
AID TO LOCAL GOVERNMENT

Introduction

Since the 1990s, changes in the economy and public finance system have altered the relationship between state and local governments, especially in regard to funding for K-12 education. Historically, property taxes were the largest source of tax revenue in the state. However, the passage of Measure 5 in 1990 caused property tax collections to decline. By fiscal year 1993, the income tax (personal and corporate combined) became Oregon's largest source of tax revenue. Measure 50, which passed in 1997, will continue to limit property tax collections in the future.

The shift away from the property tax has created uncertainty about the level of funding for local governments and districts, including fire and school districts. Under the levy-based system, rates could be adjusted to accommodate changes in the tax base. Under Measure 50, tax rates are fixed, so changes to the tax base have a direct impact on collections and, subsequently, programs. Additionally, state decisions to exempt property from taxation may affect local government revenue.

Revenue stability and the ability of tax revenue to keep pace with economic expansion are key issues for state and local governments. Local governments remain dependent on the property tax. The property tax is an inelastic tax, which tends to be a very stable revenue source. However, revenues may not grow fast enough to keep up with inflation and high population growth. The state is highly dependent on the income tax. It is a more elastic source of revenue, that grows or drops as fast or faster than the economy.

Before passage of Measure 5, education was mainly funded by the property tax through school districts. Since then, education has been mostly funded by the income tax driven state General Fund. In the mid to late 1990s, the General Fund grew with the economy. During the recession, the General Fund forecast dropped significantly. During the 2003-05 biennium, the General Fund forecast slowly began to grow again. Tax income still lags significantly behind the needs of Oregon's state government programs, however.

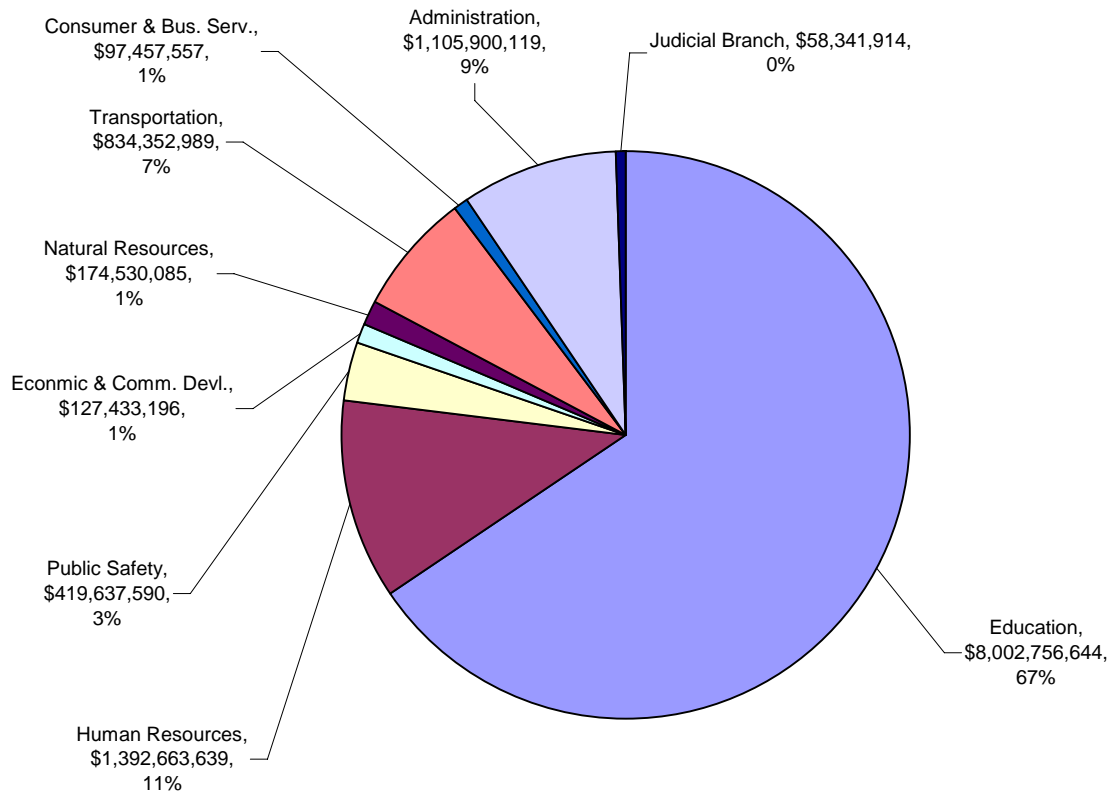
While education is the largest portion of the budget, this shortfall affected all General Fund agencies. The jail and prison system, for example, is a key area of cooperation between state and local governments. Budget cuts may reduce capacity for inmates at both the state and local level at the same time Measure 11 requires longer sentences.

