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Halfway There

Measure 5 and the Road Ahead

by Jamie Voytko

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About the Author

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About Cascade Policy Institute

Founded in 1991, Cascade Policy Institute is Oregon's premier policy research center. Cascade's mission is to explore and promote public policy alternatives that foster individual liberty, personal responsibility and economic opportunity. To that end the Institute publishes policy studies, provides public speakers, organizes community forums and sponsors educational programs. Focusing on state and local issues, Cascade offers practical, innovative solutions for policy makers, the media and concerned citizens.

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Preface

Watershed events often become dividing lines in history. Twenty-five years ago, Californians created such a line when they voted to reduce their property tax burden through Proposition 13. Thirteen years ago, Oregonians drew a similar line when they voted for Measure 5 to reduce their property tax burden.

Mythology surrounds such events, and Measure 5 is no exception. Supporters claim it reigned in government's taxing power over its citizens. Opponents claim it has starved essential service budgets, especially for education.

"Halfway There: Measure 5 and the Road Ahead" is presented to document what Measure 5 was supposed to do, what it actually did, and what further steps might be appropriate to achieve its supporters' goals. Author Jamie Voytko was a 2003 summer research intern at Cascade Policy Institute. An economics major at the University of Chicago, he came to Cascade eager to "do economics" rather than simply study it. Realizing that Oregonians needed a comprehensive analysis of Measure 5 after more than a decade of mythology, Cascade asked Mr. Voytko to research and write this report.

Mr. Voytko worked under the guidance of Cascade's chairman, William B. Conerly, Ph.D. Dr. Conerly is one of Oregon's most respected private economists. Principal in his own firm, Conerly Consulting, he is also a member of Governor Kulongoski's Council of Economic Advisors, and served in that capacity for Governors Goldschmidt, Roberts and Kitzhaber.

This report was reviewed by several fiscal analysts, including members of Cascade's Board of Academic Advisors.

Although Measure 5 only dealt directly with controlling property taxes, we recognize that its supporters had, and still have a larger vision in mind. Controlling government spending is the other side of the tax limitation movement. We are therefore pleased that Mr. Voytko expanded his report to study what tools Oregonians might use to control government spending. His detailed discussion of what a well-crafted Tax and Expenditure Limitation might save taxpayers is an important contribution to Oregon's ongoing budget debates, and lays out a road ahead for us to follow.



Steve Buckstein, President
Cascade Policy Institute



Introduction

Over a decade ago, Oregon voters rallied to the polls to grant themselves significant property tax relief. Measure Five was passed in 1990 to combat the rapidly rising property taxes of the prior decades.

In short, M5 placed separate limitations on property tax rates for schools and non-school local governments. Measures 47 and then 50 added to the limitations and changed the mechanism by which local authorities apply property taxes.

The tax revolt came from Oregonians' perception that government was increasing spending beyond their ability to pay. Measure 5 was a chance to limit that spending by capping a major government revenue source, property taxes.

Despite the new limitations, spending ballooned throughout the 1990's. The legislature effectively overcame the new property tax limitations by increasing reliance on income taxes and other non-tax revenues. Since these limitations took effect, Oregonians have consistently shouldered well-above average burdens in both these revenue categories. The economic boom of the late 90's helped support massive spending increases by state and local governments. Money flowed into programs such as health care, public safety, and particularly education, expanding these publicly funded services to unprecedented levels.

Heedless of the eventual downturn, Oregon's politicians continued to make expensive promises. The consequences of these shortsighted decisions are now being realized, highlighted by the fact that Oregon set the record this year for its longest legislative session ever.

This report examines the evolution of state and local government spending since Measure Five's passage in 1990 and to what degree M5 has affected the budget and taxpayers. It analyzes how Measure 5 has helped Oregonians through property tax relief and why Measures 5 and 50 were insufficient to check the rapid growth of government spending over the last 13 years.

Some special attention is given to K-12 education spending, the government program most directly affected by Measure 5, along with some general reform recommendations to limit the inefficiencies that plague Oregon public schools.

Lastly, the report concludes with a look at Tax and Expenditure Limitations (TELs). Enacting TELs has become a growing trend among state citizens frustrated with their governments' runaway growth. This section examines some of the TELs currently in place, and uses the most successful examples to help educate Oregonians on effective ways to limit government growth.

A Brief History of Measure 5

What Is M5?

Measure 5 is a constitutional amendment passed by voter initiative on November 6, 1990. It is now Article XI Section 11b of the Oregon State Constitution. It places a limit on property tax rates levied by school districts and non-school local governments. The school district limits were phased in over five years, with a stipulation that the state General Fund must replace any losses in school taxes over that period. The non-school limits became effective immediately upon M5's approval by the voters.

Measure 5 was fully phased in by fiscal year 1995-96. The final tax rate limits are \$5 per

The tax revolt came from Oregonians' perception that government was increasing spending beyond their ability to pay. Measure 5 was a chance to limit that spending by capping a major government revenue source, property taxes.

Total taxpayer savings from 1991-2000 due to M5 were an impressive \$5.05 billion

\$1000 of real market value for school district levies and \$10 per \$1000 for non-school local governments¹.

General obligation bonds are not subject to the Measure 5 limits.

Additions and Changes

Since 1990, Oregonians have passed two more initiatives that limit property tax rates. Voters approved Measure 47 in November, 1996 which they then replaced in May, 1997 with Measure 50. Measure 50 retained the key changes put forth in M47, but supplanted the earlier amendment because M50's revised wording eased its legal implementation. M50 maintains and augments the limits of M5 through several mechanisms.

First, Measure 50 changes the tax base of property from its real market value to the newly defined concept of "assessed value." In 1997-98, when M50 took effect, the maximum assessed value of any property was 90 percent of its 1995-96 real market value.

Secondly, M50 places a maximum growth limitation on the assessed value of a property at 3 percent a year. However, there are exceptions to this limit, such as new improvements, subdivisions, or a zoning change. The assessed value of new property is determined using a measurement called the change property ratio. The change property ratio is the current standard ratio of assessed value to real market value of all similar properties in the county. From 1997-2001, this figure has hovered around an average of 78.1 percent². This means that the assessed value of a new property would be roughly 78 percent of its market value for the first year of taxation.

Thirdly, it replaced most tax levies with permanent tax rates, generally based on the taxing district and tax source. In 2001-02, taxes

from permanent rates were \$2.44 billion, 75.2 percent of all property taxes imposed that year³.

Measure 50, like Measure 5, places general obligation bonds with voter approval outside the limitations. However, M50 does limit the permissible uses of these exempt bonds. Five year bonds may be passed for operations, and 10 years is the limit for capital project bonds. Local option levies may also be passed by voters, but are still within the M5 tax limitations. Additionally, it stipulates that a ballot to raise property taxes with these measures must have a "double majority" – that is it must win a majority in which 50 percent of the registered voters cast a vote. Note that this only applies to special ballots; bonds and levies on the regular November ballot may pass with a simple majority vote.

How We Got M5

From 1978 to 1990, Oregonians made six attempts to institute property tax limitations; the first five failed by a narrow overall margin of 4.6 percent⁴. The sixth attempt, Ballot Measure 5, passed on Nov. 6, 1990, with 52.5 percent of the popular vote.

The conditions leading to this major tax reform are visible in the property tax history of Oregon in the late 1970's and 1980's. During that period, government spending ballooned and property tax growth outpaced personal income growth for Oregonians⁵. It is easy to sympathize with voters' desire for tax relief, when one considers that during the 1980's property taxes swelled 135 percent while inflation only grew 58 percent⁶. Although some of this expansion could be attributed to new construction, the bulk came from real tax increases.

