

## Portland State University PDXScholar

---

Institute of Portland Metropolitan Studies  
Publications

Institute of Portland Metropolitan Studies

---

2007

### Public finance : differences, similarities, and no quick fixes

Steve Novick

Let us know how access to this document benefits you.

Follow this and additional works at: <https://pdxscholar.library.pdx.edu/metropolitanstudies>

 Part of the [Urban Studies and Planning Commons](#)

---

#### Citation Details

Novick, Steve, "Public finance : differences, similarities, and no quick fixes" (2007 Metropolitan Briefing Book, Institute for Portland Metropolitan Studies, Portland State University)

This Article is brought to you for free and open access. It has been accepted for inclusion in Institute of Portland Metropolitan Studies Publications by an authorized administrator of PDXScholar. For more information, please contact [pdxscholar@pdx.edu](mailto:pdxscholar@pdx.edu).

# PUBLIC FINANCE: DIFFERENCES, SIMILARITIES, AND NO QUICK FIXES

by Steve Novick, Pyramid Communications

Candidates for office, in every place and at every level of government, often talk as if they think they will be able to revolutionize both government services and the local (or state, or national) economy by, in some way, changing the structure of public finance. They'll improve funding for basic services by prioritizing government spending. They'll boost the economy by cutting taxes. They'll replace an outdated, irrational structure by reforming taxes. They'll make corporations and the rich pay their fair share. Et cetera.

A review of the structure of public finance in the Portland metropolitan region suggests that any and all such pronouncements should be taken with a number of grains of salt. The following pages address how Oregon, Washington, the six metropolitan counties, and a sampling of cities and school districts raise and spend money. But for those with limited time, I offer the following summary:

*There is no Promised Land of Public Finance in the Portland-Vancouver metropolitan area.*

*Prioritization has limited promise.*

Wherever they are, governments spend most of their money on the same things:

- Cities spend a lot of money on police and fire. They also usually provide sewer and water service. And they have streets and street lights to maintain.
- Counties spend a lot of money on jails and social services (mental health, etc.).
- States spend money on education, health care and other "human services," and public safety. They also spend dedicated revenues on the services they are dedicated to – e.g., gas tax money on roads. As a percentage

of General Fund spending, Washington spends significantly less than Oregon on public safety, and significantly more on health / human services.

- School districts spend most of their money on personnel – teachers, bus drivers, cafeteria workers, custodians, principals, librarians, speech pathologists — and relatively little on 'administration.'

These facts do not preclude some differences in spending patterns, and some room for different choices. However, when you hear any politician saying (as they often do) that we should "focus on the basics—education, health care and public safety," or that "schools should put the money where it belongs—in the classroom, not into administration," you might well ask, "What the heck are you talking about? Isn't that what we already do?"

*Be suspicious of claims that changing the tax structure will revolutionize the economy, and recognize that self-interest rather than careful study often motivates such claims.*

It would be difficult to find two states with more different tax structures, as far as State government itself is concerned, than Oregon and Washington. State and local taxes are higher in Washington than in Oregon, and, in particular, businesses pay a much higher share of total tax revenues. But in both states, strong elements of the business community make the same claim: that the tax structure is unfriendly to business. And Washington's economic performance, compared to Oregon's, casts severe doubt on the argument that either total taxation or business taxation is a major drag on economic growth.

Recognize that “making businesses pay their fair share” and “making the wealthy pay their fair share” are not the same thing.

Businesses pay a much larger share of total taxes in Washington State than in Oregon. But according to the liberal Institute for Taxation and Economic Policy, which applies “incidence modeling” to determine who ultimately really pays taxes, not just who writes the first check, the rich pay a much larger share of total taxes in Oregon than in Washington (McIntire et al., 2003). The fact that Oregon has a progressive income tax, and Washington has a regressive sales tax, is not offset by the larger business share in Washington. Incidence models indicate that businesses do, in fact, pass on much of the cost of taxes—especially taxes on all business revenues (as opposed to profits), like Washington’s—to their customers, many of whom, obviously, are low- or middle-income.

