



Background

The General Fund provides the largest portion of the Department's operating budget. The Other Funds component can be broken out into funding from fee revenue and contracts for work performed, as well as Lottery Revenue Bond proceeds for Grants and Loans. In the 2021-2023 biennium, fees accounted for 15% of the Department's adopted operating budget, decreasing to approximately 14% for the 2023-2025 adopted operating budget. There are five programs that are supported to varying degrees by fees: Well Construction and Compliance, Groundwater Hydrology, Hydroelectric, Dam Safety and Water Right Transactions.

The Department received feedback from stakeholders and legislators that the current model is unsustainable. As a result, during the 2021 legislative session, the Department was asked to work with stakeholders to explore options for more sustainable, long-term funding mechanisms to support the Department's fee-based programs.

Fee and Budget Drivers

There are several drivers that contribute to the budgetary and more specifically, fee shortfalls.

Increased Costs of Services

In many cases, the Department faces cost increases beyond its control. Personal services cost increases are generally determined by the Department of Administrative Services and are a result of factors such as the collective bargaining agreements, which negotiate salary increases to account for cost-of-living adjustments and step increases for eligible staff. Additionally, healthcare costs have increased resulting in increased payroll expenses. Lastly, inflation factors for the costs of goods and services the agency purchases have also increased. In 2023, cost of living and step increases are projected to rise by 11.6% and supply and services inflation increased by 6.4%; this increase is higher than usual due to inflationary costs and the collective bargaining agreement.

The statewide salary pot provides resources to cover increased costs of services, for general funded positions. This means that the Department must find other revenue sources to cover those funding gaps for fee funded positions.

In addition, periodic fee increases often are less than the cost increases, meaning that shortfalls in fees continue to compound over time.

Fluctuations in Revenue

The Department's ability to maintain consistent levels of staffing requires consistent general fund and fee revenue. When fee revenue shortfalls exist, the Department may need to administratively manage the budget; this includes leaving positions across the agency open as they become vacant and shifting general funds (or other available funding sources) to cover fee gaps. This ultimately results in misalignment between staffing levels and workloads agencywide.

Increased Complexity of Work

As water becomes scarcer, the work required of Department staff becomes more complex and time consuming and fees are often not enough to recoup the costs. This is specifically true for water rights and well construction work, where staff are spending increasingly more time evaluating applications, providing customer service and participating in contested cases.

House Bill 3315

In 2015, the Oregon Legislature passed House Bill 3315, which required the Department of Fish and Wildlife (ODFW) to recoup costs incurred providing services to other agencies on fee-based programs, starting in the 2019 – 2021 biennium.

ODFW provides other agencies a range of services, including technical comments, recommendations, advice, review / analysis, and mitigation options for a broad array of permitting and development efforts that potentially impact Oregon's fish, wildlife, and their habitat.

ODFW reviews water right applications and some transfers received by the Department for impacts of water use on fish and wildlife, resulting in incurred costs. The Department does not incur costs for work related to hydroelectric project licensing and decommissioning as well as general coordination on projects, programs and policy. Fiscal year revenue gaps for the Department are as follows:

- 2020 Fiscal Year Gap: \$94,833
- 2021 Fiscal Year Gap: \$71,373
- 2022 Fiscal Year Gap: \$51,503
- 2023 Estimated Fiscal Year Gap: \$50,000

Revenue and Service Gaps

The above issues have resulted in revenue shortfall and service gaps over the years. These shortfalls represent a deficit in revenue used to support fee-funded staff (Table 1). The Department projects financial shortfalls in the start card fund, well construction licensing, dam safety program, and water right transactions. The severity of shortfalls depends on the levels of Ending Fund Balances (EBFs). EBFs are positive balances at the end of the fiscal calendar that are maintained to ensure adequate levels of funding to account for variable timing of incoming revenue and to mitigate risk.

If the Department does not fill shortfalls, there will not be adequate resources to support staff positions that provide program services.

Table 1. Projected shortfalls and anticipated fee increases needed to cover funding gaps with fees only. Low estimations assume no EBF. High estimations assume a target EBF of 3-9 months of operating expenses.

