

# ECONOMIC AND COMMUNITY DEVELOPMENT

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## County Fairs – Agency Totals

	2005-07 Actual	2007-09 Legislatively Adopted	2007-09 Legislatively Approved	2009-11 Essential Budget Level
Lottery Funds	3,344,827	3,554,474	3,554,474	3,554,474
<b>Total Funds</b>	<b>\$3,344,827</b>	<b>\$3,554,474</b>	<b>\$3,554,474</b>	<b>\$3,554,474</b>

### Agency Overview

County Fairs are provided state support as a pass-through from the Department of Administrative Services for financial assistance related to county fair activities. State funding is deposited into the County Fair Account, which is administered by the County Fair Commission. ORS 565.445 requires the Commission to distribute the monies each January in equal shares to county fair boards.

### Revenue Sources and Relationships

ORS 565.447 allocates 1% of the net proceeds of the lottery to the County Fair Account. The statute set an initial allocation cap of \$1.53 million per year, but allows a biennial adjustment to the cap based on the change in the Consumer Price Index since January 2001.

### Budget Environment

The 2003 Legislature transferred the associated pass-through funding from the Department of Agriculture to the Department of Administrative Services (DAS). The Legislature determined that county fair funding would be better placed in the DAS budget since most other state Lottery pass-through dollars reside in the DAS budget.

Pass-through expenditures are included in the budget of the Department of Administrative Services in the Governor's recommended budget, but are displayed separately in Legislative Fiscal Office publications.

### Essential Budget Level

The essential budget level maintains the 2007-09 funding amount.

### Issues and Options

The Governor's recommended budget increases support for County Fairs to \$3,813,569 Lottery Funds, or \$1.9 million per year. Under current law, the Legislature will need to review and possibly adjust that amount based on updated Consumer Price Index information.

## Economic and Community Development Department (OECD) – Agency Totals

	2005-07 Actual	2007-09 Legislatively Adopted	2007-09 Legislatively Approved	2009-11 Essential Budget Level
General Fund	1,791,094	4,227,676	4,760,464	4,431,047
Lottery Funds	93,797,043	132,354,598	133,083,024	113,014,071
Other Funds	31,994,929	42,926,613	53,023,261	45,206,567
Federal Funds	23,312,513	36,338,593	36,374,862	27,140,696
Other Funds (NL)	198,026,069	198,782,633	201,986,203	167,103,902
<b>Total Funds</b>	<b>\$348,921,648</b>	<b>\$414,630,113</b>	<b>\$429,227,814</b>	<b>\$356,896,283</b>
Positions	123	126	126	125
FTE	119.23	126.00	126.00	125.00

### Agency Overview

The Oregon Economic and Community Development Department (OECD) provides economic and community development and cultural enhancement throughout the state, and administers programs that aid businesses and communities. The Economic and Community Development Department receives General Fund, Lottery Funds, Federal Funds, and Other Funds primarily from the Oregon Bond Bank and other bonding programs, and uses the funds to provide grants, loans, and direct and contract services. Program focuses include business and industry development; support of in-state innovation efforts to improve economic competitiveness; trade, tourism and arts promotion; community development; and ports.

The 1997 Legislative Assembly established authority for the Oregon Economic and Community Development (OECD) Commission to distribute funds within the Oregon Community Development Fund for economic and community development purposes, subject to performance-based contracts. A large majority of the agency's budget reflects these distributions from the Community Development Fund, and the agency's activities to support both these distributions and other economic development activities. The Legislature also designates and directs funds, in the agency's budget, to specified economic and community development projects outside of the context of the Community Development Fund.

The Department has six budget program areas:

- The *Operations* program area provides overall policy direction, service delivery, and program support. All expenses relating to the operation of the agency (excluding the expenses related to support of the Arts Commission and Cultural Trust), including personal services expenditures and services and supplies expenditures, are included in the Operations program area.
- The *Community Development Fund* includes state and federal funds that are distributed, by direction of the Economic and Community Development Commission, in support of the Department's business and community development programs. Almost all of the expenditures in this program area are either special payments (loans, grants, or contracts) to local governments, non-profit organizations, or businesses; or debt service on bonds the state has issued to finance these categories of expenditures.
- The *Film and Video Office* is a semi-independent agency that receives pass-through support in the OECD budget to promote and support the film, video, and multimedia industries in Oregon.
- The *Oregon Arts Commission* fosters the arts and cultural development in Oregon. All operating expenses relating to Arts Commission and Cultural Trust programs, including personal services expenditures and services and supplies expenditures, are included in this program area, as are funds awarded to individuals and arts-related nonprofit organizations.
- *Lottery Funds Debt Service* is used exclusively for debt service payments on lottery revenue bonds.
- *Legislatively Directed Appropriations* includes expenditures financed by individual line-item appropriations or allocations outside of the context of the Community Development Fund.

Following the 2007 session, the Oregon Economic and Community Development Department (OECD) began a review of its programs, to determine how they could be made more effective, and whether any of them should be transferred to other agencies. The review was implemented out of two basic concerns. The first concern was that the broad scope of the Department's activities might have a negative impact on its effectiveness in administering the programs. The second concern was that the broad scope and complexity of the Department's programs affected its ability to communicate with its clients, the Legislature, and the public, and had a negative impact on the way the programs' performances were measured.

When this review began, some believed that effectiveness of both the community development and business development programs could be improved by transferring the community development programs to the Housing and Community Services Department (HCS). The OECD Commission eventually rejected this concept, however, after the program reviews. Instead, it proposed that an Infrastructure Finance Authority (IFA) be established as a semi-independent agency, separate from the Department, to house most of the community development programs. The IFA would provide administrative support for the programs, and be governed by a Board that would include representatives of stakeholder groups. The IFA Board would approve the distribution of funds in the Special Public Works Fund, Water/Waste Water Financing Safe Drinking Water Revolving Loan Fund, and Ports Programs. The OECD Commission recommended transferring administration of the Community Development Block Grant Program to HCS, transferring the Main Street Program to the State Historic Preservation Office, and transferring the Office of Minority-Owned/Women-Owned/Emerging Small Business Certification from the Department of Consumer and Business Services to OECD.

Subsequent to making these recommendations, the State Treasurer indicated that the proposed IFA could not, as a semi-independent agency, hold the Lottery Funds within the balances of the various funds that it was supposed to administer. In response, the OECD Commission modified its recommendations, and recommended that the IFA and the community development programs (including the Community Development Block Grant) be retained in OECD. Although the programs would still be financed within the Department's budget, a new IFA Board would nonetheless be established and given administrative authority over the community development programs (excluding the Industrial Lands Certification, Brownfields, and Regional Investment programs), independent of the Commission and the OECD Director. Currently, the community development programs are under the authority of the OECD Commission.

### **Budget Environment**

The workload of the agency is driven by the economic and community development needs of Oregon's communities. This includes assisting communities to meet needs for clean water and wastewater disposal and for other public infrastructure, including community facilities and ports, and providing support for community-identified economic and community development programs.

The 2003 Legislature directed the agency to focus its efforts on the primary goal of assisting the business community to create new jobs and retain existing jobs. The agency was directed by budget note to report to the Emergency Board on the use of the Strategic Reserve Fund, including planned and actual outcomes. The 2005 Legislature added \$7 million in Lottery Funds for an Innovation Economy initiative and added staff to support this initiative.

The 2003-05 budget reflected actions taken by OECD to streamline its operations and refocus its efforts towards the primary goal of assisting businesses to create new jobs and retain existing jobs. The total reduction resulting from this effort was \$27 million and 10.62 FTE. The 2005 Legislature maintained agency staffing at the 2003-05 level. The Emergency Board approved a reorganization plan that added 5 positions (3.58 FTE) and approved the conversion of Lottery Funds debt service (that otherwise would have reverted to the Department of Administrative Services Economic Development Fund) to support the additional staff needed to address agency workload.

### **Essential Budget Level**

Atypically for state agency budgets, the Department's essential budget level expenditures for the 2009-11 biennium are below the 2007-09 biennium expenditure level. State support (i.e., General Fund plus Lottery Funds) in the EBL is 14.8% below the 2007-09 biennium level, while the decline in total funds is 16.9% over the same period. There are a number of reasons why this is the case.

The decline in state support reflects the phase-out of support of a number of one-time expenditures approved in the 2007-09 biennium. The single largest expenditure phased-out in the EBL calculation is the 2007-09 biennium support for the Oregon Innovation Council (Oregon InC) Innovation Plan initiatives, at \$28.2 million Lottery Funds. Although the Legislature has supported Oregon InC (or the Council's antecedents) initiatives for several biennia, the Legislature does not add these expenditures into the agency's base budget. Instead, it approves any support on a one-biennium basis. This reflects the nature of the Innovation Plan initiatives, which are targeted toward narrower outcomes than the Department's ongoing programs, and which establish short-term targets and goals of eventual self-funding. The short-term targets generally extend beyond a single biennium, however, and the Council often recommends reestablishing funding for an initiative the following biennium.

Other 2007-09 biennium one-time state support expenditures that are phased-out in the EBL calculation include \$1.35 million in the Targeted Service Providers program, \$1.7 million for the Strategic Reserve Fund for Workforce and Leadership issues, \$0.5 million each for the Olympic Trials, the Main Street program, and commercial fisheries support, and \$396,000 approved for information technology investments. Additionally, Federal Funds expenditures of \$9.3 million are phased-out to reflect declining federal support, primarily in the Community Development Block Grant program.

### Issues and Options

The Governor's recommended budget supports the OECD Commission's recommendations to realign the Department's programs and to establish an Infrastructure Finance Authority within the Department. The Legislature would need to approve statutory changes outside of the OECD biennial budget bill to implement these recommendations. There are no adjustments to overall expenditure or staffing levels associated with the proposed realignment. The Governor's recommended budget does, however, include changes in the program area structure of the budget to more clearly delineate between the community development and other programs, so to better support the proposed separate governance structures for these programs.

### OECD – Operations

	2005-07 Actual	2007-09 Legislatively Adopted	2007-09 Legislatively Approved	2009-11 Essential Budget Level
Lottery Funds	15,971,578	18,253,590	18,982,016	19,406,981
Other Funds	7,268,071	10,170,632	10,442,500	10,410,834
Federal Funds	645,498	1,683,457	1,719,726	1,339,483
<b>Total Funds</b>	<b>\$23,885,147</b>	<b>\$30,107,679</b>	<b>\$31,144,242</b>	<b>\$31,157,298</b>
Positions	114	117	117	116
FTE	111.15	117.00	117.00	116.00

### Program Description

The Director of OECD is appointed by the Governor and confirmed by the Senate. Operations includes the *Office of the Director* (13.00 FTE), and four operating divisions. The divisions are: *Central Operations* (37.00 FTE) – which include administration of Department financial programs and contracts, and the Department's budget and fiscal services, information systems, and administrative support functions; *Business and Trade Development* (32.00 FTE) – which houses the business development, recruitment, and retention programs including the business development officers, and the small business and international trade support programs; *Community Development* (26.00 FTE) – which houses the infrastructure, brownfields, Community Development Block Grant, regional, industrial lands, and ports programs, and includes the agency's regional coordinators; and *Innovation and Economic Strategies* (9.00 FTE) – which provides staff support to the Oregon Innovation Council (Oregon InC) and supports the Department's cluster and other strategic planning.