During this period, Oregon property taxes

were based on a levy system. Districts passed a budget, the levy amount, which was then applied to the property tax base to determine the tax rate for each property. Some districts had permanent levies, while others required yearly votes for approval. Districts with the permanent levies could increase their budgets 6 percent each year without voter approval. In “A Dollars and Sense Look at Oregon School Finance” T.K. Olson discovered that in 1975, the 6 percent increase applied to 28 percent of the school property tax base; by 1990, this number had risen to 82 percent⁷. This unchecked growth in property taxation was a major factor contributing to the property tax limitation movement and the passage of Measure 5.

Measure Five’s Successes

What M5 Has Saved Taxpayers

Despite recent trends of rising property taxes, Measures 5 and 50 have provided Oregonians with notable tax relief. In a previous Cascade report, *Focus on Measure 5*, author Vernon S. White found that in its first year alone, Measure 5 saved taxpayers \$51.5 million in non-school government property taxes⁸; in its first year, school property tax savings were an impressive \$195 million⁹. From 1990-96, M5 was responsible for an 11.9 percent overall reduction in property tax collections¹⁰.

In 1997-98, Measure 50’s first year in place, property tax revenues fell 2 percent¹¹. In 1998, a Governor’s Tax Review Committee commented that, “Because of Measure 5 and Measure 50, 1997-98 property tax collections are \$59 million below 1990-91 collections”¹².

A Legislative Revenue Office report on property taxes shows the dramatic impact of Measure Five throughout the 1990’s. Total taxpayer savings from 1991-2000 due to M5 were an

impressive \$5.05 billion¹³. (Figure 1)

M5 continues to save Oregon property taxpayers substantial funds today. The term “compression losses” is legislative lexicon for Measure 5 savings. “Compression losses” are the difference between the property tax a district wishes to collect and the actual amount that a property can be taxed under the limitations¹⁴. A 2003 Legislative Revenue Office report stated M5 property tax “compression losses” at \$56 million for 2001-02, or 1.79 percent of the total property tax collections that year¹⁵.

Another benchmark for the measure’s success is Oregon’s improved rank in property tax burden compared to other states. From 1983-91, Oregonians had on average the 5th highest property tax burden among all states, as measured by percent of income spent on property taxes¹⁶. By fiscal year 1999-00, Oregon’s rank had dropped to 25th, with Oregonian’s spending 3.1 percent of personal income on property taxes versus the US average of 3.3 percent¹⁷. (Figure 2)

More sobering, however, is that these gains have been mitigated by rapidly rising property values. From 1990-97 alone, the market value of Oregon’s property tax base grew 98 percent¹⁸. In just the first year of Measure 5, average property values took an unanticipated 16 percent jump¹⁹.

Measure 47 and then 50 were passed to combat rising property taxes due to property valuation increases. The 3 percent growth cap was designed to provide taxpayers with smoother, more stable increases in property taxes. Despite this, because of heavy borrowing and other exemptions, property taxes still rose a total of 31.3 percent from 1997-2002²⁰.

Simply limiting property taxes has proved wholly insufficient to slow state and local government spending.

A declining percentage of Oregonians feel positively about the government's ability to create jobs, manage K-12 education, and provide access to affordable health care.

Property tax savings per year (millions of dollars)

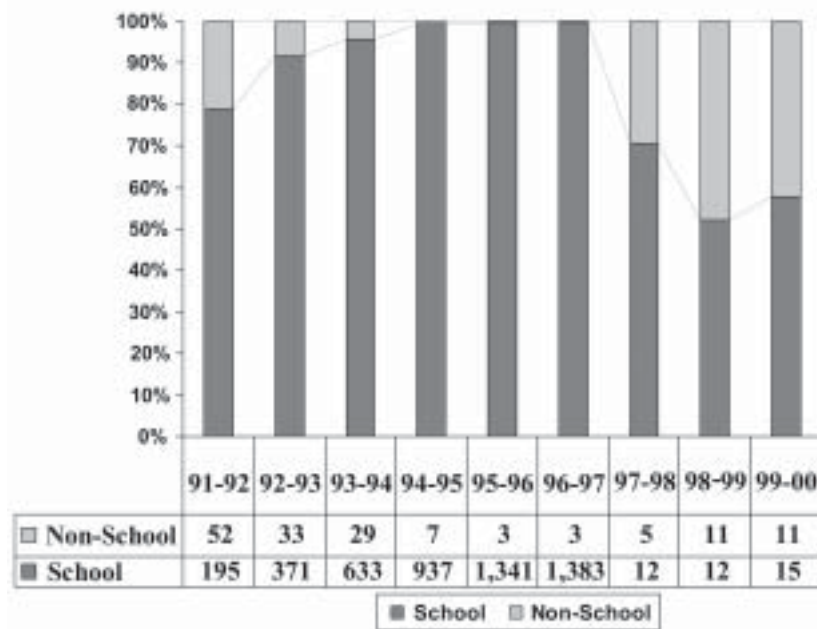


Figure 1 - Oregon Legislative Revenue Office, "Oregon Property Taxes" (January 15, 1999), 53.

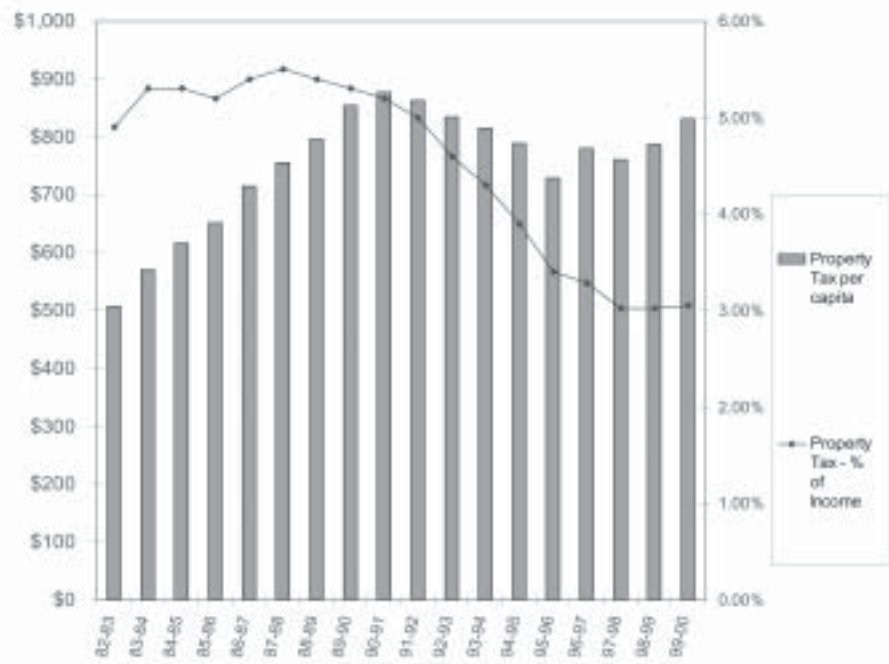


Figure 2 - Oregon Legislative Revenue Office, "Oregon Property Taxes" (January 15, 1999), 4.

Did M5 Manage to Curb Spending?

A Look at the General Fund

If Measure Five's sole purpose was property tax relief, then it has enjoyed some measure of success. However, simply limiting property taxes has proved wholly insufficient to slow state and local government spending.