*Health care costs are a big deal and a source of terror for all levels of government.*

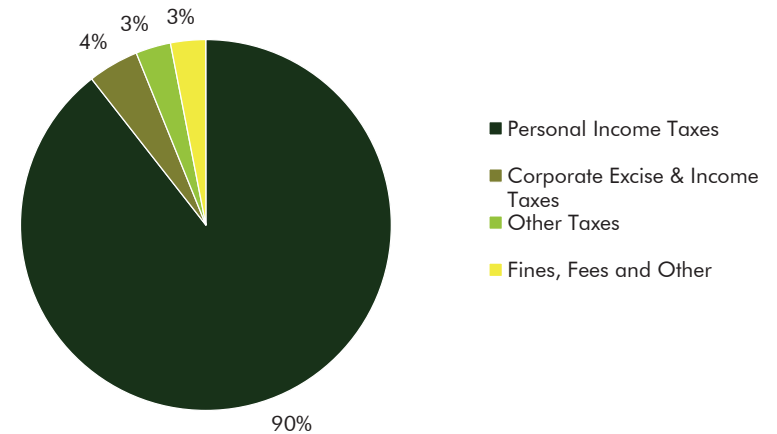
Governments tend to be involved in labor-intensive businesses. As long as workers would like to have health insurance, and health insurance costs continue to rise, government money managers—like many private business owners—will sleep uneasily.

Everyone always thinks the grass is greener on the other side of the fence. But there is no Promised Land of Public Finance in the Portland metropolitan area. Those who feel the City of Portland is committing economic suicide by driving businesses across the river through the business tax might be surprised to learn that the City of Vancouver has been considering restoring a local business and occupation tax. Those who think that the City of Portland has unique budget problems may be surprised to learn that Hillsboro is beginning to question whether it can remain a full-service city in the future.

### A Tale of Two States

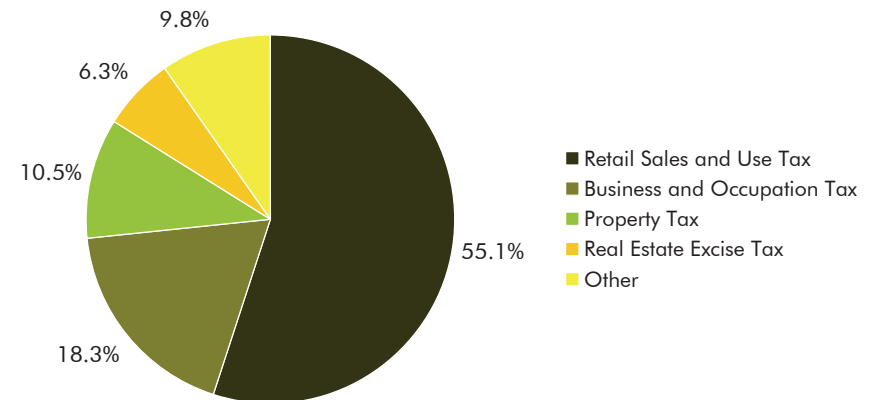
Oregon and Washington raise money in dramatically different ways. They spend it on pretty much the same stuff, but Washington spends much less on prisons and public safety.

Washington famously has no income tax. Oregon famously has no general sales tax. Figures 1 and 2 show the percentage of general fund revenue generated by each revenue source for Oregon and Washington in their 2005-2007 budgets, respectively.



