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LOCAL GOVERNMENT RESPONSES TO FISCAL STRESS: HOW DO OREGON COUNTIES COMPARE?

by

Vince Adams

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Oregon State University
213 Ballard Extension Hall
Corvallis, OR 97331
(541) 737-1442
rsp@oregonstate.edu

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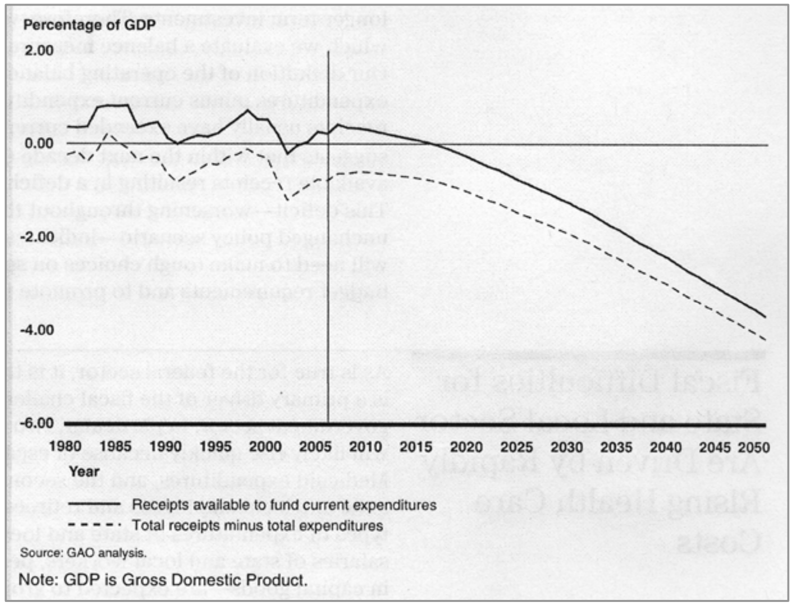
Introduction

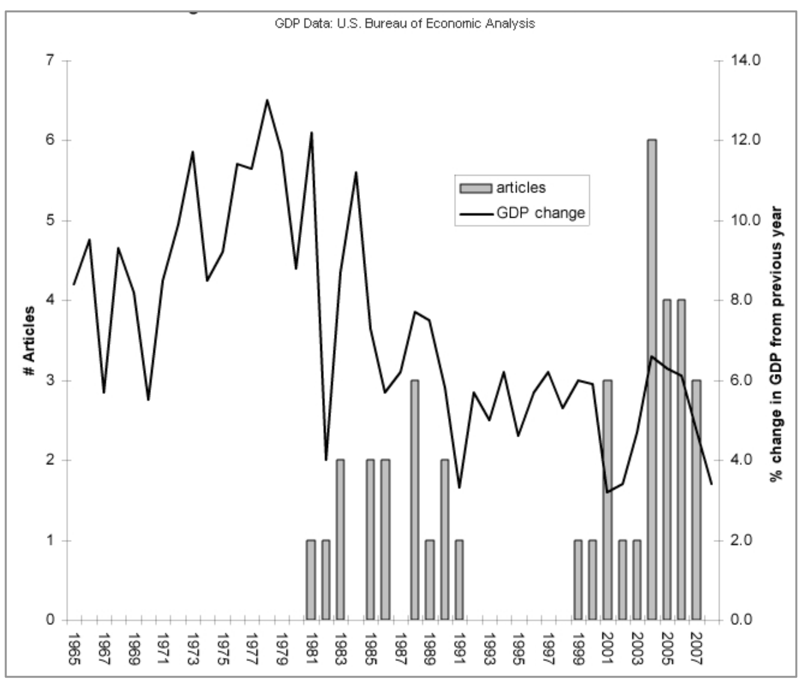
Even before the current economic downturn, a General Accounting Office (GAO) report in 2007 indicated that “in the absence of policy changes, large and growing fiscal challenges for [state and local governments] will begin to emerge within the next few years.” Figure 1 from the GAO report shows the projected decline of receipts to state and local governments less expenditures. The GAO attributes the decline in receipts to state and local governments to rising healthcare costs; a trend that they report on the federal level as well.

