

## Initial Report

# Governor's Task Force on Federal Forest Payments And County Services

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### ***Section 1. Introduction and Overview***

The imminent loss of federal forest payments from the expiration of the Secure Rural Schools and Community Self-Determination Act (SRS) will create a fiscal crisis for the majority of Oregon's counties far worse and longer lasting than the crisis experienced by state government during the recession of 2001-03. Revenue losses will touch every school district in the state. Every taxpayer in Oregon will be affected as counties look to the state for assistance.

Oregon counties will lose \$206.0 million in the fiscal year beginning July 1, 2008. School districts will lose a source of revenue that provided \$31.9 million in the current fiscal year.

In 24 of Oregon's 36 counties, revenue losses will exceed those suffered by the state during the recession of 2001-03, averaging 26% of their discretionary general funds and 44% of their road funds. These 24 counties are largely rural and less populated, but they include the state's fourth and sixth most populous counties, Lane and Jackson.

Even with the best efforts of county governments and the state, there is no single solution that will allow this crisis to be successfully managed or resolved in the short term.

The immediate effects of the loss of SRS payments will compromise public health and safety, degrade county roads and exacerbate job losses in almost every region of Oregon outside of the Portland metropolitan area.

Further, the ripple effects of this loss will extend to every corner of the state. All school districts in Oregon will share in the SRS revenue losses, as the state's school funding formula spreads the losses in rural school districts statewide. Given increases in state funding budgeted for 2008-09, schools will not experience losses in revenues as the counties will. But the termination of SRS revenues will deprive them of resources that would have amounted to \$58 for every K-12 student in Oregon in 2008-09.

The crisis confronting the hard hit counties and the erosion of funding for schools will trigger new demands for shared resources from state government and state taxpayers. Competition for shares of the state budget will intensify. State lawmakers will have to choose among schools, health care and highways at the state level and public health, safety and roads at the local level. No matter how these competing demands are resolved, Oregon overall will have fewer resources available for public services and public investment.

The Task Force examined all options for dealing with revenue losses of this magnitude and extent. We looked to the local level where the funding losses will occur and assessed the potential for cutting county budgets and raising revenues. Also, the Task Force investigated the potential for shifting a larger share of funding for state-county

shared services to the state, providing more state resources to the counties and boosting investments in rural economies.

We found that many counties have already cut services to bare bones levels. We also found that reasonable expectations for increased tax effort at the local level and increased assistance from state government, although necessary and warranted, will fall far short of closing budget shortfalls and preserving essential services in the hardest hit counties. The scenarios for increased local tax effort and increased state support could cover somewhere between 10% and 40% of the counties' revenue shortfall over time, depending on the extent of local tax effort and availability of state resources.

Also, the loss of SRS payments will exacerbate economic development challenges for Oregon's rural counties. Most of these counties have higher rates of poverty and unemployment and lower rates of economic growth than their urban and suburban counterparts. Fiscal crises and the loss of public confidence that can accompany such crises could force rural communities into downward spirals. Efforts to accelerate economic growth in these counties will now have to shift to not falling farther behind.

SRS revenues provide fiscal benefits to the recipient counties similar to the economic benefits of a thriving export industry. Exports of wheat or computer chips, for example, generate revenues from out-of-state purchasers. In the same way, safety net payments from the federal government provided revenues from out-of-state taxpayers. The benefits of such revenue streams are not easily replicated by local tax effort.

Further, all Oregon counties are saddled by a property tax system that has tied local tax rates to rates in effect more than a decade ago and fails to capture the full value of economic activity and growth. As a consequence, counties cannot grow their way out of these problems in the way that the state rode the wave of economic recovery to fiscal health from 2003 to 2007. By necessity, the counties most affected by the loss of SRS revenues will look to new forms of revenue sharing and financial assistance from the federal government and the potential for securing new value from federal resource lands.

The Task Force examined several possibilities for increased federal support for counties. Larger shares of federal harvest receipts for timber counties specifically and more lucrative federal revenue-sharing arrangements for counties generally can make up more of the shortfall. We identified several promising possibilities that should be pursued by county, state and federal officials; but we found that their benefits will replace only a small share of the SRS payments. Our estimates show that counties could recover between 2% and 15% of the lost revenues from increased federal revenue sharing.

The Task Force reviewed pending plans for better management of, and increased harvests from, federal forest lands. These plans offer the prospect of multiple benefits in the form of healthier forests, more economic activity and jobs in local communities and more revenues for public services. We found notable opportunities in these plans that

could double, triple or potentially quadruple the value of current harvest receipts from federal forest lands. However, we also found that these plans are unlikely to come to fruition until at least 2012 and that their revenues could recover as little as 6% to as high as 38% of the lost safety net payments.

Finally, the Task Force considered a longer-term, more sustainable solution – namely, securing compensation for the value of maintaining healthy forests to combat global warming. We found that this solution could have great potential and should be pursued by state and federal policy makers, especially as they consider the design and adoption of cap and trade systems for carbon emissions. But we acknowledge that the prospects for this solution remain speculative.

We conclude that there is no one immediate solution to this crisis. Multiple responses will be needed from all levels of government – county, state and federal.

Longer term, we are optimistic that there is a policy path to a better, more self-sustaining system of federal revenue sharing and support for counties that contain large tracts of federal forest lands. Better management of federal forest lands will provide the stepping stones for that path.

With the options we have identified, Oregon counties could adjust to a phase-out and restructuring of the SRS safety net payments over four years. Reductions of approximately ten per cent per year in SRS payments would be manageable in that time frame. Such a four-year phase-down is similar to that proposed in legislation introduced this year in the House and Senate by Oregon's Congressional delegation. Four years from now, progress toward environmentally-sensitive management of federal forests and sustainable harvest practices could provide the foundation for growing local economies and sustaining essential public services. But Oregon needs time to make this transition.

A sudden loss of existing safety net payments will not be manageable. The possibility of such a loss led the Task Force to examine the lack of provisions for local government bankruptcies in Oregon and to recommend a statutory framework for state supervision of local governments in fiscal distress. We advise the affected counties and the state to prepare for the worst, even as they work to deploy the full range of county and state actions we have recommended and to secure the new policies for federal revenue sharing and the management of federal forest lands we have identified.

Most importantly, the Task Force recommends that we continue efforts to secure a reauthorization of SRS payments during the remainder of this Congressional session – and, if necessary, through the early months of the next Congress and the next administration. We will not pass a point of no return in the effort to secure a reauthorization of SRS payments until the spring of next year. At that point, however, two of Oregon's counties will be on the brink of fiscal failure and four others will be likely to follow them during the following two years.

If a four-year reauthorization of SRS payments is enacted, the state should adopt a four-year plan to transition the counties to fiscal solvency.

If reauthorization is limited to one year, the counties and the state should continue to pursue a longer-term reauthorization, and the state should adopt a contingency plan for dealing with a loss of SRS payments in the midst of its two-year budget cycle.

If a reauthorization is not forthcoming, Oregon should respond to the loss of SRS payments with an “all hands on deck” effort by all levels of government, including state supervision and management of insolvent counties. However, we cannot expect to manage this loss without dire fiscal and economic consequences for years to come.

## ***Section 2. The History and Impact of Federal Forest Revenues in Oregon***

### ***Federal forest lands predominate in Oregon***

The current system of federal forest payments was established by Congress in 2000 to stabilize revenues from federal forests to local communities. The 2000 law, known as the Secure Rural Schools and Community Self-Determination Act (PL 106-393), hereinafter “SRS,” was designed to make up for severe declines in federal support for rural counties and school districts due to reduced timber harvests.

More than 50% of all land in Oregon is owned and managed by the Bureau of Land Management, the U.S. Forest Service and other federal agencies as forest land and range land and for other purposes such as parks and wildlife reserves. Most of these federal lands are in Southern Oregon and Eastern Oregon, where they comprise 60% or more of the land base in many counties.

Oregon has the most productive federal forest lands in the nation. In recent decades, more than half of all forest revenues collected by the U.S. government came from Oregon forests.

Federal forest lands have shaped the economies and local governments of rural Oregon. These lands and the value of the timber they contain are not taxable by the counties, other local jurisdictions or the state. But regular harvests from these lands spawned and sustained a wood products industry in rural Oregon and generated revenues that the federal government shared with rural counties and school districts.

### ***Revenue sharing from federal forests began a century ago***

The federal government established revenue sharing commitments to local communities from its federal forest receipts almost a century ago. These commitments distinguish between:

- O&C lands, which are managed by the BLM (Dept. of Interior); and,
- National forest lands, which are managed by the U.S. Forest Service (Dept. of Agriculture).

O&C lands comprise 2.2 million acres of forest lands in Western and Southern Oregon. Primarily, these are lands that the federal government originally granted to the Oregon and California Railroad in 1866 and later reclaimed after the railroad failed to comply with the terms of its land grants. They also include forest lands known as the Coos Bay Wagon Road lands, in Coos County and Douglas County, which were re-conveyed to the federal government in 1919. The term “O&C” is misleading, since all of these lands are located in Oregon. Specifically, these lands exist in 18 Oregon counties – in all counties west of the Cascades except Clatsop County and in Klamath County in Eastern Oregon.

The origin of the O&C lands makes their legal status unique among federal forest lands. Unlike other federal forest lands in Oregon, they reverted to the federal government after a period of private ownership. They have been managed by unique acts of Congress, separate from laws governing other federal forest lands, since 1915. A federal law, known as the O&C Act, established the current terms for the federal government's management of these lands in 1937. The Act states in part that these lands shall be managed for "permanent forest production...in conformity with the principal (sic) of sustained yield."

The O&C Act specifies that the counties in which the O&C lands are located are to receive a total of 75% of the harvest receipts from those lands according to an acreage-weighted formula. The 75% share was to take effect after reimbursements to the federal government for the cost of repurchasing and maintaining the lands. In 1953, the 75% formula took effect in full. However, in the following year, Congress reduced that share. And, since 1957, Congress has set the counties' share at 50% in its annual budgets for the Dept. of Interior.

Forest Service lands comprise 14.3 million acres in 11 national forests in Western and Eastern Oregon. Federal law enacted in 1908 specifies that 25% of the harvest receipts from these lands are distributed among the counties according to a harvest-based formula. Distribution of these receipts within each county is left to the states. Oregon law provides for a distribution of 75% to the recipient counties for their road budgets and 25% to school districts within the recipient counties.

### ***Safety net payments replaced harvest revenues in the 1990s***

Shared harvest revenues were a mainstay of support for public services at the local level, until constraints on logging reduced timber harvests in the early 1990s. The listing of the northern spotted owl under the Endangered Species Act severely curtailed logging in Western Oregon. Efforts to reestablish harvests at sustainable levels under the Northwest Forest Plan proved unsuccessful. By the end of the decade, the production of timber from federal forest lands in Oregon had declined by 90%. Harvests from state forests and private forestlands provided some replacement timber, but not enough to prevent mill closures, curtailments and the loss of 26,000 jobs in the timber industry. Both local economies and local governments in Oregon's rural counties suffered severe financial losses.

In response to these losses, Congress provided temporary compensation for counties and schools affected by the decline in federal forest receipts due to the protection of the spotted owl. Known as the "spotted owl safety net," this system of compensation reached to counties in Western Oregon, Washington and Northern California, but provided no assistance for Eastern Oregon counties and other areas of the country suffering declining harvests from federal lands unrelated to the spotted owl listing. Enacted in 1993, the spotted owl safety net was intended to continue on a phased-down basis until 2004. But, before its expiration, it was set aside in favor of a broader safety

net that provided compensation for declining harvests from all federal forest lands, not just those affected by the spotted owl plan.

In 2000, Congress enacted the Secure Rural Schools and Community Self-Determination Act (PL 106-393), which provided compensation for lost forest revenues to counties and schools in 42 states. This new law pegged compensation to the three highest years of harvest receipts from fiscal years 1986 through 1999. The funding provided came in three forms:

- Title I “safety net” payments for county services and schools, at 80% to 85% of the total payments;
- Title II for expenses related to restoration of healthy conditions on public lands and on nearby private lands under the guidance of Resource Advisory Committees; and
- Title III for county services related to federal forest lands, such as search and rescue and fire protection.

(Since Title II funds remain in federal accounts, our analysis treats only Title I and Title III as funds available to counties and schools.)

This Secure Rural Schools and Community Self-Determination Act expired in 2007 and was reauthorized for the 2007-08 fiscal year. Under this reauthorization, counties and schools received their final payments in January of this year. No reauthorization has yet been approved for 2008-09 and beyond.

### ***Federal “payments in lieu of taxes” are coordinated with SRS payments***

The federal government provides “payments in lieu of taxes,” or PILT (Ch. 69, 31 U.S.C.), to counties to compensate them for the impact of federal lands which are beyond the reach of state and federal taxes. These payments are currently authorized at \$367.2 million nationwide, but are subject to annual appropriations by the Congress. Congressional appropriations have failed to provide the amount authorized in recent years. In 2007-08, the appropriation for PILT totaled \$228.5 million, 38% less than the full amount. Further, the appropriated funds are distributed according to an arcane formula that includes an offset for other federal payments

Oregon counties received \$6.3 million in PILT in 2007-08, down from \$6.6 million the previous year. Because of the distribution formula’s offset for other federal payments, counties which received significant SRS payments saw their PILT amounts reduced. Other, mostly small counties have been receiving greater shares of PILT since the onset of SRS payments. Malheur, Harney, Lake, Union and Klamath counties are the largest recipients of PILT, accounting for more than half of all funds distributed to Oregon’s 36 counties.

Should SRS payments terminate, Oregon’s share of the federal appropriations for PILT will increase slightly over time. Because of a two-year lag built into the formula, these increases will not be immediate. When the changes occur, some of Oregon’s federal forest counties will receive increases in PILT, while other counties will experience

reductions. The amount of money involved in these federal fund shifts will be small, but they could be significant to small counties such as Crook (which will see an increase) and Malheur (which will suffer a reduction).

Congress has yet to finalize appropriations for PILT for 2008-09.

### **Section 3. Magnitude and Impact of Revenue Losses for Schools and Counties**

#### **Net losses for schools and counties will total \$238 million a year**

SRS safety net payments have flowed to 33 of Oregon's 36 counties. These payments amounted to \$257.1 million in 2006-07, exclusive of Title II. Of this amount, \$34.2 million flowed to schools, and \$222.8 million was paid to counties.

Of the amount paid to counties, the larger shares came from:

- Title I payments for Forest Service lands (\$102.7 million), which must be used for county roads; and,
- Title I payments for BLM lands (\$98.6 million), which can be used for general purposes.

Smaller amounts came from Title III payments from both BLM and Forest Service lands. The uses of these Title III funds are broad enough, such as search and rescue and fire protection, that we consider them part of the county's general purpose funds. See Table I.

**Table 1. Payments to Counties and Schools, 2006-07, From P.L. 106-393**

	Schools	County Roads	County General	TOTAL
FS Title I	\$34,241,028	\$102,723,084		\$136,934,112
FS Title III			\$12,189,042	\$12,189,042
BLM Title I			\$98,678,736	\$98,678,736
BLM Title III			\$9,249,195	\$9,249,195
Total	\$34,241,028	\$102,723,084	\$120,116,973	\$257,081,085

*Source: Oregon Department of Forestry. Note: These amounts do not include Title II funds.*

These safety net payments subsumed what remained of the traditional harvest receipts shared with the counties and schools. Residual harvest receipts averaged \$19.1 million per year between 2000 and 2006. These receipts will continue to flow to counties and school districts in Oregon if PL 106-393 is not reauthorized, reducing their net losses by approximately 7%, to \$31.9 million for schools and \$206.0 million for counties. See Table 2.

**Table 2. Net Losses for Counties and Schools After Residual Harvest Receipts**

	Schools	County Roads	County General	TOTAL
Title I and III	\$34,241,028	\$102,723,084	\$120,116,973	\$257,081,085
Harvest Receipts	-\$2,316,021	-\$6,984,064	-\$9,812,786	-\$19,112,871
Net Revenues Lost	\$31,925,007	\$95,739,020	\$110,304,187	\$237,968,184

*Source: Oregon Department of Forestry.*

***Losses for schools equate to \$58 per student per year***

All school districts in Oregon will share in the SRS revenue losses, as the state's school funding formula spreads the losses in rural school districts statewide. Given increases in state funding budgeted for 2008-09, schools will not experience net reductions in revenues as many counties will. But the termination of SRS revenues will deprive them of resources that would have amounted to \$58 for every K-12 student in Oregon in 2008-09.

The loss of SRS payments represents the loss of opportunity for Oregon's efforts to boost school funding and improve educational performance. The \$31.9 million in forgone revenues could have been used to:

- Reduce class sizes by one student in every first through fifth grade classroom throughout Oregon; or
- Add two days to the school year in every school district in the state.

The largest dollar losses will fall on the largest districts. Schools in the tri-county Portland metropolitan area will forgo \$13.4 million for the 2008-09 school year.

In the 2009-11 biennium, the state budget is likely to pick up and offset the loss of SRS payments in its allocations for the K-12 system. But the loss of these resources will continue to represent an opportunity cost in future budgets.

***Losses will decimate budgets in a majority of Oregon counties***

Counties, however, have no state safety net to fall back on. They will lose \$206.0 million per year.

On a statewide basis, a loss of this magnitude would reduce total county revenues statewide by approximately 6.8%. But, when applied to the funds which would suffer these reductions, revenue losses in this range would amount to:

- 12% of the discretionary general fund revenues that now support public safety, public health and general government services; and,
- 28% of the transportation fund revenues for road and bridge maintenance and repairs.

Further, aggregate statewide data mask the real impacts of the loss of SRS payments. The actual impacts will be far greater where the reductions will occur – in the rural counties where federal forests predominate. Tables 3.A and 3.B show how the loss of current federal forest payments will be spread among Oregon's 36 counties. 24 Oregon counties will face budget shortfalls worse than the state's in 2001-03

Table 3.A shows the effects on counties' discretionary general fund revenues.

Table 3.B shows the effects on counties' discretionary road fund revenues.

**Table 3.A IMPACTS to OREGON COUNTIES from LOSS of PL 106-393 REVENUES  
General Fund Discretionary\* Revenues  
Based on FY 2007 Revenues, Assumes Current Level of Forest Receipts**

<b>GENERAL FUNDS</b>					
	Total County General Fund Discretionary* Revenue	Total County General Fund Discretionary* Revenue/Capita	Revenue Loss to County General Funds without PL 106-393	Total County General Funds without PL 106- 393/Capita	General Fund Percent Loss without PL 106- 393
Baker ***	\$4,586,237	\$ 279.05	\$48,549	\$276.10	1%
Benton***	\$18,707,484	\$ 219.31	\$2,813,426	\$186.33	15%
Clackamas**	\$90,909,381	\$ 244.20	\$5,708,456	\$228.87	6%
Clatsop ***	\$11,221,768	\$ 299.73	\$0	\$299.73	0%
Columbia	\$8,436,618	\$ 177.37	\$1,943,298	\$136.51	23%
Coos	\$15,062,296	\$ 238.89	\$6,045,121	\$143.02	50%
Crook	\$6,261,597	\$ 241.90	\$275,777	\$231.25	4%
Curry	\$6,163,964	\$ 287.03	\$3,701,551	\$114.66	60%
Deschutes***	\$37,195,583	\$ 231.30	\$360,481	\$229.06	1%
Douglas	\$35,973,768	\$ 343.67	\$23,269,972	\$121.36	65%
Gilliam	\$1,316,574	\$ 698.45	\$0	\$698.45	0%
Grant	\$2,320,118	\$ 306.08	\$619,697	\$224.33	27%
Harney	\$2,532,680	\$ 329.78	\$63,590	\$321.50	3%
Hood River	\$7,590,069	\$ 353.52	\$207,984	\$343.83	8%
Jackson	\$46,897,716	\$ 231.81	\$14,867,759	\$158.32	32%
Jefferson***	\$5,991,498	\$ 271.97	\$87,002	\$268.02	1%
Josephine	\$18,705,189	\$ 227.03	\$12,448,530	\$75.94	67%
Klamath	\$12,195,769	\$ 185.30	\$3,075,802	\$138.57	25%
Lake	\$2,583,325	\$ 341.48	\$85,070	\$330.24	3%
Lane	\$53,504,919	\$ 155.93	\$17,526,327	\$104.85	33%
Lincoln	\$16,288,991	\$ 364.98	\$812,439	\$346.77	5%
Linn***	\$28,615,302	\$ 261.76	\$3,562,915	\$229.17	12%
Malheur	\$5,575,824	\$ 176.34	\$0	\$176.34	0%
Marion	\$56,108,723	\$ 180.37	\$1,981,409	\$174.00	4%
Morrow	\$4,578,907	\$ 371.21	\$11,412	\$370.29	0%
Multnomah***	\$249,941,037	\$ 352.02	\$1,200,571	\$350.33	0%
Polk	\$10,891,840	\$ 161.35	\$2,095,514	\$130.31	19%
Sherman	\$2,087,760	\$ 1,125.48	\$0	\$1,125.48	0%
Tillamook	\$12,205,087	\$ 472.24	\$712,641	\$444.67	6%
Umatilla	\$11,868,005	\$ 164.27	\$51,375	\$163.56	0%
Union	\$4,339,941	\$ 171.88	\$52,467	\$169.80	1%
Wallowa	\$1,956,028	\$ 274.34	\$70,049	\$264.51	4%
Wasco	\$6,768,212	\$ 280.55	\$112,000	\$275.91	2%
Washington	\$96,813,410	\$ 189.43	\$531,471	\$188.39	1%
Wheeler	\$1,002,080	\$ 638.27	\$71,910	\$592.47	7%
Yamhill	\$16,396,319	\$ 176.14	\$832,431	\$167.20	5%
Total/Average	\$905,837,612		\$105,246,997		12%

\*Discretionary does not include funds that are dedicated to a specific project or service

\*\* Clackamas County Permanent Rate Authority: 2.9766 Rural; 2.4042 City

\*\*\* Includes Local Option Levy

Association of Oregon Counties

May-08

**Table 3.B IMPACTS to OREGON COUNTIES from LOSS of PL 106-393 REVENUES  
Road Fund Discretionary\* Revenues  
Based on FY 2007 Revenues, Assumes Current Level of Forest Receipts**

<b>Road Funds</b>					
	Total County Discretionary* Road Revenues	Revenue Loss to County Road Funds without PL 106-393	\$\$ Per Road Mile With PL 106-393	\$\$ Per Major Road Mile <b>Without</b> PL 106- 393	Road Fund Percent Loss without PL 106-393
Baker ***	\$2,024,599	\$777,882	\$5,305	\$3,267	38%
Benton***	\$4,679,834	\$299,367	\$23,437	\$21,937	6%
Clackamas**	\$27,648,460	\$4,274,570	\$43,378	\$36,672	15%
Clatsop ***	\$4,773,200	\$0	\$44,618	\$44,618	0%
Columbia	\$2,946,248	\$0	\$13,938	\$13,938	0%
Coos	\$5,093,430	\$459,849	\$18,491	\$16,821	9%
Crook	\$4,852,605	\$2,316,794	\$12,727	\$6,651	48%
Curry	\$5,168,768	\$3,098,028	\$37,314	\$14,949	60%
Deschutes***	\$11,730,346	\$2,346,351	\$26,100	\$20,880	20%
Douglas	\$25,221,632	\$14,021,214	\$29,218	\$12,975	56%
Gilliam	\$1,037,002	\$0	\$7,153	\$7,153	0%
Grant	\$8,942,079	\$6,196,403	\$23,884	\$7,334	69%
Harney	\$3,739,569	\$2,615,396	\$6,391	\$1,921	70%
Hood River	\$5,197,782	\$1,654,179	\$59,498	\$40,563	32%
Jackson	\$15,150,982	\$3,962,417	\$30,036	\$22,181	26%
Jefferson***	\$1,993,448	\$430,030	\$9,423	\$7,390	22%
Josephine	\$7,223,125	\$1,710,566	\$28,677	\$21,886	24%
Klamath	\$19,043,038	\$9,617,150	\$37,845	\$18,733	51%
Lake	\$5,080,918	\$3,463,909	\$13,457	\$4,283	68%
Lane	\$37,200,379	\$18,871,636	\$43,938	\$21,648	51%
Lincoln	\$6,480,756	\$3,148,679	\$39,020	\$20,062	49%
Linn***	\$14,400,186	\$6,232,701	\$31,712	\$17,986	43%
Malheur	\$3,019,172	\$6,881	\$5,283	\$5,271	0%
Marion	\$16,423,573	\$2,349,744	\$37,142	\$31,828	14%
Morrow	\$3,202,228	\$195,365	\$10,531	\$9,889	6%
Multnomah***	\$39,134,182	\$633,433	\$230,418	\$226,688	2%
Polk	\$3,424,740	\$6,965	\$16,810	\$16,776	0%
Sherman	\$1,307,945	\$0	\$9,868	\$9,868	0%
Tillamook	\$3,963,722	\$1,684,764	\$19,888	\$11,435	43%
Umatilla	\$4,828,525	\$536,423	\$13,719	\$12,195	11%
Union	\$2,402,033	\$611,634	\$10,540	\$7,856	25%
Wallowa	\$1,686,933	\$833,810	\$6,805	\$3,441	49%
Wasco	\$3,513,155	\$1,769,952	\$8,640	\$4,287	50%
Washington	\$30,117,734	\$0	\$65,876	\$65,876	0%
Wheeler	\$1,064,264	\$742,655	\$9,003	\$2,721	70%
Yamhill	\$6,140,033	\$467,568	\$29,705	\$27,443	8%
<b>Total/Average</b>	<b>\$339,856,626</b>	<b>\$95,336,318</b>	<b>\$27,876</b>	<b>\$20,056</b>	<b>28%</b>

\*Discretionary does not include funds that are dedicated to a specific project or service

\*\*Clackamas County Permanent Rate Authority: 2.9766 Rural; 2.4042 City

\*\*\* Includes Local Option Levy

Association of Oregon Counties

May-08

In Tables 3.A and throughout this report, we use “discretionary general fund” revenue rather than “total” revenue to measure the budget impact in each county. Total revenue includes “pass-through” dollars over which counties have no control. It is the discretionary general fund that counties use to fund county services such as public safety, libraries and animal control in addition to making contributions to public health, assessment & taxation and many other shared services. When cuts must be made, they must come from this discretionary revenue.

Similarly, in Table 3.B and throughout this report, discretionary road funds are funds from sources that are not dedicated or promised to specific road projects.

Note: The difference in total revenue losses between those in Tables 1 and 2 and those in Tables 3.A/B arise from different assumptions about future harvest receipts. The calculations in Table 1 and 2, prepared by Kevin Birch of the Oregon Dept. of Forestry, assumed harvest receipts continuing at the average of the last eight years, or approximately seven percent of SRS payments. The calculations in Tables 3.A/B, prepared by Yamhill County Administrator John Krawczyk, assume harvest receipts from O&C lands next year will reach almost 15% of the current SRS payments. We have not yet been able to reconcile these different harvest forecasts, but we use Krawczyk’s county-specific data hereafter so as not to overstate revenue losses for the counties.

