



# Basic Local Budget Law

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Proposing the Budget

2021

Finance, Taxation & Exemptions

# Housekeeping

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





# Phase 1

## Budget Officer 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

# Finance, Taxation & Exemptions Team



Reviews Tax Certifications



Reviews District Budgets



Advises County Assessors & Tax Collectors on Property Tax Law

# Local Budget Law Changes for 2021

## Covid-19 and Chapter 12 Oregon Laws 2020 First Special Session (HB 4212)

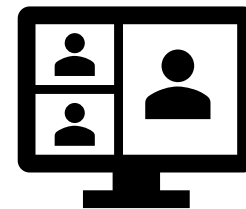
- Meetings may be held virtually
  - No requirement of physical space for public
  - Record meetings if technology available
- Social distancing for in person meetings
- Allows for alternative methods of testimony



# Local Budget Law Changes for 2021

Covid-19 and Chapter 12 Oregon Laws 2020 First Special Session (HB 4212)

- Quorum excludes absences due to COVID
- Allows for emergency expenditures
- Expires 30 days after end of emergency

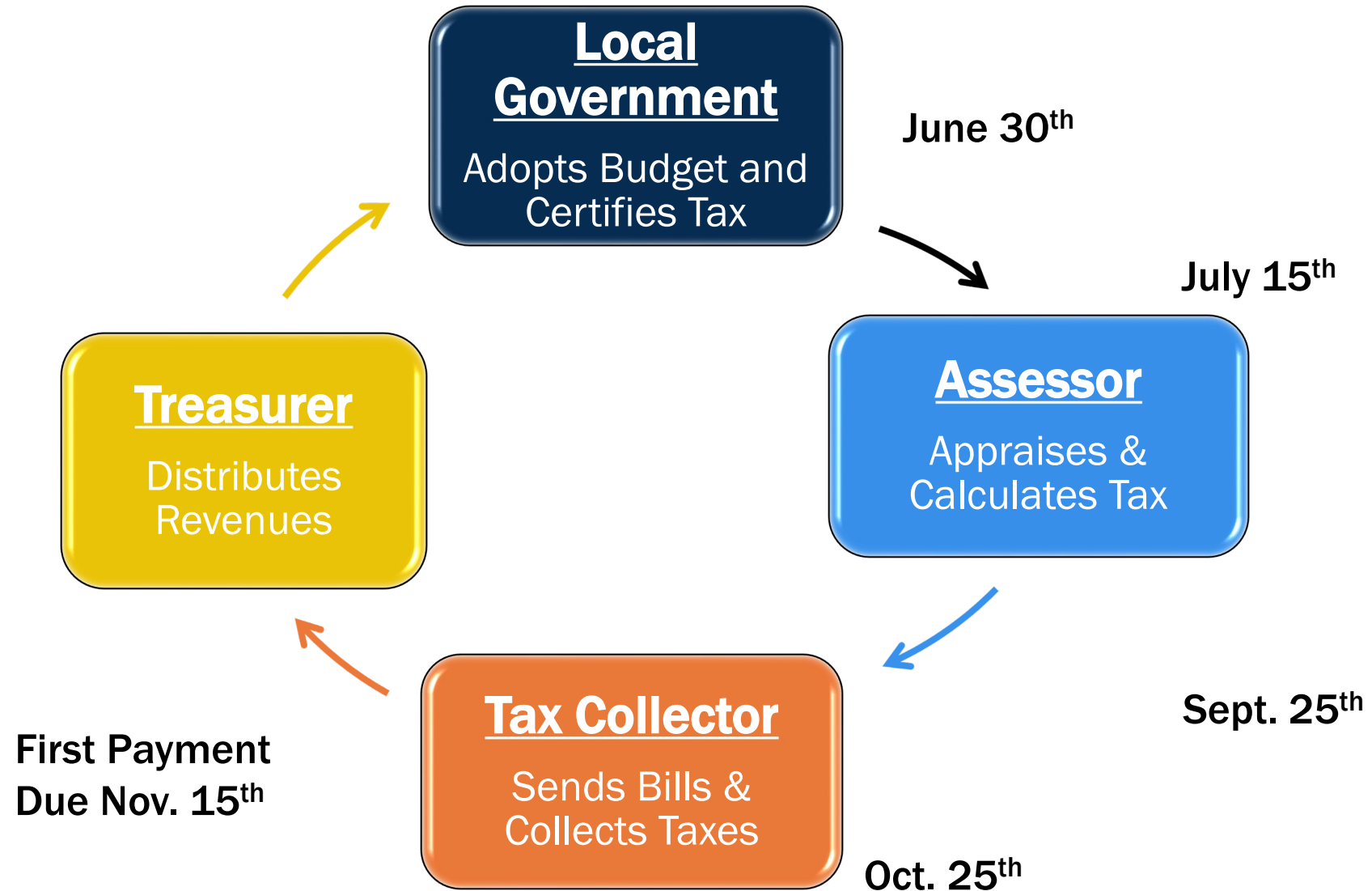


# Local Budget Law Changes for 2021

Wildfires  
&  
Proration of Tax



# Property Tax Cycle



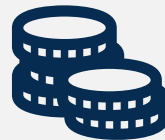
# Purpose of Local Budget Law



Establish standard procedures



Outline programs & fiscal policies



Require estimates of resources and expenditures

# Purpose of Local Budget Law



Encourage citizen involvement



Control expenditure of public funds



ORS 294.321



# Why Follow Local Budget Law?

A district that doesn't follow local budget law may not lawfully:

- Expend money (with some exceptions)
- Certify property taxes to the county assessor





# Why follow Local Budget Law?

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

ORS 294.461



# 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.



# 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 294.100

# 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\*

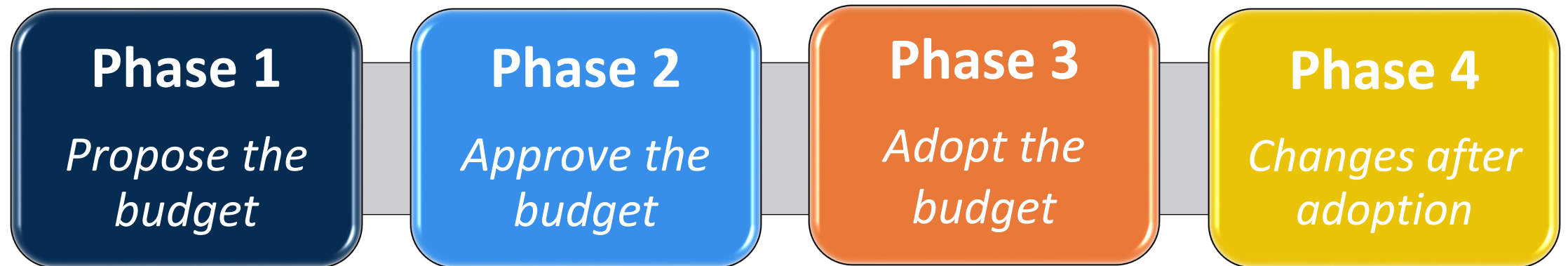
**ORS 372** Highway lighting districts

**ORS 547** Drainage districts

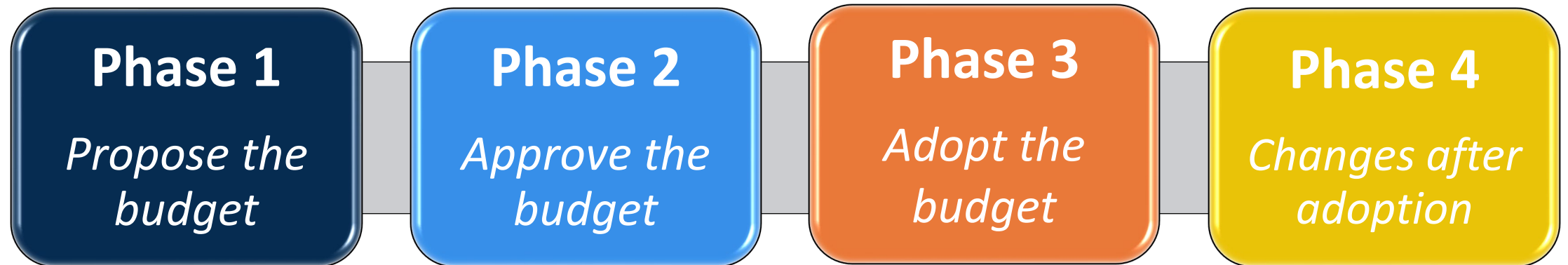
**ORS 221** Historic ghost towns

*\* 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



# The Budget Process



# Sample Budget Calendar

	Action	Example Due Date	Complete
1	Appoint budget officer	Jan. 15	
2	Appoint budget committee (BC)	Feb. 1	
3	Prepare proposed budget	March 5	
4	Publish 1 <sup>st</sup> notice of BC meeting	March 10	
5	Publish 2 <sup>nd</sup> notice of BC meeting	April 2	
6	BC meeting & subsequent mtgs. if needed	April 9	
7	Publish notice of budget hearing	May 14	
8	Hold budget hearing	May 21	
9	Enact Resolutions to adopt, etc	June 25	
10	Submit tax certification documents	By July 15*	
11	Send copy of all budget documents to county clerk	By Sept. 30*	

