

Oregon Watershed Enhancement Board

	2019-21 Actual	2021-23 Legislatively Adopted	2021-23 Legislatively Approved *	2023-25 Current Service Level	2023-25 Governor's Budget
General Fund	--	20,420,000	52,526,718	--	2,000,000
Lottery Funds	88,806,193	94,379,136	94,776,334	106,626,707	106,674,689
Other Funds	4,214,991	14,863,984	29,863,984	2,359,071	23,992,654
Federal Funds	32,063,007	48,127,768	48,251,444	34,812,700	53,398,495
Total Funds	125,084,191	177,790,888	225,418,480	143,798,478	186,065,838
Positions	36	36	43	30	39
FTE	41.00	36.00	46.00	30.00	39.00

* Includes Emergency Board and administrative actions through December 2022.

Program Description

The Oregon Watershed Enhancement Board (OWEB) was established in 1999 by the legislation implementing Ballot Measure 66, which established the framework for the full allocation of the measure's constitutionally dedicated lottery revenue. Ballot Measure 66, passed by the voters in November 1998, amended Section 4, Article XV of the Oregon Constitution to dedicate 15% of net lottery proceeds to be split between state parks and salmon, watershed, and habitat restoration. Ballot Measure 66 was replaced by Ballot Measure 76, which passed in November 2010, and reauthorized the dedication of 15% of net lottery proceeds to state parks (7.5%) and fish, wildlife, and habitat conservation (7.5%). The Ballot Measure 76 reauthorization changed the way the dedicated Lottery Funds could be spent. Under the old dedication, the Lottery revenues were divided into two parts, 65% for capital expenditures and 35% for operations expenditures. Under the reauthorization of this dedication, 65% is now restricted to grants for non-state agencies. Only the other 35% can be used to support state agency programs and state agencies are prohibited from directly receiving any of the 65% dedicated to grants. Previously, state agency programs could be funded under either the capital or operations funding split if it was a qualifying expenditure.

OWEB is designated as the single state agency charged with administration of the salmon and watershed portion of the dedicated lottery revenues required under Ballot Measure 76. OWEB consists of 11 voting members, including five voting members from state natural resource agency boards and commissions and six public members appointed by the Governor and confirmed by the Senate. OWEB is also authorized to include up to seven additional non-voting members, including the director of Oregon State University's agricultural extension service and representatives from six federal land and natural resource agencies. OWEB distributes funding for projects, offers technical assistance on grant proposals, and coordinates with other state natural resource agencies.

With the exception of the 2021-23 biennium, the agency is funded primarily with dedicated Lottery Funds, Federal Funds, and a small amount of Other Funds. Total lottery revenues are projected to exceed the constitutional threshold requiring a rebalancing of expenditures between grants and agency operations. This is discussed in the CSL summary section.

Federal Funds are derived primarily from the National Oceanic and Atmospheric Administration – Fisheries, an agency within the U.S. Department of Commerce, which administers the Pacific Coastal Salmon Recovery Fund (PCSRF). PCSRF monies were first authorized by Congress in 2000 and are for salmon habitat restoration, stock enhancement, and research. Almost \$10 million of the PCSRF grant funds total is transferred to the Oregon Department of Fish and Wildlife to support programs that protect and enhance native fish species. Other Funds are also received from the Department of Transportation for one-half of the proceeds from the sale of salmon license plates, from various non-governmental sources in the form of donations and grants, and monies from the Department of Forestry for a grant program administered by OWEB.

CSL Summary

Beginning with the 2021-23 legislatively approved budget, adjustments are made both in the base budget and through essential budget packages to arrive at the current service level (CSL) budget for the 2023-25 biennium. The current service level contains the cumulative authorized expenditure and staffing levels for ongoing program activities and specific limited-duration activities. Automated adjustments to the base budget account for standard inflationary factors, changes to personal services for roll-up costs of permanent positions, elimination of limited-duration positions and associated costs, anticipated debt service, and non-limited expenditure authority. Essential package adjustments include the phase-in of ongoing programs that were not fully budgeted in the prior biennium, phase-out of one time or expiring expenditure authorizations, extraordinary inflation, technical adjustments, and revenue shortfall adjustments.

The current service level budget for the Watershed Enhancement Board represents a \$34 million, or 19.1%, reduction from the legislatively adopted budget and a \$81.6 million, or 36.2%, reduction from the legislatively approved budget for 2021-23. Just over \$52.5 million in one-time General Fund investments that were made in the 2021-23 biennium including:

- \$11.9 million for drought relief and mitigation
- \$25.6 million for wildfire recovery and restoration
- \$10 million fund capitalization for water acquisition grants
- \$5 million General Fund to capitalize the Oregon Agricultural Heritage Program (OAHP) fund

One-time Other Funds expenditure limitation provided in 2021-23 associated with the General Fund capitalization of the OAHP fund and capitalization for water acquisition grants has been phased-out. Another \$12 million Other Funds and \$15 million Federal Funds expenditure limitation for grant funds carried forward from the 2019-21 biennium to the 2021-23 biennium budget were also removed.

