WAYS AND MEANS CO-CHAIR BUDGET REVIEW
Attachments

Subcommittee on Transportation and Economic Development

Bill	Agency	Analyst
HB 5004	Aviation, Department of	Jolivette
SB 5524	Business Development Department, Oregon	Beitel
HB 5011	Consumer and Business Services, Department of	Stayner
SB 5508	Employment Department	Deister
SB 5512	Housing and Community Services Department	Deister
SB 5516	Labor and Industries, Bureau of	Deister
SB 5519	Liquor Control Commission, Oregon	Deister
SB 5534	Public Utility Commission	Jolivette
SB 5535	Racing Commission	Deister
SB 5536	Real Estate Agency	Deister
HB 5039	Transportation, Department of	Jolivette
SB 5538	Veterans' Affairs, Department of	Beitel

Aviation

	2015-17 Actual	2017-19 Legislatively Adopted	2017-19 Legislatively Approved *	2019-21 Current Service Level	2019-21 Governor's Budget
Other Funds	12,484,576	12,723,305	13,745,866	12,921,194	27,284,299
Federal Funds	9,510,298	9,307,461	9,318,243	3,933,182	11,313,182
Total Funds	**21,994,874**	**22,030,766**	**23,064,109**	**16,854,376**	**38,597,481**
Positions	15	15	15	15	16
FTE	13.75	14.25	14.25	14.49	15.49

* Includes Emergency Board and administrative actions through December 2018.

Program Description

The Department of Aviation manages and coordinates the state's general aviation system, including recreational, business, and emergency response flying. The Department advocates for economic growth, infrastructure improvement, and safe operation of aviation in Oregon. The Department manages a large-scale pavement preservation program for the state's 66 paved public use airports. In addition to statewide aviation transportation plan management and land use coordination, the Department owns, manages, and operates 28 public use airports. The seven-member State Aviation Board, appointed by the Governor, represents aviation interests from the public and private sectors. The Board provides policy direction to the Department.

Key responsibilities include:

- Develop and implement the Oregon Aviation Plan and related policies
- Provide technical assistance on airport planning and development
- Administer the federal General Aviation Entitlement Grant and Pavement Maintenance Program
- Register aircraft
- Conduct safety inspections on state-owned and other Oregon public airports
- Operate 28 state-owned airports

CSL Summary and Issues

The Department of Aviation is supported entirely by Other and Federal Funds. Aviation and jet fuel taxes are the primary source of funding for agency operations. Other sources of revenue include aircraft registration fees, aircraft dealer license fees, hangar and site leases at state-owned airports, and other charges for services. The agency also receives Federal Funds from the Federal Aviation Administration (FAA) for aviation system planning and construction projects. The FAA grants cover 90% of project costs and require a 10% state match.

The current service level budget for the Department of Aviation represents a 27% decrease compared to the 2017-19 legislatively adopted budget. This reflects the phase out of one-time funds provided for capital improvement projects, and Unmanned Aircraft System testing at three ranges in Oregon. The budget includes standard inflation adjustments, as well as increases for Attorney General and state government service charges. There are no differences between DAS and LFO on the current service level for the agency.

Policy Issues

HB 2075 - Aircraft Fuel Taxes. In 2015, the Legislature passed HB 2075 to increase aircraft fuel taxes by two cents per gallon for aviation gasoline, jet fuel, and motor fuel used for aviation. The measure allowed the Department of Aviation to retain 5% of the revenue for administration and established various dedications and allowable uses for the remainder of the revenue, namely grants to airports throughout the state for safety and infrastructure projects, FAA match, and commercial air service to rural Oregon. The HB 2075 tax increase sunsets on January 1, 2022. Aviation proposes to eliminate the sunset (HB 2402).

Other Significant Issues and Background

State Airport Projects. The agency request budget includes $1.4 million for capital improvement projects, known as General Aviation Entitlement projects; and, $7.9 million for capital construction projects.

2019-21 Proposed Capital Improvement Projects					
Pkg #	**Airport**	**Project Description**	**Other Funds**	**Federal Funds**	**Project Cost**
103	Bandon	EA for obstruction removal	$34,000	$306,000	$340,000
103	Chiloquin	Obstruction removal - phase 2	17,000	153,000	$170,000
103	Independence	Replace PAPI Design and Construct	28,000	252,000	$280,000
103	Joseph	Master plan and AGIS	34,000	306,000	$340,000
103	Lebanon	Environmental survey	28,000	252,000	$280,000
		Totals	**$141,000**	**$1,269,000**	**$1,410,000**

2019-21 Proposed Capital Construction Projects					
Pkg #	**Airport**	**Project Description**	**Other Funds**	**Federal Funds**	**Project Cost**
106	Prospect	Rehabilitate runway	$2,160,000	$0	$2,160,000
107	Aurora	Ramp construction for runway 17	205,000	1,845,000	2,050,000
108	Condon	Runway repairs	260,000	2,340,000	2,600,000
109	Siletz Bay	Rehabilitate taxiway	114,000	1,026,000	1,140,000
		Totals	**$2,739,000**	**$5,211,000**	**$7,950,000**

Oregon Business Development Department

	2015-17 Actual	2017-19 Legislatively Adopted	2017-19 Legislatively Approved *	2019-21 Current Service Level	2019-21 Governor's Budget
General Fund	14,811,095	55,096,211	55,013,540	61,822,937	70,567,441
Lottery Funds	100,496,117	115,975,469	117,789,412	119,156,968	129,457,797
Other Funds	62,403,430	378,417,137	383,574,013	407,723,679	519,166,639
Other Funds (NL)	125,309,446	237,886,281	237,886,281	245,544,035	342,480,274
Federal Funds	25,924,065	40,717,603	41,457,527	43,049,222	43,131,975
Total Funds	**328,944,153**	**828,092,701**	**835,720,773**	**877,296,841**	**1,104,804,126**
Positions	139	136	136	136	146
FTE	135.34	134.50	134.50	134.50	141.25

* Includes Emergency Board and administrative actions through December 2018.

Program Description

The mission of the Oregon Business Development Department (OBDD) is to invest in Oregon businesses, communities, and people to promote a globally competitive, diverse, and inclusive economy. OBDD is responsible for the state's economic development strategy and provides economic and community development and cultural enhancement throughout the state, administers programs that aid businesses and communities, including the Seismic Rehabilitation Grant Program. The Department is overseen by a nine-member Commission, with seven members appointed by the Governor and confirmed by the Senate and two nonvoting Legislative appointees.

The Department has six budgeted program areas:

- The **Operations** program area includes central agency administrative services that support both the business development (Business, Innovation, Trade) and the community development (Infrastructure) programs. Operations is financed primarily with Lottery Funds, but Other Funds revenues generated from infrastructure and business finance programs and federal grant administration funds also support a portion of the budget.
- The **Business, Innovation, Trade** program area includes the staff and the funding sources used by the Department to support economic strategies and policy development and to provide support services, grants, and loans to assist businesses with job retention and creation, to promote trade and innovation, and incentivize the production of solar power. This program area operates a variety of programs and uses a variety of funding sources. The largest of the Lottery Funded programs are the Oregon Innovation Council (Oregon InC) Innovation Plan and the Strategic Reserve Fund. Other Funds generated through loan principal and interest repayments, investment earnings, and loan and service fees support business finance direct loan and loan guarantee programs. The Certification Office for Business Inclusion and Diversity (COBID) is funded with state agency assessments and revenue from the Oregon Department of Transportation (ODOT).

General Fund supports the Solar Incentivization Program. Federal Funds expenditures are funded from federal grants, including the State Small Business Credit Initiative (SSBCI) grant and the State Trade and Export (STEP) grant.

- The **Infrastructure** program area includes the staff and the funding sources used by the Department to provide grants and loans to assist communities with infrastructure development projects. In the 2013 session, the Seismic Rehabilitation Grant Program was transferred from the Military Department to OBDD. In the 2015 session, the Brownfields, Industrial Lands, and Broadband programs were transferred internally to Infrastructure from BIT. Infrastructure operations and programs are primarily funded with Other Funds revenues generated from revolving loan funds, including loan principal and interest repayments and investment earnings, as well as lottery revenue and general obligation bond proceeds. Federal Funds are received for the Community Development Block Grant and Brownfields programs. Lottery Funds support the administration of the Seismic, Industrial Lands, and Broadband programs. Infrastructure financing programs are overseen by an independent nine-member Infrastructure Finance Authority (IFA) Board.
- The **Oregon Arts Commission** and the **Oregon Cultural Trust** foster the arts and cultural development in Oregon. The Commission is responsible for a number of activities including: evaluating the impact of arts on Oregon's economy; distributing National Endowment for the Arts (NEA) funding to programs in Oregon; working with the leadership of local arts organizations; conducting assessment and maintenance to protect existing public art; and approving new public art. The program also operates the Trust for Cultural Development (Oregon Cultural Trust). The Oregon Cultural Trust was established in 1999 to support the arts and culture of the state. The Trust is funded primarily by donations, but also receives funds from the sale of Cultural Trust license plates. The Arts program is overseen by a nine-member Oregon Arts Commission and an eleven-member Trust for Cultural Development Board; all members are appointed by the Governor.
- The **Film and Video Office** is a semi-independent agency that receives pass-through Lottery Funds support in the OBDD budget to promote and support the film, video, and multimedia industries in Oregon. The Office is not part of the Department, and the Office's employees are not included in the agency employment count.
- **Lottery and General Obligation Bond Debt Service** is used exclusively for debt service payments on lottery revenue bonds, Article XI-Q general obligation bonds, and Article XI-M and XI-N general obligation bonds that finance the Seismic Rehabilitation Grant Program. The funding source is almost entirely Lottery Funds and General Fund, although bond interest earnings applied to pay debt service are categorized as Other Funds.

CSL Summary and Issues

The overall 2019-21 current service level (CSL) budget of $877.3 million is $41.6 million (or 5%) more than the 2017-19 legislatively approved budget (LAB) of $835.7 million. In addition to standard inflationary increases for personal services and services and supplies expenditures, a significant portion of General Fund and Lottery Funds CSL growth is attributable to debt service costs. General Fund debt service increased by $15.1 million (or 38.7%), which reflects the impact of issuing $121.6 million of Article XI-M and XI-N general obligation bonds in the 2017-19 biennium to finance seismic rehabilitation grants to schools and emergency services facilities. Since the 2015-17 biennium, General Fund debt service has increased over 400% as a result of $328.9 million in bonds authorized for the seismic program during the last two biennia. Lottery Funds debt service also increased $2.2 million (or 4.5%), which reflects the net impact of issuing $67.2 million of lottery revenue bonds in the 2017-19 biennium to finance OBDD-administered programs and projects and a decrease in debt service on bonds issued in prior biennia. Combined General Fund and Lottery Funds debt service totals $106.1 million, or 58.6% of total General Fund and Lottery Funds expenditures in the CSL budget.