The 2001-2003 recession slashed general fund revenues for state government by a greater percentage than at any time since the Great Depression of the 1930s. The consequences were traumatic. Schools closed early. Funding for the Oregon Health Plan was reduced to the point that more than 100,000 low income Oregonians lost state-sponsored health insurance.

The state’s general fund revenue losses in that period amounted to 20% from projected levels over two biennia. The actual decline in the state’s general fund revenue from one biennium (1999-2001) to the next (2001-03) was 13%.

We note that 23 Oregon counties will suffer net revenue losses of 20% or more of their discretionary general fund revenues or their road fund revenues if SRS payments cease.

As telling as this comparison is, however, it understates the impacts on the affected counties for several reasons:

- The state computed its revenue losses from budgeted or expected revenues, whereas we have computed the counties’ losses from current and actual revenues;
- The period 1999-2001 was a high point for state resources, whereas most of the federal forest counties have been reducing their budgets in recent years;
- The state offset a portion of its general fund revenue losses by tapping one time funds, thereby reducing its budget reductions to 13%; and,

- State revenues from all sources continued to grow through 2001-03, because of an increase in federal funds and dedicated funds such as gas tax revenues, but 31 counties will suffer losses in both discretionary general funds and road funds for 2008-09.

As imperfect as this comparison to the state's 2001-03 budget crisis may be, we offer it as an informative point of reference for Oregonians.

#### ***Section 4. Summary of the Task Force Process***

The expiration of the Secure Rural Schools and Community Self-Determination Act in 2006 and a long-delayed reauthorization of the Act for one year in 2007 forced many Oregon counties to cut budgets and prepare for the worst last year.

That experience led the Governor Ted Kulongoski to call for a task force to develop recommendations to help preserve essential services at the county level should the Act fail to be reauthorized.

By Executive Order #07-21, the Governor created Task Force and its appointees in November 2007.

The Governor appointed Tim Nesbitt, deputy chief of staff in his office, as Chair of the Task Force.

Eight agency directors and deputy directors were appointed to represent the state executive branch. These were:

- Marvin Brown, State Forester, Oregon Dept. of Forestry;
- Bob Jester, Director, Oregon Youth Authority;
- Tim McLain, Superintendent, Oregon State Police;
- Matt Garrett, Director, Oregon Dept. of Transportation;
- Karen Gregory, Division Administrator, Oregon Dept. of Revenue;
- Bob Repine, Director, Oregon Economic and Community Development Dept., who was later succeeded by John Wahgren, the department's finance manager;
- Clyde Saiki, Deputy Director, Dept. of Human Services; and,
- Max Williams, Director, Dept. of Corrections.

The Governor also appointed five county representatives:

- Comm. Bobby Green, Lane County, who was elected co-chair of the Task Force at its first meeting;
- Judge Scott Cooper, Crook County;
- Comm. Mark Labhart, Tillamook County;
- Comm. Dennis C.W. Smith, Jackson County; and,
- Mike McArthur, Executive Director, Association of Oregon Counties

The Speaker of the House and the President of the Senate appointed two representatives from each chamber. These were:

- Sen. Alan Bates, Senate District 3;
- Sen. Ted Ferrioli, Senate District 30, who resigned his position in March;
- Rep. and now Sen. Fred Girod, Senate District 9, who was appointed to the Senate after the task force convened; and,
- Rep. Arnie Roblan, House District 9.

At the request of the League of Cities, the Governor expanded the task force to include City Councilor Anne Ballew, City of Springfield.

In addition to its members, the Task Force was served by designated resource persons, including:

- Ray Naff, Dir. of Intergovernmental Affairs, Governor's Office;
- Joe O'Leary, Senior Policy Advisor for Public Safety, Governor's Office;
- Jim Azumano, Director of the Office of Rural Policy, Governor's Office, who left his position in April;
- Gil Riddell, Policy Manager, Association of Oregon Counties; and,
- Linda Ludwig, Deputy Legislative Director, League of Oregon Cities.

In the course of its research and preparation of this report, the Task Force relied heavily on:

- John Krawczyk, Administrator, Yamhill County;
- Kevin Birch, Senior Policy Analyst, Oregon Dept. of Forestry;
- Laura Cleland, Communications Manager, Association of Oregon Counties; and,
- Eric Schmidt, Communications Manager, Association of Oregon Counties.

The Task Force held its first meeting on Dec. 19, 2007 and met five more times in full Task Force meetings since then. Its most recent meeting was June 12, 2007.

The Task Force organized itself into 12 Work Groups, to which it invited additional state and county representatives and interested citizens.

These Work Groups included ten program areas and two policy areas.

The program Work Groups included:

- Law Enforcement;
- Courts and DAs;
- Juvenile Services;
- Community Corrections;
- Public Health;
- Addiction and Mental Health;
- Senior Services;
- Assessment and Taxation;
- Roads; and,
- Economic/Community Development.

A Veterans' Services Work Group was later added.

The reports of these program work groups are incorporated in Section 9.

The policy Work Groups included a Revenue Work Group and a Federal Forest Practices Work Group, whose final reports are attached as Exhibits D and E.

A third policy Work Group was convened to investigate legal mechanisms for the state to deal with local governments in fiscal distress. This work group, whose initial findings and recommendation are presented in Section 12, continues to meet.

The Task Force reached unanimity on all but six of its 54 recommendations. This report notes dissenting votes where they occurred.

The Task Force also agreed to statements of “support in concept” on several proposals the did not rise to the level of recommendations, often because they were perceived as more relevant to other task forces or somewhat removed from the charge of this task force. On a number of issues, the Task Force chose to refer proposals to other task forces or committees, such as the Governor’s transportation Work Group, the Global Warming Commission and the Board of Forestry’s Federal Forests Advisory Committee

This report is offered as an initial draft for public review and comment

This report, released on June 23, 2008, can be found on the Governor’s website at [http://governor.oregon.gov/Gov/docs/federal\\_forest\\_payments\\_062008.pdf](http://governor.oregon.gov/Gov/docs/federal_forest_payments_062008.pdf)

Comments can be posted there or addressed to:

Tim Nesbitt, Chair  
Federal Forest Payments Task Force  
Office of the Governor  
254 State Capitol  
Salem, OR 97301

The comment period will extend for 60 days, through Aug. 22, 2008.

By September, the Task Force will have reviewed all comments and expects to have the initial recommendations of the Board of Forestry’s Federal Forests Advisory Committee, a final Environmental Impact Statement for the Western Oregon Plan Revision for O&C lands, recommendations from the Governor’s Veterans’ Services Task Force and the state’s next quarterly revenue forecast.

The Task Force will deliver its final report to the Governor by the end of September.

### ***Section 5. Solutions Examined***

The Task Force examined all options for dealing with the sudden loss of SRS payments.

As a first resort, we looked to the local level where the funding losses will occur. We collected information on county budgets and assessed the potential for raising revenues.

Next, we gathered and investigated proposals for the state to assume larger shares of funding for state-county services, to provide more revenue sharing to the counties and to boost state investments in rural economies.

The majority of our recommendations came from these inquiries at the local and state level. We acknowledge that many of our recommendations may be difficult for county taxpayers to accept and for state taxpayers to absorb. Nonetheless, even if all our recommendations were accepted and implemented, we find that they would make up less than half of the revenues lost from the expiration of SRS payments.

Looking beyond Oregon, we explored options for increased federal revenue sharing from federal forests and for cooperative federal-state arrangements that can enhance funding for county services at little or no cost to the federal treasury. Although we identified several promising proposals in this category, we find that these proposals will solve only a small fraction of the fiscal problems created by the loss of SRS payments.

Further, we explored plans for better management of, and increased harvests from, federal forest lands. We find notable opportunities in these plans. However, we also found that these plans are unlikely to come to fruition until at least 2012.

Finally, we identified a longer-term, more sustainable solution – namely, securing compensation for the value of maintaining healthy forests to combat global warming. We find that this solution could have great potential. But we acknowledge that the prospects for this solution remain speculative.

We find that there is no immediate solution to the problems created by the loss of SRS payments for county and state taxpayers. Multiple responses will be needed from all levels of government – county, state and federal. Even with these responses, the loss of SRS payments will create a crisis for the majority of Oregon counties that will be far worse and longer lasting than the budget crisis endured by the state in 2001-03.

We conclude that this looming crisis is avoidable only with a temporary reauthorization of SRS payments. These problems cannot otherwise be successfully managed or resolved in the short term.

This leads us to our first, most urgent and most important recommendation.

**Recommendation #1: The Task Force strongly urges Congress and the President to reauthorize federal forest payments for at least four years, as Oregon counties and the state move forward with longer term solutions.**

With the options we have identified, Oregon counties could adjust to a phase-out and restructuring of the SRS safety net payments over four years. Reductions of approximately ten per cent per year in SRS payments would be manageable in that time frame. Such a four-year phase-down is similar to that proposed in legislation introduced this year in the House and Senate by Oregon's Congressional delegation.

Four years from now, progress toward environmentally-sensitive management of federal forests and sustainable harvest practices could provide the foundation for growing local economies and sustaining essential public services. But Oregon needs time to make this transition.

If a four-year reauthorization of SRS payments is enacted, the counties and the state should adopt a four-year plan to transition the counties to fiscal solvency based on the recommendations contained herein.

If reauthorization is limited to one year, the counties and the state should continue to pursue a longer-term reauthorization, and the state should adopt a contingency plan for dealing with a loss of SRS payments in the midst of its two-year budget cycle.

If a reauthorization is not forthcoming, county governments and the state should prepare to deal with drastic consequences, including provisions for state supervision and management of insolvent counties.

However, we cannot expect to manage this loss without dire fiscal and economic consequences for years to come.

**CONCLUSION**

***This looming crisis is avoidable only with a temporary reauthorization of SRS payments.***

## **Section 6: Effects of the Loss of SRS Payments on Hard Hit Counties**

### **Identifying the “hard hit” counties**

We worked from the data in Table 3 to identify the counties which will be hit hard by the loss of SRS payments and those which will face crises in their general fund and road budgets.

We began by identifying counties that will lose 20% or more their general fund discretionary revenues or their road fund revenues if SRS payments are not reauthorized.

The “hard hit” General Fund counties. Nine counties will face revenue losses of 20% or more of their discretionary general fund revenues. A tenth county, Polk, is right at the edge of this cutoff, with an expected loss of 19% of FY 2007 revenues. We chose to include Polk on this list based on a later analysis of county reserves and revenues per capita.

The “hard hit” counties, in order of greatest initial general fund revenue impact, are:

Josephine	-67%	-\$12.4 million
Douglas	-65%	-\$23.3 million
Curry	-60%	-\$ 3.7 million
Coos	-50%	-\$ 6.0 million
Lane	-33%	-\$17.6 million
Jackson	-32%	-\$14.9 million
Grant	-27%	-\$ 0.6 million
Klamath	-25%	-\$ 3.1 million
Columbia	-23%	-\$ 1.9 million
Polk	-19%	-\$ 2.1 million

All of the SRS payments that flow to county general funds come from BLM lands, most of which are O&C lands in western Oregon. Smaller grazing lands, mostly in Eastern Oregon, are also managed by the BLM. This explains the predominance of western Oregon counties on the above list. East of the Cascades, Klamath is the only county with O&C lands.

The “hard hit” Road Fund counties. The impact on funding for county roads is greater in Eastern Oregon. Seventy-five per cent of harvest receipts and SRS payments from Forest Service lands flow to county road funds. More than half of Oregon’s counties (21) would lose 20% or more of their current road revenues. Thirteen of these counties are in Eastern Oregon. They are, in order of greatest initial Road Fund revenue impacts:

Harney	-70%	-\$ 2.6 million
Wheeler	-70%	-\$ 0.7 million
Grant	-69%	-\$ 6.2 million

Lake	-68%	-\$ 3.5 million
Curry	-60%	-\$ 3.1 million
Douglas	-56%	-\$14.0 million
Lane	-51%	-\$18.9 million
Klamath	-51%	-\$ 9.6 million
Wasco	-50%	-\$ 1.8 million
Lincoln	-49%	-\$ 3.1 million
Wallowa	-49%	-\$ 0.8 million
Crook	-48%	-\$ 2.3 million
Tillamook	-43%	-\$ 1.7 million
Linn	-43%	-\$ 6.2 million
Baker	-38%	-\$ 0.8 million
Hood River	-32%	-\$ 1.7 million
Union	-25%	-\$ 0.6 million
Jackson	-26%	-\$ 4.0 million
Josephine	-24%	-\$ 1.7 million
Jefferson	-22%	-\$ 0.4 million
Deschutes	-20%	-\$ 2.3 million

We note that Clackamas County will be significantly affected by the loss of SRS payments to both its general funds and its road funds. Although its percentage losses are less than those above, Clackamas County will lose \$5.7 million in discretionary general funds and \$4.3 million in road funds – the fifth largest and sixth largest dollar losses in each of those categories in the state.

The final list of “hard hit” counties. Based on the above lists, we identified 24 hard hit counties for further review and for use as a benchmark group for evaluating the revenue effects of proposals analyzed in this report.

These counties are:

Western Oregon

- Columbia
- Coos
- Curry
- Douglas
- Jackson
- Josephine
- Lane
- Lincoln
- Linn
- Polk
- Tillamook

Eastern Oregon

- Baker
- Crook
- Deschutes
- Grant
- Harney
- Hood River
- Jefferson
- Klamath
- Lake
- Union
- Wallowa
- Wasco
- Wheeler

These 24 counties received 88% of all SRS payments to county general funds and 91% of all SRS payments to county road funds.

**Identifying the “crisis” counties**

Not all counties facing losses of 20% or greater in their discretionary General Funds or Road Funds will face immediate fiscal crises. Many have set aside sizable reserves to weather the initial loss of SRS revenues; others are right on the edge with minimal reserves. But, even those with reserves will at best postpone the inevitable, as they begin drawing down their balances.

A few counties have other resources to turn to, such as Hood River County’s county forest lands.

However, most counties have already made major budget reductions, as detailed in Section 5. So they will be less able to cut expenditures and still maintain basic services. (As described in Section 9, these basic services include law enforcement, courts and DAs, juvenile services, community corrections, public health, mental health and addiction treatment, roads and assessment and taxation.)

In order to identify the counties that will face severe fiscal crises within one to five years, we analyzed both immediate revenue losses and the likely depletion of reserves over time.

Yamhill County Administrator John Krawczyk led this effort.

Krawczyk quantified existing reserves and calculated the drawdown of reserve balances over two to five years. He also estimated a minimum level of resources needed to “run a county” – both to provide basic services and to maintain county roads.

Krawczyk computed the funds needed to provide basic services in terms of discretionary general fund revenue per capita. He looked to the lowest current funding levels for counties of various sizes to determine “the lowest level of discretionary resources” needed to provide current services. By his calculations, the following amounts are needed to provide basic services, based on the size of the county:

**Table 4. Lowest Level of Discretionary Resources Needed to Provide General Fund Services**

Population Size	Example	Minimum Annual \$ Per Capita For Basic Services
>250,000	Lane	\$155.93
60,000—250,000	Polk	\$161.35
20,000—60,000	Malheur	\$176.34
<20,000	Baker	\$297.05

These are not measures of adequacy; they are indicators of survival at best. Krawczyk, whose Yamhill County is in the same category as Polk, told the Task Force that “Yamhill (County) will be able to support only 20 Sheriff’s deputies and no libraries at \$160 per capita.”

Based on these measures, Krawczyk predicts that seven counties will experience severe general fund shortfalls within one year to two years after the loss of SRS payments. We call their condition “critical.” These counties are

Columbia	}	
Curry	}	
Grant	}	<u>Condition “Critical”</u> <u>for General Fund Services</u>
Josephine	}	
Klamath	}	
Lane	}	
Polk	}	

Other hard hit counties are buffered by reserves which will be exhausted after two to four years. At that point, they will no longer have the resources to provide basic services. We call their condition “unsustainable.” These counties are:

Coos	}	
Douglas	}	<u>Condition “Unsustainable”</u> <u>for General Fund Services</u>
Grant	}	

Finally, Krawczyk estimated the minimum road funds needed to maintain low-grade county roads at \$4,500 per road mile. Again, this is not a measure of adequacy, but of (perhaps centuries old) survivability. This amount would allow a county to maintain a minimal system of mostly gravel roads.

Based on this measure, there are six counties which will revert to gravel road standards within one to two years. They are:

Baker	}	
Harney	}	
Union	}	<u>Condition “Critical”</u> <u>for Roads</u>
Wallowa	}	
Wasco	}	
Wheeler	}	

Exhibit A includes facts sheets prepared by the Association of Oregon Counties for each of the hard hit counties.

### ***Section 7. Challenges and Limits of Economic Growth in Rural Counties***

In general, the counties that will be hardest hit by the loss of federal forest payments are smaller, rural counties that have lower wages and income levels, higher rates of poverty and unemployment and have experienced the greatest challenges to economic growth in recent years.

Most of the hard hit counties continue to confront the need to sustain and rejuvenate their traditional industries, such as forestry and agriculture, and the longer term imperative to diversify their economic bases.

Addressing these needs and imperatives will be all the more difficult with the loss of SRS payments. Even the larger counties, such as Lane and Douglas, which have positive attributes for economic development, will have to cut back on their incentives for business growth and economic development investments as they deal with the losses of SRS payments.

Finally, most of the hard hit counties and local governments face the problem of diminishing revenue returns from economic growth, because the taxable value of real property under Oregon law continues to decline relative to market value.

These factors have created a perfect storm of challenges and limitations that could send the hardest hit counties into downward spirals of budget cutting, disinvestment and further losses in their economies.

This is not a scenario in which the hard hit counties can ride the next wave of economic recovery to economic and fiscal health, as the state did from 2003 to 2007. The counties cannot just “grow their way out” of the problems they will face from the loss of SRS payments.

#### ***Economic Development Challenges***

Economic development challenges for rural communities are not new. The state, working with local leaders, has tried over the last 20 years to find ways to replace jobs that have been lost in the natural resource industries. Diversification of business opportunities has had some success, but as the national and state economies wax and wane, the shaky state of smaller, rural communities makes them more vulnerable to economic downturns and less resilient during rebounds.

Further, the hard hit counties face economic challenges that include limited private land bases, federal control of large portions of their resource lands and ongoing needs for investments in public infrastructure.

Limited Land Bases. Only 44% of Oregon’s land base is private land available for residential and economic development. Publicly owned land, which comprises 56%

percent of Oregon, is not subject to property tax assessment nor available for residential and economic development. Management of these lands once provided the wealth that drove the economy of the state, but active management of federal lands has been sharply reduced. Of the 24 hard-hit counties, 16 are at least 46% publicly owned.

More than 90% of Oregon's privately owned land operates under some type of special assessment, most commonly farm and forest lands. Specially assessed property has significantly lower tax rates than residential, commercial, and industrial properties.

Federal Control of Resource Lands. Federal policies affecting the protection, management and development of federal resource lands, primarily federal forests, are contentious. But, regardless of perceived problems with the balance struck between the protection of species, habitat and wild lands and the use of these lands for economic benefits, the state is largely stuck on the sidelines when it comes to setting policy.

The Governor has attempted to raise the state's profile in federal policy making for these lands by bringing the state into the Western Oregon Plan Revision process for O&C lands as a cooperating agency with the federal agencies involved. Also, at the Governor's request, the State Board of Forestry has created a Federal Forests Advisory Committee, which will deliver recommendations to the Board of Forestry on ways to influence federal forest policies. A first iteration of this committee's recommendations are due to be made public in August or September of this year.

Unmet Needs for Public Infrastructure and Services. To level the playing field between urban and rural areas and create opportunities for businesses to move to rural communities, the following kinds of public investments can provide the greatest benefits:

- investments in rural airports;
- improved health care services (nurses, doctors, hospitals, clinics);
- investment in telecommunications infrastructure;
- upgrades of community infrastructure (water, sewer, local roads, community facilities, etc.);
- investment in and incentives for renewable energy projects; and,
- tackling groundwater shortage and water access and storage for rural and urban areas.

Other essentials include funding for education and library services equal to what can be obtained in urban settings.

Recently, disinvestments in economic and community development programs have threatened to set back economic development in rural areas. According to the Association of Oregon Counties, set backs in programs and services for rural areas include:

- Loss of federal and state moneys to keep skeletal "infrastructure" staff (or capacity) in regions to work with business and community leaders on projects. Not all areas of Oregon have business organizations (such as SOREDI in

Southern Oregon and COED in Central Oregon) to take up the slack where the state has discontinued funding.

- Diminishing federal and state funds that supports loan and grant funding for business projects, planning and technical assistance moneys for smaller communities to enable them to keep pace with government and business requirements and planning, and funding for grant writing to work with state and federal government agencies on community infrastructure needs.
- Loss of volunteer regional boards involved in establishing priorities, working with the State on strategies, and responding as local economic development needs surface in a region.
- Loss of state staff at the Oregon Economic and Community Development Department (OECDD) that can work with small communities and their small businesses to make up for the funding losses noted above.
- Declining state financial support in the form of lottery bonding and other financing mechanisms to keep pace with need for loans and grants for community infrastructure (water, sewer, roads to industrial parks, telecommunication, etc.) Infrastructure replacement (paid for from fees collected from users) continues to be more expensive, outstripping the abilities of individual communities to pay for replacements and upgrades.
- Loss of the Office of Rural Policy in the Governor's Office. Prior funding and staffing was inadequate to make a difference with setting policies, reviewing agency rulemaking, assuring new regulations are not developed in a one-size-fits-all method, etc.

### ***Economic Growth Does Not Yield Proportionate Revenue Growth***

Federal forest payments have masked more systemic problems within Oregon's public finance system, caused by constitutional restraints on the property tax system and statutory preemptions of local governments' and voters' ability to fund public services by certain means.

#### Oregon's Property Tax System Compounds the Counties' Fiscal Problems.

Constitutional Measures 5 (1990) and 50 (1997) have made Oregon's property tax system more stable and predictable for taxpayers at the expense of complexity and rigidity for local governments. Measure 5 imposed limits on property tax rates for local governments (\$10.00 per \$1,000) and schools (\$5.00 per \$1,000) without affecting the valuation of properties subject to those rates. Measure 50 limited total property taxes for each unit of property by fixing valuations and limiting annual increases in total taxes to three per cent per year, with certain exceptions.

At the time Measure 50's limitations took effect, counties dominated by federal lands and sharing federal forest receipts relied significantly less on property taxes than other counties. As a consequence, federal forest counties have relatively low tax rates, e.g., Josephine \$0.59 per \$1,000 of assessed valuation; Curry \$0.60; Coos \$1.08; Douglas \$1.11, compared to the statewide average of approximately \$2.80. Under Measure 50, these became their permanent property tax rates, subject to "local option" increases with the approval of their voters only for temporary periods of time.

Curry County provides a stark example of the rigidity and inadequacy of permanent tax rates. With fewer than 12,000 homes at a median assessed value of \$225,000, the county will need 33,000 new homes assessed at \$350,000 each to replace its lost SRS payments.

Adding to the complexity is the Changed Property Ratio (CPR). Under Measure 50, when new construction is put on the tax roll, it is not taxed at full market value (as in California). Instead, each county has its own CPR, which is determined by the average Maximum Assessed Value (MAV) divided by the average Real Market Value (RMV) of that class of property in that county.

In Coos County, for example, a new \$300,000 home would go on the tax roll at a MAV of \$184,200 ( $\$300,000 \times 0.614$ ). Applying the county's permanent rate of \$1.08, the new home would generate merely \$199 that year for an array of county public services. Further, growth in the MAV of that home, barring extensive renovation, is limited to three percent per year.

With these constraints, replacing the lost SRS payments with tax revenues generated by the expansion of a county's private economy is highly challenging. Federal funds are derived from outside the local economy and function similarly to export sales, bringing new revenue into the local economy. Taxing existing county business and residents comes at a price to the local economy that makes such tax revenues, although

necessary for the health of a community, less valuable to its economy. Theoretically, the best revenue strategies for a county suffering the loss of SRS payments would be to promote the growth of its wealth generating economy, by attracting new businesses and helping existing businesses to expand. But Oregon's property tax system severely hampers such strategies.

A real example of this problem comes from Douglas County. In 1995, the county successfully recruited an industrial manufacturer, Alcan Cable, to locate there. This year, the value of Alcan Cable's plant and 200 new homes to house employees, after calculations required under the property tax system, resulted in \$63,000 of county taxes for public services. A typical Deputy Sheriff now costs Douglas County \$75,320 per year, or 20% more than public revenues generated from this extensive development.

Contrast that with a medium-sized saw mill cutting 60 million board feet of timber per year purchased from federal O&C forests. At about \$300/thousand board feet, the cost to the mill of that timber was \$18 million. One-half of those revenues, or \$9 million, was shared with O&C counties as discretionary revenues. Of that \$9 million, Douglas County received \$2,254,500, over 35 times the property taxes generated by the Alcan-plus-homes development.

As Jackson County Commissioner and Task Force member C.W. Smith told the Task Force, "Most of these counties can't build themselves or develop themselves into solvency. Every new resident is a negative on the budget."

Legislative Preemptions of County Revenue-Raising Authority. As discussed in Section 8, statutory preemptions prevent or limit county voters and governments from raising revenues for public services in specific ways, such as the transient lodging tax and real estate transfer tax.

We identify some of these "fiscal handcuffs" in Sections 8 and 9 and recommend ways to loosen them to provide new options for counties and their taxpayers.

***Investments in Economic Development Needs Are All the More Critical***

The State has invested in community-based programs to provide the local capacity necessary to deal with economic and community development issues. Recent losses in funding for programs are coming at a time when areas away from urban populations are falling farther behind. This, coupled with the SRS payment losses, will make it extremely challenging for the hard hit counties to expend any funding or provide property tax incentives to promote business development.

Most counties and community leaders would prefer new jobs with better pay over tax payments and subsidies. For instance, communities across Oregon use property tax abatement and some new income tax abatement programs (Enterprise Zones, Strategic Investment Programs, Rural Renewable Energy Program, Oregon Investment Advantage, etc.) as their tools to encourage businesses to expand or move to their areas. Community leaders have done this at a time when property taxes are less adequate to cover basic services. But, it will be more difficult to continue to use these incentives to attract business when the discretionary budgets of counties are further diminished.

The state has a central role to play in investing in programs and services that will help local communities and their business to maintain their viability.

Efforts are underway to improve the state's support for rural economies. Communities (represented by cities, counties, ports, special districts) report they are eager to work with the state on an integrated management system that will capture need and find ways to plan for maintenance and replacement of community infrastructure. Also, the final report of the state's Office of Rural Policy highlights both needs and opportunities for collaboration between the state and its rural communities.

The recent reorganization of OECD has created an opportunity for more focused attention on the needs of rural communities.

When announcing the reorganization of the agency, the Governor asked its new director "to make sure that we are traveling around the state to learn about the needs of our communities, particularly our rural communities...With the loss of the Office of Rural Policy, it is all the more important that our state effort is truly statewide, and that we use our resources to best deliver economic opportunity for all of Oregon – not just our urban areas."