***\* 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.***



# 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, 2021 – June 30, 2023)



Based on estimates of revenues & expenditures and other requirements

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

# Resources vs Requirements



## Resources -

Cash on hand  
and anticipated  
receipts

## Requirements -

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

# Estimate Resources and Requirements for Each Fund

- Estimate resources & requirements in line item detail.
- **All** resources & requirements must be budgeted.
- Resources & requirements must **balance**.
- Estimates of resources & requirements must be made in “*good faith*.”



# 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 and current)

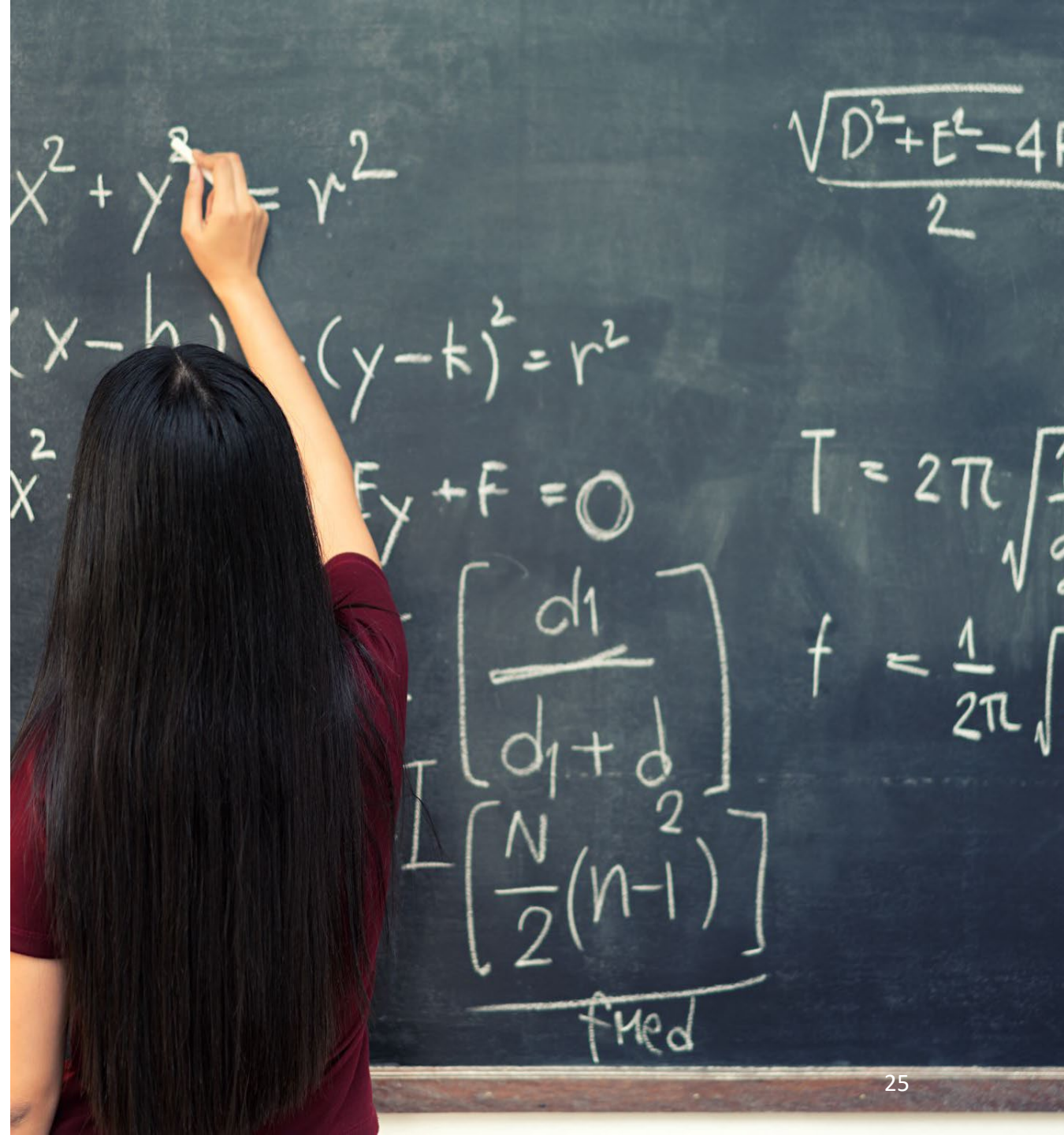
# Estimating Property Taxes

$$\text{Tax Rate} \times \text{Taxable Value}^* = \text{Tax Amount}$$

Reduced by:

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

\*"frozen value" in urban renewal plan area



# A brief history of Oregon property tax



<https://www.youtube.com/watch?v=Sg2iVWEyJFw>

Source: Deschutes County Assessor's Office, August 28, 2013

# Constitutional Limitations

Article XI, s. 11 and 11b

**Measure 50**: Tax calculation is based on **Assessed Value (AV)**

**Measure 5**: Operating tax on a property is limited to:

- \$5 per \$1,000 of **RMV** for Education,
- \$10 per \$1,000 of **RMV** for Gen. Government

M5 limit is based on **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

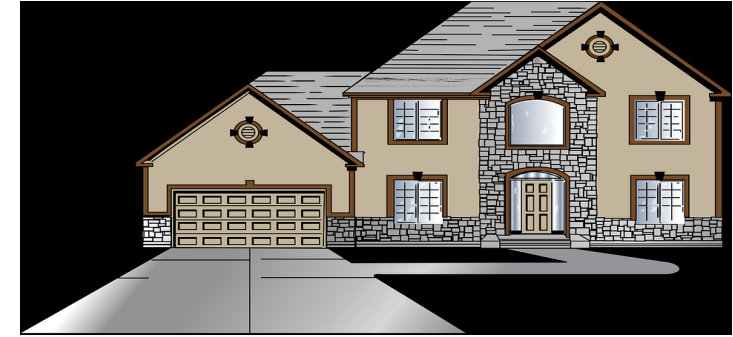
M50 Tax Calculation:

Total Combined Gen. Gov. Tax:	\$14/\$1,000 <u>AV</u>
Property's Assessed Value	<u>\$176,384</u>
<b>Tax on Property</b>	<b>\$2469.38</b>

M5 Limit Calculation:

General Gov. limit	\$10/\$1,000 <u>RMV</u>
Property's Real Market Value	<u>\$220,000</u>
<b>Maximum tax under M5 limit</b>	<b>\$2,200.00</b>

Gen. Gov. Loss due to M5 Compression=\$269.38



Neighbor 2

M50 Tax Calculation:

Total Combined Gen. Gov. Tax:	\$14/\$1,000 <u>AV</u>
Property's Assessed Value	<u>\$176,384</u>
<b>Tax on Property</b>	<b>\$2469.38</b>

M5 Limit Calculation:

General Gov. limit	\$10/\$1,000 <u>RMV</u>
Property's Real Market Value	<u>\$280,000</u>
<b>Maximum tax under M5 limit</b>	<b>\$2,800.00</b>

