

2019 - 2021

TURNING POINT An Agenda for Oregon's Future

GOVERNOR'S RECOMMENDED BUDGET
AND POLICY AGENDA



Governor Kate Brown

Kate Brown



TURNING POINT

AN AGENDA FOR OREGON'S FUTURE

Oregon is at a turning point. Hundreds of thousands of people have moved here in the past 20 years, and a million more are on their way. We've done some good things over the years, but our state is changing, and changing rapidly. With the aging of Oregon's baby boomer generation, and the impacts of recent dramatic federal tax changes and burgeoning federal deficits exacerbating these changes, one thing is clear: we can no longer do things the way we have in the past. We must grow up as a state, and we need to decide—together—what we want to be over the next 20 years. The challenges of affordability, of educating our kids, of mitigating the effects of climate change, and of maintaining a strong democracy will not get better unless we change our approach.

Our current strong economy gives us the best chance in a generation to address persistent, structural challenges so we can achieve our full potential. We must accept this challenge now, while the economy is good.

This budget represents both my priorities for the operation of state government over the next two years, and my policy agenda as Governor. The juncture our state is at demands that our state government act now on the values that all Oregonians share:

1. **We must renew and strengthen Oregonians' faith in democracy.** While Oregon is at the forefront of voter access, to maintain a strong democracy, we must take further actions to reduce the flow of money into politics, increase accountability, and ensure voter accessibility.
2. **We must spend every dollar wisely.** I have worked for the past several years to hold state government accountable to carefully allocating taxpayer dollars, essentially squeezing every bit of toothpaste out of the tube before we buy more toothpaste. I am furthering that focus in this budget by streamlining state agencies, eliminating our permitting backlog, and modernizing state IT systems to operate more efficiently.
3. **We must address the affordability crisis.** For too many Oregonians, the costs of housing, health care, child care, and higher education have outpaced their ability to thrive. This budget makes a historic investment in housing, makes strides towards more affordable health care and child care, and works to match higher education with the skills employers need at costs Oregonians can afford.
4. **We must prepare for the future.** Now is the time to invest in common sense policy to address the root causes of poverty and addiction, to cap and reduce our state's greenhouse gas emissions at the least possible cost, and to increase our preparedness for a Cascadia-level earthquake.



5. **We must finally fix our underfunded education system.** In addition to my proposed base budget, I have added a \$2 billion education investment package that will transform opportunities for our state and her people. From preschool to K-12 to universities and community colleges, my plan aligns with the priorities of the Student Success Committee and the Oregon Business Plan. This is emblematic of the broad agreement among Oregonians that we must address the long-term structural obstacles to improving our education system.

My values of accountability and promoting opportunity for all Oregonians, particularly rural residents, communities of color, and low-income communities, are the lens through which this budget was crafted.

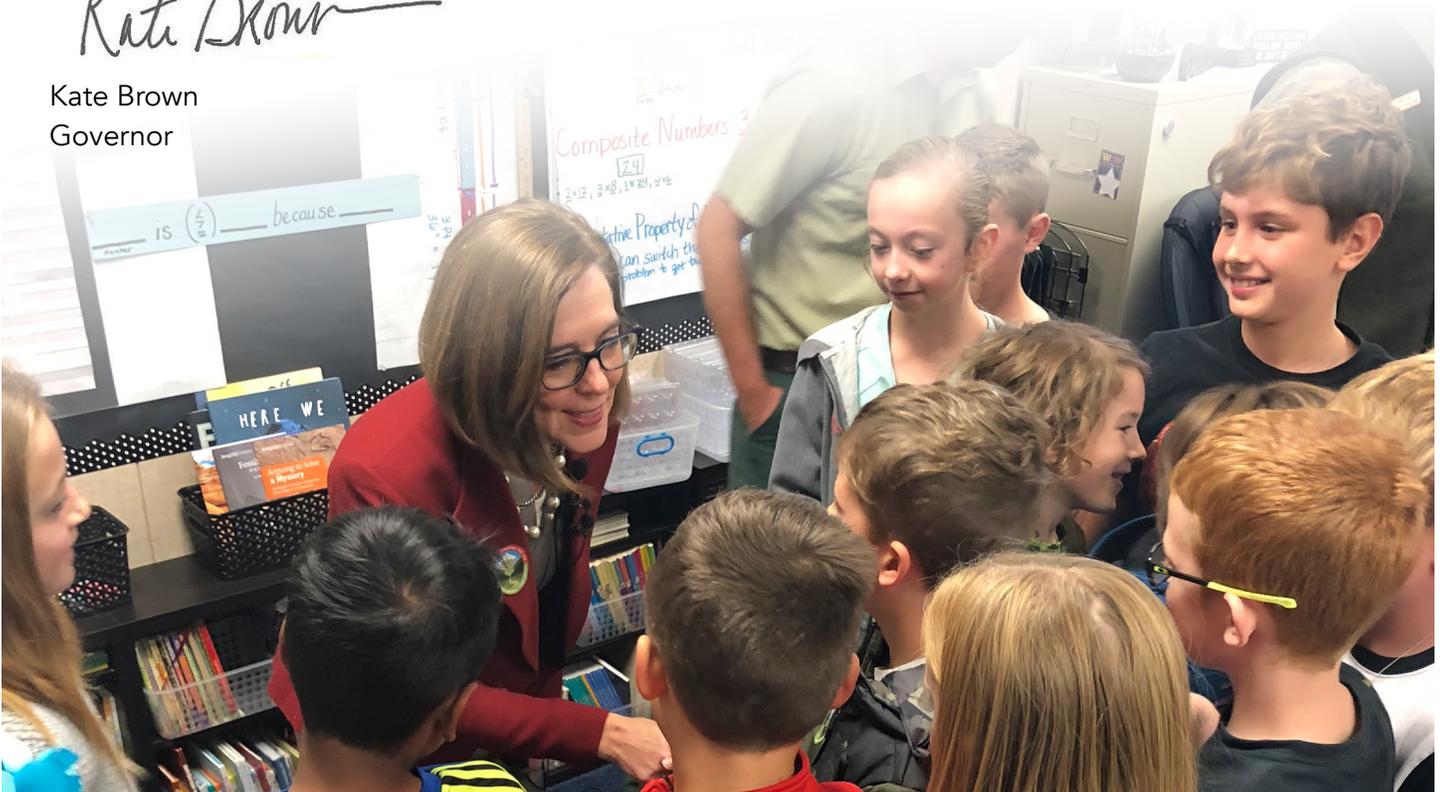
It was also crafted with the understanding that states can no longer count on a strong partnership with the federal government to achieve mutual goals. Rather, Oregon must work independently and with other states to navigate our relationship with the federal government when protecting the values Oregonians hold.

Never has Oregon's motto rung more true, "She Flies with Her Own Wings."

My budget finds inspiration in this pioneering spirit in securing a promising future for the next generation of Oregonians.



Kate Brown
Governor



Turning Point: An Agenda for Oregon’s Future

2019-21 Governor’s Recommended Budget

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www.actionplanfororegon.gov

Defending Democracy



Voting is our country's greatest collective responsibility, and we must work continuously to safeguard the sanctity of our elections. However, across the country, the fundamental right of voting itself is increasingly at risk. More states are moving to obstruct voting rights than are increasing access to the ballot.

Oregon's elections institutions are among the best in the nation, but we must continue to fortify and refine this infrastructure to ensure that every voice is heard, that no one voice is more important than another, and that Oregonians always feel empowered to speak up and vote.

CAMPAIGN FINANCE REFORM

Across the country, and in Oregon, a wealthy few seek to unduly influence the electoral process. Moreover, this influence is mired in shadows as wealthy donors move money in ways voters are unable to track. After the 2010 Supreme Court case *Citizens United*, Oregon saw record political fundraising, and the influence of dark money seeped into the electoral process. We must restrict the flow of immense contributions into campaigns and we must expose the big money that wealthy donors seek to hide. Governor Brown's primary goals are to:

- Refer a constitutional amendment to the ballot so that voters in the future can approve the ability to impose campaign finance limitations in Oregon elections.
- Pass legislation to allow Oregonians to follow the money in real time for both candidates and ballot measures. Technology allows reporting of campaign transactions almost immediately, which is especially important leading up to an election.
- Form a task force comprised of experts to examine dark money groups who use loopholes in the tax code to hide donors, and recommend legal pathways to expose those who seek to hide this political influence.

STRENGTHEN VOTING RIGHTS

Oregon was the first state to pass automatic voter registration, which allows for any eligible person who signs up for a driver's license or identification card to become automatically registered to vote. This law makes Oregon the most modern, efficient, and secure state to vote in the country. Seventeen states and the District of Columbia have since adopted some form of automatic voter registration.

This advantage should not just be limited to interactions with the Oregon Driver and Motor Vehicles Division. Any state agency interaction should allow eligible voters to easily register. Whether accessing health care, signing up for classes, applying for financial aid, or getting a license to fish, every eligible Oregonian should be given the opportunity to vote in the next election.

- The Governor's Office will work with state agencies and the Secretary of State to give full force and effect to the Automatic Voter Registration law, ensuring that the information of eligible voters is securely sent to the Secretary of State to be added to the voter list.

vote!

PRE-PAID POSTAGE ON BALLOTS

While Oregon's vote by mail system is one of the most innovative ways any state has increased voter access, it's also hobbled by something less modern: the postage stamp. Many people who have disabilities, military personnel serving outside of Oregon, young voters, rural voters, and people on a fixed income have an increased disadvantage to accessing or finding postage. When Oregon is on the forefront of ensuring that every eligible voter has a ballot, we must also ensure those ballots can be returned at no additional cost to Oregonians.

- Governor Brown's budget fully funds this program with \$2.7 million. Secretary of State Dennis Richardson is a partner in this effort.

CENSUS

Every decade, the federal government undertakes the national census, and states are constitutionally mandated to apportion their districts accordingly. As the end of another decade nears, and as actions by the federal government instill ever-greater fear in our nation, Governor Brown has added a Census Project Manager to her administration. The Census Project Manager role is housed in the Governor's Office to safeguard the process and to ensure a complete and accurate count in Oregon. The position leads statewide outreach campaigns and collaborates with local partners and stakeholders to engage with Oregonians of all creeds, colors and codes, especially communities of color, immigrant and refugee communities, and rural communities who are traditionally undercounted. The accurate data will help Oregon's tribal, state, and local governments to receive a fair share of the more than \$675 billion annually in federal funds that support schools, hospitals, roads, local programs, services, and emergency response. Additionally, census data will be used in redistricting the state's legislative districts in the future.

OREGON DEFENSE FUND

Over the past two years, it has become clear that the priorities of the federal government are increasingly conflicting with the values of Oregonians. When federal authorities advance such policies, the only recourse for the state to protect and support Oregonians has often been through legal action. The continuation of these unprecedented circumstances call for a more structured response infrastructure within state government's legal apparatus. Governor Brown is dedicating \$2 million in funding for legal action against the federal government to support Oregon values and prevent retaliatory practices in response to these actions.

Smart Government



SPENDING EVERY DOLLAR WISELY

Oregon's government should be as innovative and efficient as the people it serves, a government that delivers services effectively while being wise with the use of every taxpayer dollar. In the past few years, Governor Brown has challenged state agencies and other statewide elected leaders to look for both short-term savings and ways to address long-term cost drivers throughout state government.

At Governor Brown's direction, agencies have adopted policies to freeze hiring, reduce travel expenditures, and optimize facility usage. In total, state agencies have saved nearly \$500 million since 2015. But in working with the Oregon Department of Administrative Services to closely evaluate state agency operations, it has become clear that it is not nearly enough just to tighten belts. The state must continually push to reduce administrative overhead and protect dollars that provide direct services to Oregonians. That means state government must have a culture that is open to change and innovation, constantly evaluating existing systems and processes, and then make changes when opportunities arise—even when it's difficult to do.

The major priorities in Governor Brown's budget includes major priorities related to improving the operations of state government.

ELIMINATING BACKLOGS IN PERMITTING AND INSPECTIONS

To live safe and productive lives, Oregonians depend on a successful relationship between Oregon businesses and the state agencies that regulate them. From assisted living and child care facilities, to food safety, to water and air emissions, this relationship is critical to the safety and success of millions of Oregonians and thousands of Oregon businesses. Once regulations are finalized by policymakers, state agencies must both fairly enforce them and provide consistent and timely processing of permit applications and facility inspections.

Unfortunately, the state currently has backlogs in various permitting and inspection programs. One goal of this budget is to prioritize eliminating them. Specifically, Governor Brown is proposing investments at the Oregon Department of Human Services, the Oregon Department of Environmental Quality, and the Early Learning Division to eliminate existing backlogs in the areas of child care and assisted living center inspections, food safety inspections, and water and air permitting.

By early 2019, the Governor's Office will issue a report of all critical permit and inspection backlogs and a plan to reduce or eliminate them in the 2019-21 biennium.

IT MODERNIZATION

The state provides numerous services to help Oregonians live healthy, fulfilling lives. From enrolling in health care to managing the criminal justice system, to tracking student progress in school, Oregonians depend on software systems to deliver these services. Over the past year, the Office of the Chief Information Officer has worked with state agencies and the Governor's Office [to improve how the state evaluates and procures IT](#). This budget includes significant investments in IT systems that are critical to the delivery of state services and should also improve efficiency and customer service.

These systems include:

- An unemployment modernization system for the Oregon Employment Department to improve services to both employers and people seeking employment
- A new Juvenile Justice Information System for the Oregon Youth Authority
- An Electronic Health Records system for the Oregon Department of Corrections to dramatically improve efficiency in health management for adults in custody
- Continued progress on the Driver Motor Vehicle Services Modernization System to provide improved service to all drivers in Oregon
- Investments in centralized IT Security throughout state government to improve overall security throughout the state's IT systems
- Cloud-based Human Resources and Training systems for the state's 40,000 employees.

Earlier this year, the Governor's Office issued a policy agenda on [state information technology](#).

SMART PROCUREMENT

Oregon's state agencies spend roughly [\\$8 billion each biennium purchasing goods and services](#). This amount represents approximately 10 percent of the entire \$80 billion state budget—close to the

amount of state funds spent on the K-12 education system. Creating efficiency in procurement brings a tremendous opportunity to save money, opening up more state funds to be spent directly on education or critical social services that help Oregon's families. This budget includes an investment in an enterprise procurement system called Oregon Buys that over time will eliminate purchasing systems that individual agencies have in favor of a statewide system to drive lower costs.

