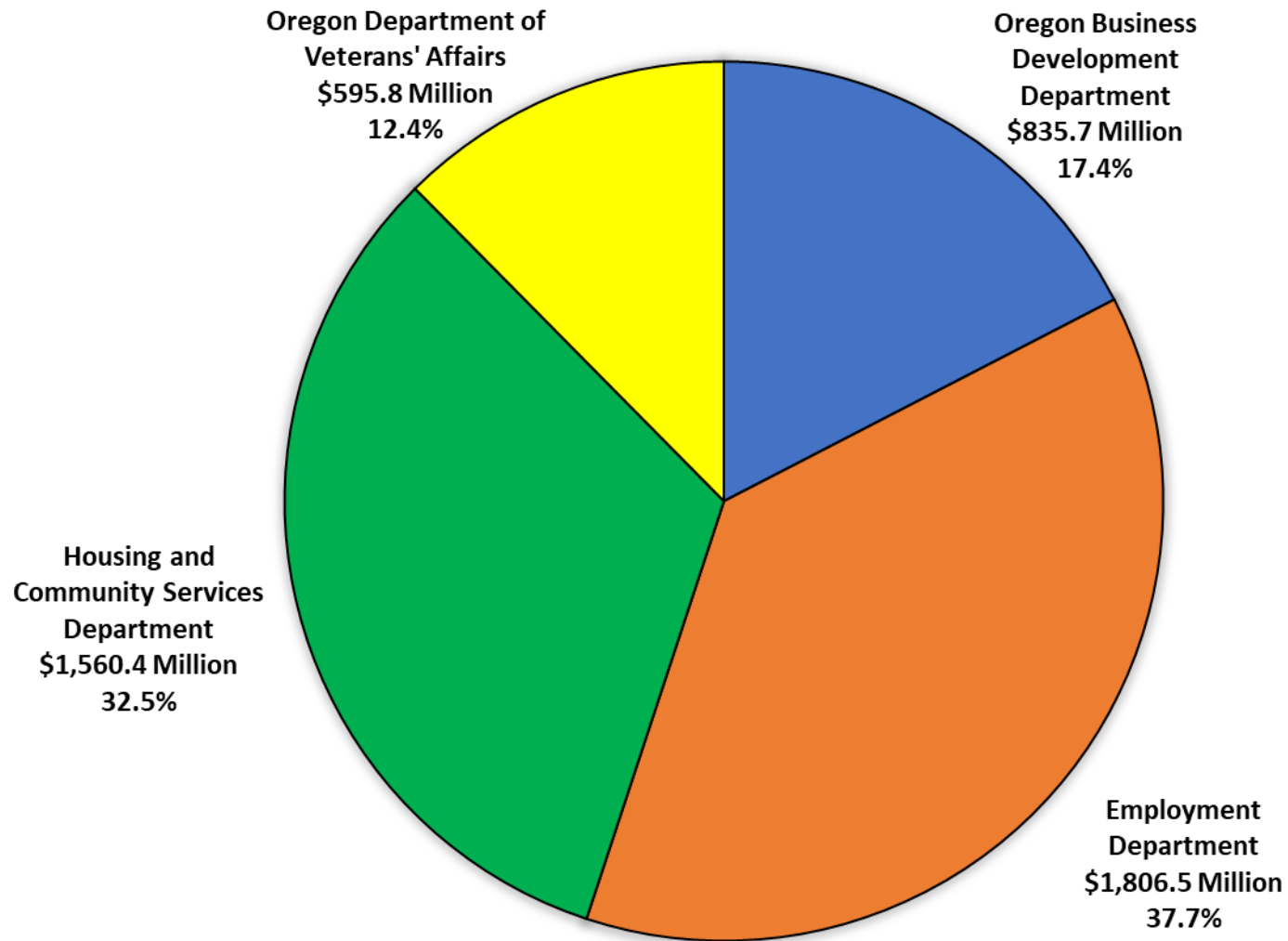
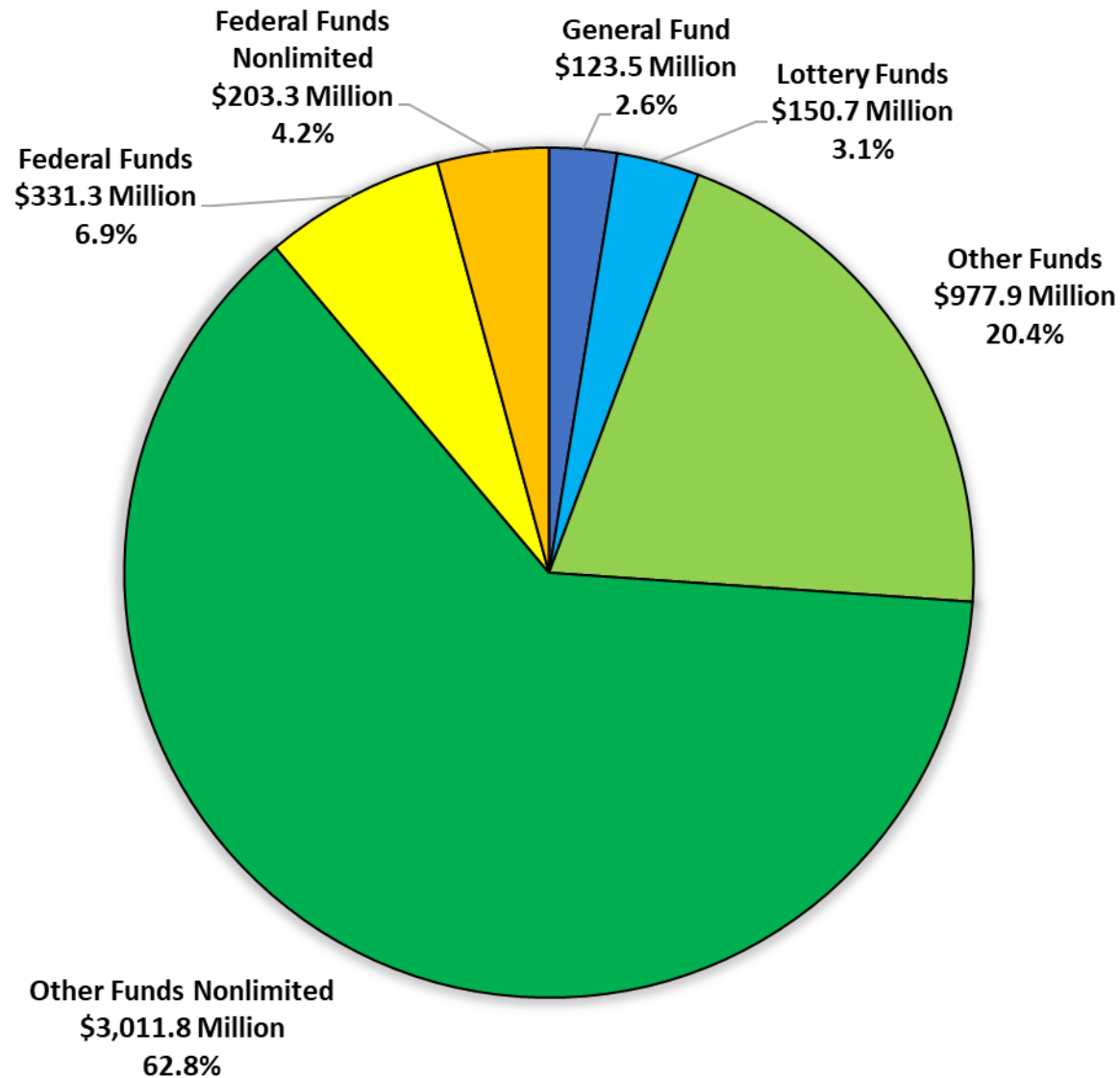


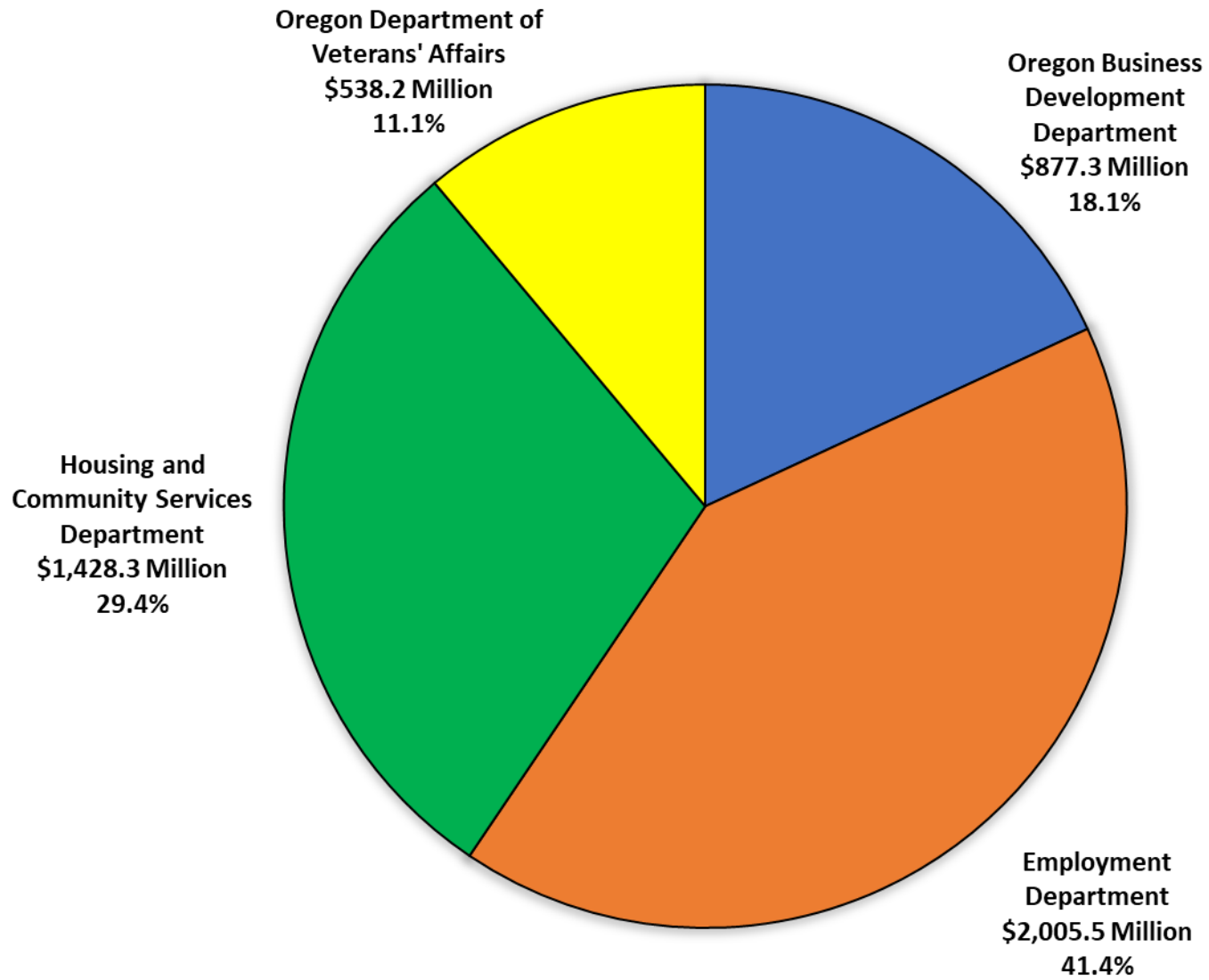
Economic Development Program Area
2017-19 Legislatively Approved Budget - \$4.8 Billion
(through the Dec. 2018 Emergency Board Meeting)



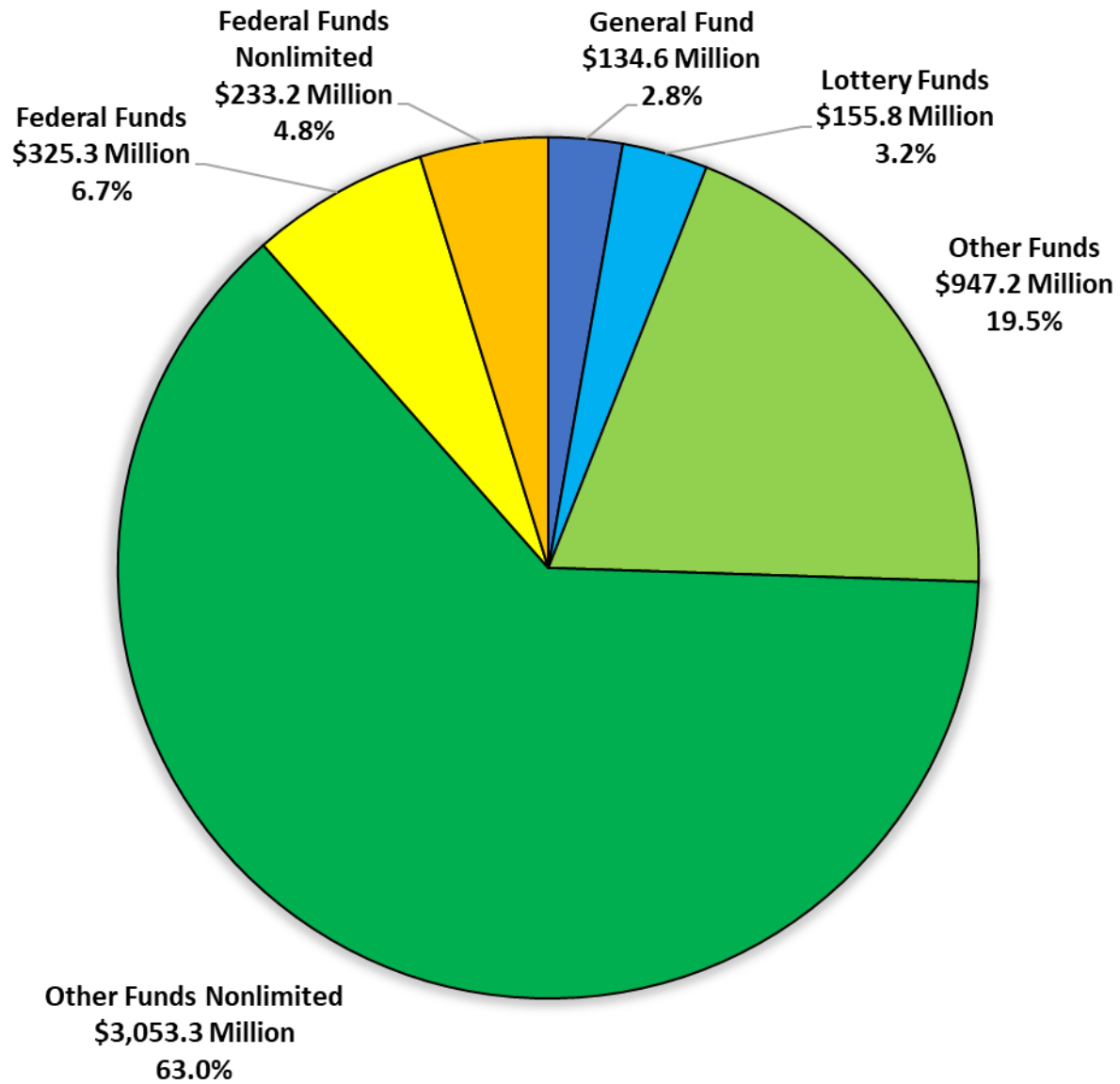
**Economic Development Program Area
2017-19 Legislatively Approved Budget - \$4.8 Billion
(through the Dec. 2018 Emergency Board Meeting)**



**Economic Development Program Area
2019-21 Current Service Level Budget - \$4.8 Billion**



**Economic Development Program Area
2019-21 Current Service Level Budget - \$4.8 Billion**



2017-19

**BUDGET HIGHLIGHTS UPDATE
(includes 2018 session actions)**



**Legislative Fiscal Office
March 2018**

Finally, the Department's General Fund was increased by \$4.37 million to support compensation plan cost increases. Including Other Funds and Federal Funds expenditure limitation adjustments, agency expenditures were increased by a total of \$4.8 million for compensation plan cost increases. In contrast to most executive branch agency budgets, the Department's budget as passed in the 2017 session already included merit ("step") increases. The funding and expenditures added in the 2018 session were supportive of other compensation cost components, primarily cost-of-living adjustments, elimination of the PERS pick-up, and flexible benefits costs.

Public Defense Services Commission

Total funds expenditures for the Public Defense Services Commission were increased by \$2 million (or 0.7%), over the legislatively adopted budget level approved in the 2017 session as adjusted for the carryforward of prior-biennium General Fund ending balances.

The Legislature increased the General Fund appropriation by \$1,340,000 to expand the Parent Child Representation Program. This program works to improve the quality of legal representation for parents and children in juvenile dependency and termination of parental rights cases. The program currently operates in three counties but will be expanded to include Coos and Lincoln counties beginning on July 1, 2018. The cost of this expansion will double to \$2,680,000 General Fund in the 2019-21 biennium, when it will be in effect for the full twenty-four months of the biennium.

The Legislature also approved a one-time General Fund appropriation of \$450,000 to fund an Oregon-specific caseload standards study, and an assessment of Oregon public defense services. The Commission will work with the American Bar Association for a study to develop standards for the time attorneys need to adequately represent clients in various case types, and to develop associated workload/caseload standards. The Commission will also work with the Sixth Amendment Center to assess the status of public defense services in the state.

The Joint Committee on Ways and Means also approved an adjustment to the calculation of the 2019-21 biennium current service level for professional services. The Commission is instructed to add \$4.2 million General Fund to the current service level calculation. This adjustment is approved to address concerns about the contract rate levels paid to trial-level public defense contract and hourly-paid providers. The amount is calculated to equal the cost of providing a 2% increase in rates for the full twenty-four months of the 2019-21 biennium; however, it is understood that the Commission may choose to allocate the funds in a different manner to best address concerns about provider pay.

The agency also received increases of \$205,521 General Fund and \$13,630 Other Funds expenditure limitation for employee costs resulting from bargaining agreements and other compensation plan adjustments.

ECONOMIC AND COMMUNITY DEVELOPMENT PROGRAM AREA

Oregon Business Development Department

The Legislature increased Lottery Funds by a total of \$1,500,000, to provide one-time support for three programs: funding of \$500,000 was provided for the City of Warrenton to finance the rebuilding of a dock destroyed by fire; \$500,000 was provided for the Port of Cascade Locks to finance infrastructure and business recruitment at the Port's Business Park; and \$500,000 was provided for deposit into the Local Economic Opportunity Fund, to assist community economic resilience planning.

The Legislature also transferred \$1,250,000 of Lottery Funds expenditure limitation from the Strategic Reserve Fund program to the Oregon Growth Fund. The Lottery Funds expenditures for the Oregon Growth Fund are approved on a one-time basis and will be phased out in the development of the agency's 2019-21 biennium current service level budget. The Oregon Growth Board will utilize the Oregon Growth Fund moneys as allowed to increase capital to the state's early-stage small businesses.

Other Funds expenditure limitation was increased by \$642,194 for repairing and improving docks owned by the Port of Brookings Harbor. Lottery bonds had been approved to finance this project in the 2017 session, but expenditure limitation for the bond proceeds had not been added to the agency budget in error. This additional Other Funds expenditure limitation corrects the error and permits the agency to distribute the bond proceeds. The Legislature also increased the Federal Funds expenditure limitation by \$703,125 to accommodate expenditure of federal grants awarded under the State Trade Expansion Program.

The agency also received increases of \$25,437 General Fund, \$313,943 Lottery Funds, \$406,574 Other Funds expenditure limitation, and \$36,799 Federal Funds expenditure limitation for employee costs resulting from compensation plan adjustments.

Employment Department

The Legislature increased the Other Funds expenditure limitation by \$5,574,000, and established 22 limited duration positions (19.25 FTE), to utilize grant funds received to provide enhanced employment services to Supplemental Nutritional Assistance Program eligible customers.

The agency also received increases of \$2,785,971 Other Funds expenditure limitation and \$3,717,268 Federal Funds expenditure limitation for employee costs resulting from bargaining agreements and other compensation plan adjustments.