Even with these changes, many state and local partnerships have been strengthened and new ones created. Revenue sharing is critical. State services that benefit local governments and state funding of locally administered programs are also vital connections. These coordinated efforts address shared goals and result in the best inter-governmental partnerships. Some of these efforts include:

- Juvenile Crime Prevention.
- Community Corrections.
- Oregon Health Plan.
- Mental Health and Substance Abuse Services.
- Services to People with Disabilities.
- Salmon Initiatives.
- Community and Rural Development Initiative.
- Gas Tax Revenue Sharing.

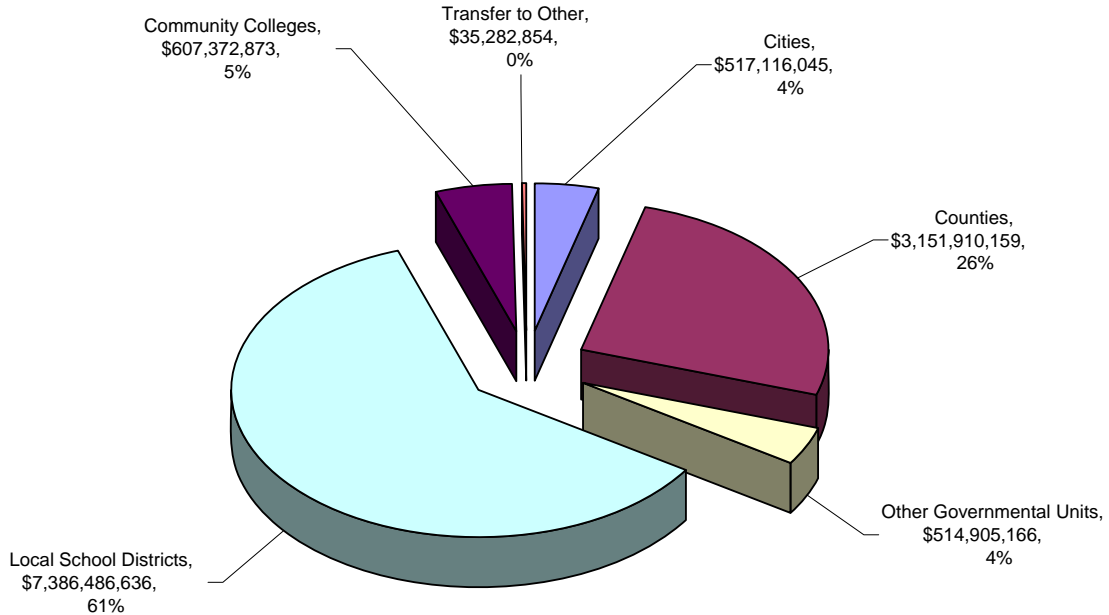
2007-2009 Aid to Local Government by Program Area

Total: \$12,213,073,733



2007-09 Aid to Local Government by Recipient

Total: \$12,213,073,733



The property tax initiatives of the 1990s reinforced the link between the financial health of local governments and the state's economy: local governments provide some basic services – such as police and fire protection, transportation, sewer, water, housing, and educated workers – that businesses need to develop and thrive.

State and local government are interdependent and it is important that partnerships be created, supported, and expanded. These partnerships benefit Oregon's citizens by providing services efficiently.

Budget Overview

There are three primary types of aid to local government:

- Funds paid by state agencies to local governments for locally administered programs (primarily county human services, public education, etc.).

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- Revenues collected by state agencies and shared with local governments (shared revenues) for the purpose of funding local government services.
 - Services delivered by state agencies that benefit local governments.

Aid to non-governmental units, individuals, and tax relief is not included.

The 2007-09 Legislatively Adopted Budget contains \$12.2 billion total funds in aid to local government (see chart on previous page for specific program area distributions).

