

Oregon

At a Glance

	Change in revenue	Size of budget gap	Change in unemployment rate	Foreclosure rate	Needs supermajority?	GPP "Money" grade	Score
Oregon	-19.0%	14.5%	6.4	.86%	Yes	C+	26
California	-16.2%	49.3%	4.6	2.02%	Yes	D+	30
United States	-11.7%	17.7%	4.4	1.37%	17 yes, 33 no	B- ⁵	17

SOURCE: Pew Center on the States 2009, reflecting best available and most current data as of July 31, 2009.

Mountainous and largely rural, Oregon has fewer people than Los Angeles, and its politics, economy and state finances are easily overlooked amid the fiscal turmoil and legislative gridlock of its sprawling southern neighbor, California. Oregon Democrats hold the governor's mansion and supermajorities in both legislative chambers, dimming the chances of partisan stalemates like those experienced in Sacramento. The Portland metro region has a highly educated workforce that has long presented an attractive pool of recruits for potential employers, particularly the high-tech firms that have settled in the city's suburbs and spawned the area's nickname, the "Silicon Forest"—a Pacific Northwest counterpoint to the Golden State's Silicon Valley.

But the national recession, which has ensnared nearly every state from Alaska to Florida and is likely to upend state budgets through at least 2011, in many ways has hit Oregon as hard as California. The downturn has caused severe distress to some of Oregon's leading industries and exposed the state's overreliance on volatile corporate and personal income taxes—the result of voters rejecting a statewide sales tax nine times. The recession has drawn attention to Oregon's unique, voter-imposed revenue cap, which forces the state to give taxpayer rebates when times are good but, critics say, leaves it dangerously unprepared when times are bad.

And it prompted lawmakers to respond with \$2 billion in spending cuts, aggressive use of federal stimulus dollars and more than \$1 billion in new taxes, including \$733 million in proposed income tax hikes that will be challenged at the polls in January 2010.¹⁷⁵

Between the second quarter of 2008 and the second quarter of 2009, Oregon's unemployment rate more than doubled, outpacing California's job loss increases and surging faster than that of any other state.¹⁷⁶ Of the state's total job losses in 2008, about 70 percent happened in the year's final three months, just before shell-shocked lawmakers returned to work.¹⁷⁷

A year later, the statistics are still eye-opening. Nine of the state's 36 counties reported unemployment above 15 percent in August 2009; unemployment in two counties approached 19 percent.¹⁷⁸ The state's overall jobless rate as of August, 12.2 percent, was tied for worst in state history and tied for fourth-worst in the nation, though it dipped to 11.5 percent in September.¹⁷⁹ More Oregonians than ever are receiving food stamps as demand for social services goes up.¹⁸⁰

But perhaps no number tells the story of Oregon's bleak fiscal house like the 19 percent drop in revenue the state reported between the first quarter of 2008 and the first quarter of

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2009.¹⁸¹ The decrease is a reflection of Oregon's heavy reliance on income taxes at a time when incomes dropped and employers shed jobs by the tens of thousands. Only three states, Alaska, Georgia and Virginia, saw sharper revenue declines during the same period.¹⁸²

To understand Oregon's soaring unemployment rate and its corresponding decline in tax revenue, look no further than the goods the state produces—many of which are going unsold.

The sudden plunge in cash forced Governor Ted Kulongoski (D), who had presented his draft budget to the legislature just a month earlier, to acknowledge during his state of the state speech to lawmakers in January that "the facts have changed. The general fund has changed. And our hope for an early economic recovery has changed."¹⁸³

A Timber and High-tech Tumble

To understand Oregon's soaring unemployment rate and its corresponding decline in tax revenue, look no further than the goods the state produces—many of which are going unsold. Oregon's once-mighty wood products industry, whose workforce has been shrinking due to automation and technology advances, is projected to lose a jarring 21 percent of its jobs in 2009.¹⁸⁴ Driving the collapse is the nation's housing bust: When new homes are not being built, timber sales slump.

