



Memorandum

Oregon Department of Fish and Wildlife

Date: December 4, 2015
To: Commissioners
From: Bill Herber, Deputy Director for Administration
Subject: Financial Report & Budget Update

Department Financial Report

The Commission Financial Report for the 2015-17 biennium as of October 31, 2015 is provided as an attachment. Department wide, expenditures are within budgeted projections and available revenue.

As for the 2013-15 biennium, the Department is still in the process of administratively closing out that period. We have until December 31, 2015 to complete invoicing and reconcile ending fund balances. At that time the beginning balance for the 2015-17 budget will be finalized. Preliminarily, it appears that the ending fund balances are doing much better than previously projected. The Department has worked aggressively over the last biennium to downsize the agency, reduce expenditures, and improve program efficiency. These efforts have placed the Department in a better position than expected regarding our Operating Reserves. Attached to the end of this report is a document describing these ending balances and the factors that have contributed to improve them from earlier projections.

2015-17 Budget Development

The Department's Legislatively Adopted Budget document has been posted and is available on the public website at http://www.dfw.state.or.us/agency/budget/2015-17_budget.asp. This marks the final step in the 2015-17 budget development process.

Recreational License Revenue

Fishing (salmon and steelhead in particular) has been exceptionally good over the last year and the improving economy has resulted in some modest improvements in fishing and hunting license revenue trends. A year-to-date comparison shows 2015 as our highest grossing year within the last 5 years for recreational license revenue, rising approximately 1.5% (\$588,425) over the previous year.

Office of the Director

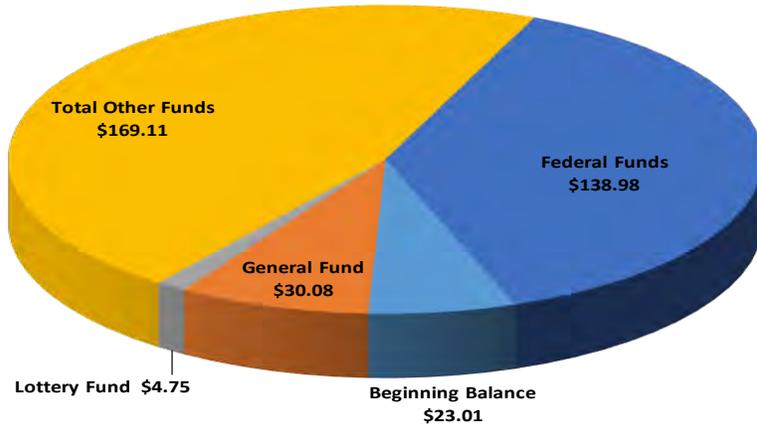
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**ODFW Financial Report for 2017 Biennium
December 4th, 2015 Commission Meeting
as of October 31, 2015
(in millions)**

	Legislatively Adopted Budget	Adjustments & E-Boards	Legislatively Approved Budget	Actuals as of 10/31/2015	% of Total Biennium Budget 17%
Beginning Fund Balance	23.01	-	23.01	45.72	
REVENUE					
General Fund	30.08	-	30.08	4.11	
Lottery Fund	4.75	-	4.75	1.19	
Other Funds	-	-	-	-	
Hunter/Angler	108.17	-	108.17	16.88	
Commercial Fisheries Fund	9.95	-	9.95	1.68	
All Other Categories	50.99	-	50.99	6.45	
Total Other Funds	169.11	-	169.11	25.01	
Federal Funds	138.98	-	138.98	13.78	
Total Revenue	342.92	-	342.92	44.08	13%
EXPENDITURES					
Wildlife					
General Fund	4.42	-	4.42	0.49	
Lottery Fund	1.18	-	1.18	0.11	
Other Funds	36.65	-	36.65	4.13	
Federal Funds	29.16	-	29.16	2.73	
Total Wildlife Programs	71.41	-	71.41	7.45	10%
Fish					
General Fund	21.78	-	21.78	2.44	
Lottery Fund	3.57	-	3.57	0.49	
Other Funds	66.11	-	66.11	9.33	
Federal Funds	98.69	-	98.69	13.25	
Total Fish Programs	190.16	-	190.16	25.50	13%
Administration					
General Fund	3.38	-	3.38	1.11	
Other Funds	40.78	-	40.78	5.43	
Federal Funds	5.82	-	5.82	0.48	
Total Administration	49.97	-	49.97	7.01	14%
State Police					
Other Funds	22.80	-	22.80	1.49	
Total State Police	22.80	-	22.80	1.49	7%
Debt Service					
General Fund	0.35	-	0.35	0.06	
Other Funds	1.83	-	1.83	0.25	
Total Debt Service	2.19	-	2.19	0.31	14%
Capital Improvement					
General Fund	0.15	-	0.15	0.02	
Other Funds	6.43	-	6.43	1.62	
Federal Funds	2.98	-	2.98	-	
Total Capital Improvement	9.56	-	9.56	1.64	17%
Capital Construction					
General Funds	-	-	-	-	
Other Funds	-	-	-	-	
Federal Funds	2.32	-	2.32	-	
Total Capital Construction	2.32	-	2.32	-	0%
Agency-wide					
General Fund	30.08	-	30.08	4.11	14%
Lottery Fund	4.75	-	4.75	0.60	13%
Other Funds	174.60	-	174.60	22.25	13%
Federal Funds	138.98	-	138.98	16.46	12%
Total Expenditures	348.42	-	348.42	43.41	12%
ENDING BALANCE	17.52	-	17.52	46.39	

