

Date: June 17, 2013

To: Environmental Quality Commission

From: Dick Pedersen, Director

Subject: Agenda item M, Informational item: Budget and Legislative updates
June 19-20, 2013, EQC meeting

Purpose of item This item will inform the commission about the updates to the agency budget development process, the status of bills that may pertain to DEQ and provide other general Legislative updates.

Background The 2013 Oregon Legislative session started February 1, and is expected to adjourn in late June. To date, DEQ submitted its agency request budget in September 2012 and Governor Kitzhaber presented his balanced budget in early December 2012. The legislation for DEQ's 2013-15 budget, Senate Bill 5220, is moving through the legislative process, and has now been passed by the Senate and is awaiting action in the Oregon House of Representatives. Attachments A and B outline the current status of the budget as expressed in Senate Bill 5220.

DEQ will also provide an update on bills and other legislation that may involve DEQ.

Attachments A. DEQ 2013-15 Agency Request Budget summary
B. DEQ 2013-15 policy package summary

Report prepared by: Palmer Mason and Jim Roys

DEQ's 2013-15 Legislatively Adopted Budget summary

Budget development overview

DEQ staff provided the commission with an overview of the 2013-15 Agency Request and Governor's Balanced budgets during EQC meetings in August 2012, December 2012, and March 2013.

Since that time, the following budget development actions have occurred:

- April 2013, DEQ presented a summary of the agency's activities, the proposed 2013-15 Governor's Balanced Budget, policy option packages, and potential reduction options to the Natural Resources subcommittee for Ways and Means.
- May 2013, the subcommittee voted to send Senate Bill 5520, which reflects subcommittee recommended changes to the Governor's Balanced Budget, to the full Ways and Means committee.
- June 6, 2013 the full Ways and Means Committee recommended passage of the bill
- June 13, 2013 the Senate passed the Senate Bill 5520 on an 18-12 vote.

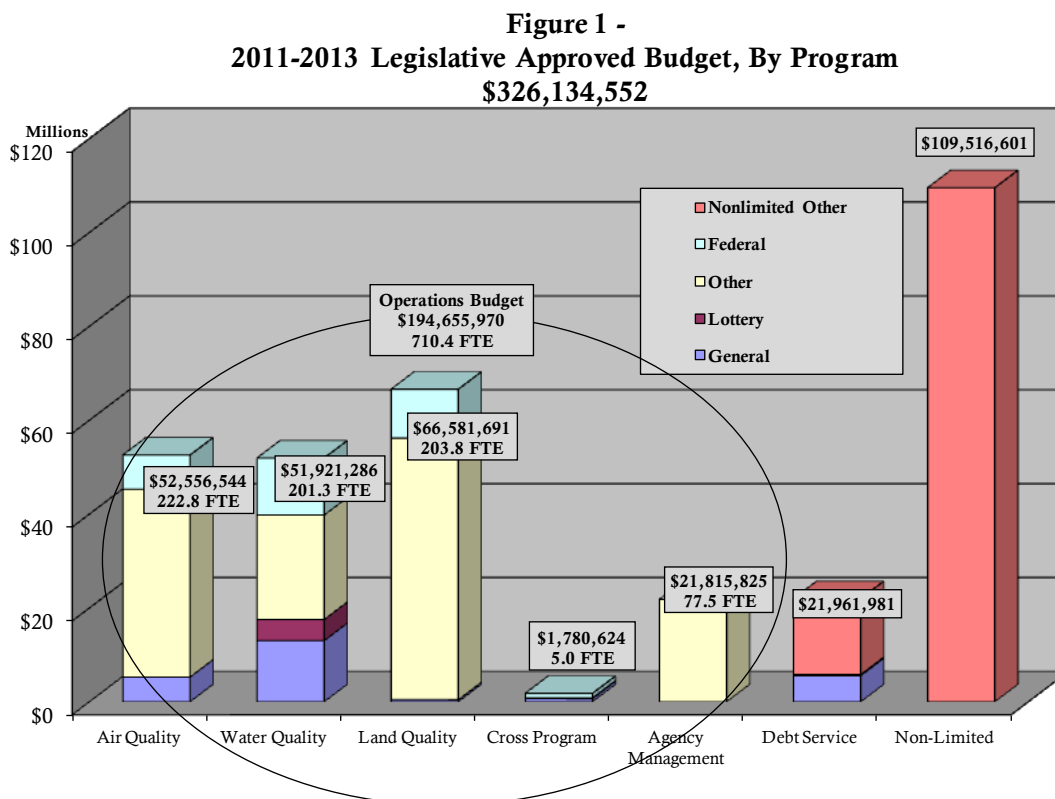
Following the format of the information provided to the Commission in prior commission meetings, the following sections provide a summary of the current biennium 2011-13 approved budget for reference, followed by the major components of DEQ's 2013-15 Budget approved by the full Ways and Means committee.

While it appears that Senate Bill 5520 is on its way to final passage, there may still be other legislation that could affect the DEQ budget for the 2013-15 biennium. There is likely to be an omnibus reconciliation bill that will make adjustments (mostly reductions) to all state agency budgets in the areas of Attorney General, Department of Administrative Service assessments, and on the General Fund portion of the budget, Services and Supplies.

