative Policy and Research Office and its extremely similar function to OACO, it could be beneficial to request that these two entities research and report back to the Legislature on the possibilities of consolidating into one office. It's reasonable to assume that consolidation could reduce expenses in the form of rent and increase outcomes for the Commissions with a larger administrative staff pool and personnel expertise. Such a report could include similarities/differences in workload-including seasonal peaks/lows, possible budget savings if consolidation were to occur, and the potential impacts or changes to workload and stakeholder outreach if consolidation were to occur. Requesting the report at this time could prove to be informative in future biennia if the Legislature is ever faced with a significant budget deficit and needs to consolidate resources.

<b>Department of Administrative Services</b>					
	<b>2015-17 Actual</b>	<b>2017-19 Legislatively Adopted</b>	<b>2017-19 Legislatively Approved *</b>	<b>2019-21 Current Service Level</b>	<b>2019-21 Governor's Budget</b>
General Fund	18,720,795	19,861,256	28,068,696	11,962,811	31,201,331
Lottery Funds	16,641,072	20,122,967	19,701,695	25,410,690	25,410,690
Other Funds	908,829,826	983,881,355	1,026,949,398	910,975,927	1,057,016,569
Other Funds (NL)	194,774,768	129,986,751	129,986,751	133,988,178	133,988,178
Federal Funds	--		1,446,795	--	--
<b>Total Funds</b>	<b>1,138,966,461</b>	<b>1,153,852,329</b>	<b>1,206,153,335</b>	<b>1,082,337,606</b>	<b>1,247,616,768</b>
Positions	884	908	914	859	977
FTE	855.27	903.38	906.96	858.50	957.22
* Includes Emergency Board and administrative actions through December 2018.					

### Program Description

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. For example, it operates the centrally located motor pool; operates and maintains facilities and the state data center; and provides printing, information technology consultation, 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 taxes.

### CSL Summary and Issues

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

Funding for DAS Other Funds limited packages was built into the state price list, and included in other agency budget requests as payments to DAS. These price list increases become part of agency Current Service Level calculations. Therefore, denial of policy option packages will result in savings to other agencies from reduced assessments and rates. For 2019-21, 47.4% of SGSC received by DAS originate as General Fund payments, which are spent by DAS as Other Funds. Lottery Funds comprise 1.4%, Other Funds 38.5%, and Federal Funds 12.7% of SGSC.

*Oregon Public Broadcasting* - The 2019-21 CSL for OPB is \$500,000 General Fund for operating support and \$915,135 Lottery Funds for debt service on previously issued bonds.

*Oregon Historical Society* - The 2019-21 CSL for OHS is \$750,000 General Fund for operating support and \$412,392 Lottery Funds for debt service on previously issued bonds. In 2017-19 OHS received an additional \$150,000 General Fund support on a one-time basis

*Fairs* - The CSL for the General Fund operating subsidy received by the State Fair Council is \$1,052,865. In addition, there is \$581,801 General Fund debt service for bonds issued in 2015-17 that begin this biennium. The 2019-21 CSL for County Fairs support is \$3,828,000 Lottery Funds. 2017-19 CSL was \$3,648,000, but funding was increased by \$180,000 at the end of the 2017 session. This is a statutory distribution that can be capped at a specific funding amount in the program change bill, which is what has occurred in the last few biennia.

### Policy Issues

*Enterprise Information Technology Systems* - DAS operates and maintains enterprise information systems used for basic administrative and business functions such as human resources, payroll, accounting, and budget. These back-office systems are used by all branches of government to ensure least cost through economies of scale. These systems are now many years old and in some cases current solutions look much different than what the state has been operating with for years. The first project to replace some of these major systems is the Human Resource Information System or HRIS project (now called the Workday Project after the IBM solution that is being implemented). Planning for this project began in 2012. The Workday Project is nearing completion, albeit a few months behind schedule. The delay is related primarily to Workday connections to the legacy payroll system, with which the HR system must interact to issue paychecks. DAS has been cautious due to the potential risk to employees pay, and is requiring multiple testing iterations. Workday is now scheduled to go live 2/1/2019.

*DAS owned facilities* - DAS owns and operates many buildings used by many state agencies. These entities pay a “uniform rent” based on the space they use. The uniform rent includes a “depreciation” component that is deposited in the Capital Projects Fund. Money in this fund is used to pay for maintenance and upgrades on existing buildings. There is \$13,750,000 capital construction expenditure limitation increase proposed for this work in 2019-21. Additional larger scale projects would be debt financed with debt service being paid through increased rent charges - Justice Building Exterior Upgrades (\$5,000,000); Revenue Building Electrical System Upgrades (\$10,000,000); and Portland State Office Building Upgrades (\$8,600,000). To support all this work facilities is requesting continuation of 4 construction manager positions (\$994,397). DAS is also requesting \$269,579 for one position to support capital facility planning work by the State Architect. \$1,226,000 General Fund is requested for maintaining the decommissioned Hill Crest facilities that were transferred to DAS by OYA in 2017-19. The Hill Crest total includes \$250,000 for marketing and other costs associated with getting the property ready for sale.

### Other Significant Issues and Background

*Enterprise Level Information Technology* - Enterprise-level Information Technology related requests constitute the largest category of Policy Option Packages, totaling \$69.1 million Other Funds, which include:

- Payroll System Replacement - \$14.7 million Other Funds from assessments and 21 LD positions (13.13) would be used to replace the existing legacy system and the Epayroll system with a Workday product from IBM, the same system chosen for the HRIS project. This project will not take as long as HRIS since the IT solution is predetermined by the selection of Workday. The timing of this project was adjusted to a later date in the Governor's Budget (GB) due to delays in implementing Workday.
- State Data Center equipment replacement - \$15.3 million Other Funds, mostly from charges for services, will be used to continue a computing and network equipment lifecycle replacement plan to ensure stable and reliable operations. Lifecycle replacement was previously approved for a six-year period and was phased-out for 2019-21;
- IT Security Compliance - \$15.8 million and 11 positions (9.68 FTE) to address federal security compliance findings, aging firewalls, and major weaknesses in state IT security. This package includes operating leases of \$11.6 million, which includes professional services and 5 years maintenance/support;
- Procurement System Replacement - \$9.7 million and 5 positions (5.00 FTE), two of which are limited duration (LD). Replaces the manual procurement process with an automated end-to-end eProcurement software solution, known as OregonBuys. This project is currently led by ten participating agencies including DAS on a pilot project basis. To date, no pilot agency has implemented the new system, but several are close including the Secretary of State;
- Microsoft Office 365 Enterprise contract - \$6.6 million and 3 positions (2.64 FTE) were added in GB to support a contract for agencies to use Office 365. Numerous Agency Request Budgets (ARB) requested funding to move to Office 365 and it was determined it would be more cost effective for the state to negotiate one contract for state government.
- Workday Learning Management Module - \$4.8 million and 11 LD positions (7.75 FTE) to support the implementation of Workday Learning Management module which will provide state-wide mandatory training and associated reporting requirements. (\$933,600 of this request is for the subscription fee and will be on going past this biennium);
- Permanent Staff for Workday HR modules - \$2.2 million and 10 positions (8.80 FTE) to permanently staff CHRO Enterprise Systems Support with Workday subject matter experts.

*Risk Management* - Increases risk charges by \$10 million, to increase the risk fund from \$107 million to \$117 million. For the past few biennia policy decisions were made by the agency and Customer Utility Board (CUB) to keep increases to risk assessments below the level need to fully fund the actuarially estimated "true Total Cost of Risk" (TCOR). For 2019-21 the TCOR is \$148 million, which would require increases of 38% to achieve. Instead, the CUB, using the "Best Capital Adequacy Requirement model", recommended a funding level of \$132 million for 2019-21. The Governor's Budget approved a \$10 million increase to the Risk Fund. The other Risk related request included in GB is \$530,000 to replace the current Claims Management System using existing fund balances.

*Human Resources* - Funding requests include \$1,204,629 to add 5 positions (4.40 FTE) to deal with increased work involving the classification and compensation section; \$430,166 for 2 positions to support the increased requests for CHRO to assist agencies with complex, highly sensitive internal agency investigations; \$792,818 to establish two permanent positions plus additional training costs (\$400k) to support the

Governor's Executive Order 17-08 (Strengthening Public Employees Bargaining & Training Practices); and \$215,082 to establish one permanent position dedicated to executive recruiting.

*Emergency Preparedness* - DAS has a few requests related to disaster preparedness. \$729,339 to support 2 positions (1.76 FTE) to establish a new Co-location Service line in ETS that will enable existing agency facilities to increase their recovery resiliency and utilize services not currently available in their own data center. \$800,000 in the Enterprise Security Office to acquire disaster recovery equipment. \$208,270 for one limited duration position to establish a new co-location service at the State Data Center to increase recovery and resiliency.

*Other IT* - Additional information technology requests include:

- \$1.8 million Other Funds for six positions to act as Chief Business Technology Officers to be assigned to program areas.
- \$1,390,376 Other Funds for 3 Limited Duration (LD) positions to increase broadband partnerships with non-state agency governmental entities to improve broadband connectivity through the establishment of public-private partnerships;
- \$1,008,312 Other Funds to make 4 current LD positions permanent working on IT procurement and vendor management.
- \$862,131 Other Funds for 4 permanent project services positions in OSCIO.
- \$529,270 Other Funds to make 2 current LD positions permanent that work on the OSCIO IT Enterprise Shared Services project called Basecamp, which is meant to coordinate state agency IT procurements to leverage better pricing and/or service levels;
- \$429,896 Other Funds for 2 positions to provide customer service for the new state telephone system;
- \$393,864 Other Funds from intra-agency charges to fund 2 new positions to support DAS internal IT operations and client agencies;

*Charges for Service Supported Requests* - \$2.5 million to increase the budget for fleet replacement of aging vehicles. \$372,316 to add 2 positions procurement analysts to meet workload demands. \$3,281,374 and 2 positions to allow agencies to access better lease agreements for multi-function printers which DAS can get due to its high volume. These printers would be housed at agencies but leased through DAS to access the better pricing, which is the main reason for the large Other Funds limitation increase.

*Governor's Budget* - Reduced DAS assessments and charges by \$51.9 million total funds from ARB pricelists, including \$21.3 million General Fund. CASA remains at DAS (\$2,316,040 General Fund), and an increase of program finding of \$3 million General Fund, plus an added position to manage the program (\$200,644 General Fund). Transfers the State Longitudinal Data System to OSCIO (\$4.4 million General Fund and 10 positions). General Fund special payments include: \$1 million for Special Olympics; \$1 million for Classroom Law Project (already gets funding in the ODE budget); \$2.4 million for Port of Cascades Locks; and \$5 million for the 2021 Track and Field Championship in Eugene. Added \$440,304 General Fund to keep 2 Public Records Advocate positions funded with General Fund rather than thru assessments. The 2017-19 Adopted Budget provided General Fund on a one-time basis with the direction to move these to assessments during 2019-21 budget development. Added \$232,594 Other Funds for an internal auditor position. Four Lottery Bond projects totaling \$38.2 million were added in the Governor's Budget.