Housing and Community Services Department

The Legislature approved a one-time \$5 million General Fund increase for the 2017-19 biennium only, to enhance homeless shelter capacity and homelessness prevention services provided through the Emergency Housing Account program in specific communities, as specified in the budget report for HB 5201. A one-time General Fund appropriation of \$200,000 was also provided to the Department for costs related to the creation of a youth shelter for unaccompanied minors in the City of Salem.

The passage of HB 4006 provided \$270,000 General Fund for the Department to study cost drivers of the agency's existing affordable housing portfolio, with the intent of informing development practices and policies of future affordable housing; a portion of the funds are also authorized for technical assistance grants to applicants of the agency's affordable housing financing programs.

A total of \$34.5 million Other Funds expenditure limitation was added to the 2017-19 biennium for the following purposes:

- \$18,475,000 to accommodate the transfer of General Fund spent as Other Funds special payments by the Department.
- \$15,973,155 and 6 positions (2.34 FTE) related to the passage of HB 4007. The bill increased the document recording fee for certain real property documents, from \$20 to \$60, providing an increased level of support for the Emergency Housing Assistance program, the Home Ownership Assistance Program, and the General Housing Account Program, administered by the Housing and Community Services Department.

Lottery Funds expenditure limitation in the amount of \$1,150,000 was added on a one-time basis for veterans' homelessness and housing issues; these funds are associated with the passage of Measure 96 and allocated during the 2017 session. This amount augments \$350,000 of one-time lottery funds expenditure approved during the 2017 session for emergency housing assistance services to veterans.

The agency also received increases of \$55,021 General Fund, \$774,097 Other Funds expenditure limitation and \$124,414 Federal Funds expenditure limitation for employee costs resulting from bargaining agreements and other compensation plan adjustments.

Department of Veterans' Affairs

The Legislature established capital construction expenditure limitation of \$2,111,875 Other Funds and \$3,922,053 Federal Funds for upgrades to the Oregon Veterans' Home in The Dalles. Capital construction expenditure limitation of \$1,305,815 Other Funds and \$2,425,085 Federal Funds was also established for upgrades to the Edward C. Allworth Veterans' Home in Lebanon. The Department of Veterans' Affairs (ODVA) is applying for U.S. Department of Veterans Affairs State Home Construction Grants that, if successful, will fund 65% of the capital projects with the remaining 35% state match being supported with Veterans' Home Program reserve funds.

An increase in Federal Funds expenditure limitation of \$500,000 was approved for transportation of veterans in highly rural areas. The increase results in total legislatively approved Federal Funds expenditure limitation of \$1 million, which will accommodate ongoing receipt and disbursement of the annual \$500,000 Highly Rural Transportation Grants.

Lottery Funds limitation in the amount of \$136,531 and one position (0.54 FTE) was approved in HB 4038 to establish a program to provide services to incarcerated veterans. ODVA determined that two permanent positions are needed to provide services to veterans during incarceration and post-release. One existing veterans' services officer position within the Department that has provided part-time support for incarcerated veterans pilot projects will be fully dedicated to the program. A Program Analyst 2 position is added for the second incarcerated veterans' services officer, as well as services and supplies costs to support the program.

The agency also received increases of \$187,515 General Fund, \$206,243 Lottery Funds, and \$208,976 Other Funds expenditure limitation for employee costs resulting from bargaining agreements and other compensation plan adjustments.

CONSUMER AND BUSINESS SERVICES PROGRAM AREA

Board of Licensed Professional Counselors and Therapists

The Legislature ratified two new fees, the inactive status license fee of \$100, and the reactivation of inactive status license fee of \$125. The new inactive status is intended to better inform the public and to gain efficiencies by replacing the former procedure of granting a "continuing education waiver" that exempted licensees who were not practicing for an extended period of time from the continuing education requirements. The fees are anticipated to generate approximately \$140,150 Other Funds revenue during the 2017-19 biennium, and approximately \$160,458 Other Funds during the 2019-21 biennium.

2017-19

BUDGET HIGHLIGHTS



Legislative Fiscal Office
September 2017

Public Defense Services Commission

The 2017-19 legislatively adopted budget for the Public Defense Services Commission (PDSC) of \$304.9 million total funds is 4.3% greater than the 2015-17 legislatively approved budget. The budget supports 77 positions (the same as the prior biennium) and (76.23 FTE). The agency's operating costs are primarily supported by the General Fund. The \$300 million of General Fund support is 4% greater than the prior biennium level. Key provisions of the budget include the following enhancements and adjustments:

- \$4.7 million General Fund was added to address an ongoing shortfall in the funding included in the current service level calculation for costs of contracted public defense services. In recent biennia, the Legislature has needed to supplement the agency's Professional Services Account with additional General Fund appropriations, in the second year of the biennium. The additional funding is intended to fully fund projected 2017-19 biennium costs, and eliminate the need for a supplemental appropriation later in the biennium.
- The Professional Services Account was reduced by \$4 million, including a \$4.7 million General Fund reduction partially offset by a \$700,000 Other Funds expenditure limitation increase. The reduction removed most funding to contractors otherwise financed for inflation in services and supplies costs and most funding for contractor personal services cost increases above the standard state contractor rate increase.
- Agency operations funding was reduced by \$628,963 General to help balance the statewide General Fund budget. The reductions removed funding to address agency space needs, and partially shifted one position to Other Funds support.
- The \$700,000 fund shift in the Professional Services Account from General Fund to Other Funds, referenced in the second bullet item above, is projected to retain a \$200,000 Other Funds ending balance. Some portion of the fund shift will likely need to be reversed in the 2019-21 biennium budget.

Commission on Judicial Fitness and Disability

The 2017-19 legislatively adopted budget for the Commission on Judicial Fitness and Disability of \$245,362 General Fund is 44.3% below the 2015-17 legislatively approved budget. The large reduction represents the phase-out of supplemental funding added last biennium for extraordinary expenses related to the investigation and prosecution of alleged cases of judicial misconduct. The Commission is not expected to incur additional expenses for these cases in 2017-19, so this supplemental funding was not continued. The budget instead funds extraordinary expenses at the current service level of \$18,226 General Fund. The budget includes one position (0.50 FTE). Services and supplies funding was reduced by \$8,950 from current service level, to help balance the statewide General Fund budget.

ECONOMIC AND COMMUNITY DEVELOPMENT PROGRAM AREA

Agencies within the Economic and Community Development Program Area include the Oregon Business Development Department, the Employment Department, the Housing and Community Services Department, and the Department of Veterans' Affairs. In their own way, each of these agencies contributes to Oregon's prosperity by supporting business, employment, or by improving the economic prospects of Oregonians through anti-poverty initiatives and creating opportunities for homeownership. The agencies are funded through a mix of General Fund; Other Funds bond proceeds, loan programs, and fees; and Federal Funds. Lottery Funds and General Fund are also provided for debt service related to specific projects or programs. Lottery Funds also support programs and operations of the Oregon

Business Development Department, and pursuant to Ballot Measure 96 (2016), programs for veterans in the Department of Veterans' Affairs and Housing and Community Services Department budgets.

Oregon Business Development Department

The legislatively adopted budget for the Oregon Business Development Department (OBDD) totals \$828.1 million, a \$126.2 million (or 18%) increase over the prior biennium, and includes 136 positions (134.50 FTE). The increase is the result of expanded support for the agency's bond-funded programs, additional General Fund and Lottery Funds for debt service costs, and a tripling of General Fund support for programs. These increases are partially offset by reductions in Lottery Funds debt service and reductions in Lottery Funds program support.

The OBDD budget includes \$171.1 million of state support (Lottery Funds and General Fund), of which \$116 million is Lottery Funds. The state support total is \$41.2 million (or 31.8%) above the prior biennium level. The increase is primarily due to debt service costs on lottery revenue and general obligation bonds. Lottery Funds and General Fund debt service costs are \$32.4 million (or 57.3%) above the prior biennium level. Lottery Funds and General Fund expenditures for the agency's other operating and program costs are increased by \$8.9 million (or 12.1%) over the prior biennium level.

Although the budget includes Other Funds expenditure increases netting to \$84.7 million (or 15.9%) over the prior biennium, the increase is the result of carrying forward significant expenditures of bond proceeds from the prior biennium budget. Because most of the bonds approved for the 2015-17 biennium were not issued until spring 2017, many of the expenditures financed by those bonds need to be included in the 2017-19 budget. The budget, however, provides significantly less new bond authorizations than the prior biennium budget. The 2017-19 legislatively adopted budget provides \$180.4 million of lottery revenue and general obligation bond proceeds for agency programs, a 27.1% reduction from the \$247.5 million provided in the 2015-17 biennium budget. General Fund and Lottery Funds debt services costs on these bonds are projected to total \$29.4 million per biennium when the costs fully phase-in during the 2017-19 biennium, and \$291.8 million in total over the term of the bonds.

The budget for the agency includes the following highlights:

- \$18.2 million Lottery Funds was authorized for Oregon Innovation Council (Oregon InC) initiatives. This amount is essentially unchanged from the \$18.1 million provided in the prior biennium. Support for Oregon InC was included in the agency's current service level budget for the first time in the 2017-19 biennium.
- Lottery Funds support for the Strategic Reserve Fund was reduced by \$2.8 million from the current service level. The reduction was partially offset by an \$800,000 increase in Other Funds expenditures, reducing total funding by \$2 million, to a total of \$10 million for new projects. This represents a 13.8% reduction from the prior biennium support level. The Department may direct any amount of these funds to the Business Retention and Expansion Program.
- \$6.6 million of combined Lottery Funds and Other Funds support is included for operating and research expenses of the Oregon Manufacturing Innovation Center (OMIC), a collaboration between business, academic, and government partners in Columbia County to enhance innovation and competitiveness in the metals manufacturing and advanced manufacturing sectors. Ongoing support is provided at the \$3.6 million level, with another \$3 million provided as one-time supplemental support. Additionally, the budget includes \$3.39 million of one-time lottery bond proceeds for construction of access roads to the OMIC facility.

- \$5 million in General Fund provides one-time support of the Eastern Oregon Border Economic Development Board, established by HB 2012. The funds will finance up to \$4,960,000 of loans and grants to support economic development in the Eastern Oregon border region.
- \$4.26 million Lottery Funds are included for the Oregon Small Business Development Center (SBDC) Network, a 66% increase over the prior-biennium level.
- \$2.84 million of General Fund was added for debt service on new general obligation bonds issued to support the Seismic Rehabilitation Grant Program. These funds will allow \$35 million of bonds to be issued in the spring of 2018. The remaining \$85 million of authorized seismic bonds will not be issued until spring of 2019, and will impose no debt service costs during the 2017-19 biennium.
- \$2 million in one-time General Fund supports the Crescent Sanitary District for a sewer system/wastewater treatment facility project.
- \$1.65 million of one-time General Fund is appropriated to the Arts Commission for grants to seven designated cultural institutions.
- \$1 million Lottery Funds are designated for the Regional Accelerator and Innovation Network (RAIN), which supports entrepreneurship and development of start-up businesses in the South Willamette Valley and Mid-Coast regions. This is a 50% reduction from the \$2 million provided in the prior biennium.
- \$750,000 of Lottery Funds are added for the new Rural Opportunities Initiative, a grant program for rural communities to improve access to training and technical assistance resources for entrepreneurs. The funding will be used to establish a grant program providing 2- to 4-year funding for rural centers for entrepreneurship.
- \$441,097 Other Funds will expand staffing at the Certification Office of Business Inclusion and Diversity (COBID) for administration of new responsibilities.
- \$219,995 General Fund is added to continue the position supporting the new Solar Incentivization Program established by the Legislature in the 2016 session.
- The budget also includes combined General Fund/Lottery Funds reductions of \$5.1 million, and elimination of five positions (4.50 FTE), to help balance the statewide General Fund/Lottery Funds budget.

The budget includes \$183.2 million of lottery revenue bond proceeds and general obligation bond proceeds for Department programs (\$180.4 million) and costs of issuance (\$2.8 million). This amount includes the following:

- \$120 million for the Seismic Rehabilitation Grant Program, including \$100 million for seismic rehabilitation grants for schools and \$20 million for grants for emergency services facilities. The program is a competitive grant program that provides funding for the seismic rehabilitation of critical public buildings. The state issues general obligation bonds, authorized under Article XI-M and Article XI-N of the Oregon Constitution, to finance these grants. Funding in the prior biennium totaled \$205 million.
- \$30 million for the Special Public Works Fund. These monies will be added to the corpus of the Fund and be used for infrastructure development for industrial land sites, water and wastewater systems, and other economic development-related infrastructure. The funding level is 66.7% above the prior biennium level, with \$10 million of the proceeds being specifically designated for levee projects.
- \$15 million for the Port of Coos Bay Channel Deepening Project.
- \$9 million for other specified community development projects with the Oregon Manufacturing Innovation Center, City of Sweet Home, Crescent Sanitary District, and Port of Brookings Harbor.

- \$4 million for Regional Solutions capital projects. The funds will be distributed to support priority projects identified by local Regional Solutions Advisory Committees. Only \$1 of Other Funds expenditure limitation is included in the budget, however, pending a report on project proposals to the Legislature or Emergency Board. Last biennium, \$13 million was approved for this program.
- \$2.45 million for cultural organization capital projects at the Portland Art Museum, Eugene Ballet Company, and Friends of the Oregon Caves and Chateau. Bond funding last biennium for cultural organization capital projects totaled \$4.5 million.

The legislatively adopted budget also allocates lottery revenues to counties for economic development programs to the full amount reflecting the statutory distribution of 2.5% of video lottery revenue proceeds, minus one-half of the costs of supporting Regional Solutions positions in the Office of the Governor. Funding to counties totals \$41.3 million, a 5.6% increase over the prior biennium level.

Employment Department

Of the \$1.8 billion total funds legislatively adopted budget, \$1.47 billion is assumed for payment of unemployment insurance benefits. The budget includes 1,298 positions (1,239.78 FTE). Employment Department initiatives in 2017-19 include further progress on the agency's feasibility study, formulation of a business case, and evaluation of market solutions to modernize the agency's business processes and information technology infrastructure, totaling \$4.7 million and 18 positions. The Oregon Talent Council was transferred to the Higher Education Coordinating Commission, and no General Fund for this purpose is included in the 2017-19 Employment Department budget. Additional Federal Funds expenditures are included for enhanced services under the federal Trade Adjustment Assistance Program (\$4.8 million), and for promotion of the Work Opportunity Tax Credit (\$0.5 million).

Housing and Community Services Department

The 2017-19 legislatively adopted budget for the Housing and Community Services Department (HCSD) totals \$1.2 billion, of which \$54.4 million is General Fund. The budget includes 164 positions (152.65 FTE). General Fund enhancements were made to the Emergency Housing Account and State Homeless Assistance Program (\$30 million in new, one-time funding); the Wildfire Damage Housing Relief Account (\$150,000 in new, one-time funding); and to the Oregon Foreclosure Avoidance Program (\$1.3 million), which will be phased out following the 2017-19 biennium. General Fund of \$3.4 million was included to support debt service payments on \$80 million in bond authority that will be issued for the Local Innovation and Fast Track (LIFT) housing program in the 2017-19 biennium. New programs supported with General Fund include \$223,247 in one-time assistance for a rent guarantee program established through HB 2724; the transfer of the Elderly Rental Assistance program from the Department of Revenue, and \$453,320 General Fund to develop and administer an ongoing inventory of affordable housing as outlined in HB 2002.

New programs supported with Lottery Funds, Other Funds, and Federal Funds were also added, including \$350,000 in Measure 96 Lottery Funds for veterans housing issues; an additional \$80 million in Article XI-Q bonds for affordable housing development; \$25 million Other Funds from lottery bond proceeds for preservation of affordable housing, and the transfer of the State Home Oil Weatherization program from the Department of Energy to the Housing and Community Services Department (\$568,250 Other Funds). Capacity was increased in the Single Family loan program to generate additional loan volume. The Home Ownership Stabilization Program, which helps underwater homeowners refinance or

come current on their mortgages, is funded with federal Troubled Asset Relief Program dollars; the legislatively adopted budget continues this program with \$3.9 million Other Funds expenditure limitation.

The Legislature transferred administration of the Court Appointed Special Advocates program from HCSD to the Department of Administrative Service (-\$2.5 million General Fund, -\$2.2 million Other Funds), and the Oregon Volunteers Commission was transferred to the Office of the Governor (-\$7.2 million Federal Funds).

Department of Veterans' Affairs

The Legislature approved a 2017-19 total funds budget of \$524.5 million and 96 positions (95.84 FTE) for the Department of Veterans' Affairs, which is a 10.2% increase over the 2015-17 legislatively approved budget. Nonlimited Other Funds, in the amount of \$387.5 million, for the Veterans' Home Loan program bond-related activities, debt service, and loan repayments make up 74% of the total budget. Excluding Nonlimited funds, the 2017-19 legislatively adopted budget is a 33.2% increase over the 2015-17 legislatively approved budget. Lottery Funds expenditure limitation of \$14.9 million, available to the Department beginning in the 2017-19 biennium through the passage of Measure 96, is included in the budget. The budget also includes \$8.4 million of General Fund, which consists of \$7.4 million for veterans' services and \$1 million for debt service on outstanding bonds. General Fund support for veterans' services is a 29.1% decrease from the prior biennium, primarily due to the shift of \$2.5 million of current service level expenditures from General Fund to Lottery Funds.

The legislatively adopted budget makes key investments with the lottery dollars dedicated by Measure 96 to expand services to veterans, while retaining a projected \$2.3 million ending balance in the constitutionally dedicated Veterans' Services Fund to provide stable funding in the event of fluctuations in revenue projections, and to provide a working capital balance. Specific investments include:

- \$4.5 million to double the current service level pass-through funding to County Veteran Service Officers and National Service Organizations.
- \$4.1 million to shift the funding for veterans' services from Other Funds supported by home loan revenues to Lottery Funds. Eliminating the subsidization of veterans' services program activities will strengthen, stabilize, and sustain the Home Loan Program for future generations of veterans.
- \$1.2 million to develop and implement one or more grant programs to expand and enhance existing veteran programs on college campuses that help veterans successfully transition from military service to college life.
- \$600,000 to replace the conservatorship system, which will enable the Department to effectively and efficiently deliver conservatorship and representative payee services.
- \$555,000 to establish a grant fund for purposes that benefit veterans, including expanding outreach and services, promoting mental and physical health care, housing security, employment opportunities, education, and transportation accessibility.
- \$390,256 to establish two positions to accommodate the increased statewide support services workload anticipated with the additional funding to County Veteran Service Officers.
- \$380,548 to establish two positions within the Aging Services Program to provide representative payee services and expertise in veterans' benefits and complex aging health care issues.
- \$350,000 to support a veterans' crisis and suicide prevention hotline.

- \$245,509 to establish a Veteran Volunteer Coordinator position responsible for developing and establishing a statewide veterans volunteer program that will expand outreach to veterans in their communities.

The budget also includes the following increases in Other Funds expenditure limitation for the Home Loan and Veterans' Home Programs:

- \$14.9 million to address the Lebanon Veterans' Home operating at a higher census and occupancy level sooner than originally anticipated, in addition to a higher census at The Dalles Veterans' Home.
- \$933,333 on a one-time basis, to refresh the Department of Veterans' Affairs' office building, including replacing the carpet, painting the walls, and updating exterior and interior signage.
- \$250,000 to purchase and install a home loan system that combines loan origination and servicing into one application.
- \$249,080 to establish an Aging Services Assistant Director within the Veterans' Home Program to help direct and manage the day-to-day operations of the division.
- \$201,359 to establish a quality assurance compliance coordinator position in the Home Loan Program and reclassify two existing Loan Specialist positions.

Capital Construction expenditure limitation was approved for the following capital projects funded with the proceeds of Article XI-Q general obligation bonds:

- \$10.5 million to build a new veterans' home in Roseburg.
- \$1.3 million to build a new parking lot at the Lebanon Veterans' Home.
- \$1.2 million for capital improvements to The Dalles Veterans' Home, including construction of new educational and daycare buildings.

