

The Governor's Message: A Budget for Progress in Challenging Times

Dear Fellow Oregonians:

This is a time of crisis and challenge. A sudden and steep decline in our nation's economy has increased unemployment, dealt a harsh blow to businesses and working families and diminished the revenues that support state services at a time when these services are needed the most.



We should prepare for worse. But we cannot be afraid of the future, put our budget on rations and expect to resume our old ways after we emerge from this storm.

We must focus on our strengths, chart new directions and create new advantages. Even in a small state buffeted by the forces of a global economy, the decisions we make today can accelerate our progress to a better tomorrow. As the world changes around us, we must respond with new strategies.

This budget proposes new investments that generate jobs, help businesses and working families and create opportunities throughout our state. But it also reflects hard choices with harsh consequences, forced by the recognition that we must reconsider our commitment to services that have become unsustainable.

This is a budget for progress in challenging times. With a volatile economy and diminishing federal support, we must change the way we finance and deliver state services and prioritize investments that create opportunity and promote prosperity.

My priorities in this budget are laser-focused on:

- Continuing to improve our education system from pre-school to graduate school;
- Making health care affordable and available to all Oregonians, beginning with kids; and
- Creating jobs and competitive advantages for Oregon by investing in transportation and energy.

Four Cornerstones Anchor This Budget

I have built this budget on four cornerstones.

- First, we must live within a balanced budget, do so without gimmickry that shifts unpaid costs to future taxpayers and continue to seek new efficiencies in how we organize state government and deliver services to our citizens.
- Second, we must protect our reserves and continue to add to them. It would be a mistake to draw down our hard-earned savings accounts in the first phases of this crisis, when its end is not yet in sight.
- Third, we must prioritize. I am determined not to do what we did in 2003, when we made across the board cuts to our budget and “let everyone share equally in the pain.” That may be the path of least resistance, but the best path to economic recovery requires a tougher climb.

I have made policy choices that put children first and strengthen the foundations of a diverse economy. To realize these goals, I have had to balance this budget by both subtraction and addition. Many of the subtractions will have harsh consequences; many of the additions will require new revenues. But, if we believe in our priorities, we must be willing to forgo some things and find new ways to pay for others.

- Fourth, we must rebuild our economy, get Oregonians back to work and put Oregon in the best possible position to seize opportunities when circumstances improve.

Advancing Our Education Enterprise, From Pre-School through Graduate School

Expanding Pre-School Programs: This budget continues and expands my commitment to expand access to Head Start for all eligible three and four year olds and provides first-time funding for an Early Head Start program for younger children.

Fostering Student Success and Raising the Bar for a High School Diploma: For our K-12 system, I am recommending nearly \$6.4 billion to allow school districts to continue the efforts they began to improve student success in 2007-09, such as reviving the Oregon mentor program during the current school year. My budget also includes new resources to help high schools connect career technical education opportunities with their regional community colleges.

Pioneering New Workforce Training Programs: This budget supports a new Career Readiness Certificate program that will have unique value for students, workers and employers.

Supporting Our Community Colleges and Universities: My budget enables our community colleges to respond to the growing needs of our workforce, with targeted funding to develop, expand and enhance career technical training. My budget protects the improvements we have been making in the Oregon University System and provides the Oregon Health and Sciences University with the funding needed to maintain its current service levels.

Keeping the Promise of an Affordable College Education: The capstone of my education budget is the promise to provide an affordable place in our community colleges and universities for all high school graduates. My budget provides funding to the Oregon Opportunity Grant program to continue its newly-enacted Shared Responsibility Model for college financial aid.

Renovating and Expanding Our Campuses: My budget invests more than one billion dollars on university and community college campuses across the state. My budget authorizes bonding for seismic upgrades in public buildings, including schools.

Creating a Healthier Oregon, Beginning With Coverage for All Children

Implementing Healthy Kids and Rebuilding the Oregon Health Plan: This budget fully funds my Healthy Kids plan and rebuilds the Oregon Health Plan for the low-income Oregonians it was designed to serve. It does so by expanding provider taxes paid by hospitals and insurers. This mechanism will not only pay for affordable health care options to all children in Oregon, it will slow down the increasing costs for treating the uninsured that are now passed on to the more than two million Oregonians who rely on private health insurance.

Improving Public Health and Reducing Smoking: In this budget, I propose a 60-cent increase in tobacco taxes to be used to offset the medical costs of treating smoking-related illnesses and diseases, which are borne by all Oregonians. The revenues from these taxes will be directed to investments in public health services, health care, health promotion and delivery system reforms. In addition, this increase will discourage and reduce smoking among younger Oregonians.

Reducing Services to Live Within Our Means: Even with new revenues, it will not be possible to continue all services now provided by DHS, as the demands for and the costs of these services continue to outstrip the state's ability to pay for them. This budget reduces care for seniors above certain income levels and mental health and addiction services delivered at the community level. It will also be necessary to reduce the scope of services offered by the Oregon Health Plan.

Launching a Transportation System for the 21st Century

Investing in Oregon's transportation infrastructure is the strongest stimulus tool available to create jobs, keep products moving and help Oregon's businesses stay competitive. That is why I am introducing the Jobs and Transportation Act of 2009 – a comprehensive transportation package that will raise a billion dollars per biennium to modernize Oregon's transportation system through a modest increase to the gas tax, an increase in registration and title fees and a first-time title fee on vehicles new to the state. My budget also utilizes highway revenue bonds to accelerate improvement projects statewide. These projects will preserve and maintain 6,700 jobs per year in their first five years.

Loosening Freight Bottlenecks: My budget includes bond proceeds to relieve key bottlenecks that cost Oregon businesses and commuters millions of dollars and thousands of hours at Oregon's worst chokepoints. These investments will allow freight and people to move efficiently throughout the state.

Advancing Multimodal Transportation: This budget creates the first ongoing funding source for Oregon's multimodal transportation system, dedicating federal flex-funds to non-highway projects such as air, rail, marine and transit systems. It also includes lottery bond proceeds for a ConnectOregon III program.

Promoting Green Transportation: This budget shifts the current state tax credit from hybrid cars to plug-in hybrids and all-electric vehicles, encouraging the purchase of this next generation of automobiles and reducing our overall carbon emissions. I also recommend funding for local transportation planning organizations to integrate land use and transportation plans to reduce the number of vehicles on our roads.

Building a New Energy Economy and Combating Global Warming

Oregon's economic and environmental future will be shaped by how we address climate change. The continued vitality and health of our forests, our rivers and the ocean are at stake, as global warming increases the severity and number of forest fires, diminishes our water supply due to loss of snow pack and increased drought and creates more dead zones in the ocean.

Reducing Greenhouse Gas Emissions, Including a Regional Cap and Trade Program: This budget implements strategies that will ensure Oregon achieves the ambitious greenhouse gas emissions reduction goals enacted in 2007. These include the establishment of emissions standards for new electricity generation, development of a low-carbon fuel standard, continuation of Oregon's innovative program for

retrofitting school bus and commercial truck engines to reduce carbon dioxide emissions, and engaging Oregonians in the determination of the details for our participation in a regional cap and trade program.

Increasing Investment in Energy Efficiency in All Sectors of Oregon's Economy: This budget supports new energy efficiency policy proposals, including a targeted increase in the Business Energy Tax Credit (BETC) from 35 percent to 50 percent of project costs for industrial-scale energy efficiency investments. It also invests in tax credits for full electric and plug-in hybrid vehicles and creates a new "Energy Matchmakers Fund" to provide assistance for energy efficiency improvements in low-income households.

Increase Renewable Energy Production in Oregon: This budget continues our aggressive expansion of investment in the BETC program for renewable energy projects and manufacturing, including a new renewable energy fund for development of community-scale demonstration renewable energy projects.

Leading by Example in State Government and the University System: This budget includes energy efficiency projects at state agency facilities, including the purchase of 25 electric vehicles and two electric charging stations for the state vehicle fleet. This budget also funds the development of on-site renewable energy systems within the state university system, including a project that seeks to make the Oregon Institute of Technology in Klamath Falls the first completely geothermal-heated and powered campus in the nation.

Pursuing Long-Term Planning and Investment for Water Conservation and Supply: This budget launches an ongoing effort to develop a comprehensive strategic plan for water supply and quality for Oregon. In addition, I propose funding for efforts to restore water to the Umatilla Basin, where agricultural production has been curtailed due to overuse of groundwater.

Improving Safety in Our Communities and on Our Highways

Putting Children's Interests First: This budget puts children's interests first by maintaining state funding for county juvenile departments, sustaining funding to the Department of Justice for child support enforcement, and maintaining the Youth Challenge Program, an alternative high school for at risk youth operated by the Oregon Military Department.

Maintaining 24/7 State Police Coverage: My budget maintains full funding for the 139 additional patrol positions authorized in the 2007-09 biennium for the Oregon State Police.

Ensuring Accountability and Reducing the Recidivism of Offenders: My budget for the Department of Corrections (DOC) provides the funding needed to house an additional 2,000 prisoners during 2009-11, an increase of 15 percent over the current biennium. It also provides DOC with needed medical and pharmaceutical services with anticipated inflation to ensure the continuation of these services.

Prison Construction: My budget includes funding to begin construction of the state's next prison in Junction City to start by July 1, 2009.

Implementing Measure 57: This budget implements Measure 57 on a least cost basis. It provides funds to expand DOC's treatment services to DOC inmates who are at high risk of re-offending and have serious addiction issues. It also provides supplemental grants to local communities called for in Measure 57. This new local funding will ensure that repeat property offenders leaving prison receive community-

based addiction treatment, intensive supervision, and jail sanctions for non-compliance; it will also enable counties to enhance drug court programs.