In 1989-91, the General Fund budget was \$4.532 billion. The legislatively adopted budget for 2001-03 was \$11.371 billion, a 151 percent increase. This spending level proved unsustainable in the recession, and the mid-biennium Special Session V reduced the budget by 14.7 percent down to \$9.698 billion to match declining General Fund revenue expectations.

However, the *2003 Oregon Public Finance: Basic Facts* report states, "over ½ of this reduction was offset by use of non-general fund revenue and changes in accounting practices"²¹. Spending from other funds and using "changes in accounting practices" does not reduce overall government spending, and it certainly does not put dollars back in taxpayers' wallets.

Perhaps the most telling facts lie in a simple comparison of income tax and property tax collections throughout most of the 1990's. Property taxes, thanks to Measures 5 and 50, remained relatively stable through most of the decade. Property tax receipts were \$2.55 billion in 1990-91. In 1998-99, they were \$2.572 billion, a mere \$22 million increase over nine years. In fact, property tax collections dropped an average \$75.45 million each year from 1992-96²². Income tax collections showed a different trend. Income tax receipts were \$2.026 billion in 1990-91. By 1998-99, they had almost doubled to \$3.702 billion²³.

No reasonable amount of property tax limitations could compete with this income tax windfall. Despite the fact that Oregon's 2 percent kicker law refunded over \$1 billion in income taxes from 1993-2001²⁴, legislative budgets still swelled during this strong economic period. The legislature's decision to spend these revenues by creating new programs and expanding existing ones primed the state for unsustainable levels of spending when the 2001 recession slashed state income tax receipts.

Other Factors

When examining state budget figures it is important to include other factors, such as population growth, personal income growth, and inflation, to obtain an accurate picture of the state's financial evolution.

Oregon's population grew from 2.84 million in 1990 to an estimated 3.52 million in 2002, roughly a 23 percent increase. Over the same period, the Portland-Salem regional consumer price index rose 44.5 percent. Naturally, one should expect government budgets to expand to provide more people with higher priced services. Using these two figures, it can be reasoned that transplanting the 1990 Oregon government service levels into 2002 should increase the budget by approximately 77 percent (greater than their sum because of compounding, as inflation is applied to the growing population).

However, even using the lower Special Session V number, we can see that the Oregon General Fund budget increased 114 percent over roughly the same period! What could possibly account for this vast increase in expenditures over the extrapolated needs of the state?

Boosters for more government spending could then fall back to the mantra of "higher spending means higher quality." This could

"Oregon...ranked 7th highest in per capita total government spending and 6th highest when spending was measured as a percent of personal income."

If government spending increased throughout a decade that began with property tax limitations, one must ask, where did the revenue come from? The answer is: everywhere else.

very well be true, and there are times when both ends of the political spectrum can agree that a certain level of quality in a government service is well worth the added expense. However, apparently Oregonians are not convinced that higher spending has led to higher quality services. The Oregon Office of Economic Analysis *2002 Oregon Population Survey* showed a declining percentage of Oregonians feel positively about the government's ability to create jobs, manage K-12 education, and provide access to affordable health care—all purported to be among the critical objectives of current government programs²⁵.

Lastly, state personal income growth provides a dependable assessment of the overall state economy. Aggregate personal income growth is a particularly useful tool when examining state government growth. Personal income figures can internalize the effects of population growth and inflation, as well as account for real wealth increases. If government expansion outpaced population growth plus inflation from 1990-02, then perhaps it is because it trended with personal income growth.

A look at the data shows that Oregon personal income grew 93.9 percent over this twelve-year period²⁶ compared to a budget increase of 114 percent. By *any measure*, the Oregon state government has gained ground in the last dozen years, surpassing population growth, inflation, and personal income growth.

Oregon Has a Spending Problem

The legislature is shifting more services into the public sector, and while Oregon taxpayers foot the bill, the government continues to provide these services inefficiently. In his November 2000 Cascade Policy Institute report *Can Oregon Tighten its Fiscal Belt?*, Dr.

Randall Pozdena examined Oregon's fiscal policy by combining demographics and statistical models to benchmark our government expenditures.

Pozdena's goal was to compare Oregon spending to similarly situated states, and thereby to ascertain whether Oregonians were "getting their money's worth" in terms of quality government services returned per tax dollar. Utilizing demographics in the analysis strengthens the accuracy of the benchmarks, as population characteristics can play an important role in state spending. A short passage from the executive summary shows the method and purpose of the project:

The purpose of benchmarking is to help determine whether Oregon is under- or overspending in [five major public service] areas relative to its peers... Going beyond simple per capita comparisons, demographic factors that can significantly affect the level of program spending are considered. Controlling for these factors produces, at a minimum, comparisons that better respect the uniqueness of Oregon²⁷.

Using the derived benchmarks, he found that compared to similar states, Oregon is overspending on health care, welfare, education, and police and corrections. That is, given Oregon's economic and demographic composition, it spends more on four of the five studied areas than other states. Highway expenditures were the only area under the benchmark, at 3 percent lower than expected. Health care led at 30 percent higher than expected, and overall spending was 19 percent higher than expected²⁸.

Pozdena's findings are clear: Oregon has a spending problem.

Other studies have come to similar conclusions. A 2003 Oregon Tax Research *Legislative Update* found that "Oregon...ranked 7th highest in per capita total government spending and 6th highest when spending was measured as a percent of personal income"²⁹. In 2000, state and local government spent roughly 27 percent of the average Oregonian's personal income, or \$7,041 per person, to provide services³⁰.

State spending was a driving force of government expansion throughout the 90's. From 1990-99, Oregon state spending per capita increased by \$983, or 39.5 percent. Only four states had bigger increases over the same period³¹. (Figure 3)

Where Did the Money Come From?

If government spending increased throughout a decade that began with property tax limitations, one must ask, where did the revenue come from? The answer is: everywhere else.

Oregonians bear above-average burdens in several other revenue sources. With Measure 5 putting a cap on property taxes, state officials began to hike fees and charges. Oregon is now ranked the 4th most dependent on non-tax revenues, receiving \$1,849 per capita³², or 6.7 percent of personal income³³.

In 2000, "Charges & Miscellaneous" comprised 30.2 percent of state and local revenues, well above the US average of 24 percent³⁴. Oregon's percentage was the high-

Every year from 1991 through 2000, Oregon ranked 1st or 2nd in personal income taxes as a percent of income. Over that same period, income tax revenues almost doubled, growing 92.6 percent.