NO loss to compression

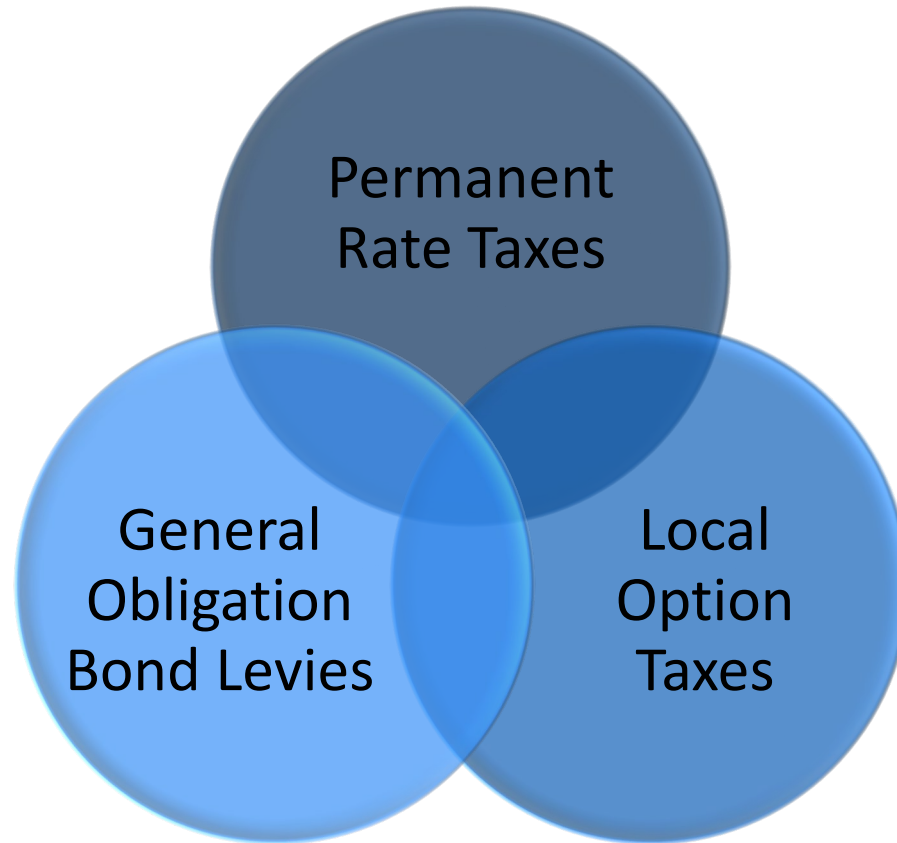
# How Can You Estimate Compression Loss?

## 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*

# Estimating tax receipts for the 3 types of ad valorem taxes



# Permanent Rate Taxes

- Measure 50 rate limit per \$1,000 of assessed value
- Limit cannot be changed by district or its patrons
- Imposed as rate per \$1,000 or a dollar amount
- Double majority required in March or Sept. election



# Local Option Taxes

- In addition to the permanent rate levy
- Temporary:
  - For Operations - 1 to 5 years
  - For Capital Project - Lesser of 10 years or useful life (Defined in ORS 280.060)
- Voters approve rate per \$1,000 or fixed dollar amount per year\*
- First to be compressed
- Budget options for September election (ORS 280.060)

*\*Double majority required in March or September*

# Estimating Taxes Levied as a Rate

Tax rate: \$1.5340/ \$1,000

Estimated **Assessed Value** in district: \$98,769,946

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

# Estimating Taxes Levied as an Amount

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

# G.O. Bond Debt Service Levy

- Voter approval of bonds gives authority to tax for annual debt service\*
- Principal & interest (only) on voter-approved general obligation bonds for capital construction
- Always imposed as a dollar amount
- Exempt from **compression**

\* Double majority required in March or September

# Estimating Bond Debt Service Taxes

Taxes budgeted for debt service	\$ 60,150
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Estimated compression losses	<u>          0</u>
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*(GO bond taxes are exempt from M5 limits)*

Amount to raise	60,150
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County collection average	<u>          .94</u>
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Taxes to be levied	\$ 63,989
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## 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

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

## Special Revenue Fund

Dedicated to local option levy money, specific purpose grants, or other money required to be segregated by statute, charter, or terms.

## Capital Project Fund

Revenue from GO bonds proceeds, local option levy for capital projects or grant monies to finance a capital project.

