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Department of Administrative Services (DAS) – Agency Totals

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
General Fund	1,780,512	9,976,764	20,045,019	8,904,771
Lottery Funds	0	600,000	0	0
Other Funds	527,901,822	841,086,350	920,051,165	908,272,394
Federal Funds	316,928	497,286	0	0
Other Funds (NL)	260,375,296	147,723,439	185,054,384	185,054,384
Total Funds	\$790,374,558	\$999,883,839	\$1,125,150,568	\$1,102,231,549
Positions	910	1,033	985	954
FTE	889.76	902.93	967.54	949.30

Totals are different from those in the Governor's budget document due to separate treatment by the Legislative Fiscal Office of: a) Lottery Funds for County Fairs and debt service payments for Lottery Bonds issued on behalf of Oregon Public Broadcasting; and b) General Fund support for Oregon Public Broadcasting.

Agency Overview

The Department of Administrative Services (DAS) is the central administrative agency that supports other agencies of state government and coordinates statewide services. The Department has numerous divisions responsible for a variety of disparate functions. It operates centrally located motor pools; operates and maintains facilities and the state data center; and provides printing, information technology consultation, computer, payroll, and accounting services. The Department distributes federal, lottery, and state funds to cities, counties, and other state agencies. It also collects and distributes mass transit assessments.

Revenue Sources and Relationships

The Department's operating revenue comes primarily from fees charged for services provided to state agencies, statewide assessments, and assessments for debt service on appropriation and pension obligation bonds. The Department establishes rates for these direct services and bills agencies based on usage. Costs of indirect services, such as the services provided by the Director's Office, Budget and Management Division, and Human Resource Services Division are recovered through a "statewide assessment," which is included in all state agencies' budgets as part of the line item expense titled "State Government Service Charges." Although services that are supported by the assessment cannot be directly measured and identified to each agency receiving the service, the Department makes an effort to allocate the assessment equitably. Agencies that benefit from appropriation and pension obligation bonds are assessed their share of debt service and debt management costs. Revenue for Nonlimited Other Funds expenditures comes from agency reimbursements for various costs that are demand driven and not discretionary to DAS (e.g., insurance claims and payments related to health care benefits). State agencies' payments to DAS for those costs are controlled through their budget review and approval process.

Legislatively Adopted Budget

The legislatively adopted budget reflects yet another departmental reorganization and provides for some program enhancements. The reorganization does away with the old Information Resources Management Division (IRMD), replaces it with the Enterprise Information Strategy and Policy Division (EISPD), and transfers a number of IRMD positions to other divisions within the Department.

The program enhancements are a combination of changes to address demand for core services and enhancements for new initiatives. The seeming dichotomy between fewer positions and more full-time-equivalent (FTE) positions results mainly from the phase out of limited duration positions approved in 2005-07 for movement of staff into the new consolidated data center and the increase in FTE positions in 2007-09 that reflect a complete biennium of operation of the center. However, there are other position changes throughout the budget and all position changes are discussed in the analysis of each Office or Division.

It should be noted that 33% (\$370.6 million) of the Department's budget is for debt service and debt management costs on appropriation and pension obligation bonds. The increased debt service cost accounts for \$44 million of the Other Funds increase in the Department's budget. Appropriation bonds were issued during the 2001-03 biennium to maintain state service levels in the face of reduced revenues. Pension obligation bonds were approved by the voters in 2003. Proceeds from the bonds were used to pay down the state's unfunded

liability to the Public Employees Retirement Fund (PERF). State law requires that the bond proceeds be accounted for separately in the PERF and amortized to reduce annual employer contributions. Because of earnings on the amount deposited from the sale of bonds, contributions into the PERF will be reduced by an additional \$144 million for the 2007-09 biennium.

Other significant changes include the addition of the newly created Oregon Education Benefits Board and the transfer of the Office for Oregon Health Policy and Research to the Department of Human Services.

DAS – Office of the Director

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
General Fund	208,280	232,587	245,469	245,110
Other Funds	3,956,046	4,494,773	4,900,639	4,624,878
Total Funds	\$4,164,326	\$4,727,360	\$5,146,108	\$4,869,988
Positions	17	18	18	18
FTE	17.00	18.00	18.00	18.00

Program Description

The Director is responsible for managing and coordinating the policies, programs, and services of the various divisions within the Department. Also, as the head of state government's central administrative agency, the Director is responsible for coordinating policy among the various state agencies and setting guidelines for developing and executing the Governor's budget. The Office of the Director now has the following units:

- *Agency Administration* includes the Director, Deputy Director, Director for Operations, and support staff.
- *Office of Economic Analysis* produces the Oregon Economic and Revenue Forecast and Criminal Justice Population Forecast. It also contracts for the Highway Cost Allocation Study.
- *Internal Audits* is responsible for conducting internal audits of the Department's public funds.
- *Government Affairs and External Relations* is responsible for legislative coordination and communications with agencies and the public.

Revenue Sources and Relationships

The General Fund supports the Prison Population Forecast. Otherwise, the Office is supported through an assessment of state agencies and reimbursement from the Department of Transportation for the cost of the Highway Cost Allocation Study.

Budget Environment

The Office of the Director is essentially an administrative office within an administrative agency. Its budget is based upon the amount of support needed within the Department and within state government.

Legislatively Adopted Budget

The legislatively adopted budget has no program enhancements or reductions and provides for the continuation of the Office's existing services. It does, however, reflect the transfer of one analyst position from EISPD and the transfer of one administrative support position to the Budget and Management Division. Also, the Legislature reduced the Director's Office Other Funds expenditure limitation by \$267,000 for a position it was paying for in the Governor's Office. The position is now established and budgeted for in that Office.

DAS – Budget and Management Division

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
Other Funds	6,766,686	11,531,916	9,660,826	10,081,024
Other Funds (NL)	1,887,574	0	0	0
Total Funds	\$8,654,260	\$11,531,196	\$9,660,826	\$10,081,024
Positions	35	35	34	34
FTE	34.50	34.29	33.29	33.29

Program Description

The Budget and Management Division establishes and enforces statewide budget standards and monitors agencies to ensure that funds are spent within legal and budgetary constraints. It is responsible for reviewing agency budget requests and developing and tracking the Governor's recommended budget through the legislative process. The Division also helps to coordinate statewide bonded debt programs, including issuance of certificates of participation, tax anticipation notes, pension obligation bonds, and lottery revenue bonds. It recently completed development and implementation of the first phases of a new statewide budgeting system (ORBITS).

Revenue Sources and Relationships

The Budget and Management Division is funded through assessments of state agencies (\$8.5 million). The balance of the Division's planned expenditures will be funded with carry-forward cash balance from certificates of participation previously issued for the ORBITS project.

Budget Environment

The Division's budget relies entirely on the ability of agencies to pay their assessments. Department management must ensure that the Division does its job properly, using only resources necessary to accomplish the work.

Legislatively Adopted Budget

The legislatively adopted budget recognizes the phase out of eight limited duration positions assigned to the ORBITS project and the transfer in of two positions; one administrative assistant position from the Director's Office, and one performance management position from the Operations Division. Additional enhancements will be developed for the ORBITS system during the 2007-09 biennium. The budget includes \$1.9 million Other Funds and two limited duration and three permanent positions to finish development of ORBITS and maintain the system into the future.

DAS – State Controllers Division

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
Other Funds	7,683,122	22,750,361	23,669,159	23,653,968
Other Funds (NL)	13,889,945	0	0	0
Total Funds	\$21,573,067	\$22,750,361	\$23,669,159	\$23,653,968
Positions	48	49	50	50
FTE	48.00	48.50	49.50	49.50

Program Description

The primary role of the State Controllers Division is to support and ensure accuracy and accountability in state government financial systems by providing services and controls in the management of statewide accounting, receivables, financial reporting, and payroll functions. It also provides budget and financial and accounting support to a number of small state agencies, including the Office of the Governor.

Revenue Sources and Relationships

The Division receives its revenue from an assessment of state agencies (\$12.1 million) and from direct charges for processing warrants and payroll checks/stubs (\$7.2 million). Assessments are based on analyses of services provided. Direct charge rates have increased due to additional system maintenance and internal control functions recommended by the Secretary of State Audits Division.

Budget Environment

The Division's budget relies on the ability of agencies to pay their assessments and direct charges. Department management must ensure that the Division does its job properly, using only resources necessary to accomplish the work.

Legislatively Adopted Budget

The legislatively adopted budget provides for the continuation of existing services of the Division. It includes one analyst position transferred from EISPD.

DAS – Enterprise Information Strategy and Policy Division (formerly IRMD)

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
General Fund	0	0	5,000,000	0
Other Funds	75,114,704	162,993,085	43,755,549	43,741,204
Other Funds (NL)	97,154,113	0	0	0
Total Funds	\$172,268,817	\$162,993,085	\$48,755,549	\$43,741,204
Positions	299	265	37	34
FTE	291.16	223.27	37.00	34.00

Program Description

The newly created Enterprise Information Strategy and Policy Division (EISPD) maintains certain policy and statewide information technology oversight functions housed in the former Information Resources Management Division (IRMD). The Division has six separate functional areas:

- **Administration** provides administrative support for the Division. It coordinates and oversees business functions and is headed by the state's Chief Information Officer.
- **Enterprise Security Office** is responsible for identifying the state's information security needs. It is responsible for statewide information security policies and practices.
- **IT Investment Policy and Planning** develops and implements state information technology strategies, rules, policies, standards, and processes. It provides support to the Chief Information Officer and information technology-related governance bodies, such as the state's Information Resources Management Council.
- **Geospatial Enterprise Office** provides statewide geographic information systems (GIS) coordination for Oregon government (state and local), to support enterprise-wide planning and decision-making.
- **E-government** manages the contract with the third party vendor to provide e-government support. E-government helps state agencies move information, forms, and payment processes to the Internet to provide services to citizens.
- **Business Continuity Planning** works with state agencies to develop a coordinated business continuity strategy.

Revenue Sources and Relationships

The Division receives its revenues from assessments of state agencies and charges for direct services. Agencies are assessed for the Division's role in enterprise planning and policy (\$1.5 million), E-government support (\$8.6 million), quality assurance (\$0.8 million), enterprise security (\$17.8 million), business continuity planning (\$0.6 million), and maintenance of a centralized Geographic Information System (\$1.8 million). Charges for direct services are estimated to be \$11.8 million. These revenues support the Division's budget, including debt service on the issuance of certificates of participation for enterprise security.

Budget Environment

A great deal of attention has been given to the state's information technology capabilities, infrastructure, and security. As state government becomes more dependent on technology for the delivery of services, the role of the Division takes on more of that of strategic statewide technology policy and oversight. The budget reflects the current administration's effort to place back office support functions in operating divisions and statewide enterprise information technology strategy and policy in another.

Legislatively Adopted Budget

The legislatively adopted budget recognizes the administrative phase out of seven positions and the elimination of 59 positions as part of the data center consolidation. The Department's reorganization of the former IRMD resulted in the transfer of 155 positions within the Department and elimination of ten other positions.

The Legislature did not approve a request for \$5 million General Fund and three positions to begin development of a new state GIS utility dubbed "navigatOR." Total project costs were estimated at \$180 million over a ten year period. With other expensive infrastructure needs such as the federally mandated Oregon Wireless Interoperability Network (see analysis under Department of State Police), the Legislature was unwilling to commit to this project at this time. It also felt other approaches to consolidating or orchestrating the various GIS systems within the state should be pursued.

DAS – State Data Center

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
Other Funds	4,335,704	102,331,824	157,698,017	167,634,843
Total Funds	\$4,335,704	\$102,331,824	\$157,698,017	\$167,634,843
Positions	0	149	159	159
FTE	0.00	76.10	159.00	159.00

Program Description

The State Data Center now provides 24/7 core computer service and operational support for twelve state agencies.

Revenue Sources and Relationships

The Center's revenues come from the state agencies that it serves. The revenue structure (assessments and/or fee for service) is still under development. One-time facility construction and start up costs have been financed by the sale of certificates of participation. Debt service requirements will be included in the revenue structure.

Budget Environment

As operations of the data center stabilize and mature, operational efficiencies are expected from standardization of hardware and software applications. Staffing for the data center in 2005-07 followed the budgetary convention of funding all new positions at the second step of their position classification. Actual hiring resulted in bringing in a great number of experienced state employees. As a result, they were hired at steps much higher than the budgeted second step.

Legislatively Adopted Budget

The legislatively adopted budget continues the operations of the data center and recognizes the transfer in of ten positions from EISPD. These positions support voice services for state agencies that will now be provided by the data center. Software licensing costs budgeted in the twelve agencies and paid by them in 2005-07 are now included in the budget for the data center. The budget also includes an additional \$7.4 million to deal with the actual versus budgeted personnel costs stemming from the convention of funding all new positions at the lower step. Additionally, the budget includes \$10 million for one-time expenditures originally expected to be incurred in the 2005-07 biennium. Because of the change to the approach to data center consolidation, certain of those one-time expenditures will now take place in the 2007-09 biennium. Certificates of participation are the source of revenue for the one-time expenditures.

DAS – Public Employees and Oregon Educators Benefit Boards

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
General Fund	0	0	4,950,228	0
Other Funds	4,018,341	6,412,495	6,945,411	12,433,927
Other Funds (NL)	4,563,042	55,340,455	85,832,835	85,832,835
Total Funds	\$8,581,383	\$61,752,950	\$97,728,474	\$98,266,762
Positions	17	19	37	41
FTE	16.83	18.16	31.74	37.46

Program Description

The Public Employees Benefit Board (PEBB) contracts for and administers medical and dental insurance programs for state employees and their dependents, representing over 114,000 Oregonians. The Board also selects and administers life and disability insurance coverage for eligible state employees. A major part of the Board's responsibility is developing benefit packages to meet the needs of state government and its employees, and preparing benefits information and answering inquiries from employees and their dependents about coverage.

The new Oregon Educators Benefit Board (OEBB), created by Chapter 7, Oregon Laws 2007, will perform essentially the same functions for the various school, education service, and community college districts

throughout the state. The law prohibits those districts, with certain exceptions, from offering benefit plans other than those offered by the Board on or after October 1, 2008.

Revenue Sources and Relationships

The PEBB operation is funded through an administrative charge (assessment) added to the employees' health insurance premiums. By law, the assessment cannot exceed 2% of monthly premiums. Currently, the charge, or assessment, is 0.6% of monthly premiums. Additionally, the Board receives a portion of employee "opt-out" contributions, which are placed in a stabilization fund that is used to help stabilize insurance premiums. The Board is also reimbursed the cost of annual open enrollment activities from insurance companies. In 1999, the Board received \$19.5 million when Standard Life Insurance Company changed from a mutual life insurance company to a stock life insurance company. The money was placed in a separate account pending the outcome of legal claims filed for a portion of the money. The Court of Appeals has determined that Oregon Health and Science University is entitled to a portion of the money and has remanded the case to circuit court to determine the exact amount. Until that determination is made, the money continues to earn interest in the separate account which now amounts to \$25.3 million. The Nonlimited Other Funds portion of the budget request is predominantly for health care costs that PEBB self insures.

The OEGB operation eventually will be funded through an administrative charge (assessment) added to the employees' health insurance premiums. By law, the assessment cannot exceed 2% of monthly premiums. Start-up operating funds were provided by a General Fund appropriation made to the Department of Education and transferred as Other Funds to DAS for Board operations. Additional Other Funds expenditure limitation was also provided to PEBB as it will provide start-up support staff for the Board. As funds become available, OEGB will reimburse PEBB for those start-up costs.

Budget Environment

Demand for PEBB's services has been increasing because of issues surrounding health insurance costs. Increased dealings with current and prospective providers also have placed additional demands on staff. Also, employee benefit packages that may be mandated by statute or arrived at through collective bargaining agreements can impact workload.

OEGB is expected to be very busy establishing and working with staff to issue requests for proposals for health benefit services in order to meet the statutory October 1, 2008 deadline to have benefit plans available to the districts.

Legislatively Adopted Budget

The legislatively adopted budget phases out two limited duration positions that were administratively established at PEBB during the biennium. Those two limited duration positions were established to address workload issues. The Legislature approved two additional permanent positions and provided other additional funding to address operational and board needs.

The Legislature also provided \$5.5 million Other Funds expenditure limitation and 22 positions to support the newly created OEGB, which is included with the PEBB budget. Operationally, staff for the OEGB will be co-located with, and have access to, the experienced PEBB staff.

DAS – Human Resource Services Division

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
Other Funds	9,293,394	14,291,517	16,445,327	16,174,712
Other Funds (NL)	2,037,533	0	0	0
Total Funds	\$11,330,927	\$14,291,517	\$16,445,327	\$16,174,712
Positions	57	62	62	62
FTE	55.63	59.84	60.00	60.00

Program Description

This Division provides central personnel-related services to help agencies obtain and retain a skilled workforce. Through administrative rules and policies and collective bargaining agreements, the Division defines and manages the state's human resources system based upon equal employment opportunity and a merit-based

compensation system. The Division maintains the state's classification and compensation systems. It also maintains the centralized position and personnel database (PPDB), which captures position and employee information for all employees other than higher education academic staff. In addition, it provides training to new board and commission members, and training and consultation to state agency management on human resources issues.

