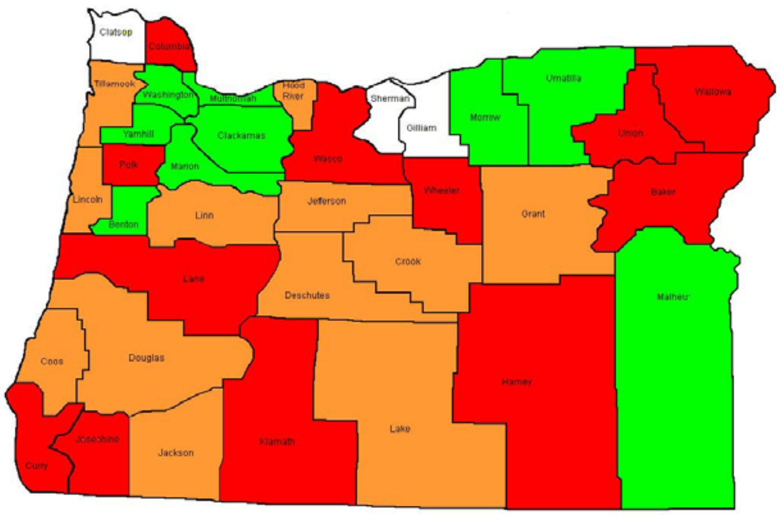
Executive Summary

Our Task Force began its work when 33 of Oregon’s 36 counties faced a loss of $210 million a year in federal forest payments, and 24 of those counties confronted shortfalls of more than 20 percent of their discretionary general fund or road fund budgets in the 2008-09 fiscal year.

We call the 24 counties most affected by the loss of federal forest payments the “hard hit counties.” They include both large (Lane) and sparsely populated (Grant) counties that crisscross the state, from Columbia to Klamath and from Curry to Wallowa, and account for 39 percent of Oregon’s population.

Hard Hit And Critical Counties



Shaded counties are federal forest counties.
Darker shading indicates Hard Hit Counties; darkest shading indicates Crisis Counties

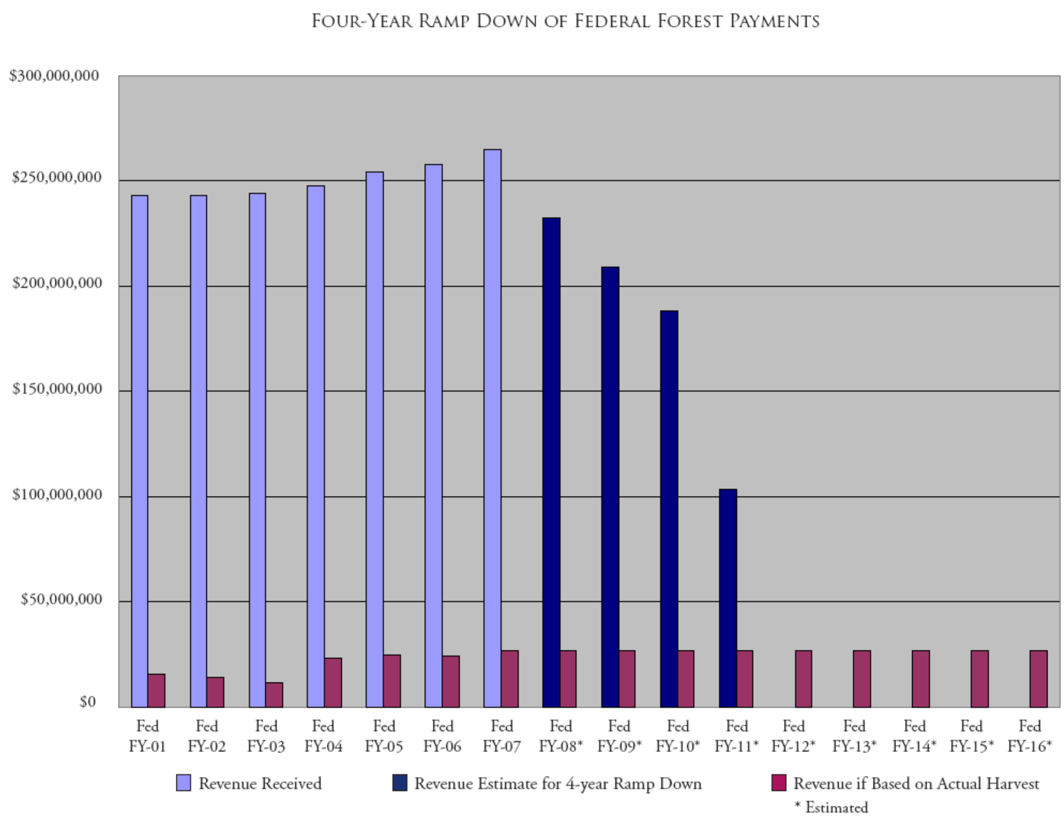
The proportionate size of these counties’ shortfalls from the loss of federal forest payments this fiscal year would have exceeded that of the state’s general fund budget holes in 2001-03 and 2003-05 and the revenue losses now predicted for the state’s general fund budget in 2009-11.

