PERS UAL Task Force

Meeting Materials

October 13, 2017

1pm – 4pm

PSU Board Room, Academic Student and Recreation Center

PERS UAL Task Force

Bob Livingston

Below is a list of potential concepts that were borne out of discussions with stakeholders representing the Association of Oregon Counties (AOC) and Special Districts Association of Oregon (SDAO), and a review of recent revenue records regarding these concept areas.

As a general comment, this is a list of possible revenue sources that could be part of a series of steps to reduce the UAL. Most if not all of these revenue sources are known and are built into current local budgets as well as future budget processes. While there are certainly opportunities available and worth further discussion, it does involve trade-offs with other budgetary priorities.

Forfeiture & Debt Collection

By law county government is required to oversee all forfeiture and debt collection for governmental entities within the boundaries of their county. Once collected, by the county these obligations are then turned over to the jurisdiction owed. In lieu of returning these dollars directly to the jurisdiction owed, these dollars could be directed towards the UAL. Additionally any potential excess dollars from as an example, the sale of real property (in the case of forfeiture, or other means) could also be considered towards UAL.

Presumably due to the sporadic nature of these funds, these revenues are not built into annual budget assumptions. Asset sales clearly fit in this category. Uncollected cumulative property taxes stood at $372.3 million as of 7-1-16 on a statewide basis. For the 2015-16 property tax year, uncollected property taxes totaled $149.5 million.

Urban Renewal

In 2016-17, $205 million in property tax revenue from permanent rates was redirected to urban renewal districts on a statewide basis. Included in this total is $71 million from cities, $73 million from education districts and $20 million from special districts.
This represents a significant potential revenue source for funding the UAL. This is particularly true for education districts. However, a portion of this revenue is currently being used to finance urban renewal debt obligations and therefore would not be available.

One Time Funds

The potential exist that certain one-time funds realized by local government could be identified to reduce the UAL, the Comcast is an example of these one-time funds.

As the Comcast case winds toward a final court decision, property tax revenue continues to build up through the deferred billing process. Another $28 million in deferred billing credits was added in the 2015-16 fiscal year, bringing the statewide cumulative total to $130 million. The bulk of this revenue is from the Comcast case. Roughly 2/3 of this revenue is in Multnomah, Clackamas and Washington Counties.

Although the final amount is still uncertain, past deferred billing credits can be seen as a one-time revenue source, with the expanded base used for current services going forward when the case is settled.

Enterprise Zones

Enterprise zones have played a major economic development policy role in the state. The zones are sponsored by local governments. Property tax exemptions associated with enterprise zones will reduce property tax revenue by an estimated $129 million in the 2017-19 biennium on a statewide basis. To sunset the program would be a significant policy change.
Requiring data centers that receive enterprise zone extensions to provide data storage services to state and local governments is a way of reducing public sector costs, thereby indirectly helping to address the UAL. It is an idea worth exploring with the data center companies.

Natural Resource Options

Timber: Oregon's timber industry has been a major source of state and local revenue for many decades. While its role as a revenue producer has diminished, it remains an important source. Attached is a review of timber revenue history and status.

Extractive Industries: A potential revenue source for some counties in the future is severance taxes on extractive industries.

Water: municipal suppliers typically have a 20 to 50 year planning horizon for their water. As municipal water suppliers we have to plan for economic and population growth. As a result, municipal suppliers often times have water rights that exceed their existing demand or or in search of new supply. They also rely heavily on conservation efforts to stretch their supplies. Preliminary investigations appear to reveal that there is only one instance where a municipal supplier sold their water right to another municipal supplier. Further, as of this writing, unlike other commodities such as timber and extractive elements such as gold, where market value pricing is easily identified, the potential emergence of excess water rights as a commodity is difficult to determine. Additionally, municipal suppliers represent only 6% of out of stream use. Agriculture represents 85%. So municipals represent a very small segment of the overall water use in the state despite the fact that they serve nearly 2/3rds of Oregon's population. Additionally by law, most water suppliers are required to use their revenue for water purposes, a recent court decisions have affirmed this requirement.

STATE OF OREGON

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Research Brief

Research Report #2-13 **February 2013**

REVENUES FROM TIMBER IN OREGON

This report reviews the revenues that flow primarily to local governments from property taxes on forestland and from shared revenues when timber is harvested on state or federally owned forestland. Section 1 is an overview of forestland ownership, total timber harvests, and total local government revenues. Section 2 looks at the individual local government revenue sources, and Section 3 reviews the Forest Products Harvest Tax, which funds a number of forest related programs.

Overview

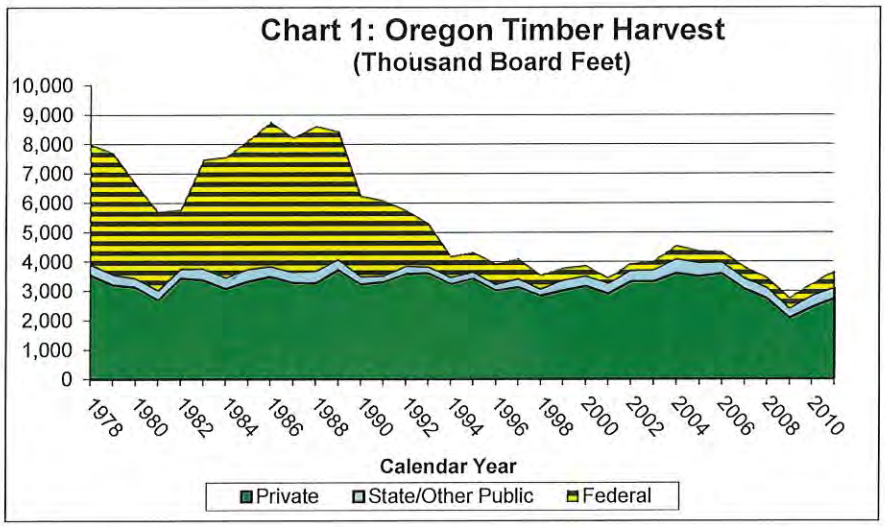
The US Forest Service classifies 30.5 million acres of land as forestland. Of this total, 2.5 million acres (8.1%) are reserved in some manner from timber production. This is accomplished through designation as parks, wilderness areas, or application of other prohibitions on harvest. Another 3.4 million (11.1%) are not capable of production of more than 20 cubic feet of wood per acre in a year. Forest revenues in this report are derived from harvest on public and private forestlands. Federal forestland accounts for 18.2 million acres statewide. Recent regulations have significantly reduced harvest on federal lands in response to concerns over the Northern Spotted Owl and other species. In lieu payments take the place of revenues that used to be derived from harvest on national forests.

OREGON'S FOREST LAND BASE (2005)
Thousands of Acres

		Timber Land		
Ownership	Low Quality* Unreserved	Unreserved	Reserved	Total
Private				
Industrial Private	156	5,844	-	6,000
Small Private	1,172	3,497	-	4,668
Public				
State	46	871	23	940
Local	-	135	12	146
Other Public	-	10	-	10
Federal				
Forest Service	389	11,756	2,139	14,283
National Park Service	-	-	159	159
Bureau of Land Management	1,393	2,238	129	3,760
U.S. Fish and Wildlife Service	-		16	16
Other Federal	-	27	-	27
Native American	105	358	-	463
Total: All Owners	**3,261**	**24,736**	**2,477**	**30,473**

*Low Quality is defined as forestland that is not capable of producing in excess of 20 cubic feet/acre/year of wood
Note: Totals may be off due to rounding
Source: Donnegan, Joseph, et al. 2008. Oregon Forest Resources 2001-2005 Five-Year Forest Inventory and Analysis Report. PNW-GTR-765. p 127 Table 2.

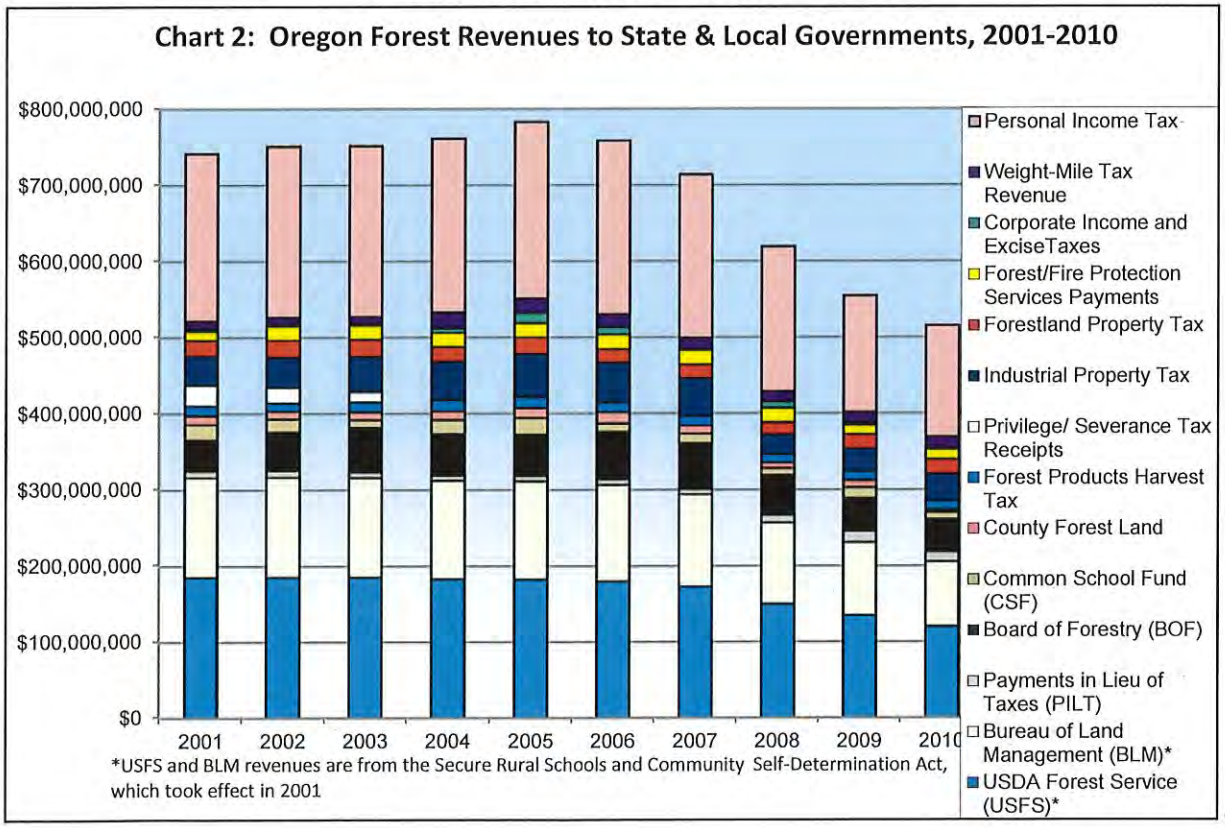
Chart 1 at the right shows the volume of timber harvested from Oregon forests between 1978 and 2011. The biggest change over the period is the decline in the harvest from forestland managed by the USFS and BLM. These harvests reached a maximum of 4.9 billion board feet in 1988, and rapidly declined in the early 1990's.