A similar review of the state's workforce development programs will also address opportunities at the regional level to provide for customized training of skilled workers for the high-demand jobs.

In addition to re-emphasizing the importance of these ongoing efforts, the Task Force adopted six recommendations for assisting rural counties with funding and capacity for

business recruitment and economic development. These recommendations are presented in Section 9.11 as Recommendations #32 through #37.

**CONCLUSION**

***Most of the hard hit counties “cannot build or develop themselves into solvency”***

### ***Section 8. What Counties and County Taxpayers Can Do to Help Themselves***

There are only two options for counties to deal with the loss of SRS payments in the immediate future:

- Cut county budgets and services; or,
- Increase county revenues from county taxpayers.

As shown in the survey of counties in Section 6, most of the hard hit counties began to reduce their budgets and service levels significantly last year, when reauthorization of SRS payments became uncertain. Even more have reduced their budgets for the upcoming fiscal year. Those that have built reserves to tide them over will start drawing down their balances and continue to reduce services in the years ahead.

Standing pat and waiting for economic recovery to provide additional revenues is not an option. As noted in Section 6, future revenue growth will continue to lag economic growth at the county level, because of the constraints of the property tax system.

#### ***Local option property taxes should be the counties' first recourse***

Property taxes are the primary source of general revenue for counties. In 2006-07, property taxes accounted for 41% of all county revenues statewide, excluding transfer payments from the federal and state governments.

Further, property tax rates and revenues remain a good indicator of a county's ability to finance essential services, with the exception of roads. If all counties were to establish a property tax rate equivalent to the statewide average of approximately \$2.80 per \$1,000, all but two of the hard hit counties would make up 90% or more of their discretionary general fund shortfalls from the loss of SRS payments. Only Jackson and Douglas would fall short of that mark.

But uniformity in tax rates among local governments in Oregon is far from the norm. County property tax rates range from a low of \$0.59 per \$1,000 in Josephine County to a high of \$8.71 per \$1,000 in Sherman County. Property tax rates among cities also vary widely. Even school districts, whose resources are equalized by a statewide school funding formula, have rates that range from less than \$2.00 to more than \$5.00 per \$1,000.

Property tax rates tend to be higher among Eastern Oregon counties, many of which raised their rates to sustain services prior to the passage of Oregon's voter-approved property tax limitation measures in the 1990s. Historically, property tax rates have been lower in the O&C counties in Western Oregon, reflecting the magnitude of revenues from federal harvest revenues and safety net payments that financed public services in those counties.

These widely varying property tax rates inevitably raise issues of equity when additional state assistance to hard hit counties is addressed. If more state dollars flow to counties with low tax rates, the state could end up subsidizing counties whose tax effort is below that of most other counties.

But the counties' property tax rates are not easily equalized. Today's rates were effectively frozen in place as maximum "permanent rates" under Measure 50, a constitutional property tax measure approved by the voters in 1997 that limited property tax increases for each unit of property. These Measure 50 limits applied to the rates in effect under 1990's Measure 5, which set maximum property tax rates of \$5.00 per \$1,000 for schools and \$10.00 per \$1,000 for all units of local government, including counties, cities and special districts.

Measure 5 and Measure 50 form the constitutional sidelines for the counties' property tax playing field. Within those sidelines, counties are arrayed according to their property tax rates in effect in the mid-1990s. Those rates are now their permanent rates, which can be increased only temporarily (up to five years for operating taxes, longer for bonds that finance capital projects) with the approval of county voters. Such votes require "double majorities" – both a turnout of a majority of voters and the approval of a majority of votes cast – except in biennial general elections when majority approval suffices. Voter-approved temporary increases are known as "local option taxes." Voters can approve local option taxes up to the Measure 5 limit of \$10.00 per thousand for counties, cities and special districts. When county, city or special district voters approve rates that compound to greater than \$10.00 per \$1,000, their rates are compressed, or proportionately reduced, to comply with Measure 5.

The gap between county rates and the combined local government maximum of \$10.00 per \$1,000 reflects each county's unused "tax capacity." Such tax capacity is likely to be constrained by the effects of compression among jurisdictions and by limitations that apply to individual properties. But examining the difference between current property tax rates, including local options taxes, and the average of all rates in effect for local governments within each county provides useful measures of unused tax capacity. These measures are displayed in Tables 5.A and 5. on the following pages.

The data in Table 5.A show that counties statewide are using less than half of their tax capacity, at 45%.

Table 5.B shows the effects of current and potential tax rates on taxpayers in each county as shares of personal income.

**Table 5A. Measures of Actual and Potential General Government Operating Property Taxes by County (2006-07)**

County	Measure 5 Value (FY07)	Maximum that General Govs could impose under M5 (\$10 per thousand)	Actual FY07 General Government Operating Taxes Imposed			Share of Capacity Used			Utilization and capacity per capita					
			County	Other Govs	Total	Unused General Gov Operating Taxes	County Gov	Other Gov	Total	Actual County Operating Taxes	Actual Other Gov Operating Taxes	Total Actual Gov Operating Taxes	Maximum gen. gov operating taxes under M5	Unused general gov operating taxes
Baker	1,204,359,640	12,043,596	3,780,761	3,797,056	7,577,817	4,465,780	31%	32%	63%	230	231	461	733	272
Benton	8,432,112,831	84,321,128	13,906,839	27,566,930	41,473,769	42,847,359	16%	33%	49%	163	323	486	989	502
Clackamas	48,691,608,330	486,916,083	78,899,394	125,641,242	204,540,636	282,375,447	16%	26%	42%	212	338	549	1,308	759
Clatsop	6,826,701,758	68,267,018	6,581,883	16,045,263	22,627,147	45,639,871	10%	24%	33%	176	429	604	1,823	1,219
Columbia	5,018,748,983	50,187,490	4,857,735	17,086,743	21,944,478	28,243,012	10%	34%	44%	102	359	461	1,055	594
Coos	7,340,632,209	73,406,322	3,991,209	19,206,641	23,197,850	50,208,472	5%	26%	32%	63	305	368	1,164	796
Crook	2,657,517,513	26,575,175	5,305,017	4,887,611	10,192,628	16,382,547	20%	18%	38%	205	189	394	1,027	633
Curry	4,012,354,322	40,123,543	1,281,335	5,840,678	7,122,013	33,001,530	3%	15%	18%	60	272	332	1,868	1,537
Deschutes	28,378,903,627	283,789,036	34,052,588	63,369,992	97,422,580	186,366,456	12%	22%	34%	212	394	606	1,765	1,159
Douglas	9,979,231,809	99,792,318	7,020,777	26,399,705	33,420,482	66,371,836	7%	26%	33%	67	252	319	953	634
Gilliam	340,550,037	3,405,500	1,115,855	709,537	1,825,392	1,580,108	33%	21%	54%	592	376	968	1,807	838
Grant	529,095,630	5,290,956	1,115,632	1,761,461	2,877,093	2,413,863	21%	33%	54%	147	232	380	698	318
Harney	512,943,813	5,129,438	1,619,251	1,475,520	3,094,772	2,034,667	32%	29%	60%	211	192	403	668	265
Hood River	2,517,804,042	25,178,040	2,049,486	3,814,903	5,864,389	19,313,652	8%	15%	23%	95	178	273	1,173	900
Jackson	26,712,217,583	267,122,176	26,578,981	61,907,864	88,486,845	178,635,331	10%	23%	33%	131	306	437	1,320	883
Jefferson	1,956,294,054	19,562,941	5,422,802	3,625,716	9,048,518	10,514,422	28%	19%	46%	246	165	411	888	477
Josephine	9,898,502,838	98,985,028	2,891,626	12,508,604	15,400,230	83,584,799	3%	13%	16%	35	152	187	1,201	1,015
Klamath	6,891,991,865	68,919,919	7,014,436	17,733,742	24,748,179	44,171,740	10%	26%	36%	107	269	376	1,047	671
Lake	632,834,055	6,328,341	1,645,723	1,892,193	3,537,916	2,790,424	26%	30%	56%	218	250	468	837	369
Lane	37,080,135,503	370,801,355	28,329,272	133,185,791	161,515,063	209,286,292	8%	36%	44%	83	388	471	1,081	610
Lincoln	8,607,808,913	86,078,089	14,061,816	16,726,233	30,788,049	55,290,040	16%	19%	36%	315	375	690	1,929	1,239
Linn	9,161,949,169	91,619,492	21,465,945	30,985,508	52,451,452	39,168,039	23%	34%	57%	196	283	480	838	358
Malheur	1,695,204,450	16,952,045	3,552,799	5,343,633	8,896,432	8,055,612	21%	32%	52%	112	169	281	536	255
Marion	23,333,872,057	233,338,721	48,104,277	80,061,556	128,165,833	105,172,887	21%	34%	55%	155	257	412	750	338
Morrow	1,191,671,490	11,916,715	4,241,052	4,445,118	8,686,169	3,230,546	36%	37%	73%	344	360	704	966	262
Multnomah	87,156,705,619	871,567,056	235,957,408	321,066,356	557,023,763	314,543,293	27%	37%	64%	332	452	785	1,228	443
Polk	5,631,485,667	56,314,857	6,499,744	17,024,195	23,523,939	32,790,918	12%	30%	42%	96	252	348	834	486
Sherman	246,865,051	2,468,651	1,840,719	415,294	2,256,013	212,638	75%	17%	91%	992	224	1,216	1,331	115
Tillamook	5,208,753,499	52,087,535	6,506,328	5,739,526	12,245,853	39,841,682	12%	11%	24%	252	222	474	2,015	1,542
Umatilla	4,643,057,007	46,430,570	10,557,288	15,746,278	26,303,567	20,127,003	23%	34%	57%	146	218	364	643	279
Union	1,604,803,330	16,048,033	3,498,386	5,232,566	8,730,952	7,317,081	22%	33%	54%	139	207	346	636	290
Wallowa	780,210,720	7,802,107	1,460,863	1,969,933	3,430,795	4,371,312	19%	25%	44%	205	276	481	1,094	613
Wasco	2,269,604,125	22,696,041	6,117,763	5,441,720	11,559,483	11,136,558	27%	24%	51%	254	226	479	941	462
Washington	63,862,044,418	638,620,444	87,824,043	184,931,564	272,755,607	365,864,838	14%	29%	43%	172	362	534	1,250	716
Wheeler	147,514,149	1,475,141	751,014	199,322	950,336	524,805	51%	14%	64%	478	127	605	940	334
Yamhill	9,137,305,490	91,373,055	14,213,576	19,968,836	34,182,412	57,190,643	16%	22%	37%	153	215	367	982	614
<b>Statewide</b>	<b>434,293,395,596</b>	<b>4,342,933,956</b>	<b>704,113,622</b>	<b>1,263,754,831</b>	<b>1,967,868,452</b>	<b>2,375,065,504</b>	<b>16%</b>	<b>29%</b>	<b>45%</b>	<b>188</b>	<b>337</b>	<b>525</b>	<b>1,160</b>	<b>634</b>

**Table 5B. Measures of Potential Property Taxes as Share of Personal Income  
Operating Property Taxes by County (2006-07)**

County	Share of Capacity Used				Utilization and capacity as share of personal income					
	Unused General Gov Operating Taxes	County	Other Gov	Total	Total personal income (2007) (millions)	Actual FY07 County Operating Taxes	Actual FY07 Other Gov Operating Taxes	Total Actual FY07 Gov Operating Taxes	Maximum gen. gov operating taxes under M5	Unused general gov operating taxes
Baker	4,465,780	31%	32%	63%	398	0.9%	1.0%	1.9%	3.0%	1.1%
Benton	42,847,359	16%	33%	49%	3,210	0.4%	0.9%	1.3%	2.6%	1.3%
Clackamas	282,375,447	16%	26%	42%	16,557	0.5%	0.8%	1.2%	2.9%	1.7%
Clatsop	45,639,871	10%	24%	33%	1,072	0.6%	1.5%	2.1%	6.4%	4.3%
Columbia	28,243,012	10%	34%	44%	1,575	0.3%	1.1%	1.4%	3.2%	1.8%
Coos	50,208,472	5%	26%	32%	1,716	0.2%	1.1%	1.4%	4.3%	2.9%
Crook	16,382,547	20%	18%	38%	560	0.9%	0.9%	1.8%	4.7%	2.9%
Curry	33,001,530	3%	15%	18%	591	0.2%	1.0%	1.2%	6.8%	5.6%
Deschutes	186,366,456	12%	22%	34%	5,398	0.6%	1.2%	1.8%	5.3%	3.5%
Douglas	66,371,836	7%	26%	33%	2,871	0.2%	0.9%	1.2%	3.5%	2.3%
Gilliam	1,580,108	33%	21%	54%	43	2.6%	1.7%	4.3%	8.0%	3.7%
Grant	2,413,863	21%	33%	54%	200	0.6%	0.9%	1.4%	2.7%	1.2%
Harney	2,034,667	32%	29%	60%	184	0.9%	0.8%	1.7%	2.8%	1.1%
Hood River	19,313,652	8%	15%	23%	600	0.3%	0.6%	1.0%	4.2%	3.2%
Jackson	178,635,331	10%	23%	33%	6,622	0.4%	0.9%	1.3%	4.0%	2.7%
Jefferson	10,514,422	28%	19%	46%	482	1.1%	0.8%	1.9%	4.1%	2.2%
Josephine	83,584,799	3%	13%	16%	2,086	0.1%	0.6%	0.7%	4.7%	4.0%
Klamath	44,171,740	10%	26%	36%	1,744	0.4%	1.0%	1.4%	4.0%	2.5%
Lake	2,790,424	26%	30%	56%	202	0.8%	0.9%	1.8%	3.1%	1.4%
Lane	209,286,292	8%	36%	44%	11,150	0.3%	1.2%	1.4%	3.3%	1.9%
Lincoln	55,290,040	16%	19%	36%	1,354	1.0%	1.2%	2.3%	6.4%	4.1%
Linn	39,168,039	23%	34%	57%	3,017	0.7%	1.0%	1.7%	3.0%	1.3%
Malheur	8,055,612	21%	32%	52%	666	0.5%	0.8%	1.3%	2.5%	1.2%
Marion	105,172,887	21%	34%	55%	9,916	0.5%	0.8%	1.3%	2.4%	1.1%
Morrow	3,230,546	36%	37%	73%	302	1.4%	1.5%	2.9%	3.9%	1.1%
Multnomah	314,543,293	27%	37%	64%	28,432	0.8%	1.1%	2.0%	3.1%	1.1%
Polk	32,790,918	12%	30%	42%	2,293	0.3%	0.7%	1.0%	2.5%	1.4%
Sherman	212,638	75%	17%	91%	40	4.6%	1.0%	5.7%	6.2%	0.5%
Tillamook	39,841,682	12%	11%	24%	727	0.9%	0.8%	1.7%	7.2%	5.5%
Umatilla	20,127,003	23%	34%	57%	1,885	0.6%	0.8%	1.4%	2.5%	1.1%
Union	7,317,081	22%	33%	54%	680	0.5%	0.8%	1.3%	2.4%	1.1%
Wallowa	4,371,312	19%	25%	44%	193	0.8%	1.0%	1.8%	4.1%	2.3%
Wasco	11,136,558	27%	24%	51%	651	0.9%	0.8%	1.8%	3.5%	1.7%
Washington	365,864,838	14%	29%	43%	20,145	0.4%	0.9%	1.4%	3.2%	1.8%
Wheeler	524,805	51%	14%	64%	35	2.1%	0.6%	2.7%	4.2%	1.5%
Yamhill	57,190,643	16%	22%	37%	3,009	0.5%	0.7%	1.1%	3.0%	1.9%
<b>Statewide</b>	<b>2,375,065,504</b>	<b>16%</b>	<b>29%</b>	<b>45%</b>	<b>130,602</b>	<b>0.5%</b>	<b>1.0%</b>	<b>1.5%</b>	<b>3.3%</b>	<b>1.8%</b>

Theoretically, the low-tax counties have the latitude to raise their taxes by 100% or more by enacting local option taxes. However, we recognize that it would be both difficult and unprecedented for county governments to propose, county voters to approve and county economies to absorb tax increases of 100% or more in a short period of time.

Instead we searched for a more reasonable standard for the amount of “tax effort” that might be expected from the hard hit counties as a short term response to the loss of SRS payments.

We recognize that it has been difficult for counties to win voter approval for local option taxes. During the period 1997 to 2007, 27 of Oregon’s 36 counties have placed a total of 136 local option tax proposals on the ballot. Only 52 (38%) of these measures have won voter approval, although 19 proposals received a majority of votes cast but failed to meet the “double majority” turnout requirement.

Interestingly, 57% of Sheriff’s proposals have succeeded, but only 29% of a much larger number of proposals for “law enforcement” and “public safety” have won voter approval. The most successful proposals in total numbers have been library levies; 17 of 33 of these proposals have won voter approval.

A survey of successful local option efforts reveals the following.

Deschutes County’s permanent law enforcement districts. The Deschutes County Sheriff’s Office had been funded primarily by a three-year local option levy. In 2006, after a year of study by a county advisory committee, the county secured voter approval of two law enforcement districts, each with permanent tax rates that took effect in July 2007. The tax rate limitations of each district were based on fully funding sheriff services through 2020-2021. One district is countywide, with a permanent rate limit of \$1.25, which funds services such as jail staffing, courthouse security, work release center, prisoner transports, emergency planning, search and rescue, civil process, inmate work crews, and other legally mandated services. The other is a rural district with a rate limit of \$1.55 to serve unincorporated areas and the resort communities of SunRiver and Black Butte. This district will fund sheriff patrols, major crime team detectives, crime investigation, 911 response, school resource officers, accident investigations, drug enforcement and education, animal control, street crimes unit, traffic safety, crime prevention, community policing, and wildland arson investigators. The lower tax rate limit for the countywide district takes into account police services provided by city taxpayers and the service districts of SunRiver and Black Butte.

Douglas County’s Extension Service District. In May, 2008, Douglas County joined 15 other counties that formed taxing districts to fund agricultural extension services. Douglas County’s district has a permanent tax rate limit of 6.5 cents per \$1000 of assessed valuation. It proved popular at the polls, winning 64.5% of the vote. (It failed

in Canyonville and Reedsport, which under the measure amounted to an opt-out for those cities.)

Benton County's citizen-led local option levy. At the November 2007 general election, Benton County voters barely passed a five-year local option levy to maintain threatened health and safety services. The 90 cent permanent tax rate will raise approximately \$5 million per year for deputy district attorneys, sheriff patrols, juvenile services staff, and health services, partially offsetting an expired levy and reduction in other revenues. Community leaders had become interested in reversing the eroding county service level and funding a campaign to pass the levy.

Linn County's established local option law enforcement levy. Beginning some 25 years ago, Linn County voters approved consecutive serial levies to fund law enforcement services. Because of timing, however, the levy was not rolled into the county's permanent property tax rate when Measure 50 was adopted in 1997. As a result, county voters must continue to approve local option levies to fund law enforcement services. The latest version, adopted at the general election of 2006, provides approximately \$15 million per year from a tax rate of \$2.34 for sheriff (76%), juvenile (14%), and district attorney (10%) services. This temporary tax rate of \$2.34 is 85% greater than the permanent county tax rate of \$1.27.

(Polk County's successful experience with property-tax-backed bonds for road improvements is described below under "Options to make up road fund losses.")

Ten counties currently have voter-approved local option taxes, which have boosted their rates and revenues by an average of 33% and by a median increase of 18%. Based on these examples of additional local option taxes approved by county voters, we quantified the potential revenue to be gained if all of the hard hit counties were to secure voter approval for local option taxes in amounts of 10%, 20% and 30% above their permanent rates. Although this approach would not equalize rates, it would represent equal effort by the counties and their taxpayers in responding to the loss of SRS payments.

The results of these projections are shown in Table 6 on the following page.

If all hard hit counties were to increase their property tax rates by 10%, they would raise additional revenues of \$15.1 million per year, and the effect on the consolidated rate paid by taxpayers for all local governments and schools would amount to only a two percent increase overall.

At 20%, the hard hit counties would raise \$30.3 million per year, with a consolidated rate increase of three percent.

At 30%, the hard hit counties would raise \$45.2 million per year, with a consolidated rate increase of five percent.

**Table 6. Approximation of increased revenue from various local option taxes at 10%, 20%, and 30% above permanent rate revenue FY2008**

County	Increase County M50 Permanent Rate Revenue by:			Increase County M50 Permanent Rate Revenue by:			Increase County M50 Permanent Rate Revenue by:		
	10%			20%			30%		
	Increase in Revenue			Increase in Revenue			Increase in Revenue		
	County District Operating Revenue	Percent	All District Revenue*	County District Operating Revenue	Percent	All District Revenue*	County District Operating Revenue	Percent	All District Revenue*
Dollars	Percent	Percent	Dollars	Percent	Percent	Dollars	Percent	Percent	
Baker	390,000	10%	3%	780,000	20%	6%	1,200,000	30%	8%
Columbia	510,000	10%	1%	1,000,000	20%	2%	1,500,000	30%	3%
Coos	420,000	10%	1%	840,000	20%	2%	1,300,000	30%	3%
Crook	580,000	10%	3%	1,200,000	20%	6%	1,700,000	30%	8%
Curry	130,000	10%	1%	270,000	20%	1%	400,000	30%	2%
Douglas	740,000	10%	1%	1,500,000	20%	2%	2,200,000	30%	3%
Grant	120,000	10%	2%	230,000	20%	4%	350,000	30%	6%
Harney	170,000	10%	3%	340,000	20%	6%	510,000	30%	9%
Hood River	220,000	10%	1%	430,000	20%	2%	650,000	30%	3%
Jackson	2,800,000	10%	1%	5,600,000	20%	3%	8,400,000	30%	4%
Josephine	310,000	10%	1%	610,000	20%	1%	920,000	30%	2%
Klamath	740,000	10%	2%	1,500,000	20%	3%	2,200,000	30%	5%
Lake	170,000	10%	3%	340,000	20%	5%	510,000	30%	8%
Lane	3,000,000	10%	1%	6,000,000	20%	2%	9,000,000	30%	3%
Lincoln	1,500,000	10%	2%	3,000,000	20%	4%	4,400,000	30%	6%
Linn	880,000	4%	1%	1,800,000	7%	2%	2,700,000	11%	2%
Polk	690,000	10%	1%	1,400,000	20%	2%	2,100,000	30%	3%
Tillamook	510,000	7%	1%	1,000,000	14%	3%	1,500,000	21%	4%
Union	370,000	10%	2%	740,000	20%	4%	1,100,000	30%	7%
Wallowa	140,000	9%	2%	280,000	19%	4%	430,000	28%	6%
Wasco	640,000	10%	2%	1,300,000	20%	5%	1,900,000	30%	7%
Wheeler	76,000	10%	5%	150,000	20%	10%	230,000	30%	15%
Overall	15,106,000	9%	2%	30,310,000	18%	3%	45,200,000	26%	5%

\* Includes operating taxes and bonds from all districts including schools

DOR  
 Research  
 6/5/2008

**Recommendation #2: Counties should take advantage of their ability to enact local option levies with the approval of their voters.**

Increases of 10%, 20% and 30% should set the range of expectations for the immediate future.

Finally, the Task Force's Revenue Work Group developed a detailed analysis and critique of the state's property tax system, which is presented in Exhibit D. The Work Group's analysis of Oregon's property tax system highlighted four major problems due to the provisions of Measure 5 and Measure 50:

- A "freezing in time" of disproportionately low property tax rates in many areas of the state, especially in many of the federal forest counties in Western Oregon;
- An inability to keep pace with economic and population growth and attendant demands for services in local jurisdictions throughout the state;
- Inequities in taxation among property owners that are worsening over time; and,
- Revenue bases inadequate to support essential services.

**Recommendation #3: The state's Revenue Restructuring Task Force should undertake a comprehensive review of the state's property tax system based on the findings reported by this Task Force.**

This recommendation will be forwarded to the Revenue Restructuring Task Force created by HB 2530. This Task Force will deliver its report to the legislature in the fall of 2008.

***Options to make up road fund losses are more limited***

The loss of SRS payments will leave larger holes in county road budgets than in their discretionary general fund budgets. Counties overall will lose 28% of their road funds compared to 12% of their discretionary general funds.

The largest share of county road funds (37%) comes from the state highway fund in the form of shared revenue from fuel taxes, vehicle title and registration fees, drivers' license fees and commercial weight-mile taxes). Only 30% of county road funds are locally generated.

Road funds are dedicated funds which cannot be used for other purposes, although certain other funds can be used to finance roads.

Thus, where the budget holes will be deepest from the loss of SRS payments, the options for local tax effort will be most limited.

Some counties have made greater use of property taxes for roads than others. Both Clatsop and Malheur counties have established road districts supported by local

property taxes. Also, Polk County has made creative use of bonding for road construction and repaving.

In 1987 and again in 2006, Polk County secured passage of voter-approved bonds to maintain paved roads. The 1987 bonds of \$7.5 million funded the overlay of 142 miles of county roads; the 2006 bonds of \$20 million covered 188 miles of county roads.

Such bonds, although supported by local property taxes, are allowed above the Measure 5 limits when linked to capital projects. Also, by packaging its financing as bonds, the county avoided a 50-50 division of the proceeds with cities, as required by ORS 368.710 for local option taxes for roads.

Property taxes for special road districts and/or road bonds can be part of the 10%, 20% and 30% scenarios discussed in Recommendation #1.

Other options for the counties to restore their road funds entail the redistribution of state highway funds, as called out in the Task Force's Roads Work Group Recommendation #29.

### ***Changes in state law will be needed to give counties new revenue options***

Counties are constrained by state law in the use of many revenue options. Loosening or removing these constraints will enable counties to expand existing revenue sources or develop new ones.

Remove restrictions; expand revenue options. The Revenue Work Group and the full Task Force reviewed numerous proposals to remove state restrictions on existing revenues and expand local options for new revenue sources. The full Task Force rejected several proposals from the Work Group and approved, but failed to reach unanimity, on others. Sen. Fred Girod opposed this approach and the items listed in Recommendation #4. Further, the sense of the full Task Force at its final meeting was that this approach should be considered secondary to the use of existing property tax capacity.

### **Recommendation #4: Amend state law to give counties the authority to use existing revenues more flexibly and to enact new revenue options with the approval of county voters, as stated in (a) and (b) herein.**

- a) Allow all transient lodging tax receipts to be used by counties and cities for "tourism-related services, including emergency services, law enforcement and roads."
  - Current law (ORS 320.350) requires local governments to dedicate 70% of receipts from transient lodging taxes enacted or increased after July 1, 2003 to "fund tourism promotion or tourism-related facilities."
    - Revenue potential for "hard-hit counties:" \$11.2 million to \$37.4 million

The \$37.4 million annual revenue estimate is based on a survey of hard hit counties with and without such taxes, a maximum rate of 8%, net new revenue above amounts already in effect and the assumption that 100% of such taxes could be spent for the broader definition of tourism-related services. At 30%, the additional revenue would amount to \$11.2 million per year.