CONSUMER AND BUSINESS SERVICES PROGRAM AREA

The Consumer and Business Services program area includes the Board of Accountancy, Board of Chiropractic Examiners, Board of Licensed Social Workers, Construction Contractors Board, Department of Consumer and Business Services, Board of Dentistry, Health Licensing Agency and Health-Related Licensing Boards, Bureau of Labor and Industries, Medical Board, Board of Nursing, Board of Pharmacy, the Mental Health Regulatory Board, Public Utility Commission, Real Estate Agency, and Board of Tax Practitioners. These agencies are primarily funded with Other Funds revenues generated through licenses and fees.

The 2017-19 legislatively adopted budget for the Consumer and Business Services Program Area totals \$672,846,847, of which \$13.1 million is General Fund, \$383.6 million is Other Funds, and \$16.4 million is Federal Funds. The 2017-19 total funds budget for the Consumer and Business Services program area is approximately \$12.5 million below the 2015-17 legislatively approved budget. The Bureau of Labor and Industries is the only agency in this program area supported by General Fund.

The budget also includes \$202.1 million in Nonlimited Other Funds for Workers' Compensation and Insurance Programs and \$56.3 million Nonlimited Other Funds for the Oregon Universal Service Fund, which subsidizes the rates charged by any eligible carrier providing basic telephone service in high cost areas.

2017-19

Legislatively Adopted Budget

Detailed Analysis



Legislative Fiscal Office
October 2017

ECONOMIC DEVELOPMENT

PROGRAM AREA

BUSINESS DEVELOPMENT DEPARTMENT

Analyst: Bender

Agency Totals

	2013-15 Actual	2015-17 Legislatively Approved	2017-19 Current Service Level	2017-19 Legislatively Adopted
General Fund	8,247,488	15,796,523	48,336,099	55,096,211
Lottery Funds	111,766,523	110,444,853	117,298,708	115,975,469
Other Funds	34,855,259	301,349,232	225,742,435	378,417,137
Other Funds (NL)	121,639,577	237,893,149	207,886,281	237,886,281
Federal Funds	29,226,631	40,523,014	40,730,835	40,717,603
Total Funds	\$305,735,478	\$706,006,771	\$639,994,358	\$828,092,701
Positions	134	140	138	136
FTE	130.88	136.32	136.00	134.50

Overview

The Oregon Business Development Department (OBDD) provides economic and community development and cultural enhancement throughout the state, administers programs that aid businesses and communities, and administers the Seismic Rehabilitation Grant Program. The Oregon Business Development Department receives General Fund, Lottery Funds, Federal Funds, and Other Funds, the latter primarily from lottery revenue bonds, general obligation bonds, and the Oregon Bond Bank; and uses the funds to provide grants, loans, and direct and contract services. Program focuses include business and industry development, support of in-state innovation efforts to improve economic competitiveness, trade and arts promotion, community development, and ports.

The Department has six budget program areas:

- Operations – Includes central agency administrative services that support both the business development (Business, Innovation, Trade) and the community development (Infrastructure) programs. This program area houses 24% of the agency's employees, and is financed primarily with Lottery Funds.
- Business, Innovation, Trade – Includes the staff, and the funding sources, used by the Department to support research 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 these programs are the Oregon Innovation Council (Oregon InC) Innovation Plan, and the Strategic Reserve Fund. The Business, Innovation, Trade program area is the agency's largest in terms of staffing, housing 41% of the agency's employees, and is primarily financed with Lottery Funds. Other Funds in its budget are primarily from loan repayments and general obligation bond proceeds, General Fund is for the Solar Incentivization Program.
- Infrastructure – Includes the staff and the funding sources used by the Department to provide grants and loans to assist communities with infrastructure development projects, including projects developed within the Regional Solutions Program. Almost all of the expenditures in this program area are either special payments (loans, grants, or contracts) to local governments or non-profit organizations; or debt service on bonds the state has issued to finance these categories of expenditures. Expenditures, however, also include the Department's associated costs to administer the community development programs. In the 2013 legislative session, the Seismic Rehabilitation Grant Program was transferred from the Military Department to the Infrastructure program. Infrastructure also houses the Brownfields, Industrial Lands, and Broadband programs. The program area now houses 28% of the agency's employees.
- Oregon Arts Commission and the Oregon Cultural Trust – Foster the arts and cultural development in Oregon. All operating expenses relating to Arts Commission and Cultural Trust programs, including personal services expenditures and services and supplies expenditures, are included in this program area, as are funds awarded to arts-related nonprofit organizations and individuals. 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. This program area houses 8% of the agency's employees. The Arts Commission is the only part of the agency budget that regularly receives General Fund to support its operations (General Fund is also provided to pay debt service on general obligation bonds). The remaining portions of the program budget are financed by Other Funds (including donations to the Cultural Trust) and Federal Funds from the National Endowment for the Arts.

- Film and Video Office – 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 its employees are not included in the agency employment count.
- Lottery and General Obligation Bond Debt Service – Used exclusively for debt service payments on lottery revenue bonds, Article XI-Q general obligation bonds, and general obligation bonds financing the Seismic Rehabilitation Grant Program (Article XI-M and Article XI-N bonds). The funding source is almost entirely Lottery Funds and General Fund, although bond interest earnings and excess bond proceeds are sometimes applied to pay debt service, and are categorized as Other Funds.

Budget Environment

The workload of the agency is driven by Oregon's economic and community development needs. This includes support to businesses; assisting communities to meet needs for clean water and wastewater disposal and for other public infrastructure, including community facilities and ports; and providing support for community-identified economic and community development programs and for seismic rehabilitation.

The agency budget has been expanded significantly in recent years, as the Legislature has sought to promote job creation and retention in the face of a severe recession, and assist community development projects in a low interest rate environment. Most of the state support (that is, of General Fund and Lottery Funds support) in the budget is used to pay debt service on lottery revenue bonds and general obligation bonds that have been issued to support economic development, community development, and seismic rehabilitation grants and loans. State support for debt service totals \$88.9 million in the 2017-19 biennium budget, equal to approximately 52% of the total state support provided to the agency.

Legislatively Adopted Budget

The legislatively adopted budget for the agency totals \$828.1 million, a \$122.1 million (or 17.3%) increase over the prior biennium level. The primary driver for the expenditure increase is the expansion of general obligation bond support for the Seismic Rehabilitation Grant Program. Because most of the bonds approved for the 2015-17 biennium were not issued until spring 2017, many of the expenditures financed by those bonds need to be included in the 2017-19 budget. New bond authorization is added to this carryforward, increasing expenditures even though the amount of newly-authorized bonds is actually lower than in the prior biennium.

Most Lottery Funds expenditures, excluding debt service payments for lottery revenue bonds, are in the Business, Innovation, Trade (business development) program area, or in the Operations program area. The Infrastructure (community development) program area is financed with Other Funds and Federal Funds, and beginning with the 2015-17 biennium budget, Lottery Funds to support the Broadband, Industrial Lands, and Seismic Rehabilitation Grant program administration. General Fund is typically restricted to the Arts Commission, which does not expend Lottery Funds, to Business, Innovation, Trade for the Solar Incentivization Program, and to pay debt service on general obligation bonds.

Operations

	2013-15 Actual	2015-17 Legislatively Approved	2017-19 Current Service Level	2017-19 Legislatively Adopted
Lottery Funds	8,175,398	7,231,153	7,384,471	7,094,443
Other Funds	1,218,114	1,832,764	1,912,085	1,848,508
Federal Funds	--	201,917	199,620	199,438
Total Funds	\$9,393,512	\$9,265,834	\$9,496,176	\$9,142,389
Positions	37	33	32	32
FTE	36.75	33.00	32.00	32.00

Program Description

The Operations program area was established with the reorganization of the Department in 2009. The Operations program area includes agency administrative services that support both the business development (Business, Innovation, Trade) and the community development (Infrastructure Finance Authority), and Arts Division programs. With the Department's reorganization in 2009, the business development and community development programs operate under separate policy boards, but continue to share the services included in this program area. The program area includes the Office of the Director, Employee Services, Fiscal and Budget Services, the Technology Project Office (Information Services), and Facilities.

Revenue Sources and Relationships

Revenues for the 2017-19 biennium include \$1.6 million in Other Funds, but the program area is primarily financed with Lottery Funds. The Other Funds include funds transferred from community development programs for administrative costs. The sources of these funds are primarily interest earnings on balances in the infrastructure funds (within the Infrastructure program area) and loan repayments on infrastructure loans. Federal Funds are received from the Community Development Block Grant program.

Budget Environment

Community and regional needs and the needs of businesses and industry drive the Department's workload. External forces, including changes in Oregon's economy, also have a direct impact on the workload. Workload is affected by changes in organization and staffing. The additional workload generated by new programs, such as the Safe Drinking Water Revolving Loan program, the Seismic Rehabilitation Grant Program, and expanded infrastructure programs, have also impacted the budget.

Legislatively Adopted Budget

The 2017-19 biennium legislatively adopted budget reduces support for Operations. The \$7 million of Lottery Funds is a 1.9% reduction from the prior biennium level, and is 3.9% below the current service level. The all fund budget is similarly a 3.7% reduction from the current service level.

There are two reductions included in the Operations program budget:

- An \$81,570 Lottery Funds reduction, in funding for personal services and services and supplies, to help balance the statewide General Fund/Lottery Funds budget within the level of available resources. The personal services portion of the Lottery Funds reduction is realized from the reclassification of one Principal Executive/Manager D position to an Information Systems Specialist 6.
- \$208,458 Lottery Funds, \$63,577 Other Funds, and \$182 Federal Funds reductions, for the Operations Division portion of standard statewide adjustments made as cost containment measures. These include reductions to standard inflation adjustments, reductions based on expectations regarding hiring practices and the filling of vacant positions, and reductions in the assessments and charges of the Department of Administrative Services and the Department of Justice.

Business, Innovation, Trade

	2013-15 Actual	2015-17 Legislatively Approved	2017-19 Current Service Level	2017-19 Legislatively Adopted
General Fund	--	951,561	3,336,634	8,549,655
Lottery Funds	54,448,023	55,991,778	55,671,350	56,363,565
Other Funds	8,743,235	14,338,849	10,670,068	18,183,883
Other Funds (NL)	8,554,191	12,483,982	12,483,098	12,483,098
Federal Funds	4,614,477	5,929,425	4,861,653	4,861,653
Total Funds	\$76,359,926	\$89,695,595	\$87,022,803	\$100,441,854
Positions	58	58	57	56
FTE	55.13	55.32	55.00	55.00

Program Description

The Business, Innovation, Trade Division (BITD) was established in the reorganization of the Department in 2009. BITD houses the Department's business development initiatives that support business creation, recruitment, and retention; international trade; development of industrial lands; and initiatives to increase innovation in the Oregon economy and improve the state's economic competitiveness. The largest of these programs are the Oregon Innovation Council (Oregon InC) Innovation Plan, and the Strategic Reserve Fund. Other BITD programs include the Industry Competitiveness Fund, the direct business support programs including the Small Business Development Centers and the Certification Office for Business Inclusion and Diversity (COBID), and the Solar Incentivization Program.

Revenue Sources and Relationships

Revenues for the 2017-19 biennium include General Fund, Other Funds and Federal Funds, but the program area is primarily financed by Lottery Funds allocated to support business development. The Other Funds revenues include interest earnings on business development funds and loan repayments, plus assessments that fund the Certification Office for Business Inclusion and Diversity.

Prior to the 2015-17 biennium, Federal Funds supported the Brownfields Program. The 2015-17 biennium budget, however, transferred this program and the Federal Funds to the Infrastructure program to reflect an agency reorganization. Remaining 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.

Budget Environment

The Business, Innovation, Trade Division houses the agency's primary initiatives to create and retain jobs, and its budget has been substantially expanded in recent years. Even before the start of the most recent recession, the 2007 Legislative Assembly approved a 71% increase in Lottery Funds for distribution to businesses and non-profits, primarily to increase support for the Oregon Innovation Council's (Oregon InC) Innovation Plan, which was expanded from \$7 million lottery funds in the 2005-07 biennium to \$28.2 million in 2007-09.

The first biennial budget developed after the start of the recession was in 2009-11. In that biennium, and in the 2011-13 biennium, the Legislature continued to expand support in an effort to promote job creation and retention. Budget expansion has continued, with the program budget now exceeding \$100 million for the first time.

Legislatively Adopted Budget

The \$64.9 million of General Fund and Lottery Funds in the legislatively adopted budget is an \$8 million (or 14%) increase over the prior biennium level, and is 10% above the current service level. The budget expands program support, but reductions in administrative support eliminate a net two positions (0.32 FTE).

Enhancements approved in the budget include:

- Oregon Manufacturing Innovation Center – (\$2 million Lottery Funds and \$6,450,979 Other Funds). \$5 million of combined Lottery Funds and Other Funds support was added to the budget for the operating and research expenses of the Oregon Manufacturing Innovation Center (OMIC), a collaboration between business, academic, and government partners in Columbia County to enhance innovation and competitiveness in the metals manufacturing and advanced manufacturing sectors. Ongoing support is provided at the \$3.6 million level, with another \$3 million provided in one-time supplemental support. Additionally, the budget includes \$3.39 million of one-time lottery bond proceeds for construction of access roads to the OMIC facility and \$60,979 of lottery bond proceeds for the cost of issuing the bonds. Including the \$1.6 million Lottery Funds of OMIC support in the base budget, support provided to OMIC through the 2017-19 biennium OBDD budget totals \$10,050,979.
- Eastern Oregon Border Economic Development Board – (\$5 million in General Fund). The funding provides one-time support of the Eastern Oregon Border Economic Development Board, established by HB 2012. The funds will finance up to \$4,960,000 of loans and grants to support economic development in the Eastern Oregon border region.
- Oregon Small Business Development Center (SBDC) Network – (\$1.6 million Lottery Funds) was provided in additional support to the Oregon SBDC Network. The additional funding increases total Lottery Funds support for SBDC's to \$4.26 million.
- Regional Accelerator and Innovation Network (RAIN) – (\$1 million Lottery Funds). The funding supports entrepreneurship and development of start-up businesses in the South Willamette Valley and Mid-Coast regions. This is a 50% reduction from the \$2 million provided RAIN in the prior biennium.
- Rural Opportunities Initiative – (\$750,000 of Lottery Funds) are added for a new grant program for rural communities to improve access to training and technical assistance resources for entrepreneurs. The funding will be used to establish a grant program providing 2- to 4-year funding for rural centers for entrepreneurship.
- Certification Office of Business Inclusion and Diversity (COBID) – (\$441,097 Other Funds) adds two permanent, full-time positions at COBID, focusing on fraud reduction and on implementing the Service-Disabled Veteran Certification program.
- Solar Incentivization Program – (\$219,995 General Fund) was added to continue the position administering the new Solar Incentivization Program that was established by the Legislature in the 2016 session. The position was initially established as limited duration, so the budget also adds one position and (1.00 FTE) to continue it.

There are also four reductions included in the program budget:

- Strategic Reserve Fund – (\$10 million Lottery Funds and Other Funds) is provided for new Strategic Reserve Fund awards. This is equal to a 16.9% reduction from the current service level. Net support for the Strategic Reserve Fund was reduced \$2,039,630, obtained by a \$2,839,630 Lottery Funds reduction partially offset by an \$800,000 increase in Other Funds expenditure limitation. The Other Funds revenue source consists of Other Funds balances, including loan repayments, in the Strategic Reserve Fund's Other Funds beginning balance.
- Oregon InC – (\$18.2 million Lottery Funds) is provided for Oregon Innovation Council (Oregon InC) initiatives. This amount is essentially unchanged from the \$18.1 million provided in the prior biennium. The approved funding level is \$400,000 below current service level, however. Support for Oregon InC was included in the agency's current service level budget for the first time in the 2017-19 biennium.
- \$933,478 in Lottery Funds reductions were obtained from position eliminations and services and supplies reductions, to help balance the statewide General Fund/Lottery Funds budget within the level of available resources. The reductions eliminated four positions [3.00 FTE], including three vacant positions.
- \$6,974 General Fund, \$484,677 Lottery Funds, and \$178,261 Other Funds reductions, for the BITD portion of standard statewide adjustments made as cost containment measures. These include reductions to standard inflation adjustments, reductions based on expectations regarding hiring practices and the filling of vacant positions, and reductions in the assessments and charges of the Department of Administrative Services and the Department of Justice.

Infrastructure

	2013-15 Actual	2015-17 Legislatively Approved	2017-19 Current Service Level	2017-19 Legislatively Adopted
General Fund	--	--	--	2,000,000
Lottery Funds	--	3,806,133	1,863,477	1,548,664
Other Funds	13,495,967	267,392,424	203,001,120	345,421,660
Other Funds (NL)	94,842,745	225,409,167	195,403,183	225,403,183
Federal Funds	22,805,048	32,500,354	33,708,202	33,699,399
Total Funds	\$131,143,760	\$529,108,078	\$433,975,982	\$608,072,906
Positions	30	38	38	37
FTE	30.00	37.00	38.00	37.00

Program Description

The Infrastructure Finance Authority (IFA) program area was established to reflect the reorganization of the Department in 2009. The Infrastructure Finance Authority program area houses the Department's community development initiatives that assist communities primarily through support of infrastructure improvements. The largest of these programs are the revolving fund loan and grant programs of the Special Public Works Fund and the Water Fund. Other IFA programs include the Port Revolving Loan Fund and Port Planning and Marketing Fund programs, the Safe Drinking Water Revolving Loan Fund program, the Main Street program, and the Community Development Block Grant program. In the 2013 legislative session, the Legislature added the Seismic Rehabilitation Grant Program to the IFA's portfolio. That program was transferred from the Oregon Military Department to the IFA effective on January 1, 2014. Other programs transferred to the IFA from BITD in the 2015-17 biennium budget include the Brownfields Redevelopment, Industrial Lands, and Broadband programs.

The program was renamed to simply the "Infrastructure" program, to reflect the addition of infrastructure programs that are not under the governance of the Infrastructure Finance Authority.

Revenue Sources and Relationships

Prior to the 2015-17 biennium, Infrastructure program expenditures were not supported by Lottery Funds, although the state issued lottery revenue bonds to finance a portion of these programs' costs. In those instances, lottery revenue bond proceeds (\$12 million in 2015-17) are deposited into revolving loan funds and made available for infrastructure loans and grants, and for payment of administrative costs relating to Infrastructure programs. The lottery revenue bond proceeds are in some cases used to match proceeds from Oregon Bond Bank bonds. The mixture of bond, loan, and grant funds increases OBDD's capacity for financing projects.

The expenditures of the bond proceeds distributed to localities as loans or grants are shown as Other Funds Nonlimited (and not as Lottery Funds). Expenditures for program administrative costs (typically financed from interest earnings on, and loan repayments of, the lottery bond proceeds, and not from the proceeds directly) are shown as Other Funds expenditures. Lottery revenue bond proceeds for Regional Solutions projects were added to the budget in 2013-15. These proceeds are not deposited into revolving loan funds, but are instead transferred directly to recipients. Expenditures of these proceeds are included as Other Funds and not as Other Funds Nonlimited. Additional lottery bond proceeds, as well as general obligation bond proceeds issued for the Seismic Rehabilitation Grant Program, are also not deposited into revolving loan funds, and are also expended as Other Funds and not as Other Funds Nonlimited.

Debt service costs on the lottery revenue bonds issued to provide these funds are paid with Lottery Funds, and debt service on general obligation bonds issued for Seismic Rehabilitation Grants are paid with General Fund, but those payments are shown in the Lottery and General Obligation Bond Debt Service program area, and not in the Infrastructure budget.

Infrastructure program area revenues include fees and service charges, interest earnings, loan repayments, federal grant funds, and Other Funds Nonlimited from the sale of program specific revenue bonds and lottery-backed bonds.

