

The Governor's Message: A Great Opportunity

Dear Fellow Oregonians:

We are entering an era of great opportunity for Oregon. After climbing back from our state's deepest revenue losses since the Great Depression, we have regained our economic footing. Now, we can move forward with new confidence.

We have the ability to make Oregon a better place to live, learn and raise a family, to pursue a career and grow a business, to prosper in an ever-stronger economy and thrive in an ever-healthier environment – without having to abandon any one of these essential goals to pursue another.

We have the resources to do more, the opportunity to do better and the responsibility to do our best.



The ability to do more

Thanks to a recovering economy, we can look forward to steadily improving revenues that will enable us to keep pace with a growing population and rising costs of living. At long last, we have the ability to do more.

Better schools, with stable funding—Our schools have struggled too long with larger classes, fewer teachers, shrinking curriculums and uncertain funding levels from year to year. Now we can reverse these trends and bring fiscal stability to our education system.

In this budget, I provide the resources we need to launch the Education Enterprise, which will commit the equivalent of at least 61 percent of our general fund revenues to stabilize, improve and better coordinate our public education system from pre-school through graduate school.

I begin with \$6.06 billion for K-12, an increase of more than \$250 million over the “essential budget level” – the funding level needed to keep up with increased enrollments and inflationary costs increases. This initial commitment, combined with the ongoing funding established by the Education Enterprise, will enable our schools to:

- Expand kindergarten and reduce class sizes in K-12, to help children become capable learners throughout their lifetimes;
- Sustain a full school year, so that no school in Oregon will ever again have to shut its doors early on our children;
- Strengthen teaching by providing mentoring for new teachers and ongoing training for all teachers;
- Offer courses that can inspire and prepare our students to achieve their potential in today's rapidly changing economy.

Broader access to post-secondary education—We will broaden the path from high school to college with the expansion of the successful Access to Student Assistance Programs to Reach Everyone (ASPIRE) guidance and counseling program from 83 to 150 schools.

The Education Enterprise will expand the capacity of our community colleges, public universities and job training programs to better serve students who graduate from high school and adults who seek to upgrade their skills in our workforce.

Community colleges will receive increased funding for new construction and additional resources to add new programs, courses and sections in distance learning, with an emphasis on training new nurses and health professionals.

Our universities will receive much-needed new resources to keep up with increasing enrollments, address long-deferred maintenance needs, increase investment in faculty recruitment and retention, and improve student-faculty ratios in line with requests submitted by our reconstituted Board of Higher Education.

Most importantly, community colleges and universities will become more affordable for Oregon's working families. Our universities will limit tuition increases to correspond with family incomes. And, we will fund a new "shared responsibility model" for financial aid that will extend our opportunity grant program to students from middle-income families and households, reducing the amounts that students need to borrow and encouraging more students to pursue and complete a college education.

Putting students first—This budget makes a sizable commitment to our educational system, amounting to the largest share of the additional revenues in the next budget period. Fortunately, we have the resources to make this commitment without diverting funds from other vital services. If we mean it when we say that we intend to put our students first, this is our chance to do so.

Safer communities—In this budget, I add 139 new state troopers to re-establish round-the-clock coverage on our state highways, providing greater protections for Oregon drivers and expanding our efforts to cut off the supply of meth and other harmful drugs. This budget also provides funding to increase detectives and forensic scientists in the State Police to curtail identity theft and sexual offenses and to boost our support for drug courts and community corrections. The Oregon Youth Authority will receive funding to re-open its correctional facility in Albany, and the Department of Corrections will gain the resources needed to better manage offenders who return to our communities.

A stronger safety net for needy Oregonians—We can strengthen and expand our human services safety net. This budget will enable the Department of Human Services to add 40,000 Oregonians to the Oregon Health Plan "Plus" program, enhance our public health, home care and nursing home systems, and help make up for declining and limited federal supports for many of these services.

A better mental health system—This budget provides the funding needed to re-design our mental health system, in line with recommendations from a taskforce I appointed in 2003 and the recently-developed Maser Plan for the Oregon State Hospital. We direct new resources to expand community mental health services and begin the process of replacing the state hospital to provide a more integrated continuum of mental health care in Oregon.

"Everything That Works" to control health care costs—We have the resources to invest in proven strategies to reduce health care costs. In this budget, we build on the expansion of the Oregon Prescription Drug Program, approved by the voters in Measure 44, by opening up that program to employer-sponsored health plans that can benefit from the program's purchasing power. We expand efforts to reduce the costs and improve the quality of medical care and train more health care workers.

Safe children, strong families—We can do more now to keep children safe, both in their own homes and in the foster care system, and to keep families together whenever feasible. In this budget, I provide the funding to reduce caseloads for child welfare workers, expand the reach of our Court Appointed Special Advocate program (CASA), and enhance resources for Relief Nurseries. We will extend financial assistance when needed to persons who provide foster care to children of family members, which will encourage placing children with their own relatives. And we will use a portion of liquor revenues to provide alcohol and drug treatment services to children and families in the child welfare system.

Clean air, clean water and a healthy landscape—For the first time in years, my budget increases funding for the Department of Environmental Quality to improve water quality, with special attention to the Willamette River, to protect air quality, particularly in the Columbia River Gorge, and to reduce toxic air pollution from diesel engines. Also, in this budget, I restore our full commitment to the ballot measure voters approved in 1998 that directs a portion of lottery funds to enhance salmon recovery, watershed restoration and wildlife habitat.

Toward a renewable energy economy—This is a budget that can help build a new unity of purpose in Oregon by integrating our commitment to a cleaner environment with our quest for sustainable economic growth.

With relatively modest investments and tax incentives, we can accelerate Oregon's leadership in the development of renewable energy sources that will create new competitive advantages in the global economy. We can attract new industries, reward local businesses, expand a high-skills workforce and sustain high-wage jobs.

In this budget, I recommend that we create and expand tax credits for the development of bio-fuels and the expansion of renewable energy products. In partnership with the Oregon Innovation Council and our universities, I have included start-up funds for the development of commercial wave energy, a geothermal energy project and a new signature research center for sustainable technologies.

Connect Oregon II—In this budget, we will launch a second phase of investments in our non-highway transportation infrastructure to continue the success of the Connect Oregon program in upgrading and expanding seaports, airports, railroads and transit facilities.

The opportunity to do better

Even with a recovering economy, we will not achieve our state's potential with a tax system that shortchanges our ability to save for the future and fails to balance costs and benefits fairly among our working families and businesses. Oregon's system of public finance is too unstable to sustain essential services over time and increasingly unfair to the middle-class families who pay the bulk of our taxes.

Comprehensive tax reform remains a compelling, if distant, goal. But taking steps now to make our tax system more stable and fair, even incrementally, can provide new opportunities that are just as compelling.

More stable and fair taxes to expand educational opportunities—Diverting the corporate kicker to a rainy day fund will provide a much-needed buffer against future downturns in the economy. Also, raising the \$10-corporate minimum tax is long overdue; it hasn't been updated since 1931, when most working families in Oregon earned less than \$30 a week. Asking corporations to make a more reasonable

minimum commitment to our state is only fair. I will work to make sure that their commitment will pay dividends for our citizens and businesses for years to come.

In this budget, I recommend using the revenues we gain from updating the corporate minimum tax to expand opportunities at both ends of our Education Enterprise. First, we will fully fund Head Start for all eligible three and four-year olds. Second, we will open wide the doors of our community colleges and universities, by making those institutions truly affordable for all Oregonians with the interest, ability and commitment to pursue a higher education. Third, we will establish a "Skill Up Oregon Fund" to upgrade the skills of low-wage and unemployed workers.

Healthy kids and a healthier Oregon—Oregon is the only state in the country that has reduced its taxes on cigarettes and tobacco products in recent years. As a result, these taxes fail to reflect the costs to society from the use of tobacco products. Now is the time to adjust these taxes to better reflect the societal costs of these products, and to provide new resources to improve the health of all Oregonians.

In this budget, I recommend that we equalize our cigarette taxes with those in Washington State, and use the revenues to pay for a statewide program that will offer affordable health coverage to every child in every family in Oregon. It is unacceptable that we have 117,000 children without health coverage in Oregon. Now that we have identified a reasonable source of funding to solve this problem, I am asking the Legislative Assembly to join with me to ensure that all children have access to the health services they need to grow and learn and achieve their potential.

The new tobacco tax revenues will also enable U.S. to provide up to 15,000 more openings for low-income adults in the Oregon Health Plan "Standard" program, boost efforts to curtail tobacco use, expand school-based health centers, and improve access for the approximately 400,000 individuals currently served through OHP.

24/7 State Police coverage on our highways—To restore and sustain 139 additional troopers to ensure 24/7 coverage of Oregon's major highways, my budget proposes a surcharge on auto insurance policies for those who purchase more than the legally required minimum coverage. This surcharge will average less than two dollars a month for drivers who choose to purchase those higher levels of insurance coverage, and will better reflect the true cost of providing safety on our roads and highways.

The responsibility to do our best

We learned good lessons in bad times. We confronted unsustainable costs in our Public Employees Retirement System and made difficult changes that averted a fiscal crisis that had threatened to sink our state budget. Now that those changes are in effect, we have one of the best-funded retirement systems in the country and the opportunity to direct more of our new revenues to expand services for Oregonians. Also, we have shown that it is possible to reduce red tape and achieve new efficiencies in a range of endeavors from business start-ups to on-line licensing, job searches and health care cost comparisons.

Government can make life better for its citizens, but government itself must always strive to do better. We may have tested the limits of doing more with less in state government and in our schools. But the effort to deliver services as efficiently as possible is never ending. And, the commitment to be open and responsive to our citizens requires rigorous attention and continuous self-examination.

Consolidation of school districts' health care plans—As part of our Education Enterprise, I will ask the Legislative Assembly to combine the health plans of our 198 school districts, which is expected to save at least \$40 million a biennium. This will allow school districts to increase funding for academic programs, textbooks and materials.

