

Oregon Stuck in Doonesbury: *Economic Growth Will Not Restore Public Services Until 2009-11, Unless Oregon Suspends the Tweedledee and Tweedledum Kickers*

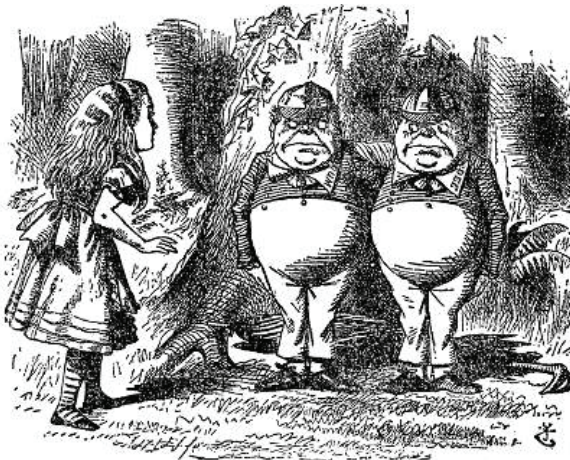
Oregon's economy is growing, but the economic downturn that began in 2001 is still limiting the ability of the State to provide the public services Oregonians want. From school budgets that fail to meet students' needs to health care and child care programs that are unable to help working families needing assistance, Oregonians are still experiencing the impact of the state's revenue shortfall. Unless Oregon suspends the personal and corporate income tax "kickers" projected for 2007, state General Fund revenues will not recover from the 2001 recession until the 2009-11 budget cycle. The General Fund is Oregon's primary funding source for schools, the court system, senior programs, child protective services, and other important public services.

State economists predict continued economic growth for Oregon in the years ahead. Unfortunately, state economists currently project that personal income tax kicker refunds and corporate kicker tax credits will drain \$666 million from the General Fund in the 2007-09 budget cycle. As a result, inflation-adjusted per-capita state General Fund revenue will sag in 2007-09 and fail to recover from the 2001 recession until 2009-11.

If Oregon suspends the personal and corporate kickers, expected economic growth will finally nearly restore inflation-adjusted, per-capita State General Fund revenues to their pre-recession levels in the 2007-09 budget cycle.

When Oregon failed to maintain adequate funding for education and other public services after the downturn hit, Gary Trudeau lampooned Oregon's budget cuts in his Doonesbury cartoon strip. Today, Oregon is still stuck in Doonesbury, providing inadequate levels of important public services. Unless both kickers are suspended, the State will stay stuck in Doonesbury until the end of this decade.

If both kickers kick, economic growth will not be sufficient until 2009-11



The personal and corporate income tax kickers are the Tweedledum and Tweedledee of Oregon fiscal management.

Surging corporate profits and more than two years of solid job growth have not been enough to lift Oregon out of Doonesbury. Real per-capita General Fund revenue is expected to be \$2,862 in the current budget cycle (the 2005-07 biennium), still less than in 1999-01, before the downturn struck, when the figure stood at \$2,949 (Table 1 and Figure 1, next page).

Next biennium, state economists expect the situation to get even worse because the personal and corporate income tax kickers are projected to blow a huge hole in General Fund revenues. The economists project Oregon's economy to continue growing at a moderate pace, but real per-capita General Fund revenues will fall because of both kickers.

The kickers are the Tweedledum and Tweedledee of Oregon fiscal management. While the corporate kicker has recently garnered most of the negative attention, both kickers are misguided and equally troublesome for Oregon’s fiscal condition.