The information following assumes that Senate Bill 5520 passes in its current form and presents what budget components are included in that bill. DEQ plans to update the commission with a final 2013-15 Legislative Adopted Budget briefing at the August EQC meeting.

CURRENT (2011-13) LEGISLATIVELY APPROVED BUDGET

The 2011-13 DEQ Legislative Approved Budget is summarized in Figure 1.



- Each block on this chart, program and fund type, is an appropriation account that must be managed to legislative authorization limits.
- Each program area is comprised of subprograms not shown in the chart with additional limits on the uses of funds within that subprogram.
- Note that five program areas make up the “Operations Budget,” authorizing 710 FTE and \$195 million in total funds spending.
- Debt Service is for bonds issued to fund Orphan Site Cleanups and to provide match for federal Clean Water State Revolving Fund Capitalization Grants.
- The single largest budget item is for Clean Water SRF loans, represents one-third of the total budget. This part of the budget is characterized as “non-limited” and is *not* subject to legislative limitation.

The 2011-13 Legislatively Approved Budget represents the agency’s *authorization* to spend, but it does not necessarily represent its *ability* to spend. As discussed in prior presentations to the commission, DEQ’s ability to spend is limited by the funding provided by federal grants, through fee collections, and via cost recovery and similar work for which the agency is directly reimbursed.

2013-15 Draft Legislative Adopted Budget

Current Service Level

The DEQ 2013-15 Agency Request Budget is prepared by applying standardized adjustments to the 2011-13 budget to create the Current Service Level budget, which is intended to portray the projected 2013-15 biennium costs of continuing permanent services from the 2011-13 budget, prior to adjusting for affordability.

Adjustment description	Increase factor
Eliminate limited duration positions from 2011-13	
Phase in new positions authorized to start during 2011-13	
Adjust salaries for 2011-13 negotiated/implemented changes	~ 3% of salary
Adjust salary steps for each position based on current incumbent's eligibility date for step increases.	~ 2% of salary
Adjust the estimated costs for benefits, PERS Flexible Benefits (Medical/Dental/Vision)	~ 5.3% of salary \$1,800 per FTE
Apply standard inflation factors on other costs:	
• Services and supplies, capital outlays, temps, and overtime	2.4%
• Professional services contracts	2.8%
• Attorney General charges	14.9%
• Rent	5.94%

Modified Current Service Level, or the Affordable Budget

DEQ then balances the current service level budget based on projected available Other, Federal, and Lottery revenues to create the modified current service level prior to any requested legislative actions.

Balance is achieved by:

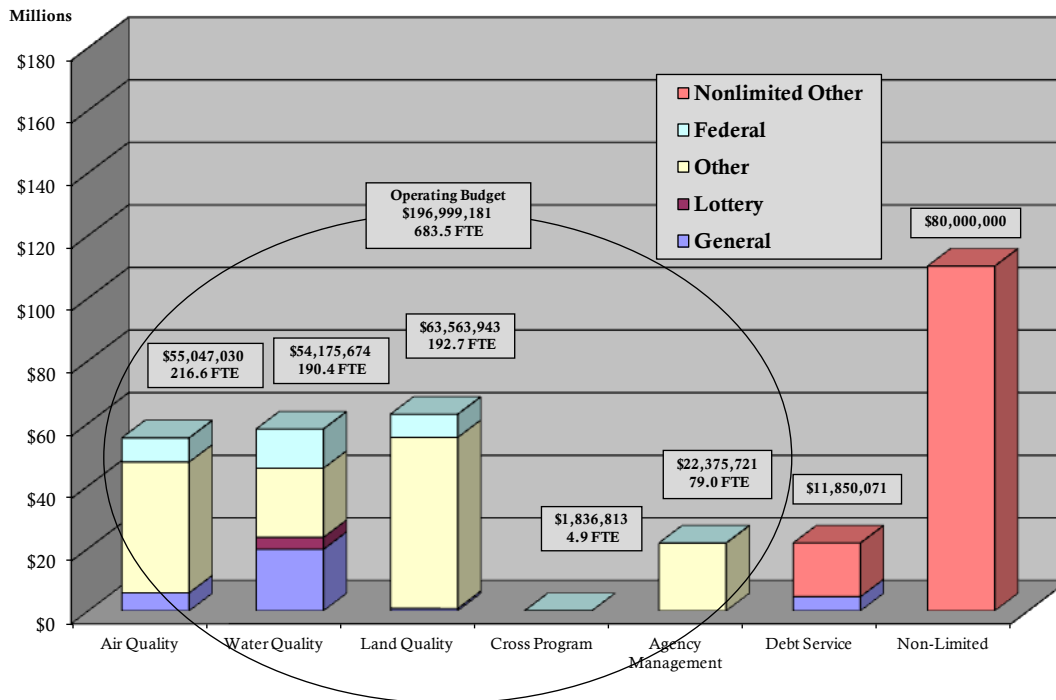
- Cutting FTE/personal services costs and reducing associated services and supplies from the budget until the fund achieved a zero ending balance (for Federal Funds) or a desired ending balance (for Other and Lottery funds) to allow for cash management needs.
- Most of these reductions will be made permanent. DEQ has requested fee increases to allow continued funding for a small number of these positions, discussed further in the policy package section.
- Reductions needed to balance the Other and Federal Funds budgets equaled to 22.32 FTE and \$10.1 million.

