OREGON DEPARTMENT OF REVENUE

Basic Local Budget Law

Proposing the Budget

2023

Finance, Taxation & Exemptions

Housekeeping

- Mute Audio/Video
- Update Display Name to your First & Last Name (Jonathan Smith)
- Send Questions to “Questions”
- CE Credits – Certificate will come via email

Agenda

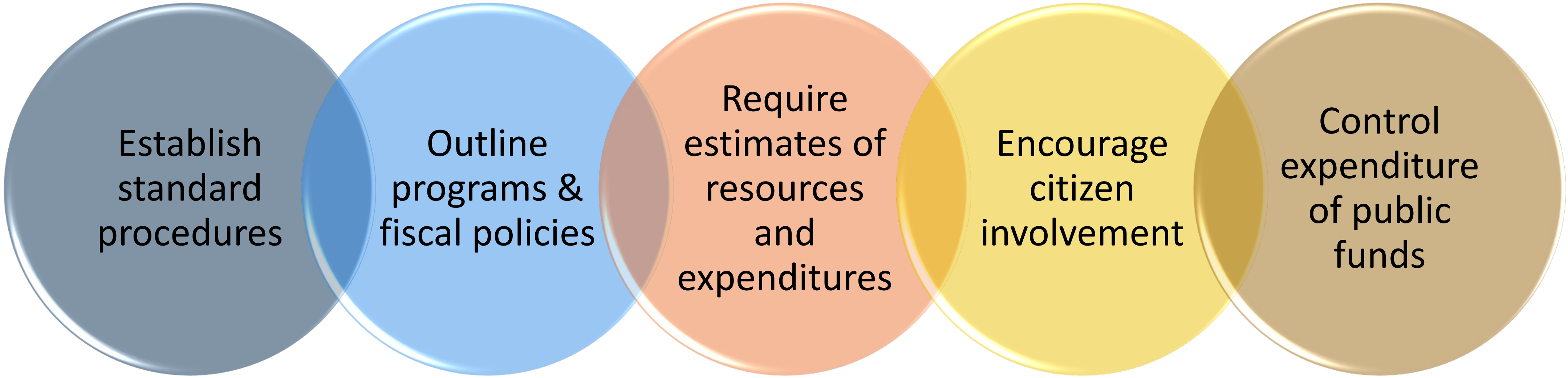
Phase 1	Proposing the Budget
Phase 2	Approving the Budget
Phase 3	Adopting the Budget
Phase 4	Changes After Adoption

Phase 1
Budget Office Proposes the Budget

Finance, Taxation & Exemptions Team

- Trains Local Officials on Local Budget Law
- Answers Questions about Local Budget Law and Property Taxes
- Provides Budget Manuals and Forms
- Reviews Tax Certifications
- Reviews District Budgets
- Advises County Assessors and Tax Collectors on Property Tax Law

Purpose of Local Budget Law



Why you should follow LBL

1. **A district that doesn't follow Local Budget Law may not lawfully:**
    - Expend money (with some exceptions)
    - Certify property taxes to the county assessor

2. **A property tax made contrary to LBL is voidable by the Oregon Tax Court if appealed by:**
    - County Assessor
    - County Court
    - County Board of Commissioners
    - The Department of Revenue
    - Ten or more interested taxpayers

3. **Civil Liability:**
    - Any public official who expends public monies in excess of the amounts or for any other purpose than authorized by law shall be civilly liable for the return of the money, if there is malfeasance in office or willful or wanton neglect of duty.

ORS 294.338, 294.461, & 294.100

DOR v. Umatilla County, otc2519 (1986)

- A portion of the 1986-87 tax levy was voided by the court.
- Umatilla County failed to republish its budget summary to allow the board to impose a levy amount higher than the amount published in its budget summary.

Districts Not Subject to Local Budget Law

ORS 261 People's utility districts

ORS 440 Health districts

ORS 545 Irrigation districts

ORS 551 Diking districts

ORS 553 Water control districts*

ORS 554 District improvement companies or corporations

ORS 568 Soil and water conservation districts*

ORS 371 Special and Assessment road districts

ORS 371 County Road district*

ORS 372 Highway lighting districts

ORS 547 Drainage districts

ORS 221 Historic ghost towns

* That will not impose taxes during the ensuing year. If district does impose property tax any year, it is subject to Local Budget Law

The Budget Process

Phase 1

Propose the budget

Phase 2

Approve the budget

Phase 3

Adopt the budget

Phase 4

Changes after adoption

The Budget Process

Phase 1

Propose the budget

Phase 2

Approve the budget

Phase 3

Adopt the budget

Phase 4

Changes after adoption

Phase 1
Budget Office Proposes the Budget

Property Tax Cycle

Local Government

Adopts Budget and Certifies Taxes

June 30th

July 15th

Assessor

Appraises and Calculates Tax

Sept. 25th

Oct. 25th

Tax Collector

Sends Bills and Collects Taxes

First Payment Due Nov. 15th

Treasurer

Distributes Revenues

Sample Budget Calendar

- * *ORS 305.820(2)* states that if any deadline that needs to be filed to tax collector or county falls on a weekend or holiday, then the deadline is extended to the next business day.

	Action	Example Due Date	Complete
1	Appoint budget officer	January 17	
2	Appoint budget committee (BC)	January 24	
3	Prepare proposed budget	February 28	
4	Publish 1st notice of BC meeting	March 10	
5	Publish 1st notice of BC meeting	March 20	
6	BC meeting & subsequent meetings if needed	March 30	
7	Publish notice of budget hearing	April 19	
8	Hold budget hearing	May 5	
9	Enact Resolutions to adop, etc.	June 15	
10	Submit tax certification documents	By July 15*	
11	Send copy of all budget documents to county clerk	By September 30*	

Prepare Proposed Budget

- Designate budget officer (Who can serve?)
- Budget Officer prepares budget under direction of Executive Officer or Governing Body

What is a budget?

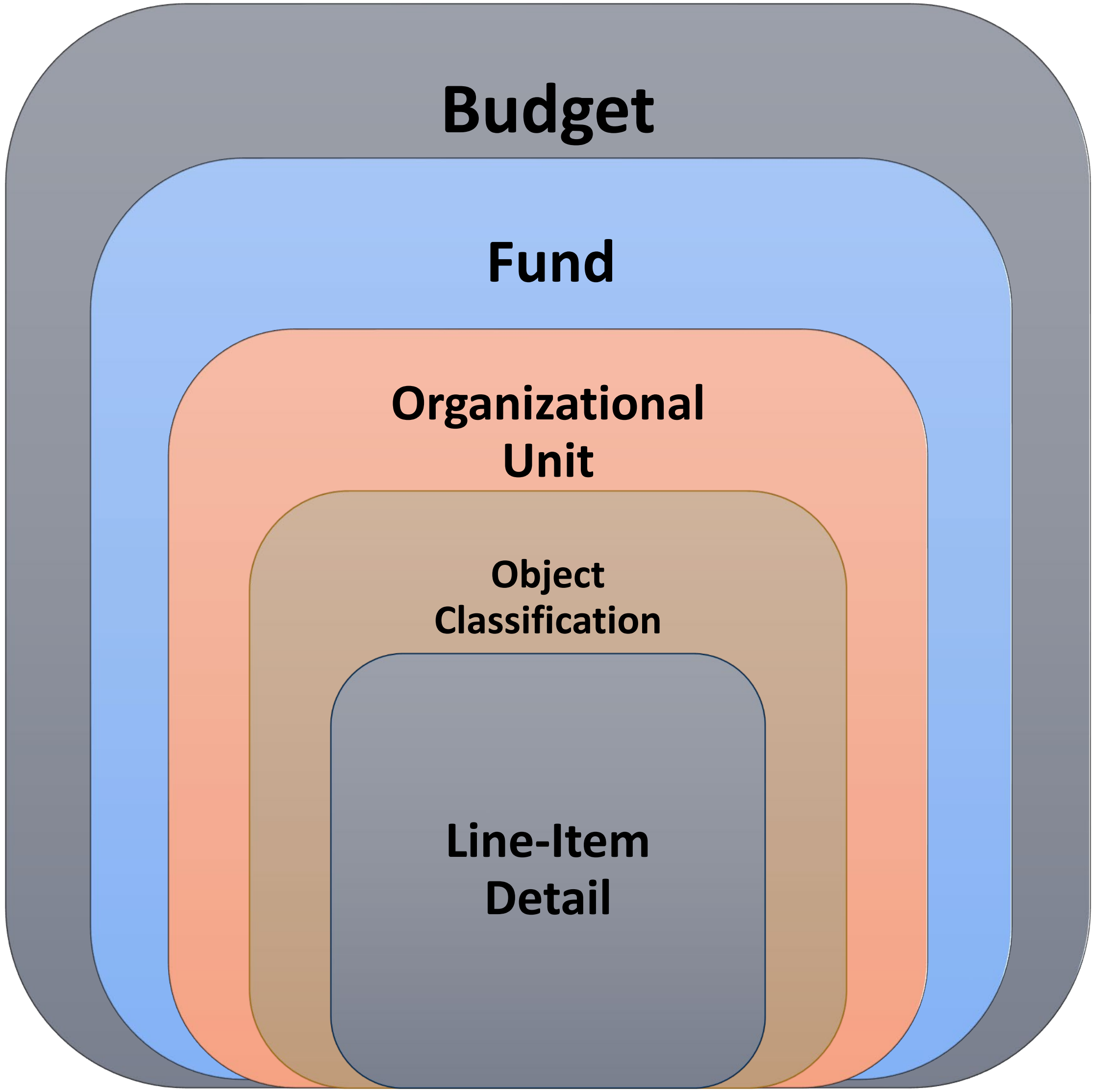
A financial plan

For one fiscal year (July 1- June 30),
or biennial budget period (July 1, 2022 – June 30, 2024)

