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# State-Local Public Finance in Oregon

EXPENDITURES

REVENUE

EFFORT



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This special report reviews trends in state and local government finance in Oregon, with comparisons to other states, during the 1960's.

The report is divided into three separate but closely related parts:

- I State and local public expenditures
- II State and local public revenue
- III State and local fiscal effort and capacity

Together, the parts aim to provide general background and perspective for understanding the present structure and the changes that occurred during the past decade.

The accompanying data give an overall view of Oregon's fiscal system. They reveal similarities and differences between Oregon, other western states and the nation as a whole, in state and local government expenditures, revenue, capabilities and efforts.

The paper does not delve into prescriptive policy. Instead, a record of the recent past is presented as part of a body of knowledge that may be useful to Oregon citizens in coping with the fiscal problems and policy decisions that lie ahead for them. Discussion centers on the data and on analytical material. It does not intend to infer or imply conclusions beyond those readily apparent.

Please note the cautions concerning interstate comparisons presented at the conclusion of the paper.

This report was issued as part of the Extension Service's Tax Policy Education Program.

--Dr. Jean Wyckoff  
Coordinator, Extension Economics

## STATE-LOCAL PUBLIC FINANCE IN OREGON

R. Charles Vars, Jr.

### PART I--State-Local Public Expenditures: 1961-70

In fiscal 1970, direct general expenditure by all state and local government units in Oregon approached one and one-half billion dollars. That includes all expenditure on all general functions of government. But, it excludes utility, liquor store, and insurance trust expenditure because these activities are not defined by the U. S. Bureau of Census as part of general government.

Direct general government expenditure by state government excludes state payments to local government, and direct general expenditure by local government excludes local payments to state government. Direct general expenditure of state and local government does include expenditure financed by funds received from the federal government. Thus, direct general expenditure represents all expenditures directly provided by state and local government units independent of source of finance.

Because aggregate expenditure figures are difficult to put in perspective, the review of public expenditures in Oregon here successively examines: (A) the functional pattern of state-local direct general expenditure; (B) the allocation of public service responsibilities to state and local governments; and (C) the level and recent changes in state-local expenditures relative to population and personal income. The accompanying tables illustrate the similarities and differences in state-local expenditures between Oregon and the rest of the country with some time perspective.

#### A. The Functional Pattern of State-Local Expenditures

The functional pattern of Oregon's expenditures is shown in Table 1. Fiscal 1961 data are used because they are the earliest data comparable to 1970. Oregon's pattern is similar to that found elsewhere in the United States with some important exceptions.

Expenditures on education and highways dominate state and local budgets in Oregon and the rest of the United States.

Oregon spends a higher share on education than either the typical western state or the United States average. Oregon devoted slightly

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more than 45 percent of each expenditure dollar to education in fiscal 1970, whereas the typical western state and the United States as a whole spent approximately 43 and 40 percent, respectively. The typical western state is defined as a simple average of the expenditure or revenue item for the eleven contiguous western states: Arizona, California, Colorado, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, and Wyoming.

Total education expenditures increased in importance in state-local budgets during the sixties. Oregon's increase was larger than the increase experienced by the typical western state or the country as a whole. Oregon decreased local schools' share of total expenditures slightly less than the typical western state but more than the all-state average. In consequence, the increase in higher education's share in Oregon during the 1960's had a much larger impact on total education's share than in the typical western state or the country as a whole.

In fiscal 1961, Oregon and the typical western state spent more than the national average on highways. During the sixties, the share of state-local budgets devoted to highways declined substantially more in Oregon and the United States generally than in the West. In fact, by 1970 Oregon highway expenditures were a much smaller proportion of total state-local expenditures than in the typical western state and were approximately equal to the all-states average.

In two other respects, however, the expenditure shares reported in Table 1 are especially noteworthy. One is welfare; the other is interest on state and local debts.

First, although public welfare expenditures in Oregon and the western United States increased in importance during the sixties, the increase was significantly below the national average. While the national average public welfare share went from 8.4 to 11.2 percent, the share spent on public welfare in Oregon increased only from 7.5 to 8.0 percent between fiscal 1960 and 1970.

Second, the remarkable rise of interest rates during the latter half of the 1960's increased state and local government interest costs in Oregon from about 2.1 percent in fiscal 1961 to almost 2.6 percent in 1970. In contrast, elsewhere the budget share for interest increased much less.