2025-2029 Projected Shortfall (No EFB – Target EFB included)	Projected Position Shortfall	Last Fee Increase	Fee Increase to fill shortfalls
Start Card Fees (Target EFB: 6 months operating costs)			
\$210,000 - \$975,000	0.5-2.25 FTE	\$225 to \$350 (2021)	5% - 22%
Well Driller Licensing and Landowner Permit Fees (Target EFB: 3 months operating costs)			
\$26,000 - \$51,000	<0.5 FTE	Driller License (2001) Landowner Permit \$25 to \$500 (2017)	12%-23%
Dam Safety Annual Fees (Target EFB: 9 months operating costs)			
\$78,000 - \$250,000	0.25 - 0.5 FTE	17.39% (2021)	11% - 36%
Water Right Transactions (Target EFB: 6 months operating costs)			
\$3,600,000 - \$4,800,00	8 - 10 FTE	17.39% (2021)	64% - 86%

Department Position and Fee Summary

The Department is organized into five divisions: Administrative Services, Field Services, Technical Services, Water Rights Services, and the Director's Office. The Department's programs are focused on protecting existing water rights, enforcing Oregon's water laws, processing water right applications and transactions, ensuring the safety of dams, protecting groundwater through well construction standards, facilitating voluntary streamflow restoration, increasing understanding of demands on the state's water resources, providing accurate and accessible ground and surface water resources data, licensing hydroelectric facilities, providing funding for planning, feasibility study, and project grants, and facilitating solutions to water supply challenges. The following sections will discuss how the department is funded as well as provide a funding overview for each of the five divisions.

Funding Sources for Department

The General Fund (GF) provides the largest portion of the Department's operating budget (Figure 1). The Other Funds (OF) component can be broken out into funding from fee revenue and various contracts for work performed, as well as Lottery Revenue Bond proceeds for Grants and Loans. Federal Funds (FF) are generally received through the Federal Emergency Management Agency (FEMA), the United States Geological Survey (USGS), the Bureau of Reclamation (BOR) and other federal agencies.

In the 2023-25 biennium, fees accounted for 14% of the Department's adopted operating budget. As of the 2023-2025 Legislatively Adopted Budget, fees support, fully or partially, 46 of the 258 positions at the Department.

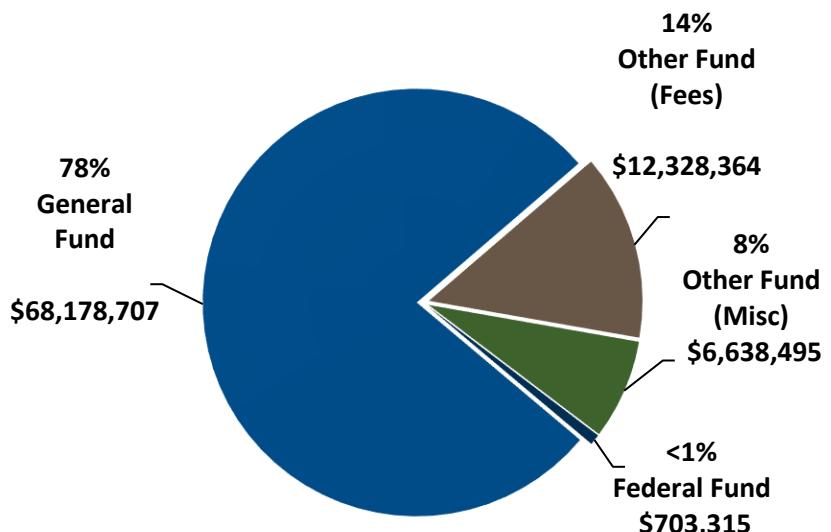


Figure 1. 2023-2025 Operating Budget (Leg Adopted)

Administrative Services – 41 Positions / 39.63 FTE

The Administrative Services Division provides information, business, and administrative services to the Department. Division responsibilities include budget preparation and execution, administration of human resource services, accounting and internal control, payroll and benefits, information systems management, Geographic Information Systems (GIS) / mapping, contracting, facilities management, risk management, employee development, mailroom support services, transportation, telecommunication coordination, and the Water Development Loan Program. *Start card fee and water right transaction fees support some positions in this Division.*

Table 2. Administrative Services Division staffing breakdown by revenue source.