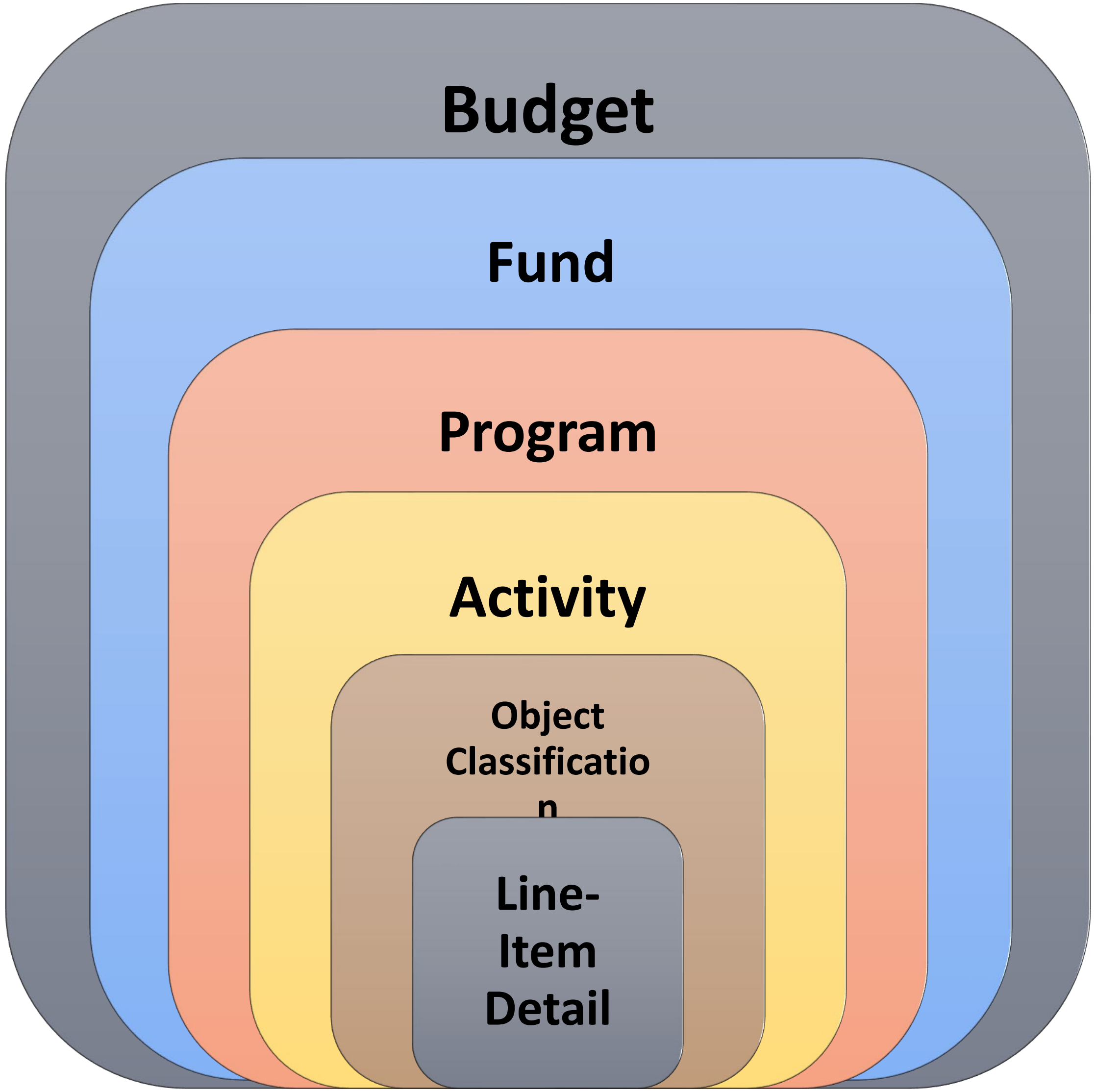
Based on estimates of revenues & expenditures and other requirements

The budget is the basis for appropriations, which create the authority to spend public money

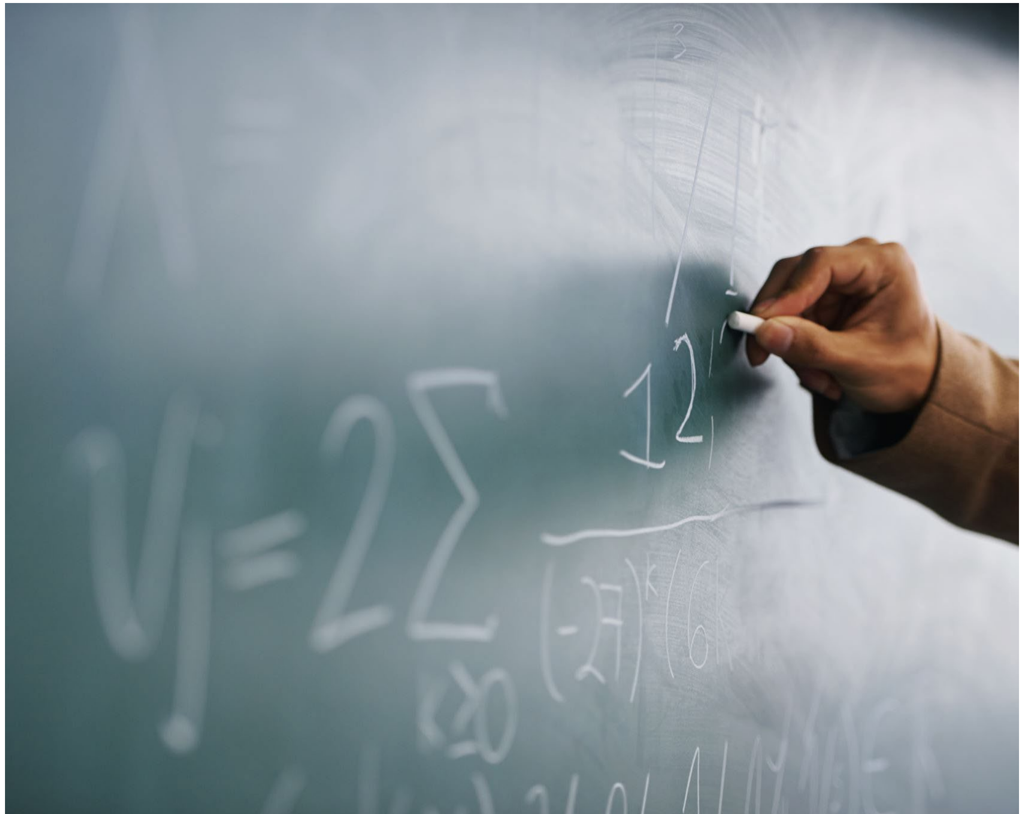
Budget Layers



Organizational Unit Budget



Program & Activity Budget



Budget is Prepared by Fund

- A self-balancing set of accounts
- Used to record estimated resources and requirements for specific activities and objectives

Types of Funds

General Fund	Special Revenue Fund	Capital Projects Fund	Debt Service Fund
• Revenue from permanent rate, local option levy for operations, interest and other charges/fees received to cover general operations with no restrictions on how resources are used	• Dedicated to local option levy money, specific purpose grants, or other money required to be segregated by statute, charter, or terms.	• Revenue from GO bonds proceeds, local option levy for capital projects or grant monies to finance a capital project.	• Revenue comes from special property tax levy (such as Revenue Bonds or GO bonds) to budget for payment of principal and interest on long-term debt.

Types of Funds, cont....

Internal Services Fund

- Revenue from services provided from one department to another department. ex. Fleet Management.

Enterprise Fund

- For revenue received in fees or charges used to cover expenses of a business type entity such as running a parking garage or pool.

Trust and Agency Fund

- Grants, gifts or transfers from general fund received in a fiduciary capacity to be used for a specified purpose.

Reserve Fund

- Transfers from general funds or grants used to accumulate money for financing the cost of a service, project, property or equipment. Resolution required to create fund.

Estimate Resources and Requirements for Each Fund

- Estimate resources & requirements in line-item detail.
- **<u>All</u>** resources & requirements must be budgeted.
- Resources & requirements must <u>balance</u>.
- Estimates of resources & requirements must be made in "*good faith*."

<u>Resources -</u> Cash on hand and anticipated receipts

<u>Requirements -</u> Expenditures going out, other budget transactions, or money being held for future use

Budget Resources

- Beginning cash or net working capital (cash, checking balance, LGIP, CD’s, etc.)
- User fees, assessments, charges for service
- Grants, gifts, donations, etc
- Bond & other borrowing proceeds
- Interfund transfers, internal service charges
- Interest earned on deposits
- Property taxes (prior years & current)