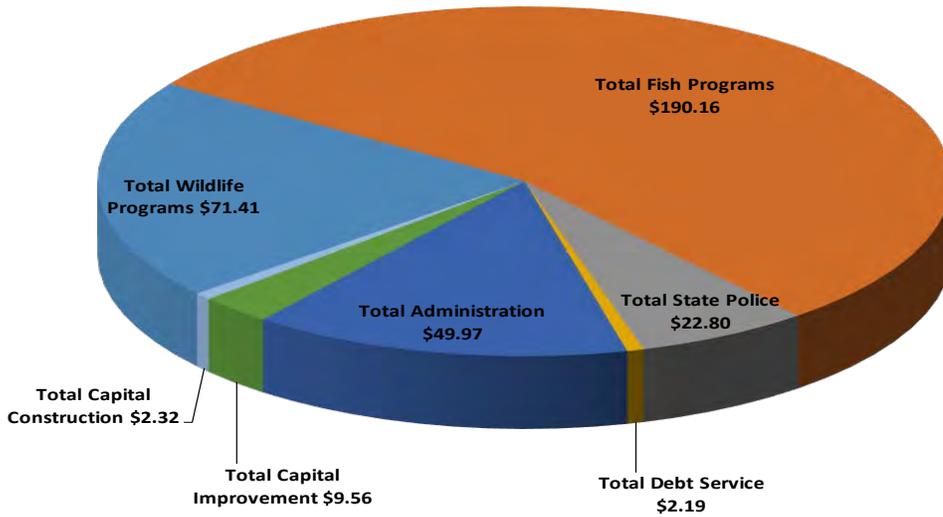
**Oregon Department of Fish and Wildlife
2015-17 Legislatively Adopted Budget - Revenue**