The CSL budget does not include funding for several major OBDD programs that were approved in the 2017-19 biennium on a one-time basis, either because they were funded with bond proceeds, or because they were specifically approved as one-time funding. These programs include:

- **Regional Solutions** – The Regional Infrastructure Fund received $4 million of lottery revenue bond proceeds in 2017-19 to fund capital projects identified by local Regional Solutions Advisory Committees. Bonds are scheduled to be sold in April 2019 and debt service is projected to total $783,500 per biennium, beginning in 2019-21. The CSL budget does not include any authority for new projects in the 2019-21 biennium; however, Other Funds limitation of $13.6 million is included for projects awarded in the prior two biennia that will not be disbursed by the end of the 2017-19 biennium. OBDD currently estimates that the Regional Infrastructure Fund will have approximately $11 million in lottery proceeds that will be carried into the 2019-21 biennium, so Other Funds limitation should be reduced accordingly.

- **Seismic Rehabilitation Grants** – The 2017-19 LAB included $100 million of Article XI-M general obligation bond proceeds to fund seismic rehabilitation grants for schools and $20 million of Article XI-N general obligation bond proceeds to fund seismic rehabilitation grants for emergency services facilities. The state issued bonds in May 2018 to fund $35 million of seismic rehabilitation project costs and the remaining bonds are scheduled to be sold in February 2019. Debt service on the 2017-19 sales is projected to total $18.2 million in the 2019-21 biennium. The CSL budget does not include any authority for new grants in the 2019-21 biennium; however, Other Funds limitation of $290.9 million is included for grants awarded in prior biennia that will not be disbursed by the end of the 2017-19 biennium. The 2017-19 LAB included $1.6 million Other Funds for costs to issue bonds that were not phased-out during development of the 2019-21 CSL, so limitation should be reduced accordingly. Other Funds limitation may also need to be adjusted to reflect more current estimates of bond proceeds that will be carried into the 2019-21 biennium.

- **Special Public Works Fund** – The Special Public Works Fund (SPWF) received $30 million of lottery revenue bond proceeds to fund loans and grants for municipal infrastructure projects, with $10 million of the $30 million restricted to levee projects. Bonds are scheduled to be sold in April 2019 and debt service is projected to total $5.8 million per biennium, beginning in 2019-21. The 2017-19 LAB included $517,975 Other Funds for costs to issue bonds that were not phased-out during development of the 2019-21 CSL, so limitation should be reduced accordingly.

- **Oregon Growth Fund** – A one-time transfer of $1.25 million Lottery Funds from the Strategic Reserve Fund (SRF) to the Oregon Growth Fund (OGF) was included in the 2017-19 LAB to increase capital available to the state's early-stage small businesses. The transfer was reversed during development of the 2019-21 CSL. Lottery Funds expenditure limitation of $200,000 was included in the 2017-19 LAB for OGF awards not disbursed by the end of the 2015-17 biennium. This limitation was not appropriately phased-out during development of the 2019-21 CSL; however, was removed in the Governor's Budget.

- **Cultural Resources Economic Fund** – The 2017-19 LAB provided $4.1 million for cultural organization capital projects. Projects were funded with $2.45 million of lottery bond proceeds and $1.65 million General Fund. The legislatively-designated recipients were:
  - Portland Art Museum - Connection Campaign - $1 million
  - Friends of the Oregon Caves & Chateau - Balcony Restoration Project - $750,000
  - Eugene Ballet Company - Midtown Arts Center - $700,000
  - Benton County Historical Society & Museum - Corvallis Museum - $500,000
  - APANO Cultural Center - $300,000
  - Oregon Coast Council for the Arts - Newport Performing Arts Center - $300,000
  - Liberty Theatre Foundation - Theatre Restoration in La Grande - $200,000
  - Cottage Theatre Expansion - $125,000
  - High Desert Museum - By Hand Through Memory Exhibit - $125,000
  - Portland Institute of Contemporary Art - Capital Campaign NE Hancock $100,000.

  The CSL budget does not include any authority for new projects in the 2019-21 biennium; however, Other Funds limitation of $4.4 million is included for projects awarded in the prior two biennia that will not be disbursed by the end of the 2017-19 biennium. The 2017-19 LAB also included $121,976 Other Funds for costs to issue bonds that were not phased-out during development of the 2019-21 CSL, so limitation should be reduced accordingly.

- **Coos Bay Channel Fund** - $15 million of lottery bond proceeds were provided in the 2017-19 LAB for the Port of Coos Bay Channel Deepening Project. HB 2278 (2015) authorized the issuance of up to $15 million in the 2017-19 biennium and $40 million in the 2019-21 biennium for the Port of Coos Bay Channel Project to deepen and widen the lower Coos Bay deep draft navigation channel. Distribution of the bond proceeds is contingent upon the Port of Coos Bay meeting certain requirements, including submission of a plan to the U.S. Army Corp of Engineers identifying the preferred alternative for the project, issuance of an environmental impact statement, and submission of a draft combined report to the U.S. Army Corp of Engineers for technical agency review. As the statutory requirements for distribution of the bond proceeds have not been met, the approved lottery bonds will not be included in the April 2019 sale. Other Funds limitation of $5 million was phased out of the 2019-21 CSL budget for the portion of the $15 million that was originally anticipated to be spent during the 2017-19 biennium. The remaining $10 million of project limitation, plus costs of issuance ($259,002) that were not phased out of budget, will need to be removed. Additionally, $40 million Other Funds limitation was added to the 2019-21 CSL for the lottery bonds authorized in HB 2278, but was reduced to $20 million in the Governors' Budget.

- **Business, Innovation, Trade / Infrastructure Projects** - The 2017-19 LAB included one-time funding for the following projects that was phased-out of the CSL budget:
  - Eastern Oregon Border Economic Development Board Fund - $5 million General Fund (Other Funds limitation totaling $4.8 million was phased-in for disbursement of the proceeds in the 2019-21 biennium.)
  - Crescent Sanitary District Sewer System - $2 million General Fund
  - Oregon Manufacturing Innovation Center (OMIC) - Operating and Research - $3 million Other Funds (Connect Oregon Fund)
  - Regional Accelerator and Innovation Network (RAIN) - $500,000 Lottery Funds. (After removal of one-time funding, the 2019-21 CSL includes $500,000 Lottery Funds for RAIN.)
  - Rural Opportunity Initiative - $750,000 Lottery Funds
  - Local Economic Opportunity Fund - Community Economic Resilience Planning - $500,000 Lottery Funds
  - City of Warrenton - Dock Rebuild - $500,000 Lottery Funds
  - Port of Cascade Locks - Infrastructure and Business Recruitment - $500,000 Lottery Funds

  Lottery bonds approved for the following projects was not phased-out during development of the 2019-21 CSL, in anticipation of the funds being carried into and disbursed in the 2019-21 biennium:
  - OMIC Research & Development and Training Center Access Roads - $3.39 million (Lottery bonds designated for the Training Center road ($2.3 million) are not anticipated to be sold in April 2019, due to a change in the Training Center's location, so Other Funds limitation should be reduced accordingly.)
  - Crescent Sanitary District Sewer System - $3 million Other Funds
  - Sweet Home Wastewater Treatment Plant Upgrade- $2 million Other Funds
  - Port of Brookings Harbor - Dock Repair - $600,000 Other Funds

  The 2017-19 LAB also included $212,274 Other Funds for costs to issue bonds that were not phased-out during development of the 2019-21 CSL, so limitation should be reduced accordingly.

Policy Issues

The Oregon Cultural Trust's primary revenue source is charitable contributions received through the Cultural Tax Credit. Oregonians who contribute to one of over 1,400 nonprofit organizations may then make a matching contribution to the Oregon Cultural Trust. The matching contribution is allowed as a credit against Oregon income taxes (ORS 315.675), up to $500 for individuals, $1,000 for couples who file jointly, and $2,500 for C corporations. Statute specifies that 40-50% of annual donations are to be deposited in the Trust for Cultural Development Account. The remaining 50-60%, plus interest earnings on the Account, are to be distributed as Cultural Development Grants (50%), Community Cultural Participation Grants (25%), and grants to core partner agencies (25%), with up to $400,000 (adjusted annually for inflation) being utilized for operations. The tax credit is scheduled to sunset January 1, 2020 and OBDD has submitted a legislative concept to extend the sunset to January 30, 2030. The Trust for Cultural Development Account is invested in the Oregon Intermediate Term Pool (OITP) at the Oregon State Treasury and has a balance of approximately $27 million, with annual earnings of $470,000-$530,000. Absent the tax credit and ongoing contributions to the Trust of $4-$5 million annually, the level of donations and administration of the Cultural Trust would be significantly reduced.

In addition to contributions and investment earnings, the Oregon Cultural Trust receives revenue from the sale of Oregon Cultural Trust license plates. ODOT transfers the plate surcharge, less their cost of administering the cultural registration plate program, to the Cultural Trust for marketing and promotional costs. Biennially, the Cultural Trust receives approximately $750,000 in cultural license plate revenue that is used to market the tax credit and increase donations. Section 3, chapter 775, Oregon Laws 2009, specified that the license plate revenues may be used for marketing and promotion and any amounts used for these costs are not considered part of the Trust distribution formula described earlier; however, this law is repealed on June 30, 2019. Inability to use license plate revenue for marketing and outreach expenses reduces the Cultural Trust's administration budget by over $700,000 and would result in significantly diminished fundraising and the elimination of at least one position (1.00 FTE). A legislative concept was not submitted to extend or remove the repeal.

<u>Other Significant Issues and Background</u>
An independent investigation of OBDD was completed in August 2018 after an anonymous group of employees alleged mismanagement of public funds, the existence of a "bro culture," and discriminatory practices against female and older employees. The four-month investigation by Perkins Coie did not find a widespread hostile work environment or a pattern of discriminatory practices. However, the report did identify that employee morale was extremely low as a result director turnover, agency reorganizations, budget cuts leading to staff reductions, and the management styles of two former senior managers. Several recommendations were suggested to improve the agency culture, including management and communication training for the Director and executive team, allowing staff the opportunity to provide feedback concerning their working environment, evaluating the division of work between Regional Development Officers and Regional Project Managers, completion of annual performance reviews for mangers, and providing clear expectations to employees. The report also recommended that the agency give careful consideration to the hiring and selection of the Operations & Finance Assistant Director position, which is currently vacant.

The Governor's Budget provides funding for a number of the agency's requests, including:

- $138.2 million Lottery Revenue Bonds (45.3% of projected lottery bond capacity) for capitalization of the Special Public Works Fund ($36 million), Water/Wastewater Loan Program ($15 million), Brownfields Redevelopment Fund ($10 million), and Safe Drinking Water Revolving Loan Fund ($5 million); additional SPWF funding designated for a grant to repair and replace the Wallowa Lake Dam ($16 million), broadband infrastructure ($5 million), and FEMA emergency awards ($2.5 million); the Port of Coos Bay Channel Deepening Project ($20 million); and Regional Solutions grants ($15 million). $8.6 million Lottery Funds debt service is also included to accommodate early bond sales.
- $121.2 million Article XI-M and XI-N general obligation bond authority to award seismic rehabilitation grants to schools ($100 million) and emergency services facilities ($20 million). $9 million of General Fund debt service is also included to accommodate early bond sales.

