

# What Do Local Governments Do?

## Local Government Services

Local governments provide basic amenities to residents and improve the overall quality-of-life in a community. They sit at the foundation of regional economies. Well-functioning governments help attract households and businesses and generate economic activity. Citizen preferences, political agreements, and fiscal conditions shaped the role of Oregon's local governments.

Today, more than 1,500 agencies, governed by locally elected boards, deliver public services in Oregon. In fact, 241 municipalities, 36 counties, and 240 public school and college systems provide the bulk of the service.<sup>1</sup> They are joined by more than 1,000 special districts that operate everything from regional airports and mass transit systems to irrigation networks and cemeteries.

**Education and libraries (\$8.4 billion).** Local school districts and community colleges are charged with meeting the state's ambitious 40/40/20 goal—which calls for 40 percent of young Oregonians to earn a bachelor's degree or higher, 40 percent to earn a postsecondary credential, and 20 percent to earn no less than a high school diploma.<sup>2</sup> Libraries, typically run by cities or counties, are important educational partners as is the public university system.

**Utilities (\$3.3 billion).** Local governments – often cities or special districts – deliver water, sewer, storm water, and sanitation systems. Local governments typically operate utilities as enterprises that are separate from other, general government services. They have their own cost centers and are funded with fees paid by users—households and businesses.

**Public safety (\$2.5 billion).** Cities, counties, and special districts operate police, fire, emergency response, 911-emergency communications, homeland security, and court systems. The functions are coordinated with systems at the federal and state level. Localities are also charged with search and rescue and animal control.

**Social and health services (\$1.5 billion).** Local governments—typically counties—deliver services on behalf of with people with mental or physical disabilities. They provide legal, housing, and financial assistance to older Oregonians. Counties also operate primary care, dental, and public health clinics.

**Transportation and land use (\$1.4 billion).** Local governments build, operate, and maintain neighborhood streets, arterials, and designated bridges in coordination with state and federal agencies. They develop and implement long-term, land-use plans.

**Parks and natural resources (\$0.7 billion).** Cities, counties, and special districts build, operate, and maintain park systems across the state. Counties manage forests. And special districts manage irrigation systems and manage soil and water use.

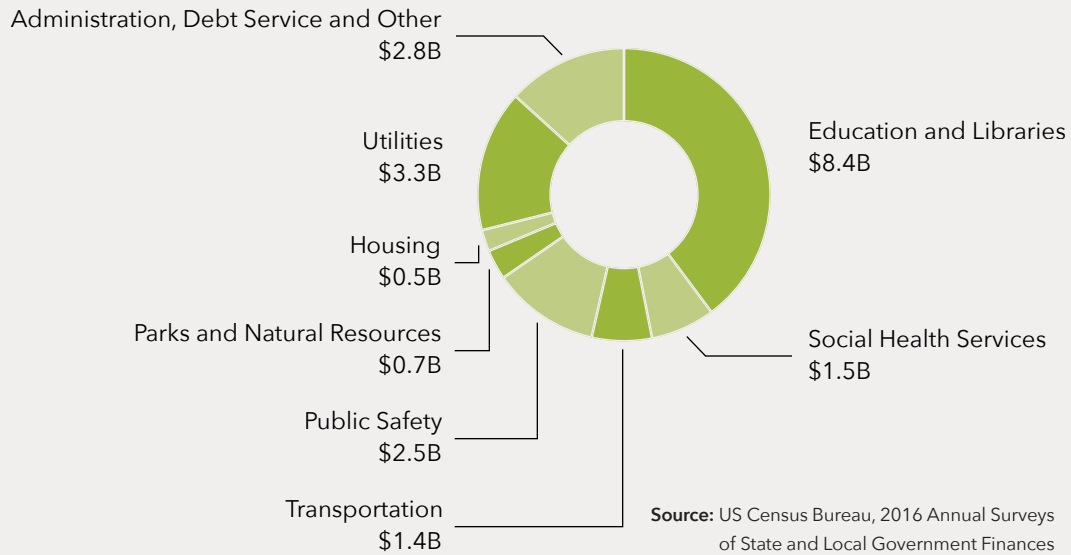
**Housing (\$0.5 billion).** Local governments deliver rental assistance, affordable housing program, and homeless crisis systems.