Accountability counts—As part of our Education Enterprise, I will ask the Oregon Department of Education to conduct performance audits of school districts, and I will expect local school boards to provide regular reports to the public on their budgets and student performance. The Education Enterprise provides clear goals and performance measures for local schools, community colleges and our university system.

Stronger ethics enforcement—To promote accountability in government, I will support creating a truly independent Government Standards and Practices Commission that has the tools to enforce the laws and rules that are meant to ensure that the people's business is conducted openly, honestly and without improper influence. This budget meets the staffing requested by the Government Standards and Practices Commission and provides funding to provide continuing education for public officials and lobbyists.

Clean elections—This budget restores full funding for publication of the Oregon Voters Pamphlet, continues funding for a newly-established position to investigate signature-gathering abuses in the initiative process and adds a new position for the administration of elections in the Secretary of State's office.

Hope and opportunity are the motivating themes of this budget for the 2007-09 biennium. I look forward to working with you and your legislators to bring new hope and greater opportunities to all, and to create the ever-better Oregon we all strive for.

Sincerely,



THEODORE R. KULONGOSKI
Governor of Oregon

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From Recession to Recovery

An Economic Timeline

Oregon's overall employment trends have mirrored the national trends during the past decade, with slightly greater job loss during the recession but stronger recent and projected growth.

The Mid-Nineties: A Period of Growth

During the mid-1990s, Oregon's economy experienced a period of exceptional growth. Employment grew more rapidly in Oregon than in most neighboring states during this period, thanks to a combination of high net in-migration and a boom in high technology (primarily computer chips), transportation equipment (such as recreational vehicles and heavy trucks), and construction. Oregon's unemployment rate ranked in the middle of all states and lower than its neighboring states.

1999-2003: Downturn and Recession

The Asian financial crisis in 1997 led to weaker manufacturing employment by the end of the decade, higher unemployment rates and slower overall job growth in Oregon. 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 rate much higher than the national average for job loss. With the onset of the recession, Oregon's unemployment rate soared from just over 5.0 percent in late 2000 to a peak of 8.5 percent in mid-2003. The state's population continued to grow despite the high unemployment rate. Oregon had the nation's highest or second-highest state unemployment rate for 43 months, from April 2001 to October 2004.

2003-Present: Rapid Recovery and Expansion

Since 2003, Oregon has seen very 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. Over the past two years, Oregon has experienced the fifth-fastest job growth in the nation, growing at an annual rate of 3.0 percent. The state unemployment rate in October 2006 (the most recent month for which data is available) was 5.1 percent, the lowest rate recorded since 2001—a sizeable reduction in the gap with the rest of the nation.

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, and new technology sectors such as semiconductors, software and medical devices.

Oregon's economy has diversified substantially over the past decade. Manufacturing companies, particularly those involved in semiconductor 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. This diversification of Oregon's economy is a promising trend, as it will enable the state economy to better weather challenges faced by individual economic sectors.

Wages

In 2005 Oregon's average annual wage was approximately \$36,000, compared to the U.S. average of \$40,000. Since 2000, Oregon's *real* average wage has remained flat. As a result, Oregon's per capita income as a share of the U.S.

per capita income has fallen significantly since 2000.

In the “flat world,” Oregon faces increased competition from countries such as China and India, where wages are significantly lower, as are infrastructure costs. In order to remain competitive and still raise the average wage in Oregon, the state’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 is expanding. Foreign shipments of Oregon products reached a new peak in 2005, with more than \$12 billion worth of manufactured goods shipped from Oregon to foreign markets. Oregon exports are growing at an annual rate of 29 percent (significantly higher than the U.S. average of 13 percent). Oregon is currently the ninth-most trade-dependent state in the nation.

Of the nearly 4,800 companies that exported goods in 2004, more than 85 percent were small and medium-sized enterprises. This increasing global integration of economies presents both challenges and opportunities for Oregon industries. While global economic integration offers new opportunities for industries to increase sales and enhance productivity by accessing new markets, it also exposes them to competition from businesses in other regions. Overcoming this competition is critical for success at regional and industrial levels.

Manufactured products shipped to foreign locations reflected in Table 1 illustrates that 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 such as wood, food, and paper manufacturing have also significantly increased their foreign shipments. All told, over the last five years foreign shipments have increased significantly for all but three industries, with several industries increasing by more than 100 percent.

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

Industry	2005	Change 2001-2005
Computers & Electronic Prod.	4,602,108,615	20%
Transportation Equipment	1,649,874,781	167%
Machinery Manufactures	1,343,525,795	44%
Chemical Manufactures	519,360,894	56%
Primary Metal Manufactures	368,317,274	105%
Paper Products	345,305,058	81%
Wood Products	343,378,942	3%
Processed Foods	304,673,970	-11%
Fabricated Metal Products	215,347,019	44%
Elec. Eq.; Appliances & Parts	160,462,740	18%
Plastic & Rubber Products	139,208,786	161%
Misc. Manufactures	136,809,174	60%
Leather & Related Products	116,570,233	6%
Non-Metallic Mineral Mfgs.	90,954,003	54%
Petroleum & Coal Products	84,887,849	72%
Printing & Related Products	45,579,741	15%
Furniture & Related Products	19,031,408	1%
Apparel Manufactures	8,897,303	-19%
Fabric Mill Products	5,460,480	-59%
Non-Apparel Textile Products	5,129,157	55%
Beverage & Tobacco Products	4,170,168	29%
All Industries Foreign Shipment	12,380,658,350	39%

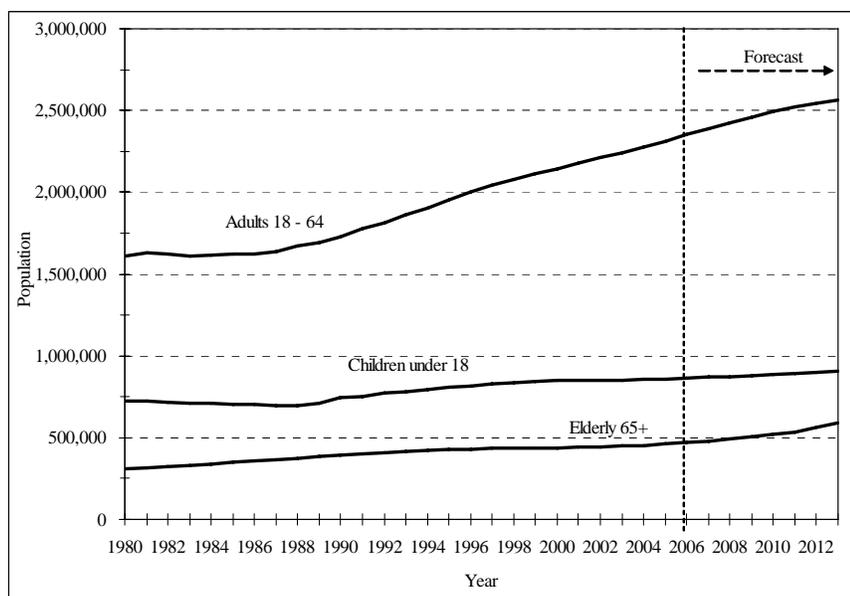
Population

Oregon’s 2005 mid-year estimated population was 3.631 million, an increase of 6.4 percent from the benchmark 2000 Census. Oregon’s population has grown at a faster pace than the national average of 5.3 percent during the 2000-2005 period. However, this recent rate of change in Oregon has been much slower than the change during the 1990s, which saw 1.9 percent annualized rate of growth compared to 1.1 percent annualized rate during 2000-2005.

Oregon's growth dropped from 11th highest in the nation during the 1990s to 14th during 2000-05, and now falls behind all of its neighboring states. The slow population growth was largely due to the slowdown in economy and slow recovery from the 2001 recession.

Most of the population growth in Oregon comes from net in-migration. Working-age adults usually dominate the migration flow, and they tend to go where the jobs are. Migration not only added to Oregon's population—it has also accelerated racial and ethnic diversity in the state. While Oregon's population continues to be predominantly White (90.8 percent White population and 81.6 percent White non-Hispanic in 2005), its population is slowly becoming more diverse.

Population by selected age groups



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

Oregon's population of children (under 19) is growing more slowly than the overall population. The recent increase in the number of school-age children is well below the highs of early 1990s, and this group will continue to grow at a slower pace as the children of baby-boomers

exit this age group. While Oregon's elderly population recently passed through a decade of slower growth, those 65 and over have more than tripled in number since 1950. The growth rate for this age group is already increasing. In particular, population growth for ages 65-74 years and 85 and over will grow at a very fast pace, and exceed the growth for any other age groups in the next biennium. This trend is significant, as it will increase the demand for state-funded services for the elderly.

Looking Towards the Future

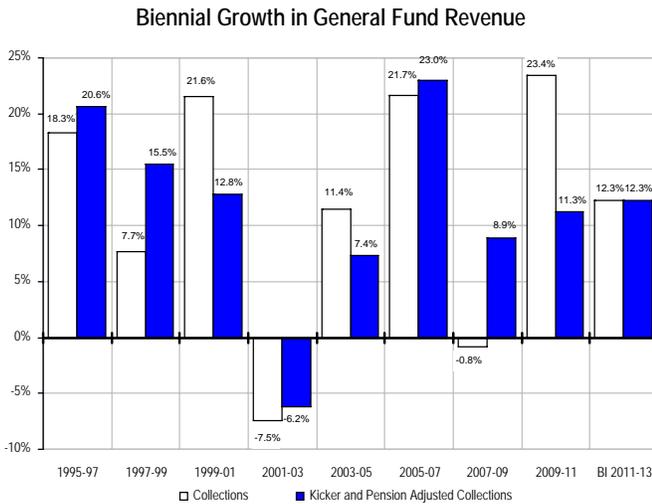
Economic Trends

After a period of rapid growth, the national economy has begun to slow. Thanks to Oregon's exposure to strong international markets, the state will likely fare better than the nation in this cycle. The Oregon Office of Economic Analysis forecasts that Oregon's employment growth rate will continue to outpace the national rate, averaging around 1.5 percent annually in the coming years.