## Board of Accountancy

	2015-17 Actual	2017-19 Legislatively Adopted	2017-19 Legislatively Approved *	2019-21 Current Service Level	2019-21 Governor's Budget
Other Funds	2,261,508	2,583,982	2,617,527	2,647,639	2,805,291
<b>Total Funds</b>	<b>\$2,261,508</b>	<b>\$2,583,982</b>	<b>\$2,617,527</b>	<b>\$2,647,639</b>	<b>\$2,805,291</b>
Positions	8	8	8	8	8
FTE	8.00	7.50	7.50	7.50	7.50
*Includes Emergency Board and administrative actions through December 2018					

### Program Description

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) as well as accounting firms. The Board is responsible for investigating complaints, renewing licenses, and monitoring the continuing education of its licensees. A staff of eight administers the Board's programs. The Board currently regulates about 8,000 licensees and 1,000 accounting firms. 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 an ending balance of approximately \$1.8 million which is equivalent to 15 months of operating expenses.

### CSL Summary and Issues

The 2019-21 current service level (CSL) budget for the Board is \$2,647,639 Other Funds (7.50 FTE). The current service level budget is \$30,112, or 0.01%, more than the 2017-19 legislatively approved budget.

### Policy Issues

- The agency requests \$194,048 increase in limitation to cover anticipated increase in Department of Justice Flat Rate Agreement.
- The agency is in the preliminary stages of planning the migration of its licensing database and desktop support, monthly database maintenance, and ETS hosting to a new vendor.

The Governor's Budget includes the increase in limitation to cover the anticipated increase in Department of Justice Flat Rate Agreement, as well as reductions in Attorney General Fees and State Government Service Charges.



<b>Construction Contractors Board</b>					
	<b>2015-17 Actual</b>	<b>2017-19 Legislatively Adopted</b>	<b>2017-19 Legislatively Approved *</b>	<b>2019-21 Current Service Level</b>	<b>2019-21 Governor's Budget</b>
Other Funds	13,236,738	15,859,876	16,174,047	17,001,154	16,665,921
<b>Total Funds</b>	<b>13,236,738</b>	<b>15,859,876</b>	<b>16,174,047</b>	<b>17,001,154</b>	<b>16,665,921</b>
Positions	62	61	61	59	61
FTE	62.00	61.00	61.00	59.00	61.00

\* Includes Emergency Board and administrative actions through December 2018.

### Program Description

The Construction Contractors Board (CCB) regulates the profession of construction contracting and provides construction related consumer protection services. The agency licenses construction contractors, subcontractors, home inspectors, and issues certifications for locksmiths, construction flaggers, home energy assessors, and lead paint removal. Furthermore the agency investigates complaints, imposes fines for violations of Oregon laws and ensures that new contractors meet statutory pre-licensing educational and testing requirements.

### CSL Summary and Issues

The agency is projected to close out the 2017-19 budget cycle with \$13.72 million in expenditures, which is 24% below the 2019-21 CSL calculation of \$17.00 million. Given the discrepancy between CSL and actual expenditures, as well as an accumulation of 2017-19 ending fund balance which is estimated to be 14 months of equivalent expenditures by the end of the biennium; CSL calculations should not be considered an accurate reflection of the current agency budgetary outlook.

### Policy Issues

The CCB requests the following policy option packages for 2019-21:

- Package 101 - Funds one limited duration Operations and Policy Analyst 4 position (1.00 FTE) for a cost of \$259,695 Other Funds, to oversee the implementation of a licensing system which would integrate with the Building Codes division of the Department of Consumer and Business Services.
- Package 102 - Funds the reclassification of the agency's primary budget position from an Accounting Technician 3 to a Fiscal Analyst 1 for a cost of \$20,406 in Other Funds.
- Package 103 - Funds one Public Service Representative 4 position (1.00 FTE) for a cost of \$161,122 Other Funds, to manage workload associated with contractor licensing.

### Other Significant Issues and Background

A temporary \$75 licensing fee reduction was implemented as part of CCB's 2017-19 Legislatively Adopted Budget due to a large accumulation of ending fund balance. The agency planned to expend the excessive ending balance during the 2017-19 biennium, however, due to continued underspending the ending balance remains; with an estimated \$8.29 million projected 2017-19 ending fund balance or an equivalent of 14 months of operating expenditures. Therefore, the temporary fee reduction is assumed to remain during the 2019-21 budget cycle.

As a part of the 2017-19 Legislatively Adopted Budget, the agency was granted one limited duration position to rollout an online licensing system as part of HB 2843 (2015). The system would, in theory, function in combination with the Department of Consumer and Business Services – Building Codes division, allowing licensees information to be accessible by both agencies. However, due to failed vendor contract negotiations and staff turnover at CCB, the project remains in the early planning stages with no foundational project management documents, and no cost estimates for system implementation and operations maintenance. Policy option package 101 seeks funding for a limited duration position to continue the licensing system work. Given that this licensing system effort has been four years in the making and no tangible results have been produced, any additional funding should be diligently deliberated before being awarded.

<b>Employment Relations Board</b>					
	<b>2015-17 Actual</b>	<b>2017-19 Legislatively Adopted</b>	<b>2017-19 Legislatively Approved *</b>	<b>2019-21 Current Service Level</b>	<b>2019-21 Governor's Budget</b>
General Fund	2,368,937	2,491,749	2,556,694	2,982,956	3,011,424
Other Funds	1,842,428	2,500,764	2,556,456	2,420,716	2,379,035
<b>Total Funds</b>	<b>4,211,365</b>	<b>4,992,513</b>	<b>5,113,150</b>	<b>5,403,672</b>	<b>5,390,459</b>
Positions	13	13	13	13	13
FTE	13.00	13.00	13.00	13.00	13.00
* Includes Emergency Board and administrative actions through December 2018.					

### Program Description

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 for an estimated 3,000 employers and 250,000 employees in public and private employment in the state. The agency is responsible for administering specific portions of Oregon law: the Public Employee Collective Bargaining Act, which governs collective bargaining in state and local government; the State Personnel Relations Law, which creates appeal rights for non-union state employees who believe they were treated unfairly in the workplace; and the private sector labor-management relations law, which addresses collective bargaining for private sector employers who are not covered by federal law.

### CSL Summary and Issues

The 2017-19 current service level budget for the agency totals \$5.4 million total funds (13.00 FTE). The CSL is \$290,522, or 5.7%, more than the 2017-19 legislatively approved budget of \$5.1 million (13.00 FTE). The CSL phases out \$30,000 Other Funds expenditure limitation previously used to fund Phase II of the Case Management System project and \$31,314 in Other Payroll Expenses for pay line exceptions, which were subsequently remedied by reclassifications. The CSL phases-in \$259,501 General Fund previously shifted to Other Funds on a one-time basis in the 2017-19 biennium and \$18,000 General Fund and \$12,000 Other Funds expenditure limitation for the ongoing maintenance and support of the agency's new case management system. Other CSL changes include standard adjustments for vacancy factors, mass transit taxes, PERS pension obligation bond assessments, inflation on services and supplies, professional services, rent, and Attorney General charges.

### Policy Issues

ERB generates the majority of its Other Funds revenue through an assessment to state agencies based on the number of covered employees, including employees from the Executive, Legislative and Judicial branches and temporary employees. For the 201-21 biennium, the

assessment will increase from \$2.14 per employee/month (\$1.9 million) to \$2.53 per employee/month (\$2.2 million). This assessment will need to be re-forecasted. There may be an opportunity to evaluate the agency's funding model as well as evaluate how best to economize on the administrative overhead of the agency, which can be disproportionately large for smaller agencies.

The agency is self-managing a NICUSA information technology contract to design, develop, maintain and host an electronic case management system (phase-I) and then add a web-based electronic filing and electronic payment capability (phase-II). Phase-I has been completed and Phase-II is scheduled to be complete in the Spring of 2019. The vendor will charge an annual licensing and hosting fee estimated at \$61,000 per biennia, which was included in the CSL budget as a phase-in package.

**Policy Packages:** The ERB agency request budget includes only the single policy package that seeks to adjust the fund split on one position from 30% General Fund and 70% Other Funds to 56% General Fund and 44% Other Funds to conform to the agency's overall fund split. The cost would be \$36,419 General Fund. ***This request was included in the Governor's budget.***

The Governor's budget funds ERB at \$5.4 million total funds, which is \$277,309, or 5.4%, more than the 2017-19 legislatively approved budget of \$5.1 million (13.00 FTE).

#### Other Significant Issues and Background

In *Janus v. AFSCME Council 51*, the U.S. Supreme Court overturned its precedent and held that it was unconstitutional for a public employee to have any agency fee or any other payment to a union deducted from the employee's wages, unless the employee affirmatively consents to that deduction or payment. For Oregon, that means that many public-sector employers and labor organizations had their fair-share provisions invalidated. Additionally, the decision means that numerous provisions of Public Employee Collective Bargaining Act were also invalidated. ERB is working on a legislative concept (LC) to update Oregon Revised Statute to reflect the Supreme Court's decision. The LC would remove authority of public employer and labor organization to enter into fair-share agreement and remove the authority of public employer to deduct in-lieu-of-dues payment from salary or wages of public employee.

ERB has successfully executed a major turnaround of the once troubled agency.

## Governments Ethics Commission

	2015-17 Actual	2017-19 Legislatively Adopted	2017-19 Legislatively Approved *	2019-21 Current Service Level	2019-21 Governor's Budget
Other Funds	2,477,666	2,705,247	2,758,688	2,934,592	2,913,971
<b>Total Funds</b>	<b>2,477,666</b>	<b>2,705,247</b>	<b>2,758,688</b>	<b>2,934,592</b>	<b>2,913,971</b>
Positions	9	9	9	9	9
FTE	8.88	9.00	9.00	9.00	9.00

\* Includes Emergency Board and administrative actions through December 2018.

### Program Description

The mission of the Government Ethics Commission is to impartially administer and enforce Oregon's government ethics laws. Oregon Government Ethics law, Lobbying Regulation law, and the executive session provisions of Oregon Public Meetings law are within the regulatory jurisdiction of the Commission. The Commission and its staff educate public officials and lobbyists on government ethics, lobby regulation, and executive session provisions of public meeting laws through online and in-person training.

The agency's funding comes from 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 a Municipal Audit charge collected by the Secretary of State. A portion of these assessment revenues originates as General Fund.

### CSL Summary and Issues

The 2019-21 current service level (CSL) budget of \$2.93 million is \$175,904 (or 6.4%) more than the 2017-19 legislatively approved budget (LAB) of \$2.76 million. The increase is attributable to standard personal services growth and inflation for services and supplies expenditures. Personal services expenditures comprise 64.5% of the Commission's budget, with services and supplies, including annual subscription fees for the electronic filing and case management systems, making up the remaining 35.5% of expenditures. The number of positions (9) and total FTE (9.00) remain unchanged from the prior biennium.

The Commission's 2019-21 CSL budget includes Other Funds assessment revenue of \$2.96 million and an estimated ending balance of \$742,144, which provides a six-month operating reserve and is available for compensation plan changes during the biennium. Imposition of civil penalties is expected to generate an estimated \$30,000 in fines and forfeitures in the 2017-19 and 2019-21 biennia. These revenues are transferred to the General Fund and are not used to support agency operations. Actual fines and forfeiture revenue collected in 2015-17 totaled \$38,807. Several high-profile ethics investigations and resulting civil penalties may result in an increased level of fine and forfeiture revenue collected during the 2017-19 biennium.

### Policy Issues

During the 2015 session, the Legislature passed HB 2019, which 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. The Commission revised administrative rules to reflect the changes to ethics statutes and has written rules on executive session of public meetings, which has historically been an area of the law that generates questions.