Section	Total Positions / FTE	FTE GF	FTE Fees	FTE FF	FTE OF
Information Services	20 / 19.88	16.47	3.27	-	0.14
Business Services	14 / 13.50	9.96	0.99	-	2.54
Employee Services	7 / 6.25	5.19	0.06	-	1
Total	41 / 39.63	31.62	4.02	-	3.68

Field Services – 88 Positions / 86.96 FTE

The Field Services Division is responsible for the on-the-ground management of Oregon's water laws, distribution and management of water in the field, working with water users to enforce the prior appropriation system, and protecting against illegal water use and waste. The Division collects surface water and groundwater data, conducts dam safety inspections for low or significant hazard dams, responds to complaints, and provides input on water right transactions based on local and on the ground knowledge and professional expertise. *The fee revenues that support positions in this Division are the start card fee for well inspectors.*

Table 3. Field Services Division position breakdown by revenue source.

Section	Total Positions / FTE	FTE GF	FTE Fees	FTE FF	FTE OF
Administration	6 / 5.46	5.46	-	-	-
Northwest	17 / 17.00	16.00	1.00	-	-
Southwest	14 / 14.00	13.00	1.00	-	-
North Central	14 / 13.50	9.40	1.00	-	3.10
South Central	15 / 15.00	12.65	1.00	-	1.35
Eastern Region	15 / 15.00	13.13	1.00	-	0.87
Enforcement	7 / 7.00	7.00	-	-	-
Total	88 / 86.96	77.64	5.00	-	5.32

Director's Office – 32 Positions / 30.09 FTE

The Director's Office is responsible for developing and supervising the policies and programs that ensure water is managed according to Oregon Water Law. The Director's Office includes the Director, Deputy Director, Executive and Commission Assistant, Policy Section, and Planning, Collaboration and Investments Section staff. *This division is not supported by fees.*

Table 4. Director's Office position breakdown by revenue source.

Section	Total Positions / FTE	FTE GF	FTE Fees	FTE FF	FTE OF
Administration	5 / 4.88	4.88	-	-	-
Policy	9 / 8.33	8.33	-	-	-
Planning, Collaboration, and Investments	18 / 16.88	16.88	-	-	-
Total	32 / 30.09	30.09	-	-	-

Technical Services – 56 Positions / 55.28 FTE

The Technical Services Division collects, analyzes, and publishes surface water and groundwater data, providing the Department with the best available science for water management decisions. Additionally, the Division protects public health and safety by assessing the condition of dams and overseeing well construction standards to prevent groundwater contamination and waste. Technical Services programs include the Surface water, Groundwater, Dam Safety, and Well Construction. *The fee revenues that support positions in this Division are the start card, groundwater recording (exempt well), well constructor license, geotechnical hole, dam safety annual, and water right transaction fees.*

Table 5. Technical Services Division position breakdown by revenue source.

Section	Total Positions / FTE	FTE GF	FTE Fees	FTE FF	FTE OF
Administration	2 / 2.00	1.60	-	-	0.40
Surface Water	21 / 20.26	19.86	-	-	0.40
Groundwater	22 / 22.00	16.50	5.50	-	-
Dam Safety	4 / 4.00	2.46	0.95	0.59	-
Well Construction	7 / 7.00	2.99	4.01	-	-
Total	56 / 55.28	43.41	10.46	0.59	0.80

Water Right Services – 41 Positions / 34.67 FTE

The Water Right Services Division supports the allocation of water for instream and out-of-stream purposes supporting both the economy and a healthy environment by processing water right transactions for the state. This includes, but is not limited to, processing the following application types: new water right permits, instream water rights including transfers and leases, water right transfers, requests for extension of time to further develop existing water rights and transfers, review of claims of beneficial use, water management and conservation plans, allocations of conserved water, limited licenses, determinations of pre-law water uses through adjudications, and hydroelectric licensing. *The fee revenues that support positions in this Division are the water right transaction fees and the hydroelectric fees.*

Table 6. Water Right Services Division position breakdown by revenue source.

