COMMON SENSE INSTITUTE

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Oregon Government Budget Competitiveness Index

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About the Author

Dr. Steven Byers is a Chief Economist for the Common Sense Institute. Steven spent three years working for the Coalition for a Prosperous America, a nonprofit organization. Steven's experience as an economist spans twenty-three years, including work at federal regulatory agencies (SEC, CFTC, PCAOB) and quantitative economic analysis supporting international trade litigation cases brought before the U.S. International Trade Commission. His Ph.D. dissertation topic was based on a computable general equilibrium model (CGE) he developed to evaluate the economic impact of regional tax incentives in a small city (Fort Collins, CO).

About Common Sense Institute

Common Sense Institute is a non-partisan research organization dedicated to the protection and promotion of Oregon's economy. CSI is at the forefront of important discussions concerning the future of free enterprise and aims to have an impact on the issues that matter most to Oregonians. CSI's mission is to examine the fiscal impacts of policies, initiatives, and proposed laws so that Oregonians are educated and informed on issues impacting their lives. CSI employs rigorous research techniques and dynamic modeling to evaluate the potential impact of these measures on the economy and individual opportunity.

Common Sense Institute Teams & Fellows Statement

CSI is committed to independent, in-depth research that examines the impacts of policies, initiatives, and proposed laws so that Oregonians are educated and informed on issues impacting their lives. CSI's commitment to institutional independence is rooted in the individual independence of our researchers, economists, and fellows. At the core of CSI's mission is a belief in the power of the free enterprise system. Our work explores ideas that protect and promote jobs and the economy, and the CSI team and fellows take part in this pursuit with academic freedom. Our team's work is informed by data-driven research and evidence. The views and opinions of fellows do not reflect the institutional views of CSI. CSI operates independently of any political party and does not take positions.

Key Findings

- Oregon ranks middle of the pack at 23rd in the nation regarding its government budget competitiveness.
- Oregon's Budget Competitiveness Index dropped from 71 in 2011 to 70 in 2023 (on a scale of 100).
- From 2011 to 2021, government spending has increased 75.5%, GDP increased 59.5%, and population has increased 9.7%. Government spending is taking a larger share of state GDP and is outpacing population growth since 2011.
- Revenue from taxes outpaced the growth of nominal GDP of 59.5% from $170.6 billion in 2011 to $272.2 billion in 2021.
- Government Debt Service as a Percentage of Tax Revenue Competitiveness Index increased from 69 to 75 from 2011 to 2023 (on a scale of 100).
- State and Local Government Employment as a Percentage of Population Competitiveness Index decreased from 86 in 2011 to 82 in 2023.
- State and Local Government Spending as a Percentage of GDP Competitiveness Index decreased from 57 in 2011 to 54 in 2023.
- Oregon ranks 24th in the amount of public debt outstanding.
- Government revenue from taxes, fees and miscellaneous sources increased 85.4% from $23 billion in 2011 to $42.6 billion in 2021.
- Government debt increased 23.6% from $35.1 billion in 2011 to $43.4 billion in 2021, with local government debt accounting for most of the increase.
- Debt issued by the state has decreased relative to that issued by local governments and the state share is now 33.2% and local governments share is 66.8%.

CSI Free Enterprise Report and State Budget Competitiveness

CSI issues a Free Enterprise Report annually. The report assesses the state's competitiveness relative to 49 other states and the District of Columbia and provides data and analysis on eight policy areas: education, energy, healthcare, housing, infrastructure, public safety, budget, and taxes and fees. This report is intended to provide additional detail on the budget competitiveness not covered in the Free Enterprise Report.

The competitiveness indices should be interpreted as follows: an increase (decrease) in an index indicates increased (decreased) competitiveness relative to the other 49 states and the District of Columbia. Oregon's individual performance may improve, for instance government spending as a percentage of GDP may decrease, however, other states may have seen greater decreases. This would cause Oregon's competitiveness in government spending as a percentage of GDP to decline.

Government Budget Competitiveness Index

As James Madison explained in The Federalist, *"The powers delegated by the proposed Constitution to the federal government are few and defined…. [T]he powers reserved to the several States will extend to all the objects which, in the ordinary course of affairs, concern the lives, liberties, and properties of the people, and the internal order, improvement, and prosperity of the State."* These reserved powers have generally been referred to as "police powers," such as those required for public safety, health, and welfare.

For states to fulfill the reserved powers, they collect revenue from a variety of sources, including taxes, fees, and debt, and they develop budgets that allocate resources towards the fulfillment of the various police powers.

