

State of Oregon

Emergency Board

April 6 & 7, 2006

**List of
Emergency Board
Letters**

EMERGENCY BOARD LETTERS

Item	Agency	Subject	General Fund	Other Funds	Federal Funds	Lottery Funds	Pos/FTE	Analyst
ELECTED OFFICIALS								
1	Secretary of State	Funding for Elections Business System rewrite.	--	--	1,500,000	--	--	Upadhyay
2	Treasurer	Report on the implementation of changes to Treasury's compensation plan, specific to investment division staff that manages an aggregate portfolio of more than \$68 billion. The proposal changes pay rates within existing classifications and also changes the incentive pay plan in order to retain current staff and attract highly skilled candidates to unfilled positions. Due to agency cost savings, no changes are required to the Treasurer's 2005-07 budget.	--	--	--	--	--	Troseth
EDUCATION								
3	Department of Higher Education	Increase Other Funds Capital Construction expenditure limitations for replacement of the Oregon State University steam plant by \$55 million.	--	54,999,996	--	--	--	McGee
4	Department of Higher Education	Establish a \$4.7 million Other Funds (Article XI-F (1) bonds) Capital Construction expenditure limitation to purchase the High Street Property in Eugene for the University of Oregon.	--	4,705,000	--	--	--	McGee
HUMAN RESOURCES								
5	Commission on Children and Families	Approval to apply for 2006 Juvenile Accountability Grant.	--	--	--	--	--	Teschner
6	Department of Human Services and Oregon Student Assistance Commission	Report on efforts to improve the utilization of education benefits by JOBS Plus participants.	--	--	--	--	--	McGee
7	DHS - Health Services/Office of Mental Health and Addition Services	Retroactive approval to apply and accept the State Epidemiological Outcome Workgroups (SEOW) Program Subcontract. DHS will request the full \$200,000 for each year available. This contract will enable DHS to create a SEOW regarding substance abuse prevalence and prevention in order to develop the capacity to complete the SAMHSA National Outcomes Measure's data elements. No state Match required.	--	--	--	--	--	Moore
8	DHS - Health Services/Office of Mental Health and Addition Services	Retroactive approval to apply for the Strengthening Treatment Access and Retention - State Implementation Cooperative Agreements (STAR-SI) grant for \$325,000 for up to three years. Funds will be used to improve state and treatment agency level organizational processes that impact client access to and retention in outpatient substance abuse treatment services, among other things. No state match required.	--	--	--	--	--	Moore
9	DHS - Health Services/Office of Mental Health and Addition Services	Approval to apply for Strategic Prevention Framework Incentive Grant Program (SPF SIG) grant of up to \$2.3 million per year for up to 5 years to be used to prevent the onset and reduce the progression of substance abuse. No cost sharing required.	--	--	--	--	--	Moore
10	DHS - Health Services/Office of Mental Health and Addition Services	Report on Oregon State Hospital actions to improve patient safety and care as requested by January Emergency Board.	--	--	--	--	--	Moore
11	DHS - Seniors and People with Disabilities	Report on the Implementation of a Comprehensive Integrated System of Services and Supports for Children with Disabilities and their Families.	--	--	--	--	--	Johnson
12	DHS - Seniors and People with Disabilities and Health Services	Medicare Modernization Act (MMA) Implementation Update report.	--	--	--	--	--	Johnson
13	DHS	Report on rebalance issues.	--	--	--	--	--	Teschner
14	DHS - Children and Families	Joint report by DHS and DAS on the Maintenance of Effort (MOE) for Federal Temporary Assistance to Needy Families (TANF), Child Care and Development, and Vocational Rehabilitation Funds.	--	--	--	--	--	Teschner
15	Office of Private Health Partnerships	Report on request to CMS for flexibility regarding FHIAP Maintenance of Effort and request to appropriate remaining Special Purpose Appropriation funds.	1,089,707	3,405,282	--	--	--	Moore
16	833 Agencies	Progress report on development of a plan for consolidated administrative functions.	--	--	--	--	--	Kleiner
17	Commission for the Blind	Request to add 1,506,192 FF and 407,648 OF limitation to the 05-07 Legislatively Adopted budget to repair and partially renovate the Agency's main office and upgrade the technology used to support the mission of the Agency.	--	407,648	1,506,192	--	--	Kleiner

Item	Agency	Subject	General Fund	Other Funds	Federal Funds	Lottery Funds	Pos/ FTE	Analyst
PUBLIC SAFETY								
18	Department of Justice	Report on status and potential cost of lawsuit to protect Oregon's revenue stream from the Tobacco Master Settlement Agreement.	--	--	--	--	--	Freels
19	Parole Board	Request funds to support psychological evaluations for potential predatory sex offenders and for underbudgeted AG costs.	107,000	--	--	--	--	Gilbert
20	State Police	Request restoration of 10 trooper positions eliminated in the 05-07 LAB.	900,910	--	--	--	10 / 5.80	Gilbert
21	State Police	Report on level and type of staffing used to enforce gaming laws and provisions of Tribal compacts (IGAs).	--	--	--	--	--	Gilbert
22	District Attorneys	Request for funding to support attorneys that represent DHS in dependency cases in two counties: Columbia and Yamhill.	240,000	--	--	--	--	Gilbert
ECONOMIC AND COMMUNITY DEVELOPMENT								
23	Oregon Economic and Community Development	Request to transfer LF Debt Service program to Operations program to establish 3 positions for small business support; request to increase expenditure limitation and establish 2 positions for ports.	--	231,674	--	--	5 Pos/ 3.58FTE	Erickson
NATURAL RESOURCES								
24	Department of Agriculture	Approval to apply for a federal grant allocating funds for specialty crop assistance.	--	--	--	--	--	Upadhyay
25	Department of Agriculture	Retroactive approval to apply for a Cooperative Endangered Species Conservation Fund federal grant.	--	--	--	--	--	Upadhyay
26	Department of Agriculture	Increase federal funds limitation in the Agricultural Development Program Unit	--	--	92,807	--	--	Upadhyay
27	Department of Forestry	Request release of a portion of the General Fund special purpose appropriation to cover costs of the 2005 fire season air tanker and severity program and to pay for 50 percent of the catastrophic fire insurance cost for the 2006 fire season.	2,018,788	--	--	--	--	Upadhyay
28	Parks and Recreation	Increase Lottery Funds expenditure limitation, adjust expenditure categories and add FTE to incorporate the state fair fully and to make technical corrections.	--	--	--	3,527,979	0/9.25	Pearson
29	State Lands	Retroactive Authorization to apply for federal grant for construction projects at South Slough National Estuarine Research Reserve.	--	--	95,000	--	--	MacGlashan
30	State Lands	Increase expenditure limitation and establish 2 limited duration positions for the estates program.	--	122,300	--	--	2/1.08	MacGlashan
31	State Lands	Increase expenditure limitation to cover fire suppression costs incurred during 2005.	--	196,874	--	--	--	Pearson
32	State Lands	Increase expenditure limitation for the Elliot State Forest Habitat Conservation Plan.	--	--	102,333	--	--	Pearson
33	State Lands-Withdrawn	Increase expenditure limitation for South Slough National Estuarine Research Reserve.	--	--	74,922	--	--	MacGlashan
34	State Lands	Increase expenditure limitation for endangered invertebrate species.	--	--	72,000	--	--	MacGlashan
35	State Lands	Authorization to apply for a federal grant to purchase a conservation easement.	--	--	--	--	--	Pearson
36	DEQ-Withdrawn	Authorization to apply for two federal grants for innovative ways to reduce diesel emissions.	--	--	--	--	--	Pearson
37	ODFW	Increase expenditure limitation for restoring Diamond Lake.	--	950,000	--	--	--	Pearson
38	OWEB	Authorization to apply for Pacific Coastal Salmon Recovery Funds (PCSRF). Increase expenditure limitation to expend PCSRF funds.	--	--	5,140,800	--	--	Pearson
39	Water Resources	Retroactive Authorization to apply for a federal grant.	--	--	--	--	--	Pearson
40	Marine Board	Increase expenditure limitation.	--	--	1,084,974	--	--	Pearson
TRANSPORTATION								
41	Department of Transportation	Request to establish 11 seasonal positions for workload in the DMV field offices.	--	134,552	--	--	11/5.50	Teschner
42	Department of Transportation	Increase Other Funds expenditure limitation to cover remaining project costs planned for the Rail division in the 2005-07 biennium.	--	8,560,000	--	--	--	Teschner
43	Department of Transportation	Report on implementation of the Oregon Innovative Partnerships Program.	--	--	--	--	--	Teschner

Item	Agency	Subject	General Fund	Other Funds	Federal Funds	Lottery Funds	Pos/FTE	Analyst
CONSUMER AND BUSINESS SERVICES								
44	Department of Consumer and Business Services	Report on increase to current Senior Health Insurance Benefits Assistance (SHIBA) grant request for period from 4/1/2006 - 3/1/2007. SHIBA is a continuous federal grant administered through the Cntrs for Medicare and Medicaid Svcs.	--	--	--	--	--	Erickson
ADMINISTRATION								
45	Oregon Liquor Control Commission	Funding to meet unanticipated liquor sales growth including increased agents compensation, bank card fees, six limited duration positions and reclassification of two positions.	--	8,789,662	--	--	--	Upadhyay
46	Public Employees Retirement Board	Report on preliminary crediting of 2005 earnings into member and employer accounts and allocation of Contingency and Capital Preservation Reserves.	--	--	--	--	--	McGee
47	Dept of Administrative Services	Report on Comp Plan changes per ORS 291.371.	--	--	--	--	--	Erickson
48	Dept of Administrative Services	Increase Capital Construction limitation for DEQ/Health Lab	--	9,000,000	--	--	--	Erickson
		Increase expenditure limitation for DEQ for Health Lab furniture, fixtures and equipment	--	630,000	--	--	--	Erickson/ Moore
		Increase expenditure limitation for DHS for Health Lab furniture, fixtures and equipment	--	630,000	--	--	--	Erickson/ Pearson
49	Dept of Administrative Services	Increase limitation in SSD for Fleet statewide fuel costs.	--	5,760,000	--	--	--	Erickson
50	Dept of Administrative Services	Report on CNIC per HB 5166 budget note; Request increase in limitation in State Data Center, transfer limitation from IRMD to SDC, abolish 7 positions (3.50 FTE) from IRMD, establish 56 PF positions (28.00 FTE) in SDC, and reschedule \$42,218,000 in SDC.	--	833,310	--	--	54 Pos/ 28.00 FTE	Erickson
51	Dept of Administrative Services	Increase limitation and position authority in IRMD for: Pension Obligation Bond error (1,557,993); BCP (57,013), Geographic Info Sys (461,999), Tech Support Cntr for server hosting fee to SDC (280,666), fees due to change in accounting practice, ie, internal transfers now being coded as expenditures (1,200,022), ESO (641,041), Publ & Distr for increased postage rate (972,000), E-Gov for statewide EDS e-form contract (2,000,000), 3 LD positions (2.13 FTE).	--	7,170,734	--	--	3 Pos/ 2.13 FTE	Erickson
52	Legislative Counsel Committee	Request funds for unanticipated expenditures incurred for funding an unfunded Deputy LC position and establishing an additional Deputy LC position, for reclassifying four Deputy LC positions to Senior Deputy LC positions, and for reclassifying one Senior Deputy LC position to Chief Deputy LC position.	--	206,111	--	--	--	Kleiner
53	Legislative Administration							Kleiner
TOTALS			\$ 4,356,405	\$ 106,733,143	\$ 9,669,028	\$ 3,527,979		

Budget

And

Management

Analyses

51
Department of Administrative Services
Analyst: Erickson

Request: Increase Other Funds expenditure limitation by \$6,625,469 for postage rate increases, unexpected Capital Outlay, project management expenses, increased demand for program services, carryover of program projects from the 2003-05 biennium, Pension Bond Contribution costs omitted in the 2005-07 Legislatively Adopted Budget, and a technical change in accounting practice.

Recommendation: Approve the request. The Department of Administrative Services will unschedule \$2,000,000 Other Funds expenditure limitation pending actual business volume of e-forms requests of the E-Government program.

Discussion: The Department of Administrative Services (DAS) Information Resources Management Division's (IRMD) request for increased Other Funds expenditure limitation relates to the following specific program areas:

- Publishing & Distribution (P&D): P&D is the state's central provider for copying, printing, mail processing and interagency delivery. The program is requesting \$762,771 in expenditure limitation to cover an increase in USPS postage rates effective January 1, 2006. This request is based on projected mail volumes through the end of the biennium.
- Technology Support Center (TSC): The TSC provides DAS internal desktop computer support. The program is requesting \$280,666 in expenditure limitation to pay for the unexpected expense of replacing a server that hosts the e-mail system for DAS, the Governor's Office and other client agencies. This server will be transferred to the State Data Center as part of the CNIC project.
- Project Management Office (PMO): The PMO provides project management services to DAS and client agencies. The program is in need of \$305,005 in additional expenditure limitation for an unbudgeted contract held on behalf of the DAS Enterprise Security Office.
- E-government: The E-government program uses technology to offer online services to the public and to help state agencies and employees share information through the state's intranet. It holds an enterprise contract with Electronic Data Systems (EDS) and is working with a consortium of vendors to provide electronic forms to state agencies at a reduced cost. The program is requesting \$2,000,000 in additional expenditure limitation to launch this project.
- Business Continuity Planning (BCP): The BCP program is responsible for the identification and prioritization of business critical state processes and the sequencing of process recovery to ensure the continuous operation of state government. Project funds of \$57,013 received in 2003-05 were not expended as expected. The program is requesting expenditure limitation in this amount to enable them to cover payments delayed until this biennium.
- Geospatial Enterprise Office (GEO): The GEO provides geographic information systems (GIS) coordination for agencies and maintains the Web site that hosts statewide geospatial data for the state of Oregon. Funds received for procurement of aerial imagery and flood plain mapping were not expended in 2003-05 as anticipated, leaving a shortfall of

expenditure limitation in the 2005-07 biennium. The program is requesting \$461,999 in expenditure limitation to cover these carryover project expenses.

- Pension Bond Contribution costs: During the recalculation of the division's budget in early 2005, expenditure limitation of \$1,557,993 for Pension Bond Contribution costs was inadvertently omitted. The division is requesting expenditure limitation in this amount to correct the budget omission.
- Technical change in accounting practice: The division's 2005-07 Legislatively Adopted Budget accounts for intra-division charges for services as revenue transfers between the programs. This method of budgeting does not require expenditure limitation. The actual technical processes of billing and receiving payments post these transactions as expenditures. The division is requesting \$1,200,022 in expenditure limitation to cover this expense.

Legal Reference: Increase the Other Funds expenditure limitation established by chapter 601, section 2(1), Oregon Laws 2005, for the Department of Administrative Services, Information Resources Management Division, by \$6,625,469 for the 2005-07 biennium.

Department of Administrative Services
Analyst: Erickson

Request: Report on the Computing and Networking Infrastructure Consolidation (CNIC) project; recommend changes to the project; increase Other Funds expenditure limitation by \$835,547; establish 56 permanent full-time positions (28.00 full-time equivalent) phased in July 1, 2006; transfer \$496,079 Other Funds expenditure limitation from the Information Resources Management Division (IRMD) Enterprise Security Office (ESO) to the State Data Center (SDC); abolish seven positions (four permanent full-time, one permanent part-time, and two limited duration full-time) from the IRMD ESO; and reschedule \$42,218,000 existing Other Funds expenditure limitation.

Recommendation: Approve the request, including additional position actions discussed below, with the following modifications: request that the Department of Administration abolish five permanent positions and two limited duration positions (6.21 full-time equivalent) from the Information Resources Management Division; and abolish 72 full-time limited duration positions (19.38 full-time equivalent) from the State Data Center transition staffing budget.

Discussion: The purpose of the CNIC project is to consolidate the state's 12 largest computing and networking infrastructures to improve the efficiency, effectiveness and security of state government information assets. The CNIC-participating agencies are: Administrative Services, Human Services, Transportation, Revenue, Corrections, Consumer and Business Services, Veterans' Affairs, State Police, Housing and Community Services, Education, Forestry and Employment.

The Department of Administrative Services (DAS) is required by the budget note in House Bill 5166 (2005) to provide project updates on the status of the 12 participating agencies' consolidation efforts compared to the project plan presented during the budget hearing. This budget note also requests that DAS Budget and Management division un-schedule \$42,218,000 Other Funds expenditure limitation pending request from the Emergency Board to reschedule the funds. The budget report acknowledges that the CNIC Accounting Work Group and Governing Board will continue to evaluate the funded positions of the State Data Center and the budgetary impact to agencies during the 2005-07 budget execution period and bring forward recommended adjustments to the Emergency Board as necessary.

Since the CNIC project/SDC budget was approved during the 2005 Legislative Session, final agreement on in-scope activities has occurred and detailed design and implementation planning have been completed. These activities invalidated some of the key assumptions made in the original high-level business case, including the necessary staffing level, and the likelihood of service disruption during transition. Specific findings include:

- An increase in mainframe capacity requirements from 883 million instructions per second (MIPS) to 1,185 MIPS
- An increase in the number of servers to be consolidated from 1,245 to over 1,945
- An understated need for network security

- An unacceptable level of risk in the original plan’s methodology of consolidating hardware and software applications at the same time during the transition to the SDC.

Given these findings, the CNIC Governing Board (comprised of the Agency Directors of the 12 participating agencies) considered four options to ensure the success of the project and mitigate future risk in the operation of the SDC. The options the Board considered were:

- Continue with the legislatively approved plan and budget despite the shortcomings and risks
- Limit the consolidation effort to include only the computing and networking infrastructures of the three largest agencies (Administrative Services, Human Services and Transportation)
- Consolidate only mainframes and networks (excluding servers)
- Continue with the legislatively approved plan updated with current information

Cost models for the four options were developed by information technology and budget staff from the participating agencies. Staffing levels for the options were projected based on the evaluation of industry models, comparisons to the State of Texas and State of North Carolina data center operations, a review of current State of Oregon staffing in the separate DHS, DAS and ODOT data centers, standards of industry best practices by Gartner Inc., and the SDC Administrator’s broad base of experience. Each option was compared to the baseline Legislatively Adopted Budget for the SDC for the current biennium, and projected out for four biennia to identify the point of return on investment.

The Board reviewed the methodology and assumptions underlying the options using the following criteria: balance the delivery of savings and services with the project’s financial and operational risks; ensure the SDC’s initial and long-term success; and minimize the risk of disruption to services. Essential considerations in the review process included preserving the original precepts of the project regarding producing savings, establishing a single consolidated state data center, providing the same or better service at the lowest cost, and enabling future shared services.

The result of the CNIC Governing Board evaluation is the recommendation of option four, modify the legislatively adopted plan for the data center consolidation project to lower risk by moving legacy applications to new operating platforms after the hardware has been moved to the SDC and made operational, and increase staff levels to ensure that no interruption of core functions occurs during the transition period and beyond.

The adoption of this revised strategy will increase costs and delay the return on investment until the 2013-15 biennium; the original plan projected the return on investment to occur in the 2011-13 biennium. The delay in accumulated savings is due to the increase in Personal Services costs related to the modified staffing level. The table below summarizes the impact of the recommended changes to the project in comparison to the 2005 Legislatively Adopted Budget.