Figure 1: State and Local Receipts Net of Expenditures



In this report, we review the structural factors leading to fiscal stress in Oregon, examine the policy responses by county governments in Oregon as reported in the 2008 Secure Rural Schools Survey, and compare these to local government policy responses to fiscal stress found in the academic literature on fiscal stress.

Figure 2: Change in National GDP and Number of Articles on Fiscal Stress



The economic hardship of governments has been discussed at some length in the academic literature terming this condition “fiscal stress.” The literature surveyed in this report was aimed specifically at local and municipal governments and how they manage fiscal stress. Much of the seminal work in this literature was done in the economic downturn of the early and mid 1980’s, but has since made a strong resurgence in recent years as we have approached the current national recession (see Figure 2).

Cyclical vs. Structural Fiscal Stress

Cyclical fiscal stress stems from short term fluctuations in economic climate (see Figure 2). An economic downturn may temporarily reduce revenues. One study found that use of unreserved fund balances were found to have the highest degree of success dealing short-term fiscal stress followed by reducing expenditures, engaging in capital spending (to grow the local economy), and increasing revenues from external sources (Hendrick, 2004).

Structural fiscal stress arises from institutional structures rather than external forces (such as a bad economy) that lead to budget shortfalls. Structural fiscal stress is typically long-term in duration and must be addressed accordingly. Use of reserve funds or retained fund balances to make up budget shortfalls due to long-term structural fiscal stress has been called a recipe for disaster (Kinney, 2002).

Structural Factors in Oregon

Tax System

Oregon counties have three key structural factors that underlie their unsettling fiscal condition. The first factor is a pair of constitutional amendments, Measures 5 & 50 that limit the extent to which local governments can increase their property taxes. Measure 5, passed by the voters in 1990, limited property tax rates local governments can impose. Measure 50 placed a new limit on the total property tax by fixing the maximum assessed value of properties, limiting the growth of those values to 3% per year and creating a fixed permanent tax rate for each taxing district. This situation contrasts with the situation of many local governments across the nation where increasing property taxes is typically a viable option. The ability of local governments to raise property taxes temporarily beyond these limits is structurally very limited in Oregon as a strategy for coping with fiscal stress.

Timber Payments and Revenue Sharing

The second structural factor contributing to the fiscal stress of many of Oregon’s counties is the revenue sharing arrangements around timber harvest on federal lands. Historically, counties with large amounts of federally owned land base have relied on revenues shared from the sale of timber harvests. Beginning in 1989, timber harvests on federal lands in Oregon dropped sharply, and consequently shared revenues from these sales did as well. The Secure Rural Schools and Self-Determination Act of 2000 (SRS) was passed to replace a portion of these funds so local governments could maintain services. SRS was scheduled to expire in 2006, but legislation in October 2008 resulted in the extension the payments until fiscal year 2011. Many of Oregon’s counties still rely on SRS payments for a large portion of their discretionary spending and there are no clear options for replacing this revenue stream.

Rural Economic Base

Many of the counties facing fiscal stress in Oregon are rural communities that have historically relied on resource related industries (timber, fishing, and farming) as their primary economic drivers. Since the 1970's, these industries have shared a decreasing proportion of Oregon's economy as technology and information industries have emerged. However, these new industries have located in predominantly urban areas. This has left rural communities in Oregon with the same "specialized economic bases [making them] vulnerable to market disturbances that affect only a few industries but reduce jobs and income in particular communities" (Hite & Ulbrich, 1986). The means of dealing with fiscal stress are structurally constrained as well. Contracting out government services and privatization can be a way to achieve greater efficiency. However, rural communities may not have the abundance of contractors and businesses to ensure vibrant competition, so these methods may be problematic (Straussman, 1981).