\$365.93

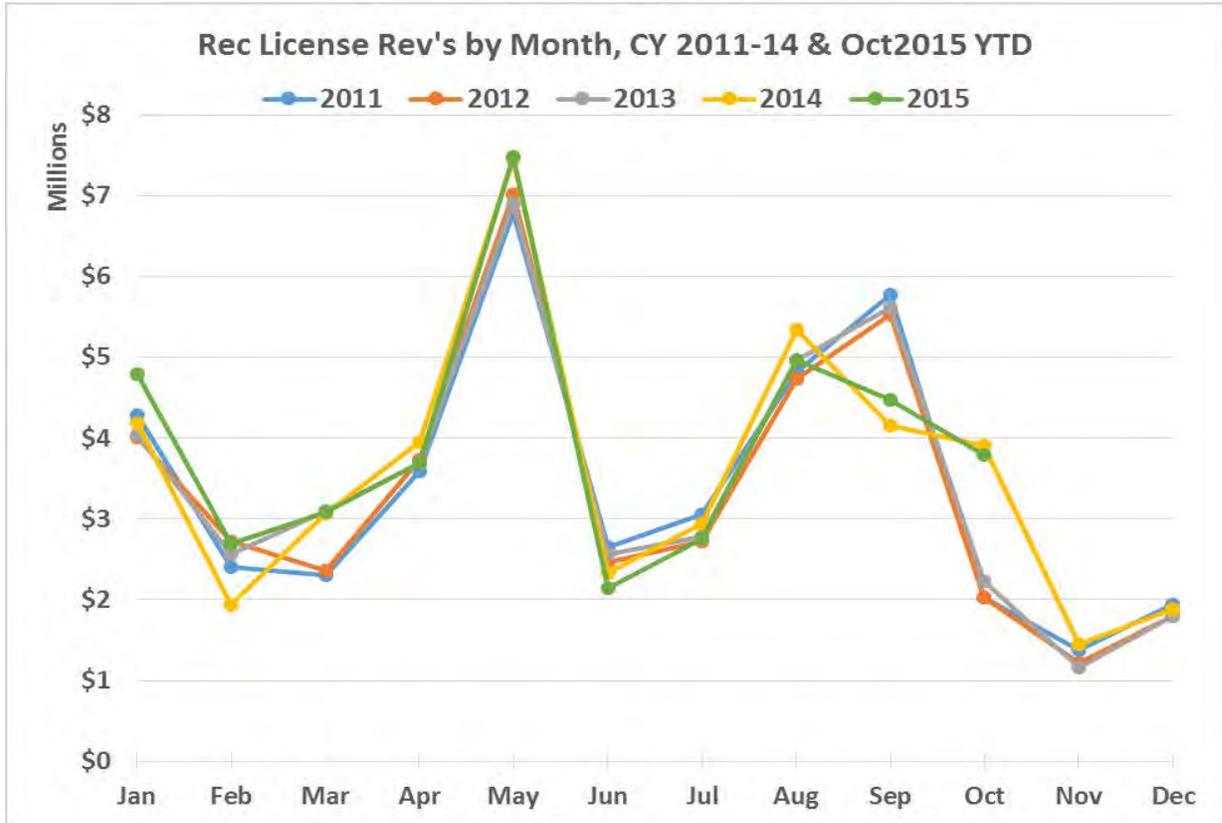


**Oregon Department of Fish and Wildlife
2015-17 Legislatively Adopted Budget - Expenditures**

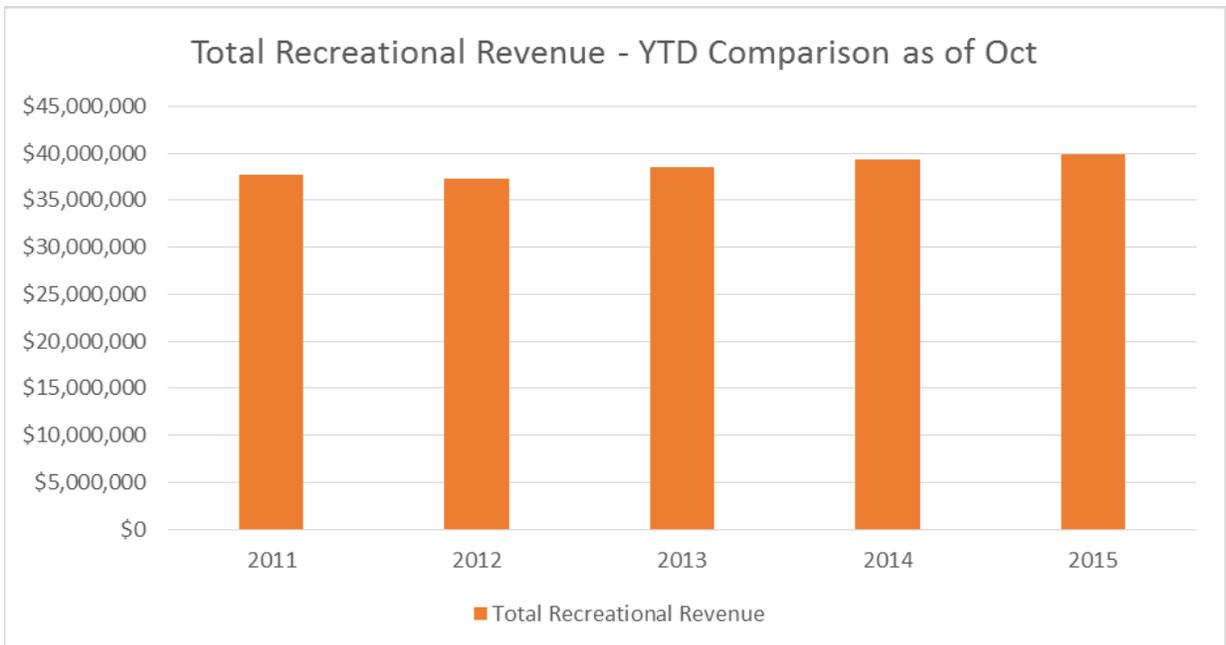
\$348.42



**Recreational License Revenue by Month
Complete Year 2011-2014, Year-to-Date 2015 as of October 2015**



Total Recreational Revenue – Year-to-Date Comparison as of October for Last 5 Years



Oregon Department of Fish and Wildlife

2013-15 Ending OF Balance, Projections vs. Actuals Fact Sheet



	Ending Balance Projections	Ending Balance Actuals*	Variance
Other Fund - License	7,198,713	16,345,945	9,147,232
Other Fund - Obligated	9,034,846	11,869,539	2,834,693
Other Fund - Dedicated	9,851,679	17,004,295	7,152,616
Total OFs	26,085,238	45,219,779	19,134,541

*as of September 30, 2015

Overview

The Oregon Department of Fish and Wildlife maintains an ending cash balance to ensure sufficient operating revenues are available to sustain day-to-day operations. The ending cash balance consists of both the Operating Reserve (License Funds) and separate Dedicated and Obligated Funds, which can only be used for specific program expenditures. The Operating Reserve covers monthly operating costs such as federal contract receivables, payroll and related benefit costs, and accounts payable, as well as any unexpected emergency costs.

Historically, in order to maximize the resiliency of the Department, an Operating Reserve balance equal to roughly 2 months of operational costs was identified as the minimum amount to ensure that emergency expenditures or federal reimbursement issues did not jeopardize ODFW's operational ability. Over the last 2 biennia, due to lower than projected revenues, higher than expected expenditure costs and shifts from General Funds, overlaid with the Great Recession, ODFW's Operating Reserve was being depleted to cover operational costs more quickly and to a lower level than planned. To address this draw-down of the Reserve, the Department implemented an aggressive strategy to reduce costs, shift expenditures to other fund types, and implement a license fee restructuring. This 3-pronged approach was instrumental in addressing a projected \$32 million gap for the 2015-17 biennium between revenues and expenditures.