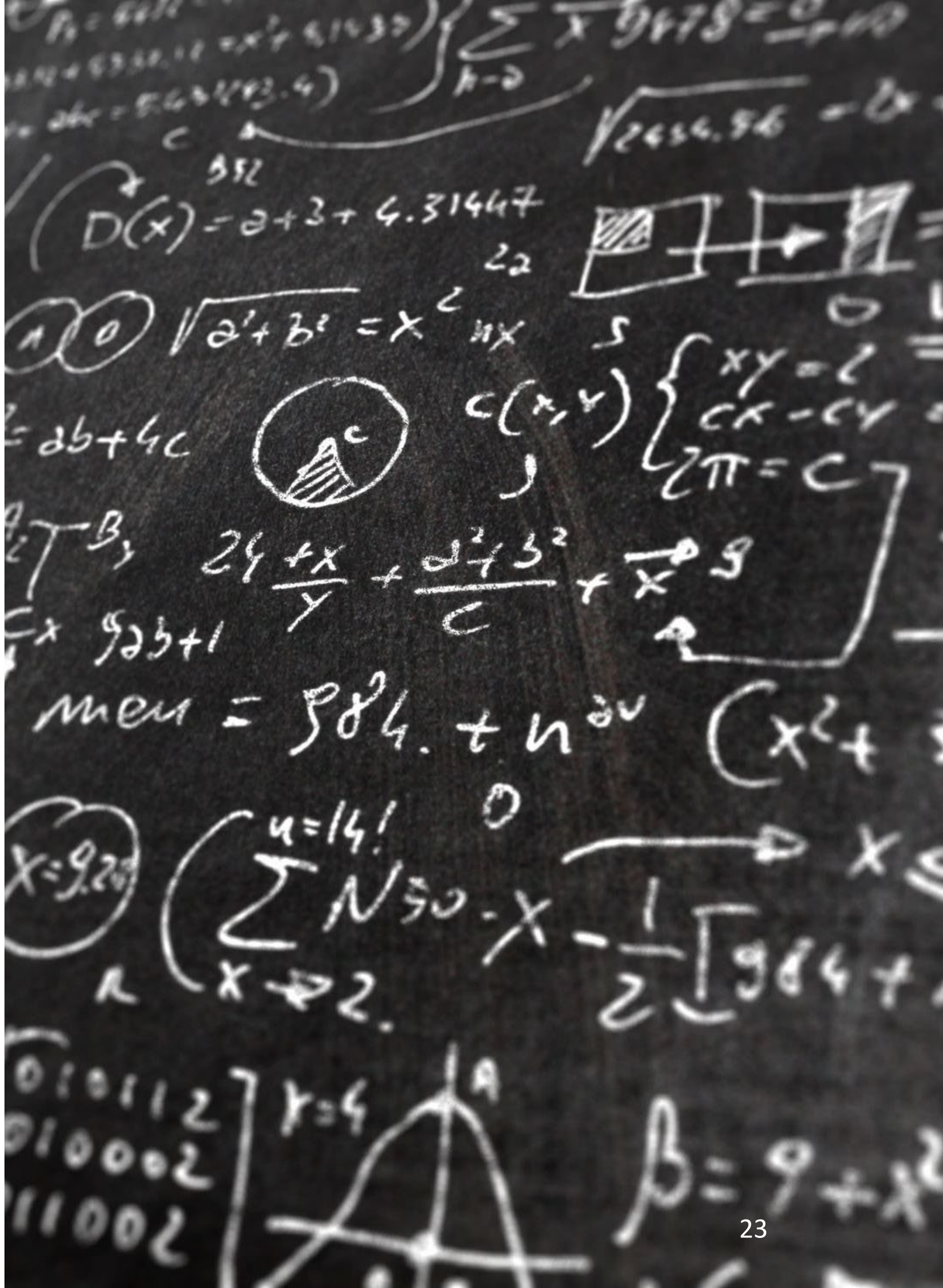
Estimating Property Taxes

Tax Rate x Taxable Value* = Tax Amount

Reduced by:

- Compression losses (Measure 5 limitation)
- Discounts
- Uncollectables

*“frozen value” in urban renewal area



A brief history of Oregon property tax

https://youtu.be/_-LlYU8s34U

Source: OACTC, November 2, 2020

Constitutional Limitations on Property Taxes

Article XI, s. 11 and 11b

Measure 50

Established Permanent Rate System

Taxes based on property's Assessed Value (AV)

Measure 5

Established limits on the operating taxes

- $5 per $1000 of RMV for Education
- $10 per $1000 of RMV for General Government

"Compression" based on the property's Real Market Value (RMV)

How Does M5 Compression Loss Work?

- If a property's tax is higher than its M5 limit, the tax must be reduced (*"compressed"*) to fall within the limit
- This loss is shared by all taxing districts (*local option taxes reduced first*)

M5 Compression Example

Neighbor 1

M50 Tax Calculation:

Total Combined Gen. Gov. Tax:................................ $14/$1,000 **AV**

Property's **Assessed Value**.......................................$267,682

Tax on Property **$3,747.55**

M5 Limit Calculation:

Gen. Gov. limit...$10/$1,000 **RMV**

Property's **Real Market Value**...................................$320,000

Maximum tax under M5 limit **$3,200.00**

Gen. Gov. Loss due to M5 Compression = $547.55

The tax calculated under M50 was higher than the M5 limit.

Neighbor 2

M50 Tax Calculation:

Total Combined Gen. Gov. Tax:................................ $14/$1,000 **AV**

Property's **Assessed Value**.......................................$267,682

Tax on Property **$3,747.55**

M5 Limit Calculation:

Gen. Gov. limit... $10/$1,000 **RMV**

Property's **Real Market Value**................................ $380,000

Maximum tax under M5 limit **$3,800.00**

NO loss to compression

The tax calculated under M50 was lower than the M5 limit.

How Can You Estimate Compression Loss?

Summary of Assessments and Levies Report (SAL) Table 4a:

- Assessor prepares report in October
- Often mailed to every taxing district
- Reports taxes imposed, compression loss, taxes extended
- Save report and use it next spring for your budget estimate of M5 loss

Also consider levies of other districts

The three types of *ad valorem* taxes

- M50 Rate limit for $1000/AV
- Limit can not be changed (may impose less)
- Can be imposed as a dollar or rate

Permanent Rate

- In addition to the permanent rate
- Temporary
  - Operations 1-5 years
  - Capital projects lesser of 10 years or life of item
- Imposed as dollar or rate based on how voters approved
- First to be compressed

Local Option Tax

- Voter approval of bond sale gives authority to tax for annual debt service
- For capital construction
- Principal & Interest ONLY
- Always imposed as a dollar amount
- Exempt from compression

General Obligation Bond Levy

All tax elections require a double majority if held in March or August

Estimating Taxes Levied as a Rate

Tax rate:	$1.5340/ $1,000
Estimated Assessed Value in district:	$98,769,946

1. Tax rate *(per $1.00 of AV)*	x	.0015340
2. Value x rate	=	$151,513
3. Minus est. Measure 5 loss	-	$ 736
4. Tax to be billed		$150,777
5. County collection average	x	.94
6. Tax amount to budget	=	$141,730

Estimating Taxes Levied as an Amount

1.	Total dollar amount to levy	=	$ 45,000
2.	Minus est. compression loss	-	$ 2,500
3.	Tax to be billed		$ 42,500
4.	County collection average	x	.94
5.	Tax amount to budget	=	$ 39,950

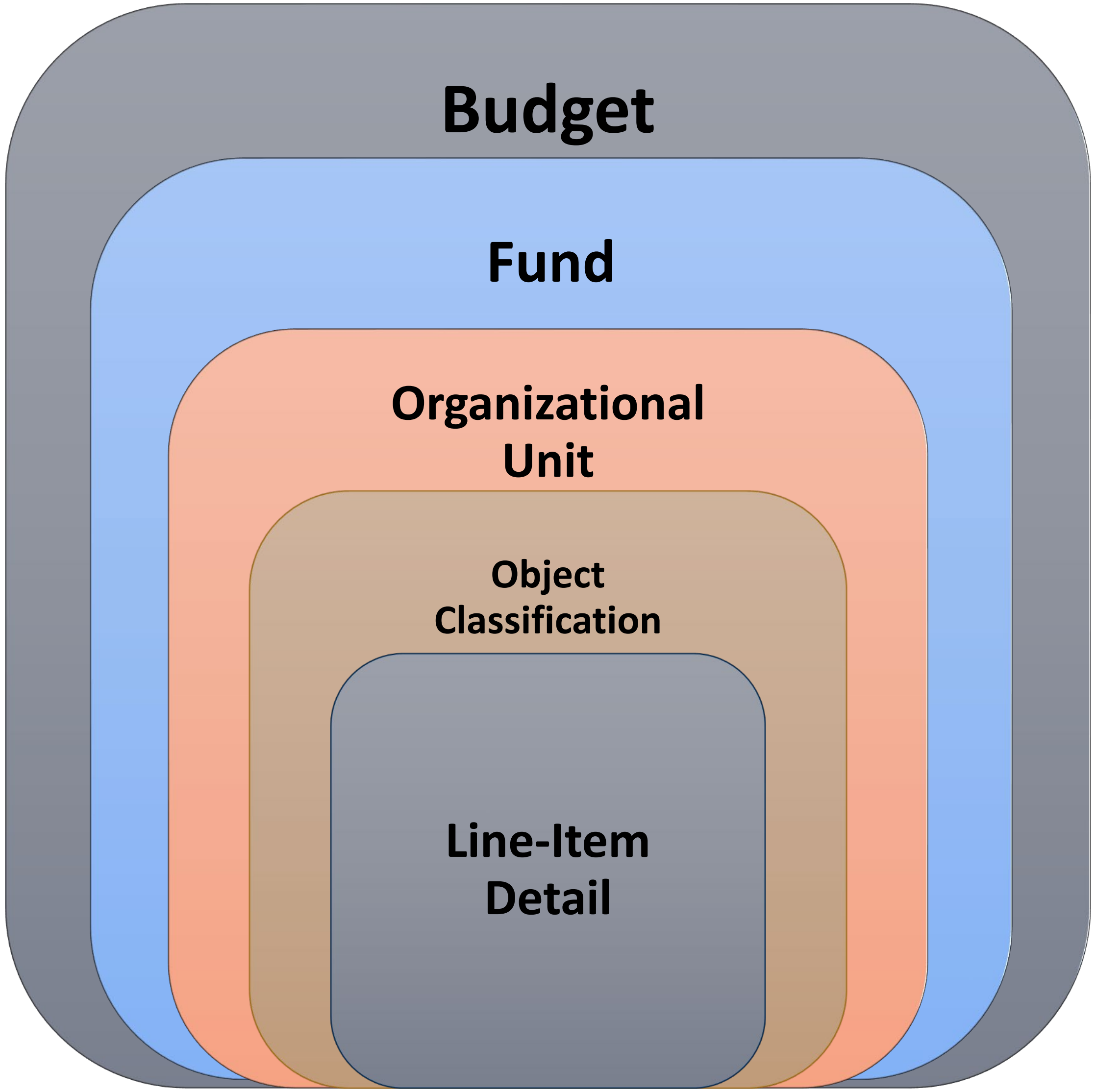
Estimating Bond Debt Service Taxes

Taxes budgeted for debt service	$ 250,750
Estimated compression losses	- 0
(GO bond taxes are exempt from M5 limits)	
Amount to raise	$ 250,750
(Amount shown in the budget as a resource)	
County collection average	÷ .95
Taxes to be levied	$ 263,947
(This is the amount you will certify to the assessor)	