Earlier this year, the Governor's Office issued a policy agenda on [improving state purchasing](#).

EVOLVING AND IMPROVING STATE AGENCY ACCOUNTABILITY

We must continuously evaluate the structure of state government to make sure we are set up in the best way possible to tackle our biggest challenges. In this budget, Governor Brown is proposing two significant changes.

Eliminate Chief Education Office and move functions to existing offices

The Chief Education Office sunsets statutorily on June 30, 2019. The interagency and cross-sector functions of the Chief Education Office are critical to achieving the Governor's vision of a seamless system of education and will be assumed by the Governor as Superintendent of Public Instruction. Under the Governor's direct leadership and authority, continued reform of state government functions to improve student opportunity and outcomes, and greater accountability across the education system will be achieved. The Educator Advancement Council will remain an innovative and independent public-nonprofit partnership supported administratively by the Oregon Department of Education. The Statewide Longitudinal Data System and its research functions are transferred from the Chief Education Office to the Office of the State Chief Information Officer (OSCIO).

Create the Oregon Climate Authority and Eliminate Two State Offices

The Governor's budget reflects the importance of climate issues and carbon policy, while understanding the value of existing energy policy and programs. To integrate these objectives, the Governor's budget creates a new agency to align Oregon's climate and energy policies and ceases the operations of the Carbon Policy Office and Oregon Department of Energy. Through administrative changes, the new entity will result in a 25 percent reduction in the Energy Supplier Assessment currently paid by Oregon utilities. The Oregon Climate Authority will include the new carbon marketplace, greenhouse gas emissions reporting and accounting, energy markets data collection and analysis, as well as energy programs central to the state's climate and clean energy goals.

Hire Internal Auditors in 13 Agencies to Improve Accountability

Following up on a 2017 audit from the Secretary of State, which recommended additional internal auditing staff, the Governor is proposing the hiring of internal auditors in 13 state agencies to improve accountability. Internal auditors play a critical function of catching potential issues related to compliance, fraud, or mismanagement early on. The Governor's budget is also recommending an internal auditor for the Oregon Department of Administrative Services to coordinate and track internal auditing functions throughout state government.

Specific Agency Actions Related to Improving Accountability and Right-Sizing Agency Structures

Throughout the Governor's budget there are recommendations in individual agencies to improve operations, accountability, and organizational structure to respond to caseload. Specific examples include:

- Oregon Youth Authority: eliminate 60 community services residential beds that have been contracted for but rarely used
- Oregon Department of Human Services: eliminate the Stabilization and Crisis Unit Elliott Homes
- Oregon Department of Forestry: add a compliance expert to improve reimbursement from FEMA for forest firefighting costs
- Oregon Department of Corrections: add 12 positions for hospital security watches to reduce overtime costs associated with regular corrections deputies performing these duties

Repair, Reform, and Reinvest in Education



A PATH FORWARD FOR OUR UNDERFUNDED SCHOOLS

Governor Brown's [vision](#) is for a seamless system of education from cradle to career where every student graduates high school with a plan for their future, and teachers have the tools they need to help our students succeed.

Oregon's education system was once a point of pride for Oregonians across the state, a promise that our children would receive a world-class education and have the opportunity to achieve their dreams. But over the past three decades, Oregon has failed to keep its commitment to our children by not significantly increasing spending per student since the early 1990s.

How our state provides for the needs of children is a marker of who we are as a community, and after years of underinvestment, it will take more than additional funding to bring our schools back to the level Oregon can be proud of. We must repair the education our children receive with targeted programs that lead to success in the classroom and support our teachers with the tools to help students thrive. We must reform the governance infrastructure that oversees our schools by increasing accountability and streamlining state agencies. And

we must reinvest in our education system to improve education outcomes across the state.

Education can be transformational, both for students and our state as a whole. But, for Oregon students to experience this again, we must work together to make a commitment to our schools that our children deserve.

AN EARLY START TO ENSURE HIGH SCHOOL GRADUATION

To achieve her vision, Governor Brown's budget offers a comprehensive and complementary package of investments to put Oregon on a path to graduating every student in high school. No single solution is going to change the future of our students, so a multi-pronged approach is needed. We must set early, solid foundations for kids, with access to [high-quality preschool](#) for our highest-need families and manageable class sizes in kindergarten through third grade. As Oregon students progress through middle and high school they should [have access to hands-on, career-connected learning](#) and a jump-start toward a college degree. All K-12 students should have a [longer school year](#) closer to national norms, a [safe school environment](#) that supports learning, and [culturally-responsive](#)

[instruction and curriculum](#) that reflects Oregon’s rich diversity. And to ensure that additional classroom time is optimized, [teachers need tools](#) and [professional support](#) designed by educators, for educators.

FUNDING SCHOOLS AT THE LEVEL OUR CHILDREN DESERVE

In the past, Oregonians considered the state’s education system as one of our greatest assets. However, for most of the past three decades, Oregon has continued year-after-year to underfund its K-12 system. Since the passage of property tax limitations in the early 1990s, [funding per student in Oregon has decreased overall](#). While other states were able to invest in schools and take advantage of the economic recoveries in the early 2000s and of this decade, Oregon has had to rely on state funds to backfill local property tax reductions.

Now, funding our schools requires a significant investment to finally bring funding to adequate levels and repair our schools. The most recent Quality Education Model report estimates that the

state is almost \$2 billion per biennium short of what districts need for a system of highly effective schools.

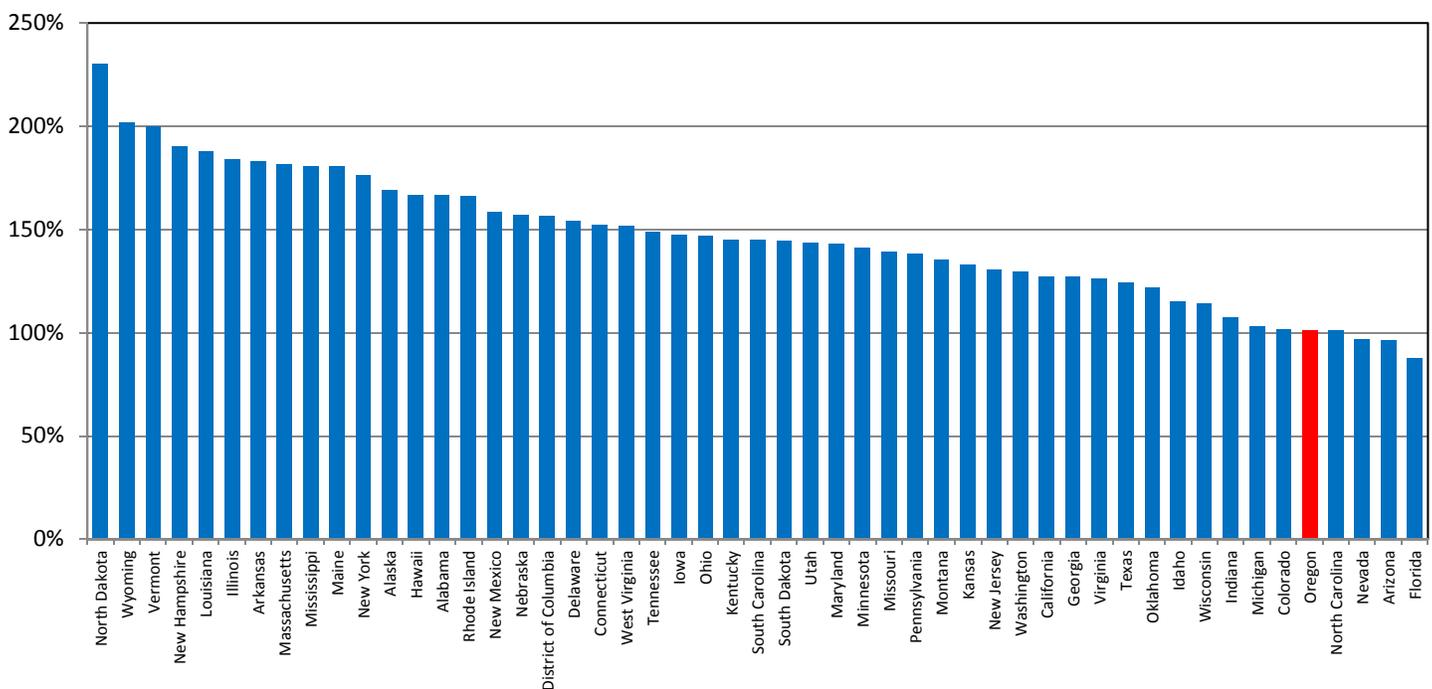
To begin to close this gap, Governor Brown expects the legislature to reform Oregon’s revenue system to adequately fund our education system.

Governor Brown’s historic reinvestment proposal includes significant expansion of preschool, increased time in the classroom, further increases in hands-on learning opportunities, and making college more affordable. Coupled with structural governance changes, these investments will help put all Oregon students on a path to graduate from high school with a plan for the future, with a focus on achieving equitable student outcomes and eliminating opportunity gaps.

Expand Kindergarten Readiness for 10,000 Additional Children

Research shows that children who start school lacking fundamental, developmentally-appropriate social and emotional skills are less likely to succeed in school and graduate. The benefits of high-quality pre-kindergarten and early childhood education programs are especially beneficial to children from

Percent Change in Per Pupil Expenditures by State, 1990-91 to 2014-15



low-income families. Between the Governor's budget and investment plan, an additional \$285.8 million expands access to high-quality preschool through Preschool Promise, and culturally responsive school readiness strategies through the Equity Fund (\$15 million) to 10,000 additional Oregon children. This investment also includes making Oregon Pre-Kindergarten work better for working families by increasing wrap-around services, like transportation, and converting nearly one-third of Oregon Pre-Kindergarten slots from half-day programs to full day. Recognizing the importance of nurturing development even earlier than preschool, the budget also includes \$10 million to expand access to quality child care for low-income families with babies and infants.

Smaller Class Sizes in Kindergarten Through Third Grade and a Full School Year for All Students

Oregon lags other states in the amount of time students spend in the classroom. In addition, large class sizes, particularly in early elementary grades, mean students do not get the attention they need when they are in school. School districts have struggled to make improvements in these areas because funding has not kept up with rising costs. Governor Brown's budget and investment plan aims to reverse this trend by providing an \$800 million increase in funding for K-12 to help all districts provide a 180-day school year and to reduce average class sizes in kindergarten through third grade for districts where class size exceeds nationally recommended standards. The investment in smaller class sizes and longer school years will be funded through a School Improvement Fund, which will have additional accountability requirements for school districts.

Expand Career Technical Education (CTE) and Career-Connected Learning for All

Making school relevant to students and engaging them with hands-on career learning opportunities helps to increase student engagement and, in turn, increase high school graduation rates. In addition



to helping students graduate, we must guarantee that every student is [future ready](#) and provided with a jumpstart toward a college degree or hands-on, career-connected learning tied to jobs in their community. Governor Brown's investment plan fully funds Measure 98 by investing an additional \$133 million in career technical education. It also invests \$70 million in CTE pathway programs at community colleges and universities. The budget continues to fund regional CTE and STEAM networks, which create partnerships between education and business to help prepare students for the jobs of tomorrow.

Make Oregon Home to the Best Teachers in the Nation

In order for students to be successful, we must support the educator workforce. Quality educators can be the single biggest driver to improve student outcomes. They are often the first to recognize and respond to trauma that students may experience, and they are often the first to recognize a learning delay. Evidence suggests that when teacher populations reflect the diversity of student populations, students do better in school through higher test scores, increased attendance, and increased graduation rates. Governor Brown's budget includes \$60 million for the Educator Advancement Council to create a statewide system to support, strengthen, and diversify the educator workforce.

Double College Scholarship Funds and Keep Tuition Rates Low

Making college affordable is critical to both our students and our economy. Governor Brown's investment plan invests an additional \$220 million in higher education support funds, which will allow Oregon's community colleges and public universities to keep tuition increases under 5 percent. However, the Governor recognizes that the current cost of college is still out of reach for many Oregonians. In her investment plan, she is nearly doubling the amount of money available through the Oregon Opportunity Grant, which is the state's largest need-based grant program for college students.

Addressing PERS Rates for School Districts

PERS is the promise of a secure retirement for thousands of public employees who spend their careers educating our kids, protecting our communities, and keeping us safe and healthy. In keeping this commitment, Governor Brown has focused on evaluating compensation for public employees from the perspective of total compensation, taking into account salary, health care, and retirement benefits holistically. She issued an [Executive Order](#) that clarified statewide bargaining policies, and the Governor's office worked with both private sector and union representatives to re-evaluate the methodology behind the biennial state compensation survey that the state uses to evaluate total compensation for employees. The new report is due for release by the end of 2018 and will guide the state in bargaining with state employees.

For our K-12 education system, we must stabilize PERS rates paid by school districts so that every new dollar from the Governor's proposed education investment package goes into the classroom to benefit students. To accomplish this, the state, school districts, and educators must work together to develop a shared solution. PERS estimates that to stabilize school district rates, \$1-1.5 billion is needed. In her budget, the Governor has dedicated \$100 million in state funds toward the school district PERS side account that was created in 2018 under

Senate Bill 1566. That, combined with anticipated dedicated funds, brings the fund to an estimated \$225 million. The Governor is committed to working during the 2019 session to identify the remaining funds needed to stabilize school district PERS rates.

Changing Structural Governance to Increase Accountability

While the interagency and cross-sector coordination the Chief Education Office oversees remains important to reaching the Governor's education vision, this can also be achieved by the Governor in her role as Superintendent of Public Instruction. The Governor's budget moves this function from the Chief Education Office to the Office of the Governor, and the Statewide Longitudinal Data System and its research functions to the Office of the State Chief Information Officer (OSCIO). The Educator Advancement Council will remain an independent public-nonprofit partnership but will be supported administratively by the Oregon Department of Education.

Accountability for Use of Investments

State government provides the majority of funding for school districts. Governor Brown is proposing the development of a new statewide audit to determine how funds are used at the state and local level to achieve the state's goals. The results of this audit will be shared publicly and integrated into longitudinal data studies to evaluate return on investment. The Governor believes that Oregonians deserve transparency into how tax dollars are spent, and she will work with Oregon's 197 school districts to develop plans by Spring 2019 to show what these new investments will mean for students in each community in the state.