Table 1: Distribution of Total State-Local Direct General Expenditure for Oregon, the Typical Western State, and the United States, by Function, Fiscal 1961 and 1970

Functions	Oregon		Typical western state		All states	
	1961	1970	1961	1970	1961	1970
	%	%	%	%	%	%
Total education	40.1	45.0	39.8	42.8	36.6	40.1
Local schools	30.8	29.4	30.2	28.2	29.5	28.5
Higher education	8.6	14.1	8.9	13.3	6.4	9.8
Other education	0.8	1.5	0.7	1.5	0.7	1.8
Highways	19.4	13.2	20.1	16.4	17.5	12.5
Public welfare	7.5	8.0	7.7	8.2	8.4	11.2
Health and hospitals	5.1	5.2	5.8	6.2	7.3	7.4
Police protection	3.3	3.0	2.9	3.0	3.6	3.4
Fire protection	1.5	1.5	1.4	1.3	1.9	1.5
Sewerage	1.4	1.6	1.6	1.3	2.0	1.7
Sanitation other than sewerage	0.2	0.3	0.7	0.6	1.2	1.0
Local parks and recreation	1.3	1.2	1.1	1.3	1.5	1.4
Financial administration	2.8	2.8	2.2	2.1	1.8	1.6
General control	2.0	1.9	2.0	2.1	2.2	2.0
Interest	2.1	2.6	1.8	2.0	3.3	3.3
Other	13.2	13.7	13.0	12.7	12.8	12.9

Source: U. S. Department of Commerce, Bureau of the Census, Governmental Finances in 1961 and subsequent issues.

## B. The Allocation of Public Service Responsibilities

Table 2 was prepared to provide a broad picture of state and local government responsibility for various public service functions in fiscal 1961 and 1970. Interestingly, state government in Oregon made 44 percent and local government made the remaining 56 percent of total direct general expenditure in fiscal 1961 and 1970.

This stability in state and local government responsibility was in marked contrast to the national movement toward more state responsibility in providing government services during the sixties. State governments in the west and the entire country took on 3.5 percentage points more responsibility for direct general expenditure in fiscal 1970 than in 1961. Whereas Oregon state government assumed more responsibility than the typical western state in fiscal 1961 (44.3 versus 41.6 percent), it undertook less responsibility than the typical western state government in fiscal 1970 (44.2 versus 45.1 percent.)

Throughout the United States during the sixties, state governments substantially increased their support of higher education, thereby increasing their responsibility for total public education. This change together with increased state responsibility for highways, public welfare, and police protection explains the 1961-70 increase in state government's share of total state-local direct general expenditure in the typical western state and the United States.

In the case of Oregon, however, increased state responsibility for education and police protection produced no increase in state government's share of total state-local expenditures because the state's share of highway, health and hospital, financial administration, and interest expenditures decreased over the 1961-70 period. Consequently, the character and form of Oregon state government responsibility and control changed significantly during the sixties without a major shift in state government's overall responsibilities. Centralization of governmental functions under state government has not occurred in recent years in Oregon.

Table 2: State and Local Government Direct General Expenditures Relative to Total State-Local Direct General Expenditures for Oregon, the Typical Western State, and the United States, by Function, Fiscal 1961 and 1970.

Functions by level of government	Oregon		Typical western state		All states	
	1961	1970	1961	1970	1961	1970
	%	%	%	%	%	%
<u>State government</u>						
Total direct general expenditure	44.3	44.2	41.6	45.1	33.8	37.1
Total education	23.3	31.4	23.5	31.9	18.4	26.1
Local schools	----	----	0.9	0.6	1.4	1.2
Higher education	99.6	89.2	94.6	91.5	88.8	85.2
Other education	100.0	100.0	100.0	100.0	100.0	100.0
Highways	66.0	63.0	74.4	75.1	63.3	67.2
Public welfare	95.7	96.6	69.3	76.2	49.0	55.9
Health & hospitals	71.9	62.3	47.3	46.4	50.4	49.5
Police protection	14.4	22.9	18.6	23.5	12.9	15.3
Fire protection	----	----	----	----	----	----
Sewerage	----	----	----	----	----	----
Sanitation other than sewerage	----	----	----	----	----	----
Local parks & recre.	----	----	----	----	----	----
Financial admin.	63.9	62.1	52.0	58.0	46.4	50.4
General control	27.9	29.7	25.8	29.8	20.8	26.3
Interest	52.2	50.5	23.4	30.1	32.0	34.3
Other	55.7	47.9	52.4	52.8	42.3	41.4
<u>Local government</u>						
Total direct general expenditure	55.7	55.8	58.4	55.0	66.2	62.9
Total education	76.8	68.6	76.5	68.2	81.6	73.9
Local schools	100.0	100.0	99.1	99.4	98.6	98.8
Higher education	0.4	10.8	5.4	8.5	11.2	14.8
Other education	----	----	----	----	----	----
Highways	34.0	37.0	25.6	24.9	36.7	32.8
Public welfare	4.3	3.5	30.7	23.8	51.0	44.1
Health & hospitals	28.1	37.8	52.7	53.6	49.6	50.5
Police protection	85.7	77.1	81.4	76.5	87.1	84.7
Fire protection	100.0	100.0	100.0	100.0	100.0	100.0
Sewerage	100.0	100.0	100.0	100.0	100.0	100.0
Sanitation other than sewerage	100.0	100.0	100.0	100.0	100.0	100.0
Local parks & recre.	100.0	100.0	100.0	100.0	100.0	100.0
Financial admin.	36.1	37.9	48.0	42.0	53.6	49.6
General control	72.1	73.3	74.2	71.3	79.3	73.7
Interest	47.8	49.5	76.7	69.9	68.0	65.7
Other	44.4	52.1	47.6	47.2	57.7	58.6

Source: U. S. Department of Commerce, Bureau of the Census, Governmental Finances in 1961 and subsequent issues.