Budget Environment

The 2011-13 biennium budget included \$10 million of lottery revenue bonds for infrastructure funds and eliminated the use of those funds for business development programs. The 2013-15 biennium budget included \$22 million of lottery revenue bond proceeds for infrastructure funds and Regional Solutions projects, and \$30 million of general obligation bonds for the Seismic Rehabilitation Grant Program. Bond support increased dramatically in the 2015-17 biennium, particularly with the large increase in the Seismic Rehabilitation Grant Program. The Infrastructure program received \$205 million of general obligation bond proceeds for Seismic Rehabilitation Grants, and a total of \$38.6 million of lottery revenue bond proceeds for recapitalizing revolving loan funds, and for Regional Solutions and other projects.

Bond proceeds are always approved in the budget on a one-time basis, and are phased out in the calculation of the current service level.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget is 14.9% above the prior biennium level. The increase in the limited funds Infrastructure budget, however, is 26% above the prior biennium level. This, however, is largely an artifact of carrying forward significant expenditures of bond proceeds from bonds issued late in the prior biennium. Because most of the bonds approved for the 2015-17 biennium were not issued until spring 2017, many of the expenditures financed by those bonds need to be included in the 2017-19 budget. The 2017-19 budget, however, provides significantly less new bond authorizations than the prior biennium budget. The new general obligation and lottery revenue bond proceeds authorized in the 2017-19 budget for Infrastructure programs and projects total \$174.6 million, down 28.3% from the \$243.6 million total of new bonds authorized in 2015-17.

All bond proceeds in the budget are enhancements above current service level, even when the amount of bond funding is below the prior biennium level. Given this, the budget includes the following enhancements to the Infrastructure budget:

- Seismic Rehabilitation Grant Program – (\$121.6 million Other Funds). Funding was added for the Seismic Rehabilitation Grant Program. The amount includes \$120 million for grants plus \$1.6 million to pay the costs of issuing the General Obligation bonds that fund the grants. Funding includes \$120 million for public education building grants and \$20 million for emergency services building grants. The funds will be distributed from the proceeds of Article XI-M and Article XI-N bonds issued in the spring of 2018 (\$35 million) and spring of 2019 (\$85 million). Funding in the prior biennium totaled \$175 million for public education building projects and \$30 million for emergency services building grants. The program is a competitive grant program that provides funding for the seismic rehabilitation of critical public buildings. The state issues general obligation bonds, authorized under Article XI-M and Article XI-N of the Oregon Constitution, to finance the grants.

Debt service costs on the bonds issued to provide these funds will be paid by General Fund, and are projected to total approximately \$2.8 million in the 2017-19 biennium, and \$18.2 million per biennium, beginning in the 2019-21 biennium, when costs fully phase in.

- Special Public Works Fund (SPWF) – (\$30 million Other Funds Nonlimited and \$517,975 Other Funds). Funding from lottery revenue bond proceeds was provided to add capital to Special Public Works Fund (SPWF). The budget includes \$30 million for this purpose. To supply these funds, the state will issue a projected \$33.4 million of lottery revenue bonds in the spring of 2019. Approximately \$2.9 million of these bond proceeds will be held in reserves, and \$517,975 will be allocated to the Department to pay costs of issuance (Other Funds). The remaining \$30 million will be deposited into the SPWF to provide loans and grants to local governments under the direction of the Infrastructure Finance Authority. The monies finance the planning,

purchasing, and improvement of municipally-owned facilities such as water and sewer systems, road extensions, community buildings, or other facilities. SB 306, passed in the 2015 legislative session, authorizes the SPWF to also finance levee inspection and repair projects, including projects for levees that are not municipally-owned. The \$30 million in total support includes \$10 million specifically dedicated to levee inspection and repair projects. The remaining \$20 million of bond proceeds may be applied to any eligible Special Public Works Fund projects. Debt service costs for the Lottery bonds are expected to total \$5.8 million Lottery Funds, per biennium, when the costs fully phase in beginning in the 2019-21 biennium.

- Regional Solutions – (\$1 of Other Funds). Expenditure limitation of \$1 for lottery revenue bond proceeds was included for capital construction priority projects identified by Regional Solutions Advisory Committees. The budget, however, authorized \$4.5 million of Lottery bonds to provide \$4 million for Regional Solutions projects. The Legislature or Emergency Board will increase the Other Funds expenditure limitation after approving a funding request from the Department with identified Regional Solutions projects.
- Coos Bay Channel Deepening – (\$15,259,002 Other Funds). The budget includes \$15 million of lottery revenue bond proceeds to be distributed to the Oregon International Port of Coos Bay for a project to deepen the lower Coos Bay deep draft navigation channel, plus \$259,002 for the cost of issuing the bonds. Debt service costs for the Lottery bonds are expected to total \$2.5 million Lottery Funds, per biennium, when the costs fully phase in beginning in the 2019-21 biennium.
- Crescent Sanitary District Wastewater Treatment Facility – (\$5,058,514 total funds). The budget includes \$5 million to be distributed to the Crescent Sanitary District for a wastewater treatment facility, plus \$58,514 Other Funds for the cost of issuing bonds to help fund a portion of the grant to the district. The grant is funded by a combination of \$2 million General Fund and \$3 million of lottery revenue bond proceeds (Other Funds). Debt service costs for the Lottery bonds are expected to total \$511,000 Lottery Funds, per biennium, when the costs fully phase in beginning in the 2019-21 biennium.
- City of Sweet Home Wastewater Treatment Plant Upgrade – (\$2,050,587 Other Funds). The budget includes \$2 million of lottery revenue bond proceeds to be distributed to the City of Sweet Home to upgrade its wastewater treatment plant, plus \$50,587 for the cost of issuing the bonds. Debt service costs for the Lottery bonds are expected to total \$344,000 Lottery Funds, per biennium, when the costs fully phase in beginning in the 2019-21 biennium.
- Port of Brookings Harbor – \$600,000 of net Lottery bond proceeds for repairs and upgrades to the Port of Brookings Harbor dock were authorized, but erroneously excluded from the Department’s budget. A technical correction to the budget will be presented at the 2018 session, to add the required expenditure limitation authority for project funding and costs of issuing the bonds. The error will not delay the timing of the bonds, which were approved to be issued in the spring of 2019. Debt service costs for the Lottery bonds are expected to total \$112,000 Lottery Funds, per biennium, when the costs fully phase in beginning in the 2019-21 biennium.

There are also two reductions included in the Infrastructure program budget:

- A \$260,014 Lottery Funds reduction, reducing one position [1.00 FTE], to help balance the statewide General Fund/Lottery Funds budget within the level of available resources. The Lottery Funds reduction is realized by eliminating an Operation and Policy Analyst position in the Industrial Lands Program.
- \$54,799 Lottery Funds, \$142,756 Other Funds, and \$8,803 Federal Funds reductions, for the Infrastructure Division portion of standard statewide adjustments made as cost containment measures. These include reductions to standard inflation adjustments, reductions based on expectations regarding hiring practices and the filling of vacant positions, and reductions in the assessments and charges of the Department of Administrative Services and the Department of Justice.

Film and Video Office

	2013-15 Actual	2015-17 Legislatively Approved	2017-19 Current Service Level	2017-19 Legislatively Adopted
Lottery Funds	1,130,544	1,164,460	1,207,545	1,207,545
Total Funds	\$1,130,544	\$1,164,460	\$1,207,545	\$1,207,545

Program Description

The Film and Video Office is a marketing agency for Oregon's statewide promotion of the film, video, and multimedia industries. The 1995 Legislative Assembly authorized the semi-privatization of the Film and Video Office, which provides the program with greater flexibility in marketing activities. OBDD is responsible for the pass-through of Lottery Funds to the Office. The Office recruits film productions through its marketing efforts, provides assistance to productions to identify film locations, and administers the state's film and video incentive programs. Services include maintaining a photo library of potential movie and television locations statewide and assisting in film permitting.

Revenue Sources and Relationships

The state-funded portion of the Office budget is from Lottery Funds, which OBDD passes through to the semi-independent office. The Lottery Funds finance the Film and Video Office's operating expenses, including the personnel costs of the office's four staff members. As a semi-independent agency, the office's employees are not considered state employees and are not included in the OBDD position count. The Office administers film incentive programs, including the Oregon Production Investment Fund Program. These are financed through tax credits which impact the state budget as reductions in revenue. The incentive programs are not funded from the Lottery Funds provided to the Office in the OBDD budget.

Legislatively Adopted Budget

Lottery Funds support for the Office is increased 3.7% over the prior biennium level and is equal to the current service level amount.

The budget also increases support for the Office's film incentive programs – including the Oregon Production Investment Fund (OPIF) Program. This program provides film producers with a cash rebate of up to 20% on qualified goods and services expenditures and up to 10% of Oregon payroll costs. Rebates awarded under this program, however, are not included in the Film and Video Office budget.

Funding for these rebates comes from money donated to the OPIF. Donors to the Fund are eligible for a credit against Oregon personal income taxes. Potential donors will purchase credit rights at auction. The total tax credits that can be awarded was increased in the 2016 session. Total credits are limited to \$28 million per biennium beginning in 2017-19, up from \$22 million in 2015-17 biennium.

Arts Commission

	2013-15 Actual	2015-17 Legislatively Approved	2017-19 Current Service Level	2017-19 Legislatively Adopted
General Fund	4,496,531	4,155,062	4,373,905	5,402,041
Other Funds	6,397,943	13,191,818	10,159,162	12,963,086
Federal Funds	1,807,106	1,891,318	1,961,360	1,957,113
Total Funds	\$12,701,580	\$19,238,198	\$16,494,427	\$20,322,240
Positions	9	11	11	11
FTE	9.00	11.00	11.00	10.50

Program Description

The Arts Commission is responsible for making the arts and culture available to all Oregonians by working with other agencies on a variety of initiatives in education, arts, and tourism. 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 for programs in Oregon; working with the leadership of local arts organizations; conducting assessment and maintenance to protect existing public art; approving new public art; and supporting Oregon's Art in Education program. The Commission coordinates regional efforts and arts education programs through a network of regional arts councils and collaborates to advance arts education for all students. The Commission became a part of OBDD in 1993.

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. Subject to certain restrictions and limitations, donors are eligible for a credit against Oregon income taxes for the full amount of their donations to the Trust. The Trust also receives funds from the sale of Cultural Trust vehicle license plates. The Department of Motor Vehicles offers Cultural Trust license plates available for passenger vehicles. A surcharge of \$30 per biennium is added to the regular vehicle registration fee. Revenues from this surcharge are transferred to the Cultural Trust, where they are used for marketing purposes.

Revenue Sources and Relationships

The Arts Commission is supported by General Fund. The Commission also receives federal NEA funding, and Other Funds from the 1% for Arts program, from donations (including donations to the Cultural Trust), and from the surcharge on Cultural Trust vehicle license plates. The 1% for Arts program is a state law which requires that 1% of appropriations to construct or alter certain state buildings must be used for the acquisition of art works.

About 80% of the expenditures in the program area are special payments, which are grants to non-profit programs and individuals that support the goals of the Arts Commission and Cultural Trust.

Budget Environment

In 2015-17, the budget included \$4.5 million of Lottery bond proceeds for cultural organization capital projects. This represented a substantial increase over the prior biennium. Bond support is approved on a one-time basis, and is phased out in the development of the current service level budget.

The budget has not accurately reflected actual Arts Division expenditures. Grant expenditures have been lower than budgeted, and services and supplies expenditures have been higher.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget for the Arts Division is a \$1.1 million (or 5.6%) increase over the prior biennium level, and is 23.2% above the current service level. The increases are attributable to an increase in legislatively-designated grant awards. Fund for grants awarded by the Arts Commission, and administrative expenses of the Arts Division, were reduced.

Funding enhancements include:

- \$1,650,000 General Fund was provided on a one-time basis to support the following cultural projects:
 - APANO Cultural Center – \$300,000
 - Benton County Historical Society and Museum – Corvallis Museum – \$500,000
 - Cottage Theatre Expansion – \$125,000
 - High Desert Museum – By Hand Through Memory Exhibit – \$125,000
 - Liberty Theatre Foundation – Theatre Restoration in La Grande – \$200,000
 - Oregon Coast Council for the Arts – Newport Performing Arts Center – \$300,000
 - Portland Institute of Contemporary Art – Capital Campaign NE Hancock – \$100,000

- \$2.8 million of Lottery revenue bonds were approved to provide \$2,450,000 of Lottery bond proceeds (Other Funds) to support the following cultural organization capital projects:
 - Portland Art Museum – Connection Campaign – \$1,000,000
 - Eugene Ballet Company – Midtown Arts Center – \$700,000
 - Friends of the Oregon Caves and Chateau – Balcony Restoration Project – \$750,000

Funding reductions include:

- Arts Commission Grants – General Fund support for grants was reduced by \$524,869. This represents a 10% reduction in total funding for Arts Commission grants, and a 19% reduction in General Fund support for grants, in the budget. The budget was not aligned to actual expenditure patterns, however, and General Fund services and supplies were increased by \$259,282. The combined impact of the reduction/realignment adjustments is a \$265,587 net General Fund reduction.
- An Executive Assistant position was reduced from full-time to half-time for a reduction of \$82,434 General Fund and (0.50 FTE).
- Funding for the Arts Division Director and Assistant Director positions was shifted from 100% General Fund to 50% General Fund/50% Other Funds, reducing General Fund and increasing Other Funds by \$259,282.
- \$14,561 General Fund, \$27,334 Other Funds, and \$4,247 Federal Funds reductions, for the Arts Division portion of standard statewide adjustments made as cost containment measures. These include reductions to standard inflation adjustments, reductions based on expectations regarding hiring practices and the filling of vacant positions, and reductions in the assessments and charges of the Department of Administrative Services and the Department of Justice.

Lottery and General Obligation Bond Debt Service

	2013-15 Actual	2015-17 Legislatively Approved	2017-19 Current Service Level	2017-19 Legislatively Adopted
General Fund	3,750,957	10,689,900	40,625,560	39,144,515
Lottery Funds	48,012,558	42,251,329	51,171,865	49,761,252
Other Funds	5,000,000	4,593,377	--	--
Other Funds (NL)	18,242,641	--	--	--
Total Funds	\$75,006,156	\$57,534,606	\$91,797,425	\$88,905,767

Program Description

The Lottery and General Obligation Bond Debt Service program includes debt service payments on all lottery revenue bonds and general obligation bonds that have been approved and issued to support OBDD programs, and certain lottery revenue bonds issued to finance legislatively-specified projects promoting economic development. Debt service on lottery revenue bonds is paid by Lottery Funds; debt service on general obligation bonds is paid by General Fund. Other Funds (primarily interest earnings) may also be used to pay debt service when available. Other Funds Nonlimited represent expenditures to refinance outstanding lottery revenue bonds. Proceeds of new bonds are used to payoff previously issued bonds when more favorable interest rates are available.

Prior to the 2013-15 biennium, only lottery revenue bonds, and not general obligation bonds, were issued for OBDD programs. The 2013-15 legislatively approved budget authorized general obligation bonds for OBDD for the first time. The 2017-19 biennium budget authorizes a total of \$121,610,000 of general obligation bonds (a 41% reduction from the prior biennium), to provide \$120 million of bond proceeds to the Department for the Seismic Rehabilitation Grant Program. This total includes:

- \$101.2 million of Article XI-M bonds to finance \$100 million of seismic rehabilitation projects for public education buildings. This bond authorization is approximately 57% of the level of Article XI-M bonds issued in the 2015-17 biennium. Only \$25.4 million of these bonds will be issued before the spring of 2019, thereby limiting 2017-19 biennium debt service costs to \$2 million General Fund. Debt service costs will increase to \$15 million in the 2019-21 biennium.

- \$20.4 million of Article XI-N bonds to finance \$20 million of seismic rehabilitation projects for emergency services buildings. This bond authorization is approximately 67% of the level of Article XI-N bonds issued in the 2015-17 biennium. Only \$10.2 million of these bonds will be issued before the spring of 2019, thereby limiting 2017-19 biennium debt service costs to \$814,000 General Fund. Debt service costs will increase to \$3.2 million in the 2019-21 biennium.

The 2017-19 legislatively approved budget also authorizes \$67,215,000 of lottery revenue bonds (a 39% increase over the prior biennium level) for the Department, including:

- \$33.45 million of lottery revenue bonds to increase the corpus of the primary infrastructure revolving loan fund – the Special Public Works Fund – with \$11.2 million of the total specifically dedicated to levee projects.
- \$22.77 million of lottery revenue bonds for legislatively-designated infrastructure projects.
- \$4.46 million of lottery revenue bonds for Regional Solutions capital projects.
- \$3.74 million of lottery revenue bonds for road improvements at the Oregon Manufacturing Innovation Center.
- \$2.79 million of lottery revenue bonds for legislatively-designated cultural institution capital projects.

Because the lottery revenue bonds will not be issued until spring of 2019, there are no debt services payments due in the 2017-19 biennium. The \$49.8 million of Lottery Funds in the budget are entirely to pay debt service on lottery revenue bonds issued prior to the 2017-19 biennium. Debt service costs on the newly-approved lottery bonds are projected to equal \$11.1 million in the 2019-21 biennium, when the first debt service payments become due.

Debt service on revenue bonds issued for the Oregon Bond Bank is included in Other Funds Nonlimited in the Infrastructure Finance Authority program area.

Budget Environment

Debt service on general obligation bonds is paid with General Fund. Debt service on lottery revenue bonds is paid with Lottery Funds allocations. To minimize the size of the required Lottery Funds allocation, however, interest earnings on lottery bond reserves and excess bond proceeds are also applied to pay debt service. Interest earnings are spent as Other Funds. Other Funds Nonlimited expenditures in the 2013-15 biennium represent the refunding of previously-issued bonds.

The state received favorable terms on its spring 2017 lottery revenue bond and general obligation bond sales, and the restructuring and refinancing of previously-issued OBDD bonds reduced debt service costs even further. 2017-19 biennium debt service costs are, therefore, now \$1.5 million General Fund and \$1.4 million Lottery Funds below the current service level calculation.

Legislatively Adopted Budget

The legislatively adopted budget includes \$49.8 million Lottery Funds for debt service payments on outstanding lottery bonds. All payments are for bonds authorized and issued prior to the 2017-19 biennium. The Lottery Funds amount is a 17.8% increase over the prior biennium level. The magnitude of the increase, however, was increased by the availability of \$4.9 million of one-time Other Funds (excess bond proceeds and interest earnings), that reduced the Lottery Funds needed in the prior biennium. These Other Funds resources are not available in 2017-19, requiring Lottery Funds to pay 100% of debt service costs in 2017-19.

The \$67.2 million of new lottery bonds approved in the 2017-19 budget support the projects identified in the Program Description section above. No debt services costs are paid for these bonds in the 2017-19 biennium budget. Debt service for the bonds are projected to equal \$11.1 million per biennium, when payments begin in 2019-21.

The budget includes \$39.1 million General Fund to pay debt service on general obligation bonds. The General Fund amount is a 266% increase over the prior biennium level. The expenditures support \$36.3 million of debt

service costs for previously-authorized bonds for Seismic Rehabilitation Grants and other projects, plus \$2.8 million of debt service costs for \$35.6 million of Article XI-M and Article XI-N bonds that will be issued to support Seismic Rehabilitation Grants for public education and emergency services facilities in the spring of 2018.

The remaining \$75.8 million of Article XI-M bonds and \$10.2 million of Article XI-N bonds authorized in the budget will not be issued until the spring of 2019, and thus impose no debt service costs on the 2017-19 biennium budget. Debt service costs for the \$121.6 million of new bonds authorized for Seismic Rehabilitation Grants are projected to total \$18.2 million per biennium when fully phased in beginning in 2019-21.

