

What's Truth Got to Do With It? The State Budget

by Steve Novick, Citizens for Oregon's Future

If you pay some attention to what's going on in the Oregon Legislature, you know that Democrats insist on spending money like there's no tomorrow on a whole variety of wasteful government programs and as a result government is growing out of control. Or you might know that Republicans hate children, seniors and poor people without health insurance and as a result services are suffering drastic cutbacks.

Our mission at Citizens for Oregon's Future is to provide facts to help citizens cut through the rhetoric and familiarize themselves with the real policy choices facing legislators and voters when it comes to tax and budget issues. We generally don't advocate for or against any policy position. Our job is to tell people how the tax system works and what government actually does—how your tax dollars are spent.

At the invitation of *Oregon's Future* (by the way there is no institutional connection between them and us), we will spend most of our space here talking about the “what government does” part.

Oregon state government mostly does a few big things.

Perhaps the single most important thing to know about Oregon state government is that it really doesn't divide up the money among a whole lot of very different programs. Over ninety percent of the “General Fund” money—the money that the Legislature really has control over—goes to education (public schools, universities, community colleges), healthcare, care for seniors and people with disabilities, public safety (prisons, courts, state police, and assistance to local governments for post-release supervision), and services for children, especially child protection.

Let's say that again. Over ninety-five percent of state government's

General Fund goes to education, public safety, healthcare, care for seniors and the disabled, and children's services.

What does that mean, in practice? It means that “state government” mostly consists of:

1. Sending checks (well, probably not literally checks; wire transfers or something) to hundreds of elementary, middle, and high schools with over 500,000 students. That is actually the biggest part of state government—over 40 percent of it.
2. Running prisons that hold about 12,000 inmates.
3. State police patrolling roads, etc.
4. Paying health insurers to provide healthcare coverage to over 300,000 low-income Oregonians—many of them children and seniors.
5. Paying nursing homes, assisted living facilities, and in-home caregivers to provide care to over 60,000 Oregon seniors.
6. Paying foster parents (or other foster care providers) to care for about 6,000 children.
7. Paying state employees in the Department of Human Services to investigate child abuse complaints, process applications for health-care coverage, food stamps and “Temporary Assistance to Needy Families” (traditional welfare), oversee the senior service programs, etc.
8. Sending checks to 17 community colleges
9. Running seven state universities—although most of the money to run the state universities comes from tuition and fees, not tax dollars.



That's pretty much what state government does with your income tax dollars. There are programs that aren't “General Fund”—the biggest being the Transportation Department, which is run primarily with your gas tax dollars (and a lot of Federal money too). Other agencies, such as the Department of Environmental Quality, are run primarily with fees from the industries they regulate. But the income tax money, the money the Legislature spends most of its time arguing about, is spent on a very few things.

Note: a lot of “State Government” sort of isn't state government

Looking at the list of what state government spends money on, you'll see that in a way, a lot of it—in fact, most of it—isn't really “state government,” in the sense of money paid to state employees to do their jobs. The biggest chunk of the money goes to local school districts to help run the schools. A lot of the money goes to private health insurers, nursing homes, and assisted living facilities. Some of it goes to home care providers—people who aren't technically state employees, who help seniors and people with dis-

abilities with their daily needs. Some of it goes to foster parents.

The prison system really is “State government”; the prison guards are state employees. So are the state police. So are the people who investigate child abuse reports. But most of the state’s money is actually not spent on state employees.

What are the implications of the fact that the state spends most of its money on a very few things?

The fact that the state spends most of its money on a very few things means that government’s choices are very limited. If someone wants to spend more money on public schools, they need to either raise taxes or cut funding for healthcare, prisons, or other public safety programs, senior or disabled services, or child protection. If tax revenue from the existing tax system drops and state government has less money, it has to cut back on spending on schools, healthcare, public safety, and programs for seniors, children, and the disabled; it has nowhere else to go.

So when, in a budget crisis, Republicans—for instance—vote to cut funding for schools and healthcare, it doesn’t mean they hate children or people without health insurance; they do it because their only other alternative is raising taxes—which they really don’t want to do. Similarly, when Democrats—for instance—vote to raise taxes, it doesn’t mean they hate taxpayers; they do it because their only alternative is cutting back on things like healthcare and schools—which they really don’t want to do.

Starting in 2001, state government saw a sharp drop in revenues. As a result, the Legislature and the Governor took a number of difficult measures, such as reducing school funding and cutting tens of thousands of people off the Oregon Health Plan. Practically nobody wanted to do that. They just didn’t have very good options.