### C. Expenditures Relative to Population and Income

Table 3 reports total, current, and capital expenditures on all major state-local government functions per capita and per \$1,000 of personal income in fiscal 1970. It also shows, by function, the 1961-70 percentage change in total and current expenditures for Oregon, the typical western state, and the United States average. In addition, Oregon's rank among the eleven western states is included in Table 3 to further establish Oregon's relative position.

Capital outlays fluctuate greatly from year to year. For this reason the only change shown is in total capital outlay on a per capita basis. This compares the 1966-70 average with the 1958-62 average. It shows a much smaller increase in Oregon than in the typical western state but a larger increase than in the nation as a whole.

Relative to population and income, Oregon and the typical western state exceeded the national averages for total, total current operation, and total capital expenditures. In fiscal 1970, Oregon state and local governments spent \$560 per person and \$161 per \$1,000 of personal income on current expenditures for general functions. These amounts are substantially above the national averages of \$521 and \$140 respectively. These expenditure levels place Oregon very close to the typical western state. In contrast, however, Table 3 shows that Oregon's total capital outlays per capita and per \$1,000 of personal income are substantially below the typical western state but very close to the national average. Consequently, Oregon's relatively high current expenditures were associated with relatively low capital expenditures in fiscal 1970.

Although the 1970 level of Oregon state-local government expenditures exceeded the national average, Table 3 indicates that the 1961-70 increase in Oregon expenditures relative to population and income was very much less than the national average. Oregon increased total direct general expenditures per capita by less than 70 percent over the 1961-70 period, whereas the national per capita average increased a bit more than 90 percent. Relative to personal income, however, the difference between the Oregon and national experience is even more dramatic. In the case of total expenditures, the Oregon increase was just above one-half the national average (8.3 versus 15.7 percent), while Oregon current expenditures increased less than one-third the national average (6.4 versus 21.9 percent).

Turning next to consideration of particular government services, Table 3 provides data supporting the following summary observations. Higher education, fire protection, and total sewerage were the only direct general expenditure categories where Oregon spent more than the typical western state or the United States average in fiscal 1970 and also had increased those expenditures more than the western or national averages during the 1961-70 period. For the remainder of the expenditure categories in which Oregon had relatively large 1961-70 increases (health and hospitals, fire protection, and sanitation other than sewerage), Oregon 1970 expenditure levels were low relative to the western and/or national averages. Similarly divergent results also obtain when a comparison is



made between Oregon's rank among western states with respect to 1970 expenditure levels and Oregon's rank for expenditure changes over the 1961-70 period. A careful examination of Table 3 reveals ten expenditure categories in which Oregon ranked higher in fiscal 1970 than it ranked in terms of 1961-70 percentage changes in the same categories, as well as ten other categories in which the opposite rank relationship existed. Consequently, although Oregon's relatively high (or low) 1970 expenditure levels are not simply the product of recent budget changes, those changes have moved most Oregon state-local expenditures closer to the western and national averages.

Table 3: State-Local Direct General Expenditures Per Capita and Per \$1,000 Personal Income in Oregon, the Typical Western State, and the United States, by Function, Fiscal 1970 and Percentage Change Fiscal 1961-70.

Item	1970		Percentage Change 1961-70 1/	
	Per capita	Per \$1,000 personal income	Per capita	Per \$1,000 personal income
	\$	\$	%	%
<u>Direct general exp. total</u>				
Oregon	692.66	199.50	66.5	8.3
Typical western state	714.77	211.13	74.9	13.6
United States average	646.31	176.41	90.7	15.7
Oregon's rank in west	5	7	9	9
<u>Direct gen. exp., tot. cur.</u>				
Oregon	560.61	161.47	63.5	6.4
Typical western state	556.18	163.94	60.5	6.6
United States average	512.41	139.86	101.0	21.9
Oregon's rank in west	5	5	4	4
<u>Capital outlay, total</u>				
Oregon	132.05	38.03	55.5	
Typical western state	158.59	47.19	94.3	
United States average	133.90	36.55	42.8	
Oregon's rank in west	9	9	10	
<u>Education, total</u>				
Oregon	311.93	89.85	129.2	49.1
Typical western state	302.67	90.46	123.2	44.6
United States average	259.43	70.81	149.5	51.3
Oregon's rank in west	5	5	6	4
<u>Education, total current</u>				
Oregon	274.67	79.11	144.2	58.9
Typical western state	263.85	78.92	146.1	59.9
United States average	221.93	60.58	165.7	61.2
Oregon's rank in west	4	5	7	6

(continued)