Surveys of Local Government Responses to Fiscal Stress

Over the past two decades, there have been at least seven surveys of local governments in the United States seeking information about responses to fiscal stress. During the Spring of 2008 the Rural Studies Program at Oregon State University conducted a survey of Oregon county governments to ascertain the effects of the elimination of the Secure Rural Schools Program by the federal government. In a review of academic studies on local government responses to fiscal stress, six other studies were identified and reviewed for this report. Each was based on a survey similar to that used by OSU in 2008. By systematically aggregating the results of the surveys from the literature, it was possible to construct tables comparing some of the Oregon responses to those from studies elsewhere in the nation.

The 2008 Secure Rural Schools Survey focused on five general areas of county government including general fiscal condition, capital budgets, operating budgets, local fiscal adjustments, and future fiscal prospects. This survey identified the policies used by Oregon counties to deal with fiscal stress. For the selected questions A through D, each policy response was assigned a utilization rate according to the following schedule:

	A – D-3	D-4
Utilization rate	Percent affirming use of policy	Total count of use
High	> 50%	18 – 20
Moderate	26 – 50 %	14 – 17
Low	0 – 25%	0 – 13

The policies in the Oregon survey were then listed by utilization rate to show how favorably county governments viewed each.

Of the 30 collected articles from the academic literature reviewed for this report, six were found to have used a survey to measure fiscal stress policy responses by county and municipal government officials in the United States. There were two dimensions in the data from the article that needed to be accounted for. To generalize across the articles examined, the mention of each fiscal stress policy needed to be counted. However, the second dimension was the utilization rates for the policies mentioned in the individual articles.

To make the information in the individual articles comparable to the Oregon survey results, the results for each fiscal stress policy response mentioned in the six articles were divided into utilization rate categories using the same schedule as with questions A – D-3 in the 2008 Oregon Survey. The policies were listed for each article by utilization rate under the budget area they applied (revenue, expenditures, or other). Each time a fiscal stress technique was mentioned it was weighted by its utilization rate. When a technique mentioned had a "high" utilization rate it was counted three times, "moderate" two times, and "low" only once. For example, the technique of increasing fees was highly favored in the surveys from the literature. There were five individual mentions of increasing fees (each highlighted in dark gray on Table 1, below), but it received a weighted count of 14 because of its utilization rate. The policy responses from the literature were then ranked by their weighted counts and divided into three groups, based on natural breaks, into utilization rates like the 2008 Oregon Survey.

Table 1: Revenue-side Fiscal Stress Responses

Citation	Scope	Revenue - High (3)	Revenue - Moderate (2)	Revenue - Low (1)
Beckett-Camarata, Jane. 2004. "Identifying and Coping with Fiscal Emergencies in Ohio Local Governments." International Journal of Public Administration 27, no. 8/9: 615-630	County gov't in Ohio	economic development, increase fees, new fees		increase taxes
Burke, Brendan, and Victor DeSantis. 2004. "Local Public Management Approaches and Capacity in the Eye of the Storm." Conference Papers -- Midwestern Political Science Association: 1-19.	Massachusetts municipal and county gov'ts	increase user fees, pursue additional grant funds	impose new fees	option levies, rent properties, sell assets, new enterprise funds
Klase, Kenneth A. 2004. "Local Government in a New Era of Fiscal Stress: The Causes and Implications of the Budgetary Crisis in American Counties." Conference Papers -- Midwestern Political Science Association: 1-26.	National survey of county gov'ts		drawing down reserves, tax increase, increase fees	
Maher, Craig, and Steven Deller. 2005. "Municipal Responses to Fiscal Stress." Conference Papers -- Midwestern Political Science Association: 1-25.	Wisconsin small municipalities	increase user fees, pursue additional grant funds	raising property taxes	drawing down cash reserves
Mattson, G.A. 1989. "How Iowa's small towns cope with financial retrenchment." Small Town 19, no. 5	Small municipalities in Iowa	increase user fees		local tax option
Steel, B., Weber, B. 2008 Secure Rural Schools Survey	County gov't in Oregon	Spending down capital reserves, increase fees	consider increasing fees and/or taxes	actual fee increases
West, Jonathan P., and Charles Davis. 1988. "Administrative Values and Cutback Politics in American Local Government." Public Personnel Management 17, no. 2: 207.	National survey of urban managers			