Job growth is expected to be fastest in the professional and business services sector, and in the health care industry. Other non-manufacturing sectors will post robust job gains as the state's population increases faster than the nation's. Manufacturing employment is projected to stay flat. With population projected to grow faster than jobs during the 2007-2013 period, Oregon may continue to experience an elevated unemployment rate.

After slowing below trend in 2007, personal income tax growth will mirror long-term historical averages of 6.0-7.0 percent. Corporate income tax growth will be constrained in the coming years due to changes in the formula by which multi-state corporations apportion federal

taxable income to income taxable in Oregon. The change to 100 percent sales-based apportionment is expected to decrease the volatility exhibited by corporate income tax revenues in the past. All other General Fund revenues will approximate long-run historical rates of growth.



Economic Factors Linked to the Budget

Several factors linked to the economy have the potential to increase or reduce the funds available to the Legislative Assembly for this state budget. Therefore, quarterly economic forecasts made during the legislative session may be especially important to state budgeting. Among the factors in uncertainty are:

- *The state economy.* In the short run, Oregon's economy will grow slowly through 2007, but is projected to gain strength in 2008 and 2009. 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 likely slow significantly in 2007, before it picks up growth momentum in 2008. Business capital spending and robust exports will lead the expansion. A sharp correction in housing market probably will not lead to a recession, but substantial downside risks remain. Energy prices remain a significant risk, although prices have come down from

recent peaks. Inflation is another downside risk.

- *Asian economies.* Asian economies have enjoyed strong growth in recent years. Asia's economic well-being is important to Oregon, because Asian economies significantly affect Oregon's economy. The state's major trading partners include South Korea (\$1.3 billion annually), Japan (\$1.2 billion), Malaysia (\$914 million), and China (\$805 million). These countries import a range of products produced in Oregon, including timber, agricultural, and high technology products. An economic downturn in any of these countries would have a significant impact on Oregon industries.
- *Special tax refunds.* A special refund could cause some uncertainty. The current revenue forecast anticipates a 2.0-percent surplus Kicker refund for personal income taxpayers to be paid out in 2007 on tax year 2006 liability. Corporate Kicker refunds are anticipated and will be credited in the 2007-09 biennium.

State Resources for 2007-09

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.

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. As a result of 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 foremost factors behind the recent surge in collections.

The Governor's Hope and Opportunity Budget for 2007-09 reflects recent economic growth. It restores services that suffered cuts in response to the economic downturns in previous biennia. It is the first budget in more than a decade to fully fund Essential Budget Level for education. The Governor's budget also provides significant resources to local partners, including public safety and community colleges.

General Fund

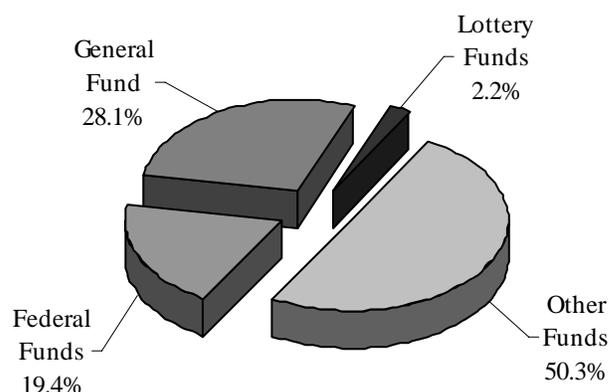
The General Fund receives the most public attention, because it comes almost entirely from income taxes paid by individual Oregonians and Oregon businesses (93 percent). The General Fund is also the most *discretionary* source of funds for the Governor and Legislature to spend, although it accounts for only 28.1 percent of what is spent in the total state budget.

Much of the tax revenue and other revenue that come to the state actually goes out directly to another entity to spend. Some of this money—"shared revenues"—are collected by the state, but a portion is sent directly to local governments for use in providing services in their communities. For example, 2.5 percent of video lottery proceeds go to counties. Each individual community determines how best to allocate shared revenues to meet its unique needs.

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 the money is spent within general conditions. All of these dollars are used to provide services and programs to Oregonians.

Most of the General Fund—the state's discretionary dollars—is special payments that is "passed through" a state agency. But the state agency does not keep any of the money. The largest single special payment in is the transfer of \$6.06 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.

State Resources



General Fund resources are estimated at \$14 billion for 2007-09.

Other Funds

Other Funds represents the largest single category of revenues received by the state, accounting for 50.3 percent of the state budget. They include some taxes; chiefly those related to highway use, employment, and forests, and include state licensing fees. Other Funds also include the state's business-like incomes. Examples include tuition and other fees for services, inmate workforce products, and many funds related to loans or bonds.

Other Funds are legally dedicated either by the state constitution or state statutes 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 can use constitutionally dedicated funds to pay for programs other than those that the Oregon Constitution specifies.

The Governor remains committed to ensuring that every dollar paid by Oregonians is used efficiently. Any savings realized by operating programs more efficiently can be used to lower fees or charges, prevent fee increases, or support additional services to better meet the needs of those paying the fee in the first place.

Federal Funds

The budget also 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 Federal Funds. Some federal dollars come to the state as a fixed amount for a specific program, but most are matching funds for state expenditures. For example, the federal government matches two dollars 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, contingent on the federal government's approval.

Lottery Funds

Lottery Funds are another significant source of money that accounts for 2.2 percent of total state spending. Increasing amounts of Lottery Funds are spent on dedicated distributions. These

dedicated distributions include amounts for Sports Action, 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.

Video lottery sales increased 26.3 percent in fiscal year 2006, primarily due to the addition of slot games beginning in May 2005. The Governor's budget includes \$1.1 billion in Lottery Fund allocations.

Producing a Balanced Budget

As mandated under state law, the Governor's Budget must balance 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 evaluates it and 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. Therefore, 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 Hope and Opportunity Budget (formally titled the *Governor's Recommended 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 deliberates to a final budget that it enacts as a series of laws. Those laws then control state spending for the next two years.

Governor Kulongoski's Hope and Opportunity Budget provides total funding for most agencies at a level that covers estimated inflation and caseload increases. Inflation and caseloads are always estimates; some services receive less money than an agency requested, but within a reasonable range. Some services are shifted from state taxes to other funding sources and some agency requests are reduced so that more pressing needs can be met.

General Fund and Lottery Expenditures

The Governor's budget for 2007-09 puts 53.7 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 16 percent, public safety is the third-largest user of state tax revenues.

The state budget leaves a reserve of about 1.0 percent as a General Fund ending balance. That reserve stands against the risk that actual revenues may be less than forecast.

The Education Enterprise

Hope and Opportunity for Learners of All Ages

The Governor's budget establishes base funding for the Education Enterprise, which is the centerpiece for Oregon's continued economic recovery and long-term prosperity. The 2007-09 budget will put an end to cutting school budgets and increasing class sizes, and bring post-secondary education back within reach of low-income and middle-class Oregonians. It will make up lost ground in school funding, moving Oregon from 5.0 percent below the national average to 10 percent above the national average over the next four years, and funding education above essential budget levels for the first time in more than a decade.

The Education Enterprise will provide long-term stable, adequate and predictable funding for Oregon's public schools, something never before achieved. It will employ a formula that guarantees a minimum level of funding, investment in an education rainy day fund, and create an *Innovation Fund* for additional, targeted investments above the guaranteed base-funding.

For the 2007-09 biennium, the Governor's budget for K-12 of \$6.06 billion will achieve nearly 80 percent of the Quality Education Model (QEM), compared to 74 percent in the current budget period. Under the Education Enterprise over the next three budget periods, Oregon will achieve 91 percent of recommended funding for K-12 under the QEM.

Create Stable Funding for Better Schools

The Governor's education budget commits the equivalent of at least 61 percent of the state general fund revenue every biennium to Oregon's public education system, pre-K through post-secondary education. The 2007-09 budget will serve as the base for funding education in the future. Each biennium

thereafter, every sector of the system—pre-K, K-12, community colleges, universities and the Oregon Student Assistance Commission—will receive a guaranteed minimum budget increase of 10 percent over the previous budget.

The Governor's plan also includes funding to restore a meaningful Education Stability Fund (which some call the education "rainy day" fund), giving Oregon the means to mitigate the harm to education that a future economic downturn could cause. The Stability Fund is projected to reach 5.0 percent of the general fund during the 2009-2011 biennium with revenues from lottery proceeds (18 percent).

Beginning in the 2009-11 biennium, the Governor's budget will dedicate two thirds of the excess growth of the general fund above the minimum 10 percent to the Education Stability Fund (on top of the lottery proceeds), and one third to the Innovation Fund, which the state boards of education will allocate proportionately to support strategic investment at all levels of education. Lottery funds contributed to the Stability Fund above the 5.0 percent cap will go into a Capital Matching fund for K-12, which is in the state constitution, but has never been funded.

Recognizing the hardships that extreme budget cuts have inflicted on K-12 schools during the recent recession, the Governor has proposed a starting floor of \$6.06 billion for K-12 in his 2007-09 budget, an increase of 14 percent over current funding and more than \$250 million above essential budget levels.

With enactment of the Education Enterprise, state funding for kindergarten through 12th grade will increase by more than \$754 million in the 2007-2009 biennium. After adjusting for inflation and enrollment growth, this increase will amount to \$175 per student over current funding, which will put Oregon back on par with the national average of per-student investment.

Provide Equal Opportunity for All Children

The Education Enterprise will enable all eligible three- and four-year-olds to attend Head Start, which is the first step in helping every child achieve academic success. Head Start and pre-kindergarten are essential features of a modern public education system, and over the lifetime of a student, society reaps a 17-1 return on its investment in Head Start. The Governor's budget includes \$96.1 million to achieve this goal, \$39 million of which is a new investment from increasing the corporate minimum income tax above the current \$10-minimum.