That reality is borne out in the high unemployment rates not only in Oregon's

biggest timber-producing counties, but also in recreational hotspots such as central Oregon's Bend, where Californians and others have moved over the years for easy access to the snow-capped, 10,000-foot peaks nearby. As Bend's real-estate boom reversed, its unemployment rate climbed to 15.8 percent, the highest of any of Oregon's urban areas.¹⁸⁵

Silicon Forest and other drivers of the state's high-tech economy also have not been spared, suffering from the economic downturn in Pacific Rim countries, which buy many of Oregon's high-tech products. Hynix Semiconductor, the world's second-largest computer memory-chip maker, last year closed its production facility in Eugene, eliminating 1,400 well-paying jobs.¹⁸⁶ Computer chip-maker Intel, the state's largest private employer, is planning to lay off 1,000 workers in the Portland suburbs, and Nike, another of Oregon's prominent corporate faces, has shed 500 jobs at its headquarters outside Portland.¹⁸⁷

Months after the Hynix plant's closure, the now-bankrupt recreational vehicle manufacturer Monaco Coach Corp. laid off about 2,000 employees in Coburg, Oregon, 10 miles north of Eugene.¹⁸⁸ The state's substantial transportation equipment industry—which includes RV manufacturing—is projected to do even worse than the timber industry this year, losing 22 percent of its jobs, as consumers refrain from buying big-ticket items like RVs.¹⁸⁹

Even as jobs are disappearing, Oregon's economic situation has been complicated by the fact that, until recently, its workforce had grown sharply, unlike those in many other states.¹⁹⁰ That means more competition for fewer jobs (Exhibit 8).

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Some policy makers, including the governor, believe that one sector of Oregon's economy, clean energy, offers hope. Oregon had a bigger share of its jobs in clean energy than any other state as of 2007, according to a Pew report.¹⁹¹ Kulongoski has worked hard to build a green legacy—insisting on generous tax credits for renewable-energy firms even as other Democrats sought to reduce them, for example, and publicly test-driving electric cars in an effort to lure their manufacturers to Oregon.¹⁹² In a May 2008 campaign visit, then-candidate Barack Obama visited a Bend solar energy firm and hailed it as a “workshop of the future.”¹⁹³ But some experts question whether the sector can lead Oregon out of its economic doldrums. “There are worries that we're getting in a little late, especially with all the investment that China is doing,” said Jessica Nelson, an economist with the Oregon Employment Department.¹⁹⁴

State Stimulus, Taxes Plug Holes

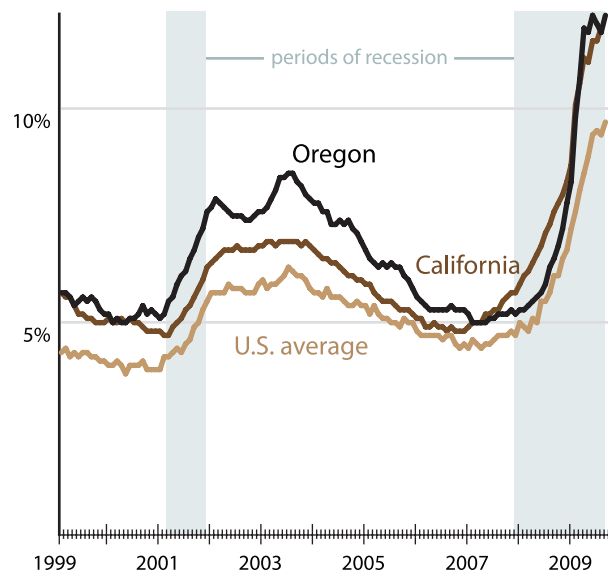
Confronted with a staggering loss of jobs and tax revenue that accompanied the state's economic nosedive, Oregon Democrats seized upon the supermajorities they won in last year's legislative elections. On February 5, less than a month after the session began and about two weeks before President Obama signed the federal stimulus package into law, Kulongoski signed Oregon's own, state-level stimulus initiative, a \$175 million borrowing plan that promised to create jobs while making improvements to the state's roads and schools. At the same time, lawmakers made about \$2 billion in cuts, including reductions to K-12 schools—which, in Oregon, rely on the state for about two-thirds of their operating budgets.¹⁹⁵ The education cuts have forced some districts

to shift to four-day weeks. “This is my thirty-fourth year in education, and I've never seen a situation quite this bleak,” said Randy Gravon, superintendent of southwestern Oregon's Central Point School District, which will close every Monday this school year.¹⁹⁶

But the more than \$1 billion in tax increases that Democrats pushed through to balance the budget and pay for major new initiatives in transportation and health care have proven most controversial. To help fund a massive road-improvement plan they said would create thousands of jobs, lawmakers raised the gas tax from 24 to 30 cents per gallon and hiked the cost of vehicle registration from \$54 to \$86. To expand health care for up to 115,000 uninsured children, they created a new 1 percent tax on health insurance premiums and raised hospital taxes.

