

Governor's Task Force on Federal Forest Payments and County Services

Loss of Forest Payments Will Create a Crisis for Oregon's Rural Counties Far Greater and Longer Lasting than the State's Budget Crisis of 2001-03

When federal forest payments cease...

- Oregon counties will lose \$206 million per year in general funds and road funds.
- Oregon schools will forego \$32 million per year – the equivalent of \$58 per student.

County revenues will be decimated...

- 24 of Oregon's 36 counties will lose an average of 26% of their discretionary general funds and 44% of their road funds. For these counties, the effects of these losses will be far greater and longer lasting than the state's budget crisis of 2001-03.
- The most immediately affected and hardest hit counties will be Josephine, Curry, Lane, Polk, Columbia and Klamath. Coos, Grant and Douglas counties have sizable reserves, but will face the same fiscal crises after two to four years.

Counties are responding by cutting budgets and trading funds with cities

- Coos County cuts its general fund budget by 28% this year; Lane cutback 17%.
- Josephine reduced its general fund and road budgets by 13% and 56% respectively.
- Lane County has arranged to swap funds with the cities of Eugene and Springfield, exchanging road funds for the cities' support for human services.

Public safety, public health and roads will suffer...

- Sheriff's patrol, criminal prosecution, jails and juvenile services are being reduced.
- More counties are reducing their local support for public health authorities.
- Some counties are returning roads to gravel.
- Many other services, such as libraries and animal control, have already been reduced or eliminated.

Counties cannot "build or develop themselves into solvency..."

- Service cuts will deter economic development
- The property tax system constrains revenue growth

The counties' problems will become the state's problems...

- Counties can return or assign services to the state, e.g. public health, mental health and addiction treatment, child support enforcement.
- Failure to protect public health and safety becomes a problem the state cannot ignore.
- There is no provision in state law for a state takeover of county functions.

Even with the best efforts of the counties and the state, this crisis cannot be successfully managed or resolved in the short term.

Makeup of the Task Force

By Executive Order #07-21, Governor Ted Kulongoski created Federal Forest Payments Task Force and its appointees in November 2007. These were:

- Tim Nesbitt, Deputy Chief of Staff, Governor's Office, who was appointed chair of the Task Force;
- 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;
- Max Williams, Director, Dept. of Corrections.
- 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 the course of its research and preparation of this report, the Task Force relied 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.

Process

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.

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

List of Recommendations

Section 5. Overview: Solutions Examined

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. *(Adopted unanimously.)*

Conclusion

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

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

See Recommendations #3, #32-37

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

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

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. *(Adopted unanimously.)*

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. Note: Subsection (a) calls for the loosening on restrictions on the use of “transient lodging taxes;” subsection (b) calls for the removal of the state’s preemption of real estate transfer taxes. *(Sen. Fred Girod dissented.)*

Conclusion

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. 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

9.1. Law Enforcement

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. *(Adopted unanimously.)*

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

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

9.2 Courts and DAs

Recommendation #8: Increase the state's General Fund support for prosecutorial assistance from \$0.4 to \$5.0 million per biennium. Re-examine the distribution formula for these funds so as to provide a baseline for small counties. *(Adopted unanimously.)*

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. *(Adopted unanimously.)*

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. *(Adopted unanimously.)*

9.3 Juvenile Services

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. *(Adopted unanimously.)*

Recommendation #12: Improve coordination among state and local juvenile services by aligning OYA services with regions. *(Adopted unanimously.)*

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. *(Adopted unanimously.)*

9.4 Community Corrections

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. *(Adopted unanimously.)*

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

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

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

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. *(Adopted unanimously.)*

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

9.5 Public Health

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). *(Adopted unanimously.)*

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. *(Adopted unanimously.)*

9.6 Addictions and Mental Health

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. *(Adopted unanimously.)*

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. *(Adopted unanimously.)*

9.7 Senior Services

No recommendations.

9.8 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. *(Adopted unanimously.)*

9.9 Assessment and Taxation

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. *(Adopted unanimously.)*

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

9.10 Roads

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. *(Sen. Fred Girod dissented.)*

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

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. *(Adopted unanimously.)*

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. *(Adopted unanimously.)*

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. *(Adopted unanimously.)*

9.11 Economic and Community Development

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

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

Recommendation #34: Provide additional assistance to hard hit counties to help them maintain their land use planning capacity for new industrial development. *(Judge Scott Cooper dissented; Councilor Anne Ballew abstained.)*

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. *(Adopted unanimously.)*

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. *(Adopted unanimously.)*

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. *(Adopted unanimously.)*

9.12 Emergency Funds

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. *(Adopted unanimously.)*

9.13 County Revenue Controlled by State Law

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. *(Adopted unanimously.)*

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. (*Adopted unanimously.*)

Recommendation #41: Raise the \$9 recording fee for assessment and taxation to \$15. (*Sen. Fred Girod and Sen. Alan Bates dissented.*)

Conclusion

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

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

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

Recommendation #44: The state should urge Congress to restore the counties' 75% share of harvest receipts from O&C lands. (*Adopted unanimously.*)

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. (*Adopted unanimously.*)

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. (*Adopted unanimously.*)

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

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. *(Adopted unanimously.)*

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. *(Adopted unanimously.)*

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. *(Adopted unanimously.)*

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. *(Adopted unanimously.)*

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. *(Adopted unanimously.)*

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. *(Adopted unanimously.)*

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. *(Adopted unanimously.)*

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”

Recommendation #54: The state should pursue legislation to establish financial control boards and other procedures to deal with counties in fiscal distress. (*Adopted unanimously.*)

CONCLUSION

The state should enact legislation for the use of financial control boards to oversee local governments in fiscal distress.

Next Steps

- 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.
 - 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.
 - 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 legislation for temporary state oversight of counties that are no longer able to meet the basic health and safety needs of their citizens.
-

Comments

The Task Force invites comments on its findings and recommendations through August 22, 2008.

Comments may be addressed to the Task Force c/o Chair Tim Nesbitt, 254 State Capitol, Salem, Oregon 97301-4047 or to fedforest.payments@state.or.us.