The following program narrative provides a sampling of aid to local government. It is not meant to be a complete documentation. Aid is both direct and indirect. Sometimes it is not directly reflected in state budgets. Individual agencies can be contacted for more information.

Administration Program Area

The Administration Program Area represents 9.0 percent of total aid. Agency budgets apportion \$1.1 billion total funds to local government. Some examples of aid to local government are:

Department of Administrative Services. The Department acts as the administrator for a number of funds distributed to cities and counties in Oregon. In the 2007-09 biennium, transfers of revenue total more than \$350 million, excluding Lottery Funds. The support includes cigarette, tobacco, and amusement tax revenues received from the Department of Revenue, as well as liquor and beer and wine taxes from the Oregon Liquor Control Commission. Federal Funds are received from U.S. Land Sales, forest reserve rentals and leases, Taylor Grazing Act funds, and mineral leases. Distributions to counties from video Lottery proceeds pass through the Economic Development Fund.

Oregon Liquor Control Commission. A portion of liquor sales revenue, privilege tax revenue, and license fee revenue is transferred to local governments. Twenty percent of net liquor revenues and 10 percent of net privilege tax revenues are transferred to cities. Ten percent of net liquor revenues and 5.0 percent of net privilege tax revenues are transferred to counties. Fourteen percent of net liquor taxes and seven percent of net privilege tax revenues are transferred to city revenue sharing. For 2007-09, it is estimated that \$141.1 million will be transferred to local governments. This includes the transfer to local governments through the Department of Administrative Services for City Revenue sharing.

Department of Revenue. The agency sends funds to counties from a variety of sources. A total of \$569.9 million will be distributed to counties during 2007-09. Local transit tax moneys make up \$477.5 million of this total. Funds for property tax assessors are about \$45 million (from the County Assessment Function Funding Account). General Fund special payments totaling \$5.16 million are also distributed to the Counties. For 2007-09, \$30.4 million (Other Funds receipts from the payment of deferred taxes) will be transferred to counties for taxes deferred through the Senior Citizen Property Tax Deferral program. The Department also collects and transfers revenues for programs such as the Electric Co-op and Private Rail Car programs.

Oregon State Library. The State Library provides aid to local governments in the form of Ready to Read grants totaling \$1,496,416 General Fund and Library Services and Technology Act (LSTA) competitive

grants totaling \$1,051,698 Federal Funds. These grants are distributed to city, county, and other libraries across the state.

Economic and Community Development Program Area

The Economic and Community Development Program Area includes one percent of total aid and \$127 million total funds. Agencies in this area help provide economic and cultural enhancement. Some examples of aid to local government are:

Economic and Community Development Department. The Department supports local infrastructure projects through technical assistance, grants, loans, and bond financing. Historically, it also distributed Lottery Funds to counties in support of the local Regional/Rural Investment Program. The 2007–09 Legislatively Adopted Budget all but eliminated the Regional/Rural Investment Program.

Employment Department. The agency contracts with organizations in local service delivery areas to provide child care resource and referral services to parents and businesses and to maintain a database of child care providers. Most of these contracts are with non-government entities, but the adopted budget includes \$2.3 million in Other Funds and Federal Funds for Special Payments to Local School Districts and Community Colleges.

Housing and Community Services Department. The approved budget provides approximately \$61 million as Special Payments to local government. The agency works with community development corporations, community action agencies, housing authorities, and local governments and school districts to expand affordable housing, revitalize rural and distressed communities, and low-income utility assistance.

Department of Veterans' Affairs. The Department of Veterans Affairs budget includes \$3,500,842 General Fund special payments to 34 county veterans' service organizations in a service delivery partnership with counties.

Education Program Area

The Education Program Area represents 67 percent or \$8 billion of all state aid to local government, more than any other program area. State aid to schools has grown significantly since Ballot Measure 5 amended the Oregon Constitution to reduce property taxes and required the state to replace property tax revenues lost by schools. The phase-in of Measure 5, as well as the replacement requirement, ended after the 1995-96 fiscal year. However, Measure 50 will continue to restrict the growth in property taxes, and the state has continued to provide increases in school funding. Some examples of aid to local government are:

Department of Higher Education. OUS does not directly transfer funds to local governments. However, Oregon's universities provide a significant amount of assistance to local governments through their research and public service programs. For example, the Extension Service works with all 36 counties to provide educational programs based on locally identified needs. A majority of Extension faculty are assigned to county locations. Extension Specialists are Oregon State University (OSU) faculty members who develop educational programs and serve as technical resources for county-delivered programs. Extension Agents are OSU faculty assigned to county field locations. Generally, counties provide office space and operating expenses, including support staff. Programs are delivered with the assistance of thousands of volunteers.

