



Staff Report

TO: Water Resources Commission

FROM: Bryn Hudson, Senior Policy Advisor
Lisa Snyder, Administrative Services Division Administrator

DATE: June 12, 2026

SUBJECT: Agenda Item J

BUDGET AND LEGISLATIVE UPATE

I. Introduction

This report provides an update on the 2027-2029 budget and legislative development process, including a summary of relevant policy option packages and legislative concepts. *This is an informational report.*

II. Integrated Water Resources Strategy Recommended Action

- 13.B Fund water resources management activities at state agencies

III. Background

Proposals for legislative concepts (LCs) were due to the Department of Administrative Services (DAS) on April 10, 2026, for the 2027 Legislative Session. The Department will receive final confirmation that the Governor's Office approves a concept moving forward by June 1, 2026, for non-placeholder concepts and July 15, 2026, for placeholders.

Draft proposals for budget policy option packages (POPs) were due to DAS and the Governor's Office on April 17. Further discussions will occur with the Governor's Office to determine which proposals will move forward. Final pricing for policy option packages is due in June, and the final agency request budget document is due to the DAS Chief Financial Office by July 31, 2026.

The Department met with interested parties on April 9, 2026, to discuss legislative proposals for the 2027 Legislative Session. The meeting recording and materials are posted on the Department's website at www.oregon.gov/owrd/programs/policylawandrules/LegislativeAndBudget.

The Department is also hosting issue-specific legislative meetings with interested parties. The Department is planning for public engagement related to the sunset date extension for the Deschutes Mitigation Program and opportunities for more flexible water management solutions throughout the summer.

IV. Legislative Concepts

The Department submitted four LCs for DAS consideration for the 2027 session. These proposals may change following additional discussion. LC descriptions and draft language can be found in Attachment 1.

V. Policy Option Packages

Governor Kotek has established expectations for the process each agency will use to develop Agency Request Budgets. Criteria for policy options packages include:

- Economic development: Investments that support job creation, spur business growth, and expand the state's revenue base.
- Implementation of recent Executive Orders.
- Affordability: Investments that make everyday life more affordable for Oregonians.
- Improving customer service and agency program efficiencies: Investments that modernize service delivery, streamline processes, and eliminate duplicative or low-value activities to improve outcomes within existing budgets.
- Protecting Oregon values: Focus resources on upholding civil rights, access to essential services, and state authority.
- **All general fund POPs should be net neutral and not require new revenue:** some exceptions, specifically as there is overlap with the implementation of recent executive orders or for continuation of existing work.

Attachment 2 provides a short summary of the draft policy option packages submitted to DAS.

VI. Conclusion

The Department has begun work on budget development and legislative concepts for the 2027 Legislative Session. Over the next few months, proposals will be narrowed and refined in coordination with the Governor's Office.

Attachments:

1. Potential 2027 Legislative Concepts
2. Potential 2027-2029 Policy Option Packages

Lisa J. Snyder
(503) 983-5801

Bryn Hudson
(503) 302-7584



Potential 2027 Legislative Concepts

Table 1. Potential areas of 2027 legislative session work. All concepts are pending approval from the Governor's Office.