Districts will also be asked to share their ideas for structural reform to reduce overhead and how they plan to invest new funding.

The investment in smaller class sizes and longer school years will be funded through a School Improvement Fund, which will have additional accountability requirements for school districts.

Keeping Oregon Affordable



Even as unemployment is at a record low, too many people in our state are struggling with the costs of basic needs. The ability to keep a roof over a family's head, afford adequate health care or child care, or pursue an education and train for the right job skills are increasingly out of reach for too many Oregonians.

HOUSING

There is no single solution—not one entity, or one person—that can solve the crises across the housing spectrum, from homelessness to stable rental housing to increasing homeownership. Coordinated responses are needed to bring together philanthropy, business leaders, developers, builders, and all levels of government to prevent people from slipping into homelessness, to get people quickly off the street, and to help all Oregonians access stable homes.

Read Governor Brown's [full plan](#) to address homelessness and the housing crisis.

Governor Brown's proposed housing budget includes a total of \$406.1 million in resources and investments, with a focus on housing stability for families with children, veterans, and the chronically

homeless, as well as accelerating the supply of housing throughout Oregon.

Prioritize Ending Children's Homelessness (\$298 million)

The current housing market has made it increasingly difficult for Oregon families to provide the basic necessities for their children's futures, including a safe and stable roof over their heads. The Governor's budget invests in a concerted, focused effort to end child homelessness. The major tactics and investments include:

- Increasing the supply of affordable housing by bolstering the Local Innovation and Fast Track (LIFT) Housing Program to build 1,700-2,100 units of affordable owner and rental housing with private and nonprofit housing developers: \$130 million
- Applying a portion of the recently increased Document Recording Fee (DRF) resources to continue providing additional gap financing for new construction of affordable housing: \$30 million
- Preventing and addressing homelessness by increasing and sustaining the Emergency Housing Assistance (EHA) and State

Homeless Assistance Program (SHAP) (\$44 million); applying recently increased DRF resources (\$6 million); and incorporating national best practices and outcome-oriented approaches to address the homeless crisis.

- Addressing child homelessness through a new interagency partnership between Oregon Housing and Community Services (OHCS) (\$14 million) and the Department of Human Services' Family Self-Sufficiency program (\$6.5 million) to make new investments and increase coordination to house Oregon families with young children who are experiencing unsheltered homelessness.
- Preserving 400 units of existing, publicly-supported affordable housing: \$25 million
- Seeding the "Acquisition of Naturally Occurring Affordable Housing Investment Fund" to acquire at least 450 units in multifamily housing properties that offer rents at or below market rate, but do not currently have rent or income restrictions, with the option to revolve funds and purchase additional homes in future biennia: \$15 million
- Maintaining the Individual Development Account program to help families build assets and find pathways out of poverty: \$7.5 million
- Providing tenant and landlord resources to build on successful strategies that help navigate tight, dynamic rental markets, including increasing low-income renters' access to private market rental housing; helping meet the housing needs of domestic violence/sexual assault survivors and their children; enhancing renters' access to legal resources; and providing landlords fair housing training: \$20 million

House Oregon's Veterans (\$22.2 million)

The 2017 Point-in-Time Count identified Oregon as having 1,251 veterans experiencing homelessness. As a result, Governor Brown called for an end to veteran homelessness, and this strategy continues efforts aimed at achieving that goal. OHCS and the Oregon Department of Veterans' Affairs partnered to initiate the development of a robust veteran homelessness delivery system across Oregon, including an interactive map of current veteran resources, the creation of a Veteran Homelessness Integrator position at OHCS, increased funding to Community Action Agencies and permanent housing, and the deployment of a pilot program providing community technical assistance and consultation.

- Apply recently increased DRF resources to functionally end veteran homelessness.
- Develop a comprehensive roadmap to prevent veteran homelessness, identify those experiencing homelessness, provide immediate shelter and crisis services, and quickly connect veterans experiencing homelessness to housing assistance and services (including earned VA benefits).

Invest in Permanent Supportive Housing (\$54.5 million)

One out of four people experiencing homelessness in Oregon is chronically homeless. Permanent supportive housing (PSH) is a best practice and proven strategy to stabilize people experiencing chronic homelessness. PSH combines non-time-limited affordable housing with wrap-around supportive services for people experiencing homelessness who also have disabilities.

- The Oregon Health Authority (OHA) (\$4.5 million) and OHCS (\$50 million) are collaborating to invest in PSH to create 500 new units of housing with supportive services across Oregon



Accelerate Growth of Housing Supply (\$31.4 million)

From 2000 to 2015, 23 states underproduced housing to the tune of 7.3 million units, which has created an imbalance in supply and demand that is reflected in home prices and rental rates. Oregon underbuilt 155,156 housing units during that fifteen-year period. The Governor's budget will invest in communities throughout Oregon to help accelerate the overall housing supply and ensure moderate income Oregonians have housing choices in the communities where they work.

- Launch the Greater Oregon Housing Accelerator to provide incentives to a minimum of three dozen collaborative partnerships between employers, housing developers, and communities statewide: \$15 million
- Modify the Housing Development Guarantee Account to lessen the risk for housing developers in rural communities: \$15 million
- Provide technical assistance resources through the Department of Land Conservation and Development to help communities be ready for development: \$1.4 million

HEALTH CARE

All Oregonians must have quality, affordable health care, regardless of who they are or where they live. Because we all share this belief, Oregon is a national

model for health care reform. Under Governor Brown's leadership, 94 percent of all Oregonians and 100 percent of children now have access to quality health care coverage. But coverage alone does not create health. Governor Brown's vision means that we must also improve the conditions in which Oregonians and their families are born, live, learn, work, and age. A central goal is to ensure that as we work toward improving the health of Oregonians, we fully integrate health equity, tribal, and racial justice into our focus on social determinants of health.

The pathway to improved health includes increasing connections between health care and early learning, human services, social support, and affordable housing to address social factors that influence health. A key strategy to achieving lower costs, better outcomes and better health is to reduce the silos in health care and connect Oregonians to integrated care. Physical health, mental health, and substance use disorder treatments and oral health services are too often delivered in separate, fragmented ways. By integrating these services, we can expand access to appropriate treatment at the right time and at the right place, and maximize the opportunity to achieve better health. Finally, a healthy population requires a 21st century public health system with the capacity and resilience to provide foundational public health services across the state, such as communicable disease control, chronic disease prevention, and emergency preparedness. For more details, read [Governor Brown's health care agenda](#).

Ensuring Oregonians' Access to Health Insurance Coverage

When people have access to health care, communities are healthier. More people can work or go to school. Employers benefit from a healthier workforce, lower insurance costs, and less absenteeism, fueling local economies. Fewer people turn to social services, and there are fewer households facing unaffordable, crushing medical bills. Oregon's uninsured rate has been reduced from 17 percent to 6 percent.

In prior biennia, a significant portion of the Oregon Health Plan (OHP) has been supported with one-time revenue no longer available in 2019. Additionally, the federal matching rate to support the Affordable Care Act (ACA) Medicaid expansion population is permanently decreasing to 90 percent in 2020, and the federal match rate for the pre-ACA portion of the program has also decreased as Oregon's economy has improved. Inclusive of holding inflation flat at 3.4 percent, the Governor's budget addresses the challenge of appropriately, sustainably, and equitably

funding our health care system. Governor Brown convened health care partners in a consensus-driven plan to secure long-term, sustainable funding for OHP to provide health care coverage for 99 percent of adults and 100 percent of kids by optimizing federal funds, funding the program from a broader revenue base, and providing a six-year, stable funding timeline. This plan not only funds the OHP, but some of the revenue supports the Oregon Reinsurance Program in the individual market, lowering premiums on average by 6 percentage points for 220,000 Oregonians.

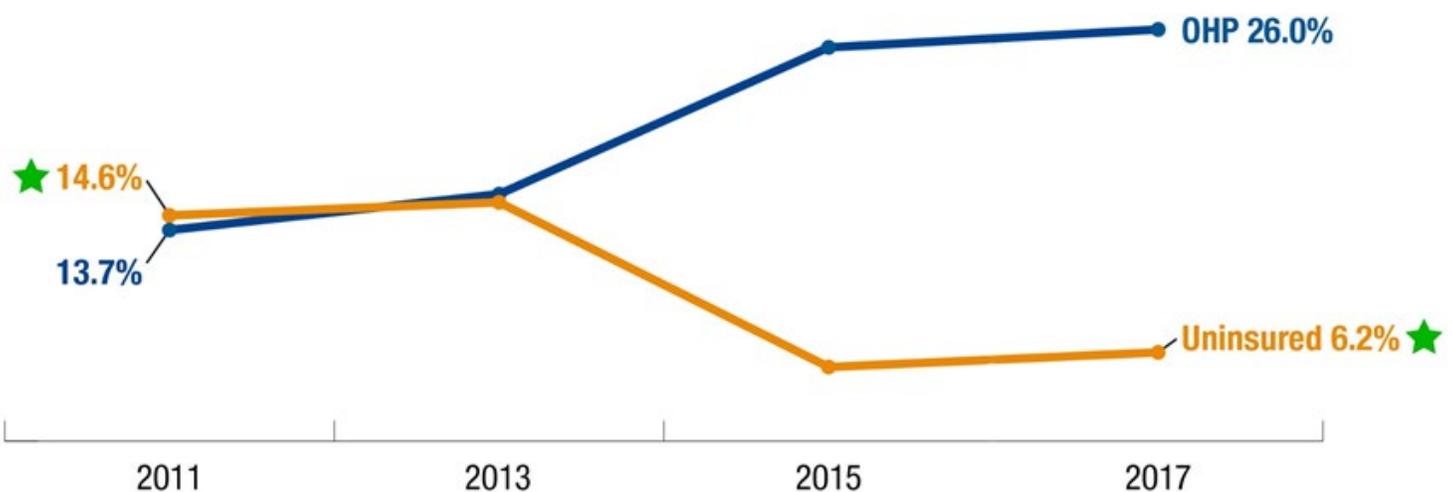
Governor Brown's budget reforms how OHP is funded in the following key ways:

- **Hospital Assessment** – The budget revises the hospital assessment structure to maximize the fully reimbursable hospital assessment from 5.3 percent to 6 percent of net patient revenue for Diagnosis Related Group hospitals.
 - Revenue: \$98 million



- Health Insurance, Managed Care, and Stop-Loss Assessments** – The budget reinstates the current insurance and managed care tax that expires at the end of 2019 at 2 percent of the premium, and broadens the base by including an assessment on stop-loss coverage.
 - Revenue: \$410 million; \$90 million is allocated to the Oregon Reinsurance Program in the Individual Market
- Subsidized Employer Assessment** – In the third quarter of 2017, there were approximately 44,000 Oregonians working more than 30 hours a week at firms with 50 or more employees who were enrolled in OHP, shifting costs to state and federal taxpayers. Public programs that provide affordable health care coverage, such as OHP, are subsidizing some employers who do not provide health care coverage to low-income workers, or whose workers cannot afford the coverage they are offered.
 - The Subsidized Employer Assessment will levy an assessment on employers who do not meet threshold health care contributions on behalf of their workers. Revenue: \$119.5 million
- Tobacco Tax** – About 31 percent of adults on OHP currently smoke. The cost of tobacco-related illness among the OHP population was \$374 million in 2010, or 9 percent of OHP expenditures. The Governor’s budget increases cigarette taxes by \$2 a pack, aligning the state with Washington and California tobacco taxes. The proposal also increases taxes on other tobacco products (e.g., chew, skinny cigars) as well as e-cigs and vaping products. Tobacco remains the number one cause of preventable death and disease in Oregon (See [Oregon Tobacco Facts 2018](#)). When OHP members can quit using tobacco, all Oregonians benefit, and increasing cigarette taxes is a critical component of a comprehensive public health tobacco strategy.
 - Revenue: Assuming a December 2020 start date: \$95 million; with a projection of \$346 million in the next biennium

400,000 Additional Oregonians Were Insured Due to ACA Expansion



CHILD CARE

Baby Promise (\$10 million): In 2018, all Oregon counties were identified as child care deserts. Affordability is also a challenge; according to a recent report from Child Care Aware of America, Oregon is one of the least affordable states for child care in the country. In order to support working families, we must create more access to high-quality, affordable infant/toddler child care. Through an investment in the Baby Promise program we will utilize child care assistance funds and state funds to create contracted spaces for children through a mixed-delivery system across the state. This program will also include a Quality Rating and Improvement System (QRIS) that provides a framework of quality standards that begin with foundational health and safety standards and progress to higher levels.

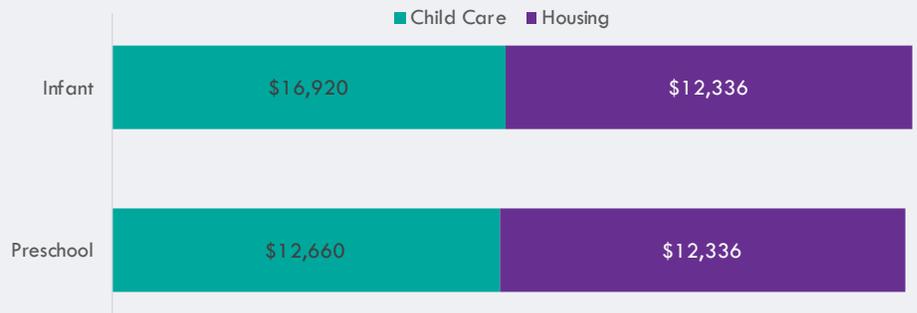
ECONOMIC DEVELOPMENT

Giving Oregonians the opportunity to succeed with good health, stable housing, and a good education works in tandem with responsible economic development. While Oregon’s economy is breaking records, this growth isn’t felt everywhere. That’s why Business Oregon—the state’s economic development agency—makes nearly 80 percent of their infrastructure investments and 50 percent of their business project investments in rural Oregon. Over the past year, Business Oregon has restructured to further focus on the needs of rural and underserved urban communities. This suite of investments builds on Business Oregon’s new approach to create jobs where they are needed most.

The Affordability of Early Childhood Education

Many families in Oregon cannot afford child care for their young children.

