Oregon, 2015-16: A Politically "Blue" State with Economically "Red" Problems

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Introduction and Overview of the Session

In the aftermath of a governor's office scandal and subsequent resignation of Governor John Kitzhaber, the five month-long 2015 Oregon regular session was dominated by two major issues: a failed transportation bill and the continuing struggle to fund public education. Overshadowing but largely ignored in the session was a third issue: the increasing costs of the state's public retirement system (PERS). While the Democrats control the governor's office and the legislature with sizeable majorities, many substantial policy issues remain problematic and seemingly out-of-reach for resolution. The session began in January with Governor Kitzhaber—inaugurating an unprecedented fourth term—addressing a joint session of the legislature with "words of hope and optimism" (Lehman, 2015):

> Let us commit ourselves to a common purpose to ensure that each and every one of us in this great state has an equal opportunity to meet their basic needs; to strive to reach their full potential; to have hard work rewarded with a better life; and to leave their children better off than they were both economically and environmentally (January 12, 2015).

However, by the fourth week of the session Governor Kitzhaber's career was over, and Secretary of State Kate Brown became Oregon's second woman in the Governor's office. In her inaugural speech Governor Brown promised a new beginning:

> It's been a tough few months. The people of Oregon have had reason to question their trust in state government. Oregon has been in the national news for all the wrong reasons (February 18, 2015).

With Kate Brown taking over the Governor's Office, majority Democrats in both houses tackled a busy and partisan agenda by passing a gun control bill, legislation to implement legalized recreational marijuana, a new European style voter registration process, a bill allowing the state to retain unclaimed class action lawsuit proceeds, and an extension of a low-carbon fuel standard that angered Republicans. However, several major issues were left unresolved: new ethics legislation in the aftermath of the Governor Kitzhaber scandal, the state's fiscally unsound Public Employees Retirement System (PERS), sustainable funding for public education, and Oregon's crumbling infrastructure. So while Democrats passed some major pieces of legislation, they kicked others to future sessions. And, as with previous legislative sessions in recent decades, the Democratic majority pursued very progressive policies in a state with a dysfunctional revenue system, making it a "blue" state in policy preferences that often finds itself in the "red" due to an unstable system of taxation.

The Political Setting

With the exception of the 2010 legislative session when Republicans and Democrats had a 30-30 tie in the House of Representatives, the Democrats have had majorities in the Senate and House of Representatives since 2006 in addition to controlling the Governor's Office (see Table 1). While in much of the country Democrats have lost seats and influence in many state legislatures, Oregon has become more "blue" with Republicans unable to win any statewide positions and having only 1 U.S. House member that is a Republican (from central, eastern and southern rural Oregon). As a result of the 2014 election, Democrats picked up 2 new seats in the Senate for an 18-12 majority, and 1 new seat in the House for a 35-25 majority. However, even with larger majorities in both houses, the "…legislative session proved to be more turbulent than expected at its start" (Wong, 2015). Democrats were in the driver's seat on most issues and often seemed to disregard the other party. At the session's end, Republicans struck back by unanimously opposing a major transportation bill by denying Democrats the one additional vote needed to pass the revenue portion by the required two-thirds majority.

Table 1
Political Makeup of the Oregon Legislature 2000-2010

Year	House of Representatives		Senate	
	Democrats	Republicans	Democrats	Republicans
2000	25	35	18	12
2002	27	33	15	15
2004	25	35	18	12
2006	31	29	18	11 +1*
2008	36	24	18	12
2010	30	30	16	14
2012	34	26	16	14
2014	34	26	16	14
2015	35	25	18	12

*independent

The Economic Setting

The economy in Oregon has continued to recover from the great recession. Job growth in 2015 has returned to mid-1990s levels with 3.3 percent annual growth leading to more than 57,000 new jobs (Office of Economic Analysis, 2016). In addition, economic forecasts have Oregon exceeding the national average for percentage growth in personal income, growth in wages and salaries, growth in nonfarm employment, and growth in private sector employment. However, while Oregon's forecasted wage and salary gains and employment gains are outpacing the typical state, income and wage levels in Oregon are also lower than the typical state as well. According to the Oregon Office of Economic Analysis, Oregon wages in May of 2015 were about 92 percent of the national average, the highest level relative to the nation since the great timber industry decline of the 1980s (Lehner, 2015). Even with the recovery, Oregon is projected to continue with unemployment rates higher than the national average, as it has since the 1980s (see Table 2).