Revenue Sources and Relationships

The Division's principal revenue source is from an assessment (\$16.3 million) of Executive Branch state government agencies, excluding the Department of Higher Education. Legislative and Judicial Branch agencies and the Lottery Commission pay a reduced assessment to use the centralized employee database.

Approximately \$1.7 million of revenue comes from specialized training sessions and executive recruitment services. Additionally, \$1.3 million will come from issuance of certificates of participation to begin development of a new human resources information system.

Budget Environment

The Division's budget is largely affected by its ability to assess other state agencies. To that extent, it must justify its budget to its Department head and, more particularly, the Legislature. The Division intends to meet this challenge by ensuring that it delivers good service at a reasonable cost.

Legislatively Adopted Budget

The legislatively adopted budget phases out three administratively established limited duration positions. The budget has one enhancement that adds three limited duration positions and \$1.6 million Other Funds to begin development of a new state human resources information system. The Statewide Financial Management System Master Plan, published in 1991, included a human resources component. The accounting component of the plan is in place and the budget component will be completed when ORBITS is fully developed in 2007-09. The Department is now beginning to look at a new human resources component. This undertaking will be funded largely with certificates of participation (\$1.3 million) and from the HRSD assessment to state agencies (\$300,000). The Department will coordinate this work with the work the Department of Transportation will undertake for its human resource information system. Also, the Legislature reduced the Division's Other Funds expenditure limitation by \$244,000 for the position it was paying for in the Office of the Governor. The Department will transfer the revenue to the Office of the Governor and a position is established and budgeted for in that Office.

DAS – Facilities Division

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
Other Funds	27,632,117	73,426,672	87,257,078	86,935,251
Other Funds (NL)	38,997,273	3,835,656	0	0
Total Funds	\$66,629,390	\$77,262,328	\$87,257,078	\$86,935,251
Positions	206	212	214	214
FTE	203.75	205.74	210.67	208.42

Program Description

The Facilities Division provides services related to facilities management, lease negotiation and supervision, project management, space planning and parking management, building operations and maintenance, and landscape maintenance for agencies occupying state-owned space. Major acquisition, construction, capital improvement, and maintenance projects are planned and managed by this Division.

Revenue Sources and Relationships

The Division is funded from a variety of sources; its two major sources are the uniform rent assessed on all tenant agencies and parking fees. Due to a higher than expected ending cash balance, the uniform rent rate for office space in 2007-09 remains the same (\$1.32 per square foot) as the 2005-07 rate. Uniform rent includes a depreciation component that is deposited in a Capital Projects Account, the balances of which are used for major rehabilitation of building space, as conditions require. The Division also receives \$900,000 from assessments of state agencies on the Capitol Mall for landscaping, debt service, and general facilities coordination. Other revenue is generated from service agreements to perform maintenance and janitorial

services for office buildings owned by other state agencies, managing specialized non-office facilities, and a number of other facilities-related services.

Budget Environment

The Division owns about 3.2 million square feet of mostly office space. The Division attempts to keep office facilities adequately maintained to prolong their useful lives and keep rental rates at a reasonable level. Demand for new or improved facilities has a direct impact on Division activities. External causes such as increased utility rates and additional security needs contribute to the increased uniform rent.

Legislatively Adopted Budget

The legislatively adopted budget continues the Division's operations with two enhancements. The budget recognizes the elimination of three positions through administrative actions. It also continues the two positions authorized by the Emergency Board to provide facilities construction expertise to the Department of Human Services (DHS) for the new state hospital facilities and adds five positions and \$395,000 Other Funds expenditure limitation as additional support to DHS for the hospital facilities. If the Department of Human Services chooses not to use DAS facilities personnel, the positions will not be filled. Additional Other Funds expenditure limitation is provided for legal and professional services needed for sales of real property (\$500,000) and for increased cost of power provided from "green resources" (\$200,000).

The Capitol Mall was made a state park and its landscape operations and maintenance was transferred to the Department of Parks and Recreation by SB 632. The budget was reduced by \$269,000 to recognize the transfer of maintenance of the Capitol Mall landscaping to the Department of Parks and Recreation effective January 1, 2008. DAS will reduce its assessment of agencies on the Capitol Mall by the same amount.

DAS – State Services Division

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
General Fund	259,426	1,053,070	739,183	736,468
Other Funds	47,629,812	78,960,183	131,696,974	131,461,541
Other Funds (NL)	84,631,154	73,294,877	83,359,000	83,359,000
Total Funds	\$132,520,392	\$153,308,130	\$215,795,157	\$215,557,009
Positions	139	140	255	255
FTE	134.76	138.88	254.00	254.00

Program Description

The State Services Division was originally formed by the merger of the Risk Management Division and the Procurement, Fleet, and Surplus Services Division. The Risk Management Section purchases insurance for the state, and also is responsible for the management of the state's Self-Insurance Fund in order to maintain adequate balances for known and projected losses and to purchase excess coverage for the state. The section investigates and resolves claims against the state and its employees, and devises strategies that encourage agencies to minimize loss-related costs. The Procurement, Fleet, and Surplus Services activities are provided by these sections: State Procurement Office; Fleet Administration and Motor Pool; and State and Federal Surplus Property. The primary role of these sections is to provide cost effective central services to state agencies and local governments. Another departmental reorganization now places the Printing and Distribution function that was formerly with IRMD within the State Services Division.

Revenue Sources and Relationships

The revenue source for the Risk Management Section's operating expenditures is the Insurance Fund. State agencies pay into the Insurance Fund through an assessment (\$122.3 million) based on a share of forecasted statewide claims costs. Statewide needs are developed from independent actuarial forecasts for workers' compensation, property, and liability costs and estimated legal costs. Assessments are \$29 million higher than for the 2005-07 biennium, due largely to increasing Workers' Compensation claims costs (\$20.5 million). Property and liability insurance costs increased \$8.5 million. More than 70% of the Section's budget, established to purchase insurance and pay claims from the Insurance Fund, is Nonlimited Other Funds.

The State Procurement Office operations are supported through an assessment of \$7.2 million, which is based on volume of transactions and number of agency positions. An additional \$5.9 million is provided through other direct fees for services and purchasing, consulting, and training fees.

The Fleet Administration and Motor Pool operations are supported entirely through fees for services, principally fleet rental charges. In addition, the unit charges agencies that own vehicles for fueling, service, and repair fees. State Fleet Operations revenues are budgeted at \$40.6 million for the 2007-09 biennium.

State and Federal Surplus Property operations together generate revenue from service fees. For state surplus items, the fees (\$2.8 million) are based on the value of the items sold for state agencies disposing of the surplus property. For federal surplus property, the service fees (\$2.2 million) are charged to agencies acquiring the property through the Division based on the value of the federal surplus property acquired.

Printing and Distribution is financed by charges for printing and mailing services (\$53.9 million) and a statewide assessment for shuttle mail service (\$2.9 million).

Budget Environment

The amount and types of property owned, the number of employees and their work, and the types of programs agencies have all contribute to the need for risk management services and products, principally insurance. How well agencies manage their risk elements directly impacts their risk management costs. Demand for services drives the budget of the fleet operations, purchasing, surplus property, and printing and distribution services.

Legislatively Adopted Budget

The legislatively adopted budget recognizes the elimination of two positions to fund other personnel actions and the transfer of one position from the Operations Division. It also eliminates nine limited duration positions (four in Risk Management for BM 37 claims, and five in State Procurement for purchasing initiatives). However, a number of enhancements included in the budget add positions to deal with continuing workload issues in three specific areas.

Work on BM 37 claims continues and five limited duration positions and \$739,000 General Fund is provided for that purpose. Nine permanent positions and \$2.4 million Other Funds are included for Printing and Distribution workload increases resulting from a shift in printing from ODOT and DHS because of the data center consolidation. These positions have been eliminated in the ODOT and DHS budgets. To address workload issues in the State Procurement Office, 11 permanent positions are established, funded in part by eliminating five positions in the Fleet Program. The net effect is six new positions and an increase in Other Funds of \$1.2 million.

DAS – Operations Division

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
General Fund	13,969	0	0	0
Other Funds	7,293,109	9,292,610	20,106,299	19,950,740
Total Funds	\$7,307,078	\$9,292,610	\$20,106,299	\$19,950,740
Positions	69	59	95	95
FTE	68.50	57.72	93.88	93.88

Program Description

The Operations Division provides core services that are best managed centrally. Included in the Operations Division are fiscal services such as departmental budgeting, payroll, and accounting, along with personnel and procurement services. As part of the latest departmental reorganization, help desk and technical support personnel were transferred from EISPD. Help desk support is limited to DAS personnel only. The technical support is for DAS' central business systems, which includes applications such as ORBITS and the state payroll system.

Revenue Sources and Relationships

The Division's revenue comes from service charges to the Department's various divisions to cover its costs.

Budget Environment

The Operations Division is purely a support office within an administrative agency. Its budget is based upon the amount of support needed within the Department.

Legislatively Adopted Budget

The legislatively adopted budget recognizes the elimination of two administratively established limited duration positions. It reflects the departmental reorganization and resulting transfer out of one position to the State Services Division, one to the Budget and Management Division, and the transfer in of 40 positions from EISPD. The budget continues all services at the Department's essential budget level with no enhancements. Additionally, the Legislature reduced the Division's Other Funds expenditure limitation by \$128,000 for a position it was paying for in the Office of the Governor. The Department will transfer the revenue to the Office of the Governor and the position is established and budgeted for in that Office.

DAS – Office for Oregon Health Policy and Research

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
General Fund	1,298,837	1,402,409	2,261,316	0
Other Funds	3,987,084	4,100,077	3,014,538	0
Federal Funds	316,928	497,286	0	0
Total Funds	\$5,602,849	\$5,999,772	\$5,275,854	\$0
Positions	20	22	22	0
FTE	16.63	19.80	18.71	0.00

Program Description

The 1993 Legislative Assembly established the Office of the Oregon Health Plan Administrator to oversee implementation of the Oregon Health Plan. In 1995, the Legislative Assembly combined it with the Office of Health Policy and its responsibility for the collection of data on hospital discharges, revenues, and changes in rates with the Office of the Oregon Health Plan Administrator to assist with health planning. Administration of the Oregon Health Council, the Oregon Health Services Commission, and the Oregon Health Resources Commission were also transferred to this Office. Primary responsibilities of these three commissions are policy advice on health care issues; establishment and maintenance of the prioritized list of health services; and the introduction, diffusion, and utilization of medical technology, respectively. The Office is the only agency with statewide Oregon Health Plan coordinating responsibilities.

Revenue Sources and Relationships

In addition to its General Fund support, the Office has contracts with Department of Human Services' agencies that provide Other Funds revenue. The Federal Funds came from federal grants to conduct research on health coverage in Oregon. The Office also pursues other private grant funding to support its research activities.

Budget Environment

General Fund revenue constraints have created opportunities for the Office to explore private grant funding and to use those funds to obtain federal matching funds through arrangements with the Department of Human Services (DHS). The Office sends the funds to DHS, where matching funds are obtained, and then DHS sends the original amount plus the match back to the Office to be spent as Other Funds. The Office also has pursued federal grant fund opportunities. The Legislature provides expenditure authority for Federal Funds when federal grants are received. No federal grant funds are carried over from the 2005-07 biennium.

Legislatively Adopted Budget

The legislatively adopted budget essentially continues existing operations but makes a number of structural changes to the Office's budget. It also adds staff and funding for the Oregon Prescription Drug Program. Two permanent positions and \$786,000 Other Funds are provided to continue the collection and compilation of inpatient and outpatient and ambulatory surgical discharge data and continue work under the Attorney General's Consumer and Prescriber Grant project. Funding for these activities was approved during the interim by the Emergency Board and the budget continues those efforts through the 2007-09 biennium. Three positions and \$435,000 General Fund are provided to restore and continue healthcare analysis and policy review activities previously funded through a variety of Other Fund sources. Additionally, one position and \$201,000 General Fund was provided for additional data collection responsibilities given the Office by HB 2524.

Three positions and \$739,000 General Fund are provided to expand the Oregon Prescription Drug Program activities. One position was provided by the Legislature in 2005. The passage of Ballot Measure 44 in November 2006 is expected to expand the pool of individuals eligible to participate and the budget adds staff to accommodate the increased activity and workload. The Program is expected to become self-sustaining by the end of the biennium and \$389,000 of the General Fund support provided this biennium is expected to be paid back to the General Fund during the 2009-11 biennium.

Finally, SB 329 transferred the personnel and appropriations for the Office to the Department of Human Services to be within the Director's Office. This was done so that the Office could also support efforts of the Oregon Health Fund Board, which was created by SB 329 and also placed in the Department of Human Services.

DAS – Oregon Progress Board

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
General Fund	0	464,698	448,823	448,193
Other Funds	867,367	400,000	412,400	412,400
Total Funds	\$867,367	\$864,698	\$861,223	\$860,593
Positions	3	3	2	2
FTE	3.00	2.63	1.75	1.75

Program Description

The Oregon Progress Board consists of nine members appointed by the Governor. Functions include evaluating Oregon's progress in meeting the goals established in the Oregon Benchmarks; updating the benchmark measures; defining new measures; and addressing strategies for meeting the benchmark goals. The 1997 Legislative Assembly re-authorized the Progress Board as a statutory program.

Revenue Sources and Relationships

In the past, the Board had been funded by a combination of General Fund and Other Funds. General Fund support was eliminated by the 2003 Legislature, but restored by the 2005 Legislature. The Board receives Other Funds revenue from private grants, donations, and honorariums for speaking.

Budget Environment

As the Legislature focuses more on performance measures and program outcomes, the activities of the Oregon Progress Board and staff have helped state agencies sharpen their performance measures and outcome metrics. The Legislature has continued to provide General Fund and Other Funds support.

Legislatively Adopted Budget

The legislatively adopted budget eliminates one administratively established limited duration position and continues the operations of the Board at its essential budget level with no enhancements.

DAS – Capital Improvements

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
Other Funds	3,213,742	5,092,557	5,704,549	5,704,549
Total Funds	\$3,213,742	\$5,092,557	\$5,704,549	\$5,704,549

Program Description

The Capital Improvements program, developed to complement the Major Construction/Acquisition program, provides for remodeling and renovation projects that cost less than \$500,000.

Revenue Sources and Relationships

Capital improvement activities are funded out of the Capital Projects Account, the Department's depreciation reserve fund, and are in addition to construction expenditures financed from the sale of certificates of participation.

Legislatively Adopted Budget

The legislatively adopted budget includes a number of new projects totaling slightly more than \$5.1 million and \$600,000 of improvements carried over from the 2005-07 biennium.

DAS – Capital Construction

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
Other Funds	70,742,002	16,972,000	37,472,551	14,272,553
Total Funds	\$70,742,002	\$16,972,000	\$37,472,551	\$14,272,553

Program Description

The Capital Construction Program includes major remodeling, renovation, and new construction or acquisition projects costing more than \$500,000 in the aggregate. In 1997, the Legislative Assembly approved significant changes in the state's approach to major construction and deferred maintenance. The legislation establishes an advisory committee to provide guidance on agencies' efforts to properly maintain and protect their investments in capital assets, and it mandates state agencies to prepare four-year capital construction budgets.

Revenue Sources and Relationships

Other Funds for capital construction come from the depreciation component of uniform rent and service agreements (\$9.7 million), and from the issuance of certificates of participation (\$4.5 million).

Legislatively Adopted Budget

The legislatively adopted budget includes funding for eleven specific projects, some of which are continuations of projects authorized and begun in the prior biennium. Two of the projects, an additional parking structure and an office building on the Capitol Mall, each were provided planning money and \$1 placeholder construction expenditure limitation. Planning for the two is to take into consideration future needs of Executive Branch offices that currently occupy space in the State Capitol. The other projects are fairly small, with project 2007-09 costs ranging from \$250,000 to \$4.5 million. Also included is \$250,000 for general planning needs.

DAS – COP Issuance Costs for Capital Construction Projects

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
Other Funds	0	1,064,248	685,283	685,283
Other Funds (NL)	541,496	0	0	0
Total Funds	\$541,496	\$1,064,248	\$685,283	\$685,283

Program Description

This program accounts for the cost of issuing certificates of participations (COPs) for Capital Construction projects. Issuance costs normally are included as part of the principal amount borrowed, much like borrowers' "points" on a home mortgage are included in the amount borrowed. This item previously was included as part of the Capital Construction section. It has now been separated to keep financing costs separate from actual construction costs.

Legislatively Adopted Budget

The legislatively adopted budget reflects expected issuance costs for new certificates of participation to be issued during the 2007-09 biennium.

DAS – Miscellaneous Distributions

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
Lottery Funds	0	600,000	0	0
Other Funds (NL)	14,654,792	15,252,451	15,862,549	15,862,549
Total Funds	\$14,654,792	\$15,852,451	\$15,862,549	\$15,862,549

Program Description

This program accounts for the Mass Transit Assessment collected from state agencies based on their number of employees working in certain mass transit districts and transportation districts. The assessment is then distributed to those districts to reimburse the districts for the benefits they provide to state government. The \$600,000 Lottery Funds for 2005-07 was for a one-time forgivable loan to the Oregon Association of Nurseries for agricultural transportation pursuant to SB 5520 (2005).

Legislatively Adopted Budget

The legislatively adopted budget reflects anticipated Mass Transit Assessment collections and distribution based on budgeted employment numbers.

