

To the Citizens of Oregon:

From the day I took office as Governor, I have been guided by one core belief: **Oregon has a bright future.** But if we are to take advantage of the opportunities the future offers, we must have a clear vision of what we want Oregon to be, and we must make the hard decisions needed to get us there.

For state government, that means we need to prioritize our budget choices, continue to exercise budget discipline and make targeted investments for the future. We must stop looking in the rearview mirror and start focusing on the road ahead. We must stop allowing the state budget to turn into a series of choices between bad options, and instead, treat it as an opportunity to pursue our vision for a bright future.

Two years ago, our unemployment rate was the highest in the nation. Our unstable PERS system threatened to send the state billions of dollars into debt. Our roads and bridges were crumbling.

I invited the Legislature and the citizens of our state to join me in tackling those problems the Oregon way – by rolling up our sleeves and getting to work. With your help, we have made significant progress in moving Oregon forward.

- We saved \$9 billion with reforms to the PERS system to provide a fair and adequate pension at an affordable and predictable cost.
- We began \$2.5 billion of construction projects for Oregon's transportation infrastructure, the largest public works project in the state since the 1950's. This package creates 5,000 family-wage jobs each year for the next ten years and helps ensure our roads and bridges are safe for tourism and commerce.
- We embarked on an aggressive business development strategy, focused both on helping existing Oregon companies grow and bringing new companies to our state. Since July 2003, more than 10,000 new jobs have been created in Oregon as a direct result of our state economic development efforts.
- We streamlined business regulations, saving Oregon businesses hours, dollars and more than 250,000 sheets of regulatory paperwork. We made state agencies more efficient and accountable, resulting in a projected savings of \$40 million in taxpayer dollars.

The Oregon economy is turning the corner. But state government still has more work to do to ensure that an improving economy results in an efficient state budget. Due to a combination of population growth, increased costs, a slow national economy and new requests for services, there are more demands than the state can pay for with existing resources. Under the old "current service level" approach to budgeting, state government would first determine how much money it needed to continue business as usual, and then search for the revenue to meet that spending target. For the upcoming biennium, that would mean finding an additional \$1 billion just to continue business as usual, before considering any investments to move us forward. That approach would mean viewing the budget as nothing but a series of painful choices between supporting education or health care; between keeping seniors in their homes or serving children and pregnant women; between having an adequate state patrol function or building new prisons.

That is unacceptable. **The days of business as usual are over in Salem.** Instead of asking questions about where we've been, we ask the questions: "where do we want to go, and what is the most effective and fiscally responsible way to get there?"



Governor's Message

I developed six Oregon Principles that drive every decision represented in my budget. Taken together, these principles form a vision of our state in which we: (1) provide our children and adults with the educational opportunities they need to succeed today and in the future; (2) take care of our most vulnerable citizens; (3) create family-wage jobs for Oregonians; (4) maintain the high quality of life we enjoy in Oregon; (5) ensure that our citizens are safe in their homes and in their communities; and (6) provide for a stable, efficient and accountable state government.

Based on the Oregon Principles, **the primary goal of my budget is to invest in our long-term vision.** That means making short-term sacrifices and tough choices. But just like when families invest for college, or when businesses invest for growth, we know the long-term rewards will be substantial.

My budget also continues the progress we have made in restoring discipline and making government accountable to the people of Oregon.

We are currently experiencing the result of a decade of operating on faith that our economy would keep growing as it did in the 1990's, rather than planning for what would happen if it didn't. I believe the state made a critical mistake – and missed a critical opportunity – by failing to set aside a portion of our state budget as a rainy day fund against future difficulty. Like a homeowner without insurance, we had little to fall back on when hard times hit. That's why my 2005-2007 budget includes a long-term plan for a rainy day fund that I hope will provide the financial stability that state government needs.

This budget also continues a commitment I made when I took office to ensure that government lives within its means. Like the budget I developed two years ago, this budget does not use accounting tricks or borrow from the future to pay for current operating expenses. We will make tough choices today - paying as we go and investing in the future.

These choices can be painful. I know some would seek to avoid them by arguing for a borrowing package to provide more money for our schools and our vulnerable citizens. Although that might make things easier during this budget cycle, it would narrow our choices in the future and would jeopardize our chances of long-term economic and financial stability. It would also be an unwise way to use up the state's bonding capacity. We have just one option: adjust our budget and map out a spending plan that will allow us to live within our means, while we work to improve our financial situation and invest in our future.

As I have said before, I believe that times of great economic difficulty are also times of great opportunity. We must continue to challenge ourselves to stay focused on creating the future we want rather than on the things we cannot do today. This challenge calls for Oregon to put aside issues of partisanship and ownership. It is time for all of us to think and act differently. In the months ahead, I will work with the Legislature and the public to make sure we make the best decisions possible about how to use the dollars citizens pay to their government. It will not be a simple task, but making tomorrow better than today isn't simple. It means having a shared vision for a prosperous future and the hope that with hard work, perseverance and a good strategy, we will all enjoy that future together.

Sincerely,



Theodore R. Kulongoski
Governor

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Introduction

On the day he took office, Governor Kulongoski made a commitment to Oregonians that under his leadership, state government would no longer conduct “business as usual.” He pledged to set a new tone in Salem and build the public’s trust. He committed that government will hold itself accountable; live within its means; and be a partner for the private sector, a catalyst for the creation of living-wage jobs, a champion for working families and a steward for our environment.

During the past two years, the Governor has worked successfully toward these goals. He balanced the budget during one of the state’s worst fiscal periods by approaching the 2003-05 state budget like a private sector business would – cutting overhead costs and aligning targeted investments with critical outcomes to build a more profitable and sustainable future for Oregon.

The Governor has made it his top priority to grow Oregon’s economy and make Oregon a great place to do business, recognizing that when Oregon businesses are successful, Oregon is successful. The Governor is leading an aggressive economic development strategy that is delivering clear results.

The Governor’s regulatory streamlining initiative has already made Oregon more business-friendly through the successful completion of over 300 projects to streamline regulations, reduce the time and cost of acquiring permits, and save the private sector money by reducing needless regulatory barriers.

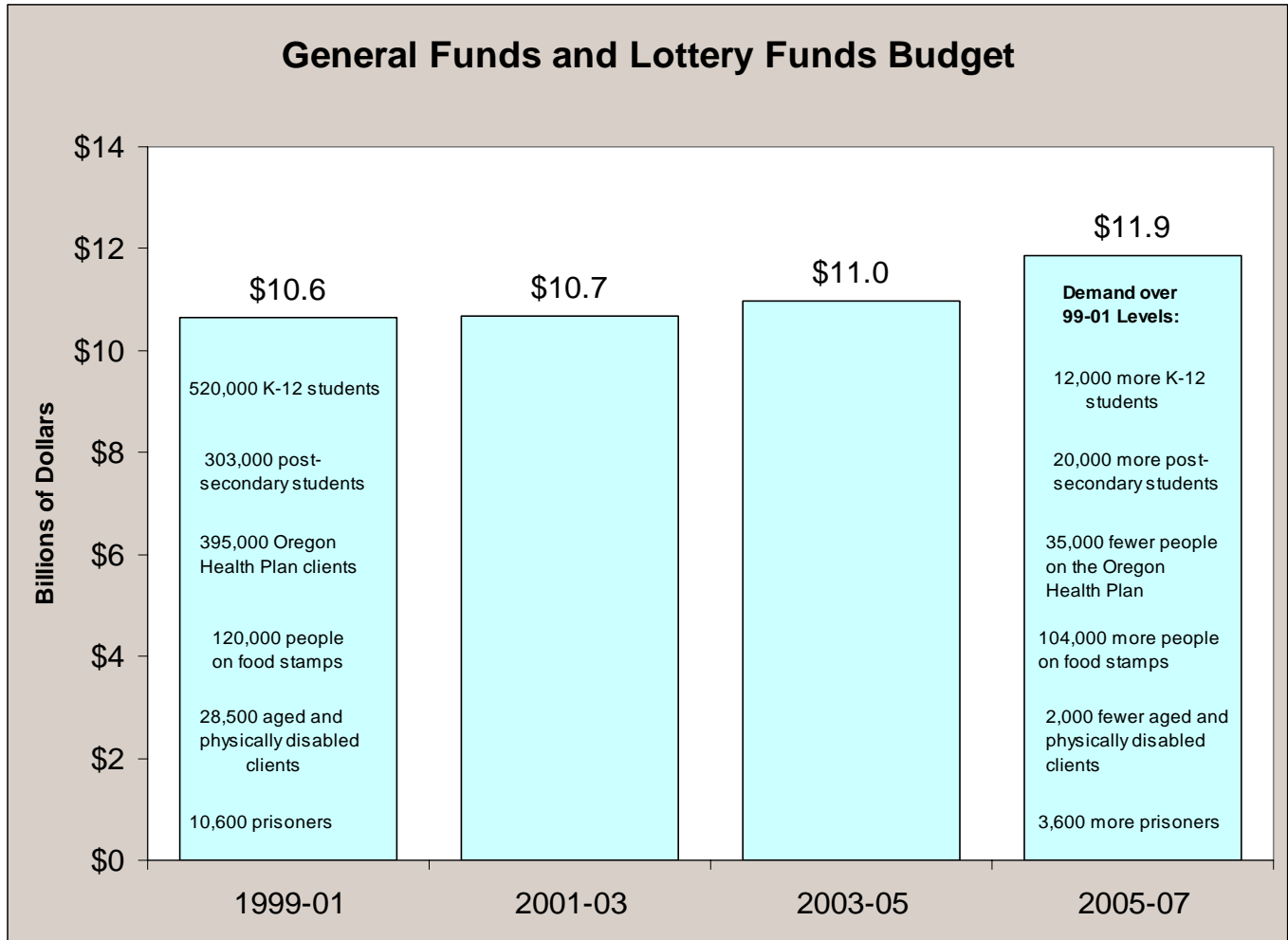
His industrial lands initiative has resulted in the certification of 20 new “project ready” industrial sites, helping Oregon attract new businesses – and jobs – to our state. The Governor has also invested in rebuilding our roads and bridges, improving access to post-secondary education, training workers, spurring investment in research and development, and attracting visitors to Oregon.

The result? Since July 2003, more than 10,000 new jobs have been created because of the state’s economic development efforts. The unemployment rate has dropped and 44,000 more Oregonians have jobs today than two years ago.

The progress of the last two years is only the beginning of Oregon’s bright future. This budget, and the process that guided its creation, continue the Governor’s commitment to changing how state government does business and improving Oregon’s economy. This budget also provides the foundation and direction for how Oregon can succeed today and sustain that success into the future.

Governor Kulongoski’s budget not only recommends to the Legislature where to allocate state dollars; it aligns investments with the outcomes they will deliver to grow Oregon’s economy, and expand educational and professional opportunities for Oregonians.

The Governor's Recommended Budget also identifies areas where demands for services could not be met. Due to a combination of population growth, increased costs, a slow national economy and new requests for services, there are billions of dollars more demands than the state can accommodate with the available resources.



Instead of starting with the “current service level” budget and making decisions about where to cut, the Governor identified six core Oregon Principles that are the foundation for a prosperous future and that guided his decisions about where to invest.

The Oregon Principles

The Governor's six Oregon Principles are:

- **Children's educational needs are met and adults have lifelong opportunities to develop career skills through post-secondary education, ongoing training and professional development.**

Overview

Children must be ready to learn when they enter school and the education they receive must prepare them for success at every stage, including college and the workforce. Communities and families should be engaged in supporting the success, safety, and well-being of all children.

Oregon must also invest in post-secondary education to promote future economic prosperity. As our economy grows and changes, adults need access to the continued workforce training opportunities that open doors to living-wage employment.

- **Oregon's most vulnerable have their basic health, food and shelter needs met.**

Oregon is a place where we value taking care of those who are the most vulnerable, including children, seniors and people with disabilities. All of us benefit and communities prosper when our citizens' basic health, food and shelter needs are met.

- **Oregon has a positive business climate and invests in economic development in order to create and retain sustainable businesses and family-wage jobs.**

The future of Oregon depends on its ability to strategically invest in human capital and infrastructure to facilitate the growth of business and jobs. We must increase our capacity to innovate and foster business development to create and retain enduring jobs for Oregonians.

- **Oregon has a healthy balance between growth, infrastructure development and environmental protection.**

Oregon's environment and its economic health are inextricably linked. We must enhance and protect our natural resources while also contributing to Oregon's economic growth through responsible infrastructure development.

- **Oregonians are safe in their homes, communities and in state institutions.**

Public safety is essential to our citizens. We must hold criminals accountable for their actions, prevent crime and reduce recidivism. We must also provide for safe buildings and places of work, prevent fraud and abuse, and maintain the ability to prepare for and swiftly respond to emergencies to preserve life and property.

- **State government is stable, responsive and accountable to Oregonians.**

State government must be a responsible steward of the public's money. This means we must work in a cooperative and coordinated manner with our partners in the private sector and with local government - counties, cities, and special districts. We serve the same constituency and they must know that our mutual goal is to provide them with superior customer service.

The Governor's Budget Process

In the past, each agency has submitted its budget request to the Governor and the budget has remained organized by agency throughout the proposal and adoption process. This time, in order to identify the best investments for his 2005-07 recommended budget, the Governor directed state agencies to categorize each program and function according to which Oregon Principle it supports and to provide detail on the outcomes each achieves.

For each program, he asked agencies to identify:

- to which Oregon Principle the program primarily contributes;
- whether each program is a mandated activity outside of his or the Legislature's control;
- how many Oregonians will be served by the program;
- what the program will accomplish for Oregon citizens; and
- how those outcomes will be measured to assure the public that they are receiving a valuable return on their investment.

The Governor required this review for each state program regardless of the source of funding. Whether programs are paid for with General Fund, other funds, federal funds or dollars that are legally dedicated to that program, he expects that state government will focus on how to spend every dollar wisely and for the clear benefit of all Oregonians.

His first priority was to ensure that Oregon fulfills all of its obligations under the Oregon Constitution, federal law, or as required by the courts. After including these mandatory programs and services, he invested the remaining dollars in the programs and services that best achieve the Oregon Principles and that provide the most value to support his long-term vision for Oregon.

The Governor also committed to making his budget process accessible to the public. In fall 2004, the Governor launched the state's first interactive budget website to help inform and involve the public:

www.governor.oregon.gov

The Governor's website includes all state agency programs organized by the Oregon Principles so the public has access to the information used to make decisions about the budget. It also includes the Governor's entire recommended budget, along with tools to help the public understand the budget. The website will be updated with new information and analyses throughout the legislative session and beyond, to serve as an up-to-date, comprehensive resource for the public.