Supporting Our National Guard: My budget for the Oregon Military Department continues the Reintegration Program to help returning Guard members re-enter civilian life. It enhances funding for the Portland Air National Guard Base and the Kingsley Field Air National Guard Base to support their operations and maintenance.

Protecting Oregon Consumers

In this budget, I include funding to enhance the mortgage lending examination staff in the Department of Business and Consumer Services. These additional positions - funded by fees paid by the lenders - will allow state regulators to enforce broad new protections for borrowers, including new disclosure requirements, restrictions on prepayment penalties, and new responsibilities for lenders when making loans that carry the greatest risks of abuse. I also provide funding that will enable Oregon to participate in a new, nationwide registry of loan originators - ensuring that problem loan originators cannot simply move from one state to another.

Conserving Our Resources to Address Future Challenges

By law, my budget must be based on the most recent revenue forecast from the State Economist. That forecast, delivered on November 19, 2008, revealed a sudden loss of \$762 million in projected revenue for 2009-11. By comparison, our combined reserve fund balances in the Education Stability Fund and the Rainy Day Fund will amount to \$734 million at the start of our next budget period, on July 1, 2009.

With the end of this economic crisis not yet in sight, and more revenue projections for 2009-11 due to arrive in March and May of next year, I believe – and my Council of Economic Advisors unanimously agrees – that we should hold on to our reserves until we have a clearer picture of what we face in the months ahead.

Further, in my budget for DHS, I am recommending that we build additional reserves to cover the cost of unexpected caseload increases during the 2009-11 biennium.

Continuing Our Commitment to Efficiency and Improvement

Changes made to the Public Employees Retirement System (PERS) in 2003 have made it one of the best-funded public retirement systems in the country. Its funding levels enabled us to reduce employer contributions rates for 2009-11 by an average of three percent of payroll. These savings have been built into our budget for 2009-11.

Also, the Public Employees Benefit Board and the Oregon Educators Benefit Board have had great success in restraining health care premium rate increases. Payroll savings from their efforts helped to reduce costs in the current biennium.

Further, the Department of Human Services' Transformation Project has pioneered a Transformation Initiative, which has decreased clients' waiting time for food stamp applications by 46 percent and reduced the hiring cycle time at Oregon State Hospital from eighty to twenty-one days.

Putting Oregonians Back to Work and Rebuilding Our Economy

The investments I am proposing as part of my transportation plan and the capital projects recommended for our university and community college campuses will create 26,000 new jobs in construction and related sectors of our economy, beginning next year.

In addition, the health care coverage expansions bolstered by one billion dollars in new federal funds for health care will support an average of 4,300 new jobs in Oregon on an ongoing basis.

Further, I have prioritized our commitments to economic development to provide funding for innovative research and development initiatives in alternative energies, nanotechnology, biotechnology, food processing and forestry.

Hard Choices and Shared Sacrifices

In this budget, I include full funding for the increase in salary schedules that takes effect for the state's front line workers at the end of this biennium, and I continue funding for the salary step system currently in place. I also include funding for health care premium increases of five percent per year in the hope that PEBS can continue its cost containment efforts.

But I assume no cost-of-living salary increases for state workers during the next biennium. And I will ask the legislature to reexamine the funding for salary increases for elected officials which I was required by law to include in my budget. In this environment, I cannot support salary increases for statewide officers, including my position.

Further, I will ask all state employees to work with us to schedule unpaid time off as individual furlough days or in conjunction with closures of their offices for one day every three months. This is estimated to save \$35 million in General Fund during the next biennium, while preserving pay rates and benefits for state employees.

I also recommend that payments to providers funded through the DHS budget will not be increased during the next biennium.

Finally, I am calling on the business community to support an increase in the corporate minimum tax, which has not been increased from its current level of \$10 per year since 1931. It is time to correct this inequity in our tax system.

Reversing the Erosion of Federal Support

The work of constructing this budget has only begun. I have asked the Congress and the new administration to turn their attention to the needs of the states in this period of economic crisis. Specifically, I am requesting that the federal government:

- Increase its matching funds for Medicaid services, which will allow us to meet more of the increasing demands for health care and human services;
- Extend unemployment benefits, which will sustain working families, help laid-off workers find new jobs and bolster our local communities;

- Help us create jobs and jump start our economy with new investments in transportation projects and the rebuilding of colleges and universities where deferred maintenance is undermining our ability to keep pace with the fast-moving, knowledge-based global economy; and,
- Return to more responsible management of federal forest lands in our state to promote healthier forests and allow us to grow jobs in alternative energy development, such as biomass.

This is a budget tempered by hard times but confident of our strengths and determined to rise to the challenges we face.

I ask all of you to join me in responding to these challenges with the determination to reexamine our priorities, the commitment to make the best possible use of our resources and the confidence in our ability to create a better future.

Sincerely,

A handwritten signature in black ink that reads "Theodore R. Kulongoski". The signature is written in a cursive style with a large, looping initial 'T'.

THEODORE R. KULONGOSKI
Governor of Oregon

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Overview of the Business Cycle

An Economic Timeline

Oregon's economy follows the national economic business cycle. After weathering the recession of 2001, Oregon rebounded with strong growth in employment, compared to most other states. Now Oregon has entered a recession along with the rest of the nation.

2001-2006: Recession, Recovery, Expansion

The national recession that occurred in the early part of this decade hit Oregon much harder than other states. Between late 2000 and the middle of 2003, employment fell by as much as 4.0 percent—a much higher rate than the national average for job loss. With the onset of the recession, unemployment in Oregon soared from just over 5.0 percent in late 2000 to 8.5 percent in mid-2003.

The state's population continued to grow despite the high unemployment rate. Oregon recorded the nation's highest or second-highest state unemployment rate for 43 months, from April 2001 to October 2004.

From 2003 to 2006, Oregon saw rapid job recovery, spurred by state investments in public works projects, increased international trade, a boom in the housing market and lower energy costs (compared to the rest of the nation). By January 2005, Oregon recovered all the jobs lost during the recession.

For most of 2005 and 2006, Oregon enjoyed an annual rate of 3.0 percent in job growth, the fifth-fastest in the nation. The state unemployment rate in October 2006 was 5.1 percent, the lowest rate recorded since 2001—a sizeable reduction in the gap with the rest of the nation.

2007 to Present: Recession Once Again

The housing boom that fueled the national economy also boosted Oregon's economy. Rises in housing prices occurred later in Oregon than in the nation as a whole, and the rises were not as steep. Home-building did not accelerate as quickly as in states with higher population growth. Still, the burst of the housing bubble damaged Oregon's economy. The ensuing financial crisis has led the nation and Oregon into recession.

Oregon's unemployment rate is 7.3 percent for October 2008, compared to the national rate of 6.5 percent. The spread between the unemployment rates is not as great as the one that occurred during the previous recession, when the national unemployment rate peaked at 6.3 percent and Oregon's reached 8.5 percent.

A Snapshot of Oregon's Economy

The leading industries that drive much of Oregon's employment and income growth include traditional manufacturing industries such as food, forest products, transportation equipment and metals. New technology sectors also play an important role—technologies like semiconductors, software and medical devices.

Oregon's economy has diversified substantially over the past decade. Manufacturing companies, particularly those involved in semiconductor, renewable energy, and transportation equipment production, have tightened the state's connection to international markets. At the same time, Oregon has seen fast growth in professional and business services, as well as the health care services industry.

Diversification of the state's economy is a promising trend that will strengthen Oregon's ability to weather challenges that emerge in individual economic sectors.

Wages

In 2007, Oregon’s average annual wage was approximately \$39,600, compared to the U.S. average of \$40,690. Since 2000, Oregon’s *real* average wage has risen slightly, but it is still below the national rate of increase. This reality is also apparent in Oregon’s per capita income as a share of the U.S. per capita income. That share has fallen significantly since 2000.

Oregon faces intensified competition from countries such as China and India, where wages and infrastructure costs are significantly lower. In order to remain competitive and still raise the average wage, Oregon’s industries must innovate. Home-based companies must add value to their products and services.

Companies in industries that develop or deploy leading-edge technologies and scientific discoveries pay twice as much as the average Oregon wage.

International Markets

Oregon’s participation in the global economy continues to grow. Foreign shipments of Oregon products have increased each year since 2001. The first three quarters of 2008 saw the three largest shipping volumes on record. According to projections, 2008 will see a new peak, surpassing the previous one which occurred in 2007, when exports totaled \$16.5 billion. Oregon exports now grow at an annual rate of 26 percent (significantly higher than the U.S. average of 17 percent).

Oregon currently ranks 19th among the states for exports, up from 23rd last year.

This ever-growing global integration of economies presents both challenges and opportunities for Oregon’s industries. Though global economic integration offers new opportunities for industries to strengthen sales and enhance productivity by accessing new markets, it also exposes them to competition

from businesses in other regions. Beating this competition is critical for success.

Table 1 reflects manufactured products shipped to foreign locations. Oregon’s largest manufacturing industries (computer and electronic products, wood products, food products, transportation equipment and metals) all ship significant quantities of their local production to foreign markets. Natural resource-based industries (e.g., wood, food, and paper manufacturing) have also significantly increased their foreign shipments. Over the past five years foreign shipments have grown significantly for all but one major industry. Several industries recorded increases of more than 200 percent.

