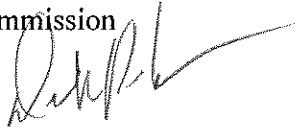


State of Oregon
Department of Environmental Quality

Memorandum

Date: June 15, 2012
To: Environmental Quality Commission
From: Dick Pedersen, Director 
Subject: Agenda item F, Informational item: Budget and legislative items update
June 21-22, 2012, EQC meeting

Purpose of item Update the Environmental Quality Commission on DEQ's development of 2013 legislative concepts, changes to the 2011-13 budget and the development of the proposed 2013-15 budget.

Background DEQ staff last presented a legislative and budget update at the April 2012 EQC meeting. An update of key events and decisions affecting legislative concepts, the 2011-13 budget and the development of the 2013-15 budget are described below.

Potential 2013 Legislative Concepts

On May 1, 2012, DEQ submitted four legislative concepts to the Department of Administrative Services:

- Clean Fuels Program
- Extended loan financing for the Clean Water State Revolving Fund
- Repurposing of the Sewer Assessment Deferral Loan Program
- Paint Product Stewardship

Since that time, DAS has discussed these concepts with the governor's office and given DEQ the approval to continue work. As a next step, DEQ will be working with DAS to submit draft bill language to Legislative Counsel in June and July 2012.

2011-2013 Budget Rebalancing

The Oregon Legislature met in session in February 2012 and during an emergency board in May 2012 to address projected statewide General Fund shortfalls. While DEQ had prepared a list of potential reduction options for the February session, the legislature opted to adopt the across-the-board reserve reductions that were incorporated into the 2011-13 Legislatively Adopted Budget in June 2011, plus a handful of other reductions. In addition to the reserved General/Lottery Fund amount of \$864,000, DEQ needed to implement an additional \$246,000 in reductions. DEQ adjusted its budget execution plan, known as the Operating Budget,

for 2011-13 to reduce the affordable level of spending. These reductions were accomplished by maintaining vacancies and postponing hiring. It did not require DEQ to do more layoffs beyond those implemented in fall 2011.

2013-15 Budget Development Process

As explained in previous meetings, the governor's office is changing agency budgeting to reflect a 10-year timeframe that is more outcome-based. Agencies were asked to develop short narratives, known as budget bid forms, to describe their programs in a way that was succinct and accessible to Program Funding Team members, who are expected to provide input as the Governor's Recommended Budget is developed. A requirement was that the initial bid forms did not contain budget figures.

On June 1, 2012, DEQ submitted bid forms for two outcome areas. Most of the agency's programs were grouped under the Healthy Environment outcome area, but some key programs were placed in the Economy and Jobs outcome area.

Healthy Environment

Air Quality

Land Quality

Water Quality

*Pollution Control Bond Debt Service (no bid form required)

Economy and Jobs

Cross-Program

Regional Solution Team

Non-Limited (Clean Water State Revolving Fund)

On June 12, 2012, DEQ presented to the Healthy Environment Program Funding Teams. DEQ will present to the Jobs and Economy Program Funding Team on June 18, 2012.

DEQ anticipates this schedule for the 10-year budgeting process:

- June 30, 2012: Program Funding Team responses due to agencies
- Aug. 31, 2012: Second round of agency proposals due to Program Funding Teams
- September through Oct. 15, 2012: Program Funding Team meetings
- Oct. 15, 2012: Final Program Funding Team recommendations to Governor Kitzhaber

At the same time DEQ was preparing for the 10-year budgeting process, the traditional budget development process has progressed.. Due to the

tepid economy, a number of programs in the Air Quality and Water Quality Divisions show declining revenues. Because DEQ is required to maintain a balanced budget, these programs will need to be rebalanced so that expenses are in line with lower expected revenues. These changes will affect our staffing levels and DEQ's ability to protect the environment as well as serve the regulated community and public. Reduction packages have been proposed to balance the 2013-15 budget.

The Executive Management Team developed a preliminary list of policy option packages for the 2013-15 budget. The packages include requests to fund new or existing work, or to restore funding for some of the programs with revenue shortfalls. This information will be included in DEQ's Agency Budget Request due Sept. 1, 2012.

In addition to the 10-year budgeting process, DEQ is statutorily required to provide Governor Kitzhaber with a 90 percent budget based on the 2011-13 Legislatively Adopted Budget and adjusted for cost increases. The Executive Management Team met over several months and, with the assistance of budget staff, developed a prioritized list of reduction options that equal 10 percent of the agency's funding across all fund types. This information will be included in DEQ's Agency Budget Request due Sept. 1, 2012. Given that the Legislature may ask for deeper cuts or different options, EMT has prepared more reductions, if necessary.

**EQC
involvement**

DEQ will present updates on the budget development process and legislative issues at each EQC meeting in 2012. DEQ will prepare a detailed presentation of the 2013-15 Agency Request Budget for the August 2012 commission meeting, in conjunction with the commission's review and certification of DEQ's budget request.

Attachments

None

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