75th OREGON LEGISLATIVE ASSEMBLY – 2009 Regular Session
BUDGET REPORT AND MEASURE SUMMARY

JOINT COMMITTEE ON WAYS AND MEANS

MEASURE: **SB 5534-A**

Carrier – House: **Rep. Galizio**
Carrier – Senate: **Sen. Johnson**

Action: Do Pass as Amended and Be Printed A-Engrossed

Vote: 20 – 0 – 2
House – Yeas: Buckley, C. Edwards, D. Edwards, Galizio, Garrard, Gilman, Kotek, Nathanson, Richardson, G. Smith
– Nays:
– Exc: Jenson, Shields
Senate – Yeas: Bates, Carter, Girod, Johnson, Monroe, Nelson, Verger, Walker, Whitsett, Winters
– Nays:
– Exc:

Prepared By: Jim Carbone, Department of Administrative Services

Reviewed By: Steve Bender, Legislative Fiscal Office

Meeting Date: June 24, 2009

Agency	Budget Page	LFO Analysis Page	Biennium
Various Agencies – Lottery Allocation	P-6		2009-11

Summary of Revenue Changes

The Oregon Lottery collects revenues from traditional and video lottery gaming. It pays player prizes and its operating expenses out of these revenues and then transfers the balance (net profits) to the Administrative Services Economic Development Fund (EDF). The Department of Administrative Services (DAS) then distributes funds from the EDF in adherence with constitutional and statutory funding priorities, including specific Legislative allocations. The amounts outlined in this bill are based on the Lottery forecast from the DAS Office of Economic Analysis as of May 15, 2009, with an additional $981,196 added to the 2007-09 biennium EDF ending balance. The amounts also are based on passage of HB 2012, which suspends any transfer of the 2007-09 biennium EDF ending balance to the school capital matching subaccount in the Education Stability Fund; and passage of SB 496, which reduces the allocation of lottery revenues into the Oregon Growth Account and directs Oregon Growth Account declared earnings to the Oregon Student Assistance Commission and the Oregon Education Fund. As actual amounts vary, the allocations or distributions set forth within may also vary – in some cases requiring related expenditure limitation adjustments.

The Oregon Lottery transfers Lottery Funds to the Administrative Services EDF on a quarterly basis. From each quarterly transfer, a number of dedicated distributions are required by the Oregon Constitution or are provided for in Oregon Revised Statutes (ORS), including:

- The Oregon Constitution requires that 18 percent of net proceeds be distributed to the Education Stability Fund;
- The Oregon Constitution requires that 15 percent of net proceeds be distributed to the Parks and Natural Resources Fund;
- Oregon statute requires that 2.5 percent of net proceeds of video lottery gaming be distributed to the counties for economic development projects. The allocations approved in this bill assume passage of HB 3199, which reduces the amount of this allocation by $5,000,000 for the 2009-11 biennium. Beginning with the 2005-07 biennium, 50 percent of the operating costs for the Economic Revitalization Team (ERT) established by ORS 284.555 are also funded from this source. The provision in HB 3199 to reduce the distribution to counties does not affect ERT funding.
- Oregon statute requires that one percent of net profits be distributed to the Sports Lottery Account for sports programs at state institutions of higher education and for scholarships. The allocations approved in this bill assume passage of HB 3199, which limits the allocation to the Sports Lottery Account to no more than $9,665,082 in the 2009-11 biennium.
- Oregon statute requires that one percent of net profits be transferred to the Department of Human Resources for Gambling Addiction treatment. The allocations approved in this bill assume passage of HB 2126, which reduces the amount of this allocation by $2,120,912 for the 2009-11 biennium.
- Oregon statute requires that one percent of the net profits, not to exceed $1.53 million annually, be transferred to the County Fair account. The maximum amount is adjusted each biennium pursuant to certain changes in the Consumer Price Index. The allocations approved in this bill assume passage of HB 3199, which establishes a total allocation amount to the County Fair Account of $3,043,303 for the 2009-11 biennium.