**General administration (\$2.8 billion).** Local governments staff elected councils, commissions, and boards. They develop budgets, collect taxes and fees, and track expenditures. They run local elections and facilitate meetings to gather citizen input.

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### Local Government Expenditures

Oregon's local governments spent \$21.3 billion in 2016: \$17.3 billion on on-going operations, \$2.9 billion on capital outlays, and \$1.1 billion on interest and other payments. They delivered service in eight areas. By comparison, the State of Oregon general and lottery fund budget is about half the size of the total local governments budgets in Oregon



### Local Government Employment

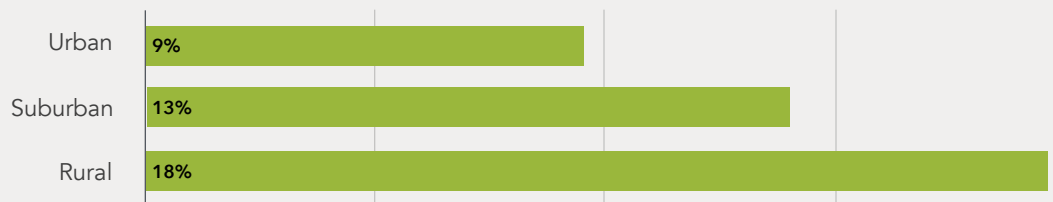
Local governments employed 202,046 workers in 2017, which represented 10.8% of the state's total employment, in the company of California (10.4%) and Washington (10.5%).<sup>3</sup> Local government employees include teachers, principals, educational aides, police officers, firefighters, nurses, judges, clerks,

planners, janitors, social service workers, accountants, and budget analysts.

Employee and retiree spending in communities is a source of economic vitality, particularly in non-urban parts of Oregon.

### Share of Workforce Employed by Local Government by County Region

The share of the workforce employed by the public sector varies throughout the state. While local government workers make up 10.8% of the workforce statewide, the story plays out differently in each county. Local government employment accounts for twice the share of the workforce in rural areas (18%) as in urban areas (9%). More than one-quarter of all jobs in Lake, Gilliam, Jefferson, Harney, and Wheeler counties, but less than seven percent of jobs in Washington County.

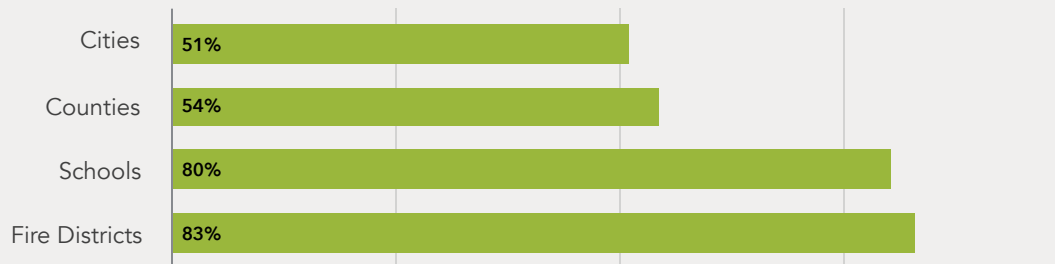


Source: Oregon Employment Department, 2017 Annual Employment and Wages by Industry (QCEW)

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**2018 Personnel Services as a Share of Total Expenditures**

The cost of personnel – including salaries, overtime, and benefits such as Social Security, retirement, health and life insurance, and unemployment – comprise 50% to 80% of local governments' total budgets. Employer contributions to the PERS Unfunded Actuarial Liability are included in these budgets – although those expenses are generally not attributable to current employees or the current costs of providing services.



**Source:** The Portland State University Center for Public Service, percent of 2018 revenue projected from property taxes for 9 cities, 9 counties, 6 School districts, and 4 fire districts in Oregon.

**Local Government Services and the Regional Economy**

Aside from direct employee and retiree spending, the provision of public services is tied to economic growth. Spending on highways, public safety, and education generate growth in employment, small business startups, gross state product, and other measures.<sup>4</sup> Education and infrastructure investments show the most consistently positive relationships to local business activity and growth.<sup>5</sup>

Consistent with these academic findings, a leading site selecting consultancy has underscored the importance of education, transportation, public safety, and infrastructure services in firm location decisions.<sup>6</sup> And Oregon's largest private-sector employer, the Intel Corporation, cited a strong education system as an attractor to its Washington County, Oregon location along with abundant water supplies, reasonably priced electricity, a strong labor force, and a convenient travel distance from the Silicon Valley.<sup>7</sup>

Recent research on intergenerational economic mobility highlights the importance of community characteristics – a number of which are shaped directly or indirectly by the actions of local governments. Researchers have found that economic integration in communities – households of different incomes in close geographic proximity – is a major driver of economic mobility across generations.<sup>8</sup> Additionally, short work commutes, strong social capital, the number of colleges per capita, low high school dropout rates, and low violent crime rates aided mobility. Local governments play major roles in shaping all these local conditions.