The shortening of the timeline for preliminary review has had the most significant impact on the agency; considering that the level and timing of complaints varies, and the Commission must work within existing staff resources to meet deadlines. Ninety-three complaints were received in calendar year 2017, which is a slightly less than the 97 average annual complaints received between 2013 and 2017. However, total complaints decreased significantly in 2016 due to a change in how the Commission tracks complaints received. Prior to 2015 and the reduced preliminary review period, the Commission included complaints received that were outside of its jurisdiction as additional information would be requested from the complainant prior to a final determination.

### Other Significant Issues and Background

The Commission has implemented two electronic reporting systems over the last several biennia. In 2013, the Legislature approved a special assessment of \$800,000 for an electronic filing system for lobbyists and public officials who must file quarterly and annual reports. The electronic filing system was launched in December 2015, enabling lobbyist registrations, lobbying expenditure reports, legal expense trust fund reports, and annual statements of economic interest to be filed and accessed online. Funding for an electronic case management system was approved in 2015 to implement the online posting of agency findings in a searchable format. The electronic case management system was launched in January 2017, providing online access to advice and final disposition of cases, as well as the ability to submit complaints electronically. Both systems met their statutory implementation deadlines and were recognized nationally through StateScoop's State IT Innovation of the Year Awards in 2016 and 2018, respectively. The electronic systems provide increased transparency through the availability of online information and result in efficiencies that help the Commission meet reduced review timelines.

No policy option packages were proposed by the Commission or included in the 2019-21 Governor's Budget. The Governor's Budget reflects statewide reductions in the Department of Administrative Services' assessments and Attorney General rates.

<b>Office of the Governor</b>					
	<b>2015-17 Actual</b>	<b>2017-19 Legislatively Adopted</b>	<b>2017-19 Legislatively Approved*</b>	<b>2019-21 Current Service Level</b>	<b>2019-21 Governor's Budget</b>
General Fund	11,529,028	12,947,791	13,660,135	15,362,514	16,729,710
Lottery Funds	3,434,970	3,689,100	3,723,949	4,094,546	3,942,726
Other Funds	2,451,565	3,322,288	3,413,769	3,621,636	3,912,015
Other Funds (Nonlimited)					
Federal Funds		6,907,780	3,585,152		
Federal Funds (Nonlimited)					
<b>Total Funds</b>	<b>17,415,563</b>	<b>26,866,959</b>	<b>24,383,005</b>	<b>23,078,696</b>	<b>24,584,451</b>
Positions	62	59	61	59	63
FTE	61	58.50	59.13	58.50	63

\*Includes Emergency Board and administrative actions through December 2018.

### Program Description

The Office of the Governor provides overall direction to Executive Branch state agencies to ensure compliance with statutes and efficient and effective management of services and programs. The Office includes administrative support, as well as the Chief of Staff and Governor's policy advisors for the various program areas. In addition, the Office is staffed to carry out core functions, including Legislative Affairs, Communications and Constituent Services, General Counsel, Executive Appointments, Federal Affairs, Regional Solutions, Arrest and Return, Diversity and Inclusion, State Resiliency, and the Certification Office for Business.

### CSL Summary and Issues

The Office of the Governor is supported mainly by General Fund. Lottery Funds are used for the Regional Solutions program. Other Funds include revenue transfers from other agencies to fund certain advisor and advocate positions.

The current service level (CSL) reflects the transfer of the Oregon Volunteers Commission from the Office of the Governor to the Higher Education Coordinating Commission and the phase out of a limited duration Oregon Census Coordinator position. However, the Office is requesting, in a policy option package, to continue the Census Coordinator position, still as limited duration. There are no other significant issues in the current service level calculation.

### Policy Issues

At this time, there are two issues that have been highlighted in this budget. First, the Office intends to move its operations and staff to space in the State Library in the summer or fall of 2019. In addition, the Office is also talking about reclassifying a number of positions to align with responsibilities, although the specifics have not been completed.

The Governor's Budget includes a new Diversity and Inclusion Coordinator position to be funded by state agencies. This position will be charged with analysis of current programs, policies, and national trends, as well as providing training and managing a communications plan and strategy. In addition, the budget adds an education policy advisor position (that was formerly in the Chief Education Office) and a tribal relations attorney.

### Other Significant Issues and Background

For the past couple of sessions, the Office was directed to address the issue of positions that are "borrowed" from other agencies. The agency had indicated that it would be addressed in the 2015-17 budget request, but it was not completed at that time. The agency was also directed to address the issue in the 2017-19 budget, and again, while there was discussion, there was no decision to change the practice, which is continued in the 2019 agency budget. It should be noted that this practice has been in place for many biennia, predating the current Governor. The agency will provide a detailed organization chart that includes such positions.



<b>Legislative Branch - Total</b>					
	<b>2015-17 Actual</b>	<b>2017-19 Legislatively Adopted</b>	<b>2017-19 Legislatively Approved*</b>	<b>2019-21 Current Service Level</b>	<b>2019-21 Governor's Budget</b>
General Fund	89,165,955	110,315,599	127,688,384	127,631,848	127,434,034
Other Funds	11,679,791	23,170,692	33,237,314	12,610,246	12,603,025
Other Funds (Nonlimited)	5,943,243	1,061,091	1,061,091	1,477,131	1,477,131
<b>Total Funds</b>	<b>106,788,989</b>	<b>134,547,382</b>	<b>161,986,789</b>	<b>141,719,225</b>	<b>141,514,190</b>
Positions	654	660	660	559	559
FTE	431.77	447.81	447.81	446.17	446.17
*Includes Emergency Board and administrative actions through December 2018.					

### Program Description

The Legislative Branch agencies include members of the Legislative Assembly and their employees, five 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; 4) the Legislative Revenue Office; and 5) the Legislative Policy and Research Office.

### CSL Summary and Issues

As usual, all the Legislative Branch agencies submitted Current Service Level (CSL) budgets for the Governor's agency request budget process. The CSL includes merit steps for all the positions in the Branch. One-time bond proceeds for the Capitol Accessibility, Maintenance and Safety (CAMS) project are phased-out in the 2019-21 CSL budget. Ongoing costs for CAMS, closed captioning, disaster recovery, ADA and diversity needs are included in the CSL.

### Policy Issues

Issues for the Branch include the continuation and projected completion of the CAMS project, the implementation of changes as a result of the study conducted by the Oregon Law Commission on legislative working conditions, and redistricting. In addition, like all other state agencies, the implementation of pay equity will need to be addressed.

CAMS – This project is a scaled down version of the OSCR project that involves some components of the renovation project with the major exception of the seismic retrofitting of the Capitol building. Construction activity has been ongoing through much of the 2017-19 interim and has involved improving handicap accessibility to the building, improving security by relocating the Oregon State Police Capitol Office from the

basement to the first floor, and making other necessary safety, mechanical, and maintenance improvements. It is expected that the project, within current funds and legislative approvals, will be completed in 2020.

Oregon Law Commission legislative workplace study - The study provided recommendations to improve the legislative workplace, including creation of an Equity Office. This recommendation would include staff, training, and other costs. Some of the other recommendations may require funding as well, depending on how they are implemented.

Redistricting - After the U.S. Census is completed in 2020, the Legislature is responsible for using that data to redistrict the 60 House and 30 Senate Districts, as well as the state's congressional districts. Typically, Committee Services staff (now LPRO) have been responsible to conduct the staff work associated with the redistricting plan according to statutory requirements, which then is put in a bill to be acted on by the Legislature and the Governor. If such a plan is not enacted by July 1st of the following year or the plan is successfully challenged in court, the responsibility for redistricting falls to the Secretary of State. The Secretary of State has ended up being responsible for the plan or for adjustments to the plan because of successful court challenges in 1961, 1971, 1981, 1991, and 2001. In 2011, the legislative plan was approved by the Governor and the Secretary of State was not involved in redistricting. There was legislation considered last session and being discussed for the upcoming session, as well as potential ballot measures that would change the process and responsibility for redistricting. From a budget perspective, there will be software and other costs associated with redistricting; it is possible those costs could be addressed during the 2020 session.

#### Other Significant Issues and Current Discussions

There are ongoing costs for security and communication system changes that occurred in 2017-19 that will need to be included in the budget that were not included in CSL. In addition, there are likely other issues related to technology, security, facilities, and staffing that will need to be considered for the 2019-21 biennium.

It is the practice of the Executive Branch that the Governor's budget includes a proportional reduction or increase for the Legislative Branch based on the average effect on Executive Branch agencies. For 2019-21, the Governor's budget proposal funds the Legislative Branch General Fund and Total Funds budget at the current service level, as adjusted to reflect the Governor's proposal for state government service charges for the upcoming biennium.

Since the expenditures of the Legislative Branch agencies are primarily driven by personal services costs, any reduction below CSL would necessarily mean the elimination of positions in some or all the legislative staff offices, especially the smaller agencies, including Legislative Counsel, Legislative Policy and Research, Legislative Revenue, and Legislative Fiscal.

<b>Legislative Assembly</b>					
	<b>2015-17 Actual</b>	<b>2017-19 Legislatively Adopted</b>	<b>2017-19 Legislatively Approved</b>	<b>2019-21 Current Service Level</b>	<b>2019-21 Governor's Budget</b>
General Fund	38,726,243	40,368,569	46,054,850	48,437,336	48,301,832
Other Funds	4,361	26,570	26,570	27,580	27,580
Other Funds (Nonlimited)	104,839	115,520	115,520	135,000	135,000
<b>Total Funds</b>	<b>38,835,443</b>	<b>40,510,659</b>	<b>46,196,940</b>	<b>48,599,916</b>	<b>48,464,412</b>
Positions	423	423	423	333	333
FTE	251.52	251.52	251.52	251.77	251.77
<b>Legislative Administration Committee</b>					
	<b>2015-17 Actual</b>	<b>2017-19 Legislatively Adopted</b>	<b>2017-19 Legislatively Approved</b>	<b>2019-21 Current Service Level</b>	<b>2019-21 Governor's Budget</b>
General Fund	33,025,945	40,873,948	49,657,276	44,596,708	44,615,471
Other Funds	7,126,023	17,902,565	27,665,211	6,620,683	6,613,462
Other Funds (Nonlimited)	5,342,049	390,658	390,658	765,561	765,561
<b>Total Funds</b>	<b>45,494,017</b>	<b>59,167,171</b>	<b>77,713,145</b>	<b>51,982,952</b>	<b>51,994,494</b>
Positions	142	86	86	76	76
FTE	100.65	72.16	72.16	71.03	71.03

<b>Legislative Counsel Committee</b>					
	<b>2015-17 Actual</b>	<b>2017-19 Legislatively Adopted</b>	<b>2017-19 Legislatively Approved</b>	<b>2019-21 Current Service Level</b>	<b>2019-21 Governor's Budget</b>
General Fund	10,511,999	12,552,965	13,397,725	14,376,494	14,346,970
Other Funds	1,058,979	1,579,137	1,846,216	1,908,386	1,908,386
Other Funds (Nonlimited)	496,355	554,913	554,913	576,570	576,570
<b>Total Funds</b>	<b>12,067,333</b>	<b>14,687,015</b>	<b>15,798,854</b>	<b>16,861,450</b>	<b>16,831,926</b>
Positions	57	58	58	58	58
FTE	47.60	50.84	50.84	51.08	51.08