LC/POP	Summary
LC 001	General spending authority: The Department does not have clear grant, direct payment and contracting authority unless otherwise granted by a specific program or appropriation made in law. This has resulted in uncertainty about the Department's authority to expend funds when the legislature makes appropriations directly into the Department's budget.
LC 002 (companion POP)	Conservation Reserve Enhancement Program Other Funds: The Conservation Reserve Enhancement Program (CREP) is a voluntary program operated through the USDA Farm Service Agency (FSA) in partnership with the Department that seeks to improve groundwater conditions by incentivizing landowners to voluntarily cancel groundwater rights. The program provides funding for up to 15 years of payments to landowners who volunteer to cancel groundwater rights. The Department's base budget was allocated \$500k for the program in general funds (GF) each biennium in the Greater Harney Valley; all unspent funds will go back to the state general fund at the end of each biennium. Because funds do not roll over and there is no distinct account for one-time appropriations, the Department prefers to payout lump sums to ensure water users cancelling the rights receive funds, rather than smaller payments over longer periods of time. This limits the maximum number of participants that can be enrolled at any given time. Establishing an "other funds" account provides location for one-time appropriations or legislatively approved carryforward of unspent GF to potentially commit to longer term contracts maximize the number participants enrolling in the program.
LC 003	Water resources management solutions (placeholder): As water becomes scarcer, Oregonians need a greater range of flexible solutions to meet both instream and out of stream needs, with appropriate sideboards to protect existing users and the resource. This concept is a placeholder for further conversations.
LC 004	Deschutes Groundwater Mitigation Program: The Deschutes Groundwater Mitigation Program was developed to allow new groundwater development in the Deschutes Basin while maintaining scenic waterway and instream water right flows. The program will sunset on 1/1/2029. If this program sunsets, no new groundwater permits can be issued in the Deschutes Basin. Further, some existing groundwater permit holders may not be able to fully develop their approved permits. Opportunities for program improvements require further evaluation and discussion, including highlighting the role of the Confederated Tribes of Warm Springs, who are co-managers of the resource in the Deschutes Basin and have Tribal Reserved Rights via a settlement agreement.

LC 001 General Spending Authority: DRAFT LC Language

Relating to expenditure of funds.

536.009 is amended to read: (1) There is established in the State Treasury the Water Resources Department Water Right Operating Fund, separate and distinct from the General Fund, to provide for the payment of the program and administrative expenses of the Water Resources Commission and the Water Resources Department in carrying out the provisions of ORS chapters 536, 537, 540 and 541 **or for the purposes appropriated or transferred to the fund by the Legislative Assembly**. Interest earned by the fund shall be credited to the fund.

(2) The fund shall consist of:

(a) All moneys received under ORS 536.050 and 537.747.

(b) All moneys received on behalf of the fund by gift, grant or appropriation from whatever source.

(3) All moneys in the fund are continuously appropriated to the Water Resources Department for payment of expenses as described in this section.

(4) The Department may enter into grant agreements, contracts, and make direct payments for the purposes appropriated or transferred to the fund by the Legislative Assembly.

LC 002 Conservation Reserve Enhancement Fund Other Funds: DRAFT LC Language

Relating to the Conservation Reserve Enhancement Program for Water Right Retirement.

Section 1. (1) There is established in the State Treasury, separate and distinct from the General Fund, the Groundwater Conservation Reserve Enhancement Program Match Fund. Interest earned by the Groundwater Conservation Reserve Enhancement Program Match Fund shall be credited to the fund.

(2)(a) All moneys in the fund are continuously appropriated to the Water Resources Department to provide the state contribution for water users who cancel ground water rights as part of enrollment in the federal Conservation Reserve Enhancement Program (132 Stat. 4534, 16 U.S.C. 3831a).

(b) This subsection applies only to water users in areas in which the department is not allowing new rights to use ground water for irrigation.

(3) The fund shall consist of all moneys credited to the fund, including moneys appropriated or transferred to the fund by the Legislative Assembly and public or private moneys from gifts, grants or donations.

Section 2. In addition to and not in lieu of any other appropriation, there is continuously appropriated to the Water Resources Department, for the biennium beginning July 1, 2027, out of the General Fund, the amount of \$___, for deposit in the Groundwater Conservation Reserve Enhancement Program Match Fund established under section 1 of this 2027 Act the purpose of providing the state contribution for water users who cancel ground water rights as part of enrollment in the Groundwater Conservation Reserve Enhancement Program.

Section 3. Notwithstanding any other law limiting expenditures, the limitation on expenditures established for Water Resources Department for the biennium starting July 1, 2027, as the maximum limit for payment of expenses from fees, moneys or other revenues, including Miscellaneous Receipts and including federal funds received under cooperative agreements with or contracts from the Bureau of Reclamation of the United States Department of the Interior, the United States Army Corps of Engineers, the United States Geological Survey, the Bonneville Power Administration and the National Fish and Wildlife Foundation, but excluding lottery funds and federal funds, collected or received by the Water Resources Department, for technical services, is increased by \$___, for authorized expenditures of moneys deposited in the Conservation Reserve Enhancement Program Match Fund.