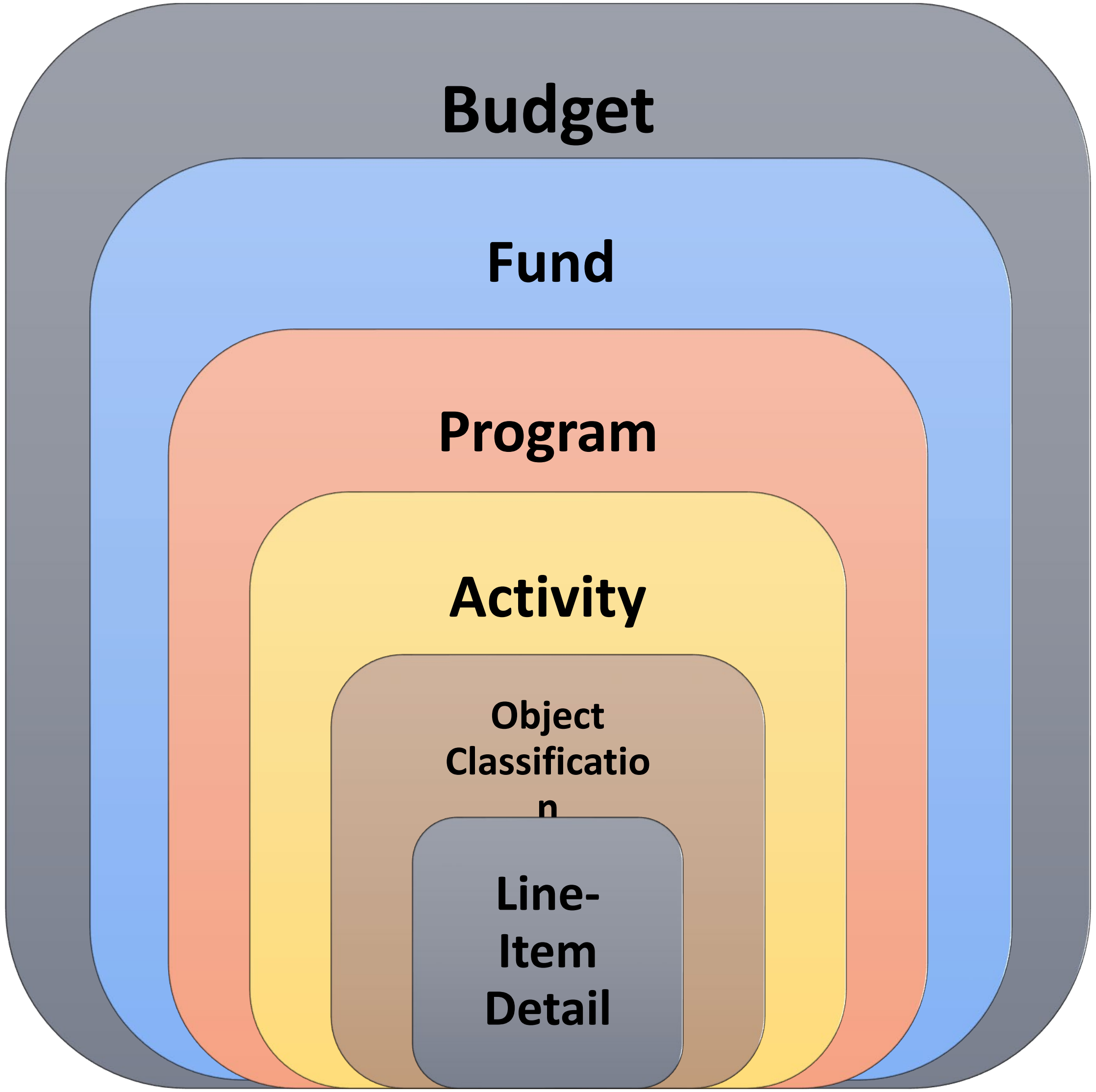
Discussion: Proposed Budget

1. What is the basic formula used to estimate the amount of property tax to be received? What other factors should be considered?
2. True or False: When levying for G.O. bond debt, your levy amount should be equal to the amount needed to pay principal and interest.

Budget Layers



Organizational Unit Budget



Program & Activity Budget

Budget Organization

Organizational Unit

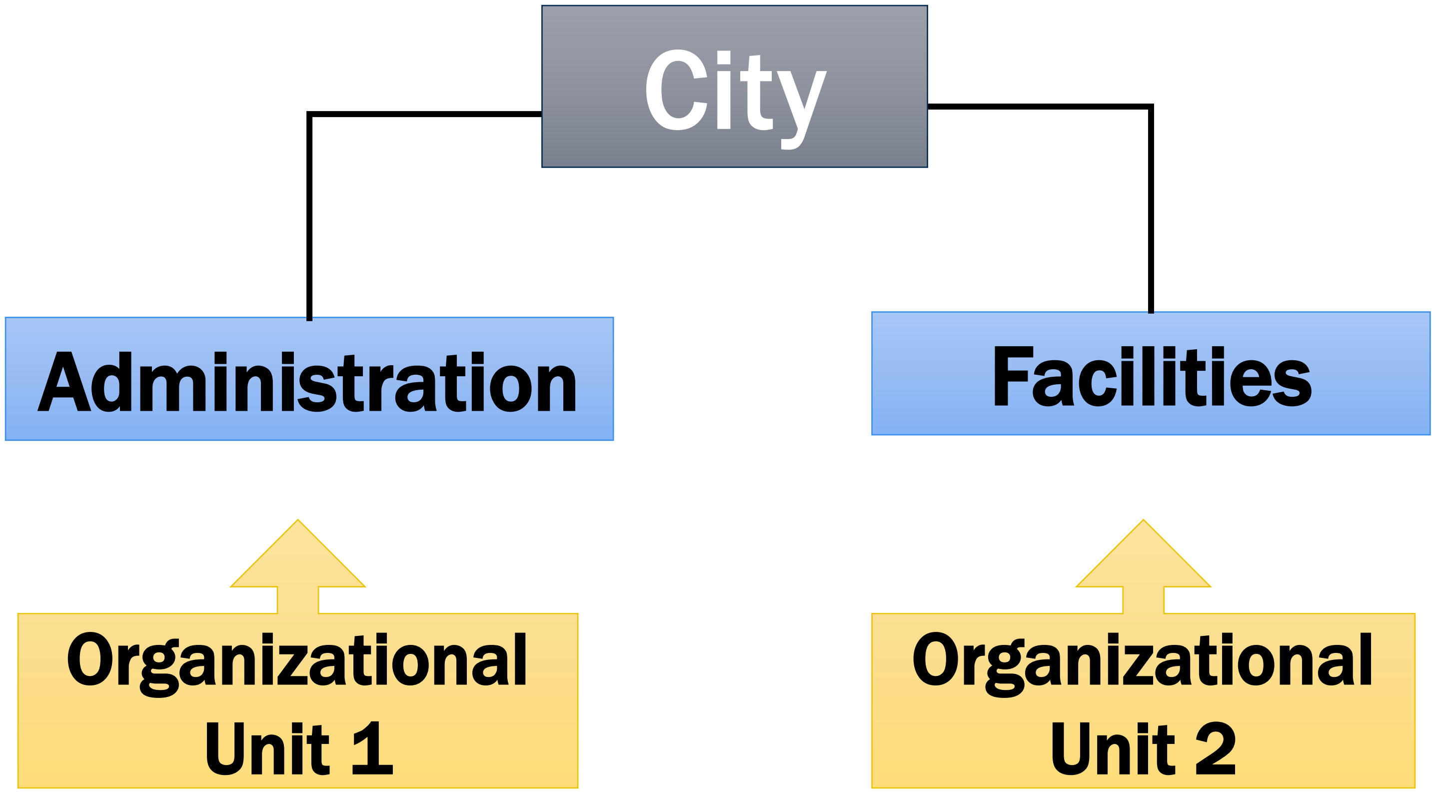
Any administrative subdivision of a municipal corporation, especially one charged with carrying on one or more functions or activities

OR

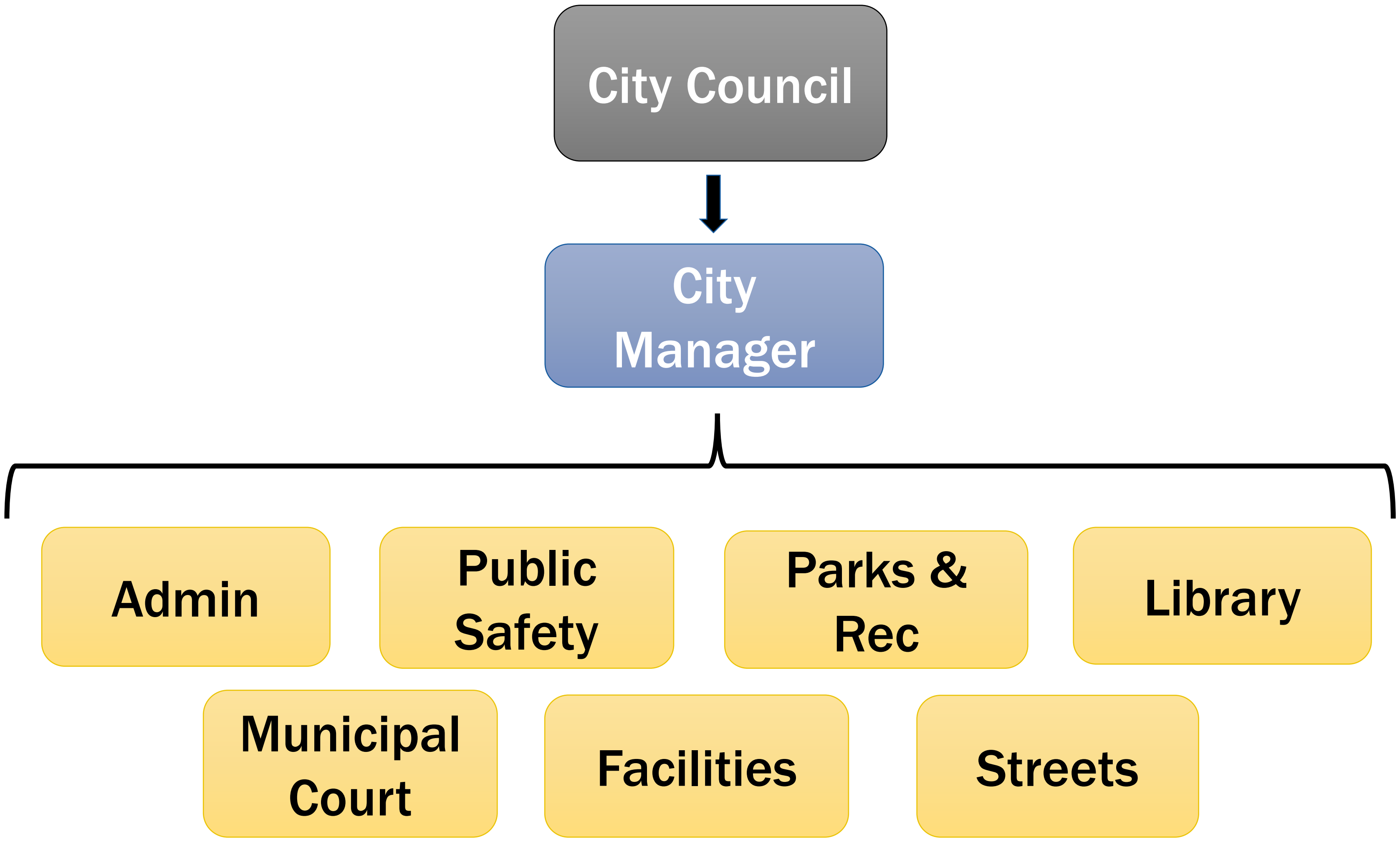
Program & Activities

A group of related activities aimed at accomplishing a major service or function for which the municipality is responsible