- $2 million Lottery Funds for the Oregon Growth Fund to invest in early-stage businesses.
- $775,000 Article XI-Q general obligation bond authority to replace the agency's loan and grant management system.

The Governor's Budget also added $250,000 Lottery Funds for a grant to Levee Ready Columbia and $1.1 million Lottery Funds and nine positions (4.75 FTE) for the creation of a Broadband Office, consistent with Executive Order 18-31 issued in December 2018 directing the establishment of the Oregon Broadband Office within OBDD. As part of a statewide initiative to strengthen internal audit functions, funding was also provided for an Internal Auditor position.

Several reductions were included in the Governor's Budget to meet General Fund and Lottery Funds constraints. The Solar Incentivization Fund was decreased by $473,766 General Fund to adjust the program budget to forecasted spending levels, the remaining $500,000 Lottery Funds RAIN budget was eliminated, and the Oregon Innovation Council (OR InC) budget for High Impact Opportunity projects was reduced by $1.1 million Lottery Funds. CSL inflation ($45,887 Lottery Funds) for the Office of Film and Video inflation was eliminated, reducing funding to the 2017-19 level.

OBDD began a strategic review in December 2016, with goals of enhancing service delivery and operational efficiency and flexibility. This review resulted in OBDD revising its organizational structure into four divisions: Economic Development, Operations and Finance, Equity, Strategies and Communications, and Arts and Culture. Two of the principle outcomes of the new structure are to combine the previous Business, Innovation, and Trade Division and the Infrastructure Finance Authority Division, into a single Economic Development Division, combining the operation of business development and infrastructure finance programs into one agency unit; and establishing twelve Regional Development Officer and six Regional Project Manager positions to support program delivery through the state. OBDD presented this plan to the Joint Committee on Ways and Means Subcommittee on Transportation and Economic Development during the 2018 session. To support the reorganization, the agency has requested a budget alignment package totaling $473,493 Other Funds and $84,211 Federal Funds that reclassifies 25 positions, moves four positions between budgeted divisions, and increases two positions from half-time to full-time.

Consumer and Business Services

	2015-17 Actual	2017-19 Legislavely Adopted	2017-19 Legislatively Approved*	2019-21 CSL LFO	2019-21 Governor's Budget
General Fund	1,823,000	--	--	--	1,906,627
Other Funds	225,013,504	246,276,380	253,005,744	265,613,032	365,702,567
Other Funds (Nonlimited)	166,025,572	202,096,657	202,096,657	212,126,048	211,890,831
Federal Funds	13,695,903	14,466,034	16,803,370	16,823,218	84,481,966
Total Funds	**406,557,979**	**462,839,071**	**471,905,771**	**494,562,298**	**663,981,991**
Positions	952	965	969	960	966
FTE	936.36	957.36	959.53	955.79	961.19

* Includes Emergency Board and administrative actions through December 2018

Program Description

The Department of Consumer and Business Services (DCBS) provides a broad range of consumer protection, health insurance access, and commercial regulatory services for the state. DCBS is organized into five program areas plus central services and administration:

- Workers' Compensation System (WCS) – Includes the Workers' Compensation Board, the Workers' Compensation Division, and the Oregon Occupational Safety and Health Administration (OR-OSHA). Approximately 49% of the agency's full-time equivalent (FTE) staff is housed in these three programs. WCS administers the Workers' Benefit Fund supporting payments to injured workers in the event that their employer failed to provide coverage, for benefit increases to permanently- and totally-disabled workers, for benefits for the survivors of workers killed in workplace injuries, and also funds return-to-work programs for injured workers. WCS additionally maintains reserve accounts to finance workers' compensation payments to employees when self-insured employers become insolvent and are unable to make the payments. Approximately 10% of workers are employed by self-insured employers. Expenditures from these reserve funds and the Workers' Benefit Fund are Other Funds Nonlimited.
- Division of Financial Regulation –The Division enforces the state's Insurance Code, including the review and approval of certain premium rates and the licensing of insurance companies (including financial regulation), agents, adjusters, and consultants, and assists consumers in resolving complaints against agents and companies. Additionally, DFR regulates state-charted financial institutions (banks, credit unions, consumer finance companies, mortgage lenders, pawnbrokers, check cashers) and the sale of securities in the state (including the licensing of individuals who sell, advise, or manage investment securities). The Division also regulates prepaid funeral plans and maintains a reserve account to support consumers when these plans become insolvent or default on their obligations. Approximately 18.3% of the agency's FTE is housed in this Division.

- Building Codes Division – Enforces the laws and develops codes related to the building of structures and dwellings, manufactured structures, RV parks and tourist facilities, plumbing, elevators, amusement rides, electrical safety, and boilers and pressure vessels. Approximately 14.1% of the agency's FTE is housed in the Buildings Codes Division.
- Oregon Health Insurance Marketplace Division – Operates the state-based health insurance exchange authorized by the federal Affordable Care Act. The program provides public access to qualified health plans, premium subsidies, and tax credits for individuals enrolling in plans through the HealthCare.gov web portal; provides education and outreach to the public on the availability and affordability of health plans offered through the exchange; and works with consumers and insurance industry professionals both directly and through the health policy advisory council to address health insurance market needs and concerns. The Senior Health Insurance Benefit Assistance (SHIBA) program that was housed in the Insurance Division prior to the consolidation of that division with the Financial and Corporate Securities Division is also managed within the Oregon Health Insurance Marketplace Division as of this biennium.

<u>CSL Summary and Issues</u>

The current service level for the agency includes adjustments from the 2017-19 legislatively adopted budget for:

- 2018 legislative session actions and Emergency Board actions through March 2018 including:
  - Position actions including collective bargaining agreements negotiation by the Governor; $6.74 million
  - Funding for the initial implementation of HB 4005 related to prescription drug cost monitoring; $425,022
  - Additional federal funding for the Senior Health Insurance Benefit Assistance (SHIBA); $810,000
- Net impact of the biennialization of position actions and the elimination of limited duration positions; $4.65 million
- Administrative increases in non-limited expenditure authority for the Workers' Compensation Division and Central Services Divisions; $10.0 million
- Decrease in vacancy savings to reflect anticipated actual personal services expenditures; $5.0 million
- Personal Services adjustments not included elsewhere including temporary appointments, overtime, and associated taxes; $485,109
- Phase-in of expenditure limitation for federal funds received under a federal grant program in the 2017-19 biennium, but for which expenditure limitation was not included in the current service level for 2019-21 due to budget development timelines; $152,520
- Phase-out of one-time funded activities or programs funded in the 2017-19 budget, including reductions for:
  - Mental health parity examinations; $600,000
  - Non-position related costs for the initiation of the prescription drug cost monitoring; $100,800
  - Expended federal funding for federal grant related to health insurance market reforms; $366,253
  - Non-position related costs, including program administration and payments to individuals, for the Compact of Free Association medical insurance assistance program; $1.15 million
- Inflation, both standard inflation at a rate of 3.8% for most Services and Supplies expenditures, and extraordinary inflation for certain authorized items; $2.8 million
- Increases in state government service charges $1.74 million

Additional legislatively approved changes that were made to the 2017-19 budget for the Department of Consumer and Business Services after April 2018 are not contemplated in the current service level budget for the agency, but are captured in the legislatively approved budget. Typically, adjustments made to the agency's budget during this part of the interim are fore one-time funding or expenditure authority, and therefore, require no additional accommodation in the upcoming biennium's budget.

The current service level budget for the agency increases by $22.66 million total funds, an increase of 4.8% from the legislatively approved budget. Half of this increase is due to administrative adjustments to non-limited Other Funds. These funds are typically used to make benefit payments from the Workers' Benefit Fund and those adjustments account for $7.4 million of the total, but in this case the agency has also increased non-limited expenditure authority for the Central Services Division which typically uses very little of this type of expenditure authority. The remaining increases are due to position actions, statewide inflationary items, and the reversal of vacancy savings reductions imposed in the 2017-19 budget.

DCBS has phased-out the non-position related funding provided to the agency for the COFA medical insurance assistance program, but did not phase-out the limited-duration position that was authorized by the Legislature during the prior biennium. Instead, DCBS loaded the position in the state's budget system as a permanent position and will, therefore, need to be removed from the agency's budget.

Policy Issues

- Reinsurance Program. The Oregon Reinsurance Program was created by HB 2391 (2017) with the twofold goal of reducing insurer risk and reducing premium rates. The program is currently funded by temporary tax on insurance premiums, including the Public Employees' Benefit Board premiums, and managed care premiums along with federal rate subsidy under a waiver program, excess health insurance marketplace management funding, and residual funding from prior reinsurance programs. The program was able to achieve premium rate reductions of 7.5% for the 2018 plan year and 7.8% for the 2019 plan year. The ongoing funding for the program is in question, both at the federal and state level.
- Paid Family Medical Leave. Several possible proposals for implementing a paid family medical leave program to augment the Oregon Family Medical Leave Act (OFMLA) are being discussed. DCBS has been suggested as a possible candidate for the administration of such a program. The agency does not currently directly manage any type of program like this and, therefore, may require significant resources to initiate and manage a new program of the type being considered.
- Cap and trade and carbon offset programs. Both of these programs have been discussed by the Governor and the Legislature. DCBS has been discussed as a possible home for either of these programs. As with the proposal for paid family medical leave, the agency does not currently have a structure for supporting this program and would have to develop the program nearly from scratch.
- Fire insurance policy surcharge for the State Fire Marshal. DCBS collects equal to 1% of the gross amount of premiums charged for fire insurance policies. These funds are then transferred to the State Fire Marshal to support the expenses of that office. Due to the severity of Forest Fires that have resulted in conflagration declarations being made by the Governor in the past few biennia, the

revenue generated by the fire insurance premium tax has been insufficient to support the working capital needs of the State Fire Marshal and General Fund has been allocated to support the shortfall.

- Compact of Free Association Medical Assistance. This program was originally funded by a one-time General Fund transfer and was established at DCBS as temporary, or one-time. Payments to individuals have been sharply below initial projections and therefore the original program funding has been carried forward in to subsequent biennia. Although contrary to the budget report for the agency's 2017 budget bill, the limited-duration position afforded to the program was established as permanent. The ongoing nature of the program may need to be considered and if the policy of the Legislature is to shift the program to a continual basis, a funding source should be identified.

Other Significant Issues and Background

Governor's Budget

The Governor's proposed budget for DCBS results in an increase in total expenditures of 34.3% from the current service level. This change is nearly entirely attributable to the additional expenditure authority required to process reinsurance payments in the upcoming biennium; $185.7 million.

DCBS anticipates a federal funding shortfall for the Occupational Safety program in the requested budget by moving the funding for five positions from a split federal/state funding scheme to entirely state funded from the Workers' Compensation Premium Assessment. The net change would be an increase in state funding of $723,468 Other Funds.