A **single parent** household making 200 percent of federal poverty level (\$32,920) would have **\$305 per month** after paying for housing and child care for an infant (or **\$660 per month** for a preschooler) for all other expenses.



For a **two-parent family** making 200 percent of federal poverty level and with just one preschooler, preschool education, housing, and food costs are nearly 80 percent of the monthly household budget.

200% Federal Poverty Level – 2 Parent Household	\$3,463
Child Care (75 th percentile market price)	\$1,000
Housing (Fair Market 2-bedroom apt)	\$1,028
Food (USDA “low-cost” food plan)	\$700
Remaining	\$735

“The requirements that some programs have, such as Head Start. If you just make one dollar over the requirement you are not eligible, which is hard because we cannot afford to pay for other forms of preschool.”

Economic Infrastructure (\$125 million)

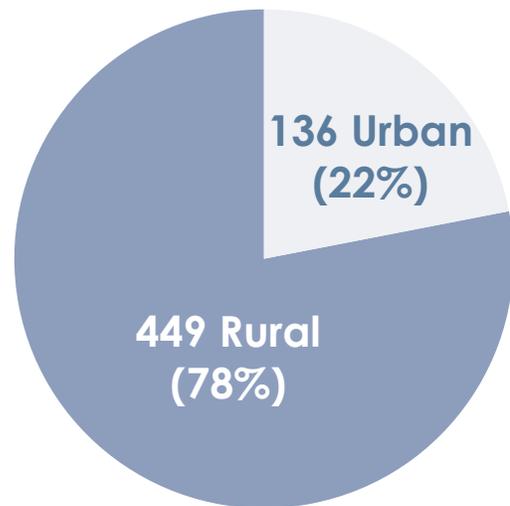
Communities can't thrive without basic economic infrastructure. In 2017, we made unprecedented transportation investments that are now improving roads, ports, and rail throughout Oregon. We must also fund longstanding priorities like water and wastewater infrastructure, as well as new ones like broadband. We will address these priorities through programs like the [Special Public Works Fund](#), which provides funds for publicly-owned facilities that support economic and community development. We will establish an Oregon Broadband Office in Business Oregon to develop broadband investment and deployment strategies for underserved areas, promote public-private partnerships, support local broadband planning, and pursue federal funding.

Innovation and Entrepreneurship (\$12 million)

The new University Innovation Research Fund (\$10 million) in the Governor's Education Investment Package will increase Oregon public university competitiveness for federal research awards, leveraging federal funding and increasing the number of Oregon researchers in the areas of applied research and development, technology demonstration, and deployment. The program will focus on grants in priority industries: advanced manufacturing; high technology; outdoor gear and apparel; health care innovation, food and beverage; and forestry and wood products. This fund will create jobs, lead to invention, and improve Oregon's reputation as a state with strong innovation and research capacity. The [Oregon Growth Fund](#) (\$2 million) invests in early-stage businesses by providing institutional capital to match private investment dollars. Studies show that minorities, women, and rural entrepreneurs have less access to traditional

Over the last 15 years, employment in urban Oregon grew 12 percent, while it remained flat in rural Oregon.

585 state investments in business development and infrastructure projects in FY17 and FY18 with \$578 million invested in rural projects



funding sources to grow their businesses. The OGF is critical to supporting these under-represented entrepreneurs.

Regional Solutions (\$15 million)

The Governor's [Regional Solutions](#) program recognizes that Oregon is comprised of many different economies and tailors the state's support to create thriving communities across the state. Regional Solutions staff live and work in the communities they serve, making sure state agencies work together efficiently and collaborate with local partners. They work on the nuts and bolts of economic development: streamlining permits, advising on land use, and building partnerships between the private, public, and philanthropic sectors. We see the results when businesses grow and things get built: roads, water systems, broadband, homes, innovation centers, food hubs, and more. That leads to not just more jobs, but better jobs across the state. Regional Solutions helps communities access a wide range of state funds, including the Regional Infrastructure Fund, which supports capital construction projects identified as priorities by local partners.

For a complete list of specific economic development projects recommended in the Governor's budget, see the Inclusive Prosperity Section.

Preparing for the Future



While we address the persistent issues that have eluded Oregon for decades, we must also prepare for future challenges. The changing climate demands that we meet our carbon reduction goals with a system that fuels our economy and protects the health of our children. The threat of a devastating earthquake and tsunami demands that we prepare our families to survive. The rapid growth of Oregon's population demands a renewed focus on public safety. And the terrible effects of substance use disorder, which are a root cause of many other challenges society faces, including foster care, must be addressed.

CLIMATE

Climate change threatens our communities, our economy, our ecosystems, and our way of life in Oregon. The Oregon Climate Change Research Institute indicates [Oregon is at risk](#) of serious impacts to its natural resources, some of which we are already experiencing, such as wildfires. The changing climate has brought hotter and drier conditions, with decreased winter snowpack in particular leading to unprecedented droughts across our state.

Oregon has long been a national and world leader in demonstrating the Oregon Way: policies that preserve our natural environment while also

supporting long-term economic competitiveness and business growth. Meeting the challenge of climate change and growing our economy are not mutually exclusive goals: we must do both.

Now, the world is at a crossroads on climate policy, and Oregon must continue to pursue solutions that reduce emissions while creating good jobs and building a clean energy economy.

Governor Brown is pursuing several strategies to achieve the state's greenhouse gas reduction goals and create clean energy jobs.

The Governor's plan includes strategies to accelerate the transition to clean energy, bolster savings from energy efficiency, electrify our vehicle fleet, and help rural communities and Tribes foster greater resilience to climate change.

Carbon Market

Foremost among these strategies is the implementation of a well-designed market-based program to achieve our state climate emissions reduction goals at the least possible cost, while protecting our manufacturing industry and mitigating impacts on low-income and rural communities, communities of color, and Tribes. The Governor supports a program that sets a firm but gradually

declining limit on greenhouse gas emissions, requires large emitters to obtain allowances in order to emit under the cap, and establishes a market for emitters to buy and sell allowances, ideally linked to larger, established carbon markets in North America. The cap ensures that the state will achieve emissions reductions with certainty, while the market provides strong incentives for emitters to benefit from adopting the most cost-effective technologies that minimize the costs of reduction. Any proceeds from the auction of allowances can be invested in strategies to reduce emissions, protect vulnerable Oregonians from cost-pressures, help rural communities adapt to a changing climate, and enhance the capacities of our natural and working landscapes to sequester carbon.

Creating the Oregon Climate Authority

In response to the urgency of the climate crisis and the need to better align state programs and expertise to achieve the state's climate goals, Governor Brown is proposing the creation of a new Oregon Climate Authority and ceasing the operations of the Oregon Department of Energy and Carbon Policy Office. The Governor's vision is for a new entity—transparent and responsive to stakeholders and the regulated community—with exceptional domain and market expertise that is responsible for implementing the state's climate strategies and tracking progress toward the state's climate goals. This would include the new carbon marketplace, greenhouse gas emissions reporting and accounting, energy markets data collection and analysis, as well as energy programs central to the state's climate and clean energy goals. The Governor would appoint a Director, subject to Senate approval, and work with the Legislature to appoint an advisory board to advise the Director and determine the best long-term placement for existing energy programs at this new entity or other state agencies. By aligning state programs in this new capacity, the state can significantly reduce the Energy Supplier Assessment currently paid by utility rate payers.



The budget assumes current programs operating at the Oregon Department of Energy move to the Oregon Climate Authority. However, the Governor will work with the Legislature to determine the best long-term placement for important programs focused on priorities other than climate, including Energy Facility Siting and Nuclear Safety, which may ultimately be best placed in a different agency.

For details, read [Governor Brown's climate policy agenda](#).

Wildfires

Wildfires have increased in intensity and severity in the past decade, threatening our livelihoods, economic security, environment, health, and well-being. Increasing temperatures, exacerbated by intense heat waves, and the lack of water mean our lands are at increasing risk for wildfires. [Wildfire season](#) is starting earlier, burning hotter, and lasting longer year-to-year, and not just in Oregon.

Oregon's firefighting approach leads the nation in effectiveness. However, wildfire dynamics are changing and it is never too soon to evaluate the approach to wildfire education, prevention, suppression, attack, and community recovery. Further, the costs of large wildfires are unsustainable and new models of cost-sharing for base fire and



large fire costs, as well as the state's large fire insurance, must be evaluated.

Governor Brown will sign an executive order to establish the Governor's Council on Wildfire Response. The charge of the Council is to evaluate Oregon's current system for responding to large fires, and determine whether or not the current model is sustainable. The Council will issue a report in September of 2019 to make recommendations for the future of Oregon's wildfire response infrastructure.

Protecting Air and Water Quality

Clean air and water underlie the most fundamental aspects of daily life for Oregonians. Breathing clean air is essential to health, but particularly important for the health of developing lungs in children. Clean water in Oregon lakes and rivers reduces the cost of water treatment and reduces the risk of contamination in drinking water. Oregon's reputation for a pristine, natural environment relies on clean air and clean water. Guaranteeing these fundamentals helps Oregon's families feel safe, and helps businesses feel secure when they invest in our state. [Cleaner Air Oregon](#), the new air toxics reduction program specifically tailored to our state, helps protect future generations of Oregonians from the most harmful environmental pollutants. Coupled with a major

investment in [clearing the backlog of air quality permits](#), Oregonians can expect improved air quality across the state, and they can keep up to date on the quality of air in their community on the [Oregon Department of Environmental Quality's website](#).

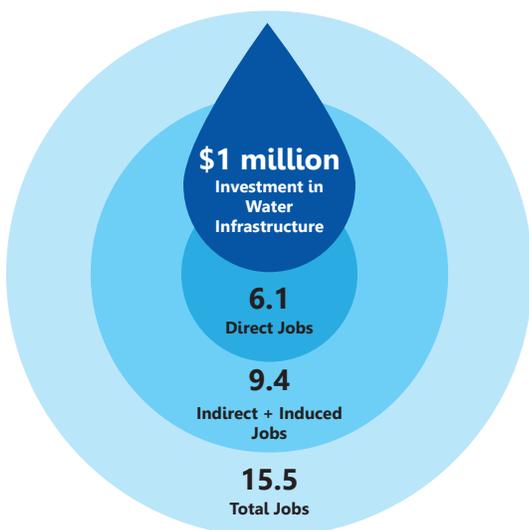
Clean water benefits communities, the economy, and our unique fish and wildlife heritage. During the Great Recession, [underinvestment in permitting](#) caused the state to fall behind in issuing water quality permits. This budget prioritizes restoring the water quality capacity of state agencies and bringing the regulated community into compliance with modern water quality standards.

Additionally, Governor Brown will seek to pass the [Oregon Environmental Protection Act](#) in 2019. This legislation adopts the standards of the federal Clean Air Act and the Clean Water Act into state law. The legislation ensures the federal environmental standards of the Clean Air and Clean Water Acts that were in place and effective as of January 19, 2017, before President Trump took office, shall remain in effect and be enforceable under state law even if the federal government rolls the standards back. Since announcing the Oregon Environmental Act, the Governors of California, Colorado, Hawaii, and Washington [have committed to pursuing similar action](#) in their states.

Water

Oregon is known for its clean and relatively abundant water. However, climate change, population dynamics, and lack of ongoing investments in clean water stress the quality of water in our rivers and streams, create significant water scarcity in the summer and fall seasons, and increase the potential for water infrastructure failures and public health impacts. Oregon's local economies and communities are increasingly vulnerable to drought, floods and fires. These realities place Oregon's quality of life, natural resources, and economic future at risk.

To address changes in climate and population dynamics, [Oregon will steward its water resources](#) to ensure clean and abundant water for our people, our economy, and our environment, now and for future generations. Strategic investments will result in resilient natural and built water systems across the state to support safe and healthy communities, vibrant local economies, and a healthy environment.



ADDRESSING ROOT CAUSES

Children rely on successful adults and safe, stable environments to grow up to be successful adults themselves. Strong communities provide the support both kids and their families need to be successful: family wage jobs, good schools, stable and affordable housing, quality child care, and accessible health care. Governor Brown envisions that all Oregonians have access to these building blocks for a successful life and as a result, reduce reliance on and strengthen the integrity of social services. To accomplish this, we must focus on reducing poverty and supporting family stability by using a two-generation approach that supports both vulnerable kids and their families. We must create a more resilient system that recognizes the precarious conditions facing kids and families in poverty: they are often one accident, health issue, job loss, or large rent increase away from having a major disruption to their lives. To truly close the opportunity gap, the system and our services must tackle the disproportionate representation of communities of color living in poverty. We must design our social services to meet the cultural needs of our families.

Children's Agenda

Governor Brown convened her Children's Cabinet in 2017 to create pathways toward prosperity for our children and families living in poverty. The Cabinet is made up of leading experts in health, housing, human services, early learning, and education from the public, private, and non-profit sectors. Working collaboratively, the Cabinet has identified the highest priority concerns and existing gaps in services for working families and their children. The Cabinet identified evidence-based solutions that provide the biggest return on investment toward helping families achieve success.

[The Governor's Children's Agenda](#) builds on existing programs to both address root causes of family instability, and create a more resilient safety net that helps kids and families who face increased challenges.

The core components of the Children’s Agenda, funded in both the budget and investment plan are:

- Prioritize ending children’s homelessness by providing greater housing stability for families with children: \$20 million
- Ensure 100 percent of children have health care coverage
- Integrate substance use disorder treatment and behavioral health programs for families: \$13.8 million
- Increase quality, affordable child care so kids are safe and educated while parents are working: \$10 million
- Provide high-quality preschool and culturally responsive school readiness for 10,000 additional kids in poverty so they start kindergarten ready to learn: \$285.8 million
- Ensure every child has a quality education by lowering class sizes for K-3 and having longer school years for all of Oregon’s schools: \$793.7 million
- Help parents get better jobs to support their families through training and apprenticeship programs for the jobs of the future: \$15 million
- Finalize a comprehensive child welfare system based on positive human development and safely reduce the need for foster care: \$47.1 million from Children’s Cabinet

Child Welfare

In 2017, 11,077 Oregon children were found to be victims of abuse and neglect. Almost half of these children were younger than six years old, and more than a quarter of them were under the age of three. Oregon’s child welfare system is meant to be a last resort for children and families experiencing crisis. In order to improve the lives of children, there has to be a two-pronged approach: one that continues to improve the effectiveness of the child welfare



system to keep children safe, while also striving to work upstream to reduce the number of kids who enter into the system. Children thrive with stable and nurturing families, and ensuring that family environment should be the ultimate aim of Oregon’s child welfare system.

