

Task Force on Federal Forest Payments and County Services  
Meeting #5  
May 29, 2008

## Minutes

### 1. Welcome and overview of the agenda

The meeting convened at 10:00 AM at the Local Government Center in Salem.

All members were present, except Tim McLain (for whom Chris Brown represented OSP), Bob Repine (for whom John Wahgren represented OECDD) and Max Williams (for whom Mark Cadotte represented DOC).

Sen. Betsy Johnson joined the Task Force as our guest.

Also present: Ray Naff (governor's office), Laura Cleland (AOC), Art Schlack (AOC), Doug Tindall (ODOT), Linda Ludwig (LOC), Brent Stell (OSU), Dawn Marie Gaid (OSU), Vincent Adams (OSU), Yao Yin (OSU), David Williams (OSBA), Mary Botkin (Oregon AFSCME), Gordon Fultz (AOC), Jeff Hampton (Travel Oregon), Andrew Boeger (SEIU 503), Danielle Cowan (Clackamas County), Gil Riddell (AOC), Jim Austin (Clackamas County), Eric Schmidt (AOC), George Naughton (DAS Budget and Management) and Jim Bucholz (Dept. of Revenue).

Chair Tim Nesbitt provided an overview of the agenda

### 2. Recap of last meeting/Adoption of minutes

The minutes of the April 24, 2008 meeting were approved as submitted.

### 3. Updates

AOC representatives reported that the emergency supplemental bill that passed the Senate includes a one-year reauthorization with PILT funding. A House bill, co-sponsored by Reps. Peter DeFazio and Greg Walden, provides a four-year reauthorization with phased down funding without PILT. This bill is expected to be on the House floor in early June.

George Naughton reported that the state's June revenue forecast, released that morning, showed increases of \$143 million for 07-09 and \$9 million for 09-11. He expects 09-11 to be even with or down slightly, by approx. \$200 million, from the "essential budget level" required to match population increases and inflation.

#### 4. Revenue Losses and Local Impacts

Comm. Mark Labhart reported confusion in D.C. around the reauthorization bills. He reported that Rep. Darlene Hooley is trying to get a meeting with Speaker Piloni on this issue. Comm. Labhart noted that 50% of Tillamook County's roads budget is gone and that a local option levy for roads went down to defeat 2-1 in the May election.

Judge Scott Copper reported that Crook County is assuming no reauthorization in its budget for 07-09 and that transportation funding will be hard hit. Eastern Oregon counties are being forced to renegotiate plans with the area transportation commission. He also noted that several elected officials who made hard budget decisions lost in the May election. Also, Crook County voters voted to repeal a destination resort plan that would have provided greater property tax revenues from resorts than can be gained from residential developments.

Comm. and Co-Chair Bobby Green reported that Lane County will finalize its budget in one week. The county funded animal regulation for enforcement only. With \$39 million in reserve for roads, the county was able to enter into agreements with the cities of Eugene and Springfield for \$4.5 million and \$250,000 respectively by which the county will maintain city streets for a like amount of support for juvenile justice and other services that require general funds. The county tapped its reserves to retain 24-hour 911 service. The county was able to make up only \$2 million of a \$14 million shortfall in the Sheriff's budget and had to cut forest work programs and positions in the county.

Brent Steel, representing OSU's Rural Studies Program on contract with AOC, reported that 22 counties responding to their survey cut budgets in FY 08 and that 21 of 29 responding counties planned to cut their budgets in FY 09.

#### 5. Review Committee Recommendations

Co-chair Green led the task force through a review of all pending and new items regarding state support for county services.

A summary of the Task Force's actions follows.

All actions were unanimous.

#### **Actions Taken by Federal Forest Payments Task Force at its 5/29/08 Meeting**

<b>Recommendations</b>	<b>Cost/Benefit</b> \$ per biennium	<b>Task Force Discussion and Actions</b>
<b>Community Corrections</b>		
5-2. Allow counties more latitude to transfer responsibility for community corrections to the state, aka "opt out."	TBD	<i><b>Reconsider.</b> Mark Cadotte noted that an OAR in effect under ORS 423.535 may be the solution. Discuss with LFO re: impact on DOC and state. Report back.</i>