Table 2
Economic Forecast

		2015	**2016**	**2017**	**2018**	**2019**
Personal Income	U.S.	4.5	4.2	5.2	5.2	5.0
% change	Oregon	5.8	5.8	6.7	6.5	5.7
Wages and Salaries	U.S.	4.8	4.8	5.3	5.1	4.9
% change	Oregon	6.3	7.1	7.3	6.6	5.5
Unemployment Rate	U.S.	5.3	4.9	4.9	4.9	5.0
	Oregon	5.8	5.6	5.4	5.6	5.6
Total Nonfarm Employment	U.S.	2.1	1.7	1.3	1.2	1.0
% change	Oregon	3.3	2.7	2.6	2.0	1.3
Private Sector Employment	U.S.	2.4	1.9	1.4	1.2	1.1
% change	Oregon	3.5	2.8	2.8	2.2	1.3

Source: Oregon Economic and Revenue Forecast, 2016.

Overall the Office of Economic Analysis sees revenues "growing strongly," with corporate taxes, lottery taxes, and personal income taxes growing at double-digit rates over the first four months of the 2015-17 biennium (Office of Economic Analysis, 2016). While revenue growth was already forecasted, the amount of growth exceeded predictions by $56 million dollars.

We now turn to three unresolved issues that have enormous implications for the sustainability of the Oregon budgeting process and economy: transportation, the Public Employees Retirement System, and public education.

The 2015 Transportation Bill

As discussed above, after 23 days in office as Oregon's new Governor after the resignation of John Kitzhaber, new Governor Kate Brown signed an extension of the

Clean Fuels Bill (SB 324), which limits the amount of carbon content in fuels, reducing it by 10% over the next decade. Republicans had warned Democrats that they would walk away from negotiations on a transportation bill if the Clean Fuels bill was passed. Republicans were deeply concerned about the potential increase in gas prices for their constituents, especially in rural areas where people drive long distances to school, work and supplies. After passage of the bill, House Minority Leader Mike McLane commented (Theriault, 2015a):

> From unsustainable fuel blending standards to food security and GMO concerns to unchecked increases in fuel prices to a federal criminal investigation, SB 324 is the latest costly government boondoggle imposed upon Oregonians. Additionally, the passage and signing of this bill has squandered away any chance of a bipartisan transportation package that would've fixed roads and bridges and improved infrastructure and public safety across the state. It's unfortunate that Governor Brown today chose to ignore the voices of middle-class and rural Oregonians.

Because Oregon's Constitution requires a three-fifths supermajority to pass a new tax—18 votes in the Senate and 36 in the House—the Democrats needed 1 Republican to cross over in the House and support the transportation bill, which didn't happen due to solid Republican opposition. The $345 million transportation funding package would have raised money for roads and bridges, etc. through fee and tax increases including: $10 increase in the vehicle registration fee; a new vehicle title fee of $125; $10 increase in driver license fee; and a $135 in crease in electric vehicle registration fees (SB 324, 2015).

A bicameral group of eight legislators secretly developed a compromise that was presented in a Senate hearing, but the proposal included cutting back the Clean Fuels Law and other provisions that alienated many Democrats and environmentalists. Nineteen Democratic House members wrote a letter to the Governor stating they opposed the legislation and the compromise attempt was over (Loew, 2015). The bill also suffered from some inaccurate calculations by the Oregon Department of Transportation (ODOT), leading ODOT Director Matt Garrett to admit that his staff overestimated the amount of greenhouse gas reductions the transportation package would produce.