### Revenue Sources and Relationships

Estimated revenues for the 2009-11 biennium include \$1.4 million in Federal Funds (down 19.5% from the prior biennium level) for administration of federal programs and the Community Development Block Grant program, and \$9.6 million in Other Funds (down 4.8% from the prior biennium level) from interest earnings and loan repayments, and from the Safe Drinking Water Revolving Loan Fund that is administered by the Department.

## Budget Environment

Community and regional needs and the needs of businesses and industry drive the workload. External forces, including changes in Oregon's economy, have a direct impact on the workload. Workload is also affected by changes in organization and staffing. The revisions to the budget structure and the change in direction and responsibility of the Economic and Community Development Commission have a major impact on staff workload, as did the additional workload generated by the new programs, such as the Safe Drinking Water Revolving Loan program and expanded infrastructure program.

## Essential Budget Level

The \$19.4 million of Lottery Funds required to finance the essential budget level is only a 2.2% increase over the prior biennium level. The essential budget level includes a phase-out of a one-time \$396,000 Lottery Funds expenditure for information technology investments funded for the 2007-09 biennium, and a \$236,000 Lottery Funds reduction in state government service charges. There is also a phase-out of \$394,000 Federal Funds, reflecting a projected reduction in federal funding of the Community Development Block Grant program. This represents a 23% shortfall from the funding level needed to support ongoing Operations program area costs.

The projected \$9.6 million of Other Fund revenues is not sufficient to finance the \$10.4 million of Other Fund costs in the essential budget level. To support essential budget level expenditures, the agency will have to spend down its Other Fund balances by an estimated 46% in the 2009-11 biennium.

## Issues and Options

The Governor's recommended budget has no reductions in the Operations program area from the essential budget level, and provides an additional \$350,000 Lottery Funds to establish two new positions (1.50 FTE) to serve as liaisons with other agencies to coordinate state workforce policies.

The Governor's recommended budget also funds two expansions in the Operations program area with Other Funds. The first increases Other Funds expenditures by \$219,633 to establish one new Finance Officer position (1.00 FTE) to support financial oversight of the community development fund programs. The second enhancement is to transfer the Office of Minority-Owned/Women-Owned/Emerging Small Business Certification from the Department of Consumer and Business Services (DCBS) to OECD, as the OECD Commission recommended in its agency realignment overview. The \$938,423 Other Funds and five positions (5.00 FTE) added to the Operations program area are offset by equivalent reductions in the DCBS budget, resulting in no net impact on the state budget.

The Governor's budget also accepts the other OECD Commission recommendations on program realignment. The Main Street program is funded in the State Historic Preservation Office budget, and the Governor would reorganize the budget structure of the Department. The Governor's budget recommendations include eliminating the Operations program area, and allocating the expenditures and positions therein to three newly-created program areas. The recommendations include also eliminating the Community Development Fund program area, and replacing these with one program area for central agency administration and shared services, a second program area for the community development programs to be overseen by the new Infrastructure Finance Authority which would combine both administrative costs and program costs for the relevant programs, and a third program area to combine administrative costs and program costs for the remaining programs (broadly, business development, innovation, and trade).

## OECD – Community Development Fund

	2005-07 Actual	2007-09 Legislatively Adopted	2007-09 Legislatively Approved	2009-11 Essential Budget Level
General Fund	493,143	0	500,000	0
Lottery Funds	28,076,388	48,130,895	48,130,895	22,975,362
Other Funds	19,464,365	24,692,722	34,492,722	25,383,279
Federal Funds	21,383,819	32,910,538	32,910,538	24,007,766
Other Funds (NL)	191,940,875	182,666,833	182,666,833	167,103,902
<b>Total Funds</b>	<b>\$261,358,590</b>	<b>\$288,400,988</b>	<b>\$298,700,988</b>	<b>\$239,470,309</b>

## **Program Description**

The Community Development Fund program area contains the funding that is allocated by the Economic and Community Development Commission for business and industry opportunities, regional development, community assistance, small business assistance, and ports programs. The program includes federal resources used to finance local programs and projects. It also includes Other Funds resources used to finance local programs and projects, through loans and grants, and includes Other Funds resources for business finance. Each Federal Funds and Other Funds resource retains its identity for purposes of eligibility and reporting, but is considered part of the Community Development Fund for statewide resource prioritization and allocation.

## **Revenue Sources and Relationships**

Community Development Fund program area revenues include fees and service charges, interest earnings, loan repayments, federal grant funds, and Nonlimited Other Funds from the sale of program specific revenue bonds and lottery-backed bonds. Nonlimited Other Funds revenue includes \$50.9 million in interest income and \$64.7 million in loan repayments from community and port infrastructure projects and business finance loans. Programs include the Special Public Works Fund, Water/Wastewater Funds, Brownfields Redevelopment Fund, and Port Revolving Fund for the investment of proceeds from lottery-backed bond sales. Other Funds revenues include \$38 million for the Safe Drinking Water Revolving Loan Fund. These are federally-sourced funds that are transferred to the Department from the Department of Human Services.

## **Budget Environment**

The 2007 Legislature approved a 71% increase in Lottery Funds for the Community Development Fund over the 2005-07 biennium level. This resulted primarily from an increase in support for the Oregon Innovation Council's Innovation Plan, which increased from \$7 million lottery funds in the 2005-07 biennium to \$28.2 million in 2007-09.

The state also issues lottery revenue bonds for the Community Development Fund. These lottery bonds provide capital to finance capital projects to benefit businesses and counties through the Special Public Works Fund, the Water/Wastewater Fund, and the Industrial Development Revenue Bond program. The lottery bond proceeds are in some cases used to match proceeds from Oregon Bond Bank bonds. The mixture of bond, loan, and grant funds increases OECD's capacity for financing projects, and are spent in the agency budget as Nonlimited Other Funds. The 2005 Legislature approved \$45 million in lottery bonds for brownfields redevelopment and industrial lands infrastructure development. The 2005-07 legislatively adopted budget included \$90.5 million in Nonlimited Other Funds, reflecting increased bonding and loan repayments in the various revolving loan programs. The 2007-09 biennium legislatively adopted budget supported an additional \$33.4 million of lottery bonds for infrastructure and specified projects. Debt service on lottery bonds is discussed in the Lottery Debt Service program area.

All components of the Innovation Plan share the common purposes of supporting innovation in Oregon and improving the state's economic competitiveness. The three Signature Research Center initiatives focus on building university research capacity in their respective areas, and on coordinating and promoting university research projects that will develop innovations that can be commercialized to establish new Oregon businesses and assist existing Oregon businesses. The other initiatives work to develop, share, and implement innovations to support certain emerging and established industries in the state.

## **Essential Budget Level**

Although Oregon InC Innovation Plan proposals have been funded in the agency budget for several biennia, this funding is approved each biennium on a one-time basis and not included in the essential budget level. This reflects the nature of the Innovation Plan initiatives, which are targeted toward narrower outcomes than the Department's ongoing programs, and which establish short-term targets and goals of eventual self-funding. As such, the \$28.2 million of Lottery Funds allocated for the Oregon InC Innovation Plan in the 2007-09 legislatively approved budget is phased-out in the calculation of the 2009-11 essential budget level.

## **Issues and Options**

The Governor's recommended budget reduces Lottery Funds expenditures from the Community Development Fund below 2007-09 biennium levels. For the Oregon InC Innovation Plan, this is done by recommending a new, one-time Lottery Fund support level that is 27.2% below the 2007-09 biennium level. For the other ongoing

programs in the Community Development Fund, which are included in the essential budget level, this is done by taking a direct reduction from the EBL. The essential budget level for these ongoing programs totals \$23 million Lottery Funds. The Governor’s budget reduces funding from this level by \$5.35 million Lottery Funds, or 23.3%. Because the OECD Commission determines the funding levels for specific programs within the Community Development Fund, this impact on specific programs is not certain. Department staff, however, have indicated that their recommendation to the Commission will likely be to distribute this reduction as follows, where figures indicate the dollar and percentage reductions from the program essential budget levels: Regional Investment programs – \$2.1 million (100% reduction for new program activity), Governor’s Strategic Reserve Fund – \$2 million (14.9%), Small Business Services (Small Business Development Center Network) – \$1.26 million (53%), Industry Sector Outreach and Business Retention – \$25,000 (1.5%).

The Governor’s recommended Oregon InC funding supports the continuation of all seven programs funded in the 2007-09 biennium, plus funding for a new Forestry Cluster initiative. Funding for six of the seven ongoing

<b>Oregon InC Innovation Plan Lottery Funds</b>			
<b>Program</b>	<b>2007-09 Legislatively Approved</b>	<b>2009-11 Governor's Recommended</b>	<b>Change</b>
<u>Signature Research Centers</u>			
1) ONAMI - Oregon Nanoscience and Microtechnologies Institute	\$9,000,000	\$5,656,500	-37.2%
2) OTRADI - Oregon Translational Research and Drug Development Institute	\$5,250,000	\$2,760,000	-47.4%
3) BEST - Built Environment and Sustainable Technology Center	\$2,500,000	\$3,172,500	26.9%
<u>Emerging Industry Initiatives</u>			
4) OWET - Oregon Wave Energy Trust	\$4,200,000	\$3,465,000	-17.5%
<u>Established Industry Initiatives</u>			
5) Northwest Food Processors Innovation Productivity Center	\$3,432,000	\$1,620,000	-52.8%
6) Manufacturing Competitiveness Initiative (PSU/OMI)	\$2,872,000	\$1,035,000	-64.0%
7) Community Seafood Initiative	\$900,000	\$450,000	-50.0%
8) Forestry Cluster Initiative		\$2,340,000	New
<b>Total</b>	<b>\$28,154,000</b>	<b>\$20,499,000</b>	<b>-27.2%</b>

programs is reduced from the prior biennium level. These reductions range from a 17.5% reduction for the Oregon Wave Energy Trust, to reductions of 50% or more for the food processing, community seafood, and manufacturing competitiveness initiatives. Funding for the BEST signature research center, on the other hand, is increased almost 27% over the 2007-09 biennium level. BEST focuses on clean energy, bio-based products, and energy efficient building and development technologies. A new Forestry Cluster Initiative is designed to create a Center for Forest Transportation and supporting tree-growing technologies and other innovations in the forestry industry.

The Governor’s budget also includes two policy option packages funded by Other Funds. The first is a \$12.5 million Other Funds expenditure limitation increase, to allow spending of federally sourced funds from the U.S. Environmental Protection Agency for water system improvement projects under the Safe Drinking Water Revolving Loan Fund program. The second is approval of \$9 million in Lottery bond proceeds to add capital to the infrastructure revolving loan funds (primarily the Special Public Works Fund). These Lottery bond proceeds are spent in the agency budget as Nonlimited Other Funds. The Governor’s budget proposes issuing the Lottery bonds late enough in the biennium to postpone the first debt service payment until 2011-13. The bonds would be issued on a taxable basis with a 20-year term, generating estimated debt service costs of \$2.1 million per biennium, to be paid with Lottery Funds.