The Governor’s [strategy for reforming the child welfare system](#) contains six key elements:

- Promote healing for kids by providing the right placements: \$22.3 million
- Elevate child and youth voices in case management and program development: \$13.2 million
- Focus on the root causes that drive foster care placements (includes housing investments, addiction treatment investments, future-ready jobs, and quality early childhood education): \$300 million
- Provide high-quality support for foster parents: \$7.3 million
- Ensure caseworkers have the tools and resources to support families and protect children: \$6.7 million
- Establish quick, safe, and complete case management that provides more consistent and targeted support: \$10.2 million

Addiction and Recovery

Drug and alcohol misuse, overdose, and addiction (i.e. Substance Use Disorder) remain persistent, costly, and devastating problems for Oregonians. The effects are far reaching, impacting Oregon’s foster care system and health care system alike. Underserved and rural communities suffer the worst of these effects, a problem compounded by the damaging stigma associated with the disease of addiction. Furthermore, our system fails to adequately address the frequent connection between addiction and mental illness. Under Governor Brown’s leadership, Oregon has made great strides in reducing both overdose deaths and prescription rates of dangerous opioid medications. However, much work remains to be done. To address the ongoing public health crisis of addiction in Oregon, Governor Brown will make key investments to:

- Apply a multi-generational approach to prevention, treatment, and recovery with an eye toward equity and cultural competency: \$5 million



PROJECT NURTURE

\$5 Million Investment:

Project Nurture provides prenatal care, inpatient maternity care, and postpartum care for women who struggle with addiction.



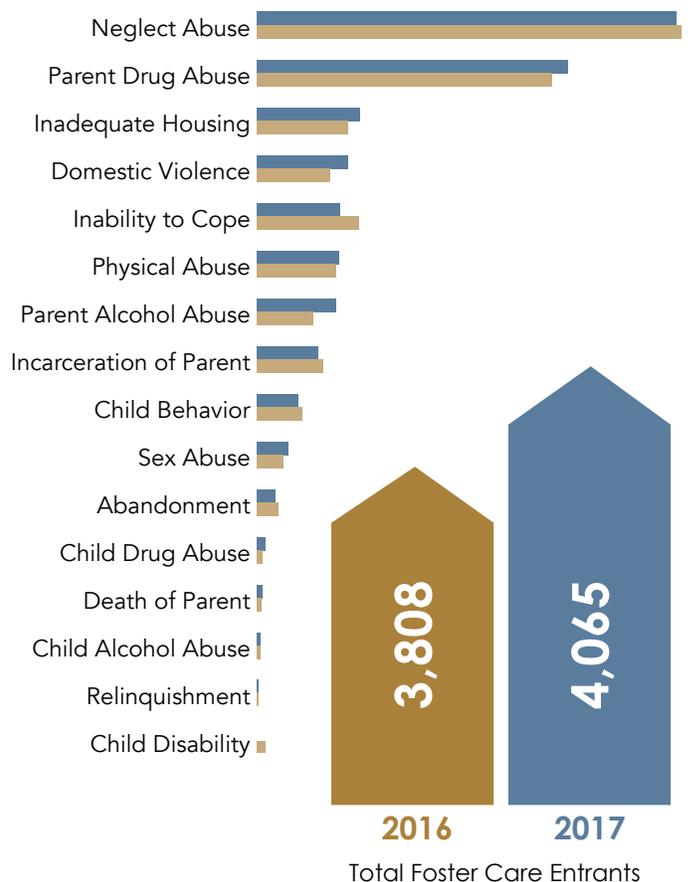
Women who give birth with Project Nurture have custody of their infants at program exit



Women who were exposed to Project Nurture had 70% lower odds of preterm birth

- Support the completion of a statewide assessment and plan with a goal of reducing substance abuse disorder for 75,000 Oregonians in five years
- Improve standards of care and access to treatment for Oregonians with Substance Use Disorder and/or mental illness, with an emphasis on outcomes and transparency: Over \$2 million
- Fix treatment structures and accreditation standards, including support for rural focused programs such as tele-health
- Continue to support Oregon’s Prescription Drug Monitoring Program
- Make key investments in housing and other essential recovery support
- Provide life-saving overdose drugs to first responders through a strategic stockpile of Naloxone: \$0.5 million

Foster Care Removal Reasons 2016-2017



PUBLIC SAFETY

Oregon State Police

Almost 40 years ago, the Oregon State Police (OSP) funding source changed from gas taxes to the General Fund, and since that time, the department has seen its budget shrink despite the population of the state increasing. Impacts of the decreasing budget are compounded by a practice of double-filling positions. Currently, Oregon has eight troopers for every 100,000 citizens, one of the lowest ratios in the country. With fewer troopers around the state, our highways are less safe and our rural communities experience severely delayed response times. Governor Brown believes we must increase our trooper capacity and she is supporting a legislative concept that would nearly double the



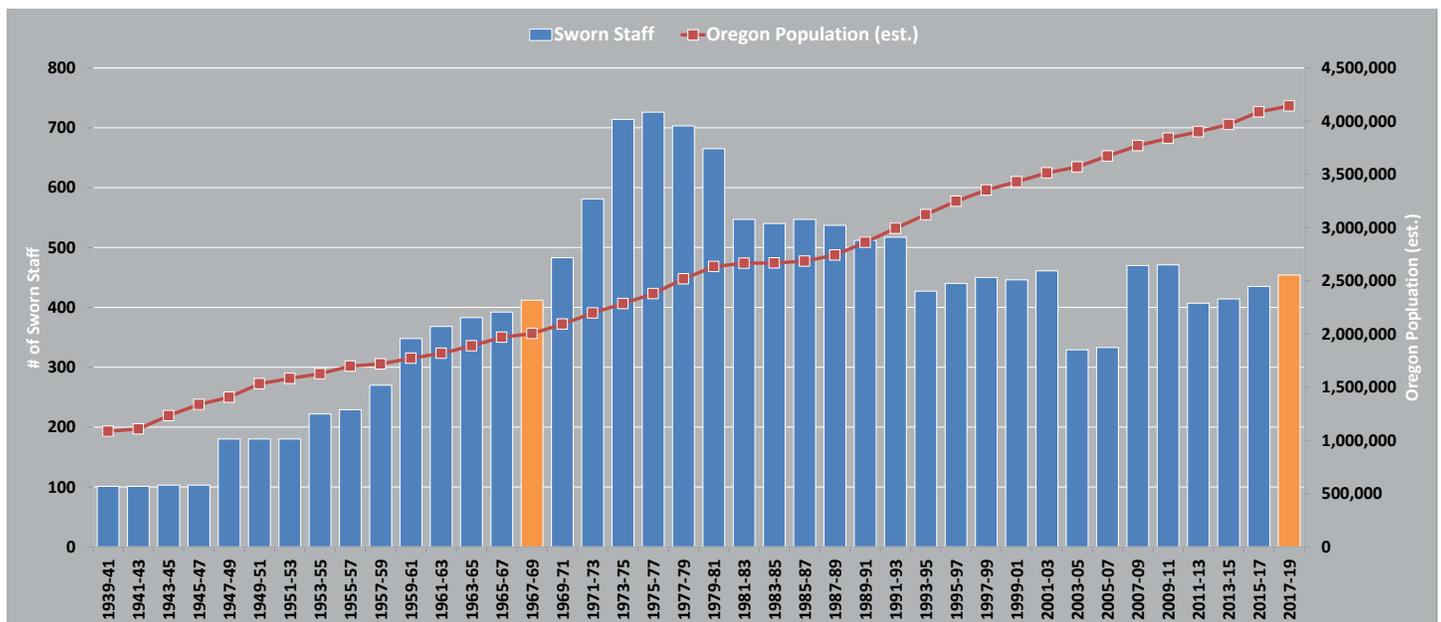
number of troopers over the next decade. By truing up the budget, she will set the agency on a path to increasing trooper numbers, ensuring Oregonians and our troopers are safer.

Governor Brown has resolved the problem of long-term double fills by restoring \$8 million to the OSP budget, enabling the department to fill vacant trooper patrol positions. She has also invested \$3 million for ten additional trooper positions to deploy throughout the state. Finally, a new position is created and funded within the State Medical Examiner's Office. The newly funded Forensic Anthropologist will continue the state's efforts to solve the unidentified remains of 171 souls, including 11 children.

Firearm Safety

In the wake of the 2015 mass shooting at Umpqua Community College, Governor Brown convened many leaders of higher education in our state to discuss next steps. A Campus Safety Work Group was formed and several recommendations were made. In her budget, Governor Brown has devoted \$15 million of potential new revenue to enable institutions of higher education to create a statewide

Oregon State Police traffic/patrol division sworn staffing level history vs. Oregon population (Legislatively Approved/Budgeted)



Ensure Inclusive Prosperity



Underserved communities, including rural communities, low-income communities, and communities of color, deserve a state government that values their perspectives and a budget that is built through their lens.

No single solution can ensure that every Oregonian—regardless of who they are or where they live—has the opportunity to thrive. Rather, this budget contains a constellation of investments made throughout state agencies in a wide variety of ways, with the central goal of reducing the opportunity gap for rural and underserved populations.

SPECIFIC INVESTMENTS FOR RURAL COMMUNITIES

Health Care

- Dedicated funding for continuation of the Oregon Health Plan and the Medicaid expansion population, which has created over 12,000 jobs in rural Oregon, supported rural health systems and hospitals, and ensures rural Oregonians have health care
- Support for tele-health efforts to better serve rural Oregon with mental health counseling and substance use disorder treatment

Community Colleges

- Central Oregon Community College — Redmond Campus Classroom: \$8 million
- Blue Mountain Community College — Facility for Agricultural Resource Management: \$13 million
- Klamath Community College — Apprenticeship and Industrial Trades Center: \$3.9 million
- Oregon Coast Community College — Workforce Education and Resiliency Center: \$8 million
- Umpqua Community College — Industrial Technology Building: \$8 million
- Southern Oregon Community College — Dellwood Hall: \$2.7 million
- Clatsop Community College — Marine Science Center: \$8 million

Infrastructure Funds

- Broadband Infrastructure Fund for rural Oregon: \$5 million
- Brownfields Redevelopment Fund to restore contaminated sites in rural Oregon: \$10 million

- Regional Solutions: \$15 million, with over two-thirds going to rural Oregon
- Water Supply Development Fund: \$15 million
- Water/Wastewater Loan Program: \$15 million
- Special Public Works Fund for a wide range of critical public works projects throughout Oregon, including replacing the unsafe Wallowa Dam: \$52 million
- Dam Safety task force to evaluate dams throughout Oregon
- Seismic Rehabilitation Grants for Schools: \$100 million
- Emergency Services Buildings for use throughout the state: \$20 million
- Housing Accelerator Expansion to build on the successful rural pilot programs started in 2017: \$15 million
- Numerous transportation investments continuing throughout rural Oregon as part of the House Bill 2017 Keep Oregon Moving legislation passed in 2017

Specific Community Projects

- Klamath County Youth Inspiration Program Facility: \$12 million
- Oregon Coast Aquarium: \$10 million
- State Fair Poultry and Horse Barns: \$5 million
- Port of Coos Bay Channel Improvements: \$20 million
- Dundee Bypass Right of Way purchases to continue completion of the project: \$32 million
- Klamath Water investments in water quality through the Oregon Department of Environmental Quality (DEQ) and the Oregon Department of Agriculture (ODA)
- Wolf Plan implementation investments at the Oregon Department of Fish & Wildlife (ODFW): \$700,000

SPECIFIC INVESTMENTS FOR UNDERSERVED COMMUNITIES

Education (funded in both the budget and investment plan)

- High-quality preschool for low-income children: \$286 million
- Early Childhood Equity Fund: \$15 million
- Specific K-12 initiatives that seek to close the opportunity gap for specific populations, including the African-American Student Success Plan, the American Indian/Alaska Native State Plan, and the implementation of the tribal curriculum bill (Senate Bill 13)
- Educator Advancement Council to create a statewide system to support, strengthen, and diversify the educator workforce: \$60 million

Health Care and Human Services

- Cover All Kids continuation
- Adding metrics related to equitable outcomes in the next CCO contracts
- Increased mental health and addiction treatment programs
- Universal home visiting: \$4 million

Housing

- Prioritize ending children's homelessness through:
 - Affordable housing acquisition: \$15 million
 - Preservation focused on low-income communities experiencing displacement: \$25 million
 - EHA/SHAP: \$50 million
- LIFT program with a statutory goal of providing housing to underserved communities: \$130 million
- An additional 1,000 Summer Work Experience internships for under-engaged Oregonians

Public Safety

- Immigration defense services: \$2 million
- Culturally responsive and trauma-informed public safety training
- Fund specialty courts, which support alternatives to incarceration that adversely impact communities of color

Natural Resources

- Environmental Justice Coordinator position added in DEQ

Legal Services for Underserved Communities

- Funding for legal aid representation of low-income Oregonians facing wrongful evictions.
- Additional judicial positions, case managers, and capacity at residential treatment programs, to facilitate intensive case management for families facing removal of children due to drug and alcohol addiction.
- Public defense representation for parents and children in the child welfare system, yielding better outcomes from the child welfare system and shorter periods in care.
- Legal representation for DHS caseworkers in court, ensuing fair processes in child welfare cases.
- Adequate funding for Oregon's deficient public defense system, including progress toward pay-parity with prosecutors.

