

ECONOMIC AND COMMUNITY DEVELOPMENT

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Business Development Department (OBD) – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	1,791,094	4,544,947	4,431,047	4,665,252
Lottery Funds	93,797,043	129,157,908	113,014,071	113,582,000
Other Funds	31,994,929	53,023,261	45,206,567	32,862,431
Federal Funds	23,312,513	36,374,862	27,140,696	34,238,986
Other Funds (NL)	198,026,069	243,237,016	167,103,902	233,515,791
Total Funds	\$348,921,648	\$466,337,994	\$356,896,283	\$418,864,460
Positions	123	126	125	127
FTE	119.23	126.00	125.00	126.34

Agency Overview

The Oregon Business Development Department (OBD) was previously named the Economic and Community Development Department (OECDD). The Legislature renamed and reorganized the agency during the 2009 session by passing HB 2152. The Department provides economic and community development and cultural enhancement throughout the state, and administers programs that aid businesses and communities. The Department reorganization under HB 2152 created the Oregon Infrastructure Finance Authority (IFA) and the Oregon Infrastructure Finance Authority Board within the Department, and granted oversight of the agency's community development programs to the IFA. The reorganization is designed to allow the agency's economic development and community development programs to operate more independently, and to thereby improve the administration and effectiveness of both the business development, and community development programs. The bill also transferred the Office for Minority, Women and Emerging Small Business to the Department. That Office previously resided in the Department of Consumer and Business Services.

The Oregon Business 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 Business Development Commission (OBDC) to distribute funds within the Oregon Community Development Fund for economic and community development purposes, subject to performance-based contracts. That authority was retained in HB 2152, and the OBDC now distributes funds in the Business, Innovation, and Trade Fund (BITF). The IFA has authority, within the Department, over the distribution of moneys in the agency's infrastructure funds. A large majority of the agency's budget reflects these distributions from the BITF and the infrastructure funds, 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 OBDC and IFA distributions.

The Department has six budget program areas:

- The *Shared Services/Central Pool* program area is a new budget structure that includes the budget for all shared/central services for the Department, such as Human Resources, Information Technology, etc. The Shared Services/Central Pool program unit also includes the services of the Director's office providing policy oversight to the Department under the direction of the Oregon Business Development Commission.
- The *Business, Innovation, Trade* program area is a new budget structure and includes the staff and the funding sources used by the Department to provide grants and loans to assist businesses in order to achieve the agency's economic development goals statewide, including job retention and creation, and the promotion of innovation. This program area is composed of a variety of programs and funding sources including grants, loans, and bonding programs. The Oregon Business Development Commission allocates

resources to each program within the Business, Innovation, Trade program area based on legislative direction and Commission priorities.

- The *Infrastructure Finance Authority* program area is a new budget structure and includes the staff and the funding sources used by the Department to provide grants and loans to assist communities in infrastructure development projects. Almost all of the expenditures in this program area are either special payments (loans, grants, or contracts) to local governments or non-profit organizations; or debt service on bonds the state has issued to finance these categories of expenditures, but the expenditures also include the Department's associated expenses for administering the community development programs.
- The *Film and Video Office* is a semi-independent agency that receives pass-through support in the OBD 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 Bond Debt Service* is used exclusively for debt service payments on lottery revenue bonds.

Following the 2007 session, the Economic and Community Development Department 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.

The Department reviewed the option of transferring its community development programs to the Housing and Community Services Department (HCSD) as a way of improving the effectiveness of both the state's community development and business development programs. The Economic and Community Development (OECD) Commission 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 was to 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 Fund, Safe Drinking Water Revolving Loan Fund, and Ports Programs. The OECD Commission recommended transferring administration of the Community Development Block Grant Program to HCSD, transferring the Main Street Program to the State Historic Preservation Office, and transferring the Office for Minority-Owned/Women-Owned/Emerging Small Business Certification from the Department of Consumer and Business Services to OBD.

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 OBD. 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 OBD Director. The Legislature approved this proposal in HB 2152.

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 the agency 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 12.2% below the 2007-09 biennium level, while the decline in total funds is 18% 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.

Legislatively Adopted Budget

The Legislature changed the agency's budget structure in support of the agency realignment enacted in HB 2152. The revised budget structure separates the business development programs administered by the Oregon Business Development Commission from the community development programs administered by the Infrastructure Finance Authority. A separate program area is also established for the Department's centralized administrative services that support both program types. The three new program areas did not exist prior to the agency reorganization, and there is no historic information for them. The agency totals shown in the above table, however, accurately compare the agency's 2009-11 biennium budget with its budget in the prior two biennia.

All Lottery Funds expenditures, excluding debt service payments for lottery revenue bonds, are in the Business, Innovation, Trade (business development) program area, or in the Shared Services/Central Pool program area. The Infrastructure Finance Authority (community development) program area is financed exclusively with Other Funds and Federal Funds. General Fund is typically restricted to the Arts Commission, which does not expend Lottery Funds.

State support (Lottery Funds plus General Fund) in the agency budget totals \$118.2 million, a \$15.5 million (or 11.6%) decline from the prior biennium level, after the funding reductions approved in the 2009 session to rebalance the 2007-09 biennium budget. Total Lottery Funds expenditures are reduced 12.1% from the prior biennium level, but this increase is exclusively the result of a 24.7% increase in the cost of servicing debt on the

Department's lottery revenue bonds. Excluding debt service and Lottery Funds passed through to the Oregon Film and Video Office, the level of Lottery Funds remaining for agency programs totals \$39.5 million and is down over 43% from the prior biennium. Over \$9.4 million of these expenditures are financed from carry over Lottery Funds allocated to the Department in prior biennia (or from interest earned on such funds). This reduces the allocation of 2009-11 biennium lottery revenues to \$30.1 million, a 52% decline from 2007-09.

The impact of the Lottery Funds reductions on the Department's programs is partially mitigated by a one-time use of \$10 million of Other Funds fund balances in the Special Public Works Fund and the Water Fund to finance business development program costs otherwise supported by Lottery Funds. These two Funds are not typically used for this purpose, and are statutorily limited to support grants and loans for community development projects, and to cover the administrative costs of operating the community development programs. The statutory exemption allowing the fund balances to support business development programs expires at the end of the 2009-11 biennium. The budget directs that the \$10 million of Other Funds expenditures be restored to Lottery Funds in the calculation of the agency's 2011-13 biennium essential budget level. The Legislature also approved \$17.5 million of lottery revenue bond proceeds for recapitalizing the two infrastructure funds. This will offset the withdrawal of the \$10 million and increase the fund balances over the course of the biennium.