Standard inflation factors are applied at a rate of 4.2% for all services and supplies, capital outlay, and special payment accounts except for professional services expenditures which are allowed an 8.8% inflation rate. Standard inflation accounts for increases of \$1.3 million Federal Funds at the current service level. An upward adjustment for exception inflation of \$636,905 accounts for increased transfer of Pacific Coast Salmon Recovery Funds to the Department of Fish and Wildlife.

Policy Issues:

Oregon Constitution Article XIV, section 4b(2) requires the allocation of lottery proceeds for fish and wildlife, watershed and habitat protection, to move from a split of 65% / 35% for grants and operations to a split of 70% and 30% when the proceeds deposited in the Parks and Natural Resources Fund in any biennium exceeds the amount deposited in the fund in the 2009-11 biennium by 50%. This trigger is projected to be met in the 2021-23 biennium and the 2023-25 biennium. Since the legislatively approved budget for 2021-23 did not account for this possibility, there were no monies specifically set aside from the funds allocated to agency operations that could be reallocated to grants. This results in a shortfall of lottery revenues for grants of roughly \$6.7 million in the 2021-23 biennium that must be made up for in the 2023-25 biennium from amounts allocated to agency operations. This problem is further exacerbated by the fact that fiscal prudence requires that the 2023-25 biennium budget be built to accommodate the 70% / 30% split since the forecasted lottery revenues for the upcoming biennium are also anticipated to exceed the constitutional threshold. What this means is that the 2023-25 biennium funding for operations is reduced by an estimated \$6.7 million and from that lower amount the 2021-23 shortfall must be made up, producing a \$13.4 million swing in funding from operations to grants in the 2023-25 budget.

A small ending fund balance for OWEB operations was built into the budget for 2021-23. Combined with increasing actual lottery revenue transfers and anticipated ending fund balances from lottery revenues allocated to other agencies, a combined ending fund balance of \$5.5 million is anticipated that can be used to offset the 2021-23 shortfall, reducing it to \$1.8 million. Although not reflected in the current service level budget, the December 2022 revenue forecast estimates that \$40 million will be available for operational expenses in the 2023-25 biennium using the 70% / 30% split. As noted previously, this amount is \$6.7 million less than would have been available for operational expenses at the prior funding split. At the current service level of expenditures for OWEB of \$9.1 million, this leaves \$30.9 million available for other operational needs. From this amount, the net 2021-23 shortfall in funding for grants of \$1.8 million is assumed to be funded, leaving just \$29.1 million available for operations. Of this amount, \$2.1 million is the subject of requested policy package funding at OWEB.

In addition to funding the operations of OWEB, allocations of lottery revenues are made to the Department of Fish and Wildlife, Oregon State Police, Department of Environmental Quality, and Department of Agriculture of operational funds. These allocations totaled \$35.6 million in the 2021-23 biennium. With the projected available revenues for operations of \$29.1million (\$26.9 million if all OWEB policy packages using Lottery Funds were approved), there is a projected shortfall in available revenues for these other agencies of up to \$8.6 million.

Governor's Budget Summary

Downward adjustments are included in the Governor's budget for Attorney General rates and Department of Administrative Services surcharges and fees. An appropriation of \$2 million General Fund is also provided for the continuance of drought related grant programs that were provided one-time funding in the prior biennium. The total funding includes the continuation of three limited-duration positions at a cost of \$695,879 and roughly \$1.3 million for grants. Of the grant funds, a minimum of \$1 million is intended for irrigation modernization matching grant funding.

Other Funds expenditure limitation of just over \$14 million is provided for the expenditure of General Fund monies that were used to capitalize the Oregon Agriculture Heritage Program fund and for water acquisition grants. The continuation of four limited duration positions for program administration is included in the funding.

Federal Funds expenditure limitation of \$18.5 million is included for federal grant programs administered by the agency. Other Funds expenditure limitation of \$7 million is established to allow OWEB to receive and distribute grant funding from two possible private sources:

- PacifiCorp would provide funds related to the 2016 Klamath Hydroelectric Settlement Agreement. These funds are allocated for water quality improvements in the Klamath River and are part of the upcoming dam removal process on the river.
- OWEB may also receive and distribute grant funding from Idaho Power for water quality and salmon habitat improvements. These funds are related to the relicensing of the Hells Canyon Dam complex.

Notably missing from the Governor's budget is the one-time adjustment for the 2021-23 biennium and ongoing adjustment to Lottery Funds for grant programs as described in the issues section above.

Key Performance Measures

A copy of the Oregon Watershed Enhancement Board Annual Performance Progress Report can be found on the LFO website:
https://www.oregonlegislature.gov/lfo/APPR/APPR_OWEB_2022-08-30.pdf