The Economic and Revenue Environment

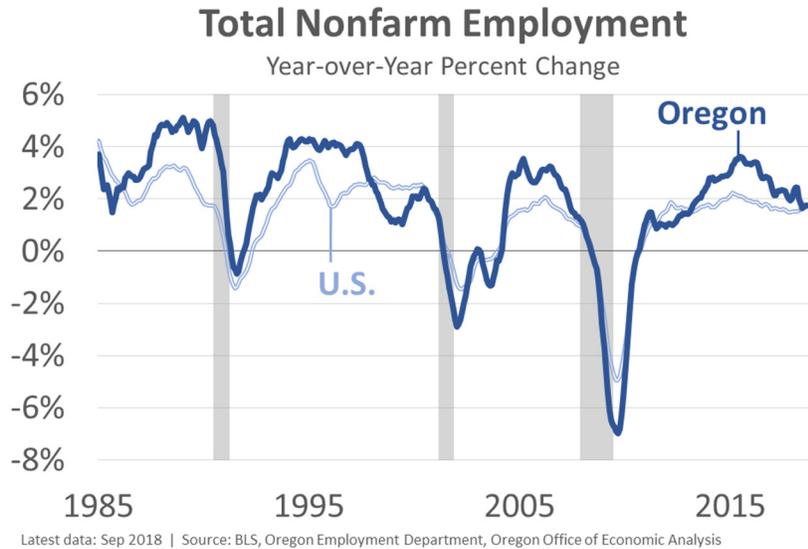
Economic Performance and Outlook

Recent Performance

Heading into the 2019-21 biennium, Oregon's economy remains strong. Leading indicators continue to flash green. Economists expect 2019 to be another good year for growth across the US, with risks evenly balanced or tilted to the upside.

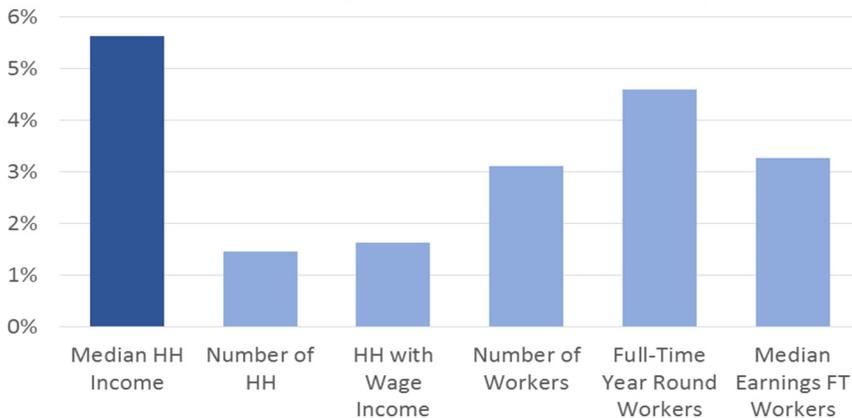
More importantly, while economic output remains near its potential and workers are relatively scarce, households continue to see improvements. Layoffs are at record lows. Wage growth continues to pick up

nationwide and is set to see further acceleration next year. In Oregon, the rate of labor market gains has slowed from the full-throttle pace seen a couple of years ago. Even so, growth in local jobs and wages remains faster than in the average state.



Underlying Dynamics of Household Income

Annual Percent Change 2014 to 2017, Not Inflation-Adjusted

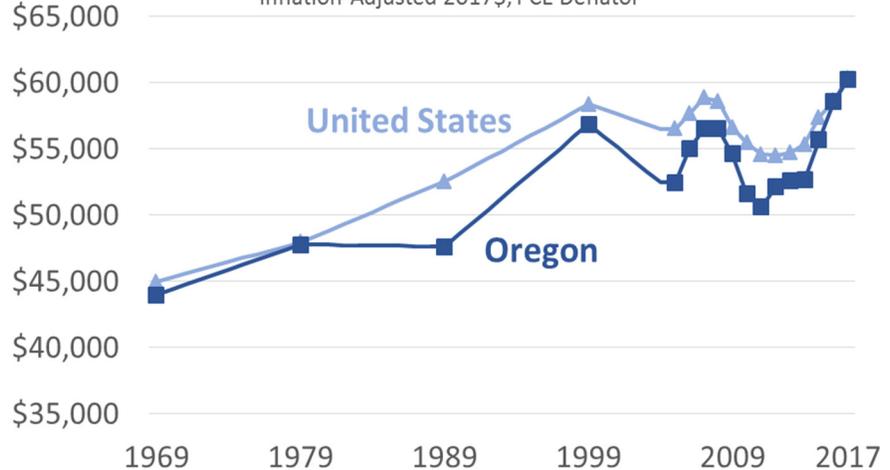


Between today and the next recession, whenever it may come, Oregon's economy will continue to hit the sweet spot. More Oregonians are working and even larger gains are being seen in the number working full time.

The strong labor market is helping working households in all corners of the state. Poverty rates are being driven lower for all ages, racial and ethnic groups. Household incomes are reaching historic highs on an inflation-adjusted basis. The median household in Oregon now earns as much as their counterparts in other states, which has not been the case since the timber industry restructured almost four decades ago. The feel-good part of the economic expansion has clearly arrived.

Median Household Income

Inflation-Adjusted 2017\$, PCE Deflator



Oregon's Industries

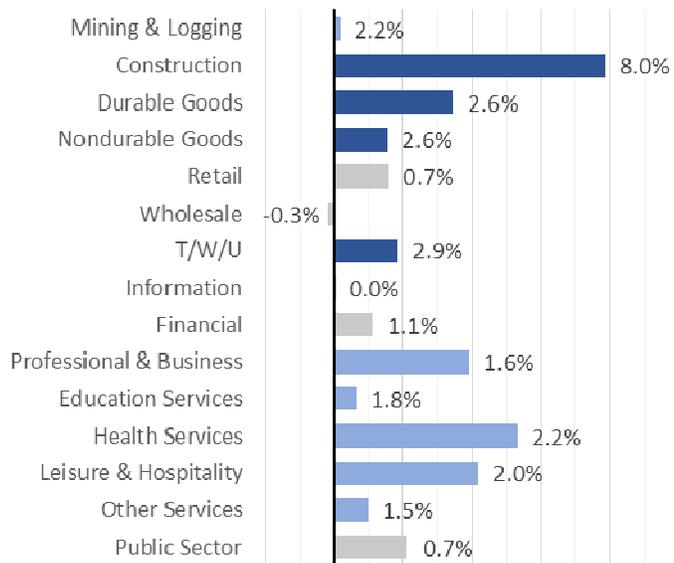
So far in recovery, Oregon's large service sector industries have generally led job growth in terms of the number of jobs added and the rate of growth. These include jobs in professional and business services, health services, and leisure and hospitality industries. These three industries have gained 13,400 jobs in the past year and account for 39 percent of all job gains across the state. The good news is that this dependence on service jobs has fallen as the expansion continues. Other industries have been adding jobs, which was not the case earlier in the expansion.

Looking at the business cycle as a whole, each of Oregon's major industries has experienced some growth in recovery, albeit uneven. Currently, payrolls in 10 major industries are at all-time highs. Food manufacturing, education, and health never really suffered recessionary losses – although their growth did slow during the recession. Professional and business services and leisure and hospitality have each regained all of their losses and are leading growth today. In recent quarters, the public sector, retail trade, transportation, warehousing and utilities, and construction have surpassed their all-time highs. The nine private sector industries at all-time highs account for 64 percent of all statewide jobs. The public sector accounts for an additional 16 percent of all jobs.

Oregon Employment Growth

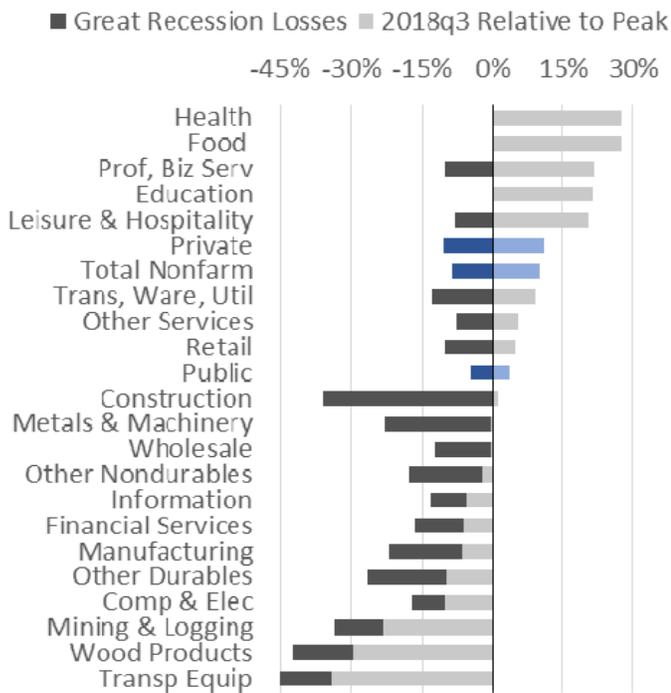
2017q3 to 2018q3

■ Above Average ■ Average ■ Below Average
(2,000) - 2,000 4,000 6,000 8,000 10,000



With the Great Recession being characterized by a housing bubble, it is no surprise to see wood products, construction, mining and logging, and financial services (losses are mostly real estate agents) among the hardest hit industries. These housing-related sectors are now recovering, although they still have much ground to make up.

Oregon Employment by Industry



Goods-producing industries are very sensitive to the business cycle. Coming off such a deep recession, goods-producing industries exhibited stronger growth than in past cycles. While all manufacturing subsectors have seen some growth, most are unlikely to fully regain all of their lost jobs.

Transportation equipment manufacturing suffered the worst job cuts and is likely in structural decline due to the RV industry’s collapse. With that being said, the subsectors tied to aerospace are doing better and the ship and boat building subsector is growing again. Metals and machinery manufacturing, along with mining and logging, have shown the largest improvements since the depths of the recession.

Despite structural challenges, Oregon’s manufacturers typically outperform those in other states, in large part due to the local industry make-up. Oregon does not rely upon old automakers or

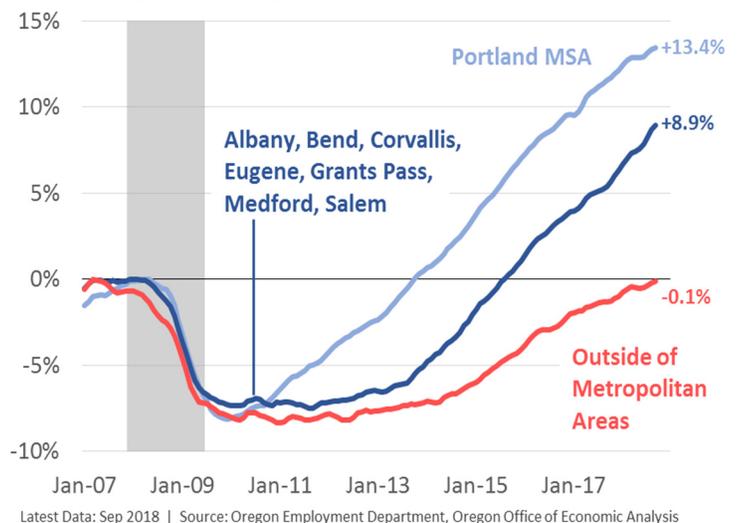
textile mills. The state’s manufacturing industry is comprised of newer technologies like aerospace and semiconductors. Also, Oregon’s food processing industry continues to boom.

As the economy continues to expand there will be net winners and net losers among industries when it comes to jobs, income and sales. Business cycles have a way of restructuring the economy.

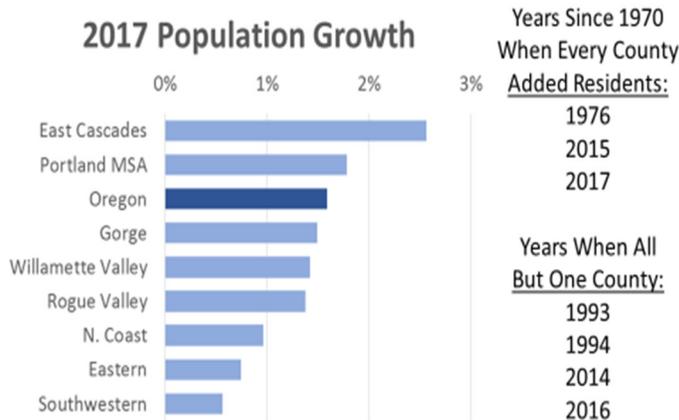
Oregon’s Regions

At the statewide level, most economic indicators have fully recovered from the recession. Oregon’s economic expansion first began in the Portland metro region in 2010. Job growth returned first to the largest and most diverse regional economy in the state.

Oregon Employment: Metro and Nonmetro



Every County Growing



Over the subsequent years, the recovery has spread out across the state's regions and industries. Make no mistake, disparities remain, however, and Oregonians of all types and in all locations are seeing gains as recent Census data has confirmed. Every county in the state added population in 2017. During each of the past four years, no more than one of Oregon's counties missed out on population growth. Such widespread gains have been very rare historically, even during boom times.

Population growth and migration trends represent Oregon's largest comparative advantage relative to other states. Recent erosion in housing affordability puts this advantage at risk. In both Oregon's population centers and rural areas, housing costs account for a large share of household income. Recent house price appreciation has been driven by a lack of supply. Across the state, construction activity has not kept up with the growth in households, pushing house prices upward.

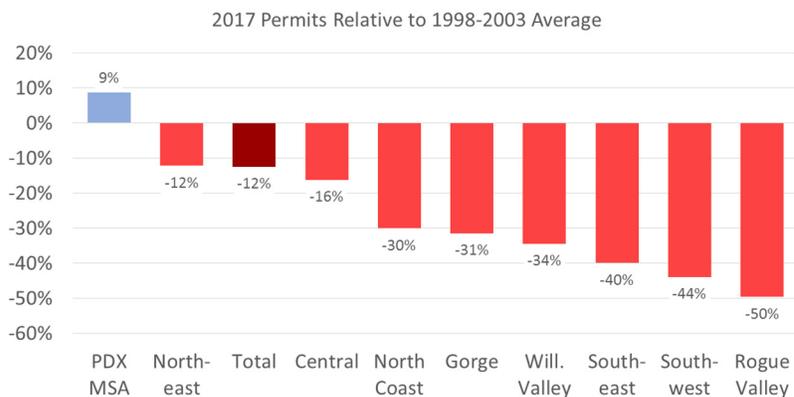
The Portland region continues to experience transformational growth. When compared with the other big metro areas around the country, Portland's growth in high-wage jobs, increases in educational attainment, and household income gains all rank in the Top 5 among the 100 largest metros.

The rest of the Willamette Valley's population centers are likewise experiencing strong income growth to accompany their recent

economic improvements. Corvallis and Salem are at historic highs for median household income, while Albany and Eugene are close. The gains in Lane County are especially encouraging given the severity of the Great Recession and restructuring of the regional economy after the permanent closure of two major manufacturing industries.

