



ISSUE BRIEF

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More Money is Needed: Revenue Forecast Shows that Focus on Spending Limits and Tax Reform for Stability are Misplaced

Analysis of data in the June Economic and Revenue Forecast shows that Oregon has a revenue problem, not a spending problem, contrary to the claims of the proponents of a new spending limit. The June forecast should prompt Oregonians considering tax reform to focus on generating more revenue, rather than stabilizing the state's insufficient revenue stream.

OCPP's analysis of the State's economists' revenue projections shows that inflation-adjusted per-capita General Fund revenues will not return to the pre-recession 1999-01 levels until the 2009-11 budget period.

If Oregonians want to restore education, public safety, human services and other programs cut during the recession that began at the end of the 1999-01 biennium, they will need to do more than just rely on economic growth. Tax reform focused on raising additional revenue will be necessary. Inflation and population demands on the state budget will outstrip Oregon's economic growth and Oregonians' thirst for quality public services.

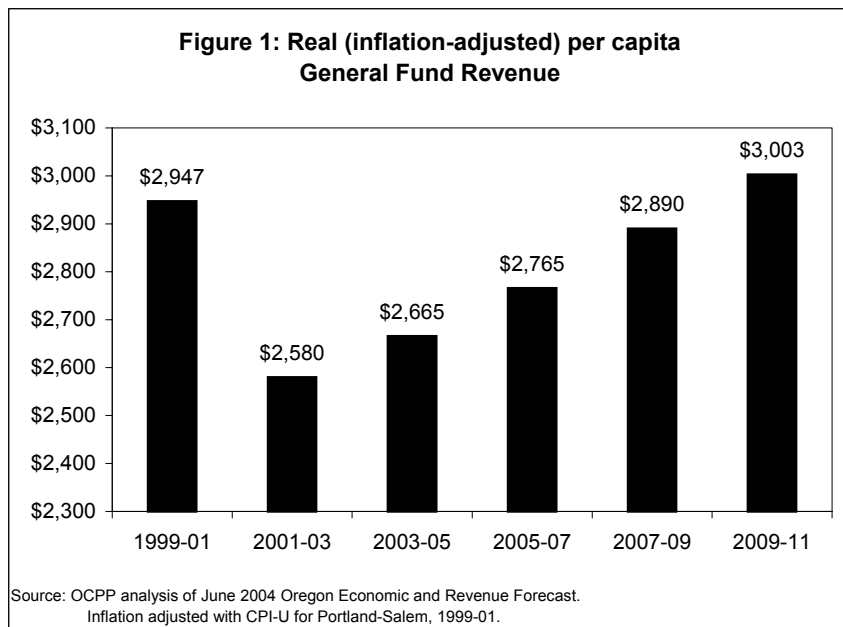
Economic growth will not be sufficient

The June Economic and Revenue Forecast notes that Oregon's economy is growing slowly. Employment grew by an annual rate of 1.8 percent in the first quarter of 2004, and state economists expect it to rise 1.5 percent in 2004 and 2.1 percent in 2005. Real per-capita General Fund revenue, however, will remain well below pre-recession levels. Real per-capita General Fund revenue is expected to be \$2,665 in the current budget cycle (the 2003-05 biennium), compared to \$2,947 in 1999-01 (Table 1 and Figure 1).

| Budget Period | Oregon General Fund Revenue | Inflation-adjusted General Fund Revenue | Real (inflation-adjusted) per capita General Fund revenue | General Fund revenue as share of personal income |
|---------------|-----------------------------|---|---|--|
| 1999-01 | \$10,121,900,000 | \$10,121,900,000 | \$2,947 | 5.29% |
| 2001-03 | \$9,366,000,000 | \$9,044,174,929 | \$2,580 | 4.63% |
| 2003-05 | \$10,183,300,000 | \$9,540,553,828 | \$2,665 | 4.63% |
| 2005-07 | \$11,234,800,000 | \$10,121,569,691 | \$2,765 | 4.57% |
| 2007-09 | \$12,561,900,000 | \$10,833,953,057 | \$2,890 | 4.56% |
| 2009-11 | \$14,054,200,000 | \$11,542,724,038 | \$3,003 | 4.56% |

Source: OCPP analysis of the June 2004 Oregon Economic and Revenue Forecast. Inflation adjusted with CPI-U for Portland-Salem, 1999-01.