## Local Government Finance

### Overview

Local governments pay for services and facilities through three, broad revenue sources:

#### 1. OWN-SOURCE REVENUE

These include taxes, charges, and user fees directly assessed and collected by local governments.

#### 2. STATE AID

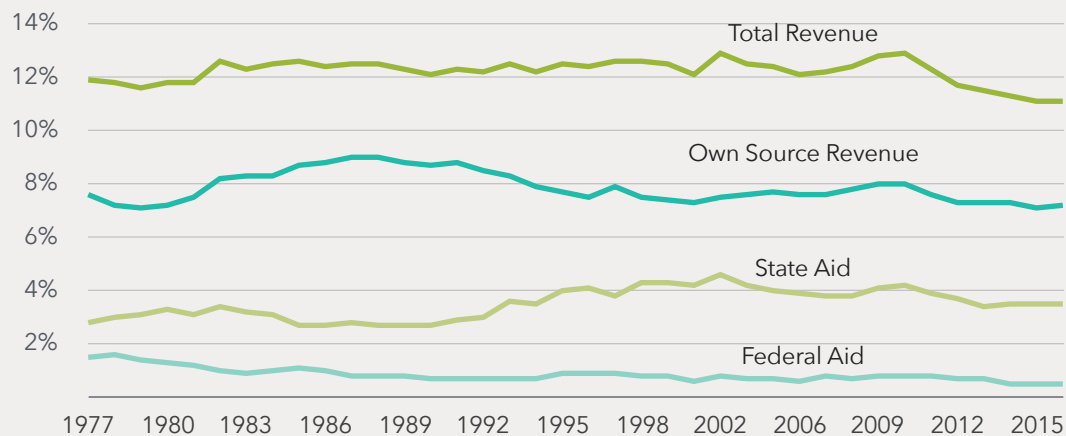
Revenue received from the state government, including amounts originally from the federal government but channeled through the state.

#### 3. FEDERAL AID

Revenue received by a local government directly from the federal government.

### Sources of Total Revenue as a Percent of Personal Income

The contribution of each of these revenue sources has changed during the past four decades. Own-source revenues contributed about 72% of the total in 1990 when Oregon voters approved property tax limitations. In subsequent years as property tax collections declined, the state took a larger role in funding local services, especially local schools. Declining own-source revenue and increasing state aid roughly offset, and total revenue remained relatively stable at 12.0 - 12.5% of total personal income until the beginning of the Great Recession.



Source: Urban Brookings Tax Policy Center

### 1. Own-Source Revenue

Local governments collect the majority of their revenue through a combination of taxes, charges, and fees. The revenue sources differ in their purposes and flexibility. Taxes—primarily property taxes—flow into general funds, which are fungible and not tied to specific service or activity.

Education, police, fire, library, planning, central services, and administration activities draw on general funds. For example, within a school budget, tax-supported general funds can

flexibly support educator salaries, curriculum, materials or supplies. In a city, general funding is allocated across police, fire, planning, and general government departments.

#### PROPERTY TAXES: MEASURES 5 AND 50

Passed in 1990, Measure 5 sets limits on the amount of tax levied per \$1,000 of a property's real market value (RMV). If taxes exceed their designated limits, the taxes are reduced until the limits are met. This reduction, known as compression, results in millions of dollars in lost revenue for local governments each year.