Section	Total Positions / FTE	FTE GF	FTE Fees	FTE FF	FTE OF
Administration	4 / 3.50	2.40	1.10	-	-
Water Rights	10 / 8.50	2.09	5.41	-	1.00
Transfers and Conservation	16 / 15.00	8.23	5.02	-	1.75
Adjudications	1 / 1.00	1.00	-	-	-
Certificates	8 / 6.00	2.00	1.00	-	3.00
Hydroelectric	2 / 2.00	-	2.00	-	-
Total	41 / 34.67	15.72	14.53	-	5.75

Department Fees

As reflected in the aforementioned information, the Department has a variety of fees that cover a suite of services across the Department (Figure 2; Table 7). The following sections will provide an overview of each of the seven fee types, what their authority is, what program areas they support, and their financial breakdown and revenue forecast.

Well Construction Fees

Well Start Card Fees are limited to costs associated with the inspection of construction and new wells and related administrative expenses. Statute prescribes fee spending percentages as follows: administrative costs – not more than 5%; technical costs - not more than 20%; and field and enforcement costs – not less than 75%.

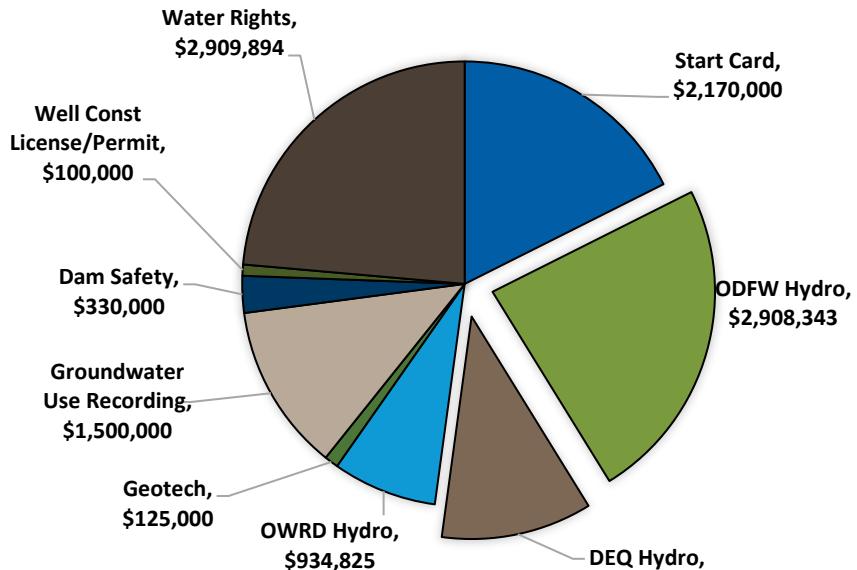


Figure 2. 2023-2025 Projected Fee Revenue

This revenue forecast (Figure 2) assumes approximately 3,100 wells per year requiring start card fee payments in 2023-25. These fees were last increased by HB 2145 (2021). These fees support the Well Construction program, including well inspectors, administrative staff and, well program coordination and management positions.

Water Well Constructor Licensing and Permit Fees are collected and used for activities related to the Well Constructor Licensing Program. The forecast is based on fee data for the past six biennia and assumes the average of the lowest four biennia. These fees pay for staff who support licensing activities.

Groundwater Use Recording Fees (exempt use wells) are collected and used for the purposes of evaluating groundwater supplies, conducting groundwater studies, carrying out groundwater monitoring, and processing groundwater data. Historically, approximately 60% of the wells that pay Start Card Fees also pay this fee. These fees support Department hydrogeologists.

Geotechnical Hole Fees are collected and used for activities related to geotechnical duties, functions and powers of the Department. These fees support administrative and program support staff.

