

Secretary of State Audit Report

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Oregon Department of Fish and Wildlife: Financial Condition Review

Executive summary

A review of ODFW's financial health found a recurring cash flow problem that has repeatedly put the agency's financial health at risk.

ODFW's expenses have grown faster than revenues for many years. Personnel expenses and inflation are driving up costs, and there is also a growing backlog of facilities maintenance. Further, ODFW's scope of responsibilities has expanded over the years due to increased activities within the state that affect fish, wildlife, and their habitats.

A steady decline in users since the 1970's has put pressure on license revenues. The agency relies heavily on users to fund its broad range of fish, wildlife, and habitat activities. While periodic increases in license and tag fees has helped to stabilize these revenues, continuing fee increases risks pricing users out and further decreasing revenues.

Federal support for ODFW's activities has increased in the past decade, though that trend is not expected to continue. State support provides a small portion of its budget. Moreover, ODFW's federal and state revenues have many spending restrictions.

Although shortfalls have been dealt with, in part, by fee increases, this and other solutions have not been able to address the underlying nature of this problem.

Estimated Shortfalls to Maintain ODFW's Current Service Levels, 2003-2017

Budget Proposal Year	Estimated Budget Shortfall	Year License and Tag Fees Increased
2003-2005	\$8 million	2004
2009-2011	\$17 million	2010
2015-2017	\$32 million	<i>Proposed for 2016</i>

While this report offers financial highlights, it did not completely assess the reasons that led to the current situation. Further audit work will analyze activities and explore additional strategies for managing the gap between responsibilities and resources.

Agency response

The agency response is attached at the end of the report.

Background

Overview

Oregon has a rich variety of habitats where a broad array of fish and wildlife provide aesthetic and recreational opportunities. The Oregon Department of Fish and Wildlife (ODFW) is responsible for protecting and enhancing Oregon's fish and wildlife, and their habitats.

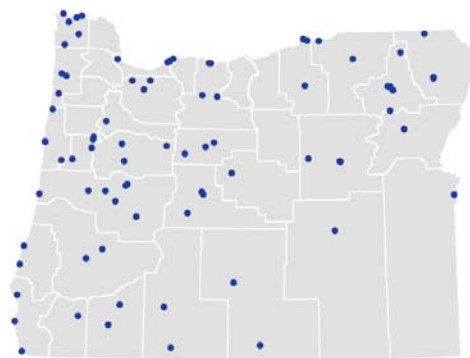
The agency faces competing priorities. One central duty is protecting species and habitat. At the same time, the agency is responsible for providing hunting and angling opportunities to Oregonians.

Expanding human development continues to impact species and their habitats. Yet ODFW has limited regulatory authority over the land species' inhabit. Much of how the agency accomplishes its mission depends on the cooperation of other state and federal agencies, and private landowners.

Organizational structure

ODFW is headquartered in Salem and manages the state's fish and wildlife regulations and policies through its Fish Division and Wildlife Division. The agency has locations across the state, including district offices, research centers, fish hatcheries, maintenance shops, and wildlife areas. See Figure 1.

Figure 1: Map of ODFW Facilities



The Governor appoints a seven-member board, the Oregon Fish and Wildlife Commission (Commission), to guide ODFW. The Commission selects the agency director and sets fish and wildlife policies for the state. For example, the Commission sets the seasons for recreational and commercial salmon harvests, and approves land purchases to further the mission of the agency.

ODFW relies upon a broad array of stakeholder input to develop its budget. Examples include regional town hall meetings and its External Budget Advisory Committee, which includes over 50 members from industry, sport, and conservation groups.

ODFW provides programs and services to help protect, enhance, and research fish, wildlife and their habitats. Some program activities include conducting regular monitoring of certain species, relocating wildlife, and providing assistance for habitat restoration.

Figure 2: Fish monitoring project at Salmon River Hatchery, October 2014



ODFW staff provide technical assistance regarding land use activities to local, state and federal agencies, businesses, and private landowners. Staff expertise is requested when developments impact fish and wildlife, and their habitats. For example, ODFW staff provided recommendations on where to place wind turbines. Field staff also receive complaints about wildlife damage and provide advice to landowners on how to mitigate future damage.

For the 2013-15 biennium, ODFW has approximately 1,260 full time equivalent employees. Due to the seasonal nature of some work, such as fish monitoring, a portion of employees are part-time and only work during certain times of the year.

Oregon State Police's Fish & Wildlife Division (OSP F&W) enforces fishing and wildlife laws, and protects natural resources. While OSP F&W troopers primarily focus on fish and wildlife enforcement, they also provide a broad array of public safety services when needs arise.

Oregon's fish & wildlife

Oregon has about 600 species of amphibians, birds, fish, mammals, and reptiles that are non-game wildlife; they are not fished, hunted or trapped. They make up roughly 90% of the state's fish and wildlife species.

Both Oregon and the federal government maintain separate, sometimes overlapping, lists of threatened and endangered species. These species

have such low populations that they are at risk of becoming extinct. As of October 2014, there were about 50 listed threatened and endangered species in Oregon.

Oregon's native salmon populations have significantly declined from historic numbers 150 years ago. Human development, and in particular dams, have contributed to the decline. A 2005 study found Coastal Coho salmon had decreased to less than 20% of historic runs. Modern salmon runs have set record highs in recent years, yet those records still fall well below historic levels.

While some of Oregon's game populations have increased annually, such as cougars, certain populations remain stable, like the pronghorn antelope. Others are on the decline; mule deer is a prime example. To help estimate the population sizes, ODFW staff conducts cyclical surveys for about 20 species or groups.

Hatcheries

It is estimated that more than 70% of fish caught by recreational anglers and 75% of salmon commercially harvested are hatchery produced. ODFW operates 32 hatcheries, 8 of which are solely state funded.