Improve Learning Through Smaller Classes and a Full School Year

Passage of the Education Enterprise will enable all K-12 school districts in the state to restore optimal classroom sizes, as recommended by the Quality Education Model (QEM), and reinstate lost programs by 2009-2011.

The QEM calculates the ideal class size for each grade to prepare students for a 21st century economy, and recommends how much the state should spend to bring its public schools up to these standards. The Governor's budget, in collaboration with the Education Enterprise, will enable Oregon to reach the QEM goals, and make classes small enough to let teachers provide the individualized attention that helps students succeed.

The QEM recommends the following class sizes: 20 students in grades K-3; 24 students for grades 4-5; 22-28 students in core classes in grades 6-8; 21-29 in core classes, grades 9-12.

Recruit and Support High-Quality Teachers

The Governor's Budget restores the Oregon Mentor Teacher program, which has not received funding for more than ten years, investing \$5.0 million in a program that will provide every new teacher with a mentor for the first three years on the job. This will improve the quality of instruction and increase teacher retention.

The Governor's budget also provides support for quality professional development for all educators, helping them better meet the growing needs of all students.

Restore Full Curriculums in Oregon's High Schools

In addition to reinstating lost programs like music, art, foreign languages, physical education and technical training, the Education Enterprise will restore the value of the high school diploma to ensure every student graduates high school with the tools to learn a skill, go to college or enter the workforce. The Governor's budget provides an additional \$60 million to help students access advanced education and skills training, \$10 million of which will help schools prepare for the new high school graduation requirements, making sure these new efforts are supported with appropriate resources.

Additionally, the Governor's budget includes \$2.0 million in the community college support fund to be used to reinvigorate professional and technical training.

Open the Door to Higher Education

The Governor's goal for post-secondary education in Oregon is that by 2025, 40 percent of Oregon's adults will hold bachelors degrees or higher, and an additional 40 percent will have earned associate degrees or professional certification.

One of the largest barriers to access is affordability, which is why the Education Enterprise restructures the Oregon Opportunity Grant. The Governor's 2007-09 budget starts to phase in full funding of the *Shared Responsibility Model* over the next two budget periods, increasing the current investment of \$78 million to \$152 million, serving 43,000 students. By the time this year's 8th-graders graduate from high school, every student who wants to go to college will have access to the resources to do so, making college truly affordable again for all who have the interest and ability to pursue a post-secondary education.

The Governor's budget also includes \$1.6 million to increase college attendance in rural areas of the state, \$1.4 million for the Access to Student Assistance Programs to Reach Everyone (ASPIRE) to help more students access a post-secondary education (the first state investment in this program), and ensures that tuition and fee increases at Oregon's Universities will be limited to the growth in median family income, approximately 3.4 percent per year.

Expand the Capacity of Oregon's Community Colleges

The Education Enterprise recognizes and supports the diverse missions of Oregon's community colleges, and will enable them to expand their programs, as well as their physical capacity, to meet the growing needs of the workforce, students, businesses, communities and industries.

The Governor's Budget invests \$483 million in Oregon's 17 Community Colleges, which is a 12.6-percent increase over the current funding level and represents the first step toward a stable and sustained investment in this critical part of Oregon's education system. The Governor's budget also builds on the capital construction investments from the last biennium, allocating \$174.3 million for 12 construction projects, expanding access and improving the quality of our community colleges.

By 2009-2011, under the Education Enterprise, funding for community colleges will increase by more than \$160 million to make more programs available to a broader range of Oregonians.

Reverse the Trend of Disinvestment in Oregon's Universities

The Governor's budget for the Oregon University System (OUS) begins to reverse the decline in state support for public universities in Oregon. As part of the Education Enterprise, the Governor's budget establishes a baseline budget for the nine public universities and establishes a

stable path to grow and restore the losses of the last 25 years, which will help recruit and retain quality faculty, make higher education more accessible and affordable for more students, and ensure Oregon's universities provide our students with an education that prepares them for a 21st century workforce.

The Governor's 2007-09 budget includes \$4.9 billion in total funds for OUS: \$827.1 million in General Funds, which is a 17.1-percent increase over the current funding level. The Governor's budget also includes: \$40.7 million to support campus operations, such as increasing faculty salaries (which lag behind the national average by 2.0-32 percent); reduce the faculty-student ratio; meet demands of enrollment growth; and energy cost increases.

In addition to funding programs to move students from high school to post-secondary education, the Governor's budget includes funding to enhance links among the high school, community colleges and universities, including \$900,000 for the Information Data Transfer and the Articulation Transfer Linked Audit System (ATLAS) systems, which will help students transition from high school, and then through the post-secondary system with more success.

The Governor's budget also continues his commitment to addressing the years of deferred maintenance on college campuses and the need to update facilities to ensure that labs and technology meet the needs of the students in an information technology age. The Governor's budget allocates \$594.5 million in bonds for 45 capital construction projects, including funding for a new university center in Hermiston, a joint project of Eastern Oregon University and Blue Mountain Community College, a science and research center at the University of Oregon, new math, science and computer sciences facilities at Western Oregon University, the Linus Pauling Research and Education Building at Oregon State University, a second building for the Oregon Institute of Technology Health Professions Center, the expansion and remodel of the Theater Arts Building at Southern Oregon

University, and the renovation of the Sciences II building at Portland State University.

Reduce Costs, and Show Taxpayers What Their Investments Will Produce

The Education Enterprise combines the health plans of Oregon's 198 school districts to reduce health care costs, saving at least \$40 million a biennium, money that districts can spend on academic programs, textbooks, and classroom materials. The Education Enterprise also calls for strengthening performance audits of school districts by giving this function to the Oregon Department of Education, and requires regular reporting by local school boards to the public. The reports will detail each district's budget and its correlation to students' performance. The Governor will work with the Legislature to develop a system to deliver this outcome for both K-12 and the post-secondary systems.

Set Goals and Measure Performance

The Education Enterprise is structured around a set of clear goals and performance indicators to direct future investments. It will provide schools, colleges and universities with clear targets and expectations. Over the next six years, the Governor's Education Enterprise will track improved skill development, workforce and college readiness for Oregon's young and adult students to ensure the wise and efficient investment of tax dollars.

To achieve this goal, Oregon needs a statewide PK-20 data system, which the Governor started to develop in 2005. His 2007-09 budget supports continued work on the PK-12 Integrated Data Systems (KIDS) project to connect all K-12 schools, allow student data to follow to the post secondary level, and help analyze program effectiveness. Additionally, the Governor's budget provides \$2.0 million to the post-secondary data system to better coordinate student financial aid. When all is completed, the system will do a better job of tracking student academic data and the financial data that equips

Oregonians, schools and policymakers to make better decisions for future investments.

Develop a First-Rate Workforce

The Governor's budget and policy agenda will transform Oregon's system for workforce education and training. It will prepare workers for today's jobs and prepare young people for the jobs of the future. It will reorganize the community college and higher education system around the workforce the real-world needs of employers.

By strengthening Oregon's investment in education and high-skills training, the Governor seeks to double the number of Oregonians for high-wage jobs, and make Oregon the "Talent Capital of the World."

Target investments to high-demand occupation:
The Governor's workforce strategy features key investments:

- Include \$15 million in Lottery Funds for current worker training, targeted to the demands of employers and clusters of businesses. The *Cluster Investment Fund* will be a first-time investment of state resources to bolster the skills of employed workers, emphasizing critical training programs in manufacturing, food processing, biotechnology, alternative energy and nanotechnology.
- Redirect \$12 million of federal workforce funds to build on the successes of the *Employer Workforce Training Fund*. Over the past four years, the program has assisted businesses in over 420 projects, training more than 20,000 Oregonians from every corner of the state.
- Healthcare investments in Oregon's colleges and universities will add 177 additional nurses, 20 nurse educators, 42 clinical lab scientists, 24 dental hygienists, and

15 ultrasound techs (and physicians and dentists) each year.

- Increased funding for the School of Medicine will cover one-time costs related to the fall 2006 expansion of incoming classes and support clinical clerkship programs in Eugene and Corvallis for third- and fourth-year medical students and pre-clinical programs in Eugene, eastern Oregon and southern Oregon for first-year students. With the added capacity, the university will increase enrollment to 160 students. The budget also includes funds to allow OHSU to provide additional educational opportunities for nursing and dental students and to increase services to underserved areas of the state.
- The School of Nursing will implement the Oregon Consortium for Nursing Education curriculum and add 100 new pre-baccalaureate students per year. In addition, Bachelor of Science nursing students will be increased by 50 per year and master's and doctoral nursing students will be increased by 20 per year. The budget includes funds to develop a new nursing program at Western Oregon University, following renovation of facilities that will house the program.
- The Governor's budget includes investments to help Oregonians prepare for new technologies and innovation by strengthening programs in math and science, engineering and pre-engineering, manufacturing research and development, and emerging industry training programs.

Upgrade the skills of low-wage workers:

- The Governor will invest \$10 million in new revenues from the corporate minimum tax to upgrade the skills of unemployed and low-wage workers to help them reach higher-wage jobs. The *Skill Up Oregon Fund* will be administered in partnership with Local Workforce Investment Boards and will take

aim to increase employment for Oregonians who lack a high school diploma, GED or other certificates or credentials to reach living wage employment. This initial investment will assist 3,000 Oregonians and will leverage federally funded programs.

Meet the needs of businesses and workers:

The Governor supports more rigorous requirements for high school diplomas. He also supports aligning high school, college and university diplomas, certificates and degrees to prepare students for advanced learning and better jobs. The Governor's Budget seeks to achieve the following goals:

- Invest \$1.0 million in *Career Pathways* to connect high school and college programs to jobs in all parts of Oregon.
- Continue to redirect \$2.0 million of federal funds for strategic investments in partnership with the Oregon Workforce Investment Board. Examples include connecting businesses to high school career and technical education programs, expanding apprenticeship opportunities, improving access to jobs for people with disabilities, developing drug-free workplace policies, and promoting career education throughout Oregon's education continuum.
- The Governor's budget includes \$1.14 million for the creation of a *Work Readiness Certificate* comparable to a high school diploma for adults who do not participate formally in the education system. The certificate will help businesses hire good workers while giving the workers themselves a "passport" to better job opportunities.