In development of its budget for the 2015-17 biennium, ODFW projected its Other Fund (OF) beginning balance to be \$26 million, and more importantly, its Operating Reserve of License Funds to be only about \$7.2 million, well below even a month of operational costs, which is about \$13 million. As the 2015-17 biennium began, it became apparent that the projections were below what was actually transpiring. As of September 30, 2015, ODFW's OF ending balance was \$45.2 million and its Operating Reserve was \$16.3 million. These numbers are preliminary pending the December 31 close of the 2013-15 biennium, however, they are indicative of a favorable position for the Department.

Why were actuals so much higher than projected?

Many factors contributed to the higher than projected fund balances. Revenues were higher than projected, expenditures were lower than anticipated, and the timing of various projects and incoming revenue all added to the OF balance.

Fish license revenues were higher than expected due to good ocean conditions for the past two years. This resulted in high returns of both salmon and other marine fish. More daily angling licenses and angling tags were sold earlier in the year to take advantage of the additional opportunities. Wildlife revenues were also higher than expected. In 2014, ODFW implemented a mandatory reporting fee that charged hunters who failed to report their previous years' hunting activity. This information is critical for our management strategies and so the penalty fee was implemented to encourage hunters to report. Projections of this revenue was expected to be low since this was an avoidable charge, however, revenues from this penalty came in much higher than anticipated. These revenues are expected to decline greatly now that hunters are more aware of the fee.