Expense	2005-07 LAB			Proposed Revised Budget			Difference		
	93 positions, 48.54 FTE			149 positions, 76.54 FTE			+56 positions, +28.00 FTE		
	SDC Operations	1-Time Costs	Total Budget	SDC Operations	1-Time Costs	Total Budget	SDC Operations	1-Time Costs	Total Budget
Personal Services	\$6.8	\$4.2	\$11.0	\$8.6	\$4.2	\$12.8	\$1.8	\$0.0	\$1.8
Services & Supplies	\$41.1	\$16.1	\$57.2	\$41.0	\$16.1	\$57.1	-\$0.1	\$0.0	-\$0.1

Capital Outlay	\$0.0	\$17.9	\$17.9	\$0.0	\$17.9	\$17.9	\$0.0	\$0.0	\$0.0
Total w/o Debt Serv.	\$47.9	\$38.2	\$86.1	\$49.6	\$38.2	\$87.8	\$1.7	\$0.0	\$1.7
Debt Service	\$13.3	\$0.0	\$13.3	\$12.9	\$0.0	\$12.9	-\$0.4	\$0.0	-\$0.4
Total Expenditures	\$61.3	\$38.1	\$99.4	\$62.5	38.2	\$100.7	\$1.3	\$0.0	\$1.3
								Transfer Limitation from IRMD	-\$0.5
								Net Request for Limitation	\$0.8

The Personal Services budget is based upon the staffing plan devised by the work group that developed the cost models for the CNIC Governing Board's review. The mainframe environment assumes a ratio of 55 MIPS per full-time employee, with staffing levels for mainframe operations expected to decrease as an efficient "steady-state" is achieved over the next few biennia. The server environment assumes a ratio of 45 servers per full-time employee, for all server types. The staffing plan proposes a total position count of 149 positions in 2005-07, 124 positions in 2007-09, 105 positions in 2009-11, and 101 positions in subsequent biennia.

The table below summarizes the requested staffing plan for 2005-07 in comparison to that established in House Bill 5166 (2005):

Class	Salary Range	HB 5166 Positions in SDC		Proposed Staffing for SDC	Difference	
		Position Count, FTE		Position Count, FTE	Position Count, FTE	
		Limited Duration	Permanent	Permanent	Limited Duration	Permanent
PEM H	40X	1	1	1	-1	
PEM F	35X	0	0	1		+1
ISS8	33	19	20	56	-19	+36
ISS7	31	12	13	40	-12	+27
ISS6	29	12	16	27	-12	+11
ISS5	28	12	16	8	-12	-8
ISS4	25	4	9	5	-4	-4
ISS3	24	4	7	4	-4	-3
ISS2	21	4	6	2	-4	-4
Prin Contr 2	31	0	0	2		+2
Exec Asst	25	1	1	1	-1	
Ex Sup Spec 2	19	2	2	0	-2	-2
Ex Sup Spec 1	17	1	2	2	-1	
<i>Totals</i>		72 positions, 19.38 FTE	93 positions, 48.54 FTE	149 positions, 76.54 FTE	-72 positions, -19.38 FTE	+56 positions, +28.00 FTE

Position Descriptions (PDs) have been written describing the specific duties to be performed in the SDC. The duties were determined through discussion between the SDC Administrator and information technology management and staff. The PDs were reviewed for classification internally at DAS Operations division. The agency is proposing changes to the existing positions in the SDC and the establishment of new positions. In summary, the recommended position actions include:

- The upward reclassification of seven positions
- A reduction in months (full-time equivalent) on 59 positions
- An increase in months (full-time equivalent) on five positions
- The abolishment of 21 positions; including seven positions (6.21 full-time equivalent) from IRMD Enterprise Security Office
- The establishment of 66 positions for operations at the SDC; 27 positions phased in on July 1, 2006; 39 positions phased in on October 1, 2006

- The establishment of an additional 11 positions to perform security functions
- The abolishment of 72 limited duration positions designated as transitional staffing in the SDC

Expenditure limitation for the majority of these position actions is available from the transitional and permanent staffing budgets of the SDC. Transitional duties originally planned to be performed by the limited duration positions will now be performed by the requested permanent positions. The agency believes that permanent status of the positions will allow for hiring of long-term staff that will work to accomplish the consolidation then remain within the data center to provide stability to on-going operations. The analyst recommends, additionally, that the limited duration position authority (72 positions) and full-time equivalent (19.38 full-time equivalent) for transitional staffing be abolished, since the new staffing model will preclude the hiring of these positions.

The net impact of the position requests on the SDC's budget is to increase it by \$1,331,626 in the 2005-07 biennium. The staffing plan proposes that \$496,079 of the limitation be transferred to the SDC from IRMD. Revenue for the limitation request of \$835,547 will be provided by the 12 agencies participating in the project. The CNIC Governing Board is currently considering options to apportion this cost and fund the resulting estimated shortfall of \$13.8 million in the 2007-09 biennium.

It should be noted that for analytical comparison, the staffing model was based on various assumptions, specifically: no growth, the current technical environment, and support only of current applications. Although necessary for a baseline analysis, these assumptions are understood as unrealistic for on-going operations. Changes in technology, state business needs, and agency or statewide initiatives are likely to occur over the course of the next four biennia. The CNIC Governing Board and State Data Center Administrator remain dedicated to tracking project savings over time irrespective of the complexity of this task.

Legal Reference: Increase the Other Funds expenditure limitation established by chapter 605, section 1, Oregon Laws 2005, for the Department of Administrative Services, State Data Center, by \$835,547 for the 2005-07 biennium.

Transfer Other Funds expenditure limitation established by chapter 601, section 2(1) and chapter 605, section 1, Oregon Laws 2005, for the 2005-07 biennium as follows:

<u>Division</u>	<u>Chapter Law</u>	<u>Amount</u>
Information Resources Management Division	Chpt 601, Sec 2(1)	\$-496,079
State Data Center	Chpt 605, Sec 1	\$+496,079

Department of Administrative Services
Analyst: Erickson

Request: Increase Other Funds expenditure limitation by \$5,760,000 for rising fuel costs in the Department of Administrative Services (DAS) Statewide Fleet Administration Program (Fleet).

Recommendation: Approve the request.

Discussion: The DAS Fleet has the responsibility of providing safe and economical transportation for the business needs of the state. The program provides full vehicle services including vehicle repair and maintenance, day-use vehicle rental and long-term vehicle lease, and fueling for Unleaded, Bio-Diesel, and Compressed Natural Gas (CNG) vehicles. Fleet purchases fuel in bulk and bills state agencies and local governments based on their usage.

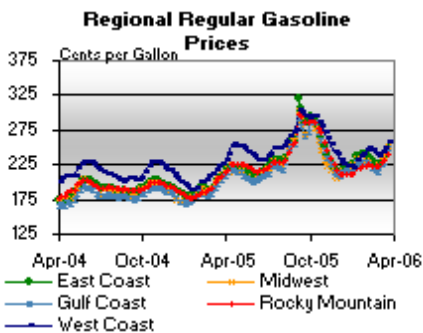
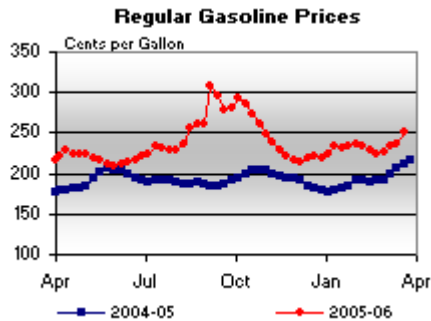
Since the 2005-07 Legislatively Adopted Budget was developed, fuel prices have been especially volatile. Unleaded gasoline, which comprises 88 percent of the fuels consumed this biennium-to-date, has varied from a high monthly average price per gallon in September 2005 of \$2.81 to a low monthly average price per gallon in December of 2005 of \$2.01. This represents a price swing per gallon of \$0.80. The high, low and average costs per gallon for each of the fuel types from July, 2005 through February, 2006 are displayed in the table below.

Fuel Type	Highest Cost Month	Lowest Cost Month	Price Swing Per Gallon	8 Mo Average Cost Per Mo
UNLEADED avg per/gallon	September-05 \$2.81	December-05 \$2.01	\$0.80	\$2.37
BIO DIESEL avg per/gallon	September-05 \$2.49	July-05 \$2.05	\$0.44	\$2.35
DIESEL avg per/gallon	October-05 \$2.98	February-06 \$2.18	\$0.80	\$2.56
CNG avg per/gallon	February-06 \$1.48	July-05 \$1.24	\$0.24	\$1.35
Ethanol 85 avg per/gallon	February-06 \$2.39	August-05 \$1.85	\$0.54	\$2.25

The Fleet budget planned for an average total monthly fuel expense of \$278,356; the actual average monthly expense biennium-to-date has been \$499,065, a 179 percent increase over budget. Through February, 2006, 58 percent of the biennial fuel budget has been expended. At the current rate of expenditure, the Fleet will not have enough limitation to cover fuel needs for the rest of the biennium.

In prior biennia, fuel was budgeted as a Nonlimited expenditure, making it possible for Fleet to accommodate the fluctuations of prices in the market without requesting additional expenditure authority. In the 2005-07 biennium, fuel is budgeted as a limited expenditure, making it necessary for the program to bring forward a request for additional expenditure authority.

Fuel costs continue to be volatile. The Energy Information Administration (EIA), a statistical agency of the U.S. Department of Energy, predicts “While the average retail price for regular gasoline declined through much of February, retail regular gasoline prices are projected to average \$2.42 per gallon in 2006 and \$2.36 in 2007.” The following charts show price trends for gasoline in regions of the U.S.



Gasoline				
	Cents per Gallon		Change from	
	Price	Week Ago	Year Ago	
U.S.	250.4	↑ 13.8	↑ 39.5	
East Coast	249.7	↑ 16.4	↑ 42.7	
New England	245.2	↑ 15.4	↑ 40.2	
Central Atlantic	248.4	↑ 14.7	↑ 41.9	
Lower Atlantic	252.1	↑ 18.0	↑ 44.1	
Midwest	250.1	↑ 11.6	↑ 38.4	
Gulf Coast	247.6	↑ 18.4	↑ 45.4	
Rocky Mountain	239.5	↑ 9.4	↑ 32.2	
West Coast	257.1	↑ 9.4	↑ 31.3	
California	263.5	↑ 10.3	↑ 32.3	

Source: Energy Information Administration, Official Energy Statistics from the U.S. Government, 3/20/06 data, <http://tonto.eia.doe.gov/oog/info/gdu/gasdiesel.asp>

The request for \$5,760,000 in additional expenditure authority is based on calculating the difference between the budgeted average quarterly cost and the actual average quarterly cost x eight quarters. This amount is projected to cover the variance between budget and actual to date, and the newly forecast average monthly usage.

Legal Reference: Increase the Other Funds expenditure limitation established by chapter 601, section 2(2), Oregon Laws 2005, for the Department of Administrative Services, State Services Division, by \$5,760,000 for the 2005-07 biennium.

**Department of Administrative Services
Department of Environmental Quality
Department of Human Services
Analyst: Erickson/Freels**

Request: Increase Capital Construction Other Funds expenditure limitation by \$9,000,000 in the Department of Administrative Services (DAS) to complete construction of the Department of Environmental Quality (DEQ) and Department of Human Services (DHS) laboratory building project.

Increase Other Funds expenditure limitation by \$630,000 in the Department of Environmental Quality for its share of the laboratory furnishings and equipment cost.

Increase Other Funds expenditure limitation by \$630,000 in the Department of Human Services for its share of the laboratory furnishings and equipment costs.

Recommendation: Approve the request with the following modifications: Increase the Capital Construction Other Funds expenditure limitation by \$8,500,000 in the Department of Administrative Services for construction of the laboratory. The agency has determined that it has sufficient existing expenditure limitation to cover the cost of issuance and debt service included in the original request.

Discussion: The Department of Administrative Services is requesting \$9.0 million Capital Construction expenditure limitation for costs to complete the laboratory building that will be used jointly by the Department of Human Services and the Department of Environmental Quality. This laboratory will replace an out-dated facility on the Portland State University campus.

The new 85,735 square foot laboratory is located in the City of Hillsboro. The 2003 Legislature approved \$6.0 million Other Funds expenditure limitation for purchase of a never-occupied building with the understanding that considerable improvements were required to meet the laboratory design requirement. The September 2004 meeting of the Emergency Board approved \$17.5 million Other Funds expenditure limitation for the partial design and renovation costs.

The Department is now requesting \$9.0 million Other Funds expenditure limitation for completion of the project based on final bids received. The laboratory is scheduled to be completed and occupied by July 1, 2007. The \$32 million laboratory is financed through Certificates of Participation (COP). Project and financing costs are detailed below.

Laboratory Costs	Other Funds (in millions)
Purchase building shell and site	\$ 5.6
Design, project management, quality testing, inspections, permits and contingency	\$ 5.4
Construction	\$ 21.0
Total Building Cost	\$ 32.0

COP issuance costs & capitalized interest	\$ 2.0
Total cost	\$ 34.0

The analyst recommends increasing the Capital Construction Other Funds expenditure limitation established by the 2003 Legislature by \$8,500,000 to pay for cost of the laboratory construction.

Equipment and furnishings for the laboratory will be financed through a COP, with the debt service paid by the occupants – DHS and DEQ. Each Department is requesting \$630,000 Other Funds expenditure limitation for these purchases, which are detailed below.

Laboratory Equipment and Furnishings	DEQ	DHS
Autoclave	\$95,205	\$7,078
Glass Washer	\$76,715	\$0
Access Control System	\$38,929	\$41,288
Intrusion Detection System	\$68,670	\$68,670
Closed Circuit Television system (CCTV)	\$25,309	\$54,835
Horizontal Data & Voice Telecommunications	\$73,322	\$73,322
Signs within office and lab areas	\$5,000	\$5,000
Environmental Rooms, Cold and Incubator	\$0	\$155,000
Systems Furniture	\$211,900	\$194,300
Cost of COP Issuance	\$34,950	\$30,507
Total estimated cost	\$630,000	\$630,000

Total 2007-09 rent for the new laboratory will be \$7.7 million; about \$4.0 million for DEQ and \$3.7 million for DHS based on square foot usage. This cost covers the COP debt service on the completed building and operating expenses of security, custodial and maintenance. In addition, debt service for furnishings and equipments will be about \$246,000 in 2007-09 and the following two biennia for each Department.

Legal Reference:

Increase the Other Funds Capital Construction expenditure limitation established by chapter 623, Section 1(3)(g), Oregon Laws 2003, for the Department of Administrative Services, DEQ/Health Laboratory, by \$8,500,000 for the 2003-05 biennium.

Increase the Other Funds expenditure limitation established by chapter 778, Section 2(2), Oregon Laws 2005, for the Department of Environmental Quality, Water Quality, by \$630,000 for the 2005-07 biennium.

Increase the Other Funds expenditure limitation established by chapter 713, Section 2(3), Oregon Laws 2005, for the Department of Human Services, Health Services, by \$630,000 for the 2005-07 biennium.

Oregon Liquor Control Commission
Analyst: Upadhyay

Request: Increase Other Funds expenditure limitation by \$8,773,992 to meet unanticipated increase in liquor sales. Establish six limited-duration, full-time Liquor Distribution Worker 2 positions (3.78 full-time equivalent) to operate warehouse equipment and handle shipments.

Recommendation: Approve the request.

Discussion: The Oregon Liquor Control Commission's 2005-07 Legislatively Adopted Budget (LAB) forecasted gross liquor sales of \$645,100,000 for the biennium. Based on recent actual sales, the agency is now projecting gross liquor sales of \$722,000,000 for the same period. As a result, the agency is requesting an increase in its Other Funds expenditure limitation by \$8,773,992 to pay for the following increased costs:

- \$6,829,662 Other Funds expenditure limitation to continue to compensate the contracted liquor agents, who operate the liquor stores, at the legislatively approved rate of 8.88 percent of gross liquor sales: The 2005-07 LAB includes \$57,284,338 Other Funds for agents' compensation based on forecasted sales of \$645,100,000. Based on the latest projection, the agency now expects the total biennial sales to be higher than the sales projected in the 2005-07 LAB by \$76,900,000 (rounded). As a result, in order to compensate the liquor agents at the 8.88 percent rate, the agency is requesting an additional \$6,829,662 Other Funds expenditure limitation.
- \$1,365,410 Other Funds expenditure limitation for credit card fees: Based on past trends, the agency assumes credit card fees to be 1.13 percent of liquor sales eligible for purchase by credit card (which is about 72 percent of gross liquor sales). The 2005-07 LAB provides \$4,506,960 Other Funds expenditure limitation to pay for credit card fees. With the increase in liquor sales, the agency is now requesting an increase of \$1,365,410 Other Funds expenditure limitation.
- \$578,920 Other Funds expenditure limitation for additional resources to support increased sales activity:

<u>Personal Services</u>	
Establish six full-time, limited-duration Liquor Distribution Worker 2 positions (3.78 full-time equivalent) to start swing shift	\$308,920
Replenish overtime exhausted in 2005 holiday season for 2006 holidays	\$100,000
Replenish holiday pay exhausted in 2005 holiday season for 2006 holidays	<u>\$5,000</u>
Total	<u>\$413,920</u>
<u>Services and Supplies</u>	
Additional electronic scanning equipment and batteries	\$20,000
Additional forklift batteries	\$30,000
Cost to lease additional warehouse overflow space at Oregon Transfer	<u>\$115,000</u>
Total	<u>\$165,000</u>

The six additional positions will enable the agency to implement a swing shift in the wholesale distribution division, continue meeting the increasing demands of repack and special orders, and provide additional resources for receiving and putting away products. The workload has increased drastically as evident from the following:

- During heavy shipping periods, inbound trucks loaded with products have been forced to sit and wait for available staff and an empty loading portal to receive goods.
- There has been a drastic increase in the number of cases being handled on an annual basis from 1.48 million cases in FY 1995 to 2.11 million cases in FY 2005, a 42 percent increase.
- The number of special orders processed annually by the distribution staff increased from 3,100 in FY 2002 to 6,750 in FY 2005. It is projected to exceed 8,960 in FY 2006 and 10,730 in FY 2007.
- There has been a continued growth in the number of repacks processed by the distribution staff. This process puts products into smaller, more manageable case packs reducing the overall carrying value of owned inventory in the system. Repacks have grown from 1.833 million bottles in 1995 to 2.583 million in 2005, a 41 percent increase.

Legal Reference: Increase the Other Funds expenditure limitation established by chapter 596, section 1(1), Oregon Laws 2005, for the Oregon Liquor Control Commission, Administrative Expenses, by \$1,944,330 for the 2005-07 biennium. Increase the Other Funds expenditure limitation established by chapter 596, section 1(2), Oregon Laws 2005, for the Oregon Liquor Control Commission, Agents' Compensation, by \$6,829,662 for the 2005-07 biennium.

Department of Transportation
Analyst: Teschner

Request: Increase Other Funds expenditure limitation by \$8,560,000 for the Rail Division for the completion of the Industrial Spur program, the Shortline Railroad Rehabilitation program and freight rail system upgrades in support of the Amtrak Cascades regional passenger rail service between Eugene and Portland.

Recommendation: Approve the request with the following modification: increase Other Funds expenditure limitation by \$8,253,428 for the Rail Division.