The 2009-11 biennium budget adds two agency positions (1.34 FTE). The largest single impact on the agency's position count results from the transfer of the Office for Minority, Women and Emerging Small Business, with its five positions, from the Department of Consumer and Business Services to OBD. Net of this transfer, the position count is reduced by three positions (3.66 FTE). The budget eliminates five Lottery Funds-supported positions and reduces a sixth Lottery Funds-supported position to half-time (for a 5.50 FTE reduction) in the Shared Services/Central Pool and Business, Innovation, Trade programs. Two Other Funds-supported positions are added though, including a permanent full-time Debt Manager for the Infrastructure Finance Authority, and a limited duration position for the Main Street program (1.84 FTE combined), which had been phased-out in the agency's essential budget level.

OBD – Shared Services/Central Pool

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Lottery Funds				6,735,148
Other Funds				2,097,840
Federal Funds				9,258
Total Funds				\$8,842,246
Positions				32
FTE				32.00

Program Description

The Shared Services/Central Pool program area includes agency administrative services that support both the business development (Business, Innovation, Trade) and the community development (Infrastructure Finance Authority) programs. With the Department's reorganization under HB 2152, the business development and community development programs operate under separate policy boards, but continue to share the services included in this program area.

The thirty-two positions and associated non-personnel costs include the *Office of the Director* (3.00 FTE), *Employee Services* (5.00 FTE), *Fiscal and Budget* (8.00 FTE), and the *Policy and Planning Division* (16.00 FTE), which includes Strategic Initiatives, Information Technology, Government Relations, Marketing, and Public Affairs.

Revenue Sources and Relationships

Revenues for the 2009-11 biennium include \$2.1 million in Other Funds, but the program area is primarily financed with Lottery Funds. The Other Funds include funds from the community development programs for administrative costs. The sources of these funds are primarily interest earnings on balances in the infrastructure funds (within the IFA) and loan repayments on infrastructure loans. The Other Funds revenues also include

approximately \$715,000 of fund balances transferred from the infrastructure funds (specifically the Special Public Works Fund and the Water Fund) to support business development program expenses. These moneys are available through a one-biennium statutory change approved to expand the legal uses of the fund balances.

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 Oregon Business 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 Shared Services/Central Pool program area was newly created in the 2009 session, and there is no 2009-11 biennium essential budget level calculation at the program area level. The activities residing in this program area, however, would have been adjusted from 2007-09 biennium levels only for standard inflation and roll-up adjustments in the EBL calculation methodology. The program area does not include any activities that were phased-in or phased-out from the prior biennium. Specific program cuts and additions are discussed in the Legislatively Adopted Budget section below. A program area level-specific essential budget level will be calculated as part of the development of the 2011-13 biennium budget.

Legislatively Adopted Budget

The Shared Services/Central Pool program area was established to better display how the Department is reorganized under HB 2152. As such, there are no budget data available for this program area for prior biennia.

The legislatively adopted budget eliminates two full-time positions and reduces Lottery Funds expenditures by \$487,205 to help address the state’s 2009-11 biennium revenue shortfall. Additionally, the budget shifts another \$714,989 of expenses from Lottery Funds to Other Funds, as part of a one-time use of \$10 million from the infrastructure funds to reduce reliance on Lottery Funds. The use of infrastructure fund balances for this purpose required a statutory change, as the moneys are being used to support business development programs as opposed to public infrastructure projects. The Legislature approved a one-biennium statutory change to permit this use. The budget directs that these Other Funds expenditures be restored to Lottery Funds in the calculation of the agency’s 2011-13 biennium essential budget level.

OBD – Business, Innovation, Trade

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Lottery Funds				32,759,377
Other Funds				14,577,127
Federal Funds				4,180,000
Other Funds (NL)				12,100,000
Total Funds				\$63,616,504
Positions				53
FTE				52.50

Program Description

The Business, Innovation, Trade program area was established in HB 2152 as part of the agency reorganization. As such, there are no budget data available for prior biennia.

The Business, Innovation, Trade (BIT) program area houses the programs that were retained under Oregon Business Development Commission oversight in HB 2152. These programs consist of the Department’s business development initiatives that support business creation, recruitment and retention; international trade; development of industrial lands; and initiatives to increase innovation in the Oregon economy and improve the state’s economic competitiveness. The largest of these programs are the Oregon Innovation Council Innovation Plan and the Governor’s Strategic Reserve Fund. Other BIT programs include the Brownfields Redevelopment

and Industrial Lands programs, the Industry Competitiveness Fund, the Local Economic Opportunity Program (formerly Regional Investment), and the direct business support programs including the Small Business Development Centers and the Office for Minority, Women and Emerging Small Business.

Revenue Sources and Relationships

Revenues for the 2009-11 biennium include \$26.7 million in Other Funds and \$4.2 million Federal Funds, but the program area is primarily financed with Lottery Funds allocated to support business development. The Other Funds revenues include assessments that fund the Office for Minority, Women and Emerging Small Business, plus interest earnings on funds and loan repayments. The Other Funds revenues also include approximately \$9.3 million of fund balances transferred from the infrastructure funds (specifically the Special Public Works Fund and the Water Fund) to support business development program expenses. These moneys are available through a one-biennium statutory change approved to expand the legal uses of the fund balances.

Federal Funds support the Brownfields Program. Most of the Federal Funds, \$3.4 million of the \$4.2 million projected for the biennium, are one-time moneys received under the Federal stimulus package (ARRA).

Budget Environment

The 2005 Legislature approved \$45 million in lottery bonds for brownfields redevelopment and industrial lands infrastructure development. The 2007 Legislature approved a 71% increase in Lottery Funds for distribution to businesses and non-profits over the 2005-07 biennium level. This resulted primarily from an increase in support for the Oregon Innovation Council's (Oregon InC) Innovation Plan, which increased from \$7 million lottery funds in the 2005-07 biennium to \$28.2 million in 2007-09.

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

The Business, Innovation, Trade program area was newly created in the 2009 session, and there is no 2009-11 biennium essential budget level calculation at the program area level. The program area does, however, include activities that were phased-in or phased-out from the prior biennium. Specific program cuts and additions are discussed in the Legislatively Adopted Budget section below. A program area level-specific essential budget level will be calculated as part of the development of the 2011-13 biennium budget.

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 adopted budget is phased-out in the calculation of the 2009-11 essential budget level.

Legislatively Adopted Budget

The legislatively adopted budget reduces Lottery Funds expenditures below the essential budget level, and reduces support for the Oregon InC Innovation plan by 43.7% from the level approved in the 2007 session. As in the past, support for the Innovation Plan initiatives is approved on a one-time basis. Other ongoing Lottery Funds-supported business development programs, which are included in the essential budget level, are reduced from the EBL funding level. The essential budget level for these ongoing programs totals \$23 million Lottery Funds. The legislatively adopted budget includes only \$10.2 million Lottery Funds for these same programs. Program reductions are not as severe as this would indicate, however, since \$5.6 million of Other Funds were added to support these programs on a one-time basis, financed by withdrawals from the agency's infrastructure funds (Special Public Works Fund and Water Fund). With these Other Funds included, support for the business development programs totals \$15.8 million in the budget, which is \$7.2 million (or 31.4%) below the essential

budget level. The reductions are distributed to the Governor’s Strategic Reserve Fund, the Small Business Development Center Network, and the Industry Competiveness program. Support for the Local Economic Opportunity Program (formerly Regional Investment) is discontinued.