To gauge how well states are performing regarding sound budgeting and fiscal restraint, CSI produces a Government Budget Competitiveness Index for all 50 states and the District of Columbia consisting of three metrics:

1. The debt service as a percentage of tax revenue
2. Government employment as a percentage of the state's population
3. Government spending as a percentage of state GDP

This value is ranked again to produce an aggregate measure of state budget competitiveness as shown in **Figure 1**. Oregon's Budget Competitiveness Index was 71 in 2011 and then declined to 70 in 2023. An increase in either the comprehensive budget competitiveness metric or the three sub-metrics represents a positive qualitative change – i.e. the state is more competitive as the index approaches 100.

Figure 1 *– Oregon Government Budget Competitiveness Index*

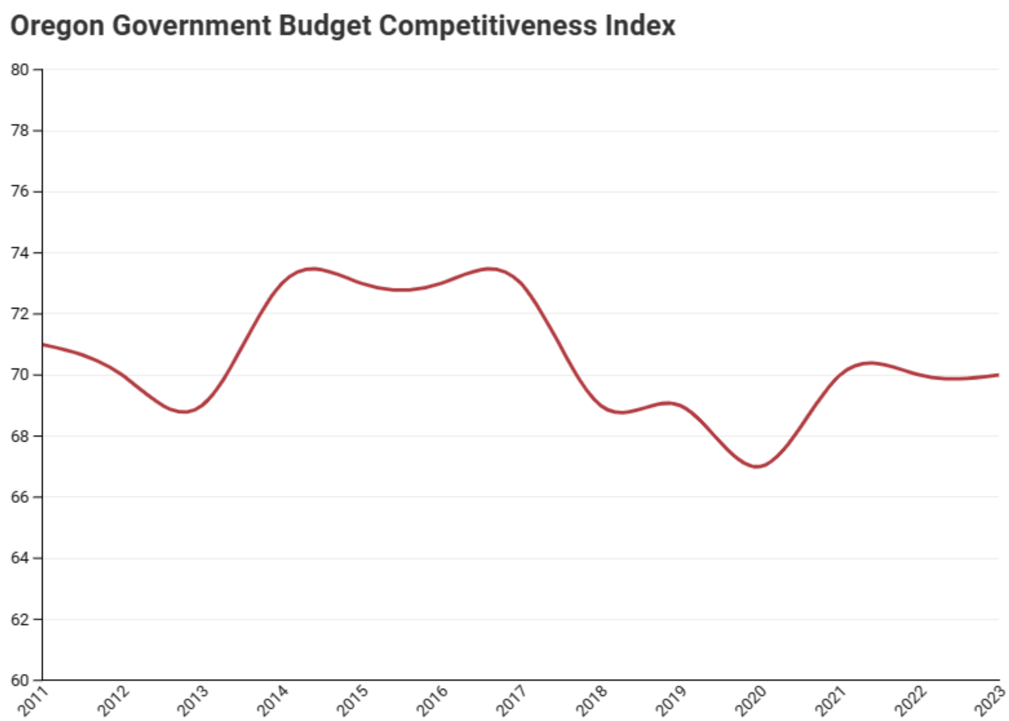


Figure 2 *– Oregon Government Budget Competitiveness Index Components*

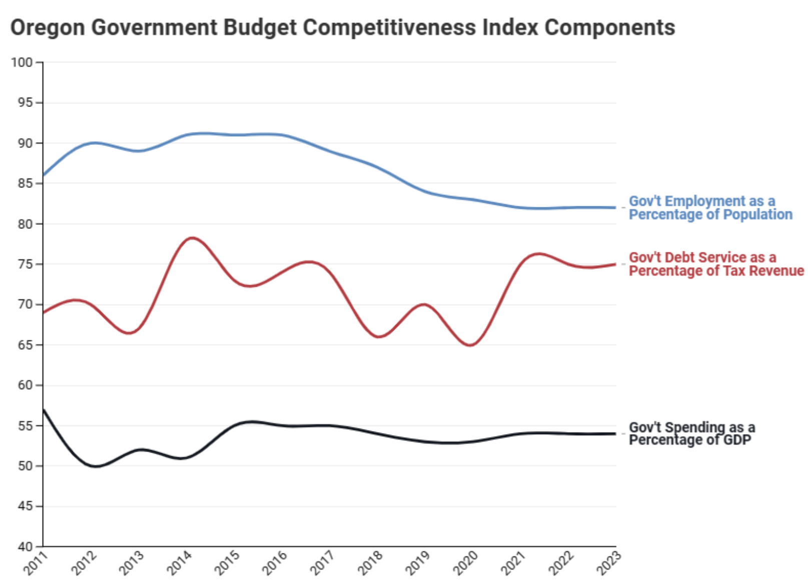


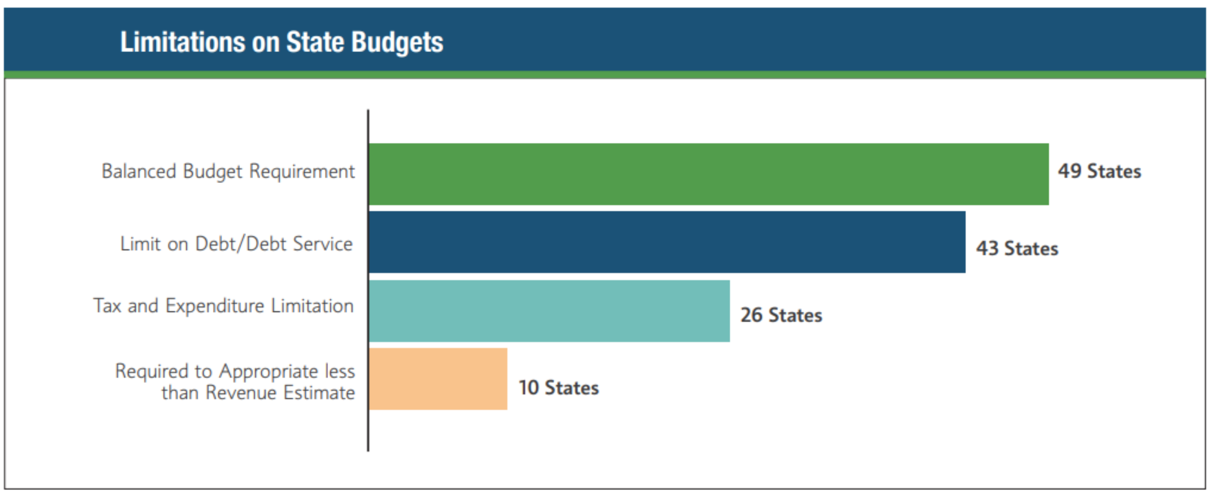
Figure 2 *shows the evolution of the three components that are included in the Government Budget Competitiveness Index. The Government Spending as a Percentage of GDP Competitiveness Index declined from 57 in 2011 to 54 in 2023. The Government Employment as a Percentage of Population Competitiveness Index was 86 in 2011 and fell to 82 in 2023. The Government Debt Service as a Percentage of Tax Revenue Competitiveness Index increased slightly from 69 in 2011 to 75 in 2023.*

State and Local Government Debt, Tax and Fee Revenue

States and Local Governments may have limitations on budgets. In 2021 the National Association of State Budget Officers (NASBO) published the figures on the number of states that have limitations on state budgets by type of limit. **Figure 3** shows the published figures in NASBO's 2021 report titled, Budget Processes in the States 2021.

