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Executive Summary
June 26, 2007

Steady as She Goes:
State and Local Government Revenues and Spending in Oregon

by Michael Leachman

State and local governments raise and spend money primarily to educate our children, keep our communities safe, arbitrate disputes through the courts, and provide health care and other services for our most vulnerable neighbors. In providing these and other services, Oregon state and local governments are not expecting more from Oregonians today than was expected a generation ago.

Oregon's own-source general revenue has hovered around 15 percent of Oregonians' income over the last 25 years.

- In 2005, own-source general revenue came in at 14.5 percent of income, as it did in 2002 and 2004. Not since 1980 has own-source general revenue been so low as a share of income. If this revenue had held at 15.4 percent of income, where it was in 2000, Oregon would have had nearly $1.1 billion more in own-source general revenue than actually came in.

- The latest Census data indicate that in 2005 Oregon state and local governments collected taxes totaling 8.9 percent of Oregonians' income. This represents a decline from a decade earlier, in 1995, when taxes totaled 9.9 percent of income, and from two decades earlier, in 1985, when taxes equaled 10.4 percent of income

- An increase in fee revenue partially offsets the revenue lost as taxes have declined. In 2005, total fees and charges collected by Oregon state and local governments equaled 3.7 percent of Oregonians' income, up from 3.3 percent in 1995 and from 2.5 percent in 1985.

Like revenue, spending by state and local governments in Oregon has risen in line with increases in the incomes of Oregonians. Since 1980, own-source state and local government general expenditures as a share of Oregonians' income have held steady, hovering around 15 percent, just as revenue has.

- As of 2005, the latest data available, own-source state and local government spending stood at 14.8 percent of income, in line with the historical pattern.

Oregon state and local governments rank in the middle of the pack among states and the District of Columbia for own-source general revenue as a share of personal income.

- In the 2004-05 fiscal year, Oregon's own-source general revenue comprised of state and local taxes, fees, and miscellaneous general revenue, ranked 29th highest.

- State and local government spending in Oregon also ranks in the middle of the pack nationally. As a share of personal income, own-source general expenditures by Oregon state and local governments ranked 22nd highest among states and the District of Columbia in 2004-05. Total general expenditures, which include federal aid, ranked 24th highest.

- State rankings should not influence Oregonians to determine whether Oregon's level of spending is desirable or affordable. Oregon's ability to afford state and local government spending is dependent on the standards set by Oregonians, not the standards that residents of other states set for their own public goods and services.

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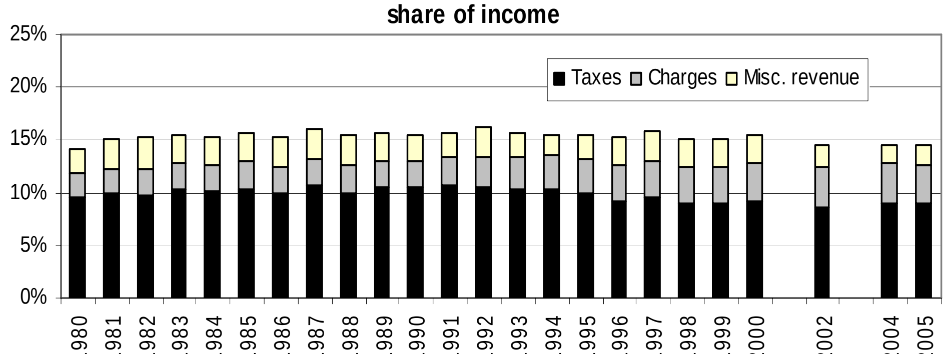
State and local governments raise and spend money primarily to educate our children, keep our communities safe, arbitrate disputes through the courts, and provide health care and other services for our most vulnerable neighbors. In providing these and other services, Oregon state and local governments are not expecting more from Oregonians today than was expected a generation ago. As a share of Oregonians' income, the general revenue collected by Oregon's state and local governments has changed little over the last 25 years. Similarly, state and local government spending as a share of income has held steady, with only minor fluctuations, over the same extended period.