Table 3 continued

Item	1970		Percentage Change 1961-70	
	Per capita	Per \$1,000 personal income	Per capita	Per \$1,000 personal income
	\$	\$	%	%
<u>Ed., total capital outlay</u>				
Oregon	37.26	9.74		
Typical western state	38.82	11.54		
United States average	37.50	10.23		
Oregon's rank in west	5	8		
<u>Local schools, total</u>				
Oregon	203.33	58.56	90.2	23.8
Typical western state	199.03	59.17	92.1	24.4
United States average	184.35	50.32	118.7	32.7
Oregon's rank in west	6	7	6	6
<u>Local sch., total current</u>				
Oregon	184.56	53.16	106.8	34.6
Typical western state	176.80	52.57	114.8	44.2
United States average	161.43	44.06	136.9	43.7
Oregon's rank in west	5	6	10	9
<u>Local schools cap.outlay</u>				
Oregon	18.76	5.40		
Typical western state	22.23	6.60		
United States average	22.92	6.26		
Oregon's rank in west	9	9		
<u>Higher education, total</u>				
Oregon	97.91	28.21	270.2	140.9
Typical western state	92.92	28.04	219.7	107.0
United States average	63.60	17.36	257.5	117.0
Oregon's rank in west	7	6	2	3
<u>Other education</u>				
Oregon	10.68	3.07	287.0	151.0
Typical western state	10.71	3.25	337.3	184.6
United States average	11.47	3.13	488.2	255.7
Oregon's rank in west	3	7	7	7
<u>Highways, total</u>				
Oregon	91.57	26.37	30.6	-15.0
Typical western state	117.38	35.41	66.3	7.8
United States average	80.84	22.07	54.3	- 6.4
Oregon's rank in west	8	8	11	11
<u>Highways, total current</u>				
Oregon	34.68	9.99	37.6	-10.5
Typical western state	33.81	10.15	59.8	4.2
United States average	27.88	7.61	62.6	- 1.4
Oregon's rank in west	5	5	9	9

(continued)

Table 3 continued

Item	1970		Percentage Change 1961-70	
	Per capita	Per \$1,000 personal income	Per capita	Per \$1,000 personal income
	\$	\$	%	%
<u>Highways, capital outlay</u>				
Oregon	56.89	16.38		
Typical western state	83.57	25.26		
United States average	52.96	14.46		
Oregon's rank in west	10	9		
<u>Public welfare</u>				
Oregon	55.46	15.52	125.5	42.5
Typical western state	59.35	16.69	128.0	44.6
United States average	72.24	19.59	195.2	77.9
Oregon's rank in west	5	7	4	6
<u>Health &amp; hospitals, total</u>				
Oregon	36.10	10.40	105.8	33.9
Typical western state	44.82	13.01	129.9	49.2
United States average	47.57	12.99	125.6	36.9
Oregon's rank in west	7	8	10	9
<u>Health&amp;hospitals,tot.current</u>				
Oregon	33.93	9.78	127.9	46.3
Typical western state	40.74	11.85	133.2	51.1
United States average	43.69	11.93	131.5	40.5
Oregon's rank in west	7	8	6	5
<u>Health&amp;hospitals,cap. outlay</u>				
Oregon	2.16	0.62		
Typical western state	4.07	1.16		
United States average	3.88	1.06		
Oregon's rank in west	9	9		
<u>Police protection</u>				
Oregon	20.45	5.90	110.8	37.3
Typical western state	21.39	6.15	107.9	35.0
United States average	22.11	6.04	114.2	30.2
Oregon's rank in west	5	5	5	5
<u>Fire protection</u>				
Oregon	10.15	2.92	95.6	27.1
Typical western state	9.19	2.59	94.1	26.0
United States average	9.95	2.72	79.9	9.2
Oregon's rank in west	4	3	4	3
<u>Sewerage, total</u>				
Oregon	11.09	3.20	158.5	68.4
Typical western state	9.03	2.61	69.8	10.8
United States average	10.66	2.91	73.9	5.4
Oregon's rank in west	3	3	2	2

(continued)

Table 3 continued

Item	1970		Percentage Change 1961-70	
	Per capita	Per \$1,000 personal income	Per capita	Per \$1,000 personal income
	\$	\$	%	%
<u>Sewerage, current</u>				
Oregon	3.44	0.99	74.6	13.5
Typical western state	3.70	1.06	133.6	51.3
United States average	3.84	1.05	105.4	25.0
Oregon's rank in west	5	4	10	10
<u>Sewerage, capital outlay</u>				
Oregon	7.65	2.21		
Typical western state	12.89	1.55		
United States average	6.81	1.86		
Oregon's rank in west	2	4		
<u>Sanitation other than sewer.</u>				
Oregon	1.99	0.58	151.9	65.5
Typical western state	4.18	1.27	81.2	18.7
United States average	6.13	1.67	76.7	7.1
Oregon's rank in west	10	10	1	1
<u>Local parks and recreation</u>				
Oregon	8.47	2.37	79.4	13.9
Typical western state	9.19	2.54	115.7	41.1
United States average	9.29	2.52	98.5	21.7
Oregon's rank in west	6	7	9	9
<u>Financial administration</u>				
Oregon	19.69	5.51	93.6	23.0
Typical western state	15.20	4.31	82.9	6.2
United States average	9.98	2.71	79.5	10.2
Oregon's rank in west	2	2	5	5
<u>General control</u>				
Oregon	13.23	3.82	-21.5	-48.9
Typical western state	14.63	4.29	- 3.3	-37.2
United States average	13.05	3.56	11.2	-32.6
Oregon's rank in west	7	8	9	10
<u>Interest on general debt</u>				
Oregon	17.68	5.10	127.3	47.9
Typical western state	16.20	4.66	148.6	63.0
United States average	21.52	5.88	131.9	41.0
Oregon's rank in west	5	5	6	6

1/ Except capital outlay which is from 1958-62 average to 1966-70 average.