Table 1
Value of Foreign Shipments (Dollars): State of Oregon

Industry	2007	Change 2003-2007
Computers & Electronic Prod.	6,303,807,632	37%
Agricultural Products	2,218,007,940	73%
Transportation Equipment	1,756,540,516	57%
Machinery Manufactures	1,690,334,115	94%
Chemical Manufactures	661,716,473	61%
Primary Metal Manufactures	603,299,336	267%
Paper Products	427,729,338	69%
Wood Products	419,524,322	41%
Waste And Scrap	406,915,675	229%
Food Products	403,412,936	44%
Fabricated Metal Products	306,369,566	91%
Misc. Manufactures	259,465,167	148%
Elec. Eq., Appliances & Parts	227,443,706	68%
Plastic & Rubber Products	181,984,211	130%
Non-metallic Mineral Mfgs.	122,685,158	61%
Leather & Related Products	118,464,257	24%
Petroleum & Coal Products	104,653,211	67%
Mineral & Ore Products	91,129,371	1066%
Printing & Related Products	48,946,316	43%
Fish & Marine Products	41,517,979	11%
Furniture & Related Products	20,248,446	15%
Apparel Manufactures	8,313,114	-30%
Total All Industries	16,530,875,039	60%

Population

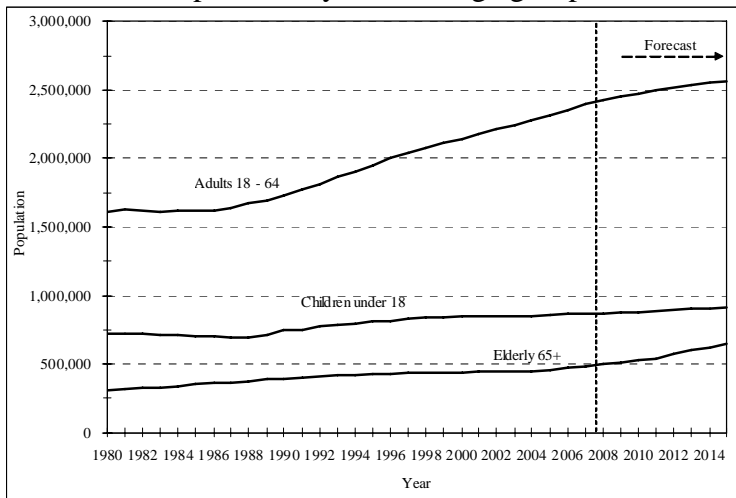
Oregon’s mid-year estimated population in 2007 was 3.745 million, an increase of 9.5 percent from the benchmark 2000 Census. During the 2000-2007 period, Oregon’s population grew faster than the national average of 7.2 percent. Oregon’s recent rate of change, however, has

been much slower than the change during the 1990s, which saw a 1.9 percent annualized rate of growth, compared to a 1.3 percent annualized rate during 2000-2007.

Oregon's growth, which dropped from 11th-highest in the nation during the 1990s to 13th during 2000-07, falls behind all neighboring states except California. The slow population growth was largely due to the slowdown in the economy and a slow recovery from the 2001 recession.

Most of the population growth in Oregon comes from net in-migration. Because they tend to go where the jobs are, working-age adults usually dominate the migration flow. Migration added to Oregon's population and accelerated racial and ethnic diversity in the state. While Oregon's population continues to be predominantly White (90.3 percent White population and 80.5 percent White non-Hispanic in 2007), its population is becoming more diverse with time.

Population by selected age groups



Oregon's African-American, Asian, and Hispanic populations all grew at a significantly faster rate than the majority White non-Hispanic population.

Oregon's population of children (under 18) is growing more slowly than the overall population. The recent rise in the number of school-age children is well below the highs of

early 1990s. This group will continue to grow at a slower pace as the children of baby-boomers mature.

Though Oregon's elderly population recently passed through a decade of slower growth, those 65 and over have more than tripled in number since 1950. Population growth for ages 65-74 years will continue to grow at a record pace as the baby-boom generation enters retirement age. The growth rate for the youngest elderly exceeds the rate for any other age groups in the near future. This trend is significant, because it will lead to an increase in the demand for state-funded services for the elderly when baby boomers enter their 70s and 80s.

Looking to the Future

Economic Trends

Recession has come to Oregon and the nation. Great uncertainty surrounds the depth and length of the downturn. The Oregon Office of Economic Analysis forecasts that Oregon's employment will decline in 2009, but will begin a mild recovery in 2010. The Oregon economy will outpace the nation's during 2012 – 2015. In October 2008, the forecasting firm Global Insight ranked Oregon as the second-fastest growing economy during 2008 to 2013.

Forecasters expect the fastest job growth to occur in the health care industry and in the professional and business services sector. Other non-manufacturing sectors will post robust job gains as the state's population increases faster than the nation's.

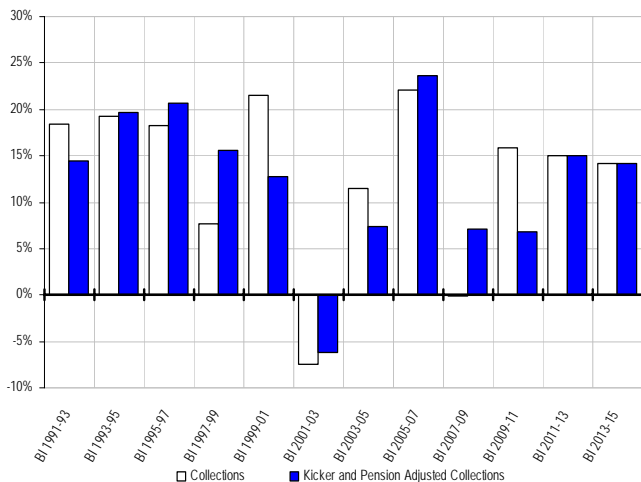
Manufacturing employment will drop during the recession, with recovery expected in 2011, followed by mild growth. With relatively strong population growth during the 2009-2015 period, Oregon may continue to experience a high unemployment rate.

Prolonged slowing in personal income tax growth is likely to continue through the beginning of 2010. Sharp declines in capital gains income will be one reason. Corporate income tax growth will also wane, but will remain relatively stable as the effects of a slowing economy on corporate balance sheets is somewhat muted. Full implementation of Oregon's corporate income apportionment formula will work to keep corporate income tax collections relatively even. All other General Fund revenues will approximate long-run historical rates of growth.

2010 and 2011. As the correction in the housing market ends and financial markets stabilize, the economy will start to grow again. Exports will rebound as global economies return to growth. Energy prices remain a significant risk, although prices have come down from recent peaks. Inflation is not a problem in the near term, but it could flare up once world economic growth returns.

- *Asian economies.* Asian economies have enjoyed strong growth in recent years, but have begun to slow in late-2008 and into 2009. Asia's economic well-being is important to Oregon, because Asian economies significantly affect Oregon's economy. The state's major trading partners include Japan (\$1.5 billion annually), China (\$1.4 billion), South Korea (\$1.3 billion) and Malaysia (\$1.1 billion). These countries import a range of Oregon products, including timber, agricultural goods and high-tech products. The current global slowdown poses a serious risk for Oregon exports during 2009.

Biennial Growth in General Fund Revenue



Economic Factors Linked to the Budget

Several factors linked to the economy may increase or reduce the funds available for this state budget. Quarterly economic forecasts made during the legislative session may be especially important to state budgeting. Among the uncertain factors are:

- *The state economy.* In the short run, Oregon's economy will decline through 2009. But forecasters expect it to gain strength in 2010 and 2011. The long-term outlook for the next five years calls for a moderate growth, following a long-term trend.
- *The national economy.* The U.S. economy will decline in 2009, before picking up in

State Resources for 2009-11

The state uses money from four sources to pay for state services—the General Fund, Lottery Funds, Other Funds, and Federal Funds. Property taxes are *not* a source of money for the state budget. Rather, property taxes are the main source of funding for cities, counties, and some special districts. They are also the second-largest source of local school funding.

The state maintains two budgetary reserves. The Legislature established the Education Stability Fund (ESF) and the Oregon Rainy Day Fund (ORDF) in 2002 and 2007, respectively. Both are intended to be used for fiscal emergencies. Together, the funds will likely contain \$733.9 million at the beginning of the 2009-11 biennium.

Withdrawals from the ORDF require one of three triggers in addition to a three-fifths vote of each house of the Legislature: a decline in employment, a projected budgetary shortfall, or a declaration of a state of emergency. Withdrawals are capped at two-thirds of the balance, as of the beginning of the biennium in question. The ESF employs similar triggers, but does not impose the two-thirds cap on withdrawals.

The employment trigger for both funds was activated with the state's jobs reports for the second and third quarters of 2008.

During the 1990s, General Fund revenues grew 17 percent per biennium. Growth came from rapidly increasing personal and corporate income taxes, which accounted for 93.8 percent of General Fund revenues in 1999-01.

Due to the 2001 recession, personal and corporate income tax revenues fell 11.9 percent and 44.4 percent respectively, during the 2001-03 biennium. Revenues rebounded with the economy, rising 35.6 percent from 2001-03 to 2005-07. As during the 1990s, capital gains and corporate profits have been the leading factors in the recent surge in collections.

General Fund

The General Fund receives the most public attention, because it comes almost entirely from income taxes paid by individual Oregonians and Oregon businesses (94 percent). The General Fund is also the most *discretionary* source of funds for the Governor and Legislature to spend, although it accounts for only 27.2 percent of the total state budget.

Much of the tax revenue and other revenue that comes to the state actually goes out directly to other entities to spend. Some of this money—"shared revenues"—is collected by the state, but a portion goes directly to local governments to fund services in their communities. One example is the revenue from liquor taxes. The state sends 44 percent of these revenues to cities and counties, or about \$142 million in 2009-11.