Discussion: The 2003 Legislative Session approved lottery-backed bonds to fund two rail related programs: the Industrial Rail Spur program at \$8,000,000 Other Funds and the Shortline Railroad Rehabilitation program at \$2,000,000 Other Funds. In addition, the Department budgeted \$15,000,000 Other Funds for freight rail system upgrades in support of the Amtrak Cascades regional passenger rail service between Eugene and Portland. The completion of all of these projects is subject to the workload and schedule of the railroads. As a result, some of them were delayed during the 2003-05 biennium and expenditure limitation is needed to continue the work. After the request was submitted, the Department provided updated information that modified their original figures.

The Industrial Rail Spur Fund was created in 2003 for the purpose of financing grants and loans to fund industrial rail spurs. These spurs provide access for the transportation of raw materials and finished products between manufacturing facilities and main rail lines. To continue the work on these projects, \$2,115,019 of additional Other Funds expenditure limitation is needed.

In 2001, the Oregon Legislature created the Short Line Credit Premium Account as an account in the Oregon Transportation Infrastructure Fund and provided direction on how the funds would be distributed for the rehabilitation of short lines. Criteria for distribution include whether the short line is in danger of being abandoned, the preservation of rail service to small and rural communities, and the amount of railroad and shipper contributions that the grant will leverage. Due to the delay of two of the short line projects, \$351,534 of additional Other Funds expenditure limitation is needed to continue the work this biennium.

The Amtrak Cascades rail service provides two daily round trip trains that operate on a freight railroad system. The first train began operation in 1994 and the second train in 2000. In 2000, the Department finalized an agreement with the Union Pacific Railroad to provide \$15,000,000 Other Funds to mitigate the loss of capacity to the freight rail system due to the second passenger train. Union Pacific planned to complete the construction of the Portland project in the 2003-05 biennium, but could not due to unforeseen events in other states. As a result, \$5,786,875 of additional Other Funds expenditure limitation is needed to continue the project this biennium.

Legal Reference: Increase Other Funds expenditure limitation established by chapter 721, section 2(15), Oregon Laws 2005, for the Department of Transportation, Rail Division, by \$8,253,428 for the 2005-07 biennium.

41
Department of Transportation
Analyst: Teschner

Request: Establish 11 part-time seasonal Transportation Service Representative 1 (TSR1) positions (5.50 full-time equivalent) and increase Other Funds expenditure limitation by \$134,552 to meet increased workloads in Driver and Motor Vehicle Services (DMV) local field offices.

Recommendation: Approve as requested, with the following modification:

- Establish 11 part-time seasonal Transportation Service Representative 1 positions (5.50 full-time equivalent).
- Do not increase Other Funds expenditure limitation.

Discussion: The Department of Transportation is requesting the establishment of 11 part-time positions to address seasonal workload peaks in DMV field offices. These peaks typically occur from April through September each year. The TSR1 is a field office employee responsible for meeting the public, determining the customer's needs and processing the customer's business which includes collecting the correct fees associated with that transaction. In addition, the TSR1 conducts behind-the-wheel drive and motorcycle tests for applicants.

Historically, the additional workload has been addressed through the hiring of temporary employees. However, the Service Employees International Union (SEIU) filed a complaint with the Employment Relations Board challenging the agency's hiring of temporary employees for this seasonal work. A settlement agreement was reached in August 2005 prior to the hearing. The parties agreed that DMV would seek authority from the Emergency Board for the equivalent of 5.50 full-time equivalent positions to be used for seasonal appointments as determined by the agency prior to the 2007 Legislative Session. These employees will be hired through an open and competitive recruitment process.

If the Department finds that the additional expenditure limitation is needed, it may bring the request to a later meeting of the Emergency Board.

40
Oregon Marine Board
Analyst: Pearson/Kleiner

Request: Increase Federal Funds expenditure limitation by \$1,084,974 for extending a grant from the United States Coast Guard under the existing Recreational Boating Safety (RBS) grant program to fund Oregon’s marine law enforcement and boating safety programs.

Recommendation: Approve the request.

Discussion: The Oregon State Marine Board (OSMB) provides grants to develop and improve marine law enforcement and recreational boating safety programs. Although difficult to predict and plan for, additional federal resources have materialized for the balance of the 2005-07 budget cycle. In fact, the amount of federal funds authorized for state recreational boating safety programs nationwide increased from \$64 million to \$110 million (for FY '07). These Federal Funds are expected to remain at this level, or slightly increase, indicating that if approved, these expenditures should be sustainable.

The total request will be split between the agency’s Administration and Education and Marine Law Enforcement programs. The additional limitation will be apportioned based on the agency’s updated needs assessment which evaluates and prioritizes what the local jurisdictions need to operate the Marine Law Enforcement program. The following table summarizes the request.

Recreational Boating Safety Federal Grants Expenditure Plan	
Enhance Customer Service	
Online Active Boat Look-up	10,000
Interactive Online Form Research & Implementation	28,000
Subtotal	38,000
Boater Safety Education	
Low Wake Campaign	5,000
Coastal Boating Campaign	15,000
Expand University Student Internships	30,000
Grass Roots Grant Program	50,000
Junior Boater Program	10,000
Non-Motorized Boating Safety Initiative	40,000
Mandatory Education Program Updates	10,000
Subtotal	160,000
Law Enforcement Program	
Increase County Sheriff Contracts	886,974
Total	1,084,974

Legal References: Increase the Federal Funds expenditure limitation established by chapter 421, section 2 (1), Oregon Laws 2005, for the Oregon Marine Board, Administration and Education, by \$198,000 for the 2005-07 biennium. Increase the Federal Funds expenditure limitation established by chapter 421, section 2 (2), Oregon Laws 2005, for the Oregon Marine Board, Marine Law Enforcement, by \$886,974 for the 2005-07 biennium.

Oregon Watershed Enhancement Board/Fish and Wildlife Department
Analyst: Pearson

Request: Authorization to apply for a grant of \$5,295,000 from the National Marine Fisheries Service for the Pacific Coastal Salmon Restoration Program. Increase Federal Funds expenditure limitation by \$5,140,800 for non-capital grants and a fish marking trailer.

Recommendation: Approve the request, with the following modification: Increase Federal Funds expenditure limitation by \$5,140,800 for the OWEB Pacific Coastal Salmon Restoration Program. Increase Other Funds expenditure limitation for the Oregon Department of Fish and Wildlife by \$1,019,200 to buy a fish mass marking trailer funded by Pacific Coastal Salmon Recovery Funds provided by OWEB.

This recommendation assumes that the Federal Fiscal Year 2006 grant is not needed by other agencies to cover compensation plan costs because unused 2003-05 Pacific Coastal Salmon Recovery Funds are available to cover compensation plan costs instead.

Discussion: This request involves authorization to apply for Oregon's share of the Pacific Coastal Salmon Recovery Fund (PCSRF) appropriated by the federal government for Federal Fiscal Year 2006. The 2006 federal appropriations included \$67.5 million for all the eligible states. The total amount available for Oregon is \$5,295,000, but a \$1,019,200 earmark for fish mass marking trailer reduces the flexible amount to \$4,275,800. In addition, up to three percent (in this case \$154,200) of the direct portion of the award may be used for administrative overhead. OWEB plans to request using the \$154,200 allowable administration in the 2007-09 biennium to continue limited-duration positions. The net remaining amount available for grants to local entities is \$4,121,600.

The federal government established the PCSRF in 2000. The fund provides grants to states and tribes for salmon recovery efforts following Endangered Species Act listings of coastal salmon and steelhead runs. The intent is to improve sharing of expertise and information between all levels of government and local partners.

The OWEB non-capital grant program provides funding for monitoring, recovery planning, technical assistance, watershed assessments, Oregon plan products and education. The Board reviewed and approved a broad spending plan at its January 2006 meeting. At this time, the agency plans to bring grant requests for technical assistance and perhaps Oregon Plan product grants to the Board at its September meeting.

During the 2005 Legislative Session, the Federal Fiscal Year 2005 PCSRF were allocated to cover salmon recovery costs in various state agencies as well as for use by OWEB. It is expected that the compensation for positions funded by Federal Fiscal Year 2005 PCSRF will increase, but that unused PCSRF from the 2003-05 biennium will be used to cover these costs at the affected agencies, so the Federal Fiscal Year 2006 award is not needed for other agency's costs.

In addition to funding other agency's salmon recovery efforts and OWEB staff, the Federal Fiscal Year 2005 PCSRF award provided OWEB with \$2.8 million for non-capital grants. The need for non-capital grants exceeds this amount, so the agency requests that the Federal Fiscal Year 2006 Pacific Coastal Salmon Recovery Funds be allocated to its non-capital grant program. The agency believes it will be able to commit all of the requested expenditure limitation by the end of the biennium.

In order for the fish mass marking trailer earmark to be spent in the appropriate agency, OWEB will expend \$1,019,200 of the Federal Funds PCSRF expenditure limitation it receives as a special payment to the Oregon Department of Fish and Wildlife. Therefore, it is recommended that the Emergency Board increase the Other Funds expenditure limitation for the Oregon Department of Fish and Wildlife by \$1,019,200.

Legal Reference: Increase the Federal Funds expenditure limitation established by chapter 607, section 10, Oregon Laws 2005, for the Oregon Watershed Enhancement Board, by \$5,140,800 for the 2005-07 biennium.

Increase the Other Funds expenditure limitation established by chapter 717, section 2(1)(a), Oregon Laws 2005, for the Oregon Fish and Wildlife Department, by \$1,019,200 for the 2005-07 biennium.

Department of Fish and Wildlife
Analyst: Pearson

Request: Increase Other Funds expenditure limitation by \$950,000 to restore the Diamond Lake fishery.

Recommendation: Approve the request.

Discussion: The Oregon Department of Fish and Wildlife (ODFW) is requesting a \$950,000 increase in Other Funds expenditure limitation for restoring Diamond Lake.

Rainbow trout were first introduced to Diamond Lake about 1910, and for several decades thereafter fishing was excellent. Then, in the early 1950s, Tui chub populations caused trout stocks to dwindle. To restore the fishery, the lake was treated with rotenone in 1954 and restocked with rainbow trout. (Rotenone occurs naturally in the stems and roots of some tropical plants; it kills fish by inhibiting cellular respiration and is quickly broken down by environmental factors such as heat and light. Most treated lakes completely detoxify within five weeks of treatment).

Tui chub were rediscovered in 1992, and subsequent population growth severely reduced fishing opportunities and water quality. In 2002, state and federal partners began a process to address all the Diamond Lake issues, including the fishery, water quality, recreation, economics and the potential use of rotenone. In November 2004, the federal government released a Final Environmental Impact Statement and Record of Decision, which included using rotenone in Diamond Lake.

Reportedly, information was presented to members of the 2005 Legislative Assembly indicating the total project would cost about \$3.8 million between 2005 and 2008. Funding was to come from a combination of sources, with the US Forest Service providing 22 percent, ODFW providing 35 percent and the Oregon Wildlife Heritage Foundation (OWHF) providing 43 percent of the total project costs over the three-year period. The 2005 Legislative Assembly appropriated \$599,000 General Fund for ODFW's share of the project during the 2005-07 biennium. Also, Douglas County has committed to providing \$200,000, a Restoration and Enhancement grant of \$500,000 from the ODFW capital improvement budget will be used toward the project, and a \$100,000 grant from the Oregon Watershed Enhancement Board has been approved. The Wildlife Heritage Foundation had \$273,453 in net donations as of March 20, 2006 (gross donations were nearly \$440,000). It also has pledges of about \$50,000, but some administrative and fund raising costs may be deducted from these pledges.

ODFW is requesting \$950,000 Other Funds expenditure limitation to cover project costs that were not included in its 2005-07 biennium budget. The project budget distributed during the Legislative session identified \$1,625,000 as being paid by donations received by the OWHF, but only \$1,450,000 of these expenditures falls within the 2005-07 biennium. Since ODFW already has expenditure limitation for the \$500,000 Restoration and Enhancement grant, the actual additional Other Funds expenditure limitation need is \$950,000 (which is the difference between

the \$1,450,000 donations 2005-07 biennium project budget and the Restoration and Enhancement grant). The \$950,000 Other Funds expenditure limitation increase will be covered by ODFW ending balance unless more donations are received. This could contribute to ODFW adjusting program efforts to reduce costs so that it has enough ending balance to operate without a fee increase until the 2009-11 biennium.

If the decision was made to avoid covering the donations shortfall with ODFW ending balance, the project could be delayed or cancelled. If the project were delayed, the low water quality in Diamond Lake would continue, with implications for downstream water quality and for the local resort. If the project were cancelled, the \$420,000 already paid for rotenone, environmental studies, outlet weir design work, the lake draw down, and informational products about the project would be for naught.

Legal Reference: Increase the Other Funds expenditure limitation established by chapter 717, section 2(1)(b), Oregon Laws 2005, for the Department of Fish and Wildlife, Natural Production, by \$950,000 for the 2005-07 biennium.

Withdrawn by Agency

35
Department of State Lands
Analyst: Pearson

Request: Retroactive Authorization to apply for a grant of \$500,000 for a Cooperative Endangered Species Conservation Fund grant that would be used by the Nature Conservancy to obtain a conservation easement on property near Eugene.

Recommendation: Approve the request, with the following modification: the grant amount being requested is \$400,000.

Discussion: The Department of State Lands (DSL) is requesting retroactive authorization to apply for a federal grant; the grant application deadline was originally March 20, 2006. The required letter of notification to the Emergency Board co-chairs was delivered on March 10, 2006. Subsequent to receipt of this request, the application deadline was changed to April 3. DSL was approached by The Nature Conservancy regarding this request in early February, and it took a while for enough information to become available for DSL to agree to bring the request forward.

The federal grant is available under section 6 (Cooperative Endangered Species Conservation Fund) of the Endangered Species Act. The federal Recovery Land Acquisition Grants program is funded through this Fund. DSL is qualified to apply as a state agency since it has jurisdiction over the endangered species (in this case the Fender's Blue Butterfly and Kincaid's lupine), while the Nature Conservancy is not qualified to make an individual direct application. So, DSL has agreed to make the application and, if successful, pass the grant through to the Nature Conservancy. No state match is required for the grant.

If successful, the grant would assist the Nature Conservancy in purchasing a conservation easement on about 1,000 acres in the Coburg Hills northeast of Eugene-Springfield. The property is owned by a local couple and includes 66 acres of the butterfly's Proposed Critical Habitat. The other 934 acres support other species of concern as well. An adjoining property owned by Weyerhaeuser already has a conservation easement on it. The conservation easement reportedly will not affect the local tax base since the land will not be taken out of agricultural production. The Nature Conservancy has been discussing the purchase with the Lane County Commission and reports support by the Commissioner in whose district this property is located.

At the time this recommendation was written, The Nature Conservancy was continuing to finalize the boundaries of the parcel and its fair market value, as well as negotiating the purchase price with the landowner. At that time, the purchase price under discussion was \$5.4 million. Aside from this federal grant, The Nature Conservancy was also seeking about \$5.0 million in funding from the Bonneville Power Administration through its wildlife mitigation program. Private funding was also an option for a portion of the costs not covered by the Cooperative Endangered Species Conservation Fund grant. Reportedly, if the Bonneville Power Administration request was unsuccessful, The Nature Conservancy would also look for other public funds, such as Oregon Watershed Enhancement Board capital grants or Landowner Incentive Funds.

34
Department of State Lands
Analyst: MacGlashan

Request: Increase Federal Funds expenditure limitation by \$72,000 for additional funds available from the U.S. Fish and Wildlife Service for the Department of State Lands' Section 6 grant program for endangered invertebrate species.

Recommendation: Approve as requested, with the following modification: increase Federal Funds expenditure limitation by \$60,065.

Discussion: The State Land Board provides administrative and other support to the Natural Heritage Program (ORS 273.563 through .591), which receives funding from the U.S. Fish and Wildlife Service (USFWS) under Section 6 of the federal Endangered Species Act for the protection and/or enhancement of rare, threatened, and endangered invertebrate species. As part of the Board's support to the program, the Department of State Lands (DSL) disburses the Section 6 grant funds to various entities that carry out research and special projects. Recipients of the pass-through funds include the Oregon Zoo, universities, and The Nature Conservancy, which provide any required matching funds. None of the Section 6 funding is retained by DSL.

For the past several biennia, DSL has received approximately \$70,000 per biennium from the USFWS. Recently, however, the federal agency notified DSL that it will begin receiving approximately \$81,000 per year. Since DSL's 2005-07 Legislatively Adopted Budget for the Natural Heritage Program assumed federal funding of \$70,966, the agency is requesting additional Federal Funds expenditure limitation in order to pass through the unanticipated increase in funding to various entities for research-related projects.

The agency expects the additional grants funds to support projects such as captive rearing of silverspot butterflies, habitat restoration or restoration research for Fenders' blue and silverspot butterflies, the census and monitoring of Fender's blue butterfly habitat and populations, the effects of herbicides on at-risk butterflies, and various surveys.

DSL reports that it expects to pass through \$131,031 to recipients in 2005-07. Therefore, the additional Federal Funds expenditure limitation that is required over the \$70,966 provided to date in DSL's 2005-07 budget is \$60,065.

Legal Reference: Increase the Federal Funds expenditure limitation established by chapter 776, section 3(1), Oregon Laws 2005, for the Department of State Lands, Natural Heritage Advisory Council, by \$60,065 for the 2005-07 biennium.

Withdrawn by Agency

32
Department of State Lands
Analyst: Pearson

Request: Increase Federal Funds expenditure limitation by \$102,333 to expend the full amount of a grant from the US Fish and Wildlife Service for Habitat Conservation Plan revision work.

Recommendation: Approve as requested.

Discussion: On July 18, 2005, the Department of State Lands (DSL) received approval from the 2005 Legislature to apply for a federal grant from the US Fish and Wildlife Service (USFWS); this grant would support work on revising the Elliot State Forest Habitat Conservation Plan. The amount requested was \$548,594. In the autumn of 2005, the USFWS notified DSL that its application was successful, although for a lesser amount than originally requested. DSL appeared before the October 2005 Emergency Board with a request for \$446,261 Federal Funds expenditure limitation, which was the full amount of the grant approved by the USFWS at that time. The Emergency Board approved the request at its October meeting.

On December 29, 2005 the Department received a letter from the USFWS stating that the grant award would be increased by \$102,333, to bring the total grant up to the original request level. This notification was received too late to make deadlines for a request to the Emergency Board at its January 2006 meeting, so the agency is making the request at this time.

The revised Habitat Conservation Plan should be completed within the 2005-07 biennium, and is expected to be finished by September 2006. Existing Federal Funds expenditure limitation for the Common School Fund program is committed to other grant expenses. The federal grant funds will substitute for Common School Fund (CSF) dollars, leaving more dollars in the CSF than would otherwise have been possible. The Oregon Department of Forestry (ODF) manages the Elliot State Forest, including the 91 percent of the forest owned by the CSF. This work is done through an interagency agreement, and it is expected that as ODF continues work on the Habitat Conservation Plan, DSL will use the federal grant funds to help pay for this work.

Legal Reference: Increase the Federal Funds expenditure limitation established by chapter 776, section 3(3), Oregon Laws 2005, for the Department of State Lands, Common School Fund, by \$102,333 for the 2005-07 biennium.

31
Department of State Lands
Analyst: Pearson

Request: Increase Other Funds expenditure limitation by \$196,874 for 2005 fire suppression costs.

Recommendation: Approve as requested.