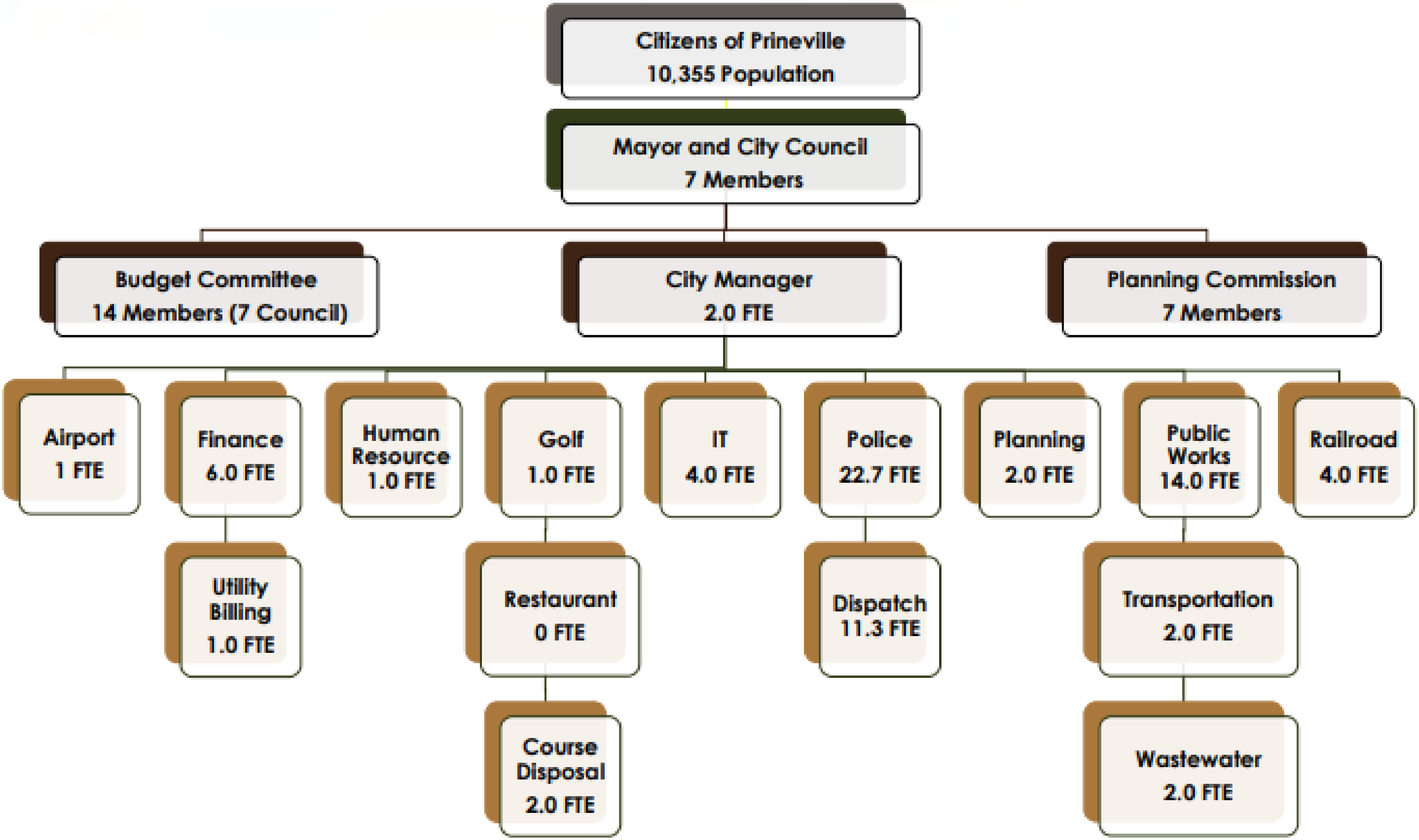
Simple Organizational Unit



Foulweather’s Organizational Chart

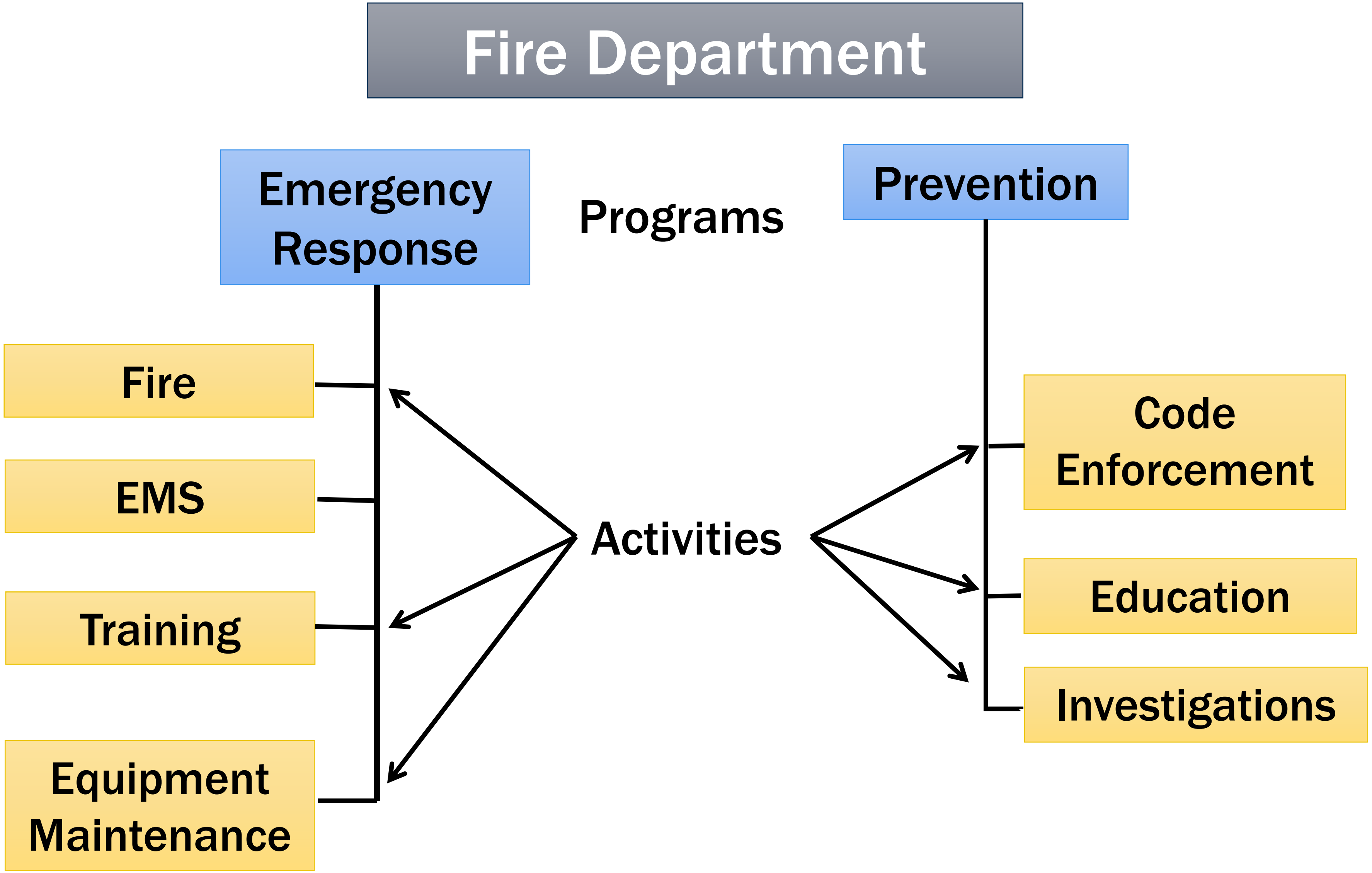


Organizational Unit example



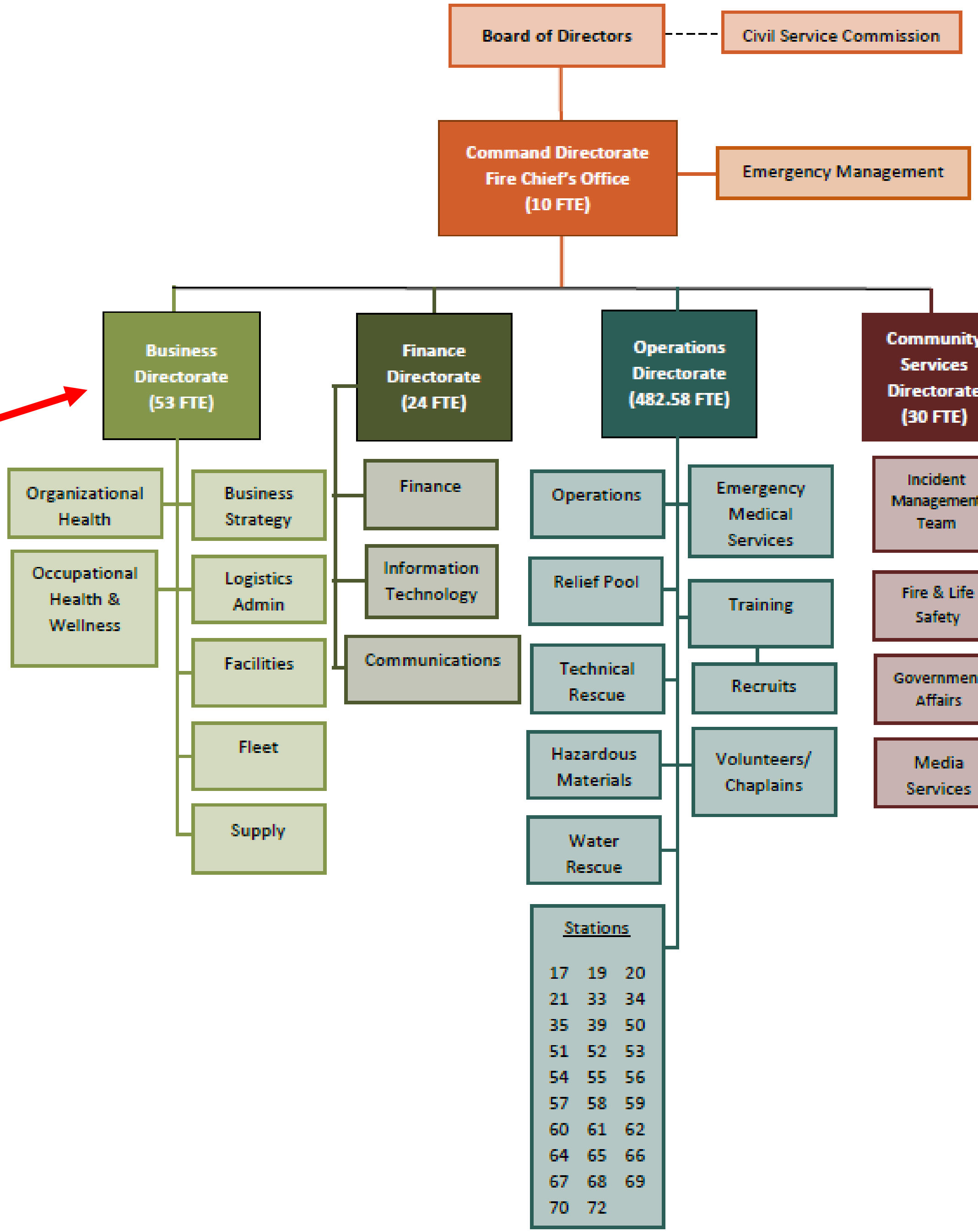
City of Prineville
Organizational Chart
Adopted Biennial Budget July 1, 2021-June 30, 2023