Measuring Outcomes

It is also important to have measurement tools in place to determine whether our strategies ultimately achieve the outcomes we expect with the investment we are making. Performance measures, both objective in nature such as statistical data, as well as subjective data, including citizen and specific client surveys, are used by agencies to monitor progress. In addition, the Oregon Benchmarks provide a long-range perspective on monitoring key economic, social and environmental data. Agencies are required to

Overview

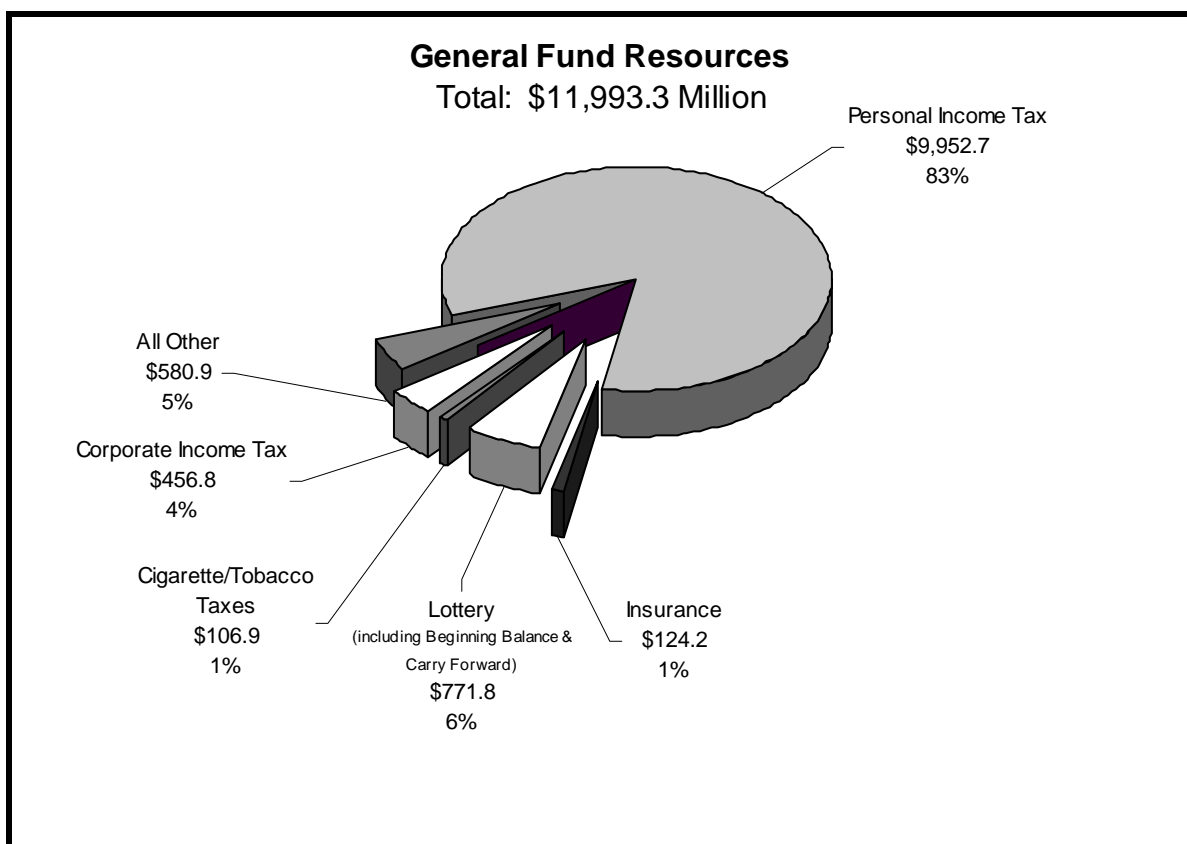
link their key performance measures to the Benchmarks. The Progress Board has also organized Benchmark data to align with the Oregon Principles. This data and highlights of key measures by principle are available online at www.das.state.or.us.

New measurement tools may need to be developed to best capture information for elected officials and the public about how and whether these strategies achieve the Governor's vision. Additional outcome measurement information will be available by principle on the Governor's website as it is developed.

Understanding the Total State Budget

It is important to recognize that there are four different categories of funds that are included in the state's budget.

The **General Fund** receives the most public attention because it comes almost entirely (87 percent) from income taxes paid by individual Oregonians and Oregon businesses. This is also the most discretionary source of funds for the Governor and Legislature to spend.



Lottery Funds comprise another significant source of money in the state budget. About 33 percent of every dollar received from the lottery is dedicated by the Oregon Constitution to parks and natural resources, and the Education Stability Fund. There are also statutory dedications and debt service payments that account for another 29 percent. The remainder has been used primarily to pay for elementary and high schools and economic development efforts. Governor Kulongoski expects the Lottery Commission to take steps to expand current games, including line games, and increase the revenue collected and transferred by the Lottery Commission. His recommended budget uses the undedicated portion of additional proceeds to fund the patrol functions of the Oregon State Police.

Other Funds represents the largest single category of revenues received by the state. These moneys are funds that come from specific taxes (e.g. gas tax) or fees (e.g. professional licensing fees). They 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 and are not part of the state budget picture. However, property taxes are a very important revenue component for programs provided in local communities, including schools. Neither the Governor nor the Legislature can use constitutionally dedicated funds to pay for programs other than those outlined in the Oregon Constitution.

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.

The budget also includes the allocation of **Federal Funds**. Like other funds, these revenues are also legally dedicated to specific programs and services. 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 keeps its matching funds. Those dollars are not dedicated to the State of Oregon; they are available only if the state operates the program, contingent on federal government approval.

For more information about the funds that make up the state's total budget, visit the "Budget FAQ" section of the Governor's budget website or the Budget and Management Division's website: www.oregon.gov/das/bam/.

State Employees

The Governor's Recommended Budget pays for 52,180 state positions. About 21 percent of the General Fund and lottery funds are spent on state positions and related costs, while approximately two-thirds of the state budget is sent out in special payments to fund staff in schools, local governments, or other activities outside of state government. That is why, when the General Fund is down due to a recession, the majority of the reductions in staff actually occur in other government sectors.

Overview

Within state government, most of the positions are in the University System and the Human Services area. The fastest growing area for state positions is in the Department of Corrections, which has more than doubled from 2232 positions prior to the passage of Ballot Measure 11 in 1994 to 4,535 positions for 2005-07. This growth pattern will continue as long as Ballot Measure 11 is in effect.

By law, the number of state employees is subject to a cap based on the state's population. The limit equals 1.5 percent of the state's population in the previous year. This budget's proposed number of positions is well under the state cap and is more than 1,000 lower than the number of state positions in 2003-05.

The Governor's 2005-07 Recommended Budget includes a \$130 million General Fund package to pay for salary and benefit increases for state employees. The budget also includes funding for merit increases for eligible employees. Salary and wages, including funding for merit increases, were frozen for the last two years. In addition, significant changes were made to the state's retirement system.

While the reforms resulted in saving taxpayer dollars and providing a sustainable retirement plan for employees, they also resulted in a significant reduction in future benefits to employees. Since 1990, state employees have endured salary freezes of some kind seven times to help balance the budget. In light of the sacrifices they have made, the governor is committed to including a compensation package for state employees in his 2005-07 budget.

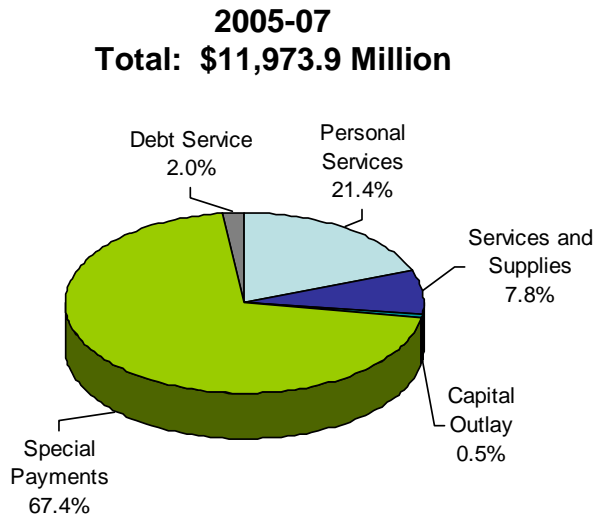
Revenue Sharing and Special Payments

Much of the taxes and other revenue that come to the state is actually sent out directly to another entity to spend. Some of this money goes directly to the other entity and is commonly referred to as "shared revenues." Shared revenues are dollars that 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 are transferred to counties. Each individual community determines how best to allocate shared revenues to meet its unique needs.

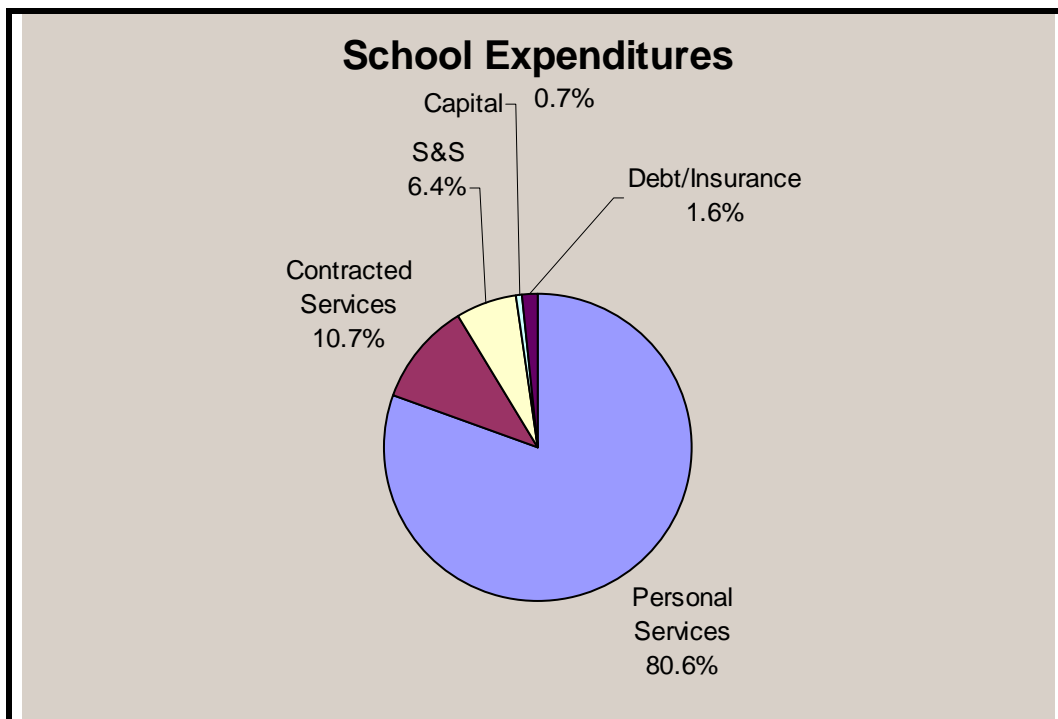
The remaining revenue not spent directly by the state constitutes "special payments." Special payments go through the traditional budget process, during which the Legislature authorizes a state agency to send that money to another entity. The other entity actually employs the staff and makes decisions 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 and is "passed through" a state agency, but the state agency does not keep any of the money. The largest single special payment is the transfer of \$5 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. The chart below identifies how much of the state General Fund and lottery funds are sent out in the form of a special payment and the largest recipients of those funds.

General Fund and Lottery Funds Expenditures by Category



The next chart indicates how the largest component – the State School Fund – is utilized by the school districts.

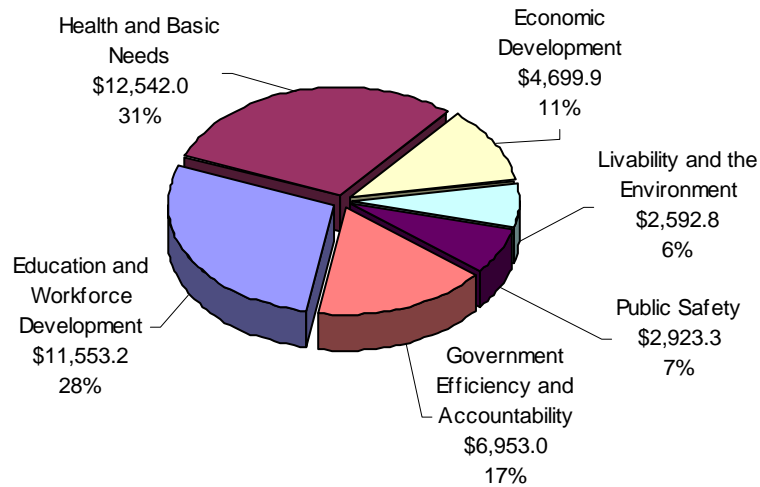


Overview

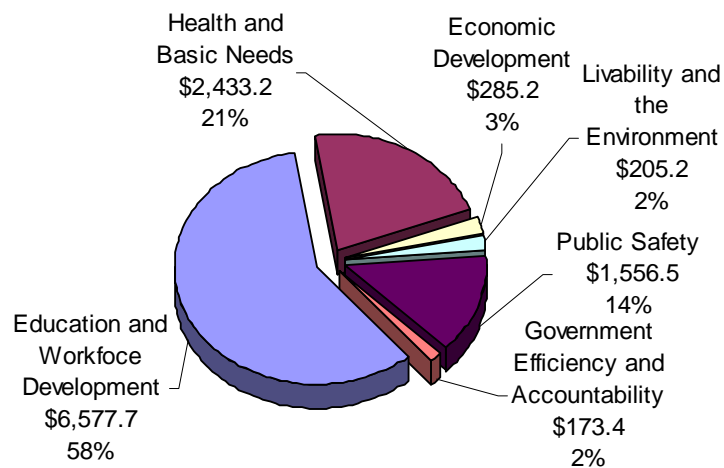
It is important to understand that while the state contribution to K-12 education represents over 70 percent of total funding, the decisions on how to spend the money are made by each local school board. If funding is not at a level to meet all of a district's needs, the local school board is the entity authorized to make funding decisions and reductions, ranging from reducing school days and using reserves to increasing class sizes or other local solutions. Often the options include changes to personnel – mostly teachers – since most of the money allocated to schools is spent on staff and related costs.

Budget Summary

All Funds By Principle



General Fund and Lottery Funds by Principle





Education and Workforce Development

Principle: Children's educational needs are met and adults have lifelong opportunities to develop career skills through post-secondary education, ongoing training and professional development.

Children must be ready to learn when they enter school and the education they receive must prepare them for success at every stage, including college and the workforce. Communities and families should be engaged in supporting the success, safety, and well-being of all children. Oregon must also invest in post-secondary education to promote future economic prosperity. As our economy grows and changes, adults need access to the continued workforce training opportunities that open doors to living-wage employment.

Overview

Governor Kulongoski believes an education system should foster learning by providing a transparent and seamless transition throughout each stage of learning. Education should be an enterprise for Oregon's future – not three independent sectors. The Governor's 2005-07 Recommended Budget reflects this innovative approach to equip Oregonians with the knowledge and skills to be successful in the 21st century economy.

Oregon has become a high-tuition/low-aid state, closing the doors on far too many Oregonians. The Governor's Recommended Budget recognizes this barrier by focusing on increasing student access and making targeted investments in post-secondary learning opportunities. The Governor's budget includes nearly a 100 percent increase in funding for Oregon Opportunity Grants, which will provide postsecondary access to an additional 60,000 Oregon students.

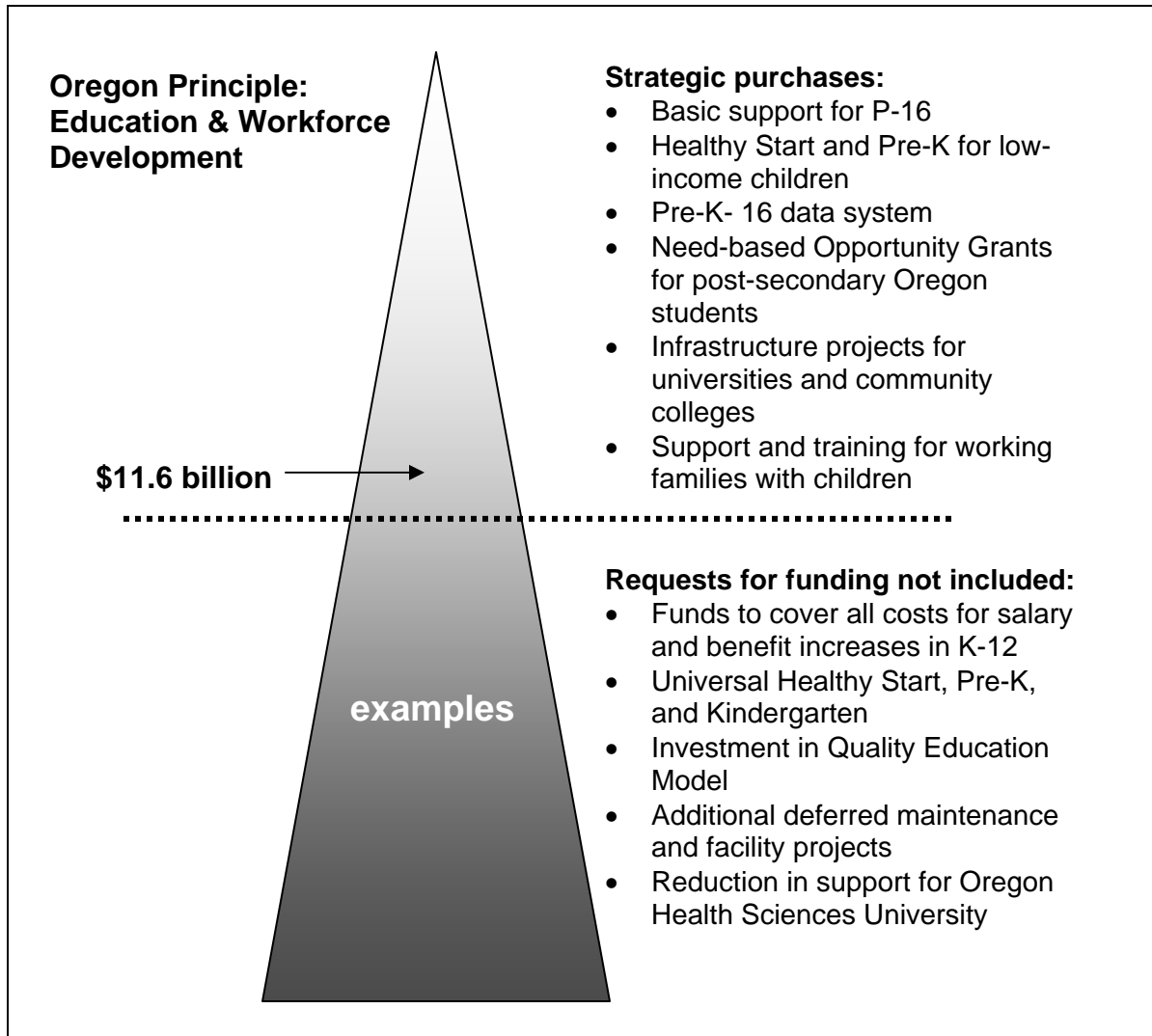
As part of the Governor's priority to reduce the barriers to higher levels of education, the Governor's budget includes funding for the alignment of transferring undergraduate credits throughout all of Oregon community colleges and Oregon University System (OUS) campuses. The Governor's budget also invests in joint capital construction projects between Oregon's community colleges and OUS so all Oregonians have access to the most up-to-date and current technologies, research tools, and other higher education learning resources.