The harvest from privately owned forestland reached a maximum of 3.7 billion board feet in 1989, held fairly constant at about 3.4 billion board feet through 1995, and fell to 2.7 billion board feet by 2009. The depressed housing market from the recession starting in 2008 caused the lowest timber demand in recent history. More recently, harvest has been increasing and the forecast is for about 3.6 billion board feet through 2012. The harvest from other public forestland has varied between 0.2 and 0.6 billion board feet per year.

Each of these revenue sources is discussed in the following sections of this report. The first section deals with revenues from privately owned forestland, both property taxes and privilege taxes. The second section deals with revenue from publicly owned forestland and the final section pertains to the Forest Products Harvest Tax.

Tax Revenue from Private Forests



Standing timber itself had been exempt from property tax since 1961 in eastern Oregon and 1977 in western Oregon. When these exemptions were made, severance taxes were imposed to replace property taxes on the timber. The forest land under the timber has been subject to a property tax since 1856. There were two major changes in forest tax policy which affected revenues from private forestland during the 1990's. These changes were brought about in response to citizen-initiated statewide efforts to reduce the overall property tax burden on all properties. In 1993, the Legislature changed the forestland taxable values from 100% to 20% of the total assessed value and redefined the severance tax as a privilege tax. The 1999 Legislature created a new program for forestland in large ownerships (optional for forestland in small ownerships), under which privilege taxes on harvested timber were phased out by 2003 while forestland assessed values were increased to 75% of the value for highest and best use forestland for two years beginning in 2000 and then 100% by 2003. This program is referred to as the Oregon Forest Land Program (OFLP) because it creates a uniform treatment of property tax on forestlands statewide. In 2001, HB 3537 changed the process by which specially assessed forestland values are determined from a statutorily defined list of values to a determination of value by the Department of Revenue annually in rule. The 2003 Legislature completed the transition from the 1993 tax program by including all forestland in small ownerships into the 1999 program thereby creating one consistent program for all forestland owners.

Forest land is assessed in a manner that reflects the value of the land when the highest and best use is the production of timber. Values could be higher for other uses, such as residential development, but the taxation of timber land does not reflect these higher values, as long as the land remains in timber production. Measure 50 also created a Maximum Specially Assessed Value (MSAV) at 90% of the 1995 taxable value, grown by 3% per year. Taxation is therefore based on the lesser of the MSAV and the Specially Assessed Value (SAV) for timber use. SAV's are established by the Department of Revenue each year for 8 site classes that vary by timber growth potential.

Timber Tax History

Western Oregon Generally

In 1977, the value of standing timber was exempted from property tax and a 6.5% severance tax was imposed on timber harvests in lieu of property taxes on standing timber. For Reforestation lands, this legislation repealed the Forest Fee and Yield Tax and reduced its 12.5% yield tax by 0.25% per year. It was scheduled to reach 6.5% in 2002. For non-reforestation lands, the 6.5% rate was in effect through June 30, 1991. Private forestland is taxed as part of the local property tax system. All forestland is assessed based on its value in forest use (specially assessed value.)

Table 1: Historical Privilege Tax Rates Over Time

	Eastern Oregon		Western Oregon	
Period	**Regular**	**Reforestation**	**Regular**	**Reforestation**
Initial	5.00%	12.50%	6.50%	12.50%
1991-92	4.35%	8.00%	5.85%	8.30%
1992-93	3.90%	7.20%	5.30%	7.50%
1993 2nd	3.50%	6.40%	4.70%	6.60%
1994	3.30%	5.61%	4.40%	5.75%
1995	2.90%	4.78%	3.80%	4.82%
1996-99	1.80%	1.80%	3.20%	3.20%
2000	1.10%	-	1.90%	-
2001	1.10%	-	1.90%	-
2002	0.80%	-	1.40%	-
2003	0.00%	-	0.00%	-

For all timber lands in Oregon, the 1991 Legislature redefined the severance tax as a privilege tax and reduced the tax rate and the additional rate on reforestation lands for harvests between 1991 and 1993. The 1993 Legislature further reduced these rates for harvests in calendar years 1994 through 1996. In 1999, privilege taxes were phased out during a three-year period, after which

privilege taxes were eliminated on the large ownership program. Table 1 summarizes the privilege tax rates over time.

Prior to 1995-96, property tax applied to 100% of SAV. For 1995-96 and 1996-97, forest land was taxed on 20% of its specially assessed value. Measure 50 also required the creation of a maximum specially assessed value (MSAV) at 90% of the 1995 SAV. Taxes were applied on the lesser of 20% of the SAV or the MSAV.

The 1999 Legislature made further changes. It created the Oregon Forest Land Program (OFLP) which is required for forestland in large ownerships (5,000 acres or more) and optional for forestland in smaller ownerships. The taxation of smaller ownerships is discussed below in the section "Small Tract Optional Tax." Under OFLP, for 2000-01 through 2002-03, assessed value is the lesser of 75% of SAV or MSAV. The MSAV was also redefined in 1999 as 75% of 1995 levels indexed to grow by 103% each year to reach year 2000. Beginning in 2003-04, taxes would be assessed on the lesser of SAV or MSAV (redefined.) Small tract forestland was also added to the OFLP in 2003, but retained the option to be taxed under the Small Tract Forestland Option.

The method of determining specially assessed values has also changed over this period. Values are determined for 8 site classes (FA through FG & FX), which measure ability to produce timber. Prior to 1995-96 these values also varied by market area and by value zone and were determined by indexing values set in 1977 by the Oregon Supreme Court. The 1993 Legislature set new values for each site class in statute, which applied to all areas of western Oregon. These were indexed annually and took effect in 1995-96. The indexes used over this period also changed. The 1999 Legislature required the Department of Revenue to convene working groups to review these values, to develop a process for class action appeal of forestland values, and to review the method of taxing forestland not covered by the new program. The 2001 Legislature passed HB 3537, which changed the valuation from a statutorily determined schedule of values to values determined by the Department of Revenue based on a statistical model which may include forestland sales, stumpage values, immediate harvest values, log prices, or other commercially reasonable factors for real market value analysis of forestland.

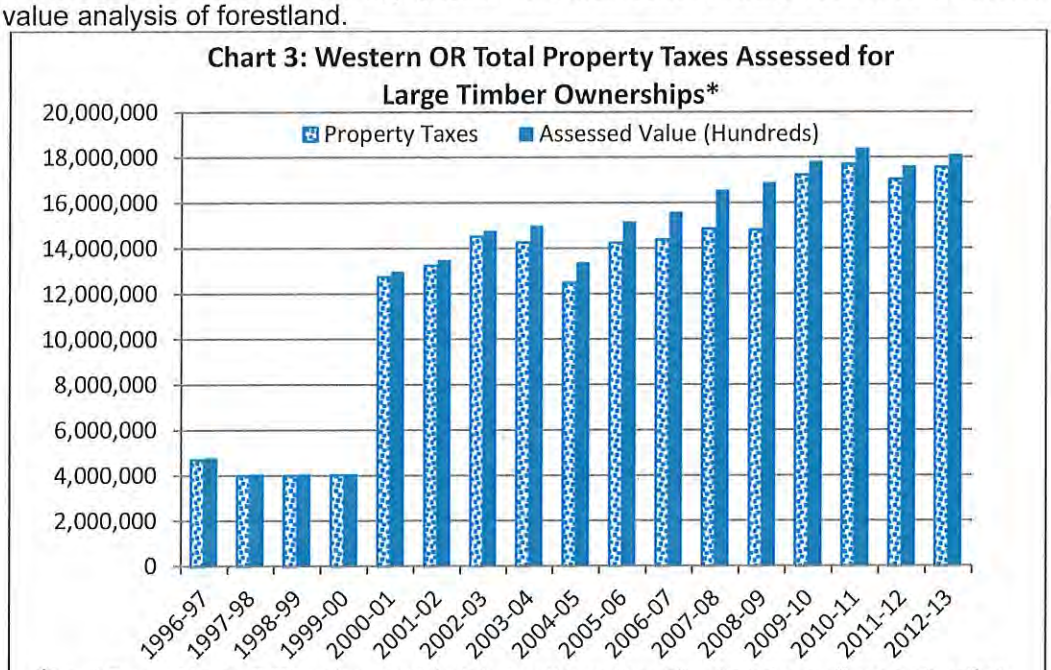


Chart 3 above shows the specially assessed value of forest land and the property tax revenue from these lands in Western Oregon. The Oregon Forest Land Program became the default forestland tax program in 2003, and small owners were provided the opportunity to opt out.

Prior to Measure 50, property tax levies submitted by local taxing districts were reduced by

estimated privilege tax revenues (timber tax offsets.) Measure 50 ended this offset process for school districts and created an offset tax rate for other districts. The offset rate reduced the districts' base rates. Estimates were required because actual fiscal year privilege taxes were not known at the time levies were submitted. To assure that revenues transferred to the districts by the county treasurers were equal to the offset amounts, the legislature established reserve accounts and required any distributions in excess of the offset amounts to be held and distributed in the following year. The 1999 legislation ended this complicated process in 2001-02 by holding the county share for distribution in August of the following fiscal year. As privilege tax revenue declined, the offset rate declined and the tax rate imposed by the district increased.