Assistant Director of ODOT—Travis Brouwer—calculated that the bill's failure cost counties and cities approximately $100 million ($40 million for cities and $60 million for counties) in funds for transportation (Mann, 2015). He also stated that ODOT would be spending "…less on transportation projects over the next five years due, in part, to declining gas tax revenues caused by more fuel-efficient cars and reduced driving by Oregonians" (Mann, 2015).

Another concern about the lack of a transportation-funding bill is the potential negative impact on the economy. Two recent ODOT economic studies—"Rough Roads Ahead" and "Oregon Highways Seismic Plus Report"—suggest serious economic consequences without proper investment in transportation infrastructure. The “Rough Roads Ahead” study predicts a loss of up to 100,00 jobs by 2035 due to “slower economic growth due to deteriorating conditions” of Oregon’s highways and bridges (ODOT, 2015). Similarly, the “Seismic Plus Report” conducted an economic analysis of a Cascadia subduction zone earthquake on Oregon roads and bridges. The study concludes that the state would reduce its economic losses due to earthquake by $84 billion with investments in key bridges and highways. The study also suggests that businesses and jobs may well leave the state permanently with a destroyed infrastructure. ODOT Director Matthew Garrett has commented concerning the report (ODOT, 2015):

> Even though they’re talking about different scenarios, their conclusions are similar: Pay for needed upkeep now, or pay a lot more later, after our transportation infrastructure fails. Oregon’s future economy rides on decisions we make today about our roads and bridges.

Public Employees Retirement System (PERS)

Established by the state legislature in 1946, Oregon Public Employment Retirement System (PERS) is a comprehensive employee pension system for state and local employees. Since its creation, PERS has gone through many reforms that helped create the looming fiscal uncertainty in a system that promises more than its current funding model can cover.

Four major reforms stand out as core elements of the current system. In 1967, lobbying by the Oregon School Employees Association, the Oregon Education Association, the Oregon State Employees Association, the American Association of University Professors, and PERS itself, convinced the legislature to change the PERS program by moving from a “money purchase” system to a formula driven guaranteed pension, altering the employee contribution requirement, and establishing the Oregon Investment Council to invest funds into the stock market. The 1967 reform also provided PERS benefits to state legislators. Allowing the more flexible investment of reserve funds, which was promoted by State Treasurer Robert Straub, was truly innovative, and for a long time proved a great financial success for the system (PERS 2010). While former Governor Sprague and others challenged the legislation in the courts, it was ultimately implemented two years later.

In the 1970s, facing high inflation rates and cost of living increases, the Legislature once again passed a series of reforms to benefit pensioners including a new law in 1973 that: permitted employees to retire at age 60 with 30 years of service, or at 62 with 25 years of service; increased annual cost-of-living adjustments from 1.5 percent to 2.0 percent; increased retirement benefits by 25 percent for employees who had retired before 1968; and increased the percentage factor used to determine individual benefits thus increasing pensions (PERS 2010). The stagflation of the 1970s also created pressures for raises for public workers while the economy remained moribund. To increase take-home pay and reduce Social Security obligations, the state legislature allowed public employers (most notably the state) to “pick-up” the employee’s portion of the PERS premiums. This meant that many public employers paid both the 6 percent employer and the 6 percent employee contributions. Many local governments in PERS followed this pattern and by 2015, 72 percent of all state and local employees in Oregon make no contribution to their retirement accounts (PERS 2015).

By the 1990s there was great concern about the sustainability of PERS due to the number of employees retiring, the rate of return on investments, the 6 percent “pick-up “by the state, and the guaranteed 8 percent return on investment regardless of the performance of the stock market. Several initiatives were placed on the ballot by anti-tax organizations to reign in and limit PERS retirement benefits, but the courts found these reforms to be unconstitutional violations of employee contractual or property rights (PERS 2010). These commitments combined with the collapse of the financial market in 2008-9 and the aging public workforce to make corrective action almost unavoidable.