The Governor's budget proposes to create a permanent financing model for the Compact of Free Association medical assistance program by shifting funding for both the benefit payments and administration of the program to General Fund at a cost of $1.9 million in the upcoming biennium.

The agency has begun the process of planning for the replacement of the Workers' Compensation electronic information system. This involves the update or replacement of over eleven individual systems that work in concert to manage data and information for the Workers' Compensation system. This project is anticipated to span multiple biennia. The current budget request is to provide resources for development of the business case, define business processes and needs, and prepare documentation for the initial state gate process.

The majority of the federal Senior Health Insurance Benefit Assistance program has been moved to the Insurance Marketplace Division in prior budget cycles, however, the proposed budget continues to fund a position for this federal program with insurance premium assessments in the Financial Regulation Division. Ostensibly, these revenues are for the cost of regulation of the insurance industry in Oregon. There does not appear to be a legislative directive to have this federal program subsidized using state funding in this way.

Employment Department

	2015-17 Actual	2017-19 Legislatively Adopted	2017-19 Legislatively Approved *	2019-21 Current Service Level	2019-21 Governor's Budget
General Fund	5,868,497	--	--	--	-
Other Funds	126,017,147	144,544,337	152,904,308	169,980,964	192,540,284
Other Funds (NL)	1,012,699,018	1,424,000,000	1,424,000,000	1,582,000,000	1,582,000,000
Federal Funds	134,330,971	155,927,081	159,644,349	153,562,854	154,194,760
Federal Funds (NL)	60,480,860	70,000,000	70,000,000	100,000,000	100,000,000
Total Funds	**1,339,396,493**	**1,794,471,418**	**1,806,548,657**	**2,005,543,818**	**2,028,735,044**
Positions	1,259	1,298	1,320	1,270	1,356
FTE	1,226.45	1,239.78	1,259.03	1,225.20	1302.83

* Includes Emergency Board and administrative actions through December 2018.

Program Description

The mission of the Oregon Employment Department is to support business and support employment. The agency does this through services offered in four program areas: Unemployment Insurance provides wage replacement income to qualifying workers unemployed through no fault of their own; Workforce Operations offers job listings, referrals, and career development resources; Workforce and Economic Research coordinates the collection and dissemination of occupation and economic climate data for the state, workforce regions, and counties of Oregon; and the Office of administrative Hearings conducts contested case hearings for approximately 70 state agencies.

The agency has no General Fund revenue, with Federal Funds from the Department of Labor providing administrative grant funds, and Other Funds -- from fees, employer unemployment taxes, penalties, fees for service, or a one-time distribution from the Federal Unemployment Trust Fund -- providing agency operating revenue and benefit payments.

CSL Summary and Issues

There are no differences between DAS and LFO on the assumed Current Service Level for the Employment Department. Standard DAS price-list and inflationary adjustments per budget instructions were applied. One-time expenditures related to limited duration positions in the Workforce Operations division were phased out. Nineteen limited duration positions and federal funds related to UI caseload were phased out, and the 2019-21 agency request budget proposes to add nineteen permanent positions (nine of which are part time) to reflect workload increases related to overall job growth. In the event of a recession (assumed to be temporary), the Department will add limited duration employees to handle claims resulting from an economic downturn.

The Office of Administrative Hearings is not expected to have any significant increase in cases from 2017-19 levels.

Policy Issues

The Employment Department's major policy issue involves its information technology (IT) infrastructure modernization project. The agency embarked on planning for improvements to business processes and replacement of antiquated technology systems in the 2015-17 biennium, using a one-time $85.6 million distribution from the U.S. Department of Labor, which the Department has identified as the funding source for this endeavor. A total of $2.7 million had been spent on the life of the project as of July 31, 2018 (compared with $5.8 million in approved expenditure limitation; unexpended limitation is not carried forward to subsequent biennia, but rather, new estimates of expenditures are provided for each budget cycle). Actual projected expenditures for the 2017-19 biennium were projected to be 17% below what was approved for the project in the legislatively adopted budget. As of July 31, 2018 the balance of Modernization funds was $82.2 million, and $79.3 million is projected to remain at biennium's end.

The department is experiencing challenges in hiring approved positions, which is resulting in project delays. As of August, 2018, business and technical requirements and a revised had not been finalized, nor had the current state of the agency's enterprise architecture. Despite these delays, the Employment Department's 2019-21 budget request is predicated on the assumption that it will be developing an RFP and procuring services and software for a new and improved unemployment insurance tax system by July of 2019. The Employment Department is requesting $13.7 million in Other Funds expenditure limitation and 37 positions (28.63 FTE). The plan is to assess, plan and implement complimentary IT improvements in other divisions after the UI Division solutions are executed. The Business and Employment Services Division is presumed to be next; remaining available revenue is likely to figure prominently into remaining agency business needs.

Other policy option packages include expenditure limitation and position authority related to contracted employment services for DHS clients ($9 million Other Funds, 39 positions/39.00 FTE, 18 of which are permanent) and Trade Act and Foreign Labor Certification ($1.5 million Federal Funds, 8 positions/8.00 FTE).

The Governor's Budget generally included expenditure limitation for all ARB Packages at requested levels, and included standard adjustment to DAS charges and attorney general rates. The Governor's Budget increased expenditures for Policy Option Package 102 - Employment Service Contracts associated with the Department of Human Services clients by $355,854 OF and two positions; the enhancement reflects updated projections for participation in the Job Opportunity Basic Skills and Able-Bodied Adults Without Dependents programs by DHS clients.

Other Significant Issues and Background

The Employment Department is a key agency in planning and implementing Governor Brown's "Future Ready Oregon" initiative, working closely with the Higher Education Coordinating Commission, Business Oregon and the Bureau of Labor and Industries to assess skills needs, develop training opportunities, and match employers and job seekers. However, new investments for this initiative appear to be targeted toward those other agencies.

Housing and Community Services Department

	2015-17 Actual	2017-19 Legislatively Adopted	2017-19 Legislatively Approved *	2019-21 Current Service Level **	2019-21 Governor's Budget
General Fund	27,328,954	54,438,010	59,963,031	62,464,549	126,459,961
Lottery Funds	11,676,461	16,357,282	17,507,282	21,868,790	21,868,790
Other Funds	199,406,108	289,274,996	324,497,248	266,077,019	503,906,540
Other Funds (NL)	721,451,233	631,849,381	902,349,381	816,988,340	1,056,660,425
Federal Funds	118,193,644	122,692,797	122,817,211	127,694,100	134,178,025
Federal Funds (NL)	119,200,845	121,165,609	133,265,609	133,231,628	133,231,628
Total Funds	**1,197,257,245**	**1,235,778,075**	**1,560,399,762**	**1,428,324,426**	1,976,305,369
Positions	151	164	171	138	217
FTE	137.65	152.65	155.62	136.00	212.75

* Includes Emergency Board and administrative actions through December 2018.

** Includes EHA ongoing GF of $28 million, and ongoing GF for SHAP of $12m

Program Description

The Housing and Community Services Department (HCSD) provides financing and program support for the development and preservation of affordable housing to low and very low-income Oregonians, and administers federal state antipoverty, homeless, and energy assistance programs. The Oregon Housing Stability Council, a nine-member panel appointed by the Governor, advises the Governor, Legislature, HCSD and local governments on affordable housing issues. The agency has branded itself as Oregon Housing and Community Services (OHCS).

CSL Summary and Issues

Oregon has significantly increased investment in affordable housing since the Great Recession, in an effort to address severe shortages in affordable housing. The total funds budget increased 46% between 2013-15 and 2017-19, and the General Fund budget increased by 167% during the same time period. In contrast, full-time equivalent positions grew by just 3.52% over the period. Investments utilizing Lottery Bond proceeds for preservation of affordable housing, affordable housing for those with substance abuse and mental health disorders, and General Obligation Bonds issued for the Local Innovation Fast Track housing program (LIFT) have exponentially increased debt service obligations. The 2019-21 Current Service Level (CSL) budget for debt service is $18.8 million GF and $21.8 million LF.

In addition, the Legislative Fiscal Office was directed to adjust the Current Service Level for the Emergency Housing Account program and the State Homeless Assistance Program. The 2019-21 adjusted General Fund Current Service Level budget for these programs is $28 million and $12 million, respectively, assuming that change is incorporated into an early 2019 session budget reconciliation bill.

Policy Issues

The growth in the amount of investments and projects for which HCSD is now responsible has prompted the agency to ask for additional positions to execute and monitor contracts, approve loans, manage new and expanded programs, and improve stakeholder outreach. To date, $120 million in LIFT bonding has been approved; based on project funding approved by HCSD to date, 1,633 affordable rental housing units and 84 new affordable homeownership units will result. Legislative action in 2018 resulted in a tripling of the document recording fee, representing $61million per biennium in new, ongoing support for the Emergency Housing Assistance, Home Ownership Assistance, and General Housing Account programs.

The Governor's Budget would substantially increase funding above the agency request budget for the following programs:

- LIFT program Article XI-Q Bonds - $130 million vs. $80 million requested by HCSD;
- Permanent Supportive Housing - $50 million in Art. XI-Q bonds vs. $19 million in lottery bond revenue requested by HCSD;
- Tenant Outreach and Education - $20 million GF vs. $5 million GF requested by HCSD;
- Statewide Housing Accelerator - $15 million GF vs. $5.3 million GF requested by HCSD;
- Child Homelessness - $14 million GF vs. $8 million GF requested by HCSD for a pilot program to reduce homelessness among families with children;
- EHA and SHAP permanent funding increase - $34 million GF vs. $30 million requested by HCSD
- Program and central services staffing increases - $9.8 million OF and 45 positions (46.50 FTE) vs. $6.1 million OF and 29 positions (30.5 FTE) requested by HCSD.

HCSD has made efforts to increase the capacity of housing developers, local governments and homeless and supported housing services providers. In addition, two rounds of LIFT application and award cycles have helped to hone the agency's understanding of project readiness, which should accelerate unit completion in any future iterations. The near doubling of funding in several key programs under the Governor's Budget results in the need to manage additional levels of activity and recruit and accommodate additional personnel. When coupled with voter-approved affordable housing bond measures in the Portland-Metro and construction workforce capacity, HCSD may be hard-pressed to deliver the assumed number of new affordable housing units in a timely manner.

HCSD has submitted the following Legislative Concepts intended to increase incentives and resources aimed at achieving policy goals of reducing homelessness and developing more affordable housing for underserved populations and locations.

- A capital gains tax exemption for multifamily affordable rental housing owners who sell their property to an owner willing to enter into a minimum 10-year affordability agreement, in an effort to preserve and acquire affordable housing stock.
- Increasing the tax credit cap for the Individual Development Account (IDA) program from $7.5 million to $15 million annually. The IDA program is a low-income "matched" savings account vehicle designed to help low income Oregonians build assets to buy a home,

attain additional education, start a business or make other steps toward self-sufficiency (it is likely this concept will be withdrawn, as the tax credit auction policy option package was not included in the Governor's Budget).