Eastern Oregon (highlights differences from treatment in western Oregon)

In 1990, harvests from private forestland in eastern Oregon paid a severance tax at the rate of 5% of immediate harvest value. This tax was enacted in 1961 in lieu of property tax on the value of standing timber. Roughly 114,000 acres were classified as Reforestation lands and paid an alternative rate following the repeal of the Forest Fee & Yield Tax in 1977. This alternative rate was scheduled to decrease 0.25% per year, scheduled to fall to zero in 2008. The 5% rate was in effect through June 30, 1991. As with western Oregon, the 1991 and 1993 Legislatures redefined the severance tax as a privilege tax and reduced the tax rate and the alternative tax rate on reforestation lands. By 1996, harvests from all private forestland in eastern Oregon paid a privilege tax at a rate of 1.8% of immediate harvest value. The new program (OLFP) created by the 1999 Legislature also applies to eastern Oregon. Harvests from forestland, under OLFP, paid privilege taxes at reduced rates for 2000 through 2002 and were exempt from privilege taxes thereafter. Table 1 shows the privilege taxation rates over time. Small ownerships have the option to pay privilege taxes and property taxes on 20% of the specially assessed value for eastern Oregon. Details about this program are described below in the section about the Small Tract Optional program.

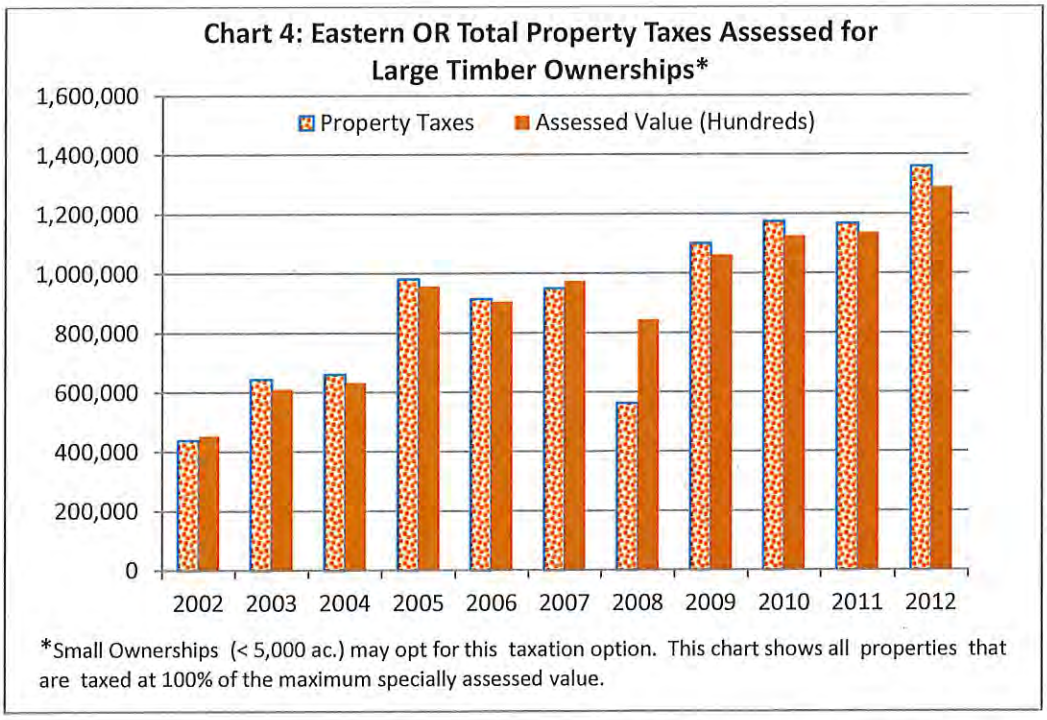


Chart 4 above shows the property taxes and assessed value for property taxes in eastern Oregon. Like western Oregon, private forestland in eastern Oregon is taxed as part of the local property tax system. Prior to 1995-96 assessed value was 100% of specially assessed value (assessed value was an increasing percent of specially assessed value for the 114,000 acres of Reforestation lands formerly under the Forest Fee and Yield Tax). For 1995-96 and 1996-97 it was assessed at 20% of its specially assessed value. Since 1997-98 it has been assessed at the lesser of 20% of its

specially assessed value or its maximum assessed value. OFLP created by the 1999 Legislature is required for forestland in large ownerships (5,000 acres or more) and included the Small Tract Forest Land Option in 2003. Under OFLP, for 2000-01 through 2002-03, assessed value is of the lesser 75% of specially assessed value or maximum assessed value. Beginning in 2003-04, assessed value is the lesser of specially assessed value or maximum assessed value. In 2001, HB 3537 changed the method of valuation for eastern Oregon in the same way as it changed the method of valuation for western Oregon (described above.)

The method of assessing specially assessed value has varied over this period and is slightly different than those that apply to western Oregon. One value applies to all forestland in eastern Oregon with no distinction by productivity class. Prior to 1995-96, specially assessed value was based on indexing the $25 per acre value set by the legislature for 1982. The 1993 Legislature set a statutory value of $47 per acre, which was indexed based on immediate harvest value. The review of forestland values required by the 1999 Legislature applied to both eastern and western Oregon (see above). The value is now based on the market value of highest and best use forestlands.

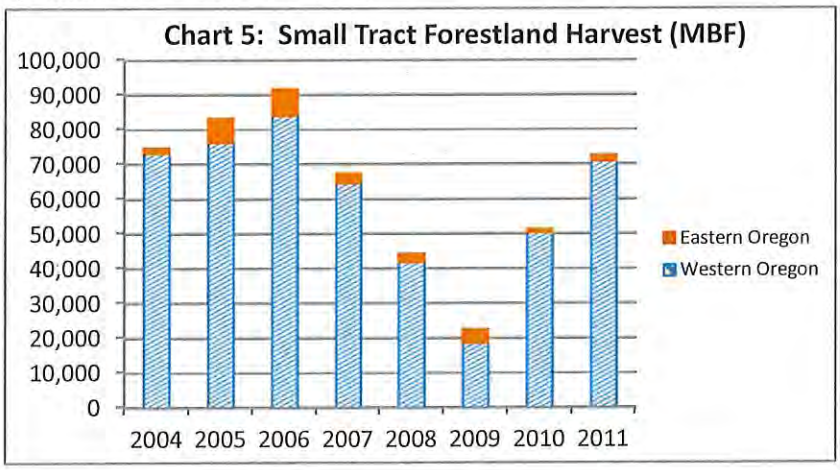
Prior to 1997-98, property tax offsets depended on the 1964 value of standing timber but were otherwise similar to those for western Oregon. In 1990-91, $4.2 million was distributed. Of this 79.4% went to schools (64.4% to K-12 schools, 12.1% to ESD's, and 2.9% to community colleges), 17.1% went to county governments and 3.5 % went to all other taxing districts. These distribution percentages were fairly stable through 1996-97, though the county's share fell slightly in favor of schools and other districts. In 1997-98, Measure 50 eliminated the calculation of district tax rates used in the distribution formula. As a result, the county assessors used the district prime rates in computing the offset amounts. This reduced the school share through 2000-01 to about 50%. The 1999 legislation ended this process in 2001-02.

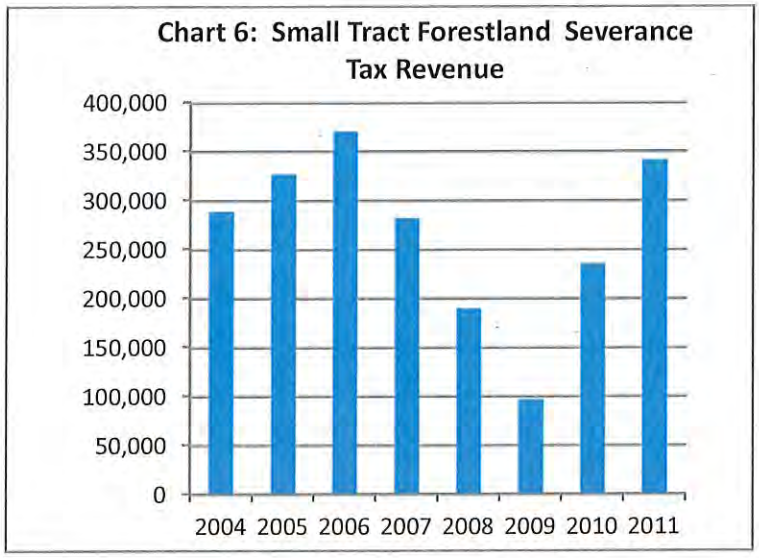
Small Tract Optional Tax

Before the passage of the Small Tract Forestland Option bill in 2003 (HB 2197), small forestland owners in western Oregon had the option to be taxed under the Western Oregon Small Tract Optional Tax (WOSTOT) program, which taxed forestlands based on productivity values. Prior to 1997-98, these values were determined for 5 site classes by the Department of Forestry using an income approach. Timber harvested from lands under WOSTOT was not subject to severance or privilege taxes.

The 1997 Legislature redefined productivity value as the specially assessed values determined by the Department of Revenue. This required matching the Department of Forestry's site classes to Revenue's site classes. In this process, the Legislature redefined maximum assessed value to be 90% of the 1995-96 specially assessed values. Since harvests from these lands are exempt from privilege taxes, they were assessed at 100% of their productivity value prior to 1997-98 and have been assessed at the lesser of their productivity value or their maximum assessed value since 1997-98. In 2003, the Small Tract Forestland Option Bill, HB 2197, allowed for an assessment of land less than 5,000 acres at 20% of the Department of Revenue's specially assessed value for forestland. Severance taxes were added to make up for the 80% of property tax revenue that is deferred. The 2003 bill eliminated the Western Oregon Small Tract Optional Tax and added the small Tract Forestland Option Program to the Oregon Forest Land Program.

Harvests from small ownerships opting not to be taxed under OFLP pay a property tax on 20% of their assessed value, and are subject to a severance tax at harvest intended to recover the 80% in lost property tax value. The tax rates began at $3.03 per MBF (thousand board feet) in eastern Oregon and at $3.89 per MBF in western Oregon in 2004 and are indexed by the year over year percentage change in specially assessed forestland values. The values for eastern and western Oregon in 2012 are $3.80/MBF and $4.88/MBF, respectively. Severance tax receipts are allocated to counties to help offset administrative costs.