Department of Community Colleges and Workforce Development (CCWD). The majority of the budget for CCWD is aid to local governments. This aid consists of Community College Support Fund payments to local districts; distribution of the federal Workforce Investment Act funds to regional, county, or community service delivery agents; and distribution of state funding for local OYCC programs. Article XI-G bond revenues support community college capital construction projects. The Legislatively adopted budget includes the transfer of the following amounts to local governments:

	General Fund	Other Funds	Federal Funds	Federal Funds Nonlimited
Counties		\$586,604	\$5,837,130	
Other Gov Units	\$54,240	\$902,860	\$66,228	\$5,968,831
Local School Districts	\$300,000		\$32,038	
Community Colleges	\$502,524,326	\$80,099,000	\$21,672,914	

Department of Education (ODE). Almost 95 percent of the budget for ODE is aid to local governments. This aid consists of the State School Fund payments to local education districts, as well as numerous Grant-in-Aid programs.

	General Fund	Lottery	Other Funds	Federal Funds
Other Gov Units			\$453,605	
Local School Districts	\$5,748,176,613	\$634,142,231	\$124,843,745	\$875,322,046
Community Colleges				\$1,471,233

Oregon Health and Science University. OHSU operates a number of programs and services that provide health care resources to Oregon’s communities, including Area Health Education Centers, Community Development and Rehabilitation Centers, and others.

Oregon Student Assistance Commission. The budget includes \$303,000 General Fund to pay local school districts for 50 percent of the cost of ASPIRE program coordinators. ASPIRE provides training and technical assistance to Oregon high schools to implement and sustain a corps of volunteer advisors who help students understand their post-secondary options.

Human Services Program Area

The Human Services Program Area promotes health and safety. Agencies foster self-sufficiency and independence. State and local partnerships are vital in providing social supports. The program area represents 11.0 percent of total aid. The agencies provide \$1.39 billion total funds to local governments. Some examples of aid to local government are:

Commission on Children and Families. The Commission transfers over 81 percent of budgeted resources to the 36 counties for the delivery of locally based services. County commissioners oversee the commissions. The LAB budget allocates a total of \$73.5 million (\$51.2 million General Fund) to counties. These funds are

used for a variety of programs and support including Healthy Start, Relief Nurseries, Court-Appointed Special Advocates (CASA), and Childcare.

Department of Human Services. The Department contracts with local government to provide a variety of mental health, developmental disability, public health, and substance abuse services, as well as case management for seniors and people with disabilities. In addition, other local governmental units like the Area Agencies on Aging (long-term care system), school districts, local Commissions on Children and Families, community action agencies, and cities also play key roles in providing or coordinating services. In total, DHS distributes almost \$1.31 billion to counties and other local governmental agencies, with \$464 million from the Health Services division, \$2.1 million from the Children and Families division, and \$850 million from the Seniors and People with Disabilities division being the primary distributors.

Health Services. The Health Services division contracts with local governments to deliver a significant amount of state services. These contracts include mental health payments for county-based Mental Health Organizations, alcohol and drug abuse treatment services, communicable disease testing, parental/prenatal services, and various other public health initiatives.

Children, Adults and Families(CAF)/Community Human Services. CAF contracts with many county health departments to provide public health nurses and Alcohol and Drug facilitators for Family Support Teams. This division also has residential services contracts with several counties. Contracts with Community Colleges and many local providers provide JOBS services for clients.

Seniors and People with Disabilities. The Seniors and People with Disabilities Services division contracts with local governments to deliver a significant amount of state services. The Developmental Disability program is managed through contracts with local brokerages and county offices. The senior and disabled services system is primarily managed through contracts with local Area Agencies on Aging.