The budget also includes Lottery Funds reductions to administrative costs. These are reduced by \$4.7 million Lottery Funds. Again, administrative reductions are not as severe as this would indicate, since \$3.7 million of Other Funds are added to support these expenses on a one-time basis, financed by withdrawals from the agency’s infrastructure funds. With these Other Funds included, support for administrative expenses is \$1 million below essential budget level. The budget includes the elimination of three full-time positions, and the reduction of a fourth position from full-time to half-time (3.50 FTE).

Other adjustments in the BIT program area include adding the Office for Minority, Women and Emerging Small Business budget [\$938,423 Other Funds expenditures and five full-time positions (5.00 FTE)], which was transferred to OBD in HB 2152, and increasing the Federal Funds expenditure limitation by \$3,360,000 to allow expenditure of Federal stimulus funds anticipated for the Brownfields program.

The budget supports continued funding for six of the seven Oregon InC programs funded in the 2007-09 biennium. Funding for five of the six continuing programs is reduced from the prior biennium level. These

Oregon InC Innovation Plan			
Lottery Funds			
Program	2007-09 Legislatively Adopted	2009-11 Legislatively Adopted	Biennial Change
<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	\$2,510,000	-52.2%
3) BEST - Built Environment and Sustainable Technology Center	\$2,500,000	\$2,750,000	10.0%
<u>Emerging Industry Initiatives</u>			
4) OWET - Oregon Wave Energy Trust	\$4,200,000	\$3,013,500	-28.3%
<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	\$0	-100.0%
7) Community Seafood Initiative	\$900,000	\$450,000	-50.0%
Total	\$28,154,000	\$16,000,000	-43.2%

reductions range from a 28.3% reduction for the Oregon Wave Energy Trust (OWET), to reductions of 50% or more for the food processing, community seafood, and OTRADI initiatives. Funding for the BEST signature research center, on the other hand, is increased by 10% over the 2007-09 biennium level. BEST focuses on clean energy, bio-based products, and energy efficient building and development technologies. Support for the Manufacturing Competitiveness Initiative was discontinued.

OBD – Infrastructure Finance Authority

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds				7,873,897
Federal Funds				28,282,882
Other Funds (NL)				221,415,791
Total Funds				\$257,572,570
Positions				33
FTE				32.84

Program Description

The Infrastructure Finance Authority was established in HB 2152 as part of the agency reorganization. As such, there are no budget data available for prior biennia.

The Infrastructure Finance Authority program area houses the programs that were transferred to IFA oversight in HB 2152. These programs consist of the Department's community development initiatives that assist communities primarily through support of infrastructure improvements. The largest of these programs are the revolving fund loan and grant programs of the Special Public Works Fund and the Water Fund. Other IFA programs include the Port Revolving Loan Fund and Port Planning and Marketing Fund programs, the Safe Drinking Water Revolving Loan Fund program, the Main Street program, and the Community Development Block Grant program.

Revenue Sources and Relationships

Infrastructure Finance Authority program expenditures are not supported by Lottery Funds, although the state does issue lottery revenue bonds to finance a portion of these programs' costs. In these instances, lottery revenue bond proceeds are deposited into revolving loan funds and made available for infrastructure loans and grants, and for payment of administrative costs relating to IFA programs. The lottery revenue bond proceeds are in some cases used to match proceeds from Oregon Bond Bank bonds. The mixture of bond, loan, and grant funds increases OBD's capacity for financing projects. The expenditures of the bond proceeds distributed to localities as loans or grants are shown as Nonlimited Other Funds (and not as Lottery Funds). Expenditures for program administrative costs (typically financed from interest earnings on, and loan repayments of, the lottery bond proceeds, and not from the proceeds directly) are shown as Other Funds expenditures. Debt service costs on the lottery revenue bonds issued to provide these funds are paid with Lottery Funds, but those payments are shown in the Lottery Bond Debt Service program area, and not in the Infrastructure Finance Authority budget.

IFA 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, and Port Revolving Funds for the investment of proceeds from lottery-backed bond sales. Nonlimited Other Funds revenues also include \$63.4 million (\$35.6 million in regular formula funds plus \$27.8 million in one-time Federal stimulus moneys) 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. Federal Funds support the Community Development Block Grant program.

Budget Environment

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.

Essential Budget Level

The Infrastructure Finance Authority was newly created in the 2009 session, and there is no 2009-11 biennium essential budget level calculation at the program area level. The expenditures subject to limitation residing in this program area, however, would have been adjusted from 2007-09 biennium levels only for standard inflation and roll-up adjustments in the EBL calculation methodology. The program area does not include any activities that were phased-in or phased-out from the prior biennium. Specific program cuts and additions are discussed in the Legislatively Adopted Budget section below. A program area level-specific essential budget level will be calculated as part of the development of the 2011-13 biennium budget.

Legislatively Adopted Budget

The Infrastructure Finance Authority program area was established to better display how the Department is reorganized under HB 2152. As such, there are no budget data available for this program area for prior biennia.

There are no agency specific expenditure reductions in the IFA program area, although expenditures were reduced by \$259,448 as part of the statewide salary and state government service charge reductions approved in

the legislatively adopted budget. The budget does, however, transfer resources from the IFA to support business development programs in other parts of the agency budget. A total of \$10 million of Other Funds fund balances in the Special Public Works Fund and the Water Fund is transferred to the Business, Innovation, Trade and Shared Services/Central Pool to finance business development programs otherwise supported by Lottery Funds. These two Funds are not typically used for that purpose, and are statutorily limited to support grants and loans for community development projects, and to cover administrative costs of operating the community development programs. The statutory exemption allowing the fund balances to support business development programs expires at the end of the 2009-11 biennium. The budget directs that the \$10 million of Other Funds expenditures in those programs be restored to Lottery Funds in the calculation of the agency's 2011-13 biennium essential budget level. The Legislature also approved \$17.5 million of new lottery revenue bond proceeds for recapitalizing the two infrastructure funds. This will offset the effect of the withdrawal of the \$10 million and increase the fund balances over the course of the biennium.

Other adjustments in the IFA budget include adding a full-time Debt Manager position for the Infrastructure Finance Authority, adding \$474,000 Other Funds to cover the cost of issuing the lottery revenue bonds for the infrastructure funds (bond proceeds will finance these costs), transferring the \$1.5 million Lottery Funds balance in the Marine Navigation Improvement Fund out to allow these funds to be used to pay debt service costs on lottery revenue bonds, changing loan expenditures in the Safe Drinking Water Program from limited Other Funds to Nonlimited Other Funds as was specified by statute, and adding \$350,000 Other Funds, transferred from the Parks and Recreation Department, and one limited duration position (0.84 FTE) for the Main Street Program, which was phased-out in the agency's essential budget level.