DAS – Special Governmental Payments

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
General Fund	0	6,824,000	6,400,000	7,475,000
Other Funds	255,368,362	326,972,032	370,626,565	370,505,521
Other Funds (NL)	2,018,374	0	0	0
Total Funds	\$257,386,736	\$333,796,032	\$377,026,565	\$377,980,521

Program Description

This is a catch-all category that reports payments not directly related to the mission of the Department of Administrative Services.

Legislatively Adopted Budget

The legislatively adopted budget includes a \$6.4 million General Fund payment to the federal government. The federal government is concerned that the state's practice of using a "blended" PERS rate on positions funded with federal revenues that did not separate out the different rates for general service and police/fire created an inordinate cost on the federal government. The federal government settled with the state on the \$6.4 million payment to offset what it perceived to be the overcharge resulting from the blended rate practice. The new Oregon Public Service Retirement Plan (OPSRP), effective August 2003, separates the rates for general service and police/fire. As the accounting systems improve and more persons fall under OPSRP, this settlement amount should go down. The Legislature also provided \$275,000 General Fund for payment to the Independent Development Enterprise Alliance to develop and implement a plan to assist under-served individuals in removing legal impediments to employment and \$800,000 General Fund for distribution to the Oregon Center for Nursing to help develop solutions to workforce shortages in the healthcare industry.

The Other Funds are for debt service and debt management costs on the Pension Obligation Bonds (\$257.9 million), which were approved by the voters in a special election, and debt service on Appropriation Bonds issued to balance the 2001-03 budget (\$112.6 million). The source of funding for the Appropriation Bond debt service is proceeds from the Tobacco Master Settlement Agreement.

Advocacy Commissions Office – Agency Totals

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislative Adopted
General Fund	0	349,197	401,916	401,494
Other Funds	871,910	184,672	103,785	103,785
Total Funds	\$871,910	\$533,869	\$505,701	\$505,279
Positions	6	4	2	2
FTE	6.00	2.18	2.00	2.00

Agency Overview

The Oregon Advocacy Commissions Office was established in 2005 (SB 359) to provide administrative support to the Commission on Asian Affairs, the Commission on Black Affairs, the Commission on Hispanic Affairs, and the Commission for Women. The commissions serve as liaisons between the minority communities and government entities and work to establish economic, social, legal, and political equality in Oregon. The agency assists the commissions in monitoring existing programs and legislation designed to meet the needs of minority populations and helps in identifying and researching problem areas and issues affecting minority communities.

Revenue Sources and Relationships

Agency operations are funded with General Fund. The only other revenue source is donation funds (estimated to be \$120,000 in 2007-09). Donation funds are dedicated by statute to the commission to which the donation was made and can only be used by the agency for the purpose for which the donation was made.

Budget Environment

The agency is still in its infancy – the Administrator position was only filled for six months during the 2005-07 biennium and has been recently filled with a temporary appointment. The agency's operating budget is 64% personal services and 36% services and supplies. Expenditure authority for the donations funds (\$103,785) is budgeted in the services and supplies category.

Legislatively Adopted Budget

The legislatively adopted General Fund budget is \$52,297, or 15%, greater than the 2005-07 legislatively approved level. The adopted General Fund budget includes \$22,345 to cover the potential increase in the cost of contracting for administrative services (SB 624) and essential budget level adjustments totaling \$29,952.

The legislatively adopted Other Funds budget is \$80,887 and two positions (0.18 FTE) less than the 2005-07 legislatively approved level – reflecting the transfer of the Communities in Partnership to Stop Violence Against Women and Children program to the Department of Human Services in September 2005.

Employment Relations Board (ERB) – Agency Totals

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
General Fund	1,307,322	1,449,920	1,661,913	1,659,340
Other Funds	1,315,550	1,427,990	1,619,712	1,617,304
Total Funds	\$2,622,872	2,877,910	\$3,281,625	\$3,276,644
Positions	14	12	13	13
FTE	12.17	12.00	13.00	13.00

Agency Overview

The mission of the Employment Relations Board (ERB) is to resolve disputes concerning labor relations for an estimated 3,000 employers and 250,000 employees in public and private employment in the state. The agency is responsible for administering specific portions of Oregon law: the Public Employee Collective Bargaining Act, which governs collective bargaining in state and local government; the State Personnel Relations Law, which creates appeal rights for non-union state employees who believe they were treated unfairly in the workplace; and the private sector labor-management relations law, which addresses collective bargaining for private sector employers who are not covered by federal law. ERB last handled a private sector case in 2002.

To accomplish this mission, the agency provides the following specific services:

- Conciliation and mediation services provided by three mediators who make themselves available to travel throughout the state to attempt to resolve bargaining disputes, contract grievances, unfair labor practices, and representation matters, including conducting elections to determine whether employee groups will form a labor union. This unit also provides a list of qualified local labor arbitrators and training in dispute resolution.
- Hearing and deciding unfair labor practice complaints, personnel appeals, and contested representation elections handled by two administrative law judges. The administrative law judges issue recommended decisions which the parties can appeal to the Labor Relations Board.
- The Labor Relations Board is a three member panel appointed by the Governor and approved by the Senate which acts as the state's "labor appeal court" for labor and management disputes within state government. The Board issues final orders and administers the labor laws that cover private sector employees that are exempt from the National Labor Relations Act.

The 2007-09 legislatively adopted budget provided for 13.00 full-time equivalent positions (four of which are legal and administrative support staff).

Revenue Sources and Relationships

The Employment Relations Board generates the majority of its Other Funds revenue through an assessment to state agencies based on the number of covered employees, including employees from the Legislative and Judicial branches and temporary employees. ERB also receives fees for the following services: contract mediation fees to local governments (\$1,000, born equally by the employer and the labor organization involved); grievance and Unfair Labor Practice fees (\$500, again split between employer and labor); interest based bargaining training fees (up to \$2,500); and filing fees for Unfair Labor Practice complaints (\$250) and answers. The agency also charges fees for hard copies of documents, many of which are available on-line at no cost.

The 2007 Legislature approved HB 2070, which increased the answer filing fee from \$100 to \$250, and established a new fee of \$250 to intervene in proceedings. In addition, the Legislature approved SB 58 which established fees for qualified arbitrators to apply to and be maintained on the Board's list of qualified arbitrators. In total the bills are expected to generate an additional \$24,700 in fee revenue per biennium, which will help to partially fund a new administrative law judge position also approved in the 2007-09 budget.

ERB receives General Fund revenue to support labor relations functions conducted on behalf of local governments. The agency requested an increase in General Fund support of \$88,363 for the 2007-09 biennium to fund 50% of the additional administrative law judge position. This request was approved by the Legislative Assembly and will help to meet workload demands generated by increasingly complex cases and existing case backlogs.

Budget Environment

In the early 1990s, ERB had over 200 cases filed each fiscal year. Since FY 1995, the average number of cases filed per fiscal year has been 133. The agency has failed to meet its performance targets for timely processing and resolution of cases consistently since 2004, which corresponds to the biennium in which the number of permanent administrative law judges was reduced from three to two, due to funding constraints.

The number of cases filed pertaining to local government labor relations, work which has been supported by General Fund appropriations, has exceeded the number of cases filed for state government labor relations. State government cases are supported by an assessment on state agencies commensurate with the number of agency employees. The 2003 Legislature directed ERB to develop a funding mechanism that was consistent with the workload requirements of each program and to ensure that the assessment only covered the costs associated with the state government cases. In cooperation with the Governor's Office, ERB met with representatives from local government employers and unions to discuss funding options for the Local Government program. The workgroup seemed to conclude that General Fund should be the primary support for services. The workgroup narrowly approved a recommendation for new and increased fees, provided the costs are born equally by employers and employees, if General Fund support proved to be insufficient.

Also during 2003-05, an audit of ERB was conducted by the Department of Administrative Services (DAS), and identified several areas for improvement, including the need for research tools, equipment, training, better time management, segregation of administrative duties, and classification reviews. ERB has addressed a number of the issues identified, and the Board has made significant progress toward resolving older cases on its docket. However, the cases requiring the attention of administrative law judges are taking longer to hear and resolve, creating a growing backlog and resultant delays.

Legislatively Adopted Budget

Historically, the agency's budget was divided into a State Government Labor Relations program and a Local Government Labor Relations program. In preparation for 2007-09, ERB worked with the Department of Administrative Services to implement a new accounting and program structure, which divides the agency into four programs as follows: Administration, Mediation, Hearings, and Elections, reflecting the activities of the agency rather than the consumers of the services. Program level comparisons between the 2005-07 legislatively approved budget and the 2007-09 legislatively adopted budget are not particularly helpful since the program and accounting structure has changed so significantly. Agency-wide, however, the 2007-09 legislatively adopted budget represents a 13.9% increase over the legislatively approved budget, and includes funding and position authority for an additional administrative law judge (1.00 FTE) funded through a combination of fee increases and additional General Fund dollars. The Legislature increased General Fund support for the agency by 14.4%.

ERB – Administration

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
General Fund	0	0	1,023,426	1,021,972
Other Funds	0	0	611,874	611,152
Total Funds	\$0	\$0	\$1,635,300	\$1,633,124
Positions	0	0	5	5
FTE	0.00	0.00	5.00	5.00

Program Description

The three-member Employment Relations Board acts as a "labor appeal court" for labor and management disputes within state and local governments. The Board is appointed by the Governor and is responsible for issuing final agency orders in declaratory rulings, contested case adjudications of unfair labor practice complaints, representation matters, and appeals from state personnel actions. The Board Chair acts as the agency's administrator. The chair is assisted by an office administrator, and this program unit includes not only the activities of the Board mentioned above, but also the day-to-day administration of the agency, including budgeting, payroll, information technology, reporting, administrative rules, supervision of staff, etc.

Legislatively Adopted Budget

The 2007-09 legislatively adopted budget provides detail to reflect changes in the agency's accounting and program structures. However, historical information is not available at this same detail level and is only available on an agency-wide basis.

ERB – Mediation and Conciliation Services

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
General Fund	0	0	279,405	278,894
Other Funds	0	0	495,121	494,288
Total Funds	\$0	\$0	\$774,526	\$773,182
Positions	0	0	4	4
FTE	0.00	0.00	3.50	3.50

Program Description

The Conciliation Services Office is comprised of the State Conciliator, two mediators and a part-time (0.50 FTE) support position, and is responsible for the following:

- Providing mediation and conciliation services to resolve a variety of disputes, including those related to collective bargaining, contract grievances, unfair labor practice allegations, State Personnel Labor Relations Law appeals, and representation matters.
- Training in methods of alternative dispute resolution, collective bargaining, labor-management cooperation, and related issues.
- Maintaining a list of qualified arbitrators and providing related services and information. This includes processing arbitrator applications; handling questions from arbitrators and parties; responding to concerns and complaints from and about panel members; a biannual review of panel member selection rates; suspension or removal of arbitrators; processing requests for arbitration panels; maintaining a library of arbitration awards; and publishing interest arbitration awards on the ERB website. The program also participates in and sponsors a biennial ERB Panel Member Conference and sends out information to panel members on case law and legislative changes.

Legislatively Adopted Budget

The 2007-09 legislatively adopted budget provides detail to reflect changes in the agency's accounting and program structures. However, historical information is not available at this same detail level and is only available on an agency-wide basis. The Legislature approved new fees for application and listing of qualified arbitrators, which are expected to generate \$11,500 for the 2007-09 biennium. The fee revenues were added into the ending balance of this program with no corresponding programmatic expenditure. Total expenditures are \$278,894 General Fund, \$494,288 Other Funds, and 3.50 FTE for this program.

ERB – Hearings

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
General Fund	0	0	302,216	301,707
Other Funds	0	0	507,217	506,371
Total Funds	\$0	\$0	\$809,433	\$808,078
Positions	0	0	4	4
FTE	0.00	0.00	4.00	4.00

Program Description

The Hearings Office is comprised of three Administrative Law Judges and one support staff. The Administrative Law Judges hear all unfair labor practice complaints filed by state and local government labor or management representatives, hear all state personnel appeals, and hear representation matters referred by the Elections Coordinator that require a contested case hearing. Following the hearings, the Administrative Law Judges issue recommended decisions which the parties can appeal to the Employment Relations Board.

Legislatively Adopted Budget

The 2007-09 legislatively adopted budget provides detail to reflect changes in the agency's accounting and program structures. However, historical information is not available at this same detail level and is only available on an agency-wide basis.

The Legislature added an additional administrative law judge position (1.00 FTE) with additional General Fund in this program to address the backlog in contested case hearings and meet agency targets associated with hearing and deciding cases. Revenue from a proposed increase in the fees to file an answer to a labor complaint is expected to generate \$13,200 Other Funds for the biennium to support a portion of the cost of the additional position. The total 2007-09 legislatively approved budget for this program is \$301,707 General Fund, \$506,371 Other Funds, and 4.00 FTE.

ERB – Elections

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
General Fund	0	0	56,866	56,767
Other Funds	0	0	5,500	5,493
Total Funds	\$0	\$0	\$62,366	\$62,260
FTE	0.00	0.00	0.50	0.50

Program Description

The Elections program is staffed by a part-time (0.50 FTE) position who is responsible for conducting elections regarding employee union representation and certifying the results. The program also processes petitions involving union representation and composition of bargaining units. The agency reports that these activity levels have remained relatively constant since the 2001-2003 biennium, and expects workload to be comparable in 2007-09.

Legislatively Adopted Budget

The 2007-09 legislatively approved budget provides detail to reflect changes in the agency's accounting and program structures. However, historical information is not available at this same detail level and is only available on an agency-wide basis.

Government Ethics Commission – Agency Totals

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
General Fund	572,817	653,700	927,210	1,063,541
Other Funds	2,111	3,285	3,368	3,368
Total Funds	\$574,928	\$656,985	\$930,578	\$1,066,909
Positions	3	3	5	6
FTE	2.80	3.00	5.00	5.79

Agency Overview

The mission of the Government Ethics Commission¹ is to impartially administer the regulatory provisions of government standards and practices, lobby regulation, and certain public meeting laws. The Commission consists of seven volunteer members; four members are appointed by the Governor upon recommendation by legislative leaders and three directly by the Governor. All members are confirmed by the Senate. No more than four members can be from the same political party and the law limits members to a single four-year term. The Commission is required by law to meet specific timelines for the conduct of investigations. The Commission also educates public officials and lobbyists on the provisions of the Government Ethics Law, the Public Meetings Law, and lobbying regulations. Client groups of the Commission include: all public officials who serve the state or any of its political subdivisions, whether paid or unpaid; registered lobbyists and their employers; and any citizen who requests a review of the conduct of a public official or lobbyist.

Revenue Sources and Relationships

The Commission is funded almost entirely by General Fund. The Other Funds portion, comprising less than 1% of the budget, is from reimbursements for the cost of printing and distributing Commission documents. Actual Other Funds revenue continues to decline with the increased availability of Commission documents on the Internet. The amount of revenue from these sources is estimated at approximately \$3,400 for 2007-09, down by 50% from actual receipts in the late 1990s. The Commission also collects revenues from fines and forfeitures based on its authority to impose civil penalties. These revenues are not included in the agency budget, however, but are transferred to the General Fund and are not available for Commission operations. The Commission estimates it will collect \$75,000 in fines and forfeitures in 2007-09. The Commission's 2005-07 legislatively approved budget projected fine and forfeiture revenues to the state of \$60,000; through November 2006, more than \$88,000 has been actually collected.

Budget Environment

The most significant factor affecting the Commission over the past six years has been the reduced level of funding. Although the total number of complaints filed with the Commission has been relatively constant, with complaint activity spiking slightly upward in election years, the Commission's 2003-05 adopted budget was 25% below 1999-2001 levels. Budget reductions during the 2003 legislative session left the agency with three positions: the executive director, one investigator, and a 0.80 FTE support specialist. With only one investigator position, any unexpected major investigation, such as the review of the State Accident Insurance Fund (SAIF) Corporation during 2004, results in a restricted ability to address other complaints filed with the Commission. In 2003, the Commission delayed taking immediate action on 14 requests for complaint investigation due to the lack of investigative resources; through November 2006, 8 requests for complaint investigation were delayed from immediate initiation due to the lack of budgeted resources. The Commission's executive director continues the education component of Commission responsibility with training presentations, but at a declining level due to the need to complete higher priority work. Training presentations totaled 55 in 2001, but declined to 22 in 2006 (through November). This situation is addressed in the 2007-09 legislatively adopted budget with the addition of three new full-time positions, including an investigator, a trainer, and an office assistant.

A major variable in the Commission's budget is the level of Attorney General charges. These can vary greatly depending upon whether the Commission faces any contested cases. Generally, the legislatively adopted budget makes no allowance for exceptional contested case costs. Due to the unpredictable nature of such legal

¹ HB 2595, enacted by the 2007 Legislature, changed the name of the Government Standards and Practices Commission to the Government Ethics Commission, effective July 1, 2007.

costs, including the award of attorney fees to prevailing parties, the Commission usually seeks supplemental funding from the Emergency Board during the interim or from the Legislature during session.