Program Example



Program & Activity Example

Programs



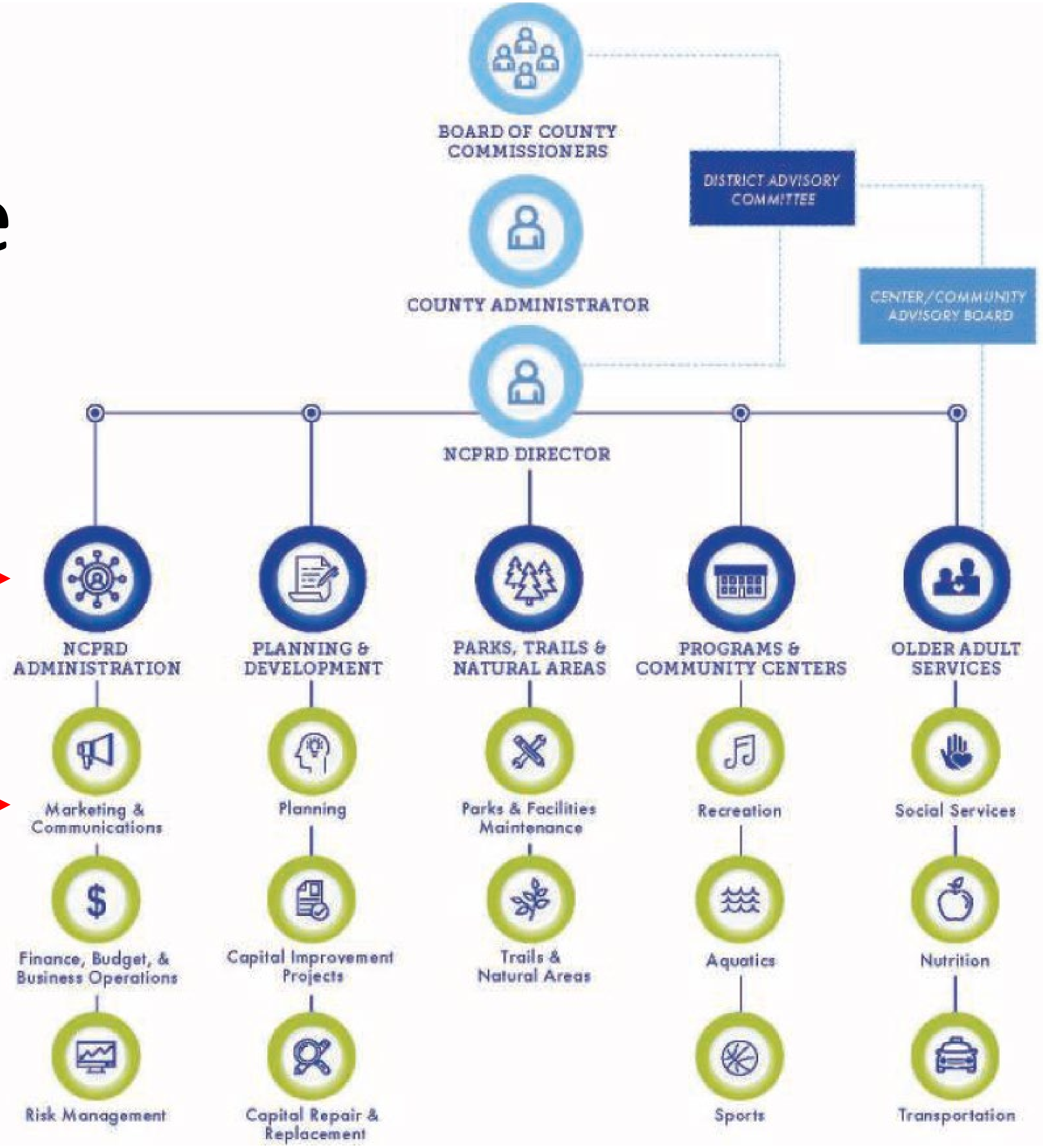
Activities

Source: TVF&R
FY 22-23 Budget

Program & Activity Example

Programs

Activities



Source: North Clackamas Parks & Rec 22-23 adopted budget

Resources vs. Requirements

Resources -
Cash on hand and anticipated receipts

Requirements -
Expenditures going out, other budget transactions, or money being held for future use

Object Classifications (Allocated)

Personnel Services

- Expenses related to employees
- Must include associated FTE

Materials & Services

- Consumables and service expenses:
  - Contract services
  - Supplies
  - Other operating expenses

Capital Outlay

- Items with useful life of a year or more

****Always include line-item detail****

Object Classifications (Not Allocated)

Interfund Transfers

Transfer of resources from one fund to another

All transfers out require a corresponding transfer in

Debt Service

The repayment of any loan, bond, or other borrowing.

Special Payments

Pass-through payments, grants made to other organizations, or other one-time or unusual payments that do not fit into any other expenditure category

Object Classifications (Not Allocated)

Operating Contingency

- Unidentified operating expenses
- Only budgeted in operating fund

Reserved for Future Expenditure (RFE)

- Saved for future spending

Unappropriated Ending Fund Balance (UEFB)

- Carry-over for next year's budget to cover requirements prior to resources being available

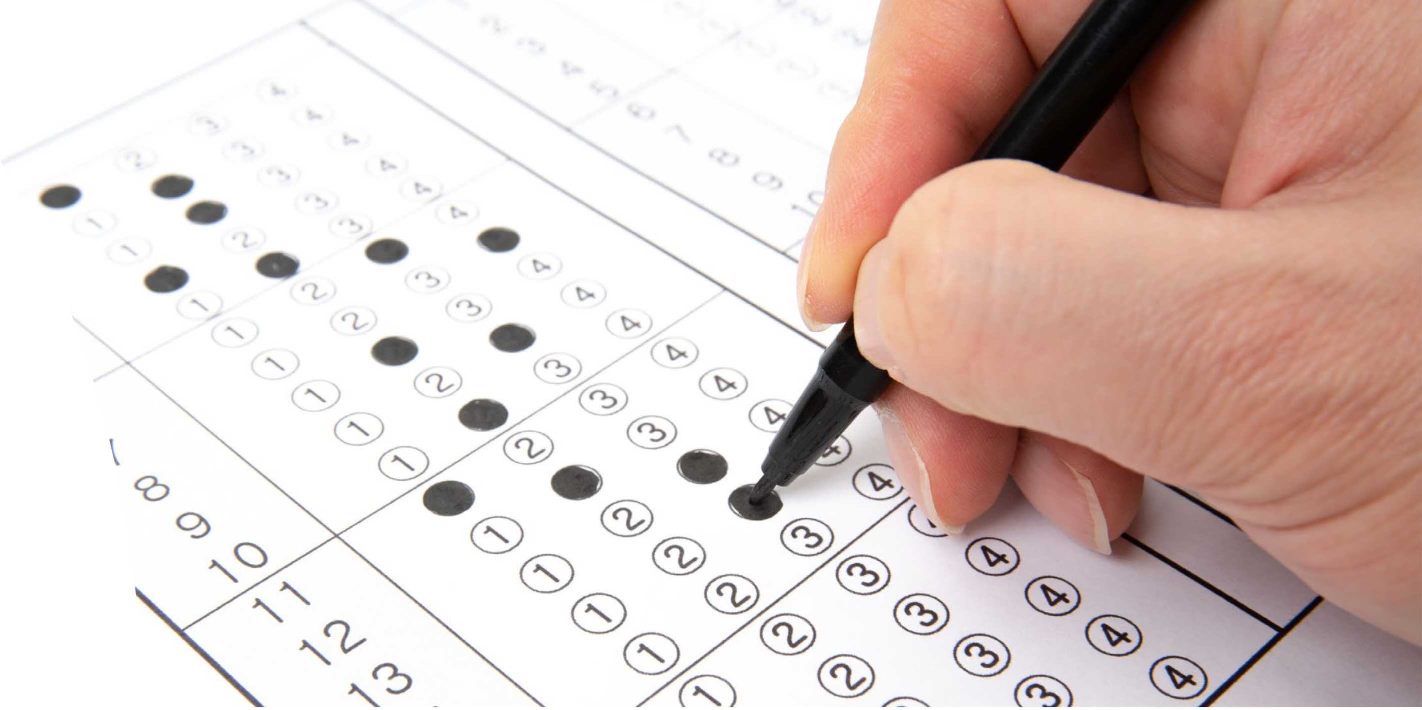
Budget Requirements

<table>
<tr><td></td><td></td><td>Object Classifications</td><td>Allocated or Not Allocated to an Organizational Unit or Program?</td></tr>
<tr><td rowspan="9">Requirements</td><td rowspan="5">Expenditures</td><td>Personnel Services</td><td rowspan="3">Usually Allocated</td></tr>
<tr><td>Materials & Services</td></tr>
<tr><td>Capital Outlay</td></tr>
<tr><td>Special Payments</td><td rowspan="6">Not Allocated</td></tr>
<tr><td>Debt Service</td></tr>
<tr><td></td><td>Transfers (out)</td></tr>
<tr><td></td><td>Operating Contingency</td></tr>
<tr><td></td><td>Reserved for Future Expenditure</td></tr>
<tr><td></td><td>Unappropriated Ending Fund Balance</td></tr>
</table>