Finally, the Legislature adjusted the IFA budget to allow expenditure of \$31.6 million of Federal stimulus moneys available under the ARRA. These adjustments included a \$27.8 million increase in Nonlimited Other Funds for the Safe Drinking Water Program, and a \$3.8 million Federal Funds expenditure limitation for the Community Development Block Grant.

OBD – Film and Video Office

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Lottery Funds	841,605	1,217,610	1,317,582	1,251,703
Total Funds	\$841,605	\$1,217,610	\$1,317,582	\$1,251,703

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. OBD 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 OBD 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 OBD 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.

Legislatively Adopted Budget

The legislatively adopted budget provides Lottery Funds support for the Office of \$65,879 (or 5%) below the calculated essential budget level. The 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. Existing law limited the amount of tax credits that could be awarded to no more than \$10 million per biennium, but the Legislature increased the limit to \$15 million per biennium. This expansion reduces General Fund revenues by \$4.7 million in the 2009-11 biennium, and by \$5 million each biennium thereafter, when the impact of the law change is fully phased in.

OBD – Arts

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	1,297,951	4,044,947	4,431,047	4,665,252
Other Funds	3,437,043	5,958,039	6,148,672	6,496,665
Federal Funds	1,283,196	1,744,598	1,793,447	1,766,846
Total Funds	\$6,018,190	\$11,747,584	\$12,373,166	\$12,928,763
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 OBD 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.

Legislatively Adopted Budget

The Arts program was unaffected by the Department reorganization under HB 2152. The \$4.7 million of General Fund in the legislatively adopted budget is a 15.3% increase over the prior biennium level, after the funding reductions approved in the 2009 session to rebalance the 2007-09 biennium budget, and is 5.3% above the essential budget level. The all funds budget is approximately \$556,000 (or 4.5%) above the essential budget level.

The budget includes an additional \$278,448 of General Fund above the essential budget level for the Creative Oregon II initiative, a further expansion of the supplemental funding added in the 2007-09 biennium. Most of the funds (\$275,000) will be used to supplement the Commission's grant programs, the remainder is for program administration and marketing.

The budget also adjusts Other Funds to conform to passage of HB 2740. That bill extends the sunset on the designation of all Cultural Trust license plate revenues to marketing. The budgetary impact is to increase Other Funds expenditures by \$348,000, and to reduce deposits into the Cultural Trust by the same amount.

OBD – Lottery Bond Debt Service

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Lottery Funds	48,907,472	58,388,418	69,314,146	72,835,772
Other Funds	1,825,450	2,130,000	3,263,782	1,816,902
Other Funds (NL)	0	2,883,570	0	0
Total Funds	\$50,732,922	\$63,401,988	\$72,577,928	\$74,652,674

Program Description

The Lottery Bond Debt Service program includes debt service payments on all lottery revenue bonds that have been issued to support OBD programs and certain lottery revenue bonds issued to finance legislatively-specified projects promoting economic development. Debt service on revenue bonds issued for the Oregon Bond Bank are shown in Nonlimited Other Funds in the Infrastructure Finance Authority program area.

Revenue Sources and Relationships

Debt service is paid with Lottery Funds allocations. To minimize the size of the required Lottery Funds allocation, however, interest earnings on lottery-bond reserves are also applied to pay debt service. 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.

Legislatively Adopted Budget

The legislatively adopted budget funds Lottery Debt Service at the essential budget level, with an adjustment for additional lottery revenue bonds approved as part of the 2009-11 biennium budget. The \$74.7 million of debt service expenditures in the legislatively adopted budget is a 17.7% increase over the prior biennium level, and is 2.9% above the essential budget level.

The budget supports authorization of an additional \$17.5 million of Lottery bond proceeds for the Department's infrastructure revolving loan funds (Special Public Works Fund and the Water Fund) in the 2009-11 biennium, and includes \$2.1 million of Lottery Funds for debt service costs in the 2009-11 biennium on these additional bonds. Debt service costs for the newly-authorized lottery revenue bonds is projected to increase to \$4.2 million Lottery Funds per biennium, when they fully phase in beginning in the 2011-13 biennium.

Other Funds from interest earnings, totaling \$1.8 million, are used to offset the Lottery Funds expenditures needed to service the debt. The budget further reduces lottery allocation amount by directing approximately \$0.5 million of Lottery Funds carryover, and the \$1.5 million of Lottery Funds in the Marine Navigation Improvement Fund, toward covering debt service. The use of these Other Funds and existing Lottery Funds reduces the amount of 2009-11 biennium lottery revenues that need to be allocated to cover debt service costs to \$70.9 million.

Employment Department (OED) – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	3,714,007	3,773,516	4,170,698	3,316,072
Other Funds	94,639,938	121,768,437	124,337,370	132,043,826
Federal Funds	247,466,002	282,155,641	255,114,976	295,268,748
Other Funds (NL)	1,076,205,892	2,136,098,557	1,496,309,317	2,087,207,680
Federal Funds (NL)	0	108,000,000	0	500,092,327
Total Funds	\$1,422,025,839	\$2,651,799,877	\$1,879,932,361	3,017,928,653
Positions	1,373	1,331	1,308	1,659
FTE	1,356.77	1,284.10	1,273.39	1,608.65

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*, ended the 2007-09 biennium with an estimated ending balance of \$1.5 billion. Assuming minimal improvement in the state economy and the employment rate, the UI trust fund balance is projected to fall to \$430 million by the end of the 2009-11 biennium. 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 \$24.7 million. The remainder of these funds, (estimated at \$5 million), will be expended in 2011-13, allowing the agency to operate with decreased amounts of Federal Funds for administration of the UI program.
- 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 Legislature utilized \$4.7 million from this source to balance the 2007-09 state budget. For the 2009-11 biennium, the Employment Department expects to take in and expend \$7.9 million, leaving an ending balance of \$0.
- The *Supplemental Employment Department Administrative Fund (SEDAF)* is funded by a 0.9% unemployment tax diversion to fund administration of the unemployment system. The Employment Department ended the 2007-09 biennium with an ending balance estimated at \$7.8 million. The 2009-11 legislatively adopted budget assumes expenditures of \$17.9 million, which may not be realized if revenues fall as a result of businesses laying off workers or closing because of the economic downturn.
- 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 *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 2009-11 legislatively adopted 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 2009-11 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 2009-11 biennium, an estimated \$127.1 million will be distributed by the U.S. Department of Labor for administration of the Unemployment Insurance Program, and \$21.8 million is expected for employment services provided under the Wagner-Peyser Act, the Trade Adjustment Act, and for veterans' placement services. In addition, under the American Recovery and Reinvestment Act (ARRA), Oregon is projected to receive another \$1.98 million for UI administration, and \$12.9 million in Trade Act funds for employment services. Federal UI benefit extensions and supplemental payments provided by ARRA are categorized as Federal Funds Nonlimited and amount to over \$500 million in 2009-11.
- **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 \$125.3 million will be received during the 2009-11 biennium, \$2.1 million of which is the result of additional funding from ARRA. 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.