Since the submittal of the Agency Request Budget, three major adjustments were made to the underlying assumptions and adopted into the Governor’s Balance Budget:

- The PERS rate was lowered to 19.07% of salary from an original rate of 19.73%, resulting in a reduction in costs to all phases of the Governor’s Balanced Budget, with approximately \$647K in savings within the affordable budget segment.
- The Lottery revenue forecast was updated significantly lower, resulting in the need to implement \$813K in reductions to bring the Lottery budget back in balance.
- The assessments charged to Agency Management for statewide services provided to DEQ were reduced by \$253K.

The result of these changes in terms of the modified current service level budget is shown in Figure 2, the 2013-15 Affordable Budget.

**Figure 2 -
 2013-2015 Affordable Budget, By Program
 \$288,849,252**



The changes in the 2013-15 affordable budget relative to the current 2011-13 Legislatively Approved Budget are discussed in mostly in terms of FTE, because inflation on costs can make it appear that the budget, in dollars, is growing when the agency’s ability to deliver services may actually be shrinking.

Changes by program, already implemented in the Agency Request Budget included:

- Air Quality Division lower due to:
 - 6.7 FTE reduction in the Air Contaminant Discharge Permitting program
- Water Quality Division lower due to
 - Position not affordable in 2013-15:
 - 3.75 FTE in the On-Site program
 - 7.70 FTE in Wastewater Permitting
 - 0.70 FTE in Non Point Source and Operator Certification
- Land Quality Division lower due to:
 - 4.0 FTE due to phasing out of the Umatilla Chemical Weapons Demilitarization activity

The Lottery revenue reduction implement in the Governor's Budget required an additional 3.0 FTE reduction, but this reduction was balanced by a proposed shift of these FTE to be funded on General Funds, discussed later.

Policy Package requests

Attachment B contains an updated prioritized list of the DEQ policy package requests, with the packages that were not recommended shaded in gray. All of the policy packages recommended in the 2013-15 Governor's Balanced Budget were included in the draft of SB5520, with the exception of:

- Package 110, Clean Fuels, which was withdrawn at DEQ's request.
- Package 182, requesting to re-purpose the Sewer Assessment Deferral Loan Program funds to help small communities. These funds are expected to be swept into the state general fund for use in helping the balance the 2013-15 budget.
- Package 120 was modified at the agency's request to remove the proposed time of transfer position and instead restore 0.5 FTE of statewide On-site planning, all of which resulted from the passage of Ballot Measure 79 in November 2012.

In addition to DEQ requested policy packages, the Governor's proposed several packages which resulted in both increases and decreases to the DEQ budget:

- Package 090 adjustments, which proposed:
 - General Funding of \$700K for 3 FTE in wastewater permitting that were previously fee funded and cut by DEQ in the Agency Request Budget.
 - General Funding of \$813K to restore 3 FTE that were cut to balance the reduced Lottery forecasts.
- Package 091, which implements a placeholder for \$1.14M of future savings in the administrative functions of Information Technology, Human Resources, Financial Services, and Procurement.
- Package 092, which implements \$330K of PERS savings from the Governor's proposal to change the law regarding retirement benefits for out of state retirees who currently get payments to help compensate for Oregon state income tax on their retirement income.

- Package 093, which implements \$279K of PERS savings from the Governor's proposal to cap COLA adjustments to the first \$24,000 of annual retirement income.

In March/April 2013, the Legislative Fiscal Office (LFO) worked with DEQ to make technical corrections to the Governor's Budget to:

- distribute reductions in telecom and data processing budgets among all DEQ programs,
- distribute the impacts of Package 091 among all DEQ programs,
- update the calculation of savings in Package 093, which has been originally entered at approximately 10% of its correct value.