The Governor's Human Services Budget

Healthy Kids, Healthy Oregonians

The Governor's goal for the Human Services budget is to promote and protect the health and safety of all Oregonians. By strengthening the services and support the state provides to Oregon's children and families, the Governor's Budget invests in their ability to take advantage of the educational and economic opportunities this state has to offer, which is an investment in our state's future. By shoring up programs that protect and serve Oregon's most vulnerable, the Governor invests in their ability to live independent, productive lives, which is an investment in the health and economic vitality of Oregon's communities. Many human service programs go to specific groups of people, but *everyone* benefit when families and neighbors are healthy and safe.

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

By investing in ways to cut the cost of health care and expand health coverage, the Governor seeks to improve the lives of hundreds of thousands of Oregonians, while strengthening the social and economic fabric of the state. Better, more affordable health care offers the hope of a bright future for children and adults alike, and serves as the foundation for continuing prosperity.

Today more than 600,000 Oregonians lack health insurance, or one of every six. More than half of these uninsured people are working adults. More than 117,000 are children. All Oregonians bear the costs of providing health care for the uninsured. Employers and working families, for example, pay higher insurance premiums, co-pays and deductibles to make up for unpaid medical bills. Lack of health coverage creates a real drain on Oregon's economy that threatens continued recovery and prosperity.

Provide Affordable Health Coverage for All Kids

Enact the Healthy Kids Plan. The Governor's "Healthy Kids Plan" is a critical first step toward an affordable, universally accessible health care system. It's a plan that provides affordable, comprehensive health coverage options for every child under the age of 19, and for the first time, it will expand affordable coverage options to working families whose incomes are too high to qualify for help under the state's existing programs. The Plan also will reduce barriers to enrolling children in coverage and *keeping* them enrolled. And it will maximize the federal dollars available to the state.

The Governor's budget brings Oregon's cigarette tax up to the level of Washington State's, which is estimated to generate \$180-\$190 million in additional revenues, after adjusting for reduced tobacco consumption as a result of the increase. The Governor's budget dedicates at least 60 percent of the new revenues to funding health care for kids. When matched with federal funds, within three years, the Governor expects the Healthy Kids Plan to reduce the number of uninsured children in Oregon by 95 percent.

The Governor's Healthy Kids Plan does more than furnish health insurance. It provides ways to meet kids' health needs and keep them healthy. The program will include coverage for mental health services, treatment for substance abuse, and dental care and will invest an additional \$2.0 million to expand school-based health care services and sites, adding 13 new school-based health centers, bringing the total number to 60 centers in 25 counties.

Expand Coverage for Low-Income Adults

Cover more people in Oregon Health Plan: The Governor's budget provides funding for 40,000 more eligible individuals through the OHP "Plus" program. The Governor's budget also uses \$45 million in new tobacco tax revenues to expand health coverage to an additional

10,000-15,000 low-income Oregonians through the Oregon Health Plan "Standard" program. In addition, the Governor invests additional tobacco tax revenue to increase reimbursement to physicians and hospitals under the Oregon Health Plan, which will improve Oregon Health Plan clients' ability to get the medical care they need and reduce the cost-shift to Oregonians who have commercial insurance.

Expand family planning services: The Governor's budget invests an additional \$2.5 million to expand services provided through the state's Family Planning Expansion Project and to provide a cost-of-living adjustment to providers of those services. The state's investment to expand services in this program is matched nine to one by the federal government, allowing the state to provide family planning services to an additional 26,000 individuals next biennium.

Promote and Protect the Public Health

Strengthen state and local public health services: All Oregonians depend on the Department of Human Services to protect and promote their health, whether that's by ensuring safe drinking water, planning for emergencies like pandemics, or regulating Oregon's Emergency Medical Services and Trauma systems to ensure that patients receive the best possible emergency help. The Governor's budget doubles the state's investment in local health department capacity, investing nearly \$10 million additional revenue in state and local public health programs.

Reduce Costs and Improve Quality

The Governor's Budget invests in programs that reduce the cost of health care and improve the quality of care for *all* Oregonians.

Make prescription drugs more affordable: The Governor is advancing a legislative proposal that with the passage of Measure 44, which the Governor championed, would allow private employers to save money on prescription drug

costs by participating in the Oregon Prescription Drug Program. The Governor's budget also includes \$740,000 to expand the capacity of the Oregon Prescription Drug Program to reach the 400,000-600,000 Oregonians who lack drug coverage, and make them eligible to participate in the program.

Help seniors select the right Medicare benefits: The budget strengthens the state's *Senior Health Insurance Benefits Assistance Program* (SHIBA), investing \$825,000 for the state to expand its volunteer network to help the nearly 540,000 Medicare-eligible Oregonians navigate the federal Medicare program and choose the Medicare drug plans that best meet their individual needs.

Expand Oregon's tobacco cessation efforts: The Governor's budget restores and expands funding for Oregon's proven Tobacco Prevention and Education Program, investing \$34 million (a \$25-million increase) to improve health and save lives, reducing health care costs for all Oregonians.

Train more health care professionals: Finally, the Governor's budget invests more than \$25 million in Oregon's capacity to train more health care professionals. The budget increases funding for Oregon's rural health care student loan repayment program by \$600,000, to a total of \$1.0 million, to help rural communities recruit the best-qualified health professionals to meet their needs.

Keep Children Safe and Families Strong

Governor Kulongoski understands that Oregon's children must be healthy and safe before they can take full advantage of the opportunities his Education Enterprise will offer. For this reason, his Hope and Opportunity Budget calls for critical investments in keeping children safe and keeping families together.

Fight child neglect and abuse: In 2005, more than 11,250 children were victims of abuse or neglect. In nearly 48 percent of cases where

abuse or neglect occurred, alcohol or drugs, including methamphetamine, were the single biggest problem in the family. In his budget, the Governor invests in a continuum of services for children and families aimed at keeping kids safe at home with their families—from prevention to drug and alcohol treatment. The budget also invests in strengthening Oregon's child protective services system, including child welfare workers, Court Appointed Special Advocates, legal services, and foster parents, to ensure the safety of the more than 16,000 Oregon children in foster care.

To fund a portion of these investments, the Governor dedicates 2.0 percent of the state's total gross liquor revenues, approximately \$17 million, to *targeted* addiction intervention and treatment services. These services will go to children and families who are at risk, or already involved in the child welfare system due to addiction problems.

Provide more treatment for parents who struggle with substance abuse: The Governor invests more than \$10 million of liquor revenues to provide outpatient drug and alcohol treatment to more than 3,400 families. In addition, some of that \$10 million will increase the capacity of Oregon's residential treatment and supported housing services for child welfare and TANF families.

Prevent youth substance abuse: The Governor's budget invests \$3.0 million of liquor revenues in a *youth substance abuse prevention initiative* that will provide new tools for communities to take action in the fight against underage drinking and drug abuse.

Expand Oregon's drug courts: Finally, the Governor's budget will also use some of that revenue to expand the state's investment in drug courts by a minimum of \$2.0 million, which will allow the state to support at least five new drug courts focused on family reunification.

Bolster Oregon's proven child abuse prevention programs: On top of those investments, the Governor's budget invests an additional \$2.5 million in Oregon's Crisis Relief Nurseries, allowing the nine existing Relief Nurseries to serve an additional 600 children and their families, and supporting the start-up of two new Relief Nurseries. The budget invests an additional \$6.0 million in the Healthy Start program, allowing that program to serve 52 percent of eligible, at-risk first-birth families. Finally, the budget increases funding for programs targeted to reducing juvenile crime by \$2.0 million, and invests \$1.0 million in a new homeless and runaway youth initiative.

Strengthen Child Protective Services

The safety and wellbeing of children in the child protective services system has been a high priority for the Governor since he took office in 2003. In his budget, the Governor proposes to strengthen the child welfare system to ensure that children are safe, regardless of whether they live in their own homes or in the foster care system. The Governor's investments are designed to increase the number of children who return safely to their families, and to shorten the time children are involved in the child welfare system.

Strengthen supports for DHS caseworkers: Following through on the recommendations from a report the Governor requested to evaluate Oregon's child welfare system, the Governor's budget invests an additional \$2.0 million to reduce caseload ratios for child welfare workers and enhance caseworker supervision. Those investments will allow workers to better serve children and families and strengthen the department's focus on making sure kids are safe.

Expand legal services and representation for children, child welfare workers, and parents: The budget invests more than \$3.0 million to expand legal services for child welfare caseworkers, allowing for legal review in the majority of cases for the first time in Oregon history. The Governor has also prioritized

additional investments in the Judicial branch, aimed in part at enhancing reimbursement for legal services provided to parents and children in the dependency and delinquency systems.

Finally, the Governor's budget grows the state's investment in Oregon's Court Appointed Special Advocate (CASA) program by \$1.0 million, expanding that program's capacity to serve 38 percent of the children and youth who need a CASA volunteer to champion their best interests in court.

Support relative foster parents: To improve outcomes for abused or neglected children and reduce the number of foster placements children in foster care experience, the Governor's budget targets an additional \$2.7 million to provide financial assistance to needy relatives who care for their child family members in foster care.

Help More Low-Income Families Become Financially Secure

Consistent with his focus on education and economic opportunity, the Governor believes that strong, financially secure, working families are critical to the overall social and economic stability of Oregon. This focus is echoed in the Governor's human services budgets.

Upgrade assistance to needy families for child care: For the coming biennium, the Governor invests more than \$34 million to improve child care support for low-income working families, expanding income eligibility to reach more working parents, raising the provider reimbursement rates and making the co-payments more affordable for working parents.