Wait. Isn’t there truth to the idea that state government is growing out of control? Don’t they have lots and lots more money than they had fifteen years ago?

In terms of nominal dollars, State government does have more money than it did fifteen years ago. Most of that money, again, has gone into a few things:

Schools. Before Measure 5 limited property taxes in 1990, schools got most of their money from local property taxes. Measure 5 ordered the State to make up the money that schools would lose from the property tax cuts. The State now pays the majority of school costs.

Healthcare. Healthcare costs keep going up faster than the rate of basic (CPI) inflation, in both the private sector and the public sector. That means it costs the State more to provide healthcare to poor people. (It also costs more to provide health coverage to state employees.) Until the budget crisis hit, the State was spending a WHOLE LOT more on healthcare than it did in 1989, because we were covering over 100,000 people through the Oregon Health Plan—which was a new thing since 1989. During the budget crisis, tens of thousands of Oregonians have been dropped from the Health Plan.

Prisons. Measure 11 (in 1994) required the State to start locking some people up for much longer. Prisons now make up a larger percentage of the State General Fund than they did in 1989.

Keeping up with population growth. There are more kids in school, more poor people without private health insurance, and more low-income senior citizens than there were in 1989. If the State wants to keep providing the same kinds of services to those larger populations, it needs to spend larger amounts of money.

Keeping up with basic inflation. When the state buys things—police cars, electricity, etc.—it needs to pay whatever the going rate is. As prices go up the state’s costs go up. If it wants to stay competitive in hiring employees, it also needs to pay wages that keep up with inflation.

An important fact: If you backed out spending on schools, prisons, and healthcare programs, you would see that State spending on all other general fund programs combined—higher education, welfare (which is less than 1% of the State budget), general administration, senior and disabled services—has actually NOT kept up with inflation and population growth.

What about those schools? That’s where the biggest chunk of state money goes, you said. Are they doing better than they were before the State took over most of the financing, or worse? And are they wasting lots of money on administration?

Since schools are the biggest part of the State General Fund, it’s worth spending some space on this topic.

The basic facts are these: (1) Since 1989, per-pupil spending has gone up, but only at approximately the rate of inflation. (2) There are certain factors that make education costs increase faster than basic inflation, which means that “keeping up with inflation” actually results in cuts in services. (3) Per-pupil spending in Oregon used to be somewhat above the national average and is now somewhat below. (4) Administrative costs are a significant but relatively small fraction of overall school costs.

Education spending has kept pace with inflation, but not economic growth.

Since Measure 5 (the property tax limitation) passed in 1990, per-pupil spending has come close to keeping pace with basic inflation. The Oregon Department of Education estimates that in 2004-05, per-pupil spending will be 2.5% below 1990 levels adjusted for inflation. But education spending has not kept up with economic growth. It was 4.6% of total personal income in Oregon in 1990, and had fallen to 4.2% by 2001 according to a 2002 study by the economics research firm Eco-Northwest.

If school spending has kept up with inflation, why are there budget cuts?

1. *Increasing numbers of expensive students.* The number of children who are English language learners, or are in special education, has risen faster than the general student population. These students are more expensive to educate; in fact, the State funding formula gives schools more money for these students. If you adjusted 1990 figures for those factors as well as basic inflation, statewide school spending has NOT kept pace.
2. *Education is a labor-intensive business and some labor-related costs have risen faster than basic inflation.* Over 80% of school costs are for personnel. Unlike General Motors, which can now produce more cars with fewer people and fancier machines, schools are limited in their ability to use automation to increase 'efficiency.' Students need actual teachers to teach them. Oregon school employee salaries have not increased beyond inflation, but the cost of health insurance has—just as in the private sector. The costs of retirement benefits (PERS) has also increased since 1990, although the Legislature significantly reduced PERS in 2003.

How does Oregon compare with other states?

Until recently, Oregon's per-pupil spending has been around 20th in the nation; it seems likely that recent cuts have dropped us to the high 20's or lower. The National Education Association estimates that in the 2002-03 school year, Oregon's "current expenditures per student" were \$7,242, which would put Oregon at 31st in the nation, significantly behind Washington at \$7,516. The State Department of Education cautions that the NEA rankings are preliminary but agrees that Oregon's ranking has fallen, probably at least to the high-20's level.

Where Does Education Money Go?

From a 2002 audit by the Oregon Secretary of State

Teaching and helping kids—70.1%

Teachers, aides, textbooks, counselors, librarians, speech pathologists.

