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Oregon's New Umbrella:

The Rainy Day Amendment

by Steve Buckstein

Summary

The Rainy Day Amendment responds to the fact that Oregon's state budget grew twice as fast as population and inflation over the past ten years. It offers the best features of the Colorado spending limitation, which led to strong economic growth during the boom, while avoiding the worst features that kept Colorado from easily adjusting to the bust.

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What if Oregon could enjoy the fastest economic growth rate of any state over the next five years? What if, over the next two years, Oregon could build a rainy day fund in excess of $2 billion to help cushion inevitable economic downturns?

The first scenario above is what actually happened in Colorado from 1995 through 2000, the first five years of its citizen-imposed spending limitation, known there as TABOR, or Taxpayer Bill of Rights.

The second scenario is what forecasters predict will happen here over the next two years if Oregonians pass a spending limitation on the November ballot known as the Rainy Day Amendment.

Tax and expenditure limitations are on the books in some 30 states, keeping the size of government in check through limiting either state revenue or spending. They generally do so by tying government growth to either the growth of personal income or to a combination of inflation plus population growth. Inflation plus population growth has historically been more consistent and less volatile than the growth of personal income, which can fluctuate widely.

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Colorado's TABOR amendment is actually quite different from the proposed Oregon Rainy Day Amendment. TABOR limits growth in both state and local government revenue. It requires that revenue above the limitation be returned to taxpayers, which worked well during the economic boom of the late 1990s, but which put downward pressure on government budgets during the bust that occurred in the early part of this decade. This so-called ratchet down effect caused Colorado voters to suspend TABOR for five years beginning last November.

Oregon's Rainy Day proposal limits not revenue, but expenditures. It applies only to the state, not to local governments. Revenue collected above the limitation can either be kept in a rainy day fund or returned to taxpayers at the legislature's discretion. Oregon's proposal has no ratchet down mechanism. In fact, unlike in Colorado, if state revenues decline here the government can call on the rainy day funds accumulated

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during the good times to maintain state spending. Also, as in Colorado, the legislature and citizens can vote to override the limits in the future.

The projected $2.2 billion that Oregon's Rainy Day ballot measure might keep from being spent over the next two years is being portrayed as a "loss" by opponents of the measure. They want voters to believe that such a large amount of money will starve essential state services. What they fail to acknowledge is that this money still will be collected, just not spent right away. Also, the $2.2 billion should be compared to the state's All Funds budget (currently over $42 billion) rather than to the General Fund (currently almost $12 billion).

The legislature will have wide discretion in how it applies the amendment's limit on total spending, and it will have no explicit limits on the General Fund. Legislators thus could make spending adjustments that would largely hold harmless budget items such as education, human services, and public safety which make up over 90 percent of the General Fund.

Both Oregon's Rainy Day Amendment and TABOR base their limits on growth of state population and inflation. But beyond that, Oregon's proposal gives the state more latitude to preserve excess revenues in a rainy day fund, rather than return them to taxpayers. Opponents of the measure today likely will be the first to argue for keeping those excess revenues if it passes in November.

Sustainability is such a big concept in Oregon that it should be applied to government growth as well as to the environment. Oregon's All Funds budget grew twice as fast as the combined increase in population and inflation over the past ten years—clearly not a sustainable path. Opponents of the Rainy Day Amendment have the burden to explain why state government should be allowed to grow faster than the private sector.

Oregon's tax revenues are highly variable from year to year because of our reliance on income and capital gains taxes. Programs begun at the height of a boom cannot be continued during a recession except through tax hikes or borrowing. Opponents of the Rainy Day Amendment have the burden to explain how better to cushion future economic downturns if state government continues to immediately spend every dime that comes in the door.

The Rainy Day Amendment offers the best features of the Colorado limitation, which led to strong economic growth during the boom, while avoiding the worst features that kept Colorado from easily adjusting to the bust. Oregonians who want their government to be fiscally responsible should seriously consider the opportunity it presents.

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