Revenues steady since early '80s; slipped this decade

The latest Census data indicate that in 2005 Oregon state and local governments collected taxes totaling 8.9 percent of Oregonians' income. This represents a decline from a decade earlier, in 1995, when taxes totaled 9.9 percent of income, and from two decades earlier, in 1985, when taxes equaled 10.4 percent of income (Figure 1).

While state and local governments have reduced taxes as a share of income, they have also increased reliance on fees and charges, such as fees for health care at public hospitals, tuition at public universities, and sewer fees. This increase in fee revenue partially offsets the revenue lost as taxes have declined. In 2005, total fees and charges collected by Oregon state and local governments equaled 3.7 percent of Oregonians' income, up from 3.3 percent in 1995 and from 2.5 percent in 1985.

Figure 1: Oregon state and local government general revenue as a share of income



Note: Income is personal income plus capital gains. Census Bureau did not release data for 2001 and 2003.
Source: OCPP analysis of data from Tax Policy Center, US Census Bureau, Bureau of Economic Analysis, and Oregon Office of Economic Analysis.

State and local governments also collect miscellaneous general revenue from other sources including interest earnings, the state lottery, and property sales. As a share of income, this miscellaneous revenue fluctuated over the 1980s and 1990s, but did not clearly trend in one direction or the other. From 2000 to 2005, however, miscellaneous revenue slipped from 2.6 percent of income to 1.9 percent of income, primarily because interest revenue dropped precipitously after the recession hit beginning in 2001.[1]

All revenue generated by state and local governments in Oregon, including state and local taxes, fees and charges, and miscellaneous revenue are known as "own-source general revenue." Overall, Oregon's own-source general revenue has hovered around 15 percent of income over the last 25 years (Figure 1). In 2005, own-source general revenue came in at 14.5 percent of income, as it did in 2002 and 2004. Not since 1980 has own-source general revenue been so low as a share of income. If this revenue had held at 15.4 percent of income, where it was in 2000, Oregon would have had nearly $1.1 billion more in own-source general revenue than actually came in.

Revenues are steady overall, but who pays has shifted

As this report describes, overall own-source general revenue in Oregon has held fairly steady over the last 25 years when compared to personal income. This measure of state and local government affordability combines revenues from all Oregon sources and compares the total to the income of individuals.

This measure does *not* reveal changes in *who pays* for public services, however. In fact, who bears responsibility for Oregon's revenue has changed substantially over time. For instance, households are paying a larger share of Oregon's income taxes, while corporations are paying a smaller share.

In the 1979-80 fiscal year, corporate income taxpayers contributed 4.6 percent of the total own-source general revenue in Oregon. By the 2004-05 fiscal year, their share had declined to just 2.0 percent. [2]

As corporate income tax revenues declined, personal income taxpayers picked up more of the tab. In 1979-80, personal income taxpayers covered 22.6 percent of Oregon's own-source general revenue. By 2004-05, their share had grown to 26.7 percent. [3]

Over this same period, property taxes have also shifted away from businesses to individual homeowners in Oregon. In 1978-79, households paid 50 percent of all property taxes in Oregon. Businesses paid the other half. In 2006-07, households paid 61 percent of property taxes, compared to 39 percent for businesses. [4]

In addition, Oregon's tax system became less progressive from 1989 to 2002. Over that period, Oregon state and local taxes grew as a share of income for the lowest-income fifth of families, but shrunk for the highest-income one percent. [5]