EMPLOYMENT DEPARTMENT

Analyst: Deister

Agency Totals

	2013-15 Actual	2015-17 Legislatively Approved	2017-19 Current Service Level	2017-19 Legislatively Adopted
General Fund	--	6,133,655	6,252,676	--
Other Funds	109,710,655	146,303,204	146,868,691	144,544,337
Other Funds (NL)	1,192,147,204	1,520,105,053	1,424,000,000	1,424,000,000
Federal Funds	155,199,849	162,865,912	156,502,819	155,927,081
Federal Funds (NL)	241,841,739	94,832,000	70,000,000	70,000,000
Total Funds	\$1,698,899,447	\$1,930,239,824	\$1,803,624,186	\$1,794,471,418
Positions	1,395	1,272	1,260	1,298
FTE	1,280.46	1,237.76	1,204.84	1,239.78

Overview

The Oregon Employment Department (OED) offers services in four program areas:

- Unemployment Insurance (UI) provides wage replacement income to workers who are unemployed through no fault of their own.
- Workforce Operations offers job listing and referrals services and career development resources.
- Workforce and Economic Research (Research) coordinates the collection and dissemination of occupational and economic climate data for the state, workforce regions, and counties.
- Office of Administrative Hearings (OAH) conducts contested case hearings for approximately 70 state agencies.

Shared Services represents a new budget structure created for the 2017-19 biennium. It was created to add transparency to agency administrative services expenditures. Shared Services encompasses the following: Office of the Director of the Employment Department; information technology services; administrative business services such as budgeting, accounting, procurement, and facilities; legislative affairs and communications; and human resources functions.

A Modernization Initiative budget structure was also created beginning in 2017-19 to better enable the monitoring of multi-year information technology planning and execution costs related to modernizing the Employment Department's aging information technology infrastructure. Modernizing these systems is expected to be a multi-year endeavor, and separate reporting should enable this project to track more closely with legislative budget and position authority authorized during various phases of review and development.

The 2017 Legislative Assembly voted to transfer the administration of the Oregon Talent Council – which was renamed the State Workforce and Talent Development Board in HB 3437 – to the Higher Education Coordinating Commission, with the goal of better coordinating various state workforce goals and plans. With this change, the Employment Department is entirely an Other and Federal Funds agency for 2017-19.

Revenue Sources and Relationships

The Employment Department revenue sources include both Federal and Other Fund sources, and several of these sources are expended across multiple divisions in the Employment Department. What immediately follows is a summary of total amounts of revenue, by source, expected to be received by OED in the 2017-19 biennium; the amounts expended will be discussed in the detail of each respective OED division later in this document.

Sources of Other Funds revenues include:

- Oregon UI Trust Fund – Balance totaled \$3.6 billion in June of 2017, up from \$3.1 billion in June 2016. These funds are designated for unemployment insurance compensation payments to qualified individuals and are budgeted as Nonlimited funds.
- Reed Act – Funds in the amount of \$98 million were distributed to OED as Other Funds from the federal Employment Security Administration Account in 2002, and an additional \$6.1 million was distributed in 2008-09 as a result of Federal stimulus legislation. These funds, estimated at \$24.3 million at the end of the 2013-15 biennium, can and have been spent over multiple biennia, but only for expenditures relating to UI and employment services administration. As of June 30, 2017, remaining Reed Act funds available for expenditure were \$3.2 million.
- Special Administrative Fund – Also called “Penalty and Interest Revenue”, these are revenues from penalties and interest on delinquent payment of employer taxes. These funds are designated for administrative expenses or other needs as determined by the Director of the Employment Department. For the 2017-19 biennium, the Employment Department expects to have \$28.4 million available, based on \$9.6 million of estimated new revenue and \$18.8 million of estimated carryover from 2015-17.
- Supplemental Employment Department Administrative Fund (SEDAF) – Funded by a 0.09% unemployment tax diversion from employer Unemployment Insurance payroll taxes to fund OED administrative expenses. The 2017-19 legislatively adopted budget assumes that the diversion will generate \$80 million, which supplements \$13.2 million in carryover from 2015-17. All SEDAf monies are appropriated continuously to the Department for the payment of administrative expenses for which federal funding has been reduced, eliminated, or is otherwise not available due to federal restrictions on its use.
- Fraud Control Fund – Supported by interest earnings on delinquent repayments of UI benefit overpayments for costs associated with the prevention, discovery, and collection of those overpayments. In 2017-19, the Department projects \$8.5 million in interest collections, which supplements \$21.3 million in carryover from 2015-17.
- Unemployment Insurance Modernization Funds are one-time revenue in the amount of \$85.6 million that OED received during June and July of 2009 as a result of adopting several changes to the UI program, including an alternative base year calculation for unemployment insurance benefits. Like Reed Act funds, the money can only be used for expenditures relating to UI and Employment Services administration. The funds are held in the UI Trust Fund and expended as Other Funds. As of June 30, 2017, the balance of these funds was \$83.7 million.
- Supplemental Nutritional Assistance Program (SNAP) Employment and Training funds are passed to OED from the Department of Human Services, which receives a grant from U.S. Department of Health and Human Services. OED is one of several partners that are reimbursed – in whole or in part depending on the specific programs the clients are served by – for employment and training services provided to SNAP recipients. The legislatively adopted budget includes \$3 million in revenue related to SNAP services.

OED also receives Other Funds revenues from other state agencies as reimbursement for providing job placement services, for conducting contested case hearings, and for custom research services.

Sources of Federal Funds revenue include:

- Unemployment Insurance Administrative Grant – Employer payroll taxes are collected by the Internal Revenue Service under authority of the Federal Unemployment Tax Act (FUTA) and used to finance the bulk of the administration of the UI program. Distribution to states is based on a complex cost formula incorporating economic data and forecasts, UI workload and spending history, and federal appropriation levels. UI Administration Grant funds may only be used to pay for administration of the UI program. Based on its May 2017 revenue forecast, the Employment Department anticipates \$100.6 million will be distributed by the U.S. Department of Labor for the 2017-19 biennium.
- Reemployment Services and Eligibility Assessment Program – The U.S. Department of Labor provides funding specifically for the review of UI claimant eligibility, for the provision of their reemployment plans, and for the distribution of labor market information to UI claimants. The amount of funding expected to be received by the agency in 2017-19 is \$8.5 million.

- Wagner-Peyser – \$27 million is expected for Business and Employment Services provided by the Workforce Operations and Research division under the Wagner-Peyser Act.
- The Trade Adjustment Act funds training and case management services for displaced workers. In 2017-19, \$9.7 million is anticipated from this source.
- Veterans’ placement services are assumed to amount to \$5.2 million in 2017-19.
- Estimates of funding for federal unemployment insurance benefits – payments to federal workers and trade impacted workers – are expected to amount to \$70 million in 2017-19.
- Bureau of Labor Statistics funding for workforce and economic research is anticipated to be \$2.6 million in 2017-19.
- Workforce Information Grant funds are provided for investing in research and distributing labor market information. An estimated \$1 million is anticipated for 2017-19.
- The U.S. Department of Labor provides a federal tax credit – known as the Work Opportunity Tax Credit – to employers that hire employees from certain target populations. The Employment Department expects to receive \$480,000 from the U.S. Department of Labor to administer this program in 2017-19.
- Foreign Labor Certification Grant funds are anticipated at \$184,000.

Budget Environment

Economic conditions and trends directly affect OED’s policy decisions and workload. During times of economic recession, high unemployment rates increase the number of clients served through unemployment insurance payments and employment services in field offices. The change in total expenditures since 2013-15 largely reflects administrative funding and program expenditures tapering off as the recession eased and ended. The unemployment rate in Oregon as of July, 2017 was a seasonally adjusted 3.8%, down from 5.1% the previous year, while the U.S. unemployment rate for the same period was 4.3% and 4.9%, respectively.

The rate of growth in Oregon’s economy showed signs of slowing, per the Oregon Office of Economic Analysis in August, 2017. An aging Oregon workforce is a particularly pressing challenge to the State’s economy. As a fairly large portion of the workforce ages and retires, gaps are created that employers struggle to fill, as they are looking for employees with a similar combination of skills and experience. The jobs often remained unfilled, and the Employment Department is focused on matching qualified workers to job opportunities, and helping to connect potential workers to training opportunities so that they can fill specific skilled labor positions. Key to this effort is partnerships with other state agencies, including the Higher Education Coordinating Commission (which administered several federally funded workforce and education programs) and the Bureau of Labor and Industries’ Apprenticeship and Training Division. An example of one such partnership is the cooperative effort among these agencies to educate employers about the benefits of apprenticeship, and potentially help them create an apprenticeship program that meets their training needs in a non-traditional/non-building trade field.

OED is also focused on assessing its information technology needs and updating its security protocols following a breach that was discovered in 2014. Existing information technology systems are in need of replacement, as the Department’s existing information systems were developed before the internet was part of business practices. Extensive modifications over time have increased complexity and contributed to system outages and disruptions, and many systems are at or near the end of their lifecycles.

The Department is a member of the Interagency Compliance Network. Member agencies share wage, tax, and reporting information to improving employers’ and workers’ compliance with Oregon tax and employment laws. Other agency members include the Bureau of Labor and Industries, Construction Contractors Board, Department of Consumer and Business Services, Department of Justice, Department of Revenue, and the Landscape Contractors Board.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget is a 7.03% total funds reduction from the 2015-17 legislatively approved budget. This decrease is primarily due to reductions in unemployment insurance benefit payments (budgeted as Nonlimited) and due to decreasing levels of Other and Federal fund administrative revenue owing to the counter-

cyclical administrative funds granted by the U.S. Department of Labor for agency operations during periods of economic growth.

The Joint Committee on Ways and Means approved multiple changes to the Employment Department’s key performance measures. Those changes were for the purpose of aligning measures with data reported to the U.S. Department of Labor; to replace ‘static’ targets with those that reflect inflation, changes in policy, or sustained improved performance; to measure administrative costs based on the total number of UI claims evaluated, rather than just those approved; to recognize varying degrees of complexity in cases considered by the Office of Administrative Hearings; and to include a new measure for the Workforce and Economic Research division.

The Joint Committee on Ways and Means also approved the following budget note: “The Employment Department is directed to report to the Joint Committee on Ways and Means or to a meeting of the Emergency Board after release of the Legislative Fiscal Office’s annual Report on Liquidated and Delinquent Accounts Receivable, scheduled for December 2017. The Employment Department’s report will include: ;ow much of the total ending balance of reported liquidated and delinquent accounts are attributable to uncollected; unemployment Insurance benefit overpayments, uncollected Unemployment Insurance Taxes and other causes; what actions and circumstances are defined as write-offs, adjustments and reversals for purposes of the Liquidated and Delinquent Accounts Receivable report; the efforts made to reduce the agency’s delinquent debt as reported, progress made to reduce the ending balance of the liquidated and delinquent accounts receivable as compared to the previous year’s report by 10%, and how its debt collection efforts relate to federal performance metrics; and an action plan for continued progress toward reducing delinquent debt as reported, including additional resources that may be necessary to improve performance.”

In each agency program, the 2017-19 budget includes state government personal services reductions based on vacancies, service charge reductions and rate adjustments that were approved in most agency budgets.

Specific spending changes in each division are discussed below.

Unemployment Insurance

	2013-15 Actual	2015-17 Legislatively Approved	2017-19 Current Service Level	2017-19 Legislatively Adopted
Other Funds	21,150,537	27,912,373	33,222,239	31,278,349
Federal Funds	115,884,311	123,791,412	92,729,485	88,851,212
Total Funds	\$137,034,848	\$151,703,785	\$125,951,724	\$120,129,561
Positions	728	631	577	563
FTE	631.46	602.02	527.16	513.49

Program Description

The Unemployment Insurance (UI) program determines eligibility for benefits, processes benefit payments, enforces UI laws, collects employer payroll taxes, and provides support to the Employment Appeals Board (EAB). EAB, made up of three Governor-appointed members, is a separate and federally funded entity located within OED for administrative purposes and is responsible for reviewing decisions of the Office of Administrative Hearings on UI benefit cases.

Revenue Sources and Relationships

The 2017-19 legislatively adopted budget projects expenditures of Federal Funds to support the UI program in the following amounts:

- UI Administration Grant: \$81.9 million
- Reemployment Services and Eligibility Assessment: \$7 million

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget is a 20.8% decrease from the 2015-17 legislatively approved level. This is due to reductions in Federal and Other Funds allocations distributed to OED via funding formulas that consider economic data and UI workload factors. A total of 79 positions (77.91 FTE) and \$24.6 million in attendant funding was transferred from the UI program to the newly established Shared Services program. Adjustments were approved to balance expenditures with available sources of revenue, and to move five positions that were located in the UI division in prior biennia to the newly created Shared Services division.

Shared Services

	2013-15 Actual	2015-17 Legislatively Approved	2017-19 Current Service Level	2017-19 Legislatively Adopted
Other Funds	--	--	17,620,657	14,945,040
Federal Funds	--	--	27,948,796	26,333,642
Total Funds	--	--	\$45,569,453	\$41,278,682
Positions	--	--	136	138
FTE	--	--	134.91	136.91

Program Description

New for the 2017-19 biennium, the Shared Services division was created in response to requests by the Department of Administrative Services Chief Financial Office and Legislative Fiscal Office to facilitate transparency and understanding of agency administrative costs, which here-to-fore had been allocated across other agency divisions for budget purposes. The division includes the offices of the Director and Deputy Director (4 positions/4.00 FTE); Internal audit 1 position/1.00 FTE); agency Information and Technology services (74 positions/73.56 FTE); Administrative and Business Support (budgeting, accounting, payroll, safety/risk, facilities, and procurement) (40 positions/39.42 FTE); Legislative Affairs and Communications (5 positions/5.00 FTE); and Human Resources (14 positions/14.00 FTE).

Revenue Sources and Relationships

This program is funded primarily with Federal Funds (61%) with actual expenditures charged directly to benefitting program funding sources and indirect expenditures allocated pursuant to an approved U.S. Department of Labor cost allocation plan. Federal Funds supporting this program are as follows:

- UI State Administration Grant: \$18.8 million
- Reemployment Services and Eligibility Assessment Grant: \$1.5 million
- Trade Act Administration: \$1,000,000
- Veteran's Employment Services: \$860,000
- Wagner-Peyser Funds: \$3.5 million
- Work Opportunity Tax Credit: \$70,000
- Bureau of Labor Statistics: \$450,000
- Foreign Labor Certification: \$40,000
- Workforce Information Grant: \$114,000

Other Funds utilized in the program come primarily from SEDAF (\$9 million). Penalty and Interest (\$3 million) and Charges for Services for Office of Administrative Hearings (\$2 million) are also used for Shared Services.

Legislatively Adopted Budget

The legislatively adopted budget reduced Other Funds expenditures from the 2017-19 current service level to balance expenditures with expected available revenue. The reduction was necessary to reflect that Reed Act funds, utilized to supplemental central administration in previous biennia, are largely spent, and can no longer be utilized to support operations at previous levels. Policy option packages were approved to reflect approval of permanent finance plans that reclassified positions, and to move five positions into the program which had

previously resided in the UI program. Three information technology positions dedicated to security were moved to the Office of the State Chief Information Officer at the Department of Administrative Services, aiding in the consolidation and consistency of IT security efforts across the Executive branch.

Workforce Operations

	2013-15 Actual	2015-17 Legislatively Approved	2017-19 Current Service Level	2017-19 Legislatively Adopted
Other Funds	55,028,638	74,995,188	60,671,158	60,062,761
Federal Funds	32,090,108	35,585,121	28,223,420	33,286,474
Total Funds	\$87,118,746	\$110,580,309	\$88,894,578	\$93,349,235
Positions	484	461	382	421
FTE	471.80	459.05	380.05	419.05

Program Description

The Workforce Operations program's mission supports businesses and promotes employment. Services are provided through field offices which recruit and refer qualified applicants to employers by matching the skills of the job seeker with employer job openings. Job seekers and employers can access employment information through interactive job services on OED's website. OED coordinates services with other Workforce partners to help customers access training, skills assessment counseling, and employability planning. The division operates 36 regional WorkSource Oregon centers, often co-locating with other partners, including the Department of Human Services, Veterans Administration, and local Workforce Investment and training entities.

Revenue Sources and Relationships

64% of the Workforce Operation's program is funded with Other Funds. The primary source of Other Funds is \$52 million from SEDAF. Reed Act Funds comprise \$3.2 million and SNAP Employment and Training Funds support \$3 million of total Other Funds expenditures. The primary source of Federal Funds supporting the Workforce Operations program is \$18.7 million of Wagner-Peyser funds, followed by \$9.6 million of Trade Act funds and \$4 million of funds for Veterans programs.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget is an 18.5% decrease from the 2015-17 legislatively approved budget. Over \$6 million in one-time 2015-17 expenditures were phased out, and 49.00 FTE were transferred from this division to the newly established Shared Services program. The Legislature approved \$4.8 million in Federal Funds expenditure limitation, 19.00 permanent FTE and 11.00 limited duration FTE to support additional services funded by the federal Trade Act, reflecting the increase in the number of petitions being filed and approved for assistance to workers that have lost their jobs due to foreign competition. Three positions and \$497,050 in additional Federal Funds expenditure limitation was approved to enable OED to market and assist employers in utilizing the federal Workforce Opportunity Tax Credit. Other Funds expenditure limitation was increased by nearly \$800,000 and five limited duration positions were approved to provide employment services contracted to OED from the Department of Human Services. The budget was also adjusted to reclassify several positions, an action which was funded through the elimination of a vacant management position.

Office of Administrative Hearings

	2013-15 Actual	2015-17 Legislatively Approved	2017-19 Current Service Level	2017-19 Legislatively Adopted
Other Funds	26,032,266	29,439,316	28,131,439	26,858,403
Total Funds	\$26,032,266	\$29,439,316	\$28,131,439	\$26,858,403
Positions	115	114	107	104
FTE	111.02	112.29	105.88	102.88

Program Description

The program's mission is to be an independent and impartial forum for citizens and businesses to adjudicate their disputes with state agencies. Approximately 70 state agencies and two municipalities utilize the services of the Office of Administrative Hearings for their contested case proceedings. Costs for the program are driven by the volume of hearings referred by agencies and the complexity of the issues involved.

Revenue Sources and Relationships

The Office of Administrative Hearings (OAH) is funded by the agencies which refer cases for hearing. The OAH charges fees in an amount calculated to recover the cost of providing an administrative law judge, the cost of conducting the hearing, and all associated administrative costs. The amount charged to each agency, board or commission is based on the actual use of OAH services.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget is a 8.8% decrease from the 2015-17 legislatively approved budget, due to one-time IT expenditures not budgeted to continue in 2017-19, and due to the transfer of three positions and attendant funding to the Shared Services program. Three permanent positions in this program which had been vacant for more than six months were also eliminated.

Workforce and Economic Research

	2013-15 Actual	2015-17 Legislatively Approved	2017-19 Current Service Level	2017-19 Legislatively Adopted
Other Funds	7,685,289	13,956,327	7,223,198	6,717,471
Federal Funds	7,225,430	3,489,379	7,601,118	7,455,753
Total Funds	\$14,190,719	\$17,445,706	\$14,824,316	\$14,173,224
Positions	68	64	56	54
FTE	66.18	62.75	55.17	53.50

Program Description

This division coordinates the collection and dissemination of occupational and labor force data for the state, workforce regions, and counties, and is Oregon's designated employment statistics agency under the federal Workforce Innovation and Opportunity Act. Data can be accessed through monthly and annual publications such as *Labor Trends*, which outlines payroll, unemployment, and other economic-related issues by workforce region, or through online resources such as the Oregon Labor Market Information System. The program also conducts specialized employment surveys mandated by the U.S. Bureau of Labor Statistics, and requests from local workforce investment boards, private businesses, and industry consortiums.

Revenue Sources and Relationships

The Workforce and Economic Research division is funded with a mix of Federal and Other Funds. Revenue sources include Federal Funds from the United States Department of Labor (\$7.5 million); Other Funds from SEDAF funds (\$6.3 million); contracts for customized analysis (\$1.1 million); and competitive grants (\$22,000).

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget is an 18.8% reduction from the 2015-17 legislatively approved budget. One-time costs related to 2015-17 information technology projects were eliminated, and five positions and \$2 million were transferred to the newly created Shared Services division. Two permanent positions were eliminated to finance the reclassification of other positions in the division, to maximize the utilization of existing staff.