- Oregon statute requires that annual debt service payments for outstanding lottery bonds be satisfied before allocating for other purposes.

Finally, the Legislature makes other allocations from the EDF within authorized public purposes. These purposes include job creation, economic development and public education. Currently, the bulk of allocations are made to the Department of Education for the State School Fund and to the Economic and Community Development Department for various program expenditures. During the 2009-11 biennium, debt service requirements will comprise 20 percent of the total resources available for allocation.

Debt service allocations are paid annually in the first quarter of each fiscal year. Interest earned on the EDF remains within the fund itself. If at the end of any quarter funds remain undistributed, they will remain in the EDF for allocation in future quarters. If in any quarter revenue in the EDF is insufficient to pay for quarterly distribution of allocations, DAS will first fund debt service obligations. Remaining revenues will be distributed in a prorated manner.

Summary of Capital Construction and Information Technology Subcommittee Action

Allocation of Lottery Revenue

Senate Bill 5534 allocates lottery revenue from the EDF. The amounts outlined in this bill are based on the Lottery forecast from the DAS Office of Economic Analysis as of May 15, 2009, with the adjustments identified in the prior section. The attached tables display the Lottery Funds allocated by the Subcommittee from the EDF. The allocations are summarized below.

- A total of $228.2 million Lottery Funds is allocated for debt service for outstanding Lottery revenue bonds, and for additional Lottery revenue bonds authorized in the 2009-11 biennium Legislatively Adopted Budget, to the Department of Education, Department of Higher Education, Department of Community Colleges and Workforce Development, Economic and Community Development Department, Housing and Community Services Department, Department of Transportation, Department of Administrative Services, State Department of Energy, State Forestry Department, and the Water Resources Department. New lottery bonds for the 2009-11 biennium include the following:
    - Connect Oregon multimodal transportation infrastructure projects.
    - National Oceanic and Atmospheric Administration project in Newport.
    - Housing and Community Services projects to preserve federally-assisted Section 8 housing and Manufactured Dwelling Parks.
    - Economic and Community Development's infrastructure loan program.
    - State Forestry Department land acquisition.
    - County Court Facilities Infrastructure projects.
    - Federal Emergency Management Agency project in Tillamook.
    - Loan program needs at the State Department of Energy for the Small Scale Local Energy Project Administration and Loan Offset Grant Fund.
    - The Coos Bay Railway project.
    - Water development projects and development of an integrated water resources strategy.

- The Port of Morrow Education Center.
- The Lane Transit's West Eugene EmX project.
- Infrastructure improvements at the Pendleton Round-Up.
- Higher Education and Community College capital construction and deferred maintenance projects approved in Senate Bill 5506.

- The State School Fund is allocated $439.8 million Lottery Funds.

- DAS is allocated $22,000 for transfer to the Department of Agriculture for administration of county fairs.

- DAS also receives an allocation of $1,352,767 for the Oregon School Facilities Task Force (note that this allocation, however, is in House Bill 2013, and not in SB 5534). This amount is equal to the 2007-09 ending balance in the Administrative Services EDF.

- A total of $31.3 million Lottery Funds is allocated for the programs of Economic and Community Development Department. This total excludes amounts allocated for debt service payments on Lottery revenue bonds, but includes $6.6 million for Shared Services; $23.4 million for Business, Innovation, Trade; and $1.3 million for the Film and Video Office.

- The Office of the Governor is allocated $2 million Lottery Funds for the Economic Revitalization Team. Half of this funding will come from the video lottery proceeds that are allocated for county economic development.

Education Stability Fund

A constitutional amendment approved by Oregon voters in 1997, and amended in 2002, requires that 18 percent of net lottery proceeds be transferred to the Education Stability Fund. Interest earnings on this fund are continuously appropriated for the benefit of education programs. These earnings are split 75 percent to the Oregon Education Fund, which is currently used to help pay debt service on lottery bonds that were previously issued for the Department of Education, and 25 percent to the Oregon Student Assistance Commission.