Forty-nine states have balanced budget amendments, forty-three have limits on debt and debt service, twenty-six have limits on tax and expenditure, and ten have appropriation limits.

***Figure 3** - Limitations on State Budgets as of 2021 (Source: NASBO – Budget Processes in the States 2021)*



Oregon uses a biennial budget. The legislature must pass a balanced budget, but it can carry a deficit over into the following year. Oregon further limits both spending and revenue growth with a budget rule based on personal income growth. The rules are binding and require a legislative supermajority or vote of the people to override them. The state requires a three-fifths supermajority to pass bills that increase tax rates. The state does not have any limits on debt service or authorized debt.

Oregon also uses a unique budget rule known as the "the kicker". When the state's actual revenue collections are two percent or more above the official revenue forecast for the two year-budget cycle, the excess revenue is returned to Oregon taxpayers as a tax credit on resident's state income tax. The size of the rebate is a function of the filer's income tax paid. There are separate kickers for individual income tax revenue and corporate income tax revenue.

The following table shows Oregon state and local government revenue and debt. State government tax revenue increased 119.2% from $8.1 billion in 2011 to $17.8 billion in 2021. Over the same period, local government tax revenue rose 61.8% from $6.1 billion to $9.8 billion.

State Government revenue from fees (charges) and miscellaneous revenue rose 97.2% from $5.1 billion in 2011 to $10 billion in 2021. Local governments increased revenues from fees (charges) and miscellaneous revenue by 33.8% from $3.7 billion in 2011 to $5 billion in 2021.

