Task Force on Comprehensive Revenue Restructuring

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Draft
Chapter 1
Background & Process

House Bill 2530

HB 2530 (2007) establishes the Task Force on Comprehensive Revenue Restructuring. The Governor is directed to appoint the Chair of the Task Force along with four members from the general public representing the major regions of the state, a member representing small business, a member representing large business and two members from organized labor. The Speaker is responsible for appointing four members from the House while the Senate President appoints four members from the Senate. These seventeen Task Force members constitute the voting members of the Task Force. The bill also designates the State Treasurer and twelve members appointed by the Governor representing various groups and interests in the state as non-voting Task Force members. The Chair of the Task Force is directed to appoint a seven-member Advisory Council to provide technical analysis. Finally, the Legislative Revenue Office is assigned staffing responsibilities for the overall Task Force. The complete text of HB 2530 can be found in Appendix A.

HB 2530 directs the Task Force to develop a "blueprint for comprehensive revenue restructuring for local and state government." The blueprint is to provide ways to promote a stable state and local government revenue flow, create positive economic benefits for the state and provide for a financial foundation that enhances the state's global competiveness. Within the blueprint the bill calls for a plan for revenue and economic competitiveness that includes tax restructuring that leads to a more stable revenue system, promotes agreements among different levels of government and that stimulates economic growth.

Following appointments by the Governor and Legislative Leadership the Task Force first met on November 29, 2007. The Task Force convened a total of 12 meetings, at the conclusion of which the Task Force issued its draft report. This was followed by 6 public meetings around the state to discuss the draft report. A summary of the public meetings can be found in Appendix B.

Previous Tax Reform Efforts & Studies

By the end of the 1960s, the majority of states had evolved into revenue systems characterized by 3 major tax sources. Most states imposed a general sales tax and an income tax while reducing their reliance on the property tax. Property taxes became the primary tax source for local governments. After passing an income tax in 1929 to provide property tax relief, Oregon chose not to adopt a general sales tax as most states did in the 1930s. That left Oregon's revenue system dependent on comparatively high income and property taxes.

Prior to 1990, the focus of major tax restructure proposals consisted of adoption of a sales tax, coupled with substantial property tax relief. The 2 most prominent proposals along these lines were Governor McCall's plan (defeated 253,682 to 358,210 by voters in 1973) and Governor Atiyeh's plan (defeated 234,804 to 816,369 by voters in 1986). In 1990, voters approved Measure 5 which limited property tax operating levies to $15 per $1,000 of market value. In an effort to restore revenue to the system the Legislature, working in conjunction with Governor Roberts, developed another sales tax plan that also contained additional property tax relief. This proposal was referred to voters (Measure 1) in 1993 and defeated 240,991 to 721,930.

In 1996, voters approved Measure 47, a constitutional amendment that limited assessed property value growth in addition to property tax rates. The language of the measure proved unworkable prompting the 1997 Legislature to refer Measure 50 to voters as an alternative. Voters approved Measure 50 in the May 1997 primary election. Measure 50 reduced assessed values by 10% and limited future growth on existing property to 3% annually. It also established permanent rates for all taxing districts.

The approval of Measures 5 and 50 moved Oregon from a relatively high property tax state to one near the middle of the states in property tax burden. This has had the effect of substantially muting public concerns over the property tax burden. It also made the state's revenue system highly dependent on the personal income tax. Concerns over the implications of this dependence and the consequences of a limited property tax system have dominated tax reform discussions since 1997.

The first thorough analysis of the post Measure 5/50 revenue system was Governor Kitzhaber's Review of Oregon's Tax System completed in 1998. The Governor appointed a technical committee and a policy committee consisting of citizens/experts to evaluate how the revenue system had changed in the wake of Measures 5 and 50. The policy committee's report emphasized the dangers of the state's over-reliance on the traditionally unstable personal income tax, especially to fund K-12 education. The report also noted the consequences for the local revenue system of dependence on a slow growing, initiative-constrained property tax. The policy committee recommended the establishment of a substantial reserve fund to counter the instability in the state revenue system and a series of steps such as a prohibition of local preemptions, state reimbursement for new property tax exemptions and increased revenue diversification in response to the stable but inflexible local revenue system.

Governor Kitzhaber's policy committee's warning of the dangers of revenue instability proved prescient as the 2001 recession and the bursting of the 1990s stock market bubble triggered the largest percentage reduction in state General Fund revenue since the 1930s. The effects of the recession also shifted the tax reform discussion toward means of stabilizing the revenue system. The Legislature responded with formal tax reform committees following both the 2001 regular session and the 2003 regular session. The "Revenue Options, School Funding & Accountability Task Force" issued a report in 2002 emphasizing broad principles for tax reform efforts to stabilize school funding. In 2004, the "Joint Interim Committee on Tax Reform" conducted a series of public meetings around the state to gather input on ways to make the tax system more stable and more equitable.