Re-design Oregon's TANF program: The Governor's budget includes \$20 million of new investment for a comprehensive re-design of Oregon's Temporary Assistance for Needy Families (TANF) program. The new program includes four separate, but interrelated, sub-programs designed to meet the new federal

TANF work participation requirements and provide families the opportunity to move out of poverty. The new, outcome-focused program is designed both to ensure the health and well-being of children in TANF families *and* to help parents achieve self-sufficiency through sustained employment.

More affordable housing: The Governor invests more than \$26 million in both general fund and bond capacity to sustain and expand Oregon's affordable housing options for low-income families. This investment will maintain the state's support for 81 existing projects and build up to 150 new affordable housing units statewide.

Fighting hunger: The Governor's budget adds an additional \$1.3 million, bringing the state's support for Oregon Food Bank Network to \$2.0 million. He also invests an additional \$100,000 in the farmer's market program, serving low-income women and children, expanding their access to fresh fruits and vegetables grown by Oregon farmers.

Protect Oregon's Most Vulnerable

In addition to protecting the safety and wellbeing of Oregon's children and families, Governor Kulongoski's budget invests in targeted supports for programs and providers who serve Oregon seniors, people with disabilities, and those who suffer from mental illness and substance abuse disorders.

Re-design Oregon's mental health system: The re-design of Oregon's public mental health system is one of the Governor's top priorities. Consistent with the recommendations from a taskforce he appointed in 2003, and with *The Oregon State Hospital, Master Plan Phase II* report, the Governor's budget invests both in the expansion of community services for people with mental illness and in the construction of a new State Hospital System. The budget will ensure that the new State Hospital System will provide a more integrated continuum of mental health care in Oregon.

In total, the Governor's budget invests \$120 million to improve Oregon's statewide system of mental health care, including:

- \$82 million in certificates of participation to begin the process for replacing Oregon's existing state mental hospital system, including the Salem campus.
- \$10 million to dramatically enhance Oregon's community mental health services. Those dollars will allow the state to:
 - 1) increase mobile outreach and respite services for people in crisis;
 - 2) develop more resources for local hospitals, including those in rural areas, to manage the increasing demand for mental health services;
 - 3) strengthen Oregon's community-delivered services to help people with mental illness transition from hospital-level care back to living as independently as possible;
 - 4) pilot projects targeted at better meeting the mental health treatment needs of individuals with serious mental illnesses being released from local jails;
 - 5) strengthen employment support services for people with mental illness; and
 - 6) stabilize state-funding for locally delivered crisis services across the state.
- More than \$4.0 million to expand statewide access to early proven early intervention and treatment services for children, youth and young adults showing early signs of psychosis.
- More than \$13 million to improve the quality of care delivered at the Salem campus of the Oregon State Hospital. These resources will support the development of more community placements, the hiring additional staff, and additional training opportunities for existing staff to improve the hospital's ability to serve increasing numbers of psychiatric patients who also are addicted to alcohol and other drugs.

Rebuild Infrastructure and Improve Quality,
Access to Services

Invest in community providers: Because the majority of DHS services are delivered by community partners, including local government and non-profit providers, the Governor recognizes that the quality of those services depends in part on the adequacy of the reimbursement rates the state pays. That's why the Governor's budget begins to re-invest in DHS service delivery providers, including local programs that serve seniors, providers of services to individuals with developmental disabilities, counties receiving less than the statewide average per capital for alcohol and drug outpatient treatment programs, Oregon Health Plan providers, and providers of intensive foster care services.

Strengthen the quality of care in Oregon's nursing facilities: The Governor's budget makes targeted investments to ensure that Oregon's most vulnerable seniors in nursing facilities receive the highest quality of care. To that end, the Governor invests \$3.0 million to increase Oregon's minimum Certified Nurse Assistant staffing levels and to initiate a quality improvement initiative in cooperation with Oregon's nursing facilities. The Governor also adds capacity within the state's Long Term Care Ombudsman program to grow by at least 40 percent the number of volunteer ombudsman serving Oregon's frail seniors in long-term care settings.

Investment in DHS infrastructure: The Governor invests nearly \$6.0 million in DHS to strengthen the management and administration of the department. These dollars are a critical first step toward implementing the recommendations of the comprehensive operational review the Department has been engaged in since November 2005. This investment strengthens the Department's fiscally and operation accountability, improving its capacity to serve Oregonians and fulfill its mission.

The Governor's Budget for
Continued Economic Growth

Hope for a Prosperous Future, and
Opportunities for All

Governor Kulongoski has said many times that Oregon must stop looking in the rearview mirror and focus on the road ahead. To succeed in today's world, Oregon must look to the future, anticipate opportunities, and position its industries and workers to seize those opportunities. His Hope and Opportunity Budget strengthens those factors that enabled Oregon to enter the top tier of states whose economies are growing and adding jobs.

When he took office in 2003, the Governor directed the state's economic development team to engage the private sector and local governments in stimulating job-creation. Oregon then had an unemployment rate of 8.6 percent—the highest in the country. Governor Kulongoski set a target of creating 17,000 new jobs in Oregon during his first term in office. To reach that goal, he worked with the Oregon Economic and Community Development Department (OECDD) and other key partners to expand and diversify the state's economic base by attracting new industries, companies, investments and ideas to Oregon.

Today, the results of that effort are evident. Oregon did much better than the 17,000 new jobs the Governor initially set as his target. Under his leadership, Oregon has gained 130,000 jobs since 2003. Oregon now boasts the fifth-fastest-growing state economy in America. And the state unemployment rate in October 2006 (the most recent month for which data is available) was 5.1 percent, the lowest rate recorded since 2001.

With strong bipartisan support from the Legislature, the Governor led the charge in 2003 to create a vast new public works project—a

\$2.5-billion investment in repairing and upgrading roads and bridges.

In 2005, the Governor and the Legislature followed up with the successful enactment of \$500 million in capital construction at Oregon's community colleges and universities, the largest capital construction project in state history. The state bolstered its earlier investment in transportation infrastructure with ConnectOregon, a \$100-million upgrade to port facilities, railroads, airports and transit systems

throughout the entire state. These investments have made the movement of goods and people safer, more efficient and more profitable for Oregon's businesses. They have also put thousands of Oregonians to work in rewarding, family-wage jobs—not only in major metropolitan areas, but also in rural communities in every corner of Oregon.

During the Governor's first term, Oregon successfully recruited many new companies who set up operations in Oregon, bringing thousands of new jobs and major investments —companies like Amy's kitchen, Lowe's, Royal Caribbean, Yahoo, Wachovia, Google, MathStar, and Genentech.

The Governor has also continued to diversify Oregon's economic base through investment in innovation, research capacity and emerging industries such as nanotechnology and renewable energy. In 2003, Governor Kulongoski led a team that mustered \$20 million in capital—and another million in operating funds—to start the Oregon Nanoscience and Microtechnology Institute (ONAMI) on Oregon's research campuses. Last year, he placed ONAMI among his highest priorities, and asked the Legislature to invest \$7.0 million more to strengthen ONAMI's capacity, which won legislative approval.

Recognizing that one in five Oregon jobs depends on international trade, the Governor has worked closely with OECDD to enhance the agency's focus on attracting international

investment and marketing Oregon products around the world. During his first term, he led successful trade missions overseas to meet with key trading partners, including Germany, China, Korea and Japan, to promote the export and sale of Oregon-made goods, attract investment in Oregon business, and create jobs for Oregon's people.

The Governor knows that economic development brings hope and opportunity to Oregonians. His "Hope and Opportunity Budget" for 2007-09 reinforces an aggressive effort to help the state's economy grow, and enable Oregonians from every walk of life to share in the benefits of that growth.

Invest In Innovation

The Governor's budget includes \$38.172-million for the *Innovation Plan* developed by the Oregon Innovation Council (Oregon InC), which the Governor and Legislature created to develop a biennial innovation plan that directs public investments to stimulate economic development and job growth, and enables industries, communities and the workforce to compete in the international economy.

The *Innovation Plan* recognizes that a critical ingredient of economic success is Oregon's ability to bring to market the newest and best products and services. The Council 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 Plan also accounts for the need to identify cutting-edge opportunities that promise new jobs and stronger prosperity for the future.

In addition to proposals to stimulate development of clean, renewable energy (see "The Governor's Budget for a Healthier World," in this publication) the Governor's Budget includes funding for the following key investments in the *Innovation Plan*:

Strengthen development of nanoscience: The Governor's budget includes \$10 million for the Oregon Nanoscience and Microtechnologies Institute (ONAMI); Oregon's first Signature Research Center focused research and development in micro- and nanotechnology. Launched in 2003, ONAMI has already generated over \$10 for every dollar in state investment. The 2007-09 ONAMI package focuses on commercializing ONAMI technologies, including the launch of a nanotechnology incubator and a privately sourced equity capital fund to support ONAMI start-up firms in Oregon.

Support Oregon food industries: The Governor's budget includes \$4.6 million for Oregon's food processing and seafood industries, with attention to helping producers increase productivity and find new ways to develop, package and market Oregon products.

Help bring to market new cures for infectious diseases: The Governor's budget includes seed funding of \$7.0 million for the Oregon Translational Research and Drug Discovery Institute, a consortium of OHSU, OSU, UO, PSU and several Oregon-based biotech companies to bridge the gap between research, development and commercialization in the area of infectious disease. The Institute will provide access to resources in drug development that many companies cannot afford to acquire themselves.

Support R & D in manufacturing: The Governor's budget enhances the capacity for research and development (R&D) 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 economy by investing \$3.372 million in this sector.

Generate Opportunities for Oregon's Workforce

The Governor's Budget includes a \$15-million investment in *human capital*—a critical investment if Oregon's are industries to compete successfully in today's hyper-competitive global marketplace. Oregon's businesses must attract, retain, and re-train employees to meet the high-tech needs of a rapidly evolving world. This budget will support the workforce needs of Oregon's industries, thereby making them more competitive.