Bend continues to defy expectations in the aftermath of one of the nation's worst housing bubbles a decade ago. Incomes are finally growing again in southern Oregon, in the Umpqua and Rogue Valleys. These regions were hit hard by the housing downturn too, but recovery has been a bit more difficult than in Bend. The underlying dynamics driving higher incomes remains the same as in the Portland region--it is all about employment rates and wage gains. Incomes in Jackson and Douglas counties are at historic highs. Josephine County has yet to fully regain its losses, but saw sharp improvement in 2017.

Low Levels of New Construction



Source: HUD, Oregon Office of Economic Analysis

2019-21 Outlook and Risks

Current economic growth remains strong, but is set to slow during the 2019-21 biennium for a number of reasons. Labor force growth is slowing as many baby boomers reach their retirement years. The hot economy has also made workers scarce, and led to other capacity constraints including scarce equipment, supplies, transportation and commercial space.

Such hurdles to growth do not prevent firms from expanding and propelling the economy, but they do require time, plans, and money to overcome. The low-hanging fruit of growth is gone in a mature expansion.

At the peak of the cycle, Oregon was adding around 5,000 jobs per month as it has been climbing out of the recessionary hole and pulling workers back in from the sidelines. With workers now becoming harder to find, this rate of growth cannot be sustained going forward. Only around 2,000 new jobs per month will be needed to keep up with our growing population over the next biennium.

Not only is growth expected to slow, but uncertainty surrounding the economic outlook increases over the course of the upcoming 2019-21

biennium. The primary drivers of uncertainty relate to federal policies and the magnitude of their impact on the economy. As the tax cuts and spending increases play out at the federal level, fiscal policy will turn from a driver to a drag on growth in 2020. Similarly, monetary policy will have transitioned from accommodative to neutral, and likely even restrictive in a couple of years. The full impact of the Federal Reserve's rate hikes that began in late 2015 will be working to slow the economy.

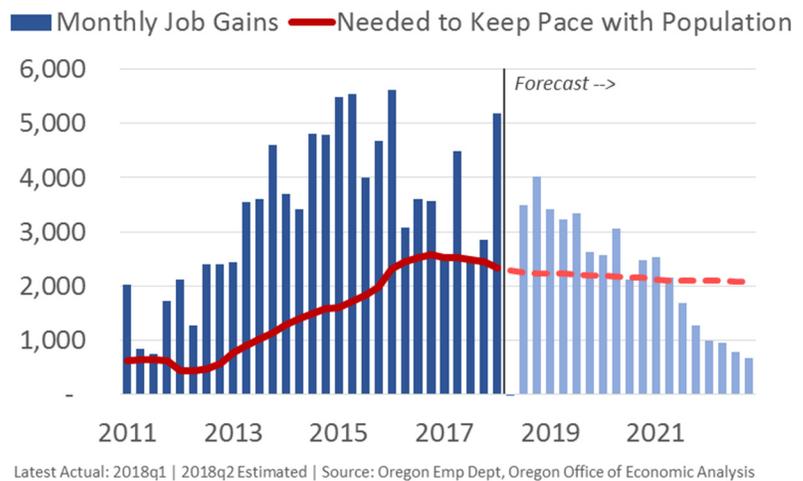
To be clear, the next recession is not yet seen in the data, nor most forecasts, however the shape of the business cycle is coming into focus. It will largely be up to the Federal Reserve, and how it responds over the coming year or two, in determining when this expansion ends and the next recession begins.

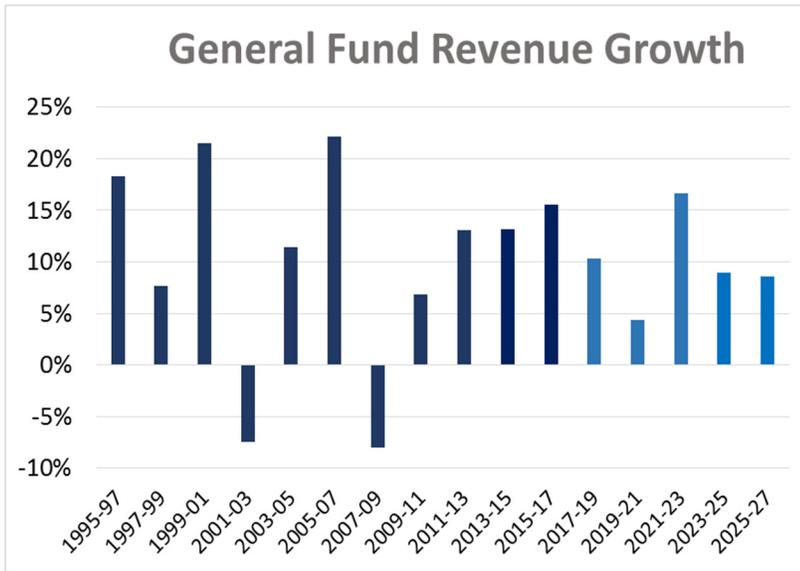
2019-21 Revenues

Oregon's economy is volatile. State General Fund revenues are even more so. The expected slowdown in economic growth during the 2019-21 budget period is magnified in the revenue outlook. Should a recession occur, state revenue losses will be more pronounced than the underlying income losses suffered by households and businesses.

Taxable investment income such as dividends, rents and capital gains can dry up overnight. Taxable business sales and profits are very fickle as well.

Oregon Employment Gains





Making matters worse, as the baby boom population cohort works less and spends less, traditional state tax instruments such as personal income taxes and general sales taxes will become less effective, covering a smaller share of economic activity. Going forward, Oregon’s General Fund resources are only expected to grow around 10 percent per biennium, which is not fast enough to keep up with the rising cost of public services.

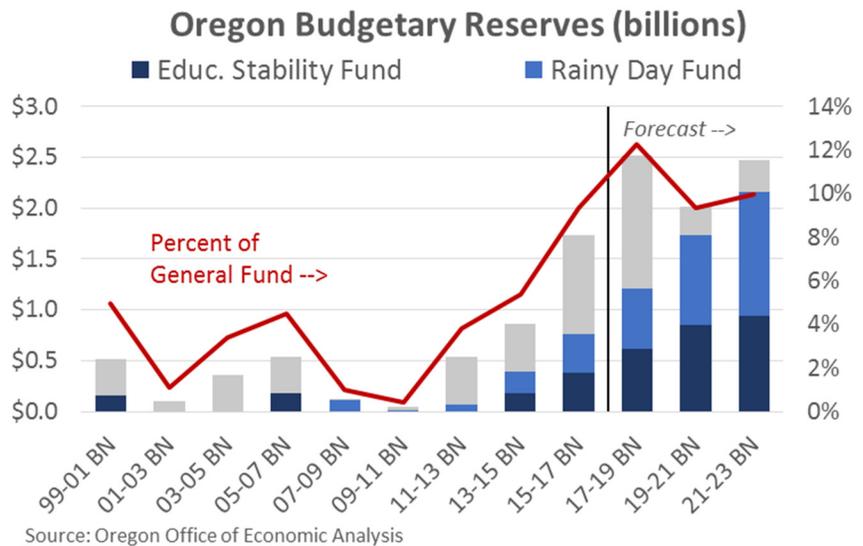
Another factor behind slower expected revenue growth is the impact of federal policy. As with the economic outlook, federal policy turns from a driver to a

drag on the revenue outlook going forward. Federal tax reforms generated a surge in state tax collections, much of which is temporary in nature. Together with the fleeting nature of recent tax collections, Oregon’s unique kicker law is acting to mute expected revenue growth. While more revenue has been collected during the current biennium, less will be available during the 2019-21 budget period.

Growth will certainly slow to a sustainable rate in the coming years, but the path taken to get there is unknown. The exact timing and steepness of this deceleration is difficult to predict, leading to a wide range of possible revenue outcomes for the 2019-21 budget period.

While the revenue outlook is uncertain, Oregon is in a better position than in the past to manage this risk. Encouragingly, Oregon has saved a larger amount of reserve funds than ever before. Due to automatic deposits into Oregon’s Rainy Day Fund and Education Stability Fund throughout the long expansion, total budget reserves of \$2.5 billion are expected by the start of the biennium.

Oregon’s budget writers have never had access to significant reserve funds during past recessions. Although today’s reserves will not cover all of the likely shortfall caused by a recession, they are large enough to ease much of the pain.



Demographic Change

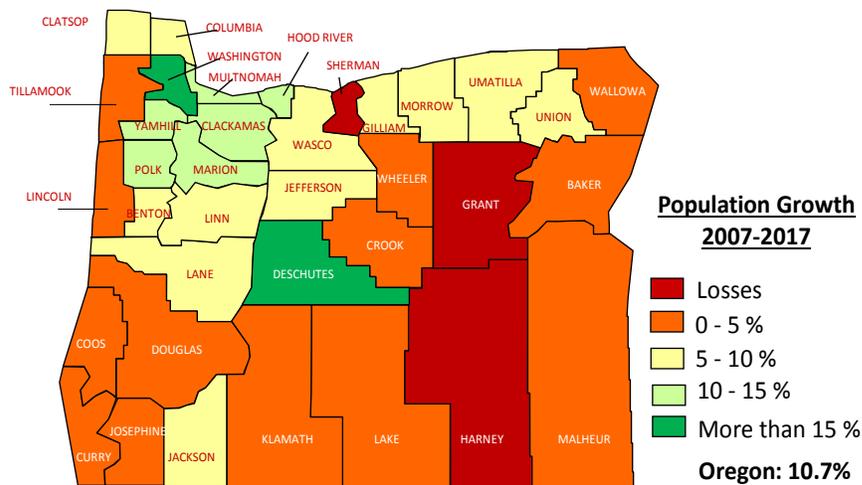
Oregon’s population is currently showing very strong growth as a consequence of the state’s strong economic recovery. Population growth between 2016 and 2017 was 10th fastest in the nation. Based on the current forecast, Oregon’s population of 4.1 million in 2017 will reach 4.7 million in the year 2027 with an annual rate of growth of 1.2 percent between 2017 and 2027.

Oregon’s population growth changes with its economic and employment outlook. After an economic and population boom in the 1990’s, two severe recessions during the decade preceding the 2010 Census curtailed population gains and probably cost Oregon one additional seat in the U.S. House of Representatives. The population growth during the decade of 2000 to 2010 was 12.0 percent, down from 20.4 percent growth from the previous decade. Oregon’s rankings in terms of decennial growth rate dropped from 11th between 1990-2000 to 18th between 2000 and 2010. Oregon’s decennial population growth rate during the most recent census decade was the second lowest since 1900. Census 2020 data will look much better.

GEOGRAPHIC VARIATIONS

The figure below shows a decade long population change by county between 2007 and 2017. Overall, Oregon’s population growth was 10.7 percent during this period. However, there are large variations by region and county. Exceptionally high growth counties (exceeding 15 percent increase) were Deschutes and Washington. Although growth slowed considerably in Deschutes County during the recent

Population Growth By County, 2007-2017



Source: Population Research Center, PSU

Office of Economic Analysis

recession, the county led the state with 21.9 percent growth over the past decade. The moderately growing counties (between 10 and 15 percent increase) were Hood River, Multnomah, Clackamas, Polk,

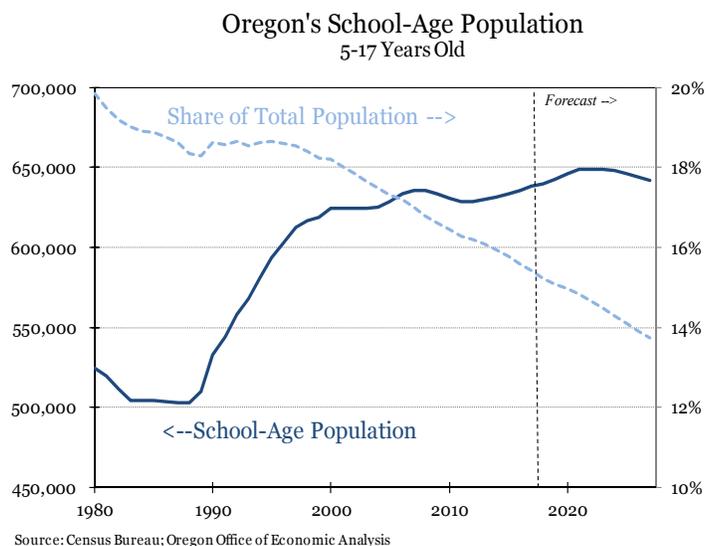
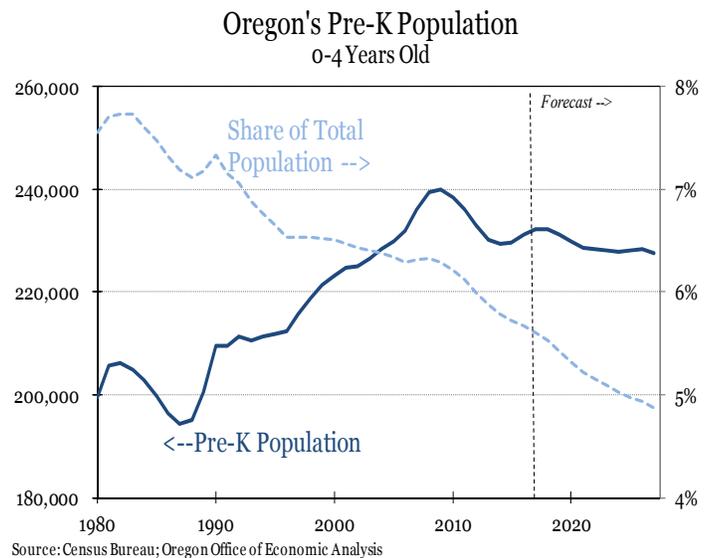
Yamhill, and Marion. The slow growing counties (between 5 and 10 percent increase) were Benton, Jefferson, Linn, Wasco, Jackson, Umatilla, Lane, Columbia, Gilliam, Union, Morrow, and Clatsop. The counties with very slow growth (between 0 and 5 percent) were Lincoln, Crook, Josephine, Douglas, Tillamook, Lake, Baker, Klamath, Malheur, Curry, Wallowa, Wheeler and Coos. Three counties losing population (negative growth) were Sherman, Harney, and Grant. Population growth by county reflects the local economic environment. In general, counties in the upper Willamette Valley and Central Oregon experienced the fastest population growth.