The Governor's Recommended Budget focuses on system efficiencies in the PreK-12 system in order to free up more money for the classroom. The Governor believes there are opportunities for additional efficiencies through the consolidation of ESDs (Education Service Districts) and through increasing the expectations for their role and partnership with the Oregon Department of Education in supporting schools. For example, the Governor will explore transferring the central office business functions of some school districts to the ESDs, as today's technology makes obsolete the need for all 198 individual districts to employ their own staff and systems.

The Governor's budget invests in a PreK-16 statewide data system to provide better transmission of student, accounting and managerial data. This statewide data system will help teachers meet the individual needs of all students and administrators cut costs, and most importantly, it will result in a stronger, more accountable education system for our students and the public. The Governor remains committed to implementing a statewide K-12 health insurance pool, which will result in a reduction of overhead costs and increased opportunities for classroom investment.

The Governor is committed to a stable PreK-16 system. In his budget, he provides a sustainable increase in K-12 funding that does not rely on any one-time money. The Governor's budget also leverages federal resources to expand state investments in education programs at all levels in cooperation with the state's workforce training system. These efforts will help Oregonians access opportunities to enhance their skills and improve the quality of Oregon's workforce.

What does the budget purchase to contribute to this principle?



What do we expect our investment to achieve for this principle?

Increased **accessibility and affordability** of post-secondary education for low-income and minority Oregonians through:

- Expanded eligibility and provision of need-based grants for eligible undergraduate applicants attending Oregon colleges and universities.

Progress on “**more, better, faster**” goals for post-secondary education:

- More students entering and completing college, more students from diverse backgrounds with college degrees, and more Oregonians with degrees, flexible job skills, and higher earnings staying in Oregon after college.
- Better alignment between two and four year institutions, better alignment with economic needs, better use of public resources, better student retention.
- Faster to graduation, faster to the workforce, faster to a stronger Oregon.

Protection of critical classroom resources by **increasing efficiencies** in the PreK-16 education system:

- ESD (Education Service District) consolidation.
- ESDs' expanded role in the central office business functions of some school districts.
- Statewide K-12 health insurance pool.
- Alignment of undergraduate general education courses to allow for transfer of credits among all community colleges and public universities.
- PreK-16 electronic data system linking communications between schools, community colleges, and universities to improve preparation for post-secondary education, support more effective student counseling, and enhance measurement of and accountability for student progress throughout the educational system.

Investment in **critical infrastructure and operations**, including:

- Critical infrastructure in all seven public universities, including taking the first step in addressing the Department of Higher Education's \$600 million deferred maintenance backlog and the replacement of OSU's central heating plant with a co-generation plant that will provide electricity, heating, and cooling and enable the school to stay open when the temperature dips below 28 degrees.
- \$20 million in bond proceeds for upgrading OUS telecommunications wiring and information systems and telecommunications needs throughout the system.
- Expanded instructional facilities in Medford through a joint project by Southern Oregon University and Rogue Community College.
- Twenty-five construction projects at the University of Oregon, which include a new building and upgrades or renovations of housing, dining, and other facilities.
- Funding for construction projects at Rogue Community College, Oregon Coast Community College, Columbia Gorge Community College, Clatsop Community College, Klamath Community College, and Tillamook Bay Community College. This is the first state investment in community college facilities projects in over twenty years.

Education for students across the state through:

- Operation of the seven Department of Higher Education institutions for the 148,700 full-time equivalent students and the seventeen community colleges serving over 175,000 full-time equivalent students.
- Education for 532,000 students in K-12 provided by 198 school districts, more than 1,200 schools, and 20 Education Service Districts - which employ approximately 35,000 teachers, assistants, and 20,000 other staff.

Help to ensure children enter school **ready to learn** and **succeed in school** through:

- Early intervention services for all children with special education needs ages 2 to 5 years old.
- Pre-kindergarten services for 53 percent of eligible low-income children.
- Healthy Start program for voluntary home visitation/family support services during the prenatal period or at the time of birth, for about 45 percent of first-birth families in all 36 counties.
- Maintaining the progress made over the past decade in student test scores.

Enhanced **workforce development** opportunities:

- Training to more than 11,000 workers helping them enhance their skills and helping Oregon companies remain competitive.
- Leveraging of federal resources to expand state investments in education programs connected with the state's workforce training system.
- Increased opportunities for professional development training for thousands of Oregonians from first responders to manufacturers to nurses and agricultural workers.

Assistance to help **working families** and Oregonians with disabilities succeed:

- Move more than 18,500 low-income families with children toward self-sufficiency through Oregon's Temporary Assistance for Needy Families program by providing employment training services, housing, transportation and childcare assistance.
- Child care assistance for nearly 10,000 working families (19,000 children) each month to support employment and training opportunities.
- Support for more than 13,000 children annually who are placed in 24-hour substitute care outside their own homes, including emergency shelters and residential facilities.
- Vocational rehabilitation services to help more than 19,000 Oregonians with disabilities achieve and maintain employment.

What else is the Governor doing to contribute to this principle?

Workforce Development

In October 2003, the Governor launched his Workforce Initiative, a key milestone in the state's economic development strategy to jump-start the economy. In order to better connect trained workers with the needs of current and future employers, this initiative links economic development efforts together with workforce development and training efforts at both the state and local levels.

Over the past year, the Governor invested \$6 million of Oregon's appropriation from the Federal Workforce Investment Act to help build public-private training partnerships, expand workers' skills and retain quality jobs in Oregon. The federally-funded grants targeted funding for workforce training opportunities through 127 regional training grants, upgrading the skills of 7,000 Oregonians.

In January 2004, the Governor established the WorkSourceOregon.org website portal. WorkSourceOregon is a unified public-private network of workforce service providers, which

streamlines access to services for businesses *and* workers. In the past year, the network has provided job search, assessments and training to over 210,000 Oregonians seeking work.

Reforming Higher Education

In May 2004, the Board of Higher Education streamlined the management of the university system, saving \$3 million annually. In 2004-05, \$1 million of the savings was used to mitigate tuition increases. In September 2004 the Board of Higher Education responded to the Governor's request for a clear policy on the size and use of ending fund balances within the universities and Chancellor's office.

The Oregon Training Network

The Governor utilized \$300,000 of Federal Workforce Investment dollars administered by the Department of Community Colleges and Workforce Development, in partnership with the Software Association of Oregon, to build a web-based system to help upgrade the skills of Oregon's technology workers in traded sector industry clusters. The Oregon Training Network will help market college and university offerings, and will aggregate training across the state's Internet technology community, creating a more sustainable, competitive and prosperous information technology-based economy.

Statewide Simulation Alliance

The Governor utilized \$600,000 of Federal Workforce Investment dollars to launch a Healthcare Workforce Initiative. One element of the initiative facilitated the formation of the Statewide Simulation Alliance to build a network of healthcare coalitions that will use simulation as a training tool and expedite the training of healthcare workers in multiple disciplines and occupations. This effort will increase the number of highly qualified healthcare workers in Oregon.

Vocational English as a Second Language (ESL) Training

The Governor awarded \$200,000 of federal funds to Portland Community College and partners to scale their ESL program in the state by training instructors at 10 community colleges and offering demonstration projects at five businesses. This will provide access for businesses and workers across the state to high performance work practices, while providing full participation for non-English speakers in the workplace.

Community Schools Blueprint

The Governor has made expanding the community school model a key strategy in increasing after-school opportunities for Oregon students. Under his leadership a new partnership between several state agencies is being created to draft a blueprint for interested communities throughout the state to establish community school partnerships with schools and educators; parents and children; private and non-profit contributors; community supporters; and other governmental services. The goal is to have this plan available by summer 2005 to enhance the quantity and quality of community/after-school programs for the following school year.



Health and Basic Needs

Principle: Oregon's most vulnerable have their basic health, food and shelter needs met.

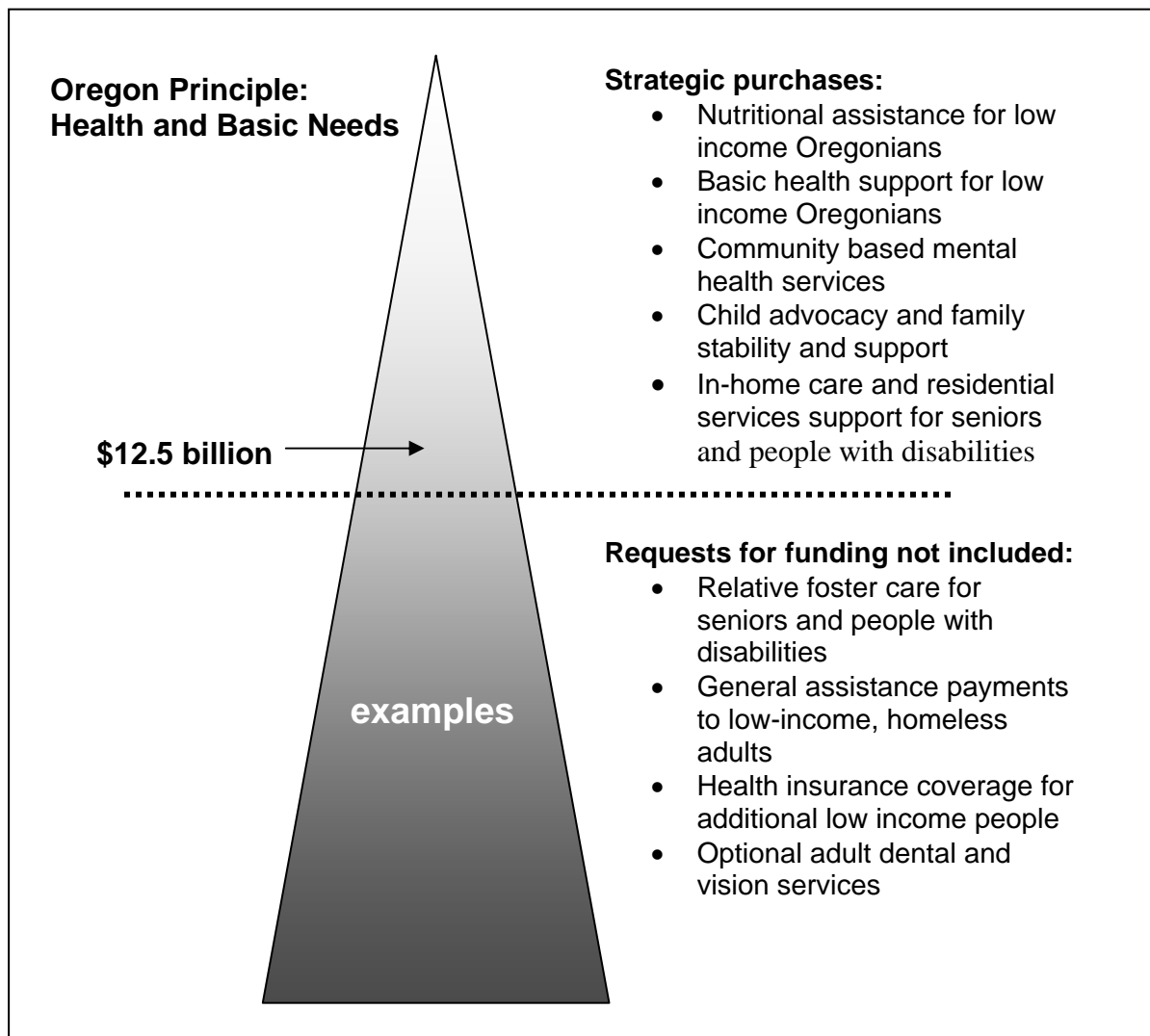
Oregon is a place where we value taking care of those who are the most vulnerable, including children, seniors and people with disabilities. All of us benefit and communities prosper when our citizens' basic health, food and shelter needs are met.

Overview

Governor Kulongoski's 2005-2007 Recommended Budget protects basic services for Oregon's most vulnerable citizens to help them meet their basic health, food and shelter needs. This budget enables human services agencies to carry out key functions relating to the safety of children, seniors, and people with disabilities; the physical and mental health of vulnerable and uninsured Oregonians; and long-term care.

The Governor's budget emphasizes those programs and services that keep children healthy and safe, continuing the commitment he made when he took office that "children would go to the head of the line." For example, in keeping with the Governor's goal of expanding access to health care for Oregon's children, this budget preserves Oregon Health Plan funding for children and pregnant women with incomes up to 185 percent of the federal poverty level and provides funding to expand primary and preventive health services through School-Based Health Centers. The budget also takes steps to better coordinate the state's prevention efforts focused on children, youth and families.

What does the budget purchase to contribute to this principle?



What do we expect our investment to achieve for this principle?

Economic and family stability and permanency for children and individuals with disabilities by funding:

- Prevention efforts to preserve families and avoid entry into child welfare/foster care systems.
- Court Appointed Special Advocate services for more than 3,900 children in child dependency proceedings.
- Adoption and guardianship support for more than 8,500 children each year.

Helping vulnerable Oregonians meet **basic food and shelter** needs by providing:

Health and Basic Needs

- Support for more than 426,000 low-income Oregonians, 187,000 of them children, to help meet nutritional needs through the federal food stamp program.
- Support for the Oregon Food Bank Statewide Network, which distributes approximately 721,000 emergency food boxes per year to an estimated 850,000 individuals, 38 percent of them children.
- Assistance, including payments for shelters, transitional housing, and temporary rental assistance, for approximately 52,000 individuals, including children, who are homeless or at risk of becoming homeless.
- Development or rehabilitation of more than 1,900 units of affordable rental housing, of which approximately half is targeted to special needs populations, including individuals who are chronically mentally ill, developmentally disabled or elderly.
- Approximately 3,400 loans to first time homebuyers, more than 1,100 of which will go to individuals at or below 80 percent of area median income.

Access to **health, mental health and addiction services** for vulnerable and uninsured Oregonians and helping all Oregonians stay healthy by supporting:

- Basic health care for approximately 385,000 low-income individuals through the Oregon Health Plan, including more than 140,000 seniors, people with disabilities, and pregnant women, 175,000 children and 24,000 low-income adults.
- Improved access to health care for children and adolescents with enhanced investment in School-Based Health Centers.
- Subsidized private-sector group and individual health insurance coverage for more than 11,800 low-income individuals annually, 37 percent of them children, through the Family Health Insurance Assistance Program.
- Improved nutritional health status for more than 103,000 at-risk women, infants and children under the age of five each month.
- Community-based family planning services for up to 136,000 individuals annually.
- Community-based mental health treatment and crisis response services for more than 200,000 children, adolescents and adults.
- State-operated inpatient mental health treatment services for more than 1,575 adolescents, civilly committed adults and criminally committed adults.
- Community-based alcohol and drug treatment services for more than 65,000 children, adolescents and adults.
- Community-based gambling prevention and treatment services for more than 1,800 individuals directly served through treatment centers.
- Services that reduce high-risk behaviors, like youth alcohol, drug and tobacco use.
- Services that enable state and local health officials to respond to communicable diseases.
- Services that promote a healthy and safe environment by ensuring the safety of Oregon's drinking water, reducing exposure to toxic and harmful substances, and clean up of clandestine (e.g., methamphetamine) drug labs.