Figure 4 *- Oregon State & Local Government Revenue, Debt, Spending, & GDP*

Oregon State & Local Government Revenue, Debt, Spending, and GDP												
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	% change 2011-2021
Revenue												
State Government Tax Revenue	$8.1B	$8.7B	$9.2B	$9.7B	$10.6B	$10.9B	$11.8B	$12.6B	$14.2B	$13.2B	$17.8B	119.2%
Local Government Tax Revenue	$6.1B	$6.1B	$6.2B	$6.6B	$7.0B	$7.4B	$7.8B	$8.2B	$8.9B	$9.4B	$9.8B	61.8%
State Government Revenue from Charges & Misc. Revenue	$5.1B	$6.2B	$6.7B	$6.9B	$7.6B	$8.0B	$8.4B	$8.9B	$9.7B	$9.7B	$10.0B	97.2%
Local Government Revenue from Charges & Misc. Revenue	$3.7B	$3.8B	$3.9B	$4.1B	$4.3B	$4.6B	$4.9B	$5.1B	$5.6B	$5.5B	$5.0B	33.8%
State Government Revenue from Taxes and Charges & Misc. Revenue	$13.2B	$14.9B	$15.8B	$16.6B	$18.1B	$18.8B	$20.2B	$21.6B	$23.9B	$22.9B	$27.8B	110.8%

Local Government Revenue from Taxes and Charges & Misc. Revenue	$9.8B	$9.9B	$10.1B	$10.7B	$11.3B	$12.0B	$12.6B	$13.3B	$14.4B	$14.8B	$14.8B	51.2%
Total State and Local Revenue from Taxes and Charges & Misc. Revenue	$23.0B	$24.9B	$26.0B	$27.3B	$29.4B	$30.8B	$32.8B	$34.9B	$38.3B	$37.7B	$42.6B	85.4%
State Government Share Revenue from Taxes and Charges & Misc.	57.4%	60.1%	61.0%	60.8%	61.7%	61.1%	61.5%	61.9%	62.4%	60.7%	65.3%	
Local Government Share Revenue from Taxes and Charges & Misc.	42.6%	39.9%	39.0%	39.2%	38.3%	38.9%	38.5%	38.1%	37.6%	39.3%	34.7%	
Debt												
State Government Debt Outstanding	$14.3B	$13.8B	$13.6B	$14.6B	$13.1B	$13.4B	$13.8B	$14.3B	$14.8B	$14.6B	$14.4B	0.8%
Local Government Debt Outstanding	$20.8B	$20.7B	$21.3B	$21.2B	$22.0B	$21.3B	$23.1B	$24.9B	$25.8B	$27.3B	$29.0B	39.3%
State & Local Government Debt Outstanding	$35.1B	$34.6B	$34.9B	$35.7B	$35.1B	$34.7B	$37.0B	$39.1B	$40.7B	$41.9B	$43.4B	23.6%
State Government	40.8%	40.0%	39.0%	40.8%	37.2%	38.5%	37.4%	36.5%	36.5%	34.9%	33.2%	

Share of Debt Outstanding												
Local Government Share of Debt Outstanding	59.2%	60.0%	61.0%	59.2%	62.8%	61.5%	62.6%	63.5%	63.5%	65.1%	66.8%	
GDP												
GDP	$171B	$175B	$180B	$188B	$201B	$211B	$223B	$237B	$247B	$248B	$272B	59.5%
Spending												
State & Local Government Direct Expenditures	$39.9B	$44.0B	$43.8B	$47.1B	$49.1B	$51.9B	$53.0B	$56.2B	$60.0B	$65.7B	$70.0B	75.5%

Total state and local government revenue from taxes, fees, and miscellaneous revenue rose 85.4% from $23.0 billion in 2011 to $42.6 billion in 2021. Governments are taking a larger share of GDP as revenue from taxes, fees, and miscellaneous revenue increased 85.4%, outpacing the growth of nominal GDP of 59.5% which increased from $170.6 billion in 2011 to $272.2 billion in 2021.

Public debt issued from state and local governments increased 23.6% from $35.1 billion in 2021 to $43.4 billion in 2021. The share of public debt between state government and local governments has changed from 40.8% state share and 59.2% local share in 2011 to 33.2% state share and 66.8% local share.