Table 2: Expenditure-side Fiscal Stress Responses

Citation	Scope	Expenditure - High (3)	Expenditure - Moderate (2)	Expenditure - Low (1)
Beckett-Camarata, Jane. 2004. "Identifying and Coping with Fiscal Emergencies in Ohio Local Governments." International Journal of Public Administration 27, no. 8/9: 615-630	County gov't in Ohio	targeted budget cuts, hiring freeze, reduce workforce, across-the-board cuts	delayed maintenance, wage freeze	
Burke, Brendan, and Victor DeSantis. 2004. "Local Public Management Approaches and Capacity in the Eye of the Storm." Conference Papers -- Midwestern Political Science Association: 1-19.	Massachusetts municipal and county gov'ts	defer capital spending, early retirement, across-the-board cuts, defer maintenance,	reduction of force through attrition, hiring freeze	volunteers, layoffs, reduction of benefits, reduced service hours
Klase, Kenneth A. 2004. "Local Government in a New Era of Fiscal Stress: The Causes and Implications of the Budgetary Crisis in American Counties." Conference Papers -- Midwestern Political Science Association: 1-26.	National survey of county gov'ts		reduce services, hiring freeze,	elimination of services, layoffs, early retirement incentives,
Maher, Craig, and Steven Deller. 2005. "Municipal Responses to Fiscal Stress." Conference Papers -- Midwestern Political Science Association: 1-25.	Wisconsin small municipalities	targeted budget cuts, delayed capital expenditure	delayed maintenance	across-the-board budget cuts, layoffs, discouraging population growth, increasing short-term debt, reduction of service hours, service elimination
Mattson, G.A. 1989. "How Iowa's small towns cope with financial retrenchment." Small Town 19, no. 5	Small municipalities in Iowa	defer capital spending, volunteers	Hiring freeze	wage freeze, layoffs
Steel, B., Weber, B. 2008 Secure Rural Schools Survey	County gov't in Oregon	service cuts, reduce hours, reduce FTE, cut capital construction,	volunteers	privatization
West, Jonathan P., and Charles Davis. 1988. "Administrative Values and Cutback Politics in American Local Government." Public Personnel Management 17, no. 2: 207.	National survey of urban managers	Reduce/eliminate travel funds, Cut programs offered by other agency, Reduce overtime	Reduce capital expenditure, Delay hiring, Lay-offs	Cut low-visibility programs, cut poorly performing programs, Salary freeze, Delay promotions, FT to PT

Table 3: Other Fiscal Stress Responses (efficiency & market)

Citation	Scope	Other - High (3)	Other - Moderate (2)	Other - Low (1)
Beckett-Camarata, Jane. 2004. "Identifying and Coping with Fiscal Emergencies in Ohio Local Governments." International Journal of Public Administration 27, no. 8/9: 615-630	County gov't in Ohio	budget and financing reform		contracting out
Burke, Brendan, and Victor DeSantis. 2004. "Local Public Management Approaches and Capacity in the Eye of the Storm." Conference Papers -- Midwestern Political Science Association: 1-19.	Massachusetts municipal and county gov'ts	restructure existing debt		contracting out, consolidate departments, regional service agreements
Klase, Kenneth A. 2004. "Local Government in a New Era of Fiscal Stress: The Causes and Implications of the Budgetary Crisis in American Counties." Conference Papers -- Midwestern Political Science Association: 1-26.	National survey of county gov'ts			privatizing services
Maher, Craig, and Steven Deller. 2005. "Municipal Responses to Fiscal Stress." Conference Papers -- Midwestern Political Science Association: 1-25.	Wisconsin small municipalities	improving productivity through better management, refinancing outstanding debt	regional cooperative agreements, contracting out	department consolidation
Mattson, G.A. 1989. "How Iowa's small towns cope with financial retrenchment." Small Town 19, no. 5	Small municipalities in Iowa	contracting out,		
Steel, B., Weber, B. 2008 Secure Rural Schools Survey	County gov't in Oregon	reorganization/consolidation/restructuring, more efficient service delivery policies	intergovernmental service agreements, computerization	community-based strategic planning, staff training
West, Jonathan P., and Charles Davis. 1988. "Administrative Values and Cutback Politics in American Local Government." Public Personnel Management 17, no. 2: 207.	National survey of urban managers			

Results: How do Oregon Counties Compare?