Hatcheries raise several species of salmon and trout. Hatchery fish are used to supplement native fish populations and provide sport, commercial, and tribal anglers with fishing opportunities. About 50 million fish were released into rivers, streams, lakes, ponds and reservoirs in 2013.

Fish & wildlife habitat

ODFW owns a small piece of Oregon's natural landscape. It manages 16 major wildlife areas throughout the state. The areas total nearly 200,000 acres or about 0.3% of the state's land. These areas are for wildlife use and public recreation.

Close to half of Oregon's land is privately owned. ODFW depends on cooperation from other entities and private landowners to allow public hunting access, and to improve habitat. Property tax breaks and other incentives are available for landowners who adopt management practices on their land.

Fish & wildlife impact to Oregon's economy

2006 Estimated Economic Impact to Oregon, in 2013 dollars

Hunters	\$432 million
Anglers	\$574 million
Wildlife Viewers	\$897 million

Hunting, fishing, and wildlife viewing activities make a significant impact on the economy. Participants spend money to travel and purchase equipment and gear, directly supporting businesses and jobs. Using 2013 dollars, the 2006 National Survey of Fishing, Hunting, and Wildlife-Associated Recreation found sportsmen and wildlife viewers contributed an estimated \$2 billion to Oregon's economy.

Oregon's commercial fishing industry is another contributor to the state's economy. The industry's estimated total economic effects, including distant water fisheries, were at least \$618 million for 2013.

Over the years, ODFW hatcheries have had more salmon return than necessary to produce the next generation of hatchery fish. Those extra salmon, which totaled over 350,000 pounds in 2014, were donated to food banks across the state.

Audit Results

ODFW has a recurring cash flow problem that has repeatedly put the agency's financial health at risk. With the agency's expenses outpacing revenues, its operating reserves have been routinely depleted and refilled.

The purpose of this review was to assess ODFW's financial health. Financial health relates to an agency's or government's ability to maintain existing service levels, withstand economic disruptions, and meet the demands of natural growth and change.

ODFW has an imbalance in its revenues, expenses, and scope of responsibilities. The agency relies heavily on users to fund its broad range of fish, wildlife, and habitat activities. A steady decline in users since the 1970's has put pressure on license revenues. It will become more difficult to rely on user revenues if this trend continues.

Inflation, expanding responsibilities, and a growing backlog of maintenance are driving up spending needs. These factors are significant challenges for the agency. Budget shortfalls keep compounding. The past strategy for operating the agency is likely unsustainable in the future.

While this report offers financial highlights, it does not completely assess the reasons that led to the current situation. Further audit work will analyze activities and explore additional strategies for managing the gap between responsibilities and resources.

Recurring cash flow problem

Fee increases have been a recurring issue since 1975

"Could you supply me with an explanation of the increase in fish and game licenses, also why it was proposed?"

Archived Memo from Senate Majority Leader Fred Heard (D-Klamath Falls) to Legislative Fiscal Office in 1975

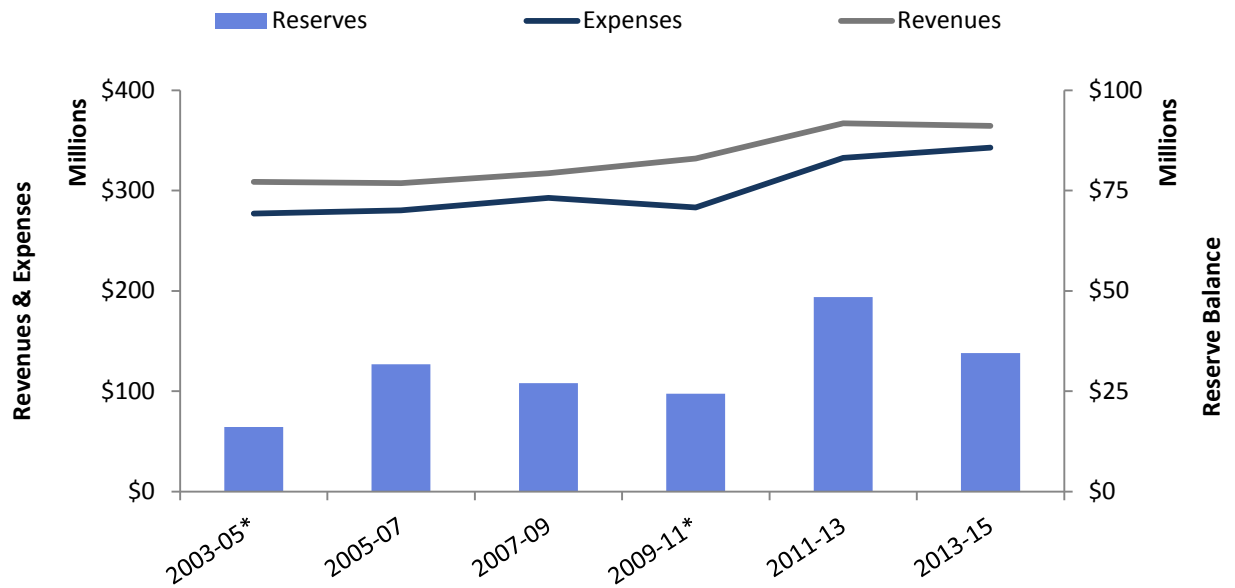
Legislative Fiscal's response included *"Simply stated, the problem of the Wildlife Commission is that the cost of inflation is outstripping the growth rate of [license revenue]."*

Optimistic revenue projections, increasing expenses, and the use of reserves have all contributed to the agency's cash flow problem. Without increasing revenues or changing current services, revenues are projected to fall below expenditures. This would deplete available reserves and result in a budget shortfall for the 2015-17 biennium.

ODFW's current business model anticipates higher reserves during the beginning of a fee increase cycle and reserves are drawn down over time. The Legislature has approved license fee increases to maintain and expand services. Increases have also helped to address the cash flow problem by bolstering reserves, as shown in Figure 3.