Almost All States Increased Real Per-Capita Spending Substantially In the 1990 s

	1990	1999	Change	% Change		1990	1999	Change	% Change
Arkansas	2,089	3,227	1,138	54.5	United States	2,968	3,220	252	25.4
Mississippi	2,129	3,226	1,096	51.6	Louisiana	2,499	3,151	652	26.1
Delaware	3,778	4,827	1,049	27.8	Maine	2,804	3,440	636	22.7
West Virginia	2,437	3,425	988	40.6	Virginia	2,415	3,049	634	26.3
Oregon	2,486	3,469	983	39.5	Indiana	2,256	2,898	632	28.0
New Mexico	3,227	4,186	959	30.0	Connecticut	3,373	3,988	615	18.2
Montana	2,575	3,486	913	35.5	Hawaii	4,941	4,844	-97	-1.9
Pennsylvania	2,232	3,140	908	40.7	California	2,996	3,998	1,002	33.4
Kentucky	2,498	3,314	816	32.7	Illinois	2,192	2,795	603	27.5
Missouri	1,885	2,701	816	43.3	Iowa	2,672	3,263	591	22.1
Michigan	2,636	3,499	863	32.7	Florida	2,029	2,808	779	38.4
Utah	2,537	3,360	823	32.4	Massachusetts	3,533	4,111	578	16.4
Minnesota	2,992	3,811	819	27.4	Washington	2,993	3,546	553	18.5
North Carolina	2,385	3,191	806	33.8	Georgia	2,218	2,795	577	26.0
New York	3,447	4,241	794	23.1	Ohio	2,360	2,890	530	22.4
Vermont	3,277	4,069	792	24.2	South Dakota	2,294	2,819	525	22.9
South Carolina	2,444	3,221	777	31.8	Oklahoma	2,222	2,710	488	22.0
Colorado	2,142	2,894	742	34.6	Rhode Island	3,312	3,895	583	17.6
Wisconsin	2,696	3,431	735	27.3	Maryland	2,995	2,994	-1	-0.0
North Dakota	3,062	3,772	710	23.2	Nevada	2,994	2,962	-32	-1.1
Texas	1,793	2,491	698	38.9	Wyoming	4,940	4,294	-646	-13.1
Idaho	2,296	3,002	706	30.7	Arizona	2,594	2,752	158	6.1
Alabama	2,293	2,988	695	30.3	New Jersey	2,976	3,122	146	4.9
Nebraska	2,229	2,923	694	31.1	Alaska	9,795	8,891	-904	-9.2
New Hampshire	1,893	2,588	695	36.7					
Kansas	2,183	2,847	664	30.4					
Tennessee	2,024	2,683	659	32.6					

Figure 3 - Donald J. Boyd, "Tough Times for State Finances" (Nelson A. Rockefeller Institute of Government, October 19, 2001), 34.

est compared to the other western states of Arizona, California, Idaho, Nevada, Utah, and Washington. (Figure 4)

Personal income taxation was the other deep well. In 2000, Oregon per capita income tax revenues were \$1198, a 7 percent increase

from the previous year³⁹. Total personal income tax revenues in FY 2000-01 were \$4.55 billion, up 8.4 percent from the previous year⁴⁰. Oregonians ranked 4th highest in per capita income tax payments, and 2nd highest as a percent of personal in-

Oregon's General Revenue Mix		
<i>Revenue Source</i>	<i>% of 1989-90 Total</i>	<i>% of 1999-2000 Total</i>
Taxes	54%	45% (57%)
Federal Revenue	20%	25% (19%)
Charges	13%	18% (14%)
Miscellaneous	13%	12% (10%)

(1999-2000 U.S. average shown in parenthesis)

Figure 4 - Oregon Legislative Revenue Office, 2003 Oregon Public Finance: Basic Facts Research Report #1-03 (Jan. 21, 2003) Table 1, pg. 4

Another visible effect of Measure 5 was the increase in debt financing. General obligation bonds are outside the cap limitations, so districts often turned to them as a means to bolster revenues. In both 2001-02 and 2002-03, bond taxes accounted for almost 15 percent of all property taxes imposed each year³⁵. Borrowing increased at the state level as well. The net General Fund debt grew 36.3 percent from 1992 to 2001³⁶. Net General Fund debt per capita grew 17.8 percent from \$135 in 1992 to \$159 in 2001.

come⁴¹; the average Oregonian paid 5.9 percent of income to the state income tax⁴².

Every year from 1991 through 2000, Oregon ranked 1st or 2nd in personal income taxes as a percent of income. Over that same period, income tax revenues almost doubled, growing 92.6 percent⁴³. The state is heavily dependant on the income tax; 74.4 percent of all state tax revenues come from the personal income tax⁴⁴. (Figure 5)

While government spending clearly grew in spite of Measures 5 and 50, the property tax limitations were to some degree successful in their missions. Oregonians' overall state and local tax burden (total taxes divided by personal income) dropped from 12.1 percent in 1989 before M5 to 10.5 percent in 2000 after M5 and M50⁴⁵ thanks to the reduction in property tax collections.

However, due to heavy income taxes, above average fees and charges, and increased debt financing, Oregon managed to erode the tax relief provided by Measures 5 and 50. As of 2000, Oregon led the cohort of western states with government revenues equaling

From 1999 to 2003 alone, schools promised future payments from the Lottery Fund over the next 15 years to back \$442.7 million in debt servicing. Of that sum, roughly \$300 million is the principle, and the remaining \$143 million, 32.3 percent of the overall obligation, are interest payments³⁷. State level debt financing is not unique to Oregon; it is an epidemic plaguing fiscally hollow states across the country. A *USA Today*³⁸ article examining various financially troubled states mentioned that "A record 10% of state revenue last year was borrowed".

As of 2000, Oregon led the cohort of western states with government revenues equaling 22.1 percent of personal income.

M5 did not leave public schools underfunded, it simply shifted their revenue source.

	Total Taxes		Oregon Rank				Property Taxes	
			Personal Income Taxes		Corporate Income Taxes			
	% of Income	Per Capita	% of Income	Per Capita	% of Income	Per Capita	% of Income	Per Capita
1982-83	13	18	3	6	23	21	9	13
1983-84	14	21	5	8	26	22	4	10
1984-85	14	20	3	7	28	25	5	10
1985-86	19	23	7	8	23	22	4	8
1986-87	11	21	4	7	34	30	5	8
1987-88	19	27	7	8	28	26	3	8
1988-89	10	21	3	6	35	35	4	7
1989-90	13	19	3	6	32	33	5	7
1990-91	12	20	3	6	34	35	6	11
1991-92	13	22	2	7	37	36	8	12
1992-93	15	24	1	6	26	24	13	16
1993-94	18	24	2	4	24	19	15	16
1994-95	26	27	2	5	24	21	19	20
1995-96	37	32	2	7	29	25	24	26
1996-97	33	27	1	5	21	17	24	17
1997-98	41	33	1	5	32	31	25	28
1998-99	45	33	2	4	27	23	28	30
1999-00	39	29	2	4	18	17	25	29

Figure 5 - Oregon Legislative Revenue Office, 2003 Oregon Public Finance: Basic Facts Research Report #1-03 (Jan. 21, 2003) Table 3, pg. 6. The chart shows Oregon's ranking among the 50 states.

22.1 percent of personal income⁴⁶.

So despite passing measures that provided tangible property tax relief and limited the growth of a major revenue source, Oregonians still witnessed significant government increases over the last decade. While their overall tax burden fell (thanks to property tax limitations), state revenues increased due to higher fees, increased borrowing, and a surfeit of income tax receipts in the 90's.

Oregon's Modern-Day Fairy Tale: Education Is underfunded (and it's M5's fault)

Misperceptions of Measure 5's Effects

Education funding is one of the most hotly

contested facets of Oregon spending. In this year's state budget gridlock, education spending represented the largest stumbling block, with the Republicans and Democrats proposing figures that differed by \$250 million⁴⁷. One of the largest misconceptions regarding Oregon education funding is that Measure 5 is to blame for the current financial crunch facing school districts. This belief stems from the history of school funding and the nature of Measure 5. Prior to M5, schools were primarily funded by local revenues, i.e. property taxes. M5 put a cap on these local revenues, so its detractors branded Measure Five as the harbinger of doom for K-12 funding.

But M5 did not leave public schools underfunded, it simply shifted their revenue source. The General Fund was required to

It is clear that inflation adjusted education spending did increase in the period after Measure 5.

replace lost school revenues for Measure Five's five-year phase-in period. This process essentially interchanged local and state funding responsibilities. In 1990-91, just prior to M5, state spending accounted for 28.6 percent of school operating expenditures, leaving the remaining 70 percent to local districts. By 1998-99, the year after M50 took effect, state support for schools had risen to 70.2 percent.

