



# Oregon

Theodore R. Kulongoski, Governor

## Oregon Watershed Enhancement Board

775 Summer Street NE, Suite 360

Salem, OR 97301-1290

(503) 986-0178

FAX (503) 986-0199

www.oregon.gov/OWEB



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## MEMORANDUM

**TO:** Oregon Watershed Enhancement Board

**FROM:** Tom Byler, Executive Director

**SUBJECT:** **Agenda Item F: Budget and Spending Plan Update  
January 21-22, 2009 OWEB Board Meeting**

### I. Introduction

This report updates the Board on the status of the OWEB 2007-2009 budget and spending plan.

### II. Background

The economic downturn over the past year has affected all sectors of Oregon's economy. The downturn has impacted expected state revenues, especially General Fund revenues. As a result of the budget shortfall identified in the December revenue forecast, the Governor recently directed General Fund state agencies to cut 1.1 percent from their budgets between now and the end of the biennium in June 2009. At this point in time, Lottery Fund revenues have not dipped below projected levels for budgets in the current biennium, so OWEB has not been asked to make reductions.

The State Office of Economic Analysis predicts that revenues will continue to decline over the coming months, causing additional shortfalls for current 2007-2009 state agency budgets, and reductions for upcoming 2009-2011 budgets. The potential budget cuts may include agencies supported by Lottery Funds. The Legislative Fiscal Office anticipates that current biennium budgets may need to be cut above and beyond the levels recently required by the Governor. In anticipation of this outcome and for next biennium, the Legislative Fiscal Office (LFO) directed all state agencies to submit budget reduction scenarios of five percent (for 2007-2009) and 20 percent (for 2009-2011).

### III. 2007-2009 Budget and Spending Plan

At the last quarter of the biennium, it is typical for the demand for OWEB grants to exceed available funding. This year is no exception. As contained in Table 1 below, the pending grant cycle offers a stark contrast of overall demand compared with funds reserved for each offering.

**Table 1. OWEB October 2008 – March 2009 Grant Cycle**

	Technical Assistance	Education	Monitoring	Acquisition	Restoration	Totals
<b>Total Requests*</b>	\$1,619,806	\$1,249,447	\$2,700,705	\$8,741,462	\$16,643,652	\$30,955,072
<b>Reserved Funds</b>	\$750,000	\$500,000	\$1.3 million	\$9.25 million		

\*These numbers represent all grant applications filed in October 2008. Not all applications will be recommended for funding.

The pending grant cycle does not represent the full demand for OWEB funding, as there are a number of additional proposals the Board could consider as partnership investments that would occur outside the regular grant process.

The insufficient funding issue is made more problematic given the uncertain revenue situation. As mentioned above, Lottery Fund revenues could continue to decline in the near term and result in budget cuts between now and the end of the biennium on June 30, 2009. For OWEB, the five percent cut scenario requested by LFO for this biennium would result in a reduction of Measure 66 funds totaling over \$4.1 million, including \$911,776 in non-capital funds (including research non-capital) and \$2,975,000 in capital funds.

It is important to note that in responding to the LFO request, staff proposed the potential cuts be taken out of remaining unexpended discretionary grant funds, rather than reducing funding for existing grants or the operations of watershed councils, soil and water conservation districts, and OWEB. While the prospect of reduced unexpended capital and non-capital grant funds is far from desirable, staff believe that this is a preferable course of action when compared to requiring the return of awarded grant funds or cutting the capacity of the local and state organizational infrastructure that develops projects, awards grants and implements restoration work. In addition, with only three biennia remaining between now and 2014, reductions to organizational capacity would have very significant impacts on the progress and momentum of the overall watershed enhancement program.

#### **IV. Discussion**

Staff anticipate that the LFO cut scenario levels are on the high end, and it remains to be seen whether Lottery Fund cutbacks will be required and at what level. Nevertheless, the prospect of reduced revenues and the resulting budget tightening represent the need for the Board and staff to proceed carefully as we move forward under the current spending plan. The following sections provide a briefing on the status of non-capital and capital spending plans in the context of budget revenue uncertainties.

##### **A. Non-Capital Spending Plan Status**

The table below outlines the current status of Board reserves of non-capital funds available for the remainder of the 2007-2009 biennium.

**Table 2. OWEB Non-Capital Funds Reserve Status**

<b>Program Area</b>	<b>Remaining OWEB Non-Capital Reserve</b>
Local Capacity Funding	1,987,000
Technical Assistance	750,000
Recovery Planning	350,000
Monitoring Grants	1,300,000
Other Monitoring	600,000
Education & Outreach Grants	500,000
Education & Outreach Statewide	250,000
Assessment	23,110
Oregon Plan Products	464,507
Partnership Investments	150,000
Research Non-capital	1,146,277
<b>TOTAL</b>	<b>\$7,520,894</b>

Fortunately, the vast majority of the \$7.5 million are federal salmon funds, which are not subject to potential cuts. Approximately \$2 million of the total are a combination of Measure 66 non-capital funds and research non-capital funds. The LFO cut scenario would reduce these combined Measure 66 fund sources by \$911,776. While significant non-capital funds would remain, the loss of Measure 66 funds would present challenges for the staff and Board. This is due to the fact that a number of funding proposals received by the board are not related to salmon recovery. Measure 66 funds are critical to support these requests.

**B. Capital Spending Plan Status**

The remaining reserved and unexpended capital funds are set out in the following table:

**Table 3. OWEB Capital Funds Reserve Status**

<b>Program Area or Fund Type</b>	<b>Remaining OWEB Capital Reserve</b>
Capital Grants/Acquisitions	9,250,000
Special Investment Partnerships	2,000,000
Recaptured Capital Grant Funds	1,541,029
Salmon License Plate Funds*	437,407
<b>TOTAL</b>	<b>\$13,228,436</b>

\*These funds may also be used for non-capital purposes

The total remaining capital funds is significant, and if not reduced, will go far in meeting the demand of meritorious funding requests. The demand will also be significant. For example, acquisition applications representing roughly \$4 million may be ready for Board consideration in March. This sum amounts to nearly half of the \$9.25 million reserved for all restoration and acquisition requests for the cycle. The situation gets more complicated when one considers the LFO reduction scenario, where \$2,975,000 in Measure 66 capital funds would be cut from the current budget. This would have a considerable impact on available funds, and could lead to reconsidering Board reserve priorities.

**V. Next Steps**

No action is immediately required of the board to address this situation. The March or more likely May 2009 revenue forecast will ultimately determine whether budget cuts will be necessary. While no decisions need to be made in January, it is important for the Board to be aware of this potential outcome and to begin a dialogue about possible alternatives for moving forward with the spending plan and its potential influence on funding decisions at the March meeting.

**VI. Recommendation**

This is an information item only. No Board action is required.