Reserves allow the agency to cover payroll and other expenses while waiting for revenues to come in, such as federal reimbursements that can take up to a year. If reserves are drawn down too rapidly, it creates a cash flow problem. ODFW is proposing a transition to a two year model for fee adjustments and suggested this could help address part of the cash flow problem.

Figure 3: Revenues, Expenses, and Reserves, 2003-2015 Ways & Means Presentations, in 2013 dollars



* Increased license fees went into effect in 2004 and 2010

ODFW has experienced repeated and increasing budget shortfalls. Budget shortfalls represent the difference between projected revenues and expenses related to maintaining current services. As shown in Figure 4 below, the estimated budget shortfall has roughly doubled between each fee cycle.

Figure 4: Estimated Shortfalls to Maintain Current Service Levels, 2003-2017

Budget Proposal Year	Estimated Budget Shortfall	Year License and Tag Fees Increased
2003-2005	\$8 million	2004
2009-2011	\$17 million	2010
2015-2017	\$32 million	Proposed for 2016

Although budget shortfalls have been addressed, in part, by fee increases, these and other solutions have not been able to address the underlying nature of this problem.

Even with fee increases, resulting proceeds have not always met expectations. For example, actual fee revenue from the 2010 increase has come in almost \$16 million below the original projection. Some potential explanations include declining recreational participation due to higher non-resident fees and the lingering impacts of the recession.

A legislative report from 2000 found the agency’s efforts to address previous shortfalls were not always successful and solutions tended to be temporary. The report noted “permanent reductions that would have lowered costs into subsequent biennia, such as the elimination of positions and base program work, tended to be avoided.”

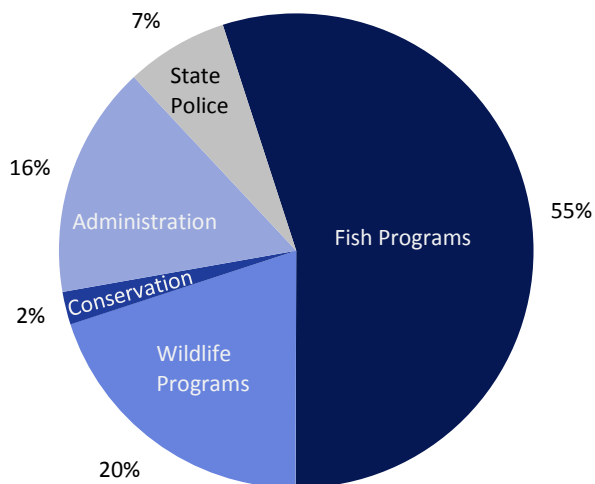
ODFW's efforts to address the 2015-17 budget shortfall have included more permanent actions such as layoffs and reducing headquarter facility expenses. These efforts are detailed later in this report.

Expenses growing faster than revenues

Absent fee increases, ODFW's expenses have grown faster than revenues for many years. If this trend persists in the future, the agency will continue to face recurring cash flow problems.

Fish programs are the largest programmatic expense at ODFW. The Fish Division accounts for more than half of approved spending, as shown in Figure 5 below.

Figure 5: Approved Spending by Program Area, 2013-15



Within each of the five areas, personnel costs are the largest and one of the fastest growing expenses.

Deferred maintenance of properties grows as time goes by. It is likely that maintenance spending will need to increase in the future as facilities age, which could add to expense growth.

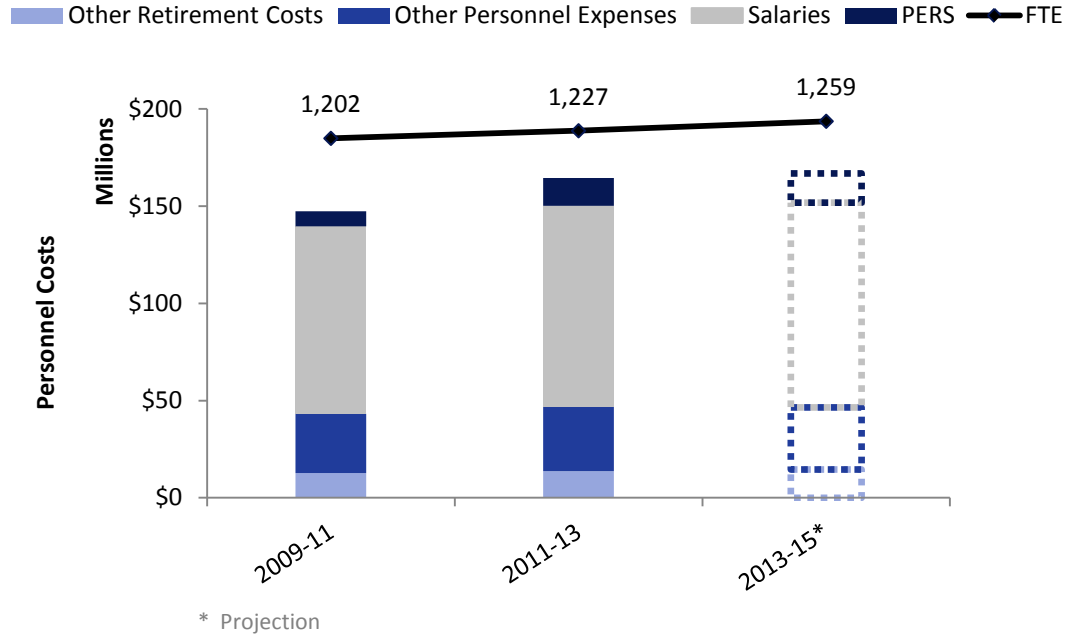
Personnel costs

Over half of the agency's budget goes to pay employees' salaries and benefits. During the past six years, the agency has received funding for about 1,200 FTE, with peak employment in 2013-15.