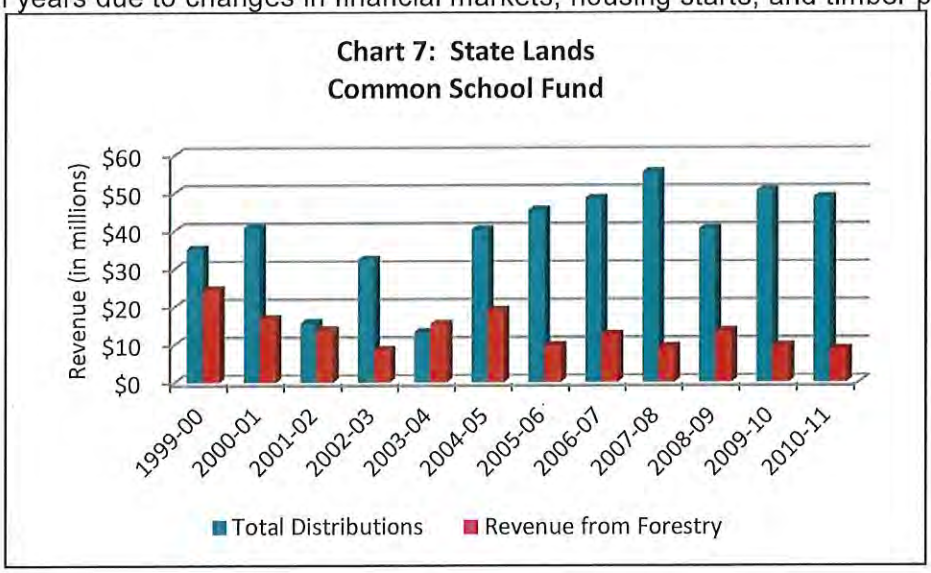


Shared Revenue from Public Forests

State privilege (severance) tax laws and property taxes do not apply to publicly owned forestland or timber harvested from those lands. Instead, local governments receive, under federal and state law, a share of the revenue earned from management of these lands. Most of this revenue is from timber sales.

State Forest Lands

The State Forester manages 821,000 acres of forestland. 119,774 of these acres were deeded to the state from the federal government for education. They are managed by Department of Forestry on behalf of the State Land Board and the Department of State Lands as the Common School Forest Lands. Forestry's expenses for managing these lands are paid from Common School Fund earnings. Chart 7 shows the distribution to counties from the Common School Fund for fiscal years 2000 to 2011. It also shows the timber revenues in each year. The Common School Fund operates similarly to an endowment fund where the revenue is invested and only the earnings of the fund are distributed. The market value of the Common School Fund was about $1.1 billion on December 31, 2010. Fund earnings are distributed first to the counties and is allocated according to the number of school aged children ages 4 to 20 and then to school districts according to the average daily membership. Annual distributions have fluctuated in recent fiscal years due to changes in financial markets, housing starts, and timber prices.



Aside from Common School Fund forestland, the remaining 701,000 acres managed by the state forester are called Board of Forestry lands. The majority of these lands were deeded to the state after counties had foreclosed on some private forestland in the 1930's and 1940's that had been burned or cut over. The counties in turn transferred ownership of this land to the state for reforestation in exchange for a share of revenue generated from these lands.

There are currently six large state forests that make up the majority of state forest lands. These include Clatsop State Forest, Elliott State Forest, Gilchrist State Forest, Santiam State Forest, Sun Pass State Forest, and Tillamook State Forest. Smaller tracts are scattered in the Western Oregon coast range. State forest lands are actively managed to provide economic, social, and environmental benefits to Oregon. Revenue, after deductions for protection, development, and management costs, is distributed to the counties where the land generating the revenue is located. Counties keep at least 10% of the revenues for management and supervision. The County School Funds are credited with 25% of the balance and the remaining 75% is allocated among taxing districts with trust lands based on district tax rates. The distribution by county is shown in table B1 of Appendix B for fiscal year 2011 and the three latest years.

U.S. Forest Service Lands

Historically, the U.S. Forest Service shared revenue from timber sales with counties in effect as a payment in lieu of property tax and in recognition of the impact transporting logs has on road systems. Throughout most of the century, counties had received 25% of the revenues for timber harvest on federal land. To forestall the precipitous fall in these revenues in the early 1990's following harvest reductions primarily related to the Endangered Species Act, the federal government provided, in the 1993 Omnibus Budget Reconciliation Act, for an alternative payment plan for fiscal years 1994 through 1998. This plan applies to counties with forest reserves affected by the curtailment of harvests due to concerns about the Spotted Owl. The Secure Rural Schools and Community Self-Determination Act (HR 2389), passed by Congress in October 2000, repeals the Owl guarantees and sets 2000-01 payments equal to the higher of the 25% payment or the average of the three highest payments between 1984 and 1999. This Act applies to all federal forest reserves, whether or not affected by Endangered Species Act legislation. County receipts are split in two ways (there are statutory exceptions for several counties). The county road funds receive 75%. The county school funds receive 25%, which is distributed based on the number of students. These revenues are not offset against property tax levies. The distribution of U.S. Forest Service payments by county is shown in table B2 of Appendix B. The federal timber payments to counties have been reauthorized for fiscal year 2012, at a reduced level from 2011. The future of these payments is uncertain at the time of this writing.

Oregon and California Railroad Lands (O&C)

The Oregon and California Railroad lands are remnants of a huge land grant made in 1869 to a private company for building a north-south railroad through western Oregon. Lands reverted to the federal government when the company violated the terms of the grant. There are about 2.5 million acres in 18 counties, which are all in western Oregon except for Klamath County. The greatest concentration of land is in Coos, Douglas, Lane, Jackson, and Josephine counties. The land is primarily administered by the Bureau of Land Management (BLM). Land in national forests is managed by the U.S. Forest Service.

Under a 1937 federal Act, counties receive 50% of the revenues from timber sales on lands in the county. These are effectively payments in lieu of property and privilege taxes and in recognition of the impact that transporting logs has on road systems. The 1993 and 2000 federal Acts also apply to forestland managed by BLM (see the U.S. Forest Service Lands above, for a discussion of these Acts). Thus the federal government has provided alternative or minimum payments as a declining percentage of average payments between 1986 and 1990 through 1999-00 and made minimum payments through 2005-06 based on the average of the three highest payments between 1986 and 1999. The Secure Rural Schools Act county payment calculation uses multiple variables, including acres of Federal land within an eligible county, a county's share of the counties' average of the 3 highest receipt and safety net payments during fiscal year 1986 through fiscal year 1999, and an income adjustment based on the per capita personal income for each county. The Secure

Rural Schools and Community Self-Determination Act has been reauthorized for fiscal year 2012.

The distribution to each county is a fixed percent of the total based on the adjusted 1915 assessed value of O&C land. There are no requirements for redistribution to local governments within the counties. This county revenue is a general budget resource and not offset against the county's property tax levy. The distribution of BLM O&C payments by county is shown in table B3 of Appendix B.

Coos Bay Wagon Road

The Coos Bay Wagon Road (CBWR) is similar to the O&C situation. These lands were granted by the federal government to the Coos Bay Wagon Road Company to help finance the building of a wagon road between Coos Bay and Roseburg. Land reconveyed to the federal government is managed by the BLM. There are about 75,000 acres in Coos and Douglas counties.

The CBWR lands were omitted from the 1937 Act which covers O&C lands. Under a 1939 Act, the federal government makes in lieu tax payments to local taxing districts. CBWR lands were not covered by the 1993 Act but are included in the 2000 Act (see the U.S. Forest Service Lands above, for a discussion of these Acts.)

Public Domain Land

When Oregon became a state in 1859, certain federal land was retained under Public Domain designation. This is former homestead land that is now managed by BLM. Receipts from this land include timber, land, and material sales. The federal government specified in the Admissions Act (to the Union) that 5% of the net receipts from this land is to be distributed to the state. Currently 20% is set aside for management expense, so the state receives 4% of total receipts. These payments are not covered by the 2000 Act. Oregon statutes dedicate this revenue to counties based on the square mile area of each county. The law stipulates that the county is to use its receipts for public roads and bridges. County receipts from public domain forestland average about half a million dollars a year.

Forest Products Harvest Taxes

Forest Products Harvest Taxes are imposed per 1,000 board feet of timber harvested from all lands in Oregon including public and private forestland and land otherwise classified (except harvests of short-rotation hardwoods). They include a number of tax rates levied to fund separate state agency programs and the Oregon Forest Resources Institute. The rates effective for calendar year 2012 and 2013 harvests include:

$0.8739 to fund forest research at Oregon State University,
$0.625 to support the Oregon Forest Land Protection Fund (OFLPF),
$1.2952 for various Department of Forestry programs (primarily the Forest Practices Act),
$0.89 to fund the Oregon Forest Resources Institute (subject to Board action)

Forest Products Harvest Taxes do not go to local governments but are included in this report to help complete the picture of revenue from timber. Revenue has increased much more slowly because of the decline in the volume of timber harvested, primarily timber harvested from U.S. Forest Service and BLM-managed lands.

The legislature adjusts these tax rates biannually to meet the needs of the programs funded. Thus, annual variations reflect the changing nature of programs funded, the level of funding for these programs, and unexpected variations in harvest volume. Chart 8 shows the revenues from Forest Products Harvest Tax in recent years.

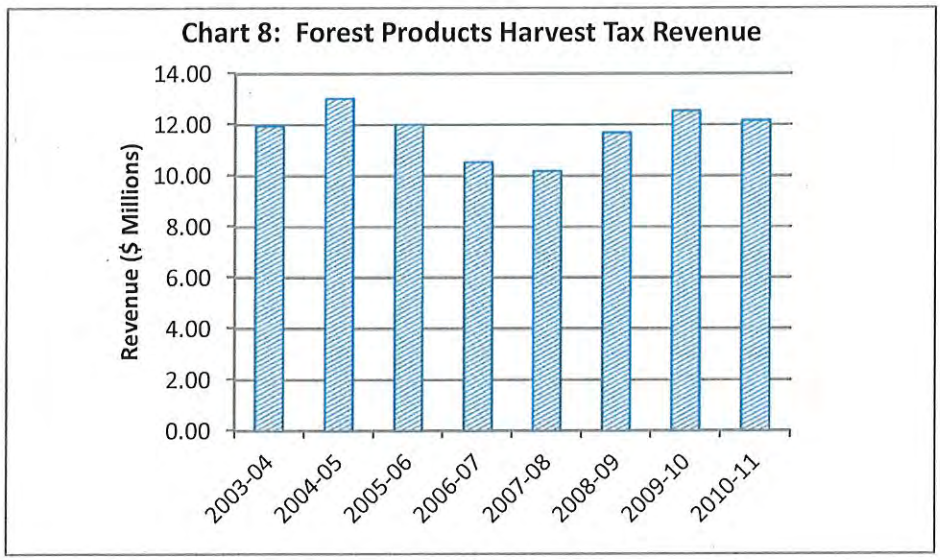


Chart 8: Forest Products Harvest Tax Revenue
Revenue ($ Millions)
14.00
12.00
10.00
8.00
6.00
4.00
2.00
0.00
2003-04
2004-05
2005-06
2006-07
2007-08
2008-09
2009-10
2010-11