Source: U.S. Department of Commerce, Bureau of the Census, Governmental Finances in 1961 and subsequent issues.



## PART II--State-Local Public Revenue: 1960-70

In fiscal 1970, state and local governments in Oregon obtained more than one and one-third billion dollars in general revenue. This excludes revenues from local utilities, state liquor store operations, and insurance trust systems. But, it includes all payments to state and local governmental units by the federal government as well as revenue from taxes, licenses, charges, and other miscellaneous sources.

In contrast, general revenue from own sources excludes federal payments to state and local governments. In fiscal 1970, federal payments to Oregon governments amounted to \$284.1 million, or a bit more than 20 percent of total state-local general revenue.

Rather than focus on aggregate revenue figures, however, the following review of public revenue in Oregon concentrates on (A) the relative importance of various major revenue sources and (B) the level and recent changes in state-local revenues relative to population and personal income. As in the preceding review of Oregon expenditures, the text and tables attempt to illuminate the similarities and differences in state-local revenues between Oregon, the typical western state, and the entire country with some time perspective.

### A. The Relative Importance of Revenue Sources

Table 4 indicates that Oregon's reliance on various revenue sources has been similar to the western and United States averages in only limited respects. In fiscal 1960 and 1970, the relative importance of federal payments, total taxes, and charges and miscellaneous revenues was about the same in Oregon and the typical western state. In other respects, however, Oregon differed significantly from both the typical western and all states averages, even when adjustments are made for the relatively greater reliance of Oregon and the typical western state on federal payments.

Since any shift in the importance of payments from the federal government produces an equal and opposite shift in state and local government reliance on revenues from own sources, federal payments are discussed here prior to taxes. During the 1960-70 period, Table 4 reveals that Oregon and other states came to rely more heavily on federal payments. The increase for Oregon, however, was only 1.7 percentage points whereas the increases for the typical western state and the United States average equalled 2.2 and 2.9 percentage points, respectively. Consequently, Oregon state and local governments began and ended the decade of the sixties relying on federal aid less heavily than the typical western state and more heavily than the United States average.

The truly important difference between Oregon and the rest of the country results from Oregon's heavy reliance on only 2 of the 4 major sources of tax revenue used by other states. Compared with the typical western state and the all states average in fiscal 1970, Oregon state and local government finance used property and individual income taxes rather heavily, selective sales taxes as a group relatively little, and a general sales (or gross receipts) tax not at all. Oregon obtained

slightly more than 15 percent of its total 1970 general revenues from an individual income tax, while elsewhere only 7 to 8 percent was typically collected from this source. Table 4 also shows that general plus selective sales taxes generated 20-plus percent of general revenue in most states but only about 6.5 percent in Oregon.

Perhaps the most interesting observations to be drawn from Table 4, however, concern the importance of the property tax in Oregon state and local government finance. In fiscal 1970, Oregon derived more than 28 percent of its total state-local general revenue from property taxation, while the western and national averages were approximately 24 and 26 percent, respectively. Moreover, not only has Oregon collected a high fraction of its total general revenue from the property tax, it has also experienced a smaller (absolute and relative) 1960-70 decline in the importance of the property tax than was typical throughout the west and the nation. The decrease in Oregon was slightly less than 2 percentage points, whereas the decreases for the typical western state and the United States average were more than 4 and 6 percentage points, respectively. Thus, relative to neighboring states and the nation as a whole, Oregon's reliance on the property tax increased during the sixties.

In contrast to the property tax, the Oregon individual income tax hardly changed in importance during the sixties, generating 15.6 and 15.3 percent of total general revenues in fiscal 1960 and 1970, respectively. But, over the same period, other states typically increased their reliance on the individual income tax by more than 2 percentage points (see Table 4). Other states found opportunities not available to Oregon.

With the exception of the corporation net income tax, the remaining changes in Oregon's revenue pattern were similar in direction and magnitude to those that occurred elsewhere over the 1960-70 period. The role of the corporate income tax, however, declined in Oregon during the sixties, while its relative position was stable in the west and generally increased for the nation as a whole.

Table 4: State-Local General Revenue, by Type, Relative to Total General Revenue in Oregon, the Typical Western State, and the United States, Fiscal 1960 and 1970.