- b) Remove the state's preemption of real estate transfer taxes.
- Current law (ORS 306.815) prohibits local governments from imposing real estate transfer taxes, with the exception of a "grandfather provision" continuing in effect a previously-enacted real estate transfer tax in Washington County.
  - Washington County collects this tax now. At 0.1%, it raises \$6 million to \$7 million per year.
  - A statewide real estate transfer tax of 1.0% would yield \$300 million per year.

GF Revenue potential for "hard-hit counties:" \$10.8 million

The \$10.8 million annual revenue estimate is based on Washington County's rate of 0.1%.

Loosen strings on county funding for roads. The Task Force also considered proposals for loosening the statutory strings on county funding for roads. Currently, state law requires inter-governmental agreements and specifies revenue sharing formulas when counties seek to establish or raise vehicle registration fees or local option property taxes for roads.

One state law (ORS 801.041) requires a county to seek approval from cities within its jurisdiction before presenting proposed increases in vehicle registration fees to the voters. Approval of all cities is required unless 40% of revenues are to be shared with the cities; approval of the larger cities is required with the 40% revenue sharing commitment. The cities' approval process is cumbersome; some counties contend it is also unfair.

Another state law (ORS 368.710) requires counties to share with their cities 50% of all local option property taxes that are used for roads. There is no provision that allows lesser revenue-sharing arrangements, except by agreement of the cities. The counties contend that this formula is arbitrary and does not fairly reflect the cities' share of roads and streets within large, rural counties.

The Revenue Work Group examined all aspects of these requirements. There was acknowledgement that the revenue-sharing percentages, when applied statewide, do not necessarily fit all counties.

The full Task Force voted unanimously to refer these issues to the Governor's Transportation Work Group.

Telecomm franchise fees. The Revenue Work Group and the full Task Force considered a proposal to allow counties to impose franchise fees on telecommunications companies.

Current law allows cities to cities to impose franchise fees on telecommunications companies but prohibits counties from doing so. Many cities impose such fees. But the structure of these fees has led to significant revenue declines in recent years. The League of Oregon Cities (LOC) is working on concepts to change the structure of these fees.

A majority of the Task Force agreed to support in concept the efforts of the LOC, to let the LOC take the lead on this and to support this options for counties consistent with any final proposals developed and advanced by the LOC. Sen. Fred Girod dissented from this agreement, which the Task Force understood would not be a formal recommendation.

## **CONCLUSION**

*In order to compare the reach of these recommendations to the size of the shortfalls confronting the counties, we estimated that the hard hit counties will lose a total of \$179 million in the next year.*

*The revenue-raising potential of local option property tax increases in the hard hit counties ranges from \$15.1 million to \$45.2 million, or 8% to 25% of their budget shortfalls. However, the timeline for voter approvals as displayed in Exhibit B will be daunting for many counties.*

*The additional revenue options identified in Recommendation #4 would each cover about 6% of the shortfall, but were viewed by the Task Force as secondary options.*

***As an initial expectation for the short term, it is reasonable to expect counties to use their local option tax capacity to recover 10% to 20% of their shortfalls.***

### ***Section 9. What the State and State Taxpayers Can Do to Help the Counties***

The Task Force examined all possible ways that state government and state taxpayers could provide additional assistance to the counties through:

- Increases in state funding for services that are jointly-financed by the state and the counties;
- New or increased forms of revenue sharing or targeted investments; and,
- Increases in, or redistributions of, county revenue controlled by the state.

The state currently provides funding to the counties that totals more than \$500 million per year (approximately \$1.1 billion in the current biennium), approximately 40% of which comes from the state's General Fund. Much of this funding supports shared services, such as public health and juvenile services, as well as coordinated services, such as parole and probation for prisoners released from state prisons. The state also contributes to the assessment and taxation functions of the counties and relies on county-funded staff to supplement its programs at the local level, such as monitoring and enforcement of water rights.

Finally, the state provides targeted investments to counties for local infrastructure and community development projects and for business recruitment and retention.

#### ***Key program areas***

The Task Force devoted the large majority of its time to examining the mix of state and county support for shared services, including state mandates for minimum funding levels by the counties, and identifying areas ripe for increased state funding.

We reviewed numerous proposals from ten different work groups of state and county managers and county elected officials organized by the following program areas:

1. Law Enforcement, beginning on page 46;
2. Courts and DAs, page 50 ;
3. Juvenile Services, page 57;
4. Community Corrections, page 62;
5. Public Health, page 69;
6. Addictions and Mental Health, page 74;
7. Senior Services, page 80;
8. Veterans' Services, page 83;
9. Assessment and Taxation, page 85; and,
10. Roads, page 89.

In addition, the full Task Force addressed the following:

11. Economic and Community Development, page 95; and,
12. Emergency Funds; page 97.

We adopted a total of 34 recommendations in these program areas, incorporating both:

- “All counties” proposals that involve state support for programs for which all counties are responsible; and,
- County-specific proposals focused on the hard hit counties.

Although we preferred to focus on the hard hit counties, we found merit in proposals that will benefit all counties as well, e.g. by correcting the underfunding of assessment and taxation. In other cases, we found opportunity in pending proposals to increase funds for statewide shared services, such as public health, where we recommended that a portion of new funding go in larger amounts to the hard hit counties.

Data on the share of state and county funding within each program area come from a research project of the Legislative Fiscal Office and the Association of Oregon Counties that was authorized by a legislative budget note in SB 5520 (2005) and completed in 2007. We refer to this source of data as the “5520 Project.”

### ***State’s capacity for assistance***

The financial ability of the state to respond to these recommendations is of great concern.

The Task Force heard from George Naughton, director of the state’s Budget and Management Division, that the state’s fiscal prospects are likely to be more constrained in the next budget period, 2009-11, than they were when the current two-year budget was constructed and approved in 2007. In the current period, state resources exceeded what was required to maintain current service levels by approximately \$800 million. In 2009-11, revenues are likely to barely cover, or fall short of, the amount needed to maintain current programs adjusted for inflation and population-driven demands for services.

Also, initiatives on the ballot in November 2008 could reduce state revenues by up to one billion dollars or require new spending of several hundred million dollars in 2009-11 and beyond.

The state’s budget forecast for 2009-11 suggests that it will be more difficult for the state to direct new resources to schools, higher education, children’s health care and other pressing needs, including funding for county services, than it was in 2007-09. Passage of one or more initiatives that reduce revenues or divert existing revenues to new purposes will increase this difficulty exponentially.

The Governor asked the Task Force to prioritize its recommendations for increased state support in increments of \$10 million per biennium. The Task Force has not yet done so; instead it will take comments on this report and complete its prioritization in September of this year.

A note on methodology: For each recommendation that requires an increase in state funding, we estimate its cost to the state on a *biennial* basis, since that is how the state

budget is constructed. We then calculate the benefit to the counties on a biennial basis as well. These biennial costs and benefits should be compared to a total two-year loss of SRS payments, net of harvest receipts, that amounts to \$412 million for all counties and \$356 million for the hard hit counties. These estimates are based on John Krawczyk's calculations of expected harvest receipts in 2008-09, as discussed in Section 3.

We also address the amount and distribution of state-controlled revenues in the program subsections related to Assessment and Taxation and Roads and in a final subsection entitled:

13. County Revenues Controlled by State Law, beginning on page 98.

State law specifies exemptions and discounted valuations for properties subject to taxation by the counties and other local governments. Although many of these tax breaks are designed to benefit local economies and local taxpayers, they erode local governments' revenues and, when successful in economic development, they boost state income tax revenues. We examine this relationship and make recommendations for changing certain property tax exemptions.

The state also controls the amount of certain fees collected and used at the local level, such as document recording fees. We offer a recommendation regarding increasing these fees as well.

### **9.1. Law Enforcement**

In Oregon, county sheriffs provide jail services, civil and court enforcement services, and law enforcement services (patrol and criminal investigations) outside municipal city limits. In addition, several sheriffs have entered into contracts with smaller municipalities to provide general law enforcement services.

County sheriffs are responsible for emergency management and organizing search and rescue missions within their respective counties. Ten county sheriffs are also responsible for community corrections, which includes the supervision of post-prison, parole and probation clients and offenders sentenced to 12 months or less of incarceration. Some sheriffs maintain special operation units such as SWAT, air support, motor units, marine units, K-9 patrols, dive teams, narcotic units and reserve/posse units. Funding for sheriff offices are primarily through the counties' general funds, although several counties have passed voter approved initiatives for enhanced patrol districts or special law enforcement levies.

In addition, several counties receive funding for full-time or part-time positions through contracts with the US Forest Service, Bureau of Land Management, Oregon Marine Board and local school districts, some of which involve Title II and Title III payments under the SRS. The majority of law enforcement agencies receive limited federal grants for transportation safety and criminal justice services.

Municipal police departments are responsible for law enforcement services within their respective jurisdictions. In one case, Stayton Police Department provides police service to the incorporated area of Sublimity through a contract. Municipal police officers have the authority to enforce all state traffic and criminal laws and, through city statutes, have the responsibility of enforcing certain city code violations. Many larger municipal agencies also maintain special operation units. Funding for municipal police agencies are largely through their respective municipal general funds.

The overall mission of the Oregon State Police (OSP) is to protect people, property, and the state's natural resources. In 1931, OSP was created to serve as a rural patrol and to assist local law enforcement. Through the Public Safety Services Bureau, OSP provides forensic services, fingerprint identification, criminal history files, medical examiner services, and fire investigations to all public safety agencies. Through the Police Services Bureau, OSP has the primary patrol responsibilities on state and interstate highways, conducts major crime investigations and enforces Fish and Wildlife laws. Over the past several years, due to budget constraints, several law enforcement agencies have assumed limited patrol duties on state and interstate highways. As an example, in the early 1980s, the Portland Police Bureau assumed patrol duties on state and interstate highways within Portland's city limits.

During the past ten years, public safety agencies have signed Cooperative Policing Agreements (CPA). The intent of CPAs is to define each agency's role in public safety

and to reduce the duplication of services. Again, due to budget constraints, OSP has been unable to fully meet its role, particularly when it comes to patrolling state and interstate highways. The restoration of 139 OSP patrol troopers during the 2007-2009 biennium will re-establish minimum 24/7-patrol coverage on major state and interstate highways.

### County impacts

The impacts reported below are from counties that will see the greatest general fund losses from the termination of SRS payments. These reports were gathered in meetings of the Law Enforcement Work Group in an informal manner without the assistance of budget data. These reports reflect conditions at the midpoint of the 2007-08 fiscal year.

**Jackson County:** To date, \$3.5 million has been cut from the sheriff's budget and \$1.0 million from community corrections. Commissioner Smith reported that they made cuts early and set aside additional funds, which will sustain them for four years.

**Josephine County:** Sheriff Gil Gilbertson reported that in 2000, they had 118 employees; today, they have 86 employees with five vacant positions. The 262 bed jail is operating with only 140 open beds due to reduced staffing. Currently, the sheriff's office has 16 patrol deputies working only one shift (5:00 p.m. to 3:00 a.m.). Future impacts could result in no patrol coverage and a reduction in the jail to 30 beds for local custodies and 30 beds for rental to outside agencies.

**Douglas County:** In the 2006-07 fiscal year, the Sheriff cut 10 full time positions. In the event his department receives no additional safety net funding in the 2007-2008 fiscal year, the Sheriff will cut 25 sworn positions, 21 correctional staff, and four non-sworn positions. It is unknown what the cuts will be for 2008-09.

**Coos County:** Sheriff Andy Jackson reports they lost 42 positions in 2007. The patrol force has been reduced to eight deputies, and their jail capacity of 249 beds was reduced to 97 jail beds. Sheriff Jackson estimates they will lose another 10 positions, leaving the patrol force at a strength of 20%, and may reduce the jail to only 47 beds.

**Curry County:** In the past year, the sheriff's office lost one lieutenant, one detective and four patrol deputies. Currently, there are only six patrol deputies and limited patrol coverage. The sheriff closed one floor of the jail and is exploring options of contracting jail services with Coos County. A future reduction in SRS funding will result in severe cuts to all county services.

**Lane County:** As reported by Task Force Co-Chair and Commissioner Bobby Green in the initial Task Force meeting, Lane County will cut 120 positions county-wide. More recently, the County announced that 59 employees would be laid off and an additional 120 positions would be held vacant. As Co-Chair Green noted, the damage to employee morale and the difficulty of recruiting for vacant positions cannot be quantified.

## Recommendations

The Task Force notes the following activities currently under way at OSP that will have a bearing on law enforcement in Oregon's counties.

OSP is in the process of hiring and training 139 new troopers as it moves to 24/7 coverage on major state and interstate highways. This will enhance coordination between OSP and county sheriffs. It was agreed that OSP would not be available to back fill the loss of county deputy positions. However, as OSP adds troopers to meet minimal 24/7 coverage on state and interstate highways, it will reduce the burden that some counties have had to endure in responding to calls for service on behalf of OSP. When needed, OSP will assist sheriff offices in answering life threatening calls for service; as always, all agencies will continue to provide backup for officers and deputies in need of help.

OSP will continue to assist the counties in the following ways.

- OSP will continue to provide support for local law enforcement agencies via major crime and narcotics teams and with major crime investigations.
- OSP's Fish & Wildlife troopers will continue to handle statewide fish and wildlife complaints.
- OSP will continue to staff SWAT and Mobile Response Teams and will fill that role where counties cut funding for special tactical teams.
- Local 911 centers and OSP command centers will continue to coordinate
- Expansion of the Oregon Wireless Interoperability Network (OWIN) will enhance coordination with the counties.

The Task Force unanimously approved the following recommendations.

✓ **OSP's provision of medical examiner services.**

Currently, OSP's Forensics Division funds medical examiner services in almost all areas of the state. But its services do not extend to Southern Oregon and several Eastern Oregon counties, which fund all or a portion of such services from their general fund budgets.

**Recommendation #5: Extend OSP's responsibility and funding for medical examiner services to the Southern Oregon counties that finance these services from their own budgets.**

State GF cost 2009-11: \$0.3 million  
\$ benefit to all counties per biennium: \$ N/A  
\$ benefit to "hard hit counties" per biennium: \$0.3 million

**Recommendation #6: Add a Deputy State Medical Examiner to the Central Oregon region.**

State GF cost 2009-11: \$0.3 million  
 \$ benefit to all counties per biennium: \$ N/A  
 \$ benefit to “hard hit counties” per biennium: \$0.3 million

✓ **State funding for wildlife services.**

In 2007-09 biennium, the state is providing \$752,616 for wildlife services through the Dept. of Agriculture and the Dept. of Fish and Wildlife. Counties in predominately rural areas are contributing \$1,852,041. Counties are contributing more than two dollars for every dollar contributed by the state, although jurisdiction of wildlife rests with the state. The Task Force voted to recommend an increase in state funding for wildlife damage control, with Sen. Alan Bates dissenting.

**Recommendation #7: Increase state support from ODFW for wildlife services and animal damage control to begin to restore state funding cut since 1999.**

State GF cost 2009-11: \$0.5 million  
 \$ benefit to all counties per biennium: \$0.5 million  
 \$ benefit to “hard hit counties” per biennium: \$0.4 million

✓ **State funding for emergency management services.**

The Task Force agreed unanimously to support in concept proposals developed by the Office of Emergency Management and likely to be reviewed by the Homeland Security Council to:

- Provide state assistance to local emergency management agencies to identify and apply for federal grants, with an estimated state General Fund cost of \$0.6 million per biennium; and,
- Augment the state’s emergency management staff to supplement emergency management functions in hard hit counties, which is expected to entail an additional 17 positions at a state General Fund cost of \$2.8 million per biennium.

The Task Force’s support for this proposal was conditioned on appropriate minimum qualifications and specified outcomes for the receipt of this assistance.

Note: A separate proposal regarding the continuation of Title III funds for search and rescue and related services is addressed in Recommendation #43 in Section 10.

## **9.2 Courts and DAs**

### Courts

Funding for Circuit Courts throughout Oregon is largely the responsibility of the state, although there are several areas of partnership between county and state government.

**Facilities:** The counties hold ownership of all Circuit Court facilities and are responsible “for providing suitable and sufficient court facilities,” pursuant to ORS 1.185(1)(a). Accordingly, the counties fund all Circuit Court facilities maintenance, including necessary construction, and the ongoing cost of maintaining utilities. According to the Report on Oregon Court Facilities (December 2006), many court facilities are ailing and fail to meet state safety standards. Because trial court facilities costs are county funded, decreasing forest payments will severely affect counties’ ability to provide suitable and sufficient trial court facilities. The state occasionally funds very minor Circuit Court facilities remodeling (e.g., adding a door). The state owns and operates all appellate court facilities.

**Operations:** The state is responsible for the central administration of Oregon’s state court system. Since 1981, the state has paid the full operating costs of state trial courts, including judge and staff salaries and the costs of indigent defense state-wide.

**Security:** Presently, the state and counties jointly fund trial court security through a filing fee-based central account.

**Drug Courts:** Counties throughout Oregon have been creatively finding ways to fund drug courts and similar specialized problem-solving courts for many years. In 2005, the state created a grant program administered by the Oregon Criminal Justice Commission to supplement the operation of drug courts. This grant program was enhanced in 2007 and, combined with federal public safety grants administered by the state, provides supplemental funding for 20 drug courts in 17 Counties.

### District Attorneys

The state is responsible for funding the salaries of elected district attorneys. However, direct financial support for the prosecutorial function rests largely with the counties.

District Attorneys’ offices provide some or all of the following services: criminal prosecution; law enforcement and multi-disciplinary team advice; victim assistance; child support enforcement; juvenile delinquency and dependency hearings; and mental commitment hearings.

According to the 5520 Project, which surveyed 31 district attorney budgets in 2003-05, the state was responsible for funding an average of 22% of district attorney service costs (7% from state funds and 15% in the form of pass-through dollars from federal

funds). The report also indicates that approximately 70% of district attorney costs in the counties surveyed came from county general funds, and the remaining 8% came from a combination of other sources.

**Salaries:** The state pays a salary to each county's District Attorney. As of July 2007, District Attorneys in counties with more than 100,000 in population received a base annual salary of \$94,332, which will increase over the biennium to \$104,828 by November 2008. District Attorneys in counties with fewer than 100,000 in population received a base annual salary of \$79,512, which will increase over the biennium to \$88,539 by November 2008.

In 2007, 23 counties paid an additional supplement to their elected District Attorneys' state-funded salary, while 13 did not. Supplements paid by the 23 counties range from \$10,000 to \$47,000 annually. The salaries of deputy district attorneys, support staff, and other operational costs are paid by county governments.

**Other Costs:** The state reinstated supplemental revenue to prosecution offices in 2007. Now known as Prosecutorial Assistance, a total of \$444,392 is provided to DA offices based on a combination of fixed and variable formulas. Counties receive \$1,250 per year for their DA and \$1,250 per year for each of their first three deputy district attorneys. The remaining revenue is distributed based on the total additional deputy district attorneys, if any, in each county. The state also provides supplemental assistance to District Attorney Offices through:

- training;
- the District Attorney Assistance program provided by the Department of Justice (DOJ);
- victims' compensation and assistance provided through Criminal Fines and Assessment Account (CFAA) revenue;
- child support enforcement programs; and,
- support for the Oregon District Attorneys Association's administrative costs.

Some District Attorney offices receive funds through grants and/or direct staffing by the Department of Justice (DOJ) to cover child dependency hearings.

### County impacts

While the end of SRS payments will not have an immediate impact on the state-funded salaries of elected district attorneys, budget constraints may spur individual counties to decrease their supplements to district attorney salaries. Additionally, some counties may cut prosecution staff (including deputy district attorneys), resulting in personnel shortages. In counties heavily reliant on forest payments, prosecution budgets could fall significantly, in some counties by more than 50%.

Cuts to deputy district attorney salaries will make retention of experienced professionals even more difficult in rural areas. Some district attorneys have already cut deputy

positions, limiting the ability to prosecute some misdemeanor and low level felony offenses.

In addition to the less quantifiable risk to community safety and beyond, courts, public defenders, district attorneys and community corrections will experience the systemic impacts of budget reductions.

- Decreased arrests by county sheriffs will translate into fewer cases ready for prosecution. Also, staff limitations at district attorney offices may cause fewer cases to be prosecuted. These impacts will reduce the flow of cases to circuit courts and could lower state funding for county jails and community corrections services under current state funding formulas.
- Further, because funding is often based on the volume of cases moving through the system, courts, public defenders, district attorneys and community corrections may experience additional funding cuts from other sources.
- Additionally, district attorneys with limited funds will likely target their scarce resources on high priority crimes and may decline to prosecute nonviolent property crimes, minor drug crimes and misdemeanors. Counties with severely compromised budgets may discontinue their drug courts because of personnel shortages, and as a result may forego state funding earmarked for drug courts.
- Finally, courthouses in counties unable to make capital investments in circuit court facilities will fall into further disrepair.

#### Shift of responsibilities to the state

Budget shortfalls will ultimately lead to the termination of county programs and the county's return of some service delivery to the state.

Counties may also decide to return all child support enforcement to the state. Child support enforcement is funded in part by federal grants administered by the state. Several counties have voluntarily relinquished responsibility for child support enforcement to DOJ, but DOJ lacks the capacity to undertake child support enforcement statewide without additional funding.

Finally, counties may be unable to maintain their role in juvenile dependency cases. District attorneys in some counties currently staff juvenile dependency hearings during the early stages (from emergency shelter hearings up through jurisdiction), and then further representation is left to DOJ.

If district attorneys are unable to staff the early stages of juvenile dependency hearings, state attorneys would be required to travel across the state, incurring additional costs and causing delays.



- exploration and consideration of an increase in the state's support to DA salaries, including 100% state support.

✓ **Grant writing assistance and coordination of efforts.**

Many district attorney and public defender offices in rural counties cannot afford to hire an individual with grant writing expertise to assist with grant applications. As a result, rural counties often miss opportunities to apply for additional funding. A staff person dedicated to providing technical grant writing assistance could help counties impacted by the loss of federal forest payments.

The Work Group noted the lack of a comprehensive list of federal grant and aid programs that are currently used, or could be applied for, in support of district attorney offices and Oregon's state court system. By cataloging available federal funds, state and local officials can gain a better understanding of available federal resources. Further, state officials and nongovernmental groups would be better positioned to advocate on behalf of state and local entities which may receive or are seeking federal funds.

**Recommendation #9: Add a staff person to the Criminal Justice Commission to provide technical grant writing assistance for federal forest counties. Catalogue federal grants available and coordinate efforts to secure federal grants for courts and DAs.**

State GF cost 2009-11: \$155,000  
 \$ benefit to all counties per biennium: \$ N/A  
 \$ benefit to "hard hit counties" per biennium: \$155,000+

This assistance should secure additional federal funds above the \$155,000 biennial cost, but the amount of new funds that may be secured remains to be determined.

✓ **Collection of unpaid fees from federal tax refunds.**

Currently, the Oregon Judicial Department (OJD) is able to collect unpaid fines, fees and restitution from state, but not federal, tax refunds. An effort is underway in Congress to allow state courts to collect unpaid fines and fees from federal tax returns.

OJD reports that there is more than one billion dollars in unpaid fines, fees and assessments owed to the state and its subdivisions and in restitution owed to victims. Federal law allows the states to enter into agreements with the IRS to tap individuals' income tax refunds for unpaid child support. Similar provisions to recover unpaid fines, fees and restitution could boost substantially the collection rates for the state and local governments.

**Recommendation #10: Enact enabling state legislation and support a federal law change to allow the Oregon Judicial Dept. to collect unpaid fines, fees and restitution from individuals' federal tax refunds, while giving first priority to unpaid child support.**

State GF cost 2009-11: \$0.8 million  
 \$ benefit to all counties per biennium: \$7.2 million  
 \$ benefit to "hard hit counties" per biennium: \$2.8 million

Note: The state's costs are one-time startup costs. The state would also gain an estimated \$10 million per biennium for its General Fund and \$21.6 million for its Criminal Fines and Assessments Account (CFAA), which supports public safety officer training and OSP's forensics program, in addition to providing funds for victims' compensation and assistance.

See also Recommendation #46 related to federal legislation in Section 10.

✓ **State support for drug courts.**

State support for several county drug courts currently comes from federal pass-through dollars from the Justice Assistance Grant. The Work Group noted that the amount of this grant has been steadily declining and cannot be counted on as a source of program sustaining revenue. The Work Group proposed that state funding increases for drug courts should be shifted to the General Fund and increased by 20%. This would raise the state's General Fund support from \$1.2 million to \$7 million per biennium.

The Task Force agreed that the state should work with rural counties impacted by the cessation of SRS payments to ensure that they continue to receive supplemental drug court funding.

✓ **Court facilities.**

HB 2331, enacted in 2007, created the Court Facilities Interim Committee. The Committee has been allocated \$1.2 million to study needed improvements to Oregon's courthouse facilities. This committee is expected to also address further funding issues related to courthouse facilities and maintenance.

The Work Group recommended that the Task Force collaborate with the Interim Committee on Courthouse Facilities on generating a list of available court facilities funding.

The Task Force agreed to support the efforts of the Committee in concept, with the understanding that new sources of funding should be identified if state support for court facilities is considered.

✓ **DA and Public Defender retention programs.**

After budget cuts, DAs and public defenders will face increased difficulty hiring and retaining qualified professionals. The Work Group recommended exploration of an incentive program for deputy district attorneys and public defenders in rural counties, modeled after the proposed federal College Cost Reduction Act, which offers significant incentives to individuals that work in public service.

The Task Force calls for consideration of such programs in conjunction with programs to address other rural workforce needs, such as the need for health professionals.

✓ **Early disposition programs.**

The Work Group proposed that the state, in partnership with counties, should continue to encourage early disposition programs like some of the more successful programs already in place in Oregon.

For example, the Washington County Early Case Resolution Program includes a separate arraignment process, onsite restitution advocates, and probation officers. This program allows the court to adjudicate the current case as well as other outstanding cases and any potential probation violations at one hearing. In Washington County, the program has resulted in near elimination of the need to prosecute Failure to Appear charges, and has significantly reduced the county jail population.

The Task Force calls for consideration of a pilot program to emulate such a model in rural counties as a cost saving measure.

### **9.3 Juvenile Services**

Oregon's juvenile justice system consists primarily of county juvenile departments and the state Oregon Youth Authority (OYA), but also relies significantly on services from law enforcement, the judicial system, for-profit and not-for-profit service providers, the education system, child welfare, mental health and alcohol and drug treatment services, community organizations and the families of delinquent youth.

These entities work in a highly interdependent network of services and sanctions to protect the public, hold youth offenders accountable and provide opportunities for reformation. The greatest numbers, about 90 percent, of Oregon's delinquent youth are handled by county juvenile departments, while about 2,000 of the highest-risk and most serious youth offenders are in OYA custody.

#### **Revenue and Resources**

Juvenile justice services, like other public safety functions, are heavily reliant on county General Funds. The 5520 Project found that Oregon counties provide about 68% of juvenile services funding, while direct state support provides about 12%.