The high unemployment rate that Oregon experienced at the end of the 2007-09 biennium is projected to continue, with only minimal improvement toward the end of the 2009-11 biennium. As such, the 2009-11 legislatively adopted budget provides for a total of 233 limited duration positions and \$30 million in additional expenditure limitation above what had been included in the essential budget level to process additional unemployment insurance benefit claims and associated appeals.

In 2007, OED began an initiative 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 2008.

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.

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.

Legislatively Adopted Budget

The primary focus of the 2009-11 legislatively adopted budget for the Employment Department was providing the necessary expenditure limitation and limited duration position authority to provide assistance to unemployed workers during Oregon's economic downturn. The Department was granted 279 positions beyond the essential budget level to address increases in unemployment insurance benefit caseload; 251 of the positions are in the Unemployment Insurance division, and the remaining 28 positions are in the Office of Administrative Hearings, and will be hearing appeals on eligibility decisions.

The second major feature of the Department's 2009-11 budget is associated with federal funding under the American Recovery and Reinvestment Act. Additional Federal Funds were granted for Unemployment Insurance administration (\$2 million), employment services (\$12.9 million), Childcare and Development Block Grant funds (\$2 million), and expenditure limitation and position authority associated with broadening eligibility for unemployment insurance benefits such that Oregon would be eligible for additional federal funding for benefit extensions and payment increases.

Further, the budget includes \$2.8 million in Other Funds expenditure limitation and position authority to renew up to 25 limited duration positions for fee-for-service employment placement activities, and \$782,000 Other Funds expenditure limitation for 2 limited duration positions associated with research and special studies by Employment Department analysts and economists on a fee-for-service basis.

OED – Unemployment Insurance

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	9,380,460	18,252,933	18,835,150	18,819,693
Federal Funds	94,524,916	101,375,345	101,148,899	124,966,644
Total Funds	\$103,905,376	\$119,628,278	\$119,984,049	\$143,786,337
Positions	586	588	597	832
FTE	577.43	548.55	568.97	793.23

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. At the time the essential budget level was calculated, Oregon had yet to register the high unemployment rates which drove caseload increases and additional federal funds in the Unemployment Insurance program.

Legislatively Adopted Budget

Prior to the economic downturn, OED had anticipated reductions in federal support for unemployment insurance administration. However, federal reimbursement rates have been comparatively high for 2009. How long they will stay that way is an open question, and depends at least partially on the efficiency with which OED evaluates, pays, and adjudicates claims. In 2007-08, OED 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 is assuming only minimal improvement in the economy, and assumes "above base" administrative reimbursement rates from the federal government at 84% for the 2009-11 biennium (although the actual rate was 100% for the period

July 1 – September 30, 2009). Under this scenario, OED anticipates depleting other fund balances (SEDAF, Reed Act, and Penalty and Interest funding) to pay for operating expenses and any service improvements the Department plans on making in the 2009-11 biennium.

The 2009-11 legislatively adopted budget provides expenditure limitation for a number initiatives that expand eligibility for Unemployment Insurance Benefits:

- SB 462 expands eligibility for Unemployment Insurance (UI) benefits by authorizing the use of an alternate base year (ABY) for calculating benefits. The federal stimulus law required the ABY, and other UI provisions that already exist in Oregon law, for Oregon to become eligible for an additional \$85 million in Federal Funds for UI benefits.
- Provisions of HB 2203 brought state UI law into compliance with requirements of the American Recovery and Reinvestment Act of 2009 (ARRA) related to claimants affected by domestic violence and eliminated restrictions for the qualification of Supplemental UI for claimants in specified worker training programs. In addition, the measure extends eligibility for extended Unemployment Insurance benefits for individuals who have exhausted their federal Emergency Unemployment Compensation benefits.
- HB 3483 expanded eligibility for Unemployment Insurance (UI) benefits to workers who had been employed in lower wage jobs during their entire base year and who enroll in training programs approved by the Employment Department and Department of Community Colleges and Workforce Development. The bill limited the total benefits available for distressed workers in training to \$9.2 million, and also extended UI benefits to workers between October 2009 and January 2010 to those workers who will have exhausted all state and federal UI benefits. Total benefit extension payments of no more than \$30 million are authorized by the bill.

OED – Business and Employment Services

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	54,000	0	0	0
Other Funds	56,488,056	69,306,927	69,807,032	71,167,649
Federal Funds	25,705,984	23,457,296	21,351,239	39,176,274
Total Funds	\$82,248,040	\$92,764,223	\$91,158,271	\$110,343,923
Positions	518	481	448	537
FTE	514.84	478.05	446.42	530.42

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 at the time the essential budget level was calculated, the Employment Department assumed a decline in the amount of federal revenue available to support businesses and employment services functions. Because of ARRA, total federal funds to the program have not decreased, but the amount of federal funds that can be used to support ongoing, regular operating expenses is still limited.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget includes a policy option package to provide additional Other Funds 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 that 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 available. The package is funded on a fee-for-service basis.

In addition, the legislatively adopted budget includes \$17.8 million and 59.00 limited duration FTE associated with additional federal funding for training, reemployment services, and administrative costs provided through the American Recovery and Reinvestment Act.

OED – Child Care

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	3,660,007	3,976,091	4,170,698	3,316,072
Other Funds	1,890,875	2,522,990	2,729,520	2,794,556
Federal Funds	120,614,717	122,739,183	126,386,344	125,020,199
Total Funds	\$126,165,599	\$129,238,264	\$133,286,562	\$131,130,827
Positions	74	74	76	76
FTE	70.00	70.00	72.00	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 3.3% increase over the 2007-09 legislatively approved budget.

Legislatively Adopted Budget

The 2009-11 legislatively adopted 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 impacts 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; however, the reduction is partially off-set by \$2 million in one-time funding from the American Recovery and Reinvestment Act.

The Legislature reduced General Fund support to the Child Care Division by 17.9% from the essential budget level. The reduction will result in fewer funds that will be passed through to partner agencies such as the Department of Human Services and the Department of Education for initiatives that increase the quality of child care.

OED – Workforce and Economic Research

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	5,512,164	7,627,324	7,832,019	8,450,658
Federal Funds	6,620,385	6,087,543	6,228,494	6,105,631
Total Funds	\$12,132,549	\$13,714,867	\$14,060,513	\$14,556,289
Positions	72	69	68	70
FTE	71.50	68.50	67.50	69.50

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 online 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.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget increased Other Funds expenditure limitation by \$782,050 and provided 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. 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 Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	21,368,383	24,058,263	25,133,649	30,811,270
Total Funds	\$21,368,383	\$24,058,263	\$25,133,649	\$30,811,270
Positions	123	119	119	144
FTE	123.00	119.00	118.50	143.50

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 4.5% 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.