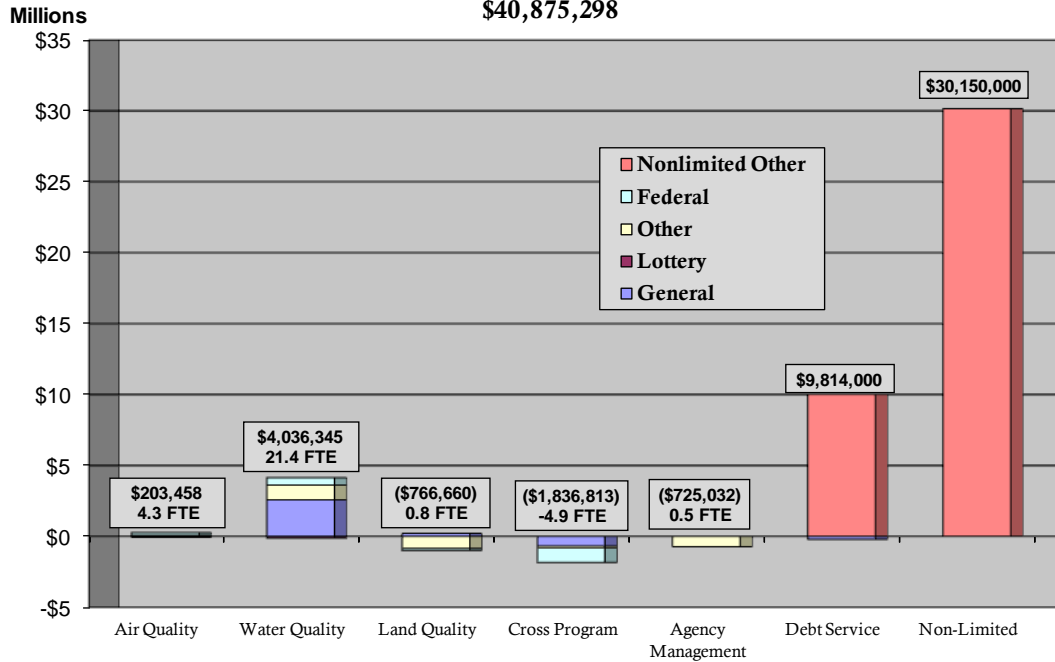
DEQ has been requesting the elimination of the Cross Program segment of the DEQ budget since it did not parallel the organizational structure contained only a small fraction of the budget. The Legislative Fiscal Office implemented a budget adjustment to shift:

- 2.4 FTE of Regional Solutions Team (RST) and associated general fund to the Air, Water, and Land programs. The remaining 3.6 RST FTE were already budgeted in these program budgets.
- Tax credits and green permits to Agency Management
- Network exchange grants to Water Quality, consistent with the current focus of these grants on WQ projects
- Pollution Prevention grant limitation to Air Quality.

Senate Bill 5520 did not implement any of the previously submitted options for reducing General or Lottery fund expenditures. The budget did adopt a \$206,000 reduction in General Fund debt service that was proposed by DEQ. As the agency discussed with the Commission in March 2013, DEQ pursued refunding of the 2003 issuance of Orphan Bonds, which was successfully completed May 30, 2013. The refunding allowed the state to save a total of \$280,000 on GF debt service in the next 10 years, with about \$206,000 focused in the 2013-15 biennium.

Combining the approved DEQ policy packages, the Governor's proposals, and adjustments made by legislature results in a package summary shown in Figure 3:

Figure 3
2013-2015 Package & Adjustments Budget, By Program
\$40,875,298



The packages represent four major categories:

Restoration of current activities that had to be reduced to balance available revenues:

- 11.37 FTE
- \$1.1 million Other Fund
- \$1.5 million General Fund

Addition of new, or expansion of current, operational activities:

- 10.66 FTE
- \$1.2 million General Fund
- \$1.4 million Other Fund

Expansion of current, non-operational activities:

- \$30.15 million Non-limited, for loans associated with the 2013-15 federal Clean Water State Revolving Fund capitalization grants.
- \$10 million for Non-limited debt service on new CWSRF bonds.

Reductions for PERS reform, administrative savings:

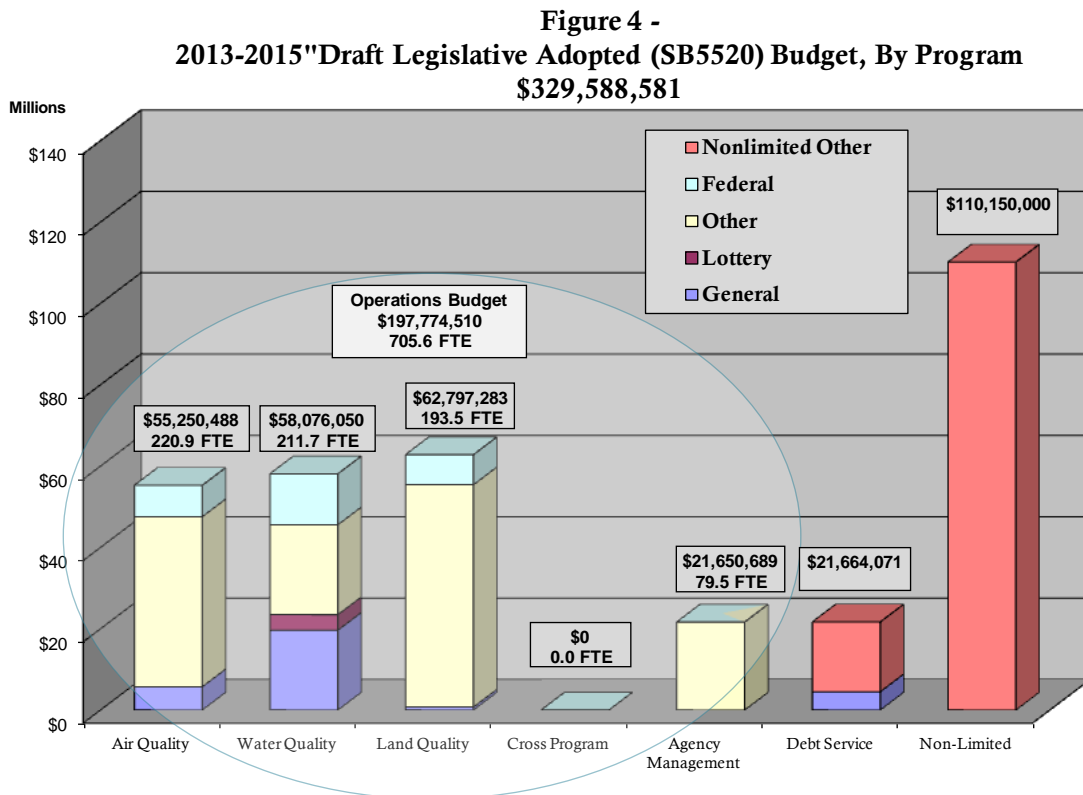
- -\$3.1 million for PERS reform, across all funding sources
- -\$1.1 million for administrative savings, across all funding sources.