Department-wide, expenditures were lower than expected due to aggressive efforts to control costs and improve efficiency. There were also numerous unanticipated savings as well, such as the drop in fuel prices and various project delays. Position vacancy savings resulted in significant unanticipated reductions in costs. As part of the Department's effort of program reductions, 48 license-funded positions were slated for elimination or reduction by the 15-17 biennium. During this time, all vacancies began with internal recruitments in order to maximize the opportunities for employees on the reduction list. This resulted in eliminated positions being vacated much sooner than anticipated and led to a large cascading savings effect as promotional opportunities came open from internal staff movement.

Timing also affected the OF balances. Many large projects, such as Restoration and Enhancement projects, not being completed as scheduled resulted in lowered expenditures, with some of their costs moving into the 15-17 biennium. The Department also recovered a considerable backlog of federal revenue that ultimately was a major factor of the infusion of cash to the Operating Reserve.

Other Fund Types

It is important to understand the different fund types within the Department's Other Funds in order to appreciate the difference between the OF balance and the Operating Reserve. ODFW splits OFs into three categories; License, Obligated, and Dedicated. Only License Funds are fungible and they alone can be used as working capital.

License Funds – These funds are generated by the sales of licenses and tags to the general public.

- Used for general operations and operating capital.
- License Funds saw its most considerable increase as months' worth of federal costs were recovered starting in late 2014. This increase was due to the timing of federal payments and improvements in ODFW's Accounts Receivable systems and processes.

Obligated Funds – Funds that are obtained from contractual obligations, including indirect costs associated with Federal contracts.

- Used for specific, project-oriented purposes and are directly tied to expenditures. Some examples include the Pacific Coastal Salmon Recovery Fund, ODOT's Fish Mitigation Agreement, and fish carcass and egg sales.
- Obligated Funds realized a significant increase over projections as ODFW saw higher receipts from Federal Fund sources at a higher indirect rate, resulting in the higher indirect revenue.

Dedicated Funds – Revenue derived from the sales of licenses and other fees that are statutorily dedicated for specific purposes.

- The Commercial Fish Fund is the largest source of revenue for Dedicated Fund types. Record-level commercial fisheries, both in values and harvest numbers, led to a large unexpected increase in Dedicated Funds due to the collection of ad valorem taxes.
- Other examples of Dedicated Funds are the Recreational Shellfish Fund, Natural Production Hydro Fund, and the Access & Habitat (A&H) and Restoration & Enhancement (R&E) programs.
- Both A&H and R&E contributed to the increases in Dedicated Funds. Within R&E, several large projects were unable to be completed as scheduled during the last biennium, thus expenditures were much less than anticipated. These projects are anticipated to be completed this biennium. For A&H programs, the fire season limited the ability to implement the programs at their planned levels. Additionally, both these programs receive a surcharge from license sales, consequently the increase in beginning of the year license sales also drove up revenue for these funds.

Frequently Asked Questions

Does ODFW need to maintain an Operational Reserve? Yes, 90% of ODFW's funding is from Federal and OF sources, neither which are steadily distributed. Federal awards are often delayed by extended processing times, federal appropriation cycles, government shutdowns, and other mitigating factors outside of the Department's control. To continue operations without interruption, ODFW relies on License Funds to finance operations until the federal government can retroactively reimburse for past work. Relying on License Funds is effective only if license sales remain consistent. Historically, the volume of license sales varies widely dependent on the time of year. Currently ODFW targets one month of operating reserves, about \$13 million, however best practices recommend maintaining enough reserve to cover three months, or roughly \$39 million.

Did ODFW need a fee adjustment given this higher than projected fund balance? Yes, the fee schedule was developed to cover three biennia worth of expenditures and was a major component of the Department's budget for that period. The current fund balance only puts ODFW in a position of having a healthy Operational Reserve that is needed for day-to-day operations.

Could ODFW have reduced some of the fee increases using this revenue? No, the department has only one month of working capital even with the additional fund balance. It would have been reckless to continue operating the Department with such a low Operating Reserve.

Can ODFW use this increased fund balance for future license fee decreases? Yes, ODFW's leadership is interested in lowering fees if it can determine that doing so does not jeopardize the long-term viability of the Department to execute its mission. ODFW has an ambitious goal to not require an additional fee increase at the end of the current 6-year cycle, as well as be in a financial position that would negate the need to implement the third step increase of the current fee schedule. A healthy Operating Reserve will be paramount in ensuring the Department has the operational ability to achieve this goal.