**Figure 1: Oregon General Fund Revenue Sources, 2005-07**

Source: State of Oregon, Legislative Fiscal Office. 2006. 2006 Oregon Public Finance: Basic Facts. [www.leg.state.or.us/comm/lro/rr1\\_06\\_oregon\\_publicfinance\\_basicfacts.pdf](http://www.leg.state.or.us/comm/lro/rr1_06_oregon_publicfinance_basicfacts.pdf)



**Figure 2: Washington State General Fund Revenue Sources, 2005-07**

Source: State of Washington, Economic and Revenue Forecast Council. 2006. Washington Economic and Revenue Forecast, September 2006

While Oregon relies on the personal income tax for over 89% of its general fund revenue, Washington has a significantly more diverse revenue base. The retail sales tax, by contrast, is expected to generate 'only' 55.1% of Washington's 2005-2007 revenue. Washington's "business and occupation tax" will generate 18.3 percent of its General Fund revenue in 2005-2007. As the Washington Department of Revenue explains, "The state B&O tax is a gross receipts tax. It is measured on the value of products, gross proceeds of sale, or gross income of the business. Washington, unlike many other states, does not have an income tax. Washington's B&O tax is calculated on GROSS income from activities. This means there are no deductions from the B&O tax for labor, materials, taxes, or other costs of doing business." Furthermore, Washington's sales tax is levied not only on purchases by final consumers, but also on business-to-business purchases, further increasing the initial incidence of taxes on business.

Oregon's corporate income tax is applied only to corporate profits, as opposed to gross revenues. The tax generates only 4.4% of Oregon's General Fund revenue.

Another major difference between Oregon and Washington is that Washington has a hefty real estate excise tax (the state tax rate is 1.28%; there are also local levies) which is expected to generate 6.3% of Washington's revenue in 2005-2007. And Washington has a state property tax, generating 6.3% of its general fund revenue.

Oregon, with its state-sponsored video gaming machines, relies much more heavily on its Lottery than Washington. The Lottery will add \$830 million to state coffers in 2005-07; some of that money is dedicated, but most is simply mixed in with Oregon's \$11.639 million General allocation for schools and other services. Washington's Lottery, by contrast, generates about only \$200 million per biennium.

Finally, the two revenue systems result in a different long-run response to growth. As explained by economist Paul Warner at the Oregon Legislative Revenue Office,

Oregon's income taxes will grow over time faster than the overall economy, though at an unstable rate. Washington's sales tax dominated system is less responsive to income growth and therefore will not grow as fast as the economy in the long run.

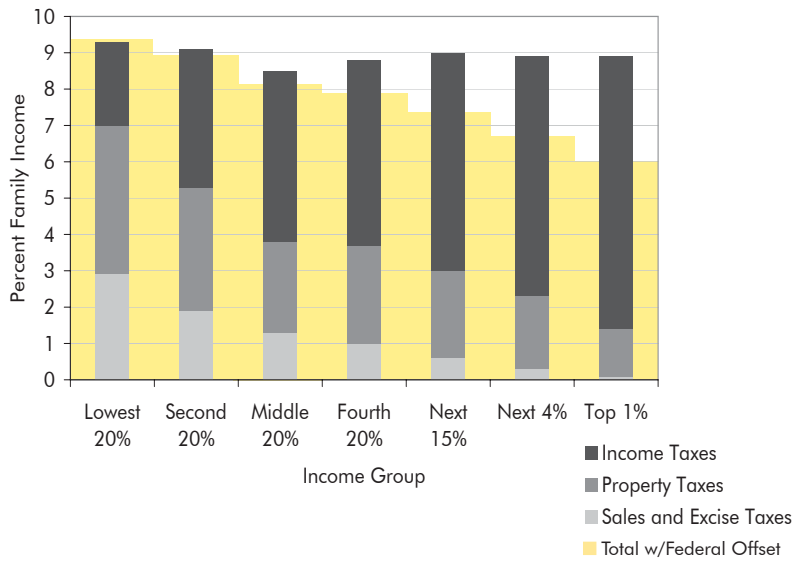
As a percentage of personal income, Washington's total state and local taxes rank 30th in the United States, according to the Tax Policy Center (2006), compared to Oregon's 43rd. Oregon ranks higher in the category of "own source revenue" when fees, such as college tuition, are included in the mix. College tuition is a significant factor because Oregon has proportionately more students in state universities than does Washington while providing less state support for students.