The remaining revenue not spent directly by the state constitutes "special payments." Special payments go through the traditional budget process, during which the Legislature authorizes a state agency to send that money to another entity. The other entity actually employs the staff and makes decisions on how to spend the money within general conditions. All of these dollars pay for services and programs to Oregonians.

Most of the General Fund—the state's discretionary dollars—is special payments that "pass through" a state agency. But the state agency does not keep any of the money. The largest single special payment is the transfer of \$5.85 billion to 198 school districts and 20 Education Service Districts for operating elementary and high schools throughout Oregon. This is commonly referred to as the State School Fund. Other large special payments include those to providers under the Oregon Health Plan and to local cities and counties for mental health services and community corrections.

General Fund resources are estimated at \$13.8 billion for 2009-11.

The Budget Hole

The term "essential budget level" describes the cost of continuing current legislatively approved programs into the 2009-11 biennium. The starting point is the budget approved by the Legislature for the current biennium; the essential budget level adds or subtracts the changes that occur during special sessions or at meetings of the state Emergency Board.

Once this base is set, the essential budget level accounts for changes in the costs of various programs. These changes include the cost of phasing in new programs that started part-way through the current biennium, or phasing out one-time costs. Other adjustments include the effects of inflation, the increased demand for certain programs required by the federal government or Oregon's constitution, and finally

the replacement of lost federal funds for mandatory programs.

For the 2009-11 biennium, the essential budget level is \$50.3 billion total funds. The combined essential budget level for General Fund and Lottery Funds expenditures is \$16.7 billion. With the passage of Ballot Measure 57 in November 2008, the total need increased to \$17.0 billion.

Because the most recent revenue forecast projects only \$15.8 billion in available General Fund and Lottery Funds resources, the budget hole would be about \$1.2 billion.

The recommended budget sets aside \$132.4 million General Fund and Lottery Funds for an ending balance and \$40.2 million General Fund for the Emergency Board.

Other Funds

“Other Funds” represents the largest single category of revenues the state receives, accounting for 51.3 percent of the state budget. They include some taxes—chiefly those related to highway use, employment, and forests. They also include state licensing fees and the state’s business-like incomes, such as tuition and other fees for services, inmate workforce products, and many funds related to loans or bonds.

Either the state constitution or statutes dedicate Other Funds to pay for specific state services or programs. Other Funds do not include property taxes. In fact, all property taxes remain under the control of local governments.

Neither the Governor nor the Legislature may use constitutionally dedicated funds to pay for programs other than those that the Oregon Constitution specifies.

The Governor remains committed to ensuring efficient use of the tax dollars Oregonians pay. Agencies may use any savings realized by operating programs more efficiently to lower fees or charges, prevent fee increases, or support

additional services to better meet the needs of those who pay the fee in the first place.

Federal Funds

The budget includes the allocation of Federal Funds, which account for about 19.4 percent of the state budget. Like Other Funds, these revenues are also legally dedicated to specific programs and services. The federal government limits the state’s choices about where and how to spend this money. Some federal dollars come to the state as a fixed amount for a specific program. Most Federal Funds, however, are matching money for state expenditures. For example, the federal government provides a match of about \$1.66 for every dollar the state invests in the Oregon Health Plan.

If the state removes its General Fund dollars from the Oregon Health Plan, the federal government holds back its matching funds. Those dollars are available only if the state operates the program with the federal government’s approval.

Lottery Funds

Lottery Funds are another significant source of money that accounts for 2.1 percent of total state spending. Increasing amounts of Lottery Funds go to dedicated distributions, which include amounts for higher education sports programs, county economic development, the Education Stability Fund, the Parks and Natural Resources Fund, as well as funds dedicated for debt service and gambling addiction allocations.

Counties receive 2.5 percent of video lottery proceeds to fund economic development. This is expected to total \$42.2 million in 2007-09, or about \$3 million less than the forecast at the close of the 2007 legislative session. This number will likely grow to \$44.4 million in the 2009-11 biennium.

The Governor’s budget includes \$1.1 billion in Lottery Fund allocations.

Producing a Balanced Budget

State law requires the Governor's Budget to be balanced within projected revenues. But the Governor has also proposed investment options with new revenues.

The Budget Process

The budget process is an ongoing one. State agencies continually gather information on performance and outcomes in order to engage in a meaningful planning process with the individual citizens and groups who rely on their services, or are affected by them. The agencies then submit the information to the Governor, who crafts a budget recommendation for consideration by the Legislative Assembly. These agency requests generally include:

- Funding to continue the services provided under current laws. The costs are adjusted for estimated inflation and caseloads to yield the essential budget level.
- Funding for any proposed new or expanded services.
- Suggestions on what services are no longer needed, and what to cut if state revenues prove insufficient.

The state economist forecasts how much the state will have under current laws to fund the state budget. The total agency requests always equal more than the forecasted revenues can cover.

Thus, the Governor must decide what increases and decreases he will recommend to stay within available funds. He may propose new funding, shifts in funding, or cuts in some programs to enable the state to pay for other needs.

The Governor's budget sets a balanced plan for state funding priorities. The Legislature evaluates the Governor's Recommended Budget and hears public testimony for and against each part of the proposed plan. The Legislature then writes a final

budget that it enacts as a series of laws. Those laws control state spending for the next two years.

General Fund and Lottery Expenditures

The Governor's budget for 2009-11 puts 53.8 percent of the General Fund (state tax dollars) and Lottery Funds into education. The second-largest share, 22.9 percent, goes to human resources programs, where state tax dollars are generally used to qualify for matching funds or meet service-level requirements to qualify for federal funds. At 17.2 percent, public safety is the third-largest user of state tax revenues.

The state budget leaves a reserve of \$100 million General Fund ending balance. That reserve stands against the risk that actual revenues may be less than forecast.

Advancing the Education Enterprise

The Governor's budget for 2009-11 places education – from head start through post-secondary – as his number one funding priority, representing 58 percent of General Fund revenue. Oregon cannot afford to lose ground on the progress made over the last several years to reinvest in the entire Education Enterprise. The Governor refuses to close schools, as happened during the 2001-03 recession, or close the doors of opportunity to tens of thousands of Oregonians who wish to attend a community college or university.

The Governor wants Oregon's workforce to be the most highly skilled, the best trained, and the best educated in America. To achieve this vision, he has set Oregon on a path called "40-40-20." It means simply that by 2025, at least 40 percent of Oregon's adults will have earned a four-year college degree or higher; 40 percent will have earned a two-year degree, professional certificate or equivalent; and the remaining 20 percent will have earned at least a high school diploma or equivalent.

By continuing our commitment to funding education in this budget, Oregon will move closer to achieving this vision, while speeding economic recovery and producing better educated workers who will infuse the economy with new energy and talent.

This priority does not come without difficult choices or significant consequences in other program areas, but the Governor believes strongly that education and job training are the core investments that will help Oregon emerge stronger and better prepared to take advantage of the economic recovery when it does occur.

Keeping Our Education Promise

The Governor's budget maintains full funding for education from Head Start through graduate school so Oregon can continue to keep the doors of opportunity open for every student no matter age or background.

Due to uncertainty about the course of the present economic crisis, the Governor's budget preserves education funding at every level for the first year of the biennium, leaving the need for an additional \$225 million in the second half of the biennium to keep education at full funding across the board.

The Governor's plan calls for working with the Legislature in February of 2010 to allocate the necessary \$225 million from the Education Stability Fund if other revenues are not available to ensure a full school year and a no-cuts budget to education for the 2010-11 school year.

The Governor is committed to sustaining the new level of support for education and training he has built over the past several years. It is important not only for students, but also to position Oregon with the ready and highly qualified workforce it will need to move quickly and gain the advantage as the economy rebounds.

Expanding Pre-School Programs to 700 More Children

Oregon's Education Enterprise begins well before grade school, in the formative years for learning and development. The Governor's budget includes an additional \$6 million for a total investment of \$116.1 million to continue expanding access to Head Start for all eligible three- and four-year-olds, and \$1 million to develop the Early Head Start program for infants up to three-year-olds. The budget funds more than 700 additional Head Start children. For the first time Oregon will support the Early Head Start program.

Fostering Success and Raising the Bar for a High School Diploma

For the K-12 system, the Governor recommends \$6.39 billion to enable school districts to continue their efforts to improve student success, maintain a full school year and keep class sizes reasonable for the 2009-10 school year. For the 2010-11 school year the Governor plans to utilize nearly \$160 million from the Education Stability Fund to maintain these goals. The year two additional funds will also allow the Oregon Department of Education to fund a full-time Indian Education Specialist.

In response to the Governor's request, the State Board of Education has developed an enhanced Oregon high school diploma, which will be phased in over the next several years. The Quality Education Commission determined an investment of \$250 million is needed to complete the first phase of program development to allow all Oregon students an opportunity to earn Oregon's new high school diploma.

The enhanced high school graduation requirements will require professional development for math and science teachers to enable them to teach more advanced and career related classes. The current economic crisis does not allow for this level of investment in the current budget without making other reductions in critical areas, such as class size and length of

school year. To ensure that Oregon continues to move forward in implementing these new standards, the Governor has asked school districts to focus their professional development funds on providing time for school staff to analyze the data and plan for the changes that will be needed as the new diploma requirements phase in.

Also, the Governor allocates additional resources through the community colleges to help high schools connect career technical education opportunities with their regional community colleges.

Studies show that students succeed when new teachers and administrators receive mentoring during their first years. The Governor revived the Oregon mentor program during the 2008-09 school year. His budget plans for this program to be funded at the same level as today at \$5 million a year.