Buses, buildings and food—16.5%

Student transportation, building maintenance, utilities, cafeteria.

Superintendents' offices—1.2%

Principals and staff—6.4%

Principals, vice-principals.

Business services—5.3%

Information technology, personnel, secretaries, research, evaluation, printing.

Equalization and declining enrollment affect many districts.

Two factors have aggravated the funding problems of some (but not all) districts. Measure 5 led to *equalization* in school funding. This means that districts that were previously well-off—such as Portland—lost ground. In those districts per-pupil spending did NOT keep up with inflation after 1990.

Many districts have had declining enrollment in recent years. Some of these are small districts with very few schools (e.g., only one high school). Since the State school funding formula is based on number of students, those districts get less money. They can adjust to that, to some extent, by cutting the number of teachers—but the fixed costs of having a high school building (for instance) remain the same, and have to be distributed over a smaller number of students.

Have taxes gone up or gone down?

As a percentage of total income in Oregon—the amount of money everybody made—total State and local taxes (including taxes on individuals and on

corporations) in Oregon have gone down significantly since 1990—from over 12% of total income then to just over 10% of income now. Income tax rates haven't changed (although, if your income went up, the dollar amount you paid did go up). Property taxes as a percentage of income have gone way down—although they have gone down, especially, for corporations; not because of any corporate plot but because, for some reason, the value of business property in Oregon hasn't gone up as fast as the value of residential property.

Has government just responded to lower taxes by increasing fees, which are taxes in disguise?

Fees have gone up, "sticking it to" a lot of people—but maybe not you, particularly. Most fees are for specific services that only specific people use. College tuition is a major example. Parks fees are another example. School sports fees are another one. But other than car registration, sewer and water fees, there aren't a heck of a lot of fees that everybody pays, the way pretty much everybody pays taxes.

What about the Lottery? Isn't that supposed to pay for schools and lots of other stuff? That's what its ads say.

The Lottery produces a bunch of money, but it can't pay for everything. It produces about 6% of the State's "General Fund and Lottery" pot; most of that goes to schools. If the Lottery wanted to go out of its way to be truthful, they'd say in their ads: "What pays for our schools? Well, mostly your income taxes. But the Lottery does help out a bit. The Lottery. A little something extra for our schools."

Okay. So I know a lot about what the State does and where the money goes. What can I do to break through the rhetoric and help ensure that we have an honest debate about government spending in Oregon?

Lots of stuff. You can attend candidate forums and challenge candidates who use misleading sound bites. You can send letters to the editor challeng-

ing those same candidates. You can tell candidates that you'll work for them and give money to them but only if they're honest about these issues. You can call up radio, TV stations, and newspapers and ask them to do a better job of spelling out the facts, and pointing out when politicians and initiative sponsors are, and aren't, telling the truth about the real choices.

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Where Do Your Tax Dollars Go?

Compared to the rest of the country, overall taxes on Oregonians are relatively low. Oregon ranks 39th in the 50 states for total state and local taxes paid as a percentage of income. The median income of an Oregon family of four is \$56,200. A typical home-owning family with that income would pay \$11,900 in state and federal income taxes, Social Security and Medicare taxes, property taxes, and gas taxes. That's about 21 percent of the family's income. (There are other taxes that not everyone pays, such as cigarette taxes, which are not included here.)

What are your taxes spent on?

The 10 public services that receive the largest shares of the *typical family's combined* local, state, and federal tax dollars (ranked from highest to lowest):

1. K-12 public schools: 18.9%
2. Social Security: 12%
3. National defense: 9.9% (does not include veterans' benefits; see below)
4. Medicaid and related programs: 8.8% (Oregon Health Plan, State senior/disabled)
5. Public safety: 8.6% (law enforcement, prisons, courts, fire protection)
6. Medicare: 6.3%
7. Universities and colleges: 4.1%
8. Interest on the federal debt: 3.9%
9. Transportation: 3.9% (streets, highways, some transit)
10. Veterans' benefits: 1.5%

The Federal government spends more than your tax dollars. The typical family's tax bill doesn't quite reflect the total amount of money the government spends. In terms of total operating funds money, *schools receive less than Social Security and national defense*. This is because in addition to the money the "typical family" pays, there are other sources of funds that make federal programs proportionally much bigger: (1) employers pay half of Social Security taxes; (2) wealthy people and corporations pay much more in Federal income taxes than in state taxes; and (3) the federal government borrowed \$536 billion last year, although this included \$160 billion borrowed from the current Social Security system taxes. By contrast, state and local governments have very limited borrowing ability.