But should Oregon leftists call for the immediate adoption of Washington's business-taxing revenue system? Not so fast, comrades. According to the left-leaning (and well-respected) Institute for Taxation and Economic Policy, Washington's tax system hits the poor and middle class much harder than the rich, while Oregon's system is relatively flat. Oregon's income tax is progressive (McIntyre et al 2003). The fact that the top rate of 9% kicks in at a low-sounding level of taxable income does not make the system flat, because a significant part of most people's income is untaxed, due to exemptions and deductions. Meanwhile, a retail sales tax is inherently regressive, and for a simple reason: Poor and middle-class people spend all their money on something. Rich

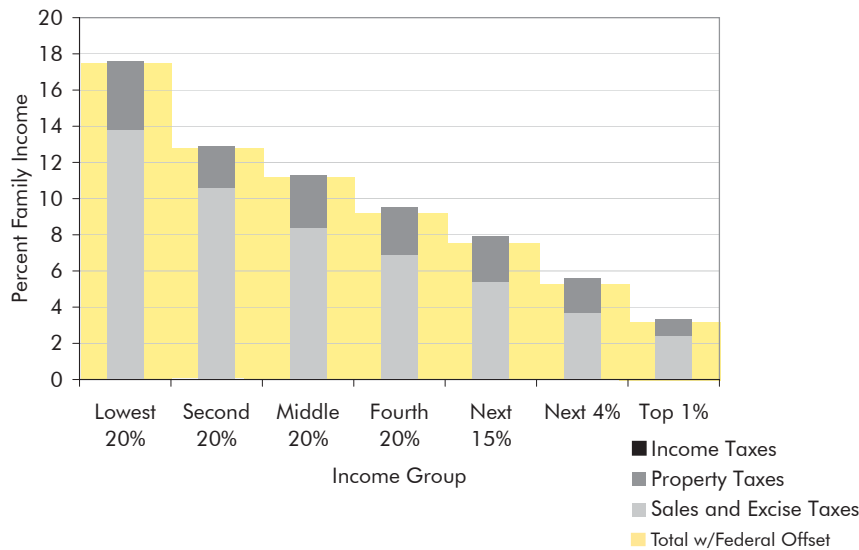
people don't spend all of theirs. Therefore, it is virtually impossible to design a sales tax that taxes the rich at the same rate as the poor. And, as noted above, economists assume gross receipts business taxes such as Washington's are largely passed on to consumers. Figures 3 and 4 take that "pass-through" effect into account (as well as other pass-through effects, such as landlords passing on property taxes to tenants).

And how do Oregon and Washington spend their money? In both states, dedicated funds are spent on what they are dedicated to—gas taxes to roads, university tuition to universities, and so forth. As Figure 5 shows, Oregon spends its discretionary "general fund" money largely on three major categories—human

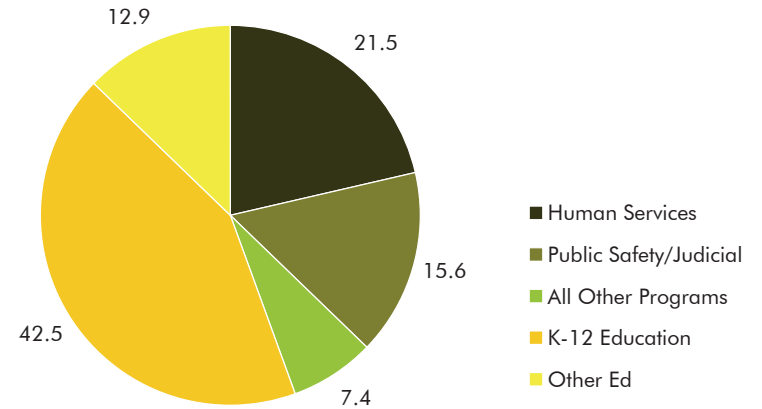
*As a percentage of personal income, Washington's total state and local taxes rank 30th in the U.S. compared to Oregon's 43rd.*