The Task Force on Comprehensive Revenue Restructuring began its analysis of Oregon's revenue system by thoroughly reviewing these previous tax reform discussions and recommendations. The Task Force found these previous efforts particularly useful in framing the problems associated with the current revenue system.

A Review of Oregon's Revenue System

Comparative Analysis

The most comprehensive way to compare Oregon's current revenue system with other states is to examine the most recent U.S. Census Bureau statistics on state and local government finance. These data include all state and local revenue sources (and expenditures) collected on a consistent basis from all states. The most recent data are for the 2005-06 fiscal year, released in June of 2008.

Census divides state and local revenue sources into five categories. These categories are:

- Taxes
- Revenue from the Federal Government
- Charges—consisting of direct payments for services from governments. The largest components of this category are higher education (tuition & fees) and payments for health-hospital services.
- Miscellaneous Revenue—the largest component of this category is interest earnings on government balances. Also included in this category are asset sales, system development charges and net revenue from lottery.
- Government Enterprises—consisting of gross revenue from government operated enterprises such as liquor sales and public utilities.
- Insurance Trust Revenue—is made up of current revenue generated by public employee retirement funds (mostly earnings on retirement funds), state operated workers' compensation funds and unemployment trust funds.

The Census combines all these sources to get total revenue for the state and local revenue system. Insurance trust revenue and gross revenue from government enterprises is subtracted to get general revenue. General revenue is a better gauge of revenue available for provision of public services because most enterprise revenue goes back into the operation and trust revenue is for specific future beneficiaries such as unemployed workers and public retirees. Finally the Census Bureau defines own-source revenue as general revenue minus transfers from the federal government. This measure is the best overall reflection of the state and local government revenue burden born by the residents of a state.

Census data for Oregon's 2005-06 revenue categories can be found in Table 1.1. The information is presented in a dollar per person format with Oregon's rank among the 50 states. A rank of 50 means lowest per capita revenue.

Table 1.1: ALL OREGON STATE AND LOCAL GOVERNMENT REVENUE

REVENUE CATEGORIES	$ PER PERSON	RANK AMONG THE STATES
SUMMARY CATEGORIES		
TOTAL REVENUE	$9,794	9
GENERAL REVENUE	$6,930	27
OWN SOURCE REVENUE	$5,462	29
REVENUE SOURCES		
TAXES	$3,360	34
FEDERAL REVENUE	$1,468	27
CHARGES	$1,328	10
MISCELLANEOUS	$774	14
GOVERNMENT ENTERPRISES	$451	11
INSURANCE TRUST REVENUE	$2,412	3

Oregon's overall state and local revenue ranks 9th highest among the states at $9,794 per person in 2005-06. However, this relatively high ranking is due to a large amount of revenue in the insurance trust category. The state's high ranking reflects issuance of pension obligation bonds during this period (revenue from the bond sales is included) and the existence of a state operated workers' compensation fund. When only general revenue is considered (excluding the insurance trust and government enterprise categories), Oregon's revenue totals $6,930 for a ranking of 27th. Pulling out federal revenue, leaves state and local own source revenue of $5,462 for a ranking of 29th.

Table 1.1 also breaks down Oregon's revenue sources by category. Roughly 1/3 (34.3%) of Oregon total state and local revenue comes from taxes. Only two states (Alaska & Mississippi) have a smaller percentage of their revenue derived from taxes. Oregon state and local governments collected $3,360 per person in taxes in the 2005-06 fiscal year. This ranked the state 34th in overall per person tax burden. Oregon ranks near the middle of the states with $1,468 in federal revenue (this category does not include federal revenue going directly to individuals such as Social Security benefits). Oregon is relatively dependent on charges for services, ranking 10th with $1,328 in per person revenue. Oregon also ranks relatively high in the miscellaneous and government enterprise categories. The state's extensive use of lottery revenue accounts for the former while the existence of a state run liquor monopoly is a major factor in the latter.

Table 1.2 narrows the Oregon revenue system down to taxes only. Taxes play a particularly important role in state and local revenue systems because they are the primary source of revenue for general public goods such as education and public safety. Taxes also potentially have the largest impact on economic activity because they represent a direct extraction of resources from the private sector for use by the public sector.