Natural Resources Program Area

The Natural Resource Program Area represents 1.4 percent of total aid. Agencies apportion \$175 million total funds to local governments.

Agencies in this program area manage, protect, and preserve Oregon's natural resources. This is done with the best interests of present and future generations in mind and is accomplished in conjunction with protecting a sound, diversified, and sustainable economy. The Oregon Plan for Salmon and Watersheds is a cooperative endeavor among the state, local communities, and the private sector. The agreement works toward improving and restoring salmon and steelhead runs, habitat and watershed health. Some examples of aid to local government are:

Department of Agriculture. The budget includes \$2.6 million in Lottery Funds for distributions to various cities, counties, and other local government entities for weed control activities.

Department of Energy. The Department provides aid to numerous local government entities through a variety of its programs. The Department assists local government through the State Home Oil Weatherization Program and various tax credit programs. The Department also provides for the coordination of emergency response activities for the Hanford and Columbia Generating Station, and for assistance in

evaluating energy facility siting applications. Funds are also distributed to local schools for energy efficiency.

Department of Environmental Quality. The agency provides a subsidy to the Lane Regional Air Pollution Authority. It also provides grants to improve solid waste planning and recycling, and loans for sewage treatment infrastructure.

Forestry Department. The Department manages some state forests for benefits to counties. These lands were transferred to the state in the earlier part of the 20th Century. Revenues from these lands help support county operations and local school districts. Also, counties and schools receive a share of revenues from the harvesting of timber on forestland managed by the Department on behalf of the State Land Board.

Department of Land Conservation and Development. Through its Grants program unit, the agency distributes funds to cities and counties. Grants are awarded to maintain, improve, and carry out comprehensive plans and land use regulations, and to assist local governments in meeting the statutory obligation for periodic review of those plans. For the 2007-09 biennium, distributions under this program are expected to total \$4.3 million total funds.

Division of State Lands. The Department sends revenue through a transfer to the Department of Education; this revenue becomes part of the funding for primary and secondary public schools (Kindergarten through 12th grade).

Marine Board. The Marine Board provides aid to local government in three ways. First, the Board assists local communities in submitting facility construction grant proposals for docks and boat ramps. Second, the Board has staff engineers that work with the community to provide technical expertise. Finally, the Board provides direct assistance of \$10.1 million.

Oregon Parks & Recreation Department. The department operates grant programs that provide funding to counties and other local governments for recreation and historic preservation. Each grant program has specific eligibility requirements. Some are designed for county governments only; others can include cities, counties, metropolitan service districts, park and recreation districts, and port districts.

There are six recreational grant programs, five of which distribute grants primarily for outdoor recreation purposes. Two of the five are pass-throughs using federal funds. The other grant program assists local governments in the creation or preservation of veterans and war memorials.

Other grant programs include various types of historic preservation and heritage-related projects such as historic trails, museums, and cemeteries.

Parks recreational grants

- The County Opportunity Grant program (funding for recreational vehicle camping sites and funded through RV registration fees) distributes approximately \$1.2 million in grants.
- The All Terrain Vehicle (ATV) program distributes about \$7.76 million in grants to local, state and federal entities. Grants are awarded for law enforcement and safety, acquisition and maintenance of trails and facilities, and other ATV-related purposes.

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- The Local Government Grant Program provides approximately \$15.5 million to local governments for the acquisition and development of outdoor park grounds and facilities.
 - The federal Recreational Trail Grant Program distributes approximately \$2.2 million in grants. The majority of the grant funds are used by local governments for non-motorized trails.
 - The federal Land & Water Conservation Funds are used by local governments for acquisition and development of local parks. This program distributes approximately \$418,000 in grants.
 - Grants for veteran and war memorials are funded at \$250,000.

Parks historic preservation grants

- Grants for historic resource programs, historic trails, and pioneer cemeteries are funded at about \$1.6 million.

Public Safety Program Area

The Public Safety Program Area provides 4 percent of all aid to local government, \$419 million total funds. Community Corrections funding is over half of the full amount. Juvenile crime prevention is also a key area of cooperation among counties, the Criminal Justice Commission, and the Oregon Youth Authority.