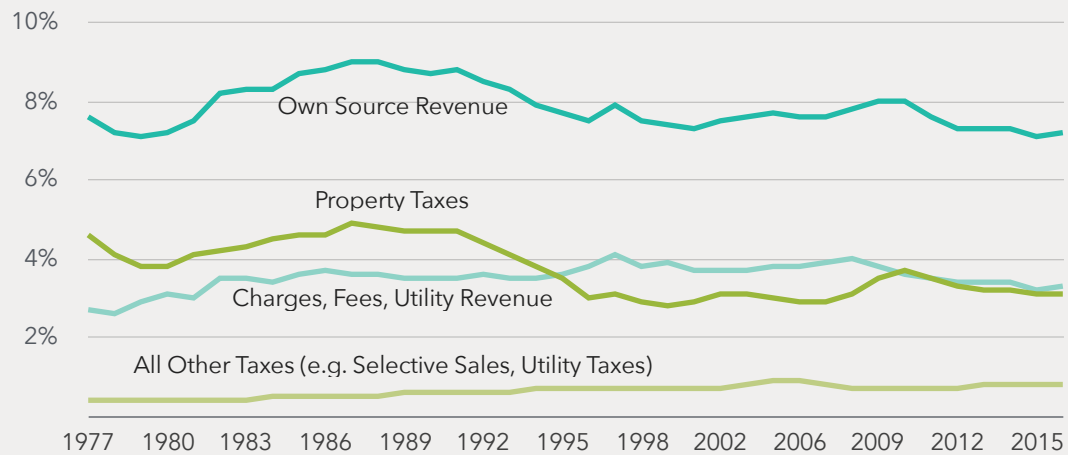
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In 1997, voters passed Measure 50, creating a permanent property tax rate limit. Each district's permanent rate was primarily determined by combining whatever tax levies existed locally at the time. These rates cannot be changed by any action of the district or its voters and remain as they were set in 1997.

In addition, property tax rates were reduced. Measure 50 formulas set the permanent tax rates at 1995-96 assessed market value minus 10%. However, voters can approve a local option levy, which allows a taxing authority to temporarily exceed the permanent rate limit.

### Sources of Own Source Revenue as a Percent of Personal Income

The mix of taxes, charges, and fees changed with the implementation of property tax limitations in the early 1990s. Property tax collections in Oregon were constrained in the 1990s by voter-approved ballot Measures 5 and 50, which established permanent maximum tax rates and decoupled assessed property values from real market values.



Source: Urban Brookings Tax Policy Center

### Property Tax Values and Rates Differ from Region to Region

The table below demonstrates the inequity of Oregon's property tax system. It shows the 2018 real market value (RMV) and average taxes paid on homes assessed at \$200,000 in 4 counties. The RMVs range from 7.5% more than the assessed value (AV) in Malheur County to double the AV in Multnomah County. Average annual property taxes range from 0.86% to 2.0% of the AV and 0.7% to 0.12% of the RMV. **Note:** The property taxes in this table represent average taxes that property owners pay within each county, including taxes levied by other jurisdictions.

County	Assessed Value	Real Market Value	Tax Paid	AV Tax Rate (per \$1,000)	RMV Tax Rate (per \$1,000)
Malheur	\$200,000	\$215,372	\$2634	\$13.17	\$12.23
Curry	\$200,000	\$245,014	\$1720	\$8.60	\$7.02
Jefferson	\$200,000	\$324,667	\$3172	\$15.86	\$9.77
Multnomah	\$200,000	\$407,700	\$4024	\$20.12	\$9.87

Source: The Oregonian, Property Taxes in Oregon's 36 Counties, Ranked by Elliot Njus

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These local option levies are restricted to five years for operations and ten years for capital projects. Measure 50 also limits the annual growth rate of taxable property value to 3% of the assessed value.

Counties that received federal revenues through the Oregon and California and Coos Bay Wagon Road payments generally set lower rates. As federal timber payments steadily declined, dependent counties struggled financially.

Property tax limitations have had stabilizing but constraining effect. As a share of overall personal income, property tax revenues for local governments in Oregon dropped from almost 5% in the late 1980s to about 3% by 1997. Property taxes are not directly levied on personal income, but the two go hand in hand.

As local governments experience growth in population, and as its residents see their incomes grow, they drive demand for new housing and new businesses. This new construction fuels growth in assessed value, and in property taxes.