As part of a “grand bargain” with Republicans, Governor Kitzhaber and the Legislature passed new legislation during the 2013 special session to reform the PERS system to be more sustainable. This legislation included Senate Bill 861 to reduce cost-of-living increases potentially saving $400 million a year and reducing the system’s $14 billion dollar unfunded liability by $14 billion over 20 years. In addition, Senate Bill 862 was also passed to change how PERS benefits are calculated and removing future legislators from PERS (Zheng, 2013). However, this legislation was challenged by retirees and public employee unions in the courts, and culminated with an Oregon Supreme Court ruling in 2015 partially overturning the cost-of-living legislation (Notably, the Supreme Court Justices are also enrolled in the PERS system!). The justices ruled that it was unconstitutional to lower annual cost-of-living adjustments to for past service and that the 2 percent annual adjustment must be restored (Sickinger 2015a). Upon hearing the decision, PERS forecast “…a potential cost increase as high as $870 million in the 2017 to 2019 biennium” (Sickinger, 2015a). The Oregon Legislative Fiscal Office estimated that PERS rates for public school employers would increase by an average of 5.5 percent in 2017-19, which would lead to an additional $358 million that K-12 school districts would need to pay (Legislative Fiscal Office, 2014). The Executive Director of the Oregon School Boards Association (Jim Green), also commented: “That translates to teacher layoffs and higher class sizes” (Sickinger, 2015a). We will discuss this latter comment concerning schools in our next section of the paper.

The cost of living increases, combined with recent weaker PERS investment returns, have created a situation where the unfunded liability in the PERS system “…has more than doubled in the last year and now hovers at its highest-ever-level. The last official estimate was $18 billion. But if current investment returns hold through year end, it will exceed $20 billion” (Sickinger, 2015b). Without strong action, these increasing costs could mean drastic service reductions. Perhaps looking at the upcoming 2016 elections, the Democratic legislature made little effort to correct this complex issue in the 2015 session and the 2016 short session (Oregonian, 2016). Possibly following the pattern that legislative inaction promotes a turn to the initiative process, public employee unions are promoting a 2016 measure that could increase corporate taxes by $2.5 billion (Sickinger, 2015b).

The failure of successful PERS reform also creates a risk to the state's currently positive economic outlook. According to the Oregon Office for Economic Analysis (Office of Economic Analysis, 2016: 12):

> One risk to the outlook is the recent Oregon Supreme Court decision, which reversed earlier Public Employees Retirement System (PERS) changes enacted by the Legislature. The extent to which the court decision will impact hiring by local and state public entities is unknown, but it is a risk to the outlook.

The inherent legal and financial complexity of the PERS issue is further clouded in the public's eye by the fact that a few ex-public employees receive absurdly high benefits. While the average PERS beneficiary retiring in 2014 receives about $28,168 annually (PERS, 2015), the extreme amounts going to top recipients in the system are well publicized. Top examples include Former University of Oregon football coach Mike Bellotti ($513,000 annually), Neil Swanson, retired Oregon Health and Sciences University administrator ($463,053), Steven Goldschmidt, retired Director of Human Resources, Portland public Schools ($267,322), and David Frohnmayer, former Attorney General and President of the University of Oregon ($261,234) (Oregonian 2016).

School Funding

Education funding in Oregon has been one of the most controversial policy areas since the passage of Ballot Measure 5 in 1990 and Measure 50 in 1997, which reduced school reliance on local property taxes and increased the state's share of K-12 school funding from about 30 percent to 70 percent between 1990 and 1999 (Oregon Legislative Revenue Office, 1999). On one hand, there is a general consensus among most Oregonians that K-12 public education is perhaps the most important function of government. Public opinion surveys conducted by researchers at Oregon State University between 1992 and 2013 indicate that over 74 percent of the general public has "some" to a "great deal" of confidence in their local public school district, and public education is always among the "top three important issues" facing the state in any given year (Burns 2011; Cochran, 2015). In addition, most moderate, conservative and progressive legislators generally have been supportive of Oregon's K-12 public education system. However, at the same time, there have been frequent and numerous conflicts over school revenues (e.g., property taxes), funding levels, and specific education policies. And, as with many other policy issues in Oregon, there are very progressive ambitions with a limited budget. Nothing epitomizes this more than Oregon's "40-40-20" education plan.