- Auctioning unused but reserved Oregon Affordable Housing Tax Credits, generating additional affordable housing resources for award by HCSD (it is likely this concept will be withdrawn, as the tax credit auction policy option package was not included in the Governor's Budget).
- Establishes a Rural Housing Accelerator program.
- Makes changes to the Housing Development Guarantee account, including increasing income limits, and allowing the account to retain earnings in an effort to provide a more flexible revolving loan fund for developers of housing in rural Oregon.

Other Significant Issues and Background

HCSD is in the process of completing its Statewide Housing Plan which clearly articulates goals for the period 2019-23. Emphases include the following: providing access to historically under-represented populations; ending homelessness for 25,000 Oregonians; providing permanent supportive housing for 1,000 individuals; increasing the number of affordable rental housing units by 25,000; assisting 6,500 households in becoming successful homeowners; and better serving small and rural communities to foster an increase in affordable housing in those areas. Maintaining an accurate inventory of affordable housing units, populations served, and outcomes will be key to these efforts.

HCSD is evaluating trade-offs and impacts to stakeholders associated with recycling a greater percentage of its housing finance funding awards as loans rather than grants. HCSD has also engaged with community action agencies to ensure that Emergency Housing Assistance and State Homeless Assistance Program dollars are distributed according to criteria that result in data-supported outcome improvements. They are also ensuring community action agencies limit carry-forward of resources from one biennium to the next.

Measure 102 -- which passed in November 2018 -- could result in local governments being better able to leverage 4% non-competitive tax credits, and potentially less of a reliance on other agency gap funds to finance the projects. The measure is likely to result in a much greater utilization of Private Activity Bonds, and absent other policy changes by HCSD, might result in Oregon hitting its Private Activity Bond Cap limit as soon as the 2021-23 biennium.

Bureau of Labor and Industries

	2015-17 Actual	2017-19 Legislatively Adopted	2017-19 Legislatively Approved *	2019-21 Current Service Level	2019-21 Governor's Budget
General Fund	12,579,327	13,119,229	13,461,114	14,341,010	14,337,039
Other Funds	9,805,185	12,162,061	12,675,846	13,264,926	13,793,398
Other Funds (NL)	756,373	1,281,732	1,281,732	900,000	900,000
Federal Funds	1,421,260	1,258,596	1,297,545	1,354,891	1,341,375
Total Funds	**24,562,145**	**27,821,618**	**28,716,237**	**29,860,827**	**30,371,812**
Positions	106	107	107	106	106
FTE	103.02	104.88	105.38	104.38	104.38

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

Program Description

The Bureau of Labor and Industries is responsible for the administration and enforcement of a broad range of state laws regarding employment, civil rights, public accommodation, wages, sick leave, and work schedules. In addition, the Bureau approves and registers skilled labor apprenticeship programs, collaborating with employers, higher education and community colleges, the employment department, and local workforce agencies. The agency maintains a Technical Assistance for Employers program that provides training opportunities, printed materials, and telephone inquiry response to help educate employers on issues of compliance to workplace and employment laws. BOLI also adjudicates and offers - where applicable - alternative dispute resolution of contested wage and hour and civil rights cases.

CSL Summary and Issues

The Legislatively Adopted Budget eliminated three positions from the agency’s 2017-19 Current Service level, but added five positions (one of which was limited duration), due to policy bills that passed in 2017-19. However, due to reductions applied in the budget reconciliation bill, the agency lacked the General Fund resources to hire two of the approved positions immediately. The agency has since achieved its targeted vacancy savings and is in the process of recruiting a number of positions to accommodate retirements and turnover. Vacant staff positions that report directly to the Labor Commissioner (such as Executive Assistant to the Labor Commissioner and Deputy) are being held vacant in anticipation of hiring decisions by the Commissioner-Elect, but are anticipated to be filled in very early 2019.

Seventy-two percent of the agency’s current service budget is attributable to personal service expenditures, and 56% of personal services expenditures are supported by General Fund. Additional staffing reductions will be challenging to absorb; while still above targets, performance related to timely processing of civil rights complaints and timely processing of wage and hour complaints have fallen since reporting year 2015. That the agency has continued to exceed most of its key performance measure targets in its various divisions despite years of reductions to positions is a testament to agency professional staff who have innovated new procedures and business processes.

The current service level budget includes a Wage Security Fund totaling $11.7 million at biennium's end. The total includes a statutory diversion of a fractional percentage (0.03%) of unemployment taxes paid by employers in one quarter of the biennium, amounting to $5,265,083; interest and recoveries of wages of $500,000; agency administrative expenses of $3 million, and outgoing payments of $900,000.

Policy Issues

BOLI requested the following policy option packages for 2019-21:

- Package 100 - Reclassification of six positions, per DAS Chief Human Resources Office review, in the Civil Rights and Wage and Hour divisions of the agency: $36,728 GF; $14,354 OF.

- Package 103 - Increase Other Funds expenditure limitation to allow for on-line purchase of materials and services provided by the Technical Assistance to Employers program: $60,000

- Package 105 - Add two limited duration positions (1.5 FTE) in the Apprenticeship and Training Division to continue strategic planning and enhancements to the agency's efforts for apprenticeship expansion and diversification, in collaboration with the Employment Department and the Higher Education Coordinating Commission: $43,759 GF; $553,452 OF (supported by HECC).

- Package 106 - Add five permanent positions (5.00 FTE) in the Apprenticeship and Training Division in support of the Governor's Future Ready Oregon initiative, with the goal of "mainstreaming" apprenticeship into other, non-building trade fields to support employer needs for skilled labor and increase the skills and earnings potential of Oregon's workforce: $993,543 GF.

The Governor's Budget made adjustments that assumed vacancy savings at levels similar to the current biennium. However, as noted above, BOLI is in the process of filling vacant positions, and assumptions of similar vacancy levels in the 2019-21 biennium may not be reliable. Standard adjustments related to DAS charges and Attorney General rates. The Governor's Budget includes policy option packages 100, 103 and 105 as requested by BOLI. The Governor's budget modified policy package 106, eliminating two of the 5 positions, with corresponding reductions to services and supplies. The remaining positions include an Operations and Policy Analyst 2, a Compliance Specialist 2, and a Training and Development Specialist 1.

Other Significant Issues and Background

The agency request budget was submitted by the outgoing Labor Commissioner. The new Labor Commissioner took office on January 7, just prior to the convening of the Legislative Session. The extent to which policy priorities will change remains unknown.

Oregon Liquor Control Commission

	2015-17 Actual	2017-19 Legislatively Adopted	2017-19 Legislatively Approved *	2019-21 Current Service Level	2019-21 Governor's Budget
Other Funds	182,910,731	206,250,022	215,134,618	226,691,665	244,953,513
Total Funds	**182,910,731**	**206,250,022**	**215,134,618**	**226,691,665**	**244,953,513**
Positions	265	304	326	324	354
FTE	254.91	298.92	312.62	324.00	352.00

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

Program Description

The Oregon Liquor Control Commission (OLCC) regulates individuals and business that manufacture, sell, import, export or serve alcoholic beverages; and grow, process, wholesale, and sell at retail marijuana in recreational marijuana retail establishments. OLCC also educates licensees, the public, and other groups, and investigates and takes action when necessary against those who violate liquor and recreational marijuana laws. The five-member Commission is appointed by the Governor and confirmed by the Senate.

CSL Summary and Issues

The OLCC is entirely supported by Other Funds revenues, generated from the sale of distilled spirits, privilege taxes on beer, wine and malt beverages, and licensing fees. A portion recreational marijuana tax revenue is transferred to OLCC to pay for inspections of medical marijuana licensees whose products are sold in recreational marijuana stores.

OLCC provided updated sales projections upon release of the Governor’s printed budget, in which they estimated liquor revenue distribution in the following amounts, absent agency policy option packages:

- General Fund (including revenue from a $0.50 per bottle surcharge): $344.3 million
- Incorporated Cities: $108.9 million
- City Revenue Sharing: $76.2 million
- Counties: $54.5 million
- Mental Health: $19.8 million
- Oregon Wine Board: $0.7 million

Approval of Policy Option Packages will reduce the amount of liquor revenue distribution to the entities listed above, as revenue distribution occurs after all agency operating expenditures.

Recreational marijuana program expenditures are supported by licensing fees and medical marijuana program expenditures are supported by a transfer of $7 million in marijuana tax revenue from the Department of Revenue.

Policy Issues

The agency request budget contains 15 policy option packages totaling $40 million in Other Funds expenditure limitation and 45 positions (45.00 FTE). The agency is requesting additional staff to support financial services, bottle redemption center oversight, communications, information systems development, public safety (for both liquor and marijuana compliance efforts), and communications. Packages related to capital improvements and infrastructure include increasing liquor shipping capacity in the warehouse, the last phase of its roof replacement project, and investments in IT system replacement and improvement. Changes are also sought in how agents and distillers are compensated.

Alcohol: The OLCC is in the process of expanding retail liquor outlets from 248 stores to 300 by the end of 2019. The cost of alcohol licenses has not increased appreciably in 20-60 years, depending on the license, and the agency is proposing a license fee increase (excepting servers), which is also assumed in the Governor's budget. Agency fees are in statute, so legislative approval of the new fees would be necessary. The proposed fee increase would raise $9 million in revenue, helping to fund IT improvements without impacting liquor revenue distribution to stakeholders. The OLCC extended a 0.50 per bottle liquor surcharge for the 2019-21 biennium - expected to generate $37.9 million in revenue distributed exclusively to the General Fund.

IT Systems The package to replace and improve its information systems is OLCC's highest priority. Multiple systems and aging or obsolete platforms have been cobbled together and represent a risk to revenue generation (estimated at $2.5 million per day) in the event of an outage. A February 2018 Secretary of State audit identified data reliability and security issues within OLCC systems, a few of which will be partially addressed by regular life-cycle replacement. The agency requested $7.9 million and 7.00 FTE associated with these improvements. The agency needs to replace its marijuana licensing system to improve functionality, develop an on-line privilege tax payment and reporting system, and the capability to accept electronic payments, as well as improve connectivity and reliability among agency business functions, such as between licensing and enforcement databases, and agent ordering, inventory, and accounting systems.

Medical Marijuana: While recreational license applications and renewals continue to exceed projections, the number of medical marijuana growers regulated by OLCC is presently about 60% of the number initially projected. The legislative fiscal office will evaluate staffing levels in this program in an effort to align it with the number of licensees and expected work load.

While the recreational marijuana program budget includes a cost allocation methodology to support central agency services, the medical marijuana program -- which is supported by tax revenues -- does not. A cost allocation methodology consistent with recreational marijuana would transfer approximately $1.8 million of marijuana tax revenue to support services provided to the program including the Commissioners, director's office, administrative hearings, procurement, human resources, and finance.