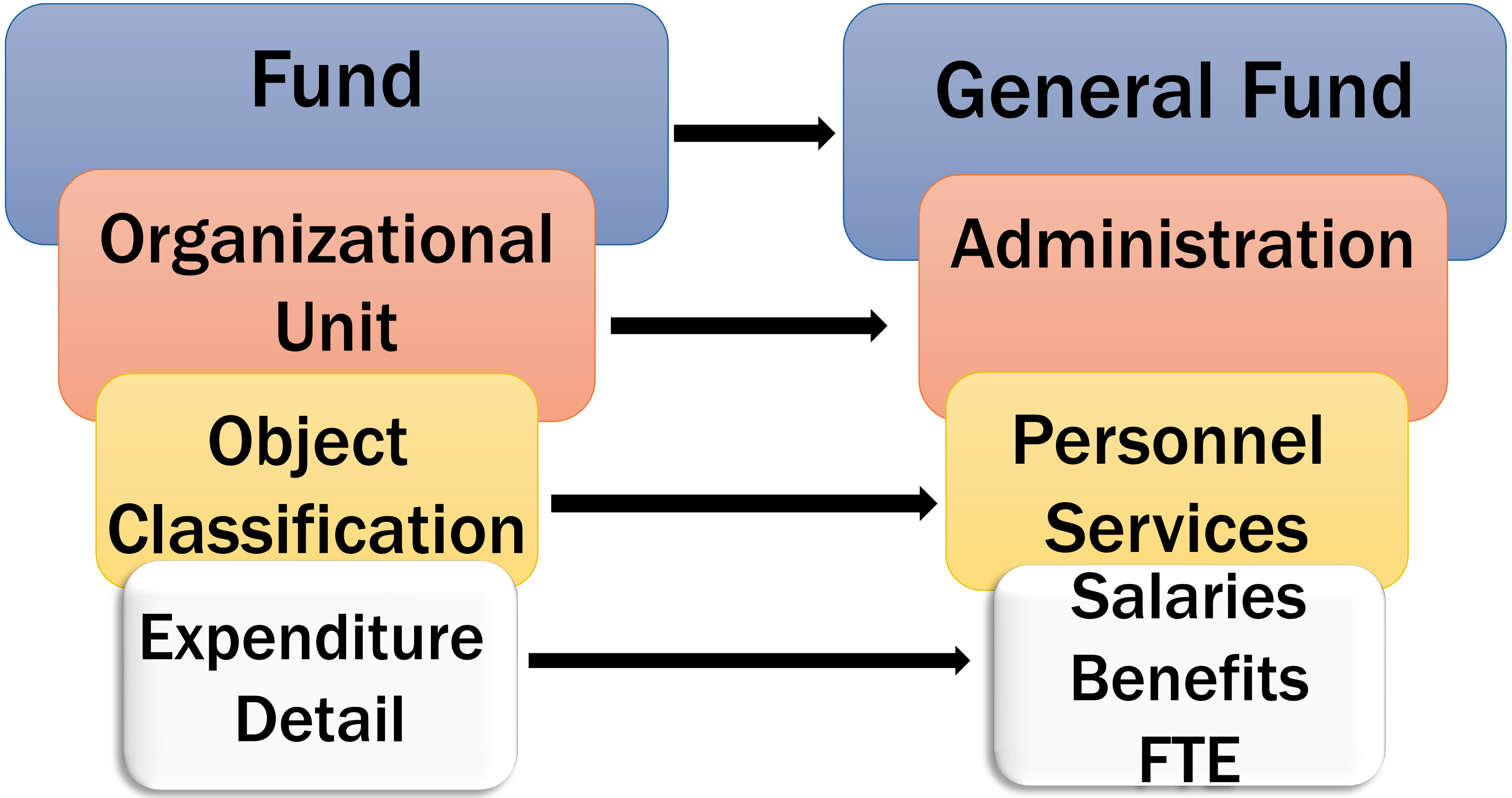
ORS 294.388

Discussion: Proposed Budget

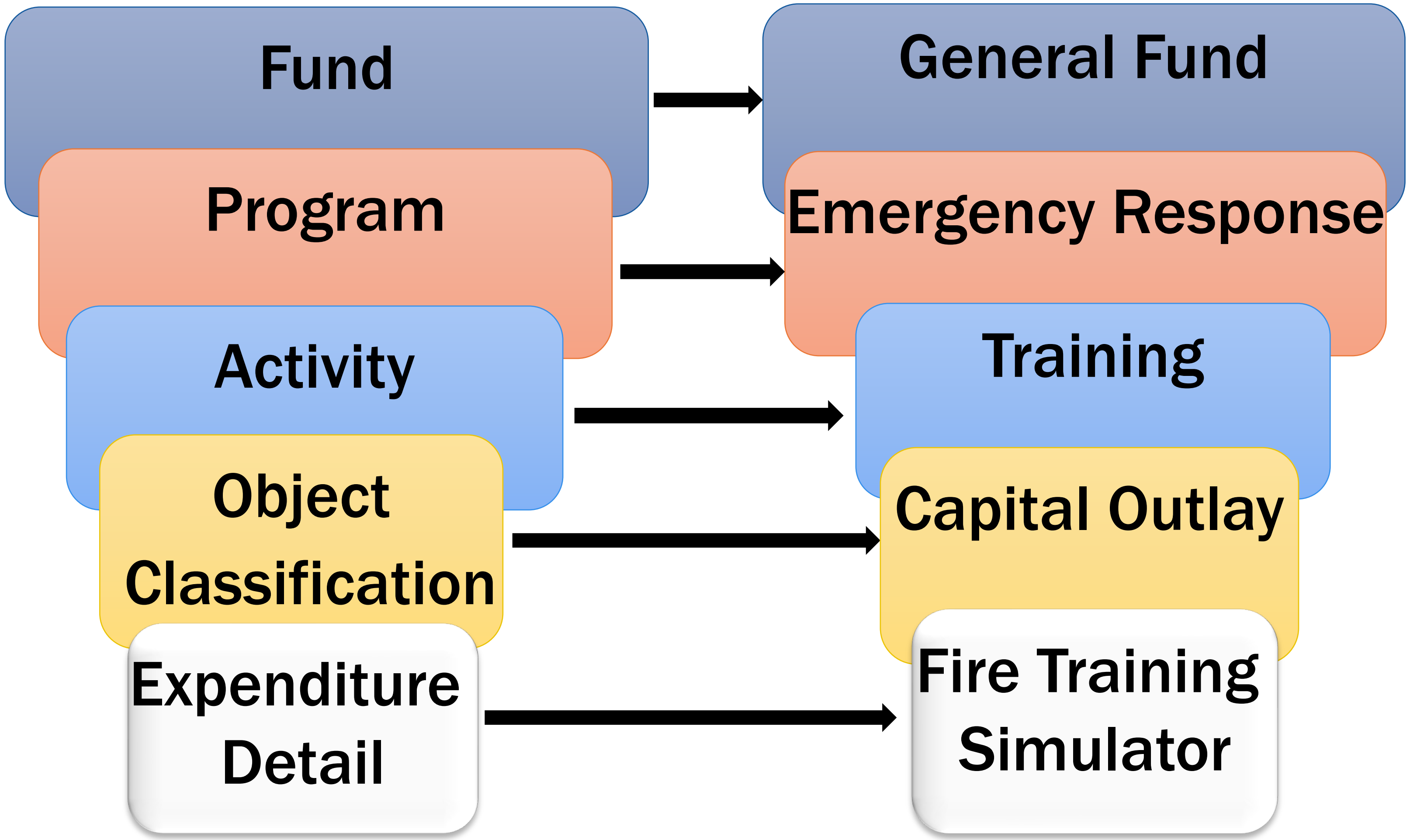
1. True or False: Debt service must always be budgeted in a debt service fund.
2. Which object classifications are defined as operational expenditures?



Budget Organization – Organizational Units

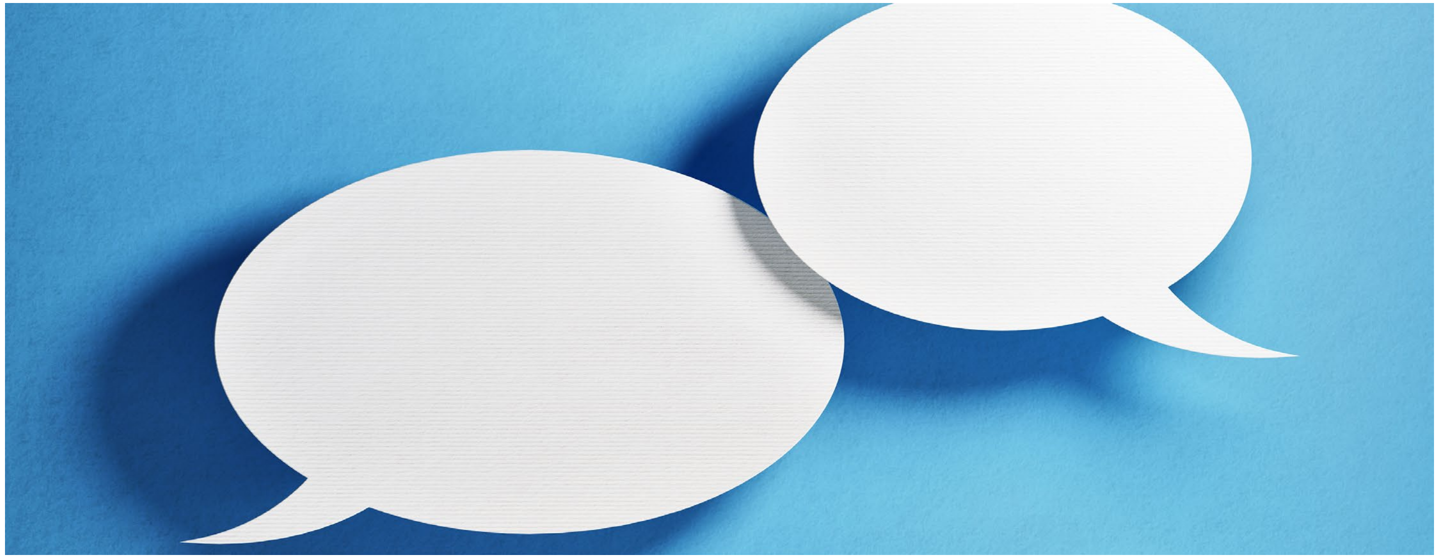


Budget Organization – Programs



Discussion: Proposed Budget

1. What's the difference between an organizational unit and a program?
2. True or False: If your budget has only one fund, you don't need to budget by organizational unit or program.
3. Which object classifications should never be allocated to an organizational unit?