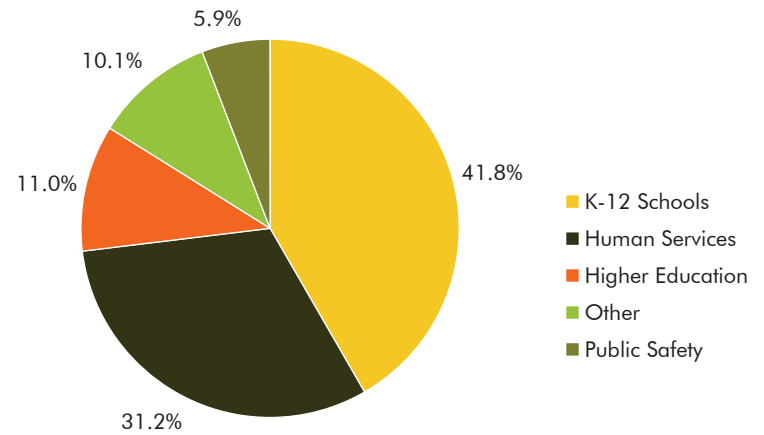
**Figure 3: Oregon Shares of Family Income Paid in State and Local Taxes, 2002**  
 a. Non-elderly taxpayers only  
 Source: McIntire, 2003



**Figure 4: Washington Shares of Family Income Paid in State and Local Taxes, 2002**  
 Source: McIntire, 2003



**Figure 5: Oregon Legislatively Approved General Fund & Lottery Funds Spending**  
 Source: State of Oregon, Legislative Fiscal Office. 2005. Analysis of the 2005-07 Legislatively Adopted Budget. [www.leg.state.or.us](http://www.leg.state.or.us)



**Figure 6: Washington General Fund Spending, 2006-07**  
 Washington State Office of Financial Management and Author's Calculations.  
 \* Public safety includes corrections, judicial, state patrol, and Attorney General.  
 Source: Senate Ways and Means Committee. 2006. A Citizen's Guide to the Washington State Budget, [www.leg.wa.gov/](http://www.leg.wa.gov/)

services (largely health care), education, and public safety (prisons, State Police). But in Oregon, public safety takes up 15.6% of the general fund/Lottery budget, while in Washington only 5.9% goes to these programs. One explanatory factor is that Washington locks fewer people up; while Washington has 173% of Oregon's total population, it has only 134% of Oregon's prison population, meaning that proportionally, Washington's prison population is 22.6% smaller than Oregon's.

### The Property Tax: Capped on Both of the Columbia's Shores

Schools, cities and counties—the three forms of government addressed below—all receive a significant portion of their money from the property tax. On both sides of the Columbia, property taxes are subject to severe restrictions.

In Oregon, Measure 5, passed in 1990, limited property tax rates to no more than \$5 per \$1,000 of real market value for schools, and \$10 per \$1,000 for other local governments. Then, in 1996-1997, Measure 47 (modified by the Legislature and re-passed as Measure 50) limited increases in taxes on any given property to 3% per year. Unlike California's Proposition 13, Measure 50 does NOT provide that the property is reassessed at its real market value when it is sold. (Interestingly, based on anecdotal evidence, many Oregonians seem to be under the false impression that it is reassessed.) Measure 50 exempts local option voter-approved taxes for no more than five years, but such measures have to stay within the Measure 5 limits.

Washington passed its own property tax limitation initiative, I-747, in 2001. The initiative is even more restrictive than Measure 50, limiting growth in levies at the district level rather than taxes on individual properties, and applying a lower limit. As the Washington Department of Revenue explains on their website, <http://dor.wa.gov/>.

*"I-747 limited the increase in taxing district levy amounts to 1% each year, plus additional amounts for new construction. It did not limit the amount of tax paid on individual properties or the rate at which assessed values may increase. Additionally, voter-approved levies (such as school district maintenance and operation levies) are not subject to the 1% limitation."*

### The Schools: State-Dependent . . . With One Exception

With one significant exception, schools in the region get the largest share of their operating money from the State government—whichever State government you're talking about. The exception is Portland, where, in the 2004-2005 school year, local property taxes narrowly beat out state support as the largest funding source.