Exhibit 8. Unemployment in Oregon surpasses California, nation

Oregon tends to have higher unemployment rates than the U.S. average, but the recent recession has further increased this divide.



SOURCE: Pew Center on the States 2009, based on data from the U.S. Department of Labor's Bureau of Labor Statistics.

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The vast majority of new tax revenue, \$733 million, came in the form of new personal and corporate income tax rates that have drawn national attention and will go before the voters in a crucial special election in 2010. Like California, Oregon allows its citizens to make important decisions about state spending and revenue through referenda that are placed on the ballot by lawmakers or through initiatives that qualify with enough citizen signatures. But the electorate, which has repeatedly rejected higher taxes, could leave the legislature with a new hole, \$733 million deep, in its two-

year budget when it reconvenes in February 2010. "I've lived here 25 years now, and I have yet to see a statewide referendum pass that increases taxes or allows increased taxes," said Fred Thompson, a professor of management at Willamette University in Salem, Oregon.¹⁹⁷

Strategies Debated

Oregon's economic woes and the steps the 2009 legislature took to address them have sparked a deeper debate about the state's fiscal and economic policies—and what legislators could

SCORECARD INDICATOR: CHANGE IN REVENUE

Tax revenue is the lifeblood of state government. When a recession dries up that revenue, legislators often must resort to emergency measures to keep government running.

Lawmakers in most states this year combined federal stimulus money with deep spending cuts to counter sharp revenue declines. State tax collections for the first quarter of 2009 were the worst on record, down 11.7 percent from last year.¹⁹⁸ More than half the states also raised taxes to balance their budgets. Every state but Vermont is required by law to have a balanced budget. In many states—including California, Hawaii, Massachusetts, Nevada, New Jersey, New York, North Carolina, Oregon and Wisconsin—those tax hikes included increases in "broad-based" income or sales taxes that provide the bulk of states' revenue and can be politically risky to pursue.

Oregon has an extremely volatile tax structure—a major factor in its current fiscal crisis.¹⁹⁹ With no statewide sales tax and a strict, voter-imposed cap on local property taxes, the Beaver State leans heavily on corporate and personal income tax revenues instead. But those revenues are closely tied to shifts in the economy. When Oregon's coffers took a 19 percent hit from 2008 levels earlier this year, lawmakers raised corporate and personal income tax rates. Oregon's top personal income tax rate, 11 percent, now is tied with Hawaii for highest in the nation.

Oregon voters have rejected a statewide sales tax nine times. Four other states—Alaska, Delaware, Montana and New Hampshire—collect no statewide sales tax. Seven states—Alaska, Florida, Nevada, South Dakota, Texas, Washington and Wyoming—do not have an individual income tax. The two states that have neither sales nor individual income taxes—Alaska and New Hampshire—rely heavily on other taxes, primarily on natural resources in Alaska and on property and corporate income in New Hampshire.

and should have done differently. Democrats defend this year's tax hikes as a long-overdue rebalancing of the tax code and necessary to avoid unthinkable cuts to core state obligations such as public safety and education. Republicans say Democrats abused their newfound supermajorities and are placing too much of a tax burden on the small businesses that will be at the heart of any economic recovery in Oregon.

Oregon's minimum wage is another line of demarcation. The \$8.40 hourly rate is the second-highest in the nation, and while liberals see it as helpful to the poor, fiscal conservatives claim that it hurts businesses and even some low-wage workers who might not get jobs because of it.²⁰⁰