Personnel expenses grew by approximately 12% in 2011-13, faster than the growth of revenues during the same period.

In recent years, all state agencies have faced pressure from rising retirement contributions. For ODFW, contributions to the Public Employees Retirement System (PERS) have roughly doubled from almost \$8 million in 2009-11 to over \$14 million in 2011-13, see Figure 6.

Figure 6: ODFW Personnel Costs, 2009-2015, actual dollars, budgeted FTE



The agency reported holding some positions vacant and relying on more seasonal and temporary positions to control costs in recent years.

OSP F&W expenses

ODFW’s funding for OSP F&W enforcement has increased over the past six years. Increases have included absorbing administrative costs, fleet costs, and trooper pay rate adjustments. For example, the state approved contract included step increases and pay compression/pay parity. According to union publications, pay increases for troopers ranged roughly from 9% to nearly 30% for the current biennium.

Outstanding liabilities

Deferred maintenance poses major risk

Fish hatcheries, especially solely state-funded ones, and other facilities have limited maintenance budgets. When maintenance is neglected, it can lead to problems that are more expensive.

Figure 7: Rotting Fish Screen, one of several maintenance issues observed at ODFW hatcheries



According to ODFW, a 2005 assessment of repairs needed at ODFW's facilities found about \$93.6 million in maintenance needs. ODFW records show about \$7.5 million in completed projects since 2005.

Many ODFW hatcheries have been in continuous operation from the early 1900's, with different levels of renovations. A handful began operation within the last 40 years. Over time, it is reasonable to expect that maintenance costs will increase as facilities age.

At one hatchery we visited, ODFW staff discussed maintenance concerns, such as fish screens that were about to fail, as shown in Figure 7. If this screen did fail, thousands of juvenile fish would be prematurely released. Many would likely die and the loss would cost taxpayers thousands of dollars.

Minimal debt burden

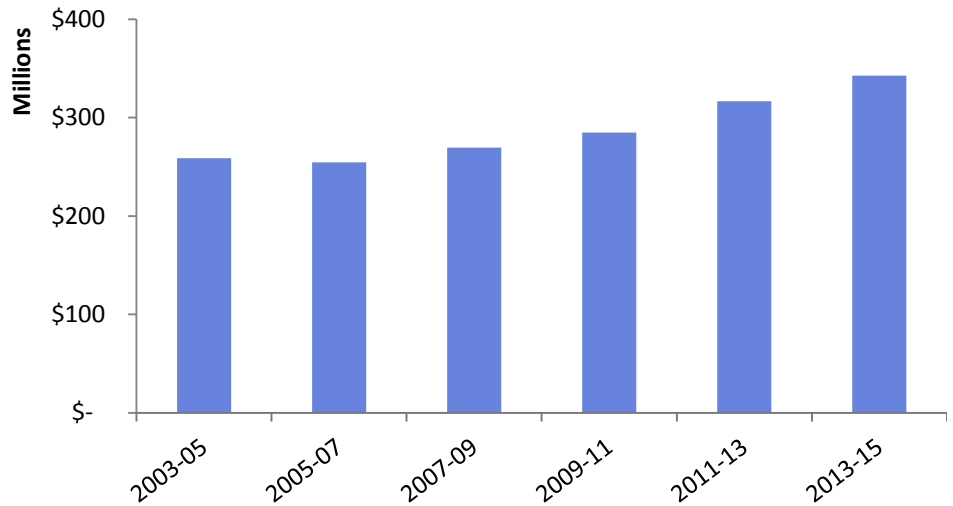
ODFW carries little debt other than the bonds used to purchase a new headquarters in 2012. Annual payments on that debt are about \$1 million.

Revenues stable yet have restrictions

Fish and wildlife agencies in the U.S. are largely funded by users through recreational and commercial license sales, and federal taxes on guns, ammunition, and boating equipment. Like Oregon, most fish and wildlife agencies are facing fiscal challenges.

In Oregon, total revenues have seen a modest increase over the past decade when factoring in inflation, as shown in Figure 8. This is in part due to license and tag (license) fee increases, which typically occur every six years, and additional federal support. ODFW's proposed budget for the 2015-17 biennium is slightly lower than 2013-15 levels when factoring in inflation.

Figure 8: ODFW Revenues, 2003-2015, in 2013 dollars



Note: Actuals 2003-2013, Approved budget 2013-15

Revenues have many spending restrictions

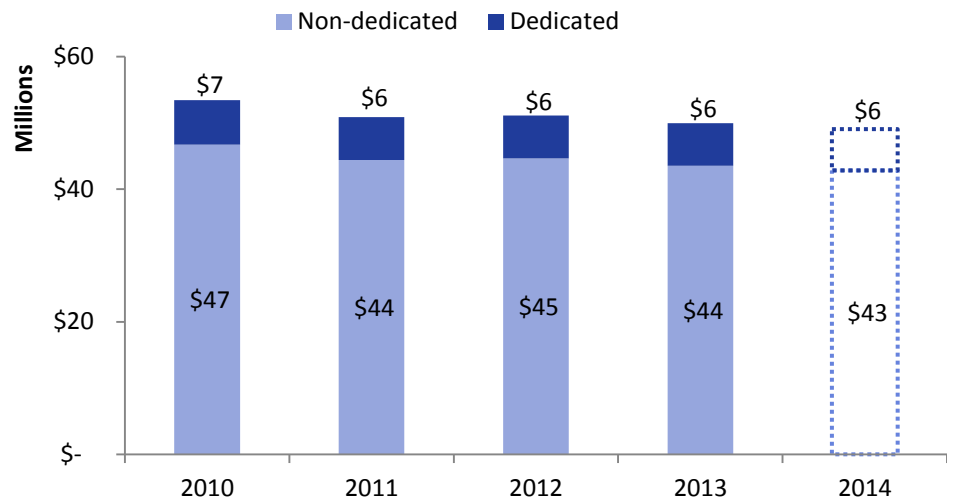
ODFW has many restrictions on how it spends revenues to meet its mission. For example, around one of every eight dollars in license revenue is dedicated to specific programs, such as habitat improvement or increased access for users. Some federal mitigation revenues can only be used to address the impact of dams. Other federal revenues require a matching contribution, effectively limiting how those dollars can be spent.