Discussion: Since 1991, the Department of State Lands (DSL) has entered into fire suppression agreements with the Bureau of Land Management (BLM) for fire protection on lands that would otherwise be unprotected. The BLM bills DSL after fire suppression work has occurred. In late July-August 2005, four fires occurred on rangeland in Malheur County; these acres were under protection boundaries that are part of the agreement between the two agencies. The following table provides information about the specific fires.

Fire	Acreage	Duration (days)	Cost	Service	Equipment	Date	Reseeding Expense
Duck Butte	100	3	\$ 29,291	?6 air tanker drops ?14 helicopter drops ?40 personnel hand crews	?3 BLM engines	July 29, 2005	n/a
Duck Creek	0.3	2	5,799	n/a	?2 BLM engines	August 7, 2005	n/a
Duck Creek 2	0.1	1	14	n/a	?2 BLM engines	August 8, 2005	n/a
Black Bull	274	14	161,770	?6 air tanker drops ?93 helicopter drops ?10 personnel helitack crew	?5 BLM engines	August 10, 2005	\$1,582 plus 450 pounds seed in reserve
Total	374.4	20	\$ 196,874				

DSL received about \$13.6 million of Other Funds expenditure limitation for its Common School Fund program in its 2005-07 Legislatively Adopted Budget (LAB). Projected expenditures, along with projects and services needed for effective land management and agency operations, are expected to use all of the existing available Common School Fund operations Other Funds expenditure limitation.

Legal Reference: Increase the Other Funds expenditure limitation established by chapter 776, section 2(3), Oregon Laws 2005, for the Department of State Lands, Common School Fund, by \$196,874 for the 2005-07 biennium.

30
Department of State Lands
Analyst: MacGlashan

Request: Increase Other Funds expenditure limitation by \$122,300 and establish two limited duration, full-time positions (1.08 full-time equivalent) for increased workload in the Department of State Lands' estates program.

Recommendation: Approve the request.

Discussion: The Department of State Lands (DSL) is responsible for managing the estates of persons who die without a will or any known heirs. State statutes and rules require DSL to be notified upon the death of a person when it appears these circumstances exist. Upon notification, the agency is to take steps immediately to ensure the protection of assets and to search for a valid will and heirs. These steps include making on-site visits to a decedent's residence. To ensure the safeguarding of assets, at least two people must be present when the residence is searched and the assets inventoried and transported.

The estate is held in trust while DSL searches for heirs. If none are located, the proceeds from the estate permanently escheat to the Common School Fund after 10 years. DSL is reimbursed by the estates for the expenses incurred in their management.

Since 2004, DSL has experienced a significant increase in the number of estates it has to manage. In 2004, DSL handled 40 cases; in 2005, 121 cases; and through mid-March 2006, 26 cases. The agency attributes this increase, in part, to the education and outreach it has provided to funeral homes, medical examiners, attorneys, and others regarding DSL's role and responsibilities. The agency expects to see continued growth as a result of additional education and outreach, an aging population, and a more mobile society.

Although state rule requires DSL to respond to a notice of a new estate within five working days, this has been increasingly difficult to do as the number of cases has grown but the level of staffing in the estates program (currently two positions) has not. Moreover, DSL reports that existing staff are physically in the field for three or four days per week and little time is available to keep up with the legally required paperwork, the search for heirs, and other estate issues. The agency reports that it has temporarily used other existing staff resources to help with the estates workload, but this has resulted in certain agency work not being accomplished.

DSL is requesting the establishment of two limited duration, full-time positions (1.08 full-time equivalent), to be phased in June 1, 2006, to help with the workload increase in the estates program: a Paralegal position (0.54 full-time equivalent) and a Program Analyst 1 position (0.54 full-time equivalent). The Paralegal's primary responsibility will be to handle the legal paperwork required for each estate, but the position also will be available when two teams are required in the field. The additional staffing also will allow for outreach in the central and eastern regions of Oregon, where compliance with the estate law has been low. The position classifications have been reviewed and approved by the Department of Administrative Services' Human Resource Services Division.

Adequate revenue is available through the estates program to support the cost of the new positions (\$109,526) and their related Services and Supplies costs (\$12,774).

If the increased workload continues as anticipated by the agency, it ultimately may request that these positions be made permanent.

Legal Reference: Increase the Other Funds expenditure limitation established by chapter 776, section 2(3), Oregon Laws 2005, for the Department of State Lands, Common School Fund programs, by \$122,300 for the 2005-07 biennium.

Parks and Recreation Department
Analyst: Pearson

Request: Establish a Lottery Funds expenditure limitation of \$3,527,979 Lottery Funds to fully fund the State Fair operations for the 2005-07 biennium. Add 9.25 full-time equivalent to existing positions to provide sufficient staffing for State Fair operations during the 2005-07 biennium. Increase Lottery Funds expenditure limitation by \$8,573 for the Administration program and by \$28,467 for the Operations program to incorporate a technical adjustment approved conceptually by the 2005 Legislative Assembly.

Recommendation: Approve the request, with the following modifications: Approve the request to establish a \$3,527,979 Lottery Fund expenditure limitation for the State Fair and Exposition Center program, add 9.26 full-time equivalent to existing positions for the State Fair and Exposition Center, increase expenditure limitation by \$8,573 Lottery Funds for the Administration program and \$28,467 Lottery Funds for the Operations program, with the understanding that the Department of Administrative Services will unschedule \$6,474 Other Funds for the Grants program, and \$855,206 Other Funds for the State Fair and Exposition Center program.

Discussion: The Oregon Parks and Recreation Department (OPRD) is requesting adjustments to its budget for two primary reasons. First, OPRD is now in charge of the state fair and exposition center (“Fair”) and has been since January 1, 2006. This means that OPRD will operate the Fair for eighteen months of the biennium, but the Department received 12 months of expenditure limitation and position authority in its 2005-07 Legislatively Adopted Budget (LAB). Additional expenditure limitation and position authority are needed to cover the six months difference between 2005-07 LAB and expected operations costs. The other reason is to make technical corrections to positions that were proposed during 2005 Legislative session budget hearings, but were inadvertently recorded incorrectly in the agency’s budget bill and budget report.

State Fair and Exposition Center. The 2005 Legislature established the State Fair and Exposition Center as a state park in House Bill 3502, and this bill transferred the Oregon State Fair and Exposition Center (OSFEC) operations to the Oregon Parks and Recreation Department (OPRD) effective January 1, 2006. House Bill 5139, the budget bill for OPRD, provided 12 months of expenditure limitation and position authority, while House Bill 5023 contained 12 months of expenditure limitation and position authority for OSFEC. Each agency received 12 months of expenditure limitation and position authority because of uncertainty about the cash flow and bill payment schedule of the OSFEC. So a cushion of extra expenditure limitation was built into the OSFEC budget. The budget report for House Bill 5139 included the following text relating to this issue:

The Department of Administrative Services will be requested to unschedule the Other Funds expenditure limitation provided to the Oregon State and Exposition Center based on actual expenditure needs. The State Parks and Recreation Department may need to seek an adjustment to its Other Funds expenditure

limitation from the Emergency Board following the transfer of the Oregon State Fair, depending on the balances that are transferred.

OPRD has reviewed the revenues and expenditures of the OSFEC historically. Based on its research and analysis, the department has concluded that

1. Actual Fair revenues have been trending downward over the past few years, while exposition center events have generated an increasing amount of revenue. However, since Fair revenue averages more than 80 percent of total revenue, an increase in event revenue has not been sufficient to compensate for the decline in Fair revenue.
2. Fair revenue assumed in the 2005-07 LAB for OSFEC exceeds actual revenues received through December by \$2.17 million.
3. Projected Fair revenue for the entire biennium (assuming a four percent decline in Fair revenue and a five percent increase in exposition event revenue) is projected to be \$11.04 million.
4. The combined 2005-07 Legislatively Adopted Budget expenditures of the OSFEC and OPRD exceed estimated available revenues by over \$3 million.
5. Since OSFEC budgeted expenditures exceeded actual available revenue, there will be no revenue balance to transfer from OSFEC to OPRD to cover the six months of expenditure limitation needed by OPRD. (Note: the fiscal analysis leading to this conclusion included the \$805,000 transfer of Other Funds from OPRD to OSFEC approved by the Emergency Board at its January 2006 meeting. This, along with the lack of Fair revenues, reduced the ability of OPRD to ask for an increase in Other Funds expenditure limitation as suggested by the budget report narrative).
6. The OPRD Lottery Funds ending balance will decline from an estimated \$6.69 million (assuming the March 2006 Lottery Revenue Forecast) to \$3.17 million. This does not include any estimated impacts from compensation plan changes, which would further reduce the ending balance.

The request also includes the addition of 9.25 full-time equivalent. The increase involves adding 0.25 FTE (six months) to 36 permanent, full-time positions. Also, two permanent, part-time positions would be increased by three months each. Altogether, the request adds full-time equivalent to 38 positions. Seasonal and Fair board positions would not be increased. Of the \$3,527,979 Lottery Fund expenditure limitation increase, \$1,791,760 is for Personal Services and \$1,736,219 is for Services and Supplies.

Technical Corrections. During the 2005 Legislative session the Department requested technical corrections for five positions. The need to make these corrections resulted from the following: two positions were budgeted in the statewide system in different program units than they should have been and the statewide abolishment of the Program Technician series required three positions to be reclassified to another statewide classification. In addition, the funding types associated with some of the positions needed adjustment. These corrections were presented during the work sessions held during the 2005 Legislative Session, and the budget subcommittees approved of the concept, but the budget bill and budget report did not capture the net effect of the correction accurately. In order to implement the intent of the 2005 Legislative Assembly, the technical corrections need to be made, especially as the Department begins preparation of its 2007-09 biennium budget. The net effect of these adjustments is to increase Lottery Funds expenditure limitation for the Administration program by \$8,573, for the

Operations program by \$28,467, and the Department will spend \$6,474 less Other Funds in its Grants program. The Department of Administrative Services will unschedule the \$6,474 accordingly.

Legal Reference: Establishment of an expenditure limitation of \$3,527,979 for the Parks and Recreation Department, for payment of expenses from Lottery Funds for the biennium beginning July 1, 2005 for the State Fair Operations program. Increase the Lottery Funds expenditure limitation established by chapter 697, section 2(1), for the Parks and Recreation Department, Administration, by \$8,573 for the 2005-07 biennium. Increase the Lottery Funds expenditure limitation established by chapter 697, section 2(4), for the Parks and Recreation Department, Operations, by \$28,467 for the 2005-07 biennium.

Department of Forestry
Analyst: Upadhyay

Request: Allocate \$2,018,788 from the special purpose appropriation made to the Emergency Board to cover the cost of the 2005 fire season air tanker and severity program and to provide 50 percent of the cost of purchasing catastrophic fire insurance for the 2006 fire season. Report on the agency's mid-biennium financial plan for managing Protection from Fire resources.

Recommendation: Approve the request.

Discussion: The 73rd Legislative Assembly established a special purpose appropriation in the amount of \$3,562,000 General Fund for the Department of Forestry to pay for emergency fire suppression activities and catastrophic fire insurance premiums. The agency is requesting allocation of \$2,018,788 of this special purpose appropriation. This includes \$1,373,475 to pay for 2005 air tanker/ severity costs and \$645,313 to pay for 50 percent of the cost of purchasing catastrophic fire insurance for the 2006 fire season.

2005 Air Tanker/ Severity Costs: According to the agency, the 2005 air tanker and severity costs totaled \$1,879,028.

<u>Initial Attack Retardant Resources</u>	<u>Dates</u>	<u>Cost</u>
<ul style="list-style-type: none"> • Two DC-7 air tankers (Redmond and Medford) • Alaska PC-7 lead plane • Administration 	7/8 to 9/20	\$1,032,971
	8/7 to 9/20	\$27,626
		\$42,914
Total		\$1,103,511
<u>Severity Resources</u>		
<ul style="list-style-type: none"> • Short-term helicopter contracts in Roseburg, Medford, Klamath Falls, John Day, La Grande, Molalla and Forest Grove • Move up of engine strike teams in Klamath Falls, John Day and La Grande 	Certain time periods between 8/4 and 9/11	\$708,977
	Certain time periods between 7/29 and 8/28	\$66,540
Total		\$775,517
Grand Total		\$1,879,028

To pay for these costs, the agency will use the unspent \$505,553 of the Federal Emergency Management Agency (FEMA) reimbursement funds received for the 2004 fire season (Redwood Highway and Bland Mountain #2 fires). The agency is, therefore, requesting \$1,373,475 General Fund from the special purpose appropriation made to the Emergency Board to pay for the remaining balance.

2006 Catastrophic Insurance Premium Cost: The 2006 catastrophic insurance premium cost is anticipated to be \$1,290,626. Fifty percent of the cost of the premium is the responsibility of the Oregon Forestland Production Fund (OFPF) and the remaining 50 percent is paid with General

Fund. The agency is, therefore, requesting \$645,313 General Fund from the special purpose appropriation to pay for the 2006 catastrophic insurance premium.

Mid-Biennium Financial Plan for Managing Protection from Fire Resources: The agency is also reporting on the mid-biennium plan for managing Protection from Fire resources for the 2006 fire season and the 2007 catastrophic insurance premium payment. The plan is as follows:

<u>Projected Revenues</u>	
<ul style="list-style-type: none"> • Special Purpose Appropriation Balance • FEMA reimbursement anticipated from the 2005 Deer Creek fire 	\$1,543,212 <u>\$350,000</u>
Total Revenues	\$1,893,212
<u>Projected Expenditures</u>	
<ul style="list-style-type: none"> • 2006 Air Tanker program – state cost (The total cost is anticipated to be \$1,050,000 with \$250,000 being paid by State Fire Assistance funds) 	\$800,000
<ul style="list-style-type: none"> • 2007 catastrophic insurance premium – 50 percent (Remaining 50 percent of the cost will be paid with OFPF) 	\$645,313
<ul style="list-style-type: none"> • 2006 Season Emergency Severity cost 	<u>\$447,899</u>
Total Expenditures	\$1,893,212

The Department of Forestry plans on presenting a 2006 fire season severity plan to the Emergency Board for review and approval at the June 2006 meeting.

Legal Reference: Allocation of \$2,018,788 from the special purpose appropriation made to the Emergency Board by chapter 791, section 5(1), Oregon Laws 2005, to supplement the appropriation made by chapter 791, section 1(2), Oregon Laws 2005, for the Department of Forestry, Protection from Fire program for the 2005-07 biennium.

Oregon Department of Agriculture
Analyst: Upadhyay/Kleiner

Request: Increase Federal Funds expenditure limitation by \$92,807 to fund current expenditures to date and anticipated expenditures on awards received in the Agricultural Development program.

Recommendation: Approve the request.

Discussion: In the Oregon Department of Agriculture's 2005-07 Legislatively Adopted Budget, the Federal Funds expenditure limitation for the Agricultural Development program is \$64,874. The agency is requesting an increase in this Federal Funds expenditure limitation of \$92,807 for the following reasons:

- \$90,591 Federal Funds expenditure limitation increase is due to grants received in the 2003-05 biennium for the National Organic Certification program which will be expended in the current biennium.
- \$2,216 Federal Funds expenditure limitation increase is due to a net effect of over/under expenditures compared to the base budget for the Federal-State Marketing Improvement Program grant.

Legal Reference: Increase the Federal Funds expenditure limitation established by chapter 716, Section 4 (3), Oregon Laws 2005, for the Department of Agriculture, Agricultural Development program, by \$92,807 for the 2005-07 biennium.

Oregon Department of Agriculture
Analyst: Upadhyay

Request: Retroactive authorization to apply for a Cooperative Endangered Species Conservation Fund federal grant of \$900,000 from the U.S. Department of the Interior, Fish and Wildlife Service.

Recommendation: Approve the request with the following modification: Retroactive authorization to apply for a Cooperative Endangered Species Conservation Fund federal grant of \$700,000 from the U.S. Department of the Interior, Fish and Wildlife Service.

Discussion: The Oregon Department of Agriculture (ODA), in cooperation with The Nature Conservancy (TNC) requests retroactive approval to apply for a Cooperative Endangered Species Conservation Fund (CESCF) federal grant.

On December 21, 2005, the U.S. Department of the Interior, Fish and Wildlife Service (USFWS) announced that it is accepting funding proposals from States and Territories under the Cooperative Endangered Species Conservation Fund (under Section six of the Endangered Species Act) for voluntary, non-regulatory habitat conservation actions on non-federal lands. On February 1, 2006, TNC asked ODA to act as the state recipient agency for a CESCF grant proposal. Since the proposals to the USFWS were due March 20, 2006, a letter was submitted to the Co-Chairs of the State Emergency Board on March 9, 2006 notifying about the Department's intent to submit this grant application.

The Recovery Land Acquisition Grants Program of the CESCF uses a competitive process to provide grant funds to reduce the threats to federally listed species. In the case where the action occurs on private land by a non-profit organization such as TNC, the state agency with jurisdictional responsibility for the specific federally listed species must submit the application in coordination with the organization and act as the "pass through" agency for the receipt of the federal funds.

TNC has an option to purchase a 6,065-acre tract of land from willing sellers for the purpose of protecting and enhancing the federally listed plant, Spalding's catchfly (*Silene spaldingii*). This species is also listed by the State of Oregon as Endangered. The property is located adjacent to TNC's current Zumwalt Prairie Preserve in the Blue Mountain Basin of Wallowa County. The Zumwalt Prairie area has the largest known population of Spalding's catchfly in Oregon.

The preliminary Fair Market Value of this property is estimated at \$3 million. The land value research is still not final. Initially, TNC expected to seek about \$900,000 (30 percent of the property value) from the Recovery Land Acquisition Grant Program toward the price of acquiring the property. The CESCF allows eligible applicants to request up to 75 percent of the value of the acquisition. TNC now states that it expects to seek \$700,000 from the Recovery Land Acquisition Grant Program.

TNC plans to apply for public funding for a total of \$1,200,000, including this \$700,000 federal grant, and raise private dollars for the remainder. TNC plans to apply to the Oregon Watershed Enhancement Board for the remaining \$500,000 of public funding.

In discussions with county leaders, TNC decided to apply for public funding in an amount approximately equal to the increased cost of the land over its value as ranching property (in essence its “development rights” value). In consultation with local ranchers, bankers, the Oregon State University extension agent, and real estate appraisers, TNC determined that the value a ranching family would pay for the property if they intended to make a ranch operation economical was about \$1,800,000. Therefore, TNC concluded that the “development rights” are probably equal to about \$1,200,000.

If the grant application is successful, ODA will return to the State Emergency Board in the fall of 2006 for increased expenditure limitations.

Oregon Economic and Community Development Department
Analyst: Erickson

Request: Transfer Lottery Funds expenditure limitation totaling \$394,806 from the Lottery Debt Service program unit to the Operations program unit to establish three permanent full-time positions (2.25 full-time equivalent). Increase Other Funds expenditure limitation by \$231,674 to establish two permanent full-time positions (1.34 full-time equivalent).

Recommendation: Approve the request.

Discussion: The Oregon Economic and Community Development Department (OECDD) is in the process of aligning its resources to meet the concerns voiced by members and department stakeholders during the 2005 Legislative Session. Three key areas of specific concern were innovation economy efforts, services to small businesses and coordination with Oregon's ports.

OECDD has completed an agency-wide review and is actively restructuring the organization, with the support of the Oregon Economic and Community Development Commission, to address these concerns. Many of the objectives can be met with permanently financed reallocations of existing positions, including the innovation economy efforts, within the legislatively adopted budget. This request of the April 2006 meeting of the Emergency Board reflects the remaining reorganization efforts that cannot be self-financed.

