

Oregon Military Department

| | 2015-17 Actual | 2017-19 Legislatively Adopted | 2017-19 Legislatively Approved * | 2019-21 Current Service Level | 2019-21 Governor's Budget |
|--------------------|--------------------|-------------------------------------|--|-------------------------------------|------------------------------|
| General Fund | 25,478,056 | 25,608,114 | 27,889,506 | 28,098,484 | 34,178,284 |
| Other Funds | 123,541,931 | 120,386,657 | 126,746,339 | 111,705,471 | 131,931,413 |
| Other Funds (NL) | 60,623 | -- | -- | -- | -- |
| Federal Funds | 156,967,173 | 271,814,624 | 315,698,794 | 288,142,779 | 297,219,587 |
| Total Funds | 306,047,783 | 417,809,395 | 470,334,639 | 427,946,734 | 463,329,284 |
| Positions | 464 | 477 | 477 | 478 | 520 |
| FTE | 418.60 | 426.82 | 426.82 | 435.30 | 465.63 |

* Includes Emergency Board and administrative actions through December 2018.

Program Description

The Oregon Military Department (OMD) administers the Oregon Army National Guard, the Oregon Air National Guard, the Office of Emergency Management, and the Oregon Youth Challenge and STARBASE education programs. The Department is overseen by an Adjutant General, appointed by the Governor to a four-year term of office. The Adjutant General also serves as the homeland security advisor to the Governor and chief of staff of the Governor's Military Council.

The National Guard is a federal-state partnership with a dual mission: (a) provide combat-ready units and equipment in support of national defense, and (b) provide units and equipment to protect life and property during natural disasters and civil unrest, and for backup support to law enforcement. The National Guard serves on a day-to-day basis under the command of the Governor but is available to the federal government upon order of the President of the United States. The federal government directly funds federal employees, guard member salaries and wages, and all equipment and equipment maintenance. For the state, federal responsibility primarily centers on providing facilities and facility maintenance for the Oregon Guard. The federal government also is a major source of funds for new construction of facilities, and for Homeland Security.

A responsibility unrelated to the Department's primary mission is youth education. The Youth Challenge Program provides youth at risk of dropping out of high school an opportunity to complete educational credits with the goal of reintegrating into high school to earn a diploma or prepare for the General Education Development (GED) examination. The STARBASE (Science and Technology Academy Reinforcing Basic Aviation and Space Exploration) program - a 100% federally-funded experiential educational program designed to increase third through eighth-grade students' interest in science, technology, engineering, and math - operates at the Portland Air National Guard Base in Portland and at Kingsley Field in Klamath Falls.

CSL Summary and Issues

No significant CSL issues for this agency. A base budget adjustment of \$1.5M shifts administrative positions in the Emergency Management program area from Other and Federal Funds into the General Fund to address audit findings related to charging indirect costs to federal grants (see below).

General Fund makes up only 6.6% of the Military Department's total budget. A primary use of General Fund in this agency is to match federal funds for day-to-day operations of the National Guard Bureau and at armories located throughout the state. Debt service is the agency's single significant General Fund expense, constituting 41% of its General Fund budget for 2019-21.

CSL phases out the following:

- \$16,421,308 FF expenditure limitation for lead abatement activities at eight Oregon armories.
- \$260,724 GF appropriated to the agency for expenses incurred while providing clean drinking water in Salem during the summer of 2018.
- \$5,442,829 OF expenditure limitation approved one-time-only in 2017-19 for National Guard troops and flight crews used during wildfire suppression activities in 2017.
- \$1.0M General Fund provided one-time-only for the Oregon Military Museum.
- \$70,000 OF limitation for one-time cost of issuance expenses in 2017-19; and \$448,249 Other Funds debt service, increased at the end of the 2017 legislative session to reflect refunding of certain bond issues statewide.

Federal revenue sources include the National Guard Bureau, Department of Homeland Security, and FEMA grants. Other Funds are mostly from 9-1-1 tax and facility rentals.

Policy Issues

The Military Department's portfolio of more than 400 buildings and other structures has a significant deferred maintenance backlog, currently estimated at \$150M. Armories are built, by and large, with federal funds but are operated and maintained at state expense. New construction funded by the federal government addresses a certain portion of deferred maintenance each biennium, but limited General Fund and reduced Other Funds from facility rentals in recent years has constrained the agency's building maintenance program, contributing to the deterioration of its facilities. A recent (2017) facilities condition evaluation determined that 95% of the department's armories are in poor or very poor condition, which affects tenants, current and future National Guard members who use the armories for training, and the general public, who rent armory facilities for trade shows, weddings, sporting events, and other gatherings. Armory rental revenues have remained more or less flat at about \$1.9 million per biennium since 2014.

In November 2014, the department became aware of dangerously high lead dust levels in twelve of its armories that housed indoor weapons ranges. Lead dust is a regulated hazardous material, and tests revealed that the lead dust at indoor ranges exceeded allowable levels. As a result, the agency was forced to stop using its indoor firing ranges and seal them pending cleanup. In December 2016, the National Guard Bureau issued guidance for remediation of lead contamination in armories nation-wide, and stated that clean-up costs were to be 100% funded by the federal government. To date, the agency has received \$16.4M Federal Funds for lead abatement activities and anticipates additional federal funding for lead abatement projects in 2019. Six armories have been remediated and re-opened to the public, with the remaining six armories anticipated to be re-opened between December 2018 and June 2019.