The Commission has also investigated alternative funding sources with little success. Currently, as an agency funded entirely by the General Fund, the Commission must seek funding approval from the same legislators that are subject to its review of conduct. There are an estimated 200,000 public officials subject to Commission jurisdiction, with the vast majority serving at the local government level. On average, only approximately 15% of the Commission's caseload originates from state government; 43% of the cases come from cities and counties, with the remaining 42% from school districts, special districts, and other local jurisdictions. The Commission, however, receives no direct revenues from local government entities for their combined 85% share of the Commission's workload. The 2005 Legislature appropriated \$240,000 to the Oregon Law Commission to conduct a comprehensive review of the state's ethics laws and financing options and to prepare recommendations for change to the 2007 Legislature.

The 2007 Legislature adopted a number of reforms of ethics laws in HB 2595 and SB 10 that will cause additional reporting requirements for lobbyists, lobbying entities, and public officials. SB 10 also included a new funding mechanism for the Commission that will start with the 2009-11 biennium. The Commission will be funded on an assessment basis that will proportionally charge state agencies on the basis of FTE and local government entities on the basis of their payments of the Municipal Audit charge to the Secretary of State.

Legislatively Adopted Budget

The 2007-09 legislatively adopted budget for the Commission is \$1,063,541 General Fund (and \$1,066,909 total funds), which represents a 67.6% increase from the 2005-07 legislatively approved level. The adopted budget adds three new positions, an office support position, a trainer position, and an additional investigator, and reclasses an existing office support position to a program analyst level. In addition to the agency's operating budget, the Legislature provided a special purpose appropriation to the Emergency Board of \$700,000 for costs related to the development and implementation of an electronic filing and reporting system required by SB 10 to be operational by January 2010. The Commission is to report back to the Legislature in February 2008 or to the Emergency Board on projected costs for the development of the system and the timeline for implementation.

The position actions approved by the Legislature provide a solution to many of the workload issues recently faced by the Commission. The reclassified position will be able to take over responsibilities for compliance issues related to lobbyist registration and expenditure reporting and to the filing of the Statement of Economic Interest, required to be filed annually by certain public officials. The new office support position would be responsible for the day-to-day operational activities associated with answering telephones, processing mail, preparing routine correspondence, and similar functions. The agency is required by statute to provide a program of continuing education for public officials and lobbyists. The responsibilities for this activity have primarily fallen on the executive director position, which has restricted the agency's ability to maximize training opportunities. The addition of a second program analyst position focused on education and training activities is expected to relieve the executive director of this responsibility, thereby freeing up additional time for investigative work and other agency head duties on the part of the executive director. To address additional investigative responsibilities due to the enacted changes in ethics laws and reporting requirements, the budget also adds a new compliance specialist position.

The addition of the three new positions requires the Commission to relocate due to space considerations at its current location. The adopted budget includes \$61,470 General Fund for increased rent, conference room furniture, remodeling, and moving costs. All of these costs, except for the rent increase, are considered to be one-time expenditures and will be removed for the 2009-11 biennium budget.

The total of six positions for the Commission is the highest level since the 1991-93 biennium. Due to the need to move the Commission office to a new location, the adopted budget phases in two of the positions resulting in a total 5.79 FTE count for the 2007-09 biennium. All three new positions were approved as full-time, permanent. As in previous biennia, the budget does not include funding for extraordinary legal costs resulting from contested cases.

Office of the Governor – Agency Totals

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
General Fund	8,125,041	8,208,119	10,915,109	11,325,892
Lottery Funds	576,536	1,771,546	1,855,054	2,118,218
Other Funds	1,270,087	1,182,352	1,120,460	2,618,987
Federal Funds	50,323	140,634	0	0
Total Funds	\$10,021,987	\$11,302,651	\$13,890,623	\$16,063,097
Positions	47	46	49	64
FTE	45.46	45.50	48.50	62.56

Agency Overview

The Office of the Governor provides overall direction to state agencies within the Executive Branch to ensure compliance with statutes and efficient and effective management. The Office includes program area policy advisors, a State Affirmative Action Officer, a Citizen's Representative Office, a Minority, Women and Emerging Small Business Advocate, and provides clerical support for appointing members to boards and commissions. The Office also includes the Office of Rural Policy which was created by Executive Order. Two activities with statewide impact also are located in the Office of the Governor: the state's Economic Revitalization Team and the Arrest and Return program.

Revenue Sources and Relationships

The Office of the Governor is supported mainly by General Fund. Lottery Funds are for the Economic Revitalization Team (ERT). Other Funds includes revenue transfers from the Departments of Administrative Services and Consumer and Business Services. These transfers finance the Affirmative Action and Minority, Women and Emerging Small Business (MWESB) programs. The Affirmative Action program is funded from the transfer of a Department of Administrative Services Human Resource Services Division assessment estimated at \$550,000 for the biennium. The MWESB program is funded from assessments on agencies that have capital construction funded in their budgets and also receives funds from sponsoring conferences. Revenues from these sources are estimated at \$546,000. The Federal Funds were from a grant for the Office of Rural Policy. The grant is finished and no Federal Funds are expected in the 2007-09 biennium.

Additional Other Funds are provided this biennium through revenue transfers from a number of other state agencies to fund policy advisors and general support staff in the Office. This is discussed more fully under the legislatively adopted budget.

Budget Environment

The budget is driven by the number of staff and programs operated out of the Governor's Office. With the exception of the Economic Revitalization Team, which was transferred to the Office of the Governor in 2003, no new programs have been placed in the Governor's Office in recent biennia. Federal Funds are no longer available to support the Office of Rural Policy. Past practices of Governor's have been to augment the office staff by: borrowing staff from existing agencies; hiring staff and having other agencies pay their salaries by double filling positions; or hiring staff and having agencies reimburse the Office for their costs. The Legislature ended this practice and placed these "off-budget" positions and costs in the budget of the Office of the Governor. This is discussed more fully in the following section.

Legislatively Adopted Budget

This legislatively adopted budget includes enhancements to fund a federal office, restoration of funding for Governor's Association dues and office technology that had been eliminated during the recession, and increased travel for the Governor. It funds the Office of Rural Policy with General Fund for a period of nine months. The Legislature also provided funding to support the Education System Design Team.

The Legislature adjusted the budget to formalize staffing arrangements in the Office. A number of positions that were not in the budget because they were supported by other agencies are now formally established in the Office, to be funded by revenue transfers from those other agencies. In addition, a number of new General Fund positions have been established. Putting these positions on-budget will significantly increase transparency and accountability in the budget.

The Legislature expects the Office of the Governor to move forward with the newly approved positions serving as the core needs of a functioning office for the Governor. The Office is expected to evaluate operations and, when necessary, make changes to staff functions and responsibilities using existing staff and financial resources. From time to time, the need for staff for special projects will arise. The Legislature discussed the appropriateness for the Office of the Governor to have access to subject matter experts within the various state agencies to work on the special projects. However, it also expressed its preference for those positions to remain in their respective agencies and be paid by those agencies, as the work should relate to those agencies' missions. Agencies may "loan" staff to the Governor's Office for these special projects. Additionally, the special projects should not continue indefinitely, but have a finite purpose and timeline that can be shared with the Legislature.

Specifically, the Legislature made the following adjustments to the budget of the Office of the Governor to "true-up" the Office's budget and place positions on-budget:

- Established and funded one position – Director, Economic Revitalization Team (ERT). It increased Lottery Funds expenditure limitation by \$266,571 and established one position (1.00 FTE) for the ERT Director position. This position had been paid for by the Department of Administrative Services, using Other Funds, through double filling an existing DAS position.
- Established and funded three Workforce Development positions. It increased Other Funds expenditure limitation by \$590,306 and established three positions (3.00 FTE) for Workforce Development issues. Previously, two Policy Advisor positions had been paid for 50/50 by the Employment and Community Colleges and Workforce Development Departments, and one administrative support position paid for by the Department of Consumer and Business Services. The Other Funds will come from revenue transfers from the departments that have been paying for the positions.
- Established and funded two support positions to deal with citizen inquiries and issues. It increased Other Funds expenditure limitation by \$222,206 and established two positions (2.00 FTE) to deal with citizens' inquiries and issues. The Governor's Office is the main contact for Oregonians seeking information or redress for real or perceived problems. To deal with this, two unbudgeted positions (one funded by Department of Housing and Community Services and one funded by Department of Administrative Services) had been created. The Legislature established the positions in the Office of the Governor, and funded them with revenue transfers from the two departments currently paying the positions.
- Established and funded one support position for Minorities, Women, and Emerging Small Business and Affirmative Action activities. It increased Other Funds expenditure limitation by \$122,944 and established one position (1.00 FTE) to support the MWESB and Affirmative Action activities. Previously, two off-budget, half-time staff support positions had been provided and paid for by the Department of Transportation. Federal contracting requirements require additional effort in this area. Placing the support position in the Governor's Office puts it on budget and funding will be provided by revenue transfers from ODOT. Also, instead of having two half-time positions, the Legislature approved one full-time position to provide the support to the two programs.
- Established and funded one Generalist Policy Advisor position. It increased the Other Funds expenditure limitation by \$244,163 and established one position (1.00 FTE) for a Policy Advisor position to deal with various issues as they arise. Previously, one off-budget Policy Advisor position had been created to accommodate the need for an experienced "utility infielder" type of Policy Advisor to deal with a variety of issues that arise. The position had been provided and paid for by DAS. The Other Funds would be provided by a revenue transfer from DAS.
- Established and funded one Executive Support position. It increased the Other Funds expenditure limitation by \$122,944 and established one position (1.00 full-time equivalent) for an Executive Support position in the Governor's Office. One off-budget support position had been created to assist in scheduling and other matters. The position had been paid for by the Department of Consumer and Business Services. The Other Funds would be provided via a revenue transfer from DCBS.
- Established an additional Deputy Chief of Staff position. The Governor's Chief of Staff believes two deputies are needed to provide better oversight and coordination of efforts within the Governor's Office.

The Governor's Office would then have clear lines of authority over various policy and program areas and manageable spans of control. The Legislature concurred and established the position at a General Fund cost of \$302,496.

- Established three additional Policy Advisor positions. The Governor's Office felt three Policy Advisor positions are needed to provide expertise in the areas of Economic Development, Higher Education, and Energy. The total General Fund cost for these three positions is \$721,340.
- Established four additional back office support positions. Four additional back office support positions also were needed. Two are to provide additional support to track and monitor communications and support communications efforts, including the Governor's Office website. One is a support person to Policy Advisors, and the other to deal with the backlog of citizen inquiries. The total General Fund cost for these positions is \$421,077.
- Left three Human Services policy positions in the Department of Human Services. Currently two Human Services policy advisors and one support position are provided to the Governor's Office by the Department of Human Services. The positions are included in the budget of the Department of Human Services and, because of the nature of their work, are eligible for federal fund matching. For ease of administration, the Legislature allowed this arrangement to continue.

To partially offset the increased General Fund, the Legislature reduced the General Fund in three other agencies by \$360,882. The three agencies had provided General Fund to the Governor's Office to support off-budget positions as needed. Those agencies will no longer need to provide that support and their 2007-09 General Fund budgets were reduced as follows: Department of Corrections, \$266,570; Oregon Youth Authority, \$47,156; and Oregon Military Department, \$47,156.

Oregon State Library (OSL) – Agency Totals

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
General Fund	2,584,772	2,987,812	3,358,907	3,356,952
Other Funds	5,946,514	6,710,305	6,843,722	6,788,821
Federal Funds	3,917,623	4,670,500	4,588,922	4,635,732
Total Funds	\$12,448,909	\$14,368,617	\$14,791,551	\$14,781,505
Positions	45	44	44	44
FTE	43.47	42.47	42.47	42.47

Agency Overview

The Oregon State Library's (OSL) mission is to provide quality information services to state agencies, reading materials to blind and print-disabled individuals, and leadership, grants, and other assistance to improve local library service. Trustees of the State Library consist of seven members appointed by the Governor who are responsible for setting policy for OSL and adopting long-range plans for library services statewide.

Revenue Sources and Relationships

Other Funds revenues are generated from three main sources including an assessment on all state agencies, except the Department of Higher Education, for the portion of expenditures that support state agencies; donations; and reimbursements from local libraries for their portion of costs associated with database licensing.

The State Library Donation Fund includes a collection of donations and bequests, most of which are restricted for a specific use. The largest portions of the Donation Fund are attributable to the Talking Book and Braille Services (TBABS) Donation Fund, and the TBABS Endowment Fund. ORS 357.015(6) gives the Library board of trustees authority to "have control of, use and administer the State Library Donation Fund for the benefit of the State Library, except that every gift, devise or bequest for a specific purpose shall be administered according to its terms." The trustees have adopted a policy of using TBABS Donation Funds for TBABS program enhancements (not regular operating funding), and have opted to reinvest interest earnings from the Endowment Fund back into the Endowment Fund to make it larger. The combined ending balance for the TBABS Donation and Endowment Funds for 2007-09 is projected to be \$818,653.

The library receives Federal Funds from the Institute of Museum and Library Services under the Library Services and Technology Act (LSTA) per a population-based formula. The grant requires a 52% match rate as well as a maintenance of effort based on the average of the last three years of non-federal library expenditures relevant to the priorities of LSTA. Reductions in state funding result in an identical percentage reduction in LSTA funding.

Budget Environment

In 2005, the Library outsourced fulfillment of Braille materials to the Utah State Library, freeing up sufficient space to eliminate facilities costs for the TBABS program that had been subsidized by state assessment dollars. The State Library continues to reach out to state government and other institutions to provide shelf space for collections. In May 2007, OSL reached an agreement to lease 1,414 feet of shelf space to Willamette University through the 2007-09 biennium at a rate of \$664.58 per month.

The State Library is focused on services to local libraries, contracting with a consultant to assist libraries that were in danger of closing in four counties (Jackson, Josephine, Douglas, and Malheur). The potential closures are due to the potential loss of federal timber revenue and difficulty in passing local option property tax levies for library support. These consultant services are funded with federal grant dollars.

Legislatively Adopted Budget

A reduction in Attorney General rates and PERS rates resulted in a net reduction of \$10,046 to the agency's budget from the proposed level. The Legislature also approved a policy option package related to increasing the "Ready to Read" grant program by providing additional General Fund support for the program in the amount of \$286,066.

The 2007-09 legislatively adopted budget represents a 12.4% General Fund increase and a 2.9% total fund increase over the 2005-07 legislatively approved budget.

OSL – Administration

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
General Fund	4,015	269,842	283,905	284,015
Other Funds	1,057,969	781,241	828,027	826,863
Federal Funds	0	111,853	123,270	123,043
Total Funds	\$1,061,984	\$1,162,936	\$1,235,202	\$1,233,921
Positions	6	6	6	6
FTE	5.63	5.63	5.63	5.63

Program Description

This program coordinates the mission and goals of the agency and manages the finance, personnel, and volunteer functions of the agency.

Legislatively Adopted Budget

The 2007-09 legislatively adopted budget for the Administration program represents an increase of 6.1% from the 2005-07 legislatively approved budget for the Administration program, due to allowances for inflation and state government service charges.

OSL – Library Development

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
General Fund	1,369,674	1,407,768	1,674,715	1,674,493
Other Funds	354,956	1,021,446	864,506	864,506
Federal Funds	3,917,623	4,558,647	4,465,652	4,464,421
Total Funds	\$5,642,253	\$6,987,861	\$7,004,873	\$7,003,420
Positions	6	6	6	6
FTE	5.50	5.50	5.50	5.50

Program Description

This program is responsible for assisting approximately 1,600 local libraries and improving the overall quality of library services in the state through distribution of federal (LSTA) and state (Ready to Read) grants, facilitating school and local library access to a variety of electronic databases, and consultation and dissemination of information on youth services, library statistics, and documenting challenges to library materials.

Legislatively Adopted Budget

The 2007-09 legislatively adopted budget included a restoration of the "Ready to Read" grant program to a level of \$1 per child, an increase of \$0.16 per child, with a \$1,000 minimum for each qualifying library. The \$1 per child grant amount was initially approved in the 2001 legislative session but was subsequently reduced due to state revenue shortfalls.

The 2007-09 legislatively adopted budget for the Library Development program represents a 19% General Fund increase over the 2005-07 legislatively approved budget, and a 0.2% increase in total funds.

OSL – Talking Book and Braille Services

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
General Fund	1,211,083	1,310,202	1,400,287	1,398,444
Other Funds	205,979	309,429	249,024	248,903
Total Funds	\$1,417,062	\$1,619,631	\$1,649,311	\$1,647,347
Positions	10	9	9	9
FTE	10.25	9.50	9.50	9.50

Program Description

In cooperation with the Library of Congress, which provides books, tapes, recorders, and postage at no cost to Oregon, this program provides reading materials in audio-recorded or Braille formats to individuals with limited vision or other disabilities that prevent the use of books and printed materials. OSL is responsible for maintaining the inventory of materials and distribution.

Legislatively Adopted Budget

The 2007-09 legislatively adopted budget for the Talking Book and Braille Services program represents a 6.7% increase in General Fund and a 1.7% increase in total funds from the 2005-07 legislatively approved budget due to adjustments related to inflation and state government service charges, and a reduction in Other Funds due to reductions in facilities rental costs associated with the TBABS program.