General Revenue, by type	Oregon		Typical western state <sup>1/</sup>		All states	
	1960	1970	1960	1970	1960	1970
	%	%	%	%	%	%
Federal payments	18.7	20.4	19.5	21.7	13.8	16.7
General revenues from own sources	81.4	79.6	80.5	78.3	86.2	83.3
Total taxes	65.7	60.0	64.0	59.3	71.5	66.4
Property taxes	30.3	28.4	28.2	23.9	32.5	26.0
Ind. inc.tx (state)	15.6	15.3	6.4	8.4	4.4	7.0
Gen.sales tx(state) ---	---	---	13.2	12.9	8.5	10.8
Selective sales tax (state)	7.4	6.5	10.8	9.5	12.3	10.0
Motor fuels tax	6.1	4.6	6.6	5.4	6.6	4.8
Other selective sales taxes	1.4	1.8	4.1	4.1	5.7	5.2
Corp. net inc. tx	3.7	2.9	1.7	1.7	2.3	2.9
Other tx & licenses	8.7	7.1	9.2	7.6	11.5	9.6
Charges & misc. rev.	15.7	19.6	16.5	18.9	14.7	16.9

<sup>1/</sup> Figures reported for the individual income and general sales taxes are for the 8 and 9 western states, respectively, that levy these taxes.

Source: U. S. Department of Commerce, Bureau of Census, Governmental Finances in 1960 and subsequent issues, State Government Finances in 1960 and subsequent issues.

## B. General Revenues Relative to Population and Income

With the preceding discussion of Oregon's comparative reliance on various revenue sources in mind, this review of the Oregon revenue system next examines the level and recent changes in the various major revenue sources for state and local government in Oregon, the typical western state, and the entire United States. Table 5 presents the revenue data per capita and per \$1,000 of personal income underlying this review; expenditure data were reported similarly in Table 3.

Although Table 5 shows that Oregon total general revenues, federal payments, and general revenues from own sources were greater than the national average in fiscal 1970, the data also show Oregon revenues in these categories were substantially below revenues received by the typical western state. For total taxes, however, Oregon's situation is even more noteworthy. Relative to population and income, total state-local taxes in Oregon were below the western and national averages in fiscal 1970. Consequently, if one accepts total taxes per \$1,000 of personal income as a reasonable index of tax effort, then Oregon state-local tax effort in 1970 was slightly less than the effort made typically in the west and the United States.

Before considering particular sources of revenue, Oregon 1960-70 experience with respect to total and own revenue, federal payments, and total taxes deserves comment. Over the 1960-70 period, these revenues increased less in Oregon than either the western or national average, and Oregon ranked eighth or below among the eleven western states. Although Oregon's own revenues and total taxes only slightly diverged from the national averages in fiscal 1970, both these popular measures of aggregate state-local fiscal effort have exhibited recent increases in Oregon considerably below the western and United States averages.

In view of these findings, and with the single exception of the property tax, it is hardly surprising that Oregon's various major revenue sources have individually increased less than their national averages over the 1960-70 period (see the third and fourth columns of Table 5). In particular, recent increases in Oregon individual and corporate income tax revenues have been very considerably below their national averages. (Of course, Oregon's earlier relatively heavy reliance on these taxes partly accounts for their recent slow growth.) With respect to the property tax, however, the situation is vastly different. Relative to population and income, both the 1970 level and 1960-70 change in Oregon property tax revenue exceeded the western and United States averages. Although Oregon property taxes are high and relatively rapidly increasing when compared with other states, it should be noted that Oregon property tax collections have recently increased less than Oregon federal payments, individual income taxes, and charges and miscellaneous revenues. Thus, over the 1960-70 period Oregon state and local government simultaneously increased property tax revenues rather rapidly and reduced reliance on the property tax. As is often the case, apparently contradictory findings are easily reconciled.



Table 5: State-Local General Revenues Per Capita and Per \$1,000 Personal Income in Oregon, the Typical Western State, and the United States, by Source, Fiscal 1970 and Percentage Change Fiscal 1960-70.

Item	1970		Percentage change 1960-70	
	Per capita	Per \$1,000 personal income	Per capita	Per \$1,000 personal income
	\$	\$	%	%
<u>Total general revenue</u>				
Oregon	685.53	191.84	100.2	26.6
Typical western state	728.59	212.80	107.7	33.2
United States average	647.56	175.62	130.8	39.1
Oregon's rank in west	7	9	8	9
<u>Federal payments</u>				
Oregon	139.81	39.13	119.0	38.4
Typical western state	161.28	47.23	142.8	53.3
United States average	108.25	29.35	179.4	68.3
Oregon's rank in west	7	6	9	9
<u>Gen. rev. from own sources</u>				
Oregon	545.72	152.72	95.9	23.9
Typical western state	578.08	165.58	104.8	29.6
United States average	539.31	146.27	113.8	34.4
Oregon's rank in west	7	10	8	8
<u>Total taxes</u>				
Oregon	411.47	115.15	82.9	15.6
Typical western state	437.09	124.94	95.5	23.5
United States average	429.85	116.58	114.2	29.1
Oregon's rank in west	7	11	9	10
<u>Property taxes</u>				
Oregon	194.34	54.39	87.5	18.5
Typical western state	176.85	50.32	80.4	14.0
United States average	168.65	45.74	85.0	11.5
Oregon's rank in west	4	4	5	6
<u>Indiv. income tax(state)</u>				
Oregon	104.85	29.34	96.4	24.2
Typical western state	1/ 58.20	17.34	241.2	114.0
United States average	45.47	12.33	270.6	123.4
Oregon's rank in west	1	1	7	7
<u>Corporation income tax</u>				
Oregon	19.64	5.50	55.5	-1.6
Typical western state	17.12	4.92	96.6	23.6
United States average	18.51	5.02	182.2	70.2
Oregon's rank in west	2	2	7	7