In support of the OECD Commission’s agency realignment recommendations, the Governor’s budget recommends eliminating the Community Development Fund program area, and allocating the expenditures therein to two newly-created program areas. Approximately 86% of program area expenditures would be allocated to a newly-established program area that would hold the community development programs overseen by the new Infrastructure Finance Authority. The program area would also hold the agency’s administrative costs associated with those programs. The remaining 14% of expenditures in the Community Development Fund program area would be allocated to a newly-established program area for the remaining programs

(broadly, business development, innovation, and trade). This new program area would also combine the agency's administrative costs associated with these programs. This represents a change from the current practice of separating agency administrative costs from special payments in the agency's budget structure.

## OECD – Film and Video Office

	2005-07 Actual	2007-09 Legislatively Adopted	2007-09 Legislatively Approved	2009-11 Essential Budget Level
Lottery Funds	841,605	1,281,695	1,281,695	1,317,582
<b>Total Funds</b>	<b>\$841,605</b>	<b>\$1,281,695</b>	<b>\$1,281,695</b>	<b>\$1,317,582</b>

### Program Description

The Film and Video Office is a marketing agency for Oregon's statewide promotion of the film, video and multimedia industries. The 1995 Legislative Assembly authorized the semi-privatization of the Film and Video Office, which provides the program with greater flexibility in marketing activities. OECD is responsible for the pass-through of Lottery Funds to the Office. The Office recruits film productions through its marketing efforts, provides assistance to productions to identify film locations, and administers the state's film and video incentive programs. Services include maintaining a photo library of potential movie and television locations statewide and assisting in film permitting.

A consultant's report commissioned by the Film and Video Office estimates the industry generated \$709.5 million in direct economic output and generated 6,325 full- and part-time jobs in 2007, up 43.6% and 14.6%, respectively, from the levels two years earlier. Approximately 4,000 of the jobs in 2007 were in the indigenous film and video sector, 669 jobs resulted from out-of-state production companies working in Oregon, and 1,655 jobs were in the television and cable broadcasting industries. The fastest growing sector is the out-of-state production companies, where the 669 jobs in 2007 represents a 276% increase over the 2005 level.

### Revenue Sources and Relationships

The state-funded portion of the Office budget is from Lottery Funds, which OECD passes through to the semi-independent office. The Lottery Funds finance the Film and Video Office's operating expenses, including the personnel costs of the office's six staff members. As a semi-independent agency, the office's employees are not considered state employees and are not included in the OECD position count. In 2007, the Legislature increased support for the Office by 52% over the 2005-07 biennium. Three-quarters of this increase was dedicated to support expanding the Office's marketing activities.

### Essential Budget Level

Because the Film and Video Office is a semi-independent agency, the essential budget level calculation does include adjustments to phase-in compensation cost increases awarded in the prior biennium. The EBL is instead calculated as a simple 2.8% increase over the 2007-09 legislatively adopted budget.

### Issues and Options

The Governor's recommended budget provides Lottery Funds support for the Office of \$50,000 (or 3.8%) below the calculated essential budget level. His budget also includes a 50% expansion of one of the Office's film incentive programs – the Oregon Production Investment Fund (OPIF) Program. This program provides film producers with a cash rebate of up to 20% of qualified goods and services expenditures and up to 10% of Oregon payroll costs. Rebates awarded under this program are not included in the Film and Video Office budget.

Funding for these rebates comes from money donated to the OPIF. Donors, however, are eligible for a tax credit against Oregon personal income tax. The amount of this credit is 110% of the donation amount, meaning the donation can be made at no cost to the taxpayer, and indeed the taxpayer personally gains from the donation by receiving a tax reduction that exceeds the donated amount. Current law limits the amount of tax credits that may be awarded to no more than \$10 million per biennium. Because these credits reduce personal income tax collections, the cost of the program to the state is \$10 million per biennium. Because the donation amount is less than the tax credit, the \$10 million of tax credits provide approximately \$9 million in production rebate funding. The Governor recommends increasing the maximum biennial tax credit to \$15 million, thereby reducing

General Fund revenue by an additional \$5 million to provide an additional \$4.5 million of production rebate funds. Alternatively, the state could provide the same level of additional rebates at a cost of only \$4.5 million through a direct allocation of funds. Similarly, the state could save \$1 million by repealing the existing credit, and replacing it with a direct allocation of \$9 million to support the existing level of OPIF rebates.

## OECD – Arts Commission

	2005-07 Actual	2007-09 Legislatively Adopted	2007-09 Legislatively Approved	2009-11 Essential Budget Level
General Fund	1,297,951	4,227,676	4,260,464	4,431,047
Other Funds	3,437,043	5,933,259	5,958,039	6,148,672
Federal Funds	1,283,196	1,744,598	1,744,598	1,793,447
<b>Total Funds</b>	<b>\$6,018,190</b>	<b>\$11,905,533</b>	<b>\$11,963,101</b>	<b>\$12,373,166</b>
Positions	9	9	9	9
FTE	8.08	9.00	9.00	9.00

### Program Description

The Arts Commission is responsible for making the arts and culture available to all Oregonians by working with other agencies on a variety of initiatives in education, arts, and tourism. The Commission is responsible for a number of activities including: evaluating the impact of arts on Oregon’s economy; distributing National Endowment for the Arts (NEA) funding for programs in Oregon; working with the leadership of local arts organizations; conducting assessment and maintenance to protect existing public art and approving new public art; and supporting Oregon’s Art in Education program. The Commission coordinates regional efforts and arts education programs through a network of regional arts councils and collaborates to advance arts education for all students. The Commission became a part of OECD in 1993.

### Revenue Sources and Relationships

The Arts Commission is the only part of the Department’s budget that is regularly supported by General Fund. The Commission also receives federal NEA funding, and Other Funds from the 1% for Arts program and from donations. The 1% for Arts program is a state law which requires that 1% of appropriations to construct or alter certain state buildings must be used for the acquisition of art works.

About 79% of the Commission’s funds are used for special payments, which are grants to individuals and non-profit programs that support the goals of the Arts Commission.

### Budget Environment

In addition to its other responsibilities, the Arts Commission cooperates with the Tourism Commission on cultural tourism promotions and activities that draw visitors. The 2003 Legislature transferred the Oregon Cultural Trust, which had been housed in the Secretary of State’s Office, to the Arts Commission. The mission of the Oregon Cultural Trust is to build a new public-private fund to support arts, humanities, and heritage sectors.

In 2003, the Legislature reduced General Fund support for the Commission to \$1.2 million, which was the minimum funding level required to meet matching funds requirements for federal arts programs. The 2003 Legislature also transferred the Oregon Cultural Trust program and 1.83 FTE support staff from the Secretary of State’s Office to the Arts Commission, with the expectation that the combined programs would result in improved efficiencies and that funds raised for the Trust would help to support the Commission. However, program revenue was not sufficient to support the staffing approved in the transfer.

In 2007, the Legislature appropriated \$2.9 million General Fund to support the Creative Oregon Initiative. The funds were made available to increase grants to artists and arts-related programs, to provide business training to artists and arts administrators, to expand the Commission’s staff support, and to promote the Cultural Trust program. The 2007-09 biennium level of General Fund support represents a 228% increase over the level appropriated to the Commission the prior biennium.

## Essential Budget Level

The increase in the essential budget level over 2007-09 biennium expenditure levels incorporates only the standard adjustments for personnel cost increases, and for inflation in services and supplies costs and state government service charges.

## Issues and Options

The Governor's recommended budget includes an additional \$1 million of General Fund above the essential budget level for Creative Oregon II, a further expansion of the supplemental funding added in the 2007-09 biennium. Most of the funds (\$800,000) would be used to supplement the Commission's grant program, the remainder would support program administration and marketing.

## OECD – Lottery Debt Service

	2005-07 Actual	2007-09 Legislatively Adopted	2007-09 Legislatively Approved	2009-11 Essential Budget Level
Lottery Funds	48,907,472	58,388,418	58,388,418	69,314,146
Other Funds	1,825,450	2,130,000	2,130,000	3,263,782
Other Funds (NL)	0	0	2,883,570	0
<b>Total Funds</b>	<b>\$50,732,922</b>	<b>\$60,518,418</b>	<b>\$63,401,988</b>	<b>\$72,577,928</b>

## Program Description

The Lottery Debt Service program includes debt service payments on all lottery revenue bonds that have been issued to support OECD programs. Debt service on revenue bonds issued for the Oregon Bond Bank are shown in Nonlimited Other Funds in the Community Development Fund program area.

## Revenue Sources and Relationships

Debt service is paid with Lottery Fund allocations. However, interest earnings on lottery-bond reserves are also applied to pay debt service, to minimize the size of the required Lottery Funds allocation. Interest earnings are spent as Other Funds. The budget for this program was increased by \$16.8 million in the 2003-05 biennium to cover the increased debt service cost for the \$181 million in lottery-backed bonding authority authorized by the 2001 Legislature. The 2005-07 legislatively adopted budget provided \$51 million total funds, an increase of \$11.8 million (30%) above the 2003-05 legislatively approved budget from rollup costs for debt service on previously authorized infrastructure bonds. The 2005 Legislature authorized the use of \$1.9 million in Other Funds from interest earnings on lottery-bond reserves and proceeds for the debt service on the \$45 million in bonding authority for industrial lands infrastructure. The 2007 Legislature also approved the use of interest earnings on lottery-bond reserves and proceeds for the debt service. Debt service costs on lottery bonds is projected to total \$63.4 million in the 2007-09 biennium budget, a 25% increase over the prior biennium level.

## Essential Budget Level

The essential budget level funds debt service for Lottery bonds that the Legislature has approved for Department-funded projects prior to the 2009 session, and that have issued or are expected to be issued. Lottery bond debt service expenses for these bonds during the 2009-11 biennium will total \$72.6 million, an increase of \$9.2 million, or 14.5%, over the prior biennium level. This increase results from Lottery bonds newly-issued during the 2007-09 biennium. In 2007, the Legislature authorized an additional \$21.42 million of Lottery bonds for infrastructure projects funded through the Community Development Fund, plus \$7 million of Lottery bonds for a parking facility in downtown Hillsboro and \$5 million of Lottery bonds for the Coos Bay Channel Project.

## Issues and Options

The Governor's recommended budget funds Lottery Debt Service at the essential budget level. The budget does support authorization of an additional \$9 million of Lottery bond proceeds for infrastructure projects in the 2009-11 biennium, but requires these bonds be issued late in the biennium to delay debt service charges until the 2011-13 biennium. Debt service costs on the \$9 million of Lottery bond proceeds would be an estimated \$2.1 million per biennium, beginning in 2011-13 and then continuing for the 20-year term of the bonds.

## OECD – Legislatively Directed Appropriations

	2005-07 Actual	2007-09 Legislatively Adopted	2007-09 Legislatively Approved	2009-11 Essential Budget Level
Lottery Funds	0	6,300,000	6,300,000	0
Other Funds (NL)	6,085,194	16,115,800	16,435,800	0
<b>Total Funds</b>	<b>\$6,085,194</b>	<b>\$22,415,800</b>	<b>\$22,735,800</b>	<b>\$0</b>

### Program Description

Legislatively Directed Appropriations includes items that are specifically identified by the Legislature as line item expenditures. All items represent one-time expenditures unless identified otherwise by the Legislature.

### Revenue Sources and Relationships

Projects have been funded either with Lottery Funds or with bond proceeds (which are shown in the Other Funds Nonlimited number). In the 2007-09 biennium, seven items received a total of \$6.3 million of Lottery Funds.