OSL – Government Research and Electronic Services

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
Other Funds	4,327,610	4,598,189	4,902,165	4,848,555
Federal Funds	0	0	0	48,262
Total Funds	\$4,327,610	\$4,598,189	\$4,902,165	\$4,896,817
Positions	23	23	23	23
FTE	22.09	21.84	21.84	21.84

Program Description

Government Research and Electronic Services (GRES) provides research assistance to state government; develops and maintains the State Library collection, the OSL's on-line information services, and the Oregon.gov search engine; and coordinates a database of periodical holdings of Oregon libraries. In addition, the general public obtains special information concerning state government publications, Oregon history, and genealogy through a partnership with the Willamette Valley Genealogical Society.

Legislatively Adopted Budget

The Legislature approved a fund shift of \$48,262 from Other Funds state assessment revenue, which is restricted to uses benefiting state government, to Federal Funds provided by the Library Services and Technology Act. This shift will facilitate additional assistance to small and regional library systems that request technical and web hosting services from the State Library.

The 2007-09 legislatively adopted budget for the Government Research and Electronic Services program represents a 6.5% increase in total funds over the 2005-07 legislatively approved budget.

Oregon Liquor Control Commission (OLCC) – Agency Totals

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
Other Funds	85,798,639	119,250,564	123,988,091	124,318,211
Other Funds (NL)	4,420,240	0	0	0
Total Funds	\$90,218,879	\$119,250,564	\$123,988,091	\$124,318,211
Positions	213	224	238	233
FTE	205.61	215.02	229.68	225.68

Agency Overview

The Oregon Liquor Control Commission (OLCC) regulates all individuals and businesses that manufacture, sell, import, export, or serve alcoholic beverages. It also educates and trains liquor licensees, the public, and other groups; and investigates and takes action when necessary against those who violate liquor laws. The five-member Commission is appointed by the Governor and confirmed by the Senate.

Revenue Sources and Relationships

The Commission is entirely supported by Other Funds revenues generated from liquor sales (95%), privilege taxes on malt beverages (beer) and wines (4%), license fees and fines, server education fees, and miscellaneous income (1%). As required by law, 50% of the privilege tax revenues (\$30.9 million for 2007-09) are first allocated for payments to the Mental Health Alcoholism and Drug Services Account (\$15.2 million), and \$494,000 is assumed to be transferred to the Wine Advisory Board. The remaining privilege tax revenues, along with all other revenues (primarily from liquor sales), are first used to pay contracted liquor agents and to finance Commission operations (including liquor purchases). Under current law, the excess balance (\$321 million in the 2007-09 biennium) is apportioned to the state General Fund (56%), and to city (34%) and county (10%) general funds. The 2007-09 legislatively adopted budget assumes sales of \$852.3 million, with approximately \$178 million transferring to the General Fund.

OLCC projects that per capita consumption of distilled spirits and case sales volume will increase slightly, continuing a trend established over the past ten years. The combination of population growth, greater customer demand for premium, higher-priced products, a slight shift in preference away from beer and wine to distilled spirits for some consumers, and rising wholesale liquor prices, will cause a 15.5% increase in total dollar liquor sales from the 2005-07 estimated sales of \$738 million. The Commission estimates that increased liquor revenues will come from inflation in product cost and increasing preference for premium products. Per capita annual consumption is assumed to be about 22.7 gallons per person for malt beverages and 3.27 gallons per person for wine. This will be accompanied by an annual 1.4% increase in population through 2010.

Even though Other Funds revenues support OLCC operations, the agency's expenditures directly affect the General Fund. Per current law, each dollar spent by the Commission represents 56 cents in liquor revenues that will not go into the state's General Fund, and 44 cents that will not go to local governments. For this reason, an appropriate balance is sought between keeping operating costs as low as possible and making expenditures that are necessary to enhance the generation of revenue while maintaining a controlled distribution environment.

Budget Environment

Enforcing the state's liquor laws requires a variety of approaches to assist individual licensees, as well as the general community, in understanding the laws and regulations governing the proper and lawful operation of a licensed liquor establishment. Underage drinking, illegal alcohol, and sales to minors continue to be the highest compliance issues.

As Oregon continues to experience increases in total population and tourists, service permits and outlets licensed to sell alcoholic beverages have increased. Sales have consistently exceeded initial projections, continuing a growth trend in which liquor sales have increased by \$379.4 million since 1995-97. The additional demand and additional variety of products available to consumers resulted in storage capacity issues for the agency, and the need for additional distribution center personnel to keep up with customer demand. To address the capacity issues, the OLCC requested \$8.2 million in additional expenditure limitation to purchase additional warehouse space and upgrade distribution operations, which was projected to meet storage needs for the next 10-15 years. The Emergency Board approved the request in December 2006.

Demand has also grown for customer-convenient retail locations to serve more complex, densely populated communities. At the same time, prime retail locations' price per square foot rent has grown more expensive. The 2005 Legislature directed the OLCC to evaluate the formula used to compensate liquor agents, and recommend whether a change in the formula is warranted. The results of the study were presented to OLCC commissioners in late June 2007, and will be shared with the Legislature during its February 2008 special session.

Legislatively Adopted Budget

The 2007-09 legislatively adopted budget of \$124.3 million represents a 4% increase over the 2005-07 legislatively approved budget of \$119.3 million. The Legislature approved increases in the number of enforcement/public safety personnel, including 5.00 FTE permanent liquor control inspectors for the Salem, Eugene, Portland, and Bend regions, and a limited duration 1.00 FTE licensing investigator to speed processing of investigations and applications for liquor licenses in the Portland-Metro area. This is the first increase in personnel in the public safety services program since the 2001-03 biennium (although those increases were eliminated in subsequent special sessions of the Legislature).

Sixty-one percent of the total budget, or \$75.7 million, is attributable to the amount needed to maintain the average liquor agents' compensation rate of 8.88% of sales. The legislatively adopted budget includes 8 additional positions for the distribution center to meet consumer demand.

Another \$1.7 million in expenditure limitation for information technology efforts has been rolled over into the 2007-09 legislatively adopted budget, due to timing issues and delays in implementing technology initiatives approved in the 2005-07 biennium.

OLCC – Distilled Spirits

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
Other Funds	6,880,943	15,703,346	15,908,231	15,682,984
Other Funds (NL)	4,420,240	0	0	0
Total Funds	\$11,301,183	\$15,703,346	\$15,908,231	\$15,682,984
Positions	55	63	66	65
FTE	51.85	57.17	62.42	61.42

Program Description

Responsibilities of the Distilled Spirits program all relate to liquor sales and distribution. As a "control state," Oregon has granted the Commission sole authority to sell distilled spirits by the bottle. OLCC's current average markup based on the current sales mix is approximately 102%, which generates funds to finance its expenses and to produce revenue for state and local government general funds. There are two divisions within the Program:

- **Wholesale Services** responsibilities include analyzing trends in customer buying and new product availability; purchasing and securely warehousing the liquor; arranging for the shipment of products to the state's retail liquor stores; and settling claims for damaged or defective goods. The Division ensures adequate liquor inventories and a varied selection to satisfy consumer demand.
- **Retail Services** oversees operation of the statewide retail liquor store system, which consists of 243 retail outlets run by contract agents. Funding for agents' compensation is in a separate program, although it is related to the Retail Services Division of the Distilled Spirits program.

Budget Environment

OLCC has added five new stores in the Portland metropolitan and Bend regions since 2003. Three of the stores opened as part of a Governor-endorsed experiment locating liquor stores within retail grocery stores in urban and suburban areas with large population or tourist growth.

At an appearance before the Emergency Board in April 2006, the OLCC requested six additional limited duration positions and associated equipment so that the distribution center could meet additional demand for OLCC products, as well as expenditure limitation to replenish overtime and holiday personal services costs related to sales in excess of projections. The Emergency Board approved the request.

Legislatively Adopted Budget

The 2007-09 legislatively adopted budget for the Distilled Spirits Program is \$15.7 million Other Funds and 65 positions (61.42 FTE). The legislatively adopted budget converted the 6 limited duration liquor distribution workers approved by the Emergency Board to permanent positions and added a manager and support position to meet the escalation in consumer demand by assuring timely handling and shipping of liquor store orders. These workers will enable the creation of a swing shift in the distribution center.

OLCC – Public Safety Services

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
Other Funds	13,541,526	13,665,389	17,668,953	17,147,437
Total Funds	\$13,541,526	\$13,665,389	\$17,668,953	\$17,147,437
Positions	101	93	112	108
FTE	97.91	91.00	107.91	104.91

Program Description

The Public Safety Services program is responsible for regulating the manufacture, distribution and sale of alcoholic beverages. The program issues liquor licenses and ensures compliance with liquor laws and OLCC regulations. The program consists of three divisions:

- **License Services** division investigates and processes license applications for annual and temporary licenses and alcohol service permits, handles renewal applications, and oversees server education providers.
- **Enforcement and Compliance Services** division operates 10 regional offices throughout the state. Staff in those offices conduct license investigations, respond to complaints, investigate liquor law violations, and work with licensees and local communities to ensure compliance with liquor laws and resolve problems created by licensed businesses or their patrons.
- **Administrative Policy and Process Services** is responsible for reviewing investigative reports and related preparations for contested case hearings; and developing, reviewing, and amending administrative rules.

Budget Environment

The top priority for the Public Safety Services program is preventing underage drinking, reflecting that alcohol continues to be a major contributor in the four leading causes of death among teens and is linked to other crimes. OLCC continues to be challenged by its licensing application process, which takes an average of 117 days to complete, despite legislatively approved technology enhancements to the licensing system intended to speed the licensing application process and obviate the need for additional licensing personnel. OLCC reports that its licensing and enforcement staff are struggling to keep up with responsibilities associated with over 9,800 licensed businesses, a number which has increased 55% since 1990. The total number of licensees is around 11,400, and includes businesses that sell alcohol, distilleries, servers, wineries, and breweries.

Legislatively Adopted Budget

The 2007-09 legislatively adopted budget adds five permanent, full-time Liquor Control Inspectors in regions experiencing the greatest growth in the number of new licensees: Portland, Salem, Eugene, and Bend. This is the first increase in the number of liquor enforcement agents since the 2001-03 biennium; in subsequent special legislative sessions, a total of four enforcement positions were eliminated due to state budget constraints.

The 2007-09 legislatively adopted budget also adds a full-time limited duration license investigator position to help ease licensing backlogs with respect to applications in the Portland-Metro area. This position will be reevaluated against the utility of a fully operational licensing and renewal system, which the OLCC is in the midst of implementing (see "Administration and Support Services" below). The legislatively adopted budget for the Public Safety Services Program totals \$17.1 million, a 25% increase from the 2005-07 legislatively approved level.

OLCC – Administration and Support Services

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
Other Funds	11,483,391	17,544,063	14,365,824	15,592,707
Total Funds	\$11,483,391	\$17,544,063	\$14,365,824	\$15,592,707
Positions	57	67	60	60
FTE	55.85	65.85	59.35	59.35

Program Description

The Administration and Support Services program consists of the following divisions:

- *Administration* includes human resources and is responsible for ensuring that the goals of the agency are implemented and that policy as articulated by the Commission is carried out.
- *Management Consulting Services* was organized in 2005-07 to centrally coordinate and provide services, such as internal auditing, performance measurement, research and analysis, staff training, and coordinating input from stakeholders.
- *Administrative Services* handles activities such as purchasing, contracting, motor pool, facilities maintenance, and mail.
- *Communications* is responsible for internal and external agency communications, including print and electronic materials.
- *Financial Services* develops and implements systems that provide fiscal accountability for Commission operations, produces and maintains fiscal records, and develops and monitors execution of the agency's budget.
- *Information Services* develops and supports electronic data systems for staff ranging from desk top PCs to distribution center inventory control applications.

Budget Environment

The agency is in the process of implementing technology improvements to streamline licensing processes and manage increases in product sales and the number of licensees.

Legislatively Adopted Budget

Some information technology improvements approved for the 2005-07 biennium are underway, and some aspects are behind the original implementation schedule. As a result, \$1.7 million in 2005-07 expenditure limitation was "rolled over" into the 2007-09 legislatively adopted budget to complete the "My License" information technology package, intended to foster on-line renewals and associated payments of licenses. The total project costs have not changed, just the timing for implementation and completion. Other increases from the 2005-07 legislatively adopted budget are attributable to increases in the amount of DAS assessments.

OLCC – Store Operating Expenses

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
Other Funds	53,696,413	65,534,000	75,685,000	75,685,000
Total Funds	\$53,696,413	\$65,534,000	\$75,685,000	\$75,685,000

Program Description

This program includes an expenditure limitation for liquor revenues to pay contract agents who operate the state's 243 retail liquor outlets. Agents are paid monthly using a formula based primarily on store sales and on whether the store is exclusive (i.e., sells only liquor and related items) or non-exclusive (store is run in conjunction with another business, such as a drug or grocery store). Out of the compensation, agents pay liquor store rent, insurance, telephone, utilities, business taxes, employee salaries and benefits, and other operating costs. From the remainder, they pay their own salaries, benefits, and personal taxes.

Budget Environment

The rate of monthly compensation for agents was originally determined annually. In 1979, the Commission started calculating compensation monthly as a percentage of actual monthly sales. Biennial adjustments were made to this basic formula until 1980. From 1980 to 1985 the basic formula did not change, but the Legislature added annual cost of living increases to the formula. In 1985, the Legislature directed OLCC to allocate agents'

compensation based on a re-designed compensation schedule. The store formula is reviewed and adjusted by the agency every six months. The goal is to provide basic support, while encouraging sound retail practices and rewarding sales performance. During the 1997 session, the formula, which had been in effect since 1993, was revised to provide the following compensation:

- **Non-exclusive stores:** 14.25% of the first \$10,000 of monthly sales, plus 7.95% of all monthly consumer sales (up from 7.15% in 2001-03); and 6.20% of all monthly dispenser sales (up from 5.58% in 2001-03), plus up to \$118 monthly for deferred compensation if matched by the agent.
- **Exclusive stores:** based on six sales classifications – 14.25% of the first \$10,000 of monthly sales for annual sales up to \$210,000 and five compensation bases ranging from \$1,660 to \$2,700 per month for sales between \$210,000 to more than \$1.65 million per year; plus 7.55% of all monthly consumer sales (up from 7.15% in 2001-03); 5.89% of all monthly dispenser sales (up from 5.58% in 2001-03); plus up to \$150 monthly for deferred compensation to the extent matched by the agent.

The average compensation rate of 8.88% of forecasted liquor sales for the biennium established by the Legislature results in an expenditure limitation in the legislatively adopted budget of \$75.7 million based on projected sales. Agents' compensation increases when consumption or prices increase. OLCC typically requests an increase in the expenditure limitation from the Emergency Board if actual sales exceed forecasted amounts, and they did so twice in 2006. Some agents continue to incur costs (primarily store leasing and personnel) that are purported to rise at a faster rate, putting pressure on these agents' operations. Lack of data on the Oregon agents' actual costs and related items has made it difficult to develop a precise basis for conducting a market study to determine whether the Oregon liquor agents' compensation is fair in comparison to "market." The Legislature directed the OLCC to conduct a study of agents' compensation, which was completed in late June 2007, and will be available to inform policy thereafter.

Legislatively Adopted Budget

The 2007-09 legislatively adopted budget continues the average compensation rate of 8.88% of sales.

OLCC – Capital Improvements and Construction

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
Other Funds	196,366	6,803,766	360,083	210,083
Total Funds	\$196,366	\$6,803,766	\$360,083	\$210,083

Program Description

The Capital Improvement program reflects Commission costs of major deferred maintenance and improvements to Commission facilities. The Commission owns an office and distribution center complex in Milwaukie, which ships all bottled distilled liquor and houses most agency personnel. The Emergency Board approved additional expenditure limitation of over \$8 million to allow OLCC to purchase a warehouse adjacent to its distribution center and make improvements to both facilities.

Budget Environment

In the past, the Commission and the Legislature have focused on implementing capital improvements that facilitate the generation of additional revenue or avoid the potential for lost revenue due to facilities or equipment breakdown. These improvements have included a major replacement of the warehouse conveyor system, warehouse heating system, and parking lot upgrades. The new warehouse will meet the agency's projected space needs to meet consumer demand for additional variety and volume of products for another 10 to 15 years, and replaces short-term solutions the agency was prepared to request in its budget.

Legislatively Adopted Budget

The legislatively adopted budget includes a total of \$210,083 in expenditure limitation for maintenance of OLCC facilities.

Public Employees Retirement System (PERS) – Agency Totals

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
Other Funds	79,935,333	84,092,743	87,976,297	86,960,346
Other Funds (NL)	5,215,042,382	5,646,765,074	6,286,947,122	6,286,947,122
Total Funds	\$5,294,977,715	\$5,730,857,817	\$6,374,923,419	\$6,373,907,468
Positions	420	406	403	401
FTE	366.36	390.92	401.63	394.88

Agency Overview

The Public Employees Retirement System (PERS) administers the retirement system that covers employees of state agencies; public school districts; and most cities, counties, and special districts in Oregon. PERS also administers a voluntary deferred compensation program for the state and some local governmental units. It is responsible for all fiduciary activities performed on behalf of system members. This includes receipt of contributions into the retirement trust and deferred compensation trust funds, retirement counseling, retirement benefit determination, and retirement benefit payment. It is not responsible for investment of retirement system or deferred compensation plan assets. The Oregon Investment Council manages the investment of retirement system assets. Deferred compensation plan assets are managed by private fund managers. The five-member Public Employees Retirement Board has broad authority for operation of the programs. Day-to-day operations are carried out by the Board-appointed Director and agency staff.