(continued)

Table 5 continued

Item	1970		Percentage change 1960-70	
	Per capita	Per \$1,000 personal income	Per capita	Per \$1,000 personal income
	\$	\$	%	%
<u>General sales tax (state)</u>				
Oregon	---	---	---	---
Typical western state <sup>2/</sup>	80.33	27.29	127.5	45.0
United States average	78.77	19.04	229.6	77.1
Oregon's rank in west	---	---	---	---
<u>Selective sales taxes (state)</u>				
Oregon	44.34	12.41	74.0	10.0
Typical western state	71.09	20.08	85.0	17.0
United States average	64.76	17.56	87.7	13.1
Oregon's rank in west	11	11	8	8
<u>Motor fuels taxes</u>				
Oregon	31.74	8.88	52.5	-3.6
Typical western state	40.00	11.61	73.6	9.9
United States average	31.12	8.44	67.9	1.2
Oregon's rank in west	11	10	11	11
<u>Other selective sales taxes</u>				
Oregon	12.60	3.53	169.2	70.5
Typical western state	31.09	8.47	110.5	30.7
United States average	33.64	9.12	110.8	27.0
Oregon's rank in west	11	11	3	2
<u>Other taxes and licenses</u>				
Oregon	48.30	13.51	58.2	2.5
Typical western state	23.51	16.49	75.3	13.7
United States average	62.23	16.88	92.7	16.2
Oregon's rank in west	8	9	8	8
<u>Charges &amp; miscellaneous rev.</u>				
Oregon	134.25	37.57	150.6	58.4
Typical western state	140.98	40.65	144.0	54.5
United States average	109.46	29.69	165.8	60.2
Oregon's rank in west	5	5	6	5

<sup>1/</sup> Figures reported are for the 8 western states with an individual income tax.

<sup>2/</sup> Figures reported are for the 9 western states with a general sales tax.

Source: U. S. Department of Commerce, Bureau of the Census, Governmental Finances in 1960 and subsequent issues, State Government Finances in 1960 and subsequent issues.

### PART III--State-Local Fiscal Effort and Capacity: 1960-70

Although all available measures of state-local government fiscal effort and capacity are imperfect, casual observation suggests that some states make greater efforts than others relative to their capacities to provide government services. Consequently, no review of Oregon's state-local government experience during the 1960's would be complete without a report concerning changes in the level of Oregon's fiscal effort and capacity relative to the typical western state and the United States average.

Table 6 presents three indexes of fiscal effort. The three measures are (E1) total state-local taxes per \$1,000 personal income, (E2) own general revenues per \$1,000 personal income, and (E3) own-financed general expenditures per \$1,000 personal income. Indexes shown in Table 6 were obtained by dividing each of the effort measures by its respective United States average. Therefore, each effort index provides a measure of the level of fiscal effort in Oregon and the typical western state relative to the United States average.

The fiscal effort indexes in Table 6 indicate that Oregon and the typical western state made greater efforts than the United States average in fiscal 1960 and 1970. Of the three effort indexes, only the tax effort index for Oregon in 1970 shows effort below the national average. When Oregon is compared to the typical western state, however, one discovers that Oregon's state-local fiscal effort has been less than western average (except with respect to the own-financed expenditure index in 1960) and declined relative to both the western and United States average during the sixties. While the relative decline in Oregon fiscal effort in the 1960's paralleled general western experience, the third column of Table 6 clearly demonstrates that Oregon effort declined substantially more than typical in the west or entire country--a finding which conforms to the service-level data presented earlier. None of these findings would require modification if the effort indexes were redefined in per capita terms.

Table 6 also presents an index of fiscal capacity based on relative per capita personal income. This measure of capacity is intended to establish the ability of a population to support state-local government services relative to the national average ability. Ideally, relative personal income, wealth, gross product, etc. per capita would serve as alternative indexes of fiscal capacity, but lack of data necessitates the use of only one index here. In any event, Table 6 indicates that relative fiscal capacity in Oregon and the west apparently declined similarly during the sixties. In fiscal 1960, Oregon capacity exceeded the western and United States average by about 2 percent. In contrast, by 1970 fiscal capacity in both Oregon and the typical western state had fallen below the national average, though Oregon continued to enjoy approximately the same 2 percent larger than average western fiscal capacity.

The final section of Table 6 shows the relative utilization of fiscal capacities in Oregon and the typical western state by dividing the fiscal effort indexes by the fiscal capacity index. Three observations

concerning utilization of fiscal resources are in order here. First, utilization of fiscal resources in Oregon and the typical western state substantially exceeded the national average in fiscal 1960 and 1970. Note especially the combined effort-capacity index greater than 100 in Table 6. (The combined effort index is a simple average of the three effort indexes.) Second, although fiscal effort and capacity both declined in the west during the sixties, all four effort-capacity indexes for the typical western state increased. Consequently, in a very real and important sense, utilization of fiscal resources increased relatively more in the west during the 1960's than in the United States as a whole. Finally, all four effort-capacity indexes for Oregon declined. Thus, relative utilization of Oregon's fiscal resources has declined while remaining above the national average during the past decade.