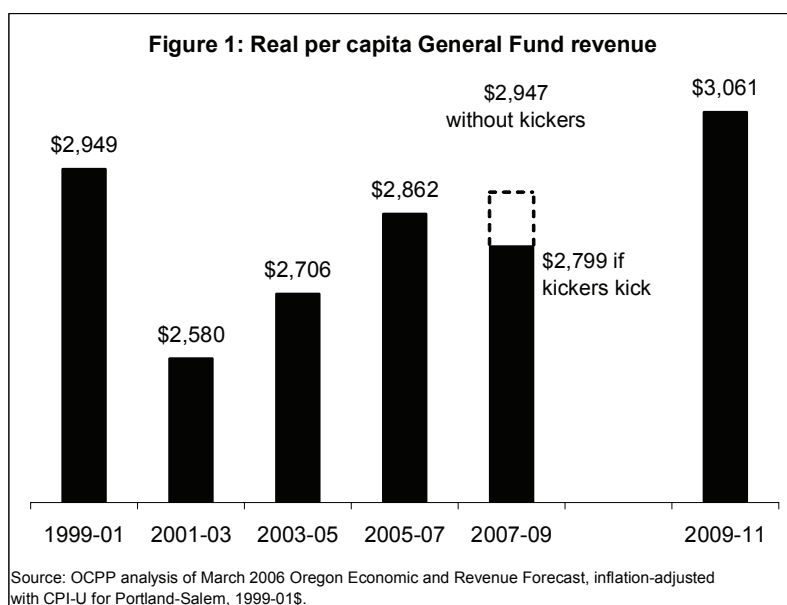
Table 1: Oregon's General Fund Revenue Forecast

| Budget period | Oregon General Fund revenue | Inflation-adjusted General Fund revenue | Real (inflation-adjusted) per capita General Fund revenue | General Fund revenue as a share of personal income |
|---------------|-----------------------------|---|---|--|
| 1999-01 | \$10,121,900,000 | \$10,121,900,000 | \$2,949 | 5.28% |
| 2001-03 | \$9,366,000,000 | \$9,044,837,456 | \$2,580 | 4.62% |
| 2003-05 | \$10,438,200,000 | \$9,701,218,940 | \$2,706 | 4.75% |
| 2005-07 | \$11,993,100,000 | \$10,535,729,501 | \$2,862 | 4.87% |
| 2007-09 | \$12,616,100,000* | \$10,582,391,846* | \$2,799* | 4.57%* |
| 2009-11 | \$14,838,100,000 | \$11,884,752,858 | \$3,061 | 4.80% |

* Assumes personal and corporate income tax kickers will be refunded and credited.
Source: OCPP analysis of the March 2006 Oregon Economic and Revenue Forecast, inflation adjusted with CPI-U for Portland-Salem, 1999-01\$.

If the amount of Oregon revenues collected over a two-year budget cycle exceeds the state economists’ projections made near the end of a legislative session by two percent or more, the entire amount of the unanticipated revenue is returned to taxpayers.

The March 2006 Oregon Economic and Revenue Forecast projected that when the current budget cycle ends in June 2007, unanticipated revenues will exceed the May 2005 forecast by more than two percent for both personal and corporate income taxes. While the final kicker amount (if any) will not be definitively established until the September 2007 “close of session” forecast, the State’s economists currently project that personal income tax kicker refund checks in November 2007 will total \$460.5 million and corporate income tax kicker tax credits for 2007 will total \$205.4 million. In total, the two kickers are projected to cost \$666 million. A previous OCPP issue brief, *Income Tax Kickers Disproportionately Benefit Multistate Corporations and Wealthy Oregonians*, shows how the kicker tax cuts are distributed among corporations of different sizes and individuals of different income groups. ¹

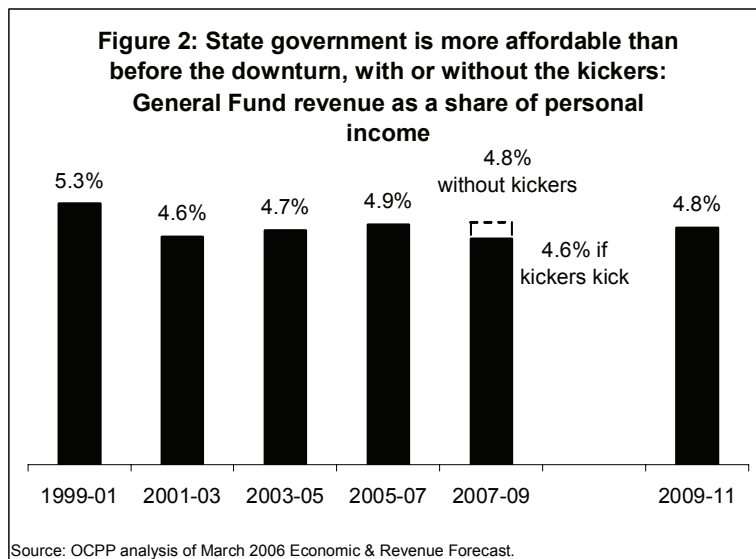


Assuming both kickers “kick,” real per-capita General Fund revenue will sag to \$2,799 in 2007-09 (Table 1 and Figure 1). If, however, both kickers are suspended, Oregon’s economic growth over the next few years will restore General Fund revenues very nearly to their pre-recession levels. Assuming both kickers do not “kick,” real per-capita General Fund revenue will reach \$2,947 in 2007-09, just \$2 per capita less than before the downturn in 1999-01 (Figure 1).