PERS – Tiers 1 and 2 Plan

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
Other Funds (NL)	5,214,655,206	5,641,669,074	6,232,224,146	6,232,224,146
Total Funds	\$5,214,655,206	\$5,641,669,074	\$6,232,224,146	\$6,232,224,146

Program Description

The Tiers 1 and 2 Plan program accounts for account balance refunds and retirement benefit payments (\$5.9 billion); health insurance premiums and subsidy payments (\$267 million); and third party health insurance plan administrator costs (\$5.3 million). This program is now a closed program (no new members can be added to the Tiers 1 and 2 plans) because of PERS reform legislation passed during the 2003 legislative session. Tier 1 plan members are employees that were hired before January 1, 1996. The 1995 Legislature established a different level of benefits for employees hired on or after January 1, 1996. These employees are known as Tier 2 plan members. Direct administrative costs of this program are budgeted under PERS Operations below. The administrative costs are funded by revenue transfers from this program to the Operations program where legislative oversight and control is provided through the budget process.

Revenue Sources and Relationships

The Other Funds revenue is mainly from employer contributions to the retirement system (\$2.5 billion) and retirement trust fund investment earnings (\$10.4 billion). A nominal amount of revenue comes from employee contributions by judges and retiree payments for health care insurance. Employer contribution rates are established by the Public Employees Retirement Board based upon advice from its consulting actuary. The Board also determines the level to which certain statutory reserves will be funded from earnings on plan assets.

Legislatively Adopted Budget

The legislatively adopted budget provides for payment of refunds, health insurance, retirement benefits, and health plan third party administrator costs expected during the biennium.

PERS – Oregon Public Service Retirement Plan

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
Other Funds (NL)	387,176	5,096,000	54,722,976	54,722,976
Total Funds	\$387,176	\$5,096,000	\$54,722,976	\$54,722,976

Program Description

The 2003 Legislature established a new Oregon Public Service Retirement Plan (OPSRP) with yet a different benefit structure for employees hired after August 28, 2003. OPSRP provides for an employer funded retirement benefit and a mandatory employee contribution of 6% of salary and wages into an Individual Retirement Program (IAP) account. The same legislation redirected Tier 1 and Tier 2 member employee contributions into IAP accounts beginning January 1, 2004. The OPSRP program accounts for IAP third-party administrator costs (\$4.2 million) and anticipated payments out of members' individual accounts (\$50.5 million). The other administrative costs of this program are budgeted under PERS Operations below. Those administrative costs are funded by revenue transfers from this program to the Operations program where legislative oversight and control is provided through the budget process.

Revenue Sources and Relationships

The Other Funds revenue is mainly from employer and employee contributions to the retirement system (\$986 million) and retirement trust fund investment earnings (\$52 million). Employer contribution rates are established by the Public Employees Retirement Board based upon advice from its consulting actuary.

Legislatively Adopted Budget

The legislatively adopted budget provides for third party administrator costs and payments to members leaving the system.

PERS – Operations

	2003-05 Actual	2005-07 Legislatively Approved*	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
Other Funds	76,371,874	78,371,793	82,267,097	81,251,146
Total Funds	\$76,371,874	\$78,371,793	\$82,267,097	\$81,251,146
Positions	420	406	403	401
FTE	366.36	390.92	401.63	394.88

* The 2005-07 legislatively approved budget for Operations includes limited duration positions PERS was allowed to administratively establish during the biennium.

Program Description

The Operations program is responsible for the administrative costs of maintenance of employer and employee accounts, processing of retirements, determination of disability retirement benefits, and payment of retirement benefits. It also administers group health insurance plans for retirees and the federally mandated Social Security Administration program. Additionally, the Operations program administers deferred compensation programs for state employees and employees of local governmental units. Operations activities have been divided into six separate divisions.

Central Administration provides the central direction, planning, and leadership for the PERS organization. It consists of the Director, Deputy Director, Human Resources, and Internal Audits. Additionally, the deferred compensation and health insurance programs are located in Central Administration.

	2003-05 Actual	2005-07 Leg. Approved	2007-09 Governor's Rec.	2007-09 Leg. Adopted
Other Funds	\$8,157,426	\$4,219,763	\$4,760,748	\$4,752,468
Positions	25	27	27	27
FTE	22.99	27.00	27.00	27.00

Benefit Payments is primarily responsible the calculation and issuance of retiree benefits. Other responsibilities include processing divorce orders, disability claims, death benefits, and benefit adjustments. The Division is also responsible for making a number of adjustments to Tier 1 member account balances. The recalculations are required by court decisions that: a) the Board erred in its allocation of 1999 fund earnings to Tier 1 member accounts, and b) invalidated a portion of the 2003 PERS reform legislation.

	2003-05 Actual	2005-07 Leg. Approved	2007-09 Governor's Rec.	2007-09 Leg. Adopted
Other Funds	\$7,064,566	\$11,953,826	\$13,126,186	\$12,931,640
Positions	103	107	107	107
FTE	84.13	103.79	107.00	105.25

Fiscal Services provides most business and central support services to the other agency divisions. This includes financial reporting, coordination of actuarial information, accounting, trust tax compliance, and fiscal operation functions such as procurement, cash receipts and disbursements, payroll, budget, and cost allocation. Other responsibilities include shipping and receiving, building management, and mail services.

	2003-05 Actual	2005-07 Leg. Approved	2007-09 Governor's Rec.	2007-09 Leg. Adopted
Other Funds	\$10,316,987	\$10,727,483	\$11,999,376	\$11,649,992
Positions	45	46	45	43
FTE	39.63	44.75	44.75	42.75

Information Systems provides all data processing and telecommunications services for the agency. It maintains the aging Retirement Information Management System (RIMS), and the newly acquired *jClarety* retirement system. The Division also provides systems development services, and schedules and processes agency data. It also is responsible for the management, retention, storage, and retrieval of agency records.

	2003-05 Actual	2005-07 Leg. Approved	2007-09 Governor's Rec.	2007-09 Leg. Adopted
Other Funds	\$35,045,542	\$35,379,853	\$34,319,484	\$33,982,839
Positions	107	103	100	98
FTE	99.62	98.00	100.00	96.38

Policy, Planning, and Legislative Analysis is responsible for fiscal and administrative policy coordination, legal services management, contested case hearings, administrative and business rules, and legislative analysis. It is also responsible for the Social Security Administration program for Oregon's public employers.

	2003-05 Actual	2005-07 Leg. Approved	2007-09 Governor's Rec.	2007-09 Leg. Adopted
Other Funds	\$5,598,212	\$3,961,994	\$4,035,844	\$3,933,602
Positions	19	14	14	14
FTE	16.25	13.50	13.50	13.5

Customer Services oversees employer reporting, maintains member employment and account information, and provides employee member counseling, education, and communications services for the Tier 1 and 2 plans and the Oregon Public Service Retirement Plan.

	2003-05 Actual	2005-07 Leg. Approved	2007-09 Governor's Rec.	2007-09 Leg. Adopted
Other Funds	\$10,189,141	\$12,128,874	\$14,025,459	\$14,000,605
Positions	121	109	110	112
FTE	103.74	103.88	109.38	110.00

Revenue Sources and Relationships

The Operations program revenue is mainly from revenue transfers received from the Tiers 1 and 2 and OPSRP programs (\$75.3 million). Additionally, revenue to support the deferred compensation program is from a charge of 0.08 of 1% on deferred compensation trust fund assets (\$1.4 million). Revenue from charges for IAP administrative costs is estimated to be \$6.1 million. Revenues also are from other administrative fees assessed on participants and employers for social security administration activities and other miscellaneous non-customary services (\$400,000).

Budget Environment

PERS Operations continue to be in a state of transition. A new Board was appointed and began operating September 1, 2003. The Board replaced the former Director and new management has been brought in to direct the Information Systems, Fiscal Services, and Benefit Payments Divisions. These operational changes occurred while record numbers of members retired, the aging RIMS capabilities continued to deteriorate, and a new *jClarety* system was acquired and installed to service the new Oregon Public Services Retirement Plan. Individual accounts had to be set up for more than 153,000 active members, and employers were required to change their PERS reporting to accommodate the new *jClarety* system. Additionally, Supreme Court decisions handed down in 2005 on PERS reform legislation and a settlement of a lower court decision on the Board 1999 earnings crediting decision have required PERS to recalculate account balances of Tier 1 members, active, inactive, and retired. The Legislature has provided PERS with a number of limited duration positions over the years to deal with transition issues. Also, PERS was allowed to administratively establish 28 positions in 2006 to deal with the workload caused by the Supreme Court decisions and settlement agreement.

The Board had defined the 2005-07 biennium as the biennium of transition – from the chaos of the post-reform legislation during the 2003-05 biennium, to that of a stable, cost effective state agency operation. However, the transition continues through the 2007-09 biennium. PERS points to the Supreme Court decisions, and the resulting workload created therefrom, as the chief reason for the longer transition timeline.

Legislatively Adopted Budget

The legislatively adopted budget continues funding for 102 limited duration positions to address the workload issues. Fifty-seven positions are provided to adjust 1999 earnings crediting and subsequent year account balances, and all related benefit payments, for some 45,000 retirees and benefit recipients. The project (labeled the *Strunk/Eugene* project) is expected to be substantially complete by the end of the 2007-09 biennium. All positions are limited duration and are continued from the 2005-07 biennium. It also includes funding for continuation of the Retirement Information Management System (RIMS) conversion. This conversion project converts the agency's major information technology system for Tiers 1 and 2 to *jClarety* (the new system for OPSRP). The 44 month project is projected to be completed in November 2009.

Additionally, the budget includes funding to continue labor intensive retirement benefit calculations and processing activities. Of the 25 positions approved, 23 are limited duration. Approximately 6,000 retirements are expected in each year of the 2007-09 biennium, consistent with the current biennium. Until the RIMS conversion is complete, the workload needs to be addressed with additional staffing. The conversion of RIMS, coupled with workflow process improvements will enable PERS to reduce staffing in 2009-11. Also to address workload issues, the Legislature approved additional staff to improve the collection, preparation, and integrity of data needed for efficient and accurate benefit calculations. The staff are involved in call center operations, employer reporting support, data quality assurance, and member separation processing. Because of the ongoing infrastructure needs, 15 of the 23 positions are permanent. The budget also provides resources for back office support improvements in processing and contracting, human resources, information technology maintenance, document imaging, and workload balancing.

Included in the legislatively adopted budget is \$1 million Other Funds expenditure limitation for legal representation by outside council for litigation, contested cases, and fiduciary responsibilities. PERS is required by statute to obtain outside council for these types of issues. It is expected that legal costs will decrease after all litigation and other issues resulting from the 2003 reform legislation has been settled.

The Legislature did reduce the budget for the 2% efficiency reductions identified by PERS. This includes the elimination of four positions and further reduction of positions as some of the work backlog discussed above is completed. It used some of these savings to improve services to members as they move into retirement. It established two permanent full-time Retirement Counselor positions to provide assistance with retirement form completion in areas of the state outside the Willamette Valley. PERS also will reassign duties of two existing positions and increase use of overtime to expand its face-to-face application assistance to Willamette Valley members. These efforts are expected to reduce the number of retirement applications that have to be returned or re-worked because of missing or erroneous information on the applications.

PERS – Debt Service

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
Other Funds	3,563,459	5,720,950	5,709,200	5,709,200
Total Funds	\$3,563,459	\$5,720,950	\$5,709,200	\$5,709,200

Program Description

Debt Service accounts for the debt service requirements of the agency. Debt service is required on certificates of participation (COPs) that were issued for purchase of land and construction of agency headquarters in Tigard, and for the acquisition of the *jClarety* pension system for the new OPSRP.

Revenue Sources and Relationships

Revenue for the payment of debt service is transfers from the Tiers 1 and 2 Plan (\$1.4 million) and the OPSRP (\$4.3 million).

Legislatively Adopted Budget

The legislatively adopted budget provides expenditure limitation necessary to pay the required debt service.

Racing Commission – Agency Totals

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
Other Funds	4,945,952	5,039,488	4,704,272	5,658,842
Total Funds	\$4,945,952	\$5,039,488	\$4,704,272	\$5,658,842
Positions	23	17	16	16
FTE	17.50	13.42	14.52	14.52

Agency Overview

The Oregon Racing Commission regulates all aspects of the pari-mutuel industry in Oregon. The Commission oversees horse racing at Portland Meadows Racetrack and at several county fair race sites. The Commission also regulates off-site simulcast of races and Multi-jurisdictional Simulcasting and Interactive Wagering Totalizer Hubs (Hubs). The Commission's goals include promoting horse racing in Oregon while ensuring the integrity of the sport as well as the safety of the contestants, public, and animals. Regulatory activities of the Commission include licensing, inspections, and investigations of irregularities.

Revenue Sources and Relationships

Revenues are derived from the state share of wagering receipts, license fees, and licensee fines. All fee revenues received are used for Commission expenses. Any Commission revenues in excess of expenses and maintenance of a prudent ending balance are transferred to the General Fund. The state's share of total bets made at horse racing tracks and on simulcast horse races is 1%. These live racing-related revenues have been consistently declining as other forms of gambling gain in popularity.

The 1997 Legislature authorized the establishment of Hubs in Oregon and provided that up to 1% of gross wagering receipts, which is the pari-mutuel tax, could be collected. The Commission, by rule, has set the state share of Hubs gross wagering receipts at 0.25%, with a cap on how much any one Hub will pay during a fiscal year. Of the taxes collected, one-third is transferred to the General Fund. The remaining two-thirds is deposited in the Racing Development Fund to be used by the Commission for "the benefit of the Oregon pari-mutuel racing industry." This money has been used in the past to enhance race purses, make safety improvements at race meet sites, provide jockey incentives, and promote thoroughbred breeding. The Commission also collects a license fee of \$200 per operating day from Hubs. Revenue from the pari-mutuel tax on Hub wagers has been steadily increasing.

Budget Environment

Live racing in Oregon is in an era of uncertainty. The company that offered live greyhound racing at Multnomah Greyhound Park ended operations in December 2005 which caused significant reductions in the 2005-07 legislatively adopted budget. No live greyhound racing is expected to occur during the 2007-09 biennium. The Oregon horse racing industry has also been challenged due to competing forms of gambling, including the addition of slot machine style gaming by the state and the possibility of two tribal casinos opening within an hour drive of Portland Meadows. It is possible that the company operating Portland Meadows, the same company that ceased greyhound racing at Multnomah Greyhound Park, may end horse racing there given they have operated at a loss the last few years and the land the race track is located on has significant commercial value.

Commission operations have become increasingly dependent on the Hubs currently operating in the state. During the 2005-07 biennium, a seventh Hub began operations. The 2007-09 budget assumes all seven Hubs will continue to operate in Oregon despite the fact that other states now allow operation of Hubs. These states have become increasingly aggressive in trying to recruit Hubs to relocate to their states. The possibility of Hubs relocating operations outside of Oregon represents a risk to that portion of the Commission's revenue. To address this risk, the Commission adopted rule changes in May 2005 that placed a cap on the total amount of pari-mutuel taxes any one Hub will pay in a fiscal year.

Legislatively Adopted Budget

The legislatively adopted budget is about 12% higher than the 2005-07 legislatively approved levels. The Governor's recommended budget underestimated revenue from Hubs since no accommodation for the higher revenues that the Emergency Board addressed in December 2006 were included in the recommended levels of

spending. The legislatively adopted budget assumes growth in Hub revenue of \$1,440,000 beyond what was included in the Governor's recommended budget. This projected revenue growth will result in an increase of \$960,000 being deposited in the Racing Development Fund and an additional \$480,000 being transferred to the General Fund. The budget also continued a second veterinarian position to address increased workload and increased a part-time veterinary tech position to full-time status to address increased medical testing caused by the Commission's adoption of uniform medication rules. These positions were first approved at the December 2006 meeting of the Emergency Board. The budget also eliminated a part-time race worker position (0.20 FTE), the funding for which was used for reclassification of an Executive Support Specialist 2 position to a Program Analyst 2.

Department of Revenue (DOR) – Agency Totals

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
General Fund	114,586,226	137,502,492	149,961,692	148,277,511
Other Funds	33,166,231	30,697,742	34,053,182	32,306,994
Other Funds (NL)	202,180	224,358	231,313	231,313
Total Funds	\$147,954,637	\$168,424,592	\$184,246,187	\$180,815,818
Positions	1,057	1,094	1,066	1,048
FTE	976.15	1,004.91	985.62	968.22

Agency Overview

The Department of Revenue administers the state's income tax and property tax programs. In addition, the Department collects revenue from a variety of sources and transfers it to various state and local agencies. These revenue sources include taxes on: a) cigarettes and other tobacco products; b) amusement devices; c) payroll (for local mass-transit); d) timber, oil, and gas severance; and e) the harvesting of forest products. The Department also collects and distributes hazardous substance fees, court fines and assessments, and taxpayer check-off donations; serves as the collection agency for fines, forfeitures, and assessments owed to state agencies; and administers property tax relief programs for senior citizens and persons with disabilities. Altogether, the tax programs the Department administers generate 95% of General Fund revenue and 88% of local government revenue.

