“Report on Post O&C Ramifications”
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Forward by Commissioner Jim Raffenburg

To begin, let me offer the following disclaimer:

“This Report is the product of my efforts (with help from our County Finance Office) and does not necessarily reflect the views or opinions of the Josephine County Board of Commissioners.”

When I took the oath of office in January, 2005, I did not expect the next four years to be easy ones, for me or for the county I serve. State and local governments were already caught in a giant pincher of rising costs and flat to decreasing revenues.

As commissioners, we have few options available to address this crisis. Government, unlike a private business, cannot ramp-up production or increase sales to cover increased costs or lost money. Government has only two choices: Cut costs or increase revenues. Under Oregon law, we have little control over increasing revenues. That leaves cutting costs.

Many costs are fixed and not subject to significant savings without dramatic cuts in services. The available choices are always the same: do you cut services and jobs, or do you try to save those jobs and services by cutting the cost of providing them (wages, benefits and fixed costs like gasoline, etc.)?

Josephine County is struggling with those very issues right now. While there are other dollar savings possible from the increased efficiencies resulting from the elimination of redundancies, implementation of better policies and procedures, and developing more streamlined operations, those saving, while necessary and important, will be limited.

When the lost revenue is severe enough (and the loss of this revenue is very severe), no amount of targeted cutting will suffice and the end result will be lost public services and lost jobs. Depending on the individual county, these losses can dramatically alter the quality of life in a community.

I wrote this Report primarily for the people of Josephine County, who deserve to know the truth about what is likely to happen in less that one year. The loss of this money is a problem for the entire State of Oregon however, and I hope this information is useful to other county’s Boards of Commissioners. The numbers in the report are Josephine County’s, but the problems belong to all of us.

The last paragraph of this Report refers to the “Trust” aspect of the Federal stewardship of the majority of the land in the western United States, and in particular to the O & C Trust Lands within Josephine County.

It is my belief that the Federal government has an obligation to either manage the resources of these lands, for the economic benefit of the counties in which they are located, or they must pay a PILT equal to the tax value of the lands they keep off of the county property tax rolls. That is what they agreed to do in 1937.

If Public Law 106-393 is reauthorized, it should be made permanent. If it is not reauthorized, the Federal government will be in breach of their contract (O&C Act of 1937) with the O&C Counties, who will now, collectively and singularly, be damaged. It will be up to the counties to act to recover those damages, if necessary through legal action, to compel the Federal government to pay a fair value PILT or through a return of the lands, unencumbered by Federal restrictions, to their parent counties.

These lands were meant to be on our county tax rolls. Without that land on the tax rolls, and most certainly without compensating PILT revenue, we shift the financial burden from those who owe it, the Federal government, to our current property tax payers. That is simply unfair and it is our job to correct this inequity. We are the only ones who can.

Thank you,

Jim Raffenburg
Post O & C Revenue Ramifications

Josephine County is facing two very serious financial issues, one of them current and the other coming in less than one year.

First, is the yearly escalation in the costs of providing county services, which are outpacing available revenues by approximately $2,000,000 per year. These increases are cumulative, meaning they will be $2,000,000 in Budget Year 06'07 but will be $4,000,000 in Budget Year 07/08, etc.)

Second, Public Law 106-393 (“O&C Safety Net Act”) will sunset on September 30, 2006 and with it the loss of $15,000,000 in annual Federal revenue.

The convergence of higher costs and lower revenues will definitely have a dramatic impact on the ability of Josephine County Government to deliver services to the public in the not too distant future.

The Board of Commissioners has already acted to regain some control of these rising costs by redefining employee compensation and benefit packages, by changing the county organizational structure to maximize efficiency and by changing the management style used to govern the county organization to make it more accountable to Commissioners.

These actions will save nearly two million dollars this year and will help to slow down the rate of increase in the future, but this will not be enough. The improved organizational structure and management style changes will provide the necessary “positioning” needed for County Government to actually address additional changes required to help us face reduced Federal revenue in the future.

Let’s take a realistic look at what the revenue loss will mean to Josephine County.

There are two types of revenue streams received by County Government: discretionary and dedicated:

Discretionary revenue (i.e. property taxes, service fees and O&C funds) goes into the County General Fund and can be used to fund any program or service.

Dedicated funds (i.e. grants, road and gas taxes or other program subsidies) are required to be spent on the specific services they are received for, less the administrative costs of general government and the operational costs directly associated with those services.