OCPP analysis of the latest revenue forecast shows that it will take eight years of projected steady economic growth, from 2004 to 2011, for state revenues to match what was needed to



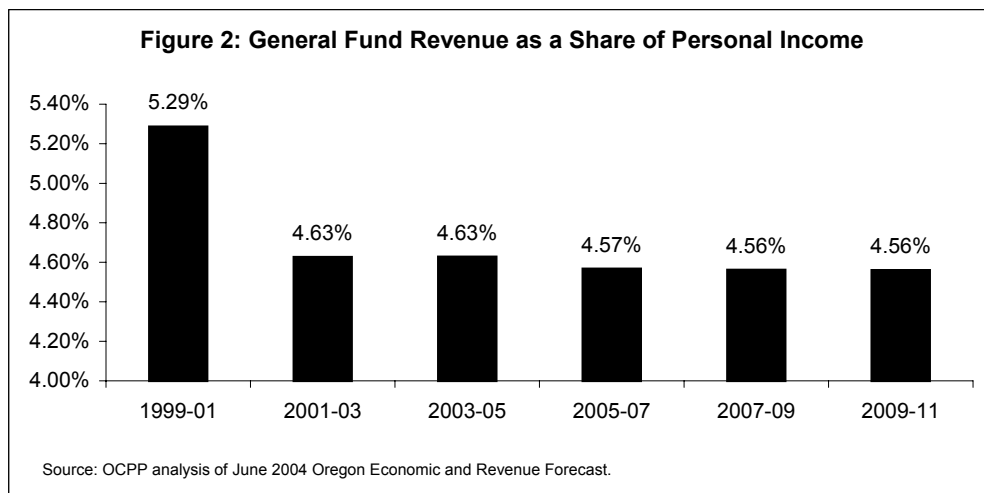
fund the programs and services that Oregonians relied upon at the peak of the previous business cycle. Real per-capita General Fund revenue will rise to \$2,890 by 2007-09, which will be \$57 less per person than in 1999-01. Finally, by the 2009-11 budget period Oregon’s tax revenues will again reach the 1999-01 biennium funding level. Adjusting only for inflation (not population), General Fund revenue will remain below the 1999-01 level until the 2007-09 budget period.

While voters and legislators have control over services the State provides and over tax policy, they have almost no control over inflation or over the number of Oregonians who need services. Oregon’s population grew by 20 percent over the course of the 1990s, and is projected to grow 13 percent between 2000 and 2011.¹ Inflation is expected to increase costs by 25 percent between 2000 and 2011.² Oregon can do next to nothing to control these increases.

Population and inflation play a key role in the growing cost of providing government services, but so do other factors. Health care costs, for example, increase faster than inflation and the state is a major health care provider. New mandates, such as Measure 11, which called for longer prison sentences for offenders, also raise the cost of government services.

Taxes: Returning to an affordable government that Oregonians enjoy

One measure commonly used to adjust the level government spending to account for all of these factors is growth in personal income. Personal income rises with population growth, inflation, and other factors. Growth in personal income reflects taxpayers’ ability to afford a given level of public services.



General Fund revenue has declined as a share of Oregon's personal income since 1999-01. In 2003-05 General Fund revenue will be just 4.63 percent of personal income, down from 5.29 percent in 1999-01. In 2009-11, Oregonians will still be paying less of their personal income toward General Fund revenue than they did in 1999-01 (Figure 2).³

Much of the talk about tax reform in Oregon has focused on the need to enhance the stability of our tax system. Some proponents of increasing stability have argued that Oregon should reduce tax collections from volatile sources that perform exceedingly well during good times and poorly during bad times, while adding a more stable consumption-based tax to the mix that would result in short-term revenue neutrality. What Oregon needs, however, is to return to the level of funding as a share of personal income that Oregon enjoyed before the recession. Otherwise, public services reduced during the last three years will not be restored for many years to come. Stability is important during the downside of the business cycle and should be achieved through the creation of a rainy day fund.

If next biennium Oregon returned its tax burden to the 1999-01 level, it would raise \$1.8 billion additional dollars for the 2005-07 budget period.⁴ These funds would help restore some of the cuts to education, health care, senior and other public services Oregonians have suffered.

Conclusion: Raise taxes to an affordable level

Oregon's revenue needs will not be resolved through anticipated economic growth alone. A stable revenue stream that cannot keep up with population and inflation growth since 1999-01 is no solution. Moreover, efforts to place new, artificial limits on spending, will do nothing to help Oregon adequately fund public services. Unless taxes are increased, General Fund revenues will remain below the 1999-01 level when population and inflation are taken into account, until the 2009-11 budget period. Returning Oregon's overall tax burden to the level that Oregonians could afford in 1999-01 would be an important first step toward adequately funding the education, human, public safety and other state government services Oregonians demand and need.

Endnotes

¹ *Oregon Economic and Revenue Forecast*, June 2004. Available at <http://www.oregon.gov/DAS/OEA/docs/economic/forecast0604.pdf>.

² *Ibid.*

³ This includes corporate tax revenue, some of which is "exported" to out-of-state taxpayers.

⁴ In 2005-07, General Fund revenue is projected to account for 4.57 percent of Oregon's \$246.0 billion in personal income. If revenues were increased to 5.29 percent of personal income, the level from 1999-01, General Fund revenues would be \$13 billion, \$1.8 billion higher than current projections for the 2005-07 budget period.

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