APPENDIX A

Local Government Revenue from Timber in Oregon

Table A1: Revenue From Privately Owned Forestland

	Property Tax				Severance or Privilege Tax			Total
Fiscal Year	Western Oregon	Small Tract	Eastern Oregon	Total	Western Oregon	Eastern Oregon	Total	Private Forest Land
1990-91	$ 13,576,001	$ 617,654	$ 1,046,157	$ 15,239,812	$ 54,427,234	$ 3,658,417	$ 58,085,651	$ 73,325,463
1991-92	15,151,704	741,557	934,436	16,827,696	49,835,376	4,500,574	54,335,950	71,163,646
1992-93	18,376,592	755,058	883,609	20,015,258	45,326,106	6,508,663	51,834,769	71,850,027
1993-94	18,720,952	604,859	772,142	20,097,952	56,298,605	7,941,012	64,239,617	84,337,569
1994-95	19,517,773	691,848	706,765	20,916,386	61,557,996	6,849,282	68,407,278	89,323,664
1995-96	3,513,039	735,242	183,904	4,432,185	49,931,936	5,183,531	55,115,467	59,547,652
1996-97	3,724,824	731,708	203,120	4,659,652	40,903,334	2,881,821	43,785,155	48,444,807
1997-98	3,778,551	449,669	190,652	4,418,872	34,593,652	2,709,291	37,302,943	41,721,815
1998-99	3,891,908	463,159	196,371	4,551,438	32,974,010	2,954,982	35,928,992	40,480,430
1999-00	4,008,665	477,054	202,262	4,687,981	29,948,793	2,730,213	32,679,006	37,366,987
2000-01	12,940,633	492,680	689,573	14,122,886	20,987,924	2,689,688	23,677,612	37,800,498
2001-02	13,412,991	508,815	710,260	14,632,066	15,863,788	1,310,816	17,174,604	31,806,670
2002-03	13,879,641	524,615	731,568	15,135,825	9,483,298	650,710	10,134,008	25,269,833
2003-04	14,262,688	542,453	1,047,181	23,439,670	624,766	60,901	685,667	24,125,336
2004-05	12,490,359	231,900	660,712	13,382,971	284,328	4,815	289,143	13,672,114
2005-06	14,240,254	266,563	981,564	15,488,381	305,241	21,923	327,164	15,815,545
2006-07	14,387,242	263,469	915,144	15,565,855	345,561	25,238	370,799	15,936,654
2007-08	14,850,360	257,145	950,149	16,057,654	272,848	9,635	282,483	16,340,137
2008-09	14,822,364	284,771	562,965	15,670,100	181,704	8,493	190,197	15,860,297
2009-10	17,249,311	305,842	1,102,012	18,657,165	83,198	13,745	96,943	18,754,108
2010-11	17,700,195	305,993	1,175,119	19,181,307	231,851	3,935	235,786	19,417,093
2011-12	17,042,234	321,734	1,167,687	18,531,655	334,819	6,908	341,727	18,873,382

Source: Legislative Revenue Office

Table A2: Revenue from Publicly Owned Forestland

	Federal		State-Managed Lands		Coos Bay Wagon Road	Total
Fiscal Year	Forest Service	Bureau of Land Management	State Owned	County Trust		Public Forest Land
1990-91	$ 149,671,845	$ 96,602,913	$ 11,542,121	$ 11,163,898	$ 828,958	$ 269,809,735
1991-92	141,176,614	90,651,931	13,118,631	20,371,902	593,143	265,912,221
1992-93	136,540,593	78,586,460	11,036,233	17,283,977	574,786	244,022,049
1993-94	128,866,867	78,586,460	11,377,936	23,030,584	690,214	242,552,061
1994-95	119,791,067	76,228,866	11,117,621	31,803,713	624,858	239,566,125
1995-96	109,647,413	73,942,000	15,323,965	26,986,187	602,804	226,502,369
1996-97	95,238,953	71,723,740	17,970,974	39,491,154	580,751	225,005,572
1997-98	92,242,534	69,572,028	14,849,020	28,108,940	600,000	205,372,522
1998-99	85,505,450	67,484,867	19,099,362	36,186,156	600,000	208,875,835
1999-00	79,261,910	65,460,321	36,186,156	43,486,540	600,000	224,994,927
2000-01	129,867,893	91,110,270	43,486,541	27,693,000	913,033	293,070,737
2001-02	131,195,398	92,041,595	34,605,675	32,567,897	922,366	291,332,931
2002-03	132,809,995	93,174,334	42,690,822	38,214,828	933,717	307,823,696
2003-04	134,516,492	94,371,546	49,801,650	39,236,586	945,715	318,871,989
2004-05	163,613,282	114,943,200	47,918,084	10,095,832	1,002,495	337,572,893
2005-06	156,253,731	117,105,152	48,589,600	11,947,483	1,012,521	334,908,487
2006-07	164,910,278	116,865,821	57,997,327	13,270,783	1,010,442	354,054,651
2007-08	147,790,383	104,483,368	57,306,159	10,082,007	911,268	320,573,185
2008-09	133,011,345	94,035,032	51,183,661	7,371,785	820,142	286,421,965
2009-10	119,874,422	84,747,622	42,472,866	9,491,879	739,140	257,325,929
2010-11	71,355,143	39,690,989	42,572,163	3,203,521	346,171	157,167,987

APPENDIX B

County Distributions of Local Government Revenue from Timber

Table B1: Board of Forestry Payments to Counties*

County	2008-09	2009-10	2010-11	5-Year Average
Benton	$ 1,120,464	$ 513,271	$ 149,881	$ 796,593
Clackamas	421	290,744	72,368	217,565
Clatsop	16,344,910	11,653,697	10,374,500	14,945,557
Columbia	375,044	1,165,418	11,649	1,005,224
Coos	248,306	284,541	285,386	408,356
Douglas	540,037	257,936	76,500	492,884
Josephine	14,597	51,694	0	16,056
Klamath	1,245,889	1,832,680	1,611,180	1,454,454
Lane	1,793,781	1,512,805	2,190,403	1,565,657
Lincoln	1,034,619	735,406	236,533	686,191
Linn	2,058,517	3,622,834	2,464,838	2,569,057
Marion	1,785,519	1,139,362	2,423,766	2,321,495
Polk	77,085	757	115,798	114,547
Tillamook	11,508,426	10,901,019	9,277,054	11,964,682
Washington	4,325,251	8,609,998	8,505,225	7,707,680
Total	$42,472,866	$42,572,163	$37,795,131	$46,265,996

Source: Oregon Department of Forestry

* Based on timber sales from state owned forest lands.
Does not include Payments to the Common School Fund.

Table B2: U.S. Forest Service Payments to Counties

County	2006-07	2007-08	2008-09	2009-10	2010-11
Baker	$ 1,291,989	$ 1,071,967	$ 964,770	$ 869,484	$ 1,210,649
Benton	502,009	384,826	346,344	312,137	115,303
Clackamas	7,183,223	5,959,940	5,363,946	4,834,173	1,492,919
Clatsop					
Columbia					
Coos	804,120	667,181	554,775	499,983	310,534
Crook	3,669,487	3,044,583	2,740,125	2,469,495	2,335,828
Curry	5,586,639	4,635,250	4,171,725	3,759,703	1,982,037
Deschutes	4,796,550	3,979,711	3,581,740	3,227,988	1,908,782
Douglas	22,615,100	18,763,811	16,887,430	15,219,536	8,229,504
Giliam					
Grant	10,307,095	8,551,825	7,696,643	6,634,894	4,794,362
Harney	4,230,644	3,281,253	2,953,127	2,661,460	2,000,996
Hood River	2,965,099	2,272,966	2,166,002	1,995,456	1,033,341
Jackson	6,414,397	5,322,043	4,789,839	4,361,768	1,961,163
Jefferson	863,917	716,794	645,115	581,400	515,785
Josephine	3,056,521	2,536,004	2,282,403	2,056,981	1,522,023
Klamath	17,166,295	13,275,333	12,818,630	10,673,591	7,686,007
Lake	5,674,822	4,426,935	3,984,241	3,590,736	2,735,822
Lane	34,097,722	28,290,974	25,461,877	22,947,124	10,988,952
Lincoln	5,284,527	4,193,953	3,774,557	3,363,105	1,527,995
Linn	11,369,505	9,433,310	8,489,979	7,651,462	4,746,978
Malheur	9,606	8,663	7,797	7,027	12,569
Marion	4,273,926	3,546,088	3,191,480	2,876,272	1,458,837
Morrow	379,610	301,269	271,142	244,363	278,138
Multnomah	1,066,512	884,888	796,399	717,742	255,136
Polk	9,822	8,858	7,972	7,185	5,484
Sherman					
Tillamook	2,824,783	2,267,304	2,069,233	1,756,382	860,806
Umatilla	1,035,750	128,454	126,569	116,348	100,579
Union	1,035,750	877,634	789,870	711,859	943,911
Wallowa	1,057,769	1,082,577	974,320	878,090	1,321,136
Wasco	1,412,229	2,338,557	2,056,318	1,853,225	938,183
Washington	2,980,534				
Wheeler	1,196,034	992,353	893,118	804,909	729,330
Yamhill	784,044	650,524	585,471	527,647	256,737
Total	164,910,278	133,895,828	121,316,389	108,166,525	64,259,824

Source: U.S. Forest Service

Table B3: BLM Payments to Counties for O&C Lands

County	2007-08	2008-09	2009-10	2010-11	2011-12
Benton	$ 2,935,983	$ 2,642,384	$ 2,381,408	$ 833,803	$ 792,113
Clackamas	5,798,827	5,218,944	4,703,493	1,217,142	1,156,285
Columbia	2,152,357	1,937,122	1,745,801	767,194	728,834
Coos	6,164,519	5,548,067	5,000,110	2,277,353	2,170,294
Curry	3,813,643	3,432,279	3,093,288	1,269,480	1,206,006
Douglas	26,173,084	23,555,775	21,229,279	10,678,474	10,225,890
Jackson	16,372,544	14,735,289	13,379,952	5,767,050	5,478,697
Josephine	12,621,591	11,359,432	10,237,513	5,777,441	5,488,569
Klamath	2,444,911	2,200,420	1,983,094	1,160,166	1,102,158
Lane	15,954,610	14,359,149	12,940,962	5,784,749	5,495,511
Lincoln	367,140	11,359,432	305,091	136,315	129,499
Linn	2,758,361	2,482,525	2,237,337	1,341,827	1,274,735
Marion	1,525,457	1,372,911	1,237,315	470,787	542,248
Multnomah	1,138,869	1,024,982	923,749	274,005	260,304
Polk	2,256,841	2,031,157	1,830,549	1,021,370	970,302
Tillamook	585,107	526,596	474,587	248,872	236,428
Washington	658,245	592,421	533,910	172,507	163,882
Yamhill	752,280	677,052	610,182	302,456	287,333
Total	104,483,368	94,035,032	84,747,622	39,690,989	37,709,088

Source: Bureau of Land Management

PERS UAL Reduction Task Force

Policy Option: Vacant Land/Facilities

Entities Impacted: State agencies currently holding vacant property.