The state, through the OYA, will provide about \$23 million to county juvenile departments in the current biennium. This includes Juvenile Crime Prevention Basic Services funds (a direct funding supplement to juvenile departments), diversion funds (which counties accept to provide services to limit admissions to OYA facilities) and funds for gang intervention. In addition, OYA shares funds with counties to provide services to individual offenders.

The Department of Human Services and Commission on Children and Families provide funds to counties for services, including mental health treatment, alcohol and drug treatment and juvenile crime prevention.

Also, county juvenile justice agencies utilize a variety of federal funds, including Edward Byrne Memorial/Justice Assistance Grants (public safety grants), Medicaid funds, and juvenile crime prevention grants (Title II and Title V). Several state agencies administer these funds, either as competitively-awarded grants or as pass-through formula grants.

State-provided juvenile justice resources generally have not recovered from state budget reductions in 2001-03. Even with substantial restorations in the 2007-09 budget, the state has 13% fewer close custody beds. In addition, only half of the reductions in pass-through funding to juvenile departments has been restored.

#### **Services**

Oregon's juvenile justice system is primarily a relationship between county juvenile departments and the Oregon Youth Authority. Delinquent youth are arrested by law

enforcement, adjudicated in juvenile court with prosecutors and defense counsel and supervised by county juvenile departments or committed to OYA custody.

Youth handled locally usually stay in school and continue to live at home while under supervision. Typical local services include detention (a facility designed for short-term stays), supervision, work crews and community service projects, peer courts, alcohol and drug treatment, mental health services, and other kinds of treatment services, including some residential treatment.

Youth offenders are committed to OYA when out-of-home placement is necessary for public safety. They generally have committed more serious offenses, have a lengthy delinquency history, present a higher public safety risk and have exhausted local services and sanctions. OYA has 11 close-custody youth correctional facilities and transition programs, a statewide network of contracted residential treatment service providers, contracted individualized services and foster homes.

### State and Local Structures

The statutory foundation of the juvenile justice system was overhauled in 1995, when the legislature moved administration of state juvenile corrections from the Department of Human Resources to a separate state agency, the Oregon Youth Authority. Senate Bill 1 (1995) also modified the statutory purposes of juvenile justice and envisioned a continuum of graduated services and sanctions provided at the state and local levels.

The OYA was established with five regions that were closely linked with county juvenile departments. State-level juvenile correctional facilities and field services were administered regionally, with overall coordination provided at a central level. This structure was intended to provide more local control and direct input to best leverage state resources to fill service gaps and maximize collaboration, while achieving some economies of scale and efficiencies through a regional structure. These OYA regions and administration were abolished in state budget reductions in 2001-03. The agency now administers its facility and field operations centrally. This revised organizational structure achieved budget savings, but resulted in reduced ability to collaborate and coordinate with counties.

Some regional structure still exists. "Discretionary Bed Allocations" (OYA close custody beds allocated to counties under a statewide formula) are still monitored on a regional basis. In addition, the Oregon Juvenile Department Directors Association (OJDDA) organizes itself into four regions, which provides some level of coordination of local services.

The most formalized regional model exists for the 17 Central and Eastern Oregon counties, who combine state-provided funds and coordinate services through the Central and Eastern Oregon Juvenile Justice Consortium (CEOJJC). This co-management structure was retained through the state-level changes.

### State mandates

State law establishes relatively few mandates in the juvenile justice system. Each county is mandated to have a county juvenile department to provide services to support juvenile court orders (ORS 419A.010 and .012). Those departments are required to investigate and report on youth brought before the juvenile court on delinquency referrals, be present in court and furnish information as the court requires and take charge of the youth as directed by the court. Beyond that, Oregon statutes generally do not require counties to provide a minimum staffing level, specific services or minimum levels of service.

State law does establish standards and mandates for some services that counties elect to provide (e.g., operating standards for juvenile detention facilities) and establishes standards for some activities (e.g., notification to victims of crimes). While the Juvenile Services Work Group did not closely review these mandates, they generally do not provide significant opportunities for financial savings or service efficiencies.

The lack of mandates is reflected by the lack of ability for counties to opt out or return services to the state. However, counties may decline to accept diversion funds, and therefore not have any legal limit on commitments to OYA close custody facilities. If a county declines diversion funds, the OYA would use those funds to establish diversion services in that county, and retains authority to parole youth offenders from close custody to the county.

### County impacts

While no statewide information is presently available, several counties already have reduced local juvenile justice programs and staff. Other counties have placed necessary program development on hold in anticipation of federal revenue reduction. Some counties have created reserve accounts that will mitigate immediate cuts, but will require phased reductions over time.

Twenty-seven percent of delinquency referrals statewide come from the seven counties of southern Oregon. These juvenile departments rely on county general funds for up to 95% of their budgets.

If SRS payments are not reauthorized and if all county departments are reduced by the same percentage, county juvenile departments across the state will see losses in their discretionary general fund revenue ranging from zero to more than 69%. Nearly one-third of juvenile departments will see reductions of more than 20%.

One juvenile department has notified OYA that it will likely find it necessary to close an eight-bed secure treatment program in July 2008. The majority of youth offenders who would have been served by the program will likely be committed to OYA for out-of-home placement in state-contracted residential treatment or close custody. Another juvenile department has notified OYA that it may need to close its secure 16-bed drug and

alcohol treatment program. To ensure public safety, youth offenders served in this program will likely be committed to state custody for out-of-home placement.

Many counties anticipate having to lay off staff who monitor and supervise youth offenders. Most counties have notified the state that reductions will occur at some level. This will result in less accountability for many youth offenders and no accountability for some offenders.

Recent reviews conducted by the state Public Services Defense Commission note that the Coos County Juvenile Dept. lost more than one-third of its staff in recent budget cuts, and that the Curry County Juvenile Dept. has laid off nine staff members since February 2007.

Looming reductions in SRS payments that support juvenile services threaten public safety and will increase long-term demands on Oregon's adult criminal justice system, if the juvenile justice system is not able to quickly and effectively intervene to interrupt delinquent behaviors.

### Recommendations

The proposals of the Juvenile Services Work Group, as adopted by the Task Force, addressed the following areas.

#### ✓ **Regional capacity and coordination.**

OYA received budget increases in the 2007-09 biennium to phase in additional close custody beds and community placements. The agency suggested that it transfer planning responsibility to county-based regions for these close custody and community placement resources during the remainder of the biennium.

Rather than the state adding 45 close custody beds in youth correctional facilities, OYA would contract for that capacity in local secure facilities (e.g., detention centers) to assist continuing local secure programs. Similarly, OYA would work with county regions to purchase up to 58 community residential placements to help preserve programs in local communities. This would continue the state's safety net role by providing intensive services for the highest-risk offenders, but would also provide resources to help balance state and local services. Although this proposal can be funded within existing resources, it is likely to require legislative action to adjust OYA's 2007-09 budget and might require support from state labor organizations.

#### **Recommendation #11: Regionalize, at the level of county-based regions, 45 close custody beds and 58 community placements to be brought on line by OYA in 08-09.**

State GF cost 2009-11: \$ None  
 \$ benefit to all counties per biennium: N/A  
 \$ benefit to "hard hit counties" per biennium: \$ To be determined

Note: It is expected that this recommendation will need approval by the legislature's Emergency Board by January 2009. Its continued feasibility may also depend on the distribution of salary and benefit reserve funds by June Emergency Board.

The Work Group also noted the need to improve state-county coordination by aligning services regionally. While dollar savings likely are minimal, this action could generate some savings by combining resources, merging trainings and achieving other efficiencies.

**Recommendation #12. Improve coordination among state and local juvenile services by aligning OYA services with regions.**

State GF cost 2009-11: \$ None  
 \$ benefit to all counties per biennium: \$ Indeterminate  
 \$ benefit to "hard hit counties" per biennium: \$ Indeterminate

This recommendation can be accomplished within OYA's existing budget.

✓ **Federal funding for certain youth offenders.**

The Work Group explored the potential for accessing federal Title IV-E funds for youth offenders placed in community-based, out-of-home settings. Title IV-E would provide federal matching funds for some case management services and room-and-board costs.

OYA Director Bob Jester reported that his agency has prepared a state budget request for 2009-11 to complete a three-phase feasibility study of the potential for securing these federal funds at a total cost of \$306,000. But the potential gain in new revenue would be many times that amount.

Douglas County Juvenile Dept. Director Christina McMahan reported that there are six juvenile departments in the state interested in this project. She estimates that these funds could fill 10% to 30% of their budgets.

Lane County Dept. of Youth Services Director Lisa Smith reported that Oklahoma freed up \$8 million by accessing these federal funds for youth offenders.

**Recommendation #13: The Task Force supports OYA's request for contract services to explore the feasibility of accessing federal Title IV-E funds for youth offenders in community-based, out-of-home settings.**

State GF cost 2009-11: \$55,000 to \$306,000  
 \$ benefit to all counties per biennium: \$ Indeterminate  
 \$ benefit to "hard hit counties" per biennium: \$ Indeterminate

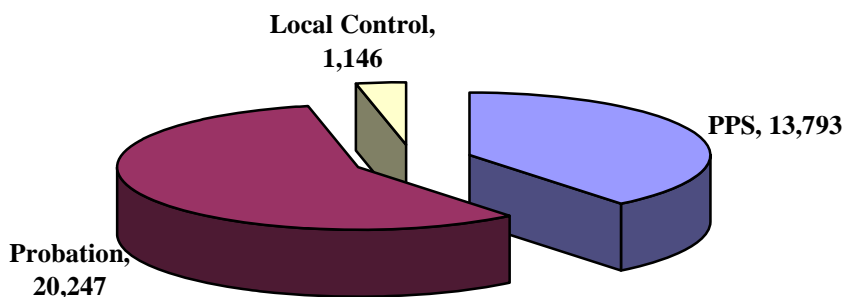
The expenditures for this feasibility study will be phased in three stages. If feasibility is not confirmed at either of the first two stages, the state's costs will not exceed \$55,000 at the first stage and a combined \$157,000 for the first and second stages. OYA reports that full implementation may not be possible until 2011-13.

### 9.4 Community Corrections

State funding for community corrections grant-in-aid supports the county-based community corrections activities directed at approximately 35,200 felony offenders supervised in the community. These offenders are serving sentences of felony probation, parole, post-prison supervision or prison sentences of 12 months or less served at the county level.

Community corrections, including supervision, correctional treatment and community-based punishments for felony offenders on probation and post-prison supervision is funded by the state through the use of a caseload-based formula. Some counties invest county general funds in these functions as well, and some counties fund supervision for those convicted of misdemeanors.

**Felony Offender Populations, November 2007**



County community corrections agencies:

- Evaluate each offender's likelihood to commit new crimes;
- Monitor offenders according to behavior and risk to re-offend, concentrating their efforts on those offenders who are most likely to re-offend;
- Employ a continuum of effective community-based punishments (examples of these options include community service work, work release, day reporting centers, and electronic house arrest); and
- Offer programs designed to address the causes of criminal behavior, thus reducing the risk of a return to criminal activity (programs include alcohol and drug treatment, sex offender treatment, and mental health treatment).

#### The state/county partnership for community corrections

Oregon's Community Corrections Act is based on the recognition that local jurisdictions are best suited to plan and manage their community's response to crime and corrections. As such, there are very few state mandates as to how state funds should

be invested. Local public safety coordinating councils are formed in each county to develop and recommend plans for use of state resources to serve adult offenders and to serve as planning and implementation forums for the coordination of local criminal justice policies.

Counties are obligated to provide incarceration, sanctions and services for felony offenders on probation, parole or post-prison supervision and those sentenced to prison for 12 months or less; however, the levels and types of these activities is a local decision. Counties have the authority to design and deliver a continuum of sanctions and services to meet offender needs and provide community safety.

Oregon's Community Corrections Act also includes an opt-out clause for counties in the event that funding falls below a baseline, called the current service level. ORS 423.483 outlines the basis on which a county can discontinue participation.

The funding basis for community corrections grants to counties was enhanced this biennium, following a time and cost study directed by the Governor. This new funding level began July 1, 2008. However, state funds are being distributed evenly throughout the biennium, thus accelerating the enhanced funding level.

These new funding levels are now considered "the calculated cost of continuing current legislatively funded programs" and will be used to determine the statewide budget in 2009-11.

If a biennial appropriation does not meet the minimum current service level requirement, the "opt out" clause is triggered and each county has an individual choice as to whether it will opt-out or participate in the Community Corrections Partnership Act. This choice is available to counties once every two years.

If a county opts out, the responsibility for supervising all felony offenders, including those under local control, is transferred back to the Department of Corrections (DOC) along with funds to provide those services, pursuant to ORS 423.482(2). (Local control offenders are those sentenced to 12 months or less). The facilities or additional jail beds within existing facilities that were built by the state to house the local control offenders would revert to the state. Local control offenders would not return to prison because of existing sentencing guidelines, so arrangements would be needed to house them in these or facilities.

#### Impacts on the counties and the state

As noted above, community corrections is funded by the state through the use of a caseload-based formula. Some counties invest their general funds in these functions as well, and some counties fund supervision for those convicted of misdemeanors. The loss of SRS payments to a county's general fund will likely result in the elimination of county-funded programs for supervision.

In the ten counties whose general funds will be most affected by the loss of federal forest payments, two had previously invested county general funds above the state grant. Those county-funded services will be eliminated, resulting in the loss of the forest camp, community service work programs, and the domestic violence program in Lane County. Jackson County is eliminating misdemeanor supervision, cutting 5.0 FTE adult probation officers, eliminating community service work crews and reducing administrative staff.

For most counties, the impacts on community corrections will come from reductions in the local criminal justice system and in treatment programs provided directly or indirectly through county mental health departments.

These impacts include:

- Reduced number of deputy district attorneys

This will mean fewer criminal filings, thus reduction in offender population; lower community corrections funding based upon fewer crimes prosecuted that result in a sentence of probation; less filing of probation violations; delays in the issuance of probation violation warrants; increased levels of non-compliance; more plea negotiations to lesser charges and/or more offenders sentenced to prison rather than jail.

- Reduced number of jail beds available for pre-trial detention and to respond to violations of supervision.

Counties may use a larger percentage of their state community corrections allocations to fund county jail beds, thus reducing the funding for supervision programs; decreased ability to impose jail sanctions in response to violations; increased levels of non-compliance, causing counties to explore other less restrictive and less costly responses to violation behavior; failure to appear rates may rise with loss of pre-trial detention.

- Reduced number of law enforcement on patrol in the county.

This will mean fewer felony arrests, thus decline in offender population; lower community corrections funding based upon the state's allocation formula; increased risk to community corrections field staff operating without police back-up; improved revocation and recidivism rates through lack of staff to investigate crimes.

- Reduced county treatment services available.

This will mean a loss of county services such as A&D treatment, mental health services; services would be available to fewer offenders, reducing the effectiveness of community corrections and increasing the risk of recidivism

## Recommendations

### ✓ **Stable funding for counties forced to reduce local capacity.**

Many of the anticipated impacts of the loss of federal funds are likely to result in a drop in the supervised population in the affected counties. This in turn could reduce state funding based on county workload.

There will be no drop in state funds for 2007-09 since that allocation has already been set. If a county's funded population drops in 2008, it could lose funding for the 2009-11 biennium. Total state funding and the county-by-county allocation for 2009-11 will be based on the last quarter of 2008.

In most cases, any budget reductions that take effect in July of 2008 would probably not have a significant impact in supervised populations by October-December of 2008. By 2011-13, counties will be adjusting to funding shortfalls caused by the loss of federal forest payments or face worsening situations. It will be important to monitor temporary drops in the felony population in affected counties that could reduce their state community corrections funding.

The state administrative rules governing the allocation formula for community corrections could be revised to establish a baseline of funding for the counties impacted by a loss of federal forest payments so that funding through 2013 would not be reduced below the 2007-09 level.

The Work Group recommended creation of a safety net below which community corrections funding would not drop in 2009-11 or 2011-13; the Task Force concurred.

### **Recommendation #14: Adjust the allocation formula for community corrections for one biennium (2009-11) to avert reductions in state funding from county budget reductions that result in a drop in supervised population.**

State GF cost 2009-11: \$ None  
 \$ benefit to all counties per biennium: Stability of state funding  
 \$ benefit to "hard hit counties" per biennium: Stability of state funding

Note: This recommendation can be accomplished by rule with no effect on DOC's current budget.

### ✓ **Updates of the state's funding commitment.**

Although counties are pleased with the new state funding levels in effect for 2007-09, they remain concerned that current levels may not be updated by future legislatures. The counties suggested that the cost study be updated every six years; the Task Force concurred.

**Recommendation #15: Require by statute that the cost study for community corrections be updated every six years, beginning 2012.**

State GF cost 2009-11: \$ None  
 \$ benefit to all counties per biennium: None, until 2013-15  
 \$ benefit to "hard hit counties" per biennium: None, until 2013-15

✓ **Options for counties to return services to the state.**

Smaller counties expressed concerns that they may not be able to afford community corrections in the future, even at enhanced funding levels, and sought more options for returning services to the state. Current law (ORS 423.535) clearly gives counties the right to contract with other counties for community corrections services, but the application of that right regarding contracts with DOC is unclear.

**Recommendation #16: Pursue allowing counties the ability to contract with the state for community corrections, with enabling legislation if needed.**

State GF cost 2009-11: \$ None  
 \$ benefit to all counties per biennium: \$ N/A  
 \$ benefit to "hard hit counties" per biennium: \$ Indeterminate

✓ **Technical assistance.**

DOC can provide technical assistance to counties faced with reductions in jail capacity and an associated reduction in the ability to impose meaningful sanctions.

DOC could provide assistance from local or national resources to the local criminal justice system to assist in developing a system of graduated sanctions that takes into account the loss of jail bed capacity. This effort could give the counties' new options by which to respond to violations of the conditions of parole or probation supervision.

**Recommendation #17: Provide technical assistance to counties faced with reductions in jail capacity and associated ability to impose meaningful sanctions.**

State GF cost 2009-11: \$ None  
 \$ benefit to all counties per biennium: \$ To be determined  
 \$ benefit to "hard hit counties" per biennium: \$ To be determined

This can be done by DOC within its current budget.

DOC has offered to sponsor planning meetings between jurisdictions interested in regionalizing jail or community corrections functions with jurisdictions that have had this experience.

**Recommendation #18: Provide technical assistance to counties interested in creating regional jails or community corrections agencies, with the understanding that policy choices remain at the local level.**

State GF cost 2009-11: \$ None  
\$ benefit to all counties per biennium: \$ To be determined  
\$ benefit to "hard hit counties" per biennium: \$ To be determined

This can be done by DOC within its current budget.

Washington County has developed an early disposition program to move selected cases more quickly through the criminal justice system, thus creating savings for the district attorney, the courts and the jail. DOC has offered to sponsor consultation between Washington County and counties interested in adopting similar processes.

**Recommendation #19: Provide technical assistance to counties in creating early disposition programs.**

State GF cost 2009-11: \$ None  
\$ benefit to all counties per biennium: \$ To be determined  
\$ benefit to "hard hit counties" per biennium: \$ To be determined

This can be done by DOC within its current budget.

## **9.5 Public Health**

The public health system serves both individuals and communities. Its community services include data collection and epidemiology for the identification of emerging diseases and hazards, regulatory programs, surveillance and monitoring functions. Many of these activities are the sole purview of public health and cannot be simply assigned to another agency or provider for continuation and oversight.

Oregon law (ORS 431) designates county governments as the local public health authority (LPHA), unless the county:

1. Contracts with another entity to be the LPHA; or,
2. Relinquishes the authority to the state; or,
3. Forms a health district with another county.

If a local entity relinquishes its authority, the state may then contract with a private entity or another public agency to provide the services itself.

LPHAs are responsible for management of local public health services. All expenditures of public funds for public health services at the local level must be approved by a LPHA unless a county has relinquished authority to the state or an exception has been approved by DHS with the concurrence of the Conference of Local Health Officials (CLHO).

### State requirements

State law specifies the minimum activities that a local public health authority must assure. These are:

- Administration and enforcement of state and local public health laws and rules; and,
- Assurance that activities necessary for the preservation of health or prevention of disease in the area under its jurisdiction are performed in accordance with the county's plan. These activities must include but are not limited to:
  - Epidemiology and control of preventable diseases and disorders;
  - Parent and child health services;
  - Collection and reporting of health statistics;
  - Health information and referral services; and
  - Environmental health services.

Programs that cannot revert to the state without jeopardizing the local public health authority status are:

- Women, infants and children nutrition services (WIC);
- Maternal and child health services (MCH block grant and home visiting activities);
- Communicable disease investigation and control;
- Family planning;

- Immunizations;
- Tuberculosis case management;
- Public health emergency preparedness;
- Environmental health services (food safety, facility inspections and drinking water protection);
- Vital records; and,
- Tobacco prevention, education and control activities (TPEP).

Services that counties may relegate to the state include:

- HIV/AIDS programs;
- School-based health clinics; and,
- Physical activity, nutrition and obesity programs.

The state uses Financial Assistance Agreements (FAAs) with the LPHAs to assist them with the funding and provision of local services. The required elements in such agreements are negotiated with the Coalition of Local Health Officials (CLHO).

Many county health departments provide a range of services beyond those called for in state law or their FAAs. These services include:

- Enhancements, such as community health education or extra home visiting bought with local Medicaid matching funds;
- Other county services that are managed by a particular county health department, such as jail health and animal control; and,
- Additional health care services, such as primary care, dental care and prenatal care.

### County and state funding

The 5520 Project reported that counties' general funds were the largest single source of funds for public health in Oregon at 27% in 2003-05. Another 25% came from fees. Only 20% came from the state and state-federal contracts.

The state provides funds to the counties for public health on a per capita basis. For 2007-09, the state nearly doubled its per capita funding from \$0.60 to \$1.16 per year. With the exception of categorical funding (e.g. for tobacco prevention and control and emergency preparedness), this was the first state funding increase for local public health programs in seven years.

Most, but not all counties, supplement the state's per capita funding. In 2007-08, counties' general fund support for their local public health authorities ranged from zero (in six counties) to a high of \$73.50 per capita per year in Multnomah County.

As shown in Table 7, five of the nine counties we have rated as critical or unsustainable in their general funds provided no general fund support for their public health programs.

**Table 7. County General Fund Support for Public Health  
in “Critical” and “Unsustainable” General Fund Counties, 2007-08**

<b>County</b>	<b>Status</b>	<b>County’s Per Capita Support for Public Health</b>
Columbia	Critical	\$0.78
Coos	Unsustainable	-0-
Curry	Critical	-0-
Douglas	Unsustainable	\$19.19
Grant	Unsustainable	-0-
Josephine	Critical	-0-
Klamath	Critical	-0-
Lane	Critical	\$4.03
Polk	Critical	\$1.74

Each year local authorities project their revenue for the coming year for the operation of their local department. Often, their programs include activities not connected to the FAA (e.g. animal control and health care for prisoners). Increasingly, LPHAs are including local primary care services.

In comparison with other states, the level of funding for public health services in Oregon is low. Even with the recent per capita funding increase, Oregon ranks 38th in state spending for public health.

#### County impacts

It is difficult to predict how further delays or reductions in federal forest payments will affect local public health authorities. Public health is not a large user of county general fund resources. Only five of the counties allocate over five percent of their general fund to public health, and two-thirds allocate less than three percent.

The Public Health Work Group reported, “Administrative and program efficiencies will not make up for the loss of federal timber payments. Unless something is done about the loss of the timber funds, Oregon will see a loss of the core public health services that safeguard the health and safety of all Oregonians.”

The delay and impending loss of SRS payments have precipitated changes in several of the affected counties. One county removed general fund support two years ago; two more followed suit this year. Two other counties reduced their general fund support this year, and another announced plans to do so in 2008-09.

Each county has followed a different path, but generally the loss of SRS payments has accelerated the reduction or elimination of county general fund spending for public health services.

The Work Group identified the following risks and threats.

- If federal forest payments to county general funds cease, public health programming will be heavily influenced by categorical grants from the federal government and may minimally relate to the needs of Oregonians.
- Core capacity to address communicable disease and other public health threats will be lost.
- The current prevention- centered, family-oriented system of services will erode, resulting in downstream costs in law enforcement, addiction services, unintended teen pregnancies, child welfare issues, and medical care for preventable diseases and conditions.
- Monitoring of public drinking water systems, food service, tourist and traveler accommodations and environmental hazards will be marginalized and eventually incapacitated for timely response to health hazards, leaving the public vulnerable to food and water illnesses and safety hazards.
- Other agencies and services will suffer in their ability to meet the needs of their clients, as LPHAs lose the capacity to accept referrals (e.g., tuberculosis and HIV testing for mental health and addictions services' clients, immunizations for school-age children and those in protective services, reproductive health for users of school-based health centers, and flu shots at senior centers).
- Case management services for the highest risk pregnant women and their infants and children will be significantly reduced, resulting in expensive and life threatening deliveries, neonatal intensive care stays, child abuse and other related issues affecting children's' ability to learn.
- As the system degrades, liability issues will rise.

### State takeovers

Counties can choose to relinquish its local public health authority to the state pursuant to ORS 431.375(2). It is also possible that the state could disapprove a county's LPHA plan and take over the role of the LPHA for a county.

### Recommendations

#### ✓ **Public health capacity in small counties.**

The current level of state funding for public health is both inadequate and unfair to small counties. Small and low-population counties cannot support a local public health authority on fees, federal funds and the state's \$1.16 per person per year. The state's

funding formula should recognize the minimum funding needed to maintain a public health department and the services required by state law.

**Recommendation #20: Provide minimum baseline funding for local public health agencies to work toward adequate capacity in low population counties. Provide maximum flexibility for the counties to define the appropriate baseline in conjunction with Coalition of Local Health Officials (CLHO) and the Association of Oregon Counties (AOC).**

State GF cost 2009-11: \$5.0 million  
 \$ benefit to all counties per biennium: \$5.0 million  
 \$ benefit to “hard hit counties” per biennium: \$4.5 million (est.)

The Oregon Dept. of Human Services has prepared a budget request for 2009-11 that would increase state support for public health from \$8.6 million to \$33.6 million. Of this amount, \$15 million would be used to increase the state’s per capita funding from \$1.16 to \$3.36 per year, and \$10 million would be used to establish a base level of funding for each county. The Task Force requested that DHS work with CLHO and AOC to design a base level of funding with \$5 million so as not to crowd out other funding recommendations, e.g. for community mental health.

✓ **Counties’ administrative burdens.**

County officials called attention to the high costs of entering into contractual financing agreements with the Dept. of Human Services (DHS), including the need for legal counsel to advise them on contractual issues and the time associated with reviewing and processing contracts and contract amendments. Also, the Public Health Division sometimes requires counties to submit a “request for application” to obtain funds for services when the county health department is the only qualified provider in its area.

In response to these complaints, DHS and AOC established a County Contracts Work Group, which is working to standardize contract forms and streamline the contracting process. Also, county counsels have developed a network for sharing information and resolving issues related to the contracting process. These efforts have reduced administrative costs for the counties.