Legislatively Adopted Budget

The legislatively adopted budget eliminated three full-time, permanent positions that processed drivers’ license appeals and were administrative in nature. Because they were not directly related to the hearings process, they were transferred to the Department of Transportation.

As the number of unemployment insurance claimants has increased, so too has the number of appeals of claim decisions. The 2009-11 legislatively adopted budget provides for 28 additional limited duration hearings officers to address the expected increase in appeals of unemployment insurance eligibility and disqualification.

OED – Nonlimited

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds (NL)	1,076,205,892	1,436,098,557	\$1,496,309,317	2,087,207,680
Federal Funds (NL)	0	108,000,000	0	500,092,327
Total Funds	\$1,076,285,892	\$1,544,098,557	\$1,496,309,317	\$2,587,300,007

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 3.1% decrease from the 2007-09 legislatively approved budget. At the time the essential budget was calculated, OED was not anticipating the additional federal ARRA funds for benefit extensions and payment increases which ultimately were approved as 2007-09 supplemental federal funds expenditure limitation.

Legislatively Adopted Budget

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.

The 2009-11 legislatively adopted budget estimates over \$2 billion in unemployment insurance benefit payments over the 2009-11 biennium. Benefit payments to federal employees had been included with "Other Funds Nonlimited" payments in previous biennia, but have been broken out as part of the new "Federal Funds Nonlimited" category for 2009-11 since these benefit payments are paid by federal, not state UI taxes. Also included in the Federal Funds Nonlimited category are the amounts for benefit extensions and benefit payment increases attributable to the American Recovery and Reinvestment Act.

Housing and Community Services Department (HCSD) – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	10,872,777	19,609,773	12,760,057	10,312,467
Lottery Funds	4,460,536	5,932,768	7,516,467	8,820,655
Other Funds	80,203,828	118,374,505	109,731,506	138,639,627
Federal Funds	113,524,160	155,542,336	120,362,585	252,470,192
Other Funds (NL)	1,548,604,772	2,129,942,600	1,537,062,014	1,537,062,014
Federal Funds (NL)	100,928,787	104,750,000	107,250,000	107,250,000
Total Funds	\$1,858,594,860	\$2,534,151,982	\$1,894,682,629	2,054,554,955
Positions	148	143	138	156
FTE	145.50	140.42	135.70	148.33

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. The 2009 Legislative Assembly passed SB 772, which will amount to \$172,600 from park registration fees, while the passage of HB 2436 adds \$15,156,066 from fees for recording certain documents. Lottery bond proceeds are also part of the legislatively adopted budget, and are budgeted as Other Funds. The Legislature approved \$19.9 million in bond proceeds for affordable housing and manufactured home park preservation for the 2009-11 biennium.

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 \$8.8 million in Lottery revenue support the debt service requirements for the following: 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; \$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; and the debt service on the \$19.9 million in lottery bonds approved for housing preservation (see above) in 2009.

Federal Funds are received from a variety of federal agencies which administer the following programs: HOME Investment Partnership Program (\$26.6 million); Section 8 rent subsidies (\$107.25 million); Community Development Block Grant (\$6.4 million); Community Services Block Grant (\$11.6 million, plus a \$7.2 million allocation from the American Recovery and Reinvestment Act); Low-Income Home Energy Assistance (LIHEAP) funds (\$104.5 million); Emergency Shelter grants (\$2.1 million, plus a \$4.7 million allocation from the American Recovery and Reinvestment Act for Homeless Prevention and Rapid Rehousing); Supportive Housing programs (\$3.4 million); Bonneville and Department of Energy weatherization assistance funds (\$12.6 million plus a \$28.6 million allocation from the American Recovery and Reinvestment Act); Food Assistance

programs (\$1.9 million plus a \$469,511 allocation from the American Recovery and Reinvestment Act); and federal grants related to volunteerism and AmeriCorps (\$4.6 million plus a \$773,075 allocation from the American Recovery and Reinvestment Act).

American Recovery and Reinvestment Act (ARRA) funds for other activities included in the 2009-11 legislatively adopted budget include \$12.4 million for the Neighborhood Stabilization Program, which provides grant funding for redevelopment of abandoned and foreclosed properties, and \$24.6 million for the Tax Credit Assistance Program which provides grant funding for capital investment in Low Income Housing Tax Credit projects that have stalled during the economic downturn.

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. The current economic recession has added to the financial pressures on administering OHCS programs: fewer bond sales and declining values of tax credits means the agency will lose out on fee revenue it has used for operations expenses; and federal and state housing credits are no longer worth as much as they were last year, creating gaps in funding for proposed housing projects (thus the need for federal stimulus programs such as the tax credit assistance program). While the credit freeze has begun to thaw, there are still fewer financial resources available to finance low income housing, and those resources do not stretch as far as they did two or years ago.

Essential Budget Level

The essential budget level is a 25.2% 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.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget includes a reduction of \$2.9 million Other Funds and 12.50 permanent FTE to balance expenditures with available ongoing revenue. These reductions are largely offset due to increases in one-time funding from the American Recovery and Reinvestment Act, and due to new fee revenue to support affordable housing resulting from the passage of HB 2436. The other major housing initiative approved by the 2009 Legislative Assembly is the preservation of affordable housing with expiring Section 8 contracts and manufactured home parks.

HCSD – Energy/Weatherization

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	37,803,639	47,368,419	51,005,692	49,912,652
Federal Funds	59,070,974	90,268,712	62,695,806	143,856,702
Total Funds	\$96,874,613	\$137,637,131	\$113,701,498	\$193,769,354
Positions	7	7	9	25
FTE	7.00	7.00	9.00	24.50

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.

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.

Legislatively Adopted Budget

The amount of Federal Funds available for weatherization assistance has increased by 60% from the 2007-09 biennium. The majority of the funding increase is not expected to be ongoing. Over \$52 million in additional Low Income Energy Assistance payment funding, and more than \$28 million for weatherization, was made available and is in excess of what was anticipated by the essential budget level.

Three positions that were slated for reduction from elsewhere in the agency – an accountant and two information systems specialists – are added back to the Energy and Weatherization program in a limited duration capacity. The information systems specialists will work on databases and reporting modules specific to weatherization projects and the Low Income Energy Assistance program, while the accountant will be utilized for contracts and payments associated with large increases in federal funds for the program area. Another 12.50 limited duration, full-time equivalent positions were approved, and will be funded with Federal Funds connected with weatherization efforts. These positions are associated with contract administration, reporting, and training and coordination with local Community Action Agencies for the purposes of certifying additional weatherization contractors, working with housing developers to access funds for housing rehabilitation projects, training local agencies in separate reporting requirements, and helping local agencies modify intake and evaluation processes where necessary to ensure funds are spent in accordance with federal rules and timelines. The need for and number of ARRA – related FTE positions are expected to dwindle in the 2011-13 biennium.