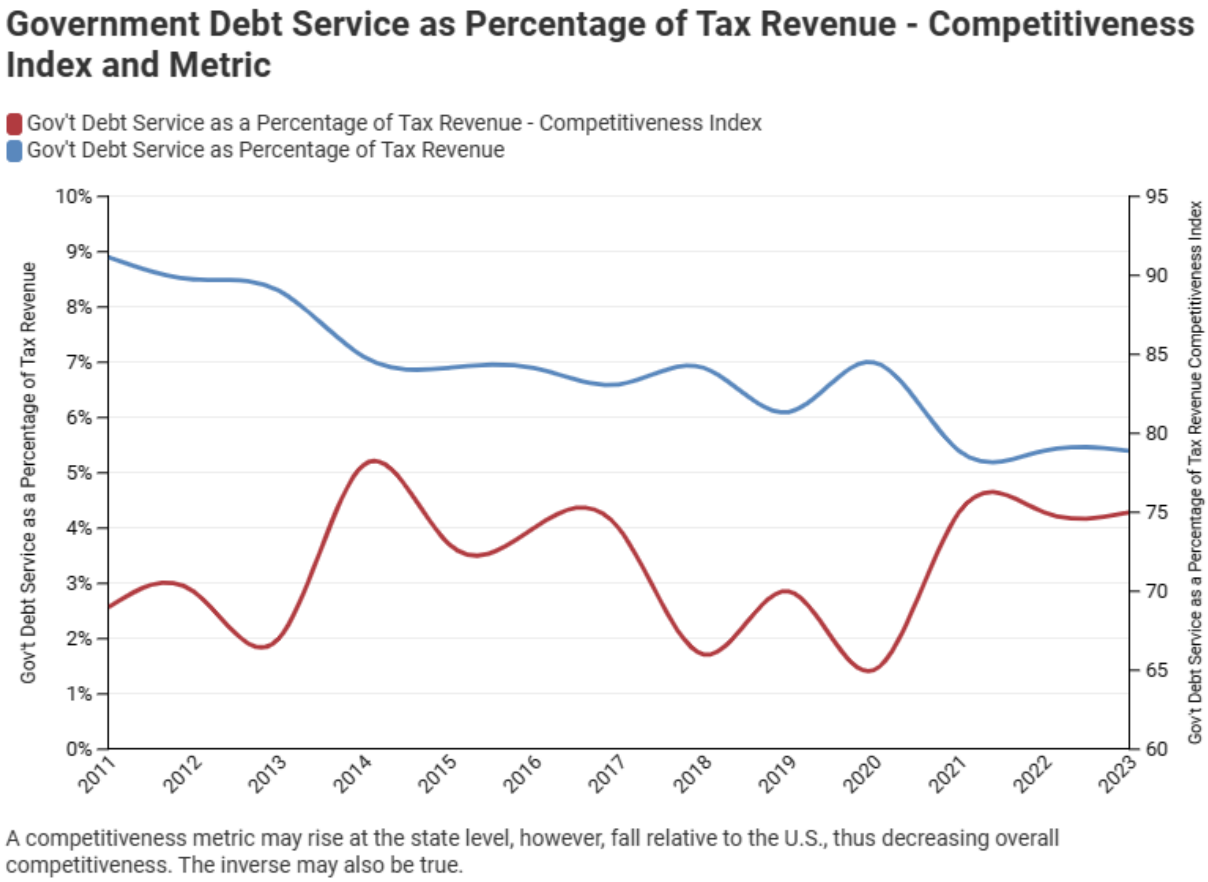
Oregon ranks 24th in the amount of public debt outstanding in 2021 among all fifty states and the District of Columbia. By comparison, California ranks 1st with $541.2 billion and Wyoming ranks 51st with $2 billion.

Government Debt Service as a Percentage of Tax Revenue

The competitiveness index for debt service as a percent of tax revenue has increased from 69 in 2011 to 75 in 2023. Debt service as a percentage of tax revenue has decreased from 8.9% in

2011 to 5.4% in 2021. This decline is primarily due to a 23.6% increase in government debt while revenues have increased 97.2%.