Supporting Community Colleges

Oregon's 17 community colleges have seen double-digit growth in enrollment as Oregonians strive to expand their skills and become competitive in today's market. The Governor's budget commits \$506.8 million to enable community colleges to strengthen their programs and expand capacity to meet the growing needs of the state's workforce, students, businesses, communities and industries.

The Governor's budget proposes \$1.35 million specifically for community colleges to develop, expand and enhance—in partnership with their area high schools and workforce boards—career training aimed at clean technology, manufacturing, healthcare and regional high-wage, high-demand occupations.

Continuing Oregon's Commitment to Public Universities

The Governor's budget seeks to compensate for 25 years of disinvestment in the Oregon University System that occurred before 2007.

The Governor's budget for OUS includes \$917 million from the General Fund to improve student retention and graduation rates. The budget also allocates resources to expand Oregon's efforts in clean technology and sustainability.

The Governor also supports proposals to provide greater flexibility and investment for Oregon's universities. These include letting the university system invest and retain its interest earnings from tuition and fees.

The Oregon Health and Science University (OHSU), though classified as a public corporation, remains a vital part of the Education Enterprise. The Governor proposes sustaining current funding levels through the 2009-11 biennium.

Keeping the Promise of the Oregon Opportunity Grant

A key priority in the Governor's education budget is the promise to provide an affordable education at state community colleges and universities for all high school graduates who choose to pursue these paths. This is the time to keep that promise and keep the doors of opportunity open wide to these new students.

The budget provides \$163 million to the Oregon Opportunity Grant program to continue its newly-enacted Shared Responsibility Model for college financial aid. More than 34,500 resident students have applied for and now receive Opportunity Grants in the current school year, an increase of 52 percent over the 2007 fall term level. A total of 36,000 students will likely do the same in the next school year. These increases put Oregon well ahead of national trends, the first time in decades that the state can point to progress in post-secondary enrollments compared to the rest of the nation.

Renovating and Expanding Campuses

The Governor's budget invests more than \$1 billion in bonding for capital construction and

maintenance on campuses across the state. These projects will employ more than 20,000 Oregonians, both onsite and in local communities, and help campuses maintain the physical infrastructure to meet the growing academic needs of students.

The community college projects include: the Blue Mountain Community College facility in Hermiston; Umpqua Community College health occupations training center; and the Treasure Valley Community College university center.

Some of the Oregon university projects are the Zabel Hall renovations at Eastern Oregon University; Theater Arts Expansion and Remodel at Southern Oregon University; a Life Sciences Research Center on Portland's South Waterfront that will house programs from OHSU, OSU, PSU, UO and OIT; and facilities for clean energy research and development at OIT, OSU and other campuses.

The Governor's budget includes \$30 million in bonding for the Oregon Military Department budget to begin the work on seismic upgrades in public buildings. The program calls for \$15 million to go to schools during this biennium. These investments will deliver good jobs for Oregonians in every corner of the state.

Targeting Investments to High-Wage / High-Demand occupations

The Governor's Workforce Strategy

Career Readiness Certificate: Deploys a new Oregon Career Readiness Certificate program with \$3.4 million in conjunction with \$1.2 million of redirected federal funds that will enable Oregonians of all skill and education levels to document their ability to qualify for jobs of today and tomorrow. The new Oregon Career Readiness Certificate is an assessment tool that measures an individual's capabilities in reading, applied mathematics, and locating information — core skills that are required in over 85 percent of jobs today. The assessment tool, developed by ACT, Inc. is connected to the

skill requirements of 15,000 occupations profiled nationwide. The individual's score indicates the level of proficiency in each category — Basic, Proficient, or Advanced. For individuals and employers alike, this process illustrates the skill level the applicant brings to the job.

Employer workforce training fund: Bolsters the Employer Workforce Training Fund by adding \$525,000 General Fund to build on the program's success. Over the past six years, the program has assisted businesses in over 450 projects and trained more than 20,000 Oregonians.

Engineering and Technology Investment Council: Increases the investments made through the Engineering and Technology Investment Council (ETIC) with \$3 million to enhance university research in clean technology and sustainability. The resources will also be focused on increasing the retention and graduation of Oregon students studying engineering and computer sciences.

The Governor's Human Services Budget

In his budget, the Governor affirms the importance of both expanding health care coverage and controlling health care costs. He prioritizes funding for:

- Providing affordable health care to all children in Oregon through his Healthy Kids plan;
- Rebuilding the Oregon Health Plan to cover the population it was designed to serve; and,
- Improving health care and controlling its costs for all Oregonians.

The Governor pays for these initiatives through increases in provider taxes and tobacco taxes. But, even with these new sources of revenue, the budget reality requires reprioritizing and reducing services in many areas of DHS.

The challenges for the DHS budget are escalating. Demands for human services continue to increase far beyond the ability of the state to pay for them. Also, the costs of human services are rising faster than the cost of other goods and services, as medical costs in particular continue to outstrip family incomes and the state's resources.

At the start of the current biennium in 2007, when our General Fund revenues rebounded by 20 percent, we were able to increase funding for health care and human services by a total of 22 percent. But even this increase failed to keep up with the demands for these services as the economy began to unravel earlier this year. In 2009-11, DHS would need a 28 percent increase in resources to keep up with those costs and demands.

This large of an increase would have been difficult to pay for in a growing economy, but it becomes impossible to do so in a slowing economy. With a widening gap between diminishing state resources and the escalating costs of maintaining human services, this budget requires prioritization and retrenchment across DHS program areas.

Healthy Kids and a Healthy Oregon

Making Health Care More Affordable—and Available—to All Oregonians

Today more than 600,000 Oregonians lack health insurance – one of every six persons in the state. More than half of these uninsured persons are working adults. Approximately 116,000 are children. The Governor's budget addresses this problem by bringing affordable health coverage to all children and to a majority of low-income Oregonians who qualify for the Oregon Health Plan.

Enacting the Healthy Kids Plan: The Governor's budget includes \$249 million to fully fund his Healthy Kids Plan to ensure that all children in Oregon under the age of 19 have

access to affordable health care. By the end of the 2009-11 biennium, this program will bring health coverage to an additional 80,000 children in Oregon – achieving coverage for 95 percent of all kids.

The Governor's Healthy Kids Plan is a critical first step toward comprehensive health care reform. It will also expand affordable coverage options to working families whose incomes are too high to qualify for help under the state's existing programs, but still need assistance purchasing health care for their kids.

Successful implementation of the Healthy Kids Plan will reduce barriers to enrolling children in coverage and keep them enrolled. The enrollment form has been shortened and simplified and the enrollment eligibility period is being increased from six months to a year. Through community outreach efforts, hard-to-reach children will be enrolled.

But the Governor's plan does more than furnish health insurance. It provides ways to meet kids' health care needs and keep them healthy. The Governor's budget helps provide access to health care by investing an additional \$1.4 million in expanding school-based health care services and adding up to 12 new school-based health centers. This will increase the total number of school-based health centers to 68 in 27 counties. The additional funding will increase the number of children being served from 21,000 to 28,000.

Rebuilding the Oregon Health Plan: The state provides health care coverage for approximately 380,000 people in what is known as the OHP Plus program – the traditional Medicaid program for low-income pregnant women and disabled adults and children. More than 50 percent of the people on the OHP Plus program are children. The Governor's budget provides \$4.3 billion to keep up with caseload growth in this program.

The Governor's budget also provides funding to rebuild the Oregon Health Plan Standard program, which covers those people who don't qualify for OHP Plus, but live in poverty. The

Governor's budget provides \$962 million to raise enrollments in OHP Standard from 25,000 to more than 100,000 in 2009-11.

Providing health coverage and leveraging federal dollars with provider taxes: The budget pays for these programs by increasing provider taxes paid by hospitals and insurers, raising \$696 million over the biennium. By expanding coverage to Oregon's uninsured, these programs will also slow down the increasing costs for treating the uninsured that are now passed on to the more than two million Oregonians who rely on private health insurance.

Provider taxes offer unique benefits to our economy. For every dollar paid, they will be matched with about \$1.66 in federal Medicaid funds, which in turn will cover the cost of expanding coverage to children and low-income adults. Currently uninsured persons who gain coverage will become new paying patients for doctors and hospitals. Overall, participating hospitals will be able to earn back the amounts they pay in provider taxes in new revenues from these newly insured patients. Our state will secure an additional billion dollars a biennium in federal matching funds, which in turn will create and sustain 4,300 new jobs in our health care sector. These revenues will also enable DHS to build a caseload reserve to cover unexpected increases in the number of eligible Oregonians who apply for coverage.

Improving the health of Oregonians by increasing the tobacco tax: The Governor's budget proposes a cigarette tax increase of 60 cents per pack and a 25 percent increase on other tobacco products, generating \$112 million. Of this increase, \$5 million is allocated for elderly and disabled transportation, \$12 million for public health, tobacco cessation and health promotion with the remaining \$95 million allocated to the Oregon Health Plan. This will help recoup some of the costs to the state of tobacco-related illness. Every pack of cigarettes sold costs Oregonians \$11.16 in health care costs and lost productivity.

Restructuring benefits to serve more people: In a constrained fiscal environment, difficult choices must be made. In order to provide coverage for more adults, the benefit package will be slimmer. Most items on the OHP prioritized list, including addiction and mental health services, will continue to be covered, but dental and vision benefits will be cut for non-pregnant adults over the age of 19 in OHP. Children will continue to have both vision and dental coverage.