### **Legislative Fiscal Office**

	<b>2015-17 Actual</b>	<b>2017-19 Legislatively Adopted</b>	<b>2017-19 Legislatively Approved</b>	<b>2019-21 Current Service Level</b>	<b>2019-21 Governor's Budget</b>
General Fund	3,765,890	4,117,795	4,976,414	6,107,186	6,092,019
Other Funds	3,489,242	3,655,385	3,692,282	4,046,295	4,046,295
Other Funds (Nonlimited)					
<b>Total Funds</b>	<b>7,255,132</b>	<b>7,773,180</b>	<b>8,668,696</b>	<b>10,153,481</b>	<b>10,138,314</b>
Positions	22	22	22	22	22
FTE	22.00	22.00	22.00	22.00	22.00

### **Legislative Policy and Research Office**

	<b>2015-17 Actual</b>	<b>2017-19 Legislatively Adopted</b>	<b>2017-19 Legislatively Approved</b>	<b>2019-21 Current Service Level</b>	<b>2019-21 Governor's Budget</b>
General Fund		8,847,088	9,903,112	10,698,993	10,676,185
<b>Total Funds</b>		<b>8,847,088</b>	<b>9,903,112</b>	<b>10,698,993</b>	<b>10,676,185</b>
Positions		61	61	61	61
FTE		41.29	41.29	41.29	41.29

<b>Legislative Revenue Office</b>					
	<b>2015-17 Actual</b>	<b>2017-19 Legislatively Adopted</b>	<b>2017-19 Legislatively Approved</b>	<b>2019-21 Current Service Level</b>	<b>2019-21 Governor's Budget</b>
General Fund	2,715,111	3,017,916	3,069,127	2,858,746	2,850,943
<b>Total Funds</b>	<b>2,715,111</b>	<b>3,017,916</b>	<b>3,069,127</b>	<b>2,858,746</b>	<b>2,850,943</b>
Positions	8	8	8	7	7
FTE	8.00	8.00	8.00	7.00	7.00
<b>Commission on Indian Services</b>					
	<b>2015-17 Actual</b>	<b>2017-19 Legislatively Adopted</b>	<b>2017-19 Legislatively Approved</b>	<b>2019-21 Current Service Level</b>	<b>2019-21 Governor's Budget</b>
General Fund	420,767	537,318	629,880	556,385	550,614
Other Funds	1,186	7,035	7,035	7,302	7,302
Other Funds (Nonlimited)					
<b>Total Funds</b>	<b>421,953</b>	<b>544,353</b>	<b>636,915</b>	<b>563,687</b>	<b>557,916</b>
Positions	2	2	2	2	2
FTE	2.00	2.00	2.00	2.00	2.00

<b>Oregon State Library</b>					
	<b>2015-17 Actual</b>	<b>2017-19 Legislatively Adopted</b>	<b>2017-19 Legislatively Approved*</b>	<b>2019-21 Current Service Level</b>	<b>2019-21 Governor's Budget</b>
General Fund	3,410,982	3,990,257	4,060,172	4,202,817	4,122,825
Other Funds	5,839,536	6,717,774	6,842,189	7,042,377	6,898,487
Federal Funds	4,171,184	5,275,247	5,309,791	5,504,648	5,225,697
<b>Total Funds</b>	<b>13,421,702</b>	<b>15,983,278</b>	<b>16,212,152</b>	<b>16,749,842</b>	<b>20,189,735</b>
Positions	42	42	42	41	41
FTE	40	40.04	40.04	39.04	39

\*Includes Emergency Board and administrative actions through December 2018.

### Program Description

The State Library of Oregon (OSL) provides library services to support state government operations, reading materials for Oregonians with print disabilities, and leadership and resources to promote the development and support of local library services.

OSL is funded with a combination of General Fund, Other Funds, and Federal Funds. Other Funds revenues are generated from an assessment on all state agencies, 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 most recently closed biennium. State agency assessment revenue has a General Fund component since some agencies use General Fund to pay the assessment. Assessment revenue supports services to state government agencies and OSL administration. Donations and bequests support the Talking Book and Braille Services (TBABS) program. Miscellaneous receipts are primarily generated through statewide database licensing.

OSL receives Federal Funds from the Institute of Museum and Library Services (IMLS) under the Library Services and Technology Act (LSTA) per a population-based formula. The LSTA grant requires a 34% match, 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 that supports the MOE results in an identical percentage reduction in LSTA funding, although a federal waiver process exists. Federal Funds primarily support statewide services and competitive grants to libraries.

General Fund supports the TBABS program, library support and development services, and a small portion of OSL administration.

### CSL Summary and Issues

The 2019-21 Current Service Level (CSL) budget of \$16.7 million is \$537,690 (or 3.3%) more than the 2017-19 legislatively approved budget of \$16.2 million. The increase is attributable to standard personal services growth and inflation for services and supplies expenditures. Exceptional inflation of \$192,720 is included to cover the cost of transitioning OSL's servers and network services to DAS Enterprise Technology Services. OSL vacated the third floor of the State Library building during the 2017-19 biennium, which housed their server room, both to generate rent savings by consolidating their staff on two floors and to provide space for the relocation of the Governor's Office staff. An additional \$44,916 is included to cover DAS Shared Financial Services charges for the agency's accounting and budgeting functions; this is net of the elimination of an Accountant 2 position that previously performed the services. Above standard inflation of \$19,472 for telecommunications costs related to the Project MUSIC implementation and \$7,183 Other Funds for the agency's electronic subscriptions is included in the 2019-21 CSL budget. Increased telecommunications costs were calculated in error and the CSL budget will be adjusted accordingly.

OSL's 2019-21 CSL budget includes assessment revenue of \$7.1 million and an estimated ending balance of \$1.2 million, which provides a four-month operating reserve. Other Funds revenue also includes donations, the majority of which are attributable to the TBABS Donation Fund and TBABS Endowment Fund. OSL is projecting \$450,000 in donation revenue during the 2019-21 biennium. ORS 357.195 gives the State Library Board authority to use and administer the Donation Fund for the benefit of the State Library, with the exception of specifically designated donations. The State Library has adopted a policy for using donation funds for TBABS program enhancement as opposed to standard operating expenses.

### Policy Issues

In response to multiple efforts to reorganize the State Library, the Legislature passed HB 3523 during the 2015 session, which restructured the mission and governance of the State Library. The "Trustees of the State Library" was renamed the "State Library Board" and membership was expanded. Additionally, the State Librarian position was changed from a board appointee to a gubernatorial appointee beginning in 2017. The State Reference Coordinating Council, consisting of the State Librarian, State Archivist, and State of Oregon Law Librarian was created to coordinate delivery of library services between state agencies and branches of government. OSL was also provided authority to approve selection, purchase, and maintenance of reference databases and subscriptions for state agencies to reduce duplication of state agency materials.

Pursuant to the statutory changes regarding the appointment of the State Librarian position, the Governor submitted, but subsequently withdrew, her appointment of the incumbent State Librarian for Senate confirmation. As of March 2018, the State Library has been operating under an interim Librarian while the recruitment for a permanent State Librarian is underway.

#### Other Significant Issues and Background

During the 2015 session, OSL was directed to review and update its key performance measures (KPMs) for the 2017-19 biennium to achieve alignment with its reorganization and long-term strategic plan. OSL subsequently proposed retaining three of its existing 14 KPMs and adding two new measures. In 2017, the Legislature approved eight KPMs for the State Library, including six of its original measures and establishment of the two new measures. The remaining eight KPMs were eliminated; however, data tracked by several of the deleted measures is still required to be reported as part of the State Library's biennial report to the Legislature and DAS on the effectiveness of library services. OSL has been gathering baseline data for the two new KPMs, which measure the use of electronic resources that the State Library purchases and the percentage of public libraries meeting the applicable Oregon Library Association standards; the agency will begin reporting data for fiscal year 2018 in its 2019 Annual Performance Progress Report.

The 2017-19 approved KPMs also included instruction that OSL review its first KPM, the number of research transactions for state employees, to determine if it is the appropriate outcome measure for services provided by Government Information and Library Services staff or whether a new measure should be proposed for the 2019-21 biennium. The Library was also expected to define the term "research transaction." OSL has elected to keep the measure for the 2019-21 biennium and adopt the American Library Association's definition of a reference transaction, which will be measured on a READ (Reference Effort Assessment Data) Scale to reflect the levels of reference service based on data.



<b>Public Employees Retirement System</b>					
	<b>2015-17 Actual</b>	<b>2017-19 Legislatively Adopted</b>	<b>2017-19 Legislatively Approved *</b>	<b>2019-21 Current Service Level</b>	<b>2019-21 Governor's Budget</b>
General Fund	--	--	--	--	100,000,000
Other Funds	98,827,001	98,448,004	101,537,470	105,912,270	110,852,846
Other Funds (NL)	9,856,259,772	10,994,171,000	10,994,171,000	12,493,087,721	12,493,087,721
<b>Total Funds</b>	<b>9,955,086,773</b>	<b>11,092,619,004</b>	<b>11,095,708,470</b>	<b>12,598,999,991</b>	<b>12,703,940,567</b>
Positions	381	373	377	369	379
FTE	379.26	372.29	374.68	369.00	379.00
* Includes Emergency Board and administrative actions through December 2018.					

### Program Description

The Public Employees Retirement System (PERS) administers the retirement system covering employees of state agencies; public universities, 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. Due to its complexity, the PERS system is costly to administer.

Other Funds Limited revenue includes: the agency's administrative budget is primarily financed by revenue transfers from the various benefit trust funds administered by the agency. Other Funds NonLimited revenue includes: investment earnings, employer contributions, employee contributions, retiree healthcare insurance premium payments, and nominal miscellaneous revenue.

### CSL Summary and Issues

The 2015-17 current service level budget for the agency totals \$105.9 million (369 positions; 369.00 FTE) for operations and \$12.6 billion for benefit payments. The CSL operating budget is \$4.4 million, or 4.3%, more than the 2017-19 legislatively approved budget of \$101.7 million. CSL benefit payments are \$1.5 billion, or 13.6%, more than the 2017-19 legislatively approved budget of \$11 billion. There are no noted differences between the DAS and LFO CSL calculations; however, there are a number of position reclassifications that have yet to be submitted by the agency.

The budget includes the phase-out of \$5.4 million of predominately one-time information technology costs for: (a) information security contracting (\$1.6 million); (b) warm site to aid in disaster recovery (\$1.2 million); (c) \$ Individual Account Program project (\$1.1 million); (d) disaster recovery planning (\$500,000); (e) \$250,000 for business continuity planning (\$250,000); (f) one-time adjustments in the February 2018 session for information technology and target-date fund change, information technology contract for backfilling SB 90 position transfers (\$406,000) and (g) the Strunk-Eugene collections recovery project. PERS has one technical adjustment package that has a net zero agency-

wide impact by moving for in-state travel, employee training, and office expenses among various divisions (\$388,000). Other CSL changes include standard adjustments for contractually approved compensation plans, vacancy factor, mass transit taxes, PERS pension obligation bond assessments, inflation on services and supplies, Attorney General line-item, professional services, and rent.

#### Policy Issues

There are a large number of preliminary budget issues that the Co-Chairs budget will need to consider beyond which the agency may have additional requests.