State and local spending holding steady, too

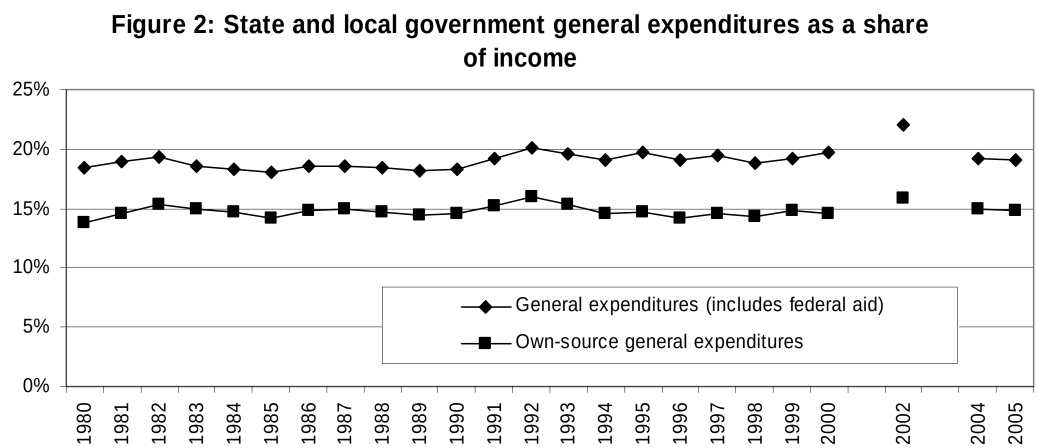
Census data also indicate that, like revenue, spending by state and local governments in Oregon has risen in line with increases in the incomes of Oregonians.

Census data also indicate that, like revenue, spending by state and local governments in Oregon has risen in line with increases in the incomes of Oregonians. Since 1980, own-source state and local government general expenditures as a share of Oregonians' income have held steady, hovering around 15 percent (Figure 2), just as revenue has. Own-source general expenditures exclude the impact of federal aid. As of 2005, the latest data available, own-source state and local government spending stood at 14.8 percent of income, in line with the historical pattern.

As state and local governments invest in areas such as health care and other human services, they are often able to tap into available federal matching funds that can double or triple the effort of state spending. Oregon's congressional delegation and state leaders also influence the state's overall spending when they win federal support for state projects, such as construction of light rail.

Federal funds have been a larger share of spending in Oregon in recent years than in the 1980s. In an average year during the 1980s, federal aid accounted for 21 percent of total general expenditures by Oregon state and local governments. Federal aid rose as a share of general expenditures during the 1990s and peaked at 28 percent of general expenditures in 2002, as own-source spending was cut due to the recession. By 2005, federal aid had slipped back as a share of general expenditures, accounting for 22 percent of the total that year.

The decline in the federal aid share was in part due to cuts to the Oregon Health Plan. When Oregon reduced its spending on the Oregon Health Plan, the state cuts produced even deeper reductions in federal Medicaid "matching" funds. [6]



Note: Income is personal income plus capital gains. Census Bureau did not release expenditure data for 2001 and 2003.
Source: OCPP analysis of data from Tax Policy Center, US Census Bureau, Bureau of Economic Analysis, and Oregon Office of Economic Analysis.

Since 1980, own-source state and local government general expenditures as a share of Oregonians' income have held steady, hovering around 15 percent, just as revenues have.

Including federal aid, state and local government general expenditures averaged 18.5 percent of income in the 1980s, rose a bit to average 19.2 percent of income in the 1990s, peaked in 2002, and stood at 19.1 percent of income in 2005 (Figure 2).

Oregon ranks in the middle of the pack

Oregon state and local governments rank in the middle of the pack among states and the District of Columbia for own-source general revenue as a share of personal income. In the 2004-05 fiscal year, Oregon's own-source general revenue - comprised of state and local taxes, fees, and miscellaneous general revenue - ranked 29th highest (Table 1 and Appendix). State and local taxes as a share of personal income ranked 45th highest among the states and the District of Columbia, but relatively high fee revenue pushed Oregon's overall general revenue rank up into the middle of the pack. As a share of personal income, state and local government fee revenue in Oregon ranked 8th highest in 2004-05.