## Debt Service Fund

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

## 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 & 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.

# Resources vs Requirements



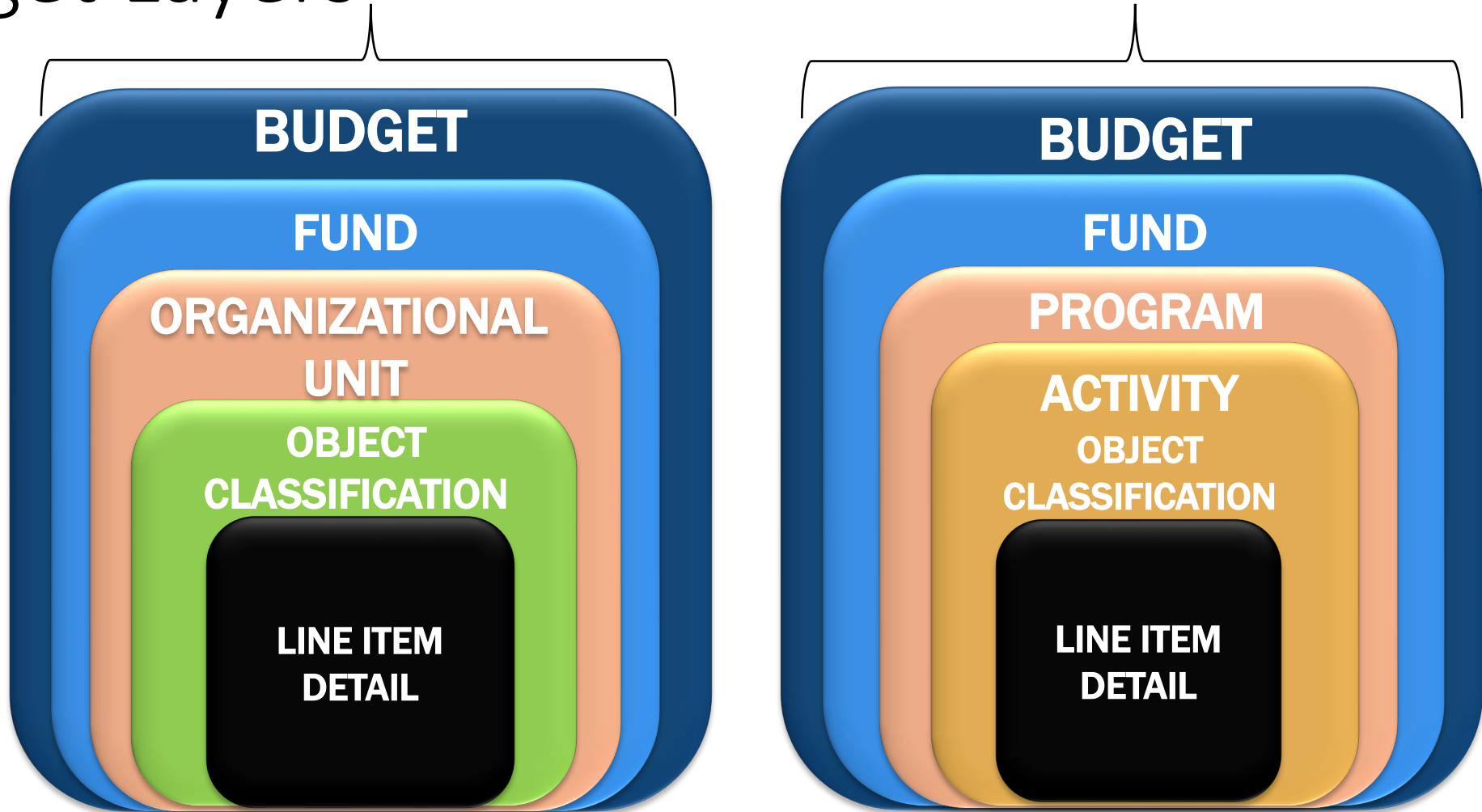
## Resources -

Cash on hand  
and anticipated  
receipts

## Requirements -

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

# Budget Layers



# Budget Organization

**Organizational  
Unit**

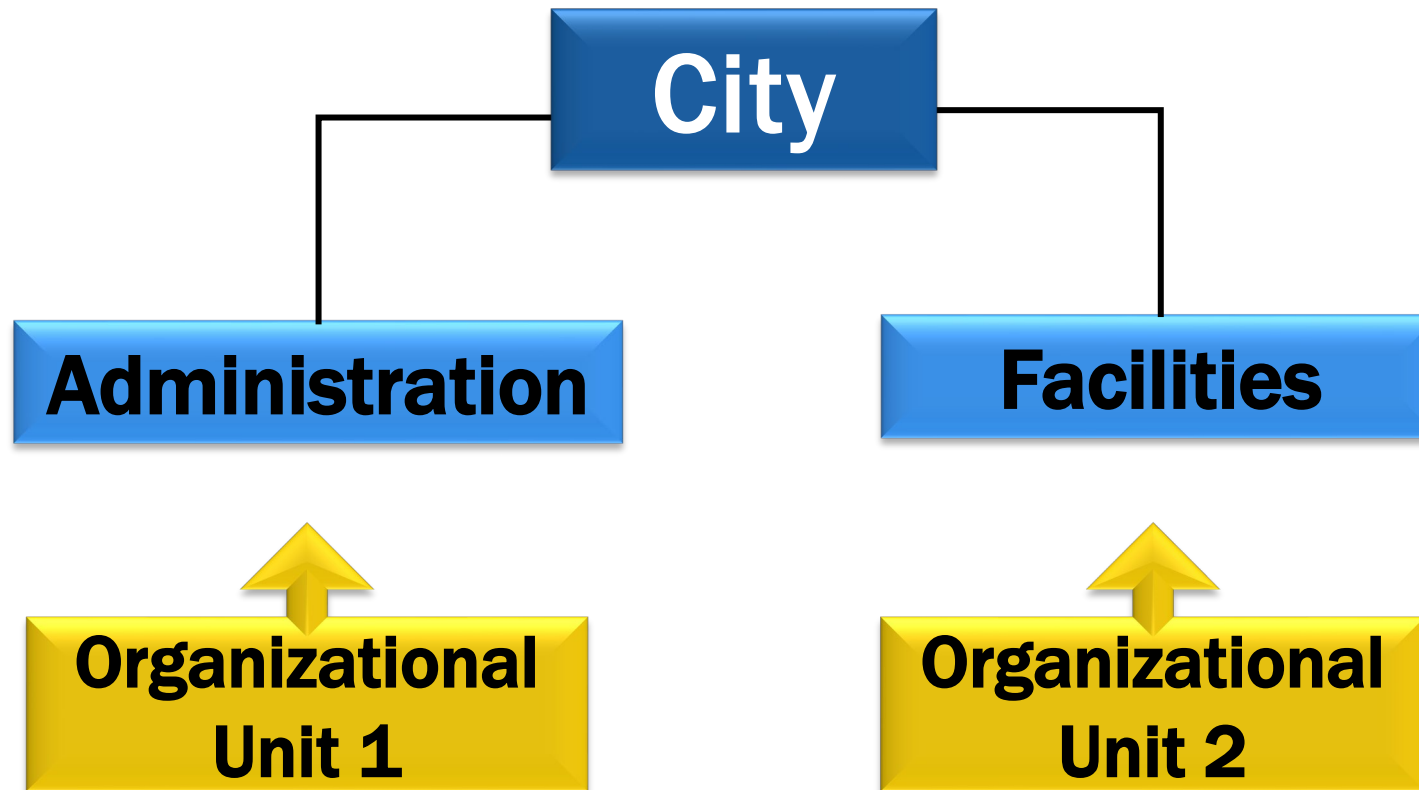
OR

**Program &  
Activities**

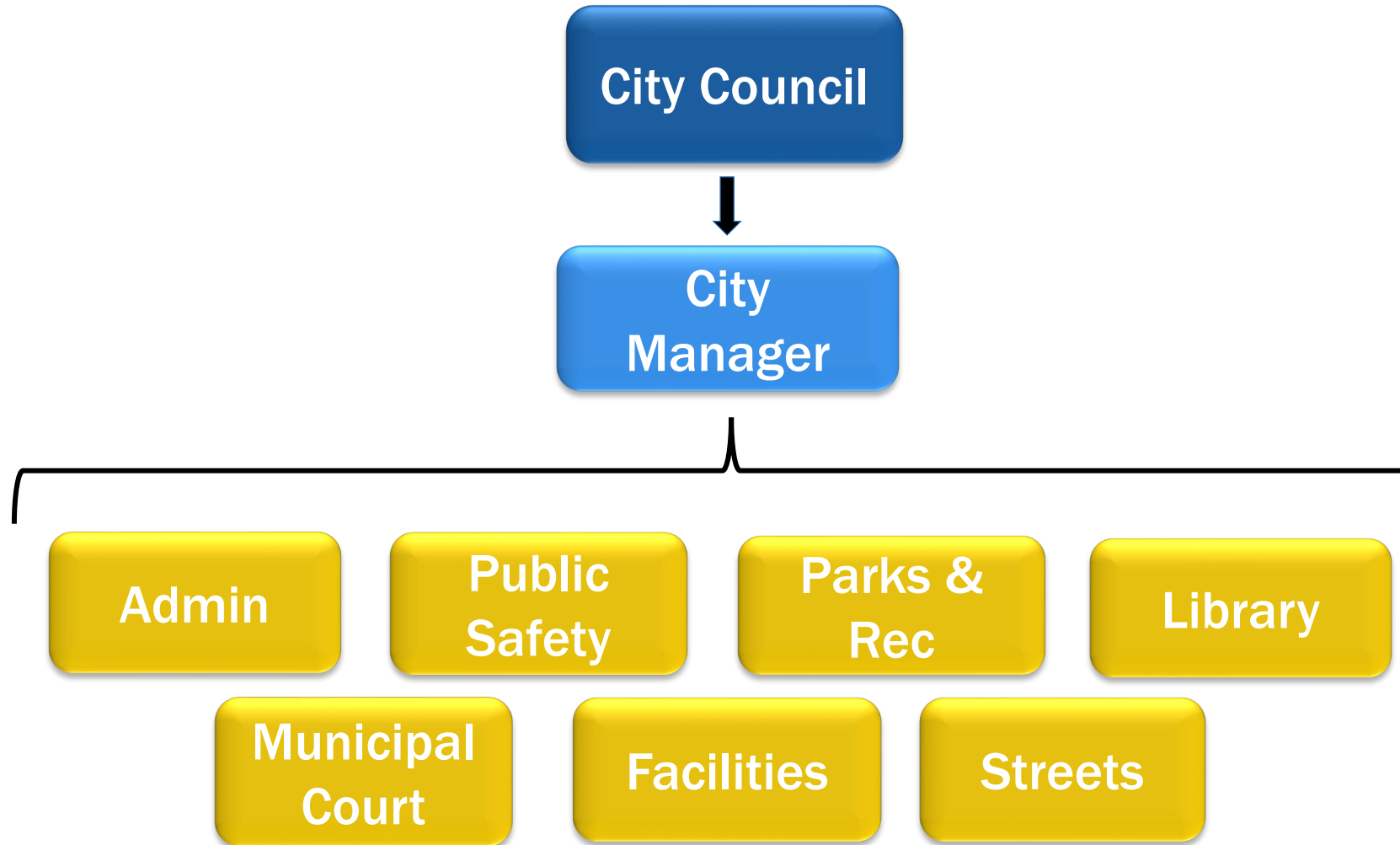
Any administrative subdivision of a municipal corporation, especially one charged with carrying on one or more functions or activities