### Essential Budget Level

Because Legislatively Directed Appropriations are typically one-time expenditures, their funding is phased-out and not included essential budget level for the following biennium. One Lottery-funded item was not phased-out and remains in the essential budget level. Essential budget level funding of the regional investment program, which provides pass-through economic development funds to regional economic development boards, was transferred to the Community Development Fund program area, as this was a long standing Department program. The \$2 million provided for this program in the 2007-09 biennium was a major reduction from prior levels.

### Issues and Options

By definition, there are no new legislatively directed appropriations in the Governor's recommended budget. The Governor's recommended budget does eliminate the remaining funding for the regional investment program. This is noted in the Community Development Fund section above, where continued funding was included in the essential budget level.

## Employment Department (OED) – Agency Totals

	2005-07 Actual	2007-09 Legislatively Adopted	2007-09 Legislatively Approved	2009-11 Essential Budget Level
General Fund	3,714,007	3,886,325	3,976,091	4,170,698
Other Funds	94,639,938	118,075,537	121,768,437	124,337,370
Federal Funds	247,466,002	243,543,767	253,659,367	255,114,976
Other Funds (NL)	1,076,205,892	1,436,098,557	1,436,098,557	1,496,309,317
<b>Total Funds</b>	<b>\$1,422,025,839</b>	<b>\$1,801,604,186</b>	<b>\$1,815,502,452</b>	<b>\$1,879,932,361</b>
Positions	1,373	1,288	1,331	1,308
FTE	1,356.77	1,273.35	1,284.10	1,273.39

### Agency Overview

The Employment Department (OED) offers services in five program areas:

- Unemployment Insurance (UI) provides wage replacement income to workers who are unemployed through no fault of their own.
- Business and Employment Services offers job listing and referrals services and career development resources.
- Child Care promotes and regulates the child care industry.
- Workforce and Economic Research coordinates the collection and dissemination of occupational and economic climate data for the state, workforce regions, and counties.
- Office of Administrative Hearings conducts contested cases for approximately 70 state agencies.

### Revenue Sources and Relationships

Sources of Other Funds revenues include:

- The *Oregon UI Trust Fund*, with a projected balance of \$1.6 billion, consists of employer payroll taxes collected by the Employment Department and held by the U.S. Treasury. These funds are designated for unemployment insurance compensation payments to qualified individuals.
- *Reed Act* funds, in the amount of \$98 million, were distributed to OED as Other Funds from the federal Employment Security Administration Account in 2002 and an additional \$5.3 million in 2008-09 as a result of the Federal extension of unemployment benefits. These funds can and have been spent over multiple biennia, but only for expenditures relating to UI and Employment Services administration. The 2009-11 essential budget level assumes expenditures of \$18 million. The remainder of these funds, approximately \$11.7 million, will be expended in 2011-13, allowing the agency to downsize gradually to operate within limited or discontinued Federal Funds.
- The *Special Administrative Fund* receives revenues from penalties and interest on delinquent payment of employer taxes. These funds are designated for administrative expenses or other needs as determined by the Director of the Department. The legislatively adopted budget expends \$6.1 million, leaving an estimated ending balance of \$7.8 million.
- The *Supplemental Employment Department Administrative Fund (SEDAF)* is funded by a 0.9% unemployment tax diversion to fund administration of the unemployment system. The 2009-11 essential budget level assumes \$64 million. However, because of the economic downturn, that revenue is unlikely to materialize as anticipated.
- The *Fraud Control Fund* is supported by interest earnings on delinquent repayments of UI benefit overpayments and is earmarked for costs associated with the prevention, discovery, and collection of those overpayments. The 2009-11 essential budget level expends \$4 million, leaving an estimated ending balance of \$179,000.
- The *JobsPlus Unemployment Fund*, authorized by HB 3441 (2001), was created through a diversion of UI taxes over a two-year period to support subsidized employment opportunities for UI clients. The program was discontinued at the end of the 2003-05 biennium. Proposed legislation to divert additional funding and extend the operations of the program failed to pass. Approximately \$300,000 is anticipated to remain in the fund at the close of the 2007-09 biennium. OED will request legislation in the 2009 legislative session to close this fund and transfer the balance to the General Fund.
- The *Child Care Fund* consists of donations received through the *Child Care Contribution Tax Credit* program. Donors receive tax credits of \$0.75 for each dollar contributed to the Child Care Division, up to \$500,000

total credits each year. The essential budget assumes tax credits will generate \$1.33 million in revenue for 2009-11, used to fund demonstration projects pursuant to statute. The demonstration projects selected by the Department are designed to show the effects of simultaneously increasing quality of care affordability and provider compensation. The Legislature extended the tax credit until January 1, 2013, enabling continuation of programs. This fund also includes the licensing fees from child care providers, which are assumed to be \$743,000 for the 2009-11 biennium.

OED also receives Other Funds revenues from other state agencies for providing job placement services and conducting contested case hearings. The 2007-09 legislatively adopted budget continued 25 limited duration positions for this purpose, as described in the Business and Employment Services section below.

Sources of Federal Funds revenue include:

- **Employer payroll taxes** collected by the Internal Revenue Service under authority of the Federal Unemployment Tax Act (FUTA). During the 2007-09 biennium, an estimated \$102.1 million will be distributed by the U.S. Department of Labor for administration of the Unemployment Insurance Program, and an additional \$21.5 million is expected for employment services provided under the Wagner-Peyser Act, the Trade Adjustment Act, and for veterans placement services.
- **Child Care and Development Fund (CCDF)**, authorized under the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, to assist low-income families, families receiving temporary public assistance, and those transitioning from public assistance in obtaining child care so they can work or attend education/training, is allocated by the U.S. Department of Health and Human Services. An estimated \$123.3 million will be received during the 2009-11 biennium. Approximately 82% of these funds are reallocated to child care-related programs at other state and local agencies.

## **Budget Environment**

Economic conditions and trends directly affect OED's policy decisions and workload. During times of economic recession, high unemployment rates increase the number of clients served through Unemployment Insurance payments and job search services in field offices.

At present, the Oregon Employment Department is experiencing an unprecedented increase in Unemployment Insurance claims. In 2007-09, OED proposed and the Legislature adopted an agency downsizing plan in response to flat or declining federal funding. OED assumed that the funding decline would continue into 2009-11 and was prepared to make further reductions to balance its budget. However, the worsening economy has resulted in higher reimbursement rates for UI-related administration from the U.S. Department of Labor, and the 2009-11 essential budget level, the agency request, and the Governor's recommended budget include no further FTE reductions. At the December 2008 meeting of the Emergency Board, the agency requested and received additional Federal Funds expenditure limitation tied to higher reimbursement rates from the Department of Labor for UI-related administration, and established 43 limited duration positions to meet rising workload from additional claims.

Also in response to a changing economy and flat or declining federal revenue, OED began an initiative in 2007 to integrate workforce skill development and assessment with the Department of Community Colleges and Workforce Development (CCWD). The goal is to seamlessly provide skill assessment, training and job placement services to Oregon workers and job seekers, making better use of limited Workforce Investment Act (through CCWD) or Wagner-Peyser (Employment Department) dollars while eliminating duplicative administrative processes, leading to better skilled workers for employers and higher wage jobs for job seekers. The integration involves co-location and a shared intake and customer database, and both OED and CCWD reported that it could be accomplished within existing 2007-09 resources. The integration process has been in effect and under refinement since October.

The need for an accessible, affordable, high quality child care system also remains high. OED attempts to support these demands through programs that enhance child safety and health, promote child care worker training, offer information on child care providers, and ensure compliance with state and federal child care laws. This is the only program within OED which receives General Fund support, and reductions to the 2009-11 essential budget level may need to be considered.

## Essential Budget Level

The 2009-11 essential budget level for the Employment Department is a 3.6% increase over the 2007-09 legislatively approved budget, primarily due to inflation associated with personal service costs.

## Issues and Options

OED is proposing legislation affecting unemployment insurance that mirrors legislation proposed and expected to be acted upon by the United States Congress. The following concepts would have a fiscal impact because they expand the number of individuals eligible to receive benefits. No associated policy option packages are included in the Governor's budget because there would be no impact to OED unless and until Congress takes action. The concepts include the following:

- An alternate methodology to determine eligibility for unemployment benefits allowing workers with an intermittent employment history to qualify for benefits, mirroring legislation that has been proposed in Congress.
- Allowing part time workers who are not willing to accept full-time employment to get benefits. Again, Congress is proposing similar legislation.
- Allowing workers to participate in job training programs without losing benefits.

Other legislation submitted at the request of the Employment Department include technical changes to Unemployment Insurance Statutes relating to corporations and how their UI tax rate is calculated; and elimination of statutory language regarding the Employment Department's involvement in the Jobs Plus program, which has not been funded by OED since 2005. The latter bill has no expenditure impact, and would result in the remaining balance of the Jobs Plus account – about \$300,000 – to the UI trust fund. Bill numbers associated with these concepts were not available as of this writing.

The Governor's recommended budget includes policy option packages to enable the Department to continue to provide job placement services under contract to partner and state agencies on a fee for service basis, and a package to provide limitation and FTE for special research projects on a fee for service basis within the Workforce and Economic Research division. In addition, the Governor recommended transferring three administrative support positions associated with processing appeals for drivers licenses from the Office of Administrative Hearings to the Department of Transportation's Driver and Motor Vehicles (DMV) Division, and reduced federal funding projections for child care funds.

## OED – Unemployment Insurance

	2005-07 Actual	2007-09 Legislatively Adopted	2007-09 Legislatively Approved	2009-11 Essential Budget Level
Other Funds	9,380,460	17,878,115	18,252,933	18,835,150
Federal Funds	94,524,916	92,326,531	101,375,345	101,148,899
<b>Total Funds</b>	<b>\$103,905,376</b>	<b>\$110,204,646</b>	<b>\$119,628,278</b>	<b>\$119,984,049</b>
Positions	586	545	588	597
FTE	577.43	537.8	548.55	568.97

## Program Description

The Unemployment Insurance program determines eligibility for benefits; processes benefit payments; enforces UI laws; collects employer payroll taxes; and provides support to the Employment Appeals Board (EAB). EAB, made up of three Governor-appointed members, is a separate and federally funded entity located within OED for administrative purposes and is responsible for reviewing decisions of the Office of Administrative Hearings on benefit cases.

## Essential Budget Level

The 2009-11 essential budget level is a 0.3% increase from the 2007-09 legislatively approved budget.

## Issues and Options

Significant additional reductions in federal support for the unemployment insurance program are not anticipated over the next few years due to the ailing national economy and because OED has modified its internal processes to maximize the amount of federal reimbursement that is paid for administration of the

unemployment insurance program. While the result of this maximization effort may be an increase in Federal reimbursement in the near term, there is a risk that Oregon's share of the total may once again decline. Because the total amount of available federal revenue for UI administration has not been growing, future increases to Oregon are likely to come at the expense of other states, who may also take similar steps to maximize their reimbursement.