Table 1: Oregon's ranking among states and the District of Columbia for state and local government revenue and expenditures as a share of personal income, 2004-05

	Rank (1st = highest)
Revenue	
"Own-source" general revenue	29th
Tax revenue	45rd
Fee revenue	8th
Expenditures	
"Own-source" general expenditures	22nd
General expenditures (includes federal aid)	24th

Source: OCPP analysis of data from U.S. Census Bureau and the Bureau of Economic Analysis.

Oregon state and local governments rank in the middle of the pack for own-source general revenue and spending.

State and local government spending in Oregon also ranks in the middle of the pack nationally. As a share of personal income, own-source general expenditures by Oregon state and local governments ranked 22nd highest among states and the District of Columbia in 2004-05 (Table 1 and Appendix). Total general expenditures, which include federal aid, ranked 24th highest.

Why rankings should not matter for policy decisions

Oregon's ability to afford state and local government spending is dependent on the standards set by Oregonians, not the standards that residents of other states set for their own public goods and services.

State rankings should not influence Oregonians to determine whether Oregon's level of spending is desirable or affordable. Oregon's ability to afford state and local government spending is dependent on the standards set by Oregonians, not the standards that residents of other states set for their own public goods and services. The fact that your neighbor lets his lawn go wild does not mean that you should not invest in a mower yourself.

In addition, tax and spending rankings ignore important differences in circumstances. In the 2004-05 fiscal year, Oregon ranked 5th for spending on commercial ports, harbors, and other water transport facilities. Does this automatically mean too much spending? Thirteen states spend nothing on commercial water transportation facilities; they have no such facilities. But landlocked states such as South Dakota are not better off because they have no ports. Oregon spends money to maintain its ports to take advantage of the significant economic opportunities that result.

Ranking states by their spending can suggest that spending is bad and that states should strive to spend less. However, cutting spending does not necessarily result in policies that are good for Oregon. For example, if Oregon were to reduce Medicaid spending, the single largest expenditure area in the state human services budget, overall state expenditures would show a considerable decline. But doing this would put the health care status of thousands of vulnerable Oregonians in jeopardy. Plus, hospitals and long-term care providers would lose millions of dollars, uncompensated care would increase, private insurance rates would rise to compensate for the uncompensated care, and the state's economy would shrink. Since about 574,000 Oregonians are uninsured, it makes sense for Oregon to spend more, not less, on health care.[7]

What about "non-general" revenue?

As noted earlier in this report, general revenue includes both own-source general revenue and federal aid. Own-source general revenue includes state and local taxes, fees, and miscellaneous general revenue such as interest earnings, the state lottery, and property sales. Besides these general revenue sources, Oregon state and local governments collect "non-general" revenue. Typically, non-general revenue provides a dedicated revenue source for particular expenditures that are accounted for separately from general government expenditures. Non-general revenue is not directly relevant to the normal state and local government budgeting process. For example, Oregon receives non-general revenues through operating insurance trust funds such as the Public Employee Retirement System (PERS) and the Unemployment Compensation Trust Fund. Oregon also obtains non-general revenue from selling liquor in state-owned liquor stores and revenue from operating water, electric, and gas utilities, and from providing public transportation.[8]

Compared to other states, Oregon ranks high for non-general revenue as a share of personal income. In the 2004-05 fiscal year, Oregon ranked 2nd highest among states and the District of Columbia on this measure. As a result, Oregon ranked 14th highest for total revenue as a share of personal income, including both general and non-general revenue sources, in 2004-05.

The primary driver of Oregon's high rank for non-general revenue is PERS investment revenue. In the 2004-05 fiscal year, PERS investment revenue accounted for about two-thirds (66 percent) of all the non-general revenue Oregon reported to the Census Bureau.[9] In 2004-05 Oregon's public employee retirement investment revenue was the best in the nation as a share of personal income among states and the District of Columbia.