The Governor’s budget did not include the following:

- Funding for the final phase of roof repair to the agency’s warehouse;
- Equalization of consumer and licensee sales in the agent’s compensation formula; and
- Changes to the compensation formula for distilleries with tasting rooms and direct sales.

Of the $7.9 million requested for information systems improvements and staffing, the Governor’s Budget provided $2.5 million for a privilege tax payment and reporting system required by HB 2150 (2017). Of the 45 positions requested by the OLCC, the Governor’s Budget includes 28, primarily for marijuana and alcohol enforcement activities, and positions to meet demand for distilled spirits. Notably, the Governor’s budget also assumes an increase in alcohol-related agency licensing fees, and an increase in the distilled spirits markup rate of 5%, which the Governor’s office estimates would generate a total of $41.4 million, $21.2 million of which would be distributed to the General Fund. The agency’s liquor licensing fees are in statute, requiring legislative action, and a fee bill has been submitted for consideration (HB 5045). Increases in markup amounts and changes to agents’ compensation formulas are the purview of the agency, which would seek the Commission’s approval; any additional expenditure limitation that would be needed to compensate liquor agents or otherwise administratively implement the changes would require adjustments to the agency’s budget.

<u>Other Significant Issues and Background</u>

A legislative workgroup is currently convening to consider proposals related to distillers’ compensation and liquor agent compensation. The workgroup’s goal is to have determinations and policy recommendations in time for legislative action in the 2019 legislative session. These recommendations may or may not align with the policy package related to distiller agent compensation requested by the agency, but not included in the Governor’s Budget.

The Secretary of State is in the process of auditing OLCC and the Oregon Health Authority regarding the regulatory framework for marijuana. As of this writing, a target completion date is unknown.

Public Utility Commission

	2015-17 Actual	2017-19 Legislatively Adopted	2017-19 Legislatively Approved *	2019-21 Current Service Level	2019-21 Governor's Budget
Other Funds	45,634,617	45,128,415	45,919,838	48,075,719	49,501,005
Other Funds (NL)	69,279,866	56,290,822	56,290,822	54,312,163	54,312,163
Federal Funds	727,796	715,100	742,231	790,833	975,382
Total Funds	**115,642,279**	**102,134,337**	**102,952,891**	**103,178,715**	**104,788,550**
Positions	129	127	127	123	131
FTE	126.60	125.76	125.76	122.50	128.58

* Includes Emergency Board and administrative actions through December 2018.

Program Description

The Public Utility Commission of Oregon (PUC) regulates rates and services offered by private Oregon electric and natural gas utilities, telecommunications companies, and water companies. The PUC works to ensure consumers receive safe and reliable utility services at fair and reasonable rates, while allowing regulated companies the opportunity to earn an adequate return on their investment. The three-member commission is appointed by the Governor and subject to Senate confirmation. The Commission provides administrative and budget support to the Oregon Board of Maritime Pilots, an independent occupational licensing and regulatory agency for state maritime pilots, whose mission is to protect public health, safety, and welfare by ensuring only the best-qualified persons are licensed to pilot vessels.

CSL Summary and Issues

The PUC is funded almost entirely by Other Funds derived from fees assessed on regulated entities. The Commission also receives Federal Funds from the US Department of Transportation for the Natural Gas Pipeline Safety Program. The 2019-21 current service level (CSL) budget of $103.2 million is $225,824 (or less than 1%) more than the 2017-19 legislatively approved budget. The CSL budget includes standard inflation adjustments, as well as increases for Attorney General fees and state government service charges. There are no CSL budget issues.

The PUC provides administrative services to the Oregon Board of Maritime Pilots. The Board of Maritime Pilots is funded by license fees paid by the pilots. The 2019-21 CSL budget of $810,446 supports two positions (2.0 FTE) and services and supplies, including costs for legal fees and professional services.

Policy Issues

Gross Operating Revenue Fee. Statute establishes a maximum fee payable by utilities and telecommunications providers of 0.3% of a utility’s annual gross operating revenues in the previous calendar year. For the 2019-21 biennium, the fee projected to be at the maximum. The PUC has proposed (Senate Bill 68) to increase the annual utility fee from 0.3% to 0.45% for energy and water utilities, and from 0.3% to 0.35% for telecommunications utilities.

Telecommunications Revenue. As customers continue to transition from landline to wireless services, the telecommunications industry's gross revenues are projected to decrease between 2019 and 2021, resulting in a revenue loss of approximately 2% per year. Commission revenue from the energy industry will increase by an estimated 2% per year. Given that the Commission receives more revenue from the energy industry than it does from the telecommunication industry, the growth in electricity industry revenue will continue to offset the loss of telecommunications industry revenue.

Oregon Universal Service Fund. All retail telecommunications services sold in the state are subject to a universal service surcharge of 8.5%. The surcharge revenue is deposited into the Oregon Universal Service Fund administered by the Public Utility Commission. The purpose of the fund is to ensure basic telephone service is affordable in high cost areas of the state. Eligible carriers receive payments from the fund to offset the cost of providing basic telephone service. Revenue has been declining for several years because of the consumer shift from land lines to wireless service. Under current law, wireless service providers are exempt from the surcharge.

Oregon Racing Commission

	2015-17 Actual	2017-19 Legislatively Adopted	2017-19 Legislatively Approved *	2019-21 Current Service Level	2019-21 Governor's Budget
Other Funds	5,871,560	6,353,396	6,422,599	6,866,762	3,924,842
Total Funds	**5,871,560**	**6,353,396**	**6,422,599**	**6,866,762**	3,924,842
Positions	14	14	14	14	14
FTE	12.27	12.27	12.27	12.27	6.14

* Includes Emergency Board and administrative actions through December 2018.

Program Description

The Oregon Racing Commission regulates the pari-mutuel industry in Oregon. The commission oversees horse racing at five county fair race meets, and at Portland Meadows, Oregon's only commercial race meet. The Commission also regulates off-site simulcast races, Multi-jurisdictional Simulcasting and Interactive Wagering Totalizer Hubs, and pari-mutuel matters, by auditing financial transactions and ensuring proper remittance, as well as licensing and technology review. The Commission background checks and licenses all race meet participants, including trainers, jockeys, owners, wranglers, and bet-takers. Staff inspectors investigate irregularities and safety issues, with the goal of ensuring the integrity of the sport, safeguarding the well-being of participants, animals and the public, and promoting horse racing in Oregon.

CSL Summary and Issues

Since the agency submitted its 2019-21 agency request budget on August 1, Portland Meadows has announced it is in negotiations with a buyer of its racetrack property in North East Portland. The final commercial race meet for the track is scheduled to be the September 30, 2018 - February 5, 2019 race season (in the 2017-19 biennium). For all practical intents and purposes, the Current Service Level and 2019-21 may not be a useful planning tool or basis for comparison.

Policy Issues

The agency request budget includes one policy option package, to reclassify an Administrative Specialist 2 to a Fiscal Auditor 2 due to additional duties including audits of pari-mutuel transactions, resulting in additional personal services expenditures of $6,522 Other Funds. The position is currently working out of class and the proposed classification has been approved by the Department of Administrative Services Chief Human Resource Office.

The cancellation of the state's only multi-week commercial race meet is anticipated to decrease the agency's need for full-time staffing (staff veterinarian, racing stewards, and perhaps investigative personnel may need to be seasonal or temporary/contracted services). The closing of

Portland Meadows also could also result in the loss of over $500,000 in biennial revenue. Should the Legislature fail to approve a bill to allow a non-race meet licensee to conduct simulcast wagering, revenue could decline by nearly $1 million.

Revenue transferred to the General Fund is not affected by the closure of Portland Meadows, as it is derived from Multi-jurisdictional Simulcasting and Interactive Wagering Hubs. This amount budgeted for transfer is $1.2 million in the agency request budget.

The 2019-21 Governor's budget consists of roughly one year's expenditures at current service level for the Oregon Racing Commission. The Governor's Budget assumes the agency would return to the 2020 Legislative Session with a request for expenditures related to the second year of the biennium, when more is known about the level of staffing and regulatory oversight necessary in absence of the commercial rate meet.

<u>Other Significant Issues and Background</u>
Demographic trends, competition from other gambling opportunities, and the potential for wagering companies to relocate their operations to other states could hasten the steady decline of horse racing in Oregon. Revenue from Multi-jurisdictional Simulcasting and Interactive Wagering Hubs largely support live racing at county fairs. Oregon faces competition from other states who wish to attract Hub businesses, and must provide a consistent regulatory structure, as well as a favorable business and tax environment if these businesses are to remain in Orego. Ten hubs are currently licensed in Oregon, and revenue from these internet-based wagering companies consists of a per diem licensing fee of $200 per day, and a tax of 0.25 of 1% on the pari-mutuel handle, not to exceed $705,005 for fiscal year 2019; an automatic escalator of 2% per year has been included. Hub revenue is divided between agency operations and racing development (75%) and the state's General Fund (25%).

Real Estate Agency

	2015-17 Actual	2017-19 Legislatively Adopted	2017-19 Legislatively Approved *	2019-21 Current Service Level	2019-21 Governor's Budget
Other Funds	1,286,607	7,621,789	7,781,918	8,586,773	8,536,762
Total Funds	**1,286,607**	**7,621,789**	**7,781,918**	**8,586,773**	**8,536,762**
Positions	29	29	29	29	29
FTE	29.00	29.00	29.00	29.00	29.00

* Includes Emergency Board and administrative actions through December 2018.

Program Description

The Real Estate Agency is responsible for the education, licensing and enforcement of Oregon's real estate laws applicable to brokers, property managers, and real estate marketing organizations; licensing and regulation of escrow agents; and registration and reviews of campground contract brokers, subdivisions, timeshares, and condominium developments. The agency approves continuing education providers and develops requirements for its licensees, administers real estate examinations, audits licensees, and investigates complaints made concerning licensees and the agency. The agency supports the Real Estate Board, whose seven industry members and two public members are appointed by the Governor.

CSL Summary and Issues

The Real Estate agency is proposing a current service level budget for the 2017-19 biennium. A licensing fee increase approved in 2017 enables the agency to continue its current level of operations with an ending balance equivalent to roughly 3.5 months of operating expenditures.

Policy Issues

The number of real estate licensees has been rebuilding since the post-recession low of December 2012. There are now approximately 23,000 licensees, just 7% below the 2007 peak. Rising interest rates are tempering the increase in home prices, and the number of new licensees is expected to grow by 5%, to 25,000 by the end of the 2019-21 biennium.

The Governor's budget makes standard adjustments for Department of Administrative Services charges and Attorney General rates.

Other Significant Issues and Background

The Real Estate Agency anticipates requesting investments in its on-line licensing system in the 2021-23 budget. The existing on-line system has been in place since 2012 and has streamlined agency licensing procedures, certifications, printing and postal costs, as well as drastically shortening license processing times. Existing constraints, evolving technology, and customer expectations are driving the evaluation of updated IT solutions.

The Real Estate Agency has one legislative concept to correct an inadvertent error in allowed exemptions for licensees. The concept is not anticipated to have a fiscal impact.

