

<b>Department of Environmental Quality (DEQ)</b>					
	<b>2015-17 Actual</b>	<b>2017-19 Legislatively Adopted</b>	<b>2017-19 Legislatively Approved *</b>	<b>2019-21 Current Service Level</b>	<b>2019-21 Governor's Budget</b>
General Fund	38,163,023	44,629,011	48,757,650	48,676,792	51,169,413
Lottery Funds	4,084,180	4,610,577	4,732,711	5,332,415	5,322,214
Other Funds	129,989,706	169,639,110	194,863,032	202,486,131	221,421,618
Other Funds (NL)	107,343,731	131,686,687	131,686,687	138,028,330	178,263,330
Federal Funds	22,268,911	28,593,914	29,266,525	30,144,724	29,461,797
<b>Total Funds</b>	<b>301,849,551</b>	<b>379,159,299</b>	<b>409,306,605</b>	<b>424,668,392</b>	<b>485,638,372</b>
Positions	751	745	766	735	788
FTE	729.99	723.89	737.17	726.84	767.53
* Includes Emergency Board and administrative actions through December 2018.					

### Program Description

The Department of Environmental Quality (DEQ), with policy direction from the five-member Environmental Quality Commission, administers the state's laws regulating air, water, and land pollution. The Department establishes the standards for clean air, water, and land; determines whether these standards are being met; and then acts to enforce the standards when necessary. The DEQ budget is comprised of five major program units: Air Quality, Water Quality, Land Quality, Agency Management, and Pollution Control Bonds.

### CSL Summary and Issues

The 2019-21 current service level (CSL) total funds budget of \$424 million is a 3.75% increase from the 2017-19 legislatively approved budget. Increases include personal services increases, standard inflation to services and supplies, and increases to the State Government Service Charges.

*Air Quality* - phased out one-time funding related to lab equipment for real-time metals monitoring, funding and limited duration positions related to SB 1541 (2018) Cleaner Air Oregon program, and one-time funding for local community wood smoke reduction program. The Cleaner Air Oregon and wood smoke reduction program support are proposed to be added back in POPs. Additionally, phased-in costs of permanent positions that were approved as partial FTE for real-time metals monitoring, the Volkswagen settlement award program, Greenhouse Gas Reporting program, and the Air Quality Permit backlog.

*Water Quality* - phased-in costs of two positions approved as partial FTE related to urban storm water NPDES permits and water quality permit program improvements. Phased-out one-time funding of \$1.5 million General Fund for low cost loans as part of the Onsite Septic System Loan Program established under SB 1563 (2016).

*Land Quality* - phased out \$50,000 General Fund to support a task force on lead paint.

*Agency Management* - phased out one-time funding of \$3,009,050 Other Funds and \$478,488 General Fund related to the Environmental Data Management System project.

*Revenue Shortfalls* - Air Quality Vehicle Inspection Program has a revenue shortfall requiring a fee increase to reinstate 8.00 FTE to continue operations (Pkg. 118); Water Quality has federal funds revenue shortfall due to a decline in federal revenues for programs like the Section 106 Water Pollution Control grants. In total, Water Quality is eliminating three federally funded FTE and 1.00 FTE Other Funds. Two of the four positions are being requested for restoration in policy packages.

*Fee Increases* - DEQ is requesting fee increases in the following program areas:

- Air Quality - Vehicle Inspection Program
- Air Quality - Air Toxics Program
- Water Quality - Onsite Septic System Program (both Small and Large Onsite Systems)
- Water Quality - Wastewater Permitting
- Land Quality - Heating Oil Tank Program (annual license and certification fees)
- Land Quality - Oil Spill Prevention and Contingency Planning Program

### Policy Issues

*Air Quality Permits* - are issued under two industrial source air quality programs operated by the Department: the Air Contaminant Discharge Permit (ACDP) and the Title V Permit for major industrial sources. A 2018 Secretary of State audit found that about 40% of most complex air quality permits are not renewed on time. To address the backlog, DEQ is requesting 10 positions, totaling 5.00 FTE, with the positions phasing in on July 1, 2020 to coincide with a proposed fee increase to the ACDP program. Of the 10 positions, two are for Title V permits, funded with the standard CPI fee increase allowed by statute, and six are for the ACDP program funded with the proposed fee increase expected to generate \$3.1 million Other Funds. The final two positions are funded 75% General Fund and 25% Other Funds and are requested to deal with complaint response, which is currently addressed by permit writers, contributing to the backlog issue.

*Vehicle Inspection Program* - is entirely supported by fees for certificates of vehicle emissions compliance, required as part of a vehicles registration process in the Portland and Medford metropolitan areas. The program has not had a fee increase since inception in 1996. Currently, the Portland Metro area fee is \$21 every two years and \$10 every two years in Medford. Without a fee increase, DEQ has a revenue shortfall package (070) that would eliminate 8.00 FTE. The proposed fee increase would be \$25, with the fee increase in the Medford area increasing \$5 every two years until it reaches \$25. The fee increase is expected to generate \$5,136,000 in 2019-21.