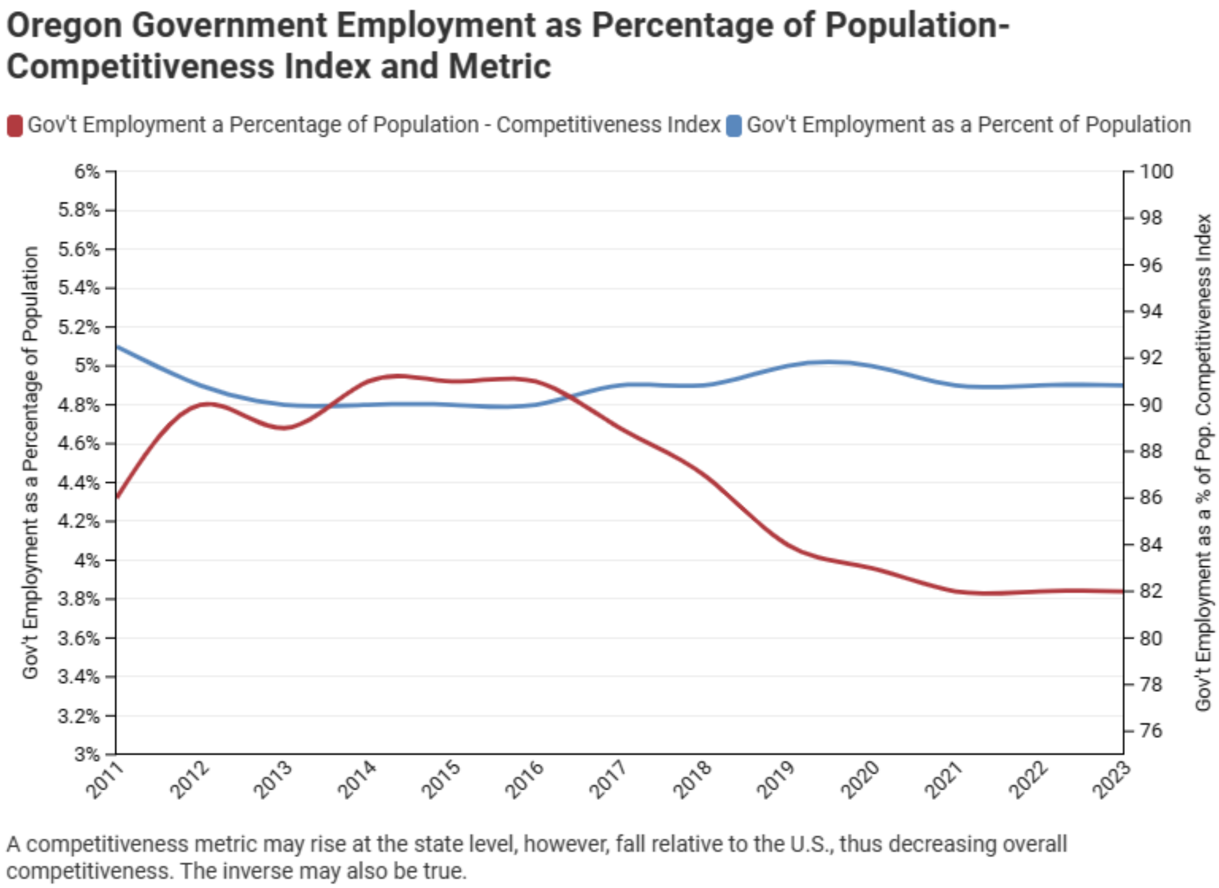
***Figure 4** – Government Debt Service as a Percentage of Tax Revenue – Competitiveness Index and Metric*



Government Employment as a Percentage of Population

CSI chose the percentage of state and local government employment as a percentage of the population as a measure of government encroachment in the labor market. **Figure 5** shows the competitiveness index and state & local government employment as a percentage of the population. The competitiveness index has declined from 86 in 2011 to 82 in 2023. Government employment as percentage of population decreased from 5.1% in 2011 to 4.9% in 2023. The competitiveness index declined because a few other states had larger declines in government employment as a percentage of the population.

Figure 5 – Oregon Government Employment as a Percentage of the Population – Competitiveness Index and Metric