The Acting Real Estate Commissioner previously served as the agency’s Deputy Commissioner.

Transportation

	2015-17 Actual	2017-19 Legislatively Adopted	2017-19 Legislatively Approved *	2019-21 Current Service Level	2019-21 Governor's Budget
General Fund	22,056,357	23,456,104	23,456,104	45,433,147	35,172,907
Lottery Funds	107,484,140	114,604,964	113,596,792	118,775,740	118,775,740
Other Funds	3,387,766,797	3,654,291,921	3,822,653,506	4,150,258,956	4,285,014,331
Other Funds (NL)	532,100,569	18,158,214	173,412,455	18,000,000	18,000,000
Federal Funds	118,275,491	105,699,330	105,756,768	112,026,315	111,945,060
Federal Funds (NL)	21,621,529	21,575,775	21,575,775	21,243,619	21,243,619
Total Funds	**4,189,304,883**	**3,937,786,308**	**4,260,451,400**	**4,465,737,777**	**4,590,151,657**
Positions	4,510	4,537	4,716	4,688	4,770
FTE	4,400.89	4,425.34	4,502.97	4,590.79	4,663.41

* Includes Emergency Board and administrative actions through December 2018.

Program Description

The mission of the Oregon Department of Transportation (ODOT) is to provide a safe and reliable multimodal transportation system that connects people and helps Oregon's economy thrive. ODOT is overseen by a five-member, citizen-led board called the Oregon Transportation Commission. Members are appointed by the Governor and confirmed by the Senate.

Key responsibilities include:

- Maintain, preserve and modernize state roads
- Issue driver licenses, driver permits, and identification cards
- Title and register vehicles
- Regulate and inspect vehicle-related businesses, and commercial trucks and buses
- Provide grants for transportation services to local governments and non-profit organizations
- Collect revenue from motor fuel taxes, and other vehicle and driver-related taxes and fees

The Oregon Constitution requires revenue from motor fuel taxes, weight-mile taxes, vehicle taxes, and driver fees to be used for highway projects (roads). These constitutionally-dedicated moneys represent the largest share of the agency's resources. Lottery Funds pay for debt service on non-highway projects supported by the Connect Oregon program. General Fund is used for debt service, rail, and senior and disabled transit. Some notable new sources of funding for "non-highway" programs administered by ODOT include the 0.1% statewide payroll tax, the vehicle dealer privilege tax, and the bicycle excise tax.

CSL Summary and Issues

- The 2019-21 current service level (CSL) budget is $4.46 billion (all funds). This is an increase of $198.1 million (or 4.6%) over the 2017-19 legislatively approved budget (LAB). This increase represents the net change after all phase outs for completed projects and one-time costs, phase-ins for scheduled project payments in the next biennium, and adjustments for debt service, inflation and government service charges.

ODOT CSL All Funds Budget by Program		
Program	**2019-21 CSL**	**% of Total**
Highway	2,687,901,358	60.19%
Debt Service	549,772,522	12.31%
Public Transit	356,306,339	7.98%
Central Services	265,983,168	5.96%
Trans Dev	222,206,329	4.98%
DMV	213,168,088	4.77%
Rail	73,926,594	1.66%
Motor Carrier	70,619,707	1.58%
Infrastructure Bank	18,000,000	0.40%
Cap Improvement	7,853,672	0.18%
Totals	**$4,465,737,777**	**100%**

- The **General Fund** portion is $45.4 million, an increase of $21.9 million (or 93.7%) over the 2017-19 LAB. This increase, as well as the **Lottery Funds** increase of $5.2 million, is almost entirely driven by debt service. The CSL budget assumes debt service for the State Radio Project ($21.2 million) will be paid using General Fund monies.

- **Other Funds** increased $327.6 million (or 8.6%) compared to the 2017-19 LAB. This increase is driven by the implementation of HB 2017, and mostly affects Highway Division and Public Transit programs.

- The 2019-21 CSL budget for **Highway Division** programs is $2.69 billion. This is a net increase of $160.6 million or 6.4% compared to the 2017-19 LAB. The budget phases in $463 million for HB 2017 projects added to the Statewide Transportation Improvement Plan (STIP). It phases out $191 million for projects associated with the Jobs and Transportation Act.

ODOT Highway Division: Comparison of 2017-19 LAB to 2019-21 CSL				
State Highway Fund				
Program	**2017-19 Legislatively Approved**	**2019-21 Current Service Level**	**Change**	**Program Description**
Maintenance	$541,271,924	$567,207,836	$25,935,912	Snow/ice removal, pavement and shoulder repair, debris removal, and emergency response
Preservation	274,001,494	403,955,652	129,954,158	Resurface rough pavements on highways to add useful life and maintain safety
Bridge	325,853,130	552,126,635	226,273,505	Inspect, repair, preserve and replace 2,700 bridges, tunnels and culverts for safety
Operations	263,369,158	387,456,104	124,086,946	Landslide mitigation, traffic signaling, lighting improvements, traveler information
Modernization	344,154,839	166,105,480	-178,049,359	Build capacity improvements, such as new or widened lanes
Special Programs	367,926,888	403,518,038	35,591,150	Develop/maintain footpaths and bicycle trails, snowmobile facilities, and technical support
Local Government	410,699,743	207,531,613	-203,168,130	Partnerships with cities, counties, and regional governments to improve local road system
Totals	**$2,527,277,176**	**$2,687,901,358**	**$160,624,182**	

- The 2019-21 CSL budget for **Public Transit** is $356.3 million, an increase of $193.6 million or 119%. HB 2017 provides a significant and ongoing increase in the base funding for the primary system of transit service delivery. Funds are distributed through formula-based and discretionary grants. The Statewide Transportation Improvement Fund (STIF) created by HB 2017 is supported by proceeds from the 0.1% payroll tax that took effect in January 2018.

- The CSL budget includes $1.5 billion in **Federal Funds** from formula-based and competitive grants, an increase of about $300 million**,** mostly for highway projects identified in the STIP. Most federal funds are budgeted as Other Funds since they are typically received as reimbursements to the State Highway Fund.

- The CSL budget assumes $480 million in revenue bond proceeds. Authorization for these bonds was included in HB 2017.

<u>Policy Issues</u>

HB 2017 (2017). Increased existing taxes and fees (motor fuel and weight-mile taxes, and DMV title and registration fees) to support highway programs and projects. Established new taxes to support non-highway programs and projects, including a new vehicle dealer privilege tax and bicycle excise tax to fund the Connect Oregon program, and a 0.1% payroll tax to fund investments in public transit. Requires OTC to allocate $647 million to specific highway projects by January 1, 2024. Authorizes ODOT to issue highway use tax bonds for net proceeds of $480 million to fund identified projects.

The Legislature has approved a total of 230 positions to implement HB 2017; 51 positions (35.63 FTE) were provided in HB 5045 (2017), and 179 positions (77.63 FTE) were provided in HB 5201 (2018). As part of the 2019-21 budget, ODOT is seeking an additional 44 positions (44.00 FTE) for HB 2017 workload.

***Connect Oregon*.** The Connect Oregon program provides competitive grants to public, non-profit and private entities for investments in air, rail, marine and bicycle and pedestrian infrastructure. Since the program's inception in 2005, the Legislature has authorized $457 million in tax exempt lottery-backed bonds with the goal of creating a diverse and efficient transportation system. The Lottery bond proceeds have been used to leverage hundreds of millions of dollars in public and private matching funds for projects across the state.

The Legislature's reliance on bonds to fund Connect Oregon has been necessitated by the lack of other sources of state support for investments in non-highway infrastructure. The state constitution prohibits use of highway fund monies for non-highway projects. However, in the 2017 legislative session, with the passage of HB 2017, the Legislature established dedicated sources of funding for the Connect Oregon program: the vehicle dealer privilege tax, and the bicycle excise tax, both of which took effect on January 1, 2018. These new taxes will provide ODOT an ongoing stream of revenue for Connect Oregon, and, in so doing, may relieve some pressure on the Legislature to authorize highly sought-after Lottery bonds for this program. Requests for Lottery bond proceeds typically far exceed capacity.

***REAL ID Implementation*.** The REAL ID Act was passed by Congress in 2005, based on recommendations from the 9/11 Commission. It established standards that state-issued driver licenses and identification cards must meet to be accepted for certain federal purposes. In the 2017 legislative session, the Legislature passed Senate Bill 374 allowing DMV to issue REAL ID-compliant driver licenses and ID cards beginning July 2020. Previously, Oregon law prevented the issuance of REAL ID cards. The REAL ID cards will be optional. Oregonians who do not wish to get one can keep their standard driver license or ID cards. The federal government grants extensions to states that are working towards issuing REAL ID cards. Oregon currently has an extension valid until October 10, 2019. The extension means Oregonians can continue to use their current ID to board commercial aircraft and enter secure federal facilities.

DMV Service Transformation Program. The Service Transformation Program (STP) is a ten-year $90 million project to transform DMV business processes and replace obsolete technology to enable more online and self-service capabilities, reduce paper processes, and streamline transactions for DMV, partner agencies and the public. It began during the 2015-17 biennium and is anticipated to extend through the 2023-25 biennium. During the 2015-17 biennium, DMV created a project governance structure, formed a program team, and procured a commercial off the shelf system. In the 2017-19 biennium, DMV has worked with Fast Enterprises to configure a software solution and update business processes. The new and improved Vehicles System is scheduled to begin roll out in January 2019. Work on the Driver System will begin in the last quarter of 2017-19 and continue into the 2091-21 biennium.

***State Radio Project Debt Service - Cost Sharing*.** The State Radio Project (SRP) modernized the statewide public safety communication system used by ODOT and the Oregon State Police (OSP). The project was financed by bonds. As of January 1, 2018, the principal and interest on those bonds have an estimated total cost at maturity of $258.7 million.

There has been a longstanding expectation that these project costs would be split between the State Highway Fund (SHF), which is ODOT's main source of support for highway projects, and the General Fund (GF), which is OSP's main source of support. The basis for cost sharing is twofold: (1) the state radio system is a shared system, and (2) SHF monies are constitutionally dedicated to highway expenses and therefore cannot be used to support OSP system usage.

Historically, ODOT has assumed the costs would be evenly split, 50% SHF and 50% GF. Each biennium, the agency budget requests GF monies equivalent to half the estimated debt service. The Legislature generally has not gone along with this proposed funding scheme. Of the $143.1 million approved by the Legislature to date for SRP debt service, for example, $130.7 million (91.4%) was SHF and $12.4 million (8.6%) was GF.

Since the SHF has now paid more than half of the estimated total debt service, ODOT asserts that all future SRP debt service must be paid from the General Fund. Accordingly, the 2019-21 agency request budget proposes to pay the full debt service for the biennium ($21.2 million) using General Fund monies.