Modernization Initiative

	2013-15 Actual	2015-17 Legislatively Approved	2017-19 Current Service Level	2017-19 Legislatively Adopted
Other Funds	--	--	--	4,682,313
Total Funds	--	--	--	\$4,682,313
Positions	--	--	--	18
FTE	--	--	--	13.95

Program Description

The Employment Department began tentative steps to modernize its information systems in 2015-17. Existing systems were designed in the 1990s and did not incorporate web-based applications. The age of systems, modifications overtime, and complex interdependencies between OED divisions and other agencies have contributed to an unstable computing environment, compatibility problems, manual processes, and increasing costs of maintenance as vendor support phases out and employees retire. OED must also take steps to increase its IT security and protect its information from cyber attacks.

The 2017-19 budget created a new, separate reporting structure for personnel and expenditures dedicated to the modernization of OED core business and information technology systems. This effort is anticipated to take several biennia, as the project will require planning, procurement, testing, and deployment. Authorization to begin planning for the project and \$4 million in associated expenditure limitation was first approved by the 2015 Legislature. However, by April of 2017, the Employment Department had utilized only \$1.4 million in actual and projected expenditures associated with the project. New leadership within the agency prompted a careful look at 2015-17 project plans and what could be reasonably and successfully accomplished during the 2015-17 biennium and would get completed during the 2017-19 biennium.

Revenue Sources and Relationships

Core business and systems modernization efforts are supported by one-time revenue in the amount of \$85.6 million that OED received during June and July of 2009, and refers to as UI Modernization Funds. These dollars can be used for agency administration. Rather than expending them on ongoing day-to-day operating expenses, OED has earmarked these dollars for efforts associated with upgrading and modernizing its business systems, in lieu of requesting a General Fund appropriation. Assuming the project remains on schedule, there is an anticipated \$78.4 million ending balance at the close of the 2017-19 biennium.

Legislatively Adopted Budget

The budget authorizes 18 permanent positions and \$4.7 million Other Funds. A report to the 2018 Legislature on project status will be made, and favorable recommendations must be secured by the State Chief Information Officer, the Chief Financial Office, and the Legislative Fiscal Office before all funds are fully allocated for the Department's use. These resources are expected to enable OED to complete a feasibility study, which will include a strategic plan for modernization that will incorporate business needs; identify business solutions requirement through process mapping; identify what market solutions exist; and perform a readiness assessment to identify the Department's level of readiness to initiate the project. OED aspires to complete the feasibility study in January, 2018. After completion of the Feasibility Study, the Employment Department will work with the State CIO and the Legislative Fiscal Office to secure endorsement of further work on the project (a.k.a. Stage Gate II approval) which entails the development of a more detailed business case, statements of work and other procurement documents.

Expenditure limitation is included for vendors associated with quality assurance, systems engineering, and training. Seven of the positions are continued from the 2015-17 biennium, as follows: a program manager; three Operations and Policy Analyst positions that serve a business analytic function; an Operations and Policy Analyst position serving as a subject matter expert from the Workforce Operations division; an Information Systems Specialist project manager; an executive assistant; a public affairs specialist to keep agency personnel apprised of

date needs and project milestones; and an Operations and Policy Analyst to manage and prepare personnel for changes the agency will need to make to successfully implement new systems. An additional eight subject matter experts will assist with mapping data and processes for compliance, quality assurance, tax collection, administrative, and accounting functions in specific divisions of the agency as the project progresses. These positions will be phased into the new division over the course of the 2017-19 biennium. Employment will be transferring existing employees from various divisions to serve as the subject matter experts, and then temporarily “hire behind” them to ensure regular duties continue to be carried out.

In addition, the budget provides for an Operations and Policy Analyst to help develop and manage quality assurance and a contract specialist to manage other vendor contracts, and to help draft request for proposals in anticipation of a completed feasibility study.

Nonlimited

	2013-15 Actual	2015-17 Legislatively Approved	2017-19 Current Service Level	2017-19 Legislatively Adopted
Other Funds (NL)	1,191,961,129	1,520,105,053	1,424,000,000	1,424,000,000
Federal Funds (NL)	241,841,739	94,832,000	70,000,000	70,000,000
Total Funds	\$1,433,802,868	\$1,614,937,053	\$1,494,000,000	\$1,494,000,000

Program Description

Payments of unemployment benefits (associated with the UI program) and certain payments associated with the federal Trade Adjustment Act (associated with the Business and Employment Services program and the UI program) are budgeted as Nonlimited.

Legislatively Adopted Budget

Oregon’s UI system is funded through a counter-cyclical strategy of raising revenue to pay benefits from employers when the economy is strong. Employer premiums are set in law and adjust annually so that sufficient reserves are on hand to cover 18 months of a recession. Unlike other states with a “pay-as-you-go” UI system, Oregon’s employers are more insulated from sharp increases in premiums and the risk for insolvency is minimized.

The 2017-19 legislatively adopted budget estimates nearly \$1.5 billion in UI and Trade Act benefit payments, a 7.5% decrease from the 2015-17 legislatively approved budget. This decrease reflects continuing improvement in Oregon’s economy as more Oregonians find jobs and return to work. Benefit payments to federal employees are included in the “Federal Funds Nonlimited” category since these payments are paid by federal, not state UI taxes. The substantial decrease in the Federal Funds Nonlimited category between 2013-15 actuals and the 2015-17 legislatively approved budget was due to expiration of federally funded benefit extensions and benefit payment increases that were attributable to Emergency Unemployment Compensation, which expired December 31, 2013.

HOUSING AND COMMUNITY SERVICES DEPARTMENT

Analyst: Deister

Agency Totals

	2013-15 Actual	2015-17 Legislatively Approved	2017-19 Current Service Level	2017-19 Legislatively Adopted
General Fund	20,355,205	28,591,263	20,099,493	54,438,010
Lottery Funds	9,413,639	11,676,469	16,232,416	16,357,282
Other Funds	116,634,380	224,757,497	166,273,550	289,274,996
Other Funds (NL)	689,623,347	784,502,128	631,849,381	631,849,381
Federal Funds	112,299,287	120,118,294	122,847,675	122,692,797
Federal Funds (NL)	110,118,920	119,320,000	121,165,609	121,165,609
Total Funds	\$1,058,444,778	\$1,288,965,651	\$1,078,468,124	\$1,235,778,075
Positions	168	149	122	164
FTE	150.98	135.15	120.75	152.65

Overview

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 and 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.

Revenue Sources and Relationships

The Housing and Community Services Department is supported by a variety of revenue sources. General Fund is a significant source of support for the agency's safety net and anti-poverty programs, and helps to fund administrative costs that cannot be borne by interest earnings or proceeds of bond sales. General Fund support is provided to the following safety net programs:

- Statewide Homeless Assistance Program – \$12.2 million for emergency shelter programs and associated services. Of this amount, \$8.8 million is a one-time investment for the 2017-19 biennium, not anticipated as part of current service level in future biennia.
- Emergency Housing Assistance Program – \$27.9 million (of which \$21.2 million is a one-time investment, not anticipated as part of current service level in future biennia) for supportive services, emergency mortgage, rent, or utility payments to those who are homeless or at risk of becoming homeless.
- Low-Income Rental Assistance Program – \$514,144 for rental assistance payments and refundable security deposits paid directly to property owners on the tenant's behalf.
- Oregon Wildfire Damage Relief Account which aids low-income Oregonians whose homes are damaged due to a wildfire – \$150,000 in one-time support.
- Housing Choice Landlord Guarantee Program – \$299,538 for reimbursement of up to \$5,000 for damages caused by renters receiving federal tenant-based assistance payments.
- Rent Guarantee Program – \$223,247 in one-time funding for the program which was established by the passage of HB 2724 (2017). The funds serve as a guarantee to landlords who rent to graduates of an approved tenant readiness program, in the event the tenant defaults on a rent payment.
- Elderly Rental Assistance Program – \$1,410,000 for payment assistance and homelessness prevention for low-income seniors.

Multi-Family Housing development programs which receive General Fund include the Local Innovation and Fast Track (LIFT) Housing Program; \$700,000 is included for underwriting, management and ongoing monitoring of affordable housing projects that will be constructed with the \$120 million in approved-to-date Article XI-Q bonds.

Staffing costs of \$500,000 related to development of an affordable housing inventory and preservation program pursuant to HB 2002 (2017) are also funded with General Fund.

The Oregon Foreclosure Avoidance Program is the only recipient of General Fund support in the Department's Single Family housing section. For 2017-19, \$1.3 million is included in the budget for mortgage resolution services and foreclosure prevention counseling for homeowners who are at risk of foreclosure. The Joint Committee on Ways and Means indicated it would discontinue funding for this program following the 2017-19 biennium.

Budgeted debt service payments on Article XI-Q bonds account for \$9 million of HCSD's General Fund appropriation.

Lottery Funds in the amount of \$16,007,282 are provided for debt service payments on bonds issued for the following purposes:

- The Community Incentive Program (\$1.7 million)
- The Housing PLUS program which provides low income housing with on-site personal support (\$2.1 million)
- Housing for people with mental health and addiction issues (\$4.1 million)
- Debt service payments on bonds to preserve affordable housing and manufactured home parks (\$8.1 million)

The passage of Measure 96 enabled \$350,000 in Lottery Fund support specifically for Emergency Housing Assistance for veterans.

HCSD has numerous sources of Other Funds that include the following: proceeds from the sale of bonds (\$240.7 million); mortgage and down payment assistance repayments (\$227.8 million); Federal HUD contract administration fees for service (\$4.7 million); Homeownership Stabilization Initiative fees for service (\$3.9 million); loan, tax credit, and other fees for service (\$8.6 million); the energy bill payment assistance charge (\$38.4 million); a portion of the public purpose charge (\$30.9 million); and special assessments on manufactured dwellings (\$1 million). The passage of HB 2436 in 2009 add \$30.9 million from fees for recording certain documents, including \$7.7 million expected to be dedicated to veterans' housing. Lottery bond proceeds are also part of the legislatively adopted budget, and are budgeted as Other Funds, and the 2017-19 legislatively approved budget includes bond proceeds that built on similar investments in previous biennia, as follows: approved \$25.4 million in bond proceeds for affordable housing preservation for 2017-19 biennium and \$15 million in carryforward from \$20 million in bond proceeds approved and issued in 2015-17 for affordable housing for people with mental health and addictions issues. The 2017 Legislatively Assembly doubled the 2015-17 investment for the LIFT program, approving \$80 million in Article XI-Q bonds as a means of financing affordable housing projects.

In addition to the direct sources of Other Funds revenues, a portion of the General Fund appropriation is transferred to the Oregon Housing Fund and expended as Other Funds to support grants and loans for low-income housing, emergency shelter, and transitional housing services and/or emergency payments of rents, mortgages, or utilities. General Fund for the Housing Choice Landlord Guarantee program is also transferred and expended as Other Funds.

Federal Funds are received primarily as formula grants for weatherization and anti-poverty programs. The 2017-19 legislatively adopted budget assumes Federal Funds revenues as follows:

- Community Services Block Grant: \$10.7 million
- Homeless Assistance Grants: \$3.6 million, plus another \$1 million transferred from the Oregon Department of Human Services
- HOME tenant-based rental assistance: \$2.4million
- Low Income Energy Assistance Program: \$62.8 million
- Federal weatherization funding: \$17.3 million
- HOME funds for housing development from Housing and Urban Development: \$14.5 million
- National Trust Fund for housing development: \$6 million

- Section 8 rent subsidy (Federal Funds Nonlimited): \$121.2 million
- HUD 811 Project Rental Assistance Program grant: \$1.1 million

Budget Environment

While there has been improvement in the national and Oregon economy, housing affordability in Oregon continues to be a significant challenge. The recession further increased the demand for affordable housing which was already insufficient at the start of the downturn, and the creation of additional units was limited during that time; families displaced by foreclosure turned to renting, leading to low rental vacancy rates that have driven up rental costs in several urban areas. In addition, Oregon was the 10th fastest growing state from 2014-2015. The rate of new construction has yet to meet demand, and market rents remain high; U.S. News and World Report ranked Oregon as 47th of 50 states for housing affordability in 2017. HCSD reports that there are 143,500 renter households in Oregon that could be considered extremely low income (earning less than half of area median income); however, only 38,000 rental units are considered affordable (meaning they spend no more than 30% of their income on housing) to those households.

Years of extremely low-interest rates – while good news for individuals able to refinance or access credit for a single-family mortgage on the open market – had all but eliminated the Department’s interest rate advantage for their single-family loan program. For years, fewer bonds were issued, resulting in less income-generating loan activity, and new market standards and federal regulations increased the cost of bond issuance while decreasing earnings on this investment option. As interest rates slowly inch upward, HCSD will attempt to generate additional loan volume and generate new loan products.

HCSD also faces some uncertainty related to the federal budget and the funding levels eventually approved.

Legislatively Adopted Budget

For the 2017-19 biennium, the Legislature again increased its investment in affordable housing to historic levels in an effort to address the need for affordable housing.

The 2017-19 legislatively adopted budget for HCSD is \$1,235,778,075, a 4.1% decrease from the 2015-17 legislatively approved budget. The decrease is attributable to expenditures in the Other Funds Nonlimited category, related to reduced volume and corresponding reductions in debt service from the agency’s bond programs.

The 2017 Legislative Assembly divested HCSD of the Oregon Volunteers program (transferred to the Office of the Governor) and the Court Appointed Special Advocates program (transferred to the Department of Administrative Services per HB 2600), and transferred in the State Home Oil Weatherization Program previously administered by the Department of Energy. The transition of the Elderly Rental Assistance Program from the Department of Revenue (per SB 296 in 2015) was completed during the 2017-19 biennium. Historic investment levels in the Emergency Housing Assistance, State Homeless Assistance Programs, housing preservation activities, and affordable housing development through the LIFT program have the Department staffing up, reviewing accountability measures internally and with partners, and ensuring that policies and procedures are in place to maximize and report on outcomes.

Housing Stabilization

	2013-15 Actual	2015-17 Legislatively Approved	2017-19 Current Service Level	2017-19 Legislatively Adopted
General Fund	12,829,373	21,227,712	10,989,497	42,717,155
Lottery Funds	--	--	--	350,000
Other Funds	9,618,173	198,080,601	67,771,309	82,388,426
Federal Funds	19,815,126	17,511,161	97,843,238	98,755,981
Federal Funds (NL)	--	--	121,165,609	121,165,609
Total Funds	\$42,262,672	\$57,819,474	\$297,769,653	\$345,377,171
Positions	9	8	26	31
FTE	9.00	8.00	26.00	29.50

Program Description

Formerly called the Self-Sufficiency/Emergency Assistance program, the Housing Stabilization division of HCSD provides services to very low-income Oregonians to help meet short-term, daily needs of vulnerable populations. The types of assistance provided include the following:

- Rental Assistance – Includes subsidizing housing costs and, in some cases, developing a self-sufficiency plan to assist individuals with other support, counseling, and training to avoid on-going reliance on assistance. The Housing Choice Landlord Guarantee program, the Rent Guarantee program which provide for payments to landlords, and federal rent subsidy payments are also included in this category.
- Homeless Assistance – Targets homeless individuals, or those at risk of becoming homeless, to provide emergency shelter, transitional housing, and prevention activities such as training and employment assistance and counseling services. HCSD receives both General Fund and Federal Funds, as well as a share of Oregon’s Document Recording Fee, for homeless programs. HUD funds the Emergency Solutions Grant Program. Administrative expenses related to the Continuum of Care program are retained by HCSD, while the majority of funds are directed to not-for-profits for housing, mental health, and other services to holistically address homelessness in rural counties.
- Community Services Block Grant – Funded by the federal Department of Health and Human Services, serves all 36 Oregon counties, and provides the foundation funding for community based organizations that coordinate and administer a variety of services to assist low-income Oregonians.
- Individual Development Accounts – Assists low-income individuals who enroll in personal development plans to obtain appropriate financial counseling, career or business planning, and other services. IDAs can be used for a variety of purposes that help account holders achieve financial stability, including post-secondary education, job training, housing or transportation, or to capitalize or expand a small business.
- Energy Assistance programs – State and Federal funding for utility bill payment assistance include the Oregon Energy Assistance Program (funded through a meter charge on customers of investor owned electrical utilities) and the Low-Income Home Energy Assistance Program (Federal Funds). Weatherization services receive funding from the U.S. Department of Energy, the Bonneville Power Administration, public purpose charges to rate payers of investor owned utilities (for the Energy Conservation Helping Oregonians program), and federal funds associated with the Low-Income Heating Assistance Program for weatherization services.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget incorporated weatherization and energy assistance programs – formerly budgeted separately – into the same division that administers other forms of low-income assistance, resulting in the addition of 10.00 FTE and \$134.8 million in Total Funds to this program. Staffing and payments related to federal Section 8 rent subsidy were also added to the division, transferred from the Multi-Family division of the agency, adding \$121 million in Federal Funds Nonlimited to this program area. Given the organizational changes, comparing the 2017-19 legislatively adopted budget against the 2015-17 legislatively approved budget for this program is not particularly useful. 2017-19 General Fund support for various housing stabilization programs consists of a mix of permanent and one-time investments, as shown in the following table:

Program Name	Ongoing/Base Funding	One-Time Investment	Total 2017-19 Leg. Adopted
Emergency Housing Assistance (EHA)	6,696,832	21,200,000	27,896,832
State Homeless Assistance Program (SHAP)	3,423,394	8,800,000	12,223,394
Low Income Rental Housing	514,144	-	514,144
Housing Choice Landlord Guarantee	299,538	-	299,538
Wildfire Damage Housing Relief	-	150,000	150,000
Rent Guarantee HB 2724	-	223,247	223,247
Elderly Rental Assistance Program	1,410,000	-	1,410,000

As discussed above, substantial investments were made in the EHA and SHAP programs, in an effort to provide immediate assistance to Oregonians in danger of becoming homeless due to historically high market-rate rents. The passage of HB 2724 created a rent guarantee program where by incentives or financial assistance could be paid to landlords if they experienced financial losses after renting to graduates of a qualifying tenant education program. A one-time investment of \$223,247 in General Fund was appropriated for implementation of the measure: \$125,000 to seed the fund for payments; and \$98,247 for a 0.50 FTE Program Analyst 1 position to create administrative rules and procedures. The \$1.4 million of General Fund for the Elderly Rental Assistance Program reflects a full biennium's worth of administration and payments related to the program. At the Department of Revenue, the program consisted of an annual refund to elderly households of a portion of rent paid, with the average payment made to applicants of \$359. Since the transfer of the program, HCSD has modified it to assist very low-income seniors who are homeless, housed unstably, or at risk of becoming homeless. The funds are flexible such that they can be used for rental assistance, homelessness prevention and rapid rehousing. At the end of the 2017 regular session, Lottery Funds in the amount of \$350,000 were also allocated to the agency, for the Emergency Housing Assistance Program; these dollars are designated for the benefit of veterans, pursuant to Measure 96.

Multifamily Rental Housing Programs

	2013-15 Actual	2015-17 Legislatively Approved	2017-19 Current Service Level	2017-19 Legislatively Adopted
General Fund	--	159,385	--	1,013,126
Other Funds	21,110,547	78,123,581	75,561,011	101,153,783
Other Funds (NL)	1,758,160	1,005,000	1,850,000	1,850,000
Federal Funds	5,331,095	14,666,817	14,521,869	20,625,255
Federal Funds (NL)	110,118,920	112,320,000	--	--
Total Funds	\$138,318,722	\$206,274,783	\$91,932,880	\$124,642,164
Positions	26	28	37	48
FTE	26.00	26.42	37.00	43.05

Program Description

HCSD assists in making available housing options for low-income and fragile Oregonians. The agency promotes affordable housing development and rehabilitation of existing rental housing through the issuance of tax-exempt bonds, provision of conduit financing and loan programs, and administration of three housing tax credit programs. Several of the grants and tax credits are allocated through the semi-annual, competitive Notice of Funding Availability. These resources are one piece of an often complex financing plan used by affordable housing developers, often in conjunction with other resources which may include federal grants, foundation monies, loans, and private-sector investment. The agency also monitors the condition, management, and tenant eligibility of housing projects that have received funding, and serves as the Performance Based Contract Administrator for project-based, federal Housing and Urban Development funded Section 8 housing, providing inspection and monitoring to ensure these projects meet federal affordability requirements. Federal Rent subsidy payments,

budgeted as Federal Funds Nonlimited, were transferred to the Housing Stabilization division of the agency in 2017.