Tables 4 through 6 compare the responses of Oregon county governments in the 2008 Oregon Survey and the responses reported in selected academic literature. The most frequently mentioned and used revenue-side responses in Oregon and elsewhere were increases in fees. Oregon counties also commonly pulled resources out of capital reserves to increase their revenues, which local governments in other states were more reluctant to do. Some counties have attempted to create new County Service Districts with their own tax base (e.g. Deschutes County's rural and urban sheriff districts). Some counties reported attempting local option levies.

Table 4: Revenue-side Responses

Utilization Rate	2008 Oregon Survey	Academic Literature
High	• Drawing down capital reserves • Some fee increases[1]	• Increase fees[2]
Moderate	• Consider increasing taxes/fees[1]	• new grant funds • new fees • economic development • increase taxes • draw down reserves • option levy
Low	• Actual fee increases[1]	• rent properties • sell assets • intergovernmental transfers

1. Three questions on the survey addressed fee increases (A-2b, D-1, D-2). Some county governments reported increasing fees. However, most Oregon counties did not favor this option, but reported being willing to consider it in the future.

2. Increasing fees was the most frequently mentioned and most favored means of raising revenue.

County governments are focusing primarily on the expenditure side of their budgets, especially on their public works/road departments. This attention is in the form of cuts (most frequent) or cutting other programs in deference to road services. As shown in Table 5, expenditure side balancing measures reported in the survey focused on personnel and service cuts: Oregon counties responded most commonly by cutting services and hours of service, and by reducing workforce (FTE) commitments and capital construction. These responses are more severe than those commonly reported by local governments in other states, who mentioned freezing hiring more frequently than reducing workforces, and deferring rather than cutting capital construction.

Table 5: Expenditure-side Policies

Utilization Rate	2008 Oregon Survey	Academic Literature
High	• service cuts • reduce hours • reduce FTE • cut capital construction	• hiring freeze • deferred capital spending • reduce/eliminate services • targeted budget cuts
Moderate	• Volunteers	• across-the-board cuts • deferred maintenance • reduce workforce • wage freeze • volunteers • layoff[3] • early retirement
Low	• Privatization	• reduced service hours • reduction of employee benefits • discouraging population growth • increase short-term debt • delayed promotion

3. Layoffs were commonly mentioned, but were universally seen as a measure of last resort.

Table 6 reports other policies that local governments have used besides increasing revenues and cutting expenditures to address fiscal stress. Oregon counties have been pursuing increased efficiency in service delivery even before the expected termination of the Secure Rural Schools funding in 2008. As seen in the responses to question D-4 in Appendix A, among the most widely adopted fiscal adjustments reported during three fiscal years prior to FY 2008 were reorganization and consolidation of services and restructuring to reduce middle management. These responses suggest a higher level of stress than that experienced in other states. The most commonly used policy responses to fiscal stress reported by other states are contracting out and restructuring existing debt; consolidation is reported much less frequently in other states.

The 2008 Survey found that Oregon counties reported adopting policies that were aimed at increasing government efficiency more frequently in past years than in the survey year. This could suggest that counties cannot identify additional efficiency actions to employ to help alleviate their fiscal stress.

Table 6: Other Policies

Utilization Rate	2008 Oregon Survey	Academic Literature
High	• reorganization/consolidation/ restructuring • more efficient service delivery policies	• contracting out • restructure existing debt
Moderate	• intergovernmental service agreements • computerization	• regional service agreements
Low	• community-based strategic planning • staff training	• consolidate departments • privatizing services • improve management

Governor's Task Force Recommendations

The Governor's Task force on Federal Forest Payments and County Services has identified actions that local governments in Oregon should take to help themselves in anticipation that Secure Rural Schools funding will phase down and expire after FY 2011. The first recommended action is utilizing what tax capacity that remains within the constraint of Measure 5. The second is creating tax districts for essential services such as law enforcement and emergency services. The third is utilization of option levies. Service districts and option levies both require approval by voters.