HCSD – Self-Sufficiency/Emergency Assistance

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	10,017,721	11,584,634	11,915,702	10,310,580
Other Funds	10,149,452	10,108,021	9,847,816	9,688,724
Federal Funds	14,262,294	16,445,321	24,548,021	36,880,982
Federal Funds (NL)	100,928,787	104,750,000	107,250,000	107,250,000
Total Funds	\$135,358,254	\$142,812,717	\$153,561,539	164,130,286
Positions	23	23	18	21
FTE	23.00	22.42	18.00	19.85

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.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget eliminated a vacant position as part of balancing agency expenses with permanent ongoing revenue. In addition, General Fund support to the Emergency Housing Account was reduced by \$1.6 million. The position and 94% of the dollar amount of this reduction is offset by the revenue generated by HB 2436 that is directed toward emergency housing assistance.

American Recovery and Reinvestment Act funding bolsters Self Sufficiency/Emergency Assistance programs as follows:

- \$469,511 for the Temporary Emergency Food Assistance Program;
- \$4,724,062 and 2.00 limited duration FTE positions for the Homeless Prevention and Rapid Re-Housing Program, a grant to provide financial assistance through Community Action Agencies to either prevent individuals and families from becoming homeless or help those who are experience homelessness to be quickly re-housed and stabilized; and
- \$7.2 million and a 0.60 limited duration FTE position for additional anticipated allocations under the Community Services Block Grant, which supports community-based organizations that provide assistance to low income Oregonians.

HCSD – Community Capacity Building

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	0	67	0	0
Lottery Funds	4,460,536	4,456,647	0	0
Other Funds	4,724,162	7,242,187	600,365	1,530,301
Federal Funds	16,379,487	17,476,535	4,648,574	5,421,649
Total Funds	\$25,564,185	\$29,175,436	\$5,248,939	\$6,951,950
Positions	11	10	5	8
FTE	11.00	10.00	5.00	6.92

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, plus 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.

Legislatively Adopted Budget

The legislatively adopted budget eliminated \$58,056 in services and supplies in this program area to balance expenditures with ongoing available revenue.

Federal Funds expenditure limitation in the amount of \$773,075 was added due to the receipt of a grant from the American Recovery and Reinvestment Act related to volunteerism. The grant funds support volunteer positions in community action agencies that will assist eligible individuals in accessing services or developing skills related to health care, literacy, mentoring, money management, and parent/child development.

An additional \$909,520 Other Funds and a 0.92 FTE limited duration position supported by the document recording fee is also included. The funds will provide training, technical, and financial assistance to community housing partners and to manage contracts with Community Action Agency beneficiaries.

HCSD – Homeownership/Affordable Rental Housing Development

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	794,880	6,025,286	842,468	0
Lottery Funds	0	1,476,121	7,516,467	8,820,655
Other Funds	18,300,805	42,260,213	37,949,225	68,823,460
Federal Funds	21,381,061	20,579,992	26,253,893	64,094,568
Other Funds (NL)	1,548,604,772	2,128,942,600	1,537,062,014	1,537,062,014
OF Debt Service	0	0	0	120,382
Total Funds	\$1,589,081,518	\$2,199,284,212	\$1,609,624,067	\$1,678,800,697
Positions	54	56	64	68
FTE	53.50	54.00	62.50	63.86

Program Description

HCSD 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.

Legislatively Adopted Budget

Reductions: In an effort to balance the state budget, General Fund support was eliminated for down payment assistance to first time home buyers and home buyer education.

To balance the agency’s expenditures with available ongoing revenue, the 2009-11 legislatively approved budget eliminates 6.50 FTE positions including loan specialists, a compliance specialist, an administrative specialist, a fiscal analyst, an accountant, and an architectural consultant. This reduction totals \$1,080,489 Other Funds.

In addition, OHCS planned on curtailing its single family loan program, funded through mortgage revenue bonds. With higher issuance costs and insufficient revenue to capitalize the required loan reserves, the program is unable to cost-effectively provide the number of competitive loans as it did in previous biennia. However, the lackluster bond market has made a “planned” curtailment moot; bonds are not being issued for the program due to economic conditions, and OHCS has not had to incur issuance costs or tie up cash in capitalization of reserves. The decrease in the volume of single family loans – while addressing an immediate revenue problem – will further erode future operating revenue, because there will be fewer indentures and loan origination fees from which to draw future operating revenue.

The legislatively adopted budget reduced lottery funds expenditure limitation (for debt service) by \$175,693 to reflect reduced costs of borrowing due to favorable terms of the Spring 2009 lottery bond sale.

Affordable Housing Preservation: The 2009-11 legislatively adopted budget includes \$20.1 million Other Funds (\$19.9 million in lottery bond proceeds and \$150,000 in interest income) to continue the preservation of affordable housing projects with expiring federal Section 8 subsidies, and to preserve manufactured home parks (the Legislature approved \$9.1 million – \$6 million of which was General Fund – for this purpose in 2007-09). This amount will enable the preservation of an estimated 1,598 units of affordable housing, and provide for 2.00 limited duration FTE positions associated with contract oversight and administration. Section 8 contracts will continue to expire through the 2011-13 biennium. Approximately \$16 million of the bond proceeds will be used for grants for Section 8 properties, and \$3.1 million for loans or grants for manufactured park preservation.

Federal Stimulus Funding: The 2009-11 legislatively adopted budget includes \$37.8 million in additional Federal Funds expenditure limitation and 2.50 FTE limited duration positions, reflecting receipt and administration of the following grants funded through ARRA:

- \$12.4 million and 2.50 FTE limited duration positions for the Neighborhood Stabilization Program, which provides grant funding for redevelopment of abandoned and foreclosed properties;
- \$24.6 million for the Tax Credit Assistance Program which provides grant funding for capital investment in Low Income Housing Tax Credit projects that have stalled during the economic downturn; and

- \$830,000 in additional funding for the Community Development Block Grant program which supports the operation of regional one-stop housing centers and grants for low income, single-family home repair projects.

Document Recording Fee: The document recording fee revenue resulting from passage of HB 2436, which is dedicated to affordable housing, will support \$12,730,679 Other Funds expenditures in the Homeownership/ Affordable Rental Housing division of OHCS during the 2009-11 biennium. About \$10.6 million of this amount will be used to finance multi-family affordable rental housing, and \$2.1 million will be used for home ownership assistance (primarily down payment assistance for qualifying low-income Oregonians). The budget provides for 3.36 FTE positions for administration of these loans and grants.

