



Oregon

Kate Brown, Governor

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May 1, 2019

The Honorable Fred Girod, Co-Chair
The Honorable Paul Holvey, Co-Chair
Ways and Means Subcommittee on Capital Construction
900 Court Street NE
HR E State Capitol
Salem, OR 97301-4048

RE: Responses to questions asked during public hearing on House Bill 5006

Dear Ways and Means Capital Construction Subcommittee Members,

Thank you for the opportunity to provide testimony on House Bill (HB) 5006, which includes potential funding for four specific items for the Department of Corrections (DOC). Below, you will find some historical information and responses to the questions asked during the hearing.

Historic context for DOC large infrastructure projects:

Back in the 1990's and 2000's, DOC was building prisons to keep up with caseload demands. Those projects were primarily funded using certificates of participation (COPs). The parameters for utilizing COPs extended the ability to use this revenue source to fund general maintenance and repairs. As such, DOC never had a General Fund maintenance budget for non-capitalized projects. Rather, it utilized COPs on a biennial basis. The agency has a small (approximately \$2 million) Capital Improvement General Fund budget. However, it must be used on large capitalized projects under \$1 million – not on general maintenance and repairs.

In the general election of November 2010, the voters approved the use of Article XI-Q bonds, as codified in Article XI-Q in the Oregon Constitution. It was clarified for all agencies that Q-bonds are asset-backed securities which cannot be used for general maintenance and repairs. Instead, they can only be used for capitalized renewal or replacement projects over \$1,000,000. Individual components of these bonded projects can be sold under different issuances, so depending on the component cost and useful life, bonds are sold that are component-appropriate (i.e. handheld radios may be a different issuance with a shorter term than the backbone system infrastructure).

To reiterate, DOC has no General Fund budget for non-capitalized maintenance and repairs. As such, the agency does its best to comply with bonding requirements and committed time and resources to projects that could be bonded.

In the 2019-21 Agency Request Budget, DOC formally requested General Funds for general maintenance and repairs to infrastructure that were inappropriate for utilizing Q-bond proceeds. The Governor’s Budget moved that request forward. That request currently resides in Senate Bill (SB) 5504, the agency’s primary General Fund appropriations bill.

Responses to questions asked:

1. Why has DOC not asked for capital budgets before, and why is there suddenly \$23 million in deferred maintenance?

DOC has always requested capital financing for bondable capital renewal and replacement costs on a biennial basis – dating back over a decade. Below is a table reflecting the original asks in the Agency Request Budgets, what was included in the Governor’s Recommended Budgets, and what was in the agency’s Legislatively Adopted Budgets for bonded Other Funds deferred maintenance requests. The current request is consistent with historic budget asks. The actual need the agency faces (over \$200 million) exceeds the amount requested in ARB each biennium but is limited by the agency’s ability to operationally complete all the work within the six-year limitation window. As a result, DOC only asks for what it can complete.

Bonded Other Funds Deferred Maintenance Requests

Biennium	ARB	GRB	LAB
2019-21	\$29,940,691	\$24,478,039	TBD
2017-19	\$123,645,097	\$31,293,534	\$26,293,534
2015-17	\$14,220,432	\$14,220,432	\$14,220,432
2013-15	\$47,937,359	\$4,961,000	\$4,961,000
2011-13	\$8,207,239	\$0	\$0

2. What is DOC doing about creating reserve accounts to handle maintenance issues and projected costs?

DOC is an almost exclusively General Funded agency, with the exception of bonded requests, some self-funded inmate work programs, and inmate welfare funds; and a minimal Federal Funds limitation request.

The agency does not have the ability to “reserve” General Funds and set them aside for a rainy day. They are reverted at the end of each biennium.

The agency has faced substantial General Fund reductions each biennium – sometimes exceeding \$20,000,000. The agency spends a significant amount of effort trying to meet those reductions, while eventually requesting the Legislature backfill a portion of the initial cuts over the course of a biennium. With no General Fund maintenance budget to

begin with, DOC does not have the ability to redirect funds from other appropriations for the sake of maintaining infrastructure.

In DOC's 2019-21 Agency Request Budget, the agency asked for many infrastructure-related items with the hopes of getting General Fund into the budget so on-going attention could be given to these critical matters. These include PC lifecycle replacement, software lifecycle replacement, IT maintenance subscriptions, and more.

3. Are the Eastern Oregon Correctional Institution walk-in cooler and freezer requests included in the current \$24 million Capital Renewal request for 2019-21?

These projects have been identified and are scheduled for completion utilizing 2017-19 Capital Construction funds, so they are not a part of the new biennial request. The project includes the replacement of two walk-in freezers and three walk-in refrigerators. The project is currently out for bid.

Thank you for the opportunity to address your questions. If you have additional questions or wish to discuss any of the information above, we would be happy to schedule a time to meet.

Sincerely,

A handwritten signature in cursive script, appearing to read "Colette S. Peters". The signature is written in black ink and is positioned below the word "Sincerely,".

Colette S. Peters
Director