Interim policy committees have focused on disaster recovery, infrastructure resiliency, and Oregon's emergency management capabilities. HB 2687 (2017) created the Resiliency Grant Fund and program within the Office of Emergency Management to enable the purchase and distribution of emergency preparedness equipment throughout the state by local governments, special government bodies, and private organizations that qualify for federal tax-exempt status. The fund will be capitalized with the proceeds from Article XI-Q bonds scheduled for the March 2019 bond sale, with the initial application period opening in November 2018.

Other legislative actions taken on behalf of the Military Department during the 2017-19 interim include:

- A one-time General Fund appropriation of \$260,724 to cover expenses incurred for services provided by the Oregon National Guard during and after the total solar eclipse on August 21st, 2017.
- A General Fund appropriation of \$1,590,544 to shift payroll expenses for eight positions, services and supplies, and operating expenses in the Office of Emergency Management from Federal and/or Other Funds to the General Fund per audit findings related to charging indirect expenses to federal grants.
- An increase in Other Funds expenditure limitation, on a one-time basis, of \$5,442,829 to reimburse wildland firefighting expenses incurred during the 2017 fire season.
- An increase in Federal Funds expenditure limitation of \$16,421,308 for lead dust abatement projects at eight armories located throughout Oregon.
- Establishing a \$6,125,000 Federal Funds expenditure limitation to convert boilers from propane fuel to wood pellet fuel at Camp Umatilla.
- Increasing an Other Funds (Capital Construction Account) expenditure limitation by \$378,726 for the 2015-17 Oregon Military Museum capital project, to allow the department to spend donations for the design and construction of a research library in the new museum.

Additionally, the Emergency Board:

- Allocated \$123,275 from the Emergency Fund to reimburse costs incurred during two drinking water delivery missions in Salem during May and June 2018.
- Allocated \$188,000 from the Emergency Fund to fund emergency preparedness equipment for fuel distribution facilities.
- Established a Federal Funds Capital Construction expenditure limitation of \$5,300,000 for the Oregon Youth Challenge Expansion Project.
- Established a Federal Funds Capital Construction expenditure limitation of \$9,000,000 for development of a Regional Training Institute at Camp Umatilla in Umatilla, Oregon.
- Increased a Federal Funds Capital Construction limitation by \$4,000,000 for demolition projects at Camp Umatilla.
- Established a Federal Funds Capital Construction expenditure limitation of \$1,300,000 for construction of a pistol qualifications range at Camp Najaf in Corvallis, Oregon.
- Established an Other Funds Capital Improvements expenditure limitation of \$500,000 to purchase property adjacent to Camp Rilea in Warrenton, Oregon.

Other Significant Issues and Background

The Office of Emergency Management (OEM) has received a significant amount of attention recently. OEM leads statewide efforts to develop and enhance preparedness, response, recovery, and disaster mitigation capabilities, in addition to distributing federal grant funds to local communities for emergency preparedness and maintaining the state's emergency communications systems and capabilities. A 2018 Secretary of State audit found OEM understaffed for reducing Oregon's vulnerability to disasters. A 2013 federal audit and subsequent financial audit conducted by Moss Adams LLC found OEM to be charging overhead costs to federal grants without having an approved indirect cost allocation plan in place with the Department of Homeland Security. A budget note in HB 5201 (2018) directed the agency to assess and update OEM's processes, policies, and practices for internal control over grants management and to undertake immediate action to correct any identified deficiencies prior to budget deliberations during the 2019 legislative session.

The agency has identified OEM enhancements as its top priority in its 2019-21 agency request budget, and included \$10.6M of General Fund policy option packages in its request. These proposals would add staff to virtually every OEM program in response to the recommendation included in the Secretary of State's 2018 audit that the agency *"Continue to advocate for resources through the state budget process to be able to fulfill its role as the state's emergency management coordinator."* The Legislative Fiscal Office notes that the agency has taken its auditors' message to heart, and recommends further prioritization among the many improvements suggested in the agency's POPs prior to consideration by the legislature in 2019.

The Governor's budget for the Military Department is 8.3% more than current service level; the General Fund budget is 21.64% more. The net General Fund increase of \$6.1 million over CSL includes \$0.8 million in reductions and \$6.9 million in increases. Reductions include \$72,000 for statewide government service charges and Attorney General fees, and various other unspecified personnel and services and supplies reductions. General Fund budget increases include:

- \$2.3 million to shift eleven positions in the Office of Emergency Management from Federal and/or Other Funds to the General Fund, per audit findings related to charging indirect expenses to federal grants
- \$3.2 million for priorities identified in the Governor’s Earthquake Preparedness Action Plan for Oregon:
 - \$500,000 for a risk abatement study for the Critical Energy Infrastructure Hub in Portland
 - \$1.1 million for logistical staging bases
 - \$1.6 million and one position for preparing a “two-week ready supply” for 250,000 vulnerable families
- \$534,000 for new debt service on \$19.9 million in bonds for capital projects at five Oregon armories and readiness centers. It should be noted that bond-funded capital projects at National Guard armories and readiness centers directly improve the agency’s otherwise dismal facilities condition assessment.
- \$495,000 to cover certain personnel costs and utility charges at Oregon’s two air bases
- \$444,000 for the Oregon Youth Challenge expansion project, one-time-only.

Except for the risk abatement study, the investments in earthquake preparedness activities are not well defined. It is unclear whether the “two weeks ready” allocation is for public education and awareness campaigns, actual supply kits, or something else; one position is included in this investment. The Governor’s Plan states that the resources for developing logistical staging bases will be “both in personnel and supply and services, to train state and local personnel into Incident Management Type-III teams...to provide command and control,” and that OEM develop a grant program by 2021 to provide funding for these activities. The Emergency Management fund shift is required, although further analysis is needed to ensure that the amounts to be fund shifted are correct.