Measure 5 did not gut the school budget as its opponents claim. It just switched General Fund monies – primarily income taxes and lottery revenues in this case – for local property tax revenues.

The Government Cries Wolf

Oregonians should be wary of the claims made by public officials. Governor Barbara Roberts, when unveiling her first post-M5 budget, hyperbolized, “When Oregonians feel the weight of the ax they wielded in November, they will realize they did far more than give themselves a tax break. They will have cost some Oregonians their lives, and their livelihoods”⁴⁸.

A look at the 1991-93 General Fund budget tells a different story. Subtracting out the \$452.2 million that was necessary by statute to replace M5 compressed school funds, the General Fund still managed to increase \$559 million, or 12 percent over the previous budget⁴⁹.

Also note the \$452.2 million school levy replacement figure as well. In August 1990, during the peak of M5 opposition prior to the vote, the state government claimed that first year replacement needs would exceed \$790 million. Each successive estimation ratcheted the number down, until the actual figure came in at \$452 million – far less than the original estimate⁵⁰.

Estimates should be closer than this; alarmist statements are out of place in this serious debate.

The Truth About Oregon Education

Oregon K-12 Spending Since Measure Five

Critics of Measure Five argue that examining the General Fund after M5 to measure growth in education spending is misleading, because the measure shifted much of that funding responsibility to the state level. This is true; M5 required the General Fund to replace lost revenues to the schools for five years. However, looking at the total state and local spending on education captures this shift in responsibility, and yields a more accurate view of the total tax money spent on K-12 education.

The truth is that Oregon education spending has enjoyed notable growth since Measure 5. State and local spending on K-12 schools in 1991-92 was roughly \$2.85 billion. In 2000-01, state and local spending was \$4.371 billion, a 53 percent increase⁵¹. Student enrollment went from 498,614 in 1992 to 546,231 in 2001; that's 9.5 percent growth in the student population⁵². Portland-Salem regional inflation over those same nine years was 32 percent⁵³. Compounded inflation plus student population growth equals 44.6 percent compared to 53 percent growth in state and local expenditures. It is clear that inflation adjusted education spending did increase in the period after Measure 5.

A Note On Equalization

Shortly after M5, Oregon made another structural change to education expenditures. With the majority of education funding now coming from the state, legislators sought to level the playing field through the K-12

School Equalization Formula. This formula looks at each school district's student enrollment and special needs and apports funds on that basis. While this hurt schools in more affluent districts, like Portland, rural schools and other districts with historically weak property tax bases were the big winners. This point is best illustrated by the fact that from 1991, the year M5 began its phase-in, to 2001, the Neah-Kah-Nie, Coos Bay, John Day, and South Umpqua school districts all enjoyed greater than 60 percent growth in spending⁵⁴.

Per Student Spending

One hotbed for criticism is that per student spending in Oregon is too low. First, it would be wise to remember that there is no "golden number" that can be spent on students to solve this perceived problem. "Too low" simply describes the feeling that students are exiting Oregon public schools with a subpar education *and that this is a result of too little money being spent versus all the other factors that cause an educational system to underperform*. If the Oregon school system could deliver the best education in the country for \$1,000 a head, the rational mind would be elated, not harping that per pupil spending is "too low."

There is a second pitfall that clouds the per student spending issue. There are several viable methods of counting students, funding, and expenditures. Analyzing the different combinations can lead to drastically different per pupil spending figures. The ECONorthwest report *Comprehensive Analysis of K-12 Education Finance in Oregon* commissioned by the Oregon School Boards Association highlights this problem: "In 2002, given different combinations of the expenditure and student measures...estimates of spending per student range from \$5,081...to nearly twice that amount, \$10,037..."⁵⁵.

Readers should be advised to keep the broad range of spending estimates in mind whenever a school district cites one per student spending figure as evidence of a statewide epidemic. The disparate measurements rank Oregon spending anywhere from 12th to 21st, though even the lowest puts it above the nationwide average⁵⁶.

Current Expenditures per ADMr

Current expenditures per resident Average Daily Membership (ADMr) gives a moderate estimate of per pupil spending. Some brief definitions are helpful to flesh out this statistic's meaning.

ADMr stands for resident average daily membership. It is the year-to-date average daily student enrollment for students who live within the school district, counting kindergarten students as half-time enrollees⁵⁷.

Current expenditures for schools describe day-to-day spending – salaries for teachers and support staff, fixed charges, energy costs, textbooks and supplies, transportation, as well as some other expenses. Current expenditures *exclude* capital outlays and interest payments⁵⁸.

From 1991-2001, current expenditures per ADMr grew from \$5,407 to \$7,893, or 46 percent. This outpaced both Portland-Salem regional and national inflation, which were 36.4 percent and 30 percent respectively⁵⁹.

Where Did the Money Go?

Breaking down the numbers helps illuminate where these spending increases went. From 1992-2000, spending on regular programs per ADMr matched regional inflation at 3 percent annual growth. However, spending on special programs per ADMr skyrocketed at an average *annual* growth rate of 14.3 percent. Seen another way, in 1992,

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year.**

When the [PERS] funding shortfall was estimated at \$16.4 billion, school districts constituted \$6.56 billion of the gap.

the average Oregon K-12 school paid \$448 per ADMr on special programs. By 2000, they were paying \$1,301 per ADMr⁶⁰.

The big winners, though, were teachers and other staff. Since salaries account for roughly 80 percent of school district spending, much of the increases were realized in higher wages, and particularly, increased benefits⁶¹.

Benefits

Employee benefit expenditures were a major factor in increased education costs. Oregon school employees enjoy unusually high benefits. For example, in 1999-2000 Oregon employee benefits costs per student were \$448 above the US average. It is estimated that the same year, Oregon spent \$15,536 per employee (not just teachers, all K-12 employees) on benefits alone. This high level of expenditure ranked second nationwide that year, bested only by Rhode Island⁶².

A major source of these high benefit outlays is the excessive retirement-related benefits paid by the state of Oregon. "...In 1997-98, Oregon school districts contributed an amount equal to 23.45 percent of salaries and wages to retirement-related benefits (that is, 7.65 percent for Social Security and Medicare and 15.80 percent to PERS)" the ECONorthwest education finance report discovered⁶³. By July 1, 2003, the PERS contribution alone was estimated at 24.58 percent for some districts who pay the 6 percent employee pickup⁶⁴. That's nearly 25 cents of every payroll dollar going to PERS for retirement benefits.

What's more alarming is that these figures do not even include the current unfunded PERS liabilities. Roughly 40 percent of the PERS population is comprised of public school employees. At a time when the funding shortfall was estimated at \$16.4 billion,

school districts constituted \$6.56 billion of the gap⁶⁵. That amount is 13.3 percent larger than any single biennium General Fund school budget to date⁶⁶. One could only imagine the astronomical level of education spending if these unfunded monetary promises were included in the budget.

Salaries

Critics claim that teachers need these high benefits to compensate their relatively low public sector pay. This is a myth that is too easily believed, but too little investigated. Careful study in *Can Oregon Tighten its Fiscal Belt?* sheds some light on this common misperception: "Specifically, average teacher salaries in Oregon are 7 percent higher than the average American teacher's salary, whereas the annual average pay of Oregonians is about 8 percent lower than the pay of the average American. Consequently, on average, teacher salaries are about 15 percent higher in Oregon, in relative terms, than in the average state"⁶⁷.

This squares with the National Education Association's data. They show that in 2001-02, Oregon's average teacher salary was \$46,081, ranking 14th among the states⁶⁸.

Any Bright Ideas?