Hydroelectric Program

Hydroelectric Fees are used to finance permitting and monitoring of hydroelectric projects. Funds are disbursed through interagency transfers to the Department of Fish and Wildlife (ODFW) and the Department of Environmental Quality (DEQ). The remaining funds are used for operation of the Water Resources Department's Hydroelectric Program. The revenue for this program is forecasted using and is adjusted for the fee changes approved by the Legislature in HB 2143 (2021). These fees support hydroelectric program coordinator and analyst positions. **The Department does not plan to address these fees with this workgroup.**

Water Right Transactions

Water Right Fees are collected and used to support the activities and staff associated with the processing of water right transactions. In 1997, and again in 2009, the legislature restructured many of the Department's water right and dam safety fees. Since then, the Department has brought forward modifications to the water right transactions fee schedules every four years. Modifications are based on Department of Administrative Services projected inflationary cost increases and split program costs 50/50 between fees and General Fund. These fees were last increased by HB 2142 (2021).

Dam Safety Program

Dam Safety Fees are assessed to dam owners and are used for activities related to the Dam Safety program. This includes supporting staff that inspect and evaluate dams across the state to protect public safety. The fee is dependent on the hazard rating for the dam (low/significant/high). These fees were last increased by HB 2142 (2021). These fees support the program manager and dam safety engineer positions.

Table 7. Summary of Department Fees.

Fee Name	Authority	Program Area Supported	Last Increase
Start Card	ORS 537.762	Well Construction	2021
Well Constructor Licensing and Landowner Permit	ORS 537.747	Well Construction	Several fees in this bucket; non-uniform increases
Groundwater recording (Exempt use)	ORS 537.545	Well Construction/ Groundwater	2009
Geotechnical Hole	ORS 537.890	Well Construction	2009
Water Right Transactions	ORS 536.050; 537.150; 537.610; 537.620; 539.081	Water Rights	2021
Dam Safety	536.050(2)(a)	Dam Safety	2021
Hydroelectric	ORS 543.078(2)	Hydro	2021

Fee History and Background

Department fee structures and amounts have fluctuated over the years (Table 8).

Table 8. Major events and legislation since 2003 related to Department fee adjustments. Operating budget does not include loans, grants or one-time costs.

Year	Fee	% Operating budget attributable to fees
2021	HB 2142 increased water right transaction fee and dam safety fees by 17.39%	
	HB 2143 restructured hydroelectric annual fees (standardizes fee for large projects as a base rate of \$0.687/THP and is adjusted by an inflation factor)	
2021	HB 2145 increased start card fee to \$350 (from \$225); groundwater recording fee (exempt well map fee) shifts from well owner to well driller	15%
	HB 5006 provided American Rescue Plan Act funding, this filled general fund gaps for water right transaction, dam safety fees, and fee work groups	
2017	HB 2295 increased water right transaction fee and dam safety fees by 15.88%	24%
	HB 2296 increased the Landowner Permit Application fee to \$500 from \$25	
2015	HB 3315 required the Department of Fish and Wildlife to recoup costs incurred from providing services to executive department agencies, including fish and wildlife reviews for water right transactions.	
	HB 2259 increased water right transaction fee and dam safety fees by 13%	24%
2009	SB 788 increased water right transaction and dam safety fees (to pay 50% of permitting programs, and 100% of dam safety)	
	SB 788 owners of new exempt wells submit a map and \$300 fee (to help pay costs for groundwater data)	24%
2007	HB 2231 increased start card fees to \$225 from \$125 (to pay for start card program costs)	
	HB 2232 established geotechnical hole report fees at \$25 (to pay for geotech data entry / program)	
2007	HB 2101 adjusted several permitting and transfer fees (to pay about 50% of permitting program)	15%
	HB 5051 adjusted groundwater registration fees	
2005	SB 179 Reduced fees for digital submission of materials	17%
	HB 2268 increased water right transaction fees (permitting program)	
2003	HB 2268 increased start card fees to \$125 (to pay for start card program costs)	
	Well construction licensing fees have remained unchanged for the past decade: \$20/\$150/\$150 for test/2-yr license /2-yr renewal	20%
	Hydroelectric formula has remained constant during the past decade	