Table 6: Indexes of Fiscal Effort and Capacity, Oregon and the Typical Western State, Fiscal 1960-1970 and Percentage Change, Fiscal 1960-70.

	1960 Index U. S. average=100	1970 Index	1960-70 Change %
<u>Indexes of Fiscal Effort</u>			
E 1. Relative Total Taxes Per \$1,000 Personal Income			
Oregon	110.3	98.8	-10.5
Typical western state	112.1	107.2	- 4.4
E 2. Relative Own General Revenues Per \$1,000 Personal Income			
Oregon	113.3	104.4	- 7.9
Typical western state	118.2	113.2	- 4.2
E 3. Relative Own-Financed General Expenditures Per \$1,000 Personal Income			
Oregon	115.4	109.2	- 5.4
Typical western state	114.5	111.5	- 2.6
<u>Index of Fiscal Capacity</u>			
C. Relative Per Capita Personal Income			
Oregon	101.6	96.9	- 4.6
Typical western state	99.6	94.9	- 4.8
<u>Fiscal Effort Relative to Fiscal Capacity</u>			
E 1/C. Tax Effort Relative to Capacity			
Oregon	108.5	101.9	- 6.1
Typical western state	112.6	113.6	0.9
E 2/C. Own Revenue Effort Relative to Capacity			
Oregon	111.5	107.7	- 3.4
Typical western state	118.7	119.3	0.6
E 3/C. Own-Financed Expenditure Effort Relative to Capacity			
Oregon	113.6	112.7	- 0.8
Typical western state	114.9	117.5	2.2
Combined Effort-Capacity Index			
Oregon	111.2	107.5	- 3.4
Typical western state	115.4	116.6	1.1

Source: U. S. Department of Commerce, Bureau of the Census, Governmental Finance in 1960 and subsequent issues.

### CAUTIONS CONCERNING INTERSTATE COMPARISONS

Although interstate comparisons of public expenditures and revenues are commonly made, such comparisons must be undertaken and interpreted with considerable caution. Among the major difficulties involved with expenditure and revenue comparisons are the following: (1) interstate differences in the efficiency with which state and local government services are provided; (2) differences in price levels among states such that equal money expenditures do not purchase equal real amounts of goods and services; (3) differences in the capacities of states to finance public services; (4) interstate differences in the allocation of responsibilities for various government functions between state and local governments; (5) differences in capital outlays financed by the issue of state and local government debt; and (6) interstate demographic differences.

Since some of these problems can be dealt with satisfactorily, while others are presently intractable, each problem deserves brief comment when Oregon public expenditures and revenues are compared to those of other states. This procedure facilitates evaluation of the state-by-state comparisons presented in this report.

Where the efficiency of government varies among states, equal expenditures will generate different quantities and/or qualities of public services. Similarly, where prices paid by state and local governments differ from state to state, equal expenditures will mean different amounts of goods and services purchased by governments in different states. Moreover, differences in income levels, principal tax bases, etc., also complicate interstate comparisons, particularly where one seeks an appropriate index to measure comparative efforts exerted in support of public services.

Although expenditures per capita provide useful measures of public service benefits per person by adjusting the available data for differences in state populations, comparisons based on expenditures per capita do not adequately adjust the data to reflect the state-to-state differences noted above.

Unfortunately, the problem of efficiency of government must be ignored because there are no reliable methods for comparing the efficiency of different levels of government within or between states.

In contrast, however, the problems of differing prices and capacities to finance public services can be reasonably well handled by calculating expenditures and revenues per \$1,000 or personal income. Although personal income received by the residents of a state is not a perfect measure of their capacity to finance government, it is the best readily available measure. Furthermore, since price differences among states are reflected in resident incomes, expressing expenditures per \$1,000 of personal income solves the problem of interstate differences in prices paid by governments.

Turning next to the problem that each state allocates the responsibil-

ities for governmental functions and taxing powers between state and local governments differently, direct comparisons of state government expenditures (revenues) or interstate comparisons of local government expenditures (revenues) can often be misleading. This problem is easily overcome, however, by simply making interstate comparisons in terms of combined state and local government expenditures in each state. Similarly, the problem with regard to capital outlays is also readily solved. Since capital outlay fluctuates greatly from year to year, interstate comparisons based on total (current operation plus capital outlay) expenditures could result in different state rankings from year to year. This potential difficulty has been avoided here by examining total, current operation, and capital outlay expenditures separately.

Finally, consider the impact of interstate demographic differences per capita expenditure comparisons, particularly for comparisons of certain governmental functions. For example, other things equal, the higher the fraction of a state's population in school age brackets, the higher will be per capita educational expenditures. Expenditures per student could be identical in two states, while per capita expenditures could differ substantially for the same states. Consequently, interstate per capita comparisons must be interpreted with great caution.

In particular, there is presumption that comparisons should be made only among states with fairly similar economic, demographic, and geographic features. For this reason, interstate comparisons in this report have been made primarily between Oregon and the typical western state, although comparisons have also been made with the average of all the states in the United States.

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