**Information Technology - Cybersecurity/Disaster Recovery/Business Continuity (\$1.3 million Other Funds; three positions/3.00 FTE):** provides three positions and contracted resources to administer the agency's Information Security, Business Continuity, and Disaster Recovery programs. PERS hired a contractor in August 2018 to perform an assessment of their disaster recovery and business continuity programs and the findings validate a high-level of concern. ***This request was funded in the Governor's budget, but as a placeholder.***

**Information Technology - Data Center Migration (\$1.7 million Other Funds):** relocate PERS' data center to the state data center using a co-location model. In addition, the agency needs to reconcile the package requested with base budget resources it is planning to use for server upgrades in 2019-21 and the servers requested in POP 105 – Modern Communication. ***This request was funded in the Governor's budget.***

**Information Technology - Individual Account Program (\$0 Other Funds; 0 positions/0.00 FTE):** The IAP project experienced a major change in scope, schedule, and budget since first being approved by the Legislature in 2013. Issues with the failure of the IAP project should not be blamed on the target-date fund or member choice. Outsourcing ***No funding was provided in the Governor's budget for this request.***

**Information Technology - Business Innovation "Program" Architectural and Planning (aka Modernization)(\$512,265 Other Funds):** For the third time in as many biennia, PERS would like to begin planning for modernizing the agency's outdated and inflexible information technology infrastructure. ***This request was funded in the Governor's budget.***

**Information Technology - Modern Communication (\$1.4 million Other Funds):** implement customer relationship management (CRM) software in order to better communicate with members and help them manage their accounts. This project has not begun the Joint Stage Gate review process. ***No funding was provided in the Governor's budget for this request.***

**Financial and Administrative Services Division Strategic Fulfillment (\$3 million Other Funds; 13 positions/13.00 FTE):** To address various operational issues within the Financial and Administrative Services Division, a) one limited duration position and provides collections fees for the department to continue long-term collections efforts related to the *Strunk* and *Eugene* Oregon Supreme Court cases; including *Strunk-Eugene* collections positions, four reclassifications, a Procurement, and Target-Date Fund accounting, to name a few. ***A portion of this request was included in the Governor's budget (\$357,679; 1 positions/1.00 FTE).***

**Maintain Current Services (\$2.1 million Other Funds; 11 positions/11.00 FTE):** PERS is requesting a assortment of positions for: (b) a Communications Officer position to lead the agency’s centralized Communications section (currently a double-fill); (c) one position to deal with a backlog of change requests to the department’s imaging and content management systems; (d) one position to assist the Operations Division with the administration of the Target Date Fund investment strategy implemented by the Oregon Treasury; (e) two positions to address workload issues in the Intake and Review section of the Operations Division; (f) establish a Deputy Chief Information Officer, an Information Systems Specialist 6, Quality Assurance Engineer, and an ISS 6, Electronic Content Management section analyst. inability by the agency to quantify the contracted savings that granting such a position would create. **A portion of this request was included in the Governor’s budget (\$1.3 million; 7positions/7.00 FTE).**

**SB 1566 (2018)(\$0 Other Funds; 0 positions/0.00 FTE):** The measure was enacted to address the PERS Unfunded Accrued Liability. The administrative cost of SB 1566 is moving from what was initially categorized as indeterminate to determinate. Determinate costs, based on an administrative implementation plan that has yet-to-be produced, need to be identified and presented to the Legislature. Such a request needs to identify the source(s) of revenue available to fund SB 1566 activities given the statutory and cashflow limitation of the measure as well as existing legal limitation on the use of PERS trust funds. The Legislature will be under pressure to find additional sources of revenue for these programs. **The Governor’s budget includes a \$100 million General Fund appropriation and \$100 million Other Funds Nonlimited to PERS for the School District Unfunded Liability Fund. PERS is unable to articulate a plan for how or when this appropriation will be used.**

**IAP Target-Date Fund (\$0 Other Funds; 0 positions/0.00 FTE):** After the close of the legislative session in 2017, the Oregon Investment Council (OIC) voted to move the IAP to a target-date fund solution beginning January 2, 2018. This is an age-based approach that moves a member’s IAP assets into an increasingly conservative investment portfolio, which may impact member earnings and ultimately their retirement benefit. Since inception on January 1, 2004, the IAP had been invested no differently than other assets in the Oregon Public Employees Retirement Fund. The Legislature in 2018 provided information technology resources (\$200,000), and the Emergency Board added an Investment Accountant-4, but more resources may be needed. **No funding was provided in the Governor’s budget for this change.**

**IAP Member Choice (\$9.6 million Other Funds; three positions/3.00 FTE):** PERS and State Treasury have default to Legislature on the issue of drafting legislation to address IAP member choice. The OIC decision was mandatory and provided for no member choice to make individual investment decisions. The Legislature in 2018 enacted a member choice option (HB 4159; Chapter 118, Oregon Laws) effective on January 1, 2019; however, a provision in the measure required the State Treasurer to notify the PERS Board by December 31, 2018, if legal and fiduciary standards prohibit implementation. In May of 2018, State Treasury (OST) made the determination, based upon the advice of outside legal counsel, rather than the Department of Justice, that legal and fiduciary standards prohibited implementation. Apparently, OIC and OST need legal immunity from liability if an IAP member were to lose funds (“safe harbor” provision). OST also noted that IAP members require information (i.e., disclosures) related to making a member choice investment selection. These two concerns require, according to OST, a legislative change that was characterized as minor in nature; however, apparently neither OST nor PERS will be proposing such a legislative

concept for the legislative session in 2019.HB 4159 (2018) provides for Individual Account Program member choice in investment selection. **No funding was provided in the Governor's budget for this request.**

**Deferred Maintenance (\$625,000 Other Funds):** Request for deferred maintenance for a roof and HVAC system. **This request was funded in the Governor's budget; however, the amount approved, and the actual need, have yet-to-be reconciled.**

**Oregon Savings Growth Plan (\$3.4 million Other Funds):** PERS has a request into the Emergency Board in December to move the Oregon Savings Growth Plan Administrative costs from being a NonLimited expenditure to a limited expended. **No funding was provided in the Governor's budget for this project.**

**Excess Expenditure Limitation:** The PERS budget continues to have an inordinate amount of excess expenditure limitation that likely could be reduced to better align the agency's limitation with projected expenditures and without impacting the operations of the agency. **A similar-type action was included in the Governor's budget that eliminates a long-term vacancy and services and supplies (\$724,279 and one position).**

**Policy Packages:** The PERS agency request budget includes nine policy packages totaling \$20.9 million Other Funds and 30 positions (30.00 FTE). The change in the agency's executive director has resulted in some of the agency request budget requests being withdrawn. A re-evaluation of policy packages is needed by the agency.

The Governor's budget funds PERS operating budget at \$110.9 million Other Funds or \$4.9 million and ten positions above current service level. The Governor's budget is \$5 million, or 4.66%, more than the current service level, excluding the \$100 million General Fund appropriation for SB 1566.

#### Other Significant Issues and Background

There are a few policy-type issues for the Co-Chairs to consider.

**Governance:** PERS is in a period of major transition, both in terms of governance and culture. PERS has undergone significant leadership changes with a new agency executive director (June 2018), a new board chair (September 2018), and the filling of various critical vacancies, such as Deputy Director, Chief Financial Officer, and Chief Operating Officer. PERS will be faced with leadership challenges related to setting the financial strategy and course of the system as well as improving the culture of the agency.

**Reorganization 2.0:** Although PERS was reorganized in 2015, the agency's new executive director will be proposing to make additional changes, including the submission of a budget request as well as a permanent finance plan to resolve classification issues and pay line

exceptions remaining from the 2015 reorganization that are almost exclude related to the agency's executive management team. **No funding was requested by the agency nor provided in the Governor's budget for the reorganization.**

**Audits:** A recently released Secretary of State audit (October 2018) validated the concerns expressed by the Legislature in 2017 on the agency's many deficiencies related to cybersecurity, disaster recovery, and business continuity. Additionally, the Legislature in 2020 will receive an actuarial review of the reasonableness and consistency actuarial methods and assumptions adopted by the PERS Board. PERS also had completed the agency's *Comprehensive Annual Financial Report* for fiscal year 2018.

**Information Technology Deficiencies:** Due the PERS backlog of critical information technology issues further needed investments in the agency's information technology infrastructure will be complicated at the last, and likely delayed, including implementing any potential legislation, modernization, and a proposed customer relations management software. The Legislature should also be wary of any legislation that provides PERS with an exemption from standard information technology requirements and oversight and procurement law.

<b>Department of Revenue</b>					
	<b>2015-17 Actual</b>	<b>2017-19 Legislatively Adopted</b>	<b>2017-19 Legislatively Approved *</b>	<b>2019-21 Current Service Level</b>	<b>2019-21 Governor's Budget</b>
General Fund	185,042,400	188,533,904	194,469,572	204,875,450	200,411,318
Other Funds	125,282,327	124,776,501	129,934,422	123,681,615	58,273,914
<b>Total Funds</b>	<b>310,324,727</b>	<b>313,310,405</b>	<b>324,403,994</b>	<b>328,557,065</b>	<b>258,685,232</b>
Positions	1,083	1,007	1,079	1,024	1,031
FTE	1,023.35	933.85	961.67	969.22	974.04
* Includes Emergency Board and administrative actions through December 2018.					

### Program Description

The Department of Revenue (DOR) administers the state's income tax and property tax programs, although property taxes are primarily managed and collected by counties. The tax programs the Department administers generate approximately \$21 billion, or 96%, of General Fund revenue, through a combination of personal income, corporate income and excise, estate, tobacco, gift, and other taxes. DOR also administers recreational marijuana tax as well as several property tax relief programs. DOR recently began administering various transportation packages taxes and a Heavy Equipment Rental Taxes. DOR also has made changes required by the Federal Tax Cuts and Job Act tax reform and the state decoupling from that tax [SB 1528 and SB 1529 (2018)]. Finally, DOR completed a multi-biennia information technology project entitled the Core Systems Replacement project, which installed GENTAX, the agency's core tax management application.

The Other Funds revenue is derived from administrative charges to various tax, fee, assessment, collections, and other programs. The County Assessment Function Funding Assessment account also helps pay for a portion of state and local property tax assessment and taxation functions.

### CSL Summary and Issues

The 201-21 current service level budget for the agency \$328.6 million total funds (1,024 positions/969.22 FTE). The CSL is \$4.2 million, or 1.3%, more than the 2017-19 legislatively approved budget of \$324.4 million. Full-time equivalents decreased by 55 positions (7.55 FTE). There are no noted differences between DAS and LFO CSL calculations. DOR, however, neglected to include a revenue shortfall package for the Property Tax Division, discussed in more detail below. Additionally, the budgetary structure of the agency was change through a series of base budget (Administrative Services and Information Technology Divisions) and technical adjustments (Collections Division) and a revenue clearing house program was established. These changes will make comparisons to the prior biennium more difficult; however, the changes may be seen as an improvement.

The General Fund Debt Service was increased by \$693,675 for the roll-up costs of previously issued debt, bringing the total CSL Debt Service cost to \$16.4 million. The CSL phases-out of \$17.5 million total funds in one-time investments, some of which includes: (a) ongoing maintenance and support of GENTAX (\$3.6 million); (b) GENTAX implementation and Article XI-Q bonds for GENTAX (\$1.1 million General Fund and \$9.7 million in Other Funds); (c) construction projects to build out DOR's marijuana cash handling space in their building (\$1.1 million Other Funds); (d) outcome-based management system contract (\$350,000); (e) Phase 1 of the Processing Center Modernization project (\$892,812); and (f) comprehensive external audit (\$150,000). The CSL includes \$1.2 million total funds increase for previously unbudgeted State Treasury fees, as part of a DAS-approved CSL exception. Other CSL changes include standard adjustments for contractually approved compensation plans, vacancy factor, mass transit taxes, PERS pension obligation bond assessments, inflation on services and supplies, Attorney General line-item, professional services, and rent. The CSL includes a variety of technical adjustments to realign budget line-items among various divisions for better costing of expenditures, which has a net-zero impact across the agency.

