



# Oregon

Theodore R. Kulongoski, Governor

## Oregon Watershed Enhancement Board

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### MEMORANDUM

**TO:** Oregon Watershed Enhancement Board

**FROM:** Tom Byler, Executive Director

**SUBJECT:** **Agenda Item D: Budget Update**  
**September 14-15, 2010 OWEB Board Meeting**

#### I. Introduction

This staff report provides an update on OWEB's 2009-2011 budget, the status of 2011-2013 budget preparations, and other related considerations for the 2011-2013 biennium.

#### II. 2009-2011 Budget Update

During the 2009-2011 biennium, the state economy has experienced a severe downturn and is in the midst of a slow recovery. The bad economy has impacted state government. State General Fund revenues have declined significantly, forcing cuts to many state agency budgets. OWEB receives no General Fund dollars in its budget. However, OWEB faces reduced Lottery Fund revenues for its current budget. The following sets out key budget considerations for OWEB for the remainder of the biennium.

##### A. Lottery Funds

As discussed with the Board earlier this year, decreased Lottery Fund revenues resulting from the economic downturn have impacted OWEB's 2009-2011 budget and spending plan. The March 2010 revenue forecast estimated Lottery Fund revenues were down approximately six percent from projections made at the beginning of the budget cycle—this amounts to a shortfall of \$538,000 in non-capital funds and \$2.5 million in capital funds.

The revenue shortfall will be reflected in the last distribution of funding for the biennium, which occurs in May 2011. Under this situation, all agencies that receive Parks and Natural Resources Lottery Funds will receive a proportionate reduction reflected in their final distribution. These agencies must adjust their budget expenditures in order to address the shortfall and maintain a balanced budget at the end of the biennium.

OWEB has been withholding the expenditure of certain funds in order to have sufficient resources to balance the agency budget if a shortfall occurs at the end of the biennium. Earlier this year the OWEB management team developed a plan to rebalance the OWEB budget. The rebalance plan sets aside \$800,000 in non-capital funds and \$4.5 in capital funds. Both amounts exceed the estimated revenue shortfall. The plan was discussed with the Budget Subcommittee at its two April meetings, and discussed with the full Board at the June meeting.



The two forecasts subsequent to March 2010 do not show a clear trend for Lottery revenues. The June 2010 forecast indicated a slight increase of Lottery Fund revenues. The September revenue forecast shows that Lottery earnings are down slightly (-2.8 percent) compared to the June forecast, but that there is an overall modest increase in Lottery revenues due to the addition of administrative savings.

Under the September revenue forecast, the current Lottery Fund shortfall for OWEB is slightly less than predicted in March. The management team will continue to consider adjustments to our budget rebalance plan in response to revenue forecasts. If revenues stabilize or improve, some funds from the rebalance reserve may be expended before the end of the biennium. We will keep the Budget Subcommittee and Board informed as we consider our options.

### **B. Federal Funds**

Since 1999, OWEB has applied for and received funding on an annual basis from NOAA Fisheries through the Pacific Coastal Salmon Recovery Fund (PCSRF). PCSRF has contributed nearly \$120 million, or 25 percent of OWEB's expenditures, towards grants for salmon recovery and watershed restoration actions.

In March, NOAA announced the latest funding opportunity in the Federal Register for Federal Fiscal Year 2010 PCSRF funding, which included a two step application process. The first step was submittal of a draft application on April 23, 2010. The second was a final application due on May 10, 2010. OWEB submitted the necessary materials by the due dates and NOAA awarded a \$15 million grant to OWEB this summer.

Over the years, OWEB has relied on receiving additional PCSRF funds to help fund non-capital grants in the last year of the biennium. At this point in time, OWEB will need additional expenditure authority from the Legislature in order to utilize any new PCSRF funds for the October 2010–March 2011 non-capital grant cycle. OWEB is working with legislative leadership toward that end, and hope to receive legislative approval for additional federal funds limitation at the December 2010 meeting of the Emergency Board. If additional expenditure authority is not obtained, or if other remaining unallocated non-capital funds are “swept” away to build budgets for the 2011-2013 biennium, it is possible that some or all of the March 2011 Board awards may be delayed until funding is more certain. Additional information on the upcoming October 2010 grant cycle is contained in Agenda Item C-4.

## **III. 2011-2013 Budget**

### **A. Budget Development Process**

OWEB's Agency Request Budget (ARB) will be submitted to the Governor and the Department of Administrative Services (DAS) at the end of August for consideration and possible inclusion in the Governor's Recommended Budget for the 2011-2013 biennium. The ARB describes the agency's base budget, requests new funding for specific programs, and recommends priorities for reductions to current programs if there are insufficient resources to meet base budget needs. The Board approved new budget proposals and reduction scenarios for the Agency Request Budget at its June meeting.

Key remaining dates for the budget process are as follows:

- August 2010 – Submit Agency Request Budget
- Fall 2010 – Governor’s Office and DAS reviews Agency Request Budget
- Late 2010 – Governor’s Recommended Budget released
- Early 2011 – New Governor’s Recommended Budget
- June 2011 – Legislatively Adopted Budget

At this point, it appears initial development of the 2011-2013 state budget by the Budget and Administrative Management Division of the Department of Administrative Services will be based on revenues that are below agency current service levels for 2009-2011. This includes Lottery Fund revenues, although proposed reductions for Lottery-funded agencies will be less severe than for General Fund agencies. The Governor’s Recommended Budget will be based on the December 2010 revenue forecast.

Staff will update the Board on subsequent budget developments at the January 2011 meeting.

#### **B. Future Scenarios**

There is considerable uncertainty facing OWEB as we approach the 2011-2013 biennium.

One area of uncertainty involves the overall state budget. The September revenue forecast suggests legislators will face a General Fund budget deficit that is significantly greater than the approximately \$2.5 billion hole estimated earlier this year. Lottery Fund revenues are also expected to be down slightly for next biennium. It remains to be seen how the legislature will respond to the budget crisis and what impact it will have on OWEB programs.

Another area of uncertainty involves Ballot Measure 76, which Oregon voters will consider at the November 2010 election. Ballot Measure 76 proposes to make permanent the constitutional dedication of Lottery Funds for parks and watersheds, as well as make other modifications to the current constitutional law. If Ballot Measure 76 passes, it is not clear how the legislature will interpret the new law, whether the legislature will seek to amend the law through a subsequent referendum, and what changes might occur in how Lottery Funds are budgeted to OWEB in the future. OWEB staff are reviewing the language of the measure and discussing its potential budget and policy effects with stakeholders and interested agencies.

Lastly, the November 2010 election will also determine Oregon’s next Governor. The priorities of the new Governor could also influence budget and program priorities.

Staff will update the Board on these issues and any new developments at upcoming meetings.

#### **IV. Recommendation**

This report is for informational purposes. No action is requested of the Board.