The most immediate effects from the loss of Federal funds will be felt within the program services receiving General Fund (Discretionary) support, including:

1. All of the elected County Offices:
   a. The Board of Commissioners
   b. Assessor
   c. Clerk
   d. District Attorney
   e. Legal Counsel
   f. Surveyor
   g. Sheriff
   h. Treasurer.
2. Juvenile Division of the Community Justice Department
3. Health Services Division of the Health and Human Services Department
4. Library Division of the General Services Department
5. Planning Program of the Property Services Department
6. Forestry Program of the Property Services Department
In addition, all services supported by Dedicated revenue services will be impacted due to the need to increase their administration and operational charges. These additional charges will help to off-set the reduced discretionary fund support for general overhead expenses of county government.

The issues outlined thus far raise several questions about the ability of county government to continue to provide services at current levels. These questions include but are not limited to:

1. How will the level of funding for each affected service or program be impacted in a post O&C environment?
2. How will these funding reductions affect services to the public?
3. How many jobs will be lost?
4. What would the property tax rate need to be just to replace the lost O&C revenue?
5. What would the property tax rate need to be to keep pace with increasing costs and replace the O&C revenue?
6. What are the options available to County Government at this time?
7. Will the public see any changes before the O&C money actually runs out at the end of Budget Year 06/07?

Addressed in order:

1. How will the level of funding for each affected service or program be impacted in a post O&C environment?

   Answer: Loss of O&C funding will result in a 57% decrease in Discretionary Revenues. No decisions have been made about actual funding allocations, but by using the historical percentage of funding for each affected service or program, we can compare what is available now and what will likely be available without O&C funding. Each service listed below is dependant on Discretionary Revenue:

   a. In 05/06 the Sheriff’s Office received 49.9% of the General Fund discretionary revenues, which equaled $7,960,241.
      Without O&C funds, the Sheriff’s 49.9% would equal $3,396,029 in Budget Year 07/08, a decrease of $4,564,212.

   b. In 05/06 the Juvenile Division received 11.9% of the General Fund discretionary revenues, which equaled $1,889,949.
      Without O&C funds, the Juvenile Division’s 11.9% would equal $806,297 in Budget Year 07/08, a decrease of $1,083,652.

   c. In 05/06 the Health Services Division received 5.2% of the General Fund discretionary revenues, which equaled $825,949.
      Without O&C funds, the Health Services Division’s 5.2% would equal $352,382 in Budget Year 07/08, a decrease of $473,597.

   d. In 05/06 the Library Division received 5.8% of the General Fund discretionary revenues, which equaled $925,000.
      Without O&C funds, the Library Division’s 5.8% would equal $394,627 in Budget Year 07/08, a decrease of $530,373.

   e. In 05/06 the Planning Program received 2.3% of the General Fund discretionary revenues, which equaled $372,624.
      Without O&C funds, the Planning Program’s 2.3% would equal $158,970 in Budget Year 07/08, a decrease of $213,654.

   f. In 05/06 the Forestry Program received 5.9% of the General Fund discretionary revenues, which equaled $938,299.
      Without O&C funds, the Forestry Program’s 5.9% would equal $400,301 in Budget Year 07/08, a decrease of $537,998.
g. In 05/06 the other elected Offices combined (Commissioners, Assessor, Clerk, District Attorney, Legal Counsel, Surveyor and Treasurer) received 19% of the General Fund discretionary revenues, which equaled $3,025,504. Without O&C funds, these Offices’ combined 19% would equal $1,290,752 in Budget Year 07/08, a decrease of $1,734,752.

Note: All of the above figures include a 100% draw down of anticipated county reserves during Budget Year 07/08. Budget Year 08/09 would see further reductions.

2. How will these funding reductions affect services to the public?
   Answer: Programs receiving a high percentage of discretionary revenues will be affected quicker and more dramatically than programs supported by dedicated revenues. However, every service provided by county government will be impacted, regardless of the source of their revenue stream. Impacts will likely show up initially as job reductions, which will mean longer lines for service or delays in action by the impacted programs. But eventually, entire programs and their services could be (and many will be) eliminated.

3. How many jobs will be lost?
   Answer: Unknown at this time. But again, by looking at percentages, we can anticipate the loss of revenue and estimate the general outlook.
   Currently, total County revenue per year is around $60,000,000. The loss of the O&C funds will mean a loss of $15,000,000 or a 25% decrease in actual revenue.
   Drawing from that figure, with 600 employees, the general outlook is that between Budget Years 06/07 and 07/08, there will likely be a minimum of 150 jobs lost.

4. What would the property tax rate need to be just to replace the lost O&C revenue?
   Answer: The County currently collects only 58 cents per one-thousand dollars of assessed valuation on real property, the lowest rate in the State of Oregon. Those 58 cents bring in just under three million dollars per year in property taxes. (Actual tax rates are higher, but the other tax revenue goes to the various school districts, to ODF, 4-H and towards paying off the new jail bond.)
   Rounding the 58 cents to 60 cents, we can then say that each 20 cents of assessed tax per one-thousand dollars in property value will bring in $1,000,000 of revenue. The short fall from the loss of O&C will be $15,000,000, thus 15 x .20 equals $3.00 in new tax assessment, per one-thousand dollars of assessed property value, just to make up for the loss of O&C money.