Table 1.2: OREGON'S TAX REVENUE

REVENUE CATEGORIES	$ PER PERSON	RANK AMONG THE STATES
TOTAL TAXES	$3,360	34

PERSONAL INCOME TAX	$1,500	5
CORPORATE INCOME TAX	$133	32
PROPERTY TAX	$998	30
GENERAL SALES TAX	0	47*
SELECTIVE SALES TAXES	$292	45
OTHER TAXES	$437	13

* tied with 3 other states.

Oregon's overall state and local tax burden ranks 34th on a per person basis. However, the state personal income tax burden is among the highest in the nation at $1,500 per person. The ranking for corporate income taxes and property taxes is similar to the overall rank for taxes. The state tax burden on consumption (general sales plus selective sales) is the lowest in the country. In addition to being one of five states without a general sales tax, Oregon ranks 45th in selective sales tax collections per person. Selective sales taxes include gasoline taxes, tobacco taxes, taxes on alcoholic beverages, real estate transfer taxes and other excise taxes on specific purchases. The other tax category includes severance taxes and certain transportation taxes such as Oregon's weight mile tax on heavy vehicles.

Another way to look at this same comparative revenue data is to divide the revenue numbers by total state resident income instead of population. This measure accounts for the size of the state economy rather than simply population size. In some cases the two measures can give very different rankings. For example the state of Mississippi ranks near the bottom (49th) of the states in tax collections per capita but ranks near the middle (31st) as a percentage of resident income because the state's per capita income is relatively low. Table 1.3 shows the Oregon 2005-06 total revenue data as a percentage of state personal income for 2005.

Table 1.3: ALL STATE AND LOCAL GOVERNMENT REVENUE AS % OF PERSONAL INCOME

REVENUE CATEGORIES	% of TOTAL PERSONAL INCOME	RANK AMONG THE STATES
SUMMARY CATEGORIES		
TOTAL REVENUE	29.4%	7
GENERAL REVENUE	20.8%	24
OWN SOURCE REVENUE	16.4%	19
REVENUE SOURCES		
TAXES	10.1%	38
FEDERAL REVENUE	4.4%	27
CHARGES	4.0%	8
MISCELLANEOUS	2.3%	10
GOVERNMENT ENTERPRISES	1.4%	10
INSURANCE TRUST REVENUE	7.2%	2

Oregon's rankings change slightly in different directions depending on the category. The state ranking moves higher in the overall categories, from 9th to 7th in total revenue and from 29th to 24th in general revenue, because Oregon's per capita income is below the national average. This is also true for most of the individual categories, for example charges and miscellaneous revenue. However, in terms of tax burden the state's ranking falls from 34th to 38th when personal income is substituted for population. This is due to the combination of states with similar tax burdens.

Table 1.4 coverts Table 1.2 from a per capita comparison to a percentage of personal income basis for state and local taxes. The rankings remain generally the same with the notable exception of the state's personal income tax burden which moves from a ranking of 5th on a per person basis to 2nd as a percentage of personal income.

Table 1.4: OREGON'S TAX REVENUE AS A % OF PERSONAL INCOME

REVENUE CATEGORIES	COLLECTIONS AS A PERCENTAGE OF PERSONAL INCOME	RANK AMONG THE STATES
TOTAL TAXES	10.1%	38
PERSONAL INCOME TAX	4.5%	2
CORPORATE INCOME TAX	0.4%	29
PROPERTY TAX	3.0%	27
GENERAL SALES TAX	0%	47*
SELECTIVE SALES TAXES	0.9%	45
OTHER TAXES	1.3%	12

*tied with 3 other states.

The comparative analysis based on the most recent U.S. Census data leads to the following conclusions:

- Oregon's state and local revenue ranks relatively high among the states primarily due to the state's extensive use of insurance trust funds.
- When trust funds and government enterprises are excluded leaving only general revenue, Oregon's state and local revenue ranks near the middle of the states on both a per person basis and on a percentage of personal income basis.
- Oregon ranks in the lower half of states in overall tax burden.
- Oregon's state and local revenue system is relatively more dependent on charges for services and miscellaneous revenue (including lottery) compared to other states.
- Oregon's property tax burden ranks in the middle among the states.
- Oregon's personal income tax burden is among the highest in the country.
- Oregon's consumption tax burden (general sales plus selective sales taxes) is the lowest in the country.

Oregon's Revenue System over Time

It has now been 10 years since Governor Kitzhaber's tax review committees identified the profound changes in the state's fiscal system brought about by the passage of Measures 5 and 50. Since the report was issued the state has weathered its largest percentage General Fund revenue decline since the Great Depression while local governments have attempted to provide services with a declining property tax base relative to the economy. This section uses the U.S. Census data for the 1985-86, 1995-96 and 2005-06 fiscal years to show how Oregon's revenue system has evolved over the past 20 years. This is followed by an analysis of state-specific data showing how Oregon's General Fund, Lottery, Highway Fund and school operating revenue have changed over the past 20 years.