Agencies in the public safety area are responsible for ensuring the safety of Oregon's people, property, and natural resources. This is done through trained militia and law enforcement. It also includes prosecution and incarceration of juvenile and adult offenders. Some examples of aid to local government are:

Criminal Justice Commission. The adopted budget includes \$6.2 million General Fund and \$1.0 million Other Funds for distribution to counties to fund drug court grants that began midway through the 2005-07 biennium as part of the Governor's and Legislature's package of bills responding to statewide methamphetamine abuse issues.

Department of Corrections. The adopted budget includes \$216.8 million total funds for grants to counties for supervision of state felony offenders on parole, probation, and post-prison supervision, and for management of felony offenders sentenced to incarceration for 12 or fewer months. This amount includes \$14.1 million to bring funding to the counties in line with their actual costs starting July 1, 2008, in accordance with a year-long cost study undertaken during the 2005-07 biennium. In addition, \$0.4 million General Fund is appropriated for utility improvements associated with Snake River Correctional Institution.

District Attorneys and Their Deputies. The adopted budget includes \$444,392 General Fund for prosecutorial assistance (formerly called deputy supplements).

Department of Justice. The Department will transfer about \$11.3 million total funds to cities and counties for crime victim assistance. These funds are from the Criminal Fines and Assessment Account, which are levied against defendants who were found guilty of committing certain crimes by the courts. An additional \$4.7 million Federal Funds are expended, primarily to counties, for High Intensity Drug Trafficking Area programs, victim assistance compensation and drug enforcement coordination activities. The Department also distributes \$14.8 million Federal Funds and \$0.5 million Other Funds to counties to fund the District Attorney (DA) cost of the child support program. For the 2007-09 biennium, the Department will also transfer \$2.7 million General Fund to the DAs to offset a funding reduction from passage of the federal

Deficit Reduction Act of 2005. In addition, \$2.0 million Other Funds are transferred to DAs for work related to the juvenile dependency hearings.

Oregon Military Department. The Oregon Military Department provides a variety of services to local government during state emergencies. National Guard members assist in the design and construction of public improvement projects as part of their training activities. The budget transfers the Emergency Management and Criminal Justice Services Division homeland security grants unit from Oregon State Police to the Department. The 9-1-1, federal emergency planning and management grants and homeland security grants will be distributed from the Department. As a result, the department total is \$34.8 million for cities and \$25.6 million for counties.

Department of State Police. Payments to local governments include Medical Examiner payments for autopsy services, and federal funds passed through for criminal investigation activities in high intensity drug trafficking areas. The State Police total is \$3.9 million Federal Funds to cities and \$4.4 million Federal Funds to counties, unchanged from GRB. Additionally, the adopted budget includes \$725,524 General Fund for methamphetamine and gang-related grants to counties.

The Emergency Management and Criminal Justice Services Division homeland security grants units were transferred to the Oregon Military Department (OMD). Thus, the 9-1-1, federal emergency planning and management grants and homeland security grants are disbursed from OMD.

Oregon Youth Authority (OYA). OYA provides funds to juvenile departments to purchase services designed to prevent youth from re-offending and to provide focused gang-related programs. The adopted budget distribution to counties is \$22.6 million General Fund.

Board of Parole and Post-Prison Supervision. The Board has the responsibility for parole violation hearings throughout the state. In some cases, counties conduct their own hearings with partial support funding provided under intergovernmental agreements with the Board. The budget includes funds to reimburse counties for parole violation hearings.

Department of Public Safety Standards and Training (DPSST). DPSST certifies and trains city and county police officers and state and local corrections, parole and probation, telecommunications, and emergency medical dispatchers. It also certifies and provides training for volunteer and professional firefighters. The adopted budget covers continued provision of these services, but does not include revenue transfers or special payments to local governments.

Transportation Program Area

The Transportation Program Area distributions make up 7.0 percent of total aid, or \$834 million total funds. Some examples of aid to local government are:

Department of Transportation. Cities: \$285 million Other and Federal Funds for highway construction. Cities receive a portion of revenues from fuels tax, weight mile tax and licensing.

Counties: \$410 million Other and Federal Funds for highway construction. Counties receive a portion of revenues from fuels tax, weight mile tax and licensing.

Judicial Branch

Judicial agencies are in a separate branch of government. As such, they are not subject to executive budgetary control. The Oregon Judicial Department sends out almost \$58.3 million total funds to cities and counties, which is their share of collected traffic fines