Protecting the **health and safety** of seniors and people with physical and developmental disabilities by funding:

- In-home care support services for more than 20,000 seniors and people with physical and developmental disabilities.

- 24-hour community-based residential care and nursing facility care for more than 22,500 seniors and people with physical and developmental disabilities.
- Approximately 125 Adult Protective Services caseworkers to identify the abuse of seniors and people with physical disabilities and reduce its occurrence in community and facility-based care settings.
- Nineteen workers in the Office of Investigations and Training to oversee investigations of abuse and neglect for adults with developmental disabilities and mental illness and provide abuse training and technical assistance to service providers.

What else is the Governor doing to contribute to this principle?

Health Care for Working Families

In July 2004, the Governor announced the creation of a new employer-sponsored, Children's Group Plan to begin in January 2005. The plan aims to decrease the number of uninsured children by providing an incentive to employers who currently do not provide health insurance for their employees to purchase this low cost plan for the dependents of their employees.

Assistance for Rural Doctors

In the 2003 legislative session, the Governor proposed a program to provide help to rural doctors in meeting the high cost of malpractice insurance. Passed by a wide bipartisan margin, House Bill 3630 went into effect in January 2004. Under the program, administered by SAIF Corporation, rural doctors receive help with their premiums at the rate of 80 percent for obstetricians, 60 percent for family practitioners who deliver babies, and 40 percent for all other rural doctors. More than 1,000 rural doctors currently participate in the program.

Bulk Purchasing of Prescription Drugs

The Governor worked with legislators and key stakeholders to establish the Oregon Prescription Drug Program, a bulk purchasing program. The program will allow low income seniors, local governments and participating state entities to receive the most effective drugs at the best possible prices. The state plans to implement the program in early 2005, saving Oregonians an estimated \$8,550,000 per year.



Economic Development

Principle: Oregon has a positive business climate and invests in economic development in order to create and retain sustainable businesses and family-wage jobs.

The future of Oregon depends on its ability to strategically invest in human capital and infrastructure to facilitate the growth of business and jobs. We must increase our capacity to innovate and foster business development to create and retain enduring jobs for Oregonians.

Overview

For Oregon to compete in a national and global economy, Governor Kulongoski believes we must make strategic investments in building Oregon's capacity to innovate. Oregon must focus on recruiting, expanding and retaining businesses that will create sustainable new jobs through innovation of new products and services, enhancing start-up capital, and infrastructure that promotes the commercialization of research into new and existing companies. The Governor's Recommended Budget provides development and operating funds for Oregon's first "Signature Research Center," Oregon Nanoscience and Microtechnologies Institute (ONAMI) and a pre-seed or "proof of concept fund" for commercializing research into business ventures.

Currently, Oregon universities have almost \$1 billion involved in research and development, providing the potential to develop new drugs, new material, new technology, or new agricultural application. This investment in Oregon's human capital creates real wealth in our economy. Federal and private dollars for research and development attract creative and innovative people to Oregon to be part of our research and development expertise. The ideas created through research can be spun-off into new businesses or commercialized development to enhance the products and services of existing businesses. Jobs created by these businesses generally pay well above average wages and bring new wealth into the state by exporting the commercialized products outside Oregon to our trading partners around the world. This is how Oregon will successfully compete in the global markets.

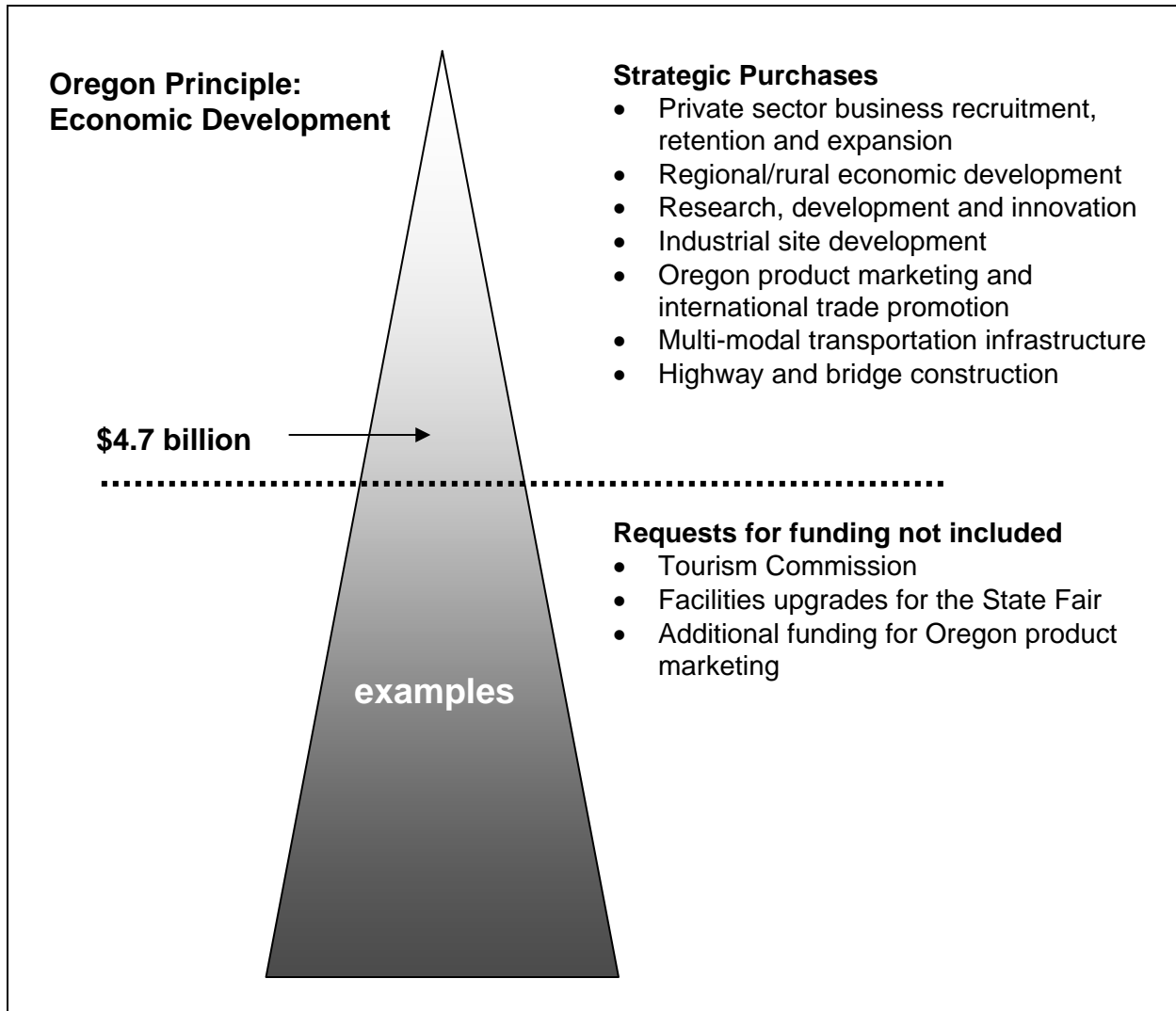
During his first year in office, the Governor helped facilitate a partnership between Hewlett-Packard, Oregon Health Sciences University, the Pacific Northwest National Laboratory and Oregon's higher education institutions to create ONAMI. ONAMI opened in Corvallis in May 2004, with demonstrated benefits for Oregon's economy. In the initial year of operation, ONAMI has used half of the \$1 million General Fund investment for operations and leveraged more than \$22 million of federal research dollars and more than \$3 million of private investment (a return of over 50:1).

The Governor's Recommend Budget creates a Commercialized Research Fund that would be available to businesses with fewer than 100 employees that wish to work with Oregon's research institutions to develop new products or refine existing products. The competitiveness of Oregon's traded sector industries is increasingly dependent on the ability to rapidly develop and commercialize new ideas and technologies.

The Governor's budget also continues his effort to increase the availability of "project ready" industrial sites in Oregon. In recruiting new companies to Oregon, we compete against states where a company can pick from numerous 25-acre or larger industrial sites and get the necessary permits very quickly. When the Governor took office, the number of sites in Oregon that met this market requirement was essentially zero. He directed state agencies to increase the availability of "project-ready" industrial land and directed the state's Economic Revitalization Team to assist in developing an industrial site certification program. Since the Governor launched this effort, 20 "project-ready" sites have been certified in Oregon, totaling 1,710 acres of available industrial land. His budget continues this commitment, with the goal of 50 certified sites by summer 2005. Oregon industrial sites can be found online at www.oregonprospector.com.

The Governor's Recommended Budget further continues Oregon's investment in transportation through "ConnectOregon," an initiative to improve Oregon's multi-modal transportation infrastructure. In addition, the budget invests in regional/rural projects that will advance state priorities to create jobs in rural areas around the state.

What does the budget purchase to contribute to this principle?



What do we expect our investment to achieve for this principle?

Oregon's \$7 million investment in ONAMI will increase Oregon's national and global reputation for cutting-edge research and will provide additional economic benefits:

- Enhance capacity for existing businesses to develop new products, and advance manufacturing and information technologies to help existing industries be more competitive in a global economy through research and development activities from ONAMI.
- Position Oregon to leverage \$50-60 million in federal research dollars and approximately \$10 million in private investment and industry sponsored research.
- Deliver the spin-off of at least 10 companies in five years.

- Attract an estimated three new research programs and 20-30 additional researchers to Oregon universities and industries creating research and development synergies and increasing Oregon's ability to compete in the global markets.

The Governor's \$2 million investment in the Commercialized Research Fund will provide a significant return on our investment to **help Oregon researchers turn innovative ideas into business ventures** by:

- Helping approximately 15 small businesses or university spin-off companies to commercialize new products.
- Leveraging an estimated \$15 of private sector investment for every \$1 of public investment.

The \$60 million in lottery bonds for **developing industrial lands** will:

- Create 1,440 construction jobs.
- Create 31,392 permanent jobs.
- Provide 3,600 usable industrial acres.
- Generate \$972,480,000 in local property tax revenues.
- Generate \$1,620,000 in state income tax revenues.
- Facilitate the development of 23 industrial sites: 3 large opportunity sites and 20 certified sites.

The \$3.5 million provided for the Regional/Rural Investment Fund will **assist economic development across Oregon** and:

- Create 4,667 new jobs across the state.
- Leverage \$225.4 million in federal and other funds for economic development in rural communities.

ConnectOregon will provide the resources to **make key non-highway investments in our transportation infrastructure** and bolster our economy by:

- Using \$100 million in lottery bond proceeds, ConnectOregon will allow the Oregon Transportation Commission to leverage funds with public and private partners to strengthen Oregon's rail connections, marine commerce, aviation, and transit facilities.
- Investing in other modes of transportation to provide critical links for shippers to connect to national and international markets, speed delivery times, and create jobs.
- Improving infrastructure for the top five trades (based on total employment)—high technology/software, forest products, food processing, apparel/sporting goods, and transportation equipment—ensuring their presence in Oregon is maintained and positioning for future growth.
- Investing in rail and marine transportations systems to preserve Oregon's highway investment because commodities that travel via rail and marine tend to be heavy and low volume and if those commodities can be moved by rail or barge, savings will be realized in increased lifespan of state's highways.
- Supporting jobs in the transportation infrastructure and traded-sector industries that pay competitive salaries, which will promote the growth of additional jobs and income for Oregonians and the state.

Economic Development

Investment in the Willamette Valley Passenger Rail system will allow **operation of the four daily Amtrak Cascades trains and the motorcoach operations** to continue, creating and retaining permanent, family wage jobs and supporting numerous Oregon businesses:

- Rail improvements include restoration of historic railroad stations and redevelopment of core city neighborhoods, generating additional public and private investment.
- Passenger rail is also an integral part of the tourism trade as train travel becomes a transportation mode of choice for many tourists.
- Oregon is part of a designated federal corridor and continued state investment will help to leverage additional federal funds when investments are made in the future.
- The number of people using passenger rail continues to increase and without state investment the future of the Seattle to Eugene trains would be in jeopardy. From 1993-2002, there was an increase of 524 percent in the corridor. Nearly \$49 million that has been invested within the last decade will be rendered meaningless if funding for passenger rail is eliminated.
- Additional public transportation in rural Oregon by funding buses from Portland to Astoria, Bend/Redmond to Chemult, Bend to Ontario, as well Eugene to Portland service. These services are even more critical for seniors and people with disabilities given the recent cutbacks by Greyhound.

What else is the Governor doing to contribute to this principle?

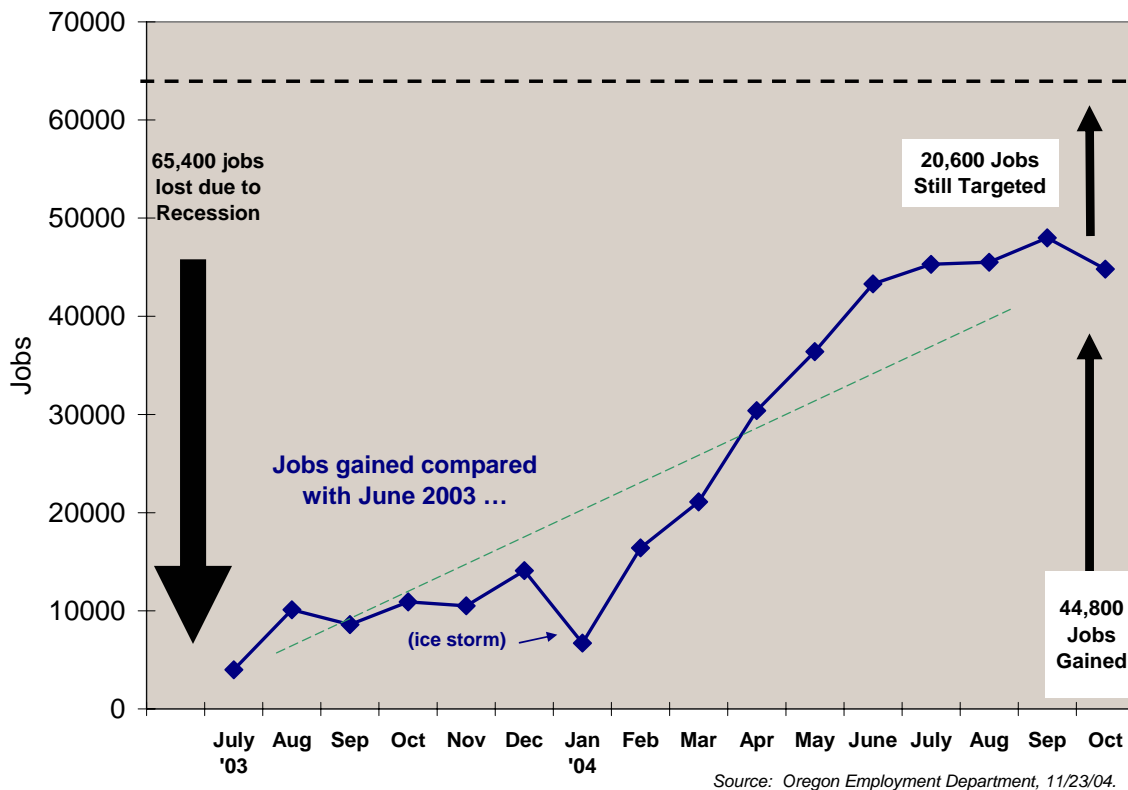
Recruiting, Retaining and Expanding Businesses

The Governor has taken an active role in business recruitment, retention and expansion. Since July 2003, more than **10,000** new jobs have been created as a direct result of state efforts. These economic successes have been made possible by the collaboration of his Oregon Economic and Community Development Department (OECDD), local governments and business leaders to provide timely information, assistance and incentives. They include:

- Expansion of Country Coach in Junction City (450 new jobs).
- Expansion of Keystone RV in Pendleton (100 new jobs).
- Expansion of Sun Microsystems in Hillsboro (100 new jobs).
- Recruitment of N.E.W. Corporation in Klamath Falls (600 new jobs).
- Recruitment of Wachovia Corporation in Salem (500 new jobs).
- Expansion of T-Mobile in Redmond (700 new jobs).
- Expansion of Acumed in Hillsboro (140 new jobs).
- Recruitment of Royal Caribbean Cruise Lines (1000 new jobs).