So if Oregon schools are not really underfunded, how can school districts get the extra money they say they need without further burdening the taxpayer? As it happens, there are several solutions available to school districts to cut costs, thereby freeing up revenue for spending on academics.

Privatization

Privatizing, or hiring out non-academic services to private contractors, is saving school districts in Oregon and across the country millions. Last year, Portland Public School district outsourced its custodial services to

the Portland Habilitation Center, saving \$3.7 million in salaries and benefits. This summer, the school board voted 5-2 to renew the contract, expecting savings of \$7 million in the upcoming year⁶⁹.

Privatization was the source of controversy recently in the Salem-Keizer School District. The district committee responsible for handling private bids on transportation withheld key information from the school board, the body that passes the district's budget. The bid committee simply recommended that the school board keep the in-house transportation services; after a budget approving that decision had passed, the committee notified the board of a bid by the private company Laidlaw Education Services that would save \$2 million a year in transportation costs. The budget is now being reviewed.

Fortunately, the Lincoln County School District is setting a shining example for its Salem-Keizer colleagues. This year, Lincoln County approved the privatization of its transportation, custodial, and food services. They plan on saving \$1.5 million per year.

Outsourcing is a great way to allocate more revenue for in-classroom activities without foisting a heavier burden on taxpayers. Districts should examine their privatization options if they are feeling the budget crunch before defaulting to more tax monies.

Close the Benefits Gap

Oregon school employees' benefits are significantly above the national average. There is no causal link between a teacher having lower out-of-pocket health care expenses, and his or her students excelling. School districts have poorly negotiated their union contracts at great cost to the taxpayers.

Accountability has become a popular buzzword in the rhetoric of education reform. However, a tougher stance on benefits and wage increases could contribute heavily to controlling education costs.

A natural outgrowth of this is PERS reform. While it is commendable that some PERS reforms have been made in the 2003 Legislature, it is not so laudable that the unfunded liability was allowed to reach such frightening amounts. Education reformers and policy makers would do well to learn from the PERS debacle. Making promises and then hoping someone else can keep them later is a dangerous practice—particularly dangerous for taxpayers.

M5 Can't Control Spending, But Tax and Expenditure Limitations Can

A Brief History of Oregon Tax and Expenditure Limitations (TEs)

Tax and expenditure limitations (TEs) are on the books in 30 states⁷⁰. The Oregon legislature proposed and passed the state's TEL in 1979. On the November 2000 ballot, Oregonians had a chance to pass a second TEL. The constitutional amendment Ballot Measure 8, a spending limit, failed at the polls after very large union expenditures in opposition.

TEs operate in a variety of ways. While most TEs fall into a few categories, each can have its own intricacies; the construction and implementation of some TEs are wholly unique to their state. Most, though, generally function in one or two ways to control spending. One method is tying yearly revenue increases to some economic parameter, such as personal income or a growth index like inflation plus population growth. Another method is to limit government expen-

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ditures by the same means, fixing allowable increases to another value or growth index. A third kind of TEL curbs spending by returning excess revenue collections back to the taxpayers⁷¹.

Oregon's TEL is a hybrid of two of these examples. First, it limits state General Fund appropriations to the rate of growth in personal income over the previous two calendar years (however, the legislature has exempted expenditures and overridden the limit leaving the General Fund effectively unconstrained)⁷². Secondly, if revenues are at least 2 percent greater than forecasts, then the excess is returned to the taxpayers via income tax credits. General Fund monies are divided into two pools: corporate taxes and all other revenues. At the end of each biennium, if either pool is more than 2 percent above forecasts, then the surplus goes back to the source. This second component of the TEL is Oregonians much beloved "kicker" law⁷³.

Lastly, Oregon has one other statute that limits state government. ORS 240.185 limits the number of state employees to 1.5 percent of the state's population for the previous year. Additionally, of those employees, only 13 percent may be in "state management service and in certain state unclassified service"⁷⁴. However, some positions and other government divisions are exempt from this employment cap.

Though one might think these statutes would be sufficient to control government growth, recent research on TELs, as well as Oregon's fiscal history, show that Oregon's TEL has not been successful. The following sections illustrate how to construct a TEL that can effectively constrain the growth of government.

How to Build a Successful TEL

Regression analysis has uncovered a strong correlation between a TEL's construction and taxpayer savings. Several other factors as well have shown to be crucial in determining a TEL's potential for success.

Where Did the TEL Come From?

Where a TEL originates is a contributing factor to its ability to control government expansion. TELs that begin as citizen initiatives tend to be more restrictive. On the other hand, TELs that are proposed and passed by the Legislature – like Oregon's – have proven to be far less effective. Dean Stansel's Cato report *Taming Leviathan: Are Tax and Spending Limits the Answer?* points out the problems with TELs born in the legislature: "[Tax and Expenditure Limitations] that originate in the legislature, since they are written by politicians – the very people whose behavior they are intended to restrain – tend to be more vague, less restrictive, and more easily circumvented"⁷⁵.

Is the TEL Constitutional or Statutory?

This is another important facet when examining a TEL's expected efficacy. Constitutional limitations are far stronger since they do not easily succumb to legislative override. Statutory limitations, like Oregon's, are more susceptible to legislative changes, such as exempting certain spending from the limit or even lowering the limit itself. In some states with statutory limitations, the legislature can override the limit with a simple majority vote. This hardly creates a policy with any real teeth. A look at the kicker's history highlights the danger facing statutory spending limitations: In two consecutive biennia, 1989-91 for personal and 1991-93 for corporate tax collections, the legislature suspended the kicker refund. As a backlash, voters approved an amendment

in November 2000 that made much of the kicker statute constitutional⁷⁶.

How Much of the Budget Is Under the Limit?

Even the most restrictive TELs on the books do not cap the entire budget. Oregon's spending limitation only applies to the General Fund, which is roughly one third of the state's All Funds Budget. Additionally, property tax relief and debt repayments are outside the limit calculation⁷⁷. To its credit, the Oregon TEL does account for transfers from the General Fund budget to the Other Funds. Many state legislatures corralled by TELs circumvent the limitations by devolving state level government functions to local governments.

Does the TEL Limit Expenditures or Revenues?

What the TEL limits is another deciding component of its prospects for success. Spending limits tend to be more restrictive than revenue limits, though this can easily be mitigated by what the spending is limited to. Limits to growth factors like personal income, particularly in an expanding economy, can still allow government budgets to bulge. Oregon's TEL is a spending limit tied to personal income growth.

However, revenue limitations tend to be even less effective at constraining government. *Taming Leviathan* again points out the dangers, noting that "politicians can manipulate the economic forecasts in an effort to get around their TELs' restrictions"⁷⁸.

What Exactly Is the Limit?

Perhaps the most important factor of all is the actual limit placed on government growth. Limits based on revenue projections tend to be the least restrictive. Limits tied to personal income growth tend to be more re-

strictive, but still allow considerable room for government growth. In an expanding economy, personal income can often be one of the fastest growing parameters⁷⁹.

The most restrictive – and thereby effective – limitations are tied to population growth plus inflation. Since real personal income has grown much faster than population, this limit is by far the most constraining⁸⁰.

The Ideal TEL

Stansel's report, *Taming Leviathan*, is an excellent, comprehensive analysis of tax and expenditure limitations. After thorough investigation of the data, Stansel constructs a nine-point list characterizing the ideal TEL⁸¹:

1. It should originate with and be approved by the voters, where possible, rather than the legislature.
2. It should be constitutional rather than statutory.
3. It should apply a cap to 100 percent of the budget rather than to only certain categories.
4. It should cap spending rather than revenue or taxes.
5. It should limit the growth of spending to the growth rate of population plus inflation rather than to the growth of personal income.
6. It should require voter approval for its provisions to be circumvented.
7. It should apply to both state and local governments. And it should allow for transfer of responsibility to local governments and provide for the appropriate adjustments in each jurisdiction's limit.