## OED – Business and Employment Services

	2005-07 Actual	2007-09 Legislatively Adopted	2007-09 Legislatively Approved	2009-11 Essential Budget Level
General Fund	54,000	0	0	0
Other Funds	56,488,056	67,043,299	69,306,927	69,807,032
Federal Funds	25,705,984	22,818,933	23,457,296	21,351,239
<b>Total Funds</b>	<b>\$82,248,040</b>	<b>\$89,862,232</b>	<b>\$92,764,223</b>	<b>\$91,158,271</b>
Positions	518	481	481	448
FTE	514.84	478.05	478.05	446.42

### Program Description

This program's mission supports businesses and promotes employment. Services are provided through field offices which recruit and refer qualified applicants to employers by matching the skills of the job seeker with employer job openings. Job seekers and employers can access employment information through interactive job services on OED's website. OED coordinates services with other Workforce partners to help customers access training, skills assessment counseling, and employability planning.

### Essential Budget Level

The 2009-11 essential budget level is a 1.7% decrease from the 2007-09 legislatively approved budget because of an assumed decline in the amount of federal revenue available to support businesses and employment services functions. The Department will be using Special Administrative Funds (Other Funds) to backfill the assumed decline.

### Issues and Options

The Governor's recommended budget includes a policy option package to provide additional Other Fund expenditure limitation in the amount of \$2.7 million and authority for 25 limited duration positions to provide job placement services under contract to partner and state agencies. The Department utilizes the positions to respond to state and local agencies who contract with OED to place individuals from training programs (such as vocational rehabilitation, the JOBS program at DHS, and various workforce training programs at community colleges). A similar package has been approved for the last eight biennia (with greater or lesser numbers of positions) depending on the workload estimates of partner agencies. Not all authorized positions have been fully utilized in the past (in 2003-05 and 2005-07, approximately 20 of the 25 authorized limited duration positions were filled) as the positions are only filled when there is sufficient workload and funding availability. The package is funded on a fee-for-service basis.

## OED – Child Care

	2005-07 Actual	2007-09 Legislatively Adopted	2007-09 Legislatively Approved	2009-11 Essential Budget Level
General Fund	3,660,007	3,886,325	3,976,091	4,170,698
Other Funds	1,890,875	2,522,990	2,522,990	2,729,520
Federal Funds	120,614,717	122,476,548	122,739,183	126,386,344
<b>Total Funds</b>	<b>\$126,165,599</b>	<b>\$128,885,863</b>	<b>\$129,238,264</b>	<b>\$133,286,562</b>
Positions	74	74	74	76
FTE	70.00	70.00	70.00	72.00

### Program Description

The Child Care Division ensures that families have access to child care information and services; establishes basic standards for child care services; licenses and inspects child care centers, family homes, and regulated providers; enforces mandatory registration of family child care providers; and staffs the Child Care Commission (CCC). CCC advocates and advises the Governor and Legislature on affordable, quality child care in Oregon.

### Essential Budget Level

The 2009-11 essential budget level is a 3.1% increase over the 2007-09 legislatively approved budget.

### Issues and Options

The Governor's recommended budget includes a policy option package to reduce Federal Funds by \$3,136,788 in anticipation of flat funding from the federal Child Care Development Fund. The reduction will impact funds transferred to DHS Employment Related Day Care and Jobs Plus programs, and will reduce support for local commissions on children and families, school districts, community colleges, and child care resource and referral agencies.

### OED – Workforce and Economic Research

	2005-07 Actual	2007-09 Legislatively Adopted	2007-09 Legislatively Approved	2009-11 Essential Budget Level
Other Funds	5,512,164	7,362,939	7,627,324	7,832,019
Federal Funds	6,620,385	5,921,755	6,087,543	6,228,494
<b>Total Funds</b>	<b>\$12,132,549</b>	<b>\$13,284,694</b>	<b>\$13,714,867</b>	<b>\$14,060,513</b>
Positions	72	69	69	68
FTE	71.50	68.50	68.50	67.50

### Program Description

This program coordinates the collection and dissemination of occupational and economic climate data for the state, workforce regions, and counties, and is Oregon's designated employment statistics agency under the federal Workforce Investment Act. Businesses and individuals can access data through monthly and annual publications such as *Labor Trends*, which outlines payroll, unemployment, and other economic-related issues by workforce region, or through on-line resources such as the Oregon Labor Market Information System. The program also conducts specialized surveys requested through the U.S. Bureau of Labor Statistics or local workforce investment boards.

### Essential Budget Level

The 2009-11 essential budget level is a 2.5% increase over the 2007-09 legislatively approved budget.

### Issues and Options

The Governor's recommended budget includes a policy option package to increase Other Fund expenditure limitation by \$782,050 and provides 2.00 limited duration FTE for special analysis on an as-requested, fee for service basis. Examples of analysis and research include surveys, publications, and consultants, if applicable. OED has stated that the positions would only be filled if relevant specific projects and associated funding are identified.

### OED – Office of Administrative Hearings

	2005-07 Actual	2007-09 Legislatively Adopted	2007-09 Legislatively Approved	2009-11 Essential Budget Level
Other Funds	21,368,383	23,268,194	24,058,263	25,133,649
<b>Total Funds</b>	<b>\$21,368,383</b>	<b>\$23,268,194</b>	<b>\$24,058,263</b>	<b>\$25,133,649</b>
Positions	123	119	119	119
FTE	123.00	119.00	119.00	118.50

**Program Description**

The program’s mission is to be an independent and impartial forum for citizens and businesses to adjudicate their disputes with state agencies. Approximately 70 state agencies are required to utilize the services of the Office of Administrative Hearings for their contested case proceedings.

**Essential Budget Level**

The 2009-11 essential budget level is a 4.47% increase over the 2007-09 legislatively approved budget, in part because of a classification and compensation study conducted by the Department of Administrative Services Human Resource Services Division that resulted in salary increases for administrative law judges.

**Issues and Options**

The Governor’s recommended budget includes a policy option package that reduces Other Funds expenditure limitation by \$320,250 and eliminates three full-time, permanent positions. The positions process drivers’ license appeals and are administrative in nature. Because they are not directly related to the hearings process, they are being transferred to the Department of Transportation (DMV).

**OED – Nonlimited**

	<b>2005-07 Actual</b>	<b>2007-09 Legislatively Adopted</b>	<b>2007-09 Legislatively Approved</b>	<b>2009-11 Essential Budget Level</b>
Other Funds (NL)	1,076,205,892	1,436,098,557	1,436,098,557	\$1,496,309,317
<b>Total Funds</b>	<b>\$1,076,285,892</b>	<b>\$1,436,098,557</b>	<b>\$1,436,098,557</b>	<b>\$1,496,309,317</b>

**Program Description**

Payments of unemployment benefits to qualified applicants (associated with the Unemployment Insurance Division of OED) and federal Trade Adjustment Act payments (associated with the Business and Employment Services Division of OED) are budgeted as Nonlimited.

**Essential Budget Level**

The 2009-11 essential budget level is a 0.6% increase over the 2007-09 legislatively approved budget.

**Issues and Options**

Oregon’s UI system is funded through a counter-cyclical strategy of raising revenue to pay benefits from employers when the economy is strong. Employer premiums are set in law and adjust annually so that sufficient reserves are on hand to cover 18 months of a recession. Unlike other states with a “pay-as-you-go” UI system, Oregon’s employers are more insulated from sharp increases in premiums, and the state is not at risk for insolvency, unlike some other state UI systems.

## Oregon Historical Society – Agency Totals

	2005-07 Actual	2007-09 Legislatively Adopted	2007-09 Legislatively Approved	2009-11 Essential Budget Level
General Fund	0	2,800,000	2,800,000	0
<b>Total Funds</b>	<b>\$0</b>	<b>\$2,800,000</b>	<b>\$2,800,000</b>	<b>\$0</b>

### Agency Overview

The Oregon Historical Society (OHS) was chartered by the state in 1898 to collect, preserve, exhibit, and publish materials of a historic character. It serves Oregonians through six broad program categories. The Collections program preserves artifacts, books, photographs, films, manuscripts, recordings, and oral histories. The Support program provides support of local historical societies, museums, and heritage efforts statewide. The Facilities program includes the Oregon History Center's regional research library and museum and other sites. Education programs include the Society's mobile museum, school services (traveling artifact kits, museum programs, films, and slide shows), group tours, Folklife and public events, and teacher workshops. The Publications program produces the *Oregon Historical Quarterly* and books from its press. Heritage Services include coordination of the Century Farms and Ranch Program, the Oregon Geographic Names Board, liaison with more than 120 heritage organizations statewide, a speaker's bureau, and staff service on numerous councils, committees, and commissions.

### Revenue Sources and Relationships

OHS is a nonprofit organization that is financed largely by membership fees, contributions, and publication sales. The state used to consistently provide a supplemental grant, but that support has been intermittent in recent biennia. In the past, the state grant amounted to slightly more than 10% of the Society's operating budget. The balance of the Society's budget has come from restricted gifts and grants, memberships and unrestricted grants, grants from local governments, operations, and investment income and bequests.

### Budget Environment

Budgetary constraints caused the Legislature to reduce funding for OHS during the 2001-03 biennium. Since 2001-03, no state funding had been given to OHS until 2007-09 when the Legislature provided \$2.8 million General Fund. The additional funding was intended to help extend museum and public access hours, digitize photos and other holdings, and host regional workshops.

Pass-through grant expenditures are included in the budget of the Department of Administrative Services in the Governor's recommended budget, but are displayed separately in Legislative Fiscal Office publications.

### Essential Budget Level

The essential budget level for OHS includes the phase-out of \$2.8 million General Fund approved in 2007-09.

### Issues and Options

The Governor's recommended budget adds \$1.25 million General Fund.

## Housing and Community Services Department (HCSD) – Agency Totals

	2005-07 Actual	2007-09 Legislatively Adopted	2007-09 Legislatively Approved	2009-11 Essential Budget Level
General Fund	10,872,777	19,496,271	20,499,074	12,760,057
Lottery Funds	4,460,536	5,932,768	5,932,768	7,516,467
Other Funds	80,203,828	115,105,494	118,374,505	109,731,506
Federal Funds	113,524,160	116,636,686	146,915,336	120,362,585
Other Funds (NL)	1,548,604,772	1,808,419,156	2,129,942,600	1,537,062,014
Federal Funds (NL)	100,928,787	104,750,000	104,750,000	107,250,000
<b>Total Funds</b>	<b>\$1,858,594,860</b>	<b>\$2,170,340,375</b>	<b>\$2,526,414,283</b>	<b>\$1,894,682,629</b>
Positions	148	143	143	138
FTE	145.50	140.42	140.42	135.70

### Agency Overview

The Housing and Community Services Department (HCSD) provides financing and program support for the development and preservation of affordable housing, and administers federal and state antipoverty, homeless, energy assistance, and community service programs. The State Housing Council, a seven-member panel appointed by the Governor, advises the Governor, Legislature, HCSD, and local governments on affordable housing issues.

### Revenue Sources and Relationships

HCSD has numerous sources of Other Funds that include proceeds from the sale of bonds (\$1.1 billion), mortgage and down payment assistance repayments (\$375.7 million), loan and tax credit-related fees (\$9.3 million), the energy bill payment assistance charge (\$30.25 million) and a portion of the public purpose charge established as part of the electric industry restructuring legislation approved in 1999 (\$22.8 million), civil penalties assessed to farm labor contractors by the Bureau of Labor and Industries (\$154,953), a surcharge on court cases related to residential landlord and tenant law (\$463,144), special assessments on manufactured dwellings (\$876,400), and interest earnings (\$35.7 million). Resources for bond-related activities are expended as Other Funds Nonlimited.