It is noteworthy that the Governor's Task Force's primary recommendations are for property tax increases and creating new tax districts that require voter approval. Both are likely to meet stiff voter resistance, particularly in the most severely affected counties that have relatively low property tax rates and have had low rates for many years. The Task Force does not see much opportunity for further spending and service cuts, or much further revenue potential in policy actions that are easier to implement and that counties have used in the past four years: drawing down fund balances and fee increases.

Conclusion

For decades prior to the anticipated termination of the Secure Rural Schools funding in 2008, many Oregon counties had been experiencing fiscal stress brought on by expanding populations and voter-approved limits on the property tax system. It is clear from the OSU SRS Survey of 2008 that, for at least the past four years, counties have been adopting strategies to raise non-tax revenue, cut and reorganize services and create new institutional arrangements for county service delivery. It is also clear from our review of studies of responses to fiscal stress in other states that Oregon counties have adopted many of the strategies used in other states. While some policy responses in another states may not be either feasible or possible in Oregon local governments, counties may wish to take another look at some of these alternatives.

Appendix A: Selected Data on County Fiscal Condition and Adjustments from the 2008 Secure Rural Schools Survey

2008 Secure Rural Schools Survey
General Fiscal Condition (Table 1)

		FY2006		FY2007		FY2008	
		no	yes	no	yes	no	yes
A-1	a. Do you have a capital project reserve fund for non enterprise activities?	17	13	18	12	22	8
	N = 30	57%	43%	60%	40%	73%	27%
	b. Did you spend down your capital project reserve fund because of financial difficulties?	3	22	3	23	4	23
	N = 25, 26, and 27	12%	88%	12%	88%	15%	85%
A-2	a. Did you make service cuts, reduce service hours or reduce FTEs?	9	22	17	14	21	10
	N = 31	29%	71%	55%	45%	68%	32%
	b. Did you increase fees or charges to prevent service reductions?	10	20	15	16	17	14
	N = 30, 31, and 31	33%	67%	48%	52%	55%	45%
A-3	a. Were you able to adequately finance maintenance of roads and streets?	14	16	11	19	8	22
	N = 30	47%	53%	37%	63%	27%	73%
	b. Were you able to adequately finance maintenance of public buildings?	16	13	13	16	13	16
	N = 29	55%	45%	45%	55%	45%	55%
	c. Were you able to adequately finance maintenance of vehicles?	23	7	21	9	20	10
	N = 30	77%	23%	70%	30%	67%	33%
	d. Were you able to adequately finance maintenance of bridges?	17	11	15	13	15	13
	N = 28	61%	39%	54%	46%	54%	46%
	e. Were you able to adequately finance maintenance of parks?	20	7	18	9	17	10
	N = 27	74%	26%	67%	33%	63%	37%
	f. Were you able to adequately finance maintenance of technology & information?	21	8	20	9	21	8
	N = 29	72%	28%	69%	31%	72%	28%

2008 Secure Rural Schools Survey
General Fiscal Condition (Table 2)

		FY2008 no	FY2008 yes	FY2008 NA
A-6	Did your county plan the 2007-08 budget anticipating continued receipt of Secure Rural Schools funds?	15	12	3
		50%	40%	10%
A-7	Did your county have an alternative 2007-08 budget plan in case the Secure Rural Schools program was eliminated?	11	13	7
		35%	42%	23%
B-I	Will your jurisdiction reduce future capital construction because of the elimination of the federal timber payments program?	12	15	
		44%	56%	
C-I	Will your jurisdiction reduce 2008-09 service levels if the Secure Rural Schools program is eliminated?	8	21	
		28%	72%	
D-1	a. Has your county increased/added charges, fees or taxes in FY 2007-08 in anticipation of the elimination of the Secure Rural Schools program?	23	8	
		74%	26%	
D-3	a. Will your county consider increasing charges, fees or taxes in the future if the Secure Rural Schools program is eliminated?			don't know
		4	14	11
		14%	48%	38%