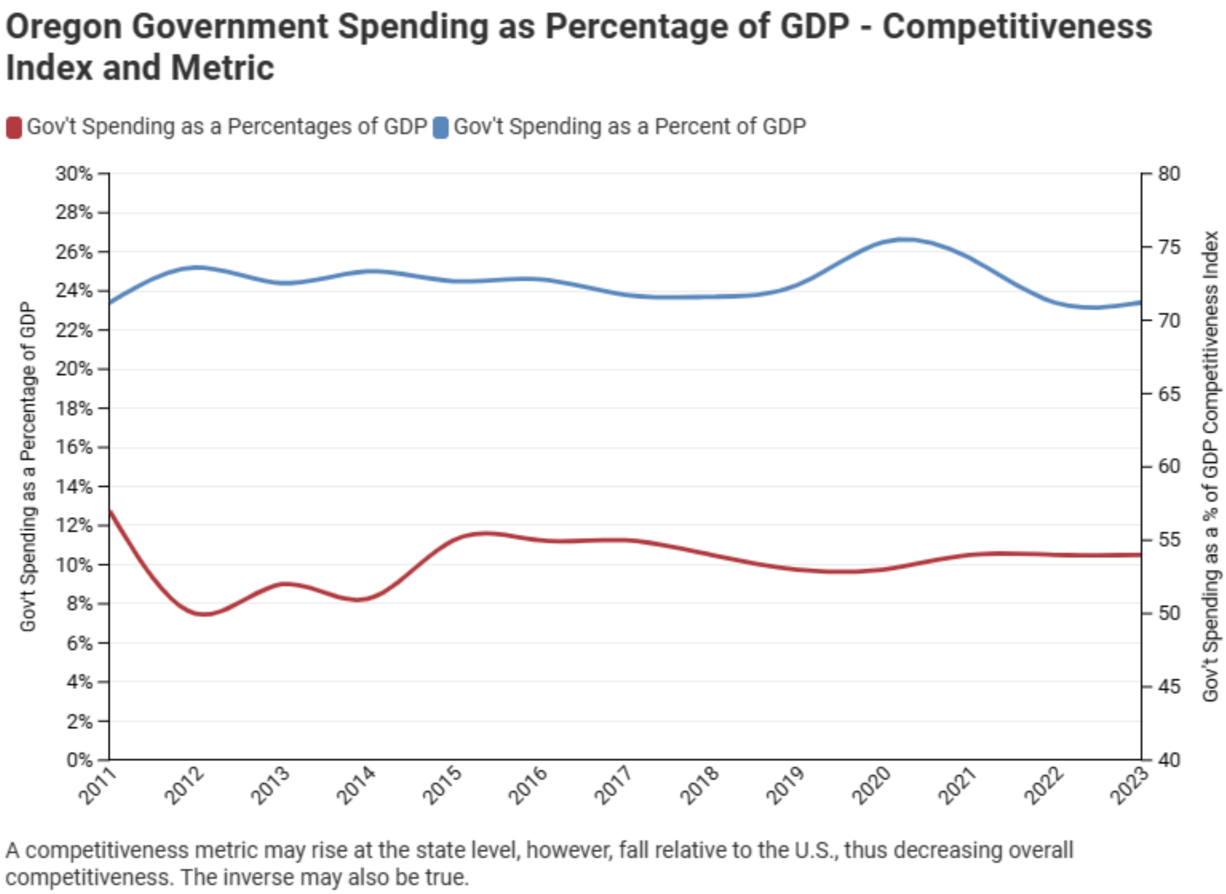


Government Spending as a Percentage of GDP

The Government Spending as a Percentage of GDP Competitive Index rose from 57 in 2011 to 54 in 2023. Government spending as percentage of GDP increased from 23.4% in 2011 to 25.7% in 2023. Government spending increased 75.5% from $39.9 billion in 2011 to $70 billion in 2023 which is less than the 59.5% change in GDP over the same period. The primary driver of the decrease in the competitiveness index was due to changes in other states as opposed to what occurred in Oregon.

Oregon ranks 9th in the percentage change in GDP from 2011 through 2023. By comparison, Utah ranks 1st in GDP growth with 79.5% and Alaska ranks 51st with the lowest increase in GDP at 0.8%.

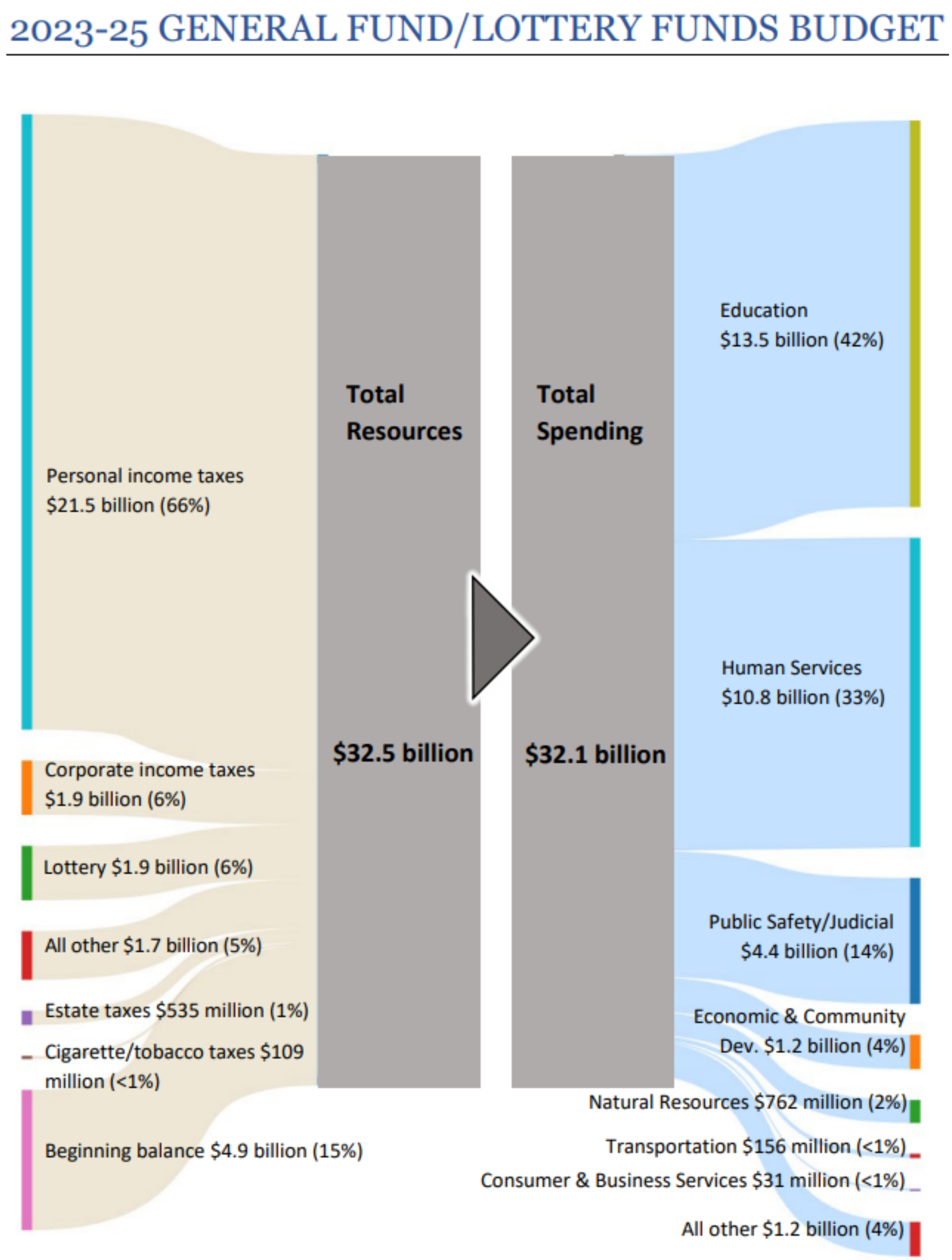
__Figure 6__ - Oregon Government Spending as Percentage of GDP - Competitiveness Index and Metric