In addition to the direct sources of Other Funds revenues, a portion of the General Fund appropriation is transferred to the Oregon Housing Fund and expended as Other Funds to support grants and loans for low-income housing, emergency shelter and transitional housing services, and/or emergency payments of rents, mortgages, or utilities.

Allocations of \$7.5 million in Lottery revenue support the debt service requirements for Lottery revenue bonds that were issued for the Community Incentive Fund, which supported grants and loans to revitalize downtowns, main streets and develop housing near jobs and transportation. Lottery Funds also support debt service associated with \$16 million in lottery backed bonds, the proceeds of which were used to partially fund 150 units of permanent supported housing for homeless in 2007.

Federal Funds are received from a variety of federal agencies which administer the following programs: HOME Investment Partnership Program (\$27.7 million), Section 8 rent subsidies (\$107.25 million), Community Development Block Grant (\$5.5 million), Community Services Block Grant (\$11 million), Low-Income Home Energy Assistance (LIHEAP) funds (\$55.9), Emergency Shelter grants (\$2.1 million), Supportive Housing programs (\$4 million), Bonneville and Department of Energy weatherization assistance funds (\$8.2 million), Food Assistance programs (\$1.8 million), and federal grants related to volunteerism and AmeriCorps (\$4.6 million). Federal Funds Nonlimited expenditure authority is for Section 8 rent subsidy payments.

### Budget Environment

HCSD has traditionally relied on distributions from bond indentures, loan and tax credit fees, and interest earnings to fund nearly 50% of its personnel and operations. For 2009-11, HCSD estimates that this percentage will decline, to 37% of personnel and operations. Over time, the challenges of rising personal services costs, a

50% increase in the cost of debt issuance, increased insurance requirements due to a growing single family loan portfolio, and the expiration of higher yielding indentures have combined to constrict the agency's cash flow.

Since the 2001-03 biennium, HCSD has also been buffeted by the winds of economic and market conditions. The lower interest rate environment of 2001-04 resulted in customers having more options regarding low cost housing loans, investment earnings on loans were negatively impacted, and more customers paid off or prepaid loans. Also during this period, the Legislature used HCSD to backfill reductions in state General Fund spending. In the 2001 and 2003 biennia, the Legislature transferred a combined total of \$3.82 million from the Housing Finance Fund and \$5.5 million from the Housing Development and Guarantee Account (often referred to as the Housing Trust Fund) to the state's General Fund. The transfers, coupled with a weak economy, had consequences for the agency's ability to finance its operations at previous levels.

As interest rates rose between 2004 and 2007, HCSD began to see some improvement in its cash flow, but not enough to offset its rising costs. The 2007-09 legislatively adopted budget included personnel reductions to balance projected revenue with expenditures. Investments by the 2007 Legislative Assembly – in the form of a General Fund infusion to fully restore the corpus to its previous high of \$15.5 million, and a \$2 million transfer to the Housing Finance Fund – enabled the agency to dedicate interest on these funds to the development, acquisition, and construction of affordable housing, and financing agency operations, respectively.

These investments were expected to provide some stabilization for 2007-09, particularly in the area of agency administration. However, HCSD continues to contend with rising costs, as well as the expiration of one of the Department's higher yield single family bond indentures, and another imbalance exists for 2009-11.

All of these issues existed for HCSD in absence of the current economic downturn; existing market conditions have further implications for the agency. The unavailability of credit and skittish investors unwilling to buy bonds are having an impact. Federal and state housing credits are no longer worth as much as they were a few months ago, creating gaps in funding for proposed housing projects. There are fewer financial resources available to finance low income housing, and those resources do not stretch as far as they did two years ago, so fewer projects will ultimately be completed. Fewer bond sales and declining values of tax credits means the agency will lose out on fee revenue it has used for operations expenses.

To address the 2009-11 revenue shortfall for HCSD, the Governor's recommended budget again includes a policy option package which reduces agency personnel to balance expected revenue with projected expenditures. The package is discussed in more detail below. In addition, HCSD is planning to scale back the number single family loans issued due to insufficient capital to provide the necessary insurance reserves. However, it should be noted that reducing the number of single family loans offered by HCSD – while mitigating the immediate amount of capital needed for insurance reserves and the cost of issuing these bonds – will impact for the agency's operating revenue down the road, because there will be fewer indentures from which to draw future operating revenue.

### **Essential Budget Level**

The essential budget level is a 25% decrease from the 2007-09 legislatively approved budget, due to phase outs of \$11.6 million in General Fund and \$4.6 million in Other Funds for one-time initiatives associated with low income housing preservation, permanent supported housing for the homeless, and a \$2 million investment in the agency's Housing Finance Fund.

The essential budget eliminated 5 positions as follows: three positions were abolished for permanent financing plans to reclassify other employees; one limited duration position was discontinued; and one position was phased out due to responsibilities merging with another program area. Further, the essential budget redistributes remaining positions among program areas to better reflect workload and management reporting structure.

### **Issues and Options**

The Governor's recommended budget includes the following policy option packages:

- A reduction of \$2.9 million Other Funds and a net reduction of 12.50 FTE (only 1.00 of which is currently vacant) to balance agency administrative expenditures with anticipated revenue.

- A reduction of \$1.9 million General Fund to emergency housing, homelessness, down payment assistance, and home buying education programs.
- \$19.9 million in new lottery bond proceeds, and associated interest and debt service appropriations to fund the preservation of expiring Section 8 affordable housing contracts and manufactured home parks.
- \$4 million in new General Fund for green and sustainable energy efficiency and weatherization technology for low income Oregonians.

## HCSD – Energy/Weatherization

	2005-07 Actual	2007-09 Legislatively Adopted	2007-09 Legislatively Approved	2009-11 Essential Budget Level
Other Funds	37,803,639	46,275,195	47,368,419	51,005,692
Federal Funds	59,070,974	60,497,997	90,268,712	62,695,806
<b>Total Funds</b>	<b>\$96,874,613</b>	<b>\$106,773,192</b>	<b>\$137,637,131</b>	<b>\$113,701,498</b>
Positions	7	7	7	9
FTE	7.00	7.00	7.00	9.00

### Program Description

Energy and Weatherization programs help low income families by providing assistance payments, installing energy-saving modifications on heating systems and home weatherization, and providing conservation education. Bill payment assistance and energy efficiency measures free up scarce resources for other essentials, such as food and housing costs. HCSD administers various energy and weatherization activities through local community action agencies.

In 2008, Oregon’s federal allocations of LIHEAP funding were increased, and the Emergency Board approved a request for additional Federal Funds expenditure limitation, amounting to an estimated 35,000 additional households receiving energy assistance in the coming year.

### Essential Budget Level

The 2009-11 essential budget level for the Energy/Weatherization program is a 17.4% decrease from the 2007-09 legislatively approved budget, primarily due to the additional Federal Funds increase in 2008. The essential budget reflects the movement of two positions and associated services and supplies associated with the positions into the program from elsewhere in the agency. The personnel moves are meant to better reflect workload and management reporting structure.

### Issues and Options

An August 2008 federal compliance review of the LIHEAP program recommended improvements in the state’s program, as follows: ability to report outcomes; better training and monitoring of community action agency partners; and targeting the state’s program to low income households with the highest energy burden. HCSD must develop performance measures, proactively collaborate with other state agencies and industry partners, and amend the state’s LIHEAP plan to reflect existing situations (such as timing and amount of payments related to certain fuels or utilities) and emerging policies if Oregon is to maintain its share of LIHEAP block grant funding and effectively compete for future federal contingency funds.

The Governor’s recommended budget adds three positions to the Energy and Weatherization program: an accountant, and two information systems specialists. These positions would be supported by Federal Funds. The extent to which these positions address the issues identified above should be reviewed. In addition, the Governor’s recommended budget provides a pool of \$4 million General Fund that the agency can use as leverage with Federal funds. The \$4 million would be targeted to the purchase and installation of advanced technologies in affordable housing and weatherization programs, for conservation education for tenants, and skills training (installation and cost benefit analysis) for housing development partners. Federal guidelines require that improvements and weatherization measures meet certain savings to investment ratios within a shorter time frame for “payback” than more expensive green technologies generally allow. This “matchmaking” fund subsidizes the higher costs of these technologies.

## HCSD – Self-Sufficiency/Emergency Assistance

	2005-07 Actual	2007-09 Legislatively Adopted	2007-09 Legislatively Approved	2009-11 Essential Budget Level
General Fund	10,017,721	11,676,750	11,679,486	11,915,702
Other Funds	10,149,452	9,946,567	10,108,021	9,847,816
Federal Funds	14,262,294	16,413,366	16,445,321	24,548,021
Federal Funds (NL)	100,928,787	104,750,000	104,750,000	107,250,000
<b>Total Funds</b>	<b>\$135,358,254</b>	<b>\$142,786,683</b>	<b>\$142,982,828</b>	<b>\$153,561,539</b>
Positions	23	23	23	18
FTE	23.00	22.42	22.42	18.00

### Program Description

Self-Sufficiency/Emergency Assistance services are provided to very low-income Oregonians to help meet short-term, daily needs for food and shelter.

- **Rental Assistance** includes subsidizing housing costs and, in some cases, developing a self-sufficiency plan to assist individuals with other support, counseling, and training to avoid on-going reliance on assistance. Resources for this purpose include federal Section 8 rental assistance payments and HOME-Tenant-Based Assistance Program payments which subsidizes rental payments for low-income families and individuals, as well as transfers from the state Judicial Department into the Department's Low Income Rental Housing Fund which consists of fees associated with eviction notice filings and interest on security deposits.
- **Homeless Assistance** targets homeless or those at risk of becoming homeless to provide for the costs of emergency shelter, transitional housing, and prevention activities such as training and employment assistance and counseling services. HCSD receives both General Fund and Federal Funds for homeless programs. HUD funds the Emergency Shelter Grant Program and the Continuum of Care program which facilitates housing, mental health, and other services to holistically address homelessness in rural counties.
- **Food Programs** partner with the Oregon Food Bank to coordinate the distribution of donated foods through regional coordinating agencies and direct service agencies. HCSD also delivers food grants through the Community Action Program of Eastern Oregon (CAPECO) and the Salvation Army. Funding comes from the General Fund, the federal Department of Health and Human Services, and the United States Department of Agriculture.
- **Community Services Block Grant (CSBG)** is funded by the federal Department of Health and Human Services, serves all 36 Oregon counties and provides the foundation funding for community based organizations, which coordinate and administer a variety of services to assist low-income Oregonians. CSBG was formerly located in the Community Capacity Building program and was relocated to this program area to better integrate it with other HCSD anti-poverty programs.
- **Individual Development Accounts (IDA)** assist low-income individuals who enroll in personal development plans to obtain appropriate financial counseling, career or business planning, and other services. IDAs can be used for post-secondary education, job training, purchase of a primary residence, or to capitalize a small business. This service was relocated to this program area to better integrate it with other HCSD anti-poverty programs.

### Essential Budget Level

The 2009-11 essential budget for the Self Sufficiency/Emergency Assistance program is a 7.5% increase over the 2007-09 legislatively approved budget, primarily due to transfers of programs from the Community Capacity Building program area.

