

Agenda Item Summary

BACKGROUND

In March of each even-numbered year, the Department of Administrative Services (DAS) prepares budget instructions to guide agencies in the development of the next biennium's budget request. The timelines for the budget development process are based on statutory requirements. Each agency must submit its 2011-13 Agency Request Budget (ARB) document to the Governor and DAS by September 1, 2010. Agencies use this deadline to develop timelines for public input, as well as internal discussions and review, prior to the submission date. In addition, the Commission is required to take official action on the budget before it can be submitted. The Commission Chair must certify that the information contained in the agency's budget request document is accurate and true.

The department is not presenting its requested budget to you today in the format that it will be submitted in September. The formal budget document is quite detailed, large in size, and cannot be finalized until several technical audit processes have been completed. The information shared today represents summary budget information for the next biennium, including a look at program priorities, revenue shortfalls, required budget reduction lists, and policy option packages.

PUBLIC INVOLVEMENT

The department has actively engaged the public during development of its 2011-13 Agency Request Budget. The department formed an External Budget Advisory Committee (EBAC) made up of over 40 public members who have been engaged in agency issues over time. EBAC members are from many different organizations, and include land-based industry, public officials, and sportsmen group representatives.

EBAC met in April and May 2010 to help guide and direct the agency regarding development of its 2011-13 budget. Issues discussed with EBAC included the statewide budget environment, department's program structure, revenue and expenditures, projected ending fund balances, and policy option packages. The department also hosted an Open House for EBAC members in June to discuss program priorities and General Fund (GF)/Lottery Funds (LF) reductions.

The department also convened 11 town hall meetings across the state. There were approximately 90 members of the public that attended these meetings, along with agency staff. Input from these town hall meetings was discussed at the EBAC meeting in May 2010. At each town hall, the department shared information about the agency, core programs, and objectives for the 2009-11 biennium. The department also described the state budget development process, the outlook for the 2011-13 budget, and possible GF/LF reductions.

Key messages expressed by the public at town hall meetings were:

- Need for Wildlife Services,
- Support for core programs,
 - Field staff
 - Landowner services
 - OSP field presence
 - Hatcheries
- Support for making the fee increase last six years,
- Enthusiasm for the juvenile sportpac and reduced juvenile fees,
- Concern about wolves and cormorants, and
- Concern about nonresident fees.

The department advertised these town hall meetings in advance and notices were mailed to interested citizens. The minutes from the town hall meetings are provided in Attachment 2. Written comments submitted at town hall meetings and directly to the department are provided in Attachment 3.

ISSUE 1

2011-13 AGENCY REQUEST BUDGET APPROVAL

BUDGET DEVELOPMENT

The starting point for development of the 2011-13 Agency Request Budget is the department's 2009-11 Legislatively Approved Budget, as of April 2010. From this control point, state agencies make adjustments following a complex yet consistent set of directions. Adjustments include "puts and takes" that account for the phase-in and phase-out of programs and associated expenditures, inflation, state government service charges, and fund shifts. For example, the department must include "policy option packages" (POPs) for any new programs that affect the budget, to continue programs that are not included in our base budget, and to add limitation to existing programs. The affect of these adjustments impact sustainability of the budget and the department's ending balances. Budget "rules" require the agency to demonstrate it has enough revenue to cover expenditures and maintain an adequate ending balance.

Attachment 4 provides a summary of the 2011-13 Agency Requested Budget. Proposed budget expenditures total over \$310 million, including policy option packages.

BUDGET ENVIRONMENT

As we prepare for the 2011-13 budget cycle, the long-term effects of the recession on Oregon are just coming into view. The Governor's Reset Cabinet recently characterized Oregon as "*emerging from this recession with reduced revenues, higher costs and greater demands for the services it provides.*" The Reset Cabinet report is available at http://governor.oregon.gov/Gov/governor_reset_cabinet/reset_state_govt.shtml. The interim report released in mid-May 2010 noted that, at current service levels, the State faces a two billion dollar shortfall that could persist over several decades. The report also noted that Oregon has fewer

options for rebalancing its budget since federal stimulus and forest payments are declining and major tax increases are unlikely. More recently, the Reset Cabinet released a number of recommendations for “resetting” government in light of the current budget environment. These recommendations do not specifically address the department’s budget. However, we were mindful of the overall budget outlook and key findings of the Reset Cabinet as we developed our 2011-13 Agency Request Budget.

LOTTERY FUND SHORTFALL

As we build our 2011-13 budget, lottery revenue shortfalls have already been identified by DAS. In fact, all Lottery Funded agencies have been notified that their 2011-13 LF revenues will be reduced by about 19%. For the department, this shortfall equals a \$1.2 million loss in program moving into 2011-13. The department is proposing to cover this shortfall through reductions in LF positions in the Western Oregon Streams Restoration Program (WOSRP) and through reductions in Services & Supplies in the Fish Conservation and Recovery Program.