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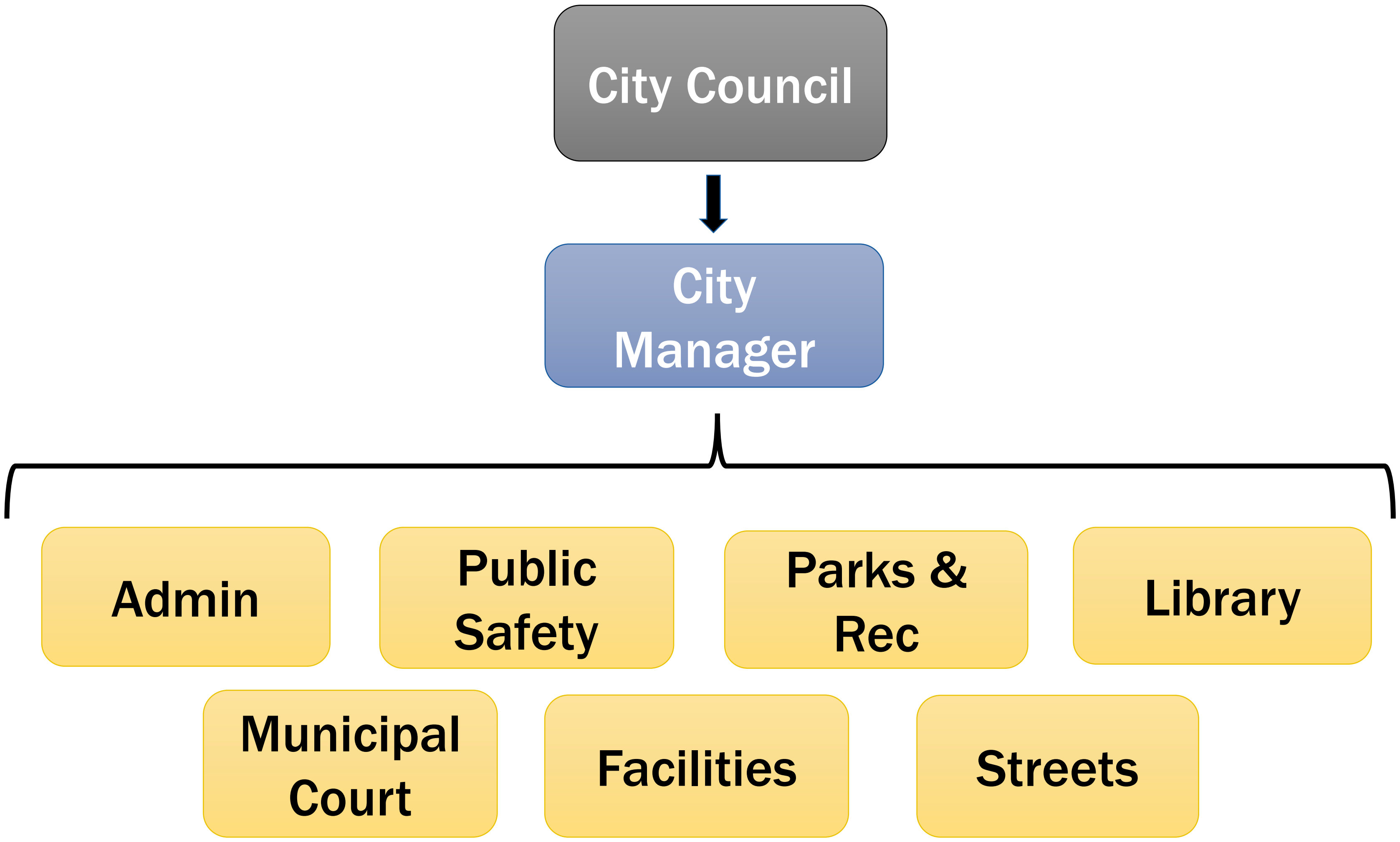


Sample Budget Organization

General fund

Admin

Public Safety

Parks & Rec

Library

Municipal Court

Facilities

Debt Service Fund

Arch Cape Streets Fund

Street Department

Lookout Library Special Revenue Fund

Library

Heceta Head Lighthouse Reserve Fund

Facilities

Review Sample Budget

Budget Detail: Statutory Minimum

Two prior year actual information
(*Use actual / audited #'s*)

Budgeted amount for current fiscal period

Proposed amount for next year

	Historical data					Budget for next year 20___–___			
	Actual								
	Second preceding year 20___–___	First preceding year 20___–___	Adopted budget this year year 20___–___		**Requirements for**___________ (Name of program or organizational unit)	Proposed by Budget Officer	Approved by Budget Committee	Adopted by Governing Body	
1				1	Personnel services				1
2				2					2
3				3					3
4				4					4
5				5					5
6				6					6

Line item descriptions

Once BC approves, complete "Approved" column

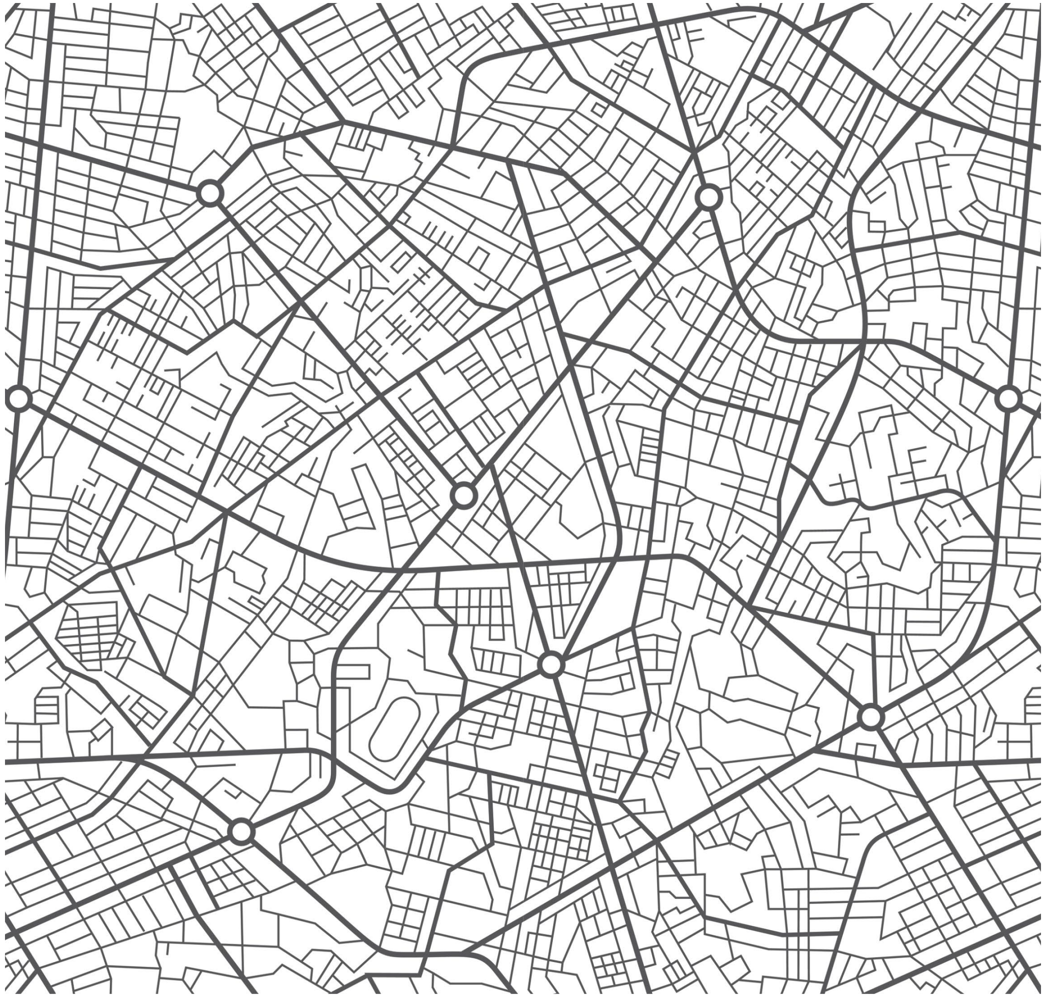
Once Governing Body adopts, complete "Adopted" column

Discussion: Proposed Budget

1. What information do you have to include in your budget if you estimate expenditures for Personnel Services?
2. True or False: “Non-Departmental” is an appropriate name for an organizational unit within the General Fund.

Boundary Changes

- The Cadastral Information Systems Unit (CISU) web page about how to comply with ORS 308.225 when making changes to your boundaries has been updated.
- For assistance in how to comply with the statute, please review the information at:



https://www.oregon.gov/DOR/forms/FormsPubs/boundary-change_504-405.pdf

Property Tax Resources

- Oregon Revised Statutes (ORS 294.305 to 294.565)
- Oregon Administrative Rules (OAR 150-294-0300 to 150-294-0550)
- Local Budget Law Manuals and Publications
  - Property Tax Research Reports
  - Tax Expenditure Report
- Property Tax Statistics Report
- Online Videos
- DOR Local Budget Law Training Videos
  - YouTube Deschutes Property Tax Fairy
  - Property Taxes: The Tax Fairy explains, what’s in it for me?
  - Why Property Values Fluctuate?
  - YouTube Clackamas County RMV vs MAV in Oregon

Local Budget Law Resources

Access our Local Budget website for Forms and Manuals on Internet:

http://www.oregon.gov/DOR/programs/property/Pages/local-budget.aspx

Subscribe to our email list for email notices of future training workshops and news on any changes to Local Budget Law. Sign up through this link:

http://listsmart.osl.state.or.us/mailman/listinfo/localbudget

Questions?

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OREGON DEPARTMENT OF REVENUE

Your feedback is important to us

- Please take our survey:
  - https://www.surveymonkey.com/r/Y29D922
- Thank you for attending the Local Budget Law Training