Table 1.5: OREGON'S STATE AND LOCAL PER PERSON GENERAL REVENUE OVER TIME

	1985-86		1995-96		2005-06	
REVENUE CATEGORIES	$ PER PERSON	RANK	$ PER PERSON	RANK	$ PER PERSON	RANK
GENERAL REVENUE	$2,739	18	$5,000	10	$6,930	27
TAXES	$1,436	22	$2,259	31	$3,360	34
FEDERAL REVENUE	$528	12	$1,225	5	$1,468	27
CHARGES	$361	19	$842	9	$1,328	10
MISCELLANEOUS	$413	7	$673	4	$774	14

Table 1.5 shows how Oregon's state and local general revenue and its major categories compare with 20 years ago and 10 years ago. The dollar amounts for all the categories have risen as per capita income has increased but there have been significant changes in the relative rankings of the totals and individual categories. Between 1985-86 and 1995-96, Oregon's relative tax burden declined as Measure 5 property tax levy limits were put into place. However, the state's general revenue per capita rank rose in this period as state and local governments rapidly diversified into non-tax revenue sources. The state's per capita reliance on federal revenue, charges and miscellaneous revenue all increased during the 10-year period. The high miscellaneous revenue ranking was due to a large jump in lottery revenue associated with the introduction of video poker.

Oregon's relative ranking for general revenue and all of its major components have fallen between 1995-96 and 2005-06. The states general revenue rank dropped from 10th to 27th while the overall tax burden declined from 31st to 34th. Federal revenue dropped sharply while revenue from charges remained essentially unchanged compared to other states. Miscellaneous revenue declined as interest earnings dropped compared to other states. The 2005-06 Census data is prior to the introduction of lottery line games which triggered a recent surge in state lottery revenue.

Table 1.6: OREGON'S STATE AND LOCAL GENERAL REVENUE AS A % OF PERSONAL INCOME OVER TIME

	1985-86		1995-96		2005-06	
REVENUE CATEGORIES	REVENUE AS % OF PERSONAL INCOME	RANK	REVENUE AS % OF PERSONAL INCOME	RANK	REVENUE AS % OF PERSONAL INCOME	RANK
GENERAL REVENUE	20.2%	14	22.6%	11	20.8%	24
TAXES	10.6%	18	9.7%	47	10.1%	38
FEDERAL REVENUE	3.9%	16	5.5%	9	4.4%	27

CHARGES	2.7%	20	3.6%	13	4.0%	8
MISCELLANEOUS	3.0%	8	3.0%	5	2.3%	10

Table 1.6 shows how Oregon's major revenue components have changed over time compared to the total personal income for residents of the state. Oregon's tax burden reached a low point in 1995-96 as Measure 5 rate limits were fully phased in and substantial surplus kicker refunds and credits were returned to personal and corporate income taxpayers. Despite the low tax burden Oregon general revenue rose as a percentage of personal income between 1985-86 and 1995-96. Over the most recent 10 years Oregon's general revenue has declined relative to both personal income and other states. Over the longer 20 year period, Oregon' state and local general revenue increased slightly compared to personal income but the tax burden in the state declined. The declining tax burden is primarily due to the effects of Measures 5 and 50 on property tax collections.

Changes in the components of the tax system can be seen in Tables 1.7 and 1.8. Table 1.7 presents the data on a per person basis. Table 1.8 divides tax collections by total personal income in the respective years. Oregon's consistently high personal income tax burden and falling property tax burden is confirmed in Table 1.7. Property tax collections have risen from $651 per person in 1985-86 to $998 per person in 2005-06 but have not kept pace with other states thereby explaining the state's drop in relative property tax burden from 7th in 1985-86 to 30th in 2005-06. Measures 5 and 50 account for this decline. Table 8 shows that the property tax burden has declined from 4.8% of personal income to 3.0% while personal income taxes have risen from 3.3% to 4.5% over this period.

Table 1.7: OREGON'S STATE AND LOCAL PER PERSON TAXES OVER TIME

	1985-86		1995-96		2005-06	
REVENUE CATEGORIES	$ PER PERSON	RANK	$ PER PERSON	RANK	$ PER PERSON	RANK
TAXES	$1,436	22	$2,259	31	$3,360	34
PERSONAL INCOME TAX	$442	7	$881	6	$1,500	5
CORPORATE INCOME TAX	$60	21	$94	24	$$133	32
PROPERTY TAX	$651	7	$728	25	$998	30
GENERAL SALES TAX	$0	47*	$0	47*	$0	47*
SELECTIVE SALES TAX	$130	44			$292	45
OTHER TAXES	$153	--			$437	13

*tied with 3 other states.