Over the course of the last two biennia, OECDD has had a decrease of over 25 positions. These position reductions were related to the budget deficit during the 2001-03 biennium and associated budget balancing actions during special sessions and the 2003 Legislative session. This represents an 18 percent loss in staff. During this timeframe, the responsibilities of the agency have not diminished. Small business and ports outreach staff were among those that were reduced in the 2001-03 biennium. Although several different service delivery mechanisms were utilized over time to meet stakeholder needs, these critical areas remain understaffed.

Services to small businesses are available through a variety of organizations, including OECDD's programs. With the current level of staffing, OECDD has had to focus on contract coordination and monitoring of program deliverables for small business funding programs. OECDD is requesting additional position authority to work collaboratively with existing organizations to help coordinate state initiatives. The agency's focus would be to provide outreach, coordination and resources to small business, including minority and women-owned small businesses. The agency is requesting three permanent full-time positions for this effort: one Principal Executive Manager E (0.67 full-time equivalent), one Program Analyst 4 (1.00 full-time equivalent), and one Office Specialist 2 (0.58 full-time equivalent).

Ports also play an important role in Oregon's economy. Ports attract jobs and private investment that are especially beneficial to rural areas where industrial infrastructure might not otherwise be developed. The ports program area was greatly impacted in 1998, when the agency eliminated its dedicated ports division. Since that time, the need for better coordination, communication, and integration of planning efforts has been an ongoing concern. The agency requests a permanent

full-time Principal Executive Manager E (0.67 full-time equivalent) to support its commitment to addressing the unique needs of Oregon's system of 23 public ports.

The final area of concern is one of workload. The agency currently has only one position responsible for all public works and ports finance programs, including the Special Public Works Fund, Safe Drinking Water Revolving Loan Fund, Water/Wastewater Fund, Port Planning and Marketing Fund, Marine Navigation Improvement Fund, and Oregon Port Revolving Loan Fund. The Infrastructure Specialist has an external focus providing program oversight and leadership to communities on a wide range of community projects. This position represents the agency's programs to various public and private groups across the state and provides support and program guidance to Business Development Officers in the regions. The agency requests a permanent full-time Program Analyst 4 (0.67 full-time equivalent) to alleviate the workload issue in these vital infrastructure programs.

Legal Reference: Transfer of \$394,806 Lottery Funds limitation made by chapter 783, section 3, Oregon Laws 2005, for the 2005-07 biennium as follows:

<u>Subsection</u>	<u>Amount</u>
(1) Operations	+\$394,806
(6) Lottery Debt Service	-\$394,806

Increase the Other Funds expenditure limitation established by chapter 783, section 2(1), Oregon Laws 2005, for the Oregon Economic and Community Development Department, Operations, by \$231,674 for the 2005-07 biennium.

District Attorneys
Analyst: Gilbert

Request: Allocate \$240,000 from the State Emergency Fund for expenses associated with the juvenile dependency hearings caseload.

Recommendation: Approve the request.

Discussion: At the most recent meeting of the Oregon District Attorneys Association Executive Council, the members resolved to approach the Emergency Board for funding to support activity in two counties: Yamhill and Columbia. While not statutorily required to represent the state at juvenile dependency hearings, District Attorneys and/or Deputy District Attorneys in those counties are subject to the request of the presiding judge in such hearings. To meet the workload associated with those requests, and in the absence of funding provided by the counties, the two District Attorney offices are each requesting funds for one attorney and one support staff.

The workload involves representing the state at the shelter hearings that occur within 24 hours of the juvenile being removed from a dangerous situation and the jurisdictional hearings that occur soon after the shelter hearings. The hearings occur on short notice and can be time consuming. Attorney and staff prepare pleadings, get out discovery, attend pre-trial conferences and make other appearances. Trials can take up to two to three days.

The District Attorneys in both of the counties have been told that there is no additional funding to support the positions that have been identified as needed to meet the demand put upon the system by the juveniles found in unsafe conditions, usually with drug dealing or using parents or guardians. The District Attorneys in the state's six largest counties are statutorily required to appear at the subject hearings. In the remaining counties there is a patchwork of inconsistent approaches to the workload.

The District Attorneys recognize that this is an unusual request and understand that if appropriated the funds are one-time and to be used only to bridge to the next biennium. The Department of Administrative Services expects that the issue raised in this request, that is, a consistent presence of District Attorneys at dependency hearings, will be raised as a statewide policy issue for all District Attorneys' offices in the 2007-09 Agency Request Budget.

Legal Reference: Allocation of \$240,000 from the State Emergency Fund to supplement the appropriation made by chapter 672, section 1, Oregon Laws 2005, for the District Attorneys and their Deputies for the 2005-07 biennium.

21
Department of State Police
Analyst: Gilbert

Request: Report on enforcement staffing related to gaming activities and intergovernmental compacts with Tribal governments.

Discussion: The Oregon State Police Tribal Gaming Section fulfills the State's regulatory and monitoring role in each of the nine tribal casinos in Oregon, as required by the nine Tribal-State Gaming Compacts. The Section, together with the nine tribal gaming commissions, is charged with ensuring the fairness, integrity, security and honesty of tribal gaming and is responsible for protecting the interests of the State in the nine tribal gaming facilities. Functions of the Section include background checks of vendors, contractors, and prospective licensees; formal monitoring and oversight of the tribal gaming centers; and criminal investigations as needed. The costs of the Section are paid entirely by the nine Oregon gaming tribes and gaming vendors, as negotiated by the State and tribes in the Gaming Compacts.

A budget note in House Bill 5167 directed the Department of State Police (OSP)

... to evaluate whether the current staffing level and type of staff utilized are correct for enforcing any laws relating to gaming activities and the provisions of the intergovernmental compacts with Tribal Governments. The Department is expected to work with the Governor's Office and the Tribal Governments in this evaluation. The Department is instructed to report to the first Emergency Board meeting after March 1, 2006, on this evaluation.

In 2004, tribal representatives proposed changes to staffing, to be included in the 2005-07 budget. Specifically, tribal representatives were interested in reclassifying sworn positions to professional status in order to reduce the expense and increase the coverage by the Department in meeting the monitoring, vendor investigation, and criminal investigation obligations in the nine Tribal-State Compacts. The Department did not include those reclassifications in the 2005-07 Agency Request Budget. The Department, in consultation with the Governor's Office and the tribes has revisited the subject and determined that such reclassifications, coupled with a restructuring of the Section, will meet the needs of both the Tribes and the State and will continue to adequately safeguard the fairness, integrity, security and honesty of tribal gaming.

The following display compares the current and proposed staff deployment.

	Current FTE		Proposed FTE	
Criminal Investigation	-	All sworn positions	1.50	Sworn
Detectives				
Vendor Investigation	2.50		2.50	Sworn
Detectives				
Gaming Monitoring		Gov't Auditors I		
Salem	2.50		1.00	
Pendleton	1.00		1.00	
Bend	1.00		1.00	
Roseburg	1.00		1.00	
Newport	1.00		1.00	
Total	9.00		9.00	

The current staff assigned to direct monitoring of the casinos and related criminal investigations is 6.50 full-time equivalent positions as shown under Gaming Monitoring. In discussion with the Tribes and Governor's Office, the Department developed an organizational structure plan that would separate work into three areas: audit/monitoring, vendor background investigations (no change), and criminal investigations as shown on the right side of the display. In addition, OSP staff believe that the Department can comply with Tribal wishes to reclassify up to five sworn positions to professional positions and in so doing realize cost savings of \$30,000 per biennium per position. The Tribes, the Department and the Governor's Office have agreed that the reclassifications can and should occur through attrition. In part, relying on attrition for these reclassifications is desirable because the Department and Governor's Office believe that such changes should be accomplished incrementally in order to assess their success. The first position can be processed this month due to a retirement.

No reduction of the total 16.50 full-time equivalent is planned given the growth in the casino gaming business and the need to adequately protect the State's interests in protecting the fairness, integrity, security and honesty of tribal gaming, as required by and negotiated in the Tribal-State Gaming Compacts.

20
Department of State Police
Analyst: Gilbert

Request: Allocate \$900,910 reserved in the State Emergency Fund and establish 10 permanent, full-time trooper positions (5.80 full-time equivalent).

Recommendation: Approve as requested, contingent on receipt of an updated agency-wide financial status report by the Department of Administrative Services Budget and Management (DAS) and Legislative Fiscal Office (LFO). Request DAS unschedule the allocation until DAS and LFO have reviewed and accepted the financial status report.

Discussion:

2005-07 Legislatively Adopted Budget

The Department's 2005-07 Legislatively Adopted Budget eliminated 20 Trooper positions in order to redirect the associated funding to other needs in the Department. The expectation was that the Department would redeploy patrol troopers away from desk work and back onto the road, but that if there were difficulties in implementing such a plan, the Department should request restoring the positions.

January 2006 Emergency Board

Looking closely at how officers spend their time revealed significant effort devoted to processing crime scene and other evidence. That work had been done by evidence technicians prior to the program being eliminated in the 2001-03 biennium. In order to free up officer time to spend on the road, the Emergency Board, at its January 2006 meeting, approved establishing 10 evidence processing positions. It was assumed that this action would put the equivalent of eight patrol officers back on the road.

The Emergency Board also established a reservation of \$900,910 in the Emergency Fund for 10 additional troopers with an expected start date of May 1, 2006. Following is an outline of the conditions for allocation of the reservation and the Department's progress in meeting the conditions, as of this writing - late March 2006.

1. Evidence Technicians. The agency must have hired or have substantially completed the hiring process for the 10 evidence-related positions described above. The Department
 - has filled the coordinator position,
 - has completed three regional interview panels to process through the 150 applications received, and
 - has determined that optimum deployment can be achieved by using 10 positions, with one position being used for two half-time slots. Total full-time equivalent positions still total 9.00.

2. Eligible Recruits. There must be a sufficient number of eligible recruits to fill the existing sworn positions that are vacant as of May 1, 2006. The funding for these positions must not be dedicated for other purposes, including the funding of double-filled positions. An eligible recruit is one who has completed the testing, background, and interview phases of recruitment and is acceptable to the agency as a recruit. There must be at least 20 vacant positions available or projected to be available prior to accessing the reservation.
 - As of March 24, 2006, the Department had identified 24 net vacant funded sworn positions, not including the 10 new positions that make up this request. (Displays 1, 2)
 - The Department has made 21 conditional offers to recruits. These candidates will be fully eligible for recruit school once they have passed their medical, written, and psychological testing.
 - An additional eight to 10 candidates have passed their background checks and are being scheduled for interviews for conditional offers.
 - Another 18 - 20 candidates are undergoing background checks.
 - From this pool, the Department expects to be able to fill about 36 – 38 positions in a recruit school.

3. Recruit School. The agency is ready to begin a recruit school on or soon after May 1, 2006. As discussed above, there appears to be a sufficient number of vacancies and potential eligible recruits to begin a recruit school in early May. (Display 1)

4. New Positions. Funding from the reservation will be available for up to 10 new trooper positions for a May recruit school as long as there are sufficient numbers of eligible recruits beyond the number (20) required to meet #2 above. It appears the Department will meet this requirement in time for a May school, as shown below. Thirty-six – thirty-eight recruits provide an allowance for future retirements and unexpected resignations or terminations.

Display 1

Summary of Vacancies and Potential Recruits

Vacancies	13	Troopers
	12	Sergeants (two are proposed for reclassification)
	10	New Troopers - April Emergency Board
	35	Total Vacancies. If 2 Sergeants are used for reclassification, total is 33
Recruit status	21	Conditional offer made.
	6 - 7	8 - 10 applicants will be interviewed week of March 27. They have passed physical evaluation and background check. Approximately 75% continue on.
	9 - 10	18 - 20 Applicants are undergoing background check, as of March 27. Approximately 50% continue on.
	36 - 38	Expected number of eligible recruits

The Department will report the updated status on all four conditions above to the Emergency Board on April 6. In addition, the Department is required to report on each vacant and double-filled position and on overall financial status, that is, budget compared to actual and expected expenditures, for the current biennium.

5. Vacancies and double-filled positions.

Display 2

Summary of Vacancies and Double-fills - March 24, 2006

	Profess- ional	Trooper/ Cadet	Serg- eant	Lieut- enant	Cap- tain +	Total
<i>Total OSP</i>						
Vacant positions	42	13	12	1	-	68
Double-filled positions	(5)	(10)	-	-	(2)	(17)
Pending Actions	<u>(13)</u>	<u>10</u>	<u>-</u>	<u>(1)</u>	<u>1</u>	<u>(3)</u>
Net vacant and double-filled positions	24	13	12	-	(1)	48

Of note in the above display, sworn double-filled positions are down to 12 from the 23 reported at the January 2006 meeting of the Emergency Board. For a more complete picture, professional positions have also been included. The following display lays out actual and proposed double-fill solutions.

Display 3

Actual and Proposed Double-fill resolutions

17	Total Double-fills as of late March 2006
(4)	Retirement, grant termination, military duty, transfer to open position
(1)	Lt. Colonel - to be addressed as part of agency-wide reallocation
(2)	2007-09 Budget Package
(10)	Approval of April Emergency Board
0	Balance

Most of the vacant professional positions are expected to be filled through recruitment efforts currently underway. Sworn vacancies are down from the 36 reported to the January Emergency Board.

An updated table of vacant and double-filled positions will be provided to the Emergency Board subcommittee on April 6, 2006.

6. Financial status. The Department did not submit a financial status report with the Emergency Board request, but assiduously continues to develop a comprehensive view. Until the agency-wide detailed status report is available, it is difficult to determine the amount of needed funding for additional positions. Therefore, it is the DAS recommendation that the members of the Emergency Board approve the funding and new positions but request DAS to unschedule the funds contingent on DAS and LFO receiving, reviewing, and approving the Department agency-wide financial status assumptions and report.

Legal Reference: Allocation of \$900,910 from the State Emergency Fund to supplement the appropriation made by chapter 718, section 1(1), Oregon Laws 2005, for the Department of State Police, Patrol services, criminal investigations and gaming enforcement, for the 2005-07 biennium.

State Board of Parole and Post-Prison Supervision**Analyst: Gilbert**

Request: Allocate \$107,000 from the State Emergency Fund for Professional Services psychological evaluation services and for Attorney General expenses.

Recommendation: Allocate \$92,237 from the State Emergency Fund for Services and Supplies for the State Board of Parole and Post-Prison Supervision.

Discussion: This request addresses two issues in the Parole Board's 2005-07 budget – a request for additional funding to deal with predatory sex offender designation and a shortfall in the Services and Supplies budget stemming mainly from Attorney General charges.

Predatory Sex Offenders

In early 2005 the Oregon Supreme Court ruled that the Board's method of designating sex offenders as predatory was unconstitutional. Specifically, the Board was basing the designation on the offender's history without taking into account the offender's current condition. The *predatory* designation is a tool for post prison supervision and community notification. During the 2005 Legislative Session, the Legislature discussed the ruling, but made no statutory or administrative rule changes to address the designation process.

In the absence of a predatory designation, community supervisors have continued to identify certain sex offenders as high risk and have continued to notify the community of their presence, but without the predatory label.

Language in the Board's 2005-07 budget report for House Bill 5121 specifies that without a statutory change, the Board would have to provide for additional psychological evaluations and that the Board could return to the Emergency Board if additional funding is required.

During the interim the Board has worked with the Department of Justice to find a way to apply the predatory designation without incurring additional cost. In the end the parties determined the interim solution to be an administrative rule change allowing sex offender evaluations for those offenders who are likely to be predatory. Using the past 13 months as a guide, the Board expects about 54 more predatory offenders over the June 2005 – June 2006 period. At \$340 each, the expense for additional evaluations is \$18,360.

The Board's request of \$53,000 for additional evaluations assumed more subject offenders. After consultation with the Department of Corrections and local supervisory experts, all now agree that the lower number will still meet public safety goals.

Attorney General Expenses

The following display shows Attorney General expenses for four biennia. The increases in the costs are in excess of the hourly rate changes for attorney services each biennium.

Biennial Attorney General Expenses:		
	\$	% Increase
1999-2001	\$ 312,900	
2001-03	\$ 489,600	56%
2003-05	\$ 624,900	28%
2005-07 Projected	\$ 753,800	21%

Attorney General expenses for the Board arise out of litigation from inmates or released offenders. As such, the workload is not controllable by the Board. An unusually high activity rate in the eighth quarter of 2003-05 resulted in billings that were more than the agency had remaining in its budget. While the Legislature appropriated \$18,057 toward the shortfall, at the same time Services and Supplies were reduced by \$103,000 to cover a shortfall in Personal Services and to meet the three percent Services and Supplies reduction goal set for most General Funded agencies. The Legislature noted that the Board was left without much flexibility in its budget and might need to approach the Emergency Board for additional funding.

The Board has worked with the Department of Justice (DOJ) to find a way to inject more predictability into the workload. DOJ has agreed to increase communication with the Board about which cases the courts accept that DOJ has to defend and to delay caseload within the constraints of the courts' rules if it appears that costs will overrun budget. It is the expectation of the Department of Administrative Services that these discussions will continue between the agencies.

With eight months of actual expenses now known the Board is able to project total expected expenses. The Board has identified savings in Personal Services together with small amounts in other Services and Supplies accounts, but is still short of meeting expected expenses.

Summary

The following display summarizes the shortfall and the Department of Administrative Services recommendation.

2005-07 Services and Supplies budget	\$ 1,218,933
Additional Attorney General appropriation	18,057
Total S&S Budget	\$ 1,236,990
Projected expenditures as of February 2006	
Attorney General	\$ 731,838
Additional Attorney General 2003-05	21,921
Other Services and Supplies	605,921
Total projected S&S	\$ 1,359,680
Services and Supplies Variance	122,690
Vacancy savings offset	48,813
Net shortfall	73,877
Additional psychological evaluations	18,360
Total recommendation	\$ 92,237

Legal Reference: Allocation of \$92,237 from the State Emergency Fund to supplement the appropriation made by chapter 644, section 1, Oregon Laws 2005, for the State Board of Parole and Post-Prison Supervision for the 2005-07 biennium.

18
Department of Justice
Analyst: Freels

Request: Report on the status and potential cost of a lawsuit to protect Oregon's revenue stream from the Tobacco Master Settlement Agreement.

Discussion: Oregon is one of 46 states that receive annual payments stemming from the 1998 Master Settlement Agreement (MSA) with major tobacco companies. A provision in the settlement agreement allows the tobacco companies to cut their payments, after a two-year waiting period, if their collective market share drops below a certain threshold. Also part of the settlement provisions, states must require those tobacco manufacturers not participating in the agreement to set aside a similar payment into an escrow account to create a level playing field in the industry.

The market share of MSA companies has dropped from 99.7 percent in 1997 - the year before the settlement - to about 92 percent in 2003. An independent economist's preliminary ruling found that the burdens of the settlement agreement were a significant factor in the market-share loss. The final ruling is to be issued March 27, 2006. Assuming that the preliminary findings hold, Oregon can avoid or significantly reduce a cut in payment if it can demonstrate that statutes were in place that requires non-participating manufacturers to set aside a similar payment and the State diligently enforced those statutes.

Oregon will receive about \$75 million in April 2006 from the MSA settlement. Our share of the market-share loss is estimate to be about \$14.3 million, but it could be potentially larger.