Oregon has added a total of 44,000 jobs – a 2.9 percent increase – between June 2003 and August 2004. Nearly every industry sector experienced growth during this period as compared to the previous year.

Jobs Created in Oregon Since June 2003



The Oregon Transportation Investment Act

During the 2003 legislative session, the Governor proposed the Oregon Transportation Investment Act (OTIA), the largest public works project in the state since the 1950's. This \$2.5 billion package creates 5000 family-wage jobs each year for the next ten years, and helps ensure our roads and bridges are safe and friendly to tourism and commerce.

Since its passage, the Governor has also worked to ensure that this rebuilding of Oregon's transportation infrastructure helps provide Oregon minority- and women-owned businesses with access to contracting and workforce opportunities in the \$2.5 billion of construction projects that will occur in Oregon in the next decade. This is a targeted and an on-going initiative over the next 10 years to create business opportunities for minority and women businesses specific to OTIA projects.

Office of Rural Policy

In April 2004, the Governor signed an executive order creating a new Office of Rural Policy. The Governor's Rural Policy Advisor will coordinate with the Legislature and the Rural Policy Advisory Committee to ensure that the state is a real partner in helping address the most important issues facing Oregon's rural communities so that all of Oregon's communities can move forward toward economic security and stability. The Governor's Rural Policy Advisor will also work with a representative from every state agency and executive branch to strengthen the delivery of state services to rural Oregon.

Direct International Air Service

Oregon can be proud of three new non-stop flights out of PDX: Lufthansa to Frankfurt, Germany; Mexicana to Guadalajara, Mexico; and Northwest to Tokyo, Japan. Each of these new air services will not only benefit Oregon companies doing business abroad, but will positively impact Oregon's local economy by creating hundreds of direct and indirect jobs and tens of millions of dollars in business sales and tourism revenue. Marketing Oregon through the newly-created tourism fund was a reason these carriers chose Portland over other potential destinations.

Keeping Workers' Compensation Rates Low

In October 2004, the Governor announced that workers' compensation "pure premium" rates will remain flat for 2005, and assessments charged to Oregon employers will decrease by \$2.6 million. The cumulative cut in workers' compensation costs since 1990 totals 57.4 percent, with resulting savings to employers of approximately \$10.1 billion. Because of the cumulative premium reductions, Oregon's national ranking in workers' compensation costs moved from sixth most expensive in the nation in 1986 to 35th by 2002. During this time, benefits for disabled workers in Oregon have increased while an increased emphasis on workplace safety has driven Oregon injury and illness rates down.

Streamlining Regulations

The Governor launched a Regulatory Streamlining Initiative early in his administration. To date, more than 300 projects that streamline regulations or improve customer service have been completed or are under way at dozens of state agencies. These projects have already saved Oregon businesses hours, dollars, and more than 250,000 sheets of regulatory paperwork. A complete list of regulatory streamlining accomplishments can be viewed online on the Governor's Regulatory Streamlining Initiative website: <http://www.oregon.gov/DCBS/RSL/projects.shtml>.

Highlights include:

- 1) Creation of an online license database - This database provides comprehensive information and links to almost all of the licenses, permits, and certifications the state requires for a variety of business and other activities.
- 2) Elimination of duplicative facility licenses - Currently, several professions regulated by the Health Licensing Office may operate in one facility but be required to hold individual facility licenses for each profession. For example, a hair salon may also offer body piercing, electrology and tattooing services. The agency is developing a single facility license that would cover all professions under one roof but contain the same public protection standards of the individual facility licenses.
- 3) Simplified food safety inspections - The Departments of Agriculture and Human Services have adopted the federal "Food Code." This has resulted in eliminating duplicate inspections by both agencies at some businesses, and focused food safety inspections on the top causes of food-borne illness.
- 4) Minor project permitting - Contractors who do minor electrical and plumbing projects in multiple jurisdictions no longer need to get an individual building permit from each jurisdiction for each and every project. For example, a plumber with a contract to install water heaters for a builder on several projects in different cities will now only need a single "minor label" permit, not individual permits for each individual water heater in each location.

- 5) Expedited plan review - Builders with critical construction projects now have the option of asking the DCBS Building Codes Division to expedite plan review, permits, and inspections in collaboration with local agencies. This will help contractors spend their time building instead of tracking paperwork.



Livability and the Environment

Principle: Oregon has a healthy balance between growth, infrastructure development and environmental protection.

Oregon's environment and its economic health are inextricably linked. We must enhance and protect our natural resources while also contributing to Oregon's economic growth through responsible infrastructure development.

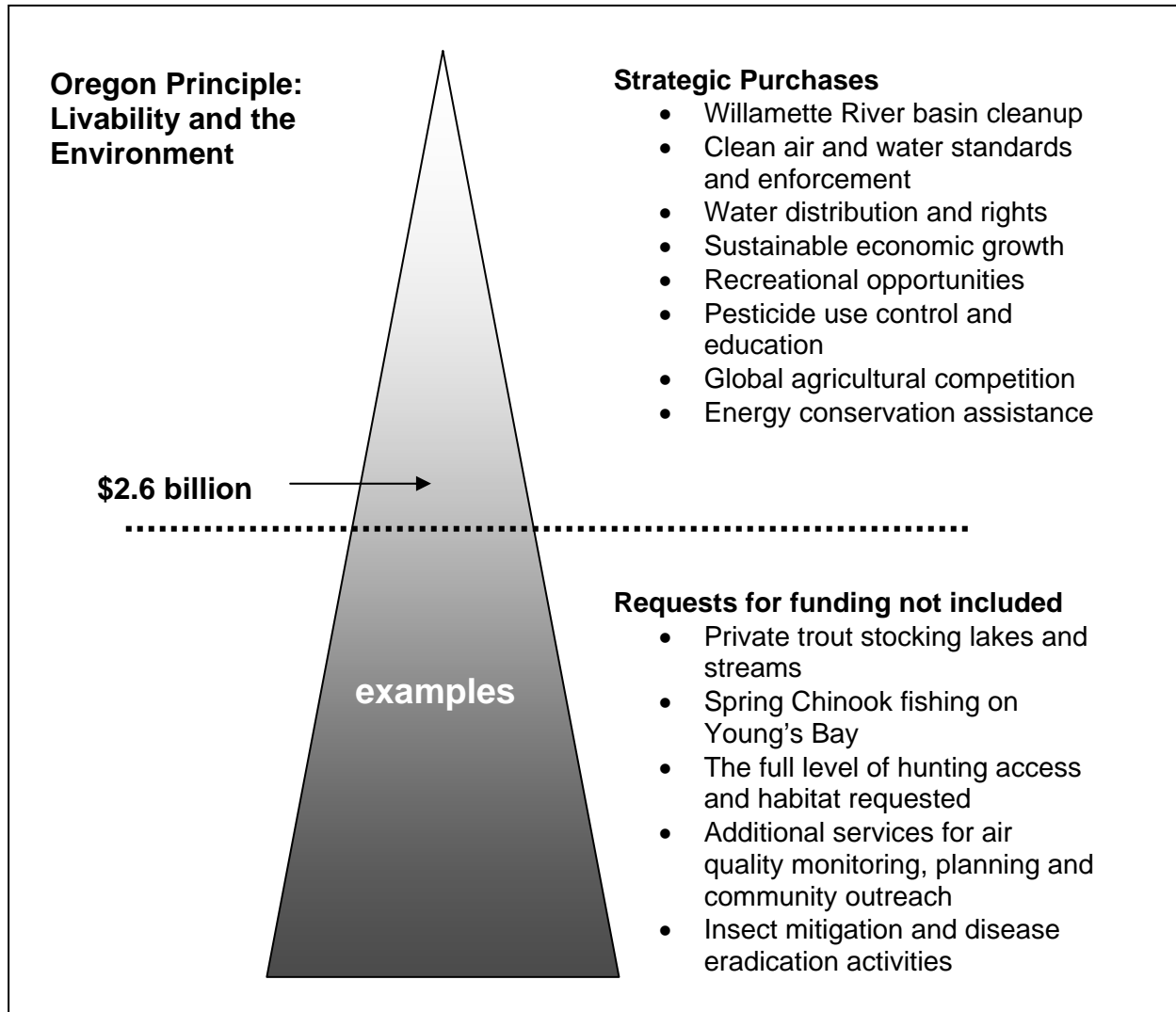
Overview

Governor Kulongoski's 2005-07 budget pursues the balance between growth, infrastructure development and environmental protection by redirecting General Fund expenditures and leveraging other funds so as to preserve or enhance key functions essential to the livability of our state's environment and the growth of our economy.

This budget enables natural resource agencies to carry out key functions related to salmon recovery, watershed health, protection from wildfires, and meeting our obligations to protect and improve water quality in our streams. The budget makes a commitment to address the water rights claims in the Klamath Basin. It provides funding to begin a top to bottom review and modernization of Oregon's land use planning system. It addresses key water quality issues of the Willamette River. The recommended budget also seeks to aggressively reduce the backlog of water quality permits, an issue critical to sustaining and growing Oregon's business and industrial sector.

While leveraging other funds into essential services and programs important to Oregon's environment, this budget restores a significant amount of lottery and federal dollars for salmon and watershed conservation to their intended purposes. In keeping with the Governor's goal of "A New Park per Year," this budget directs an increased amount of lottery dollars to repairing existing parks, acquiring and developing new parks and assisting local government with their park projects.

What does the budget purchase to contribute to this principle?



What do we expect our investment to achieve for this principle?

This budget purchases **enhanced protection of Oregon's water quality** for drinking, recreation and fish restoration through:

- The establishment of standards for pollutants for our surface waters.
- Issuance and enforcement of wetland permits and wastewater discharge permits.
- Retrofitting marina sites to eliminate or reduce polluting discharges from boats.
- Reducing pollution in the Willamette River resulting from stormwater runoff and mercury contamination.
- Strengthening the enforcement of water quality standards in the Willamette River and working in partnership with business and civic organizations in keeping the Willamette River clean.
- Investing approximately \$40 million dollars in restoring the health and function of watersheds.
- Promoting forest practices that protect water quality through direct assistance to non-industrial forestland owners and protecting Oregon's forests from diseases, pests and fire.

Livability and the Environment

- Assisting agricultural landowners with land conservation to protect water quality.
- Reducing the backlog of water quality permits to less than 10 percent and increasing monitoring and compliance associated with those permits and continuing the progress made over the last year to reduce the backlog from 60 percent of permits expired to 30 percent.
- Continued recovery of salmon and other native fish species with the potential for Coastal Coho to be de-listed as a threatened species under the Endangered Species Act.
- Commencement of operation of the fish research hatchery at Fall Creek. This facility will include several research and monitoring projects that will increase our knowledge about wild fish populations and the interactions between wild and hatchery fish, improving our ability to manage both populations.

This budget purchases **support for the growth of sustainable economic development** by:

- Improving the response rate for issuance and renewal of water quality permits vital to continued business operations and new business investment.
- Providing continued support for staff dedicated to economic recovery, regulatory streamlining and certification of industrial sites.
- Supporting the collection and dissemination of geologic data and mapping to guide land-use decisions, use of industrial sites and other business development.
- Enhancing the productivity of Oregon's state-owned and private forest lands through technical assistance.
- Providing assistance to communities with local development plans and economic opportunity analyses.
- Working aggressively to recover listed fish stocks through conservation, hatchery reform, research, and harvest management to ensure sustainable populations for commercial and recreational benefits and the communities that depend on them.
- Implementing an agriculture certification program to enhance Oregon's competitiveness in the world market.

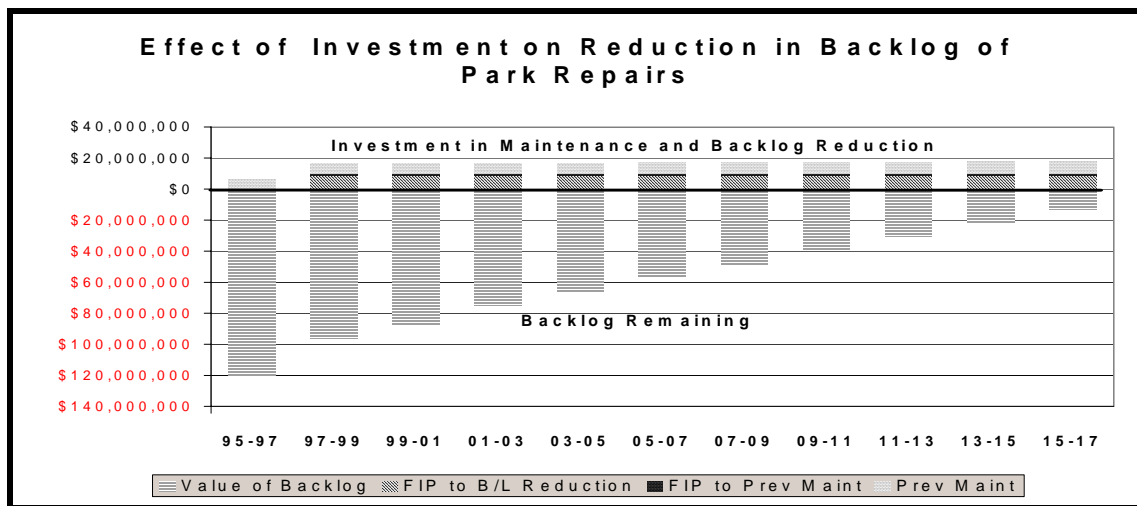


Research Hatchery at Fall Creek

This budget makes significant investments to **enhance Oregon's unique quality of life** by:

- Creating at least two new state parks for Oregon and significantly reducing the backlog of facility repairs in parks and boating access facilities.
- Protecting Oregonians through enhancement of the food safety program.
- Increasing net revenue from state Common School Fund lands.
- Assuring significant investment in the recovery of native fish populations to support recreation.
- Managing wildlife to ensure diversity, balance and viable populations for recreational benefits.
- Ensuring the health and diversity of Oregon's forests to support the many recreational uses they provide.
- Protecting Oregon's rivers and streams for boating, swimming and fishing.
- Supporting state and local planning efforts that are vital to preserving the benefits of open space protection and thoughtful growth of urban areas that ensures quality of life.

- Protecting and improving productivity on 12 million acres of state-owned and private, non-industrial forestlands.
- Increasing the number of wetland mitigation banks to facilitate economic development.
- Adjudication of water right disputes in the Klamath Basin to resolve uncertainty, stabilize property values, ensure water availability for agriculture and create environmental benefits.
- Increasing the number of communities that have identified natural hazards and are using that information in planning growth or mitigating existing hazardous conditions.
- Conducting a comprehensive review of Oregon's land-use planning system leading to improvements that enhance the system's effectiveness, support sound economic growth and assures that its goals are met.
- Reducing regulatory steps for receiving business permits to receive permits from state and federal permit users, which should lead to reduced permit processing times, higher compliance and increased resolution of violations.



What else is the Governor doing to contribute to this principle?

“New Park per Year” Program

Oregon currently ranks 2nd nationally in the number of visitors per acre of parkland. An Oregon Tourism Commission Study in 2002 indicated that state parks contribute \$541 million a year to Oregon's economy through expenditures by campers and day visitors. In May 2004, the Governor launched his new state park a year, ten-year initiative in conjunction with the Oregon Parks and Recreation Department. The Governor is committed to balancing the parks to include both heritage parks and recreation parks, so that Oregon's environmental stewardship includes both cultural and natural resources. In June 2004, the Governor broke ground at Hares Canyon State Park, the first new park under the program and the first new state park in Oregon in more than three decades.

Clean Diesel Initiative

The Governor designated two Oregon Solutions Projects in 2004 to assess and develop idling reduction and other diesel emission reduction efforts in truckstops along the I-5 corridor. The project has secured millions of dollars in commitment for new technologies at three I-5 truck stops as pilot efforts, with plans to install the technology in 600 parking spaces at truck stops in Oregon. The technologies provide

Livability and the Environment

alternate sources of energy to power rigs while they are at rest in truck stops. By “electrifying” 600 truck stop parking spaces along I-5, truck drivers will see a net savings of \$1.8 million per year in reduced fuel costs and reduced wear and tear. It will reduce carbon dioxide emissions by over 33,000 tons per year and reduce carbon monoxide, nitrogen oxides, hydrocarbons and particulate matter by over 852 tons per year, which translates to public health and environmental benefits of at least \$6.6 million per year.