Governor Kitzhaber and the Oregon Legislature adopted SB 253 in 2011, which established the "40-40-20" goal for the state. This goal states that by 2025, 40 percent of Oregonians should have a baccalaureate degree or higher, 40 percent should have an associates degree or certificate, and 20 percent should have a high school diploma or equivalent. The ambitiousness of this goal is impressive, since in 2015 only 31 percent of Oregonians had bachelors degrees, 17 percent had associates degrees and 10 percent have not earned a high school degree. Meanwhile in 2013, Oregon had the highest high school dropout rate in the nation (Johnson, 2015). Despite this lofty goal, few resources have been put into place to realize such outcomes until the 2015 session. For example, a national study by the Urban Institute found that between 2000 and 2014, Oregon cut higher education funding more than all but one state (Baum and Johnson, 2015; Read, 2015).

As the discussion of the PERS system above illustrates, there are very serious pressures on K-12 and higher education budgets in Oregon with rising and unsustainable retirement costs, rising tuition at public universities and colleges, one of the highest high school drop out rates in the country, and some of the largest K-12 classes in the country. A recent editorial in the Oregonian newspaper describes the situation as follows (Hammond, 2016):

> Oregon's graduation rates for many groups of students—including whites, Latinos, blacks and low-income students—remain among the worst in the nation. At least 42 other states already had a higher rate for each of those groups last year. And Oregon is likely to rank worst or second-worst again this year for the graduation rate of its white students, now 76 percent.

While there have been improvements in graduation rates the last couple of years, the situation still remains dire.

During the 2015 session, majority Democrats in the House introduced HB 5017, which included $7.255 billion for K-12 education. This was a substantial increase from the previous biennium and increased overall funding for K-12 plus funded all-day kindergarten statewide. However, the amount of funding still had negative consequences for some school districts that had flat budgets or even minor cuts. The Republicans offered a $7.56 alternate plan, but would pay for their plan with cuts to public safety and human service programs. The debate in both chambers over HB 5017 was rancorous with Senate Republicans even marching in unison off the floor in protest. Ultimately, though, HB 5017 passed both chambers without a single Republican vote. Governor Brown signed the bill on April 9 and promised more revenues for K-12 if revenue forecasts looked better (Theriault, 2015b). However, one silver lining for some school districts was that property values increased over the previous year producing another $125 million from taxes.

After passage of the bill, Senate Majority Leader Diane Rosenbaum commented: "I know we can do better. But this budget is responsible, it's realistic and it's what we have to do" (Kullgren, 2015). On the other hand, Senate Minority Leader Ted Ferriolli remarked: "I can't believe anyone is really happy with the state of Oregon education. What we would like, what we need, what we're asking for, is for listening and cooperation. That's far more important than making a partisan stand on a number" (Kullgren, 2015). The fundamentals of K-12 funding remain problematical. A significant amount of the 2015 increase must pay for the new universal free pre-K education program, and the backlog of underfunding and the looming problems of PERS cast a pall over the future.

As for higher education, the 2015 session provided $550 million for community colleges and $665 million for public universities. This meant a 22 percent increase in state support for public universities and an 18 percent increase for community colleges. It raised state support per university full time equivalent from $5,194 to $6,455, however this amount is less than what the state was providing in the 1999-2001 biennium (adjusted for inflation). The university presidents of the University of Oregon, Oregon State University and Portland State University calculated that it would take a $755 million budget to just get back to pre-recession levels of support. An editorial in *The Oregonian* further commented (Sarasohn, 2015): "The budget is a major step forward, but it gets Oregon from being one of the bottom five states in higher education support to somewhere in the bottom 10." Ben Cannon, the Executive Director of the Oregon Higher Education Coordinating Commission further states (Read, 2015): "Oregon's enrollments and disinvestment in higher education exceeded virtually every other state in the nation. The majority of universities revenue used to come from the state." Now, however, it is tuition and fees, increasingly from international and nonresident students at the University of Oregon and Oregon State University, where budget shortfalls are being covered.