Getting out of Doonesbury and Keeping Oregon Government Affordable

There are two ways to get out of Doonesbury while also keeping Oregon taxes affordable. One method would be to suspend both kickers or transform both kickers into a source of funds for a general purpose rainy day fund. The second is to restore Oregonians' tax burden to the level that existed just prior to the downturn.

Even if Oregon suspends both the personal and corporate income tax kickers, or transforms both kickers into a source of funds for a general purpose rainy day fund, the state General Fund will still cost Oregonians less, as a share of aggregate personal income, than before the economic downturn hit in 2001.



In the current budget cycle, General Fund revenue is just 4.9 percent of personal income, down from 5.3 percent in 1999-01.² If both kickers “kick” in the next biennium (2007-09), General Fund revenue will slip even further back to 4.6 percent of personal income. Even if Oregon suspends both kickers or makes them the source for a rainy day fund, General Fund revenue will still equal just 4.8 percent of personal income in 2007-09. In other words, Oregonians will still be paying less for the State General Fund as a share of aggregate personal income than before the downturn (Figure 2).

In the next biennium, if Oregonians paid taxes at the 1999-01 level relative to their personal income, nearly \$2 billion additional dollars would be raised.³ These funds would help restore some of the per capita cuts to education, health care, senior services, and other public services that Oregon has recently suffered.

TABOR: Permanently Miring Oregon in Doonesbury

Some groups who oppose better funding for schools and other public services are urging Oregonians to put into the constitution an arbitrary spending cap modeled on the Taxpayer Bill of Rights, or TABOR cap, in Colorado.⁴ TABOR is an unnecessary gimmick that does not belong in the Oregon constitution. Even without a spending limit, General Fund revenues as a share of personal income will remain well below pre-recession levels into the foreseeable future. If Oregon adopts the TABOR arbitrary cap, the State would likely remain permanently mired in Doonesbury.

The constitutional TABOR amendment would limit state spending to an arbitrary formula – population and inflation – that is not related to the real expenses Oregon must meet or the ability of Oregonians to afford the public services they want. 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. Voter-passed mandates, such as Measure 11, which called for longer prison sentences for offenders, also raise the cost of government services. Demographic changes also can make a difference. Oregonians over the age of 85 are one of the fastest growing segments of the state’s population, and the services they require tend to be relatively expensive.

TABOR also fails as serious public policy because it exempts spending on tax loopholes from its arbitrary limit. Special interest groups will be able to avoid the TABOR limits by creating more tax loopholes, riddling Oregon's tax code with even more holes than it already has.

Conclusion: To escape Doonesbury, suspend or transform both kickers and resist constitutional spending caps

Oregon's revenue needs will not be resolved through anticipated economic growth alone. Unless Oregon suspends both kickers or transforms the personal and corporate income tax kickers into a funding stream for a much-needed general purpose rainy day fund, real per-capita General Fund revenues will remain well below pre-recession levels until the 2009-11 budget cycle. Adopting a TABOR arbitrary spending cap in the constitution will serve to permanently mire Oregon in Doonesbury.

Endnotes:

¹ Available at <http://www.ocpp.org/cgi-bin/display.cgi?page=issue060328kick>.

² State General Fund revenue includes corporate income tax revenue, some of which is "exported" to out-of-state taxpayers.

³ In 2007-09, General Fund revenue is projected to account for 4.57 percent of Oregon's \$275.9 billion in personal income. If revenues were increased to 5.28 percent of personal income, the level from 1999-01, General Fund revenues would be \$14.6 billion, about \$2 billion higher than current projections for the 2007-09 budget period.

⁴ For example, initiative petition #6 proposes to place a harsh, arbitrary TABOR-like spending limit in the Oregon Constitution. For more on TABOR, see the Center on Budget and Policy Priorities' TABOR resource page at <http://www.cbpp.org/ssl-series.htm>.

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