Support Small Business, and Strengthen the Backbone of Oregon's Economy

Oregon's ability to compete in the global economy depends on the success of small businesses. Of the nearly 4,800 companies that exported goods in 2004, more than 85 percent were small and medium-sized enterprises.

The Governor's budget invests \$5.6 million (a 16.6-percent increase over the current biennium) in small business services provided by the statewide network of Small Business Development Centers and Targeted Service Providers. Working with these partners, OECD helps provide counseling and technical assistance for small business owners, with a special focus on reaching critical underserved populations—minority- and women-owned businesses, as well as those in distressed communities.

The Governor's budget also includes \$350,000 to support the *Business Retention Services Program* to help private-sector companies respond to change and distress by using private experts to provide feasibility studies, technical assistance and management consulting services. The priority goes to companies in distressed areas, traditional industries (agriculture, forestry and fishing), traded-sector markets, minority- and women-owned businesses and emerging small businesses. In many cases, this program has helped keep a company from closing, or

helped a business expand or grow. The Governor's 2007-09 budget will enable OECDD to increase the number of businesses it helps under this valuable program by 70 percent, retaining and creating an estimated 400-500 more jobs.

Market Oregon to the World—More Aggressively

The Governor's Budget includes a \$2.1-million investment in marketing Oregon's business advantages, both in America and throughout the world. The Brand Oregon investment will develop dynamic marketing campaigns for Oregon products, industry clusters, business recruitment activities, and business expansion. It will support new partnerships between state agencies and private companies to leverage limited state funding and maximize global reach. And ultimately, it will provide opportunity for homegrown Oregon products to find new customers and fans across the globe.

Support High-Performance Manufacturing

Oregon's small to medium-sized manufacturing businesses face increasing competition from around the world. To remain profitable against ever-tougher competition, these businesses need help in developing advanced manufacturing and production efficiencies that add value to their products. Building on the Governor's Manufacturing Workforce Strategy, his budget invests \$1.0 million in *Lean and High-Performance Manufacturing*, which enables Oregon's small to medium-sized manufacturers to increase production efficiencies. The program will also enable Oregon to take advantage of more federal funding to strengthen manufacturing competitiveness.

Bring Hope to Oregon's Rural Communities

The Governor's budget reinstates \$4.4 million in funding and consolidates the Regional and Rural Investment Funds to support activities that benefit rural economies. This unique assistance does not exist in any other state program in

Oregon, and its restoration will provide economic hope to communities across the state, particularly to Oregon's distressed rural areas. The program provides critical resources for strengthening local economic development capacity by empowering regional boards to develop and implement plans to address specific local economic challenges.

Historically, the boards' investments have leveraged other funds in a five-to-one ratio, helping build collaborations and partnerships across every level of government and industry. With short-term job creation as its primary goal, the program creates at least one job for every \$5,000 of state investment. Projects are designed to improve long-term economic vitality and advance multi-regional objectives.

Continue Expansion of Oregon's Rail, Air, Marine and Transit Systems

In 2005, Governor Kulongoski's *ConnectOregon* proposal was the largest investment in non-highway transportation infrastructure in the state's history. The Governor's 2007-09 budget includes an additional \$100 million of lottery-backed bonds for *ConnectOregon II*, for expanded investment in Oregon's marine, airport, railroad and transit facilities. This funding will expand on the 40-plus projects from *ConnectOregon I*, which ranged from rail connections in Eastern Oregon and air terminals in Medford and Redmond to a new Panamax crane at the Port of Portland. By focusing investment on integrating the highway system with other modes of transportation, *ConnectOregon II* will improve the flow of people and goods and leverage earlier investments in Oregon's roads and bridges.

High-Capacity Transit Extension Project

The Governor believes that the lottery bonds currently funding the Westside Light Rail project, anticipated to be paid off in the 2009-11 biennium, should next be invested in a High Capacity Transit (HCT) Extension Project for the Portland Metropolitan area.

The HCT Extension Project includes all of the linkages in the development of the regional HCT network, and is anticipated to provide a package of key projects that would establish the foundation for the next twenty years of extensions to the Portland region's HCT network. The package of improvements may incorporate HCT extensions to the east or southeast sectors of the region, potentially including a transit river crossing; frequent bus, light rail and streetcar service; HCT corridor improvements; and HCT improvements to the north as part of the Columbia River Crossing Project. Project planning has begun on several HCT Extensions anticipated to be ready for federal matching funds by 2009 when the current I-205/Mall LRT and Commuter Rail Projects are complete.

The 2007-09 Budget dedicates \$19.9 million for Westside Light Rail, with a final payment of \$2.9 million anticipated in the 2009-11 biennium.

The Governor's Public Safety Budget

Hope for Safer Communities and Highways

The Governor's Budget continues his commitment to making Oregon's highways safer and communities more secure. Building on the progress made last session to crack down on methamphetamine, protect children from sex offenders and other serious felons, and safeguard seniors from abuse and financial fraud, the Governor's recommended budget emphasizes public safety policies that strengthen law enforcement, reduce recidivism, and enhance system-wide collaboration.

Strengthening Law Enforcement

Bolster the Oregon State Police: The Governor's 2007-09 budget responds to the fact that the number of officers in the Oregon State

Police (OSP) patrol division has reached a 25-year low. The Governor's budget invests \$18 million to add 139 new troopers to the OSP, achieving basic around-the-clock coverage on major highways. The additional troopers will enhance life-saving response to accidents, help stop the flow of illegal drugs (including meth) into Oregon, and deter hazardous driving that leads to accidents. The Governor's budget establishes a dedicated funding source, an automobile insurance surcharge on policies above the mandatory minimum, for the Patrol division of OSP for the first time since the agency lost the Highway Fund as a source of funding in 1980.

Rebuild Forensics and Criminal Divisions: The Governor's budget uses \$2.0 million of Criminal Fine and Assessment revenue for 12 new detectives in the OSP to help stop identity thieves, sexual offenders and other criminals. These additional officers will enable OSP to once again participate in some of Oregon's inter-agency law enforcement task forces. The plan also adds 15 forensic scientists at the state crime labs, and two additional deputy medical examiners for central Oregon and the mid-Willamette Valley, which will strengthen support to local law enforcement and deliver swifter justice for crime victims.

Improve radio communications for public safety agencies: The public safety communication network is a patchwork that is in danger of failing. In many areas, first responders cannot communicate in the field with responders from other agencies. In 2005, the Legislature and the Governor called for the development of the Oregon Wireless Interoperability Network (OWIN), so that state and local public safety agencies could maintain radio contact with each other in life and death situations. The Governor's budget provides \$561 million total funds for the first phase of OWIN which will begin to meet the goal of cross-agency public safety communication.

Expand law enforcement training: The Governor's budget provides \$6.0 million in Criminal Fine and Assessment funding to expand the quantity and quality of the basic training required of the state's public safety officers at the new Public Safety Academy. Basic training will expand from 10 weeks to 16 weeks for all new police officers in the state and, for the first time, the Academy will have the resources to include complex real-life scenarios as part of the training curriculum, in which public safety officials will practice their judgment and skill. The enhancements in Governor's budget for Academy training also allows implementation of expanded mental health training, both classroom and scenario-based training, which was developed in consultation with the National Alliance for the Mentally Ill.

Invest in Oregon's judicial system: The Governor's budget provides an additional \$16.8 million to the Judicial Department, and an additional \$10.8 million to the Public Defense Services Commission, which are critical to the judicial system's ability to recruit and retain quality public servants. These amounts are above current program levels. Currently, Oregon's trial court judges rank 50th among the states in pay, and the hourly rate for public defenders has not increased in over 15 years. The Governor's budget will enable the Judicial Department to start making critical investments in case management and other information technology systems, and bring parity and improve quality in the criminal, civil, dependency and delinquency systems. In addition, the Governor's budget includes a \$10 million increase for the DOJ Criminal Convictions Section, which is critical to the state's ability to defend and uphold criminal convictions in the appellate courts.

Enhance District Attorney resources and victims' services: The Governor's budget enhances the state's support to Oregon's 36 elected district attorneys by restoring deputy district attorney supplements, improving salary parity for Oregon's rural district attorneys and increasing funding for the Department of

Justice's Organized Crime and District Attorney Assistance Sections. In addition, the Governor's budget enhances the state's ability to assist the victims of crime.

The Governor has provided more than \$4.0 million of additional funding to victims' assistance programs administered by the Department of Justice, including the Crime Victims' Compensation Program, prosecutor-based Victim/Witness Assistance Programs, the Oregon Domestic and Sexual Violence Services Fund, the Child Abuse Multidisciplinary Intervention Account and the Address Confidentiality Program. These investments will improve the state's ability to provide needed services and assistance to crime victims and their families.

Offender Accountability and Reduce Recidivism

Provide full funding for Community Corrections: Community corrections officials need more help from the state to monitor high-risk offenders closely, and to stop them from violating the terms of their supervision once their prison terms are completed. The Governor's budget will provide \$25 million in enhancements for community corrections under a new funding formula developed collaboratively among state and county partners. These funds will allow counties to better manage offenders sentenced to less than 12 months and who are on post prison supervision. The new formula more accurately reflects the actual costs that counties bear, and enables county corrections agencies to do a better job of protecting the public, and a better job of handling the offenders they supervise.

Continue funding for drug courts. Addiction is the root cause of most crime, including property offenses and ID theft. Drug courts and other treatment programs are effective ways to end the cycle of abuse, and they are far cheaper than long-term incarceration or repeated trips to county jail. The Governor's budget will continue his commitment to funding Oregon's drug courts, providing \$9.0 million for grants

and other programs that research has proved effective. The grants are administered by the Criminal Justice Commission; additional funds for drug courts will be available through redistribution of increased liquor revenues (see the Governor's Human Services Budget).