The shift of Cross Program budgets to the other programs is net neutral across the agency, but does result in a significant reduction in the actual cross program budget. The shift into the

other programs creates net positive FTE in each program, but does not overcome limitation reductions resulting from the PERS reforms.

2013-15 Draft Legislative Adopted (SB5520) Budget

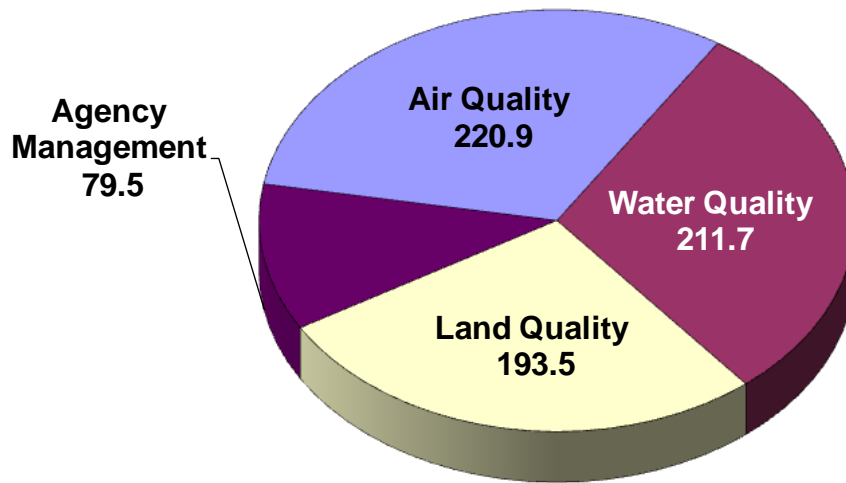
The DEQ 2013-15 Draft Legislative Adopted (SB5520) Budget is comprised of the affordable budget, discussed above, plus the policy packages and adjustments, effectively adding Figure 3 to Figure 2 to create Figure 4:



- Total Draft Legislative Adopted Budget is \$330M, 705.6 FTE.
- The Operations Budget is roughly 60 percent (\$198M) of total budget, comprised of
 - \$ 26.1 million General Fund
 - \$ 3.8 million Lottery Fund
 - \$ 140.2 million Other Fund
 - \$ 27.6 million Federal Fund
- The single largest budget item continues to be for Clean Water State Revolving Fund loans, represents one-third (\$110 million) of the total budget.

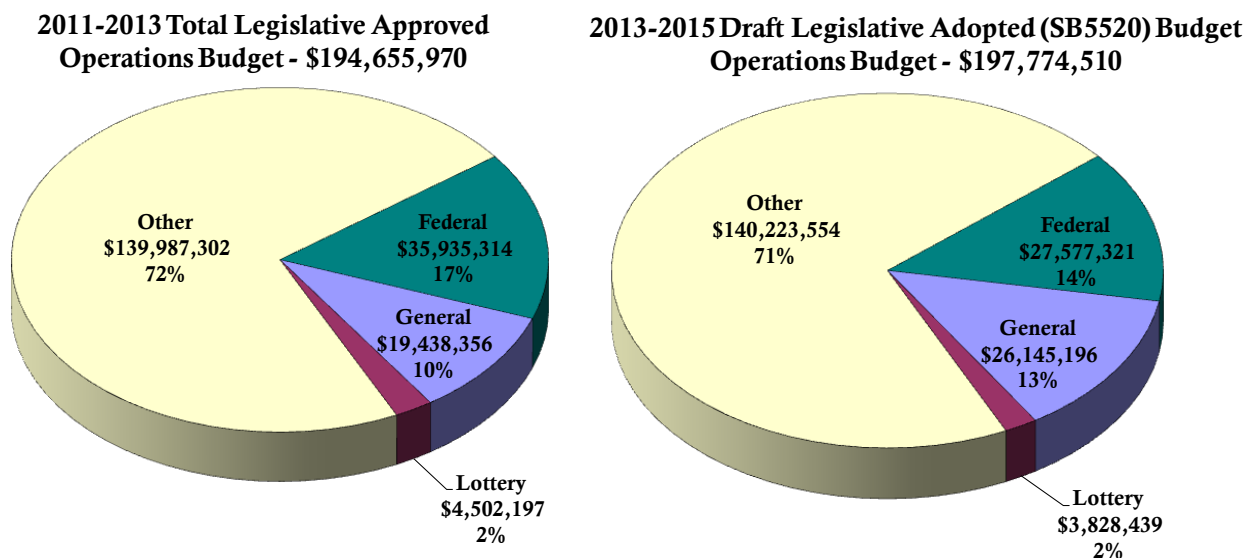
In terms of Full Time Equivalent, or FTE, position authority, Figure 5 provides a summary of the Draft Legislative Adopted (SB5520) Budget, by program area