<b>Courts and DAs</b>		
11-2. Establish an appropriate level of state funding for prosecution as a goal over time. Also, explore the use of an emergency fund at DOJ to help DAs when caseload demands exceed capacity.	TBD – would help all counties.	<i>Mike McArthur called attention to cost studies done by the state in 99 and 01. <b>Review</b>, after more feedback from DOJ.</i>
<b>Juvenile Services</b>		
21. Support OYA’s request for hiring a contractor to explore the feasibility of using Title IV-E funds for youth offenders in community-based, out-of-home settings.	\$0.3 million	<i>Bob Jester noted that the study would proceed in phases, if savings appear feasible at each phase. If successful, these funds could replace some of the federal funds for targeted case management that OYA is likely to lose, beginning in 11-13. <b>Support</b></i>
29-2. Add a Deputy State Medical Examiner to the Central Oregon region.	\$0.3 million – will help Central OR counties.	<b>Recommend</b>
30. Provide supplemental assistance to local emergency management agencies in 17 counties with regional training and planning.	\$2.6 million - - will help small and rural counties.	<b>Review. Research federal funds match available.</b>
<b>DHS: Public Health</b>		
35. Provide minimum baseline funding for local public health agencies to ensure adequate capacity in low-population counties.	\$5.0 -- \$10.0 million	<i>Clyde Saiki reported that the agency is moving toward a base funding level with per capita on top of the base. He noted that public health is not just a county system, but a statewide system. <b>Recommend</b> in separate packages at \$5 and \$10 M, with more info from DHS on how to construct these packages.</i>
<b>DHS: Senior Services</b>		
37. Implement plans to reduce costs, improve service delivery and stabilize funding for pre-Medicaid population. Support the expansion of OHP.	TBD – will help all counties.	<b>Support</b> DHS’s proposal for Aging and Disability Resource Network and expansion of OHP.
<b>DHS: Mental Health/A&amp;D</b>		
39-2. Direct to hard hit counties a portion of the DHS’s requested funding increase for community mental health and addictions treatment.	\$7.0 million – will help targeted counties.	<b>Review</b> after receipt of more info from DHS

<b>Roads</b>		
42. Give counties more flexibility to raise vehicle registration fees by removing the cap. Consider making the approval process less cumbersome.	TBD – will help all counties	<i>Mike McArthur noted that charter counties can do this now, whereas general law counties cannot. This will be a tool in the tool box for those counties. Linda Ludwig noted objections from the cities. Refer to Governor’s Transportation Work Group.</i>
44. 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.	\$6.4 million in state hwy funds – will help rural counties with total of \$8.5 million.	<b>Recommend</b> with clarification that the extra money to counties will come from the state’s share, so as to hold cities harmless.
<b>45-1. Change the state distribution formula for FS harvest revenues from 75% county roads and 25% schools to 100% county roads if and when safety net payments cease, contingent on the state covering the schools’ losses with an increase in state funding for schools.</b>	<b>\$4.6 million – will help Eastern and Southern counties</b>	<i>Recommend, with caveat that federal law may require that schools receive at least some share; if so, this could be changed to 95% county roads and 5% schools.</i>
<b>46. Modify the requirement for counties to share with cities half of local option property taxes used for county roads. Make revenue sharing with cities “proportional to cities’ collectors.”</b>	<b>TBD – will help all counties.</b>	<i>Matt Garrett clarified that the Feds define collectors. Linda Ludwig noted that distributions are now based on tax bases, not the length of roads.</i>  <i>Review after more vetting by ODOT.</i>
<b>Economic and Community Development</b>		
48. Establish a program whereby counties may apply for and receive waivers of P&I 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. Note: this would apply to existing loans only.	No GF impact. Could reduce revolving funds by up to \$1 million per biennium.	<i>The Task Force discussion clarified that interest payments would be suspended and not accrue and that this proposal would apply only to existing loans. Anne Ballew expressed concerns about a depletion of the funds available for cities. John Wahgren reported that the agency bring this proposal to the Economic Development Commission in July for a blanket option. Sen. Bates clarified that there should be no impact on bond rates.</i> <b>Recommend.</b>

49. Restore 100% funding for the Governor's Economic Revitalization Team from the state's share of lottery funding.	\$1.1 million GF	<b>Recommend</b>
50. Provide additional assistance to hard hit counties to help them maintain their land use planning capacity for new industrial development.	\$0.5 million GF	<i>Anne Ballew questioned how the focus on industrial lands would be accomplished. <b>Review</b>, with more detail from DLCD as to how it will determine eligible projects.</i>
51. 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 access in the other 12 counties.	\$4.1 million to reach all 18 counties with Ext. programs	<b>Review</b> after we can see a county by county analysis.
52. Hold for AOC's proposal to expand income tax breaks for counties with low population growth, low per capita incomes and high unemployment rates.		<i>Sen. Girod asked if we can prioritize funding for depressed areas. Sen. Johnson noted that refinancing the Regional Investment Boards might be more feasible. <b>Review</b> after securing more info from AOC and input from OECDD.</i>
<b>Veterans' Services</b>		
53. 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.	\$0.9 million max. -- will help the smaller counties	<b>Recommend</b>
<b>Fiscal Emergencies and Bankruptcies</b>		
<b>54. 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.</b>	<b>Est'd at \$5.0 million GF.</b>	<b>Consider</b> at next meeting in conjunction with proposals for Financial Control Boards.