PERS contributions are invested through the Oregon Public Employees Retirement Fund (OPERF), which is managed by the Oregon State Treasury under the direction of the Oregon Investment Council. In the three-year period from 2003 to 2005, OPERF produced the nation's highest investment returns among public funds with assets greater than $10 billion. [10] Oregon's high rank for revenue from investment returns is a sign of success. [11] Investment success reduces the cost to state and local governments of funding PERS benefits.

Oregon's high rank for revenue from investment returns is a sign of success. Investment success reduces the cost to state and local government of funding PERS benefits.

Oregon's relatively high ranking in 2004-05 for non-general revenue is also pushed up by Oregon's high rankings for revenue collected by unemployment insurance trust funds (7th highest) and for revenue earned from liquor sales (6th highest).

Oregon's unemployment rate tends to be higher than the national average, even during periods of economic growth, largely because Oregon's employment base includes more seasonal jobs than the nation in general, certain parts of the state are isolated geographically from employment centers, and Oregon attracts newcomers who compete for jobs. With a typically higher unemployment rate than most states, Oregon workers and employers benefit from an unemployment insurance trust fund that receives more revenue, as a share of personal income, than most states. In 2004-05, Oregon's average monthly unemployment rate was the nation's fifth highest. The fact that Oregon had a relatively well-funded unemployment insurance trust fund that fiscal year was important to the state's unemployed workers and their employers.

Oregon's high rank for liquor sales results in part from the fact that 28 states and the District of Columbia do not collect any revenue from public liquor sales, preferring to allow liquor to be sold by private businesses. All states collect at least some revenue from taxes on alcoholic beverages. This tax revenue is classified as general revenue, while revenue from public liquor sales is classified as non-general revenue.

As with rankings in general, Oregon's rank for non-general revenue should be irrelevant to public policy decisions. Oregon should consider its particular circumstances, decide on the best public policies, and then generate adequate revenue to fund the policies.

Conclusion

Government spending is required to create and maintain the public structures that are necessary to protect the common good. Without spending, our governments cannot carry out the roles we assign to them. Without spending, they cannot produce the goods they are mandated to produce. Spending allows police and firefighters to do their jobs. Government spending builds roads, and operates courts, schools, and parks. Most Oregonians appreciate the goods and services provided by state and local governments, even while they may not be wild about paying the taxes that support these services. Oregon voters do not seem to regard government spending as inherently negative, since they routinely mandate additional government spending for health care, public libraries, corrections, and more.

Oregon's state and local governments are not expecting more of Oregonians today than was expected of Oregonians a generation ago.

Oregon's state and local governments are providing public structures Oregonians recognize as important. In providing and protecting these public structures, Oregon's state and local governments are not expecting more of Oregonians today than was expected of Oregonians a generation ago. Own-source general government revenue and spending in Oregon has been "steady as she goes" for nearly 25 years.

Appendix: State and local government revenue and spending, as a share of personal income, 2004-05 fiscal year