*Air Toxics Program* - SB 1541 (2018) authorized the Environmental Quality Commission (EQC) to adopt a program and rules to reduce risks of toxic air contaminants from industrial and commercial sources. The bill directed the EQC to establish a fee schedule to cover direct and indirect costs of implementing the program and provided 11 limited duration positions and one-time funding to implement the program in 2018. The Department has a \$2.6 million Other Funds request to continue the program and make the 11 positions permanent. This will be funded with a proposed fee structure that includes a base annual fee and a one-time activity fee that would cover certain facilities requiring greater agency resources.

*Water Quality Permits* - Permits are issued under two systems, the federally delegated National Pollution Discharge Elimination System (NPDES) and the state Water Pollution Control Facility (WPCF). Based on an outside consultant's recommendations for improvement, the 2017 Legislature provided four positions to deal with the significant backlog and implement improvements to program efficiency. DEQ reports that additional positions are needed across multiple areas to effectively reduce the backlog over a five to ten-year plan, continue to issue quality permits, conduct inspections, and to assist NPDES facilities to comply with federal e-reporting requirements. Currently 233 minor and 3,097 general permit holders are not yet reporting electronically. The total position request is 27 positions and 19.80 FTE in 2019-21, with 23 positions continuing into 2021-23. Cost of this request is \$2,876,498 General Fund and \$1,700,764 Other Funds funded through proposed fee increases.

*Agency Management* - DEQ has a POP that would add three high-level management positions as part of an organizational restructure. These are new positions being requested, but have individuals already performing these functions as double-fills. The positions are: an Implementation Administrator that functions as oversight of the regional offices; a Policy and External Affairs Manager that oversees five program areas including policy and budget development; and a Water Quality Deputy Administrator focused on water quality standards and development of regulatory tools to implement those standards. Cost of the three positions is \$960,770 General Fund and \$377,967 Other Funds.

#### Other Significant Issues and Background

##### **Air Quality Programs**

*EV Rebate Program* - HB 2017 (2017) included a privilege tax of 0.5% on the sale of vehicles beginning January 1, 2018 with up to \$24 million of the tax revenue to be used for rebates on the purchase or lease of electric vehicles, with the program to be administered by DEQ. HB 5045 (2017) provided DEQ with one limited duration position and authority to issue \$18 million in rebates for the 2017-19 biennium. DEQ is planning to use a third party to issue the rebates to eligible applicants and is requesting the limited duration position be made permanent, and an Other Funds limitation increase of \$5,749,259 for administering the program, \$5.5 million of which goes to the third party contractors.

*Wood Smoke Pollution* - SB 5518 (2017) included a one-time increase of \$250,000 General Fund to support the wood smoke reduction program that works with local communities to reduce wood smoke emissions by woodstove change outs, and education and outreach. DEQ's

base budget includes about \$170,000 General Fund to support this program. Pkg 114 would add \$500,000 General Fund to expand the program.

### **Water Quality Programs**

*Storm water* - SB 5518 (2017) included two positions in Pkg. 120 for storm water permitting, to be funded with a fee increase and a new fee for wastewater permitting. Additionally, the Department received a limited duration position funded through ODOT to administer the statewide MS4 permit program related to storm water requirements. DEQ is requesting continuation of the ODOT funded LD position and two additional General Fund positions be added to operate the program at a minimum level. Cost of this package \$421,696 General Fund and \$236,700 Other Funds transferred from ODOT.

*Water Quality Standards* - currently DEQ has 2.8 FTE dedicated to working on water quality standards, which serve as the basis for TMDL's, discharge limits, nonpoint source pollution control plans, etc. DEQ is proposing to double the number of positions to six by phasing-in three positions. The positions would be funded through a mix of General Fund and a proposed fee increase to wastewater permitting fees that would be in addition to the yearly three percent increase. Total cost of the package is \$253,976 General Fund and \$371,045 Other Funds generated from the fee increase.

*Harmful Algae Blooms (HABs)* - at the September 2018 meeting of the Emergency Board, DEQ was provided with \$380,000 General Fund and four limited duration positions to address the workload increase to the DEQ laboratory because of OHA's rules requiring drinking water systems susceptible to HABs be routinely tested for cyanotoxins. DEQ is requesting permanent funding for HAB testing totaling five positions (two of which would be seasonal) with a cost of \$983,919 General Fund.

