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NEWS RELEASE

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OSU Study: County Budget Crisis to Have Impact on Roads, Law Enforcement

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CORVALLIS, Ore. – A newly completed study of how Oregon counties are dealing with the loss of federal forest payments suggests that without this funding many counties will be making major cuts in road and bridge maintenance, emergency services, and sheriff departments.

The study, conducted by the Rural Studies Program at Oregon State University, also found that these reductions come on top of adjustments that many counties already have made during the past three years – partly in anticipation of the termination of payments.

Because Congress did not extend the Secure Rural Schools and Community Self-Determination Act that provided these forest payments, 33 of Oregon’s 36 counties are entering the fiscal year without this funding that has traditionally supplied significant revenues for roads and general government services. Three Oregon counties – Clatsop, Sherman and Gilliam – received no funding through the act.

About three-fourths of the responding counties indicated they planned to reduce service levels in their operating budgets without Secure Rural Schools funding and half indicated that they would reduce their capital construction budgets. The most severe reductions, the OSU researchers say, will be in roads and bridge maintenance, emergency services, sheriff departments and administration/finance. More than one in five counties will cut those services by at least 10 percent during the fiscal year that began July 1.

“These impacts are most pronounced in the eastern and southwestern parts of the state, where federal forest payments have comprised a greater percentage of the counties’ budgets,” said Brent Steel, a professor of political science at OSU and a co-author on the study.

Many counties had already been cutting services and jobs in recent years, or setting aside forest payments for future use, the study pointed out.

- In 2005-06, one-fourth of the counties made service cuts, reduced service hours, or cut jobs, and one-third reported increasing fees or charges to prevent service reductions. Only half the counties report being able to adequately finance maintenance of roads during this year.

- By 2007-08, two-thirds of the counties reported cutting services or jobs, and more than half reported increasing fees or charges. Only one-fourth of the counties were able to adequately finance roads.
- During that 2007-08 year, 13 counties set aside some of the federal forest payments for future years. The average “set-aside” was 54 percent of the total payments received, and four counties reported setting aside more than three-fourths of their federal forest payments for the future.
- During the past three years, the number of full-time county employees has been reduced by 2 percent.

About half of the counties have indicated they are considering increasing taxes or fees in the future to cover part of the shortage. However, Bruce Weber, a professor of agricultural and resource economics at OSU and director of the university’s Rural Studies Program, said local governments are constrained in their capacity to increase taxes.

“Based on the experience of the past decade, for example, the chance of success for local option levies is just over one-in-three,” said Weber, a co-author on the study. “Oregon’s property tax system makes it difficult to pass local option levies.”

The OSU Rural Studies Program report is available online at:
http://ruralstudies.oregonstate.edu/Publications/SRS_Report.pdf

The study focused on four general areas of county government, including general fiscal condition, capital budgets, operating budgets and local fiscal adjustments. The impacts on Oregon counties differ, the authors say, depending on a number of factors including the source of the payments themselves.

The shared revenues from the so-called Oregon & California (O&C) lands in Western Oregon and Klamath County have been available to support the counties’ general funds, thus the impacts are greater on general services and law enforcement. Shared revenue from U.S. Forest Service lands, found in Western Oregon, Central Oregon and Eastern Oregon counties, was earmarked for county roads and schools.

Eight Eastern Oregon counties with Forest Service lands indicate they are concerned about bridge maintenance; eight counties with O&C lands report that they will have trouble maintaining parks.

Road budgets will be especially hard-hit for some counties, Weber said.

“There are six counties in Eastern Oregon that likely will have gravel road standards within the next two to four years,” Weber said, citing the recently released report from the Governor’s Task Force on Federal Forest Payments and County Services. For those counties – Wallowa, Union, Baker, Harney, Wasco and Wheeler – forest receipts

contributed large shares of their road budgets. In Harney and Wheeler counties, for example, federal forest payments made up 70 percent of county road funds.

Steel said the impacts of the forest payment termination are even greater because of the timing.

“If you factor in a downturn in the economy, astronomical fuel prices, and depressed sectors in coastal fishing and logging industries, it will be difficult for the counties to adapt,” Steel said. “Keep in mind that in some smaller communities, the government is the largest employer. When you start laying people off there, the domino effect can be enormous.”

Although the greatest impacts from the elimination of the Secure Rural Schools Program are on Oregon’s rural counties, their urban counterparts are not immune. All of Oregon’s urban counties received Secure Rural Schools funding. For example, Clackamas County near Portland will lose about \$10 million in general and road fund revenues, Weber pointed out, but the overall budget impact will be smaller because the county has significant other revenue sources.

There also will be indirect effects from the loss of the funds, the researchers say. Impacts from reduced law enforcement and emergency services in rural counties may spill over into urban areas, or affect urban residents who travel to rural locales.

“Furthermore, to the extent that state government redirects its funds in response to the loss of federal funds,” Weber said, “every county in Oregon will be affected.”

The authors say their study was difficult because Oregon has no uniform standard for budgeting or reporting expenditures at the county level. “We may be the only state in the union with this situation,” Steel said.

The origins of this funding shortfall go back decades. Federal forest payments to counties had been shared revenues related to timber harvests and when federal harvests declined in the late 1980s and 1990s so, too, did revenues. In 1993 Congress began to decouple the payments from actual harvest receipts, providing additional federal revenue under a “safety net” to counties affected by listing of the northern spotted owl under the Endangered Species Act.

Congress passed the broader Secure Rural Schools and Community Self-Determination Act in 2000 to provide payments to all counties with federal forest lands to compensate for declining timber harvests. Authorization for the act ran out in September of 2006 and Congress provided an additional year of funding to give counties time to prepare for the loss of funds. Attempts during the past year to restore the funding have failed.

Steel said there was a lot of concern about funding Oregon counties after the passage of Ballot Measure 5 in 1990. “A lot of people cried Chicken Little back then,” Steel said.

“The impacts of Measure 5 pale in comparison to the current budget challenges. This isn’t a Chicken Little situation.”

Weber, who has more than three decades of experience in studying Oregon taxation issues, agrees.

“Two-thirds of the counties will lose an average of one-eighth of their general funds, and one-quarter of their road funds,” Weber said. “Budget cuts of this magnitude are very serious. It is hard to think this is anything but a crisis for counties like Curry and Josephine that will lose more than 60 percent of their discretionary general fund revenue.”

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Note to Editors: A map of Oregon counties outlining O&C lands and U.S. Forest Services lands is available at:

<http://ruralstudies.oregonstate.edu/Publications/LandOwnership.pdf>

About Oregon State University: OSU is one of only two U.S. universities designated a land-, sea-, space- and sun-grant institution. OSU is also Oregon’s only university designated in the Carnegie Foundation’s top tier for research institutions, garnering more than 60 percent of the total federal and private research funding in the Oregon University System.