### Policy Issues

There are a number of preliminary budget issues that the Co-Chairs budget will need to consider beyond which the agency may have additional requests.

**Revenue Shortfall in Property Tax Division (\$1.1 million General Fund and <\$398,369> Other Funds; 0 positions/2.57 FTE):** The Division has been in a chronic and systemic revenue shortfall that has remained unaddressed since 2004. A continued revenue shortfall in the PTD's County Assessment Function Funding Assistance may require General Fund backfill. Compounding these financial problems has been a series of errors in the department's budget submissions, including one in 2016 that left 23 positions funded at 0.88 FTE instead of 1.00 FTE. PTD continues to hold positions vacant, which ultimately has a revenue impact to state and local governments. Rectifying the PTD's funding and financial management issues should be of primary focus this session. ***This request was included in the Governor's budget.***

**Property Valuation System (\$0):** DOR has the statutory responsibility for developing real market values for approximately 4,450 industrial and 500 central assessment companies across the state, whose value is in excess of \$1 million. The state undertakes this work on behalf of counties, which are the taxing authority and through DOR's appraisal efforts collect \$600 million in property tax revenue on over \$50 billion in taxable value, according to the agency. DOR's current property tax administration relies on a roughly 15-year-old legacy "system" comprised of non-integrated applications, and internally developed databases, spreadsheets, and paper files to manage property valuations. After a failed attempt to implement a new system, DOR submitted no 2019-21 budget request to re-authorize the PVS project; however, the Legislature may itself want to reconsider this project due to its importance. ***No funding was provided in the Governor's budget.***

**Post-Core Systems Replacement Project Implementation Costs (\$7.2 million General Fund and \$622,445 Other Funds; five positions/5.00 FTE):** Contrary to reports to the Legislature, there is evidence that GENTAX remains to be fully and optimally configured. ***This request was partially funded in the Governor's budget (\$4.4 million General Fund and \$352,321 Other Funds).***

- DOR is requested Level 2 support for GENTAX in 2019-21, down from Tier 3 support in 2017-19.

- Five on-site software vendor staff to maintain to accelerate the configuration work that remains to be done in GENTAX, address the backlog of change requests, and ensure that knowledge transfer to agency staff continues (\$1.7 million);
- Two DOR Operations and Policy Analyst 3 positions who serve as business analysts;
- One DOR Principle Executive/Manager E position to serve as DOR's overall project manager;
- Two DOR Training and Development Specialist 1 positions.

**Increase Printing and Postage (\$2.0 million General Fund and \$418,766 Other Funds):** DOR is requesting additional printing and postage costs that have resulted from increasing the volume of taxpayer mailings with the implementation of Gentax. The necessity and value of these mailings and why electronic communications are not more actively being pursued is unclear. **No funding was provided in the Governor's budget for this request.**

**Risk and Compliance (\$1.5 million General Fund and \$130,703 Other Funds; five positions/5.00 FTE):** This request is for one position to work in the agency's Disclosure Office managing incidents where agency staff have disclosed confidential information and to make a variety of upgrades to the physical security of the agency's headquarters and three positions to restore the agency's three information security positions transfer to the Department of Administrative Services by Senate Bill 90 (2017) and to add a position to manage Gentax user access. **No funding was provided in the Governor's budget for this request.**

**Financial Institution Data match (\$166,029 General Fund and \$29,299 Other Funds):** SB 254 requires financial institutions to participate in a data match program DOR by comparing a list of delinquent debtors with the names of account holders. Budget authority is required to pay required fees to banks for their participation. Approximately 75.0 percent of banks and credit unions doing business in Oregon have signed agreements to participate in this service, with more agreements coming. It is unknown whether the program will reach its revenue estimate of \$1.7 million General Fund during 2017-19 or \$7.0 million General Fund in 2019-21 biennium. **This request was included in the Governor's budget.**

**Increase Fraud Detection (\$746,081 General Fund and \$15,226 Other Funds; four positions/4.00 FTE):** DOR would like additional resources to adjust the fraud module in Gentax and to review and audit returns that are flagged for review. After investments in the Gentax application and more specifically a fraud application and services, DOR continues to struggle with how to differentiate fraudulent returns from legitimate returns and how best to optimize CSR data analytic module that was in addition to the GENTAX application (Thomsen Reuters). **No funding was provided in the Governor's budget for this request.**

**Processing Modernization Project (\$780,007 General Fund and \$67,826 Other Funds):** Processing Center processes all incoming paper returns, payments and correspondence and deposits all payments. This project replaces the DOR's obsolete scanners with new scanners that are integrated with Gentax. After an initial failed attempt to complete this project, which adversely impacted the 2016 tax season, the PCM project was re-authorized by the Legislature in 2017. PCM completed successfully Phase 1 and decommissioned the legacy scanners most at



risk of failure. Phase 2 will be completed by August 2019 and Phase 3 will be completed in August 2020. The project is on schedule, within scope, and a budget overage is being managed by the agency. ***This request was funded in the Governor's budget.***

***Processing Center Staffing for Statewide Transit Tax (\$1.5 million Other Funds; 11 positions/11.00 FTE):*** The Processing Center is requesting permanent resource to continue to handle the increased volume of paper returns and correspondence due to the new statewide transit tax. Limited duration resources were provided in February of 2018 and then phase-out of the agency's budget. The state has a joint electronic payroll tax form with the Department of Employment that could be modified to accommodate this work rather than continue to rely upon a manual processing method. ***This request was funded in the Governor's budget.***

***Heavy Equipment Rental Tax (HERT)(\$876,361, Other Funds; three positions/1.50 FTE):*** DOR requires resources to continue the implementation of HERT; however, the implementation of HERT has been called into question due to the amount and timing of the cashflows necessary to support the startup and ongoing administrative costs of DOR. DOR's 2019-21 agency request budget does not include an associated policy package. ***This request was added in the Governor's budget.***

***State and Local Lodging Tax Auditing (\$220,871 Other Funds; one positions/1.00 FTE):*** DOR is requesting resources to audit the state and local lodging taxes. ***This request was funded in the Governor's budget.***

***Marijuana Program/Income Tax Auditing (\$474,361 Other Funds; four positions/4.00 FTE):*** DOR is asking for resources to audit marijuana tax returns and the income tax returns of license marijuana businesses. There is a high risk of non-compliance in this cash-driven industry. ***This request was funded in the Governor's budget.***

***Outcome-Based Management Assessment (\$769,100 General Fund and \$57,697 Other Funds; two positions/2.00 FTE):*** DOR is requesting resources to implement an outcome-based management system. DOR only recently contracted with Deloitte to assist with developing and implementing the system. This is a placeholder request whose cost is likely to be substantially higher than the current estimate. ***This request was only partially funded in the Governor's budget.***

***Payments to Counties:*** This request shifts Other Funds expenditure limitation totaling of \$70 million for the CAFFA and Senior Deferral program to revenue transfers. This is a budget policy decision whether to budget pass-through payments to local governments as revenue transfers or as a budgeted special payment. This is a budgetary policy decision that the Legislature should consider in the context of the larger state budget and the consistent application of the policy across state agencies. ***This change was approved in the Governor's budget.***

***Customer Service (\$244,880 General Fund and \$4,4997 Other Funds; one positions/1.00 FTE):*** DOR is requesting one position to serve as the agency's overall customer service coordinator. The customer service function is decentralized throughout the agency as well as

somewhat geographically. The centralization of DOR's customer service function within the agency should be considered. **No funding was provided in the Governor's budget for this request.**

**Policy Packages:** The above budget issues are not entirely inclusive of DOR's agency request budget, which includes 14 policy packages totaling \$15.5 million General Fund and \$3.2 million Other Funds (36 positions/38.57 FTE). An additional policy package reduces Other Funds expenditure limitation by making pass-through payments to local governments a revenue transfer(s). Of note is that DOR mis-calculated all policy package positions at 1.00 FTE rather than allowing for a three-month hiring period (0.88 FTE). This overstates the cost of the packages.

The Governor's budget funds DOR at \$258.7million total funds, or \$70 million below, and seven additional positions (4.82 FTE) above, current service level. General Fund was reduced by \$4.5 million. Other Governor's adjustments that were not previously mentioned include:

- Eliminates all funding for Nonprofit Homes for the Elderly Program (\$3.4 million General Fund). Under the NPH, 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.
- Eliminates six positions (9.00 FTE) in the Personal Tax and Compliance Division that perform filing enforcement and tax processing (\$2.7 million General Fund)
- Eliminates four positions (4.00 FTE) in the Business Division that perform customer service (\$396,521 General Fund and \$349,174 Other Funds)
- Eliminates \$1.3 million General Fund and five positions/3.87 FTE, as well as unneeded contract support for scanners (\$428,400), in the Information Technology Services Division
- Eliminates inflation on most services and supplies accounts, increases the vacancy factor by five percent, eliminates long-term vacancies, and adjusts DAS and AG charges.
- Adds an 070 Revenue Shortfall package for the Property Tax Division (<\$969,223 Other Funds>; one position/3.78 FTE)
- Fund shifts one General Funded Collections Division position to Other Funds (\$190,154)
- Adds a Legislative Concept 576 that reduces the early filing discount on commercial and industrial properties from three to two percent on July 1, 2020 producing \$15 million in 2019-21 and \$33.2 million in 2021-23. This new source of funding would be used for grants to counties, distributions through CAFFA, with \$3.2 million being for the Property Tax Division (seven positions/5.00 FTE)
- Adds six positions (2.00 FTE) to implement a new Employer Responsibility Assessment that was created to fund the Oregon Health Authority (\$326,853 General Fund). DOR apparently will be in-charge of levying, or at least collecting, an assessment on certain employers who do not meet threshold health care contributions on behalf of their workers.

#### Other Significant Issues and Background

There are a number of significant issues facing the Department of Revenue.

**Legislative Session Concerns (2017):** DOR came under significant Legislative criticism during the Legislative Session in 2017 for a myriad of issues related to the agency’s operations, including financial management, human resources practices, information technology, customer service, employee engagement, and collections. Nine budget notes required the agency to examine its operating practices and report back to the Legislature. The legislative approach was to seek independent validation of the concerns identified by the Legislature. The Department of Administrative Services, Secretary of State Audits Division, and a private audit firm provided this validation through a series of reports and audits. With clear problem definition, the onus shifts to DOR and DAS to propose to the Legislature comprehensive solutions to remedy the systemic issues within the agency. For DOR to be successful, the Information Technology Services Division and the Research, Finance, Internal Audit, Human Resources, and Project Management sections must be operating at much higher levels of focused performance. Lastly, the performance of the agency must be quantitatively-based and measurable.

**Audits and Reviews:** The Secretary of State Audits Division has conducted a number of audits that either directly or tangentially impacted the agency. Completed audits include: Statewide Audit, Core Systems Replacement Audit; a review, rather than a formal audit, looked at Core Systems Replacement and then the County Assessment Function Funding Account. An external audit, as directed by budget note, was recently completed. Audits currently in-process include a “Organizational Cultural” audit.