Description of Policy Option: Sell excess vacant or under-utilized state land and facilities and dedicate the sale proceeds to the PERS UAL.

The state does not have a single, easily-accessible database of all state-owned land that is vacant or under-utilized and potentially available for sale. In addition, parcels occupied by older facilities may have significant remediation or demolition costs associated with them that diminish the potential for substantial gains. Further work would be needed to develop a comprehensive list, but major examples identified thus far include the following:

Hillcrest Youth Correctional Facility
The Hillcrest facility is closing in September 2017. In 2015, a broker opinion of value estimated the property at $4.5 million as bare land, or $2.7 million with the buildings intact. However, this was not a full appraisal and does not take into account the site's antiquated infrastructure or the need for substantial building renovation for most potential uses. The State recently estimated that the cost to clear and market the property would exceed $5 million, in which case a sale would be unlikely to generate any net proceeds.

MacLaren Youth Correctional Facility Buffers
MacLaren Youth Correctional Facility is located in Woodburn. The entire property is 273 acres, with over 80 acres is held as a buffer zone. Five parcels of the buffer land were appraised in 2017. Parcels 1 and 2 total 24 acres and have frontage on North Pacific Highway. The appraiser found these two parcels to be the highest value and appropriate for commercial or industrial development. Their value is appraised at $1,290,000 and $1,540,000, respectively. However, their value is diminished by the current orientation of the entry drive to the MacLaren Facility, which creates areas that cannot be developed. It may be possible to adjust this alignment if necessary. Parcels 3, 4, and 5 lack frontage but have water rights attached. The appraiser determined their highest and best use to be agricultural land and estimated the value of these 54 acres to be $845,000. The bulk of this land (42.87 acres) is in Parcel 5, and is currently leased to the City of Woodburn as part of its wastewater treatment operation.

Oregon Youth Authority is considering construction of two additional facilities on the MacLaren property in the future: a young men's transitional facility and a central office. These could be accommodated on Parcels 3 and 4, respectively.

Oregon State Hospital North Campus
The property has been subdivided into five lots.

Lot	Description	Acres	Status
1	Dome Building and Grounds	6.93	Appraised at $4.5M. Occupied by the Department of

			Corrections. Not currently for sale.
2	Yaquina Hall	1.78	Selling to Salem Housing Authority; $522,280.
3	Parking Lot	2.54	Retained for the Department of Corrections parking. Not currently for sale.
4	NW Corner	5.87	Selling to City of Salem; $1,355,970 plus sewer main.
5	East of 25th	25.18	Appraised at approx. $6M. Cleared and shovel-ready; currently for sale.

The three lots being sold (2, 3, and 5) are anticipated to bring revenue roughly equal to the $8 million demolition and abatement costs that has been incurred by DAS. Additional revenue of about $5 million could be raised by selling the Dome Building and Lot 3. This would require relocating approximately 150 DOC employees. Currently, DOC does not pay rent, and spends about $200,000 per year to maintain and operate the Dome Building.

Financial Opportunity: Unknown; largely depends on results of inventory.

Key Considerations:

- Not all vacant and unused land is available for sale; some parcels are held by state agencies for future anticipated needs (for example, a facility planned for several years in the future). If these parcels were sold, the state would have to acquire substitute land.
- Parcels held by ODOT, such as unused right-of-way, were mostly acquired with highway funds and thus any sale proceeds would have constitutional restrictions on their use. See separate analysis regarding whether these restrictions could be addressed by setting up a side account dedicating these funds to the UAL associated with ODOT.
- Land held by the Common School Fund is addressed in a separate concept paper.

Status of Concept: To be evaluated.

PERS UAL Reduction Task Force

Policy Option: Water Rights

Entities Impacted: Applicants for new water rights.

Description of Policy Option: All water in the state – groundwater as well as water in lakes and streams – belongs to the public. With a few exceptions, those wishing to use water must obtain a water right from the state. Generally, once granted, the water right is permanent although it is subject to earlier-granted water rights and can be cancelled if the water is not used for a five-year period. Water rights are generally specific to a piece of property and a particular use (such as irrigation) and usually stay with the land when the property is transferred. In addition, the state holds in-stream water rights that can protect water in streams and rivers for fish and wildife, recreation, and water quality.

The state has been granting water rights under this system since 1909, and some water rights pre-date that time. In most areas of the state, surface water is no longer available for new uses in summer months. Groundwater supplies are also limited in some areas. In recent years, the state has granted approximately 200-300 new water rights each year, varying in size.

Typically, water rights can authorize use of a volume of water, often measured in acre-feet (AF), or authorize use of certain rate of water use, measured in cubic feet per second (CFS). Often, there is both a rate and volume associated with a water right, meaning a certain rate can be used, but not to exceed a specified volume. One acre-foot is the volume of water that will cover one acre to a depth of one foot annually and is equal to 43,560 cubic feet, or 325,851 gallons. One cubic foot per second is a rate of water flow that will supply one cubic foot of water in one second and is equivalent to flow rates of 646,272 gallons per day, or 1.98 acre-feet per day. In recent years, the volume of water rights issued by the state has ranged from about 36,000 to about 490,000. The high end number, 490,000, is skewed by the issuance of one permit for 432,000 acre-feet. Omitting this permit yields an average of about 70,000 acre-feet issued per year. This does not take into account water rights that generally do not have an associated volume, such as power, commercial, municipal and domestic rights that are typically authorized based on rates.

The state charges a one-time transaction fee for the issuance of new water rights, which is set in statute. This and similar fees (for transfers etc.) are intended to cover 50% of the costs of the state's water rights processing staff. The other 50% is borne by the General Fund. The state does not charge for the water itself.

The state could impose a charge for new water rights based on market prices. Market prices for water rights vary widely and comprehensive data is scarce, but according to one source prices averaged about $750/AF in Oregon in 2013. (This is for the permanent right to draw 1 AF per year; annual lease rates would be about 10% of this amount).

Financial Opportunity: If the volume of primary water rights issued is on average 70,000 AF per year, a charge of $750/AF would raise an estimated **$52.5 million** per year. Comparable figures for water rights based on CFS have not been located.

Status of Concept: Requires further study.

PERS UAL Reduction Task Force

Policy Option: Agency Reserve Funds

Entities Impacted: Agencies that have built up ending balances or reserves, fee payers whose fees have gone into those reserves, and programs supported by the fees.

Description of Policy Option: Many state agencies, particularly those dependent on revenue from sources other than the state's General Fund, maintain reserves from the funds they collect. These funds are often statutorily dedicated for specific purposes. The size of reserves needed will vary depending on circumstances. If fees collected by regulatory agencies to support their operations come in unevenly throughout the year (due to annual license renewals, for example), reserves will vary throughout the year based on the cash flow cycle. If fee revenue is highly variable or unpredictable, reserves may be needed to smooth out inconsistencies and cushion against shortfalls. In some cases, revenue may be hard to predict and a reserve fund may build up to a higher level than anticipated or needed. Some agencies maintain formal policies governing the levels of reserves needed; others do not.

Over the past several biennia, the Legislature has "swept" funds from selected agency reserves to support the biennial budget. This practice has increased significantly over the past two biennia. Fund sweeps budgeted for the 2017-19 biennium (scheduled to occur in May 2019) total just over $111 million, as follows:

- Alternative Fuel Vehicle Revolving Fund — $3.0 million
- Insurance Fund — $33.3 million
- Department of Administrative Services Operating Fund — $18.5 million
- State Information Technology Operating Fund — $10.5 million
- Department of Justice Protection and Education Revolving Account — $46.0 million

Rather than using fund sweeps sporadically to balance the biennial budget, the state could develop consistent policies for determining the appropriate size of agency reserves, based on the nature of the program, the revenue associated with the reserve, and other relevant factors. Reserve funds in excess of the amounts needed could be transferred to reduce the UAL on an annual or biennial basis.

Financial Opportunity: Estimated **$100 million** based on 2017-19 fund sweeps; longer term impossible to predict.

Key Considerations:

- Legal analysis would be needed to determine whether there are constraints on redirecting amounts from these reserve funds. If so, see separate analysis regarding whether these restrictions could be addressed by setting up a side account dedicating these funds to the UAL associated with the restricted use.

- If federal funds have been paid into an account that is swept, there may be consequences if it is determined by the federal government that the sweeps were an unallowable use of federal funds.

Status of concept: To be evaluated.

PERS UAL Reduction Task Force

Policy Option: Capital Gains Taxes

Entities Impacted: Other programs receiving General Fund revenue.

Description of Policy Option: The state's receipt of tax revenue from capital gains taxes is highly variable, because it is largely dependent on the decisions of high-net-worth individuals regarding when to sell capital assets. These decisions may be based on individual circumstances and may be driven by changes (or the anticipation of changes) in the federal tax code – circumstances outside the state's control, and which cannot be predicted. The result can be large spikes in the state's receipt of capital gains taxes, particularly in times of economic growth. Biennial capital gains revenue has exceeded estimates by an average of about $350 million for the last three biennia. The previous two biennia (post-recession), capital gains revenue fell significantly short of estimates.

Due to its uncertain nature, spikes in capital gains tax revenues (i.e. revenues exceeding projections, or revenues exceeding a rolling multi-year average) could be treated as windfall income and used to reduce the UAL.