Section 4. This 2026 Act being necessary for the immediate preservation of the public peace, health and safety, an emergency is declared to exist, and this 2026 Act takes effect on its passage.

LC 003 Water management solutions: DRAFT Placeholder LC Language

Relating to water resources management.

Section 1. (1) The Water Resources Department shall conduct a study of laws related to water resources management.

(2) The department shall submit its findings and recommendations for legislation to an interim committee of the Legislative Assembly no later than September 15, 2028.

Section 2. Section 1 of this 2025 Act is repealed on January 2, 2029.

Section 3. This 2027 Act being necessary for the immediate preservation of the public peace, health and safety, an emergency is declared to exist, and this 2027 Act takes effect on its passage.

LC 004 Deschutes Groundwater Mitigation Program: DRAFT LC Language

Relating to the Deschutes Basin ground water study area.

SECTION 1. Section 5, chapter 669, Oregon Laws 2005, as amended by chapter 694, Oregon Laws 2011 is amended to read: (1) The Water Resources Commission shall repeal the rules referred to in section 2, chapter 669, Oregon Laws 2005, on January 2, **2039** [2029].

(2) Ground water permits and mitigation projects approved before the repeal remain valid and effective.

SECTION 2. As used in this act:

(a) The “Confederated Tribes of the Warm Springs Water Rights Settlement Agreement” means the settlement agreement, including any amendments, executed by the United States, the State of Oregon, and the Confederated Tribes of the Warm Springs Reservation of Oregon, and as incorporated into the final judgment and decree of the Deschutes County Circuit Court, dated January 7, 2003, in case number 99CV038ST.

(b) The “Confederated Tribes of Warm Springs” means the Confederated Tribes of the Warm Springs Reservation of Oregon, a federally-recognized Indian tribe, a legal successor-in-interest to the Indian signatories of the Treaty of June 25, 1855, with the Tribes of Middle Oregon, 12 Stat. 963, and a sovereign cooperative manager of the water resources of the Deschutes Basin.

(c) “Consultation” means formal communication between the Water Resources Department with respect to the Department’s administration of the Deschutes Groundwater Mitigation Program, including, but not limited to how, the program may affect the Confederated Tribes of the Warm Springs Water Rights Settlement or the Confederated Tribes of Warm Springs’ other sovereign rights, privileges and interests in the waters of this state, including but not limited to treaty-protected rights.

SECTION 3. (1) Prior to adoption, repeal, or amendments of any rules related to the Deschutes Groundwater Mitigation Program, the Department shall request consultation with the Confederated Tribes of the Warm Springs. Any rules adopted, repealed, or amended related to the Deschutes Groundwater Mitigation Program shall be consistent with the Confederated Tribes of the Warm Springs Water Rights Settlement Agreement.

SECTION 4. ORS 537.746 is amended to read: (1) The Water Resources Commission may by rule establish a system of credits that may be used to offset the potential interference with hydraulically connected surface waters caused by ground water withdrawals within the Deschutes River Basin to account for projects performed in the basin that make water available for mitigation.

(2) A person proposing a project that makes water available for mitigation may apply to the Water Resources Department for approval of the project and a preliminary finding as to the amount of mitigation credits available, based on the amount of water made available by the project. Projects approved by the department shall comply with all other applicable provisions of law, including relevant portions of ORS 390.835, and may not result in injury to existing water rights, **including the Tribal Reserved Water Right as defined in the Confederated Tribes of the Warm Springs Water Rights Settlement Agreement.**

(3)(a) The amount of mitigation credits awarded for a completed project, or any completed phase of the project, shall be equal to the amount of water made available by the project as determined and approved by the department.

(b) A final award of mitigation credits by the department shall be made upon completion of the approved project by the applicant and verification by the department that the project is complete. The department may provide for a partial award of mitigation credits to correspond with completion of approved phases of project implementation.

(c) Mitigation credits shall remain valid until exercised by the holder.

(4) The commission may by rule provide for the recognition or establishment of mitigation banks to facilitate transactions among the holders of mitigation credits and persons who desire to acquire mitigation credits. The mitigation credits may be assigned by the person creating the project to another person or a mitigation bank.