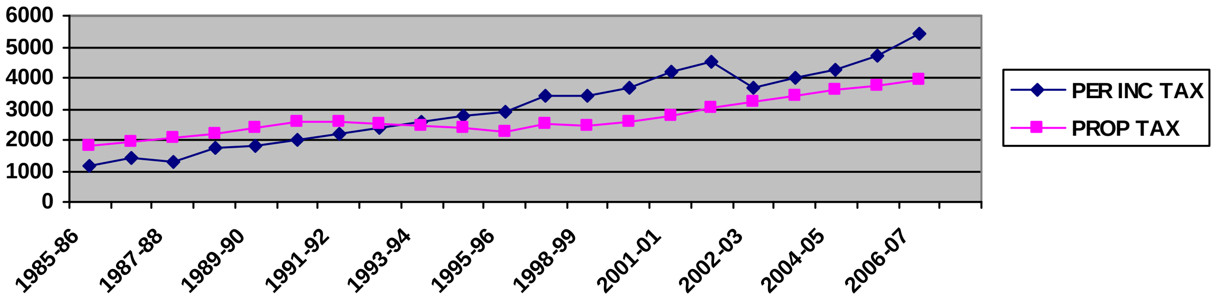
Table 1.8: OREGON'S STATE AND LOCAL TAX REVENUE AS A PERCENTAGE OF PERSONAL INCOME

	1985-86		1995-96		2005-06	
REVENUE CATEGORIES	REVENUE AS % OF PERSONAL INCOME	RANK	REVENUE AS % OF PERSONAL INCOME	RANK	REVENUE AS % OF PERSONAL INCOME	RANK
TAXES	10.6%	18	9.7%	47	10.1%	38
PERSONAL INCOME TAX	3.3%	6	4.0%	3	4.5%	2
CORPORATE INCOME TAX	0.4%	22	0.4%	28	0.4%	29
PROPERTY TAX	4.8%	4	3.3%	24	3.0%	27
GENERAL SALES TAX	0%	47*	0%	47*	0%	47*
SELECTIVE SALES TAXES	1.0%	43			0.9%	45
OTHER TAXES	1.1%	--			1.3%	12

*tied with 3 other states.

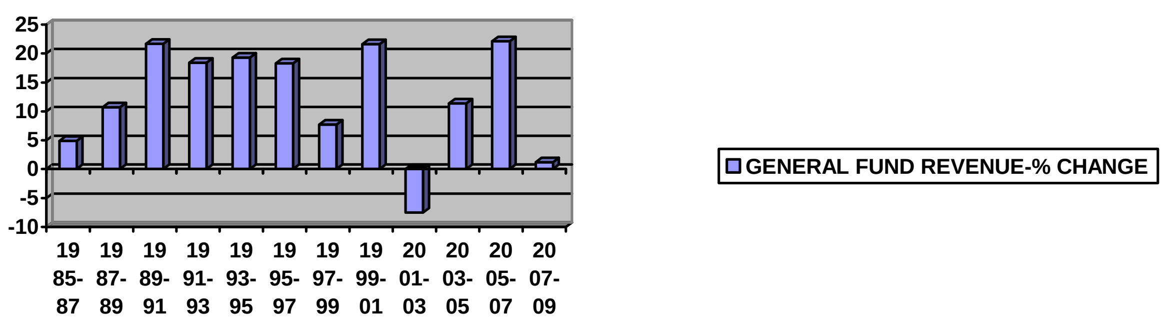
Chart 1.1 traces the shift in the relative roles of property taxes and personal income taxes in the state and local fiscal system over the past 20 years. The magnitude of the reduction in property taxes caused by the Measure 5 levy limits can be seen between 1990 and 1996, when collections fell by 12%. This was followed by steady constrained growth under Measure 50. Property tax revenue showed little acceleration during the 2002 through 2006 housing boom because of the Measure 50 value limits. The jump in personal income tax collections triggered by the strong state economy and stock market boom of the 1990s is also clearly evident. The sharp drop in personal income tax collections associated with the 2001-02 recession and stock market bust can also be seen in Chart 1.1. The shift in the relative importance of the major taxes has profoundly affected Oregon's revenue system because the personal income tax is a state revenue source while property taxes are a local revenue source (including school districts).

