Overview of Oregon’s revenue System

For the House Committee on Revenue
Legislative Revenue Office
January 2019
Discussion Outline

1. What are Oregon’s sources of revenue?
2. How has Oregon’s revenue system performed recently?
3. How Does Oregon’s revenue system compare to other states?
4. What is the status of the kicker and reserve accounts?
2019-21 Revenue for the Governor’s Budget
By Fund Source

All Funds ($86,774 Million)

- General Fund: $38,009, 44%
- Federal Funds: $22,544, 26%
- Lottery Funds: $1,239, 1%
- Other Funds: $24,982, 29%
2019-21 General Fund Revenue
By Fund Source

- **Personal Income Tax**: $19,058 (89%)
- **Corporate Income Tax**: $1,130 (5%)
- **Other Taxes**: $620 (3%)
- **Other Revenue**: $706 (3%)
## All Funds Revenue

<table>
<thead>
<tr>
<th>Source</th>
<th>Estimated 19-21 Revenue ($Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxes</td>
<td>$28,775</td>
</tr>
<tr>
<td>Federal Funds</td>
<td>24,982</td>
</tr>
<tr>
<td>Interest Earnings</td>
<td>10,742</td>
</tr>
<tr>
<td>Charges</td>
<td>5,336</td>
</tr>
<tr>
<td>Donations &amp; Contributions</td>
<td>4,619</td>
</tr>
<tr>
<td>Bond Sales</td>
<td>2,795</td>
</tr>
<tr>
<td>Licenses &amp; Fees</td>
<td>2,140</td>
</tr>
<tr>
<td>Lottery</td>
<td>1,432</td>
</tr>
<tr>
<td>Liquor &amp; Other Sales</td>
<td>1,075</td>
</tr>
<tr>
<td>Loan Repayments</td>
<td>659</td>
</tr>
<tr>
<td>Other</td>
<td>4,218</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>86,774</strong></td>
</tr>
</tbody>
</table>
Discretionary Revenue Sources (as of December forecast)

- GENERAL FUND
  - Personal Income Tax (89%)
  - Corporate Income Tax (5%)
  - Other (6%)

- LOTTERY (85% VIDEO, 15% TRADITIONAL)
  - Available for debt service and allocation (59%)
  - Education Stability Fund (18%)
  - Parks & Natural Resources Fund (15%)
  - Veterans’ Service Fund (1.5%)
  - Other dedications (6%)
History of Income and Property Taxes

Oregon Income and Property Taxes

- Personal Income Tax
- Property Tax
- Corporate Income Tax

MILLIONS OF DOLLARS

FISCAL YEAR

National Data for Income and Sales Taxes over Past Decade
(Percent Change by Fiscal Year for all states, Census Data)
Oregon’s Property and Income Tax Burdens (as a % of Personal Income)
General Fund Revenue Volatility
(Annual Percentage Change and trend)
State’s Responsibility for Schools

State Share of School Operating Revenue

Local Share of School Operating Revenue
Oregon Compared to Other States

2015-16 Census Data
### State and Local Revenue Sources
#### Per Capita Basis
(2015-16 Census Data)

<table>
<thead>
<tr>
<th>Revenue Source</th>
<th>Oregon</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Revenue</td>
<td>$11,717</td>
<td>12</td>
</tr>
<tr>
<td>General Revenue</td>
<td>$10,163</td>
<td>14</td>
</tr>
<tr>
<td>Federal</td>
<td>$2,700</td>
<td>9</td>
</tr>
<tr>
<td>Own Source</td>
<td>$7,463</td>
<td>18</td>
</tr>
<tr>
<td>Govt Enterprises</td>
<td>$535</td>
<td>15</td>
</tr>
<tr>
<td>Insurance Trust</td>
<td>$1,019</td>
<td>3</td>
</tr>
</tbody>
</table>
# State and Local Revenue Sources
(A history of change – General Revenue)

<table>
<thead>
<tr>
<th>Revenue Source</th>
<th>Oregon % of Total 1989-90</th>
<th>Oregon % of Total 2015-16</th>
<th>All States U.S. % of Total 2015-16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxes</td>
<td>54</td>
<td>45</td>
<td>53</td>
</tr>
<tr>
<td>Federal</td>
<td>20</td>
<td>27</td>
<td>23</td>
</tr>
<tr>
<td>Charges</td>
<td>13</td>
<td>20</td>
<td>17</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>13</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>
## State and Local Revenue Structure
### 2015-16 General Revenue

<table>
<thead>
<tr>
<th>Revenue Source</th>
<th>Oregon Revenue Per Capita</th>
<th>All States Revenue Per Capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxes</td>
<td>$4,577</td>
<td>$4,984</td>
</tr>
<tr>
<td>Federal</td>
<td>$2,700</td>
<td>$2,151</td>
</tr>
<tr>
<td>Charges</td>
<td>$2,043</td>
<td>$1,552</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>$843</td>
<td>$687</td>
</tr>
<tr>
<td>Total General Revenue</td>
<td>$10,163</td>
<td>$9,374</td>
</tr>
</tbody>
</table>
## Oregon’s State and Local Tax Structure
### 2015-16 Tax Collections