(5) The Water Resources Department shall prepare an annual report on the implementation and management of the system of mitigation credits established by subsections (1) to (4) of this section.

SECTION 5. ORS 540.155 is amended to read: (1) As used in this section, “Deschutes Basin ground water study area” has the meaning given that term in ORS 540.531.

(2) The Water Resources Department shall periodically review the department program for the Deschutes Basin ground water study area. The review shall include, but need not be limited to, the identification of regulatory and statutory changes that may improve the program in order to address and mitigate injury to existing water rights, **including the Tribal Reserved Water Right as defined in the Confederated Tribes of the Warm Springs Water Rights Settlement Agreement** and spring systems and to offset measurable reductions of scenic waterway flows.

(3) The department shall report to the Legislative Assembly every five years on outcomes of the department program for the Deschutes Basin ground water study area. The report shall include, but need not be limited to, **program impacts to the Tribal Reserved Water Right as defined in the Confederated Tribes of the Warm Springs Water Rights Settlement Agreement**, program impacts on other users of the Deschutes River Basin, the potential timing of mitigation, identification of zones of impact, a review of impacts on the headwaters of the Metolius River and other key reaches of the Metolius River system, the potential timing of federal, state and local storage improvements, and other issues identified by stakeholders.



Potential 2027-2029 Policy Option Packages

Table 1. Policy option packages (POP) recommended for inclusion in the 2027-2029 Agency Request Budget. Some concepts are still under discussion with the Governor’s Office and the Department of Administrative Services.

POP Title	Issue	Proposed Solution	Estimated 2027-29 resources	GF
Recommended POPs				
Conservation Reserve Enhancement Program: carryforward	The Conservation Reserve Enhancement Program (CREP) is a voluntary program operated through the USDA Farm Service Agency (FSA) in partnership with the Department that seeks to improve groundwater conditions by incentivizing landowners to voluntarily cancel groundwater rights. The program provides funding for up to 15 years of payments to landowners who volunteer to cancel groundwater rights. The Department’s base budget was allocated \$500k for the program in general funds each biennium in the Greater Harney Valley. Because funds do not roll over and there is no distinct account for one-time appropriations, the Department prefers to pay out lump sums to ensure water users cancelling the rights receive funds, rather than issuing smaller payments over longer periods of time. This limits the maximum number of participants that can be enrolled at any given time. When the program first launched, more than 10 individuals applied for CREP, and the Department was only able to enroll three individuals, due to resource constraints.	Department LC 002 seeks to establish an “other funds” account and this POP requests carryforward of unspent GF from the 2025-27 biennium into the 2027-29 biennium.	\$40k GF \$40k OF	Yes
Feasibility Study Grants: carryforward	Feasibility Study Grants support investigations of project feasibility and are a critical step prior to investing in water infrastructure projects. The Department currently has \$472,505 unallocated general funds in the program account that will not be spent within biennium because there is not sufficient time to solicit and award grants and for those grantees to fully expend the resources. The Department anticipates there is a need for these funds in the 2027-29 biennium.	Carryforward unspent GF from the 2025-27 biennium into the 2027-29 biennium.	\$472k GF \$472k OF	Yes
Water Project Grants and Loans	OWRD’s competitive Water Project Grants and Loans programs provides direct investment in water supply, conveyance and storage projects that have economic, environmental, and social benefits. This program frequently serves as match for federal programs that invest in implementing water solutions with public benefits.	Recapitalize investments to continue to provide financial assistance via the grant program.	\$20 million LRB	No
Department of Justice Legal Expenses: carryforward	In 2025-27 the legislature allocated ~\$4.74 million one-time GF for Department legal expenses. The Department does not anticipate expending all of those resources by the end of the biennium but does anticipate a need for those funds in the 27-29 biennium. Legal issues continue to increase in the face of climate change, creative solutions to water scarcity, and an effort to reduce the backlog of protested applications. The Department anticipates an increase in applications for instream water rights submitted by ODFW to carry out directives in Executive Order 25-26 to increase protection of instream flows. Protests of instream rights make up about 75% of the Department’s contested case backlog; instream applications are protested at a much higher rate than other transactions. If the Department does not have the resources to pay for the contested case processes needed to resolve protests, then the instream rights cannot be issued and those flows cannot be protected, nor can protested consumptive use applications move forward. New legal expenses are anticipated from work on complex water issues, Tribal water right settlement work, a large contested case process associated with groundwater use reduction in the Harney Basin, and upcoming rulemakings.	Carryforward unspent GF from the 2025-27 biennium into the 2027-29 biennium.	\$1 million GF; OWRD still evaluating carryforward amount.	Yes