Property tax limitations played out differently across sectors and across the state. In case of schools, the Legislature responded by

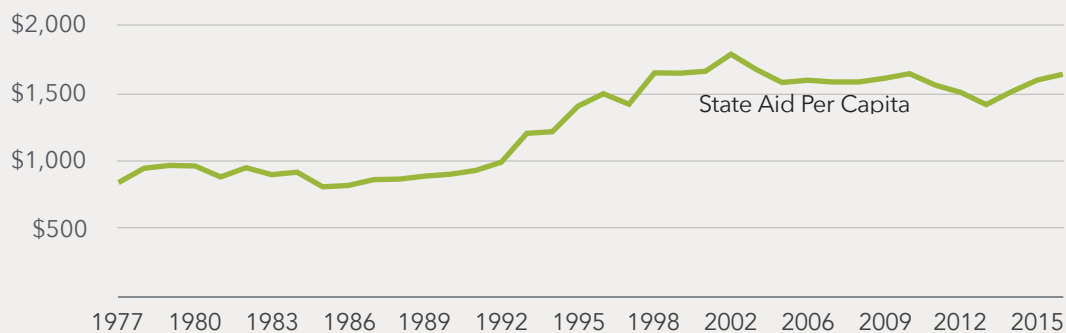
gradually increasing the state’s role in K12 education finance. Community colleges lobbied for higher state appropriations and, when necessary, increased tuition. And individual cities and counties adjusted other taxes, charges, and fees over time.

The system is dependent upon property taxes as the main source of stable, flexible revenue to local governments. As the gap between assessed and real market values has widened more in metro than non-metro Oregon, the property tax assessment and collection methodologies have resulted in shortages in all communities, but especially in rural areas where development markets have produced limited growth. The system’s rigid, permanent limits are tied to the needs and norms of the 1990s and prohibit localities from addressing changing economic, demographic, and institutional conditions.

By contrast, non-tax revenue— charges and fees— can be used only for a prescribed purpose. They are not fungible, and local governments establish multiple funds to keep track of which revenues can be used for which purposes. Each fund operates like a separate bank account, with specified revenues accruing to each fund.

**Intergovernmental Revenue Increased Following M5 and 50**

Intergovernmental revenue—from the state to local governments—increased with the passage of property tax limitations. State aid increased from about three percent of personal income during 1977-1990 to almost four percent of personal income after 1990. On a per capita basis, the revenue increased from \$900 to \$1,500—adjusted for inflation.



Source: Urban Brookings Tax Policy Center

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### 2.State Aid

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In 2016, local governments reported \$6.7 billion in state revenue. The majority of shared revenue is education related. In the 2015-16, K12 school districts received \$3.6 billion from the State School Fund. In addition, the state provided \$0.3 billion in 2015-16 to support community colleges.<sup>9</sup>

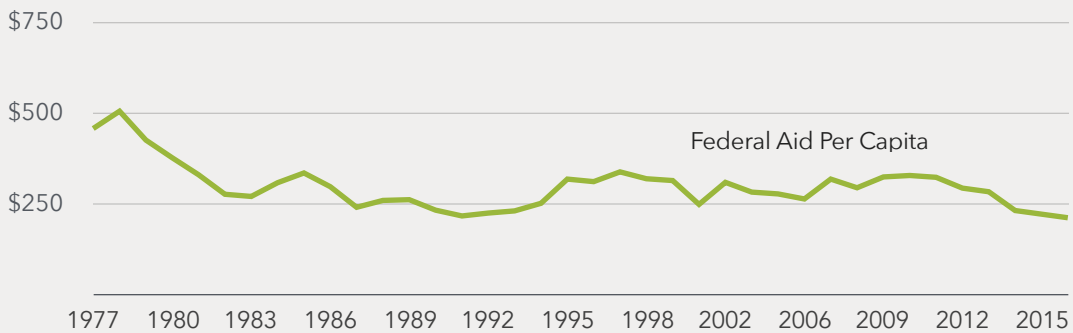
The state shared \$0.4 million with counties and cities through the Highway Fund in 2015-16. The state also distributes liquor, cigarette, marijuana, and 911-emergency communication tax, and lottery revenues to localities.<sup>10</sup>

### 3. Federal Aid

Oregon local governments operate a wide range of programming with federal support, including targeted educational programming for low-income students and students with special needs, low-income rent assistance, community development, workforce development, and mass transportation projects. A number of Oregon counties also receive revenue associated with federally-owned forestlands.

### Federal Aid Per Capita Decreases from 1977

Federal aid per capita (2016 dollars) peaked in 1978 at \$505, stabilized around \$300 during 1995-2012, and has since declined to \$210. Aid to local governments originates from discretionary budgets that are subject to annual Congressional appropriations and have been constrained by the growth in entitlement spending (i.e., Social Security, Medicare, Medicaid).