<table>
<thead>
<tr>
<th>Tax</th>
<th>Oregon Tax Per Capita</th>
<th>Oregon Tax as % of Income</th>
<th>All States Tax Per Capita</th>
<th>All States Tax as % of Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Income</td>
<td>$1,911</td>
<td>4.3%</td>
<td>$1,173</td>
<td>2.4%</td>
</tr>
<tr>
<td>General Sales</td>
<td>$0</td>
<td>0.0%</td>
<td>$1,175</td>
<td>2.4%</td>
</tr>
<tr>
<td>Property</td>
<td>$1,466</td>
<td>3.3%</td>
<td>$1,568</td>
<td>3.2%</td>
</tr>
<tr>
<td>Corporate Income</td>
<td>$172</td>
<td>0.4%</td>
<td>$169</td>
<td>0.3%</td>
</tr>
<tr>
<td>Selective Sales</td>
<td>$515</td>
<td>1.2%</td>
<td>$567</td>
<td>1.2%</td>
</tr>
<tr>
<td>Other</td>
<td>$513</td>
<td>1.2%</td>
<td>$333</td>
<td>0.7%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$4,577</strong></td>
<td><strong>10.3%</strong></td>
<td><strong>$4,984</strong></td>
<td><strong>10.3%</strong></td>
</tr>
</tbody>
</table>
State Taxes By Source
(Fiscal Year 2015-16)
The Kicker and Reserve Funds
Oregon’s 2% Kicker

- Based on all General Fund revenue except corporate—mostly personal income tax collections
- Calculation is based on two points in time
  - Close of regular session estimate
  - Actual revenue for the biennium
- If actual >2% above—all revenue above forecast returned to taxpayers as credit
- Can be modified by the Legislature with a 2/3 vote in each chamber
Kicker Mechanics

- Calculate Base (Close-of-Session estimates)
  - All non-corporate GF revenue (for personal kicker)
  - Corporate income tax revenue
- Compare actual revenue with base
- Check 2% trigger
  - If triggered, all revenue above forecast is returned less DOR administrative costs
- Calculate % return
  - Pre-credit liability (2007 change)
  - % of prior year liability (2007 corporate change)
- Return to taxpayers
  - Refund check or credit (depending on year) to personal income taxpayers
  - Credit on corporate returns
Kicker history

- Put in statute in 1979 as part of a fiscal package; approved by voters in 1980
  - First kicker was in 1985
- Put in constitution in 2000
- Personal kicker converted to a refund in 1995; back to a credit in 2011
- Personal kicker has been triggered 11 times (suspended once, 1991) in 19 biennia since 1979
- Personal kicker has triggered $3.7 billion revenue reduction between 1979 and 2017—an average of 2.3% of General Fund revenue for that period
- Current personal kicker is estimated at $724 million or 3.6% of 2017-19 General Fund appropriations
- Current corporate kicker is estimated at $230 million
- Corporate kicker has been triggered 10 times in 19 biennia since 1979
  - Twice suspended (1993 and 2007 – put into RDF)
  - Twice dedicated to K-12 spending (current law since 2014)
History of Kickers and the 2% threshold

Personal Kicker

Corporate Kicker
Education Stability Fund

- Created in 2002; Constitutional
- Revenue: 18% of lottery earnings
- Withdrawal is 3/5 vote in each chamber and:
  - Revenue forecast down 2% from COS
  - Payroll employment down 2 consecutive quarters
  - Governor declares emergency
- Uses: public education
- CAP: 5% of prior biennium revenue
Rainy Day Fund

- Created in 2007; statutory
- Revenue:
  - One-time corporate kicker credit
  - GF ending balance up to 1% of prior biennium appropriations
  - Portion of corporate income tax
- Withdrawal: Same as ESF except no Governor emergency declaration
- Withdrawals cannot exceed 2/3 of beginning balance for any biennium
- Uses: general purpose
- Cap: 7.5% of prior biennium appropriations
# State Reserve Position

($ Millions)

<table>
<thead>
<tr>
<th></th>
<th>Education Stability Fund</th>
<th>Rainy Day Fund</th>
<th>Total Reserves</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Source of funds</strong></td>
<td>Lottery</td>
<td>1% of GF Appropriations</td>
<td></td>
</tr>
<tr>
<td><strong>Use of funds</strong></td>
<td>Public education</td>
<td>General</td>
<td></td>
</tr>
<tr>
<td><strong>End of 15-17 Biennium</strong></td>
<td>$384</td>
<td>$376</td>
<td>$760</td>
</tr>
<tr>
<td><strong>Net Deposits</strong></td>
<td>$233</td>
<td>$220</td>
<td>$450</td>
</tr>
<tr>
<td><strong>End of 17-19 Biennium</strong></td>
<td>$617</td>
<td>$596</td>
<td>$1,213</td>
</tr>
<tr>
<td><strong>Cap</strong></td>
<td>$971</td>
<td>$1,456</td>
<td>$2,427</td>
</tr>
</tbody>
</table>
Based on Comparisons & History: Strengths & Weaknesses of Oregon’s Revenue System

**Strengths**

- Strong state revenue growth over time - personal income tax responsive to economic growth
- Use of non-tax revenue reduces general tax burden
- Personal income tax best at addressing equity concerns (ability-to-pay)
- Income tax system tied to federal structure reducing administrative costs
- Appropriate charges lead to efficient allocation (benefits received)
- Stability of local revenue

**Weaknesses**

- Reliance on income taxes makes revenue stream unstable
- High income tax rates and lack of diversity adds to economic distortions and instability
- Reliance on federal funds reduces policy control
- Excessive charges create competitive/equity concerns
- Low growth local revenue system
For More Information

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