States that can successfully prove "diligent enforcement" of non-participating manufacturers (NPM) are excluded from the reduced payment. However, states that can not prove "diligent enforcement" must share in the total reduction on a pro rata bases - estimated to be \$1.1 billion. The total reduction in any state can not exceed the annual payment.

The Department is currently working with the National Association of Attorneys Generals to challenge the independent economist's findings. Assuming those finding stand, however, the litigation on "diligent enforcement" will, most likely, be determined state by state. If so, the Oregon case will be heard in the Multnomah Circuit Court. The Department of Justice is confident that it can prove "diligent enforcement" of the NPM provisions given their enforcement activities.

In anticipation of the litigation, the Department has already contracted with a firm that has expertise in complex cases in which the "diligence" of a profession is the central issue. They have also contracted with a firm to begin case preparations, including document preparation. Costs already incurred total \$225,000 as of March 20th.

Total cost of the litigation is unknown, but is expected to be expensive. No similar cases have been litigated in Oregon or in any other state. Given this uncertainty, the Department has provided a minimum cost estimate for the 2005-07 biennium, which is detailed on the next page.

Minimum Cost Estimate of Potential Litigation	
Litigation Activities	2005-07 Biennium only
Document preparation	\$250,000
DOJ attorney time	\$150,000
Outside Counsel	\$400,000 - \$800,000
Expert witnesses	\$75,000
Litigation consultant	\$100,000
Travel	\$20,000
Other related legal costs	\$150,000
Total	\$1,145,000 - \$1,545,000

The Department reports that it does not have sufficient resources to finance this cost within the approved budget. Therefore, it plans to return to a future meeting of the Emergency Board to identify a funding solution once the parameters for the litigation are better understood.

Finally, the Department is giving an early warning that it might request additional resources in the 2007-09 biennium to ensure diligent enforcement of the NPM, depending on the results of this litigation.

17
Oregon Commission for the Blind
Analyst: Kleiner

Request: Increase Federal Funds expenditure limitation by \$1,506,192 and increase Other Funds expenditure limitation by \$407,648 to utilize available funding to repair and partially renovate the Agency's main office and upgrade the technology used to support the mission of the Agency.

Recommendation: Approve as requested, with the following modifications. Establish a Capital Construction Other Funds expenditure limitation of \$407,648 for the repair and partial renovation of the agency's main office and to upgrade the technology used to support the mission of the agency. Establish Capital Construction Federal Funds expenditure limitation of \$1,506,192 for the repair and partial renovation of the agency's main office and to upgrade the technology used to support the mission of the agency.

Discussion: The Oregon Commission for the Blind is requesting an increase in the Federal Funds expenditure limitation of \$1,506,192 and an increase in the Other Funds expenditure limitation for the following purposes:

Project planning and management:

- Architectural services and planning.
- Department of Administrative Services' project management.

Exterior renovations:

- Repair and painting of the siding.
- Repair of roof leaks.
- Replacement of the heating/air conditioning units.
- Addition of a security fence around the parking lot.

Interior renovations:

- Ensure that furnishings and finishes meet current standards (paint, carpet, storage, conference/training room furniture, office furniture, and lighting).
- Reconfigure and update the client training center to allow for more efficient and effective service delivery.
- Expand the training kitchen from the current one stove and refrigerator set up to four stoves and refrigerators to allow for more students to train at once and also offer both gas and electric kitchen technology for training.
- Allow for appropriate facilities for the physical activity center, low-vision assessment center, woodshop training facility, and client study room.
- Update and add to the computer infrastructure and blind-specific technologies to support work done by the Commission's technology center.
- Update office space used to meet with potential employers and for Commission Board meetings and ensure that adequate audio visual and seating is available to serve clients and do the work required of the Commission.

- Reconfigure and update the entrance to the building to improve public access and customer service offered to employers, clients, families of clients, and the public at large.

The Agency's main office is owned by the State of Oregon and maintained by the Department of Administrative Services, Facilities Division who the Agency has done preliminary work with to determine maintenance, repair needs, and improvements. The Federal Funds from the Department of Education, Basic Support grant already scheduled by the Rehabilitation Services Administration for Oregon Department of Human Services, Vocational Rehabilitation Division are currently available for Oregon. The Other Funds from the Commission's Donation and Bequest fund will supply the State funds required to match the Federal funds.

Legal Reference: Establishment of an expenditure limitation of \$407,648 for the Blind Commission for the payment of expenses from fees, moneys, or other revenues including Miscellaneous Receipts, excluding Lottery and Federal Funds, collected or received for the biennium beginning July 1, 2005, for Capital Construction.

Establishment of an expenditure limitation of \$1,506,192 for the Blind Commission for payment of expenses from Federal Funds collected or received for the biennium beginning July 1, 2005, for Capital Construction.

16
833 Agencies
Analyst: Kleiner

Request: Report on the development of a plan for administrative function consolidation by certain Other Funds professional regulatory boards or “833 agencies” which include the Board of Examiners of Licensed Dietitians, the Board of Examiners of Nursing Home Administrators, the Occupational Therapy Licensing Board, the Board of Examiners for Speech-Language Pathology and Audiology, the Board of Naturopathic Examiners, the Board of Radiologic Technology, and the Veterinary Licensing Board.

Discussion: A compromise by the 833 agencies, the Department of Administrative Services (DAS), and the Legislative Fiscal Office (LFO), via a Budget Note in HB 5170, has resulted in a white paper on the governance structure of a proposed consolidation of small licensing boards into the Health Licensing Agency (HLA). The following includes a discussion of the four administrative/governance structures that should be considered by the Governor and 2007 Legislative Assembly for the administrative structure of these agencies for the 2007-09 biennium:

Option 1: Retain the current informal consolidation structure

- The current sharing of resources and responsibilities of the 833 agencies would continue.
- The maintenance of autonomy and separate budgets, strategic planning and performance measure reporting would also continue.

Pros: This arrangement has worked well in the past. The public, licensees, board members, and professional associations are all satisfied with the current structure.

Cons: Separate functions, including budget requests, require more coordination between staff and separate budget coordination, review, and budget presentations. Also, there is no one information contact point for the public.

Option 2: Expand the current informal administrative consolidation

- Current consolidated operations would be enhanced and formalized.

Pros: Time and money savings would result for agencies involved, the autonomy of individual boards wouldn’t be sacrificed, and current services levels would not be diminished.

Cons: One Executive Director would be required to take the lead of the consolidated budget document and cooperation would be required from all.

Option 3: Replicate an HLA-like structure for the 833 boards

- A new state agency for the regulation of the professions represented by the 833 agencies would be created.

Pros: The public would have one information contact point and mid-biennium adjustments based on revenue and needs of individual agencies could be made.

Cons: Statutory changes and staffing realignment would be significant. Both board members, professional associations, and the public would require education about reasons for the new agency. This consolidation would not necessarily improve the public’s access to information.

Option 4: Consolidate the 833 boards into the HLA

- The 833 agencies would be consolidated into the existing Health Licensing Agency.

Pros: This might create a more logical “point of access” for the public, while also eliminating confusion between the existing HLA and the Health Related Licensing Boards. Also, it might promote specialization of duties and responsibilities and provide administrative checks and balances.

Cons: While the creation of HLA achieved some operational efficiency, it didn’t translate into absolute cost savings. The workload of the 833 agencies might not be efficiently handled on a day-to-day basis as it is currently done. Programs might also be disrupted if absorbed into the HLA. Relocation of both office equipment and experienced staff may also present challenges. A conversion of data may also present significant challenges if consolidation of the 833 boards into HLA occurred.

15
Office of Private Health Partnerships
Analyst: Moore

Request: Allocate \$1,089,707 from the special purpose appropriation made to the Emergency Board for Office of Private Health Partnerships for the Family Health Insurance Assistance Program (FHIAP).

Increase Other Funds expenditure limitation by \$3,405,282 for federal matching funds on the General Fund expenditures allocated above.

Recommendation: Approve the request.

Discussion: The budget report for Senate Bill 5576 directed the Insurance Pool Governing Board, which became the Office of Private Health Partnerships (OPHP) effective January 1, 2006, to report to the Emergency Board on the status of negotiations with Centers for Medicare and Medicaid Services (CMS) to request flexibility in meeting the Family Health Insurance Assistance Program's Maintenance of Effort requirement with additional expenditures in the SCHIP or the Oregon Health Plan (OHP) Standard programs. If approved by CMS, the Emergency Board will be able to provide additional funding to provide more direct medical services to Oregon's low-income children, while still ensuring FHIAP meets Maintenance of Effort.

A \$4,000,000 Special Purpose Appropriation was established (Senate Bill 5576) to allow the Emergency Board to allocate the funding to OPHP for FHIAP, and/or the Department of Human Services for SCHIP or OHP, based at least in part on the response from CMS. The Senate Bill budget report also directed OPHP to continue to actively market the FHIAP program while awaiting a determination from CMS to ensure Oregon can meet the Maintenance of Effort requirement. In October 2005, the Emergency Board allocated \$2,910,293 of the \$4,000,000 to OPHP for FHIAP. This amount was allocated to cover the increased enrollment in FHIAP due to the active marketing of the FHIAP program. In January 2006, the Emergency Board increased Other Funds limitation by \$5,256,774 to match the General Fund allocation provided in October 2005.

In a follow up letter to CMS in November 2005, the Department of Human Services requested specific authorization on the following approvals:

- **Priority 1:** Extend the eligibility period from six months to twelve months for children eligible for the State Children's Health Insurance Program (SCHIP), adding 9,600 children in 2005-07. This option would cost \$1.1 million General Fund and allocate the remaining Special Purpose Appropriation funds to the Department of Human Services.

- **Priority 2:** Increase the income limit for FHIAP and children in SCHIP to 200 percent of the federal poverty level (note: in 2004, CMS approved this increase, though it was not implemented due to budget constraints). SCHIP caseload would increase by 1,400 children

in 2005-07. This option would cost \$0.6 million General Fund for SCHIP and \$0.5 million General Fund for FHIAP with the Special Purpose Appropriation funds allocated to the Department of Human Services and OPHP accordingly.

In each case the State is asking for permission from CMS to count the expenditures for these options towards the State's obligation for the FHIAP Maintenance of Effort. The Department of Human Services anticipated a response by CMS before the January 2006 Emergency Board meeting, but has yet to receive the requested response.

DHS has continued communications with CMS, including a March 8, 2006 letter from Dr. Bruce Goldberg, Director, DHS, to Dennis Smith, Director, Center for Medicaid and State Operations, regarding the need for a timely decision by CMS on this and several other outstanding issues. DHS, in conjunction with the Governor's office, has also been working with Senator's Smith and Wyden's offices around communication with CMS and the timeliness of a CMS decision on this matter, with the goal of having a response by the April E-Board meeting.

Budget and Management concurs with the recommendation to allocate the remaining \$1,089,707 of the Special Purpose Appropriation at the April 2006 Emergency Board meeting. If CMS does approve one or more of the requested options before the April 2006 Emergency Board meeting, the Executive Branch recommends the Emergency Board allocate the remaining Special Purpose Appropriation funds based on the priorities listed above. If neither option is granted, or CMS does not respond before the April meeting, the full amount should be allocated to OPHP.

The Emergency Board may wait until June to allocate the remaining SPA funds. However, the implications of doing so are not ideal if the dollars are ultimately allocated to OPHP. While OPHP will have no problem getting enrollments with the additional funds whether a decision is made in April or June, due to application process timelines, waiting until June to provide the additional funding may lead to dis-enrollments in the 2007-09 biennium. Therefore, allocating the remaining SPA funds in April will ensure, as much as possible, that all application promises made can be kept by OPHP.

Legal Reference: Allocation of \$1,089,707 from the special purpose appropriation made to the Emergency Board by chapter 581, section 4(1), Oregon Laws 2005, to supplement the appropriation made by chapter 581, section 1, Oregon Laws 2005, for the Office of Private Health Partnerships, Family Health Insurance Assistance Program for the 2005-07 biennium.

Increase the Other Funds expenditure limitation established by chapter 581, section 3, Oregon Laws 2005, for the Office of Private Health Partnerships, by \$3,405,282 for the 2005-07 biennium.

14
Department of Human Services
Analyst: Teschner

Request: Report on the status of Maintenance of Effort (MOE) for federal Temporary Assistance for Needy Families (TANF), Child Care and Development Fund (CCDF), and Vocational Rehabilitation (VR) funds.

Discussion: The January 2006 Emergency Board directed the Department of Human Services (DHS) and the Department of Administrative Services (DAS) to return to the April 2006 Emergency Board with a report on the status of MOE for TANF, CCDF, and VR. TANF is a federal program that provides cash assistance and work opportunities for needy families. The CCDF assists low-income families in obtaining child care so they can work or receive training. The VR grant assists states in operating statewide vocational rehabilitation programs for disabled individuals.

States receiving the TANF block grant must meet a MOE requirement by spending at least a specified amount of state funds for benefits and services for members of needy families each year. The MOE level is set at a percent of a historic state expenditure level. The MOE requirement for Oregon is 75 percent of state expenditures for TANF in federal fiscal year 1994 (\$91.6 million). Failure to meet the TANF MOE requirement may result in state sanctions which reduce the grant dollar-for-dollar as well as a penalty. Oregon has met this requirement each year since its implementation in 1996 through qualifying expenditures across seven state agencies: the Department of Human Services, the Employment Department, the Department of Education, the Student Assistance Commission, the Commission on Children and Families, Housing and Community Services, and the Department of Revenue (through qualifying tax credit refunds). However, meeting the TANF MOE requirement has become more challenging in the past few years with revenue shortfalls and budget reductions.

For the last several biennia, Oregon has had to use expenditures from the first quarter of the new biennium to meet the MOE requirement. This is allowable because the first quarter of the state biennium is the last quarter of the federal fiscal year. However, this reduces the amount available for MOE in the new biennium. For example, approximately \$17.0 million of state expenditures in the first quarter of the 2005-07 biennium were used to meet the MOE requirement for federal fiscal year 2005. As a result, the current statewide position for 2005-07 falls below the biennial target MOE by approximately \$10.0 million. This amount will have to be taken from the first quarter of the next biennium to meet the MOE target for federal fiscal year 2007 unless TANF-related expenditures increase.

The baseline for the state's CCDF MOE is the non-federal share of 100 percent of the expenditures in federal fiscal year 1995 for child care programs (\$11.7 million). There are no penalties if a state does not meet its CCDF MOE, but the state would be unable to access any of the federal matching funds for child care. This would impact TANF because these dollars also qualify for TANF MOE. Oregon has met this requirement each year through qualifying expenditures from four state agencies: the Department of Human Services, the Employment Department, the Department of Education, and the Department of Revenue (through qualifying tax credit refunds).

The VR MOE requirement is determined by comparing qualifying non-federal expenditures in the current federal fiscal year to qualifying non-federal expenditures two years prior. The federal fiscal year 2005 MOE was \$7.0 million, and actual state expenditures were \$7.6 million. The state is also required to match federal dollars with state dollars. With the increase of the federal grant and the resulting increase in matching state expenditures, Oregon's MOE requirement has increased over time. However, the Department continues to exceed the VR MOE.

DAS and DHS will continue to closely monitor MOE for TANF, CCDF and VR. Both agencies are working towards the implementation of a more formal review and approval process for all state expenditures claimed as TANF MOE to ensure accuracy and allowability.

13
Department of Human Services
Analyst: Teschner, Johnson, Moore

Request: The Department of Human Services requests approval of a 2005-07 biennial financial rebalance plan.

Recommendation: Defer action on the Department's rebalance request.

Discussion: This is the second plan submitted by the Department of Human Services (DHS) to rebalance financial resources for the 2005-07 biennium. This plan includes revised estimates of expected caseloads, cost-per-case, and non-General-Fund revenues.

The major issues within the rebalance include caseload and cost-per-case changes, a reduction in the federal Medicaid match rate, adjustments for revenue shortfalls and changes in the cost allocation processes identified at the October 2005 Emergency Board. These issues are discussed below.

CASELOAD AND COST-PER-CASE CHANGES

Unanticipated caseload growth and cost-per-case changes due to increasing demand for services in several program areas results in an increased need of \$96.8 million General Fund. This is \$22.4 million less than reported to the January 2006 Emergency Board. The most significant caseload changes are within the Oregon Health Plan.

Children, Adults and Families

The rebalance increases the 2005-07 Legislatively Adopted Budget (LAB) for Children, Adults and Families (CAF) by \$11.6 million General Fund and adds 69 positions (39.14 full-time equivalent).

About \$9.5 million of the increased need of General Fund is due to increased caseload and cost-per-case estimates. This is down significantly from the \$19.1 million estimated General Fund need in the January 2006 rebalance. The Spring 2006 forecast of the Self-Sufficiency and Child Welfare caseloads shows a moderation in the growth of these caseloads since the Fall 2005 forecast.

A slight increase in the program costs for Temporary Assistance for Needy Families (TANF), Employment Related Day Care (ERDC), and Emergency Assistance Domestic Violence were offset by a carry forward of TANF funds. Therefore, no General Fund is needed for these programs.

The caseload growth is driven primarily by increases in the Substitute Care programs, particularly Foster Care. The increased Foster Care caseload has created a need for 63 additional positions (34.82 full-time equivalent). It also drives many of the increases in the non-mandated child welfare programs including the Statewide Residential Treatment programs, Subsidized Guardianship, Special Contracts and Other Medical. Approximately \$6.7 million of the TANF carry forward was used to offset the increased General Fund need in the Substitute Care

programs. As a result, the net General Fund need in these programs is approximately \$9.0 million.

Vocational Rehabilitation caseloads and cost-per-case are also higher than anticipated creating a need for about \$1.1 million General Fund. The driving force behind this increase is the shift in primary disability types from physical to cognitive and mental disabilities. These require increased assessment, higher medical costs and more expensive technology.

Health Services

General Fund costs in Health Services, after adjusting for savings and additional revenue, are projected to increase a total of \$74.8 million above the LAB for the 2005-07 biennium. This is down from an estimated \$99.4 million at the January 2006 rebalance. Cost increases fall into two basic categories, forecasted caseload increases and program cost increases.

Forecasted Caseload Increases:

The Spring 2006 Forecast estimates an overall increased caseload of 21,877, or 5.9 percent above those projected in the Spring 2005 Forecast used for the 2005-07 LAB. This is down about 1.8 percent from the Fall 2005 Forecast estimate of 28,271. If the Spring 2006 Forecast estimates are correct, the overall impact will be a General Fund need of \$65 million compared to \$88 million estimated in January.

Overall the Health Services caseload is anticipated to be less than estimated in the Fall 2005 Forecast. As in the Fall Forecast, the Spring 2006 Forecast also has its major caseload increases in three areas; TANF, Aid to the Blind and Disabled (ABAD) and State Children's Health Insurance Program (SCHIP). The forecast used for the LAB modeled these three major categories with an assumption of a fairly stable growth pattern based on 12 to 18 months of actual data through September 2004, the last month of actual data used for the Spring 2005 Forecast. In part, the projected pattern was intentionally adjusted to reflect the belief that the burgeoning economy would continue the pattern of minimal caseload growth. Shortly after September, however, the actual caseloads began to increase at a higher than anticipated level. In addition to the three issues above, there is also a significant increase in the Poverty Level Medical Children (PLMC) caseload that offsets some of the other reductions since the Fall Forecast.