Controlling health care costs through good public policy: The Oregon Health Plan saves \$12.9 million by enforcing use of the Prescription Drug List, including mental health drugs, and requiring prior authorization to prescribe a drug not on the list. It encourages the use of preferred mental health drugs by eliminating co-pays.

Providing Mental Health and Addiction Services

Mental health and addiction services: Expansions of coverage in the Oregon Health Plan will leverage federal dollars and provide funding for mental health and addiction services for 100,000 low-income individuals through OHP. Addiction and mental health services for adults who are not eligible for Medicaid will be scaled back by reducing funding for community-based mental health services, acute inpatient psychiatric care, alcohol and drug treatment services.

Building a new Oregon State Hospital: The Governor's budget invests \$40 million for 540 additional staff, including doctors, nurses and mental health technicians for the new state psychiatric facility currently under construction in Salem. The new hospital will help keep up to 620 adults who need long-term psychiatric hospitalization healthy and safe, support them in treatment and enhance their ability to live independently. The Governor's budget also funds a second psychiatric hospital in Junction City.

Investing in Public Health

Supporting county public health: The Governor's budget invests \$2 million of the tobacco tax increase in our public health system at the county level, allowing local governments to decide how to best address public health challenges in their communities.

Expanding Oregon's tobacco cessation efforts: The Governor's Budget expands funding for Oregon's proven Tobacco Prevention and Education Program, investing an additional \$7 million of the tobacco tax increase to improve health and save lives, reducing health care costs for all Oregonians. Tobacco is the leading preventable cause of death and disability, killing roughly 7,000 Oregonians each year.

Focusing on population-based health: \$3 million of the tobacco tax increase is allocated to reduce the burden of chronic disease due to obesity and to help make people healthier. This will decrease the need for expensive, invasive treatment in the future. The funding will support a comprehensive statewide effort for obesity prevention and wellness. This will help reduce one of the major drivers of health care costs. This funding will also support the Governor's Wellness Initiative.

Advancing Comprehensive Health Care Reform

The Governor's Budget supports recommendations from the Health Fund Board and invests \$5 million of General Fund in important building blocks necessary to improve the quality and consistency of health treatment outcomes, provide greater accountability to the public for resources spent in the health care system statewide and begin serious steps to transform Oregon's healthcare system.

These investments will:

- Establish an All-Payer, All-Claims Data Collection Program to increase capacity to

publish quality, cost and outcomes information for use by consumers, employers and providers. This data will enable the state to compare cost per capita spending in different areas of the state and show the extent of variation in care across communities. It will support provider efforts to design targeted quality improvement initiatives and enable providers to compare their own performance with those of their peers.

- Define and set standards for Integrated Health Homes which will lay the groundwork for payment reforms designed to reward primary care and continuity of care and improve population health outcomes.
- Strengthen comparative effectiveness research using best available evidence to maximize improved quality and value and avoid use of ineffective treatments and technology.
- Establish a statewide POLST registry (Physician Orders for Life Sustaining Treatment) to communicate and honor patient preferences.
- Develop a bulk purchasing program to accelerate the adoption of electronic health records in small practices.
- Establish an ongoing healthcare workforce database to help guide investments and strategies to recruit and retain a qualified, highly trained workforce.
- Continue to support the work of the Oregon Health Fund Board.

Keeping Children Safe and Families Strong

Strengthening child welfare: The safety and wellbeing of children have been high priorities for the Governor since he took office in 2003. In his budget, the Governor proposes \$720 million to continue previous investments to strengthen

the child welfare system and ensure that children are safe, regardless of whether they live in their own homes or in the foster care system.

Investing in foster care: The Governor's budget provides \$36.7 million to replace federal funds no longer available to be spent in child welfare to ensure that these programs continue essentially at the level funded in 2007-09. To improve outcomes for abused or neglected children and reduce the number of placements of children in foster care, the Governor's budget continues to provide \$17.2 million in financial assistance to relatives who care for their child family members in foster care.

Improving child safety: The Governor's budget provides \$36.7 million to complete the OR-Kids Information Technology Project. This will keep children safer and allow caseworkers more time to spend with children and families. It will also boost the accuracy of record-keeping to protect federal funding and ensure compliance with federal laws.

Helping People Become Self Sufficient

The Governor's budget targets \$167 million in funding for continuing to provide service and benefits to 17,000 of Oregon's most needy families. The Employment Related Day Care program is anticipated to assist 7,700 families to transition from TANF to self-sufficiency by subsidizing quality day care. In addition, TANF families will continue to receive assistance with job search, skills assessments, training and other services.

The most significant proposed changes in TANF include establishing a household income standard for non-needy caretaker relatives and reducing the Post-TANF payment amount from \$150 to \$50. The proposed changes in ERDC include limiting ERDC to those families currently on or leaving TANF, increasing co-payments and reducing child care subsidies.

Only partial funding for self sufficiency programs is proposed, in part, as a result of

increased caseloads, rising costs and flat federal funding. Reductions were taken in eligibility and payments, primarily in the recently redesigned Temporary Assistance to Needy Families (TANF) and Employment Related Daycare Programs.

Serving Seniors and People with Disabilities

The Governor's budget provides the Seniors and People with Disabilities Division (SPD) with \$2.9 billion in funding to serve 15,640 seniors, 7,360 people with disabilities and 17,000 children and adults with developmental disabilities through the following programs:

- In-home care will cover 7,900 seniors and physically disabled clients with services that allow them to remain in their own homes as long as possible.
- Community based care including adult foster homes, residential care facilities and assisted living facilities will serve 8,800 seniors and physically disabled clients.
- Nursing facilities will serve 3,600 seniors and clients who are physically disabled and need skilled nursing care. Nursing facilities also serve a small number of developmentally disabled clients – both children and adults.
- Over 17,000 developmentally disabled (DD) clients will be served in their own family homes, in neighborhood residential homes including adult and children foster homes that provide room and board, assistance with everyday living, community inclusion, employment and training and access to services.
- Over 55,000 seniors, blind and disabled clients are provided additional services in the Oregon Supplemental Income Program, Old Age Assistance, and Oregon Project Independence programs.

The Governor's budget proposes to implement a reduction in the number of persons to be served in the Aged and Physically Disabled (APD) program, beginning January 1, 2010. This will require a federal waiver to reduce the income eligibility maximums for the program from \$1,991 per month for an individual to \$1,300 per month. SPD will seek federal waivers to implement this reduction, including waivers to allow the continuation of services for persons based on their medical conditions and availability of alternative care.

In-Home Care Program services will be prioritized for those who require more than 80 hours per month of care.

Developmental Disability (DD) Program reductions include \$15 million of General Funds which will eliminate community residential placements for 130 DD adults on waiting lists. It will also significantly delay in-home services for 700 adult clients and their families also on waiting lists.

Making Government More Efficient

The Department of Human Services (DHS) has launched a Transformation Initiative to improve the way government works for the more than one million DHS clients annually.

The process of improvement is ongoing and is employee-driven. Over the past few months a team of employees has mapped out improvements that reduce the time it takes to hire a nurse for the Oregon State Hospital from 80 days to 21 days and have a plan to ultimately drop it to seven days. Another team has taken on the problem of long wait times for Food Stamps and in several pilot projects across the state, wait times have been reduced dramatically from more than 10 days to same-day service.

This effort is focused on removing barriers, reducing red tape and improving Oregon state government.

Restraining Costs

Due to current fiscal constraints, payments to providers funded through the DHS budget will generally not be increased during the next biennium.

The Governor's Budget for Energy and the Environment

Climate Change, Energy Independence, and Clean Air and Water

Climate change is the most significant economic and environmental issue affecting Oregon, the country and the world. Oregon must continue its aggressive response to global warming and build on the important steps taken in the 2007 legislative session.

The Governor's budget invests in reducing greenhouse gas emissions, protecting human health, and increasing energy efficiency. It also supports achieving an understanding of the impacts of climate change, and implementing strategies to respond to those impacts. The budget seizes opportunities to develop new technologies that will set Oregon on a course to good jobs, stable energy prices, and economic growth. Among these is clean, renewable energy to further the state's economic recovery and future prosperity.

The Governor's budget invests in environmental protection and natural resource management through a combination of General Fund dollars and other funds. The budget for natural resources builds on progress made over the past six years.

A Sustainable Future, Energy Independence and Greenhouse Gas Emissions

The budget for the coming biennium includes incentives and direct investments that will build

on Oregon's reputation as a national leader in combating global warming and creating a new energy economy.

Reduce greenhouse gas emissions, including participation in a regional cap and trade program: The budget provides \$1.9 million to implement strategies for achieving the ambitious goals—enacted in 2007—to reduce greenhouse gas emissions. These include an emissions performance standard for new electricity production, development of a low-carbon fuel standard, and development of a regional cap-and-trade program. The Governor's budget also includes nearly \$1 million for grants and tax credits to continue Oregon's innovative program for retrofitting engines for school buses and commercial trucks, which will reduce carbon dioxide emissions that contribute to global warming.

Increase investment in energy efficiency across all sectors of Oregon's economy: Energy efficiency is the most economical pathway to reducing greenhouse gases and saving on energy costs. The Governor's budget includes a targeted increase in the existing Business Energy Tax Credit (BETC) from 35 percent to 50 percent of project costs for industrial-scale investments in energy efficiency. It invests \$2.5 million in tax credits for full electric and plug-in hybrid vehicles. It creates a new \$4 million "Energy Matchmakers Fund" to help improve energy efficiency in low-income households. And it provides \$600,000 to provide "energy performance certificates" to consumers and businesses when they buy homes or other buildings. The money will also support development of aggressive building codes to ensure that all new homes and buildings in Oregon will be efficient enough to produce net-zero greenhouse gas emissions by 2030.

