Oregon Center for Public Policy

Issue Brief

204 N. First St., Suite C • PO Box 7 • Silverton, OR 97381 • www.ocpp.org • 503-873-1201 • fax 503-873-1947

May 22, 2003

Economic Recovery Will Not Save Vital Programs:
Additional Revenue Needed to Pull Oregon Out of Doonesbury

Oregonians received disappointing news from the May Economic and Revenue Forecast. General Fund revenue in the 2003-05 budget will be $646.5 million less than what was expected in the March forecast. This decrease brings the combined revenue slide since January, when Governor Kulongoski proposed his 2003-05 budget and the Legislature went into session, to $1.1 billion, a 10.2 percent decline. The $1.1 billion in reduced revenue is on top of the approximately $2.1 billion in cuts from what would have been required to continue programs approved by the 2001 Legislative Assembly.[1]

The May Forecast shows that the next six years of economic growth will fail to restore revenue to levels required to fund state programs. OCPP's analysis of the State's economists' projections shows that inflation-adjusted per-capita General Fund revenues will not return to 1999-01 levels until some time after 2007-09. If Oregon wants to restore funding for education, public safety and human services programs, and end its embarrassing spell as Gary Trudeau's target in *Doonesbury*, it will need to do more than rely on economic growth.[2] To restore programs and services cut during the five special sessions and to maintain programs and services operating today, Oregon needs to raise more revenue, and that means raising taxes.

When will Oregon return to the 1999-01 revenue level?

The May Forecast notes that Oregon's economy is growing slowly and is expected to pick up by mid-2004. Employment grew by 0.2 percent in the second quarter of 2003, and state economists expect it to rise to 1.9 percent by the third quarter of 2004. General Fund revenue, however, will lag behind increases in population and inflation. Real per-capita General Fund revenue is expected to be $2,504 in the 2003-05 biennium, compared to $2,578 in 2001-03, and $2,947 in 1999-01 (Table 1 and Figure 1).

Even after six years of projected steady economic growth, from 2004 to 2009, state revenues will still fall short of what is needed to fund the programs and services that Oregonians relied upon at the peak of the previous business cycle. Oregon's tax revenues will not recover enough to provide the 1999-01 biennium funding level until after the 2007-09 budget period. Real per-capita General Fund revenue will rise to $2,843 by 2007-09, $104 less per person than in 1999-01. Adjusting only for inflation, General Fund revenue will remain below the 1999-01 level until the 2007-09 budget period.

Even after six years of projected steady economic growth, state revenues will still fall short of what is needed to fund programs and services.

Table 1. Oregon's General Fund Revenue Forecast

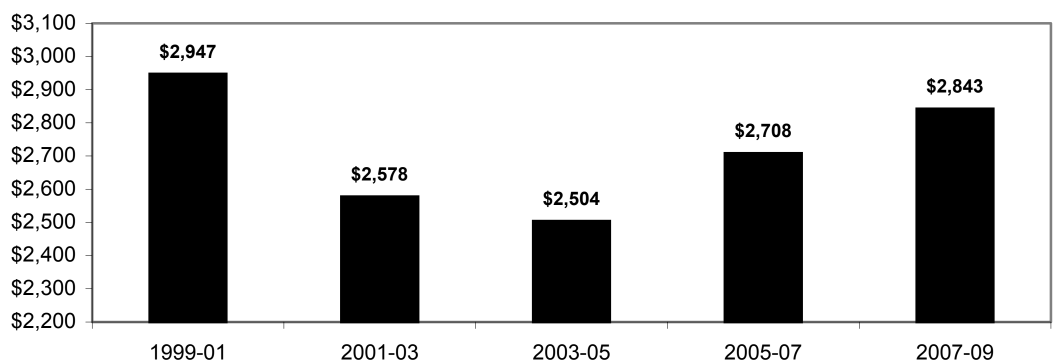
	Oregon General Fund Revenue	Inflation-adjusted General Fund Revenue (1999-01 dollars with PDX-Salem CPI-U)	Real, per-capita General Fund Revenue	General Fund Revenue as Share of Personal Income
1999-01	$10,121,800,000	$10,121,800,000	$2,947	10.7%
2001-03	$9,383,200,000	$9,037,263,198	$2,578	9.3%
2003-05	$9,765,500,000	$8,976,887,303	$2,504	8.9%
2005-07	$11,395,700,000	$9,944,988,161	$2,708	9.3%
2007-09	$12,919,600,000	$10,680,545,174	$2,843	9.4%

OCPP analysis of May 2003 Oregon Economic and Revenue Forecast

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 or request services. Oregon's population grew by 20 percent over the course of the 1990s, and is projected to grow 10.5 percent between 2000 and 2009.[3] Inflation is expected to increase costs by 24 percent between 2000 and 2009.[4] Oregon can do next to nothing to control these increases.