CHANGE IN AGE STRUCTURE

The figures below show that population growth differs by age group with budgetary implications.

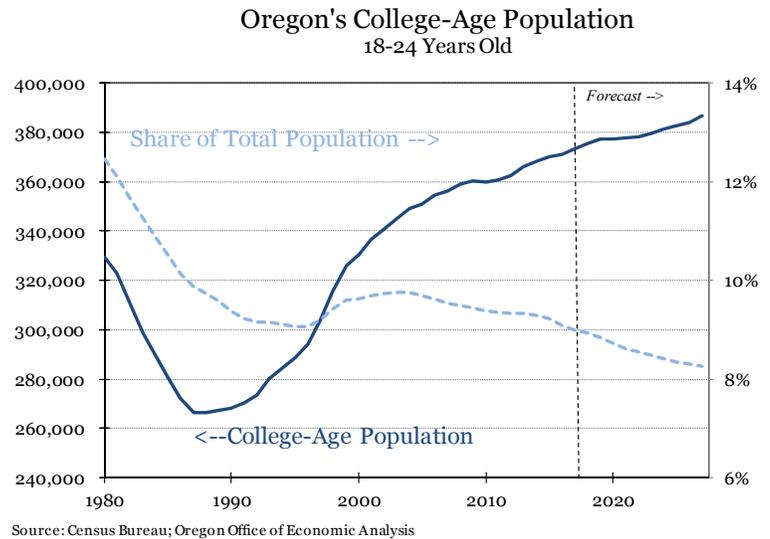
Children

- Under five years. The size of this age group directly affects demand for childcare, Head Start, and Temporary Assistance for Needy Families (TANF). Between 2019 and 2021 the number of children under age five will decrease by 1.2 percent. The growth in this cohort was negative or slow in the recent past mainly due to the decline in the annual number of births associated with an increasing tendency towards smaller family-size and slowdown in the net in-migration of children and young adults at the early stage of family formation.
- School age. The children in the five to 17 year age group drive demand for K-12 public school enrollment. Nearly 90 percent of five to 17 year-olds are enrolled in public schools. After growing rapidly during the early 1990's, population growth in this age group has slowed for nearly two decades and will continue this trend in the near future. After several years of negative growth, the growth in the number of school-age children has turned positive starting in 2012. However, the percentage increase remains well below the state's overall population rate of change. Between 2019 and 2021, the number of school-age children is expected to grow by 0.9 percent.

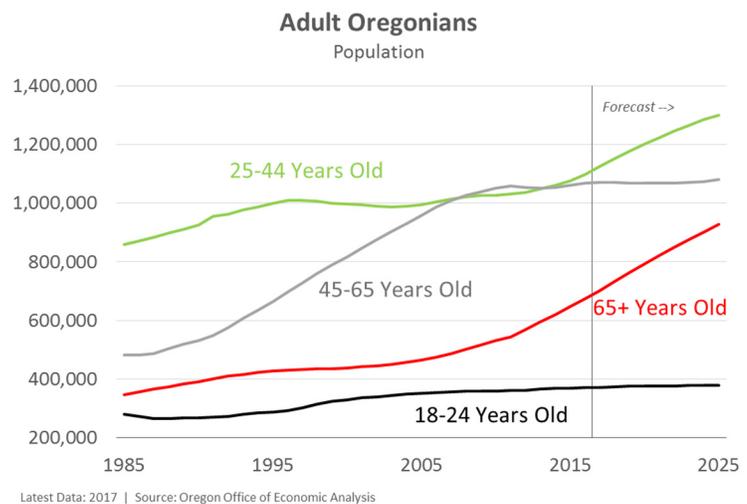


Adults

- Ages 18 to 24.** This age group drives demand for post-secondary education and entry-level jobs. Nearly 70 percent of all undergraduate students in Oregon public universities are 18 to 24 years old. Although the population in this age group has shown very small change, college enrollment in general is associated with competing opportunities. Enrollment increased in the past at a much faster rate than the 18-24 age population due to the lack of competing employment opportunities. Also, males in this age group are the criminally “at risk” population with the highest arrest rate of all adults. Consequently, population in this age group is a major factor in forecasting demand for prison and jail beds and probation services. The growth in this population group, however, has slowed and will continue to taper off to negative territory as the “baby-boom-echo” cohort exits this age group. Between 2019 and 2021, this population will remain virtually unchanged.



- Ages 25 to 64.** Working-age adults comprise 53 percent of the total population. The nature of this group is heavily influenced by baby-boomers. The working-age population is the major contributor to the state’s tax revenue and puts very little direct pressure on state services. However, younger adults need entry-level jobs and older adults require continued training in a changing technological environment. All of them, especially young adults at the beginning stage of their family formation, need affordable housing, childcare, and schools for their young children. Overall, this population group will grow by 2.2 percent between 2019 and 2021, with older working age adults 45 to 64 virtually unchanged as the baby-boomers continue to mature out of this age category.



Older Adults

- Ages 65 and over.** Since 1950, Oregon’s older adult population has more than tripled, while the total population has nearly doubled. Growth in this group was slow between 1995 and 2002, largely

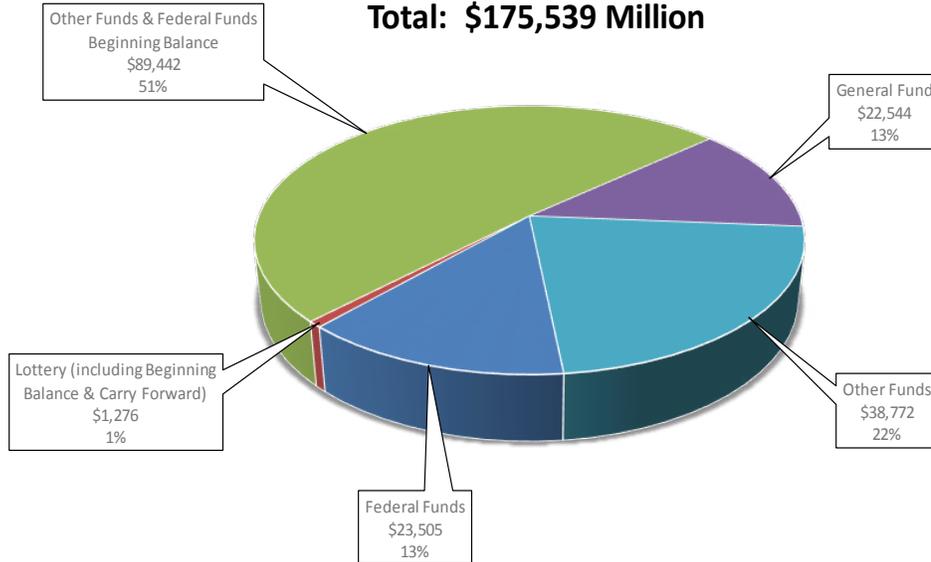
due to the depression era birth-cohort reaching retirement age. However, the trend has already reversed and will continue its faster pace of growth. Beginning in 2011, this population group has consistently exceeded a four percent annual growth rate. The older adult population accounts for 17.0 percent of the total population. Between 2019 and 2021, the combined older adult population will grow by 7.7 percent. However, the number of elderly aged 75 to 84 will increase by a larger 9.1 percent as the early baby boomers enter and depression era cohort exit this age group, far exceeding the state's overall growth of 2.6 percent and will grow at the fastest pace of all age groups. During the same period, the number of oldest elderly (85 plus) will increase by 2.8 percent. The young elderly require relatively little government assistance, while persons aged 85 and over tend to require more public assistance. Many members of the senior population require health care, pension support, and special housing. They are highly dependent on state long-term care services. Different age groups of the elderly population will manifest the effects of people born during the depression era and baby boom period.

Race and Ethnic Composition

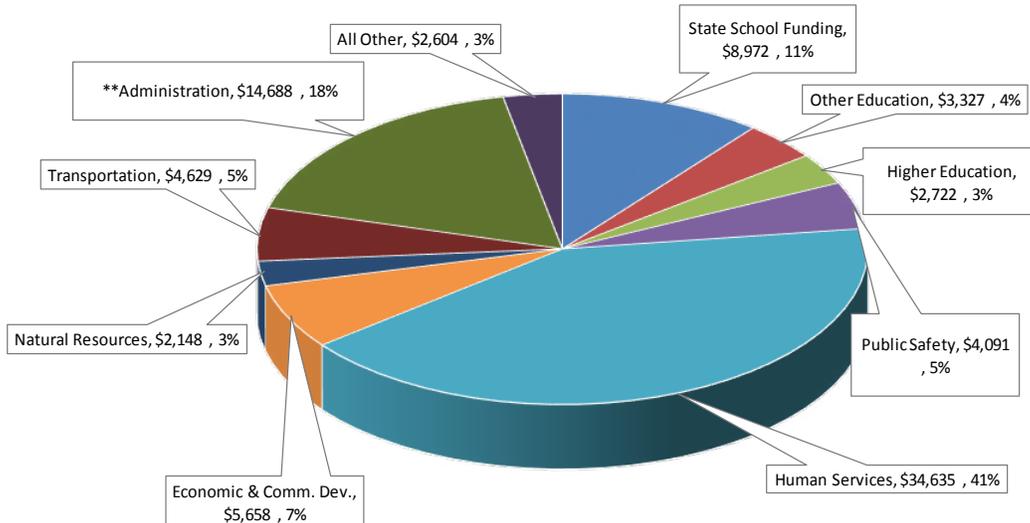
- Oregon has become more racially and ethnically diverse. A more diverse population entails meeting the needs of increasing racial and ethnic minorities. Oregon's population is overwhelmingly White. The Census Bureau estimated 87.1 percent of Oregon's population as of the White racial group in 2017. However, only 75.8 percent were non-Hispanic White in 2017, down from 83.9 percent in 2000 Census. Each of the other racial groups accounted for less than five percent of the population.
- Oregon's Hispanic population. The Hispanic or Latino ethnic group, which can be of any race, reached 12.7 percent of Oregon's population in 2017. This ethnic group has been increasing very rapidly. The Hispanic population increased from 112,707 in 1990 to 450,062 in 2010 Census. This ethnic group has grown to 540,923 in 2017.

2019-21 All Funds Budget

Resources Total: \$175,539 Million



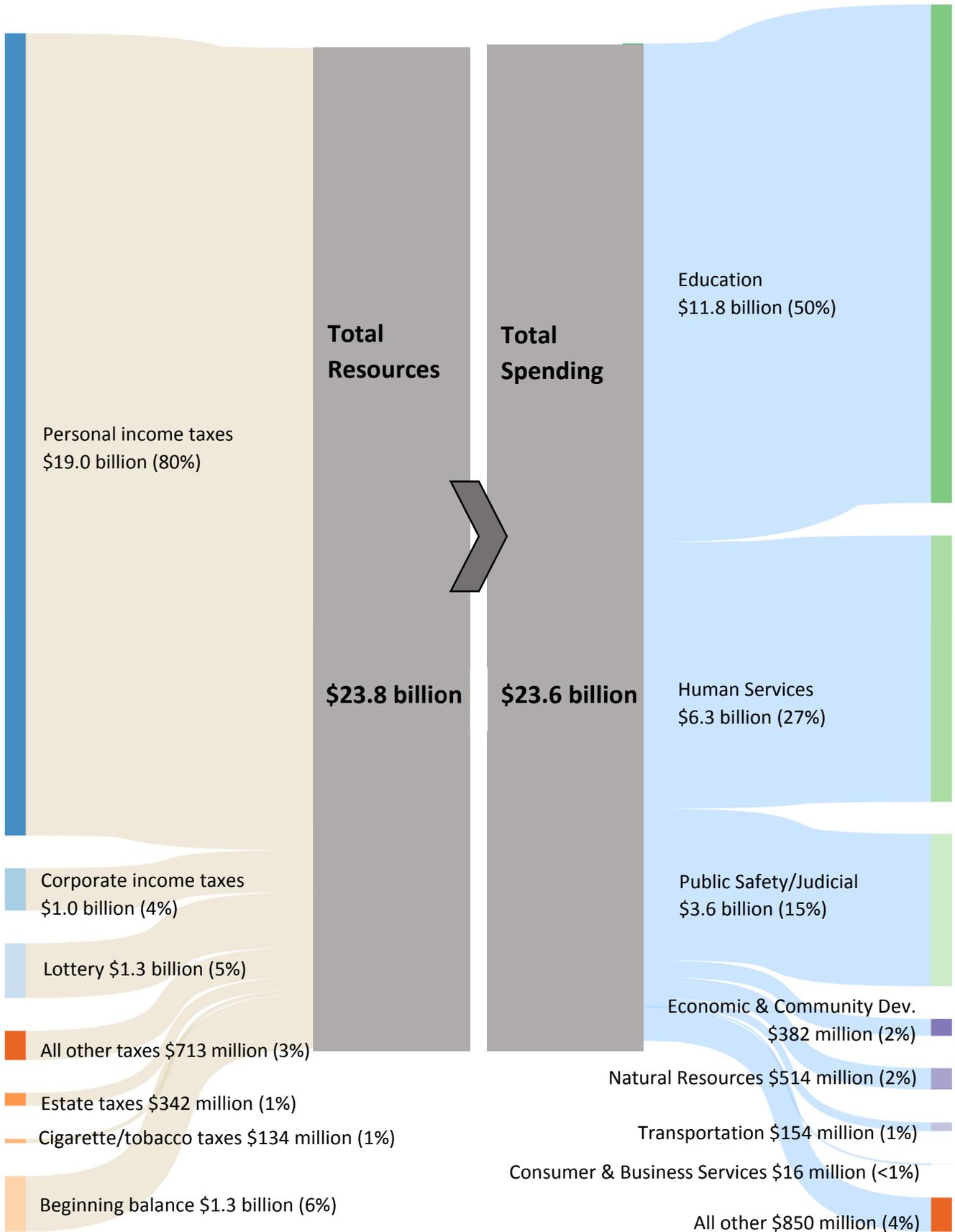
Expenditures Total: \$83,475.3 Million



*Totals may not foot due to rounding.

** Other Funds include \$12.5 billion from the PERS investment fund for paying out to retirees under the Administration section in Expenditures.

2019-21 General Fund/Lottery Funds Budget



*Numbers may not foot due to rounding.



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