The total general fund plus lottery funds is $32.1 billion. **Figure 7** shows the largest categories of appropriations for the 2023-2025 biennial state government general fund/lottery fund. Education's share is the largest at 42%, followed by health and human services with 33%, and the judicial branch at 14%.

By comparison, the total general fund in 2010-2011 biennial budget was 14.6 billion, education's share was 50.6%, health and human services accounted for 26.1%, and the judicial branch garnered 17.1%.

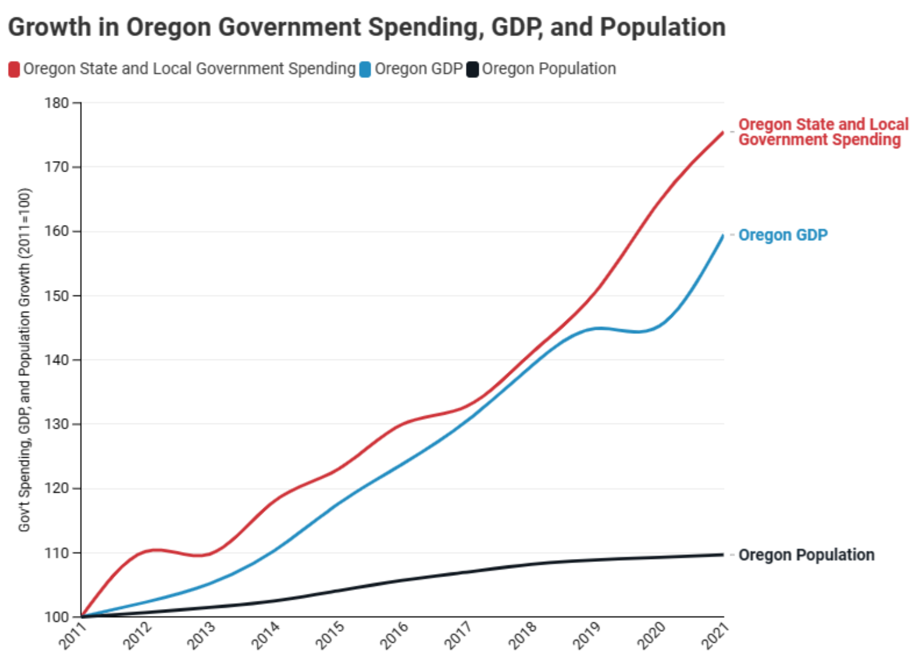
Figure 7 – Oregon State Government Budget General Fund/Lottery Funds 2023-2025 (Source: Oregon.Gov)



Going Forward

Figure 8 shows the indexed growth (2011=100) in government spending, GDP, and population. From 2011 to 2021, government spending has increased 75.5%, GDP increased 59.5%, and population has increased 9.7%. Government spending is taking a larger share of state GDP and is outpacing population growth since 2011 and state and local governments are continually adding new spending on a variety of programs with negligible impact on the targeted population in many cases (affordable housing, homelessness, and substance abuse for example).

Figure 8 – Oregon Growth in Government Spending, GDP, and Population



Failure to manage public sector spending and debt issuance in a fiscally responsible manner will erode Oregon's competitiveness relative to other states. Other states that have failed to be fiscally responsible have experienced massive out-migration, reducing the tax base putting further pressure on state and local government budgets.