Oregon's tax revenues will not recover enough to provide the 1999-01 biennium funding level until after the 2007-09 budget period.

Figure 1. Real (inflation-adjusted) per-capita General Fund Revenue



OCPP Analysis of Oregon Economic and Revenue Forecast, May 2003. Adjusted for inflation with Portland-Salem CPI-U 1999-01.

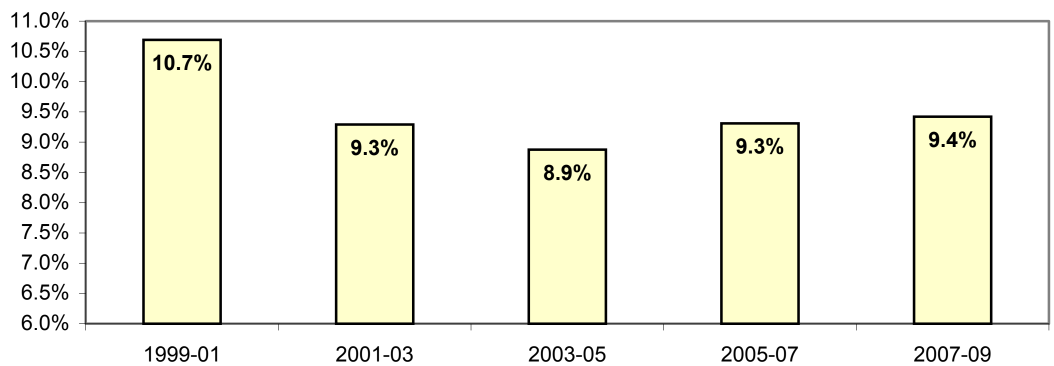
Population and inflation play a key role in the growing cost of providing government services, but so do other factors. Health care costs, for example, increase faster than inflation and the state is a major health care provider. New mandates, such as Measure 11, which called for longer prison sentences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

Taxes: Getting Oregon to affordable government

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 influencing the demand for and cost of public services. Growth in personal income also 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 8.9 percent of personal income, down from 10.7 percent in 1999-01. Even by 2007-09, Oregonians will be paying less of their personal income toward taxes than they did in 1999-01 (Figure 2). By 2007-09 they will be paying just 9.4 percent of personal income to support the General Fund.[5]

Figure 2. General Fund Revenue as Share of Personal Income



OCPP Analysis of Oregon Economic and Revenue Forecast, May, 2003.

If Oregon returned its tax burden to the 1999-01 level, it would raise $1.9 billion additional dollars in the 2003-05 biennium.

If Oregon returned its tax burden to the 1999-01 level, it would raise $1.9 billion additional dollars in the 2003-05 biennium.[6] These funds would restore most of the $2.1 billion in cuts outlined in the Governor's Balanced Budget proposal and the additional $1.1 billion in cuts stemming from the reduced revenue forecast.

Conclusion

Oregon's revenue shortfall will not be resolved through anticipated economic growth alone. Unless taxes are increased, in 2007-09 General Fund revenues will remain below the 1999-01 level when population and inflation are taken into account. Returning Oregon's overall tax burden to the level that Oregonians could afford in 1999-01 can largely eliminate the revenue shortfall projected for the upcoming budget period and would be an important first step toward adequately funding the state government services Oregonians need.

This work is made possible in part by the support of the Ford Foundation, the Governance and Public Policy Program of the Open Society Institute, the Penney Family Fund, the John and Martha Marks Fund of the Oregon Community Foundation, and by the generous support of organizations and individuals. The Oregon Center for Public Policy is a part of the State Fiscal Analysis Initiative (SFAI) and the Economic Analysis and Research Network (EARN).

Endnotes

[1] "Summary Analysis of the Governor's 2003-05 Budget," Legislative Fiscal Office. Available at http://www.leg.state.or.us/comm/lfo/summary_govbudget_03_05.pdf.

[2] Over two different weeks in recent months, Gary Trudeau has skewered Oregon's response to the revenue shortfall as an example in his nationally syndicated *Doonesbury* comic strip.

[3] *Oregon Economic and Revenue Forecast*, June 2003. Available at http://www.oea.das.state.or.us/economic/forecast0603.pdf.

[4] *Ibid.*

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

[6] In 2003-05, General Fund revenue is projected to account for 8.9 percent of Oregon's $110 billion personal income. If revenues were increased to 10.7 percent of personal income, the level from 1999-01, General Fund revenues would be over $11.8 billion, $1.9 billion higher than current projections.