Ten percent of the amount deposited in the Education Stability Fund had been deposited into the Oregon Growth Account within the Fund. Earnings from this Account were transferred to the Oregon Commercialized Research Fund. However, another bill (Senate Bill 496) has changed this. Now all declared earnings, including earnings from the Oregon Growth Account, are continuously appropriated to the Oregon Education Fund and the Oregon Student Assistance Commission. This is expected to increase the amounts transferred to these two entities by $18 million in the 2009-11 biennium. Also, until June 30, 2013, only five percent (instead of ten percent) of the deposits into the Education Stability Fund will be credited to the Oregon Growth Account.

Parks and Natural Resources Fund

Ballot Measure 66, approved by Oregon voters in 1998, requires 15 percent of net lottery proceeds to be transferred to the Parks and Natural Resources Fund. This fund is continuously appropriated for the benefit of State Parks and other natural resource agencies.

County Economic Development

Oregon Statutes require that 2.5 percent of net proceeds of video lottery gaming be distributed to the counties for economic development projects. Beginning with the 2005-07 biennium, 50 percent of the operating costs for the Economic Revitalization Team (ERT) established by ORS 284.555 have also been funded from this source.

The Subcommittee supported reducing by $5 million, the amount of the 2009-11 biennium transfer for county economic development. The resulting estimated distribution is $34,087,557 (including $1,023,139 for the Economic Revitalization Team).

Gambling Addiction

The 1999 Legislature statutorily dedicated one percent of net lottery proceeds to be transferred to the Department of Human Services to fund gambling addiction programs in the state.

The Subcommittee supported reducing the amount of transfer for gambling addiction programs by $2,120,912 for the 2009-11 biennium. The resulting estimated allocation is $9,249,772.

Higher Education Sports Programs

Beginning in 2007, one percent of net lottery proceeds are dedicated to the Department of Higher Education for distribution to institutions to offset the costs of intercollegiate athletic programs and for academic scholarships.

The Subcommittee supported limiting this allocation to no more than $9,665,082.

County Fairs

The 2001 Legislature statutorily dedicated one percent of net lottery proceeds, with certain limitations, for distribution to county fair programs throughout the states. This amount has been adjusted by inflation each biennium.

The Subcommittee supported setting this allocation to $3,021,303 for the 2009-11 biennium.

Lottery Funds Expenditure Limitation

Lottery Funds expenditure limitation related to these allocations is generally contained within the respective agency budget bills and/or in House Bill 5054.

LOTTERY FUNDS CASH FLOW SUMMARY

	2007-09 Legislatively Approved Budget	2009-11 Legislatively Adopted Budget	Percent Change
ECONOMIC DEVELOPMENT FUND			
RESOURCES			
Beginning Balance	$64,108,567	$1,352,767	-97.9%
REVENUES			
Transfers from Lottery			
Net Proceeds	1,326,883,488	1,137,068,431	-14.3%
Other Revenues			
Interest Earnings	7,082,420	4,500,000	-36.5%
Reversions	3,155,094	0	-100.0%
Total Revenue	1,337,121,002	1,141,568,431	-14.6%
TOTAL RESOURCES	1,401,229,569	1,142,921,198	-18.4%
DISTRIBUTIONS / ALLOCATIONS			
Distribution of Video Revenues to Counties	39,997,485	34,087,557	-14.8%
Distribution to Higher Education for Sports Programs	11,742,285	9,665,082	-17.7%
Distribution to Education Stability Fund	238,839,028	204,672,318	-14.3%
School Capital Matching Account	0	0	
Distribution to Parks and Natural Resources Fund	199,032,523	170,560,265	-14.3%
Distribution for Gambling Addiction	12,066,841	9,249,772	-23.3%
Allocation to State School Fund	667,412,210	439,791,571	-34.1%
Debt Service Allocations	161,732,954	228,156,424	41.1%
Other Agency Allocations	69,053,476	36,738,209	-46.8%
TOTAL DISTRIBUTIONS / ALLOCATIONS	1,399,876,802	1,132,921,198	-19.1%
ENDING BALANCE	$1,352,767	$10,000,000	639.2%
EDUCATION STABILITY FUND (not including OGA or ORTDF)			
RESOURCES			
Beginning Balance	178,890,827	0	-100.0%
Revenues			
Transfer from the Economic Development Fund	214,955,125	194,438,702	-9.5%
Interest Earnings	17,931,192	22,866,459	27.5%
Total Revenue	232,886,317	217,305,161	-6.7%
TOTAL RESOURCES	411,777,144	217,305,161	-47.2%
DISTRIBUTIONS			
Interest Distributions	17,931,192	22,866,459	27.5%
TOTAL DISTRIBUTIONS	17,931,192	22,866,459	27.5%
ENDING BALANCE	$393,845,952	$194,438,702	-50.6%