Willamette River Initiative

The Willamette River is one of Oregon’s key environmental resource, providing fish and wildlife habitat. As a “working river,” the Willamette is also the lifeblood of the valley economy, supporting businesses, industries and communities. Finally, the Willamette contributes to the quality of life that Oregonians enjoy. In his State of the State speech in March 2004, the Governor pledged to do whatever it takes to clean up the Willamette River.



Progress to date includes:

- In April 2004, the Governor secured federal money to begin cleaning up pollution from century-old riverside mercury mines.
- The Governor formally established the Willamette River Water Trail. The water trail is a paddling trail from Corvallis to Newberg that connects dozens of state and county greenway parcels where paddlers can rest, picnic, or camp. In September 2004, he announced a successful public-private partnership with Columbia Sportswear and G.I. Joes in order to launch the development of the first leg of the trail, to be completed by Memorial Day 2005.
- The Governor successfully sought \$12 million from the federal government to cleanup the McCormick and Baxter Superfund site in the Portland Harbor.
- The Governor currently chairs the Willamette River Cleanup Authority, which will facilitate and review cleanup of the larger Portland Harbor Superfund site.



Public Safety

Principle: Oregonians are safe in their homes, communities and in state institutions.

Public safety is essential to our citizens. We must hold criminals accountable for their actions, prevent crime and reduce recidivism. We must also provide for safe buildings and places of work, prevent fraud and abuse, and maintain the ability to prepare for and swiftly respond to emergencies to preserve life and property.

Overview

Governor Kulongoski's 2005-07 Recommended Budget covers a broad range of services from training law enforcement and emergency responders to incarcerating criminals. This budget reflects the Governor's priority to keep Oregonians safe by ensuring law enforcement, local communities, and the military have the tools they need to prevent crime and provide security to Oregonians.

This budget enhances training for law enforcement and emergency responders in Oregon's new public safety training facility. It creates a new Department of Homeland Security that will better enable the state to prevent, prepare for, and - if necessary - respond to and recover from terrorist attacks or natural disasters.

State Police will continue the traditional role of providing troopers on state highways in order to prevent loss of life from traffic accidents that result from drunk driving and other poor driving practices.

State Police will also play an active role in addressing Oregon's methamphetamine epidemic, which is one of the state's greatest public safety challenges. The budget creates a special statewide team to detect and investigate large methamphetamine operations throughout the state, with a particular focus on cracking down on operations that place the lives of children at risk. The enhancement of forensics services will also allow a faster and more accurate turnaround on criminal investigations.

In addition to forensics, the state's public safety agencies are the only provider of a number of public safety-related services. This budget maintains funding for those services in order to make sure the entities they support have the resources they need to continue to do their job and keep Oregonians safe. These services include training law enforcement officers, and providing juvenile and adult secure custody. The budget expands Oregon's correctional capacity to incarcerate almost 1,700 additional serious offenders and reflects the need to adjust the way that community corrections dollars are forecasted to more accurately reflect costs incurred by counties. This budget avoids shifting the responsibility of these critical public safety services to local government.

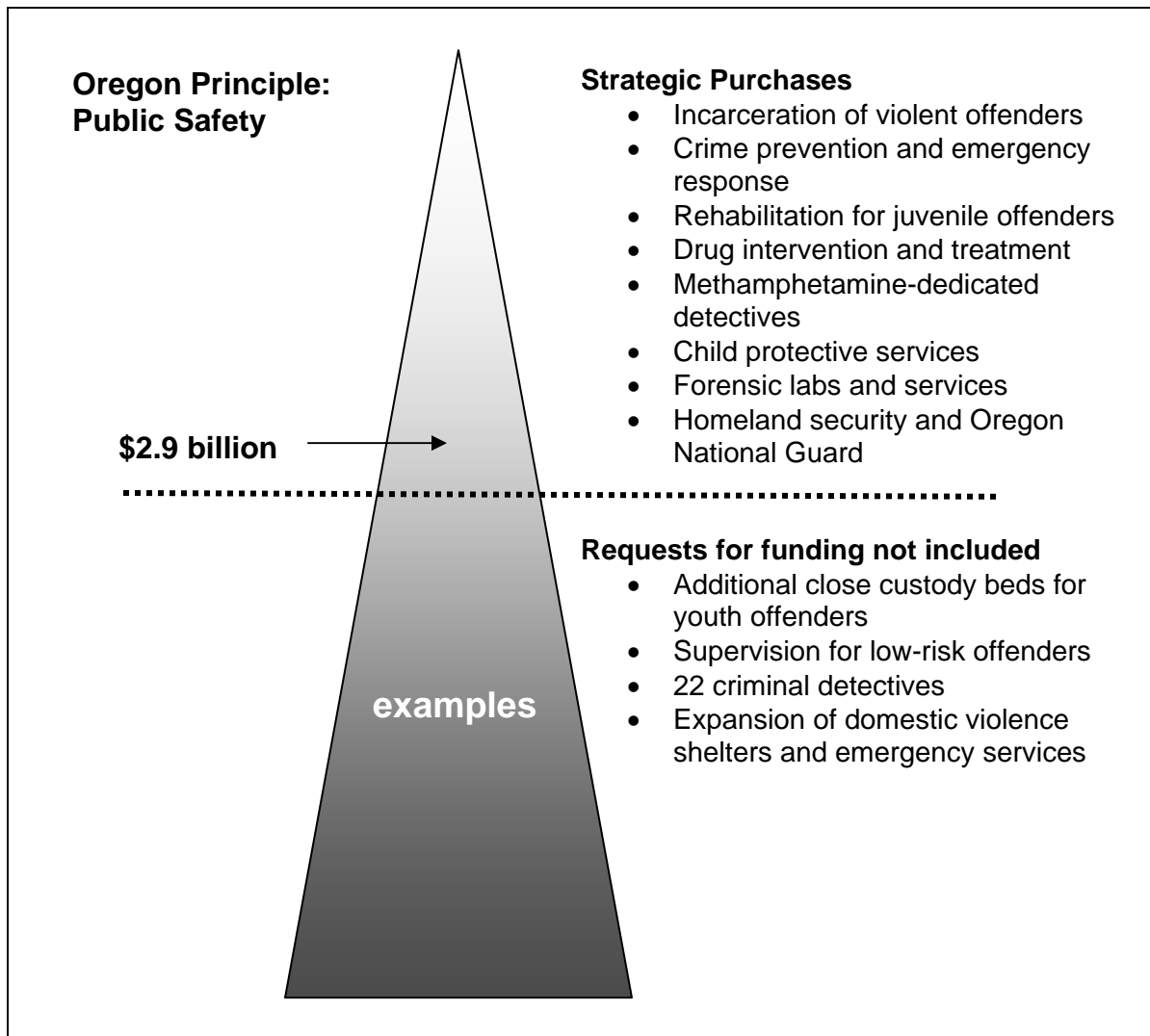
The Governor is committed to funding a new method of building the community corrections budget for the state's partnership with Oregon counties. He believes the new community corrections model is more accurate, stable, and promotes cost effective practices at the local level, and he has put money into the recommended budget to support this change.

Public Safety

However, due to other reductions in overall funding for this area, he intends to sit down with county partners to talk about the best way to use the money available and options, including changing the scope of their work, to both maintain the integrity of the system and match expectations to resources.

Oregon's National Guard also plays an important role in both state and national security. The budget allows the military to expand and maintain facilities critical for supporting their mission both here and abroad. The budget also contains funds to provide additional benefits to Oregon National Guard members who have been deployed.

What does the budget purchase to contribute to this principle?

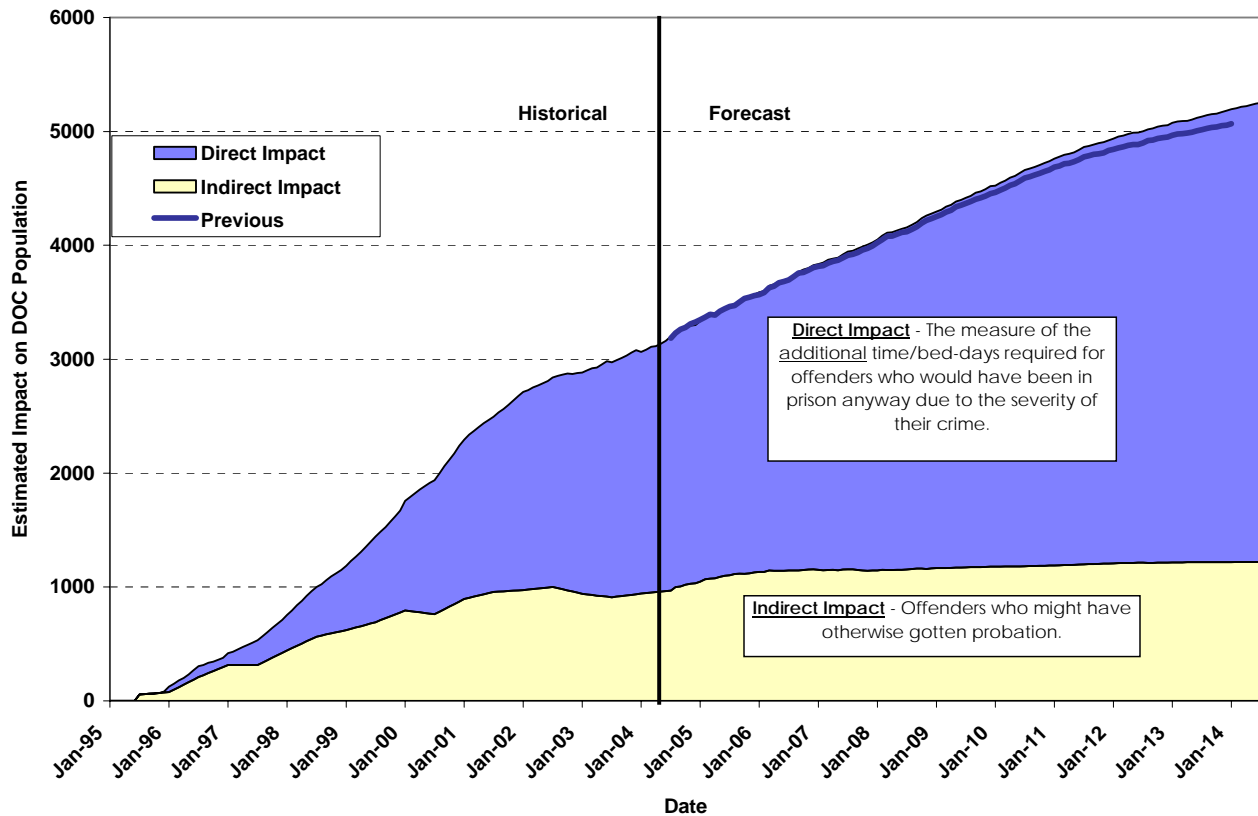


What do we expect our investment to achieve for this principle?

Keep Oregonians safe on the streets, in their communities, and in their homes, by funding:

- 329 full-time State Patrol troopers to protect Oregonians and help reduce the number of crashes and fatalities on the state's roads and highways. The Governor expects the Lottery Commission to take steps to expand current games, including line games, and increase the revenue collected and transferred by the Lottery Commission. His recommended budget uses the undedicated portion of additional proceeds to fund the patrol functions of the Oregon State Police.
- 119 Fish and Wildlife troopers to enforce the states regulation of anglers and hunters to prevent negative impacts on wildlife.
- 101 criminal investigation detectives equipped to solve criminal cases under their jurisdiction within twelve months; eight detectives dedicated to the Governor's Methamphetamine Initiative.
- 108 sworn and professional positions in Forensic Services; six forensic labs to maintain efficient and reliable analysis results.
- 75 percent of the demand for close custody space, programs, and education services, including 850 close-custody beds for:
 - Measure 11 offenders in the physical custody of the Oregon Youth Authority (OYA).
 - Offenders waived to adult court for non-Measure 11 crimes in OYA custody.
 - Youth who have been adjudicated to juvenile court and are committed to OYA.
- Critical drug interdiction services through the Oregon Military Department that serve to reduce crime in Oregon.
- A new Department of Homeland Security to coordinate prevention and preparedness plans for natural and man-made disasters and terrorist activity and to coordinate effective and swift response to such events should they occur. The elements of this department are drawn from a number of different agencies and will now be housed under one command structure.

Estimate of Historical and Forecast Measure 11 Impact



Hold criminals accountable and ensuring their sentences are completed by:

- Sustaining adequate bed space in the state criminal justice system, including 1,688 newly-constructed beds in Warner Creek Correctional Facility, Coffee Creek Correctional Facility, Madras, and Shutter Creek Correctional Institute.
- Enforcing Measure 17 requirements that all eligible offenders spend 40 hours a week working, in training, education classes, or in treatment.
- Securing supervision to prevent criminals from walking away from minimum custody facilities and outside work crews.

Rehabilitate Oregon's youth and adult offenders so they transition back into society as responsible contributing citizens by providing:

- The Youth Challenge Program, which provides structured educational services to at-risk youth who have dropped out of school.
- Appropriate foster care and adequate treatment for juvenile offenders through OYA.
- Gang prevention, intervention and response activities for targeted violent gang activity.
- Transitional programs, incarceration and other reformation efforts (including drug, alcohol and substance abuse programs for more than 9,000 incarcerated youth and adults) to reduce the incidence of repeat offenders.
- 400 beds for the Alternative Incarceration Program at Shutter Creek and Powder River Correctional Institutions.

- Probation services for 720 youth and parole services for 520 youth in the community.
- Community supervision of more than 40,000 felons on probation, parole, or post-prison supervision.

Support and recruit members for the Oregon National Guard through:

- Adequate training facilities and armories for Oregon National Guard units who continue to serve at home and abroad.
- Recruitment and retention incentives for Oregon National Guard members.
- Maintenance of two Air National Guard bases in the state: Portland and Kingsley Field.

What else is the Governor doing to contribute to this principle?

Comprehensive Review of Public Safety System - In February 2004, the Governor appointed a Public Safety Review Steering Committee to lead a complete review of the public safety system. The review includes the following efforts:

- 1) **Sentencing Review Task Force:** The Governor asked Attorney General Hardy Myers to lead an in-depth look at Oregon's sentencing structure, including parole and probation activities, in order to gauge whether we are holding the right people accountable for their criminal activities.
- 2) **Elder Abuse Task Force:** The Governor convened a task force of members composed of members of the law enforcement, domestic violence, adult protective service and medical communities to review all forms of elder abuse and neglect and provide recommendations to ensure Oregon's seniors are safe and secure. The Governor plans to work with the Legislature and community activists on implementing key recommendations, including the task force's recommendation of an "Oregon Elder Justice Act of 2005" that would change statutory language to strengthen protection for older Oregonians.

Campaign to Combat Meth - The Governor declared the meth problem in Oregon an epidemic and has led the charge to curb the meth problem in Oregon through:

- 1) **Meth Task Force:** Recognizing the severity of Oregon's meth problem, the Governor wanted to have advice from the foremost experts in the field, so he created the Methamphetamine Task Force composed of experts in the law enforcement, medical, community mobilization and prevention communities to develop short-term and long-term recommendations to address the meth problem in Oregon. The Task force completed its work in September 2004 but will continue to meet to address new problems as they arise.
- 2) **Limited Sale of Pseudoephedrine:** In October 2004, the Governor asked the Oregon Board of Pharmacy to enact a temporary rule that places pseudoephedrine behind a secure counter and requires purchasers to show identification in order to purchase products containing pseudoephedrine. Since this chemical is required to make meth, this step will make producing meth much more difficult; smaller meth labs that occur in houses and apartments – often located near children - get this chemical from products sold in grocery and other retail stores. The Governor also asked for the adoption of a permanent rule that tracks the sale of pseudoephedrine

Public Safety

to assist law enforcement with identifying those misusing the products to produce methamphetamine.

- 3) **Meth Watch Program**: Under the leadership of the Governor, the state implemented the Oregon “Meth Watch” Program in coordination with 800 businesses statewide. The program is a low cost way to educate to the public regarding what easily available items are used to produce Methamphetamine.
- 4) **Pre-cursor Database Program**: The Oregon State Police implemented the pre-cursor database program which tracks sales of iodine and MSM used in the manufacture of methamphetamine. The lists are developed and forwarded to the drug task forces around the State related to methamphetamine lab investigations.
- 5) **Drug Endangered Children Program**: At the Governor’s direction, state agencies are implementing a statewide training program to enhance the state’s ability to identify and protect “Drug Endangered Children.” This is designed to address the Governor’s concern over what happens to children who are being raised by parents with drug problems or in drug houses, especially those that involve the production and use of methamphetamine.
- 6) **Outreach to Youth**: The Governor’s office and meth task force have entered into a unique relationship with the University of Oregon School of Journalism to conduct research and develop messages that will prevent children in Oregon from taking meth. They will also be developing media packets that will assist local communities to get out the word on meth. The Governor believes it is critical that we inform school-age youth and their parents about the devastating effects of this very addictive drug as well as making sure that we do all we can to get communities engaged in fighting the meth problem.