HCSO – Program Outreach and Accountability

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	60,176	2,000,000	1,887	1,887
Other Funds	9,225,770	11,395,666	10,328,408	8,681,790
Federal Funds	2,430,344	2,144,776	2,216,291	2,216,291
Other Funds (NL)	0	1,000,000	0	0
Total Funds	\$11,716,290	\$16,540,442	\$12,546,586	10,899,968
Positions	53	47	42	34
FTE	51.00	47.00	41.20	33.20

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.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget eliminates a revenue transfer from OHCS to the Governor's Office, consistent with a decision made in 2007. The budget also 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 ongoing 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.

Department of Veterans' Affairs (ODVA) – Agency Totals

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	5,608,595	6,151,775	6,584,883	6,168,915
Other Funds	34,645,935	40,835,064	42,601,691	46,403,160
Other Funds (NL)	408,659,171	608,469,525	488,236,708	488,236,708
Total Funds	\$448,913,701	\$655,456,364	\$537,423,282	\$540,808,783
Positions	112	111	111	110
FTE	111.03	110.53	110.21	107.64

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 with Other Funds, provides home and farm loans to veterans, and includes loan servicing and Department administration costs. The program is responsible for repayment of approximately 17% (\$778 million) of the State of Oregon's general obligation debt. The Veterans' Services Program provides counseling, claims assistance, conservatorship services, and partnerships with counties and national veterans' service organizations to support local veterans' programs. The Veterans' Services Program is funded with General Fund and Other Funds, including conservatorship fees. The Veterans' Home Program operates a skilled nursing care and Alzheimer's disease facility in The Dalles, and is funded with Other Funds.

ODVA – Loan Program

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	13,180,513	17,273,959	18,071,937	17,301,383
Other Funds (NL)	408,659,171	608,469,525	488,236,708	488,236,708
Total Funds	\$421,839,684	\$625,743,484	\$506,308,645	\$505,538,091
Positions	81	78	78	74
FTE	80.13	77.63	77.31	73.31

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 state funds the loans by issuing General Obligation bonds authorized under Article XI-A of the state Constitution. The program consists of:

- *Director's Office* - internal audit, public information, and communications.
- *Veterans' Home Loan Services* - functions dealing with the loan program, including originating and servicing the loans.
- *Financial Services* - overall financial oversight of the Department, including accounting, cashiering, 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 providing 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 recently removed this restriction, however, and the program expects to make new loans this 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 bond sales (\$270 million), veteran loan and contract-related repayments (\$150 million), and interest earnings (\$125 million). The balance

of revenue comes 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. The program's administrative costs are limited in the budget, while the direct loan activity expenditures (i.e., loans made to veterans, pass-through payments made on behalf of borrowers, and debt service paid on General Obligation bonds issued to finance the program) are Nonlimited.

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 home loans through ODVA. Veterans now have 25-30 years from the date of their discharge to apply for these loans. ODVA expects to fund loans aggregating \$55 to \$60 million in the 2009-11 biennium. However, current market conditions (very low conventional loan rates), if continued, may make it difficult 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 administrative costs funded in the 2007-09 biennium, plus a projection of 2009-11 biennium Nonlimited Other Funds expenditure activity.

Legislatively Adopted Budget

The legislatively adopted limited budget of approximately \$17.3 million Other Funds is essentially unchanged from the prior biennium level, and is approximately \$770,000 (or 4.3%) below the essential budget level. The budget eliminates four vacant positions (4.00 FTE) and reduces expenditures by \$471,000 to offset additional expenditures associated with the establishment of a new Campus Veterans' Service Officer Program (included in the Veterans' Services Program below). The budget also includes two one-time expenditures, totaling \$526,000 Other Funds, 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 Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
General Fund	5,608,595	6,151,775	6,584,883	6,168,915
Other Funds	1,580,277	2,466,429	2,502,880	2,628,884
Total Funds	\$7,188,872	\$8,618,204	\$9,087,763	\$8,797,799
Positions	28	30	30	34
FTE	27.90	29.90	29.90	32.33

Program Description

The Veterans' Services Program includes:

- Counseling and Claims – 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 Veterans Administration pays its share of that care.
- The Conservatorship Program – 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, totals \$4.6 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

General Fund supports the Claims and Counseling section, the Conservatorship program, educational and emergency assistance, and service delivery partnership programs. The Conservatorship program also receives Other Funds fees. The 2009-11 estimated conservator fees total \$600,000. The balance of Other Funds, most of which support the claims and counseling programs, comes from existing cash balances in the Veterans' Loan program. The Constitution allows these revenues to 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.

Legislatively Adopted Budget

The legislatively adopted budget of approximately \$8.8 million Other Funds is essentially unchanged from the prior biennium level, and is approximately \$290,000 (or 3.2%) below the essential budget level. The General Fund component, however, is approximately \$416,000 (or 6.3%) below the essential budget level.

The budget funds two program enhancements, one with General Fund and the second with Other Funds. Included in the budget is \$85,540 of General Fund for a public information campaign on mental health issues affecting veterans, and \$392,482 of Other Funds and five limited duration positions (3.43 FTE) for a new Campus Veterans' Service Officer Program to serve student veterans. The Campus Veterans' Service Officer Program will site veterans' service officers directly on Oregon University System and community college campuses, and be operated as a pilot program. The program is funded from moneys in the Oregon War Veterans' Fund. Other General Fund-supported programs are funded at the essential budget level, with the exception that funding for the Small Business Repair Program, which was established during the 2008 special session to assist veterans suffering business losses due to overseas deployment, was eliminated, with resulting savings of \$308,400 General Fund. Additionally, support for national veterans' service organizations was reduced by \$41,408 General Fund (or 25%).

ODVA – Oregon Veterans’ Home Program

	2005-07 Actual	2007-09 Legislatively Approved	2009-11 Essential Budget Level	2009-11 Legislatively Adopted
Other Funds	19,885,145	21,094,676	22,026,874	26,472,893
Total Funds	\$19,885,145	\$21,094,676	\$22,026,874	\$26,472,893
Positions	3	3	3	2
FTE	3.00	3.00	3.00	2.00

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 is financed entirely with 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 is 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

Special payments make up the preponderance of the Veterans’ Home budget. The essential budget level continues the operations of the Veterans’ Home at the 2007-09 level adjusted for standard inflation, which for special payments is 2.8% in the calculation of the 2009-11 biennium essential budget level.

Legislatively Adopted Budget

The legislatively adopted budget of approximately \$26.5 million Other Funds is a 25.5% increase over the prior biennium level, and is 20% above the essential budget level for the program. The 2009-11 biennium budget includes \$3.9 million Other Funds for additional staffing needs by the contractor and for medical cost increases exceeding the 2.8% rate of inflation allowed in the essential budget level calculation. One of the cost drivers facing the Veterans’ Home operations is a recent Department of Human Services rule requiring additional staffing at nursing homes throughout the state. Moreover, the budget includes an additional \$763,000 of one-time Other Funds expenditures to improve the existing HVAC system, add parking stalls, and improve walking paths and outdoor lighting for improved safety. The adopted budget eliminates \$120,000 Other Funds and one grant coordinator position that had not been filled for some time.