### Issues and Options

The Governor's recommended budget includes a total of \$1.1 million in reductions to the Emergency Housing Account (\$342,692) and State Homeless Assistance (\$733,680) programs. The Emergency Housing Account provides flexible dollars to local community action agencies that can be used as agency support or as flexible "safety net" assistance to qualifying individuals for purposes such as emergency shelter, transitional housing, support services, rent, utility, or mortgage assistance. The State Homeless Assistance Program funds emergency shelter and services related to shelter care, such as nutritional assistance and personal hygiene.

Other Funds reductions to balance anticipated available revenue with projected expenditures are also included in the Governor’s budget for this program area. A vacant Compliance Specialist 2 position (1.00 full-time equivalent) is slated for elimination. Duties of the position include administering agency programs related to anti-poverty efforts and providing oversight to ensure that all federal requirements are met.

### HCS D – Community Capacity Building

	2005-07 Actual	2007-09 Legislatively Adopted	2007-09 Legislatively Approved	2009-11 Essential Budget Level
General Fund	0	0	67	0
Lottery Funds	4,460,536	4,456,647	4,456,647	0
Other Funds	4,724,162	7,182,541	7,242,187	600,365
Federal Funds	16,379,487	17,463,736	17,476,535	4,648,574
<b>Total Funds</b>	<b>\$25,564,185</b>	<b>\$29,102,924</b>	<b>\$29,175,436</b>	<b>\$5,248,939</b>
Positions	11	10	10	5
FTE	11.00	10.00	10.00	5.00

#### Program Description

Community Capacity Building includes the following services:

- The *Manufactured Dwelling Park Community Relations Program* maintains a centralized resource referral program for tenants and landlords to encourage voluntary dispute resolution. This service is funded through a special assessment on manufactured dwellings.
- The *Oregon Commission on Voluntary Action and Services* promotes and supports AmeriCorps, volunteerism, and civic engagement to strengthen Oregon communities. This program is funded by Federal Funds.

#### Essential Budget Level

The essential budget transferred a number of services and attendant personnel, services and supplies from this program area to other program areas in the agency, as follows:

- The *Community Incentive Fund (CIF)* was transferred to Homeownership and Affordable Rental Housing.
- The *Community Development Block Grant (CDBG)* was transferred to Homeownership and Affordable Rental Housing.
- *Individual Development Accounts (IDA)* was transferred to Self Sufficiency/Emergency Assistance.
- *Community Services Block Grant (CSBG)* was transferred to Self Sufficiency/Emergency Assistance.

#### Issues and Options

The reduction package to balance anticipated revenues with expenditures included in the Governor’s recommended budget would eliminate \$58,056 in services and supplies in this program area.

### HCS D – Homeownership/Affordable Rental Housing Development

	2005-07 Actual	2007-09 Legislatively Adopted	2007-09 Legislatively Approved	2009-11 Essential Budget Level
General Fund	794,880	5,819,521	6,819,521	842,468
Lottery Funds	0	1,476,121	1,476,121	7,516,467
Other Funds	18,300,805	40,774,888	42,260,213	37,949,225
Federal Funds	21,381,061	20,188,188	20,579,992	26,253,893
Other Funds (NL)	1,548,604,772	1,807,419,156	2,128,942,600	1,537,062,014
<b>Total Funds</b>	<b>\$1,589,081,518</b>	<b>\$1,875,677,874</b>	<b>2,200,078,447</b>	<b>1,609,624,067</b>
Positions	54	56	56	64
FTE	53.50	54.00	54.00	62.50

#### Program Description

HCS D promotes homeownership by supporting below-market-rate loans financed through the sale of tax-exempt mortgage revenue bonds, administering federal programs for the repair and maintenance of existing

low-income housing in rural Oregon, providing down-payment and closing cost assistance, and funding home ownership education. A limited revolving loan fund with low interest financing is available for manufactured home park purchases by residents. Farm worker housing loans and grants, low income weatherization using public purpose funds, and financial and physical inspections of projects receiving state and federal funds are other examples activities included in this program area.

HCSD also promotes affordable housing development through a variety of activities to issue tax-exempt bonds, provide conduit financing and loan programs, and administer three housing tax credit programs. Several of the grants and tax credits are allocated through the semi-annual, competitive Consolidated Funding Cycle.

### **Essential Budget Level**

The 2009-11 essential budget is a 26.8% decrease from the 2007-09 legislatively approved budget, primarily due to the phase out of one time funding for housing preservation and permanent supported housing for the homeless. The following programs were merged into the program area to align them with their funding sources and fellows.

- The *Community Incentive Fund (CIF)* was capitalized through Lottery Revenue Bonds as part of the Oregon Livability Initiative to revitalize downtown areas and main streets and to develop affordable housing near jobs and transportation. This program was transferred from Community Capacity Building, because the primary focus of the CIF is now as a funding source for affordable housing.
- The *Community Development Block Grant (CDBG)* funds maintenance and repairs to existing single-family housing in rural Oregon, and also funds ten *Regional Housing Centers* serving rural counties which provide “one-stop shopping” services related to housing rehabilitation, weatherization, credit counseling, and homebuyer education. This program was transferred from Community Capacity Building, because the primary focus of the CDBG is housing rehabilitation and promoting home ownership. The CDBG is supported by Federal Funds.

### **Issues and Options**

Spending Reductions: In anticipation of declining state revenue, the Governor’s recommended budget proposes reductions of \$842,468 General Fund and a corresponding \$842,468 in Other Funds to the Homeownership Assistance program which will eliminate down payment assistance and the ABCs of HomeBuying program. Further Other Funds reductions to balance operating expenditures with available revenue total \$1,080,489 and eliminate seven permanent positions (6.50 FTE), including loan specialists, a compliance specialist, an administrative specialist, a fiscal analyst, an accountant, and an architectural consultant.

Single Family Loans: HCSD’s strategy to increase its long-term single family revenue stream through increased single family volume has driven increases in the amounts needed for insurance reserves. In an effort to further stabilize its budget, HCSD plans to issue approximately 400 fewer single family loans per year in the 2009-11 biennium, because it does not have the revenue to capitalize the required insurance reserves for previous loan volumes. As previously mentioned, reducing the volume of single family loans – while addressing an immediate revenue problem – will further erode future operating revenue, because there will be fewer indentures from which to draw future operating revenue.

Affordable Housing Preservation: During the 2007-09 biennium, the Legislature provided a total of \$9.1 million (\$6 million of which was General Fund) to preserve affordable housing with expiring section 8 contracts. The funding was estimated to preserve at least 350 units of affordable housing which might otherwise be converted to market-rate rents. To keep these housing units affordable, HCSD and its partners are working with existing or new owners to renew contracts, rehabilitate units where necessary, and set up state contracts to ensure that the housing remains affordable well into the future. A January 2008 estimate puts the number of affordable housing units with contracts that expire between 2009-11 at 2,235. The estimated replacement cost of these units is over \$424 million.

The 2009-11 Governor’s recommended budget includes \$20.1 million Other Funds (\$19.9 million in lottery bond proceeds and \$150,000 in interest income) to facilitate the preservation of affordable housing projects with expiring federal Section 8 subsidies, and to preserve manufactured home parks. The package includes Personal Service costs associated with a loan specialist and a compliance specialist to administer the funds (added back from the Other Funds reduction package to balance the agency’s budget), with the remainder going to housing

providers as special payments as follows: approximately \$16 million in grants for Section 8 properties, and \$3.1 million in loans for manufactured park preservation.

## HCSO – Program Outreach and Accountability

	2005-07 Actual	2007-09 Legislatively Adopted	2007-09 Legislatively Approved	2009-11 Essential Budget Level
General Fund	60,176	2,000,000	2,000,000	1,887
Other Funds	9,225,770	10,926,303	11,395,665	10,328,408
Federal Funds	2,430,344	2,073,399	2,144,776	2,216,291
Other Funds (NL)	0	1,000,000	1,000,000	0
<b>Total Funds</b>	<b>\$11,716,290</b>	<b>\$15,999,702</b>	<b>\$16,540,441</b>	<b>\$12,546,586</b>
Positions	53	47	47	42
FTE	51.00	47.00	47.00	41.20

### Program Description

The Program Outreach and Accountability area includes:

- The *Director's Office*, responsible for coordinating the mission and goals of the agency, assisting community development through the efforts of six Regional Advisors, and participating in the Economic Revitalization Team. The office houses the director, deputy director, human resource, and agency affairs section (which includes policy and planning).
- The *Financial Management Division*, which includes accounting, financial reporting, budget, grant monitoring and reporting, field audits, loan processing, payroll, facilities management, and bond-related activities; and
- The *Information Services Division*, providing centralized information technology services to the agency as well as training and technical support to community action agencies and other service partners who have access to OPUS, a web-based client service system. This Division also includes the Research and Analysis Section, which gathers and analyzes data on housing market dynamics, and the Communications section.

### Essential Budget Level

The 2009-11 essential budget level is a 24.1% decrease from the 2007-09 legislatively approved budget. Two positions were abolished for purposes of providing permanent financing for the reclassification of other positions. Other positions and associated funding were moved to other program areas to better reflect their primary duties.

### Issues and Options

The 2009-11 Governor's recommended budget reduces Other Funds expenditure limitation by \$1,646,618 and eliminates eight permanent, full-time positions (8.00 FTE) to balance the agency's operating costs with projected available revenues. Eliminated positions include an Office Specialist, an Administrative Specialist, a Public Affairs Specialist, a Human Resource Analyst, three information systems professionals, and an Operations and Policy Analyst.

## Oregon Public Broadcasting – Agency Totals

	2005-07 Actual	2007-09 Legislatively Adopted	2007-09 Legislatively Approved	2009-11 Essential Budget Level
Lottery Funds	1,619,165	1,790,684	1,790,684	1,882,673
Other Funds	0	0	3,000,000	0
<b>Total Funds</b>	<b>\$1,619,165</b>	<b>\$1,790,684</b>	<b>\$4,790,684</b>	<b>\$1,882,673</b>

### Agency Overview

The Oregon Public Broadcasting (OPB) is an educational and public broadcasting network serving Oregon through noncommercial public television and radio stations. Its network consists of five television and four radio stations, plus 48 translator/repeaters throughout Oregon. The television stations reach an estimated 90% of Oregonians and the radio stations reach between 80% and 90% of Oregonians. Educational programming (formal and informal) is a significant portion of television, while news and information is the main thrust of radio. OPB also is part of the state's Emergency Alert System.

### Revenue Sources and Relationships

The 1993 Legislative Assembly privatized OPB and provided for a supplemental grant through the Department of Administrative Services. The original grant represented about 10% of OPB's estimated revenue. Most of OPB's revenue comes from private contributions. The federal government provides some funding, and OPB also receives sales and service revenue. The operating grant to OPB was reduced during the 2001-03 biennium and no grant funds were provided in the following biennia.

Over the last decade, the Legislature has provided OPB with grants for infrastructure development. These grants, \$7 million in 2001-03 and \$3 million in 2007-09, were supported with Lottery bond proceeds. Lottery Funds are used to pay the debt service on the bonds. Pass-through grant expenditures and debt service costs are included in the budget of the Department of Administrative Services in the Governor's recommended budget, but are displayed separately in Legislative Fiscal Office publications.