**Figure 5 -
2013-2015 Draft Legislative Adopted (SB5520) Budget
By Program TOTAL FTE - 705.6**



Comparing the 2013-15 Draft Legislative Adopted (SB5520) Budget to the currently approved budget in Figure 6,

Figure 6 – Comparison of Funding Sources 2011-13 to 2013-15



Overall, the DEQ operations budget has increased by \$3.1 million, but still pays for 4 less FTE than in 2011-13.

- General and Lottery Fund have increased by approximately \$6.0 million, comprised of shifting \$2.5 million of work funded by Pacific Coastal Salmon Recovery Funding (PCSRF) in 2011-13 back onto General Fund in 2013-15, \$1.6 million in increased cost of current services and \$1.9 million of additional funding requested in policy packages.
- The Federal Funds budget has decreased by \$8.4 million, mostly due to the end of ARRA stimulus funding in the Air Quality Division clean diesel and Land Quality Division underground storage tank cleanup activities, as well as the phase-out of the Umatilla Chemical Weapons Demilitarization activity.
- Other Fund activities, the largest component of the DEQ operations budget at just over 70 percent of the total, experienced just under \$11 million in increased costs of current services, but only about \$3 million of those costs could be absorbed within current funding levels. The remainder was absorbed by cutting \$6.7 million of current services and requesting about \$1 million of fee increases in order to balance the 2013-15 Other Fund budgets. Due to the timing of the implementation of PERS reform savings, which occurred after DEQ originally balanced its Other Fund activities, the agency was not able to take advantage of the lower cost structures to restore more positions.

In terms of FTE, Figure 7 shows that comparison of 2011-13 Legislatively Approved Budget FTE to the 2013-15 Draft Legislative Adopted (SB5520) Budget, by program. The increase in Water Quality Division FTE resulted mostly from passage of several policy option packages. The slight increase in Agency Management was due to a net shift of FTE from the programs as part of centralizing Information Technology help desk services into Agency Management.

Figure 7 -
2011-2013 Approved vs 2013-2015 Draft Legislative Adopted (SB5520) Budget
705.58 FTE