**Operations:** Operationally, DOR is due much credit for this biennium for successfully implementation of federal and state tax law changes and simultaneously successfully implementing a variety of new and complex state taxes as well as the consolidation of the state’s collection function. This underscores a dichotomy that exists between agency operations and vital supporting services.

**Statewide Collections (SB 1067):** The Legislature also passed a law moving receivables statewide to DOR. DOR moved Other Agency Accounts into a new division and the Legislature approved funding for a Collections Division Administrator. DOR, by budget note, is still required to submit a feasibility study for consolidating the agency’s remaining collections functions (e.g., Personal Tax and Compliance Division and the Business Divisions) in the new Collections Division.

**Working Capital Requirement:** DOR has been relying upon General Fund to cash flow Other Funded program operations. The standard practice, which DOR has not adopted, is that each Other Fund revenue stream must be self-supporting, including any cash flow needed to pay for DOR administrative expense.

## Secretary of State

	2015-17 Actual	2017-19 Legislatively Adopted	2017-19 Legislatively Approved *	2019-21 Current Service Level	2019-21 Agency Request
General Fund	10,285,700	10,426,561	14,357,322	11,261,921	16,885,739
Other Funds	51,509,990	56,998,482	58,170,519	62,088,686	67,976,783
Federal Funds	1,845,372	4,721,387	8,132,619	4,960,337	5,416,887
<b>Total Funds</b>	<b>63,641,062</b>	<b>72,146,430</b>	<b>80,660,460</b>	<b>78,310,944</b>	<b>90,279,409</b>
Positions	210	213	217	212	234
FTE	208.46	212.77	215.03	211.64	233.14

\* Includes Emergency Board and administrative actions through December 2018.

### Program Description

The Office of the Secretary of State 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 the: **1) Elections Division**, which 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; **2) Audits Division**, which 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; **3) Archives Division**, which 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; and **4) Corporation Division**, which is responsible for three major programs: Business Registry – the filing of business names, Uniform Commercial Code (UCC) – the filing of secured transactions, and Notary Public – commissioning and regulating notaries. The agency also has an Administrative Services Division that provides central administrative support services and includes the Executive Office of the Secretary, Business Services, Human Resources, and Information Systems.

Additional details on the agency and its budget are available in the Legislative Fiscal Office's 2017-19 Legislatively Adopted Budget Detailed Analysis, which can be accessed at: <https://www.oregonlegislature.gov/lfo/Documents/2017-19%20LAB%20Detailed%20Analysis.pdf>

### CSL Summary and Issues

- General Fund in the amount of \$2,369,885 is reduced from the 2019-21 current service level in the Elections Division for one-time costs associated with the Oregon Motor Voter county payments and for reimbursement of Division and county costs for the January 2018 special election.
- Continuation of the Motor Voter program at the agreed upon levels is projected to cost approximately \$879,000 in the 2019-21 biennium.
- The Secretary of State's proposed budget is not subject to Governor's Office review or oversight. This means that what is included in the printed Governor's budget is basically just a placeholder. For the 2019-21 biennium, the amount included is generally the calculated current service level with some Department of Administrative Services adjustments made during the Governor's process for state government service charges and other assessments. The amounts included in the printed Governor's budget for the Secretary of State are \$11.1 million General Fund, \$67.5 million Other Funds, and \$5.4 million Federal Funds for a total budget of \$84.1 million.

### Policy Issues

The SOS requested budget for the 2019-21 biennium is \$16,885,739 General Fund, \$67,976,783 Other Funds, \$5,416,887 Federal Funds, and 234 positions (233.14 FTE). The total request budget of \$90.3 million is a 12% increase over the 2017-19 legislatively approved budget and a 15.3% increase over the current service level. The General Fund increase between the 2019-21 agency request budget and the 2019-21 current service level is a 49.9% increase.

The request budget projects a transfer of \$70.9 million from business registration fees to the General Fund. Total Other Fund resources from business registration fees are projected to total \$92.3 million in 2019-21. Fees collected by the Corporation Division were increased by Ballot Measure 67 in 2010; the Division keeps the first \$20 of the business registry fee it collects as well as revenues from notary public commissions and Uniform Commercial Code filing fees. In addition, prior to Measure 67, the Division was directed to transfer all fee revenues to the General Fund after funding its adopted budget and retaining a 2-month ending balance. Measure 67 allowed the agency to keep the entire ending balance unless the Legislature specifically transfers additional amounts to the General Fund.

The 2019-21 requested budgets for the agency's major divisions and the most significant policy option packages include the following:

- **Administrative Services Division- \$3.5 million General Fund; \$20.2 million Other Funds; 67 positions (66.89 FTE); 6.4% increase over CSL**
  - Position true up reclasses 10 positions upward including 4 managers
  - Staffing needs adds continues one existing limited duration position as permanent and adds one new position
  - Adds an internal auditor position at a cost of \$242,000 Other Funds

- Services and supplies increase adds \$26,000 General Fund and \$245,000 Other Funds for executive staff travel, professional dues and services
- Adds \$272,000 Other Funds to migrate remaining portions of business information systems to the Cloud
- Adds \$80,700 Other Funds to maintain 4 new security systems implemented in the 2017-19 biennium
- **Elections Division - \$12.2 million General Fund; \$1.2 million Other Funds; \$5.4 million Federal Funds; 25 positions (25.00 FTE); 34.9% increase over CSL**
  - Adds 3 permanent full-time staff at cost of \$625,000 General Fund
  - Continues Motor Voter payments to counties at cost of \$879,248 General Fund
  - Adds prepaid postage for all elections at cost of \$2,731,144 General Fund (*the Governor's budget includes a \$2.7 million special purpose appropriation to the Emergency Board for this purpose*)
  - Adds \$140,000 General Fund for voter choices and party equity to allow for minor parties to have primary elections with \$120,000 of the amount as pass-through to counties
  - Adds \$140,000 General Fund for a nonaffiliated primary election with \$120,000 of the amount as pass-through to counties
- **Audits Division - \$24.6 million Other Funds; 77 positions (77.00 FTE); 5.9% increase over CSL**
  - Reclasses upward 4 entry auditor positions at a cost of \$58,604 Other Funds
  - Adds 2 State Auditor 4 positions for Information Technology audits at a cost of \$542,044 Other Funds
  - Adds a 3 auditor Medicaid unit (2 auditors and a manager) at a cost of \$779,797 Other Funds
- **Archives Division - \$1.2 million General Fund; \$9.4 million Other Funds; \$0.04 million Federal Funds; 22 positions (21.75 FTE); 30.1% increase over CSL**
  - Reclasses upward 4 positions at a cost of \$4,148 Other Funds
  - Adds \$750,000 Other Funds for phase 4 of compact shelving project and \$500,000 Other Funds expenditure limitation for phase 3 of the project (revenue already collected)
  - Adds \$1,200,000 General Fund for a backup generator and related equipment for the Archives Building
- **Corporation Division - \$12.6 million Other Funds; 43 positions (42.50 FTE); 17.4% increase over CSL**
  - Reclasses upward 3 positions at cost of \$33,065 Other Funds
  - Adds 9 new positions for increased workload at a cost of \$1,326,697 Other Funds
  - Adds expenditure limitation of \$500,000 Other Funds for merchant fees from credit card use for paying business registry fees

#### Other Significant Issues and Background

The Archives and Audits Divisions are largely financed by assessments to state agencies for specified services. These assessments are included in the 2019-21 Price List of Goods and Services. As with other state agency assessments such as the Department of Administrative Services assessment for State Government Service Charges and the Department of Justice Attorney General rate, these assessments are based on the Secretary of State's agency request budget and may see adjustments based on the actual legislatively adopted budget.

- Archives Division - Security Copy Depository

- This is a microfilm storage charge. The charge covers rent for the storage area in the Archives building and the cost of the 1.00 FTE in the Audits Division responsible for the program. For the 2019-21 biennium, the storage rate is \$1.49 per reel of microfilm, an increase of \$0.06 over the 2017-19 biennium. There is a minimum charge for customers storing a small number of reels; \$10.000 for agencies storing 1 to 6 reels and \$20.00 for 7 to 13 reels. The charge is based on storage as of January 2018. The total amount collected in the 2019-21 price list is \$276,821.
- Archives Division - Records Center
  - This is a charge for storage and retrieval for inactive, non-permanent state records. The 2019-21 projected budget for the Records Center includes rent, utilities, office supplies, janitorial services, and 4.50 FTE performing records maintenance tasks. The charge is \$24.013 per cubic foot calculated on the basis of projected expenditures divided by estimated occupancy rate. The charge is based on storage as of January 2018. The total amount collected in the 2019-21 price list is \$2,107,541.
- Archives Division - Administrative Rules
  - This is a charge for the compilation and publishing of Oregon's Administrative Rules. The 2019-21 projected budget includes rent, publication costs, and 4.00 FTE performing compilation and publishing of rules. The assessment is based on the actual number of rule actions filed in the 2015-17 biennium. The charge is \$73.57 per rule filing and \$28.89 per page filing and is based on activity as of January 2018. The total amount collected in the 2019-21 price list is \$1,730,630.
- Archives Division - Archives and Records Management
  - This is a charge for the storage and management of the permanently valuable records of the Oregon government. The assessment is based on 2017-19 agency FTE. The formula used to determine the per FTE rate is based on the current number of Archives Division Other Fund positions plus operating costs divided by the total number of agency FTE. The total amount collected in the 2019-21 price list is \$6,992,457.
- Archives Division - Compact Shelving
  - This is a special assessment first authorized in 2013 for the transition from traditional shelving to compact shelving. The 2019-21 biennium assessment is for the fourth of four planned phases and is estimated at a need for \$750,000. The assessment is calculated by dividing \$750,000 by agency 2017-19 approved FTE. The total amount collected in the 2019-21 price list is \$750,000.
- Audits Division - Audit Services
  - This is an assessment for the Division's audit costs based on each agency's pro rata share of four risk factors - expenditures, full-time equivalent positions, revenues, and cash. Trust fund agencies and agencies with constitutionally dedicated funds are billed directly based on time spent in the agencies to conduct the audit. The risk factors for the 2019-21 biennium were based on data in the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2017. The total amount collected in the 2019-21 price list is \$29,060,552.
  - Beginning in the 2015-17 biennium, Federal Funds are no longer eligible to pay Audit Division assessments for costs associated with performance audits. Agencies with Federal Fund sources are now required to pay with some other funding source (often General Fund). Since most agencies are not direct billed for audits, the charge levied in the price list is a combined amount for

financial and performance audits. The Secretary of State apportions 39.42% of Audit Division costs to performance audits, meaning that each agency needs to pay at least this percentage of its Audits Division assessment from non-Federal Fund sources regardless of the actual number of performance audits conducted on the agency in the biennium.



## Oregon Board of Tax Practitioners

	2015-17 Actual	2017-19 Legislatively Adopted	2017-19 Legislatively Approved *	2019-21 Current Service Level	2019-21 Current Service Level
Other Funds	1,080,661	1,042,020	1,040,068	1,104,037	1,030,058
<b>Total Funds</b>	<b>1,080,661</b>	<b>1,042,020</b>	<b>1,040,068</b>	<b>1,104,037</b>	<b>1,030,058</b>
Positions	4	3	3	3	3
FTE	4.00	2.50	2.50	2.50	2.50

\* Includes Emergency Board and administrative actions through December 2018.