*Integrated Water Resources Strategy* - DEQ is requesting \$260,741 General Fund for an Integrated Water Resources Strategy (IWRS) position. The position has been funded with General Fund in the past, however, in the Agency Request Budget, the Department has cut the IWRS position in favor of another position that would have been cut due to a shortfall of federal Section 106 dollars. This package requests that the position be restored.

*Clean Water State Revolving Fund* - the Department is requesting a new position to assist in effectively managing the loan program. Currently, there is one position that manages the 178 active loans, with 10 to 15 new loans added per year. For Fiscal Year 2019, DEQ anticipates having \$199 million available to loan for eligible projects. This new Loan Analyst position would be funded with CWSRF Administrative Funds totaling \$169,392 Other Funds. Additionally, DEQ is requesting \$3.65 million Other Funds limitation to procure an off-the-shelf software program to replace the current outdated loan management system. The Department is currently working with the OSCIO on the Stage Gate I process. Of the total amount, \$3.35 million would be transferred out of the non-limited budget and \$300,000 from existing loan fees.

*Klamath Basin Water Quality* - the Department is requesting three positions to support a multi-agency effort to improve water quality and aquatic habitat in the Klamath Basin after dam removals scheduled in 2021. The cost of the three positions is \$640,412 General Fund.

*Water Quality Outcomes* - the Department is requesting 7.00 FTE to build capacity to produce water quality and landscape information that can be used to identify priorities for types and location of restoration projects. This work is intended to be collaborative with other natural resource agencies. Cost of this request is \$1,920,899 General Fund.

*Clean Water Plans* - DEQ issues TMDLs for waterbody's that do not meet water quality standards for pollutants, as directed by federal law. Currently, DEQ estimates there are around 1,900 stream segments statewide that need TMDL development. The Department is requesting 5 positions, totaling \$1,202,728 General Fund, that would effectively increase the rate of TMDL issuance by an average of one basin every three years, and establish and maintain two permanent monitoring stations.

*Onsite Septic Systems* - the Department is requesting a fee increase for both the Small Onsite and Large Onsite Septic Systems and addition of four new permitting positions, one for the Small program, funded entirely through the fee increase, and three for the Large program, funded 60% OF and 40% GF. The additional positions would allow DEQ to increase inspection requirements, processing permit renewal, complaint response and maintenance compliance. Cost of this package is \$278,578 General Fund and \$418,356 Other Funds.

*Onsite Septic System Loan Program* - the program was established by SB 1563 (2016) for low cost loans to repair or replace failing septic systems. SB 5518 (2017) provided one-time funding for the program of \$1.5 million. DEQ is requesting \$2 million General Fund in 2019-21, of which \$100,000 would be used to cover program administrative costs.

*Other Water Issues* - the Department is requesting \$250,000 General Fund to partner with OWRD to contract with a consultant to gather a comprehensive inventory of status and conditions of existing wastewater and stormwater and is requesting \$250,000 General Fund to provide technical assistance to small communities who need help with operating wastewater treatment facilities and complying with permit requirements.

*Laboratory Equipment* - the Department is requesting \$550,000 General Fund to address ongoing maintenance and replacement of ageing lab equipment.

### **Land Quality Programs**

*Prescription Takeback Program* - DEQ is proposing a legislative concept to create a statewide prescription drug takeback program. The program would have one permanent full-time position and one limited duration position, totaling \$261,908 Other Funds. The Department would partner with the Board of Pharmacy for inspection at collection kiosks during regular pharmacy inspections. Funds for the program would come from fees paid by pharmaceutical manufacturers included in the legislative concept.

*Emergency Preparedness* - the Department has three policy package requests in the Emergency Response program containing five new positions. Three of the positions are funded through fee increases and the other two are through General Fund. The positions include, an ISS5 position (\$224,097 OF) to provide GIS support to the Oil Spill Prevention program, two NRS4's (\$534,400 OF) to work on High Hazard Rail planning, preparedness and response, and two NRS positions to provide additional emergency management resources (\$604,559 GF).

*Solid Waste Orphan Site Cleanups* - DEQ is requesting \$3,147,316 Other Funds limitation and three limited duration positions to work on Solid Waste Orphan Site Account-related work. The Orphan Site Account is used to fund investigations and cleanup at sites where parties who are responsible for the pollution are unknown, unable or unwilling to perform cleanup related work. This limitation will allow the Department to expend a portion of the proceeds from \$10 million in general obligation bonds issued during 2017-19.

### **Other Programs**

*Environmental Data Management System Project* - the Department is requesting \$5,123,293 Other Funds limitation and seven limited duration positions to complete core system implementation. DEQ is anticipating achieving Stage Gate 3 just prior to the 2019 Legislative Session, at which point final scope details for the core system and future functionality implementation can be determined.

*Technology Infrastructure* - DEQ is requesting \$630,000 General Fund to transfer server hosting from on-site to the State Data Center.