Increase renewable energy production in Oregon: The Governor's budget continues the aggressive expansion of investment in the BETC program for renewable energy projects and manufacturing and invests an additional \$2 million in a new renewable energy fund for

development of community-scale demonstration renewable energy projects. The budget includes \$2.8 million for the Oregon Solutions Program, housed at Portland State University, to continue facilitation and support of sustainability and renewable energy projects around the state.

Lead by example through investments in energy efficiency and renewable energy projects in state government and the Oregon University System: The budget provides \$5 million for energy efficiency projects at state agency facilities, including the purchase of 25 electric vehicles and two electric charging stations for the state vehicle fleet. The Governor's budget authorizes \$74.9 million in bonding and other funds for on-site renewable energy systems in the state university system, including a project that seeks to make the Oregon Institute of Technology in Klamath Falls the first completely geothermal-heated and powered campus in the nation. These investments will further the Governor's ambitious goal of using 100 percent renewable energy in state government.

Invest in commercialization of emerging renewable energy and clean technologies: The Governor's budget invests \$3.5 million in the Oregon Wave Energy Trust (OWET). It provides another \$3.2 million to continue the growth of the Oregon Built Environment and Sustainable Technologies (BEST) Center of Excellence, which focuses on technologies that support cutting-edge innovations in the "built environment" and other sustainable technologies.

Expand the Oregon Climate Change Research Institute: The Governor's budget invests \$695,000 in researching the impacts of global warming on Oregon's environment and economy, and developing adaptation strategies.

Support the Oregon Global Warming Commission: The Governor's budget provides \$205,000 to support the ongoing work of the Oregon Global Warming Commission and expand efforts by the Commission to reach out

and engage Oregonians in efforts to combat and adapt to global warming.

Establish the Oregon Energy Planning Council: The Governor proposes allocating \$800,000 to enable this newly formed team of energy experts, modeled after the Governor's Council of Economic Advisors, to craft a comprehensive long-term energy plan for Oregon. The plan will assess the state's energy needs and identify ways to bring certainty in the face of rising energy costs and climate change.

Improve Water and Air Quality, Provide Water for the Future

Oregon's pristine waters and clean air are fundamental to its environment, its economy, and its quality of life. The Governor supports development of a long-term strategy that addresses threats to clean water and air. The budget includes resources for monitoring and developing standards for water quality in key Oregon waterways.

Pursue long-term planning and investment for water conservation and future water supply needs: The Governor's budget launches a long-term effort to develop a comprehensive water supply and quality strategic plan for Oregon. It includes nearly \$3.3 million to develop a comprehensive water initiative that addresses the statewide effects of rapid climate change. The budget invests \$2.5 million to complete the first stages of needed infrastructure projects that will eventually restore irrigation to over 57,000 acres of prime land in the Umatilla Basin, which, upon completion, could increase annual gross farm production by \$30 million for the region and result in \$120 million in economic activity.

Strengthen water quality statewide: The Governor's budget invests \$1.5 million to improve Oregon's water quality by protecting Oregon's groundwater program and continuing development of comprehensive standards for Oregon's surface water quality.

Eliminate field burning in the Willamette Valley: The Governor's budget provides \$200,000 to enable the Department of Environmental Quality to phase out the practice of field burning the Willamette Valley, addressing a serious threat to public health in Western Oregon.

Ensure Ocean Health

Oregon's scenic coastline and rich marine waters are an important part of the state's natural heritage and a critical element of its economy. The Governor's budget furthers efforts to protect Oregon's most unique coastal areas and enhance marine health.

Protect Oregon's coastline and fisheries: The Governor's budget provides \$2 million to evaluate the social, economic, and environmental concerns associated with the proposed establishment of a system of marine reserves and marine protected areas along the Oregon Coast.

Update Oregon's Territorial Sea Plan: The Governor's budget includes \$1.6 million for updating Oregon's Territorial Sea Plan, including expanding public involvement and input and mapping Oregon's seafloor, which is critical to ensure that the state protects the ocean and marine habitat while also advancing opportunities to utilize our oceans for clean, renewable energy.

A Transportation System for the 21st Century

Investing in Oregon's transportation infrastructure is the strongest stimulus tool available to create jobs, keep products moving and help Oregon's businesses stay competitive. That is why the Governor's budget includes a comprehensive transportation package – the Jobs and Transportation Act of 2009 – which will raise more than \$1 billion per biennium to modernize Oregon's transportation system through a modest increase in the gas tax, an increase in registration and title fees and a first-

time title fee on vehicles new to the state. The Governor's budget also utilizes highway revenue bonds to accelerate improvement projects statewide. These projects will create and maintain 6,700 jobs per year across Oregon in the first five years.

Investing in Oregon's Transportation Infrastructure

Ongoing maintenance and preservation: The Governor's budget includes more than \$1.1 billion in new money for Oregon's cities and counties over the coming years to maintain their roads, fix potholes and make local streets safer.

Addressing key freight bottlenecks: The Governor's budget includes \$600 million in bond proceeds to relieve key freight bottlenecks that cost Oregon businesses and commuters millions of dollars and thousands of hours stuck at Oregon's worst chokepoints. This would create thousands of jobs and make Oregon's economy stronger.

Ensuring investments in Oregon's non-highway transportation system: The Governor's budget continues the ConnectOregon program, with a one-time \$150 million infusion of dollars from lottery-backed bonds that will leverage millions more from private sources to create jobs, while at the same time rebuilding our non-highway infrastructure.

Making Oregon's Transportation System Greener

The Governor's budget invests in a transportation system that can be a leader in the fight against climate change and the transition to a cleaner and greener Oregon. The Governor's budget provides:

Dedicated funding for multimodal transportation investments: The Governor's budget creates for the first time, an ongoing funding source for Oregon's multimodal transportation system by dedicating a portion of flexible federal dollars

that are currently spent on highway projects to an account for Oregon's air, rail, marine and transit system. The total for the 2009 budget is estimated at nearly \$44 million. These investments will take trucks off the road, enhance Oregon's transit system and improve our air and marine facilities.

Price signals to Oregonians: The Governor's budget recognizes that price signals can play a very important role in decreasing driving and cutting greenhouse gas emissions from the transportation sector. The Governor's budget will shift the state's tax credit from hybrid cars to plug-in hybrids and all-electric cars, create a lower first time title fee for cars that get high gas mileage and extend the current tax credit for "pay as you drive insurance," a concept that studies show decreases the number of miles driven.

Integration of land use and transportation plans: The Governor's budget supports the development of local emissions reductions plans. The state's fast-growing metropolitan areas need new planning initiatives so that more Oregonians have the opportunity to get to where they are going while driving fewer miles. The Governor's budget designates a portion of federal flexible dollars to enable Oregon's six Metropolitan Planning Organizations to design vehicle miles reduction plans for their communities. These additional resources enable MPOS to include greenhouse reduction goals as part of their comprehensive planning efforts.

Planning Ahead and Implementing a Vision for Oregon's Transportation Future

Without immediate investment into the transportation system, we can expect that congestion on our roads will increase by 42 percent over the next 15 years, creating gridlock for commuters and lost opportunity for our businesses. In addition to the investments that must be made now, the Governor's transportation package builds a solid foundation

for the future of the entire transportation system, which could include:

Providing ongoing funding for elderly and disabled transit services: By 2030, nearly 20 percent of Oregon's population will be over 65 years of age, with many counties in rural Oregon exceeding that number today. The Governor's budget increases the tax on tobacco to fund \$5 million more in spending for Oregon's elderly and disabled transit services.

Creating a safety net for Oregon's rural counties: The Governor's budget recognizes that Oregon's rural and timber dependent counties have received a short reprieve from the federal government with its four-year extension of the county payment legislation. In order to help in the future, the Governor will create a Timber Dependent County Safety Net Account wherein the state will deposit \$6.5 million annually to preserve and maintain their roadways if the federal legislation is not renewed.

Moving away from dependence on the fuel tax: As Oregonians drive less and demand more fuel efficient vehicles, the Governor recognizes that Oregon needs to find a new way to finance our transportation system. The Governor's budget allocates \$10 million over the next biennium to continue the cutting edge work of the Oregon Department of Transportation and the Road User Fee Task Force to find a new way to fund our transportation system.

Providing better management of the system: The Governor's budget also allocates money for the creation of a Transportation Utility Commission, a new body similar to the Public Utility Commission that will develop an asset list among Oregon's local governing bodies to create a conceptual framework to determine total transportation costs and revenue that will be necessary to meet those costs. This bold approach can lead to a more comprehensive investment strategy and de-politicize decision making.

The Governor's Budget for a Recovering Economy

Focusing on the Future

Governor Kulongoski believes that tough economic times require prioritizing investments that advance economic opportunities for Oregonians. Though the state faces an uncertain economy over the short-term, the Governor believes that Oregon must maintain an investment in the core activities of economic development—activities that will place Oregon at the front of the pack when America's economy turns around.

Oregon cannot afford to lose its reputation as a leader in sustainability. Positioning for the future means more than protecting existing jobs and generating new ones. It's also about ensuring the long-term sustainability of the state economy, in both rural and urban Oregon.

Preparing for the future while addressing current challenges requires short-term sacrifices to best position Oregon for success in the long-term. The Governor's budget reflects these difficult choices by investing in programs that encourage innovation and strengthen the creative economy. The Governor has placed a high priority on initiatives that ensure the greatest opportunity for a long-term statewide return on investment. The budget will help Oregon emerge stronger, more diversified, and better able to lead America into the future as the economy recovers.

