



Oregon

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MEMORANDUM

TO: Water Resources Commission

FROM: John E. Roberts, Revenue Enhancement Subcommittee Chair

SUBJECT: Agenda Item J, February 18, 2011
Water Resources Commission Meeting

Water Resources Commission Revenue Enhancement Subcommittee Report

I. Introduction

During the August 20, 2010 Water Resources Commission meeting, Commission members received a budget briefing from Department staff, who shared information about the 2011-13 budget development process and the 25 percent general fund reductions the Department had been directed to identify. As a result of this briefing, Commissioners shared their concerns about the Department's long-term financial stability and its ability to perform its core functions. Chair Jackson appointed a Revenue Enhancement Subcommittee of three commissioners, John Roberts (chair), Ray Williams, and Jeanne LeJeune, to help Department staff identify and develop additional funding options for consideration by the full Commission.

This report describes the work conducted thus far. Commissioners may be asked to approve an action item, brought by the Revenue Enhancement Subcommittee.

II. Discussion

The WRC Revenue Enhancement Subcommittee began by meeting with several shareholder groups on November 17, in order to gather input on options for revenue enhancement. During these meetings, the Subcommittee began by offering half a dozen ideas for revenue enhancement. Throughout the day, they received another 22 for consideration.

After gathering and considering the 28 different revenue options resulting from these meetings, the Subcommittee pared down the alternatives to a portfolio that they considered well rounded in the following principles:

- the options would provide revenues significant enough to pursue,
- the options provided a "balance" in terms of water users and conservation interests,
- the options were politically within the Department's scope or reach,
- the logistical considerations were not insurmountable.

The resulting options, described in more detail below, are:

- implementing a water rights management fee,
- increasing cost recovery in the Department's transaction programs, and
- expanding the use of the Department's reimbursement authority program.

Implementing a Water Right Management Fee

Waters of Oregon belong to the public. With limited exceptions, no use may be made of the public's water without a water right. A water right is a "use right." The Oregon Water Resources Department provides legislatively mandated direct services to protect existing water rights, both in the evaluation of new water right applications and in the administration and distribution of the available water supply for those users with water rights of record. With the exception of a "one-time" application fee, water users make use of these very valuable water rights in their businesses without ever paying to ensure the ongoing protection and management of these rights. A fee could be assessed in the amount of \$100 per water right per year that would apply to both surface and groundwater rights. A cap could be considered for owners with multiple water rights.

In addition, instream water right certificates are in OWRD's name. So while a fee could be charged to permit holders, outright fees would not work for instream water right certificates, unless assessed to the applicants.

Today, there are more than 88,000 water rights of record in the State of Oregon. Assuming a collection rate of less than 100 percent, this fee could net between \$6 to \$8 million in the first biennium, after accounting for start-up costs

This revenue could be used to support the services conveyed both in the protection and enforcement of priority dates and the relative system of water rights, as well as protection of existing rights of record afforded during review of proposed uses of water. These services are a proper and reasonable exercise of the Oregon Water Resources Commission's authority. The Water Resources Commission could adopt rules to administer and enforce this program, including the use of civil penalties for non-payment.

Increasing Cost Recovery on Water Rights Transactions

In 2007-09, the Water Resources Department recovered, on average, about 28 percent of its costs related to customer transactions, leaving the General Fund to subsidize the remaining costs. In 2009, the Oregon Legislature passed Senate Bill 788, authorizing increased cost recovery to an average of 50 percent. The bill increased existing fees and established new ones in order to meet this goal. Using the past 12 months as an indicator, the Depart expects to see its current fee schedule yield about \$1.62 million in water right fees during 2011-13.

The sharp decline in Oregon's General Fund budget has resulted in layoffs and is affecting the Department's ability to deliver on its core mission, including processing water right transactions in a timely manner and also providing other mandated services. Increasing cost recovery further through statutory modifications could help preserve the Department's core capacity. Increasing

to 60 percent cost recovery would result in approximately \$1.94 million (an increase of \$320,000) during the next biennium, while increasing to a 75 percent cost recovery scenario would yield approximately \$2.43 million in revenues (an increase of \$810,000).

Expanding the Reimbursement Authority Program

Today customers can pay 100 percent of transaction costs and receive expedited processing of their water right applications, certificates, and transfers. Staff members estimate the cost of processing an application at the outset of the work and bill the customer. Upon completion, the customer receives a refund if processing time was less than projected and receives a bill if processing time exceeded projection. The reimbursement authority program could be expanded to additional Department programs such as permit extensions, limited licenses, and Water Management and Conservation Plan (WMCP) review. If this program is expanded, it is estimated that it could result in up to \$100,000 of additional revenue per biennium for the Department.

During today's meeting, Commissioners are invited to discuss the options described above, particularly noting any concerns or issues that may affect the development of these options.

Inflation Factor

This is a technique the Department of Agriculture uses. ODA is the second largest licensing agency in Oregon. It has provisions in statute to add inflationary allowances so that license fees can be raised through rule-making if appropriate. This keeps healthy cash balances from being swept, and allows program to collect full costs. It gives the Department flexibility to charge "just the right amount." The Department can raise and lower fees as needed, and has a better opportunity to interact with stakeholders, discussing with them the value of the agency and the specific budget numbers. Fees are set and monitored by industry customers through formal Advisory Groups. The Department is thus able to show a one-for-one correspondence between fees and the programs they support.

III. Action Item

The Revenue Enhancement Subcommittee recommends that the full Water Resources Commission endorse the further investigation of these four revenue options in order to reduce dependence on General Fund and direct staff to continue to work with the Revenue Enhancement Subcommittee in this task.