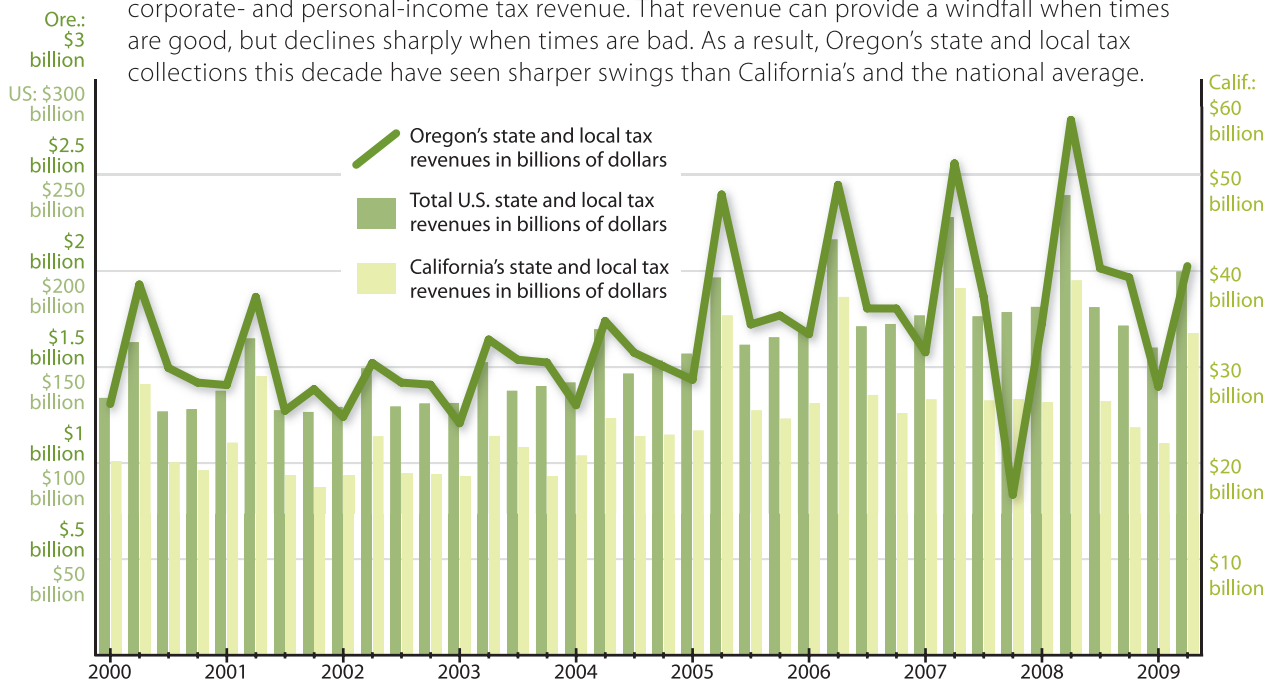
The state-level stimulus has provided its own controversy, similar to the national debate over

the federal stimulus. The Oregon Legislative Fiscal Office credits the program with having "created or retained a total of 3,236 jobs" in its first three months.²⁰¹ But an Associated Press investigation questioned the way the state counted those jobs and found that each job lasted a total of 35 hours, or less than a week of full-time employment.²⁰²

Partisan charges aside, the system that allows voters the final say on state spending and revenue is a larger reality in Oregon's fiscal structure with which Democrats and Republicans alike must contend. The results of such votes often run counter to what state legislators want. While lawmakers from both parties are quick to note the volatility of Oregon's heavy reliance on the income tax (Exhibit 9), Oregon voters have repeatedly rejected a statewide sales tax. The state's K-12

Exhibit 9. Oregon tax revenues more volatile than in United States, California

With no statewide sales tax and a limit on local property tax hikes, Oregon relies heavily on corporate- and personal-income tax revenue. That revenue can provide a windfall when times are good, but declines sharply when times are bad. As a result, Oregon's state and local tax collections this decade have seen sharper swings than California's and the national average.



SOURCE: Pew Center on the States 2009, based on data from the U.S. Census Bureau's "Quarterly Summary of State and Local Government Tax Revenue."

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schools are funded primarily through direct state allocations—not from local property taxes, as in many other states—because voters agreed to that change in 1990.

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—FRED THOMPSON, PROFESSOR OF MANAGEMENT,
WILLAMETTE UNIVERSITY

Perhaps most important, many lawmakers now are pushing back against Oregon’s one-of-a-kind “kicker” law, which voters placed in the state constitution in 2000 and requires the state to provide rebates to taxpayers whenever state revenue exceeds projected revenue by 2 percent or more. State Senator Ginny Burdick (D), chair of the Senate Revenue Committee, and other key players in Oregon’s budget process said they plan to try to change the law in 2010 to allow the state to build its rainy day fund for the next recession.²⁰³ Because the kicker is part of the Oregon constitution, however, any changes would have to be approved by the voters.