<u>Other Significant Issues and Background</u>

Some highlights of the Governor's Budget include

- HB 2017 Implementation: $8.9 million OF and 44 positions (44.00 FTE)
- State Radio Program Operations and Maintenance: $11.9 million OF
- DMV Service Transformation Project: $22.1 million OF
- DMV Service Transformation Maintenance and Support: $3.6 million OF
- REAL ID Implementation: $3.7 million OF and 24 positions (15.12 FTE)
- DMV Third Party Driver Testing: $527,374 OF and 3 positions (3.00 FTE)
- Open Data Web Portal - HB 3361: $707,080 OF and 3 positions (3.00 FTE)
- Information Security and Compliance Positions: $1.2 million OF and 5 positions (5.00 FTE)
- Capital Construction: $12.0 million for South Coast Maintenance Station and $8.0 million for Central Coast Maintenance Station
- Connect Oregon: $20.0 million
- Southwest Corridor Light Rail Extension: $25.2 million

Oregon Department of Veterans' Affairs

	2015-17 Actual	2017-19 Legislatively Adopted	2017-19 Legislatively Approved *	2019-21 Current Service Level	2019-21 Governor's Budget
General Fund	12,954,681	8,380,599	8,568,114	10,275,406	10,127,148
Lottery Funds	--	14,856,025	15,400,349	14,779,342	23,095,751
Other Funds	79,801,323	113,266,941	116,893,607	103,405,833	104,488,196
Other Funds (NL)	235,863,557	387,546,159	447,546,159	408,779,089	408,779,089
Federal Funds	3,403,376	500,000	7,347,138	1,000,000	1,525,000
Total Funds	**332,022,937**	**524,549,724**	**595,755,367**	**538,239,670**	**548,015,184**
Positions	88	96	100	97	106
FTE	87.55	95.84	97.13	96.71	105.59

* Includes Emergency Board and administrative actions through December 2018.

Program Description
The mission of the Oregon Department of Veterans' Affairs (ODVA) is to serve and honor veterans through leadership, advocacy, and strong partnerships. ODVA has three primary program areas that are supported by the agency's core operations: the Veterans' Loan Program, the Veterans' Services Program, and Aging Veteran Services, which includes the two Veterans' Homes. The Veterans' Loan Program, funded entirely with Other Funds, provides home loans to qualified veterans. Other Funds revenues for the loan program are derived from the proceeds of general obligation bond sales, loan and contract repayments, fee and rental income, and investment earnings. The Veterans' Services Program provides claims and appeals assistance and partnerships with counties and national veterans' service organizations to assist veterans. The Veterans' Services Program is funded with General Fund and Lottery Funds available through the passage of Measure 96. Aging Veteran Services provides oversight of the two skilled-nursing and memory care facilities in The Dalles and Lebanon, expertise in aging veterans' benefits and services, and conservatorship and representative payee services. Lottery Funds and Other Funds generated from conservatorship fees support Aging Veteran Services. The operational costs of the Veterans' Homes are funded with Other Funds from resident-related income, including funds from the U.S. Department of Veterans' Affairs, Medicare, Medicaid, insurance companies, and private payers.

CSL Summary and Issues
The overall 2019-21 current service level (CSL) budget of $538.2 million is $57.5 million (or 9.7%) less than the 2017-19 legislatively approved budget (LAB) of $595.8 million. The decrease is primarily attributable to $60 million Other Funds nonlimited expenditure limitation that was administratively added to the LAB after development of CSL to accommodate increased veterans' home loan originations. Lottery Funds expenditure limitation decreased due to one-time funding for grants to expand campus veteran resource centers ($1 million) and development of a conservatorship system ($400,000). A total of $22.7 million Other Funds and Federal Funds expenditure limitation was

phased-out of the budget for capital projects at The Dalles and Lebanon Veterans' Homes and construction of the Roseburg Veterans' Home. An additional $1.5 million Other Funds expenditure limitation was also removed for one-time costs to update the ODVA office building, purchase a home loan system, and issue General Fund supported bonds.

The number of CSL positions is less than the LAB as a result of the addition of three full-time permanent positions (0.75 FTE) by the Emergency Board in December 2018. ODVA requested and received positions and resources to establish the agency as the U.S. Department of Veterans Affairs (USDVA) State Approving Agency for veterans' education programs. USDVA oversees the administration of GI Bill education benefits through annual performance contracts with designated State Approving Agencies (SAAs). SAAs approve education and training programs that are eligible to receive GI Bill benefits and provide technical assistance and outreach to schools and veterans. Prior to October 1, 2018, the Higher Education Coordinating Commission (HECC) served as the SAA for Oregon; however, USDVA did not renew the annual contract with HECC for the 2019 federal fiscal year. SAA positions and program costs for the 2019-21 biennium, which are expected to total $670,930, will need to be added to ODVA's budget during the 2019 session. ODVA anticipates receiving $525,000 Federal Funds in 2019-21 through USDVA contract reimbursements beginning October 1, 2019, which will support nearly 80% of ongoing costs.

Policy Issues

Passage of Measure 96 in 2016 dedicated 1.5% of state lottery net proceeds towards veterans' services beginning July 1, 2017. During the 2017 session, $14.9 million of Measure 96 Lottery Funds were allocated to ODVA to expand services to veterans, which included investments to double the pass-through funding to County Veteran Service Officers (CVSOs) and National Service Organizations (NSOs); discontinue the use of home loan program revenues to subsidize veterans' services program activities; provide permanent funding for a veterans' crisis and suicide prevention hotline; and establish the Veteran Services Grant Fund. An additional $1.5 million was allocated to the Housing and Community Services Department (HCSD) to address veterans' housing and homelessness issues. Total lottery revenue dedicated to veterans' services was projected to be $19.1 million for the 2017-19 biennium based on the Office of Economic Analysis' (OEA) May 2017 revenue forecast, with adjustments for administrative actions. This resulted in an end-of-session estimated ending balance of $2.9 million in the constitutionally dedicated Veterans' Services Fund to allow for fluctuations in revenue projections and provide a working capital balance to accommodate Lottery Funds expenditure increases during the biennium.

Based on the December 2018 forecast prepared by OEA, lottery revenue dedicated to veterans' services is projected to total $21.6 million in 2017-19 and $21.5 million in 2019-21, which results in an increased estimated beginning balance of $4.7 million for the 2019-21 biennium. After ODVA's 2019-21 CSL expenditures, the Veterans' Services Fund has an estimated ending balance of $11.4 million. Retaining an ending balance of $2.7 million (12.5% of revenues), consistent with the prior biennium, leaves $8.7 million of unallocated veterans' lottery proceeds. ODVA requested an additional $3.7 million Lottery Funds through policy option packages (POPs) included in their 2019-21 agency request budget and the Governor's Budget included an additional $4.6 million in Lottery Funds initiatives, which almost entirely utilizes available lottery proceeds above the recommended ending balance.

Other Significant Issues and Background

ODVA has a statewide partnership with counties through the CVSOs. Historically, CVSOs have existed in 34 of the 36 counties and ODVA has provided services for Marion and Polk counties. However, a Polk County Veteran Service Office was established in January 2017 and Marion County opened a Veteran Service Office in 2018 that will be fully trained and certified in spring 2019.

$10.5 million of Article XI-Q general obligation bonds were authorized and capital construction limitation was re-established for a new six-year period in the 2017-19 biennium for a third Veterans' Home in Roseburg. Lottery bonds for the Roseburg Veterans' Home were initially approved in 2011-13 and have been reauthorized in each subsequent biennium. Construction of the third home has not occurred in prior biennia for multiple reasons, including absence of a USDVA construction grant award that would provide 65% of the funding and analysis by ODVA that did not support the facility maintaining necessary occupancy levels to operate at a sustainable level. Lack of progress prompted legislation in the 2018 session that required ODVA to study and report on the progress of establishing the Roseburg Veterans' Home. ODVA's September 2018 report recommended that the Roseburg Veterans' Home be built on the Roseburg Veterans Affairs Health Care System campus adjacent to the new main VA hospital. USDVA has agreed to transfer 13.2 acres to the State of Oregon, through a federal land grant, for the site of the home, as well as provide parking lots and utility infrastructure. The transfer of land and construction of the new home will not begin until ODVA has been awarded a competitive USDVA construction grant and secured the required 35% state match. ODVA intends to base the Roseburg home on the "small home care" model used in the Lebanon Veterans' Home. ODVA currently estimates construction costs of $48 million for a 126-bed facility. USDVA construction grant funds would cover $31.2 million (65%) and $10.5 million in state general obligation bonds has already been committed towards the state match (35%), which results in an additional $6.3 million of matching funds needed from state or local resources. As remaining matching funds have yet to be identified, the approved Article XI-Q bonds will not be included in the February 2019 bond sale and will need to be reauthorized in the 2019 session. General Fund debt service ($1.7 million) included in ODVA's CSL expenditures will be decreased accordingly.

Due to the shortage of nurses and medical technicians in the City of Roseburg and Douglas County that would be needed to staff the Roseburg Veterans' Home, ODVA was directed through a budget note to convene a rural medical training facilities workgroup. ODVA submitted the workgroup's report in September 2018 confirming that there are significant workforce shortages in multiple allied health and behavioral health fields in Roseburg, Douglas County, rural Oregon, and statewide. While the workgroup did not recommend one specific solution to increasing the number of medical professionals, they proposed that workforce shortages could be reduced through a number of methods, including incentive programs, recruitment bonuses, and competitive salaries for health care professors and instructors. The workgroup also considered the Oregonians for Rural Health proposal for a regional non-physician medical college in Roseburg.

ODVA's 2019-21 agency request budget includes POPs totaling $237,500 General Fund, $3.7 million Lottery Funds, $1.1 million Other Funds, and two positions (2.00 FTE). Lottery Funds requests include funding to increase pass-through funding to NSOs ($354,708); provide additional grants through the Veterans' Services Grant Fund ($1 million); expand the transportation grant program to rural counties ($600,000); and continue funding for the Campus Veterans Resource Grant Program ($700,000), including removal the program's January

2020 sunset. A Business Development Representative position funded with home loan revenues is requested to expand the home loan program. The Department has also re-requested funding for two information technology projects: replacement of the agency's conservatorship system ($400,000 Lottery Funds) and purchase of home loan system that integrates loan origination and servicing functions ($250,000 Other Funds). Projects were requested and approved in ODVA's 2017-19 LAB; however, the Department determined that the projects needed further analysis and development of business requirements before implementation.

The Governor's Budget included additional Lottery Funds investments in transitional housing for homeless veterans ($1.1 million), tribal partnerships and Veterans' Service Officer ($500,000), veterans' behavioral health grants ($500,000), down payment assistance for veterans' home loans ($500,000), an Employment and Economic Development Specialist position ($300,000), design and environmental studies for the Roseburg Veterans' Home ($250,000), and increased funding for the Veterans' Services Grant Fund ($500,000). ODVA's request to continue the refresh of their building and complete renovations of the second floor was included in the Governor's Budget, with the exception that the General Fund portion of the request ($237,500) was substituted with Lottery Funds. As part of a statewide initiative to strengthen internal audit functions, funding was also provided for an Internal Auditor position.