Government Efficiency and Accountability

Principle: State government is stable, responsive and accountable to Oregonians.

State government must be a responsible steward of the public's money. This means we must work in a cooperative and coordinated manner with our partners in the private sector and with local government - counties, cities, and special districts. We serve the same constituency and they must know that our mutual goal is to provide them with superior customer service.

Overview

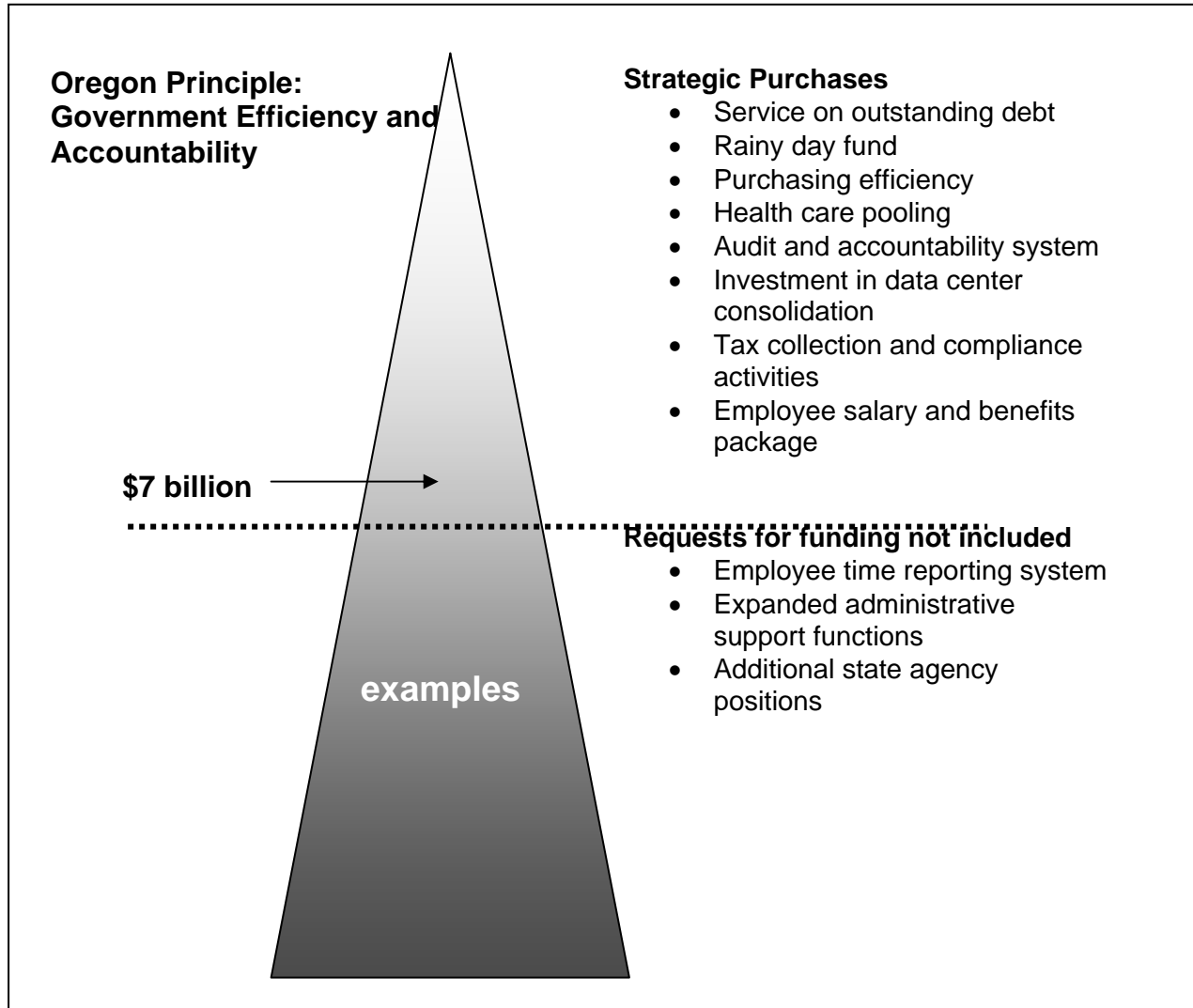
Governor Kulongoski has made improving government accountability and service a priority. His goal is to rebuild the trust of Oregonians in their state government and to ensure state agencies uphold their commitment to use taxpayer dollars to enhance the quality of life for all Oregonians. This means a commitment to continuous review and improvement, and it means making government communications and actions transparent, understandable and accessible. While all agencies must take this principle to heart in how they conduct their business, there are certain activities specifically devoted to making this principle a reality.

The Governor's Recommended Budget includes several items that specifically focus on stability and accountability by establishing:

- A plan for a rainy day fund by 2009.
- Consolidation of data centers from the 12 largest state agencies to save money, provide better security and set the stage for further efficiencies.
- Examining ways to reduce health care costs for state employees.
- Continuing the implementation of an internal audit program for state agencies.
- Final implementation of PERS reforms and stabilizing the public retirement program.

The Governor's recommended budget also reinvests savings from efficiencies gained in the current biennium in programs and services across state government. The Governor believes it is important for all levels of government to set aside issues of ownership and work together to find ways to better use total resources from taxpayers. From the state to counties to cities to school districts – we all serve Oregonians.

What does the budget purchase to contribute to this principle?



What do we expect our investment to achieve for this principle?

Our investment in accountability will provide:

- **Stability** in the event that the economy does not meet growth projections, as well as the ability to lessen the impact on other priority services if the public demands additional services through the judicial or initiative systems.
- Millions of dollars of **savings** in economies of scale through shared services, in implementation of audit recommendations and sharing of best practices throughout state government and with its partners.

- **Health care coverage** that provides for the needs of state employees but at lower inflationary rates than currently projected for the future.
- A **fair retirement program** for public employees at a fair price to their employers – the taxpayers.

What else is the Governor doing to contribute to this principle?

Pooling State Purchasing Power

At the Governor's direction, the state pooled its purchasing power to reduce state expenditures for items like office supplies, computers, etc. In July 2004, the Governor announced that the state successfully negotiated with Boise Office Solutions to cut the state's costs even further, saving just under \$3 million in this biennium. This was the first major contract under the state's new successful *Smart Buy* program.

Other categories completed to date include Telecommunication Long Distance, Office Equipment-Copiers, Personal Computers, Computer Peripherals, Software, Office Supplies, Express Mail Services, and Cell Phones. As a result, the state is expected to save \$9.5 million in the 2003-2005 biennium. Over the lives of the new contracts, savings of approximately \$40 million is anticipated. Additional savings are expected to be achieved this biennium for remaining categories in progress. For more information, visit the Smart Buy website: www.oregon.gov/DAS/PFSS/SPO/smart-menu.shtml.

Improved Government Efficiency

The Governor has implemented multiple initiatives to improve government efficiencies in order to save time, money and improve the quality of services delivered to the people of Oregon, including:

- **Overpayment Audits:** With the hundreds of millions of dollars of billings that occur in state government, there are opportunities to be over-charged and the Governor believes there are related opportunities to recover any overpayments. The Governor directed the Department of Administrative Services to conduct two overpayment audits- one in telecommunications and one for all other payments – to ensure the state's billing history has been accurate and to collect any overpayments they identify. Last year, one audit identified one telecommunications vendor overcharged the state by more than \$250,000. These efforts will continue to increase communications with vendors, better analyze vendor bills, and continue to reduce possible over payments in the future.
- **Renegotiated Toll Free Rates:** The state recently renegotiated its toll free rates, which will result in a \$1.4 million savings during the 2005-07 Biennium. During the long distance rate renegotiation, the state was able to adjust the rates charged to agencies for long distance and toll free services which is delivering a cost reduction of approximately \$4 million.
- **Internal Audits:** The Governor has developed an internal audit plan that calls for the immediate filling of all existing internal audit positions with staff qualified as certified internal auditors. The plan requires for the first time that agencies meeting the DAS requirements for an internal audit must budget for, fill and fully support at least one full time internal audit position. A statewide Internal Audit Policy Council is also being created, which will require all agencies to submit to DAS internal audit reports and recommendations within 30 days of completion so that

the Governor has a statewide analysis of the business risks that exist. These actions also address all of the issues identified in the Secretary of State audit in March of 2003. The Governor is also working with DAS, the statewide Internal Audit Advisory and Joint Legislative Audit Committees on crafting legislation that will grant DAS rulemaking authority with respect to the internal audit function within state government.

- **E-Commerce:** The state has implemented e-commerce technology to enable citizens and businesses to buy products and services from the state online with credit cards. In the past year, the state has more than tripled the number of online transactions that the citizens of Oregon are conducting. The Secretary of State, Oregon Department of Transportation, and the Marine Board have been joined by DMV, the Oregon State Board of Nursing, and the Landscape Contractors Board (to name a few), to more than triple the number of e-commerce transactions. This secure, online environment provides citizens a new level of convenience and accessibility to state government products and services.
- **E-Procurements:** The approved 2003-05 budget for the Department of Administrative Services included an overhaul of the state's e-procurement technology platform – called the Vendor Information Program (VIP). The new system, Oregon Procurement Information Network (ORPIN), is on schedule for pilot testing by the State Procurement Office staff and five agencies. Starting December 2004, remaining agencies will migrate to ORPIN and once migrated, VIP will be decommissioned. ORPIN enables the state and vendors to use web technology to bid and procure products and services, which will streamline and enhance accountability for contracting in state government by also giving access to public contracting information.
- **E-Government:** An e-government project was launched in 2003 to enable all agencies to use the same Web platform, have a common look and feel (brand), and move the management of information from technology staff to business and communications staff. This results in cost-avoidance of new staff and the availability of real-time information. Agency content is being migrated from existing Web sites into the new framework for Oregon.gov and is scheduled to be complete by December 31, 2004. This project also provides a statewide Intranet and other electronic capabilities that will be invaluable tools for state employees.

Reforming State Government

Protecting Oregon's economy and ensuring state government is accountable to the people of Oregon remain two of the Governor's top priorities for Oregon's future. When high standards of integrity and transparency are not met, the Governor has consistently put the interests of the people above politics by making changes in state agencies so that the confidence of the citizenry is strong. In his first two years in office, the Governor made sweeping changes at both the Lottery and the State Accident Insurance Fund, recognizing the important economic drivers they both provide for the state, as well as the need to make reforms to ensure those benefits continue to be realized in an efficient and open process that meet the highest ethical standards the people of Oregon expect and deserve from state government.



History

This Governor's Recommended Budget for the 2005-07 biennium represents a new way of budgeting for Oregon. Instead of basing recommendations solely on expenditures of the past budget cycles, the Governor based his recommendations on how these investments will position Oregon for the future. However, as we plan for the future, it is important to understand the history and to identify the patterns that contributed to the trend of fiscal insecurity that has developed in Oregon over the past decade.

To reverse the trend of instability, we must understand the answers to two fundamental questions:

- What were the economic issues and drivers that resulted in one of the worst recessions in Oregon's history?
- What happened to the revenue that the state collected during the thriving economic times of the 1990's?

Economic Issues and Drivers

A number of issues caused both the national and state economies to go into recession after a decade of unprecedented growth. These include:

- Stock market correction and lack of consumer spending.
- Terrorism and war.
- Oil price increases.
- Dramatic increases in healthcare costs.

For Oregon, the recession was particularly deep due to a number of factors, including:

- The far greater role that durable goods manufacturing plays in Oregon's economy than it does for the nation as a whole.
- The volatility of the state tax base due to our heavy reliance on income tax.
- The export economy.

Ultimately, Oregon had one of the nation's highest unemployment rates for much of the recession. This has a more severe effect on state government resources than in many other states because of Oregon state government's reliance on money received from income taxes. If Oregon businesses aren't successful and Oregonians aren't working, we all – citizens and government alike – struggle to make ends meet.

The good news is that the economy is recovering. Oregon has many competitive advantages that position us for a bright economic future, including:

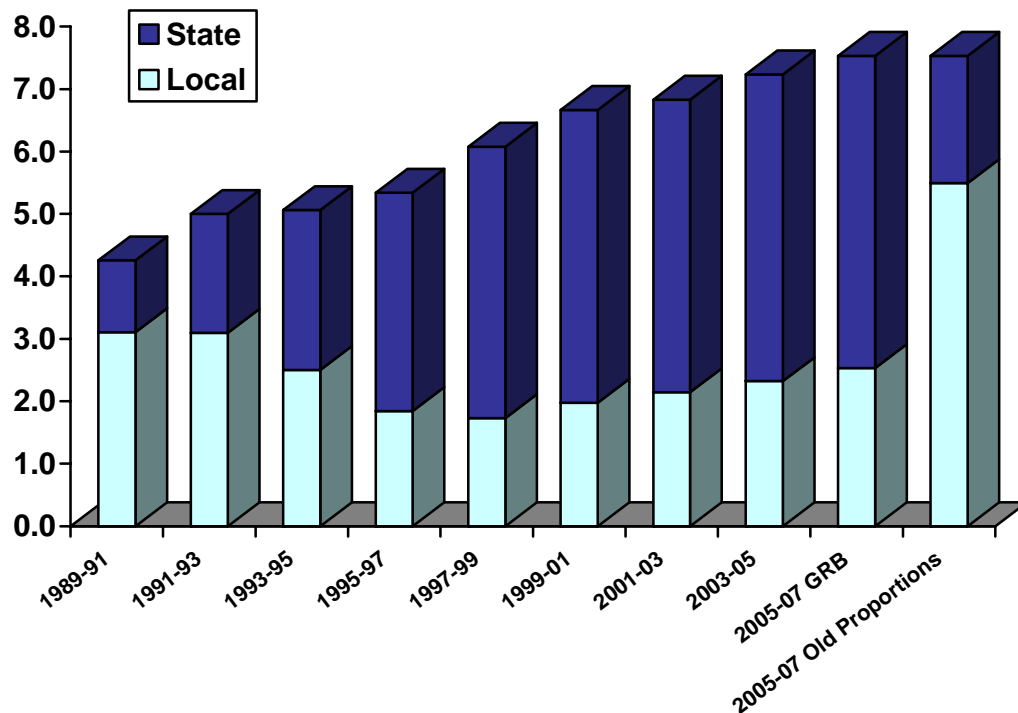
History

- Business cost advantages such as lower workers compensation rates than other states, lower energy prices, multi-modal transportation options, and lower corporate tax burden than other states.
- A high quality of life – attracting business and financially secure workers and retirees because of the environment and other issues that make Oregon an attractive place to live and work.
- Affordable housing, particularly in comparison with neighboring states California and Washington.
- Recovery and expansion in the high-tech industry.
- Increased presence in the international community – global recovery of economies will increase demand for Oregon commodities.
- Sustainable development – centered in the Portland area, this movement in the building practices is spreading throughout the United States.

Increased Spending During the 1990's

The three primary areas of state growth during the 1990's were in K-12, public safety and the Oregon Health Plan.

State and Local K-12 Funding After Ballot Measure 5



The specific drivers behind state growth were:

- Population Growth – Oregon was the 11th fastest growing state in the nation, which drove increases in the number of citizens receiving government services.
- Initiatives – A number of voter-passed initiatives required government to provide new or enhanced services or reduced taxes to pay for services. For example, Measure 11 led to an increase in prison construction and operations costs.
- Policy Decisions – Budgets passed during the 1990s included funding for new or enhanced services, including the Oregon Health Plan to expand health services for more uninsured Oregonians than were covered by the traditional Medicaid program.
- Court Decisions – A number of court decisions required the state to pay judgments or establish increased service levels.
- Inflation – The increased cost of doing business associated with rising prices for certain products or services also affected government, particularly in the health care area.
- Voters had little tolerance for new sources of revenue.

The Kicker

The kicker is frequently talked about during budget discussions but it is also often misunderstood. The kicker law was first passed by the Legislature in 1979, along with a spending limit and a tax relief plan. In 2000, voters approved a constitutional amendment placing much of the kicker statute in the Oregon constitution.