### Program Description

The Board of Tax Practitioners (OBTP) 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.

### CSL Summary and Issues

The CSL projected beginning balance has been underestimated by approximately 65%, due to a one-time collection of over \$1.07 million in fines and forfeitures which were collected in January, 2018. CSL estimates that the agency will have an ending balance of \$220,929 Other Funds, the equivalent of 5 months of operating expenditures, by the close of the 2019-21 biennium. However, after accounting for the January fine and forfeiture revenue anomaly, the ending balance will be closer to \$870,079 OF, or 19 months of equivalent operating expenses.

### Policy Issues

The OBTP requests the following policy option packages for 2019-21:

- Package 100 - Increases OF revenue by approximately \$3,125 due to increasing the Tax Preparer exam fee from \$50 to \$60, and decreasing the Tax Consultant exam fee from \$85 to \$60. An additional package will need to be implemented to reduce expenditures by \$96,120 OF, to reflect the proctoring fees which are now being charged off book. Alternative adjustments will need to be made if the Legislature determines that the proctoring fees should be accounted for through state accounting methods (see below).

### Other Significant Issues and Background

In 2018 OBTP outsourced licensing exam administration to a company called PSI in order to reduce administrative tasks for the Board and provide the exams in Spanish. As part of the contract with PSI, the Board changed their fee structure. Those who would like to take the exam

to become an Licensed Tax Preparer (LTP) or Licensed Tax Consultant (LTC) must first pay an application fee of \$60 to the Board. The Board will then review the applicant's credentials and if the applicant meets the qualifications to take the exam, they will be directed to PSI to register for the exam. The applicant then pays PSI a proctoring fee of \$50 for tax preparers and \$85 for tax consultants. These changes to fees were approved administratively but will need to be ratified by the Legislature to continue this practice beyond the 2017-19 biennium and are included in Policy Package 100.

Under previous practice, universities and community colleges served as proctor sites for the Board's licensing exams. Proctor fees were paid to the Board by the examinee and the proctor sites invoiced the Board for payment of the proctoring fees after examinees completed the exam. Under contract with PSI, proctor fees are paid directly to PSI and are not accounted for by the Board.

LFO staff have expressed concerns with the manner in which DAS is recommending agencies implement the financial portion of the PSI contract; as the practice of requiring licensees to pay the company directly, removes the revenues and expenses from state accounting and effectively eliminates Legislative oversight over the fees. Several other state agencies have implemented a PSI contract, which moves revenues and expense off-book; including the Oregon Real Estate Agency, Construction Contractors Board, and the Department of Consumer and Business Services. This practice of moving finances off-book, while saving staff accounting time, raises concerns of (1.) oversight over fee amounts, (2.) to what end could this practice be used, (3.) ethical concerns with permitting a sole third-party contractor to charge a fee which, in the case of some agencies, was never ratified by the legislature; OBTP does have a fee bill (HB 5037) which will identify the proctoring fees as separate and distinct from the exam application fee.

<b>State Treasury</b>					
	<b>2015-17 Actual</b>	<b>2017-19 Legislatively Adopted</b>	<b>2017-19 Legislatively Approved *</b>	<b>2019-21 Current Service Level</b>	<b>2019-21 Governor's Budget</b>
General Fund	1,904,631	3,490,552	5,361,270	1,463,607	--
Other Funds	54,259,279	80,418,025	82,003,898	88,422,190	94,649,125
<b>Total Funds</b>	<b>56,163,910</b>	<b>83,908,577</b>	<b>87,365,168</b>	<b>89,885,797</b>	<b>94,649,125</b>
Positions	123	160	160	162	172
FTE	117.85	150.09	150.09	161.00	170.07
* Includes Emergency Board and administrative actions through December 2018.					

### Program Description

The Oregon State Treasury (OST) acts as the “banker” of the State of Oregon and the State Treasurer is designated by statute as the Chief Investment Officer. OST maintains all state agency financial accounts and invests state funds that are not needed to meet current expenditure demands. OST coordinates and approves state bond sales, manages the public funds collateralization program for all financial institutions holding public funds, and makes payment 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), which includes both the Oregon 529 College Savings Network and the 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. Finally, OST has responsibility for the Oregon Retirement Savings Board (“OregonSaves”) that 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 College Savings, ORSB, and ABLE programs also have tax expenditure components.

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. In addition, OST is statutorily exempt from many statutes that apply to executive branch agencies, such as human resources, procurement, and information technology.

The Oregon Investment Council (OIC) is the policymaking body that sets investment policy, asset allocation, benchmark return targets, and makes portfolio decisions on investment purchases and sales. State Treasury is responsible for implementing the investment decisions of the OIC. By statute, the State Treasurer is the investment officer for OIC. OIC has broad statutory authority and is not subject to legislative budgetary control (i.e., expenditure limitation). Any expense incurred by the OIC is netted against investment earnings.

OST has broad statutory authority to general revenue 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 and fees for new bond issuances and charges for bond and coupon redemptions, and on holdings of state funds in excess of FDIC insurance levels.

#### CSL Summary and Issues

The 2019-21 current service level budget for the agency total \$89.9 million and includes \$1.5 million General Fund and \$88.4 million Other Funds (162 positions; 161.00 FTE). The CSL is \$2.5 million, or 2.9%, more than the 2017-19 legislatively approved budget of \$87.4 million (160 positions; 150.09 FTE). The CSL includes two additional positions (1.91 FTE). There are no noted differences between the DAS and LFO CSL calculations.

The budget includes the phase-out of \$4.4 million, of which \$1.5 million is General Fund and \$2.9 million is Other Funds, for predominately one-time costs including information technology investments and Washington State ABLE Contract. There is one fund shift package that move \$2.8 million General Fund to Other Funds for the ORSB and ABLE programs. There is one technical adjustment package that shifts Services and Supplies to Personal Services to accommodate incentive compensation expenses related to Investment Officer positions established in the 2017-19 biennium. Other CSL changes include standard adjustments for contractually approved compensation plans, vacancy factor, mass transit taxes, PERS pension obligation bond assessments, inflation on services and supplies, Attorney General line-item, professional services, and rent.

#### Policy Issues

There are a few budget issues that the Co-Chairs budget will need to consider beyond which the agency may have additional requests.

***Investment Division Phase-III (\$1.7 million Other Funds; five positions/4.47 FTE ):*** The State Treasurer is requesting funding for “Phase-III” of multi-phase expansion of the Investment Division staff. This includes staffing for: investment officer (1), investment analysts (3), legal secretary (1), and two high level reclassifications. This is presumably be the final phase of a State Treasury plan (2015, 2017, and 2019) to significantly increased the staffing and resources devoted to the Investment Division to address the long-standing deficiencies within the Division and to reduce external investment costs through the in-sourcing of some investment management activities. The following budget note, approved by the Legislature in 2017, directs the Treasurer to report to with a feasibility study supporting continued investment in this Division:

The State Treasury reported to the Legislature in 2017 "Enabling more internal management by investing in Investment Management Program resources will reduce overall costs and likely provide improved net return to the funds under management." State Treasury is directed to report to the Legislature in 2019 on the actual cost savings and increased net investment returns derived from the Legislature's investments in the Investment Division and the general administration of the agency as well as produce a feasibility study supporting continued investment in the Investment Division.

Nation-wide, with the lowering of assumed earnings rates, investment expenses are facing more scrutiny in an effort to increase net investment returns into pension systems. Whether, and how, the State Treasurer and the OIC will follow this trend is uncertain. For the Oregon Public Employees Retirement Fund, these charges exceed \$680 million, or \$1.4 billion on a biennial basis, based on fiscal year 2018 expenses.

**Information Security Management (\$780,691 Other Fund; one position/0.92 FTE):** The request includes one new position, whose purpose is unclear, as well as funds to purchase and implement additional security tools and services to help improve the security posture of the organization. Of note, is that State Treasury does not fall under the oversight of the Department of Administrative Services - Office of the Chief Information Officer.

**“Oregon Savings Network” (<\$1.5 million General Fund>, \$3 million Other Funds):** This package makes four requests: (1) restore the entire Oregon ABLE Savings Plan biennial budget; (2) restore the entire OregonSaves biennial budget; (3) make permanent the network consolidation and reorganization of the 529 College Savings, ABLE Savings, and OregonSaves, that was undertaken administratively during the 2017-19 biennium and without the knowledge of the Legislature or the Emergency Board; and (4) shift the ABLE Savings Plan and OregonSaves budgets from General Fund loans to Other Funds. The 529 College Savings plan’s rocky transition to a new plan administrator will spark discussion.

**Shared Services Transition (\$425,669 Other Funds and four positions/3.68 FTE):** This package increases Shared Services staffing levels to meet increasing demand for internal services and transition DAS contracted services to internal staff.

**Classification Study (\$200,000 Other Funds):** Conduct a position classification and compensation study for positions outside of the investment program.

**Core Banking Business Systems Renewal (\$1 Other Funds placeholder):** State Treasury is requesting to continue an investment to upgrade and modernize the agency’s cash management applications. The amount requested is a placeholder.

**IAP Member Choice (LC N/A):** PERS and State Treasury have default to Legislature on the issue of drafting legislation to address IAP member choice. The OIC decision was mandatory and provided for no member choice to make individual investment decisions. The Legislature in 2018 enacted a member choice option (HB 4159; Chapter 118, Oregon Laws) effective on January 1, 2019; however, a provision in the measure required the State Treasurer to notify the PERS Board by December 31, 2018, if legal and fiduciary standards prohibit implementation. In May of 2018, State Treasury (OST) made the determination, based upon the advice of outside legal counsel, rather than the Department of Justice, that legal and fiduciary standards prohibited implementation. Apparently, OIC and OST need legal immunity from liability if an IAP member were to lose funds (“safe harbor” provision). OST also noted that IAP members require information (i.e., disclosures) related to making a member choice investment selection. These two concerns require, according to OST, a legislative change

that was characterized as minor in nature; however, apparently neither OST nor PERS will be proposing such a legislative concept for the legislative session in 2019.HB 4159 (2018) provides for Individual Account Program member choice in investment selection.

**Policy Packages:** The OST agency request budget includes seven policy packages totaling \$4.8 million, which includes a \$1.5 million fund shift and a requested increase of \$4.8 million Other Funds and 10 positions (9.07 FTE).

The Executive Branch makes no recommendation on the State Treasury budget. Therefore, the Governor's budget simply funds State Treasury at \$94.7 million Other Funds, which is the Agency requested budget, after standard adjustments were made for DAS assessments and the Attorney General line-item. The Governor's budget is \$4.8 million (10 positions/9.07 FTE), or 5.3%, more than the CSL budget of \$90 million.

#### Other Significant Issues and Background

There are a few policy-type issues for the Co-Chairs to consider.

**General Fund Repayment:** OST expects to start the repayment of outstanding General Fund loans during the 2023-25 biennium, based on revenue and expenditure forecasts from the initial program launch. The 2015-17 General Fund loan for the ORSB is \$1,012,497 and \$675,491 for the ABLE program for a combined total of \$1.7 million.

**KPM Review:** The Legislative session in 2017 directed the OST undertake a KPM review and propose: (a) a new measure for the Oregon Retirement Savings program; (b) a new standard measure for the Oregon Retirement Savings Board - Board of Directors Best Practices; (c) a new measure for the Achieving a Better Life Experience Act (ABLE) program; and (d) a new standard measure for the 529 Savings Plan Board - Board of Directors Best Practices.