	Taxes	Rank	Total own-source general revenue	Rank	General expenditures (includes federal aid)	Rank	Own-source general expenditures	Rank
US total	**11.0%**		**15.9%**		**20.2%**		**15.8%**	
Alabama	8.9%	49	15.4%	31	22.2%	14	16.5%	15
Alaska	12.9%	7	31.7%	1	38.4%	1	27.2%	1
Arizona	10.7%	28	14.9%	38	19.2%	35	14.4%	40
Arkansas	11.1%	20	16.1%	26	21.4%	20	15.4%	28
California	11.3%	17	16.6%	19	21.2%	21	17.0%	12
Colorado	9.2%	47	14.5%	42	17.1%	47	14.1%	43
Connecticut	11.6%	12	14.3%	47	16.2%	50	13.4%	47
DC	10.8%	27	18.0%	8	22.5%	13	18.6%	3
Delaware	14.4%	3	17.7%	11	24.2%	7	14.8%	34
Florida	10.2%	39	15.6%	30	19.3%	34	15.7%	27
Georgia	10.0%	42	14.5%	43	18.5%	38	14.7%	37
Hawaii	13.0%	5	17.8%	10	21.9%	16	17.3%	7
Idaho	10.6%	31	16.3%	21	20.4%	26	15.7%	26
Illinois	10.9%	25	14.4%	44	18.2%	42	14.8%	36
Indiana	11.1%	19	16.7%	17	20.0%	32	16.2%	20
Iowa	10.5%	35	16.2%	22	21.0%	22	16.3%	18
Kansas	10.7%	29	15.4%	34	19.1%	36	15.2%	30
Kentucky	10.7%	30	15.4%	33	20.4%	27	15.1%	32
Louisiana	12.3%	8	18.9%	4	24.5%	5	17.8%	6
Maine	13.1%	4	18.1%	7	23.8%	9	17.2%	8
Maryland	10.5%	33	13.9%	48	16.1%	51	12.8%	49
Massachusetts	10.5%	34	14.6%	41	18.2%	43	14.8%	35
Michigan	10.8%	26	16.2%	23	20.6%	25	16.2%	19
Minnesota	11.2%	18	16.0%	27	20.2%	29	16.4%	17
Mississippi	10.5%	32	16.6%	18	25.1%	4	16.7%	14
Missouri	9.8%	43	14.3%	46	18.4%	40	13.6%	45
Montana	10.3%	38	16.2%	24	21.7%	17	14.2%	42
Nebraska	11.6%	15	16.9%	15	19.3%	33	14.6%	38
Nevada	10.9%	23	15.9%	28	18.0%	45	15.3%	29
New Hampshire	8.9%	48	12.6%	51	16.2%	49	12.9%	48
New Jersey	11.4%	16	15.0%	37	17.7%	46	14.9%	33
New Mexico	11.6%	13	18.7%	6	27.0%	3	18.8%	2
New York	14.7%	1	19.1%	3	24.3%	6	18.3%	4
North Carolina	10.5%	36	15.3%	36	20.2%	30	15.2%	31
North Dakota	11.0%	22	17.1%	14	22.6%	12	15.8%	25
Ohio	11.6%	14	16.7%	16	21.7%	18	16.9%	13
Oklahoma	9.8%	44	14.8%	39	18.5%	39	13.5%	46
Oregon	**9.7%**	**45**	**15.8%**	**29**	**20.7%**	**24**	**16.1%**	**22**
Pennsylvania	10.9%	24	15.3%	35	20.4%	28	15.8%	24
Rhode Island	12.1%	9	16.2%	25	21.6%	19	15.9%	23
South Carolina	10.1%	40	17.6%	13	24.0%	8	17.9%	5
South Dakota	8.5%	51	12.8%	50	18.1%	44	12.5%	51

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	Taxes	Rank	Total own-source general revenue	Rank	General expenditures (includes federal aid)	Rank	Own-source general expenditures	Rank
Tennessee	8.9%	50	13.7%	49	18.9%	37	13.8%	44
Texas	9.6%	46	14.4%	45	18.3%	41	14.3%	41
Utah	11.1%	21	17.9%	9	22.1%	15	17.2%	9
Vermont	12.9%	6	17.6%	12	23.7%	10	17.1%	10
Virginia	10.0%	41	14.8%	40	16.9%	48	14.4%	39
Washington	10.4%	37	15.4%	32	20.2%	31	16.4%	16
West Virginia	11.8%	11	18.8%	5	23.7%	11	16.1%	21
Wisconsin	11.9%	10	16.4%	20	20.9%	23	17.0%	11
Wyoming	14.6%	2	23.3%	2	27.7%	2	12.8%	50

Note: These figures compare state and local government revenue and spending to personal income only, and do not include capital gains. This is why the figures for Oregon differ from those listed earlier in the paper.