Chart 1.1—PERSONAL INCOME TAXES VS. PROPERTY TAXES (MILLIONS OF $)



To get a better understanding of how Oregon's changing revenue system has affected policy-makers in the state it is helpful to consider state specific information. Chart 1.2 displays the growth rates for the state's General Fund on a biennial basis over the past 2 decades. The General Fund is the primary discretionary revenue source for state government. Over 90% of General Fund revenue goes to the state's three primary service functions: education, human resources and public safety. General Fund revenue is dominated by the personal income tax. In the 2005-07 biennium, personal income tax collections accounted for 86.6% of General Fund revenue. This is why the state General Fund closely follows personal income tax collections. The 1990's were characterized by strong revenue growth as rising income pushed more taxpayer income into the highest (9%) tax bracket. However, the 2001-02 recession reduced General Fund revenue by 7.5% in the 2001-03 biennium. Even though this was the largest percentage decline in General Fund revenue since the 1933-35 biennium, the magnitude of the drop would have been even greater were it not for a $450 million bond sale to balance the budget. Revenue from the bond sale was counted as General Fund revenue. Excluding revenue from the bond sale, General Fund revenue dropped 11.3% in 2001-03 compared to the prior biennium.

Chart 1.2: GENERAL FUND REVENUE GROWTH



The 2001-02 recession clearly showed the downside of Oregon's post Measure 5 & 50 revenue system. The personal income tax dominated system generated significant revenue growth during the 1990s under favorable economic conditions but when the economy and stock market declined in 2001, revenue fell sharply. Policy-makers responded by establishing a constitutional reserve fund out of Lottery revenue but it was too late to avoid major reductions in the state's 2001-03 General Fund budget. The creation of the Education Stability Fund which receives 18% of Lottery and requires a 60% vote for withdrawal represents a significant improvement in the state's reserve position for the current recession.

Another factor contributing to the state's volatile revenue system is the 2% surplus kicker revenue limit. The revenue limit was first established in statute in 1979. In 2000, voters approved a legislative referral (Measure 86) placing the limit into the state constitution (Article IX, Section 14). The 2% surplus kicker gives taxpayers an income tax refund or credit if actual revenues for the biennium are more than 2% higher than forecast at the time the budget was adopted. If the 2% kicker is triggered, the entire amount of revenue above the forecast is returned to taxpayers. The kicker law requires separate calculations for corporate taxpayers and personal income taxpayers. For any given biennium, one or both of the triggers may be exceeded. Table 1.9 shows the history of kicker refunds and credits since 1979.

Table 1.9: IMPACT OF 2% SURPLUS KICKER ON GENERAL FUND REVENUE (MILLIONS OF $)

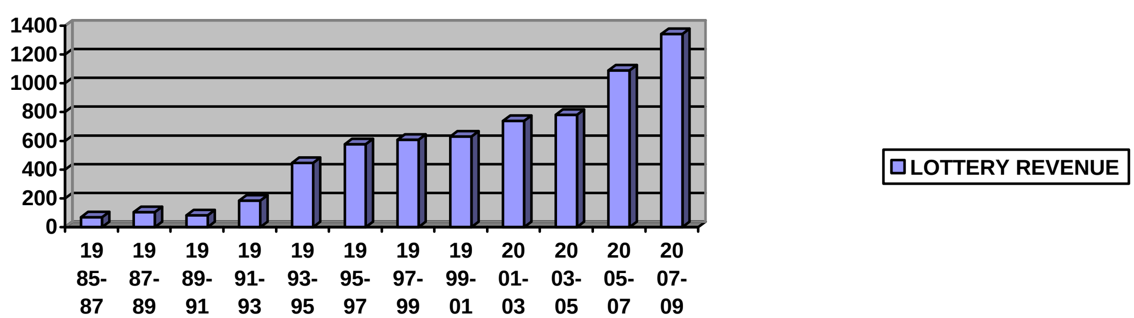
BIENNIUM	ACTUAL GENERAL FUND REVENUE	GENERAL FUND REVENUE IF KICKER REFUNDS/CREDITS RETAINED	DIFFERENCE PER BIENNIUM	% DIFFERENCE
1981-83	$2,890.7	$2,890.7	$0	0%
1983-85	3,274.3	3,274.3	0	0%
1985-87	3,433.4	3,535.4	102	3.0%
1987-89	3,801.7	4,029.7	228	6.0%
1989-91	4,628.1	4,839.1	211	4.6%
1991-93	5,477.4	5,477.4	0	0%
1993-95	6,536.1	6,536.1	0	0%
1995-97	7,731.6	8,061.6	330	4.3%
1997-99	8,324.6	8,959.6	635	7.6%
1999-2001	10,121.9	10,288.9	167	1.6%
2001-03	9,366	9,620	254	2.7%
2003-05	10,438.2	10,438.2	0	0%
2005-07	12,742.0	12,843.0	101	0.8%
2007-09*	12,897.5	13,981.7	1084	8.4%
AVERAGE			222	2.8%