State support also has some restrictions. For example, a portion of ODFW’s budget is earmarked for OSP F&W. The agency also receives lottery profits through Measure 76 that must be used for watershed enhancement and conservation and recovery plans.

License revenues relatively stable

The number of hunting and angling licenses sold has been declining since the 1970’s. While fees have increased over time, when inflation is factored in, license revenue has remained relatively stable, with some minor declines in recent years as shown in Figure 9.

Figure 9: Hunting & Angling License Revenue, 2010-2014, in 2013 dollars



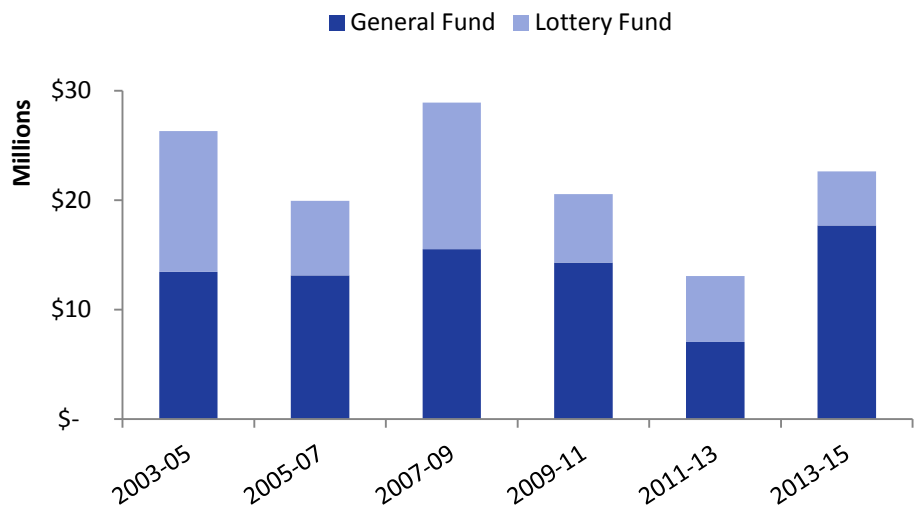
Note: 2014 includes projections

State support

ODFW receives a small amount of state support from the General Fund and lottery profits. State support has fluctuated in the past decade, as shown in Figure 10. Support has ranged from 4% to 11% of the agency’s budget.

ODFW’s portion of lottery profits has changed over time, due in part to the passage of Measure 76. This measure, effective July 1, 2011, reduced the amount of lottery funds that could go directly to state agencies.

Figure 10: State Support, 2003-2015, in 2013 dollars



Note: Actuals 2003-2013, Approved budget 2013-15

The Governor’s 2015-17 Recommended Budget proposed an increase of about \$8.5 million in General Fund support to ODFW. Nearly half is

dedicated for specific purposes. About \$2 million is for sage grouse and sagebrush habitat efforts, and \$2 million is for Columbia River fish management and reform.

Oregon's percentage of state support appears to be on the lower end when compared to neighboring states. Washington, California, and Alaska receive more state support. Idaho receives no state support. Idaho sells more non-resident hunting licenses than Oregon, Washington, and California combined. However, subsidies and scale of operations differ between the states.

Federal support has increased, but expected to decline

Overall, ODFW's federal support has increased over the past decade, but that trend is not likely to continue.

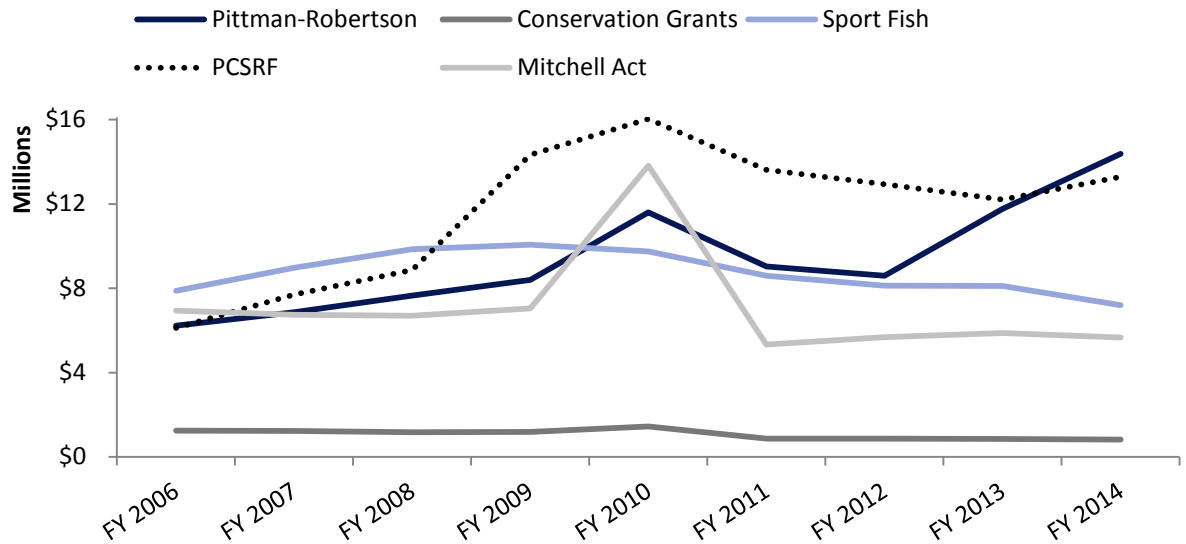
Federal support pays for a wide range of programs from education and outreach to on-the-ground projects. Some key sources of federal support include the Pittman-Robertson Wildlife Restoration Act, Sport Fishing Restoration Act, Mitchell Act, Pacific Coastal Salmon Recovery Fund (PCSRF) and Wildlife Conservation Grants.