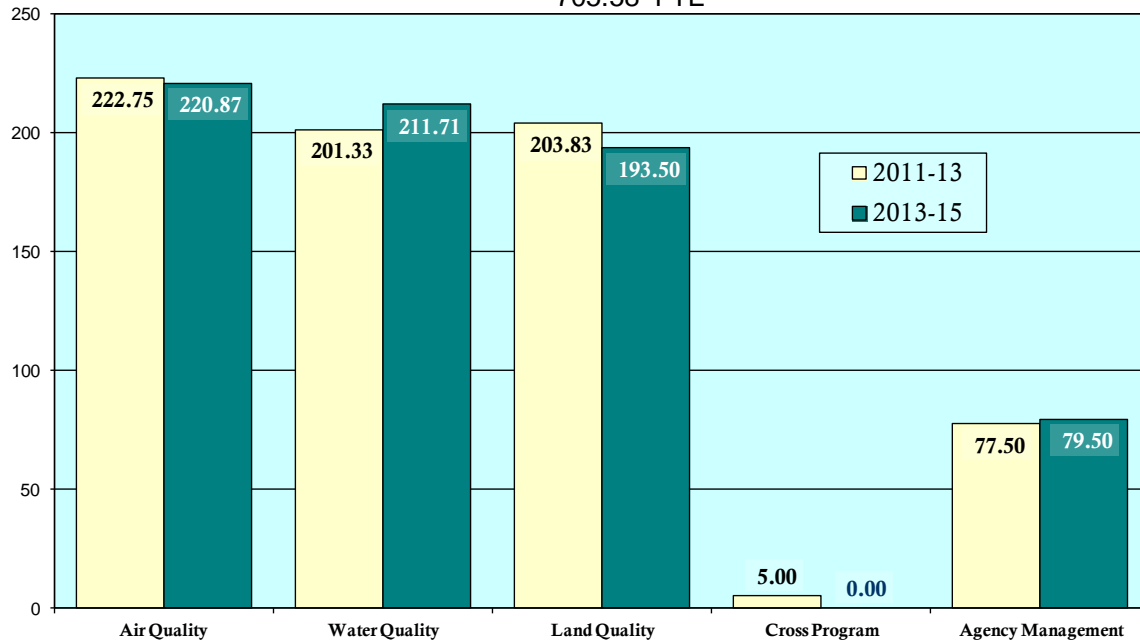
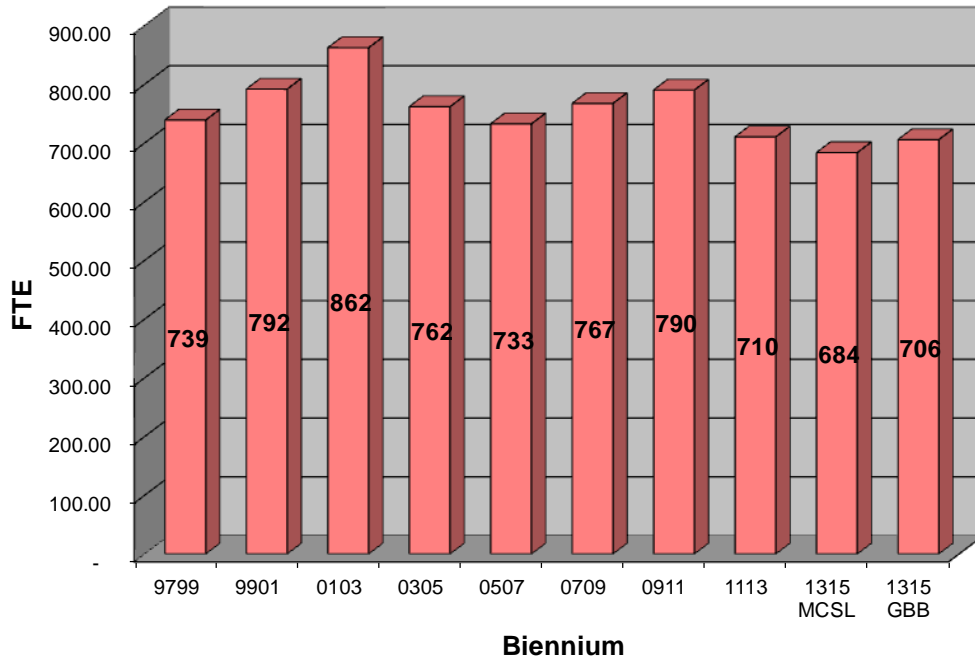


Figure 8 shows the 2013-15 Draft Legislative Adopted (SB5520) Budget resulting in a drop of approximately 4 FTE from the level of budgeted staffing in 2011-13, but an increase of 22 relative to the level of budget affordable in the absence of policy packages to fund restorations and new work, shown in the 2013-15 MCSL column.

Figure 8 - DEQ STAFFING OVER TIME



Biennium 2001-03 through 2005-07 FTE included limited duration vehicle inspectors for enhanced testing, which has since been discontinued.

Overall, DEQ fared very well in the 2013-15 Draft Legislative Adopted (SB5520) Budget, with all but one of the proposed agency policy packages being approved and no substantive general or lottery fund reductions being adopted.

Next steps

The House of Representatives must still pass Senate Bill 5220, then it will be sent to the Governor for signature. Other legislation affecting DEQ funding, plus the omnibus reconciliation bill, if passed and signed by the Governor, will be combined with the DEQ SB5220 budget to form the official 2013-15 Legislatively Adopted Budget after sine die for the session.

DEQ staff will update the commission at the August 2013 meeting with a complete update on the 2013-15 Legislatively Adopted Budget, assuming the legislative session has completed.