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

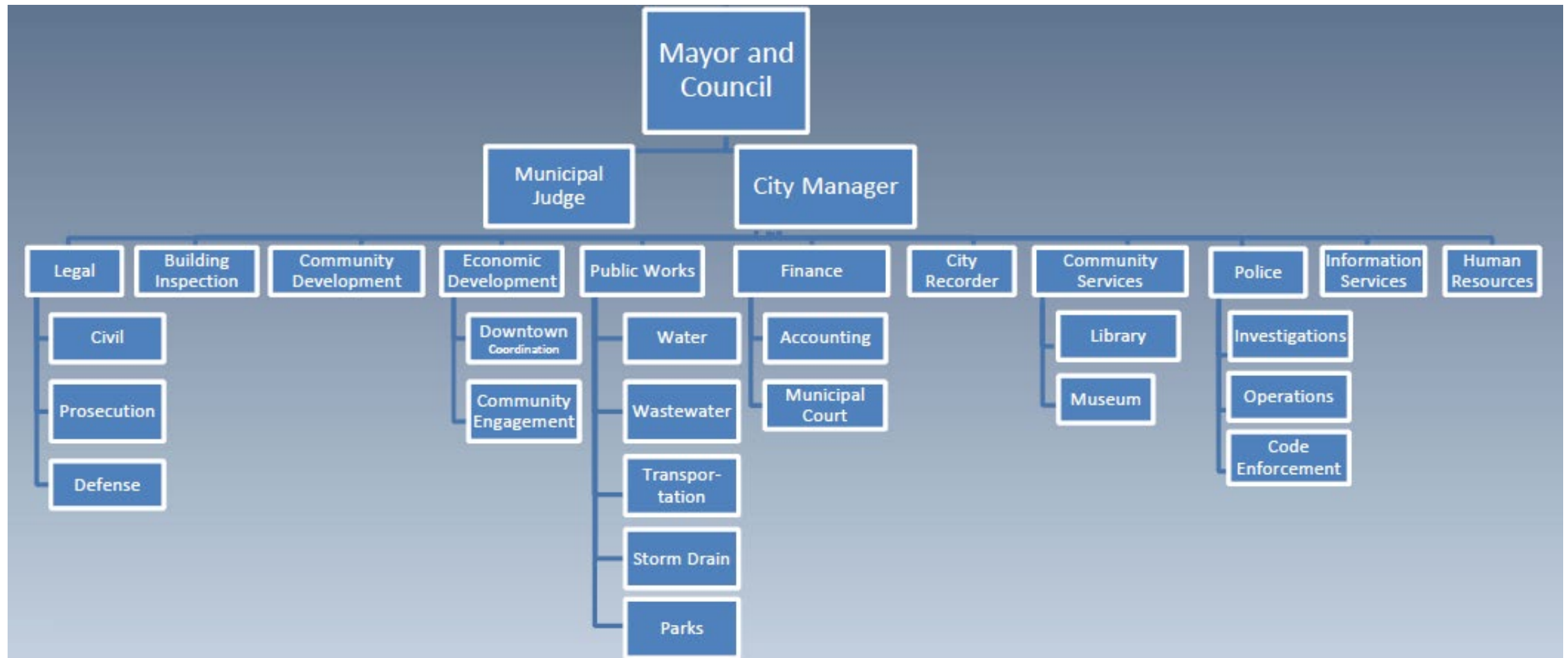
# Simple Organizational Unit



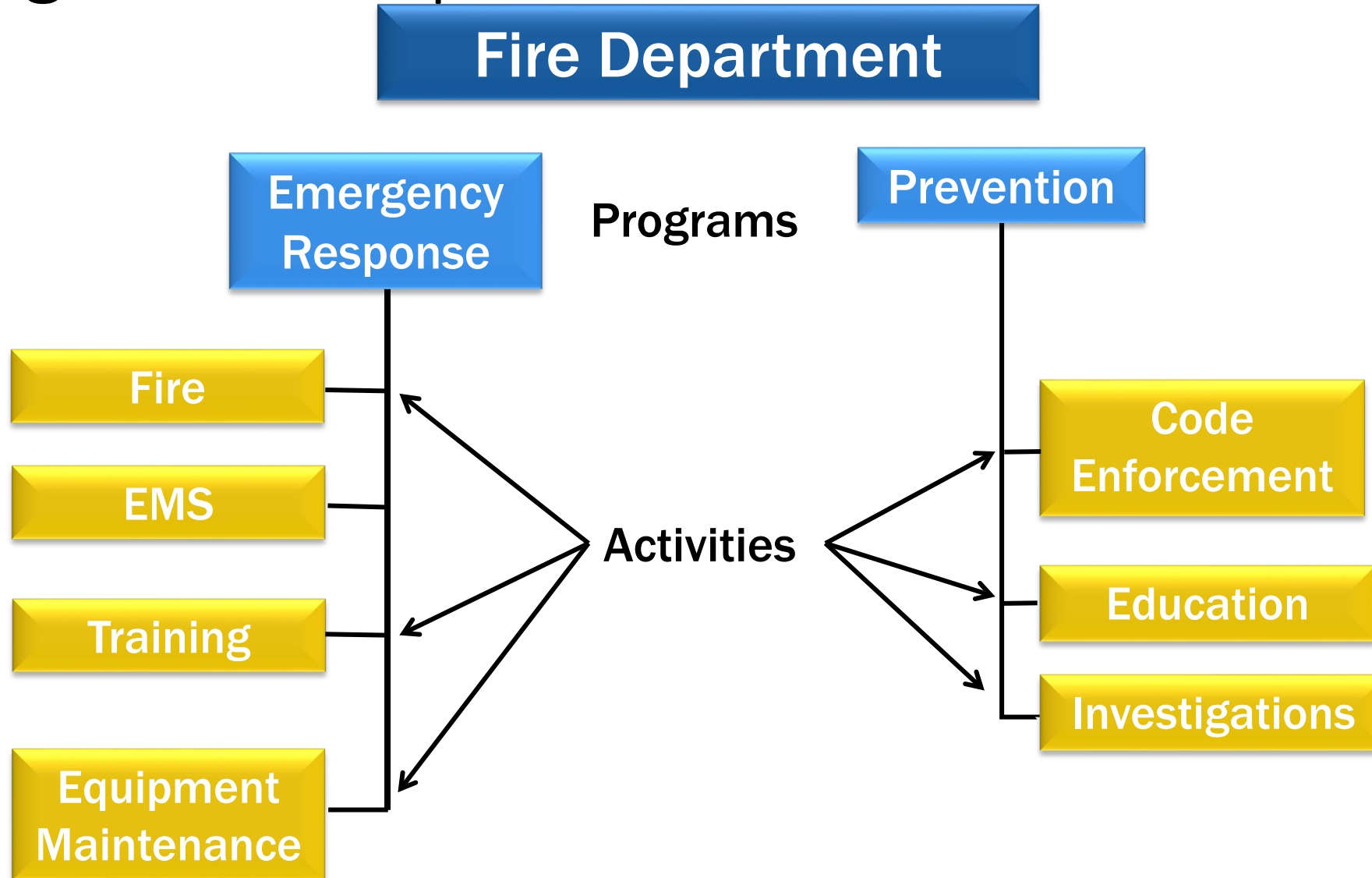
# East Cupcake's Organizational Chart



# Organizational Unit Example

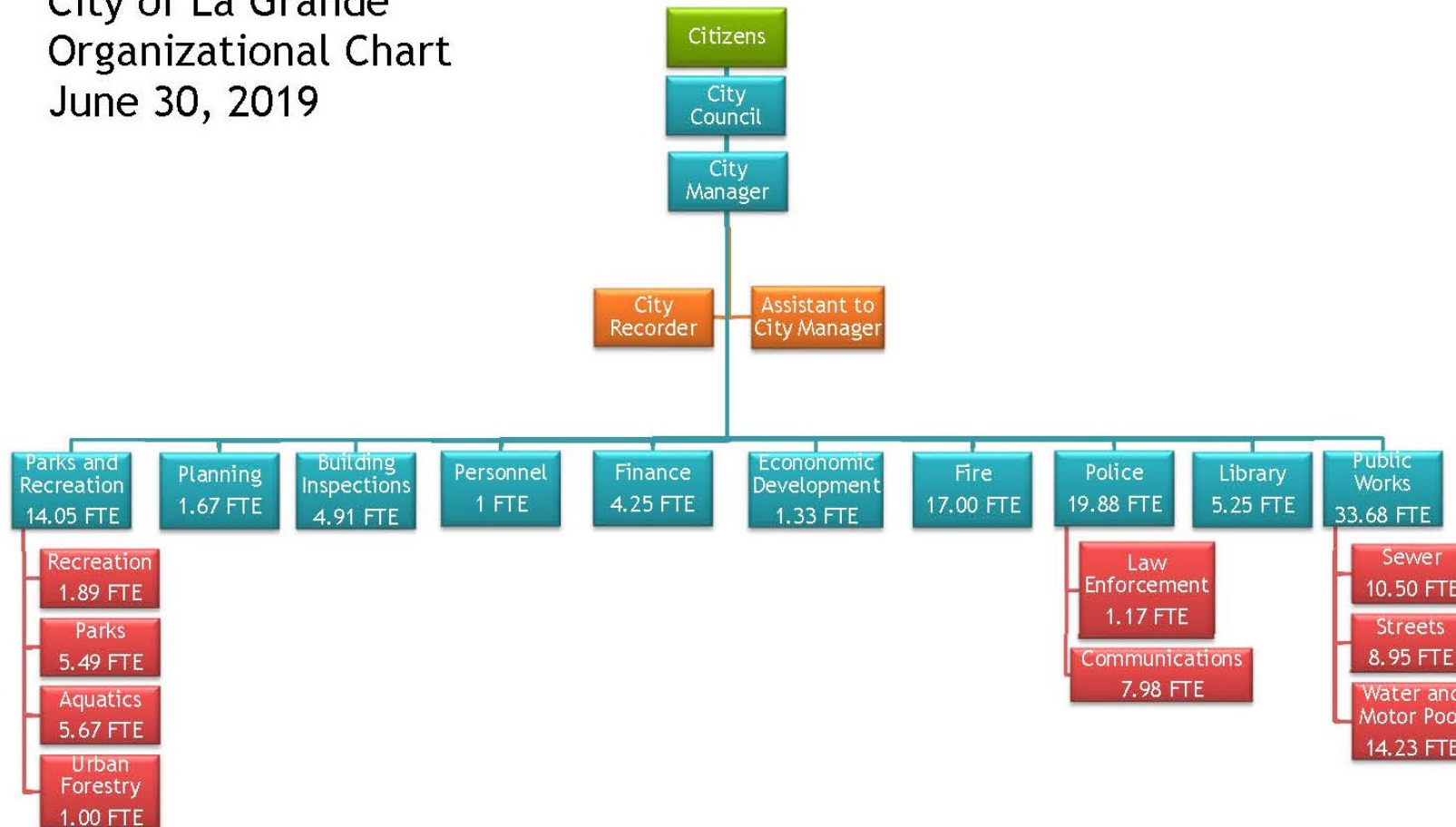


# Program Example



# Program Example

## City of La Grande Organizational Chart June 30, 2019



# 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)

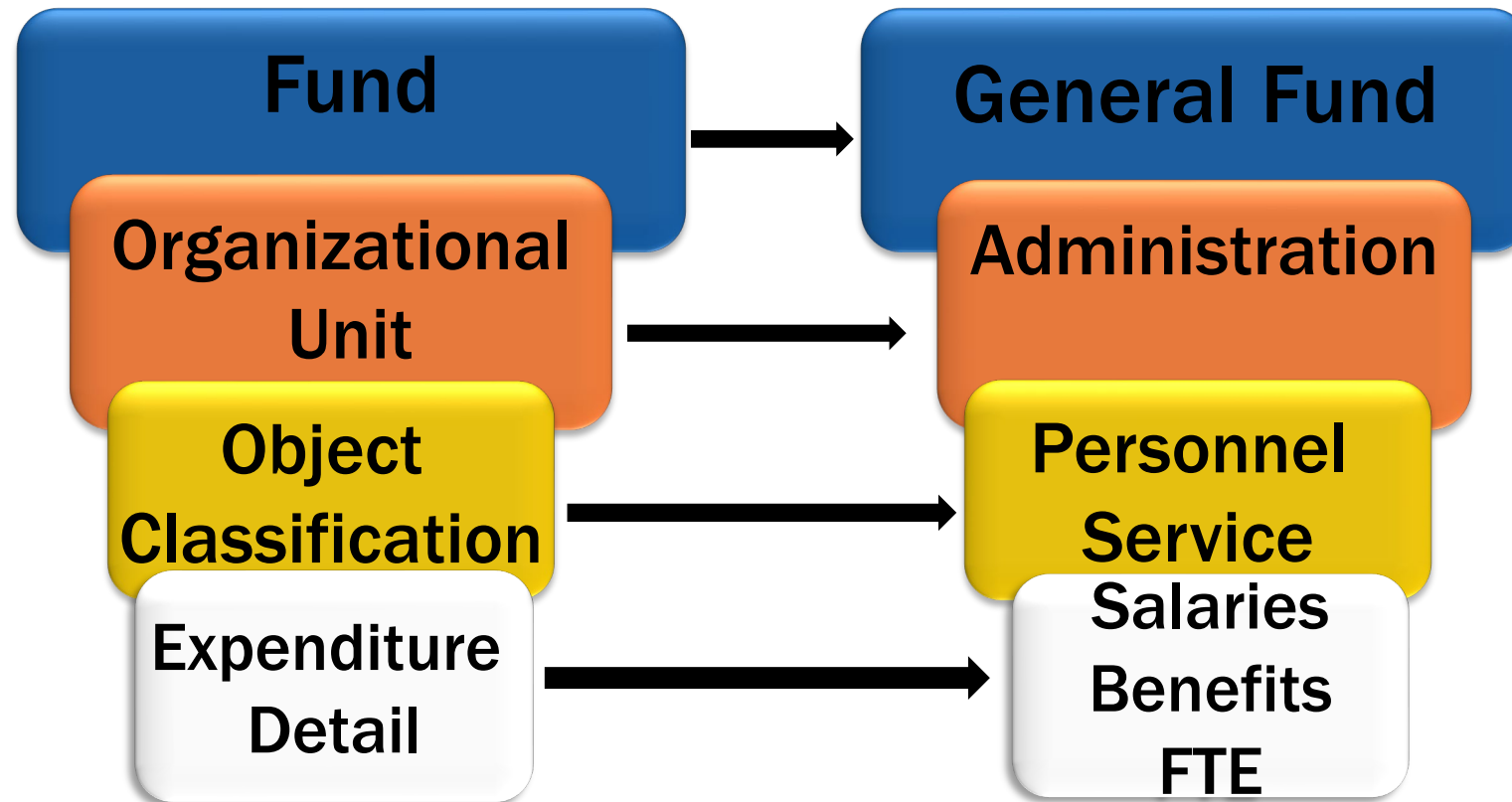