Some federal support has increased in recent years, see Figure 11, but other support has stayed relatively constant. For example, Pittman-Robertson funds, which come from a federal tax on guns and ammunition, have increased in recent years as sales swelled. On the other hand, annual Wildlife Conservation grants have remained at just over \$1 million per year over the past decade.

The federal and state officials we spoke to expect Pittman-Robertson funds to stabilize or decline in the future. In addition, the Congressional Budget Office anticipates "that spending for discretionary programs is expected to decline significantly over the next 10 years". Lower federal spending will ultimately reduce funding for state natural resource agencies, like ODFW.

Mitchell Act contracts typically take 10 months to finalize, requiring ODFW to carry approximately \$5 million in operating reserves

Figure 11: Selected Federal Support to Oregon, in 2013 dollars



Note: Federal Fiscal Year (FY) 2010 includes stimulus dollars [American Recovery & Reinvestment Act]

Hunting & fishing participation: decades-long decline, recent stabilization

In the 1970's, roughly one in four Oregonians went fishing and one in seven went hunting. By 2013, the rate of user participation declined by half, see Figure 12. Similar declines have occurred across the nation. Recently, only about one in eight Oregonians went fishing and one in seventeen went hunting.

In the 1970's

1 in 7 Oregonians went hunting
1 in 4 Oregonians went fishing
Oregon had 340,000 resident & 5,000 non-resident hunters
Oregon had 560,000 resident & 130,000 non-resident anglers
A hunting license cost \$7 in 1976 (\$28.66 in 2013 dollars)
A fishing license cost \$9 in 1976 (\$36.85 in 2013 dollars)

In the 2010's

1 in 17 Oregonians went hunting
1 in 8 Oregonians went fishing
Oregon had 240,000 resident & 15,000 non-resident hunters
Oregon had 490,000 resident & 120,000 non-resident anglers
A hunting license cost \$29.50 in 2013
A fishing license cost \$33.00 in 2013

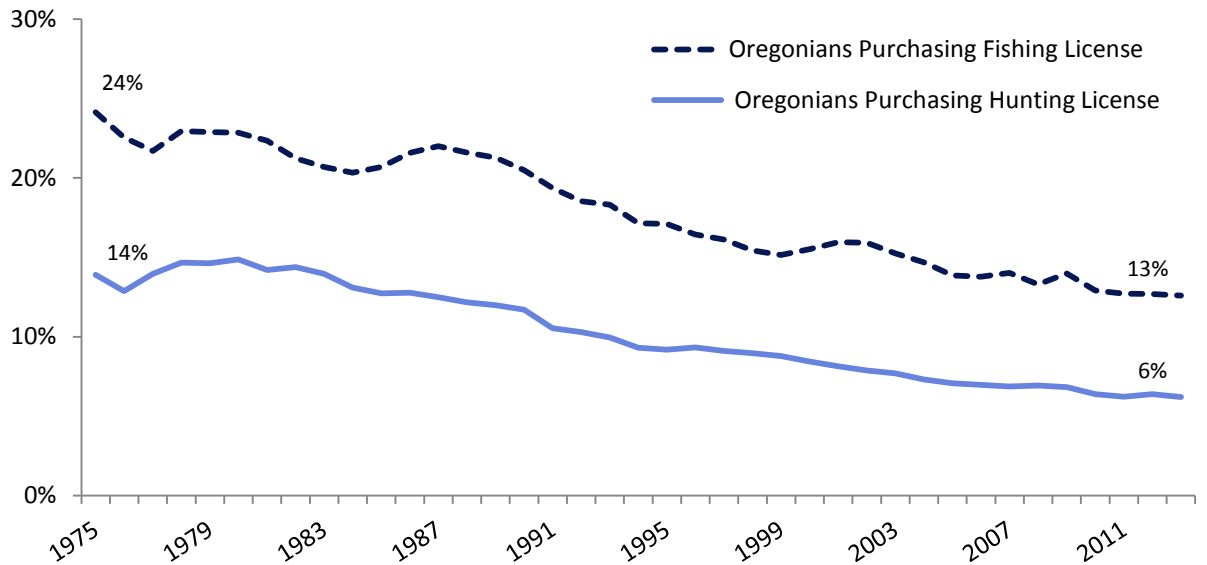
Had recreational participation remained near peak levels, ODFW would have collected about 40% more in license revenues, adding about \$40 million per biennium to their revenue.

One of many potential reasons for declining participation rates is the increased cost of licenses. The last time ODFW increased license fees in 2010 sales declined roughly 5%. ODFW sold about 21,000 fewer hunting licenses and 37,000 fewer fishing licenses than it had in the preceding four years. The 2007 recession is also a potential cause of declining sales. License sales have since stabilized.

If consumers are priced out of these recreational activities as fees continue to increase, the result may be an unsustainable business model where the agency will no longer be able to generate needed revenue.

Other possible reasons for declining participation rates are urban population growth, which can locate people farther away from wildlife populations, and more competition for leisure time. These long-term trends will likely continue to put pressure on the agency's financial health in the future.

Figure 12: Estimated Percent of Oregonians Purchasing Fishing & Hunting Licenses, 1975-2013



Expanding scope of responsibilities

ODFW's scope of responsibilities has expanded over the years due to increased activities within the state that affect fish, wildlife, and their habitats.