The 2015-17 Budget Highlights

Oregon's state budget includes the Total Funds budget, the General Fund/Lottery Funds budget, the Other Funds budget, and the Federal Funds budget. State departments and agencies have their own mixture of reliance on these budgets. Where the money comes from has important consequences for the agency. The largest component of the budget is "Other Funds," but in terms of discretion and political significance, the General Funds take precedence. When legislators and reporters use the term "state budget," they generally are referring to the General Fund, although this can depend on the context and purposes of the commentator. Meanwhile, total lottery resources are used for dedicated transfer, debt service payment, program allocations, and the ending balance.

In the 2015-17 Governor's Budget, Kitzhaber proposed three priorities for spending in Oregon that are still adopted by his successor Kate Brown, i.e. investing in children and families, creating good jobs, and building statewide prosperity. As revenue growth remains strong, especially in personal income tax collection, additional investments in education, especially in state school funds, are made possible.

For the 2015-17 biennium, the legislative adopted budget has $68.983 billion in total funds, $18.899 billion in the General and Lottery Funds, $28.523 billion in Other Funds, and $21.561 billion in Federal Funds. This amount is basically 4.4 percent higher than the 2013-15 legislative approved budget of $66.047 (Legislative Fiscal Office 2015: 1).

Although the growth in total funds is basically the lowest since the 1987-89 biennium, in terms of General Fund expenditures the legislative adopted budget continues to experience a significant double-digit growth. Basically, this 2015-17 budget was based on the May 2015 economic and revenue forecast released by the Office of Economic Analysis of the Department of Administrative Services.

Figures 1 and 2 show the allocations of the 2015-17 legislation adopted budget for Total Funds as well as for the General Fund and Lottery Funds. Out of the $68.98 billion Total Funds for the biennial 2015-17, the majority of the budget goes to human services, which counts for $29.70 billion, or 43.1 percent of the total funds. However, counting on the General Fund and the Lottery Funds alone, as much as 51.7 percent of the budget is allocated to education, which comprises 39 percent for K-12 education and 12.7 percent for other education programs. Meanwhile, human service counts for only 25.6 percent of the General Fund and Lottery Funds (Legislative Fiscal Office 2015:1-2).

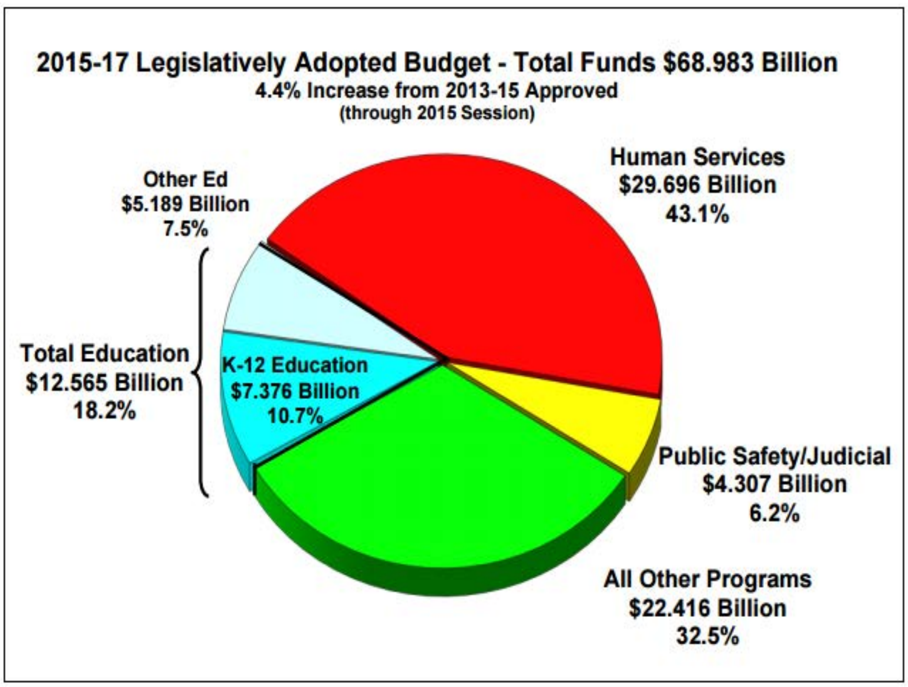

Figure 1. Legislatively Adopted Budget—2015-17
(*Source*: Legislative Fiscal Office 2015)