Carry-over for next year's budget to cover requirements prior to resources being available

# Budget Requirements

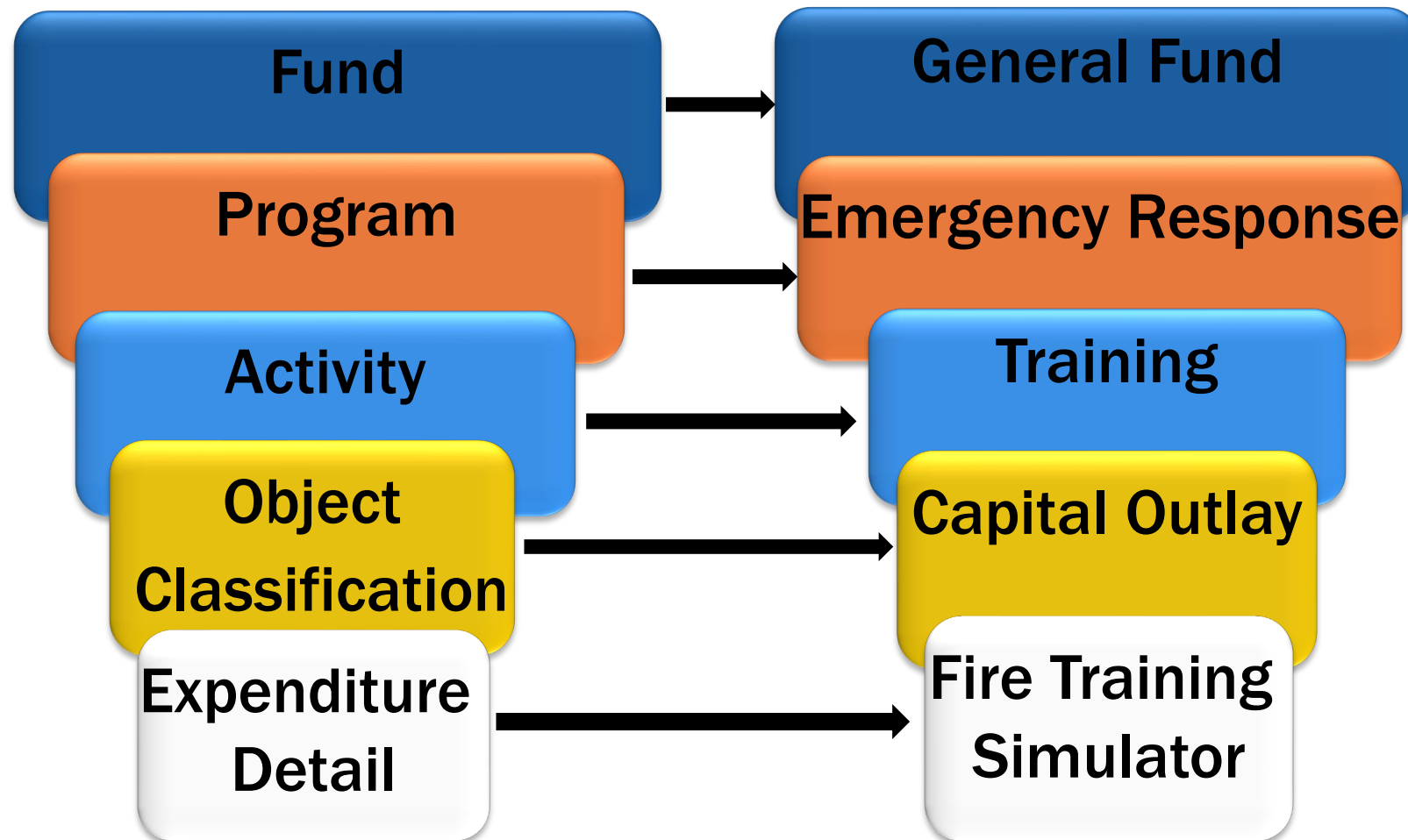
		Object Classifications	Allocated or Not Allocated to an Organizational Unit or Activity?
Requirements	Expenditures	Personnel Services	Usually Allocated
		Materials & Services	
		Capital Outlay	
		Special Payments	Not Allocated
		Debt Service	
		Transfers (out)	
		Operating Contingency	
		Reserved for Future Expenditure	
		Unappropriated Ending Fund Balance	