According to ODFW staff, as development continues throughout the state, there is increasing demand for their expertise on issues and permits that impact wildlife and habitat. For example, ODFW provided comments for a proposed liquefied natural gas terminal and mitigation strategies for wind energy projects. ODFW staff is involved in state permitting for activities such as stream and wetland enhancement, erosion control, road building projects, diversions of surface water, and work on ocean shores.

Figure 13: Greater Sage Grouse



Photo by US FWS

Almost every year, the federal list of threatened and endangered species grows. With listings, come rules that governments and others must follow to protect those species and their habitats. Along with ODFW's efforts to monitor and recover about 45 animal species currently listed, there are about 10 species in Oregon being considered for listing. One species is the greater sage grouse, see Figure 13. For this species alone, ODFW has spent considerable effort and resources to conserve the sage grouse and its habitat.

ODFW's expanding scope of responsibilities is an area that will be explored further in our second report related to managing the gap between responsibilities and resources.

Efforts to address budget shortfall

Proposal to balance its budget

In 2014, ODFW projected a \$32 million shortfall for the upcoming budget cycle. The shortfall was a result of a combination of factors, including lower than projected revenues and increasing operating expenses. Since state agencies cannot operate at a deficit, ODFW developed a list of proposals to balance the budget. The proposals included:

- Increased license fees;
- Increased operational efficiencies;
- Program reductions and layoffs;
- Close its deferred maintenance subaccount; and
- Additional General Fund support.

Increased license fees

ODFW's proposal to increase fees, both recreational and commercial, is currently before the Legislature. The proposal includes increasing recreational fees roughly 12-15% and increasing some fees every two

years, see examples highlighted in Figure 14. This proposal also increases some commercial fees. For example, a resident commercial fishing permit would increase from \$40 to \$125. The agency projects this will increase revenue by about \$8 million per year over the next six years to help cover growing expenses.

Figure 14: Examples of proposed fee increases

License	Current fee	2016 fee	2018 fee	2020 fee
Resident Hunting	\$29.50	\$33.50	\$34.00	\$34.50
Resident Fishing	\$33.00	\$38.00	\$41.00	\$44.00

Currently, licenses can last for up to a year. ODFW also wants to start offering new 3-year and 5-year licenses. This new practice aims to increase retention and reduce the effort needed to maintain a license.

Increased operational efficiencies

From efforts in operational efficiencies such as reducing travel and technology expenses, ODFW estimates it will save \$1.5 million. For example, switching from retail to commercial gas saves ODFW about 40 cents a gallon each time its fleet refuels. The agency reported this switch will save over \$10,000 per month.

The 2012 purchase of a new headquarters building continues to yield savings today. The agency estimates savings will total \$21.3 million over 25 years, compared to their prior lease rate.

Program reductions and layoffs

ODFW has proposed reducing program expenses by cutting roughly 50 positions, including some that are vacant. These reductions would be spread across the agency from field biologists to office support staff. About one in twenty positions at headquarters and about one in fifty in the field would be affected.

There is a risk that personnel reductions to cut expenses can spread work across too few staff. During our interviews, we heard that some employees have been doing the work of two or three staff, which could increase the risk of work errors and staff burnout.

Close deferred maintenance subaccount

The Legislature created a Fish and Wildlife Deferred Maintenance Subaccount, with the intent to generate interest to fund maintenance needs at ODFW non-administrative facilities. However, low interest rates and limited principal generate little interest for deferred maintenance work. The current amount available for maintenance work in the subaccount is roughly \$80,000. There is a proposal to the Legislature to abolish that account to help bolster reserves.

Additional General Fund support

ODFW requested additional General Fund support for day-to-day activities and operations. The Governor's 2015-17 Recommended Budget increased General Fund support by approximately \$8.5 million. Of that, about \$2 million would fund efforts to support sage grouse and sage brush habitat, and \$2 million for Columbia River fish management and reform. The Governor also recommended investing \$5 million directly to OSP F&W for game enforcement, moneys that previously had come out of license revenue.

Objectives, Scope and Methodology

The purpose of this review is to assess the financial health of the Oregon Department of Fish and Wildlife (ODFW).

We reviewed financial indicators used in financial condition reports and from *Evaluating Financial Condition: A Handbook for Local Government*. We focused on the main drivers of financial health, including revenues and expenses, as well as personnel costs, efforts to maintain facilities, and debt levels. These indicators provide a general assessment of the agency's financial condition.

The primary source of data used in the report was from state and agency budget documents and the state's financial data system. We reviewed information for reasonableness and consistency. Our review of data was not intended to give absolute assurance that all information was free from error. Rather, our intent was to provide reasonable assurance that the reported information presented a fair picture of the state of ODFW's financial condition. While this report offers financial highlights, it did not completely assess the reasons that led to the current situation. Further audit work will analyze activities and explore additional strategies for managing the gap between responsibilities and resources.

As indicated in the titles of financial data figures, we generally expressed financial data in constant dollars to equal the purchasing power of money in 2013 (the most current year available when we did our analysis). We used the U.S. Department of Labor's Bureau of Labor Statistics Consumer Price Index for Urban Consumers.

We interviewed ODFW managers, staff, external stakeholders and federal officials, and visited two hatcheries and two field offices. We obtained information from the agency on license purchases, revenue projections, user participation, and game statistics. We also reviewed applicable laws, state and agency budget documents and analyses, and published reports related to agency activities. We obtained archived legislative records from the Oregon Secretary of State Archives Division.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.



Oregon

Kate Brown, Governor

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April 7, 2015

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RE: Performance Audit of Oregon Department of Fish and Wildlife 2014

Dear Sheronne:

Thank you for the opportunity to comment on the Secretary of State's Performance Audit for the Oregon Department of Fish and Wildlife (ODFW, Department). ODFW appreciates the expertise of the audit team to provide a welcomed outside perspective that will help us deliver on our mission of protecting and enhancing Oregon's fish and wildlife and their habitats for use and enjoyment by present and future generations.