Many of these hard hit counties looked beyond deep reductions in services and the depletion of their reserves to the likelihood of an unprecedented and unmanageable fiscal crisis within two to four years after the cessation of federal forest payments. Only a belated reauthorization of these payments by the federal government in October 2008 averted a crisis which, compounded by the effects of the current recession, could have forced the collapse of as many as nine “crisis counties” over the next several years.

The reauthorization provides a phased reduction of federal forest payments over four years, beginning in 2008-09. By 2011-12, counties will receive less than half of the amounts they are now receiving. In 2012-13, federal forest payments will end, and counties will receive only their share of traditional harvest receipts, now averaging just a tenth of current payments.

The crisis averted this year will loom again for the hard hit counties at the end of the state's 2009-11 biennium, when these counties prepare for the steep reduction and scheduled termination of federal forest payments in 2011-13.

Schools, too, will be affected, as will the state budget. Schools will lose a source of revenue that now amounts to $60 a year for every K-12 student in Oregon. The state will have to make up this loss from already constrained general fund resources, leaving less funds to bolster state and county services.



Our Task Force examined all options for dealing with revenue losses of this magnitude and extent, which we present in the following categories.

- ***What counties and county taxpayers can do to help themselves.***

  We looked to the local level where the funding losses will occur and assessed the potential for cutting county budgets and raising revenues. We found that many counties have already cut services to bare bones levels. Also, we found that constitutional limitations on property taxes, voter resistance to such taxes and state constraints on other revenue sources make it difficult for counties to respond to this crisis by raising revenues. Finally, we found that many of the hard hit counties have low tax rates compared to the statewide average. We concluded that:

- Counties statewide have significant unused property tax capacity within constitutional limitations;
- It is reasonable to expect hard hit counties to seek voter approval of property tax increases in the range of ten percent to 30 percent, which will increase overall taxes paid by county taxpayers by just two to five percent; and,
- Counties should be freed from restrictions in state law that limit or prohibit their ability to enact transient lodging tax and real estate transfer taxes.

➢ *These solutions could enable the counties to recover eight percent to 24 percent of their revenue losses.*

- ***What the state and state taxpayers can do to help the counties.***

We 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. Recognizing the impact of the current recession on state finances, we adjusted our sights to a four-year horizon.

We developed and approved:

- Twelve recommendations for technical assistance, improved coordination of effort between the state and the counties and clarification of authorities in areas such as juvenile services, community corrections and roads;
- Sixteen recommendations to be considered over the next four fiscal years for increased state financial support for county services, ranging from public safety to public health and elections;
- Eight recommendations for increased state support for economic development in rural counties over the next four fiscal years; and,
- Three recommendations to limit losses from or raise revenues controlled by the state.

➢ *We estimate that these solutions could cover up to 18 percent of the shortfall facing the hard hit counties.*

- ***What the federal government can do to better share resources and revenues.***

We examined several possibilities for increased federal support for counties.

We indentified and approved:

- Three recommendations to increase federal compensation, support for and revenue sharing from federal forest lands; and,
- A recommendation urging Congress to authorize states to collect unpaid court fines and fees from individuals’ tax refunds, which will increase resources for state, county and city criminal justice programs.

We estimate that these solutions could cover up to 13 percent of the shortfall facing the hard hit counties.

- ***What the federal government can do to better manage federal forest lands.***

  The Task Force reviewed pending plans for better management of, and increased harvests from, federal forest lands.

  We examined and approved:
  - Six recommendations related to the management of federal forest lands, including creation of a Young Adult Conservation Corps, increased harvests from O&C lands managed by the federal Bureau of Land Management and management practices to combat global warming.

  - *We estimate that revenues from these recommendations could be significant – representing 16 percent of the hard hit counties' expected revenue losses (from doubling harvest levels) to more than half of their revenue losses (when combined with even greater harvest levels and increased shares of harvest receipts).*

  However, we conclude that these plans are unlikely to come to fruition until at least 2012.

- ***What the state and counties can do now to prepare for the loss of these payments.***

  Finally, we present two recommendations for consideration in the 2009 legislative session to facilitate planning and preparations for the phase-out of federal forest payments and worst case provisions to deal with public safety emergencies.

  - *We strongly recommend that the state and the hard hit counties institute a joint planning process to address the challenges these counties will face just two years from now. Otherwise, the loss of federal forest payments will compromise public health and safety, undermine funding for county roads and exacerbate job losses in every region of the state.*
  - *We also recommend that the state establish procedures to respond to counties in fiscal distress, including a process to identify reductions in services that jeopardize public safety and respond to such situations before they become true emergencies.*

We conclude that there is no one source for the solutions needed to avert major fiscal crises that the 24 hard hit counties will experience with the loss of SRS payments. Responses will have to come from every level of government – county, state and federal, beginning with a state-county planning process during the next two years and continuing engagement of the federal government on the issues of revenue sharing and forest management practices.