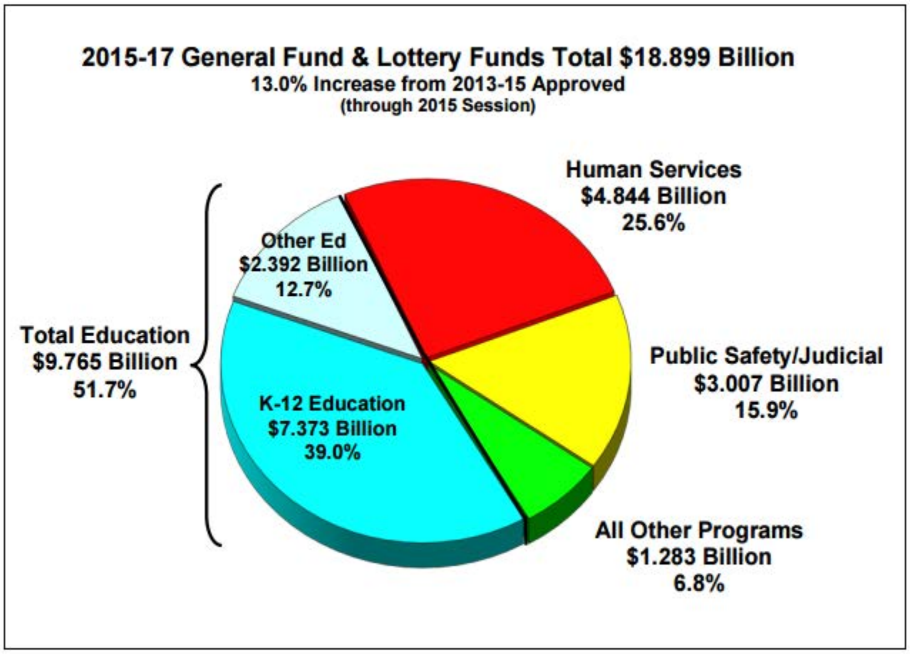

Figure 2. General Fund and Lottery Funds—2015-17
(*Source*: Legislative Fiscal Office 2015)

For the General Fund and the Lottery Funds, the Co-Chairs of the Joint Committee on Ways and Means initially set a budget of $18.509 billion based on the revenue projection from December, 2014. However, an adjustment was made after the May 2015 economic and revenue forecast that resulted in an additional $420 million in available General Fund resources for the 2015-17 budget (as compared to the March 2015 forecast). The Joint Committee on Ways and Means has then decided to direct 40 percent of the General Fund increases, which is around $106 million increases, to the State School Fund (Legislative Fiscal Office 2015:2-3).

A strong commitment toward investments in education is further shown by a continuous two-digit growth in the education budget, i.e. 16.6 percent between 2011-13 and 2013-15 and 10.8 percent between 2013-15 and 2015-17 (See Table 3 below). Basically, this reflects the state's commitment to reach the 40-40-20 goals in education (Chief Financial Office 2015: ii). However, it is not nearly enough of an investment to achieve such a goal by 2025.

Table 3: Recent Biennial Budgets, General Funds/Lottery Receipts

	2009-2011	2011-13	2013-15	2015-17
Schools K-12	$6.90	$5.70	$6.65	$7.37
Other Education	$1.59	$1.73	$1.99	$2.39
Public Safety	$2.73	$2.40	$2.14	$2.31
Human Services	$3.62	$3.80	$4.28	$4.84
Natural Resources	$0.36	$0.32	$0.40	$0.37
All Other	$0.45	$0.60	$1.26	$1.60
Total	**$15.85**	**$14.70**	**$16.73**	**$18.90**

Note: Figures in Table are in billions.
(*Source*: 2015-17 Budget Highlight, Legislative Fiscal Office, September 2015, p. 6).