*September 2008 forecast

On average the 2% surplus kicker has reduced General Fund revenue by $222 million per biennium or 2.8% since its inception. It served as an effective revenue limit in the 1990s, slowing the rate of General Fund revenue growth and limiting the size of budget increases during the period of strong economic growth. However, it has also acted to put additional downward pressure on revenue during recessions. In the fall of 2001, just as it became apparent that the state economy was mired in recession and revenue was falling below forecast, kicker surplus refunds of $254 million based on the projections from the previous biennium were returned to taxpayers. In the current biennium (2007-09) revenue has fallen below projections as the national economy appears headed for recession. Once again, due to the fact that the kicker refunds are based on actual revenue in the prior biennium compared to the forecast, surplus kicker refunds have put additional downward pressure on state revenue by requiring $1,084 million in personal income tax refunds. The Legislature did act (HB 2707) to suspend payment of $319 million in surplus kicker credits for corporations by canceling the credit on a one-time basis (as allowed under the constitution) and redirecting the revenue to a newly created statutory Rainy Day Fund. Those dollars can be accessed if General Fund revenue projections fall more than 2% below the close of regular session forecast or payroll employment declines two or more consecutive quarters and 60% of members in each chamber vote in favor. With employment falling sharply in September, the employment trigger appears to be met.

Although not technically part of the General Fund, a large portion of the Lottery Fund is included in the state's discretionary budget for planning purposes. Lottery revenue has expanded significantly as the state first added video poker and then more recently video line games. Chart 3.3 shows the revenue trend since 1985-86 when the Lottery was first approved by voters. The data clearly shows bumps in revenue growth associated with the introduction of video poker and line games. The revenue impact from line games has largely dissipated as the new game matures. This will slow Lottery revenue growth significantly. However, Lottery revenue has shown stability over the course of the business cycle as demonstrated by steady growth during the 2001-02 recession.

Chart 3.3: LOTTERY REVENUE (IN MILLIONS OF $)



A critical fiscal role of the state is funding K-12 education. The state's role expanded greatly with the passage of Measure 5 in 1990. Measure 5 shifted primary responsibility for funding school operating budgets from the property to the state General Fund. The State School Fund (including the School Improvement Fund of $260 million) makes up 44.7% of the 2007-09 General Fund budget. A history of school operating revenue is shown in Table 1.10. This rise in the state's share of funding from less than 30% in 1990 to nearly 70% over the past decade is the direct result of Measure 5 levy limits on property tax revenue for school districts. The historical data also shows the volatility of school funding during the 2001-02 recession. The large share of the budget that was allocated to K-12 education made it impossible for the Legislature to balance the overall budget without significant reductions in the State School Fund leading to sharp reductions in the 2002-03 and 2004-05 school years.

Table 1.10: K-12 OPERATING REVENUE (IN MILLIONS OF $)

FISCAL YEAR	K-12 & ESD OPERATING REVENUE TOTAL	% CH	STATE SCHOOL FUND TOTAL	%CH	STATE SUPPORT AS SHARE OF OPERATING REVENUE
1991-92	$2,379.2	--	$818.4	--	34.4%
1992-93	2,590.6	8.9%	1,100.3	34.4%	42.5%
1993-94	2,475.1	-4.5%	1,131.9	2.9%	45.7%
1994-95	2,605.4	5.3%	1,427.0	26.1%	54.8%
1995-96	2,651.5	1.8%	1,750.0	19.1%	66.0%
1996-97	2,715.5	2.4%	1,759.7	0.6%	64.8%
1997-98	2,918.6	7.5%	2,022.9	15.0%	69.3%
1998-99	2,989.2	2.4%	2,100.0	3.8%	70.3%
1999-00	3,210.5	7.4%	2,243.1	6.8%	69.9%
2000-01	3,333.8	3.8%	2,339.2	4.3%	70.2%
2001-02	3,469.1	4.1%	2,429.9	3.8%	70.0%
2002-03	3,258.6	-6.1%	2,146.9	-11.6%	65.9%
2003-04	3,723.3	14.3%	2,589.8	20.6%	69.6%
2004-05	3,527.9	-5.2%	2,326.3	-10.2%	65.9%
2005-06	3,851.7	9.2%	2,566.5	10.3%	66.6%
2006-07	4,092.8	6.3%	2,737.7	6.7%	66.9%
2007-08	4,337.1	6.0%	2,917.6	6.6%	67.3%

Oregon’s transportation system is funded separately with dedicated revenue sources. These sources are the fuel tax, the weight mile tax on heavy vehicles and registration and license fees for vehicles. The history of these revenue sources over the past 20 years can be seen in Table 1.11. These revenue sources tend to grow only when tax rates or fees are increased. A series of gas tax increases were implemented in the late 1980s and early 1990s followed by years of relatively flat revenue until 2003-04 when registration fee increases triggered revenue growth. Although vehicle miles traveled have increased with the state’s population, cars and trucks are becoming more fuel efficient thereby limiting revenue growth from fuel taxes. The weight-mile tax is more sensitive to vehicle miles traveled but the state constitution requires that the share of revenue coming from heavy vehicles must be consistent with the state’s most recent cost allocation study.