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Effectiveness of Tax and Expenditure Limitations by Feature

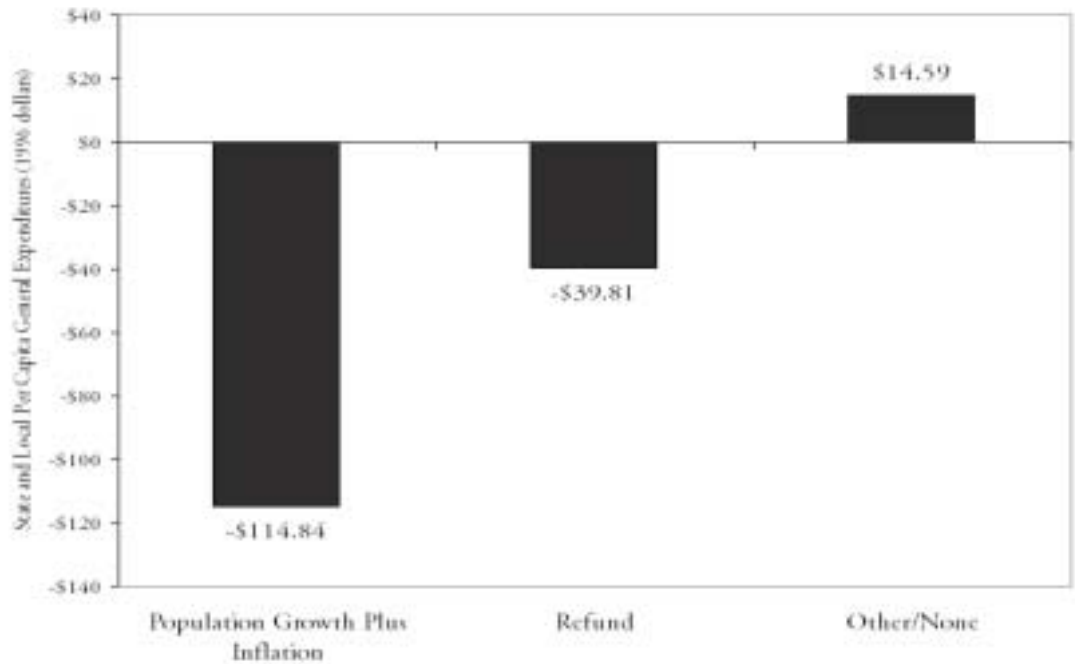


Figure 6 - Michael J. New, "Tax and Expenditure Limitations: What Arizona Can Learn from Other States," Goldwater Institute Policy Report No. 180 (April 21, 2003), Figure 1, pg 6.

8. It should not require additional action by the legislature for implementation.

9. It should give taxpayers standing to sue to enforce its provisions and require injunctive relief to prohibit any illegal taxes or spending while suit is pending.

Oregon's lacks some of the most crucial elements; it originated in the legislature instead of the populace, it is statutory instead of constitutional, and it limits growth to personal income growth rather than population plus inflation.

The Proof Is in the Savings

Regression analysis has shown that the structure of a TEL can determine its ef-

fectiveness. The regression equation predicts that a spending limit tied to population growth plus inflation can reduce state and local spending by \$115 per capita per year. Refund provisions also provide savings. If the TEL does not limit spending growth to population plus inflation, but does stipulate that excess revenues be refunded, regression predicts that state spending per capita will decrease by \$40 per year⁸². Further, if a TEL has neither of these provisions, the results suggest that state and local spending will increase by \$14.59 per capita per year⁸³. (Figure 6)

Limiting or reducing taxes has a positive effect on the economy. A study by Richard Vedder of Ohio University found that the 10 states with the biggest tax increases throughout the 1980's had less than half the economic growth of the 10 states which had the

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biggest tax cuts⁸⁴ (Public Interest Inst. *Limits*, 2). It seems the bulk of 20th century history is on Vedder's side. He found that his results – that economies in low tax states grow faster than in high tax states – were true for the previous 60 years.

I601 and TABOR: Two Effective TELs

Washington's Initiative 601 and Colorado's Taxpayers Bill of Rights are two of the most successful TELs currently in effect. Both contain key provisions for success, like limiting spending to population growth plus inflation. While both have been effective, Colorado's TABOR is even stronger than I601, and it has become a model for states interested in tax reform.

Washington's Initiative 601

The voters of Washington enacted the TEL dubbed Initiative 601 in 1993, taking effect in fiscal 1996, in response to a massive \$649 million tax hike passed earlier that year. I601 had two important components that made it significantly more effective than other states' TELs. First, it limited spending growth to inflation plus population growth. Secondly, it contained a stipulation that prevented the state legislature from skirting the limit by reallocating spending responsibilities to the local governments.

Washington citizens immediately saw the benefits of their decision. In the four years prior to I601's installation, state spending grew at an average annual rate of 17.3 percent. In the four years immediately after I601, annual spending growth was about half the rate and fell to 8.6 percent⁸⁵. In fact, as revenues began to exceed the spending limitations thanks to the late 90's robust economy, the legislature gave tax cuts to reduce the excess. Taxpayers enjoyed \$38.5 million and \$19.7 million tax cuts in 1998 and 1999 respectively.

I601 did have an important shortcoming, though. It was statutory rather than constitutional, and thus susceptible to legislative override. And the legislature did just that, attaining a supermajority vote to suspend the limit to pass its FY 2000-01 budget. However, this proved to be quite ill timed as the recession of 2001 brought slumping revenues just as the government had committed to higher spending. The legislative weakening of the limit contributed heavily to the \$2.6 billion shortfall facing Washington in 2003⁸⁶.

Colorado's Taxpayer Bill of Rights

Colorado has the single most effective TEL currently on the books. The Taxpayer Bill of Rights, passed in 1992 and in effect by 1994, has three key provisions in its design that are crucial to its success. First, like I601, it places the most stringent limitation on spending; yearly spending increases cannot exceed the growth rate of population plus inflation. Secondly, it mandates that all surplus revenues be immediately refunded to the taxpayers. Lastly, it is constitutional unlike Washington's law, and thus largely protected from legislative abuse.

Colorado citizens quickly saw the fruits of their good decision. From 1997-2001, Colorado reduced taxes more than any other state, giving back \$3.2 billion in rebates over the five-year span. In consecutive years, 2000 and 2001, TABOR tax refunds were over \$925 million⁸⁷. The state estimates that during that period, the total refunds for a worker making \$30,000 a year were almost \$900, not including a one-time federal tax break of \$300 in 2001⁸⁸. (Figures 7 & 8)

Other states are looking at TABOR and liking what they see. Arizona's Goldwater Institute did a report on how a TABOR style TEL could

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Tax Rebates under Colorado's Taxpayer Bill of Rights

Year	Rebate
1997	\$ 139 million
1998	563 million
1999	679 million
2000	941 million
2001	927 million
Total	\$ 3.2 billion

Figure 7 - Michael J. New, "Tax and Expenditure Limitations: What Arizona Can Learn from Other States," Goldwater Institute Policy Report No. 180 (April 21, 2003), Table 1, pg 8.

