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Summary

Measure 5 has been blamed for state and local government budget woes. However, there was plenty of revenue until this recession. The real problem: legislators spent at unsustainable levels during the booming '90s. Thus, rather than a cause of Oregon's difficulties, Measure 5 helped prevent even bigger budget problems by limiting government revenue.

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"From 1991 to 2000, Measure 5 property tax savings were $5 billion."

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Blame politicians, not Measure 5

By Jamie Voytko

Over a decade ago, Oregon voters rallied to the polls and passed Measure Five to grant themselves some much needed property tax relief. During the recent legislative session critics assailed Measure 5, blaming it for state and local government budget woes. However, a review of Oregon's finances tells a different story.

Until the recent recession, the General Fund never lacked revenue. Income tax receipts in the booming '90s played a principal role in elevating state spending to unsustainable levels. Legislators couldn't control themselves; they spent everything that came in. Thus, rather than being a cause of Oregon's difficulties, Measure 5 (M5) helped prevent an even greater budgetary shortfall by limiting government revenues.

Taxpayers enjoyed—and are still enjoying—millions in savings each year thanks to property tax limitations. From 1991 to 2000, M5 property tax savings were $5 billion. That's $5 billion not spent on never-ending entitlement programs and special interest legislation.

Nonetheless, property tax limitation alone has been insufficient to control the growth in government spending. To borrow an analogy used elsewhere in the literature on state budget growth, government spending is like a balloon; if you squeeze it in one place, the balloon bulges out somewhere else.

Oregon exemplifies this analogy. After voters passed M5, Oregon public officials raised charges and fees to compensate for shrinking property tax revenues, and it shows. Oregon is ranked the fourth most dependent on non-tax revenue among all states. Oregonians pay 6.7 percent of their income to "Charges and Miscellaneous" for a total of 30.2 percent of all state and local revenues. Oregonians have also consistently shouldered an income tax burden that ranks in the top five among all states, often ranking first in personal income taxes as a percent of personal income.

This government spending balloon had so many taxpayer dollars inflating it that despite being squeezed by Measure 5, state spending still grew 151 percent from legislative sessions 1989-91 to 2001-03. Money poured into education, health

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care, and public safety programs as abundant income tax revenues padded government coffers.

The facts make it difficult for Oregonians to ignore the inevitable conclusion. Lacking a clear-cut, explicit, and stringent limitation on spending growth, the state legislature has spent more than a decade hemorrhaging taxpayer money. Every year, program budgets expand, often with little to show in terms of productivity or efficiency gains.

Oregon needs a strong, effective constitutional spending limit. Though Oregon has had a spending limitation (tied to personal income growth) on the books since 1979, it has clearly proved incapable of restricting state government growth.

However, Oregonians have a shining example of fiscal responsibility nearby. Colorado has the single most effective tax and expenditure limitation currently on the books. The Taxpayer Bill of Rights (TABOR), passed in 1992, has three key provisions that are crucial to its success. First, it places a strict limitation on spending; yearly spending increases cannot exceed the growth rate of population plus inflation. Second, it mandates that all surplus revenues be immediately refunded to the taxpayers. Lastly, it is constitutional as opposed to statutory and thus largely protected from legislative override.

The savings enjoyed by Colorado taxpayers are proof of its efficacy. From 1997-2001 Colorado reduced taxes more than any other state, totaling $3.2 billion in rebates over the five-year span. In 2000 and 2001 TABOR tax refunds were over $925 million each year.

Other states are looking at TABOR and liking what they see. Arizona's Goldwater Institute did a report on how a TABOR-style limitation could benefit that state's residents. The report found that had Arizona enacted a similar spending limit in 1995, tax refunds from 1995-2002 would have totaled $4.2 billion.

What would TABOR have done for Oregon? The 1989-91 General Fund budget was $4.532 billion. The first legislatively adopted budget for 2001-03 was $11.371 billion, a 151 percent increase. Over roughly that same period, 1990-2002, population growth plus inflation amounted to 77 percent. Had Oregon passed a TABOR-style limitation in 1990, the 2001-03 General Fund budget would have been roughly $8 billion. This conservative estimate translates into more than $3 billion in taxpayer savings.

A strong spending limitation in the 1990s could have kicked Oregon's economy into overdrive. Imagine $3 billion circulating through the private sector, encouraging investment and expansion. Today's legislators should have thought about encouraging future economic growth, instead of putting an $800 million tax yoke on the economy. When it comes to government, less often gets us more.

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