Also included here is the manufactured communities resource center, which promotes cooperative relationships and alternatives to court action among owners and tenants. The program is funded through an annual assessment on manufactured homes and park registration fees.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget is a 39.6 % total funds decrease from the 2015-17 legislatively approved budget. This change is owing to the transfer of more than \$100 million in federal Section 8 rent subsidy payments and associated staffing to the Housing Stabilization division.

General Fund in the amount of \$1 million was allocated to support the staffing resources needed for underwriting associated with affordable housing units developed through the LIFT housing program. This augments the 2015-17 legislatively approved amount, due to timing of the 2017 bond sale, and due to the additional \$80 million approved for the 2017-19 biennium.

Federal Funds expenditure limitation increased by \$6 million over the 2015-17 legislatively approved level due to a new state allocation for the National Housing Trust Fund, which is a new affordable housing production program that will complement existing federal, state and local efforts to increase and preserve the supply of affordable housing units.

Other Funds expenditure limitation increased 29.5% compared to the 2015-17 legislatively approved budget in the Multifamily Rental Housing division. \$25 million in one-time Other Funds expenditure limitation was associated with the approval of \$25 million in lottery bond proceeds for preservation of affordable housing that is at risk of converting to market rate rents due to expiring affordability contracts or pending sale to new owners. About \$300,000 of the Other Funds expenditure limitation is attributable to new compliance specialist positions associated with the LIFT program, which are funded with bond proceeds. A position was also added to augment capacity for the high-demand Low Income Housing Tax Credit 4% program, supported by charges to projects that use the program. Expenditure limitation of \$568,250 associated with the State Home Oil Weatherization program transferred from the Oregon Department of Energy is also included in this division; the program is funded with assessments on petroleum dealers, and provides incentives to weatherize homes heated with heating oil.

Expenditure limitation and position authority is also included for the following policy bills which passed during the 2017 legislative session:

- HB 2912 utilized an existing but undersubscribed pre-development program for the purpose of creating a land acquisition fund, available for organizations to purchase land that will be developed into affordable housing or to support low-income home ownership programs. Two limited duration positions (1.00 FTE) were approved to support the creation of this program, and all program funds are anticipated to be subscribed in the 2017-19 biennium.
- HB 2002 requires qualifying affordable housing properties to provide notice to HCSD in advance of affordability contract expiration or sale of the property, so that the property may be offered for sale to local governments or a designee in an effort to maintain the property as affordable housing. General Fund of \$310,726 and one position (0.92 FTE) is included in this division for this program.

Single Family Housing

	2013-15 Actual	2015-17 Legislatively Approved	2017-19 Current Service Level	2017-19 Legislatively Adopted
General Fund	5,142,882	4,167,660	--	1,300,000
Other Funds	3,339,101	4,369,044	3,959,411	4,348,245
Federal Funds	2,194,632	2,575,245	721,221	720,794
Total Funds	\$10,676,615	\$11,111,949	\$4,680,632	\$6,369,039
Positions	9	7	5	7
FTE	7.88	6.50	4.50	6.50

Program Description

HCS D promotes homeownership by supporting below-market-rate loans financed through the sale of tax-exempt mortgage revenue bonds, providing down-payment and closing cost assistance, and funding home ownership education. This program also funds counseling and legal assistance services to homeowners facing foreclosure, through the Oregon Foreclosure Avoidance Program, created in response to high rates of foreclosure experienced during and following the most recent recession. The program provides an avenue through which Oregonians who have received notice of foreclosure can request a mediation conference with their lender after meeting with a housing counselor. The actual mediation services are budgeted in the Department of Justice and are supported on a fee-for-service basis, while the HCS D portion of the program helps prepare an individual for the actual mediation, by reimbursing contracted not-for-profit entities providing housing counseling services or, in more complicated circumstances, legal aid.

Legislatively Approved Budget

The 2017-19 legislatively adopted budget is a 42.7% decrease from the 2015-17 legislatively approved budget. The decrease is due to a decline in Federal Funds because of the wind down of the federal Neighborhood Stabilization Program and the Oregon Foreclosure Avoidance program.

As the state's economy has improved, the rates of foreclosure have declined, along with the average number of monthly counseling and mediation sessions utilized through the Oregon Foreclosure Avoidance program. As such, the budget decreases funding for that program by \$2.8 million General Fund, compared with the 2015-17 legislatively approved budget. The Legislature indicated that additional funding would not be allocated for the program, and expects HCS D to cease administration and payment reimbursement by June 30, 2019 or the time at which funds are fully expended, whichever comes first. rather than operating the program for a full 24 months.

Other Funds expenditure limitation of \$0.4 million was added to support two permanent positions in the Single Family loan program. These positions will develop new loan products and enhancements, in an effort to increase loan volume to \$100 million annually.

Homeownership Stabilization Initiative

	2013-15 Actual	2015-17 Legislatively Approved	2017-19 Current Service Level	2017-19 Legislatively Adopted
Other Funds	12,551,111	1,842,752	--	3,888,243
Total Funds	\$12,551,111	\$1,842,752	--	\$3,888,243
Positions	35	10	--	25
FTE	22.59	7.92	--	21.43

Program Description

The Homeownership Stabilization Program is a program that was set up to administer an initial disbursement of \$220 million in federal Troubled Asset Relief Program dollars. Oregon was one of 18 states to receive "Hardest

Hit” funding due to high unemployment and home foreclosure rates experienced during the economic recession. The program has provided, to qualified applicants, temporary mortgage payment assistance, loan refinancing assistance for borrowers who owe more in mortgage loan than the market value of their home, and help with fees and charges amassed through late payments. HCSD administers the Hardest Hit funds under contract with the Oregon Affordable Housing Assistance Corporation, a not-for-profit corporation formed at the direction of the U.S. Treasury. Only costs associated with this contract are included in HCSD’s budget, and are classified as Other Funds expenditure limitation. The Oregon Affordable Housing Assistance Corporation administers direct assistance payments to homeowners, and these payments do not show up in HCSD’s Budget. As of the last quarter of 2016, the program had provided \$206.4 million in direct assistance to 15,834 Oregon applicants.

Legislatively Approved Budget

Oregon had expended nearly all of the \$220 million initially allocated for this program in 2015, when it was announced in late 2015 that Congress had committed additional funding to the program, and that Oregon would receive another \$95.4 million. This announcement required HCSD to ramp the program back up. The 2017-19 legislatively adopted budget authorizes Other Funds expenditure limitation of \$3.9 million, along with 25 limited duration positions (21.43 FTE). Funding is required to be fully expended by December, 2021.

Central Services

	2013-15 Actual	2015-17 Legislatively Approved	2017-19 Current Service Level	2017-19 Legislatively Adopted
General Fund	2,382,950	3,036,361	2,683,734	341,208
Other Funds	17,065,273	18,661,694	14,485,724	11,587,606
Federal Funds	8,242,922	9,041,535	9,761,347	2,590,767
Total Funds	\$27,691,145	\$30,739,590	\$26,930,805	\$14,519,581
Positions	81	71	48	47
FTE	77.51	70.06	47.25	46.17

Program Description

The Central Services program includes the administrative functions of the department, and contains three separate divisions:

- Director’s Office – Provides leadership and policy direction for the Department, and includes the Director, and the executive assistant to the director. Also included is the Housing Stability Council, consisting of nine members who are appointed by the Governor and confirmed by the Senate to develop policies and provide guidance on proposed projects to stimulate and increase the supply of affordable housing.
- Public Affairs Division – includes the Assistant Director of Public Affairs, Government Relations and Communications, policy staff and Housing Integrators.
- Chief Financial Office – Comprises several administrative support sections. Budget development and implementation, accounting, contract and grant awards, compliance and monitoring, and research analysis are among the activities performed by personnel in this unit.
- Facilities management and human resources services are also included in this division.

Legislatively Adopted Budget

The 2017 Legislature divested HCSD of two programs not central to the agency’s mission. Administration of the *Oregon Volunteers!* program was transferred to the Office of the Governor, and the Court Appointed Special Advocates program was transferred to the Department of Administrative Services pursuant to HB 2600, along with associated funding. General Fund in the amount of \$341,208 remains to support positions with the following responsibilities:

- A new data analyst position will strengthen data driven decisions by developing and maintaining an affordable housing inventory, and by compiling and assessing other data needed to develop and execute the State Housing Plan.

- A position related to development of a notification process and data infrastructure to track the sale of affordable housing properties, as required by HB 2002.
- A quarter of one finance position associated with administration of the LIFT program is also supported with General Fund.

Other Funds and Federal Funds are derived from each program contributing a share pursuant to a federally approved cost allocation plan.

The following budget note was also approved in the budgets of both HCSD and the Oregon Department of Veterans’ Affairs: “The Housing and Community Services Department and the Oregon Department of Veterans’ Affairs are directed to work in concert to develop a plan to advise the Legislature on strategic investments of federal, state (including Measure 96 Lottery dollars) and local funds for veterans’ homelessness and housing issues, that will result long term housing stability for veterans. The Oregon Department of Veterans’ Affairs and the Housing and Community Services Department will report back to the Joint Committee on Ways and Means in February 2018 with a proposal that includes a key performance measure to quantify progress toward this goal. The report shall include but need not be limited to: information on best practices and programs in other states that have shown efficacy; the amount and source of resources intended to be utilized for each option presented; other partners or cooperation necessary from state or local entities; the number of veterans that can be assisted with each proposal at the suggested level of support; and necessary changes to statute to implement the plan.”

Lottery Funds pursuant to Measure 96 are allocated to agencies on a biennial basis. The requested report and the outcomes associated with resulting expenditures are anticipated to help guide legislative policy regarding strategic investment of Measure 96 funding in the future.

Bond Activities and Debt Service

	2013-15 Actual	2015-17 Legislatively Approved	2017-19 Current Service Level	2017-19 Legislatively Adopted
General Fund	--	--	6,426,262	9,066,521
Lottery Funds	9,413,639	11,676,469	16,232,416	16,007,282
Other Funds	1,691,083	3,435,829	4,496,095	5,908,693
Other Funds (NL)	687,865,187	551,448,780	629,999,381	629,999,381
Total Funds	\$698,969,909	\$566,561,078	\$657,154,154	\$660,981,877
Positions	--	--	6	6
FTE	--	--	6.00	6.00

Program Description

The Bond Activities and Debt Service program combines reporting for “Bond-Related Activities” and “Bond Debt Service” that were budgeted separately in the 2015-17 biennium. Costs captured here are those related to staffing, bond counsel, debt service, refinancing, and cost of issuance associated with issuing and monitoring bond sales payments over time.

HCSD sells tax-exempt bonds to investors and uses the proceeds to finance multifamily and residential (single family) mortgage loans. Investors accept lower interest yields because the interest earned is generally exempt from income tax; the result is lower borrowing costs, which are passed on to borrowers in the form of below-market interest rates on their loans. Because of their tax-exempt status, the bonds are subject to certain federal requirements: for multi-family housing projects, a certain number of units must be affordable to people with incomes within a specific range; and single family loans must be for owner-occupied homes with purchase price limitations for low-to-median income first-time home buyers. Bonds issued for projects take one of two approaches: issuance of direct revenue bonds (for single family loans and some multifamily projects which remain within the agency’s multifamily loan portfolio); and pass-through (or “conduit”) revenue bonds, which simply

provide borrowers with access to lower financing rates. The latter are sold as private placements to large commercial banks, which underwrite the projects and negotiate specific transaction terms with the borrower, and depend on commercial bank capacity and willingness to participate as lenders.

Expenditures related to the program include disbursement of bond proceeds for loans, mortgages, and down payment assistance; bond issuance costs for sales fees and bond re-marketing; administrative expenses including fees attributable to underwriting, attorneys, financial advisors, trustees, state treasury assessments, and liquidity necessary to assure compliance with tax code requirements and bond covenants throughout the outstanding life of the bonds; and asset protection expenses, including insurance and maintenance.

Legislatively Adopted Budget

The 2017-19 Legislature again approved bonds for preservation of affordable housing and for the LIFT program, but in larger amounts than in previous biennia. At the same time, debt service for previous issuances is accumulating.

Lottery Funds and General Fund in this division are related to debt service for the following projects/amounts:

Project/Year Authorized	Approved Issuance	Debt Service
Preservation – Previous biennia	\$36.6 million	\$8.1 million (LF)
Preservation 2017-19	\$25.0 million	\$0 in 2017-19
Mental Health Housing 2015-17	\$20.0 million	\$4.1 million (LF)
Community Incentive Fund 2001-03	\$22.8 million	\$1.7 million (LF)
LIFT 2015-17	\$40.0 million	\$5.7 million (GF)
LIFT 2017-19	\$80.0 million	\$3.4 million (GF)
Total		\$16 million LF \$ 9.1 million GF

Other Funds Nonlimited expenditures are largely related to loan purchases, debt service, and other expenses required to issue and manage the Department’s outstanding debt.

Capital Construction

	2013-15 Actual	2015-17 Legislatively Approved	2017-19 Current Service Level	2017-19 Legislatively Adopted
Other Funds	--	40,000,000	--	80,000,000
Total Funds	--	\$40,000,000	--	\$80,000,000

Legislatively Adopted Budget

This program provides expenditure limitation for a period of six years (expires June 30, 2023) for the construction of affordable housing that is financed with proceeds of bonds issued under the authority of Article XI-Q of the Constitution. The housing to be developed with the bonds will be targeted to low income individuals and families. HCSD reports that despite doubling the investment of dollars in the LIFT program, 1,200 – 1,500 units are estimated to be developed with the \$80 million in bond proceeds; this compares with the estimated 965 units of new affordable housing units developed with the \$40 million in LIFT bonds approved in 2015. While HCSD will be providing incentives to maximize unit production, rising construction and development costs and program design changes – such as a proposed new single family affordable housing component for the 2017-19 approved bonds – are anticipated to increase the per-unit cost. As with the previous iteration, a state ownership interest in the affordable housing that is developed with Article XI-Q bonds must be maintained, which HCSD will meet through

maintaining a first position in the loan agreement, appointing property managers, setting of rents, and establishing requirements related to leases, use of reserves, and terms of loan satisfaction. The bonds are anticipated to be issued in two portions, in the spring of both 2018 and 2019, with housing units anticipated to be developed and ready for lease within three years of award.

DEPARTMENT OF VETERANS' AFFAIRS

Analyst: Beitel

Agency Totals

	2013-15 Actual	2015-17 Legislatively Approved	2017-19 Current Service Level	2017-19 Legislatively Adopted
General Fund	9,678,902	13,007,966	11,066,613	8,380,599
Lottery Funds	--	--	--	14,856,025
Other Funds	45,304,442	85,405,620	86,784,284	113,266,941
Other Funds (NL)	186,154,228	373,333,710	387,546,159	387,546,159
Federal Funds	40,000	4,452,891	--	500,000
Total Funds	\$241,177,572	\$476,200,187	\$485,397,056	\$524,549,724
Positions	84	88	88	96
FTE	82.63	87.76	88.00	95.84

Overview

The mission of the Oregon Department of Veteran's 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 the Oregon Veterans' Home Program. The Veterans' Loan Program, funded entirely with Other Funds, provides home loans to qualified veterans. Loan origination and servicing functions, as well as the agency's administration costs, are included in the Loan Program budget. The Veterans' Services Program provides claims and appeals assistance, conservatorship services, and partnerships with counties and national veterans' service organizations to assist veterans. The Veterans' Services Program is primarily funded through a combination of General Fund and Lottery Funds. The Oregon Veterans' Home Program operates skilled nursing and memory care facilities in The Dalles and Lebanon. The operational costs of the facilities are funded with Other Funds from resident-related income.

Revenue Sources and Relationships

Other Funds revenues for the Veterans' Loan Program are derived from the proceeds of general obligation bond sales (\$240 million), veteran loan and contract-related repayments (\$86 million), and interest earnings (\$53 million). The balance of revenue comes from service charges, rent, licenses, fees, and miscellaneous revenues totaling approximately \$4.3 million. Available revenues and reserves are expected to be sufficient to cover operations and necessary debt service. The Home Loan Program's administrative costs are limited in the budget, while the direct loan activity expenditures (i.e., loans made to veterans, pass-through payments made on behalf of borrowers, and debt service paid on general obligation bonds issued to finance the program) are nonlimited.

The Veterans' Services Program has historically been funded with General Fund and Other Funds primarily generated from conservatorship fees. Beginning in the 2017-19 biennium, the Veterans' Services Program funding includes Lottery Funds available through the passage of Measure 96, which dedicated 1.5% of state lottery net proceeds towards veterans' services. Total lottery revenue dedicated to veterans' services is projected to be \$19.1 million for the 2017-19 biennium based on the Office of Economic Analysis' May 2017 revenue forecast with adjustments for administrative actions. Lottery revenues will be allocated to the Department for the Lottery Funds expenditure limitation included in the Department's budget, with the balance being retained in the constitutionally dedicated Veterans' Services Fund. Collectively, General Fund and Lottery Funds support ODVA's statewide veteran services, including Veteran Service Officer positions, a small emergency assistance program, and service delivery partnership programs, where funding is passed through as special payments to counties and national service organizations. Lottery Funds directly support a veterans' crisis support and suicide prevention telephone hotline, veteran volunteer program, veterans' services grant fund, and grants to public universities and community colleges for campus veteran resource centers. In addition to General Fund and Lottery Funds support, the Conservatorship program receives Other Funds revenue from fees charged to manage the finances of

conservatorship clients (7% of the protected person's income). Conservatorship fee income in the 2017-19 biennium is estimated to total approximately \$920,000.

The Oregon Veterans' Home Program operational costs are financed entirely with Other Funds. Revenues are primarily moneys received from the residents of the facilities, Medicare and Medicaid payments, and a per diem amount received directly from the U.S. Department of Veterans Affairs (VA). Veterans who reside in the Homes receive benefits not available to them if they reside elsewhere. Many veterans receive aid and attendant benefits along with disability compensation or income-based VA pensions, which, combined with their social security benefits, provides the revenue with which to pay for their care in the Homes. Home Program charges for services are estimated to total \$85.4 million in the 2017-19 biennium. The total amount of revenue is based, in part, on occupancy projections from the Homes' contractor. Other Funds revenue is also received from the sale of veterans' license plates through the Department of Motor Vehicles and the Charitable Check Off program. ODVA projects a 2017-19 beginning balance of \$11.5 million in the Veterans' Home Program. Cash reserves will be used during the biennium for working capital, capital improvements, match for The Dalles Veterans' Home federal renovation grant, and held for contingencies.

Budget Environment

An estimated 310,333 veterans live in Oregon who have served over the following five eras: World War II (5.5%), Korea (8.1%), Vietnam (37.5%), Gulf/Post 9-11 (25.6%), and during times of peace (23.3%). ODVA continues to focus on serving more veterans and reaching the seven out of ten veterans who are not accessing their federal benefits for education, health care, disability, or retirement. Additionally, over 50% of veterans are 65 or older, placing an emphasis on the need for aging veteran services.