## 6. Revenue Work Group Report

The Task Force acted on the recommendations of the Revenue Work Group. The actions, included dissenting votes, are noted in the attached revision of the work group report attached as **Exhibit A**.

Craig Fischer reported on his calculations of tax capacity at the county level. Mike McArthur expressed concerns that some assessors question the capacity numbers when the compression of tax rates is accounted for. Sen. Bates asked for data on residential property owners.

## 7. Forest Practices Work Group Initial Report

The Task Force reviewed and responded to the findings and recommendations of the initial report from the Federal Forest Practices Work Group.

Marvin Brown noted that, prior to 1990, federal forest lands in Oregon produced 5 billion board feet (BBF) of a total of 8 BBF produced statewide. Now production from federal forest lands has fallen to 0.3 BBF.

Tim Nesbitt noted that the Department's estimates show a potential for three times the harvest in volume four times the value in harvest receipts compared to current production levels.

Sen. Bates noted the benefits from increased employment in the mills and increases in state income taxes. Director Brown said his agency can model these effects.

Director Brown noted that the next iteration of the Western Oregon Plan Revision for O&C lands is likely in August with comments due 90 days thereafter.

Sen. Girod noted the need to get out from under environmental regulations.

Comm. Labhart noted Sen. Smith's support for long-term management plans and called attention to a compromise in Colorado that focused on pilot projects.

Director Brown noted that the Dept. of Forestry could manage the federal forest lands with 35% of the harvest receipts.

Sen. Bates noted that state management of the Eliot forest could serve as a model that will satisfy major environmental groups.

Director Brown estimated that state management and management practices could produce a \$100 million per year in harvest revenues for the counties.

Director Brown said he will get data for Title II funds from his agency.

Judge Cooper noted the importance of continuing Title II funds.

Sen. Girod noted that “science is on our side” when it comes to managing forest lands and timber production to control greenhouse gas emissions. Chair Nesbitt noted the potential value of compensation for carbon sequestration.

Mike McArthur asked for data on growth rates. Director Brown said he will add that data.

#### 8. Framework for Findings and Recommendations

Comm. Labhart suggested consideration of combining efforts with county health departments to save money.

#### 9. Report on Bankruptcies and Fiscal Failures

Amber Hollister, deputy general counsel for the Governor, provided an overview of laws in other states that provide for access to bankruptcy protections for municipalities (local governments) under Chapter 9 of the Internal Revenue Code and supervision by financial control boards.

Sen. Girod asked what property tax rate would apply if one jurisdiction takes over another. In the event of a fiscal failure, he noted, either the state has to take over or the failed county has to be taken over by another county. Chari Nesbitt said we will get that information.

Sen. Bates asked, if a county closes down, does the state take over? He noted the danger of two counties becoming insolvent within the next two months. We need a plan in place to deal with this, he said. Sen. Girod agreed.

Mike McArthur noted that counties are creatures of the state.

Jim Bucholz noted that existing state law calls for a blending of property tax rates when two jurisdictions merge.

Comm. Labhart recommended that the state develop fiscal distress legislation similar to that in effect in other states.

Sen. Girod noted that if we allow counties access to Chapter 9 bankruptcy, their borrowing costs could increase. He recalled legislation introduced by Sen. Butler in a previous legislative session.

Comm. Green noted that there has to be a procedure and a process.

Sen. Bates agreed that we should not pursue the bankruptcy option.

Chair Nesbitt asked Ms. Hollister to pull together a meeting with AOC and bring back recommendations to the next Task Force meeting.

#### 10. Next Steps and Outreach

John Krawczyk, Yamhill County administrator, presented revised data on counties' tax receipts and revenue losses. He offered the finding that \$155 per capita in general revenues is the minimum needed for a county to provide the services it is responsible for. He noted the Josephine County could be the first to fold, calling out Curry, Coos, Columbia, Klamath and Lane as counties facing severe fiscal distress after Josephine.

Comm. Labhart stated, "We have to change the whole system of county government."

Comm. Cooper noted that road fund balances could be tapped in a crisis. He also noted that Crook County has reserves in enterprise funds that did not show up in Krawczyk's data.

John Krawczyk noted that Hood River County collects substantial revenues from its county forests.

Chair Nesbitt outlined the following schedule remaining for the Task Force:

6/12 Final Task Force meeting

6/19 (AM) Presentation of report to Governor and legislative leaders

Presentation of Revenue Work Group findings and recommendations to Revenue Restructuring Task Force

6/30 (PM) Presentation to House Rural Policy Committee

#### ***Exhibits***

Ex. A – June 3 Memo: Task Force Actions of Revenue Work Group Recommendations