If Oregon had passed a TABOR-style limitation, the 2001-03 General Fund budget would have been roughly \$8 billion. This conservative estimate translates into more than \$3 billion in taxpayer savings.

benefit Arizona residents. The report found that had Arizona enacted a similar spending limit in 1995, tax refunds from 1995-2002 would have totaled \$4.2 billion⁸⁹.

A look at what Oregon could have saved with a TABOR style TEL yields interesting results. 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. If Oregon had passed a TABOR-style limitation, the 2001-03 General Fund budget would have been roughly \$8 billion. This conservative estimate translates into more than \$3 billion in taxpayer savings.

While TABOR's Colorado opponents claimed it would ravage the state economy, in fact, the opposite came true. Between 1995 and 2000 – a time when most states enjoyed *considerable* economic growth – Colorado's economy enjoyed the fastest growth in gross state product of all states and the second fastest growth in personal income⁹⁰.

There is also a less observable benefit of TABOR, though it is often remarked upon in the literature analyzing Colorado's TEL. Due to TABOR's construction, Colorado residents have the advantage of deciding on the margin how much government they want each year. Voters enjoy the security of knowing their legislature can't break the bank, while at the same time have the option each year to approve spending beyond the limit for programs they believe need more funding. A Cato report by Michael J. New points out "In 2001 an initiative to increase school spending did pass. However, TABOR had been so effective at keeping spending in check that the state government had enough surplus revenues to increase school spending in 2001 and still issue tax rebates that year"⁹¹.

Annual Tax Rebates for a Colorado Resident Earning \$30,000

Year	Federal Government	State Government
1997	-	\$60
1998	-	195
1999	-	212
2000	-	245
2001	\$300	187
Total	\$300	\$899

Figure 8 - Michael J. New, "Tax and Expenditure Limitations: What Arizona Can Learn from Other States," Goldwater Institute Policy Report No. 180 (April 21, 2003), Table 2 pg 8.

Conclusion

Oregonians took a bold step toward slowing government collections by passing Measure Five. They continued this trend with Measures 47 and 50, extending property tax relief to Oregon residents throughout the 90's.

Taxpayers enjoyed – and are still enjoying – millions in savings each year thanks to property tax limitations. High property taxes are particularly difficult for low-income and fixed-income residents; for these people paying rent or property taxes may be their single biggest expense.

However, a brief look at Oregon’s recent history shows that property tax limitation alone is insufficient to control government spending growth. To borrow an analogy used elsewhere in the vast literature on state budget growth, government spending is like a balloon; if you squeeze it in one place, that only means it bulges out somewhere else.

Oregon certainly exemplifies this analogy. In the aftermath of M5, Oregon raised charges and fees to compensate for M5 “compression losses.” Oregon is ranked the 4th most dependant 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 Measures 5 and 50, it still grew 151 percent from 1989-91 to 2001-03. Money poured into education, health care, and public safety programs as income tax revenues padded government coffers through the booming 1990’s.

Contrary to public perception, inflation adjusted education spending actually increased after Measure Five. Much of that spending went directly to employee salary and benefit increases. Retirement related benefits were

a particular cost driver, as Oregon consistently spent well above the national average on employer contributions to pension funds.

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 increasing spending beyond Oregonians’ ability to pay. The government has outpaced population growth, inflation, even personal income growth.

Oregon needs a strong, effective constitutional spending limitation. Oregon voters need to take responsibility for the way their government is spending their money. The legislature has had years to prove it can restrain itself, and it has not been capable of the task. A TABOR-styled limitation for Oregon puts the power over government growth back with the people.

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Notes

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² Ibid. D3. Calculations author’s own.

³ Ibid. D2.

⁴ Vernon S. White, *Focus On Measure 5* (Portland, OR: Cascade Policy Institute, 1992), 8. Calculations author’s own.

⁵ Ibid. 7.

⁶ “2003 Oregon Public Finance: Basic Facts”, A8. Calculations author’s own. Inflation statistics from the Bureau of Labor Statistics. (http://www.leg.state.or.us/comm/lro/2003oregon_public_finance_basic_facts.pdf)

⁷ T.K. Olson, Oregon Tax Research, “A Dollars and Sense Look at Oregon School Finance” (1990), 7.

⁸ White, 10.

⁹ Oregon Legislative Revenue Office, “Oregon Property Taxes” (January 15, 1999), 53.

¹⁰ Oregon Governor’s Tax Review Technical Advisory Committee, “Review of Oregon’s Tax System” (June 1998), 14. (<http://dor.wa.gov/content/WAtaxstudy/taxrestr.pdf>)

¹¹ “2003 Oregon Public Finance: Basic Facts”, A8. (http://www.leg.state.or.us/comm/lro/2003oregon_public_finance_basic_facts.pdf)

¹² “Review of Oregon’s Tax System”, 14. (<http://dor.wa.gov/content/WAtaxstudy/taxrestr.pdf>)

¹³ “Oregon Property Taxes,” 53. Calculations author’s own.

¹⁴ The property tax that a district wishes to collect is the property tax *extended*. This is determined for most districts by multiplying the permanent tax rate under Measure 50 and the assessed value of a property, then adding on that property’s share of any taxes for bonds and local option levies. If the bonds and option levies taxes increase the property tax rate beyond the Measure 5 limits, the tax is “compressed” down to the legal limit (note that general obligation bonds are outside the M5 rate limit calculations). This value is the property tax *imposed*, and the amount the property owner is required to pay.

¹⁵ “2003 Oregon Public Finance: Basic Facts”, D8. (http://www.leg.state.or.us/comm/lro/2003oregon_public_finance_basic_facts.pdf)

¹⁶ Ibid., A3. Calculations author’s own.

¹⁷ Ibid., A2.

¹⁸ “Review of Oregon’s Tax System”, 14 (<http://dor.wa.gov/content/WAtaxstudy/taxrestr.pdf>)

¹⁹ White, 11.

²⁰ “2003 Oregon Public Finance: Basic Facts”, A8. Calculations author’s own. (http://www.leg.state.or.us/comm/lro/2003oregon_public_finance_basic_facts.pdf)

²¹ Ibid., A5.

²² Ibid., A8. Calculations author’s own.

²³ Ibid., A8.

²⁴ Ibid., A10.

²⁵ Oregon Progress Board, “Press Release” (Sa-

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²⁶ Bureau of Business and Economic Research, University of New Mexico, “Total Personal Income by State” (<http://www.unm.edu/~bber/econ/us-tpi.htm>)

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³¹ Donald J. Boyd, “Tough Times for State Finances” (Nelson A. Rockefeller Institute of Government, October 19, 2001), 34.

³² Legislative Update #LU-03-29

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³⁷ Oregon Department of Administrative Services, Budget and Management Division, “What has caused the General Fund growth since 1989?” (http://www.bam.das.state.or.us/pub/bud_pol_pubs/GF_growth.pdf)

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⁴² 2003 Oregon Public Finance: Basic Facts, C1. Calculations author’s own. (http://www.leg.state.or.us/comm/lro/2003oregon_public_finance_basic_facts.pdf)

⁴³ *Ibid.*, A8. Calculations author’s own.

⁴⁴ *Ibid.*, A2-3.

⁴⁵ *Ibid.*, A2.

⁴⁶ “Oregon Economic and Revenue Forecast”, 23. (<http://www.oea.das.state.or.us/economic/forecast0603.pdf>)

⁴⁷ Steve Law, “Lawmakers trade barbs over budget,” Salem Statesman Journal, July 23, 2003.

⁴⁸ White, 13.

⁴⁹ *Ibid.* 13.

⁵⁰ *Ibid.* 16.

- ⁵¹ US Census Bureau. Calculations author's own.
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