The Veterans' Home Loan program is funded through the issuance of tax-exempt Qualified Veteran Mortgage Bonds (QVMBs). Federal law limits the use of QVMBs, requiring that borrowers must apply for a loan within 25 years of discharge from military service and that proceeds may not be used to refinance homes. In 2010, Oregon voters passed Measure 70, making the Home Loan Program a state lifetime benefit for veterans. Loans for this eligible group must be funded from reserves or older bond proceeds. Oregon and the four other states with veterans' home loan programs (California, Texas, Wisconsin, and Alaska) are seeking federal legislation to ease this restriction. While more veterans are eligible, and the product to serve them is restricted, reserves from the loan program have subsidized costs of the veterans' services and administrative functions of the Department. In response to a General Fund shortfall in the 1991-93 biennium, Veterans' Home Loan Program revenues were used to supplement veterans' services funding. This practice was a contributing factor to losses and a decrease in the overall net position of the Home Loan Program over the last six years. A portion of the subsidy was eliminated in the 2013-15 biennium when the cost of Veteran Service Officer positions performing non-loan program work was shifted back to General Fund. The remaining \$4.1 million of veterans' services and administration costs being supported by home loan revenues are shifted to Lottery Funds in the 2017-19 budget. Eliminating the subsidization of veterans' services program activities will help to strengthen, stabilize, and sustain the Home Loan Program for future generations of veterans.

The recession and bursting of the real estate bubble, low conventional mortgage rates, and the inability to refinance significantly decreased ODVA's home loan originations and outstanding portfolio. Over the past two biennia, as the economy has recovered, the demand for veteran home loans has continued to increase. However, this growth is limited by low housing inventory and rising prices. As of June 30, 2017, the loan portfolio was approximately 1,870 loans totaling \$296 million.

Expenditures for the Oregon Veterans' Homes relate to the cost of providing residential care. Operation of the facilities is contracted out to a health care service provider. Obtaining and maintaining a high occupancy rate is important to each facility's financial condition. A second Veterans' Home was opened in the City of Lebanon (Linn County) in the fall of 2014. Construction of a third home in Roseburg was reauthorized in 2017, with Article XI-Q general obligation bond proceeds set aside to fund a portion of the non-federal match obligation.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget for the Department of Veterans' Affairs is \$524.5 million total funds and 96 positions (95.84 FTE), which is a 10.2% increase over the 2015-17 legislatively approved budget. Other Funds Nonlimited of \$387.5 million for the Veterans' Loan program bond-related activities, debt service, and loans to borrowers make up 74% of the total budget. Excluding Nonlimited funds, the 2017-19 legislatively adopted budget is a 33.2% increase over the 2015-17 legislatively approved budget. Lottery Funds expenditure limitation of \$14.9 million, available to the Department beginning in the 2017-19 biennium through the passage of Measure 96, is included in the budget. The budget also includes a \$8.4 million of General Fund, which consists of \$7.4 million for veterans' services and \$1 million for debt service on outstanding bonds.

Loan Program

	2013-15 Actual	2015-17 Legislatively Approved	2017-19 Current Service Level	2017-19 Legislatively Adopted
Other Funds	11,214,580	15,899,349	17,131,485	16,417,830
Other Funds (NL)	186,154,228	373,333,710	387,546,159	387,546,159
Total Funds	\$197,368,808	\$389,233,059	\$404,677,644	\$403,963,989
Positions	50	51	51	46
FTE	50.10	51.10	51.10	46.00

Program Description

The Veterans' Home Loan Program was created in 1945 to provide a benefit to World War II veterans returning home. The Loan Program provides qualified veterans low-interest rate mortgages on single-family owner-occupied homes through the issuance of general obligation bonds authorized under Article XI-A of the Oregon Constitution. Since the Loan Program's inception, the Department has made over 335,000 home and farm loans with a principal amount of over \$7.9 billion. The program budget consists of:

- Director's Office – policy, public information, and communications.
- Veterans' Home Loan Services – functions dealing with the loan program, including originating and servicing loans.
- Financial Services – overall financial oversight of the Department, including budgeting, accounting, cashing, and financial management.
- Support Services – human resource services, information services, and facility services.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget of \$404 million Other Funds is a 3.8% increase from the 2015-17 legislatively approved budget. Other Funds Nonlimited of \$387.5 million for loans to veterans (\$155 million), expenditures related to making loans and issuing bonds (\$13 million), and debt service (\$219.5 million) make up 96% of the program budget. Limited Other Funds of \$16.4 million for loan services and ODVA operations is a 3.3% increase from the 2015-17 legislatively approved budget. This increase is net of a reduction of \$1.7 million to shift funding for six veterans' services positions (6.10 FTE) and associated services and supplies from Other Funds supported by home loan revenues to Lottery Funds in the Veterans' Services Program. Shifting the costs of veterans' services activities to Lottery Funds is expected to strengthen and stabilize the Home Loan Program. The following Other Funds increases were also approved:

- \$933,333 on a one-time basis to refresh the Department of Veterans' Affairs' office building, including replacing the carpet, painting the walls, and updating exterior and interior signage.
- \$250,000 to purchase and install a home loan system that combines loan origination and servicing into one application, creating efficiencies and reducing errors. The new software system will also allow veterans to review home loan information online.
- \$201,359 to establish a quality assurance and compliance coordinator (QA/CC) position (1.00 FTE) and reclassify two existing Loan Specialist positions. The QA/CC position will maintain oversight and compliance with federal and state regulations, including new Consumer Financial Protection Bureau (CFPB) rules.

Reclassification of the Loan Specialists supports the increased responsibilities of these positions to comply with the new Dodd-Frank and CFPB regulations for loan origination.

Veterans' Services Program

	2013-15 Actual	2015-17 Legislatively Approved	2017-19 Current Service Level	2017-19 Legislatively Adopted
General Fund	9,180,431	10,389,026	10,049,290	7,363,276
Lottery Funds	--	--	--	14,856,025
Other Funds	716,041	930,312	1,028,087	107,623
Federal Funds	40,000	1,150,000	--	500,000
Total Funds	\$9,936,472	\$12,469,338	\$11,077,377	\$22,826,924
Positions	30	32	32	45
FTE	29.40	31.66	31.90	44.84

Program Description

The Veterans' Services Program provides advocacy and benefits to veterans, their dependents, and survivors through the following activities:

- Statewide Veteran Services – Assists veterans, their dependents, and survivors to obtain service-connected and non-service related benefits from the U.S. Department of Veterans Affairs. Federally accredited and state certified veteran service officers (VSOs) provide claims and appellate representation through ODVA's power of attorney. In 2016, ODVA received 11,842 new powers of attorney, and currently holds power of attorney for nearly 101,000 veterans. Over 79,000 active claims were filed in fiscal years 2015 and 2016. This program also provides training, certification, and accreditation for county and state VSOs.
- County Veteran Service Officers Program (CVSOs) – Pass-through funding to counties that supports a network of trained county veteran service officers. This partnership began in 1947 to aid counties in promoting veteran services at the local level. Prior to the 2017-19 biennium, CVSOs have existed in 34 of the 36 counties and ODVA provided services for Marion and Polk counties. However, a Polk County Veteran Service Office was established in January 2017 and ODVA expects Marion County to open a Veteran Service Office in 2018.
- National Service Organizations (NSOs) – Pass-through funding supports national veteran service officers that provide benefit and claims representation. ODVA's partnership with national veteran service organizations in Oregon was established in 1949. Currently, the Disabled American Veterans, Military Order of the Purple Heart, National Association of Black Veterans, American Legion, and Veterans of Foreign Wars participate in this funding.
- Veterans' Emergency Financial Assistance Program – Provides emergency aid to Oregon veterans and their immediate families through an emergency assistance program established by the Legislature in 2005. One-time grants are provided to help with health and welfare emergencies.
- Partnerships – Leverage existing state programs and partner with federal, state, and non-profit organizations to expand services in the key areas of health, education, and economic opportunity. In the 2017 session, two new grant programs were established to expand ODVA's partnerships. HB 2891 established a Veterans' Services Grant fund to provide non-profits and other veterans' organizations grants to expand services and programs that benefit veterans. SB 143 created a grant program to expand and enhance existing veteran programs on college campuses that help veterans successfully transition from military service to college life.
- Aging Veteran Services – Provides conservatorship and representative payee services for veterans and their dependents who are determined to be "protected persons" and who are recipients of U.S. Department of Veterans Affairs' benefits. Conservatorship services are provided when no other entity or person is willing or able to act as conservator and the agency is appointed as fiduciary. The staff serves as trust officers, files required legal reports, apply for all benefits due the veteran, and counsel with families, hospital personnel, social workers, and protected persons to ensure their needs are met within the resources available. Representative payee services are more limited in scope, with staff paying bills and advocating on behalf of veterans. As of June 30, 2017, ODVA had 136 Conservatorship clients and 144 Representative Payee clients.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget of \$22.8 million total funds represents an 83.1% increase from the 2015-17 legislatively approved budget. The increase is attributable to the addition of \$14.9 million Lottery Funds, available through the passage of Measure 96. General Fund support for veterans' services is a 29.1% decrease from the prior biennium, primarily due to the shift of \$2.5 million of current service level expenditures from General Fund to Lottery Funds. Additionally, \$850,000 General Fund was also phased-out during development of the 2017-19 budget to remove one-time funding provided in the 2015-17 budget for a crisis and suicide prevention hotline (\$350,000) and an increase to support CVSOs (\$500,000).

The legislatively adopted budget makes key investments with the lottery dollars dedicated by Measure 96 to expand services to veterans, while retaining a projected \$2.8 million in the constitutionally dedicated Veterans' Services Fund to allow for fluctuations in revenue projections and provide a working capital balance. Specific investments include:

- \$4.5 million to double the current service level pass-through funding to County Veteran Service Officers and National Service Organizations. 2017-19 combined General Fund and Lottery funds support for CVSOs totals \$8.7 million and support for NSOs totals \$236,312. Increased funding is intended to enhance existing state and county funding, helping to serve more veterans, increase the number of claims filed, and bring more federal dollars to the state.
- \$4.1 million to shift the funding for veterans' services from Other Funds supported by home loan revenues to Lottery Funds. Veterans' services activities (\$2.9 million) and the program's share of support service costs (\$1.2 million) previously funded with Loan Program revenues will be supported through Lottery Funds. Corresponding Other Funds decreases are reflected in the Veterans' Services Program (\$920,464), Loan Program (\$1.7 million), and Veterans' Home Program (\$319,794).
- \$1.2 million to develop and implement one or more grant programs to expand and enhance existing veteran programs on college campuses that help veterans successfully transition from military service to college life, succeed in college and complete educational goals, and transition from college to the workforce (SB 143, 2017). Funding of \$187,194 is provided for a Student Veterans' Coordinator position (0.92 FTE) to administer the program and \$1 million is provided on a one-biennium basis for grants to public universities and community colleges.
- \$600,000 to replace the conservatorship system, which will enable the Department to effectively and efficiently deliver conservatorship and representative payee services. Funding is provided for one-time development, implementation, and training costs (\$400,000) and ongoing software licensing and maintenance costs (\$200,000).
- \$555,000 to establish a grant fund for purposes that benefit veterans, including expanding outreach and services, promoting mental and physical health care, housing security, employment opportunities, education, and transportation accessibility (HB 2891, 2017).
- \$390,256 to establish two positions (2.00 FTE) to accommodate the increased statewide support services workload anticipated with the additional funding to CVSOs. A trainer position in the Salem Office is established to provide essential training and certification for county veteran service officers. An administrative position is established to process the increased number of claims and appeals that will be filed through the Portland ODVA office.
- \$380,548 to establish two positions (2.00 FTE) within the Aging Services Program. A Representative Payee position is added to accommodate the representative payee caseload and an Aging Veterans' Outreach Specialist position is added to serve as a veteran service officer with expertise in veterans' benefits and complex aging health care issues.
- \$350,000 to support a veterans' crisis and suicide prevention hotline that offers free, anonymous assistance, 24-hours a day, to active-duty service members, veterans, and their families.
- \$245,509 to establish a Veteran Volunteer Coordinator position (0.92 FTE) responsible for developing and establishing a statewide veterans volunteer program that will expand outreach to veterans in their communities (HB 2908, 2017).

The 2017-19 veterans' services budget also includes \$500,000 Federal Funds in anticipation of the Transportation of Veterans in Highly Rural Areas 2017 renewal grant. ODVA has applied for and received the annual grant since the grant program was established in 2014. Grant funding is available to highly rural counties, as defined by the U.S. Department of Veterans Affairs, for transportation of veterans to medical appointments. Expenditure limitation for federal grants received during the 2015-17 biennium was phased-out during development of the 2017-19 budget and ODVA will request limitation during the 2017-19 biennium for any additional grants received.

In summary, the 2017-19 legislatively adopted budget funds ongoing veterans' services programs at the following levels:

- Statewide Veteran Services: \$4,610,421 General Fund, \$3,188,534 Lottery Funds, 31.55 FTE
- Aging Veteran Services: \$725,428 General Fund, \$2,552,990 Lottery Funds, \$107,623 Other Funds, 12.37 FTE
- County Veterans' Service Officers: \$1,805,571 General Fund, \$6,904,151 Lottery Funds
- National Service Organizations: \$118,156 General Fund, \$118,156 Lottery Funds
- Emergency Assistance funding: \$103,700 General Fund
- Partnerships:
 - Campus Veteran Resource Centers grant program: \$1,187,194 Lottery Funds, 0.92 FTE
 - Veterans' Services Grant Fund: \$555,000 Lottery Funds
 - Suicide Prevention Hotline: \$350,000 Lottery Funds
 - Highly Rural Transportation Grant: \$500,000 Federal Funds

A lottery allocation of \$1.5 million was also approved to address veterans' homelessness and housing issues. Expenditure limitation of \$350,000 was provided to the Housing and Community Services Department (HCSD) for emergency housing assistance to veterans through the Emergency Housing Account program. The remaining \$1.15 million is reserved pursuant to a budget note that requires ODVA and HCSD to report back to the Joint Committee on Ways and Means in February 2018 with a proposal that includes strategic investments that will result in long-term housing stability for veterans.

Oregon Veterans' Home Program

	2013-15 Actual	2015-17 Legislatively Approved	2017-19 Current Service Level	2017-19 Legislatively Adopted
General Fund	498,471	2,618,940	1,017,323	1,017,323
Other Funds	33,373,821	66,099,983	68,624,712	83,791,488
Total Funds	\$33,872,292	\$68,718,923	\$69,642,035	\$84,808,811
Positions	4	5	5	5
FTE	3.13	5.00	5.00	5.00

Program Description

The Oregon Veterans' Home Program provides skilled nursing, Alzheimer's and memory-related, and rehabilitative care to Oregon veterans and their spouses, and to parents who have lost a child to war-time service, through two Veterans' Homes in Oregon. The Dalles Veterans' Home opened in November 1997 and has a bed capacity of 151 residents. Funding for construction and equipping of the facility was from a 65% federal grant matched with a 35% state obligation contributed by Wasco County. As of June 30, 2016, The Dalles Veterans' Home had an occupancy rate of 90%. As The Dalles Veterans' Home enters its 20th year of operation, repairs, maintenance, and capital renewal are needed to keep the facility in good operating condition. Health and safety improvements were completed in 2011-13, and the home will undergo a renovation in the 2017-19 biennium through a federal grant approved in 2015-17.

A second Veteran's Home in Lebanon (Linn County) opened in the autumn of 2014. The Edward C. Allworth Veterans' Home has capacity for 154 residents who need long-term care. Skilled nursing, including inpatient rehabilitative care, is provided using a small house model, providing a home-like setting with "neighborhoods"

that include landscaped courtyards and a community center. While census levels were lower as the facility began operations, as of June 30, 2016, the Lebanon Veterans' Home was at 94% capacity.

The facilities provide care at lower-than-market rates to veterans and their families because veterans' benefits can be utilized toward the cost of care. Home operations are funded entirely by Other Funds, consisting primarily of resident-related income, including federal VA payments, Medicare, Medicaid, insurance, and private payments. The program also receives monies from the sale of veterans' license plates through the Department of Motor Vehicles and donations from the charitable checkoff income tax program. ODVA contracts with Veterans Care Centers of Oregon (VCCO), a non-profit organization, for the day-to-day operation of the facilities, utilizing the state's competitive procurement process.

Legislatively Adopted Budget

The legislatively adopted budget of \$84.8 million is a 23.4% increase over the 2015-17 legislatively approved budget. General Fund of \$1 million is appropriated for debt service on Article XI-Q bonds issued in 2013 to fund a shortfall in the state/local share of Lebanon home construction costs that were driven by federal design requirements. Increases in Other Funds expenditure limitation for the Veterans' Home Program include:

- \$14.9 million to address the Lebanon Veterans' Home operating at a higher census and occupancy level sooner than originally anticipated, in addition to a higher census at The Dalles Veterans' Home. The increase also includes updated projections for minimum wage costs.
- \$310,000 for costs of issuance on Article XI-Q general obligation bonds approved for capital construction projects.
- \$249,080 to establish an Aging Services Assistant Director (1.00 FTE) within the Veterans' Home Program to help direct and manage the day-to-day operations of the division, including the two Oregon Veterans' Home program directors and contractors who manage the homes.

Other Funds expenditure limitation was also decreased by \$319,794 to reflect the transfer of the Aging Services Director position (1.00 FTE) to the Veterans' Services Program. A corresponding Lottery Funds increase and position is included in the Veterans' Services Program. The Aging Services Director is responsible for coordinating the statewide effort related to aging veterans' services.

Capital Construction

	2013-15 Actual	2015-17 Legislatively Approved	2017-19 Current Service Level	2017-19 Legislatively Adopted
Other Funds	--	2,475,976	--	12,950,000
Federal Funds	--	3,302,891	--	--
Total Funds	--	\$5,778,867	--	\$12,950,000

Legislatively Adopted Budget

Capital construction expenditure limitation of \$13 million was approved for the following three projects funded with the proceeds of Article XI-Q general obligation bonds:

- \$10.5 million to build a new veterans' home in Roseburg.
- \$1.3 million to build a new parking lot at the Lebanon Veterans' Home.
- \$1.2 million for capital improvements to The Dalles Veterans' Home, including construction of new educational and daycare buildings, upgrades to wireless and security infrastructure, and phone system replacement.

Bonds are scheduled to be sold in spring 2019, with debt service of \$2.2 million General Fund beginning in the 2019-21 biennium. Capital construction expenditure limitation for the approved projects will expire on June 30, 2023.

The 2015-17 legislatively approved budget included \$3.3 million Federal Funds capital construction limitation for a U.S. Department of Veterans Affairs construction grant for major renovations to The Dalles Veterans' Home. The federal construction grant requires a 35% state and local match (\$2.5 million Other Funds approved in 2015-17), which will come from the Veterans' Home Program cash reserves. The funds will allow for new flooring, paint, wallpaper, and ceiling tile throughout the facility; furniture replacement; remodel of the nurse stations; upgrades of all resident rooms; remodeling of the production kitchen and nutrition centers; and remodel of the rehabilitation and therapy area, including replacement of equipment. A storage building will also be added. Capital construction expenditure limitation for this project is authorized through June 30, 2021.

\$10.5 million of lottery bonds were authorized in the 2011-13 biennium and reauthorized in each subsequent biennium for a third veterans' home in Roseburg. A U.S. Department of Veterans Affairs construction grant was not received in prior biennia to provide the remaining funding for the home. Additionally, analysis by the Department has not supported the facility maintaining necessary occupancy levels to operate at a sustainable level. Capital construction limitation established in 2011-13 for the Roseburg Veterans' Home (HB 5006, 2011) expired on June 30, 2017. Limitation was re-established for a new six-year period in the 2017-19 budget and general obligation bonds were authorized to support funding for the home. ODVA continues to evaluate the need for skilled nursing care in the Roseburg area, as well as explore a new veterans' home model that would include assisted living and secure memory care. Additionally, due to the shortage of nurses and medical technicians in the City of Roseburg and Douglas County that would be required to staff the Roseburg Veterans' Home, ODVA was directed through a budget note to convene a rural medical training facilities workgroup. The workgroup will investigate issues related to alleviating the shortage and include representatives from the City of Roseburg, Douglas County, local hospital or medical facilities, including the Roseburg VA Medical Center, and local medical practitioners with experience in training nursing and medical technician students. ODVA will report the results of the workgroup and recommendations to the Legislature by September 18, 2018.