Revenue Sources and Relationships

The Department is mainly supported by the General Fund. Other Funds revenue is derived from charges to various Other Funds tax, fee, assessment, and other programs to cover the Department's administrative costs. Charges are based on time studies that determine the cost to each division of administering these programs. Other Funds also are received from the Assessor Funding Program. This program provides revenue to both the Department and to county governments from interest paid on delinquent property taxes and from a document-recording fee. A portion of each recording fee (\$1) is dedicated to the development of a statewide mapping system (ORMAP) to improve the administration of the property tax system. These funds are distributed to counties for projects to meet that goal.

The following table displays sources and amounts of estimated Other Funds revenues for 2007-09:

SOURCE	2007-09 ESTIMATED
Cigarette and Other Tobacco Tax Collections	\$ 5,700,000
State Agency Collections	\$ 9,400,000
Assessor Funding Program	\$ 4,500,000
Employer-Employee Taxes (primarily Tri-Met and Lane Districts)	\$ 5,200,000
Senior and Disabled Citizens' Property Tax Deferral	\$ 1,200,000
ORMAP	\$ 3,500,000
Others	\$ 3,000,000
TOTAL REVENUES	\$32,500,000

Budget Environment

The Department projects modest population and economic growth for the 2007-09 biennium. Over the past several biennia, the Department has been successful in addressing funding constraints and increased workloads by developing and enhancing automated systems, implementing an aggressive employee training program, reorganizing, and revising operating procedures.

Legislatively Adopted Budget

The legislatively adopted budget reflects a reduction in staffing that was necessary for the Department to absorb an unspecified \$3 million General Fund reduction to its 2005-07 budget. The Legislature left it up to the Department to determine how to deal with the reduction. The reduction was accomplished mainly by leaving

positions vacant. The 2007-09 budget reflects the elimination of 41 positions (40.15 FTE) to continue the impact of that reduction. Additionally, due to administrative actions, 24 positions (4.54 FTE) were phased out.

The budget also completes the adjustments necessary to reflect the proper funding allocation between General Fund and Other Funds. In 2003, the Legislature replaced \$25 million General Fund support with anticipated Other Funds that would come from increased cigarette and tobacco tax receipts. Those receipts did not materialize and the Emergency Board and Legislature provided supplemental General Fund support during the 2003-05 biennium to keep the Department operating. Adjustments to restore the General Fund (and reduce the Other Funds) were made in 2005. Subsequently, additional adjustments in the amount of \$1.1 million General Fund were found to be needed and the Legislature included that technical adjustment as a fund shift from Other Funds to General Fund.

A number of enhancements to the Department's budget were also approved. These enhancements and other adjustments are discussed more thoroughly in the respective Section and Division analyses.

DOR – Executive Section

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
General Fund	2,449,371	3,174,118	3,480,353	3,476,356
Other Funds	449,375	278,110	394,989	394,558
Total Funds	\$2,898,746	\$3,452,228	\$3,875,342	\$3,870,914
Positions	18	17	16	16
FTE	18.00	16.01	15.13	15.13

Program Description

The Executive Section is responsible for overall administration of the agency and for coordinating the agency's legislative, rulemaking, communications, and internal audit functions.

Legislatively Adopted Budget

The legislatively adopted budget maintains the activities of the Executive Section. It administratively phased out one part-time communications position and changed one assistant position to part-time to accommodate the budget reduction of 2005.

DOR – General Services Section

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
General Fund	12,113,551	2,768,377	5,365,508	5,365,508
Other Funds	1,107,132	421,739	466,198	466,198
Total Funds	\$13,220,683	\$3,190,116	\$5,831,706	\$5,831,706

Program Description

The General Services Section is used to budget for a portion of expected central agency costs for postage, legal expenses, and other expenditures that tend to vary from biennium to biennium between operating divisions. For internal budgetary purposes, the receipt and distribution of the various tax revenues are accounted for in this section.

Legislatively Adopted Budget

The legislatively adopted budget maintains the Department's essential budget level for certain expected costs.

DOR – Administrative Services Division

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
General Fund	36,508,279	44,009,718	48,262,444	47,821,302
Other Funds	6,518,708	4,636,368	6,147,459	5,866,504
Total Funds	\$43,026,987	\$48,646,086	\$54,409,903	\$53,687,806
Positions	332	359	347	344
FTE	276.51	304.68	295.62	293.22

Program Description

The Administrative Services Division (formerly called the Information Processing Division) provides computer processing systems and support services to the agency's other divisions, processes incoming tax returns, scans returns for errors, processes and banks tax payments, enters and transfers taxpayer data to computer storage, and maintains information files. This Division also provides the Department's purchasing, personnel, facilities management, accounting, and other fiscal support.

Budget Environment

Historically, the Division's activities have been carried out in a high-volume, production-type environment. As the Department adds new systems and becomes more dependent on automation, well-trained and experienced information systems staff are needed to maintain computer systems. Additionally, changes in other divisions impact the demand for services of its other support functions.

Legislatively Adopted Budget

The legislatively adopted budget reflects the elimination of eight positions resulting from the move of data center operations to the new state data center and five other positions through other administrative actions. It also reflects the elimination of nine vacant positions to accommodate the budget reduction of 2005.

The budget adds two positions to support electronic taxpayer filings. Electronic filing support previously was provided by the Department of Administrative Services (DAS) and paid by the Personal Tax and Compliance Division. The \$313,000 cost of internal staff is slightly less than the DAS cost. The budget includes \$218,000 General Fund and \$26,000 Other Funds to lease and purchase new payment processing equipment. One position and \$98,000 total funds was provided to verify eligibility of taxpayers filing for refundable tax credits. Additionally, \$155,000 Other Funds is provided to continue compliance and collection efforts on sales of untaxed cigarette and tobacco products to Oregon residents by out-of-state sellers. The Legislature approved four positions, \$802,000 General Fund, and \$89,000 Other Funds to begin an Electronic Document Management (imaging) System. Development of the system will begin with the Corporate Tax program in 2007-09 and continue with the Personal Income Tax program in 2009-11. Other tax programs will be addressed in 2011-13.

DOR – Property Tax Division

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
General Fund	9,621,617	19,401,017	20,322,964	20,300,495
Other Funds	9,930,772	9,520,812	10,038,992	10,028,694
Total Funds	\$19,552,389	\$28,921,829	\$30,361,956	\$30,329,189
Positions	137	128	123	123
FTE	133.77	124.71	120.21	120.21

Program Description

The Property Tax Division oversees the property tax system and ensures that counties comply with all property tax laws and rules. To these ends, the Division develops procedures, advises and trains county staff, and conducts reviews of county actions. Responsibilities also include conducting appraisals on all industrial manufacturing plants valued at \$1 million or more (currently valued at a total of \$16 billion); appraising all utility, transmission, communication, and transportation properties (currently valued at \$13.8 billion); and administering several timber tax programs.

The Division also oversees ORMAP, a project to develop the statewide base mapping system mandated by HB 2139 (1999) for improvement in the administration of the property tax system.

Budget Environment

In 1989, the Legislature created the Assessor Funding Program to supplement funding of property tax assessment and taxation functions. The Department uses its portion of the funding for appraising industrial properties valued between \$1 million and \$5 million, for training county personnel and for conducting performance reviews of county programs. The 1999 Legislature modified the sources of funds for this program slightly by retaining the interest charged on delinquent property tax accounts, with a portion (generally 25%) of the interest collected transferred to the program, amending document recording fees, and expanding the base of documents subject to the fee. It also allowed the Department to receive up to 10% of the moneys in the County Assessment and Taxation Fund to pay for its appraisal of industrial properties and oversight of the property tax system. Additionally, \$1 of each document recording fee is dedicated to the statewide mapping system. This fee is expected to generate more than \$3 million biennially.

The Department views the Assessor Funding Program as an important tool in implementing Ballot Measure 50, which requires that property values be on the assessment rolls at real market value. The focus for the 2005-07 biennium is on continuing assistance to counties in adapting to the Measure 50 system. The system is more complex than originally thought. For example, Measure 50 requires counties to carry multiple values on the tax roll and, in some cases, as many as seven different values have to be tracked for one property.

Legislatively Adopted Budget

The legislatively adopted budget reflects the elimination of five positions to accommodate the 2005 budget reduction. The budget has no other program enhancements or reductions.

DOR – Personal Tax and Compliance Division

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
General Fund	35,950,332	47,901,551	50,301,300	49,469,008
Other Funds	3,669,204	1,569,004	1,689,320	1,675,237
Total Funds	\$39,619,536	\$49,470,555	\$51,990,620	\$51,144,245
Positions	376	399	382	376
FTE	360.21	379.89	369.46	363.46

Program Description

The Personal Tax and Compliance Division administers the personal income tax program. Responsibilities include auditing and encouraging voluntary compliance for the personal income tax, collecting delinquent personal income taxes, and collecting local option taxes. In addition, the Division administers the Elderly Rental Assistance Program, and provides help to taxpayers by telephone (Tax Help Section) and through information publications.

Budget Environment

The Division's workload had been increasing over time as the state's population was growing. The number of personal income tax returns filed annually has stabilized at about 1.7 million. The Division has added and improved automated systems to help handle the workload. Compliance efforts are now affecting the Division's workload. As more taxpayer data becomes available from federal and other sources, the Department has increased its efforts to pursue non-filers, and those that may have under- or not-reported income or over-reported deductions. The Department expects to address collection issues through re-engineering of existing systems and processes and through positions added by the Legislature to enhance revenue collections.

Legislatively Adopted Budget

The legislatively adopted budget eliminates 26 positions in order to accommodate the 2005 budget reduction and recognize a shift of costs from personal services to services and supplies. It also reduces the budget by \$313,000 total funds to reflect the transfer of support for the electronic taxpayer filing to the Administrative Services Division. Other Funds are increased \$104,000 for this Division's work on Jenkins Act Tobacco Enforcement, which collects taxes on sales of untaxed cigarette and tobacco products to Oregon residents by out-of-state sellers. Additionally, the Legislature approved three positions and \$393,000 total funds to verify

eligibility of taxpayers filing for refundable tax credits. The Department is to develop metrics for measuring performance of this newly approved activity.

DOR – Business Division

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
General Fund	10,119,634	12,247,710	14,729,122	14,344,841
Other Funds	11,491,040	14,271,709	15,316,224	13,875,503
Total Funds	\$21,610,674	\$26,519,419	\$30,045,346	\$28,220,644
Positions	194	191	198	189
FTE	187.66	179.62	185.20	176.20

Program Description

The Business Division administers several tax programs, including corporate income and excise taxes, the employer withholding tax, the transit payroll and self-employment taxes, the fiduciary, inheritance, and cigarette taxes, and other agency accounts and special programs. Responsibilities include auditing tax returns and collecting delinquent taxes and other delinquent accounts. The Division also provides debt collection services for state and local agencies and for state and municipal courts in all 36 counties.

Budget Environment

Collection of the state's past due accounts has been a legislative concern, and the Division has an important role in this activity. Currently, the Division is collecting on 197,000 accounts owed to 273 state offices and agencies. The number of delinquent accounts is expected to increase. The Division is using more automation to help handle workload growth. Other state agencies have also identified 144,000 delinquent accounts for collection through the automated refund offset program within this Division.

This Division also collects revenues from cigarette tax stamps and taxes on other tobacco products. The 2001 Legislature provided additional staff and funding for a Tobacco Task Force that included personnel from the Department of State Police and the Department of Justice. Funding for that Task Force is authorized to come from Other Funds taxes collected on cigarette and other tobacco taxes. That funding authorization expires on December 31, 2007.

Legislatively Adopted Budget

The legislatively adopted budget reflects the phase-out of one position and eliminates one position to accommodate the 2005 budget reduction. It also retains the Tobacco Task Force (and \$3.3 million Other Funds) originally scheduled to be eliminated December 31, 2007. Legislation introduced to increase cigarette and other tobacco taxes and the corporate minimum tax did not pass and, therefore, funding for nine positions requested for that increased workload was not provided.

DOR – Multistate Tax Commission

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
Other Funds (NL)	202,180	224,358	231,313	231,313
Total Funds	\$202,180	\$224,358	\$231,313	\$231,313

Program Description

Through the Department of Revenue, Oregon is a member of the Multistate Tax Commission, which is composed of 40 states that have joined together to promote uniformity in state taxation of corporate income. Dues to the Commission are proportional to the amount of tax revenue each state collects. The budget reflects the Nonlimited expenditures for these dues.

Budget Environment

The Commission expects to maintain its current level of services to members.

Legislatively Adopted Budget

The legislatively adopted budget is the state's expected assessment for operational expenses of the Multistate Tax Commission.

DOR – Elderly Rental Assistance

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
General Fund	7,823,442	8,000,000	7,500,000	7,500,000
Total Funds	\$7,823,442	\$8,000,000	\$7,500,000	\$7,500,000

Program Description

The Elderly Rental Assistance program provides direct tax relief to elderly, low-income renters. Benefits are based on income levels and the amount of rent, fuel, and utilities paid. The benefits are available to renters age 58 or over with household incomes under \$10,000, household assets (if under age 65) that do not exceed \$25,000, and gross rent in excess of 20% of household income. Through this program, payments are also made to local governments in lieu of property taxes on certain tax-exempt housing for the elderly.

Budget Environment

This program has experienced a steady decline in payments to renters over the last several biennia. In part, this has been because, as the Oregon economy improved, fewer individuals met the program's eligibility criteria (which are not indexed to inflation). Payments are expected to level off as the decline in payments to renters is being offset by payments to local governments for tax-exempt housing for the elderly.

Legislatively Adopted Budget

The legislatively adopted budget is the amount of benefits expected to be paid during the 2007-09 biennium, which is \$500,000, or 6%, less than the amount appropriated for 2005-07. The amount is less than has been paid out in the past due to the fact that fewer people meet the eligibility criteria.

DOR – Senior Citizens' and Disabled Citizens' Property Tax Deferral

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
General Fund	0	1	1	1
Total Funds	\$0	\$1	\$1	\$1

Program Description

The Senior Citizens' Property Tax Deferral portion of this program allows homeowners age 62 and over who meet program income limits to defer payment of property taxes and special assessments until the owner dies, sells the property, or stops using it as a principal residence. The state pays the tax and obtains a lien on the property for the tax and for accrued interest at the rate of 6% per year. The deferred taxes and interest are collected when the property is disqualified. As properties are disqualified and their deferred taxes are paid, monies received finance the taxes the state pays under the program. The household income limit to qualify for the program is \$32,000 beginning in 2002-03 and indexed to inflation thereafter. The program also is available to disabled persons meeting household income limits.

Budget Environment

The Senior Citizens' component of the program has about 7,800 accounts. The Disabled Citizens' component of the program has about 630 participants. As of June 30, 2006, over \$116 million is owed to the state under the programs. Repayment of taxes has exceeded the amounts paid out in the recent past, and excess cash has been transferred to the General Fund from the Property Tax Deferral Account. The General Fund makes up any shortfall in the program. Currently, it is self-supporting and no shortfall is anticipated this biennium.

The Legislature, in 2005, determined that excess cash in the account should be used to fund assistance to seniors through Oregon Project Independence. As a result, beginning July 1, 2007, the Department annually, on November 30th, will determine the balance in the account. Any amount in excess of the greater of 35% of the amounts paid to counties for deferred taxes in November, or \$5 million will be transferred to Oregon Project Independence.

Legislatively Adopted Budget

The legislatively adopted budget has a \$1 placeholder to highlight the potential obligation of General Fund to support the program. Latest forecasts indicate that the program will not need any additional General Fund support. The budget anticipates that \$16.6 million will be transferred to Oregon Project Independence during the 2007-09 biennium.

Secretary of State (SOS) – Agency Totals

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
General Fund	13,024,284	11,462,627	11,614,930	11,679,030
Other Funds	29,005,381	34,324,182	39,712,282	38,566,820
Federal Funds	10,085,707	9,293,472	9,158,195	9,156,577
Other Funds (NL)	91,914	0	0	0
Total Funds	\$52,207,286	\$55,080,281	\$60,485,407	\$59,402,427
Positions	205	203	208	199
FTE	204.50	202.46	207.50	198.50

Agency Overview

The Office of the Secretary of State is one of three constitutional offices established at statehood. The Secretary is auditor of public accounts, chief elections officer, and manager of the state's records, a role that includes preserving official acts of the Legislative Assembly and the Executive Branch. The Secretary of State serves with the Governor and Treasurer of State on the State Land Board which manages state-owned lands.