The unanticipated growth in TANF caseloads between the Spring 2005 and Spring 2006 Forecasts are the result of two major factors; increases in the number of new clients and current clients staying on TANF for longer periods of time. Why more individuals are being added to the caseload and staying longer is a complex question. In researching the underlying reasons, DHS has identified some of the issues that each play a part in the increase of the TANF caseload. Some of these issues are:

- Impacts of changes to Oregon Health Plan Standard – more individuals than anticipated who would have been placed in the Standard program, are now qualifying for TANF medical programs.
- Federal policy changes that allow individuals who qualify for TANF cash benefits, may now choose to receive medical coverage without receiving the cash benefits. This means that these individuals do not have to meet the JOBS requirements to receive the cash benefit.
- Federal policy changes that require all DHS clients to be screened for any benefit they may be entitled to regardless of the reason for their initial contact with DHS.

- Improved training and processes within DHS that ensure accurate screening of clients and placement into the proper benefit categories.
- Outreach by private and public organizations, including DHS, have educated more Oregonians to the benefits that they may not otherwise have known they qualified for.
- Growth of the Oregon economy, specifically in the employment area, did not occur as quickly as anticipated. Further, while the unemployment rate is dropping, more employers are opting not to provide health insurance benefits, presumably due to the increasing costs of health care coverage.

At the January meeting of the Emergency Board, it was reported that interim data since the Fall 2005 Forecast for the TANF caseload appeared to show that the anticipated leveling off of caseload growth shown in the Spring 2005 Forecast may have begun. The Spring 2006 Forecast has held true to the initial indicators and further support a lower estimated caseload than reported in the Fall 2005 Forecast. The anticipated monthly average TANF caseload has dropped by 11,333 from the Fall 2005 to the Spring 2006 Forecast, but is still 8338 higher than the number used in the LAB.

The unanticipated increases in the CHIP caseload between the Spring 2005 and Spring 2006 forecasts coincide with DHS training efforts and, more importantly, successful outside agency outreach programs conducted during the school year startup. These factors were not included in the Spring 2005 model. The CHIP caseload has continued to increase and the estimated monthly average caseload has increased 3,493 from the Fall 2005 to the Spring 2006 Forecast; up 9,610 from the LAB estimate.

The unanticipated increases in the ABAD caseload are related to the closure of the General Assistance (GA) program. During the period between the closure of GA and the Spring Forecast, the number of individuals exiting the system offset the number of new clients leading to a period of stable caseloads. There is evidence that mitigating factors have worked through the system and interim numbers since the Fall Forecast confirm that the historical growth pattern has now returned, as is further shown in the Spring 2006 Forecast. However, the anticipated average monthly caseload has dropped 2,095 from the Fall 2005 to the Spring 2006 Forecast; now up 2,937 from the LAB estimate.

The Spring 2005 Forecast, used for the LAB, anticipated a steady reduction in the PLMC caseload throughout the 2005-07 biennium. Actual data came in even lower towards the end of the 2003-05 biennium and the Fall 2005 Forecast anticipated an even lower caseload than the number used for the LAB. In the months after the Fall 2005 Forecast, the actual caseload rose and then leveled off. The Spring 2006 Forecast anticipates the caseload to minimally increase at a slow but steady pace. The impact is an estimated average monthly increase of 2,877 from the LAB to the Spring 2006 Forecast. While this in itself is not a huge increase, the numbers are a bit misleading in that within the various PLMC age groups, there are large increases in the younger populations, which are the most expensive. This overcomes the estimated reduction in some of the older, less expensive, populations.

While it is difficult to isolate all the factors driving the PLMC caseload change, it does appear that over the last several months there has been an increase in the net number of kids that are transferring to the PLMC caseload from the TANF program and to a lesser extent from the CHIP program in the 0-5 age group.

The downward trend in anticipated overall caseload is encouraging. However, it is not reasonable to expect it to continue to a point that the current budgetary problems will be solved. Furthermore, the Spring 2006 Forecast continues to have risks that cannot be taken lightly, and these caseloads will continue to fluctuate up and down. In part, the difficulty in forecasting the volatile Health services caseload is exemplified by the large increases in both costs and savings in the following two sections. In both cases, the main cost increases and savings were not within the control of DHS.

Program Cost Increases:

Program cost increases since the LAB account for \$38.2 million of increased General Fund need. This is an increase of about \$19 million since January; though this is basically offset by increased savings as described below.

As in January, three of the main areas of increase are: increases in administrative fees paid to Managed Care Organizations; an approximate one percent increase in Fee for Service Physician costs; and a significant increase in the costs of the AIDS Drug Assistance program due to an increase in the number of people receiving services, increased drug costs and lower available manufacturer drug rebates.

In addition, several new cost increases have been identified, including two significant items. The first is related to reimbursements to Federally Qualified Health Centers (FQHC), most significantly in Multnomah County. Total General Fund need is \$9.7 million, up from \$.6 million in January. FQHC are reimbursed at a set rate per encounter. A Managed Care plan pays its contracted rate to an FQHC, and the state is obligated for the difference (wrap around) between the set rate and that paid by the managed care plan. Specific to Multnomah County, there is increased budget need as Multnomah moves closer to making payment requests closer to state due dates. Basically, Multnomah County is catching up more quickly on their backlog of reimbursements than budgeted in the LAB.

The second major cost increase is in the Citizen/Alien Waived Emergency Medical (CAWEM) program. The CAWEM program covers individuals who would be Medicaid eligible except for their immigration status and covers only emergency and child delivery services. There is an increased need of just over \$5 million General Fund in this program due to an increase in the number of covered births coupled with an increased cost per birth. Child birth costs represent approximately 90 percent of costs in the CAWEM program. While there is a \$5 million cost-per-case increase shown here, overall the net CAWEM General Fund need is about \$2.6 million because of an approximate \$2.4 million General Fund savings related to the decrease in estimated average monthly caseload included as a subset of the Health Services caseload increase section above. The increase in cost-per-case and increase in cost savings related to overall caseload reductions in the CAWEM program are set out individually to ensure the changes in cost-per-case and changes in caseloads can be tracked separately.

Program Savings and Increased Revenue:

While program costs in Health Services have increased, so have savings. Management actions and other savings reduce the additional need for General Fund by approximately \$28.4 million. This is an increase of approximately \$19 million in savings since January. The major savings include a total savings of \$13.6 million anticipated due to lower than projected MMA “claw-back” payments to the Federal Government and an increase of \$8.2 million in revenue from Hospital Facility Settlements anticipated to be completed during the remainder of the biennium.

In addition, approximately \$3 million of General Fund savings will be realized through Management Actions taken within Health Services.

Seniors and People with Disabilities

Changes in estimated caseload and cost-per-case projections from the 2005-07 LAB result in a \$12.0 million General Fund need for Seniors and People with Disabilities (SPD). This is a substantial change from the \$0.4 million in General Fund savings estimated in the January rebalance. The need is the net of increases in Developmental Disabilities and Nursing Facilities costs and decreases in In-Home-Care Home Care Worker, Oregon Supplemental Income and Community Facilities costs.

Developmental Disabilities has experienced both caseload and cost-per-case growth for both Adults and Kids Long-Term Diversion. These increases are offset by lower caseloads and costs per case in Kids Turning 18 (Residential) and Kids Turning 21 (Employment and Transportation). The overall impact is an \$8.8 million General Fund need above the 2005-07 LAB. This is up \$5.6 million from the January rebalance.

Based on the Spring 2006 Forecast, the Nursing Facility caseload is up by 201 cases, which is 150 cases more than was identified in January. This represents a General Fund need of \$11.4 million over the 2005-07 LAB and \$8.7 million more than the January rebalance.

Savings in the In-Home-Care Home Care Worker program, Oregon Supplemental Income Program (OSIP), Adult Foster Care and Assisted Living Facilities, and the Program for All-inclusive Care for the Elderly (PACE) resulting from decreased caseloads and lower costs per case offset the General Fund need described above by \$8.2 million. These savings are \$1.9 million more than projected in January.

Department Wide Support Services

The Department Wide Support Services (DWSS) rebalance includes Services and Supplies costs associated with positions requested by CAF due to increased mandated caseloads in Child Welfare. This creates a \$0.5 million General Fund need.

FEDERAL FUNDING FORMULA CHANGES

The federal government annually recalculates the Federal Medicaid Assistance Percentage (FMAP). This FMAP rate is used as the basis for determining federal participation for several programs in addition to Medicaid programs. For the FFY 07, the FMAP for Oregon will decrease by approximately one-half-of-one percent. This translates to an increased \$23.8 million General Fund need over the last three quarters of the biennium. The General Fund cost per cluster is as follows: CAF \$1.6 million, HS \$13.1 million, SPD \$9.0 million and DWSS \$0.1 million. There is no change since January.

REVENUE SHORTFALLS AND COST ALLOCATION CHANGES

As part of the 2003-05 biennial closeout, the Department identified problems stemming from revenue shortfalls and changes to the cost allocation process which create roll-up costs in the 2005-07 biennium. Adjusting for these issues results in an estimated cost of \$28 million General Fund in the current rebalance, down \$1.9 million from January. The General Fund cost per

cluster is as follows: CAF \$2.0 million, HS \$4.5 million, SPD \$13.3 million and DWSS \$8.2 million.

OTHER ISSUES

Miscellaneous other issues result in a net savings of approximately \$8.5 million General Fund, an increase in savings of \$7.6 million from January. The increase since January is due mainly to an increase in March 2006 Tobacco Tax Forecast of \$9.5 million, up an additional \$7.8 million from the December 2006 Tobacco Tax Forecast. This increase is partially offset by additional costs associated with contract actuarial services efforts for the Oregon Health plan of \$0.9 million General Fund. In addition, the Department continues to propose administrative reductions across all clusters resulting in a savings of \$4.0 million General Fund.

SUMMARY

Based on the Spring 2006 Forecast and the other issues identified above, the Department’s net projected need is \$136.2 million General Fund for the 2005-07 biennium, down \$31.8 million from the January rebalance. An overview of the changes since January is set out in the table below. The Department of Administrative Services (DAS) will continue to monitor actual program caseload levels as well as other issues identified in this re-projected estimate of the Department’s needs. DAS Budget and Management will work closely with the Department and the Legislative Fiscal Office to develop new program forecasts and recommended actions in preparation for the June 2006 Emergency Board.

**Changes from January to April
(dollars in millions)**

Cluster	Caseload	2003-05 Closeout	Other plus Admin Reductions	Total
CAF	(9.5)	(3.2)	(0.2)	(12.9)
HS	(24.6)	1.1	(7.5)	(31.0)
SPD	12.4	0.2	(0.5)	12.1
DWSS	(0.6)	0.0	0.6	0.0
TOTAL	(22.3)	(1.9)	(7.6)	(31.8)

12
Department of Human Services
Analyst: Johnson

Request: Medicare Modernization Act (MMA) Implementation Update report.

Discussion: At the January Emergency Board, the Department of Human Services (DHS) submitted a report on the implementation of the Medicare Prescription Drug program, which had become effective January 1, 2006. DHS outlined the problems encountered with the program and the steps the Department was taking to make sure eligible Oregonians were getting the prescriptions that they required. These steps included Governor Kulongoski's authorization for the state to begin paying for prescription drugs for clients who were unable to get their drugs through the program, as well as a meeting between the Governor and Secretary of Health and Human Services Leavitt to address the reimbursement of the costs of the medications and the administrative costs incurred by the state.

Following are the significant actions that have taken place since the January Emergency Board as well as ongoing concerns expressed by DHS:

- On February 16th, DHS was awarded a waiver which will allow Oregon to be reimbursed fully for the costs of the drugs that the state has paid and some of the administrative costs that the Department has incurred. The reimbursement for prescription costs ended on March 8, 2006, but DHS has requested an extension. Reimbursement for administrative costs will end on April 7, 2006.
- DHS central office continues to receive about 300 calls per week from clients who are unable to receive their medications or who must pay an increased co-payment. DHS estimates that the 300 represents approximately 25 percent of all calls received by field staff concerning problems with the program.
- Lack of progress by the federal Centers for Medicare and Medicaid Services (CMS) in resolving the problems leads DHS to believe that the problems will persist for several months. Therefore, the Department is recommending as part of the rebalance request to extend the time-limited funding for four central office and twenty-nine local office staff. These positions were provided by the Legislative Assembly to implement MMA and end March 31, 2006. DHS proposes extending the local staff August 31, 2006 and the central office staff through March 31, 2007.
- Finally, DHS is concerned that many clients are starting to report they are unable to meet their federally required co-payments. Clients with extremely limited incomes are struggling to make their mandatory co-payments and since Medicare does not guarantee access to services, those individuals who do not have the ability to pay may not receive their prescriptions.

11
Department of Human Services
Analyst: Johnson

Request: Report on the Implementation of a Comprehensive Integrated System of Services and Supports for Children with Disabilities and Their Families.

Discussion: The Department of Human Services (DHS), Seniors and People with Disabilities (SPD) submits this preliminary progress report. A final report will be submitted in January of 2007, on the implementation of a comprehensive integrated system of services and supports for children with developmental disabilities and their families in response to a budget note approved by the 2005 Legislative Assembly. The budget note required the Department to convene a working group, in collaboration with the Oregon Council on Developmental Disabilities, to review eligibility, demographics, funding options, program design, administration, implementation, and best practices of programs that serve children aged birth to 18 with disabilities.

The working group has formed the Children's Budget Note Steering Committee with representatives from local government, service providers, advocates, families, and SPD staff. The Steering Committee has held fact-finding meetings with other stakeholder groups and has focused their activities on an overview of current data and policies. Areas the Steering Committee has been focusing on, as well as recommendations for further review, are listed below:

- Eligibility: Recommend revision of the process to establish provisional eligibility and investigation of collaborative service provisions for children with developmental disability and mental health dual diagnosis.
- Children with Juvenile Justice Involvement: Recommend collaboration between SPD and the Office of Mental Health and Addiction Services (OMHAS) in the development of treatment services and funding options for this group of children with developmental disabilities who have significant law violations and are involved in the juvenile justice system.
- Medically Involved Children: Recommend investigation of a model waiver to prevent unnecessary out-of-home placement of children with complex disabilities who require nursing home level long-term medical care.
- Nursing Homes: Recommend development of admission assessment and procedures, as well as rules and alternative service options to address the issue of children growing up in nursing facilities.
- Family Support: Recommend continued review of program design, Oregon Administrative Rules, administrative structure and potential funding sources to develop the service to more appropriately meet the needs of the families of children with developmental disabilities.

10
Department of Human Services – Health Services
Analyst: Moore

Request: Report on progress and actions to improve the safety and quality of treatment for patients at the Oregon State Hospital (OSH).

Discussion: In January 2006, the Emergency Board approved the Department of Human Services (DHS) requests for \$2,103,716 of General Fund and one position (0.50 full-time equivalent) to convert the 6th floor of the OSH-Portland facility to psychiatric space; \$3,872,342 General Fund, \$2,999,210 Federal Funds and four positions (2.68 full-time equivalent) to create 71 new community placements as the first step to increasing the staff to patient ratio to 1.31:1; and \$3,293,781 General Fund and 30 clinical positions (15.00 full-time equivalent) as a second step to increase the staff to patient ratio to 1.31:1 by June 2007.

The report submitted by DHS provides a more detailed update as to the progress made in each area since the January meeting. Overall, DHS is on track to timely hire the positions approved in January. DHS has also begun the planning and analysis of locating the additional 71 positions and is creating an improved month-by-month development plan report designed to allow management to frequently review the progress of the planned community developments. This report will also be the basis for monitoring portions of the Oregon Advocacy Center lawsuit settlement and providing progress updates.

Also worth mentioning is an update on the lawsuit filed by the Oregon Advocacy Center prior to the January 2006 meeting of the Emergency Board. As of March 24, 2006, the settlement agreement has been signed by all parties and the necessary documents filed with the court to gain resolution to this matter. In summary, the settlement states that plaintiffs have agreed to dismiss their lawsuit in exchange for the state's agreement to take "all necessary steps within their control" to achieve the staffing and patient-census targets along the timeline set forth in the "Plan for Forensic Staffing" that is part of the agreement. In addition, the state risk management pool will pay the Oregon Advocacy Center \$37,500, which is approximately 1/3 of their fees and costs. The agreement expires at the end of the current biennium, June 30, 2007.

DHS is moving forward with the conversion of the 6th floor of the OSH-Portland facility. After the last Emergency Board, DHS agreed to look into the possibility of the "Cedar Hills" facility being a viable alternative to remodeling the 6th floor prior to moving forward with the approved conversion. After a detailed review of the building, anticipated purchase costs, extensive remodel costs and procurement timelines, it was determined not to be a viable alternative. Estimated project costs would exceed \$10 million dollars and would likely take over two years to complete. Furthermore, the Cedar Hills facility does not appear to fit within any of the long term options proposed in the OSH Phase II master plan that was recently released. While this review did necessitate a delay of the 6th floor conversion, the conversion project is now moving forward quickly with anticipated completion in late February or mid-March 2007.

Department of Higher Education**Analyst: McGee**

Request: Establish a \$4,705,000 Other Funds (Article XI-F (1) bonds) Capital Construction expenditure limitation for purchase of the Baker Downtown Center in Eugene by the University of Oregon.

Recommendation: Approve the request.

Discussion: The Department of Higher Education is requesting establishment of a \$4,705,000 Other Funds Capital Construction expenditure limitation to fund purchase of property by the University of Oregon. The 76,356 square foot site is located at 975 High Street in Eugene between 10th Avenue on the south and East Broadway on the north. It is approximately one mile from campus.

The site contains a three-building complex that previously housed operations of the Register-Guard newspaper and is now known as the Baker Downtown Center. The complex consists of three buildings, constructed between 1951 and 1972, that share a single roof. The facility has a total of 88,494 square feet.

The university began leasing the building in 1995, taking complete occupancy when the Register-Guard moved its operations in 1998. University programs located in the facility include the Continuing Education Department, the Printing and Mailing Services office, federally-funded career information programs, university archives space, and facilities storage. There is empty space on the second floor and in the basement that would require renovation to become usable.

The property's owner recently decided to sell the property and has given the university first right of refusal. The property owner intends to sell the property under internal revenue rules for 1031 exchanges, which require completion of the sale within a fixed period of time. Closing is planned for July 2006.

The university is proposing to purchase the building rather than attempting to continue leasing from a new owner. The existing fifteen-year lease, negotiated with the Baker Foundation in 1995, included an escalator on the initial rent that has resulted in current lease payments that are approximately two-thirds less than current market value. Although a new owner would probably be required to honor the existing lease through its 2011 expiration, the university is concerned that long-term rents could increase significantly. If the university were required to vacate the building, moving costs, particularly for Printing Services, would be significant. In addition, the property is located in an area of Eugene where significant development activity is going on, making the property a valuable asset should the university choose to sell it at some point in the future.

The Department is requesting authority to issue \$4,705,000 in Article XI-F (1) bonds to finance purchase of the property. This includes a purchase price of \$4,612,000 and \$93,000 in closing and other costs. The university's first appraisal estimated that the property has a market value between \$6.4 million to \$6.6 million; a second appraisal has not yet been completed. The

university anticipates the need for approximately \$1 million in capital repairs over the next three to five years, to replace the roof and upgrade the electrical system. No additional funding will be requested from the Legislature for these costs; they will be paid from ongoing maintenance budgets.