**Attachment B - 1315 DEQ Legislatively Adopted Budget (SB5220)
Policy Option Packages**

Pkg No.	Agency rank	Agency	Program*	POP Title/description	GF	LF	OF	FF	TF	Pos	FTE	Comments
090		DEQ	002 Water Quality	Restore Wastewater Permitting Pkg 070 OF Reduction with GF	700,000				700,000	3	3.00	Restores 3 wastewater permitting positions that were cut at ARB due to being unaffordable on fees
090		DEQ	002 Water Quality	Restore Lottery Funded Pkg 070 Reductions with GF	813,072				813,072	3	3.00	Restores 3 lottery funded positions that were cut in package 070 at GBB due to lower Lottery revenues. To implement the reductions, DEQ utilized the 10% Lottery Fund reductions plus an additional position. Package 090 restores this work on GF
110	2	DEQ	001 Air Quality	Implement Phase One of OR Clean Fuels Program		-	429,999	-	429,999	2	1.31	Policy package provides limited duration staffing (1.5 FTE beginning 10/1/13) and contract funding for the initial two year reporting phase of the clean fuel standard authorized by the 2009 Legislature. Funding for the package contingent on passage of fee authorization legislative concept - LC 548. Fees would be assessed on regulated parties including fuel distributors and biofuel producers (approximately 70).
111	5	DEQ	001 Air Quality	Maintain an Effective ACDP Program			810,671		810,671	3	3.67	Policy package restores 3.67 of 6.67 FTE that are not affordable at current ACDP fee levels. The restorations are based on a fee increase of approximately 20%. The positions perform permitting, inspections, source testing and planning and are needed to maintain an effective and timely program. Permitting process improvements will enable the reduced number of FTE. The last fee change was a 20% increase in 2007.
120	4	DEQ	002 Water Quality	Onsite Septic System Program			274,454		274,454	1	1.50	Fee increase and restoration package. Increases the license fees for installers and pumpers, increases the county surcharge fee and eliminates the surcharge exemption for licenses. Restores 0.5 FTE statewide policy effort plus a position that provides information and assistance to the public, precluding the need to centralize program administration in one office and eliminate face-to-face application assistance in various locations throughout the state.
122	12		002 Water Quality	Oregon Plan Monitoring	238,161				238,161	2	1.25	Provides staffing to restart DEQ's collection of water quality and biological data for assessing watershed health conditions in areas with ESA-listed fish. Monitoring would be coordinated with other agencies to fill data gaps and to better understand the efficacy of restoration activities. Two permanent, full-time positions are phased in.
124	3	DEQ	002 Water Quality	Water Quality 401 Project Certification			544,677		544,677	3	2.50	Fee increase and restoration package. Revises fee table as directed by HB 2185 (2009). Adds three positions to address the increased complexity of dredge and fill project applications submitted for certification, greater complexity of water quality regulations, and increased requests for technical assistance, pre-application meetings and site visits.
126	6	DEQ	002 Water Quality	Operator Certification Program			71,198		71,198	0	0.20	Fee increase and restoration package. Revises fee table in order to maintain an adequate level of funding and staffing for the program and pay for program's portion of updated online licensing software.

**Attachment B - 1315 DEQ Legislatively Adopted Budget (SB5220)
Policy Option Packages**

Pkg No.	Agency rank	Agency	Program*	POP Title/description	GF	LF	OF	FF	TF	Pos	FTE	Comments
127	10	DEQ	002 Water Quality	IWRS: Implementation of Integrated Water Resources Strategy	474,187				474,187	3	2.25	Accelerate achievement of environmental outcomes by collaborating cross-agency on development and implementation of salmon recovery plans and water quality improvement plans (e.g., TMDLs, AgWQMPs) and an integrated monitoring strategy. Strategically align efforts with state agencies and other partners to leverage resources and implement projects that achieve multiple goals. Support local integrated water resource planning efforts by providing technical assistance and water quality information. Three permanent, full-time positions are phased in.
128	11	DEQ	002 Water Quality	IWRS: Statewide Groundwater Monitoring Program	460,000				460,000	2	0.66	Implement an ongoing statewide GW quality monitoring program to assess status and trends and identify vulnerable areas and populations at risk from GW contamination. Conduct 2 assessments per year, with entire state being assessed every 10 years. \$325K of this is Capital outlay for first biennium only.
131	7	DEQ	003 Land Quality	Paint Product Stewardship					-	0	0.00	Revenue package only; no limitation or FTE. Legislative concept makes pilot program permanent and sets both plan submittal and annual fees at \$15,000, \$5,000 more than the pilot. Expect to collect one plan submittal and one annual fee during 13-15, for a total of \$30,000.
181	9	DEQ	008 Non Limited	Clean Water SRF Capitalization Grant Loans			30,150,000		30,150,000	0	0.00	Authorization to make loans for \$30M of new CWSRF Capitalization Grants. Includes \$150K for issuance costs of two \$5M bonds. Tied in with Pkg 191
182	8	DEQ	008 Non Limited	Small Community Clean Water Grant Program			1,789,306		1,789,306	0	0	DEQ has submitted an LC (LC 550) that proposes to repurpose the SADLP fund in order to provide grants to small communities for upgrading, construction or repair of wastewater treatment and disposal systems. Funding for wastewater treatment grants and loans has traditionally resided in the non-limited portion of DEQ's budget, and DEQ proposes to have the entire fund spent in 2013-15, with expenditures shown as Non-limited Other Funds as Special Payments. Since this is a non-limited expenditure, a specific amount of limitation is not required to be addressed in the enabling legislation, but DEQ will show the expenditures in its non-limited budget, if approved.
191	9	DEQ	009 Debt Service	Clean Water SRF Bond Debt Service			10,020,000		10,020,000	0	0.00	Debt service for two new \$5M bonds for state match on CWSRF capitalization grants requested in Package 181
320	1	DEQ	002 Water Quality	Pesticide Stewardship Partnership (PSP) Program	-		747,942		747,942	5	4.00	Joint POP with ODA's Pkg 320. Together, these POPs establish a stable source of funding for the PSP program and enable its expansion to a statewide program. DEQ's positions include staff to organize the program, work with the ODA and stakeholders on implementation of PSPs and pesticide collection events, facilitate the monitoring activities and schedules, assist with stewardship activities, and evaluate, interpret and communicate pesticide monitoring data. The Other Funds would come to DEQ via a revenue transfer in ODA's Pkg 320.