*Administrative Staff* - in anticipation of the position requests in Air, Land, and Water Quality Programs, the Department is requesting 7 positions totaling \$1,544,938 Other Funds to provide administrative support, including accounting staff, human resources staff, procurement, IT, an Ops and Policy Analyst and a Principle Executive Manager E. Additionally, DEQ is requesting an internal auditor position at a cost of \$154,715 General Fund and \$130,562 Other Funds to focus on addressing the nine findings and 22 risks identified by the Secretary of State. The Other Funds for these positions are through indirect charges to other agency programs.

*Environmental Justice* - the Department is requesting a permanent full-time position to coordinate Environmental Justice and Title VI (Civil Rights) activities across all agency programs. Currently the Department has 0.20 FTE of a position to serve as Environmental Justice Coordinator and the HR staff is responsible for agency compliance with Title VI. Cost of the position is split between \$160,364 General Fund and \$135,205 Other Funds through agency indirect charges to other agency programs.

*Pollution Control Bonds & Debt Service* - the sale of pollution control bonds is used by the Department to finance the Clean Water State Revolving Fund (CWSRF), the Sewer Assessment Deferral Loan program, and the Orphan Site program. The CWSRF program is funded primarily with Other Funds Nonlimited. DEQ is requesting Nonlimited expenditure of \$65,000 for costs of issuance associated with a request for \$5 million of XI-Q bonds to be issued to provide support for the EDMS project. The debt service amount is expected to be \$834,752 General Fund. Additionally, the Department is requesting Nonlimited expenditure of \$150,000 for costs of issuance associated with a request

for \$10 million in short-term XI-H bonds to be issued to provide the state match component of the federal capitalization grants for the Clean Water State Revolving Fund (CWSRF). The Department anticipates receiving an additional \$30 million of Nonlimited Other Funds to make CWSRF loans using the Federal Funds provided to Oregon. The debt service on the CWSRF bonds would be \$10 million and will be sources from the interest earnings received by the CWSRF.

The Governor's Budget (GB) is 14% overall increase from 2019-21 CSL and 19% above 2017-19 Leg Approved, with General Fund up 5%. The GB includes the following:

*Air Quality Programs*

- \$5.7 million OF for the EV Rebate Program
- \$1 million OF and 10 positions (5.00 FTE) to address the Air Quality Permitting backlog. This includes a fee increase for the ACDP permits
- \$1.5 million OF and 8 positions (8.00 FTE) and associated fee increases to restore the VIP program
- \$2.6 million OF and 11 positions (11.00 FTE) and associated fee schedule to make permanent the Air Toxics Permitting program
- Transfers four positions (4.00 FTE) with corresponding revenue from the Greenhouse Gas Program to the new Oregon Climate Authority as part of proposed legislation

*Water Quality Programs*

- \$4.6 million in total funds and 27 positions (19.80 FTE) to address water quality permitting backlog and program improvements, of this amount, \$2.9 million is GF and a proposed fee increase for Wastewater Permitting is also included
- \$640,412 GF and 3 positions to work on Klamath Basin Water Quality issues
- Other Funded position to manage the CWSRF Loan Portfolio
- \$250,000 GF for a comprehensive inventory of existing clean water infrastructure (WRD has similar POP)
- \$3.65 million OF for one-time purchase of an off-the-shelf loan management software for the CWSRF program; funding for this comes from the capitalization of grants

*Land Quality Programs*

- Two positions to provide additional emergency response to spill incidents (\$604,559 GF)
- Oil Spill Prevention position (\$224,097 OF) and fee increase to vessels transporting petroleum
- Two positions (\$534,400 OF) for emergency planning and response related to high hazard rail and creation of a fee based on gross tonnage of hazardous materials being transported
- Increase to Heating Oil Tank program fees to support existing program
- \$3.1 million OF and three limited duration positions to work on Solid Waste Orphan Account program

*Other Programs*

- \$5.1 million OF and 7 positions for the EDMS project moving forward into Stage Gate 3
- Internal Auditor position (\$154,715 GF/\$130,562 OF)
- Environmental Justice position (\$160,364 GF/\$135,205 OF)

- \$5 million of XI-Q bonding for the EDMS project (COA - \$65,000 and Debt Service - \$834,752 GF)
- \$10 million of XI-H bonding for the CWSRF program (COA - \$150,000 and Debt Service - \$10.02 million GF)

The GB does not include funding for wood smoke, storm water programs, onsite septic system programs (or associated fee increase requests), onsite septic loan program, harmful algae bloom, lab equipment replacement, collection of unwanted medication, and other water quality-related requests from the ARB. Positions related to an Integrated Water Resources Strategy were not approved, however the GB for ODFW has two positions related to this concept funded with GF. Additionally, the GB does not include requested funds for moving of DEQ servers to the State Data Center or approval of positions related to an organizational restructure.