Table 1.11: TRANSPORTATION FUND REVENUE SOURCES (IN MILLIONS OF $)

FISCAL YEAR	FUEL TAX	WEIGHT-MILE TAX	REGISTRATION & LICENSE	TOTAL COLLECTIONS	TOTAL COLLECTIONS % CHANGE
1985-86	$132	$105.6	$55.1	$292.7	11.5%
1986-87	151.5	116.6	59	327.1	11.8%
1987-88	168.3	135	61.6	364.9	11.6%
1988-89	200.6	139.5	69.7	409.9	12.3%
1989-90	231.1	155.3	80.5	467	13.9%
1990-91	257.6	161.1	84.5	503.2	7.8%
1991-92	290.2	173.2	86.2	549.6	9.2%
1992-93	302.3	179.1	94.5	575.9	4.8%

1993-94	345.9	191.4	98.6	635.9	10.4%
1994-95	357.8	201.3	99.5	658.6	3.6%
1995-96	368.1	203.3	104.1	675.6	2.6%
1996-97	370.2	206.9	109.3	686.4	1.6%
1997-98	375.6	209.9	111.3	696.9	1.5%
1998-99	387.9	215.7	113.3	716.7	2.8%
1999-00	386.4	224.7	116.9	728.1	1.6%
2000-01	386.2	202.1	123.3	711.6	-2.3%
2001-02	388.8	187	123.2	699	-1.8%
2002-03	387	191.1	132.3	710.4	1.6%
2003-04	387.3	209.7	185.4	783.2	10.2%
2004-05	399.0	235.3	224.2	858.4	9.6%
2005-06	401.6	243.5	227.4	872.5	1.6%
2006-07	400.7	244.3	226.1	871.1	-0.2%

Funding of schools and transportation are two key areas where state and local government revenue systems overlap. But there are many other areas as well. Table 1.12 shows areas where the state and counties jointly provide services. The table is based on results of the 5520 project directed by the 2005 Legislature in a budget note that accompanied passage of SB 5520. The budget note directed the counties and the Legislative Fiscal Office to gather information about the eight shared services listed in the table. The results of the study highlight the interconnection between the state and local revenue system and the importance of considering the state-local revenue system as a whole.

Table 1.12: STATE AND COUNTY SHARED SERVICES

SERVICE—2003-05 BIENNIUM	COUNTY	STATE	OTHER REVENUE*
PROPERTY TAX ASSESSEMNT & COLLECTION	55%	34%	11%
COMMUNITY CORRECTIONS	20%	60%	20%
DISTRICT ATTORNEY	70%	7%	23%
ECONOMIC DEVELOPMENT	51%	12%	37%
JUVENILE SERVICES	68%	17%	15%
MENTAL HEALTH	11%	29%	60%
PUBLIC HEALTH	27%	11%	62%
VETERANS SERVICES	63%	10%	27%

*Other revenue includes federal grants & contracts and fees.

Examining Oregon’s revenue system over the past 20 years leads to a number of observations with important implications for the future:

- Passage of Measure 5 in 1990 moved Oregon from a relatively high property tax state to one near the median among the states.
- Measure 5 significantly reduced the tax burden in Oregon as a percentage of income and compared to other states.
- By limiting assessed value growth, Measure 50 stabilized property tax collections but slowed the long-term growth rate of property tax revenue.
- Limits on property tax revenue triggered a shift to non-tax revenue sources such as charges for services and miscellaneous revenue such as lottery.

- Measure 5 caused a shift in school operating budgets from local property taxes to state General Fund. Nearly 90% of state General Fund revenue comes from the personal income.
- The state’s income tax dominated revenue system generates significant revenue growth during periods of economic expansion but drops off sharply during recessions.
- The 2% surplus kicker has limited state spending growth during periods of rapid economic growth but is has also added to volatility during periods of fiscal stress.
- Earnings from Lottery have become a significant, relatively stable discretionary revenue source for the state.
- Transportation funding sources have shown little tendency to grow unless tax rates or fees are increased by the Legislature.
- The state and local revenue systems are intricately connected through the joint provision of funding for services.