**Recommendation #21: The Oregon Dept. of Human Services (DHS) should continue to streamline and reduce the administrative burden for county contracts. DHS will work with its divisions and other state agencies to encourage them to contract for public health services through local Public Health Authorities, without requiring RFPs, in order to preserve capacity at the local level.**

State GF cost 2009-11: \$ None  
 \$ benefit to all counties per biennium: \$ Indeterminate  
 \$ benefit to “hard hit counties” per biennium: \$ Indeterminate

DHS can accomplish most of the needed changes by administrative rule changes and within its existing budget.

## **9.6 Addictions and Mental Health**

The state and counties provide services for persons with mental illness or chemical dependency in a variety of settings that range from community-based residential and vocational centers to regional acute care hospitals and state institutions.

### The state-county partnership

The state and county partnership is outlined in ORS 430.

State laws define the responsibilities and relationships of the state and the counties in organizing and monitoring a statewide system of care for persons with addiction disorders or mental disorders. ORS 430.240 through ORS 430.590 and ORS 430.630 and ORS 430.640 describe the services funded by the state and delivered through community based systems of care.

The Oregon Dept. of Human Services (DHS), Addictions and Mental Health Division (AMH), sets the standards for planning, service delivery, quality and outcomes. These standards are set in partnership with the community mental health programs.

AMH contracts with one regional mental health provider that covers eastern Oregon. This provider delivers and manages residential services for individuals with major mental illnesses and the need for structured 24-hour care.

The alcohol and drug treatment (A&D) system includes regional and statewide services directed at youth and adults who require 24-hour substance abuse treatment in a residential setting. Detoxification services are also regional in that they are not accessible in every county. Detoxification services help people stabilize from acute intoxication or withdrawal.

### State requirements

AMH determines the needs for services and advocates for the funding for service delivery. The counties develop local service plans, deliver or contract for services, monitor quality and safety of services and assure data reporting to the state.

State mandates, service requirements and minimum service levels are established in financial assistance agreements with the counties.

### County and state funding

The 5520 Project found that counties contributed 11% of their general funds to mental health services in 2003-05 and that 71% of the funding for these services came from the state and state-federal contracts. The state's Dept. of Administrative Services Budget and Management Division tallied \$159 million in state funds that flowed to counties for

mental health services in the 2005-07 biennium, more than two-thirds of which came from the state's General Funds and Lottery Funds.

The counties' primary contributions come from statutorily directed beer and wine tax revenues collected by the state and distributed to the counties for alcohol and drug treatment services.

State law (ORS 430.380, 471.810 and 473.030) sets a common tax rate on beer and wine and provides for the distribution of tax proceeds by formula among the state, counties and cities.

Two cents of the wine tax goes to the Wine Advisory Board. Half of the remaining beer and wine taxes is dedicated to mental health and drug abuse prevention.

The other half of the remaining beer and wine taxes is combined with all revenue derived from liquor regulations and licensing and is available for general fund purposes. After deductions for the purchase and shipping costs of the liquor and the operating expenses of the Oregon Liquor Control Commission, the remaining funds are distributed among the state (56%), cities (20%) and counties (10%). The city and county shares are based on population. The remaining share (14%) is distributed by the state to cities.

The current tax rates on beer and wine have not been increased since 1977.

### County impacts

The impacts of the loss of federal forest payments are likely to be indirect. Hard hit counties will lose infrastructure, including administrative staff, and capacity in related services, such as local law enforcement. The unfunded demands on the county for administration and oversight may not be met.

These effects will follow major reductions in the capacity of the treatment delivery system as a result of state budget cuts in 2002 and 2003. At that time, the loss of more than \$25 million in services funded through the Oregon Health Plan (OHP) and reductions in the state's general fund support for treatment services cut more than 10,000 individuals from the system and forced the elimination of 46 adult A&D residential treatment beds.

Provider, hospital and law enforcement surveys conducted in March and April of 2003 revealed that 1,000 addiction counselors were laid off throughout the state. Thirty two percent of the hospitals responding to the survey reported increases in alcohol and drug related encounters in emergency rooms, and 30% of the law enforcement responders reported an increase in the number of alcohol and drug related arrests.

There were similar losses in the mental health system as a result of the cuts to OHP and the reduced number of people covered by OHP Standard. In addition, reductions in other programs, such as the medically needy program, caused a loss of benefits to

more than 3,000 people with disabling mental illness. Over time, these cuts have been related to an increasing number of persons entering the system through the criminal justice system.

The Mental Health Work Group identified the following risks and threats.

- Reduction in county general funds may result in counties rethinking their role in managing mental health and alcohol and drug services. Some counties may decide to “give back” services to the state.
- Reduction in services to minimum mandated levels. Counties may decide to forfeit any “special services” or safety net services (outreach, case management, care coordination) and only fund the absolute essential services.
- Reduction or loss of capacity in the county system to support community-based mental health care, which would result in more institutionalization and the need for more state hospital beds.
- Loss of prevention services in the alcohol and drug treatment system which will lead to increased school dropouts, teen pregnancies and drug affected births.
- Loss of county services in related programs, such as child welfare and law enforcement personnel, who work closely with mental health program staff.
- Increase in homelessness.
- Counties and communities lose infrastructure. People move or change careers leading to a lack of qualified workers, making it difficult or impossible to recruit and retain staff.
- Lack of coordination of services results in local needs not being met, which creates crises that push on other systems such as jails. Fragmented service delivery systems result.

AMH will continue to work with the counties to relieve burdens in an effort to retain the county-state partnership for the planning, management and delivery of substance abuse and mental health services.

#### Services returned to the state

State law allows counties to stop providing specific services in a service area, such as alcohol and drug services. At that point the state would be responsible to find an entity to provide and manage the service delivery system for the residents of the county.

## Recommendations

### ✓ **Capacity in hard hit counties.**

DHS will continue efforts to secure additional funding for the community mental health system, pursuant to its State Hospital Master Plan and Community Services Work Group report.

DHS will request additional funding in 2009-11 for the next phase of the Community Services Work Group plan to support the new state hospital replacement project. Its request is expected to total \$60.5 million. Of that amount, DHS will recommend that \$7 million be set aside to provide additional support for mental health and A&D programs in counties affected by the loss of federal forest payments.

**Recommendation #22: Set aside a portion of the additional funding requested by DHS for community mental health and addictions treatment to work toward ensuring adequate capacity for counties most affected by the loss of federal forest payments.**

State GF cost 2009-11: \$7.0 million  
 \$ benefit to all counties per biennium: \$ N/A  
 \$ benefit to "hard hit counties" per biennium: \$7.0 million

### ✓ **Counties' administrative burdens.**

The County Contracts Work Group described in the Public Health subsection above is also addressing the contracting process for mental health and addiction treatment services.

**Recommendation #23: DHS should work with its divisions and other state agencies to encourage them to contract for mental health, A&D and DD services through local authorities, without requiring RFPs, in order to preserve capacity at the local level.**

State GF cost 2009-11: \$ None  
 \$ benefit to all counties per biennium: \$ Indeterminate  
 \$ benefit to "hard hit counties" per biennium: \$ Indeterminate

DHS can accomplish this within its existing budget.

### ✓ **Beer and wine taxes.**

The Mental Health Work Group recommended an increase in beer and wine taxes, noting that Oregon has not raised its tax on malt beverages since 1977 and has the fourth lowest tax in the country, after Wyoming, Missouri and Wisconsin. Increasing the tax on malt beverages by \$32 per barrel would yield an additional \$120 million per

biennium that could be used for local services – nearly double the state’s current budget for addictions and prevention services.

The Revenue Work Group recommended that the Task Force “support proposals to raise the state’s beer and wine tax for mental health and alcohol and drug treatment services.” The Revenue Work Group’s recommendation included, as an alternative, giving counties and cities the authority to impose a local surcharge on the state’s beer and wine taxes, to be applied to the same programs.

The Task Force voted to “support in concept” the Revenue Work Group’s formulation, recognizing that this is an issue that predates and has broader impacts than the loss of SRS payments. Sen. Fred Girod dissented from this statement of support.

✓ **Liquor tax receipts.**

The Mental Health Work Group recommended that the state dedicate a portion of liquor tax receipts to alcohol prevention. The Work Group noted that, while a portion of the malt beverage tax revenues is dedicated to prevention and treatment, this is not the case for the liquor tax revenues.

The Revenue Work Group, after consultation with the League of Cities, recommended that the Task Force “support proposals to raise the state’s distilled spirits tax while retaining the current distribution formula.”

The Task Force voted to “support in concept” the Revenue Work Group’s formulation. Sen. Fred Girod dissented from this statement of support.

## **9.7 Senior Services**

State law (ORS 410) gives oversight of senior services to the Department of Human Services (DHS), Seniors and People with Disabilities Division (SPD).

SPD oversee the delivery of services to seniors through 17 Area Agencies on Aging (AAAs), which reach residents in all counties of Oregon.

Each of these AAAs operates programs under the federal Older Americans Act (OAA) and the state's Oregon Project Independence. These programs include congregate and home delivered meals, family caregiver support, senior employment, elder abuse prevention, limited in-home care, legal assistance and information and assistance services.

Additionally, eight of the AAAs, either as departments of county government or as agencies of regional Councils of Governments, contract with SPD to administer Medicaid and Food Stamp benefits to seniors and people with disabilities in their local service areas. These service areas may be a single county or several counties in a contiguous geographic area. Counties which are served in this manner include Multnomah, Washington, Clackamas, Linn, Benton, Lincoln, Marion, Polk, Yamhill, Tillamook, Clatsop, Lane, Douglas, Jackson and Josephine. Washington, Douglas and Jackson and Josephine counties have elected to administer these programs through a contracted partnership with SPD, using state employees.

### State requirements

ORS 410 specifies how local government entities, if designated by SPD to operate as AAAs, may elect and be approved to administer OAA programs, the Oregon Project Independence program and Title XIX Medicaid and Food Stamp programs for seniors and people with disabilities.

### County and state funding

Services to seniors and people with disabilities are primarily funded by federal funds (58%) and state general funds (36%).

### Services returned to the state

ORS 410 does include provisions that allow local government AAAs to rescind their option to operate Title XIX Medicaid and Food Stamp programs and requires a minimum advance notice of intent of six months before such decisions can take effect.

There are also provisions that allow SPD to de-designate authority to operate an AAA or to redistribute designated AAA geographic areas if critical needs and circumstances require it.

For federal Older Americans Act (OAA) programs, SPD is the designated State Unit on Aging. As such, it has the authority to operate these programs directly in emergent situations if a local AAA is unable to do so. However, SPD would seek alternate governmental or private non-profit agencies to take over before doing so.

For Title XIX Medicaid and Food Stamp programs, SPD has responsibility to provide the service directly should an AAA return these programs to the state.

### County impacts

While the overall statewide impact of the loss of federal forest payments may not greatly affect programs to seniors and people with disabilities, it will have a significant if not devastating impact on a small number of clients dependent upon meal and in-home assistance. Such services enable these individuals to remain in their own homes and live independently without reliance upon Medicaid for their long term care needs.

The smaller, largely rural AAAs provide their programs and services on a budgetary shoe string beyond the state and federal funding for OAA and Oregon Project Independence programs. Every dollar lost may result in the loss of a critical hour of service or a day or series of days without a hot meal in the life of a dependent, frail senior.

To date, the AAA programs most affected by the loss of timber revenue have been those in Douglas County and the Rogue Valley AAA (Jackson and Josephine counties).

Douglas County has anticipated a reduction in program funding of \$20,000 and as a result has drastically limited the allocation of OPI service hours to clients. They anticipate allowing only seven to fourteen hours of service per month per client and have eliminated 2.6 FTE. Douglas County has authorized the AAA to initiate local fund-raising activities, from which they were previously precluded, in the hope of acquiring some replacement funding.

Jackson County expects to lose \$25,000 in direct funding, and Josephine County will lose \$25,000 in in-kind support in the form of office space. The Rogue Valley AAA has traditionally supported extensive fund raising programs, and these will be utilized.

The Lane Council of Governments receives about \$73,000 from Lane County, which is now at risk.

The Senior Services Work Group noted that Oregon is bracing itself for the impact of a rapidly aging population and the resulting need for services for people in that demographic group, the so called "Silver Tsunami." The loss of federal forest payments will diminish the abilities of the smaller and more rural counties and the AAAs to provide services to seniors when their numbers and needs are growing.

The Work Group reported that the loss of SRS payments could lead to:

- Drastic reductions in congregate meal dining sites;
- Staff layoffs;
- Moving from serving hot meals to shipping frozen meals to homebound seniors;
- Loss of consultation and case coordination;
- Less access to federal matching funds;
- An increase in Medicaid services and costs;
- Loss of facilities;
- Reduction in respite services;
- Reduced support for community service centers; and,
- An increase in the number of clients who will have to be placed in nursing homes.

### Recommendations

#### ✓ **Aging and Disability Resource Network.**

SPD and its partners have been exploring “strategies that will keep seniors and people with disabilities independent, healthy and safe in their own homes and home communities (with a special focus on addressing) the needs of seniors and people with disabilities not currently receiving Medicaid services. The goal is to have the necessary resources in place in every Oregon community to avoid the need for paid public assistance in long-term care, or, if the need arises, to minimize the scope and cost of such care,” according to DHS Deputy Director Clyde Saiki.

The non-Medicaid services system envisioned for Oregon includes three major components, collectively as Oregon’s Aging and Disability Resource Network (ADRN).

- 1) A central (i.e., statewide) Information Center accessible by a well publicized toll-free telephone number and supported by an on-line resource database. The center will be staffed by certified resource specialists capable of providing information and referral to local services throughout the state.
- 2) A network of 17 local Assistance Centers operated by AAAs. These Assistance Centers will provide in-depth services, including face-to-face assessments in the office or the caller’s home, linkage to appropriate resources and services; and, follow-up to assure that the services received addressed the identified problems. Certified resource specialists and other professionals will staff these Assistance Centers. The AAAs will collaborate at the community level to ensure that needed services are available.
- 3) An expanded set of direct services and resources to help members of the target populations remain independent, healthy, safe and active. The local AAA will provide the assistance needed by the consumer or family, counseling on long term care options, access to emergency services and short term case management. The AAAs

will administer these expanded services and resources in collaboration with community partners and providers.

The ADRN model of service delivery anticipates that the AAA's statewide would be able to expand their capacity to serve a much larger group of consumers and maximize their resources by having specialists in a centralized call center. The call center would provide a continuity of services, with expertise in information and referral, benefits counseling, financial planning and long term care options. The local staff will be freed up to provide the supports that an individual needs in their home or community, as they know how to access services within their local communities.

There is a long-term strategy for expansion of Oregon Project Independence and Family Caregiver Services. SPD's budget request for 2009-11 is anticipated to be \$10 million. SPD anticipates additional increments in the remainder of the next decade to realize a fully operational network of services for seniors and persons with disabilities statewide.

The Task Force agreed to support in concept DHS's proposal for the Aging and Disability Resource Network.

✓ **OHP Expansion.**

The Task Force noted that the expansion of the Oregon Health Plan will be critical to relieving counties of costs now borne by their programs for mental health services.

## **9.8 Veterans Services**

There are over 359,000 veterans residing throughout Oregon's 36 counties. These men and women are served at the federal level, through the United States Department of Veterans' Affairs (USDVA).

The USDVA is subdivided into three distinct administrations: the Veterans' Benefits Administration (VBA), Veterans Health Administration (VHA), and the National Cemeteries Administration (NCA).

VBA provides monetary compensation and pensions; VHA maintains health care facilities for "qualified" veterans; and the NCA manages the national military cemetery network.

Created in 1945, the Oregon Department of Veterans' Affairs (ODVA) provides supplemental assistance for veterans. It exists to help veterans navigate the system in order to maximize available benefits.

### Veterans' Services Officers

While ODVA cannot adjudicate claims, state Veterans' Services Officers (VSOs) assist in claim preparation, inform veterans about education and/or employment benefits, and provide tailored assistance (e.g. conservatorships).

In recent years, ODVA has expanded outreach through development of a multi-tiered VSO program. A major thrust of that effort is a partnership between ODVA and 34 counties. (Marion and Polk do not maintain VSOs, because of their proximity to the ODVA office in Salem). CVSOs are county (or contract) employees who work within communities with local organizations to provide added outreach for veteran populations. Through this relationship, ODVA provides credentialing, partial funding, training, and review for County Veterans' Services Officers (CVSOs).

It is important to recognize that CVSOs are not state employees. CVSOs maintain VSO accreditation standards delegated to the state from USDVA, but are not directly accountable on any supervisory basis. It is in form and function a collaborative venture between the state and county governments. The state provides assistance to counties to maintain this program.

The 2007-09 Legislative Adopted Budget provides \$3,500,842 for CVSO programming.

Mounting pressures associated with diminishing federal forest payments have put this partnership at risk. While CVSOs provide a vital public good, they are not required by statute. Counties may reduce and/or discontinue funding at any time. However, because funds are bound through a match formula, counties discontinue CVSO

programming at a cost. Counties opting out of the match relationship will likely experience reduced and/or eliminated CVSO capacities.

### Recommendations

#### ✓ **Maintenance of state funding.**

The Governor's Veterans' Services Task Force has been holding hearings on the state's veterans' services and will finalize its recommendations in September.

The Veterans' Services Task Force Chair, Paul Evans, delivered an interim report to this Task Force.

Based on that report, the Task Force focused on the potential loss of state funding for counties that reduce their support for veterans' services.

**Recommendation #24: Establish a hold harmless provision for state funding by waiving the maintenance of effort requirement for two years. Work with the Veterans' Services Task Force to support recommendations that will benefit counties.**

State GF cost 2009-11: \$ None  
 \$ benefit to all counties per biennium: \$ To be determined  
 \$ benefit to "hard hit counties" per biennium: \$ To be determined

The Oregon Dept. of Veterans Affairs can maintain its funding for counties without the need for additional funding in 2009-11. This will provide at least \$25,000 per biennium for most counties.

The Task Force agreed to defer to the Veterans' Services Task Force and support in concept recommendations from that task force which will improve veterans' services at the county level.

### 9.9 Assessment and Taxation

Even before Oregon became a state, counties have held the statutory responsibility for administering the property tax, including:

- Setting values;
- Calculating tax rates;
- Issuing tax statements; and
- Collecting and distributing the tax to all counties, cities, schools, and special districts.

Counties fund this service for other local governments today from their permanent tax rate authority. The Oregon Department of Revenue (DOR) partners with county assessment and taxation offices to ensure the system is administered uniformly throughout the state and to manage certain categories of highly specialized property appraisals.

The 1989 Oregon Legislature created the County Assessment Function Funding Assistance (CAFFA) fund to support the system and to assure that counties could adequately fund the assessment and taxation function. At that time, the CAFFA fund generated more than 30 percent of the county costs to operate the system. Today, the CAFFA fund generates about \$20 million per year, or about 23 percent of the total county system costs.

County assessment and taxation expenditures totaled \$87.8 million for the 2006-07 tax year. CAFFA grants fund approximately 23 percent (\$19.9 million in 2006-07) of the annual expenditures. An appropriation from the state's general fund of more than \$2.5 million per year is added to the CAFFA payment.

The following table shows the statewide assessment and taxation (A&T) administration cost.

**Table 8. Assessment and Taxation Administration Cost.**

Fiscal Year	County Assessment and Taxation Administration Cost	DOR Assessment and Taxation Administration Cost	Total Statewide A & T Admin. Cost
2001-02	\$68,910,435	\$12,155,589	\$81,066,024
2002-03	\$71,548,366	\$11,368,236	\$82,916,602
2003-04	\$75,042,674	\$11,195,488	\$86,238,162
2004-05	\$79,579,498	\$11,611,996	\$91,191,494
2005-06	\$84,043,526	\$11,771,343	\$95,814,869
2006-07	\$87,861,275	\$11,554,205	\$99,415,480

The CAFFA fund is derived from a \$9 fee on most recorded documents at the county and a portion of the delinquent taxes paid at the county. DOR distributes grant funds to Oregon counties through the CAFFA account.

On a quarterly basis, every county sends their CAFFA collections to the state. The state redistributes the dollars to the counties based on the percentage a county spends on assessment and taxation compared to the total amount spent on assessment and taxation statewide. For example, if the total statewide county cost for assessment and taxation is \$100 million and Coos County spent \$3 million, Coos County would get three percent of the total dollars in the CAFFA fund.

DOR reviews county budgets each year to ensure adequate funding for assessment and taxation services. County funding determined to be below adequate levels may be excluded from receiving CAFFA funds.

### County Impacts

For the current budget cycle (2007-08), all but one county (Curry) was deemed to have adequate assessment and taxation funding.

Curry County was permitted to participate in CAFFA revenues and operate under a special statutory dispensation at a level that would normally be deemed less than adequate. As a condition of this special circumstance, the department has worked closely with the county to monitor all assessment and taxation programs and assist in compliance.

The following resulted from Curry County's budget reduction of approximately \$100,000:

- Staff reductions (from 12.46 FTE to 8.96 FTE).
- Reduced public service (county office open half-time).
- Delayed deed processing.

DOR went through a similar process with Coos County last month for their 2008-09 budget.

Given the likelihood of an end to SRS payments, some counties are talking about severe cuts, loss of the participation in the CAFFA grant program and the potential relinquishment of assessment and taxation services to the state. Last year, two counties reduced expenditures below the amounts certified in their grant. These counties were allowed to participate in the CAFFA grant program that year only because the legislature passed special legislation to allow it.

If a county is unable – or chooses not – to commit adequate resources to the assessment and taxation program, that county risks loss of their CAFFA grant. Additionally, ORS 308.062 requires that DOR step in and assume responsibility for

administration of the county's assessment and taxation function in the event a county fails to perform its statutory duties.

### Recommendations

The delay in federal reauthorization of SRS payments last year and the failure to reauthorize these payments for 2008-09 has destabilized funding of local government tax administration. In October 2007, DOR convened a workgroup to identify potential solutions and propose recommendations to address the issue. The group consisted of representatives from organizations that administer or receive property taxes.

The group brainstormed 15 ideas, ranging from revenue replacement to reduction of administrative costs through efficiencies. The group decided to focus on ideas that could be accomplished in the near-term and for which consensus could be reached. With those guidelines, the DOR Work Group generally agreed on the following:

- The property tax is the single most stable and significant source of local government revenue.
- The ability of counties to accurately and fully assess property values ensures that taxes can be properly and equitably collected. Anything that takes away from the stability of the revenue stream is of serious concern to both local governments and the state, which relies on local governments to deliver vital services.
- The group supported placing all delinquent interest on property taxes into the CAFFA grant funding program to support the statewide assessment and taxation system. Some delinquent interest is currently deposited into the fund. The additional delinquent interest would add approximately \$15 million per year.

The Task Force reviewed the Work Group's findings and proposals and unanimously approved the following two recommendations.

The first recommendation was the top priority of the Work Group.

#### ✓ **CAFFA funds for the counties.**

**Recommendation #25: Place all delinquent interest on property taxes into the CAFFA fund, thereby redirecting \$15 million per year from local taxing authorities to the fund that supports counties' assessment and taxation functions. Have the state make up the \$7.8 million annual loss to K-12.**

State GF cost 2009-11: \$15.6 million

\$ benefit to all counties per biennium: \$30.0 million

\$ benefit to "hard hit counties" per biennium: \$11.5 million

The Task Force recognized the contribution that representatives of cities, special districts and schools made to the effort to help the counties by offering to give up their shares of funding from the CAFFA fund.

Also, because of the high cost of this recommendation, the Task Force notes that this recommendation could be phased in over time.

Finally, the Task Force notes that savings in assessment and taxation costs for the counties can flow anywhere in their general fund budgets, including public safety and health.

The second recommendation was the product of further work by the Task Force and DOR to identify an appropriate state funding level for assessment and taxation.

✓ **State support for assessment and taxation.**

**Recommendation #26: Increase state GF funding for assessment and taxation to pick up full costs of schools' use of those services.**

State GF cost 2009-11: \$8.4 million  
\$ benefit to all counties per biennium: \$8.4 million  
\$ benefit to "hard hit counties" per biennium: \$3.2 million

This recommendation reflects the state's commitment to finance schools on a statewide basis and the estimate that schools' proportionate share of the benefits from assessment and taxation services is represented by their 43.7% share of property tax revenues.

The Task Force notes that Recommendation #41, in the subsection on state-controlled revenue below, calls for an increase in the state-controlled recording fee that is dedicated to assessment and taxation from \$9.00 per document to \$15.00 per document. If this recommendation were adopted, the biennial cost of the above recommendation to the state above would be reduced from \$8.4 million to \$1.3 million.

### 9.10 Roads

The state shares responsibility for 45,300 miles of highways, roads and streets in Oregon with counties and cities. The Oregon Department of Transportation owns about 8,040 miles of highway, including the interstate highways; counties own about 26,800 miles of county road, not including about 6,400 miles of local access road owned by the adjacent property owners; and, cities own about 10,400 miles of street.

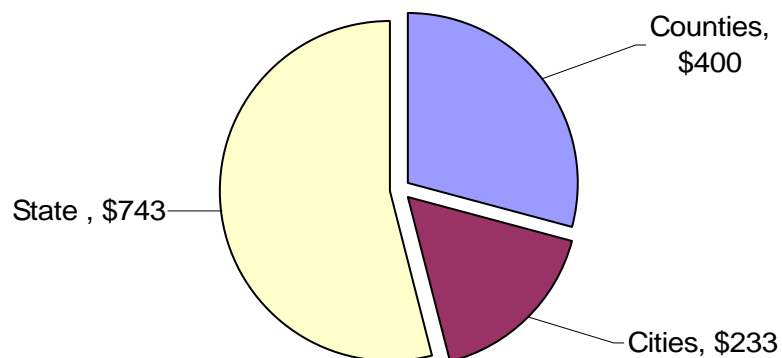
The public traveled about 35.5 billion vehicle miles of travel over Oregon roads during 2006. The public sees one seamless highway system without having to distinguish between the jurisdictions that own it.

#### Current funding

State road user fees (fuel taxes, vehicle title and registration fees, driver license fees, and weight mile taxes) will raise about \$1.4 billion of state revenue for the highway system during the 2007-2009 biennium. This revenue is distributed to counties, cities and the state according to formulas specified by statute. The chart below illustrates the distribution.

In addition, ODOT administers Oregon's federal highway moneys. This includes an estimated \$26 million during 2007-2009 which ODOT makes available to counties. Federal funds are available for construction projects and generally cannot be used for maintenance activities.

**2007-2009 State Highway Fund Distribution**  
(\$ millions)



Source: December 2007 Transportation Economic and Revenue Forecast

Counties receive 75% of SRS payments for Forest Services lands for their road funds. The other 25% is distributed to schools. This distribution formula is set by state law. SRS payments for BLM lands (primarily O&C lands) do not flow to county road funds.

In 2006-07, 29 Oregon counties received a total of \$102.7 million for their road funds from the SRS payments. With the expiration of SRS payments, those counties will continue to receive approximately \$7.0 million annually from their 75% share of residual harvest receipts from Forest Service lands. The counties' net loss will be \$95.7 million, approximately 28% of their discretionary road funds.