Source: OCPP analysis of data from Tax Policy Center and the Bureau of Economic Analysis.

Endnotes:

[1] Interest revenue declined from $1.15 billion in 2000 to just $484 million in 2004 before rebounding somewhat to $630 million in 2005.

[2] OCPP analysis of Census Bureau data. 1979-80 data compiled by Tax Policy Center.

[3] Ibid.

[4] OCPP analysis of Oregon Department of Revenue data.

[5] Specifically, the lowest-income 20 percent of families saw their taxes grow by 2.2 percent of income, while the highest income one percent saw their taxes decline by 0.4 percent of income. Institute on Taxation and Economic Policy, *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*, 2nd edition, January 2003, p. 91. Available at http://www.ocpp.org/2003/2003WhoPaysCol.pdf.

[6] The amount the federal government invests in Medicaid in Oregon depends on how much Oregon invests in Medicaid. In federal fiscal year 2007, for example, the federal government will invest about $1.57 in Medicaid in Oregon for every dollar Oregon invests. Hence, when Oregon cuts its Medicaid spending, the cuts produce even larger cuts in federal Medicaid spending.

[7] In 2004-05, the latest data available, about 574,000 Oregonians lacked health insurance for a year or more, based on OCPP's analysis of the Census Bureau's Current Population Survey. The data OCPP used was revised by Census in April 2007, so does not match earlier OCPP reports on the number of Oregonians lacking health insurance for a year or more. Based on earlier versions of the Census data, OCPP reported in September 2006 that 592,000 Oregonians lacked health coverage for a year or more. See Leachman, Michael, Janet Bauer, and Joy Margheim, *Who's Getting Ahead: Opportunity in a Growing Economy*, The State of Working Oregon 2006. Oregon Center for Public Policy, September 2006, p. 16.

[8] Some liquor sales revenue in Oregon ends up in the State's General Fund. In fiscal year 2005-06, an amount equaling 21 percent of liquor sales was distributed to the General Fund, according to Oregon Liquor Control Commission data available at http://www.olcc.state.or.us/ (click on "Where Liquor Revenue Goes").

[9] All data in this section on public employee retirement income in the 2004-05 fiscal year are Census Bureau data being organized by the Tax Policy Center, a joint venture of the Urban Institute and the Brookings Institution. These data, which are preliminary, were emailed to the author by Carol Rosenberg of the Urban Institute on June 6, 2007.

[10] In addition, OPERF returns ranked in the top quartile of returns among public funds with assets greater than $10 billion in the 2001-05 period, and in the 1999-05 period as well. Public Employees Retirement System, *PERS: By The Numbers*, p. 9. Available at http://oregon.gov/PERS/docs/general_information/bythenumbers.pdf.

[11] However, PERS' investment success was not the only factor that pushed up PERS total dollar investment returns as a share of personal income in 2004-05. The number of dollars PERS had to invest, as a share of personal income, compared to other states also appears to have been high compared to other states. In the 2004-05 fiscal year, Oregon's state and local government contributions to public employee retirement as a share of personal income ranked 12th highest in the nation, down from the nation's highest in 2003-04. Oregon's rank on this measure is likely to continue to fall, since the 2003 Legislative Assembly enacted PERS reforms that have sharply reduced PERS payment rates for public employers. As of December 31, 2003 public employers in the PERS system contributed an average of 15.1 percent of covered employee salary for PERS benefits to so-called Tier 1 and Tier 2 employees, who were already employed and eligible for PERS when the reforms were enacted. The effective employer rate for Tier 1 and Tier 2 employees as of July 1, 2007, by contrast, will be 8.1 percent, nearly half the 2004 rate. For new employees, effective employer contribution rates will be 6.03 percent of covered employee salaries as of July 1, 2007. Data from Oregon Employees Retirement System, *PERS: By the Numbers*, November 2006, p. 13. Available at http://www.oregon.gov/PERS/docs/general_information/bythenumbers.pdf.

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