Decrease recidivism, increase access to treatment in prison: Nearly 75 percent of Department of Corrections (DOC) inmates suffer moderate-to-severe addiction to drugs or alcohol, which is why the Governor's budget maintains funding for the existing 330 beds that provide *evidence-based* drug and alcohol treatment within the DOC. The goal is to give inmates the tools they need to end the cycle of addiction and crime. The budget includes the phase-in of the 1,900-bed Deer Ridge Correctional Institution in Madras, which will provide 106 additional alcohol- and drug-treatment beds. This marks the first increase in substance-abuse treatment beds in the last 7,000 beds constructed by the state. The budget contains \$3.0 million additional dollars to recruit and retain qualified and effective substance abuse treatment providers. The DOC budget adds 30 mental health professionals at \$4.0 million to address the needs of the growing number of offenders who suffer from severe mental illness.

Enhance re-entry services: The Governor's budget provides nearly \$1.7 million to the Department of Corrections to create an intensive program to manage sex offenders, as well as to enhance its existing program that prepares other offenders for the transition back into their communities when their prison terms are completed. These investments implement best practices to ensure that offenders are released with strict supervision and a safety plan for access to treatment, employment, housing and other services that will help them stay clean and law-abiding. This will protect the public from newly freed offenders who would otherwise lack any real preparation for the outside world and run the risk of re-offending.

Restore funding to the juvenile justice system: The Governor's budget continues his commitment to the juvenile justice system by restoring cuts made to the Oregon Youth Authority (OYA) during the recession. The budget provides \$6.0 million to County Juvenile Departments to implement enhanced interventions and diversions for delinquent youth in order to hold them accountable, and to give them a better chance of avoiding entry into the adult corrections system.

The budget provides \$18 million for 145 new custody beds and 73 new community placements within OYA, enabling OYA to re-open the Oak Creek Youth Correctional Facility in Albany and fully utilize OYA's other youth correctional facilities. At the same time, the Governor's budget provides \$240,000 for gender-specific programs that research has proved effective in reducing recidivism among young girls, and \$2.0 million to enhance the Juvenile Crime Prevention programs through the Commission on Children and Families (see Governor's Human Services Budget).

The Governor's Budget for a Quality Environment

Clean Air, Clean Water, and Renewable Energy

Oregon's clean air, clean water and abundant natural resources are priceless assets that create the quality of life Oregonians enjoy today and give U.S. hope for an even brighter future. The Governor's budget offers bold actions for protecting human health, fighting global warming, and creating healthy communities for decades to come. But it also capitalizes on opportunities to develop new technologies that will set Oregon on a course to good jobs, stable energy prices, and economic growth, including the development of clean, renewable energy to further the state's economic recovery and reinforce the trend toward future prosperity.

Lead the Way to a Sustainable Future With Renewable Energy.

The Governor's Budget includes a combination of incentives and direct investments that will help Oregon take its rightful place as a national leader in the production and use of renewable energy and alternative fuels. By introducing and promoting new renewable energy projects, the Governor's goal is to diversify the state's energy supply, which will produce long-term environmental and economic benefits for future generations. Investing directly in alternative energy research and manufacturing will stimulate the renewable energy industry in Oregon, leading to new jobs and other economic opportunities for workers and rural communities.

Stimulate renewable energy production and use: The Governor's budget includes \$3.7 million to increase the existing Business Energy Tax Credit (BETC) from 35 percent to 50 percent for renewable energy products and projects, including biofuel production and use. This investment will also fund the expansion of the forms of renewable energy projects that qualify for the Residential Energy Tax Credit (RETC) Program. These incentives will stimulate immediate investments in renewable and alternative energy throughout the state, making Oregon a leader in encouraging businesses and homeowners to support alternative forms of energy.

Invest in commercial wave energy: The Governor's budget includes \$5.2 million for the development of the nation's first commercial wave energy sector. The investment will support development of commercial-scale wave-generation parks and the nation's first in-water wave energy research and demonstration facility.

Develop new energy technologies: The Governor's Budget allocates \$3.0 million, as recommended by the Oregon Innovation Council, toward creation of the Bio-Economy and Sustainable Technologies Center, a new *signature research center* that focuses on technologies that support renewable energy,

bio-based products and green building materials. The Center is a partnership among Oregon State University, University of Oregon, Portland State University, Oregon Institute of Technology and Pacific Northwest National Laboratory and private industry.

Install solar energy demonstration projects and implement efficiency measures in schools: The Governor's budget includes \$2.0 million for a demonstration program administered by the Oregon Department of Energy that will support installation of solar energy systems on school buildings. The Department will work with schools to perform energy audits and fund cost-effective conservation measures. These programs will not only promote energy independence and efficiency, thereby allowing participating schools to invest more money in the classroom, they also will help educate students about the critical importance of conservation and the benefits of renewable energy resources.

University-based renewable energy demonstration projects: The Governor's budget includes \$10 million for five renewable energy demonstration projects at Oregon universities. These investments will help advance research into evolving renewable technologies and include support for a geothermal project that will meet all the Oregon Institute of Technology's electricity needs.

Promote retrofitting to fight global warming: The Governor's budget provides \$3.0 million for grants and related tax credits to retrofit the engines of semi-truck and school buses to reduce carbon dioxide emissions that contribute to global warming.

Ensure that state government meets its goal in renewable energy use: The Governor has set an ambitious goal for state government—to meet 100 percent of its energy needs with renewable resources by 2010. The Governor's budget enables state government to meet 50 percent of its energy needs with renewable energy by the

end of the 2007-09 biennium, initially through the purchase of green tags as the state studies other options for home-grown renewable projects.

Ensure progress toward conservation: The Governor's budget invests \$2.3 million to enable the Oregon Department of Energy to assess energy use by state agencies, and ensure that state government meets the Governor's conservation goals of capturing a 20-percent energy savings by 2010.

Support biomass and other renewable energy: The Governor's budget funds initiatives in the Departments of Agriculture and Forestry to work with communities to grow biomass and biofuels markets and support his renewable energy initiatives, including biomass generation projects that will help protect Oregon forests, and biofuels projects that create economic opportunities for Oregon farmers and reduce Oregon's dependence on foreign oil.

Bolster state assistance for developing renewable energy projects: The Governor's budget will expand the recently created Renewable Energy Division within the Oregon Department of Energy, enabling it to build on efforts to assist the development of renewable energy projects across the state.

Improve Air and Water Quality, Provide Water for the Future

Among Governor Kulongoski's highest priorities is achieving and maintaining clean air, clean water, and a healthy landscape. He is keenly aware that Oregon's economic future depends on safeguarding the state's legendary scenery, recreational opportunities, and overall livability. Too, he believes that Oregon can set a shining example as a state where businesses thrive and grow, and where strong environmental values ensure that children grow up breathing clean air, drinking pure water, and eating healthy food.

Restore past losses: Since the recession of 2001, the Department of Environmental Quality (DEQ) has lost millions of dollars in General Fund support for its programs and responsibilities. The Governor's 2007-09 budget begins to restore those losses and implements a timely and full suite of strategies to address contemporary water and air quality issues.

Monitor toxics to protect water: In 2005-07, the Governor's environmental priorities included funding to complete establishment of *total maximum daily loads* for Oregon's water bodies, with an emphasis on the Willamette River, and to reduce the backlog in renewals of water quality permits and ensure that all permits conform to water-quality standards. The Governor's 2007-09 budget continues this commitment.

- The Governor's budget increases funding for the DEQ to monitor water quality by nearly \$7.7 million. The programs will place special emphasis on *testing for toxins* that may enter the state's waterways from permitted discharges, as well as non-point sources. The Governor's budget also significantly increases staffing to address storm water runoff and pollution control with special emphasis on the Willamette River.

Protect Oregon's air quality: Oregonians in some areas endure toxic air pollution levels that are 10 or more times the acceptable exposure level. Among these toxic chemicals are polycyclic aromatic hydrocarbons (PAH), benzene and diesel particulate, all of which cause cancer. The Governor's budget increases funding by more than \$6.5 million for air quality programs to address the problems of *particulates* and *toxic chemicals* in Oregon's air, including the special situation in the Columbia Gorge.

- *Particulates.* The Governor wants to prevent health risks from fine particulate (soot and smoke), as well as ozone pollution (smog), and assist at-risk areas of the state comply with the new federal health standard for

particulate pollution. The Governor's budget will replace and enhance air-monitoring capabilities, restore education and compliance programs that address open burning and use of wood stoves, and work with communities on strategies to comply with the new federal standard.

Resolve water rights in the Klamath Basin: The Governor's budget allocates \$1.0 million to complete the adjudication of disputed water rights in the Klamath Basin. This is an important early step in resolving the complex and taxing problems of agriculture, water quality and fish restoration in the Basin.

- *Clean Diesel.* The Governor's budget includes \$3.0 million to accelerate the replacement or retrofitting of all diesel engines (bulldozers, cranes, tugboats, etc.), which are a significant contributor to degraded air quality and human health problems.
- *The Columbia Gorge.* The Governor's budget will include \$571,000 to protect and enhance air quality in the Columbia River Gorge, and ensure that Oregon leads the effort with Washington and other partners to protect air quality and visibility in the Gorge.

Clean up toxic sites: The Governor's budget provides \$7.5 million in bond sales to cleanup industrial sites contaminated by past practices and abandoned mines leaching toxics into our rivers. These funds will help leverage more federal dollars for cleanup, and will help return some industrial sites to productive use.

Meet the future need for water: The quality and quantity of Oregon's future water supply is one of the most pressing issues facing agriculture, fishing and conservation. The Governor's budget allocates \$900,000 for a study of storage and conservation opportunities for Oregon's water planners and managers.

Watersheds and salmon: The Governor's budget includes \$75 million for the Oregon Plan for Salmon and Watersheds, which is a long-term road map toward restoring the health of watersheds and aiding recovery of salmon and steelhead. The Governor's budget continues to increase the investment and generates the kind of momentum for salmon and steelhead recovery that characterized the recovery of the Oregon Coast Coho.