The importance and timeliness of this review cannot be overemphasized. As the report acknowledges, ODFW faces numerous challenges in regards to balancing workload and revenues. Given the increasing demands on the Department's services, the complexity of its revenue stream and the nearing of the end of a 6-year fee cycle, ODFW is facing significant long-term budget issues.

The Department agrees with the report's findings and is taking action as defined below.

Recurring Cash Flow Problem

During the last fee restructure in 2009, ODFW's financial plan included building cash reserves during the beginning of the fee cycle and drawing down those reserves to cover increased costs toward the end of the fee cycle. Reserves are now below the level anticipated during the implementation of that fee cycle. Many factors contributed to this situation including a national downturn in the economy which led to lower than expected interest earnings, unrealized revenue projections, and the unanticipated shift of General Funded programs to license dollars.

ODFW has been working hard this current biennium to address this situation through:

- Efficiency and cost saving efforts have resulted in significant savings
- Accounts Receivable systems and workflows have been modernized to reduce the amount of time reserves must be utilized to float federal fund sources
- Program operations have been reduced to be within the revised revenue projections

Expenses Growing Faster Than Revenues

The growth of expenditures have been outpacing revenues for several biennia, largely due to increasing Personnel and Services costs, higher than expected costs for game enforcement officers, and major increases in state government charges. This requires regular adjustments to spending and fees which can affect the department's ability to fulfill its mission and adversely impact license sales.

Deferred Maintenance

ODFW owns many facilities that currently need or will require significant maintenance to keep operational levels effective, primarily fish hatcheries throughout the state. While the Department maintains a Deferred Maintenance Account, in which the interest of the principal can be utilized for maintenance operations, the interest has not been significant enough to effectively address current maintenance needs. Therefore, ODFW is proposing to transfer funds from the account to assist in addressing its more immediate need of low cash reserves. While the principal at one time was large enough to address some maintenance efforts, legislative general fund sweeps have reduced its effectiveness. This will not completely impede the department's ability to address deferred maintenance as ODFW has been opportunistic with its deferred maintenance efforts by utilizing federal and Restoration and Enhancement Program funds. However, the department does not have sufficient funding available to significantly address the list of outstanding deferred projects.

Revenues Stable Yet Have Restrictions

Currently, 25% of revenue is available for discretionary use by the Department. Other revenue is dedicated or obligated for specific uses.

Hunting & Fishing Participation: Decades-Long Decline, Recent Stabilization

Per capita, hunting and fishing participation rates are at an all-time low in Oregon and across the nation; however, the number of hunting and fishing licenses have been relatively stable over the last decade. As the report indicates, the changing of Oregon's demographics to a more urbanized population has been the major factor for this decline. Urbanites tend to have less available time, a greater number of alternative leisure activities to choose from, and have less connection to the land and natural resources. ODFW has been strategizing and spending significant effort to address this ongoing problem:

- Increases in marketing strategies focused around Recruitment, Retention and Reactivation
- Regulation simplification
- Increased use of technology, social media and other tools to attract entry-level customers and retain current participants
- Targeted opportunities to make family and youth participation easier and less expensive

Expanding Scope of Responsibilities

ODFW's scope of work has expanded over the years as more is done to reduce or mitigate the effects of population increases and development on fish, wildlife and their habitat. The increase in energy development and water quantity issues in rural areas, as well as mining, forestry and transportation, have all led to significant workload increase for the Department, which largely remains unfunded. The Department has sought additional General Fund in 2015-17 for these efforts.

Efforts to Address Budget Shortfall and Cash Flow Problems

In 2014, ODFW projected a \$32 million shortfall for the upcoming budget cycle. In an effort to address this shortfall the Department has developed a strategy that relies on several key concepts:

- Restructuring of license fees
- Increasing operational efficiencies and cost savings
- Shifting Deferred Maintenance Fund principal into the State Wildlife Fund
- Program and operation reductions
- Shifting applicable license funded programs to General Fund

While cost savings, efficiencies, and program reductions have and are taking place internally, most of these concepts are currently proceeding in the 2015 Legislative Session to address the department's short and long term budget needs.

- SB247 - Incrementally increases or establishes certain fees related to hunting, angling and commercial fishing over a six-year period, applicable January 1, 2016, January 1, 2018, and January 1, 2020
- HB2452 - Abolishes Fish and Wildlife Deferred Maintenance Subaccount
- SB5511 - Appropriates moneys from General Fund to Department of Fish and Wildlife for certain biennial expenses

In addition, HB 2402 would establish a Task Force to find potential alternative funding sources to help diversify and enhance the Department's funding. Other proposed legislation supporting alternative funding has been initiated by various proponents of fish and wildlife in Oregon.

Conclusion

As the stewards of Oregon's fish, wildlife and their habitats, ODFW has a strong commitment to protecting and enhancing those interests. At the same time, we realize there are a many competing demands for these resources. Meeting the needs of all Oregonians with respect to fish and wildlife, while operating within the complexities of our revenue sources, is a challenging task.

In closing, thank you for your team's work, insights, and openness. We greatly appreciate the collaborative approach in achieving the audit's objective.

Sincerely,



Curtis E. Melcher, Director

About the Secretary of State Audits Division

The Oregon Constitution provides that the Secretary of State shall be, by virtue of her office, Auditor of Public Accounts. The Audits Division exists to carry out this duty. The division reports to the elected Secretary of State and is independent of other agencies within the Executive, Legislative, and Judicial branches of Oregon government. The division audits all state officers, agencies, boards, and commissions and oversees audits and financial reporting for local governments.

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This report, a public record, is intended to promote the best possible management of public resources. Copies may be obtained from:

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The courtesies and cooperation extended by officials and employees of the Oregon Department of Fish and Wildlife during the course of this audit were commendable and sincerely appreciated.