ORS 294.388

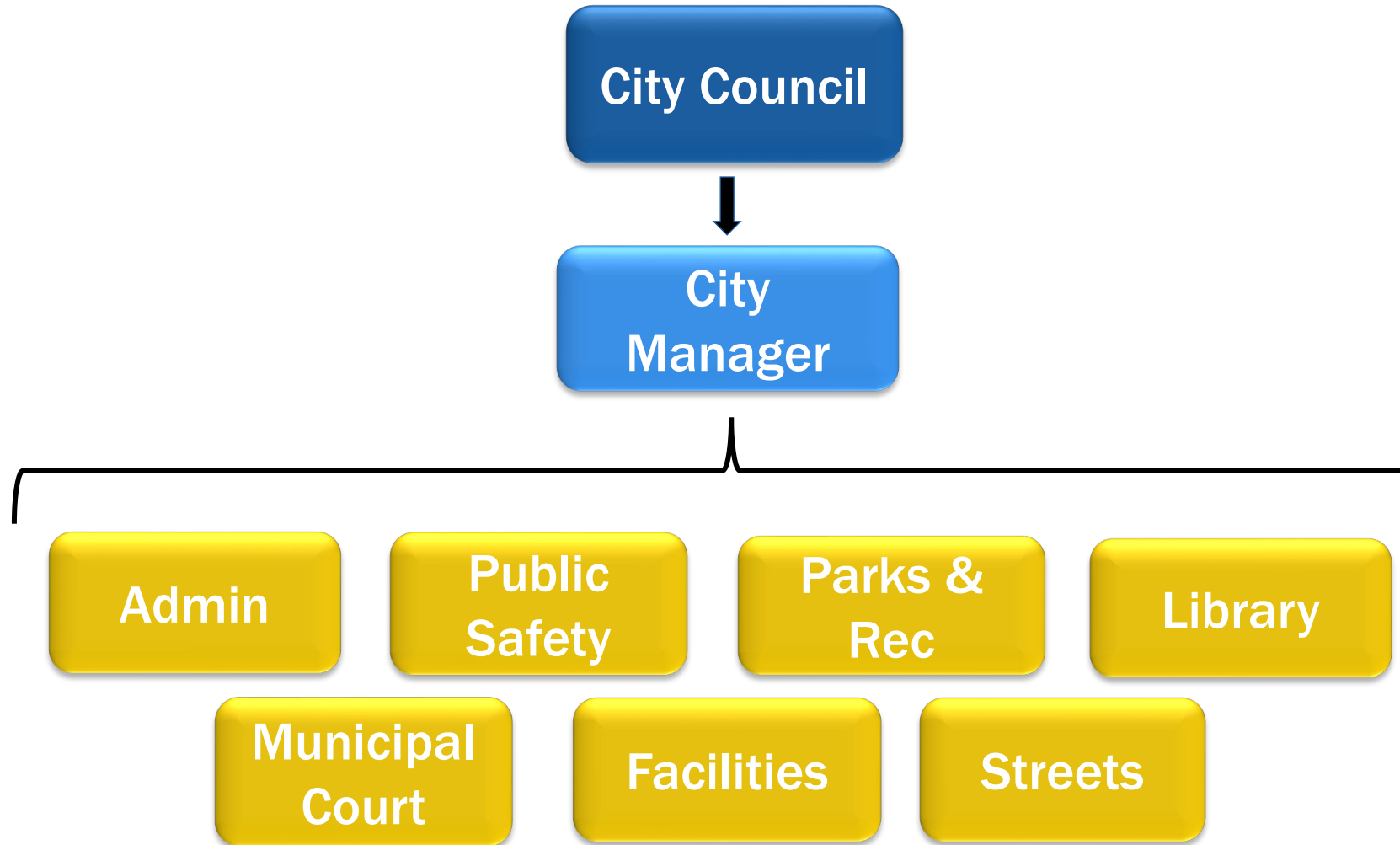
# Budget Organization – Organizational Units