5. What would the property tax rate need to be to keep pace with increasing costs and replace the O&C revenue?
   Answer: The current projected revenue shortfall is $2,000,000 per year, if costs continue to go up at the rate they are today. So, 2 x .20 equals 40 cents per year, cumulative, that will be needed just to keep up with escalating costs. In three years, Budget Year 08/09, this increase would equal $1.20 (3 x .40) which, when added to our current .58 rate and the additional $3.00 from O&C loss, would give us a new rate of $4.78. This is an increase of $4.20 in the property tax just to deliver the same levels of service in place today.

6. What are the options available to County Government?
   Answer: Rising costs for existing services coupled with the dramatic loss of discretionary revenue means that one of three things will happen:
   a. Services will decrease or disappear.
   b. Taxes will go up to keep current services in place.
   c. There will be a combination of program/service cuts and new tax revenues.

7. Will the public see any changes before the O&C money actually runs out at the end of Budget Year 06/07?
Answer: Yes. Changes have already occurred and more are coming. Over the past six months, the Board of Commissioners has worked to accomplish three very important changes, so the County would be in position to deal with the impacts of the revenue cuts and shortfalls:

a. *Changing the management style* within County Government, to make it more efficient, flexible and accountable. This step alone will change the culture within government, by expecting staff from each Department, Division or Program to take a team approach to problem solving and daily operating attitudes. (Past practice was to allow Departments to operate as islands, competing for scarce revenue within the greater context of the County organization.)

b. *Changing the County organizational structure*, by reducing the number of Departments from 12 to 4. This new organizational structure will simplify and improve the operations of county government. It will help reduce costs by allowing the natural economies of scale to be applied to like-kind services by having one Department Director instead of three of four, as is the case in the new Property Services Department.

c. *Controlling personnel costs*. The new non-union personnel rules, adopted by the Board of Commissioners as Resolution 2005-57, on July 20, 2005, brings the cost of benefits paid to employees into line with other similarly sized public and private employers in our region. Gone are the nine week paid leaves, multiple benefit plans and automatic annual pay increases. Employees, as of September 1, 2005, will now receive between two and four weeks vacation, depending on how long they have worked for the County. In addition, the six percent deferred compensation match has been eliminated and pay raises will now be based on performance, instead of being automatic every year.

These changes, which set a new standard for employee compensation and benefits, have not been popular with many County employees. The Board of Commissioners must, however, actively exercise their lawful authority as the Chief Executives of County Government under the Oregon Constitution and the County Charter to help us come to grips with the very real challenges outlined in this report.

Without the specter of losing $15,000,000 in Federal revenue, it *may have been possible* to control costs without a significant loss of program services. But the loss of this revenue *will affect* services.

Without this 15 million dollars in Federal revenue, everyone in Josephine County will be forced to decide which of these newly unfunded or under-funded services, if any, they are willing to pay for directly.

As of the date of this writing (August 11, 2005), the U.S. Congress has ended all discussion about the re-authorization of Public Law 106-393 until next year, most likely until spring of 2006. Any congressional action to vote on reauthorization and actual funding will likely be deferred until late summer or early fall of 2006.

This is a big problem for County Government. Under Oregon Budget Law, we must develop our budget for Budget Year 06/07 by June 30, 2006. It is highly unlikely we will have a final congressional decision by that date. This means there is a high likelihood of more job and service reductions being built into the Budget for 06/07.

As a closing thought, it is very important to remember that the Federal Government holds hundreds of thousands of acres of resource land *in Trust*, with the clear obligation to manage those lands and their resources for the economic benefit of the people of Josephine County. The Federal Government however, has stopped managing those lands for the economic benefit of Josephine County and therefore should either *permanently* re-authorize Public Law 106-393 (as a PILT) or give the land back to Josephine County, so those lands and their natural resources can be managed directly by the county.
ILLUSTRATION OF IMPACT
OF LOSS OF O & C INCOME
Allocation of General Fund Income

<table>
<thead>
<tr>
<th>Service</th>
<th>With O&amp;C</th>
<th>Without O&amp;C</th>
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<td>$1,291,000</td>
</tr>
<tr>
<td>Sheriff</td>
<td>$7,960,000</td>
<td>$3,396,000</td>
</tr>
</tbody>
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*Assessor, Clerk, District Attorney, Surveyor, Treasurer

Tax Rates for Selected Oregon Counties
Dollars per $1000 of assessed value

*Figures based on permanent rate*

Josephine County has the lowest permanent tax base of all Oregon counties.