Innovation-Based Investment

The Governor's budget includes \$20.5 million for the *Innovation Plan* developed by the Oregon Innovation Council (Oregon InC). The plan includes an innovation-based economic development strategy that will enable Oregon's businesses to stay competitive in a global economy.

A critical ingredient of economic success is Oregon's ability to market the newest and best products and services. Oregon InC stresses the need for innovation in traditional industry sectors, such as agriculture and forestry, where innovation can help maintain and increase the number of good, family-wage jobs. The *Innovation Plan* also seeks to identify cutting-edge opportunities that promise new jobs and stronger prosperity, such as wave energy, nanoscience, manufacturing, drug research and sustainable technologies.

Nanoscience: The Governor's budget includes \$5.7 million for the Oregon Nanoscience and Microtechnologies Institute (ONAMI), which the Governor and Legislature created in 2003. In its role as Oregon's first Signature Research Center, ONAMI conducts research and development in micro- and nanotechnology, while promoting collaboration among universities, research institutions and private industry to commercialize cutting-edge research in an area where Oregon has a competitive advantage. By May 2008, ONAMI had helped provide technology for 10 "start-up/spin-out" companies and two "gap-funded" companies, and had brought in \$103.6 million in federal and private research funding to Oregon.

Food Industries: The Governor's budget includes \$1.6 million for Oregon's food-processing industry, and \$450,000 for the seafood industry. The budget emphasizes helping producers increase productivity and find new ways to develop, package and market their products. The investment is a partnership between industry and the existing Food Innovation Center to help food processors adopt innovative ways to expand markets, increase efficiency and pioneer developments in food-packaging and processing. Accounting for nearly 16 percent of the state's employment, the food industry is a \$20.6-billion component of the northwest economy.

Cures for Infectious Diseases: The Governor's budget includes \$2.8 million for the Oregon Translational Research and Drug Discovery

Institute (OTRADI), a consortium of Oregon Health Science University, Oregon State University, University of Oregon, Portland State University, and several Oregon-based biotech companies. OTRADI's mission is to bridge the gaps between research, development and commercialization in controlling infectious disease. The Institute will provide access to resources in drug development that many companies cannot afford to acquire themselves.

Manufacturing Initiative: The Governor's budget invests \$1.0 million in capacity for research and development in Oregon's manufacturing sector, ensuring that this core industry (which employs one in every seven Oregonians) has access to the equipment, technology and skilled workers it needs to compete and thrive in the 21st century.

Wave Energy: The Governor's budget invests \$3.5 million to help Oregon build a sustainable coastal industry during the next 20 years by harnessing powerful ocean waves to generate electricity. The Oregon coast is the best site in the United States for this emerging energy technology. The state has a golden opportunity to create a first-in-the-nation network of offshore generators that can feed power to the electrical grid. This emerging industry will create jobs along the coast and provide manufacturing opportunities to build equipment.

BEST (Bio-Economy and Sustainable Technologies): The Governor's budget invests \$3.2 million to continue this signature research center for developing renewable energy and green building. BEST builds on Oregon's existing international reputation as a leader in renewable energy. The center makes productive use of ONAMI technology and bolsters Oregon's rural economy by creating new value-added products, including renewable energy sources from forests and agricultural land.

Forestry Cluster: The budget provides \$2.3 million to fund the Forestry Cluster Initiative, which is new for the 2009-11 biennium. The Initiative contains three elements:

- Center for Forest Transportation: Create a Center for Forest Transportation to lower annual costs through industry prioritized transportation research projects (e.g. changes to vehicles, road maintenance practices, road construction practices, and transportation/fleet management).
- Enhanced Tree Growing Technologies: Develop more precise technology for boosting productivity of plantations and optimizing tree biological/economic performance through enhancing supply-chain technology to extract the highest value from each tree.
- Commercialization and Market Research Laboratory: Establish a new market research lab at OSU that will provide a wide range of services to industry (e.g. market assessment for new products or existing products into new markets; assessment for international market entry; feasibility studies, user research).

Creative Economy

Oregon has a long history of public investment in culture, history, art, movies and preservation, and the creative economy. Beginning in 2003, however, these investments suffered severe cutbacks. When the economy rebounded in 2007, the Governor saw the need to restore the public investment in culture. At his direction, the Oregon Arts Commission, the Oregon Cultural Trust, the Oregon Film and Video Office, the Oregon Historical Society and Oregon Main Street worked together in 2007 for passage of a \$10-million culture, history, art, movies and preservation (CHAMP) reinvestment package. The package included funding for each of those organizations. In his 09-11 budget, the Governor proposes \$5 million for CHAMP II.

Investing in culture is critical to the state's economy, especially rural and coastal communities. The investment will pay dividends

in new jobs, new businesses, and maintaining Oregon's reputation as a great place to live.

The Governor's Public Safety Budget

Maintaining critical services for safe communities and highways

The Governor's budget gives a high priority to the most critical public safety services that state government provides. Building on the success of the past several years, it carries forward restoration of around-the-clock police coverage on Oregon's highways, protecting the safety of youth, reducing recidivism and implementing the recent voter-approved measure to reduce property crimes.

Oregon State Police
24/7 Patrol Coverage, Forensics and
Medical Examiners

The Governor's budget includes \$28.8 million to maintain full funding for the 139 Oregon State Police patrol positions authorized by the Legislature. The budget maintains current services within OSP's criminal division and forensics division, with 114 detectives and 75 forensic scientists. The Governor's budget also holds harmless the State Police Medical Examiner division, which provides critical scientific investigative services to local law enforcement partners.

Department of Corrections
Offender Accountability, Recidivism

The Governor's budget for the Department of Corrections (DOC) provides \$1.5 billion General Fund for the biennium. Over the next two years, DOC's population is expected to increase from 14,000 inmates to approximately 16,000, an increase of nearly 15 percent. The budget also provides DOC with upward adjustments for medical and pharmaceutical services to ensure the continuation of these

services. The cost of these services totals \$204.6 million in General Funds, up from \$152 million in the current biennium.

The budget includes \$118 million in certificates of participation to begin building the state's next prison facility by July 1, 2009 in Junction City.

Measure 57: The Governor's budget implements Measure 57's sentencing policies on a least cost basis. DOC will use temporary and emergency beds at some facilities, open existing beds that have been held off-line for budget savings and begin new construction to permanently accommodate the increases in population.

In passing Measure 57, voters recognized that addiction is the root cause of most property and drug crime. Breaking the cycle of addiction means that fewer Oregonians will become victims. To implement these provisions of Measure 57, the Governor's budget provides a \$5 million expansion to DOC's treatment services to provide appropriate treatment to addicted inmates who are at high risk to re-offend. In addition, the budget provides \$15 million for the supplemental grants to local communities called for in Measure 57, ensuring that repeat property offenders receive community-based addiction treatment after leaving prison.

Re-entry services: The Governor's budget expands funding within DOC for re-entry and transition services. This \$1 million investment will protect the public by enhancing the state's ability to ensure that released offenders benefit from a strict supervision plan that maximizes access to treatment, employment, housing and other services that help them stay sober and law-abiding.

Oregon Youth Authority

The budget for Oregon Youth Authority gives priority to maintaining its current capacity in "close-custody" beds. The Governor's budget includes \$170.3 million to preserve 950 close-custody beds, and \$23.3 million for OYA's local partners in county juvenile departments, which will help them provide basic services and juvenile crime prevention.

Department of Justice

The Governor's budget includes \$51.9 million General Fund for the Oregon Department of Justice to sustain Child Support Enforcement and the Defense of Criminal Convictions.

Child Support Enforcement is a high priority for the Department. This budget substitutes \$4 million General Fund dollars for federal funds that are no longer available, bringing the total to \$23.5 million for the Division of Child Support. Without this additional funding, the Department would need to eliminate 86 Child Support positions, thereby increasing the number of impoverished children and creating increased pressure on other state resources.

The Department of Justice defends the state when criminal offenders appeal their convictions. This budget provides \$24.8 million needed to defend convictions from appeals.

Board of Parole and Post-Prison Supervision

The Governor's budget includes \$4.3 million to enable the Parole and Post-Prison Supervision Board to maintain its core functions and support the Board's efforts to implement the recommendations of its system improvement workgroup, such as improving its release-hearing process and the victim-notification process.

Criminal Justice Commission

The Governor's budget includes \$15.1 million for the Oregon Criminal Justice Commission. The Commission conducts oversight of federal public safety grant programs and oversees the administration of state general fund grants for drug courts throughout the state. Moving oversight of the federal grants to the Commission allows Oregon to be more strategic and efficient in its use of grant dollars.

Oregon Military Department and Oregon Emergency Management

The Governor's budget recommends \$452.8 million for the Oregon Military Department. The OMD will continue the Reintegration Program to help returning Guard members reintegrate into civilian life. It will also enhance funding for the

Portland Air National Guard Base and the Kingsley Field Air National Guard Base to support facilities operations and maintenance activities. The OMD will continue funding the Youth Challenge Program, which provides structured educational services to at-risk youth who have dropped out of school.

The Oregon Military Department's budget includes \$30 million in General Obligation Bonds to seismically retrofit critical facilities, public educational institutions and emergency facilities in the state. Half of these improvements will go to educational institutions, while the remaining amount will go to other crucial public infrastructure.

The OMD funds \$14.2 million for enhancements and alterations to existing emergency preparedness facilities in order to increase rapid response in the event of natural or human-caused disasters. These enhancements will ensure that state and local agencies pre-position water, power, fuel and communications systems strategically throughout the state for use in emergencies.