



Senate Bill 563A

The Association of Oregon Counties, League of Oregon Cities, and Special Districts Association of Oregon respectfully urge you to vote in favor of Senate Bill 563A. SB 563A directs all interest on delinquent property taxes into the County Assessment Function Funding Assistance Account (CAFFA).

Department of Revenue Work Group. From October, 2007 to January, 2008, the Department of Revenue convened a work group to identify solutions to destabilized funding of county property tax administration. Since then Congress extended the federal forest safety net, but at smaller and diminishing amounts over four years (PL 110-343). Funding for the full array of state-county shared services and county local services continues to be unstable.

The DOR Group included representatives of direct recipients of property taxes: Oregon School Boards Association, Confederation of Oregon School Administrators, Oregon Community Colleges Association, AOC, LOC, and SDAO. Among other things, the Group agreed that all interest on delinquent property taxes should be placed into the CAFFA. AOC requested SB 563, as a result.

The county role is critical. County property tax administration assesses and collects critical revenues for education and local and state/county shared services. In FY '07-08, the property tax system collected over \$1.8 billion for K-12 and ESDs, and another \$165.5 million for community colleges. **In biennial terms, that is \$4 billion for education.** This was 46% of all property tax collections. Cities and special districts also benefit from the counties' work.

The state assessment and taxation funding program originated in 1989. In its current form, the Department of Revenue supervises county A&T administration and the CAFFA, which provides some funds for county support. **CAFFA was intended to cover 35-40% of county A&T costs.** Qualifying counties – i.e., those that meet minimum statutory standards – share in the funds proportionally, based on the size of their DOR-approved A&T budgets.

Trouble is brewing. The county revenue engine has begun to sputter. In 2004, DOR found that under the level of funding at that time **active appraisal and omitted property discovery, the two most effective means to ensure that all taxable property is on the tax roll, were inadequate.** **In 2004, the CAFFA provided 32% of A&T costs. Now it provides only 21%.**

Counties are in no position to backfill this shortfall. Even though the counties' share of property taxes statewide is merely 19%, in FY 08-09 counties have approved A&T budgets of \$91.5 million, of which only an estimated \$19.45 million will be CAFFA contributions. The balance, therefore, will be county general funds raised locally.

The counties' financial situation is dire, as documented by the Governor's Task Force on Federal Forest Payments & County Services (January 2009). Counties are doing their best to keep up with A&T requirements despite funding a full array of state-county shared services and the ramp-down of federal forest payments. The gap between annual county revenues and expenditures continues to grow.

As revenues fall further behind needs, local pressure will mount to retain public safety and health services, matters potentially of life and death. For those counties that cannot meet minimum A&T standards, the **Department of Revenue will be forced to make an untenable choice:** Whether to withhold the CAFFA grant, thus likely ensuring system failure.

SB 563A offers an incremental – but necessary – investment.