Debt service on \$4,705,000 in 30 year bonds at five percent interest is estimated at \$744,600 in 2007 and \$372,300 per year for the following 29 years. The 2007 amount includes payment of the first year's debt service and an equal amount for transfer to a sinking fund for the next year's payment. Double payments for first year Article XI-F (1) bond debt service is required by Department policy.

Revenue for debt service payments and facility operations costs will be received from rent charges to the building's occupants and other university resources. Rental revenue sources would include fees paid to the Continuing Education Department for non-credit courses, charges to university departments and offices for print and mail services, and administrative overhead from federal grants supporting the career services programs. Additional funds will be made available from overhead assessments charged to auxiliary enterprises, such as housing, dining, and parking operations, that otherwise support campus education and general services expenses.

Article XI-F (1) bonds are required by the Oregon constitution to be used only for buildings or structures that "conservatively appear to the constructing authority to be wholly self-liquidating and self-supporting from revenues, gifts, grants, and building fees". The Board of Higher Education, as the constructing authority, approved the proposed debt service financing proposal.

Legal Reference: Establishment of an expenditure limitation of \$4,705,000 for the Department of Higher Education as the maximum limit for the payment of expenses from proceeds of Article XI-F (1) bonds received for the biennium beginning July 1, 2005 for purchase of the former Baker Downtown Center at 975 High Street in Eugene by the University of Oregon.

3
Department of Higher Education
Analyst: McGee

Request: Increase Other Funds Capital Construction expenditure limitation from \$4 to \$55 million for construction of a co-generation plan at Oregon State University.

Recommendation: Approve the request with the understanding that approval does not set a precedent for use of Certificates of Participation for higher education capital construction projects.

Discussion: The Department of Higher Education (DHED) is requesting increased Other Funds expenditure limitation to finance a \$55 million upgrade of heating, electrical, and telecommunications infrastructure at Oregon State University (OSU). Senate Bill 5514 (2005) included four expenditure limitation placeholders of \$1 pending final determination of a funding model. The Department is proposing to fund the project with a mix of general obligation bonds, certificates of participation, campus reserves, tax credit pass-through payments, grants, and donations.

Project description The university's heating and electrical systems have exceeded their useful lives and are in need of replacement. The existing steam heating plant, built in 1925 with brick and mortar, has been determined to be at risk of collapse in a minor earthquake. The steam piping system, attached to the walls and ceilings of the building, would also be destroyed. Two of the five boilers are not functional and the remaining three are not adequate to heat the campus if temperatures fall below 27 degrees for an extended period.

OSU estimates that renovation of the existing steam plant would cost several million dollars more than construction of a new facility. In addition, a new facility located at the far west end of the campus would better accommodate anticipated growth. The cost of a new steam plant is estimated at \$28 million.

Rather than building a new steam plant, however, the Department is requesting approval to construct a co-generation facility that will produce electricity as a by-product of the steam generation process. The cost of the co-generation facility is \$39 million, plus \$12 million for replacement of underground and overhead electrical transmission equipment. Over the past five years, OSU has experienced approximately 60 unplanned electrical power outages due to issues with its supplier and the deterioration of the on-campus distribution system. These outages have interfered with campus operations and damaged research projects. The university is in negotiations to buy back the distribution system, which was sold to PacifiCorp in 1990. Terms of the sale allow OSU to re-acquire the system for \$1 plus the cost of improvements. With the ability to generate approximately half of the university's electricity needs, OSU anticipates a \$2 million annual reduction in energy costs that can be used to pay debt service on the bonds issued to fund the project.

OSU would also like to house a new telecommunications switch at the facility. There is currently only one switch on campus, which is located in the basement of the Kerr Administration Building and subject to flooding. The existing switch is near capacity and unable

to meet the increasing needs of the university. The cost for the telecommunications switch is \$4 million.

The facility would be constructed as a Leadership in Energy and Environmental Design (LEED) Platinum facility, the highest level of the voluntary, consensus-based national standards for developing high-performance, sustainable buildings. It would include teaching and research space for the Colleges of Engineering, Forestry, and Environmental Sciences to support study of sustainable energy and environmental technology.

Schedule The project is planned to be constructed in two phases. The first phase, to be completed by December 2007, would include construction of the new building, installation of two conventional boilers, and laying of an underground utility corridor to connect the new steam generation system with the existing distribution lines. By July 2008, a turbine would be installed that would generate both steam and electricity. Activities during this phase would be geared towards minimizing the amount of time that the university is dependent upon the existing heating plant.

The second phase of the project would include replacement of the electrical distribution infrastructure and installation of the telecommunications switch. Timing of this phase of the project would be dependent upon receipt of grants and donations to match Article XI-G general obligation bonds. If the matching funds were not forthcoming, this portion of the project would be postponed.

Project Summary

Phase 1	Steam plant replacement	\$28 million
	Co-generation capacity and underground utility corridor	\$11 million
Phase 2	Electrical distribution system upgrade	\$12 million
	Telecommunications switch	\$4 million
Total		<u>\$55 million</u>

Financing To finance the project the Department of Higher Education proposes to issue general obligation bonds and certificates of participation, utilize deferred maintenance reserves, sell energy tax credits, and obtain grants and donations. Elements of the funding models include:

Article XI-G bonds: these are general obligation bonds that require a 50 percent match, either with a General Fund appropriation or an alternative source of revenue that is designated as General Fund by the Legislature during regular session. Debt service on these bonds is paid with General Fund. DHED is requesting \$12 million in Article XI-G bonds, to be entirely expended in the first phase of the project.

Article XI-F (1) bonds: these general obligation bonds are required to be self-supporting and self-liquidating. Debt service is paid with energy savings and other campus generated revenues. DHED is requesting \$17 million in Article XI-F (1) bonds, to be split between the two project phases.

Certificates of Participation: COPs are tax-exempt government securities that are repaid from appropriated funds and not backed by the full faith and credit of the state. With the availability of two constitutionally-established bond programs, COPs have never been used

for higher education construction projects. Interest rates on COPs tend to be slightly higher than rates on general obligation bonds. DHED proposes to pay the debt service with energy savings and institutional funds. The Department is requesting \$8 million for phase one, to be counted as part of the match for Article XI-G bonds.

Business Energy Tax Credit: tax credits are available for investments in energy conservation, recycling, renewable energy resources, and less-polluting transportation fuels. The tax credit is worth 35 percent of certain project costs and is taken over five years. Public entities that do not pay taxes can pass the credit to businesses with tax liabilities for a cash payment. DHED expects the OSU project to be eligible for the credit and anticipates a pass-through payment of \$4 million. These funds would provide the remaining match against Article XI-G bonds and would be used in phase one.

OSU reserves: the university has reserved \$6 million in capital maintenance funds to assist with the financing of this project. These funds were originally generated from previous sales of Article XI-G and Article XI-F (1) bonds and are not eligible to be used for match against new Article XI-G bonds. The Department proposes to use them in phase one.

Energy Trust of Oregon and Climate Trust grants: applications have been made to these non-profit organizations that promote energy efficiency and renewable energy and reducing greenhouse gases. The Department hopes to receive \$3.5 million from the Energy Trust and \$2.5 million from the Climate Trust. Due to uncertainties about the availability of the funds, their use is proposed in the second phase of the project.

Donations: DHED has targeted \$2 million in donations, possibly from federal grants to the academic departments that will use the facility for instruction and research. These funds are also proposed for phase two.

SELP loans: The 2005 Legislature also established a \$1 placeholder for the use of Small-scale Energy Loan Program (SELP) loans, generated from the sale of general obligation bonds authorized by Article XI-J of the constitution. After discussions with the Department of Energy, it was determined that other financing mechanisms are more appropriate for this project.

The following table summarizes the financing request.

	Revenue source	Amount
Phase 1	Article XI-G bonds	\$12.0 million
	Article XI (1) bonds	\$9.0 million
	Certificates of Participation	\$8.0 million
	OSU reserves	\$6.0 million
	Business Energy Tax Credit	\$4.0 million
Phase 2	Article XI bonds	\$0
	Article XI-F (1) bonds	\$8.0 million
	Energy Trust of Oregon	\$3.5 million
	Climate Trust	\$2.5 million
	Donations	\$2.0 million
Total		\$55.0 million

Operations and debt service costs Although the primary reason for replacing the existing steam plant is its deteriorating condition, the Department also believes that replacing the existing steam plant with a new co-generation facility would result in savings to the university, estimated to be \$400,000 in 2008-09, including debt service costs. Construction of a new steam plant would be expected to result in increased costs of about \$1 million when the debt service is included.

Replacement of the existing facility is expected to save \$1.3 million in annual maintenance and operations costs, regardless of whether it is replaced with a new steam plant or a co-generation facility. Costs for electricity and natural gas are anticipated to be reduced from \$12.7 million if the existing plant continues operations to \$11.7 million if it is replaced with a steam plant and \$10.7 million if the co-generation plant is built.

Debt service of \$2.7 million to \$2.8 million would be paid with a General Fund appropriation for Article XI-G bonds and energy savings and other university revenues for Article XI-F (1) bonds and COPs. Article XI-F (1) bonds are required by the Oregon constitution to be used only for buildings or structures that “conservatively appear to the constructing authority to be wholly self-liquidating and self-supporting from revenues, gifts, grants, and building fees”. The Board of Higher Education, as the constructing authority, approved the proposed financing proposal for this project.

The following table compares projected 2008-09 costs for operation of the existing steam plant, construction of a new facility limited to steam production, and a co-generation plant. The comparison is based on analysis done for OSU by Carter-Burgis, Inc.

Estimated 2008-09 Operations and Debt Service Costs				
		Existing steam plant	New steam plant	Co-generation plant
Phase 1	Operations and maintenance	\$1.9 million	\$0.6 million	\$0.6 million
	Electricity costs	\$6.4 million	\$6.4 million	\$3.1 million
	Natural gas costs	\$6.3 million	\$5.8 million	\$8.1 million
	Debt service	\$0	\$1.7 million	\$2.2 million
Phase 2	Energy costs	\$0	(\$0.5) million	(\$0.5) million
	Debt service	\$0	\$1.0 million	\$0.6 million
Total		\$14.6 million	\$15.0 million	\$14.0 million

Recommendation The Department of Administrative Services (DAS) recommends approval of the requested \$55 million to construct the new co-generation facility as proposed. The existing heating and electrical infrastructure is in sufficient disrepair that the operation of the campus is threatened. Replacement with co-generation capacity addresses both problems and appears to provide some savings to the university.

Despite recommending approval of the DHED request, DAS has concerns about the use of COPs as part of the financing model. The Oregon Constitution was amended to create two types of general obligation bonds for higher education capital construction: Article XI-G bonds for education and general services facilities and Article XI-F (1) bonds for self-supporting facilities. The Legislature established the COP program to allow access to long-term debt for situations where general obligation bonds are not appropriate or available. With two types of general

obligation financing available for higher education projects, COPs have never been approved for DHED capital construction. While there are no constitutional or statutory prohibitions preventing the use of COPs for higher education, DAS believes there are policy issues that need to be considered by the Legislative Assembly before COPs are routinely used in this way. Of particular concern is the implications of using COPs for education and general services projects. The XI-G bond program limits the amount of debt that the state will incur by requiring a one-to-one match. A shift to COPs would eliminate the need for the match and increase the state's higher education debt load and debt service obligations.

DAS is recommending approval of the COPs in this case because no other source of funds has been identified that can be used to match the Article XI-G bonds. Pass-through funds from the Business Energy Tax credits will not be received until the completion of the project and receipt of grants and contributions is uncertain. General obligation bond proceeds cannot be used to match other general obligation bond proceeds, so Article XI-F (1) bonds, OSU reserves, and SELP loans are not eligible to match XI-G bonds.

The DAS recommendation regarding use of COPs for this project is made on a one-time basis due to the critical need to proceed with the project immediately. DAS does not consider it a precedent for future higher education capital projects.

Legal Reference: Increase the Other Funds (Article XI-G bonds) Capital Construction expenditure limitation established by chapter 787, section 2(6)(h), Oregon Laws 2005, by \$11,999,999, for the Department of Higher Education, for construction of a co-generation plant at Oregon State University.

Increase the Other Funds (Article XI-F (1) bonds) Capital Construction expenditure limitation established by chapter 787, section 2(6)(h), Oregon Laws 2005, by \$16,999,999, for the Department of Higher Education, for construction of a co-generation plant at Oregon State University.

Increase the Other Funds (Other Revenues) Capital Construction expenditure limitation established by chapter 787, section 2(6)(h), Oregon Laws 2005, by \$25,999,999, for the Department of Higher Education, for construction of a co-generation plant at Oregon State University.

2
Office of the State Treasurer
Analyst: Troseth

Request: Report on implementation of compensation plan changes and position allocations as required by Oregon Revised Statutes 291.371.

Discussion: The Office of the State Treasurer is reporting on compensation plan and position allocation changes.

The current report implements five items:

1. Eliminates the Investment Officer B classification (four positions).
2. Establishes new investment officer classifications (four positions). The new classifications recognize the particular asset class for which the investment officers are responsible to manage. The new classifications established are: Investment Officer Fixed Income (1); Investment Officer Real Estate (1); and Investment Officer Equities (2).
3. Implements the Treasurer's new compensation plan for investment officers. The plan increases salary rates for Investment Officers (4) and Senior Investment Officers (3) that manage portfolios within the separate asset classes, the Deputy Chief Investment Officer, and the Chief Investment Officer. The plan is entirely funded through Other Funds with fees deducted from the appropriate fund under management.

The new salary ranges reflect results from a study conducted by the Treasurer. DAS' Human Resource Services Division worked with the Treasurer to ensure the survey was conducted in a manner consistent with the state's approach to compensation. The compensation data was obtained from McLagan Partners, a compensation consulting firm. The Treasurer's plan uses the average salary from both public and private asset management organizations, mixed 50/50 to determine the top of each salary range and adjusted for health care and pension benefits.

4. Implements the Treasurer's revised incentive compensation plan that sets the maximum eligible payout at 30 percent of the employees' base pay for investment returns that outperform the investment officer's respective peers. The McLagan survey data found the average public fund incentive compensation to be 30 percent. The Treasurer has adopted this 30 percent level as the maximum payout. This plan measures the performance within each asset class for which the officers are responsible.

Under this revised "Pay for Performance Plan" component, the maximum 30 percent payout would be paid for investment results that are in the top 15th percentile of the respective peer group. No incentive pay would be paid for results that are at or below the median performance of the peer group; investment returns from the median to the 15th percentile would result in progressively increased incentive compensation. Restated, incentive pay is only paid if the fund has benefited.

Each asset class under investment and the corresponding investment returns of the investment officers will be measured over a five year rolling average against the investment returns of their peers. The prior incentive plan, implemented in 1997, distributed a maximum 10 percent bonus compensation, measuring the returns of the four investment classes against industry benchmarks approved by the Oregon Investment Council, and used a three year rolling average. The change reflects and aligns the Council's current time horizon of five year rolling average. The new incentive compensation plan will commence in 2007.

5. Implements the Treasurer's expansion of the incentive compensation plan to make all Investment Officers eligible for incentive compensation. The former plan rewarded only senior investment officers and the chief investment officer. Investment Officers that are responsible for managing multiple asset classes will be paid based on the combined portfolio returns.

1
Secretary of State
Analyst: Upadhyay/Kleiner

Request: Increase Federal Funds expenditure limitation by \$1,500,000 to adopt an electronic filing system for campaign finance reporting.

Recommendation: Approve the request subject to an affirmative recommendation by the Joint Legislative Committee on Information Management and Technology.

Discussion: The 2005 Legislature passed House Bill 3458 in which Section 14(1) directs the Secretary of State to adopt an electronic filing system to be used for the purposes of reporting campaign finances. As a result, the Secretary of State is working on replacing its antiquated Elections Business System to comply with the legislative direction and is coming forward with this request.

Adoption of an electronic filing system will improve elections systems for both state and federal office and is eligible for the federal Help America Vote Act (HAVA) funding. A prioritized system has been developed and will be implemented over several years. The first replacement will be of the current antiquated Election Business System. Federal limitation is needed to use the federal HAVA funds to complete the Committee Registration module and the Identity Management/Security module. Although the Campaign Finance module has been funded with General Funds, it depends on these other modules to operate. The Committee Registration Module will register committees with the Secretary of State and the Identity Management/Security Module will manage user access rights/roles within the web-based systems. The agency is also appearing before the Joint Legislative Committee on Information Management and Technology to get an affirmative recommendation from the Committee to the State Emergency Board.

The total cost of the project is estimated at \$2,200,000. The Secretary of State's 2005-07 Legislatively Adopted Budget has \$700,000 General Fund for this project. The agency is now requesting \$1,500,000 Federal Funds expenditure limitation to complete the project.

Legal Reference: Increase the Federal Funds expenditure limitation established by chapter 724, section 3, Oregon Laws 2005, for the Secretary of State, Help America Vote Act, by \$1,500,000 for the 2005-07 biennium.

Legislative Counsel Committee
Analyst: Kleiner

Request: Allocate \$206,111 from the State Emergency Fund for unanticipated expenditures incurred for funding/establishing two Deputy Legislative Counsel (LC) positions, reclassifying four Deputy LC positions to Senior Deputy LC positions, and reclassifying one Senior Deputy LC to Chief Deputy LC position.

Recommendation: The Legislative Counsel Committee is not under executive budgetary control.

Discussion: The Legislative Counsel Committee requests \$183,778 General Fund to fund an existing unfunded position and establish a new position (1.00 full-time equivalent). Both positions are classified at the Deputy LC level and are requested for the following reasons:

1. Office productivity and effectiveness have suffered due to recent staff turnover, including anticipated retirements.
2. Timing of hiring is important due to the fact that both deputies should be trained on LC's bill drafting standards and systems immediately, since the deadline for LC to receive agency drafting requests for the 2007 Legislative Session is May 31, 2006.

The Legislative Counsel Committee is requesting to reclassify four Deputy LC positions to Senior Deputy LC positions effective July 1, 2006 for the following reasons:

1. To bring equity to the four Deputy LC's meeting the minimum qualifications of Senior Deputy LC and currently working out of class as Deputy LC's because of the lack of Senior Deputy LC position authority.
2. To increase the morale of not only the four deputies who will be reclassified but also for other current deputies who can anticipate that their advancement will no longer be frozen when they meet the requirements for Senior Deputy LC.

The Legislative Counsel Committee is requesting a General Fund allocation of \$22,333 to reclassify one Senior Deputy LC to Chief Deputy LC position effective July 1, 2006 (working title: Special Counsel to the Legislative Counsel) for the following reasons:

1. To allow the individual who served as interim Acting Legislative Counsel to fulfill drafting responsibilities and handle special substantive projects as assigned and directed by the LC, the first being the Bill Drafting Technology Project.
2. To ensure processes are in place for a seamless transition when the new Bill Drafting Technology Project "goes live" in January 2008, to allow for additional critical peer review of legislative drafts and to ensure that LC's clients and customers receive immediate quality responses to their drafting and opinion requests.

E-Board Request	General Fund
Two Deputy LC positions	\$183,778
Four Senior Deputy LC positions	\$0
One Chief Deputy LC position	\$22,333
Total	\$206,111

Legal Reference: Allocation of \$206,111 from the State Emergency Fund to supplement the appropriation made by chapter 714, section 8, Oregon Laws 2005, for the Legislative Counsel Committee, for the 2005-07 biennium.