POPs still under discussion				
Placeholder: agency structure	This is a placeholder for potential agency organizational structure changes if needed.	Placeholder	All changes will maintain a net-zero budget impact.	No
Department of Justice Legal Expenditures: recapitalizing on-going funding	General funds have been appropriated to the Department each biennium for legal fees, which cover general counsel, processing protested water right applications and agency decisions, including the cost paid to the Office of Administrative Hearings, and litigation. General funds are appropriated to the Department for legal fees, both through biennial budget development and from requests to E-board each biennium to fill budget shortfalls. However, no permanent resources have been appropriated to the Department's budget in an amount sufficient to cover legal costs. Legal issues continue to increase in the face of climate change, creative solutions to water scarcity, and an effort to reduce the backlog of protested applications. The Department anticipates an increase in applications for instream water rights submitted by ODFW to carry out directives in Executive Order 25-26 to increase protection of instream flows. Protests of instream rights make up about 75% of the Department's contested case backlog. Adequate resources to quickly resolve protested applications improves protection of water instream and moves consumptive use applications forward. New legal expenses are anticipated from work on complex water issues, Tribal water right settlement work, a large contested case process associated with groundwater use reduction in the Harney Basin, and upcoming rulemakings.	Appropriate additional funds to base budget to supplement costs incurred for legal expenses.	\$3 million GF; OWRD is evaluating opportunities to narrow this request.	Yes
IT funding	<p>OWRD is currently missing critical functional areas in our IT systems and team. This includes gaps in: 1) infrastructure operation, which leaves core network, server, and security systems without proper oversight; 2) business intelligence & ETL, which hinders our ability to build the data pipelines or reporting capabilities needed for modernization and data-driven decisions; 3) IT project management, which means we cannot reliably plan, coordinate, or deliver technology projects required for modernization and 4) business analysis, which means we cannot consistently define requirements or prepare for upcoming modernization efforts.</p> <p>There are also funding gaps for vendor contracts needed to plan for and implement IT projects, including:</p> <p>1) SharePoint Transformation — ~\$50K The agency's current SharePoint environment is disorganized, difficult to navigate, and misaligned with how staff work—featuring confusing site structures, broken and inconsistent permissions, unused or misused collaboration spaces, and no automated workflows resulting in inefficiency, data sprawl, and poor user adoption.</p> <p>2) ESRI ArcGIS Architecture & Technical Review — ~\$25K Unstructured growth of the ArcGIS environment has created technical debt, performance risks, and inconsistent data management practices that undermine environmental analysis and reporting. ESRI's Architecture & Technical Review is needed to identify gaps and establish a secure, scalable, and sustainable GIS foundation.</p> <p>3) OWRD IT Strategic Transformation Planning (Phase 1) — ~\$100K The agency lacks a unified digital strategy, clear future-state vision, and structured assessment of current systems and business needs, limiting its ability to modernize effectively. A strategic transformation planning effort is required to conduct visioning, current-state and future-state analysis, and gap assessment to guide long-term modernization.</p>	<p>Appropriate additional resources for 4 FTE and additional vendor contracts for IT projects. Requested staff include:</p> <ul style="list-style-type: none"> - ISS7 Senior Network & Systems Engineer - ISS7 Business Intelligence & ETL Analyst - ISS7 Business Analyst - ISS8 IT Project Manager 	\$1.7 million GF (4 FTE; \$175k vendor contracts for projects). OWRD is evaluating opportunities to narrow this request.	Yes