Revenue Sources and Relationships

Other Funds revenues are received from various sources, including:

- **Assessments** to state agencies based on a pro-rata share of four risk factors (cash, revenues, expenditures, and full-time equivalent positions) are the primary funding source for the Audits Division. However, agencies whose operations are predominately funded with dedicated trust funds (e.g., Department of Transportation) are billed for actual audit costs rather than an assessment. The Archives Division also assesses agencies for the storage and retrieval of inactive, non-permanent records maintained by the Division.
- **Fees for services** are collected from business filings, secured transactions, and notary public to support the Corporations Division; and municipal audits for the Audits Division. HB 3656 (2003) increased the business registry fees to \$50 from \$20 and directed the additional revenue be transferred to the General Fund. The Secretary of State anticipates \$17.7 million will be transferred to the General Fund in the 2007-09 biennium. The Secretary may only retain a cash balance that is equivalent to two months of operating expenditures for the Corporation Division. Voters' pamphlet and election filing fees and penalties collected by the Elections Division are also deposited into the General Fund rather than directly supporting the agency's budget.
- **Sale of publications**, including the annual Oregon Administrative Rules Compilation, the monthly Oregon Bulletin which provides updates to the Compilation, and the Oregon Blue Book, generate revenues for the Archives Division.
- **Internal transfers** are made to the Executive Office, Business Services, Information Systems, and Personnel Resources Divisions by the Audits and Corporations Divisions for a proportionate share of administrative costs.
- **Miscellaneous** document and copier charges are also collected by the Archives and Elections Divisions. Prior to the 2005-07 biennium, these funds were spent as Nonlimited Other Funds.

In past biennia, Federal Funds revenues were received primarily under the Help America Vote Act (HAVA). For the 2007-09 biennium, the HAVA program will expend existing Federal Funds revenues already received by the state. There is no need for General Fund for the state's matching portion of these funds.

Budget Environment

The Secretary of State is a separately elected, constitutional office, and as such, has not been subject to the Governor's budget review. SB 1101 (2005) modified the statutes relating to the Governor's budget development and allotment system to include the Secretary of State and the State Treasurer in those processes. SB 66 (2007) was amended to again exclude the two offices from the Governor's review process.

General Fund expenditures for the Secretary of State will fluctuate depending on the number and type of elections conducted. For primary and general elections, the counties are responsible for the costs of conducting the elections. However, as in the 2003-05 biennium, when statewide special elections are held, the Secretary will

reimburse counties for those costs. Costs associated with the production and distribution of voters' pamphlets will also vary depending on the number of candidates, measures, and measure arguments filed.

Implementation of HAVA requirements will continue to influence the Secretary of State's budget in the foreseeable future. HAVA was passed in October 2002 and contains minimum federal standards on various aspects of election administration which include developing a centralized voter registration system, replacement of punch card machines, privacy and independence in the voting process, access for people with disabilities, and voter outreach.

The Legislature directed the Secretary of State to re-work their current Key Performance Measures to make them more outcome-based and make the targets more realistic. The agency must present their performance measures to the Joint Legislative Audit Committee before the next legislative session.

SOS – Executive Office

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
General Fund	375,703	295,499	295,065	294,631
Other Funds	813,954	1,121,322	1,222,879	1,220,582
Total Funds	\$1,189,657	\$1,416,821	\$1,517,944	\$1,515,213
Positions	6	6	6	6
FTE	6.00	6.00	6.00	6.00

Program Description

The Executive Office includes the Secretary and the Secretary's immediate staff. The office provides policy direction and daily management of the agency. The executive staff is responsible for strategic planning, policy development, and legislative and press relations. In addition, the office staffs the State Land Board.

Legislatively Adopted Budget

The legislatively adopted budget for the Executive Office represents a 7% increase over the 2005-07 legislatively approved budget. Current services are maintained with standard inflation being the only increase to the budget.

SOS – Archives Division

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
General Fund	3,438,890	3,514,288	3,602,754	3,529,336
Other Funds	1,398,013	2,314,796	2,445,885	2,282,154
Other Funds (NL)	54,218	0	0	0
Total Funds	\$4,891,121	\$5,829,084	\$6,048,639	\$5,811,490
Positions	22	22	23	22
FTE	22.00	22.00	23.00	22.00

Program Description

The Archives Division stores public records and protects and provides public access to Oregon's documentary heritage. The Division provides records management advice and assistance to state and local agencies and publishes the state's administrative rules.

Legislatively Adopted Budget

The legislatively adopted budget for the Archives Division represents a 0.3% decrease over the 2005-07 legislatively approved budget. The budget includes maintenance of current services, reclassification of four existing positions, and a reduction in rent for the Archives Building. The reduction in rent was the result of a change in the method the Department of Administrative Services is using to charge the agency.

SOS – Audits Division

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
Other Funds	12,174,133	13,420,142	15,115,794	14,611,170
Total Funds	\$12,174,133	\$13,420,142	\$15,115,794	\$14,611,170
Positions	76	72	75	72
FTE	76.00	72.00	75.00	72.00

Program Description

The Audits Division was created to carry out the Secretary's constitutional duties as auditor of public accounts to assure that public funds are properly accounted for and spent in accordance with legal requirements. The Division performs, or contracts for, financial and compliance audits and performance audits of state agencies.

Legislatively Adopted Budget

The legislatively adopted budget for the Audits Division represents a 8.9% increase over the 2005-07 legislatively approved budget. The budget includes maintenance of current services and a reclass of an existing position.

SOS – Business Services Division

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
General Fund	321,600	291,684	321,347	320,940
Other Funds	2,146,909	2,513,216	2,879,066	2,735,272
Total Funds	\$2,468,509	\$2,804,900	\$3,200,413	\$3,056,212
Positions	16	16	17	16
FTE	16.00	16.00	17.00	16.00

Program Description

The Business Services Division provides accounting, budgeting, cashiering, payroll, purchasing, contract administration, safety and risk management, fixed assets, and inventory control services for the agency.

Legislatively Adopted Budget

The legislatively adopted budget for the Business Services Division represents a 9% increase over the 2005-07 legislatively approved budget. The budget includes maintenance of current services and the reclassification of two accounting positions.

SOS – Corporation Division

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
Other Funds	6,488,901	7,000,739	7,684,754	7,361,537
Total Funds	\$6,488,901	\$7,000,739	\$7,684,754	\$7,361,537
Positions	37	37	39	36
FTE	36.50	36.42	38.50	35.50

Program Description

The Corporation Division is responsible for three major programs: 1) Business Registry – the filing of business names; 2) Uniform Commercial Code – the filing of secured transactions; and 3) Notary Public – commissioning and regulating notaries.

Legislatively Adopted Budget

The legislatively adopted budget for the Corporation Division represents a 9.8% increase over the 2005-07 legislatively approved budget. The budget includes maintenance of current services.

SOS – Elections Division

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
General Fund	7,771,797	5,486,790	6,178,379	6,318,976
Other Funds	0	119,748	123,458	123,458
Other Funds (NL)	37,696	0	0	0
Total Funds	\$7,809,493	\$5,606,538	\$6,301,837	\$6,442,434
Positions	18	15	16	15
FTE	18.00	15.00	16.00	15.00

Program Description

The Elections Division administers state and federal elections laws, provides training to county and city election officials, political party representatives, and candidates; publishes statewide voter's pamphlets; and administers the filing and verification of initiative, referendum, and recall petitions.

Legislatively Adopted Budget

The legislatively adopted budget for the Elections Division represents a 14.9% increase from the 2005-07 legislatively approved budget. Part of the increase is due to a fairly large increase in risk management premiums being charged by the Department of Administrative Services. There is also full funding of \$1.2 million General Fund in the agency's budget for the Primary and General Election voters' pamphlets. These funds have traditionally been reimbursed by the Emergency Board. There is also funding to help the agency hire temporary clerical assistance during the elections.

The Legislature also provided a special purpose appropriation of \$1,800,000 General Fund to the Emergency Board for the Secretary of State for costs associated with a statewide special election to be held in November 2007. These funds are not included in the agency's budget, but will be available after the actual costs of the election are determined.

SOS – Information Systems Division

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
General Fund	1,065,250	1,115,841	1,150,381	1,148,237
Other Funds	5,566,573	6,634,494	9,676,449	9,669,545
Federal Funds	0	0	1,920,000	1,920,000
Total Funds	\$6,631,823	\$7,750,335	\$12,746,830	\$12,737,782
Positions	25	25	24	24
FTE	25.00	25.00	24.00	24.00

Program Description

The Information Systems Division provides centralized information technology services including database administration, Internet development, and application development and maintenance for the agency.

Legislatively Adopted Budget

The legislatively adopted budget for the Information Systems Division represents a 64.4% increase from the 2005-07 legislatively approved budget. The increases include the modification of two limited duration positions into permanent positions, \$1.2 million Other Funds for the continuation of E-business projects, \$1,920,000 Federal Funds for the continuation of the Elections Business System, \$85,000 Other Funds to enable the use of the Deposit Interface System, and \$1.5 million Other Funds to implement an Electronic Records Management System and Center.

SOS – Personnel Resources Division

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
General Fund	51,044	58,525	67,004	66,910
Other Funds	362,775	499,725	563,997	563,102
Total Funds	\$413,819	\$558,250	\$631,001	\$630,012
Positions	3	3	3	3
FTE	3.00	3.00	3.00	3.00

Program Description

The Personnel Resources Division provides advice on human resources policies and procedures, maintains employee records, and provides recruitment and training services for the agency.

Legislatively Adopted Budget

The legislatively adopted budget for the Personnel Resources Division represents a 12.9% increase over the 2005-07 legislatively approved budget. Current services are maintained as well as the reclassification of two positions.

SOS – Help America Vote Act

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
General Fund	0	700,000	0	0
Other Funds	0	700,000	0	0
Federal Funds	10,085,707	9,293,472	7,238,195	7,236,577
Total Funds	\$10,085,707	\$10,693,472	\$7,238,195	\$7,236,577
Positions	0	7	5	5
FTE	0.00	7.04	5.00	5.00

Program Description

The federal Help America Vote Act requires states to implement a variety of election process reforms including replacing punch card voting systems, purchasing voting equipment that is accessible to people with disabilities, and developing a centralized voter registration system.

Legislatively Adopted Budget

The legislatively adopted budget for the Help America Vote Act represents a 32.3% decrease from the 2005-07 legislatively approved budget. No General Fund is being requested and all projects will be funded with existing Federal Funds. All funding for projects are considered one-time, so funding for the program was included in a policy option package. The package includes \$7,236,577 Federal Funds to continue to meet the ongoing HAVA requirements and program needs. It also creates four permanent positions (4.00 FTE) and one limited duration position (1.00 FTE).

Treasurer of State (Treasurer) – Agency Totals

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
Other Funds	17,110,593	23,844,759	31,779,191	28,590,470
Other Funds (NL)	5,656,477	3,500,000	4,001,000	3,500,000
Total Funds	\$22,767,070	\$27,344,759	\$35,780,191	\$32,090,470
Positions	75	75	91	83
FTE	74.10	74.60	83.10	80.85

Agency Overview

The Treasurer of State acts as the “banker” for all state agencies by maintaining their accounts and by investing their funds (Trust Funds, constitutional bond funds, and any funds not necessary to meet current expenditure demands). The Treasurer coordinates and approves state bond sales, acts as collateral pool manager for the state’s largest banks, and pays on bonds submitted by bondholders. Additionally, the Treasurer invests excess funds for local governments. The Treasurer is also responsible for administration of the Oregon 529 College Savings Network. The Treasurer’s budget anticipated passage of a law that would transfer responsibility for disposing of unclaimed property from the Department of State Lands to the Treasurer.

Treasurer – Treasury Services

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
Other Funds	16,350,867	21,639,627	27,947,934	25,763,896
Other Funds (NL)	5,656,477	3,500,000	3,500,000	3,500,000
Total Funds	\$22,007,344	\$25,139,627	\$31,447,934	\$29,263,896
Positions	73	73	77	81
FTE	72.10	72.60	75.10	78.85

Program Description

Treasury Services is organized into five operating sections: *Investment* invests the state held funds; *Oregon Short Term Fund* invests state and local funds held in the short term fund; *Banking* provides banking services for all state agencies; *Debt Management* coordinates and approves issuance of state agency bonds; and *Collateral Pool* assures that public funds held in financial institutions are properly collateralized and acts as pool manager for the four largest Oregon banks. The Treasurer included the proposed transfer of Unclaimed Property responsibility under the Treasury Services Program. The Legislative Fiscal Office does not agree with this approach and, therefore, Unclaimed Property is discussed as a separate program below.

Revenue Sources and Relationships

Other Funds consist mainly of revenue from a charge on investments managed. Statutes allow a charge of up to 0.435 of 1% on the Oregon Short Term Fund and up to 0.25 of 1% on other investments managed. Revenue from these charges is estimated to be \$17.4 million. Other revenues include charges to banks that use the Treasurer as a collateral pool manager, estimated at \$124,000; charges to state agencies for bond and coupon redemption on outstanding general obligation bonds and to state agencies and municipalities for bond issuance costs, estimated at \$3.1 million; and charges to state agencies for banking services, estimated at \$6 million. Included in the estimated revenues from investment and banking services is reimbursement of \$3.5 million for direct expenses that are pass-through funds budgeted as Nonlimited expenditures.

Budget Environment

The budget is driven by the number and complexity of financial transactions, the complexity and diversity of investments, the number and kinds of bond transactions, and the number of programs operated out of the Treasurer’s Office. The Oregon Public Employees Retirement Fund (OPERF), State Accident Insurance Fund (SAIF), Oregon Short Term Fund, and Common School Fund account for most of the Treasurer’s investment activity. Generally, growth of these funds has increased investment costs and revenues. The Treasurer has relied heavily on automation to service this growth, without a corresponding growth in personnel.

Legislatively Adopted Budget

The Legislature added seven full-time positions, five in the Investment Division, one in the Debt Management Division, and one in the Finance Division. The five Investment Division positions were provided to address workload needs due to growth in investment portfolios, particularly in the Public Employees Retirement Fund. The increased staff would help the Division take advantage of new investment opportunities in its private equity portfolios and search out other investment opportunities for up to 3% of the PERS portfolio, currently \$1.8 billion. Four of the five are budgeted to begin at the start of the biennium and one is scheduled to begin work in the middle of the biennium. The new debt management position would begin at the start of the biennium to address increasingly complex federal and securities laws and the application of innovative financial products in agency bond programs. The additional Finance Division staff was provided to deal with increased workload associated with a statutory change to the administration of the collateral pool for banks that hold state funds. The Legislature also provided funding to reclassify five existing positions and change one position from half-time to full-time.

The legislatively adopted budget includes sufficient expenditure limitation to pay Investment Division staff bonuses for one year. Bonuses are payable if certain investment performance targets are met or exceeded. Bonuses are payable after calendar year investment results are finalized. If investment targets are met or exceeded for calendar years 2007 and 2008, the Treasurer may return to the Emergency Board or Legislative Assembly for additional expenditure authority to pay the second year bonuses.

Treasurer – Oregon 529 College Savings Network

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
Other Funds	759,726	2,205,132	2,131,373	2,826,574
Total Funds	\$759,726	\$2,205,132	\$2,131,373	\$2,826,574
Positions	2	2	2	2
FTE	2.00	2.00	2.00	2.00

Program Description

The Oregon 529 College Savings Network administers a savings program designed to encourage people to set aside money for future educational costs. The Oregon 529 College Savings Board, which is chaired by the Treasurer of State, establishes policies and oversees the program. Participants can choose from a variety of investment options. Earnings on the investments are exempt from income taxes if used for qualified educational expenses when withdrawn. Although administered by the Treasurer, participant enrollment, investment management, and participant support is provided by third party contractors.

Revenue Sources and Relationships

The program originally was funded with advances from the General Fund. The program receives Other Funds from an annual assessment on plan assets of 10 basis points (0.10%). It also will receive \$700,000 annually from contract service providers for marketing, auditing, and other board-related expenses. The program has grown in size to the point that the annual assessment is sufficient to cover the Treasurer's administrative costs.

Budget Environment

The program was initiated during the 1999-2001 biennium and now has 98,000 participant accounts, totaling more than \$660 million. The Treasurer expects the program to continue to grow during the 2007-09 biennium.

Legislatively Adopted Budget

The legislatively adopted budget continues the program at its current level and provided \$366,000 additional Other Funds expenditure limitation to enhance its oversight and audit activities and its ability to conduct additional marketing to increase public awareness of the program. No increase in fees was necessary to pay for these additional services. The Legislature also increased the budget to pay for professional services expenditures related to the back office support provided by Treasury Services. This technical adjustment ensures that the revenues and expenditures of the College Savings Network are correct. The change increased Services and Supplies by \$359,000 Other Funds expenditure limitation.

Treasurer – Unclaimed Property

	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended	2007-09 Legislatively Adopted
Other Funds	0	0	1,699,884	0
Other Funds (NL)	0	0	501,000	0
Total Funds	\$0	\$0	\$2,200,884	\$0
Positions	0	0	12	0
FTE	0	0	6.00	0

Program Description

This program will manage forfeited and unclaimed property. The Unclaimed Property program is proposed to be transferred from the Department of State Lands to the Treasurer of State during the 2007-09 biennium. Transfer of the program requires legislation and a bill to that effect was introduced. The bill would transfer the activities effective July 1, 2008.

Revenue Sources and Relationships

The new legislation would create an Unclaimed Property Account in the Common School Fund. Unclaimed property would be deposited into the account. Moneys in the account would be continuously appropriated to the Treasurer for payment of amounts to rightful owners of unclaimed property and payment of Treasurer's expenses of the program.

Budget Environment

Currently, the Unclaimed Property accounts for about \$200 million (20%) of the Common School Fund. Earnings have been sufficient to pay the administrative expenses of the program. Further, gross receipts into the account have exceeded claims and administrative costs for the past six years and the account continues to grow.

Legislatively Adopted Budget

Legislation to transfer the Unclaimed Property program failed to pass and no adjustment to the Treasurer's budget was necessary.