Basically, most Oregon General Fund revenues come from personal income tax collections. For the 2015-17 legislative adopted budget, personal income tax collection is expected to count for 87 percent of the total General Fund revenues. Based on the latest economic and revenue forecast in March 2016 (the Office of Economic Analysis 2016), personal income tax revenues keep expanding at a two-digit annual rate. Table 4 below shows that personal income collection in the 2015-17 biennium has reached the amount of $15.69 billion, an increase of 12.39 percent compared to the 2013-15 biennium. Meanwhile, incomes from the corporate tax, cigarette and other tobacco product taxes, and other taxes such as insurance and estate taxes, remain the same compared to the previous biennium's revenues.

Table 4: General Fund (GF) and Lottery Revenues, 2005-2017

	2005-07	2007-09	2009-11	2011-13	2013-15	2015-17
Personal Income Tax	$9.95	$11.20	$13.10	$12.00	$13.96	$15.69
Corporate Income Tax	$0.46	$0.65	$0.88	$0.95	$1.12	$1.13
Cigarette & Tobacco Taxes	$0.11	$0.88	$0.11	$0.13	$0.13	$0.13
Other Taxes	$0.58	$0.58	$0.56	$0.54	$0.32	$0.34
Other income	$0.12	$0.16	$0.19	$0.74	$0.58	$0.71
Beginning Balance		$1.40				
Total General Fund	**$12.00**	**$15.01**	**$15.98**	**$14.17**	**$17.11**	**$18.01**
Lottery Income	$0.77	$1.10	$1.50	$0.95	$1.06	$1.12
Total General Fund & Lottery	**$12.00**	**$15.01**	**$15.98**	**$15.31**	**$17.17**	**$19.13**

Note: Figures in Table 3 are in billions.
(*Source*: Oregon Economic and Revenue Forecast Volume XXXV, No. 1, March 2015, Office of Economic Analysis, Department of Administrative Service).

While personal income tax collection continues to expand, the March 2016 economic and revenue forecast reports that in the first six months of the 2015-17 biennium, collections of corporate taxes are falling below the forecast, while incomes from the cigarette tax are growing beyond the forecast. A contraction in corporate tax collection is largely due to rapid appreciation of the U.S. dollar globally, which resulted in a decline of corporate profit throughout the nation (Office of Economic Analysis 2016: 22). Meanwhile, a slight increase in cigarette tax revenues is expected as cigarettes sold in 2015 were 2.7 percent higher than in 2014, which counts for an approximately 360,000 packs more. Several reasons may explain this increase in cigarette sales, among others are the interplay between tax policy and tax rates in Oregon and Washington, the increases of disposable income due to lower gas prices, and a slow sale in e-cigarette as a substitution good (Office of Economic Analysis 2016: 24).

Meanwhile, income from the Lottery sales has been very strong after experiencing a decline in the 2009-11 biennium. Recent collections have surpassed the projected incomes for the biennium 2015-17. In just three months after the December 2015 outlook, actual sales of Lottery games and programs have reached $16.3 million above the forecast, with $9 million of this amount is due to the record setting Powerball jackpot and the rest to the strong sales record. Yet, this performance is sensitive to risks, thus cannot be guaranteed over a longer period.

Conclusion

Oregon is currently experiencing strong revenue growth, especially from personal income tax collections that are expanding at nearly a double-digit annual rate. This means that Oregon's General Fund revenues are expected to continue growing to support the 2015-17 budget framework. However, personal income tax collection could face serious challenges in the future. The Office of Economic Analysis (2016:25) mentions that:

> Revenue growth in Oregon and other states will face considerable downward pressure over the 10-year extended forecast horizon. As the baby boom population cohort works less and spends less, traditional state tax instruments such as personal income taxes and general sales taxes will become less effective, and revenue growth will fail to match the pace seen in the past.

Therefore, in the face of a threat of contracting personal and corporate tax collections, the failed 2015 transportation package, the costly Public Employees Retirement System and public education funding, Oregon may experience difficulties in maintaining a balanced budget-revenues in the future. At the same time, Oregon continues to aspire to a very expensive progressive policy agenda dependent on continued revenue growth.

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