Source: Urban Brookings Tax Policy Center

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## The Interdependence of State and Local Government

The financial challenges at the heart of this report grow from combined structural imbalances at the Federal, state and local level. Although this report focuses on the financial health of local governments, it is nearly impossible to peel apart the interdependent relationships of these three levels of government. This represents both a reason to provide a discussion of the state budget, and a barrier to doing so.

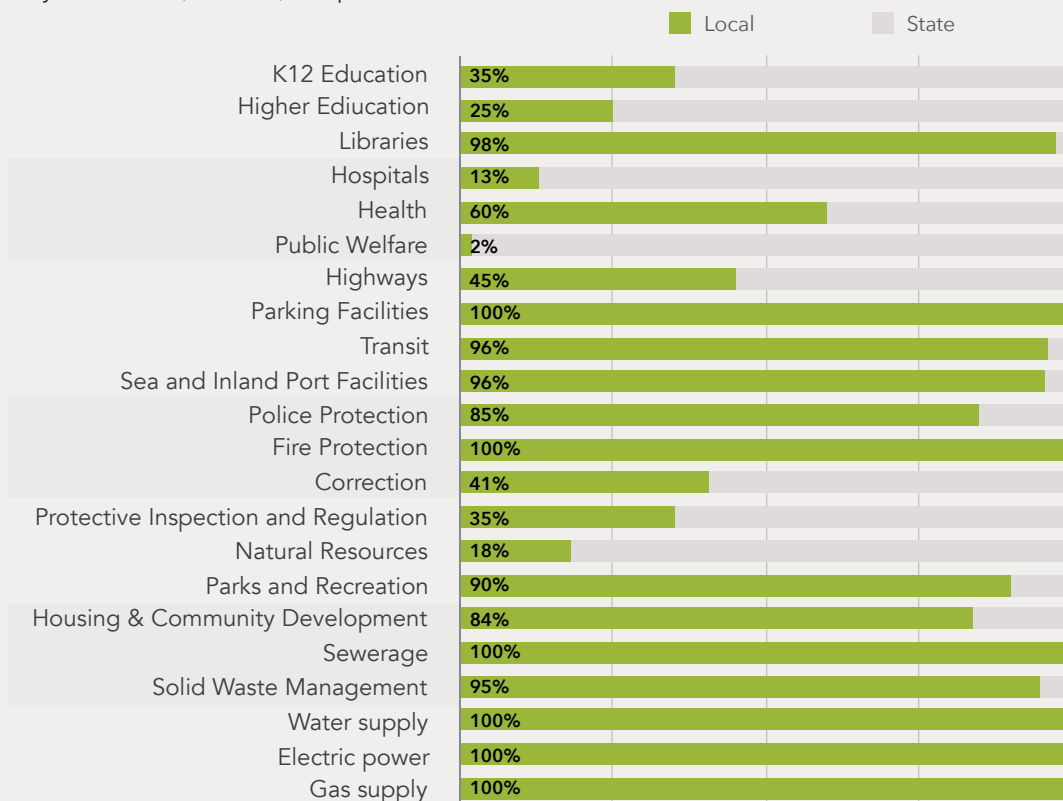
The short story here is nearly intuitive. When the State catches a cold, local governments catch the flu. Cuts in service levels for state

programs – particularly in human services, education and transportation – can ripple into local government budgets in two ways: First, as diminished state aid; Second, as ‘need-shifting’ from state programs to local programs.

However, analyzing state and local budgets side-by-side raises an issue of “double counting” the share of the state budget that also shows up in local budgets – which varies from jurisdiction to jurisdiction and from agency to agency. It was outside the scope of this study to address this issue.

### 2016 Program Funding as a Percent of State and Local Revenues

Local governments provide a wide array of services, often in collaboration with the State. They run, or oversee, water, sewer, sanitation, and transportation systems—the most basic requirements of a modern community. They prepare for, and respond to, emergencies. They prevent crime, prosecute suspected criminals, provide public defenders, adjudicate cases, and operate jail systems. They provide aging, disability, and veterans services. They manage forests and irrigation systems. And, they run schools, libraries, and parks.



Source: 2015 State of the Cities Survey



## End Notes

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