### Budget Environment

OPB has sought reinstatement of the operating grant. Budget constraints precluded the Legislature from providing any grants since the 2001-03 biennium.

### Essential Budget Level

The essential budget level supports debt service payments for existing lottery bonds.

### Issues and Options

The Governor's recommended budget adds \$250,000 General Fund for OPB operations.

## Department of Veterans' Affairs (ODVA) – Agency Totals

	2005-07 Actual	2007-09 Legislatively Adopted	2007-09 Legislatively Approved	2009-11 Essential Budget Level
General Fund	5,608,595	6,034,088	6,477,737	6,584,883
Other Funds	34,645,935	39,941,373	40,835,064	42,601,691
Other Funds (NL)	408,659,171	608,469,525	608,469,525	488,236,708
<b>Total Funds</b>	<b>\$448,913,701</b>	<b>\$654,444,986</b>	<b>\$655,782,326</b>	<b>\$537,423,282</b>
Positions	112	111	111	111
FTE	111.03	110.53	110.53	110.21

### Agency Overview

The Oregon Department of Veterans' Affairs (ODVA) has three program areas: the Veterans' Loan Program, the Veterans' Services Program, and the Veterans' Home Program. The Veterans' Loan Program, funded entirely through Other Funds, provides loan servicing and Department administration. It is responsible for repayment of approximately 18% (\$758 million) of the State of Oregon's general obligation debt. The Veterans' Services Program provides counseling, claims assistance, conservator services, and partnerships with counties and organizations to support local veterans' programs. The Veterans' Services Program is funded with General Fund and Other Funds which includes conservatorship fees. The Veterans' Home Program operates a skilled nursing care and Alzheimer's disease facility in The Dalles, Wasco County.

### ODVA – Loan Program

	2005-07 Actual	2007-09 Legislatively Adopted	2007-09 Legislatively Approved	2009-11 Essential Budget Level
Other Funds	13,180,513	16,799,002	17,273,959	18,071,937
Other Funds (NL)	408,659,171	608,469,525	608,469,525	488,236,708
<b>Total Funds</b>	<b>\$421,839,684</b>	<b>\$625,268,745</b>	<b>\$625,743,384</b>	<b>\$506,308,645</b>
Positions	81	78	78	78
FTE	80.13	77.63	77.63	77.31

### Program Description

The Loan Program provides home acquisition and home improvement loans to veterans at favorable interest rates. Since 1945, the Department has made over 334,000 home and farm loans with a principal amount over \$7.6 billion. The program consists of:

- *Director's Office* - internal audit, public information, and communications.
- *Loan Services* - functions dealing with the loan program, including originating and servicing the loans.
- *Financial Services* - overall financial oversight of the Department, including accounting, cashing, and financial management.
- *Support Services* - human services, information services, business services, and records and information management.

Previous federal and state statutory restrictions on the use of tax-exempt bonds to provide low-cost mortgage loans only to veterans of the Viet Nam and prior eras is reflected in the dramatic reductions in program and staff size. The federal government just removed the restriction and the program expects to make new loans the rest of this biennium and next biennium as a result. The Department closely monitors its cash flow needs to ensure that it has sufficient reserves to retire outstanding debt and maintain operations of the program.

### Revenue Sources and Relationships

The largest sources of ODVA Other Funds revenues for the 2009-11 biennium are veteran loan and contract-related repayments (\$150 million), interest earnings (\$125 million), and bonding authority (\$270 million). The balance of revenues come from insurance premiums and other service charges, licenses, fees, and miscellaneous revenues. Available revenues and reserves are expected to be sufficient for operations and necessary debt services.

## Budget Environment

In the past, the Veterans' Loan Program was prohibited from making loans to any veteran who entered active military duty after December 31, 1976. Federal law now allows post-1976 veterans to access tax exempt bond proceeds for a home loan through ODVA. Veterans now have 25-30 years from the date of their discharge to apply for these loans. ODVA now expects to fund loans aggregating \$55 to \$60 million this biennium. It expects similar loan demand in the 2009-11 biennium. However, current market conditions (very low conventional loan rates), if carried over into the next biennium, may make it a difficult market for ODVA to offer a competitive mortgage product. Should this be the case, loan originations may be lower than projected.

## Essential Budget Level

The essential budget level is calculated as a continuation of the activities funded in the 2007-09 biennium.

## Issues and Options

The Governor's recommended budget includes two one-time Policy Option Packages costing \$626,000 Other Funds. The packages are to replace and upgrade the access control system to the headquarters building in Salem, and to replace old HVAC controls with modern controls that will improve energy efficiency in the building.

## ODVA – Veterans' Services Program

	2005-07 Actual	2007-09 Legislatively Adopted	2007-09 Legislatively Approved	2009-11 Essential Budget Level
General Fund	5,608,595	6,034,088	6,477,737	6,584,883
Other Funds	1,580,277	2,067,605	2,466,429	2,502,880
<b>Total Funds</b>	<b>\$7,188,872</b>	<b>\$8,101,693</b>	<b>\$8,944,166</b>	<b>\$9,087,763</b>
Positions	28	30	30	30
FTE	27.90	29.90	29.90	29.90

## Program Description

The Veterans' Services Program includes:

- Counseling and claims (\$2.9 million), which assists veterans, their dependents, and survivors to obtain service-connected and non-service related benefits. Over 20,000 active claims have required service during the past two years. This program also provides outreach and assistance to individuals in state institutions, hospitals, domiciliaries, and nursing homes, to help ensure that adequate care is being provided and that the federal VA pays its share of that care.
- The Conservatorship program (\$1.6 million), which provides conservatorship services for 166 veterans and their dependents who are determined to be "protected persons" and who are recipients of U.S. Department of Veterans' Affairs' benefits. Conservatorship services are provided when no other entity or person is willing or able to act as conservator. The staff serve as trust officers, file required legal reports, apply for all benefits due the veteran, and counsel with families, hospital personnel, social workers, and protected persons to ensure their needs are met within the resources available.
- Educational assistance, emergency assistance, and service delivery partnerships, which includes the Aid Program, Aid to Counties, and Aid to Veterans' Organizations (\$5.4 million). Educational assistance provides financial help to offset some of the educational expenses of honorably discharged Oregon veterans whose GI educational benefits have been exhausted. The program also assists displaced and disabled veteran workers who return to school to change careers or upgrade skills. An emergency assistance program was established by the Legislature in 2005 to provide emergency financial assistance to Oregon veterans and their immediate families. A small business repair loan program was approved in the 2008 special session to provide loans to help returning small business owners who had been called away on active duty. Aid to Counties, which began in 1947, is a network of trained individuals operating in 34 Oregon counties to help them provide services to veterans on a local level. Up to 75% of the cost of administering each of the county offices is reimbursed, with a limit of \$10,400 per year. In 2005, the Legislature added statutory authority and \$2.6 million General Fund to expand the services provided by county veterans' services offices. Aid to Veterans' Organizations was established in 1949 and consists of partnerships with other veterans' service organizations in Oregon, such as the American Legion, Disabled American Veterans, and Veterans of Foreign Wars.

## Revenue Sources and Relationships

The revenue source for the Claims and Counseling section, educational assistance, and service delivery partnership programs is the General Fund. The revenue sources for the conservatorship program are General Fund and Other Funds through fees. The 2009-11 estimated conservator fees are \$600,000. The balance of Other Funds comes from existing cash balances in the Veterans' Loan program. The Constitution allows that those revenues can be used for Veterans' Services.

## Budget Environment

Oregon has approximately 350,000 veterans. The aging veteran population is increasing the demand for veterans' benefits, assistance, and conservatorship services. Additional needs have been created by veterans of current and recent conflicts with claims resulting from the environment in which they served, including claims related to Agent Orange and Post Traumatic Stress Disorder. The need for services is increasing at a time when the services available remain constant or may decline, especially at the county level.

There are a number of factors that affect the workload of the program, including the rapid evolution in health care programs, increasingly complex health claims, an aging war veteran population, and downsizing of the U.S. Armed Forces and resulting separation of veterans who use educational and vocational rehabilitation programs. The Department has dealt with the workload through a combination of improvements in processes and automation. However, projecting actual workload is difficult because the number of veterans who may access services is unpredictable.

## Essential Budget Level

The essential budget level continues legislatively approved programs without increases in cost, other than those driven by inflation.

## Issues and Options

The Governor's recommended budget exceeds the essential budget level in three areas. It includes \$400,000 General Fund for distribution to eligible veterans: \$250,000 for emergency needs, and \$150,000 for education benefits. During the interim, the Emergency Board approved an additional \$70,000 General Fund for education benefits. The budget also includes \$422,000 General Fund for five permanent positions, and related services and supplies, to provide counseling services to veterans at colleges and universities throughout the state.

## ODVA – Oregon Veterans' Home Program

	2005-07 Actual	2007-09 Legislatively Adopted	2007-09 Legislatively Approved	2009-11 Essential Budget Level
Other Funds	19,885,145	21,074,766	21,094,676	22,026,874
<b>Total Funds</b>	<b>\$19,885,145</b>	<b>\$21,074,766</b>	<b>\$21,094,676</b>	<b>\$22,026,874</b>
Positions	3	3	3	3
FTE	3.00	3.00	3.00	3.00

## Program Description

The Oregon Veterans' Home in The Dalles provides skilled nursing and Alzheimer's disease care to Oregon veterans. The Home opened in November 1997 and has a bed capacity of 151 residents. Funding for construction and equipping of the facility was from a 65% federal grant matched to a 35% state obligation contributed by Wasco County. The Home is operated with a philosophy of maximum resident independence and encouragement for the residents to function at their highest possible level.

## Revenue Sources and Relationships

The Veterans' Home Program consists solely of Other Funds. Revenues are primarily moneys received from the residents of the Home, Medicare and Medicaid payments, and a per diem amount received directly from the federal Veterans Administration. Veterans who reside in the Home receive benefits not available to them if they reside elsewhere. Many veterans receive aid and attendance along with disability compensation or income-based VA pensions, which, combined with their social security benefits, provides the revenue with which to pay for their care in the Home. The total amount of revenue is based in part on the occupancy projections obtained from the Home's contractor.

## **Budget Environment**

Expenditures for the Home relate to the cost of providing residential care. Operation of the Home was contracted out to a health care service provider. Obtaining and maintaining a high occupancy rate at the Home is important to its financial condition. The Home continues to enjoy an occupancy rate of about 92% for the past couple of years. The Home has been able to address a prior problem of a shortage of qualified nursing personnel by working with local post-secondary education institutions. With a high occupancy rate, due in large measure to its ability to adequately staff the Home, the Home's revenues have covered its operating costs.

## **Essential Budget Level**

The essential budget level continues the operations of the Home at the 2007-09 level, adjusted for inflation.

## **Issues and Options**

The Governor's recommended budget eliminates \$120,000 Other Funds and one grant coordinator position that had not been filled for some time. It also includes \$3.9 million Other Funds for additional staffing needs by the contractor. The Department of Human Services has enacted rules requiring additional staffing at nursing homes throughout Oregon. The contractor will need additional fees to hire the additional staff. Additionally, the budget includes \$763,000 additional Other Funds to improve the existing HVAC system, add parking stalls, and improve walking paths and outdoor lighting for improved safety.