The Two Percent Surplus Kicker Law divides the General Fund into corporate revenue and all other revenue. If actual collections for a biennium exceed the Close of Session forecast (from nearly two years before) by two percent or more, all money above the forecasted amount is returned to the taxpayers (either personal or corporate).

Since the kicker has been in effect, the personal income tax trigger has been exceeded eight times. Personal kicker refunds/credits have been distributed on seven occasions for a total of \$1.7 billion. The corporate kicker has “kicked” six times, with distributions made to corporate income tax payers five times, for a total of \$444 million. Faced with Measure 5 budget problems, the Legislature suspended the kicker in 1991 and 1993. Five times, including the current biennium, recessions have occurred and revenue has fallen short of the two percent trigger.

The kicker law, in effect, is a temporary tax rebate when the economy is doing well. In the business world, this would mean that any times sales exceeded expectations all income above those expectations would go back to the stockholders or to the consumers and none of that unanticipated growth would go into a reserve or into investment in the company to generate future profits.

When revenues fall short of projections, as it did during the last three years, the kicker has no effect. There is no mechanism in place for an automatic tax adjustment when the economy grows at a slower rate than anticipated so the state must reduce budgets, raise taxes, or find other temporary funding mechanisms.

History

A corporate kicker is currently anticipated for 2005-07 in the amount of \$43.3 million.

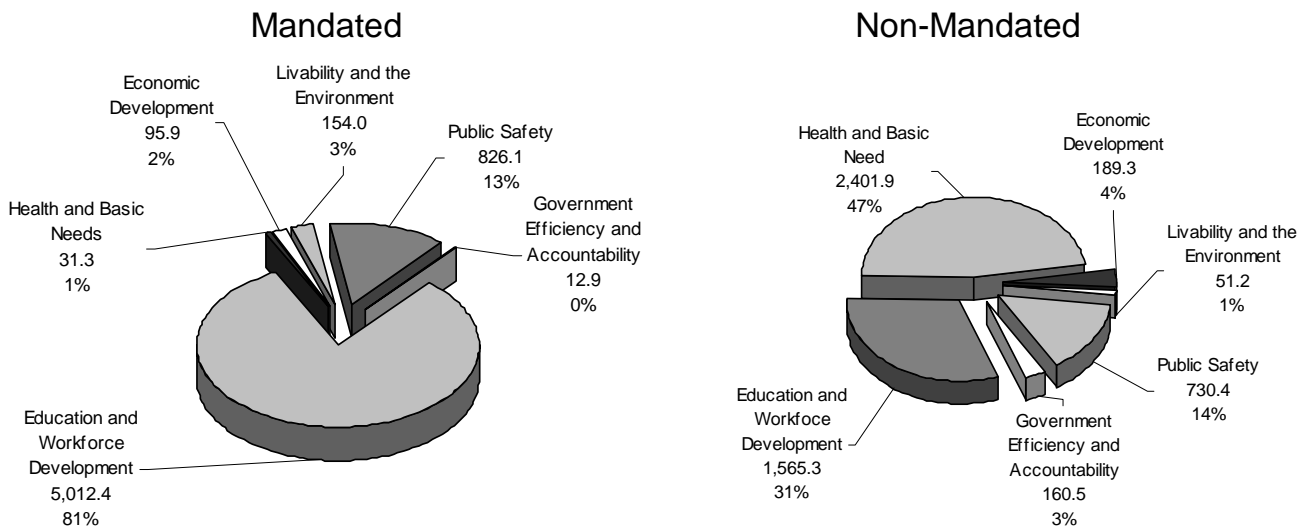
Mandates

Over time, more of the state's General Fund budget has become devoted to mandates. There are mandates that cannot be changed by the Governor or the Legislature: constitutional initiatives or referendums, federal law, court decisions, and debt service. In most cases, a service or program is required, but the specific service level and how much it costs to fund that level is negotiable. For example, the Oregon Constitution provides for a right to a K-12 education, but it does not specify how much money is devoted to this education or what kind of quality is required. However, the state constitution was modified in 1990 with Ballot Measure 5 to shift the burden for the primary funding of K-12 from local property tax to state income tax.

Other requirements specify a dollar amount that must be spent. For example, federal "maintenance of effort" requirements establish that if the state wants to participate in a certain program receiving federal matching funds, the state must dedicate a specific percentage or amount of money to qualify for participation. With "maintenance of effort" programs, the state could opt out to reduce costs, but the federal dollars provided would not cover the operating costs for the program.

The Governor's 2005-07 budget funds all mandated programs first, but remains committed to ensuring all taxpayer dollars – state and federal – are invested within the legal requirements to achieve the greatest results for the people of Oregon today and for our future.

General Fund / Lottery Funds By Principle





The Future

The decisions we make not only affect state programs and services today, but as we know from our state's fiscal history, they can also have a lasting impact on the direction of our state far into the future.

That is why it is important to not only make decisions based on our immediate needs, but to have a vision for where we want Oregon to be in the coming decades; to be able to identify what we can do today to move us closer to those goals of a strong economy; to ensure fiscal discipline and security, and an accountable government; and to be a state prepared to address future trends and changing needs that could impact the quality of services and life for the citizens of Oregon.

Discipline and Stability - Building a Rainy Day Fund

General Fund dollars are most frequently discussed for two reasons: most of the money comes from the individual and corporate income tax, and because it is the primary source of funding for education, health and human services, and public safety – all issues very important to Oregon's citizens and communities. Because our current revenue structure is volatile, it is an important safety-net for the state to establish a stability fund for the critical programs and services funded with these dollars. If we make hard choices today - and if elected leaders and citizens alike draw the line on how much we spend - Oregon has the opportunity to create new stability for the future.

The Governor's recommended budget spends \$11.1 billion of the \$11.2 billion in General Fund revenues over the next two years based on the most recent economic forecasts. The last \$100 million is set aside for emergencies during the interim between legislative sessions. At 1 percent of revenues, this is an insufficient reservation of funds for emergencies or to protect against fewer revenues coming in than projected.

However, if we make and stick to the hard choices today and live within the ongoing General Fund revenues that we expect to collect under the current tax structure, we can begin to support a true rainy day fund in 2007-09. By 2009-11, we would not only have a rainy day fund; we could have almost \$500 million per biennium available for investment in our future.

If we choose to adopt the practice of many other states - and that Oregon has chosen in the past - and rely on borrowing, putting off payment, or using a windfall for ongoing operations, the difference is astounding. Instead of beginning to amass savings for our future, we will continue to talk about "shortfalls" in 2007-09 and will not be able to begin investing in a rainy day fund until 2011-13 or even 2013-15. We must ask ourselves if one-time money today buys us the Oregon we want tomorrow. The Governor believes the answer is a resounding "no." At best, if Oregon continues down this path, it would be just one more band-aid instead of a real investment plan for our future.

The following charts illustrate two visions for the future. The first is a vision of stability and investment. The second is a preview of what we lose when we do not make deliberate choices with an eye to the future.

Rainy Day Fund Projection (in Millions of Dollars)
No One-Time Money Used

	<u>2005-07</u>	<u>2007-09</u>	<u>2009-11</u>	<u>2011-13</u>	<u>2013-15</u>
Beginning Balance	91	100	125	140	158
Revenues	11,130	12,543	14,048	15,763	17,688
One-Time Revenues	0	0	0	0	0
Expenditures	11,137	12,110	13,306	14,616	16,093
Rainy Day Fund (4 percent of Revenues)	0	502	562	631	708
Ending Balance/ Emergency Fund (1 percent of Revenues)	100	125	140	158	177
Investment for PreK-16	0	0	496	1,061	1,499
The Rainy Day Fund Goal of 4 percent of revenues would not be filled until 2009-11 biennium. The 2007-09 Rainy Day Fund would be \$408 million.					

Rainy day Fund Projection (in Millions of Dollars)
\$600 Million One-Time Money Used

	<u>2005-07</u>	<u>2007-09</u>	<u>2009-11</u>	<u>2011-13</u>	<u>2013-15</u>
Beginning Balance	91	100	125	140	158
Revenues	11,130	12,543	14,048	15,763	17,688
One-Time Revenues	600	0	0	0	0
Expenditures	11,737	12,764	14,019	15,393	16,940
Rainy Day Fund – Goal (4 percent of Revenues)	0	502	562	631	708
Rainy Day Fund - Actual	0	0	14	367	708
Ending Balance/ Emergency Fund - 1 percent of Revenues	100	125	140	158	177
Investment for PreK-16	0	(246)**	0	0	388
** Represents a shortfall for 2007-09.					

The Future

If we somehow “found” another \$600 million in one-time money and used it to pay for ongoing programs or services, we would once again set the stage for a discussion of budget shortfalls and lack of ability to make key investments for years to come.

That's why - if one-time money becomes available - the Governor believes that building an appropriate reserve should be our first priority.

Financing with Debt

Using the state's good credit is not inherently a bad thing. It becomes a bad thing when it is used to “just make it through this biennium,” or because it becomes necessary because of the lack of fiscal discipline when it is needed. The wise use of our debt capacity for strategic investment purposes is actually good for Oregon. If the investment results in increased sustainable family wage jobs or creates an asset that far outlives the initial cost of investment, Oregonians win. This budget recommendation does include targeted investments using the state's debt capacity, including:

- Postsecondary infrastructure.
- Prison construction.
- Multimodal transportation.
- Data center consolidation.
- Project-ready industrial sites.
- The Oregon Nanoscience and Microtechnologies Institute (ONAMI).

While there is not a specific package included at this time for an investment by the state in stem cell research, the Governor is interested in working with OHSU, the Legislature, the federal delegation and the private sector to help make Oregon one of the centers of progress for stem cell research. This may prove to be an area where it would be appropriate for the state to use some of its bonding capacity to make an investment because it would immediately create jobs for Oregon, as well as promote research that holds real promise for finding cures for diseases such as Alzheimer's, Parkinson's, Diabetes, and spinal cord injuries.

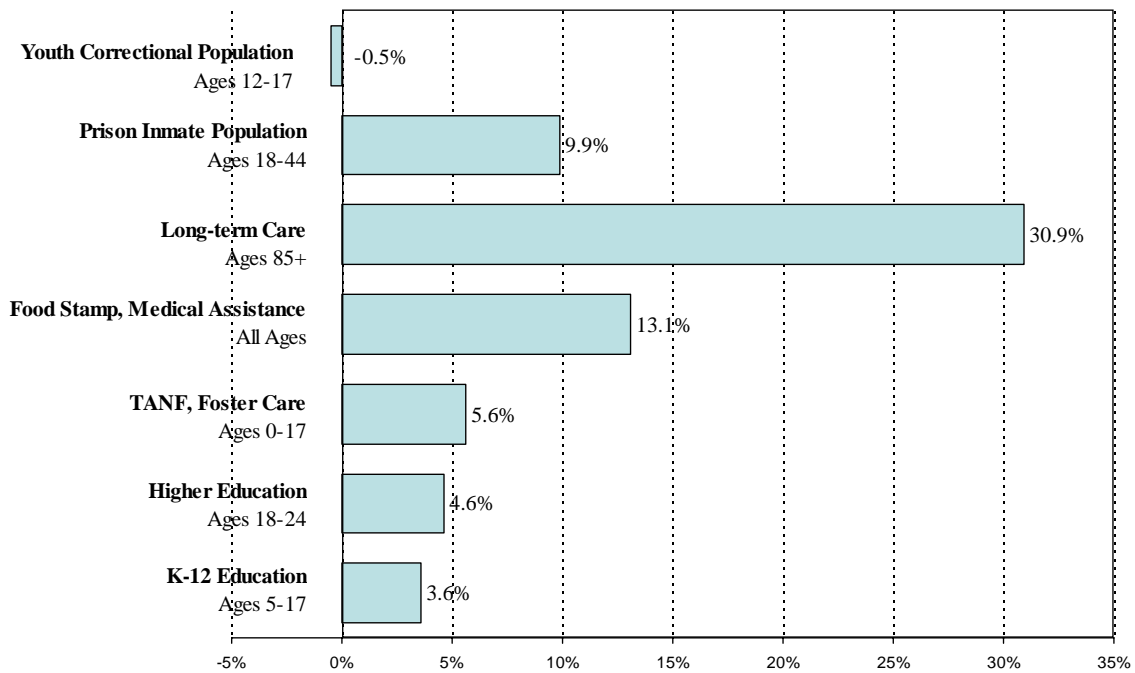
Demographic Projections

The changing demographics of the state's population are a factor in planning for the future. The state's population is growing, but not at the rate Oregon experienced during the 1990's.

- Children and younger adults (18-45) will be the slowest growing part of the population
- Young elderly (65 to 74) and those over the age of 85 will be the fastest growing parts of the population, with the group over 85 being the fastest growing
- The prison population will grow by almost 40 percent, from almost 13,000 inmates to over 18,000 inmates.

These demographics mean the fastest growing segment of the population is the most expensive to serve under current programs.

Projected Change in Budget Driver Populations 2005-2015



Sources: Census Bureau; OR Office of Economic Analysis

Office of Economic Analysis

Future Risks (Upside and Downside) to the Budget

One thing we know about the budget is that it will change. The future always brings surprises, both good and bad. The Governor is confident that the strategies in this budget prepare us to address future challenges and opportunities by creating a framework of investment and raising the level of our vision.

We must be as prepared as possible for what may not go as well as we would like – as well as ready to make the most out of good fortune and positive returns on our investments.

Upside Risks (Opportunities) Now Facing Oregon's Economy:

- Initiatives – Voter-passed initiatives that increase or allow an increase in revenues or reduce demand for services from government could result in increased revenue for the state or decreased expenditures.

The Future

- **Population Growth** – An influx in human talent and increase in population due to job and economic growth through strategic investments in the economy can result in increased revenues for the state.
- **Health Care Costs** – Finding ways to reduce the cost of health care would save money for government as an employer and as a service provider in the health care field.
- **Geopolitical** – End to the war in Iraq or a decreasing presence could add a greater sense of security and could lead to increased consumer confidence and spending.
- **Bond Rating** – An improved bond rating results in lower interest costs on government issued debt.
- **Economies of Scale** – Continuing to find operational efficiencies would result in reduced overhead costs.
- **Business Recruitment** – Improved recruitment and retention of private businesses in Oregon above what is forecasted would lead to increased revenues.

Downside Risks (Liabilities) Now Facing Oregon's Economy:

- **Initiatives** – Voter-passed initiatives that reduce or restrict revenues or mandate a new or enhanced service from government add more demands to the state's budget.
- **Population Growth** – A growth in population could mean an increased demand for government services, especially in mandated areas like PreK-12 education.
- **Health care Costs** – If inflation on health care continues to increase it will put increasing pressure on the state budget especially given demographic projections indicating a large growth in the 85 and older population.
- **Geopolitical** – Increased concern and longevity of the war in Iraq could result in further travel disruptions, oil supply issues, and further harm consumer confidence.
- **Bond Rating** – A downgrade in the state's bond rating would cost the state money through increased interest rates on government issued debt.
- **Stock Market** – A sharp and major stock market correction could slow consumer spending and business profits, which could result in less revenue for individual Oregonians and state government.
- **Federal Mandates** – If the federal government requires additional expenditures from states or lowers matching rates for their contribution to government programs, the cost to Oregon would increase.

ONLINE RESOURCES

Governor's Website: www.Governor.oregon.gov

Governor's entire recommended budget; state agency programs organized by the Oregon Principles; details on program outcomes and value to citizens; and other tools to help the public understand the budget.

Oregon Progress Board: egov.oregon.gov/DAS/OPB/

90 Oregon Benchmarks, organized by Oregon Principle, measuring Oregon's progress towards the Governor's long-term vision.

Oregon Office of Economic Analysis: www.oea.das.state.or.us

Forecasts of the State's economy, revenue, population, Corrections Population, and Youth Authority Population.

Oregon Labor Market Information System: www.qualityinfo.org

Oregon Employment Department's information resources, including monthly employment and unemployment data organized by industry and region of the state.

Budget and Management Division: www.oregon.gov/DAS/BAM/

Detailed information about the Governor's recommended budget for this and past biennia; explanation of the budget process; and the Governor's budget instructions to state agencies.

Oregon Economic and Community Development Department: www.econ.state.or.us/

Information about state economic development initiatives; includes county economic data; Oregon economic indicators; resources for business expansion, creation and relocation; and resources for local community infrastructure development.