The state-county-city relationship

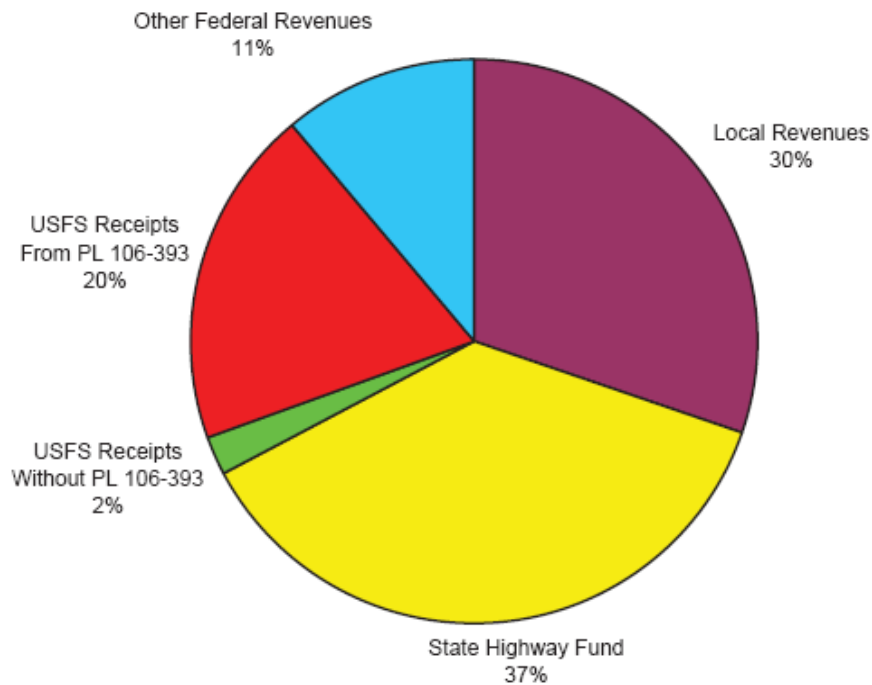
Oregon’s highway system is managed cooperatively by ODOT, counties and cities. While each jurisdiction is ultimately responsible for decisions relating to the construction, operation and maintenance of the portion of the system that it owns, there are numerous formal and informal agreements. A few examples include equipment sharing, stockpiling and joint use of sites.

State statute does not set standards or mandate county road service levels. The public expects a county to have a county road program, but county road programs are not a mandated service. A county may choose to cease its county road program.

Counties may negotiate jurisdiction transfers with cities and with ODOT. For example, Multnomah County transferred county roads within the city of Gresham to the city in 2005.

County road programs rely heavily on other local sources in addition to State Highway Fund money. The chart below illustrates the share of funding provided to all county road programs by various sources, based on data from the 5520 Project.

**County Road Revenue Sources  
FY 2004-2006 Biennium**



### County impacts

The impacts of the loss of SRS payments on county road budgets are illustrated above in Section 3, Table 3.B. Losses vary significantly across county road programs. While the average loss for county road departments is 28%, nine counties will lose over half their revenue. Two-thirds of the counties will lose at least 10% of their revenues. There are seven counties that receive no Forest Service payments.

The impacts of the loss of federal forest payments include:

- Reduced staffing in county road programs. Counties have not filled positions as they became vacant; some counties have laid off staff.
- Focus on repair, maintenance and preservation (pavement overlays) of existing roads and bridges. While a few long standing commitments are being met, counties are not making new commitments to add capacity to the county roads systems.
- Reduced or eliminated matching assistance for city and state projects.

Additional impacts may include:

- Further staffing reductions in county road programs. Counties will continue to reduce staffing to sustainable levels.
- Focus on core system. Some counties' resources are not sufficient without federal forest payments to repair and maintain existing county roads and bridges. It may be necessary to allow some roads to deteriorate.
- Reduce partnership participation. Counties may not have resources to participate in city and state partnerships.
- Cease county road programs. Some county road programs would not have enough money to operate a viable road program and may have to cease operations.

### Recommendations

The Task Force offers the following recommendations to mitigate the impact of the loss of SRS payments on county roads.

#### ✓ **Charges for use of county rights of way.**

Counties, unlike cities, are prohibited by ORS 758.010 from charging utilities a fee for the use of county-owned road right-of-way. Amending ORS 758.010 to allow counties to charge utilities for the use of the right-of-way could provide additional revenue for road programs. Sen. Fred Girod dissented from this recommendation.

#### **Recommendation #27: Change state law to give counties the right to charge a fee to utilities for the use of county rights of way outside of cities.**

State cost 2009-11: \$ None

\$ benefit to all counties per biennium: \$ To be determined

\$ benefit to "hard hit counties" per biennium: \$ To be determined

ODOT has entered into numerous partnerships with local governments for shared equipment and services. Expansion of these partnerships would assist counties and cities throughout the state.

✓ **Co-location of facilities.**

**Recommendation #28: Allow co-location of ODOT's maintenance facilities with county, city and local government facilities.**

ODOT is preparing to submit a placeholder in its 2009-11 budget request for the budgetary authority to enter into these agreements. The agency expects that there will be no net cost to the state from these agreements.

State cost 2009-11: \$ None

\$ benefit to all counties per biennium: To be determined

\$ benefit to "hard hit counties" per biennium: To be determined

✓ **Minimum road funding.**

Low-population counties with expansive county road systems have asserted that they are not adequately compensated in the state's distribution formula for highway funds. The following recommendation is offered as an option for up to two years. The Governor's Transportation Work Group is looking into this issue and may offer a more permanent solution.

**Recommendation #29: Modify the distribution formula for state highway funds to establish a minimum base level that provides at least \$4,500 per road mile for county arterials and collector roads,** provided the state cover the extra money for the counties that would otherwise come from the cities' share.

State Highway Fund cost 2009-11: \$6.4 million

\$ benefit to all counties per biennium: \$8.5 million

\$ benefit to "hard hit counties" per biennium: \$7.7 million

The counties that will benefit from this change in formula are Baker, Crook, Gilliam, Grant, Harney, Lake, Malheur, Morrow, Sherman, Wallowa, Wasco and Wheeler. All other counties would give up a total of \$2.1 million in their shares of state highway funds.

✓ **Forest Highway program.**

The Forest Highway Program provides funding for public roads and bridges that serve federal forest lands. Project selection decisions are made jointly by ODOT with advice from the Association of Oregon Counties, Federal Highway Administration and the U.S. Forest Service. The program amounts to about \$20 million per year. It currently funds a mix of projects that add capacity, enhance transportation facilities, and preserve road surfaces and bridges on the state highway system, county roads and forest roads.

Project criteria could be revised in consultation with the parties to focus on pavement preservation projects on county roads that serve forest lands.

**Recommendation #30: Revise project criteria for distribution of Forest Highway Program funds to focus on pavement preservation projects on county roads that serve federal forest lands.**

State Highway Fund cost 2009-11: \$ None  
 \$ benefit to all counties per biennium: \$ To be determined  
 \$ benefit to “hard hit counties” per biennium: \$ To be determined

✓ **Forest Service harvest revenues.**

Federal law provides that harvest revenues from Forest Service lands are to be allocated to the states for distribution to county road programs and to schools. State law specifies a distribution of 75% for county roads and 25% for schools. However, some states (Virginia and West Virginia) distribute 100% of their harvest revenues to county roads.

In Fiscal Year 2008, \$102.7 million was distributed to Oregon counties for their road funds. Another \$34.2 million went to Oregon schools. These amounts will decline to \$7.0 million and \$2.3 million respectively when safety net payments cease and only residual harvest receipts remain. Also, Oregon’s system of school funding provides that the shortfall for schools will be spread statewide under the state’s equalization formula.

These state policies offer the potential for a restructuring of the revenues that the state controls from federal forest lands.

**Recommendation #31: Change the state distribution formula for Forest Service harvest revenues from 75% county roads and 25% schools to 100% county roads, if and when SRS payments cease, provided the state General Fund covers the schools’ losses with an increase in state funding for schools.**

State GF cost 2009-11(to make up the loss for schools): \$ 4.7 million  
 \$ benefit to all counties per biennium: \$ 4.7 million  
 \$ benefit to “hard hit counties” per biennium: \$ 4.3 million

Note: Another \$100 million flows from O&C lands, whose distribution to county general funds is set by federal formula. It is assumed – and recommended -- that the distribution of the O&C forest revenues at the state level will remain unchanged.

In addition, to these recommendations, the Task Force referred to the Governor’s Transportation Work Group the following issues. Springfield City Councilor Anne Ballew dissented from the first of these two items and abstained on the second.

- 1) The need for more flexibility to raise vehicle registration fees. Counties may impose an auto registration fee up to the amount of the statewide auto registration fee (now \$27 per year). By statute, these proposals (ORS 801.041) must be referred to the voters for their approval. In addition, the statute requires extensive review by other local governments. ORS 801.041 could be amended to (1) simplify the review process and (2) allow a county commission to adopt a local option fee by vote of the county commission alone. Note that the counties most affected by loss of federal forest payments have few vehicles on which to levy this fee.
- 2) Review the requirement for counties to share with cities half of local option property taxes used for county roads. Many counties would benefit from making revenue sharing with cities “proportional to cities’ collectors,” weighted for urban and rural impacts.
- 3) Secure additional or new state funding to repair small bridges (under 20 feet) not covered by OTIA.

### **9.11 Economic and Community Development**

The Task Force convened two meetings of state agency heads to review regulatory barriers to economic growth and to explore opportunities for economic growth in rural counties.

The meeting regarding regulatory barriers focused on forestry and water issues in Eastern Oregon raised by Sen. Ted Ferrioli.

- State Forester Marvin Brown agreed that there is much in federal policy that needs to be improved and noted that his department is making use of the Federal Forestlands Advisory Committee, which includes CEOs of timber companies and a representative of the Nature Conservancy, to provide recommendations on changes in federal policy. He also reported on his testimony to Congress in March, in which he reiterated his department's opposition to the "21-inch screen" as the standard for harvests in Eastern Oregon.
- State Lands Director Louise Solliday responded to about the differential treatment of submersible and submerged lands for development in SB 182 (2003) and stated that her agency is open to supporting the inclusion of submerged lands in future legislation.
- Water Resources Director Phil Ward explained that almost all surface water in Oregon is fully appropriated and that as users move to groundwater, the agency has to determine if there's a connection between surface water and ground water. Director Ward noted that his agency was able to correct the record and provide positive responses to seven requests brought to his staff's attention by Harney County Judge Steve Grasty. He explained that his staff is very sensitive to the rights of senior water right holders.
- Sen. Ferrioli stated that the Umatilla Basin project was "extremely encouraging."
- Sen Ferrioli criticized the enforcement of unreasonable stream temperature standards east of the Cascades, where streams are not surveyed for natural variability. Richard Pedersen, acting director of the Dept. of Environmental Quality, stated his agency could continue to work on this issue but noted that the Environmental Quality Board had approved standards subsequently approved by the EPA.

The meeting regarding economic opportunities provided a forum for discussion of concerns raised by representatives of the Association of Oregon Counties (AOC) regarding:

- State's community development efforts
- State's governance entities/presence in the rural areas

- Infrastructure needs in rural communities
- Economic development strategies

These concerns are covered in more detail in Section 8.

Conclusions expressed in that meeting are as follows:

- The immediate fiscal crisis in rural counties precipitated by a loss of federal forest payments cannot be solved with economic development strategies in the short term. Rather, budget reductions in those counties could impede economic development.
- Counties – both urban and rural – face long term structural deficits. Given their reliance on local property taxes, they are unlikely to grow their way to fiscal stability. Other solutions will be needed.
- Investment in local infrastructure is critically important. State-financed investments in infrastructure can relieve county budgets and encourage economic development.
- New opportunities exist in the state's alternative energy programs and in the Governor's water initiative.

These concerns and conclusions led to a call to state agencies for budget requests that could support public services and infrastructure in the hard hit counties and an examination by AOC's representatives of the potential for new commitments by the state to economic development investments in rural communities.

The following recommendations reflect those inquiries by members of the Task Force.

### Recommendations

#### ✓ **OECCD Loans to counties.**

At the Task Force's request, the Office of Economic and Community Development (OECCD) reviewed outstanding loans it has made to counties for community development projects which the counties are still paying off. OECCD reported 13 such loans from its Special Public Works fund now being repaid from general funds by Curry, Douglas, Sherman, Tillamook, Union and Wallowa counties. The annual principal and interest payments to the agency from these counties will total \$929,000 over the next two fiscal years, in 2009-10 and 2009-11.

OECCD responded to questions and concerns from members of the Task Force regarding the effect of suspending interest and principal payments for two years and the conditions for doing so. The cost of this program would be indirect, in the form of the opportunity cost of reducing funds available for lending to local governments statewide. There would be no additional budgetary costs for the agency.

OECCD's representative reported that, of the 13 loans outstanding, nine could be re-amortized within the 25-year maximum term for the agency's local program. This would

avoid having to declare formal loan defaults, which could hurt a borrower's credit. With this approach, the agency anticipated no adverse impacts on credit ratings or borrowing costs for counties that may choose to avail themselves of this option, nor for other local governments participating in OECDD's loan program. However, this would reduce the number of eligible loans for this treatment to nine and the biennial principal and interest payments involved to \$225,000.

The Task Force agreed to support the following recommendation, with Councilor Anne Ballew dissenting.

**Recommendation #32: Establish a program whereby counties may apply for and receive deferrals of principal and interest payments for up to two years on OECDD loans supported by their general funds with the understanding that no new loans will be issued during the two-year waiver period.**

Additional state cost 2009-11: \$ None  
 \$ benefit to all counties per biennium: Maximum \$ N/A  
 \$ benefit to "hard hit counties" per biennium: \$0.2 to \$0.9 million

This would apply to existing loans only. Although there is no General Fund or Lottery Fund impact, there will be a reduction in resources for new loans of up to \$0.9 million per biennium.

Unless requested otherwise, the Economic Development Commission is scheduled to take up this recommendation at its next meeting in July.

✓ **State support for Governor's Economic Revitalization Team.**

AOC representatives called attention to the shift in funding for the Governor's Economic Revitalization Team (ERT) from the state's share of Lottery Funds to a 50/50 split between the state and county shares of Lottery Funds. Restoring the original funding from the state's share would free up Lottery Funds for the counties for economic development and infrastructure projects.

**Recommendation #33: Restore 100% funding for the Governor's Economic Revitalization Team from the state's share of lottery funding.**

State LF cost 2009-11: \$1.1 million  
 \$ benefit to all counties per biennium: Up to \$1.1 million  
 \$ benefit to "hard hit counties" per biennium: Approx. \$0.4 million

✓ **Planning for industrial development.**

The Department of Land Conservation and Development (DLCD) offers grants to local jurisdictions and tribal governments to complete projects to update and modernize comprehensive plans, land-use ordinances, development codes and other planning regulations.

For the 2009-11 biennium, DLCD is proposing a one-time supplemental funding package from the state's General Fund to assist counties that have been most heavily affected by the loss of federal forest payments to help maintain their land use planning capacity. Effective economic development in these counties requires that they continue to have the capacity to review proposals for new industrial projects. Use of funds will be based on the economic impact resulting from the loss of federal timber funds and use of the funds to support efforts that will enhance the long term fiscal stability of the county. The department is seeking \$500,000 for this purpose.

DLCD notes that it has provided technical assistance grants of this kind to support industrial development during the current biennium, including grants to:

- The Linn-Benton Council of Governments to develop solutions to increase the supply of industrial development land in areas constrained by wetlands; and,
- The city of Redmond to provide large-scale industrial sites that meet regional and statewide needs.

The Task Force agreed to support this request with Judge Scott Cooper dissenting and Councilor Anne Ballew abstaining.

**Recommendation #34: Provide additional assistance to hard hit counties to help them maintain their land use planning capacity for new industrial development.**

State GF cost 2009-11: \$0.5 million  
 \$ benefit to all counties per biennium: \$ N/A  
 \$ benefit to "hard hit counties" per biennium: \$0.5 million

✓ **OSU Extension services.**

Oregon State University's Extension Services partners with counties to provide expertise to youth, adults and businesses engaged in agriculture, forestry and natural resource management. The university provides faculty and professional staff, while the counties pay for support staff, facilities, supplies and travel.

Oregon counties provide 16% of the Extension Services budget through special taxing district revenues (16 counties), general funds (18 counties) and Title III funds from SRS payments.

Approximately \$1.4 million in general funds was committed by counties on our "hard hit" list in 2007-08. Much of this support will be significantly reduced in 2008-09, as Lane County ramps down its commitment by more than 50% and Polk County zeroes out its support. The Extension Service estimates that an additional \$1.1 million could be lost in 2009-10.

However, 16 counties have created special taxing districts to sustain their contributions to Extension services funding. Douglas County became the 16<sup>th</sup> such county with the

passage of a measure to create a special taxing district in the primary election last month.

The Task Force was concerned about providing funds to counties which have not created special taxing districts while ignoring those that have. But Task Force members agreed to support short-term assistance for up to two years for the non-taxing counties while encouraging the creation of such districts.

**Recommendation #35: Increase state support for OSU's Extension Services budget. Support OSU proposal for Open Campuses that coordinate with ACCESS 4-H programs in six counties and assigning OSU faculty to guarantee maintenance of an Extension office in all counties affected by the loss of federal forest payments. Limit to two years to encourage creation of taxing districts, now used by 16 counties.**

State GF cost 2009-11: \$4.1 million  
 \$ benefit to all counties per biennium: \$5.1 million  
 \$ benefit to "hard hit counties" per biennium: \$3.0 million (est.)

This recommendation will relieve counties of an estimated \$5.1 million per biennium that is currently budgeted for Extension Services and at risk in 2009-11.

✓ **Water management programs.**

The state's Water Resources Dept. (WRD) benefits from county-funded water management staff in many rural counties.

Since the early 1980s, locally-funded assistant watermasters have declined from 37 to 15 statewide. In 2007, WRD lost 1.36 FTE assistant watermasters out of the remaining 15 funded by counties statewide. The reductions came in Grant, Umatilla, Benton and Polk counties. More cuts are expected in 2008-09 in Umatilla and Lane counties.

Loss of staff in Grant and Umatilla counties has reduced WRD's ability to provide on-the-ground water management services and respond in a timely manner to complaints. WRD Director Phil Ward notes, "We anticipate that budget negotiations with counties will become more difficult in 2008 and 2009 as counties exhaust carryover savings from prior federal funding."

WRD will be requesting \$1.4 million in state General Funds for 2009-11 to add six watermaster and assistant watermaster positions and an information specialist in Wallowa, Klamath and Josephine counties and in four rural regions. The purpose of these positions is to settle water rights' disputes, protect existing in-stream and out-of-stream water rights, collect hydrologic data and inspect dams and wells for structural integrity.

**Recommendation #36: Provide additional state staff to maintain timely and effective water management programs in counties that have been forced to cut back on county-funded watermaster positions.**

State GF cost 2009-11: \$1.1 million  
 \$ benefit to all counties per biennium: \$ N/A  
 \$ benefit to “hard hit counties” per biennium: \$0.8 million (est)

This recommendation will help Wallowa, Baker, Deschutes, Marion, Umatilla, Klamath and Josephine counties.

✓ **Economic development investment fund.**

State funding for the Regional/Rural Investment Program was significantly reduced in 2007-09. Budgeted at \$7 million in 2005-07 and recommended at \$10 million in the Governor’s Recommended Budget for 2007-09, its funding was reduced to \$2 million for staffing.

Representatives of AOC noted that many of the hardest hit rural counties will not have the capacity, both in staffing and funding, to compete for economic development opportunities.

AOC championed the need to create a fund to use as leverage for other funds and seed money for projects in rural and distressed counties.

**Recommendation #37: The Economic Development Commission should work to rebuild the capacity in rural and distressed counties to pursue economic development opportunities to diversify their economies and to retain and attract new, family-wage jobs, with a commitment of at least \$5.0 million in 09-11.**

State GF cost 2009-11: \$5.0 million  
 \$ benefit to all counties per biennium: \$ N/A  
 \$ benefit to “hard hit counties” per biennium: \$5.0 million

### **9.12 Emergency Funds**

The Task Force identified a need for reserve funds to deal with counties whose fiscal distress may threaten public health and safety during the course of a biennium.

The state's General Fund budget for 2007-09 includes an Emergency Fund for state agencies of \$30 million. This fund is controlled by the legislature's Emergency Board, which has the sole authority to release funds and set conditions on their use during the course of a biennium.

Similarly, an emergency fund for counties would give the Emergency Board resources with which to deal with county fiscal crises during the course of a two-year budget period.

The Task Force agreed that the creation and use of a fund of this kind should be connected to its Recommendation #53 for the creation of fiscal control boards for local governments.

✓ **Counties' administrative burdens.**

**Recommendation #38: Establish an emergency fund in the state General Fund budget, separate from but modeled on the state's Emergency Fund, to be used to deal with threats to public health and safety from county fiscal failures. Set at 1% of state's total GF/LF funds for counties**

State GF cost 2009-11: \$4.8 million

\$ benefit to all counties per biennium: \$ N/A

\$ benefit to "hard hit counties" per biennium: \$4.8 million

This proposal is recommended in conjunction with Recommendation #54 for the creation of Financial Controls Boards to supervise or take over counties in fiscal distress.

### **9.13 County Revenue Controlled by State Law**

County governments are limited partners in many of their shared revenue arrangements with the state. Numerous revenue sources that fund services mandated by, or shared with, the state are controlled by state laws that set tax rates and revenue distribution formulas. These include recording fees that help to finance assessment and taxation services and beer and wine taxes that support mental health and alcohol and drug treatment services.

Also, state law governs the local property tax system. Such laws have established discounted valuations for farm and forest lands and for businesses that locate in enterprise zones – all of which are generally considered sound ways to encourage economic activity and sustain jobs in industries important to Oregon. But local governments bear the brunt of revenue losses when the state enacts new property tax breaks, known as “tax expenditures.” They suffer the loss of property tax revenues, while the state gains new income tax revenue from the economic activity encouraged by the tax expenditures. In 1999, the legislature established a fund to compensate local governments for the one-half of the revenues lost to new property tax expenditures in certain cases. However, only a token amount of one dollar was appropriated to this fund. Some property tax expenditures that were approved prior to the creation of this fund appear less compelling now in the context of the counties’ budget challenges.

The Task Force reached unanimity on two recommendations related to state laws governing local property taxes and another recommendation for a temporary redistribution of state highway funds to benefit low-population counties with extensive road miles.

#### **✓ Property taxes.**

As noted above, the legislature has established a compensation fund designed to reimburse local governments for half of all revenues lost from new property tax expenditures in certain circumstances (e.g. when the local government does not have discretion to implement the tax exemption). However, the legislature has not provided funding for this program above the token amount of one dollar.

#### **Recommendation #39: The legislature should provide sufficient funding for the property tax expenditure compensation fund to cover all eligible local government revenue losses in the future.**

State GF cost 2009-11: To be determined  
Statewide “all counties” GF revenue potential: \$ N/A  
GF Revenue potential for “hard-hit counties:” N/A

The legislature has enacted and continued in effect state property tax breaks related to the use of federal land, which predominate in the hard hit counties. These include tax exemptions for the following.

- Federal land permitted to recreational facilities. Federal land that is leased to recreational facilities is taxable to those facilities, but such land is not taxable when held under permit. This exemption benefits ski resorts and lake marinas on federal land. It reduces local property tax revenues by \$650,000 per year.
- Leased federal land under summer homes. This exemption applies to Forest Service and BLM land leased to private individuals or businesses. The exemption reduces local property tax revenues by \$600,000 per year.
- Mining claims on federal land. “Unpatented mining claims” on federal land are exempt from property taxes, unlike other taxable activity on such lands. There are 5,510 such claims on BLM lands. This property tax exemption reduces local property taxes by \$100,000 per year.

**Recommendation #40: The legislature should repeal or provide compensation to cover 50% of the revenue losses borne by local governments for the exemption of certain facilities and activities on federal land, which have a disproportionate effect on the federal forest counties, including: federal land permitted to recreational facilities and summer homes and mining claims on federal land.**

Statewide “all counties” GF revenue potential: \$0.7--\$1.4 million  
GF Revenue potential for “hard-hit counties: \$0.6—1.2 million

✓ **Document recording fees.**

The Revenue Work Group proposed and the Task Force voted to recommend an increase in the document recording fee.

Current law (ORS 205.323) sets document recording fees at \$11, with \$9 dedicated to counties for assessment and taxation. This amount was established in 2000.

An AOC survey of county assessors this year found that their average cost to process filed documents for A&T purposes is now approximately \$15 on average. The fee should be adjusted to keep pace with counties’ share of A&T expenses.

LOC did not object to this recommendation, but notes that fast-growing cities with high housing costs are likely to be pushing for an increase in this fee for affordable housing with the Housing Alliance.

Sen. Fred Girod and Sen. Alan Bates dissented from this recommendation.

**Recommendation #41: Raise the \$9 recording fee for assessment and taxation to \$15.**

Statewide “all counties” GF revenue potential: \$11.5million  
GF Revenue potential for “hard-hit counties: \$4.4 million

## **CONCLUSION**

*We estimated the cost of the state budget items in biennial terms.*

*In order to compare the reach of these recommendations to the size of the shortfalls confronting the hard hit counties, we converted the counties' expected annual shortfall of \$179 million to a biennial \$358 million.*

*The quantifiable benefits to the hard hit counties from Recommendations #5 through #31 would amount to \$44 million, but would cost the state \$54 million, as some benefits would spread to all counties. The \$44 million for the hard hit counties would amount to 12% of their expected shortfall.*

*Recommendations #32 through #37 relate to economic development. These proposals would cost the state \$12 million and provide \$10 million in benefits to the hard hit counties, or just 3% of their shortfall.*

*Finally, the revenue options identified in Recommendations #40 and #41 would provide net benefits to the hard hit counties of only \$1.6 million, or 0.4%, after offsetting reductions in the state's contributions to assessment and taxation functions.*

*Some of these proposals are contingent on other state actions. All are dependent on a favorable budget environment.*

***Given the range of options, increased state support across all agencies and programs identified above could cover between 3% and, at most, 15% of the shortfall facing the hard hit counties.***

### ***Section 10. The Federal Government Can Better Share Resources and Revenues***

The Task Force identified a short list of proposals gleaned from its Federal Forest Practices Work Group and its Courts and DAs Work Group that involve federal revenue sharing. These proposals will require federal legislation or federal appropriations. But they are low-cost or no-cost proposals that can provide significant benefits to federal forest counties or to states and counties generally.

#### **✓ Continued support for forestland stewardship and services.**

SRS funding includes Title II funds, dedicated to forest land restoration, and Title III funds, for services related to federal forest lands. These funds will be lost with the Title I safety net payments if SRS is not reauthorized.

Title II funds have typically been used to support Resource Advisory Committees (RAC's), Community Wildfire Protection Plans, stream improvement and other projects of a collaborative nature. In total, they have averaged \$24 million per year administered by federal land managers in Oregon. These funds should be continued as grants to the state for use in facilitating collaborative projects for federal lands. In this capacity, the State could play a more beneficial role where federal agencies are currently constrained by the Federal Advisory Committee Act (FACA). Where Title II funds are already being granted on to counties, those counties should continue to be able to access those dollars.