# Budget Organization – Programs



# East Cupcake's Organizational Chart



# Sample Budget Organization

## **General fund**

Admin

Public Safety

Parks & Rec

Library

Municipal Court

Facilities

## **Debt Service Fund**

## **Streets Fund**

Street Department

## **Library Special Revenue Fund**

Library

## **Facilities Reserve Fund**

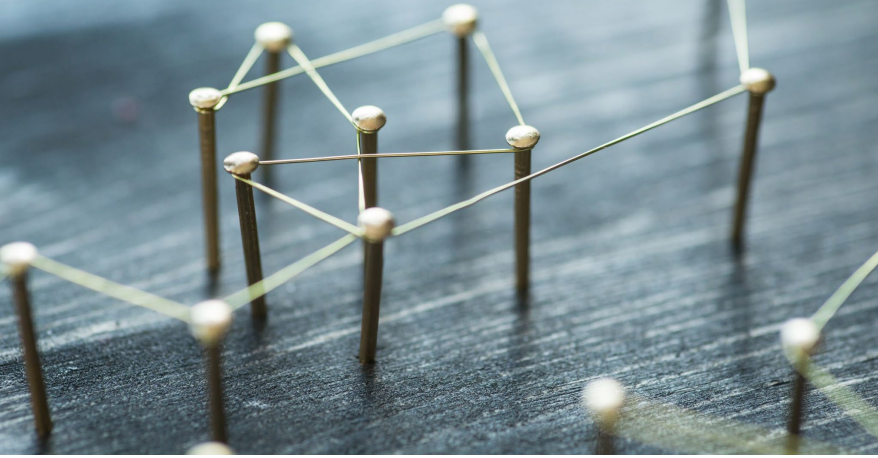
Facilities



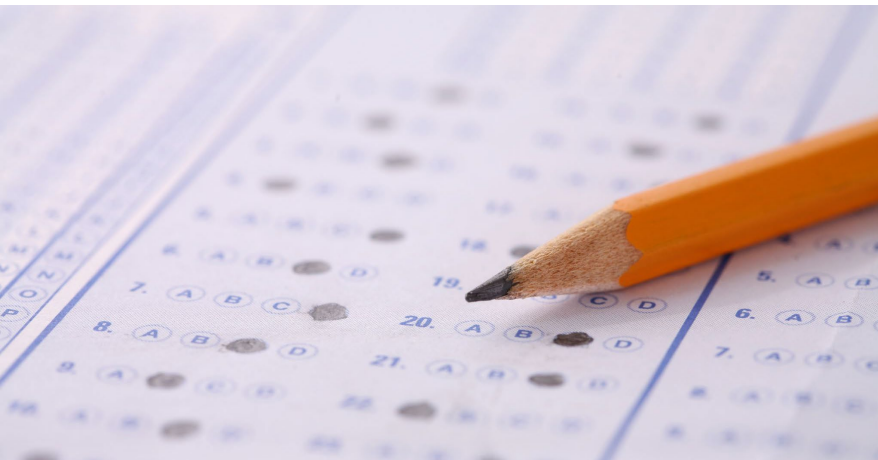
Review Sample Budget

# Budget Detail: Statutory Minimum

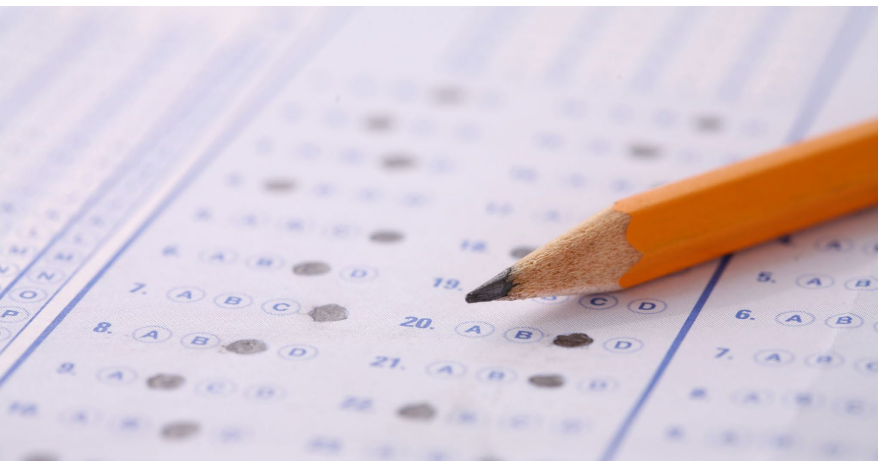
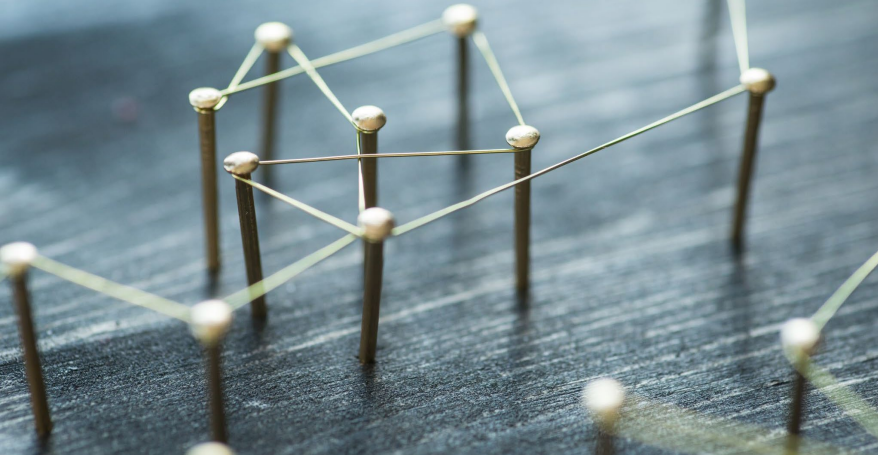
- Line item description
- 2 prior years actual information (*Use actual / audited #'s*)
- Budgeted amount for current fiscal period
- Proposed amount for next year
  - Once BC approves, complete “Approved” column
  - Once Governing Body adopts, complete “Adopted” column



# 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 principle and interest.
3. What's the difference between an organizational unit and a program?
4. **True** or **False**: If your budget has only one fund, you don't need to budget by organizational unit or program.



# Discussion: Proposed Budget

5. **True** or **False**: Debt service must always be budgeted in a debt service fund.
6. Which object classifications should never be allocated to an organizational unit?
7. Which object classifications are defined as operational expenditures?
8. What information do you have to include in your budget if you estimate expenditures for Personnel Services?
9. **True** or **False**: “Non-Departmental” is an appropriate name for an organizational unit within the General Fund.

# Boundary Changes



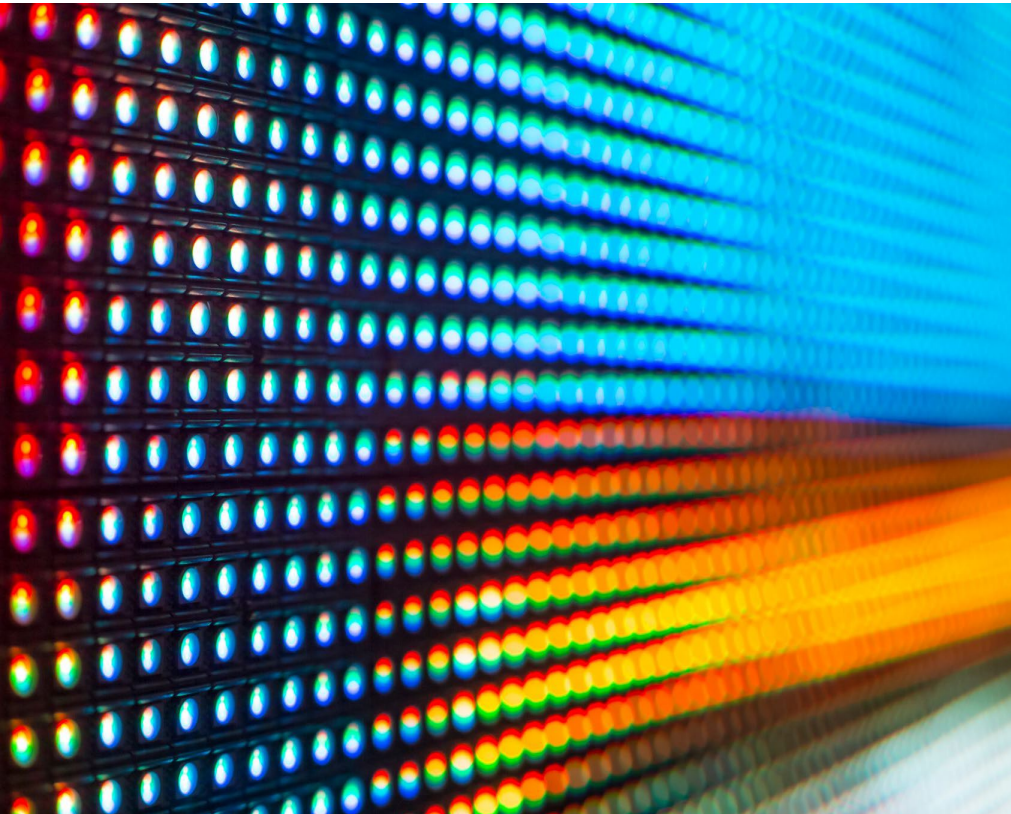
- The Cadastral Information Systems Unit (CISU) web page about how to comply with ORS 308.225 when making changes to your boundaries has been updated.
- For assistance in how to comply with the statute, please review the information at:

[https://www.oregon.gov/DOR/forms/FormsPubs/boundary-change\\_504-405.pdf](https://www.oregon.gov/DOR/forms/FormsPubs/boundary-change_504-405.pdf)



# Property Tax Resources

- Oregon Revised Statutes (ORS 294.305-294.565)
- 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?



# Questions?

<b>Danette Benjamin</b>	(971) 301-1149	<a href="mailto:danette.m.benjamin@oregon.gov">danette.m.benjamin@oregon.gov</a>
<b>Melanie Cutler</b>	(971) 301-1128	<a href="mailto:melanie.cutler@oregon.gov">melanie.cutler@oregon.gov</a>
<b>Jean Jitan</b>	(971) 600-4097	<a href="mailto:jean.jitan@oregon.gov">jean.jitan@oregon.gov</a>
<b>Arlen Stewart</b>	(971) 209-9970	<a href="mailto:arlen.r.stewart@oregon.gov">arlen.r.stewart@oregon.gov</a>



**FT&E Message Phone #** (503) 945-8293

**Email** [finance.taxation@oregon.gov](mailto:finance.taxation@oregon.gov)

## **Local Budget 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>