2008 Secure Rural Schools Survey
Fiscal Adjustment

	Counties responding "yes" to these questions:	3-years prior	FY2008	change
D-4	a. Have you used **reorganization/consolidation** in the 3 years prior to FY 2007-08 and in FY 2007-08 in anticipation of the elimination of Secure Rural Schools program?	13	6	-7
	b. Have you used **restructuring to reduce middle management** in the 3 years prior to FY 2007-08 and in FY 2007-08 in anticipation of the elimination of Secure Rural Schools program?	10	8	-2
	c. Have you used **intergovernmental service agreements** in the 3 years prior to FY 2007-08 and in FY 2007-08 in anticipation of the elimination of Secure Rural Schools program?	9	5	-4
	d. Have you used **privatization** in the 3 years prior to FY 2007-08 and in FY 2007-08 in anticipation of the elimination of Secure Rural Schools program?	2	2	0
	e. Have you used **computerization** in the 3 years prior to FY 2007-08 and in FY 2007-08 in anticipation of the elimination of Secure Rural Schools program?	8	8	0
	f. Have you used **more efficient service delivery techniques** in the 3 years prior to FY 2007-08 and in FY 2007-08 in anticipation of the elimination of Secure Rural Schools program?	12	9	-3
	g. Have you used **community-based strategic planning** in the 3 years prior to FY 2007-08 and in FY 2007-08 in anticipation of the elimination of Secure Rural Schools program?	2	3	1
	h. Have you used **staff training** in the 3 years prior to FY 2007-08 and in FY 2007-08 in anticipation of the elimination of Secure Rural Schools program?	4	5	1
	i. Have you used **volunteers** in the 3 years prior to FY 2007-08 and in FY 2007-08 in anticipation of the elimination of Secure Rural Schools program?	8	7	-1

Appendix B: Summary of Selected County Actions Identified in the 2008 Secure Rural Schools Survey

A-8	What did your county do with the 2007-08 Secure Rural Schools funds?
	1. Spending all of the funds. 31% (N=10)
	2. Set aside a portion of the funds for the future→ Approximately what percentage did you set aside? 41% Set Aside (N=13) Mean Percentage Set Aside=54.08%
	3. Other (please specify): 28% N=9; ***Most put a portion of the money into a road reserve fund.***

B-2	Please indicate which of the following actions will be taken (if any) concerning capital expenditures (please give specific examples).
	A. Deferral of new capital projects: ***Most are road projects, followed by building improvements, then misc.***
	B. Scaling down of projects: ***Road improvement reduced to maintenance.***
	C. Elimination of projects: ***Several road projects dropped, a few facilities; two counties reported not having any projects to eliminate (indication of fiscal stress despite having SRS payments?)***

C-2	Please circle the number of each future action that will be taken (if any) concerning operating expenditures if the county timber payment program is eliminated.
	1. Reductions in contracted services (Examples?) ***Roads and environmental services.***
	2. Reductions in supplies and services (Example?) ***Roads and across-the-board cuts***
	3. Elimination of active (filled) positions (Number?) ***Road positions, followed by Sheriff***
	4. Elimination of unfilled positions (Number?) ***Not department specific***
	5. Reduction of full-time positions to part-time positions ***No response***
	6. Reductions in salaries, wages, and/or benefits (Example?) ***Benefits and wage freezes, one across-the-board reduction to 0.8***
	7. Reduction in contribution to employee benefits package (Example?) ***Union contracts largely prevent this.***

D-3	What charges, fees or taxes will be considered? ***Local Gas Tax, Vehicle Registration Fees, Local Option Levies, Income tax, Sales Tax, Restaurant Tax, <u>County Service District</u>, Telecommunications Tax(from Lane County) Hotel Tax***

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