Financial Opportunity: **$175 million** per year during times of economic growth; zero during economic downturns

Key Considerations: Capital gains taxes currently flow to the General Fund. Although they are projected separately, currently these revenues are not treated differently from other tax revenues. A mechanism for segregating excess capital gains revenues might be the sale of tax credits late in the biennium, if revenues are anticipated to exceed projections, with the sales proceeds flowing directly to the UAL. It is undetermined whether or how this would affect kicker calculations.

Status of Concept: To be evaluated.

PERS UAL Reduction Task Force

Policy Option: Common School Fund - State Lands, Unclaimed Property

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Entities Impacted: School districts receiving funding from the Common School Fund; lessees and other users of state lands; owners of unclaimed property.

Description of Policy Option: The state owns and manages about 2.8 million acres of land for the benefit of the Common School Fund established by the Oregon Constitution. This includes about 740,000 acres of uplands (primarily rangeland and forests); 770,000 acres of sub-surface resources (minerals and energy); and about 1.3 million acres of waterways (territorial sea, tidelands, and navigable rivers).

Timber revenues, traditionally the largest revenue source for Common School Fund, have declined steadily in recent years primarily due to issues related to species protection, to the point where management costs exceeded revenue. After much discussion surrounding the largest timber asset (the Elliot State Forest), the 2017 legislature authorized $100 million in bond funding to enable the transfer of the Elliot State Forest out of the Common School Fund. This should enable the Common School Fund to obtain a higher return.

The Common School Fund currently earns less than $1 per acre, on average, for the rangelands it holds. Many of its land holdings are viewed by the Department of State Lands as having limited revenue potential and limited marketability. Total revenues from real estate management totaled $6.8 million in FY 2015. The Department has not updated its real estate asset management plan since 2012, and it seems likely that a more aggressive management strategy, coupled with a plan to sell under-performing property, would result in increased earnings and investable assets.

In addition to revenue from land management and leasing, the Common School Fund receives revenue from several other sources. The assets of persons who die intestate (without a will) "escheat" to the state and become part of the Common School Fund if no heirs are found after ten years. In addition, unclaimed funds such as bank accounts and insurance proceeds are held in trust by the state, and the earnings on these unclaimed funds become part of the Common School Fund. However, ownership of the unclaimed funds never transfers to the state – the funds can be claimed by their owners even many years later. These unclaimed funds currently total around $600 million, approximately $200 million of which has been unclaimed for more than ten years.

The Oregon Constitution provides that income from the Common School Fund must be "applied to the support of primary and secondary education as prescribed by law." The Common School Fund expects annual distributions to schools equal to 4% of assets. Since 2000, distributions have ranged from a low of $13 million in 2004 to a high of $70 million in 2017.

Options relating to the Common School Fund could include:

- Increase revenues to the Common School Fund through investment of proceeds from the Elliot State Forest and update of real estate management strategies; dedicate any increases in revenue to the UAL.

- Sell additional Common School Fund land assets and transfer proceeds to the UAL.

- Provide that unclaimed property becomes property of the state and transfers to the UAL if not claimed after ten years.

Consistent with constitutional restraints, funds transferred to the UAL would need to be applied to the support of schools, which could be accomplished through the use of side accounts for the benefit of school districts.

Financial Opportunity: **$200 million** if property not claimed after ten years is transferred to the UAL. **Unknown** how much additional revenue could be obtained through updating real estate management practices and selling underutilized property.

Key Considerations: A key question would be whether transfer of funds from the Common School Fund to the UAL would financially benefit schools. An analysis of this question would need to include a comparison of the earnings potential of the funds and implications for the short and long term.

Status of Concept: To be evaluated.

PERS UAL Reduction Task Force

Policy Option: Increased Collection of State Debt

Entities Impacted: Debts are owed to the majority of state agencies. The largest amounts of collectible debt are owed to three agencies: the Department of Revenue (primarily unpaid taxes); the Employment Department (primarily unpaid unemployment insurance and overpaid benefits); and the Judicial Department (primarily fines, fees and restitution).

Description of Policy Option: Over the last several years, the state has increased its efforts to collect liquidated and delinquent debt owed to the state. At the end of state fiscal year 2016, about $3.3 billion was owed to the state from a variety of debtors. Based on recent agency reporting, about $1.1 billion is potentially collectible.

During state fiscal year 2016, the state collected a total of $562 million of liquidated and delinquent debt owed to the state from all debtors. Of this amount, about $247 million was owed to the state General Fund. If the state were able to increase those collections by five percent in state fiscal year 2017, the increase would be $28 million in total collections, and about $12 million to the General Fund. If the state were able to maintain this increased collection over 10 years, it would be an increase of $280 million total funds and $120 million to the state General Fund over 10 years. Increasing collections to 10 percent in state fiscal year 2017 and holding the increase for a decade would increase the 10-year total to $560 million total funds and $240 million to the state General Fund. However, sustaining this level of increase in debt collections may be difficult as the easiest-to-collect debts are likely to be collected first.

Financial Opportunity: Assuming a five percent increase in collections, this option would generate **$28 million** in the first year. If twenty percent of the total collectible debt is collected over a ten-year period, this would result in **$220 million.**

Key Considerations:

- Efforts to increase collections are already under way, with an Executive Order issued by the Governor and various bills passed by the Legislature during the last session. In addition, both the Department of Administrative Services and the Department of Revenue have added staff to increase collection efforts.
- Three of the top ten agencies to which funds are owing have legal restrictions on the use of funds collected on their behalf: collections of highway funds for ODOT, inmate restitution for the Judicial Branch, and employment benefits for the Employment Department. None of these are included in the General Fund collection numbers mentioned above. Excluding them from the total funds collections drops the state fiscal year 2016 collection numbers mentioned above by about $95 million. See separate analysis regarding whether these restricted funds could be reached through setting up side accounts dedicated to the UAL associated with these agencies.

Status of Concept: Analyzed.

PERS UAL Reduction Task Force

Policy Option: Estate Taxes

Entities Impacted: Other programs receiving General Fund revenue

Description of Policy Option: The state's receipt of estate tax revenue is highly variable. The state imposes taxes on only a small percentage of decedents' estates – those valued at over $1 million – and the timing is of course inherently unpredictable. Due to its uncertain nature, spikes in estate tax revenue (i.e. amounts over a multi-year median) could be treated as windfall income and used to reduce the UAL.

Financial Opportunity: Difficult to predict; would have generated **$50** million in 2015-17 based on a two-year over two-year analysis.

Key Considerations: Estate tax revenues currently flow to the General Fund. It is undetermined whether or how this proposal would affect kicker calculations.

Status of Concept: To be evaluated.

PERS UAL Reduction Task Force

Policy Option: Surcharge on Licenses, Permits and Other Fees

Entities Impacted: Individuals and businesses who obtain licenses or permits or pay other fees for driving, recreation, obtaining services, maintaining their profession, etc. would have a cost increase. There would be some administrative impact on agencies – e.g. rulemaking to increase fee levels, accounting for surcharge revenue, and sending funds to the appropriate account. There is a potential for decreases in fee revenue if the surcharge results in decreased numbers of fee-payers

Description of Policy Option: Surcharges could be imposed as a percentage of existing fees, e.g. 1%, 5%, or 10%.

For the 2017-19 biennium, total state license and fee revenue is estimated at roughly $1.9 billion. This may be low as it does not include items accounted for in the state budget system as "Charges for Services." Major contributors by program area:

- Education — $11.4 million (Primarily teachers' licenses)
- Human Services — $32.2 million (Primarily public health)
- Public Safety — $13.3 million (Primarily DOJ)
- Economic Development — $66.3 million (Housing loan fees i.e. single and multi-family loan programs)
- Natural Resources — $360.3 million (DEQ 100M, Ag. 30M, Parks 52M, Fish & Wildlife 130M, etc.)
- Transportation — $824.0 million (Primarily ODOT vehicle registration & title fees)
- Consumer & Business — $317.8 million (Primarily business fees and licenses)
- Administration — $128.2 million (Secretary of State 85M, OLCC 31M, Revenue 10M, etc.)
- Judicial Department — $148.9 million

Financial Opportunity: A 5% surcharge would generate approximately **$47.5 million per year**, or **$475 million over ten years**.

Key Considerations:

- "Charges for Services" are not included in these estimates. Examples include state agency payments to the Dept of Administrative Services for rent and administrative services; health insurance premiums paid by retirees and by state agencies and school districts for their employees; and Dept of Veterans Affairs charges for services at veteran homes. A charge-by-charge analysis would be needed to see whether any provide opportunities.
- By far the largest source of fee revenue is ODOT. Much of ODOT's fee revenue may have constitutional restrictions on its use. See separate analysis regarding whether these restrictions could be addressed by setting up a side account dedicating these funds to the UAL associated with ODOT.

Status of Concept: To be evaluated.

PERS UAL Reduction Task Force

Policy Option: Fire Suppression Costs

Entities Impacted: Private forest land owners (both industrial and small woodland owners).

Description of Policy Option: The costs of fighting major forest fires in Oregon are shared by the state, private and public landowners, and some federal reimbursement. In high-expense years, a portion of the cost is met by commercial insurance. The formulas for cost-sharing are complex, and vary depending on whether the costs are for the pre-season deployment of resources; the initial attack; large fire costs; or insurance premiums. However, private landowners' share of costs is capped and the state General Fund picks up the excess if the caps are exceeded. A larger share of fire suppression costs could be shifted from the state General Fund to private landowners based on acreage assessments.

Financial Opportunity: Could be **$10-$50 million per year** depending on cost-sharing formula adopted.

Key Considerations: Fire suppression financing is a complex structure involving many parties. More than half of the revenue in the Oregon Forest Land Protection Fund (which provides the private landowner share) is received from small woodland owners.

Status of Concept: Requires further study.

PERS UAL Reduction Task Force

Policy Option: Increased Lottery Revenue

Entities Impacted: Other programs receiving non-dedicated lottery funds

Description of Policy Option: The Oregon Lottery is considering several options to expand the types of gaming it offers. Some options may offer existing games on new platforms (e.g. mobile devices) while others would offer new games that could be expected to appeal to different audiences and potentially different retailers. The Lottery Commission is expected to vote on a strategic direction in October of this year, and new options would be offered as soon as fall of 2018.

Revenue from these new options could be directed toward the UAL in any of several ways:

- Reallocate revenue from specific new lottery games
- Reallocate all lottery revenue increases above a baseline (for example, all amounts over current revenue trend line, or above current revenue plus inflation, or above forecast)
- Reallocate a specific percentage of total lottery revenue

Financial Opportunity: Revenue from new games up to approximately **$35 million in first year**, increasing over time; rough estimate potentially **$500 million over ten years**.