PROGRAM PRIORITIES & REDUCTION SCENARIOS

As part of the budget development process, all agencies are required to submit 5, 10, and 25% reduction scenarios for GF and LF. For lottery, these reductions are in addition to the \$1.2 million already identified by DAS. Agencies must also include 5 and 10% reduction scenarios for Other Funds (OF) and Federal Funds (FF).

Given the budget outlook, we anticipate that some of these reduction scenarios will turn into reality. GF reductions, in particular, could reach 25% or more in the next biennium. Headquarters and regional leadership met many times to discuss various options regarding these reduction scenarios. We felt that it was important to take a “priority-based” approach to identifying these reductions. So, rather than focusing on how a program is funded, we looked instead at the relative importance of that program in delivering on our core statutory obligations.

With this strategy in mind, we prioritized our programs based on our statutes (ORS 496.012 and 506.109, in particular) and the comments we heard from EBAC and the public. We did not consider the source of funding as part of our prioritization.

We used the following “ground rules: to develop our reduction scenarios:

- We set reduction targets by division based on the proportion of each fund type within that division (Fish, Wildlife, and Administration). For example, in the proposed budget the Fish Division has over \$10.5 million dollars in GF. So, the 5, 10, and 25% GF targets for that division were essentially based on that value. GF associated with debt service and capital improvements was shared between the Fish and Wildlife Divisions.
- We kept revenue streams separate among the Fish and Wildlife programs (e.g., no shifting of wildlife license dollars into fish programs).

- To protect our ending fund balance and to follow through on our commitment to make the fee increase last six years, we did not allow any shifting of programs onto general License Funds.
- We allowed some shifting onto Carcass and Egg, Commercial Fish Fund, and Recreational Shellfish revenues where there was a suitable fit for those revenues and only to the extent that we could sustain those shifts for several biennia.
- Where possible based on fund type, we identified reductions in our lowest priority programs.

The program priorities and GF/LF reduction scenarios are provided in Attachment 5. At a 25% reduction in GF, there would be significant impacts to programs. The department would propose to eliminate the Grasslands, Western Oregon Stream Restoration, and Watershed Council Liaison programs. The loss of these programs would impact the extent of landowner services provided in Western Oregon, in particular. At a 25% reduction, the department would also close the Butte Falls Hatchery. A 25% reduction in LF would reduce the number of screening projects that that can be accomplished in the Fish Screening Program.

The department also has to submit 5 and 10% reduction options for Other Funds (OF) and Federal Funds (FF). Similar to GF and LF, these reductions were based on program priorities and are summarized in Attachment 6. These OF and FF lists are required every biennium. However, the Governor and Legislature have not typically pursued these types of reductions in the department's budget.

POLICY OPTION PACKAGES

The department has also developed policy option packages (POPs) for the 2011-13 budget. The department has to include POPs for any programs that are not part of our base budget. For example, existing limited duration positions must be carried forward through policy option packages.

Similar to our reduction scenarios, we prioritized POPs based on our program priorities. The packages are grouped by theme and presented for consideration and approval in Attachment 7. Two major themes are fish conservation planning and research, monitoring, and evaluation. These POPs would be funded through Pacific Coast Salmon Recovery Funds and other federal support. The department would also restore limitation associated with Mitchell Act funding and would increase limitation in programs affected by the 2010 fee changes. The department also has a number of Conservation Strategy packages, including the continuation of the Aquatic Invasive Species Program. Other packages continue nearshore marine efforts, address predation, continue marketing efforts, and transition off of outdated mainframe technology. The department has also included several capital construction/improvement projects based on the work of its internal Capital Improvement Work Group. We also included a placeholder POP in the event that the department pursues a the pilot billing program that is being offered by the Department of Justice.

This is the only POP thw would require new expenditures of general License Funds.

The department will continue to keep the Commission, staff, the public and interested parties abreast of the department's budget as it works its way through the process. All figures included in these presentations are preliminary, as some minor adjustments may still be necessary to ensure consistent application of statewide budget instructions.

OPTIONS

Option 1: Approve the department's 2011-13 Agency Request Budget

Option 2: Amend the department's 2011-13 Agency Request Budget

Option 3: Reject the department's 2011-13 Agency Request Budget

**STAFF
RECOMMENDATION**

Option 1.

DRAFT MOTION	I move to approve the department's 2011-131 Agency Request Budget for submission to the Governor's Office by September 1, 2008.
EFFECTIVE DATE	July 16, 2010