#### **Recommendation #42: The state should urge Congress to continue Title II payments whether or not SRS Title I payments continue at current levels.**

Note: We do not record a revenue benefit for this recommendation since most Title II funds currently remain in federal accounts and we did not include these funds in our estimates of revenue losses.

Title III payments flow to counties for activities directly carried out on federal lands, such as search and rescue and fire protection. See Table I in Section 3.

#### **Recommendation #43: The state should urge Congress to continue Title III payments whether or not SRS Title I payments continue at current levels.**

At current harvest levels, this would generate \$4.9 million per year for the O&C counties.

\$ benefit to all counties per year: \$ 21.4 million  
\$ benefit to "hard hit counties" per year: \$19.1 million

#### **✓ Increased revenue sharing from federal harvests.**

As explained in Section 2 of this report, the federal legislation that authorizes the distribution of harvest receipts from O&C lands calls for a 75% share to the counties.

But, since 1957, this share has been reduced to 50% in annual appropriations for the Dept. of Interior. If appropriations bills do not explicitly override the 75% requirement the counties share will revert to 75%.

**Recommendation #44: The state should urge Congress to restore the counties' 75% share of harvest receipts from O&C lands.** At current harvest levels, this would generate \$4.9 million per year for the O&C counties.

\$ benefit to all counties per year: \$ N/A

\$ benefit to "hard hit counties" per year: \$ 4.2 million

Congress Peter DeFazio is pursuing an appropriations amendment in the current Congress to restore the 75% share.

✓ **Payments in lieu of taxes (PILT).**

As noted in Section 2, federal payments in lieu of taxes, or PILT, totaled \$228.5 million in 2007-08. But they would have been 60% higher, at \$367.2 million, if Congress had fully funded its own calculations of what the federal government owes counties for the non-taxable value of federal lands within their borders.

Oregon counties collected \$6.3 million in PILT this year, down from \$6.6 million last year. When the federal forest payments expire, PILT will take on a new importance for many counties.

There are three issues related to PILT:

- Without an increase in budgeted funds from the Congress, the cessation of the SRS payments will force cutbacks in PILT for some counties, as more counties regain their entitlement to PILT;
- The under-funding of PILT; and,
- The PILT distribution formula has a two-year lag time, so it may not adjust payments for the federal forest counties in a timely fashion.

**Recommendation #45: Congress should be urged to increase PILT to better reflect the lost value of federal lands excluded from county tax bases, update its formulas to reflect changes in safety net funding as they occur and hold counties harmless from the loss of PILT funds during a transition period following the cessation of safety net payments.**

\$ benefit to all counties per year: \$ N/A

\$ benefit to "hard hit counties" per year: \$ 2.8 million

✓ **Federal assistance to collect unpaid fines and fees**

As noted in Section 9, federal law allows the states to enter into agreements with the IRS to intercept and recover from individuals' federal income tax refunds amounts they owe for unpaid child support. Legislation (S. 1287, sponsored by Senators Gordon Smith and Ted Kennedy) has been introduced in the Congress to extend this provision

to recover unpaid fines and fees owed to states and local governments and restitution owed to victims. The Oregon Judicial Dept. estimates that this provision would yield \$57 million per biennium. Under state law, such collections are divided by formula among the state, cities, counties, victims' assistance funds and the Criminal Fines and Assessments Account (CFAA), which supports police training, forensics and other law enforcement services. The counties share of the \$57 million would be \$7.2 million. Recommendation #10 calls for the state to enact legislation that will enable the state to take advantage of this program should the federal government authorize it for states.

**Recommendation #46: The state should urge Congress to authorize states to collect from individuals' income tax refunds unpaid fines and fees owed to state and local governments and restitution owed to crime** victims, while giving first priority to unpaid child support.

\$ benefit to State GF per biennium: See Recommendation #10

\$ benefit to all counties per biennium: \$ 7.2 million

\$ benefit to "hard hit counties" per biennium: \$ 2.8 million

## **CONCLUSION**

*Compared to the expected annual revenue loss of \$179 million, the recommendations above could provide anywhere from \$2.8 million to \$26.1 million (excluding the benefits of Recommendation #46 already counted in Section 9.)*

***These forms of federal support could cover anywhere from 2% to 15% of the hard hit counties' shortfall.***

### ***Section 11. Better, More Sustainable Solutions for Federal Forest Lands***

The Task Force investigated the potential for increased harvests from federal forest lands. These harvests have fallen to less than ten per cent of their highest levels in the 1980s and remain far below the levels promised by the Northwest Forest Plan.

The Task Force convened a Federal Forest Practices Work Group, co-chaired by State Forester Marvin Brown and Jackson County Commissioner C. W. Smith, to lead this effort.

Their Work Group's report to the Task Force is attached as Exhibit E.

#### ***Findings: Federal Forests Should Be Better Managed***

After meetings with stakeholders from around the state, the Work Group reported the following findings.

- There are two basic types of federal forest ownership in Oregon. The Department of Agriculture US Forest Service (USFS) manages approximately 13 million acres of National Forests under the Sustained Yield Multiple-Use Act. The Department of Interior's Bureau of Land Management (BLM) manages approximately 2 ½ million acres under the Oregon and California (O&C) Lands Act. The BLM also manages other federal lands under other authorities such as the Coos and Applegate Wagon Road Lands.
- These various federal authorities under which agencies manage land are recognized as distinctly different, with the O&C Act establishing an emphasis on timber production and revenue to counties for BLM lands, tempered by the requirements of other federal law such as the Clean Water Act, the Endangered Species Act and the National Environmental Policy Act (NEPA). Historically, BLM shared 75%, and later 50%, of the receipts from these lands with counties, to be spent at county discretion. USFS lands have no timber production primacy. Revenue was shared at 25% and generally restricted to roads and schools.
- Prior to endangered species listing of the northern spotted owl in the early 1990's federal lands in Oregon harvested as high as 5 billion board feet of timber per year. The Northwest Forest Plan reduced this to an anticipated amount of approximately one billion board feet per year, but actual harvest across federal lands in Oregon has rarely exceeded 300 million board feet in any year since 1992.
- Using economic models, it is estimated that a harvest reduction of 4 billion board feet in Oregon has had a total impact on the State's economy of a reduction of 26,000 jobs and 1.4 billion dollars in labor income.

- Currently, annual mortality plus annual growth in excess of harvest on federal lands exceeds 4 billion board feet.
- An increase in federal harvest coupled with other proposals shown below could make a measurable difference in an attempt to replace county general fund and road budgets. This is spelled out in detail in Attachment A of the Work Group report (Exhibit E).
- A systematic disinvestment in the care and management of federal forests in Oregon has occurred due to declining federal budgets. From 1999 to 2008 National Forest System budgets (in constant dollars) have declined 54 percent in Region 6. From 1995 to 2008 BLM budgets (in constant dollars) for managing lands in western Oregon have declined 29 percent. This disinvestment has resulted in:
  - deterioration of forest health;
  - concerns over water quality and salmonid habitat because of poor road maintenance;
  - closures of recreational facilities;
  - a lack of wildlife habitat management;
  - increased carbon emissions and a loss of old growth habitat from larger and more frequent fires; and,
  - large-scale impacts on rural economic health and wood manufacturing infrastructure because of near elimination of timber harvest.
- The management of federal lands has also been complicated by legal actions that challenge federal agency compliance with requirements under the National Environmental Protection Act and other federal laws.
- Some tree harvest has been successfully implemented in recent years through a focus on local collaboration among diverse interests and an emphasis on non-controversial thinnings.
- Various pieces of federal legislation are being pursued by some members of Oregon's federal delegation, and others, to facilitate thinning and collaboration while limiting the harvest of old growth. An accepted definition of old growth, agreement over how much old growth to maintain and the practicality of legislating the most appropriate strategies for sustaining old growth over the long term are challenging issues.
- At the direction of the Governor, the Oregon Board of Forestry is sponsoring a Federal Forests Advisory Committee charged with developing a "Unified Vision of the Role of Federal Forests in Oregon" that will include recommendations on what is necessary to realize that vision.
- The Governor's Global Warming Commission will also be developing recommendations that will likely have implications towards the management of

federal forests. Federal forests have tremendous carbon storage potential that could be inventoried and possibly monetized.

- The Governor has also entered into Memoranda of Understanding with BLM and USFS that afford the State “Cooperating Agency” status in the development of BLM’s Western Oregon Plan Revision and any revisions to USFS National Forest Management Plans. This status allows the State earlier and more intense participation within federal planning teams and should represent a means to have more influence over plan development.
- Counties have a range of views on revenue sharing that may result from forest management.

### ***Recommendations: State Involvement Can Help Shape Federal Forest Policies***

The Task Force adopted ten recommendations brought forward by the Work Group. Three of those recommendations (#42, 43 and 44) were presented in Section 10. The remaining recommendations are as follows.

#### **Recommendation #47: The State should fund creation of an “Young Adult Conservation Corps,” similar in concept to the Civilian Conservation Corps, or the Young Adult Conservation Corps implemented by federal natural resource agencies in the 1970s.**

A program of this kind would provide educational and employment opportunities for youth who would be deployed to carry-out various projects on federal lands to promote forest health and facility improvements. Specifics would still need to be developed, but the program could be housed under the Department of Forestry in conjunction with other functions proposed for the Department within these recommendations that are intended to give the State greater involvement in federal land management. There may be existing federal funds to access for some of this.

#### **Recommendation #48: The State should acknowledge that the plan revision process for BLM’s Western Oregon lands has been a good-faith, collaborative effort with broad-based scientific input and should urge completion of the plan as soon as possible.**

#### **Recommendation #49: The State should explore the transfer of the O&C lands to State management in order to be prepared to consider this option should BLM’s Western Oregon Plan Revision fail to provide timely results.**

Management would be carried out under ORS 530 (“greatest permanent value” standard) which currently provides the authority for management of the Tillamook and Clatsop State Forests and which stipulates that roughly 65% of the revenue be returned to the counties and schools where the revenue was earned. Under State

management, the National Environmental Protection Act (NEPA) would continue to apply to the O&C lands.

**Recommendation #50: As a test of the state management approach, the state should work with the Congressional delegation to promote pilot efforts on both BLM and USFS land that would evaluate management effectiveness under state personnel.**

These efforts should test a range of statutory requirements from purely state to purely federal and some combination, as is being done in other states.

**Recommendation #51: The State should work with the Congress and the administration to update the NEPA process so that it adequately addresses current needs for forest health and restoration.**

**Recommendation #52: A letter should be sent from the Task Force to the Board of Forestry's Federal Forests Advisory Committee (FFAC) outlining specific suggestions for the management of federal forest lands.** A draft letter with these suggestions is shown as Attachment B to Exhibit E.

Items #1 – 5 in the letter are additional proposals developed by the Work Group that the FFAC should consider. Items listed under #6 are specific proposals already under consideration by FFAC that the Work Group supports.

**Recommendation #53: The Task Force should forward to the Global Warming Commission the recommendation to pursue a system of compensation for the value of maintaining healthy forests to combat global warming.**

The Task Force notes that such a system should be pursued by state and federal policy makers as they consider the design and adoption of cap and trade systems for carbon emissions.

### ***Higher Harvest Levels Will Generate More Revenue for the Counties***

The Department of Forestry estimates that the successful completion of the Western Oregon Plan Revision process for harvests from O&C lands and a similar increase in harvest levels from Forest Service lands could produce an increase in harvest volumes of 220% to 300% and an increase in harvest values of approximately 400%. These estimates assume compliance with ongoing recovery plans for endangered species, protection of old growth and riparian setbacks and are consistent with the projections of the Northwest Forest Plan. Alternative proposals suggest that these harvest levels may be optimistic. But even less optimistic projections suggest that a doubling of harvest value can be expected from better management of federal forest lands.

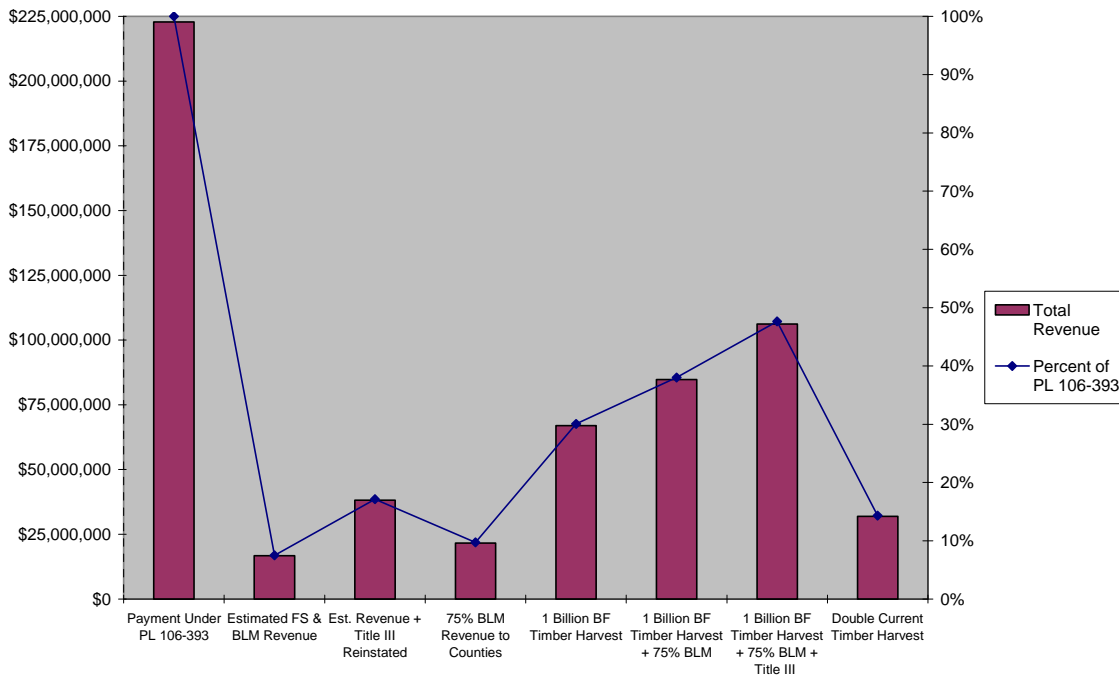
Our recommendations in Section 10 (related to federal revenue sharing from, and payments for, federal forest lands) and in this Section 11 (related to harvest levels)

would result in a range of revenue increases for the counties that are displayed in Table 9 and the chart below.

**Table 9. Net Revenue to Counties Under Different Options**

Option	Total Revenue	Percent of PL 106-393
Payment Under PL 106-393	\$222,840,057	100%
Estimated FS & BLM Revenue w/o PL 106-393	\$16,760,849	8%
Est. Revenue + Title III Reinstated	\$38,199,086	17%
75% BLM Revenue to Counties	\$21,667,242	10%
1 Billion BF Timber Harvest	\$66,977,500	30%
1 Billion BF Timber Harvest + 75% BLM	\$84,735,000	38%
1 Billion BF Timber Harvest + 75% BLM + Title III	\$106,173,237	48%
Double Current Timber Harvest	\$31,923,325	14%

**Comparison of County Revenue Increases Under Different Options**



**CONCLUSION**

*The high end estimate of 48% will be overstated if combined with the Title III recommendation in Section 10.*

***We will need four years to implement these solutions, which could recover 6% to 38% of the hard hit counties’ revenue shortfall and provide additional economic benefits.***

## ***Section 12. Legal Mechanisms for Dealing with Counties Facing “Fiscal Distress”***

The Task Force considered the possibility that one or more counties in Oregon could be unable to maintain mandated services or protect public safety and health, could fail to meet debt obligations or could ask for emergency assistance from the state within one to two years after the loss of SRS payments.

### ***The Need for Fiscal Distress Legislation***

Oregon, unlike many states, has no provision to allow its local governments to take advantage of municipal bankruptcy under Chapter 9 of the Internal Revenue Code and has no provision for state supervision or temporary takeovers of local governments that experience fiscal distress or insolvency.

The Task Force rejected pursuing the enactment of Chapter 9 bankruptcy protections, given the near certainty that such a provision would raise borrowing costs for all local governments in Oregon. However, the Task Force expressed strong interest in creating mechanisms for state supervision and takeovers of local governments in fiscal distress via the use of financial control boards.

Financial distress legislation generally focuses on several tasks, including: (1) establishing threshold criteria for declaring municipal fiscal distress; (2) identifying local officials empowered to request state assistance; (3) creating processes to develop and approve municipal recovery plans; (4) overseeing the implementation of the recovery plan; (5) defining powers and conditions in the recovery plan and/or exercised by plan administrator(s); and (6) setting out threshold criteria for ceasing state intervention. We discussed each of these topics and were able to reach consensus for a general proposal for further development.

#### **Recommendation #54: The state should pursue legislation to establish financial control boards and other procedures to deal with counties in fiscal distress.**

Amber Hollister, the Governor’s Deputy General Counsel, is leading a work group with representatives of key state agencies, county commissioners and the Association of Oregon Counties to draft final recommendations for this legislation.

### ***Elements of Fiscal Distress Legislation***

The Task Force envisions fiscal distress legislation with the following components.

We agreed that a tiered system of fiscal intervention would best serve counties. We discussed a system in which state intervention and control would increase over time with the level of a county’s financial distress. While specific percentages and time lines are provided for the purpose of discussion, they are very much open to discussion.

#### A. Stage One: Monitoring and Technical Assistance

During Stage One, counties would report yearly financials and budgets to the Secretary of State, Treasurer's Office and Department of Revenue (DOR). One of these agencies would evaluate county budgets, which would be required to be submitted by all counties in the form described at ORS 294.361 et seq. At this stage, the reviewing agency would provide technical assistance to counties. Possible financial red flags would include:

- Significant decrease in services funded and increased access of reserve funds;
- DOR's finding of inadequate staffing and resources for assessment and taxation functions;
- Failure to make timely debt repayment on municipal bonds;
- Failure to meet payroll or retirement obligations;
- Natural disaster resulting in severe economic emergency; or
- Unanticipated loss of significant revenue based on court order or other mandate.

If the reviewing agency's evaluation uncovers serious financial red flags, it or another entity would have the power to initiate Stage Two intervention by notifying the Governor and legislative leadership.

We also discussed providing elected officials (i.e. county commissioners) the power to initiate Stage Two intervention based on their own judgment of the county's financial position. This power would be necessary in situations where counties experience a precipitous decline that is not yet reflected in financial reports or county budgets.

#### B. Stage Two: Financial Control Board Crafts Recovery Plan

At Stage Two, the State would establish a Financial Control Board (FCB). The FCB would consist of financial, legal and accounting experts who are appointed by the Governor and legislative leadership. A separate FCB would be assigned for each county. The FCB would review county financial reports and budgets to obtain a full understanding of the county's financial position.

Once fully apprised of the county's financial situation, the FCB would aid elected officials in developing and adhering to a Recovery Plan. The FCB would recommend targeted cuts to county services to reduce expenditures and/or asset sales, fee increases or other measures to raise revenues. The FCB may also recommend approaches to better manage debt and reestablish the creditworthiness of the county.

Once the FCB completes its Recovery Plan the FCB will monitor the county for compliance. If the FCB finds that the county has failed to adopt and adhere to the plan in a timely manner, the State may cut off State funding to the county.

C. Stage Three: State Takeover

If the FCB's intervention fails to resuscitate the county, the FCB may recommend that the State initiate Stage Three intervention. At Stage Three, the FCB assumes all powers of the county's governing body (as defined by statute or Charter), including:

- i. Power to allow State to take over services;
- ii. Power to cut services, lay off employees and otherwise reduce expenditures;
- iii. Power to sell county property to increase county funds;
- iv. Power to access local funds and direct payment for services with those funds;
- v. Power to issue debt obligations (note Constitutional limits on debt issuance) on behalf of local government;
- vi. Power to make decisions regarding servicing municipal debt; and
- vii. Power to refer ballot measures to voters.

The FCB's intervention and monitoring will continue until the county's finances are stable and the county is able to provide mandated services, including public health and safety services. After the FCB determines that the county is stable, it would return powers to the county's governing body.

D. Stage Four: County Dissolution

If the FCB is unable to stabilize the county and determines that the county's continued existence is not viable, it would recommend that the State initiate Stage Four intervention. At Stage Four, the FCB will assist local elected officials in dissolving the county or merging with an existing county.

**CONCLUSION**

***The state should enact legislation for the use of financial control boards to oversee local governments in fiscal distress.***

### ***Section 13. Summary of Findings and Recommendations***

In summary, our findings and recommendations are as follows.

- Oregon's rural counties and school districts are likely to begin the fiscal year on July 1 with a net loss of \$237 million in federal safety net payments for federal forest lands provided by the Secure Rural Schools and Community Self-Determination Act (SRS).
- This will be the first time that many of Oregon's federal forest counties will be forced to fend for themselves since harvests from federal lands were curtailed in the early 1990s and federal safety net payments related to the spotted owl began in Western Oregon counties in 1994.
- Schools' share of the safety net payments in Oregon amounts to \$31.9 million, or approximately \$58 for every child in the K-12 system. This is enough money to pay for two days of the school year in every school district in the state.
- Counties will bear the brunt of the revenue losses if SRS payments cease. In 24 hard hit counties, proportionate revenue losses will exceed those suffered by the state during the 2001-03 recession.
- In the short term, the sudden loss of SRS payments will produce unavoidable and dire consequences. Six county governments may be unable to meet the most elemental needs of public health and safety within a year or two after these payments terminate. Lane County, the fourth most populous county in Oregon, is among them. Another two counties could fail within the next two to four years.
- The effects of such a loss of revenue would compromise basic health and safety and local transportation systems in a majority of Oregon counties and set back economic development not only in rural Oregon but throughout the state.
- At the county level, there are only two options available to deal with the near-term loss of SRS payments:
  - Cut county budgets and services; or,
  - increase county revenues from county taxpayers.
- Most of the hard hit counties have already cut their budgets to bare-bones levels. Increasing county revenues from county taxpayers is their only remaining option at the local level. But their ability to do so is limited under state law. Property taxes are the mainstay of county services; these taxes are capped under the state constitution and can be raised, only temporarily, by a vote of the people. Many of the affected counties have low property tax rates and unused "tax capacity" that, on paper, could allow temporary tax increases of 100% or more within the constitutional limits. But it is difficult – and unprecedented -- to expect a county to impose and absorb tax

increases of 100% in a short period of time. Increases of 10% to 20% are more feasible as a short-term expectation, based on the success of property tax levies approved by county voters in recent years.

- Assistance from state government and state taxpayers could come in many forms, beginning with:
  - increases in shared financing for shared services; and,
  - new or increased general revenue sharing.

Both approaches are limited by the constraints of the state budget (which is expected to barely cover a continuation of current service levels in the next biennium) and demands to address unmet needs (such as expanding health coverage to all children).

We scoured the state budget to identify opportunities for shared financing, both for the federal forest counties and for counties generally. We came up with a total of 34 recommendations in the areas of law enforcement, criminal prosecution, public health, juvenile services etc. We have also constructed a proposal for a general-purpose emergency fund for counties in crisis similar to the state's emergency fund for state government agencies. But the totality of these recommendations for increased state support would cover only 3% to 15% of the hard hit counties' shortfall.

- A general economic recovery will not provide significant replacement revenues at the local level, as occurred with state government from 2004 to 2007. Also, Oregon's local tax system will continue to constrain revenue dividends from growth in population and economic activity.
- Counties cannot grow their way out of these problems in the short term, but the state can provide targeted economic assistance to sustain infrastructure and provide some funds to leverage development opportunities
- We conclude that the best efforts of Oregon counties, state government and local and state taxpayers are not likely to solve more than 20% to 30% of the financial crisis that will be caused by the loss of SRS payments.
- There are promising proposals for assistance from the federal government. These include:
  - increased shares of harvest receipts for federal forest counties and continuation of grants for forest management and services related to federal land; and,
  - federal resources that will benefit all counties.

These proposals are important and should be pursued. But they are unlikely to make up more than 15% of the SRS revenue loss.

- Ironically, this is a time when longer term solutions to the SRS payments crisis are beginning to take shape.
  - More productive management of federal forests could provide new revenues for counties and a shot in the arm for local economies beginning four years from now. The Western Oregon Plan Revision process now underway points to a long overdue change in the management of federal forest lands. If this process fails, the state should consider taking over management of the O&C lands in Western Oregon. However we get there, we need better management of federal forests that promote forest health and balance sustainable forestry with protection of our environment.
  - Longer term, the possibility of new rewards for healthy forests by means of cap-and-trade or other compensation schemes to combat global warming could provide a new and sustainable model for the management of federal forests and the sharing of federal revenues with rural counties.
- The best case scenario for transitioning Oregon counties from the current system of federal safety net payments and establishing a self-sustaining system of federal forest management and revenue sharing will require four years. A phase-down of safety net payments over four years, of the kind proposed in the U.S. Senate and the U.S. House this year and last year, would align with this scenario and give Oregon and its counties time to adjust to the loss of these payments.
- The path to this new system will involve:
  - increased local tax effort by county taxpayers to sustain county services;
  - increased support from state taxpayers for state-county services and targeted assistance to county governments to sustain essential services and boost economic development in rural counties;
  - more revenue sharing by the federal government, and
  - the implementation of sustainable management and harvesting regimes for federal forest lands.

No one of these approaches will be sufficient by itself to restore economic sustainability for our federal forests and fiscal viability for the hardest hit counties. All of these approaches will be needed to fashion a complete solution.

- Longer term, there is great potential in securing compensation for the value of maintaining healthy forests to combat global warming. This solution should be pursued by state and federal policy makers, including the state's Global Warming Commission, as they consider the design and adoption of cap and trade systems for carbon emissions.
- We strongly urge continuation of the SRS safety net payments for four years, during which a phase-down from current levels can be matched with a multi-faceted effort to restore fiscal viability to the affected counties. The affected counties, state and

federal governments and their taxpayers all have a role to play in this transition to a new system that is economically sustainable and fiscally viable. If Congress successfully reauthorizes SRS payments for four years, the state should adopt a four-year plan to transition the counties to fiscal solvency.

- If reauthorization is limited to one year, the counties and the state should continue to pursue a longer-term reauthorization, and the state should adopt a contingency plan for dealing with a loss of SRS payments in the midst of its two-year budget cycle.
- But, if Congress fails to act or if the President vetoes a reauthorization, the affected counties and the state should prepare for the worst.
- Oregon, unlike many other states, has no provisions in state law to deal with bankruptcies or fiscal failures by local governments. This finding has convinced us to seek legislation that authorizes the use of financial control boards to administer local governments in fiscal distress.
- In the event that SRS payments are not reauthorized by the first quarter of 2009, the state should:
  - encourage and assist the affected counties to raise local revenues to meet local needs for essential services;
  - focus its emergency assistance on public safety, public health and county roads and bridges that are critical to local economies;
  - enact temporary state oversight of counties that are no longer able to meet the basic health and safety needs of their citizens.