Key Considerations: Under the Oregon Constitution, lottery proceeds must be used for the purposes of "creating jobs, furthering economic development, financing public education in Oregon or restoring and protecting Oregon's parks, beaches, watersheds and native fish and wildlife." Specific percentage allocations must be made to the Educational Stability Fund; to parks and fish and wildlife; and to veterans' programs. The remainder (65.5% of net lottery proceeds) may be allocated by the legislature consistent with the general constitutional categories specified above. Any transfers to the UAL would likely have to come from this remainder, and would have to be consistent with the constitutional purposes – for example, reducing the UAL for schools would likely be permissible as "financing public education."

Status of Concept: Analyzed.

PERS UAL Reduction Task Force

Policy Option: Lawsuit Settlements/Windfall Income

Entities Impacted: Agencies and programs that would otherwise receive revenue from settlements and other windfalls.

Description of Policy Option: One-time or windfall revenues can come into the state budget from a variety of sources, but the largest source is generally the settlement of lawsuits filed by the state, such as the Tobacco Master Settlement Agreement, the Oracle litigation and the VW settlement. By their very nature, one-time funds are difficult to project. Over the past five biennia, the General Fund's receipts from lawsuit settlements have varied widely: $2 million in in 2009-11, nothing in 2011-13, $5 million in 2013-15, nothing in 2015-17, and $110 million in 2017-19.

Financial Opportunity: Impossible to predict.

Key Considerations:

- Legal settlements are structured through negotiation directed by the Attorney General, sometimes with court involvement. Often the terms of the settlement agreement will direct how the funds may be used. To maximize the use of settlement funds for reduction of the PERS UAL, the Attorney General would need to attempt to structure settlement agreements in a way that permits such use.

Status of Concept: Analyzed

PERS UAL Reduction Task Force

Policy Option: Liquor Surcharge

Entities Impacted: Liquor purchasers, including individual consumers and bars/restaurants selling liquor, would pay higher prices. Liquor agents' commissions would increase slightly due to the surcharge. Total sales might fall (reducing revenue to the state and counties as well as agents) if consumers reduce consumption or shift purchases to Washington.

Description of Policy Option: A surcharge could be imposed on all distilled spirit (liquor) sales in Oregon, calculated as a percentage of the retail sales price (e.g. 1%, 5%, or 10%).

For the 2017-19 biennium, the gross sales revenue for distilled spirits sales is projected at roughly $1.35 billion. However, as net sales increase, OLCC will incur larger bank card fees as well as increased agent's compensation expense (paid to retail liquor agents). Surcharge calculations would be net of these additional expenses.

Financial Opportunity: A 10% surcharge on distilled spirits sales would be projected to net approximately **$60 million per year** or **$600 million over ten years**.

Key Considerations:

- OLCC is currently collecting a $0.50 per bottle surcharge on distilled liquor which is directed to the General Fund. Any new surcharge would be accounted for in a similar manner.
- When the State of Washington privatized its liquor operations, retail prices increased and resulted in increased cross-border sales along Oregon's northern border. As the price of distilled spirits in Oregon rises, the incentive to cross the border and purchase distilled spirits in Oregon as opposed to Washington may decline resulting in fewer sales.
- As prices of distilled spirits increase, consumers of alcohol may shift their consumption to beer/wine.

Status of Concept: Analyzed.

PERS UAL Reduction Task Force

Policy Option: Portland State Office Building

Entities Impacted: Agencies which currently have offices in the Portland State Office Building (PSOB), located on Portland's east side in the Lloyd District.

Description of Policy Option: The PSOB contains 290,000 square feet of office space and 28,000 square feet of basement space. Agencies occupying space in the PSOB currently pay a "full service" rate of $17.40 per square foot per year, which includes insurance, maintenance, utilities, custodial services, etc. Since this is a State-owned property, it is exempt from property taxes.

The state could sell the PSOB and either lease back the space, relocate to another leased facility, or construct one or more new facilities in a less expensive area. Sale proceeds are estimated at about $120 million.

Office rents on Portland's close-in east side for comparable Class B office space average about $26.33/SF (triple net or modified gross rates), with total tenant costs averaging $30-$32/SF. Very little Class B office space larger than 5,000 square feet is currently available outside the Portland core. A total of five such properties were located in Beaverton and Tigard, averaging $22.74/SF triple net, or about $27/SF total cost. Three were found in Gresham and East Portland, averaging $19.83/SF triple net or modified gross, or about $24/SF total cost.

For leased space, tenant improvement costs are estimated at $80/SF, or $23 million. Moving costs (either to leased space or new construction) are estimated at $100/SF, or $29 million. With a sale/leaseback, moving and tenant improvement costs are avoided but costs to tenant agencies could be expected to increase $6-7 million/year due to property taxes and market-based lease rates.

Constructing two new 2-story facilities (east side and west side) would be estimated to cost $87 million and should result in lower operating costs. If construction and moving costs were paid out of sale proceeds, net gain would be small. Alternatively, construction could be debt financed with financing costs met through operating cost savings and adjustment of agency rates closer to market, allowing transfer of some or all of the sale proceeds to the UAL.

Financial Opportunity: **$120 million** in three to five years, if two new facilities are constructed and debt financed with costs met through operating cost savings and adjustment of lease rates.

Key Considerations: Relocating to private leased space would likely be to high-cost locations, as existing rental space of the size needed is not available in lower-cost metro locations. New construction could be in transit-friendly lower-cost location with surface parking and would allow more efficient space utilization.

Status of Concept: To be evaluated.

PERS UAL Reduction Task Force

Policy Option: Rainy Day Funds

Entities Impacted: Reducing the state Rainy Day Fund, or diverting future deposits to this Fund, would reduce the State's ability to weather significant downturns in the economy and corresponding reductions in state revenues. The primary programs affected would be those funded with the state General Fund, 96 percent of which goes to education, human services and public safety.

Description of Policy Option: The State maintains two budget stabilization funds: The Rainy Day Fund and the Education Stability Fund. The Rainy Day Fund receives all revenue collected from corporate income and excise taxes above the tax rate of 7.2 percent, and in addition, if the prior biennium ending balance is sufficient, up to one percent of the prior biennium's General Fund appropriations. The Education Stability Fund receives 18 percent of state lottery funds collected each biennium.

The Education Stability Fund is constitutionally restricted; it can be spent only by a three-fifths vote of the legislature, only for public education, and only if specific economic triggers occur or a state of emergency is declared. The Rainy Day Fund is statutory. It has the same economic trigger and three-fifths vote requirements as the Education Stability Fund; however, these can be changed by the legislature since the fund and its revenue sources are not constitutional. No more than two-thirds of the Rainy Day Fund can be appropriated in a single biennium.

At the end of the 2015-17 biennium, the state had a projected balance of $388.8 million in the Rainy Day Fund and $383.8 million the Education Stability Fund, for a combined total of $772.6 million. This combined total equates to about 4.2 percent of the projected biennial General Fund revenues for 2015-17. If the state can avoid a recession during 2017-19 and make all of the scheduled deposits anticipated for that biennium, the projected balance in the Rainy Day Fund will increase to $634.7 million and the projected balance in the Education Stability Fund will increase to $585.6 million, for a combined total of $1.2 billion. This would be equal to about 6.3 percent of projected General Fund revenues in 2017-19.

Under the current constitutional and statutory structure, the Rainy Day Fund is capped once it reaches 7.5 percent of the prior biennium's General Fund revenue total and the Education Stability Fund is capped once it reaches five percent. In effect, once capped the funds would combine to total about 12.5 percent of the prior biennium's General Fund revenue total.

Financial Opportunity: The Rainy Day Fund is projected to grow by approximately $246 million during the 2017-19 biennium. If **$200 million** were diverted to the UAL, the Rainy Day Fund would still contain $434.7 million (higher than its 2015-17 level) at the end of the biennium and the combined total of the Rainy Day Fund and Educational Stability Fund would still be over $1 billion.

Key Considerations:

- For context, during the 2001 recession, General Fund revenues dropped by $1.5 billion (or 14 percent) over the course of the biennium. During the post-2008 recession, projected revenues for the 2009-11 biennium dropped by $3.6 billion (or 21 percent).
- Maintenance of reserves also supports the State's strong bond rating, which in turn reduces State borrowing costs. On the other hand, the size of the UAL also raises concerns in the bond market.
- The Legislature has drawn repeatedly from both the Rainy Day Fund and the Educational Stability Fund to balance budgets during economic downturns, but has not done so since the 2011-13 biennium.

Status of Concept: Analyzed

PERS UAL Reduction Task Force

Policy Option: State Data Center

Entities Impacted: The majority of state agencies use the State Data Center located in Salem, and might experience service disruptions if IT services are either moved back to the originating agency or moved to a cloud service provider. If there are service disruptions to agencies, Oregonians using state services or systems could be affected as well.

Description of Policy Option: A detailed analysis would be needed to determine whether it would be cost-effective to sell the State Data Center and either move IT infrastructure to cloud/contracted services or move IT infrastructure back to the agencies. Several factors would need to be analyzed to determine the potential market value of the facility, including:

- Marketability – Private sector organizations are building data centers in eastern Oregon. Locations such as Bend, Boardman and Prineville are chosen due to the lower cost of power, favorable climate and distance from all fault zones. Due to these factors, Salem may be a less desirable location.
- Load Capacity – The current facility has the infrastructure to support 67 kW of IT load capacity. The majority of the data centers built today are built with an infrastructure to support 2000 kW of IT capacity.
- Resilience – The current facility is located in a flood plain and in the direct flight path of the Salem Airport.

Financial Opportunity: Unknown. As noted, a detailed analysis would be required to determine the potential value of the existing State Data Center and the cost and service implications of to other options.

Key Considerations:

- There are good reasons to consider cloud storage and/or contracted (hosted) data services for certain state data applications; however, there are applications that work well in a cloud environment and those that do not. Applications that do not function well in the cloud could be moved to a hosted provider, but this has historically been more expensive than hosting the same system at the State Data Center. A case-by-case determination would be needed.
- The relocation of computing and storage from the State Data Center to agencies or to cloud providers would take approximately 18-24 months, as agencies plan and coordinate the relocation of the technology and systems are decoupled from the shared environment.

Status of Concept: Requires further study.