LFO: 6/24/2009

2009-11 LOTTERY FUNDS ALLOCATIONS AND EXPENDITURES

	New Lottery Funds Allocation	Beginning Lottery Balance	Interest and Other Earnings	LAB Expenditure Limitation	Ending Lottery Balance
ECONOMIC DEVELOPMENT FUND					
DEBT SERVICE COMMITMENTS					
Department of Education					
Outstanding bonds	34,445,022	671,845	415,279	35,228,902	303,244
Department of Higher Education					
Outstanding bonds	10,400,250	3,031,622	0	13,431,872	0
Department of Community Colleges & Workforce Development					
Outstanding bonds	7,911,324	0	0	7,911,324	0
Authorized bonds	1,394,779	0	0	1,394,779	0
Economic and Community Development Dept.					
Outstanding bonds	68,813,104	473,814	1,469,813	70,756,731	0
Authorized bonds	2,079,041	0	0	2,079,041	0
Housing and Community Services Dept.					
Outstanding bonds	7,294,062	167,091	0	7,461,153	0
Authorized bonds	1,479,883	0	0	1,479,883	0
Department of Transportation					
Outstanding bonds	79,916,398	522,924	0	80,439,322	0
Authorized bonds	5,005,778	0	0	5,005,778	0
Department of Administrative Services					
Public Broadcasting Bonds outstanding	1,830,791	49,534	0	1,880,325	0
Authorized bonds	5,133,130	0	0	5,133,130	0
Department of Energy					
Authorized bonds	590,348	0	0	590,348	0
Department of Forestry					
Authorized bonds	1,507,602	0	0	1,507,602	0
Water Resources Department					
Authorized bonds	354,912	0	0	354,912	0
OTHER ALLOCATIONS					
Department of Higher Education					
Sports Lottery Account	9,665,082	0	0	9,665,082	0
Department of Education					
State School Fund	439,791,571	0	0	439,791,571	0
Department of Administrative Services					
Oregon School Facilities Task Force (HB 2013)	1,352,767	0	0	35,000	1,317,767
For Department of Agriculture County Fairs Admin.	22,000	0	0	22,000	0
Distribution to County Fairs	3,021,303	0	0	3,021,303	0
Economic and Community Development Dept.					
Business, Innovation, and Trade	23,418,391	9,796,008	706,500	33,099,973	820,926
Shared Services	6,648,906	407,579	0	6,974,906	81,579
Film and Video	1,251,703	0	0	1,251,703	0
Office of the Governor					
Economic Revitalization Team	2,046,278	0	0	2,021,279	24,999
Department of Human Services					
Gambling Addiction Treatment	9,249,772	0	0	9,249,772	0
TOTAL ECONOMIC DEVELOPMENT FUND	$724,624,197	$15,120,417	$2,591,592	$739,787,691	$2,548,515
EDUCATION STABILITY / OREGON EDUCATION FUND					
Student Assistance Commission					
Opportunity Grant	5,716,615	3,224,270	0	8,940,885	0
Department of Education					
Education bonds outstanding	17,149,844	6,148,711	0	20,003,990	3,294,565
TOTAL EDUCATION STABILITY/OREGON EDUCATION FUND	$22,866,459	$9,372,981	$0	$28,944,875	$3,294,565

LFO: 6/24/2009