Oregon's statewide school funding "equalization" formula in effect says: "We're going to try to ensure that everyone – more or less – gets the same amount of money per student. Here's how we'll do that. We'll figure out how much total property and income tax money schools will have statewide. We'll divide that by the number of students to get a per-student target. Then we'll look at how much each district can raise through property taxes under Measures 5 and 50, and subtract that from the total amount you're going to get. We'll then give each district enough income tax and Lottery money to reach that per-student target."

This strategy means that a district like Portland, with lots of valuable property but a smaller student population per capita than surrounding districts, ends up paying a larger share of its own students' costs from local sources, the biggest of which is property taxes. The figures in Table 1 for 2004-2005 (the last year for which the Oregon Department of Education has final audited figures) leave out a number of local sources of funding, such as athletic and cafeteria fees, but highlight this important fact.

**Table 1: Local versus state support for selected school districts, 2004-05**

District	Property tax (\$Millions)	State support
Gresham-Barlow	\$17.90	\$53.30
North Clackamas	\$32.80	\$64
Hillsboro	\$40.70	\$70
McMinnville	\$7.50	\$27.60
Scappoose	\$4.90	\$7.50
Portland	\$170*	\$163

Source: Oregon Department of Education  
\*including \$17 million in 'local option' taxes

In 2004-2005, Gresham and Portland also received significant funding from the now-defunct Multnomah County income tax.

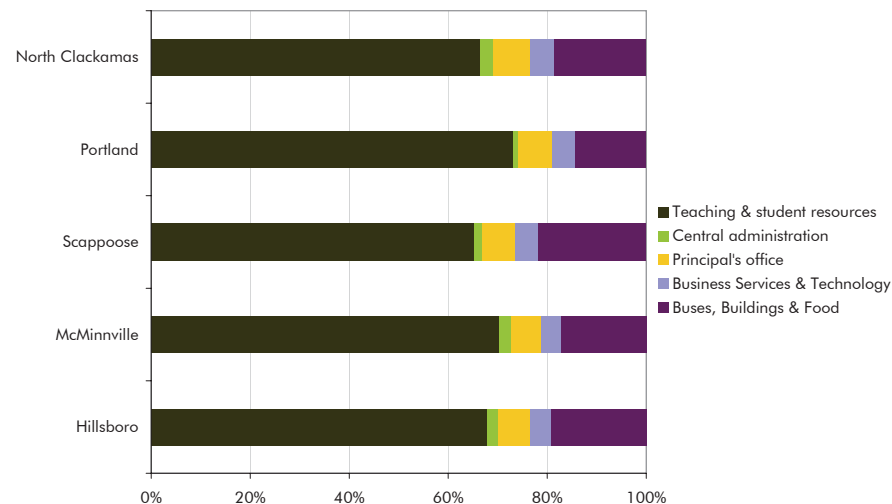
Washington State has its own version of a statewide, semi-equalized school funding formula: Most of the money comes from the state, on a more or less per-student basis, but districts are allowed to levy property taxes, up to a certain percentage of its state and federal funding. The Vancouver school district receives 69% of its operating funds from the State of Washington, and recently passed a four-year local property tax levy.

In August, the Vancouver School District adopted its 2006-2007 budget. Oregonians affected by the “grass is greener on the other side of the river” bug might want to read the press release accompanying the budget adoption (Vancouver Public Schools, 2006):

*“Like other school districts in Washington state and elsewhere, Vancouver School District has been faced with increasing costs and diminishing resources (in terms of real dollars) for the past several years. Cost increases include fuel for school bus transportation, utilities, and health care benefits for employees . . . Over the past four years, the district has made budget reductions and realigned resources totaling nearly \$11 million . . . Additional reductions, totaling nearly \$4.4 million, are included in the 2006-07 budget. The bulk of the reductions have come from the central office and operations . . . Changes in the 2006-07 budget that will affect students include reductions in the swim program, a decrease in intramural programs for middle schools (by 33%).”*

What does the future of school funding look like in the region? Clearly, the health of school budgets will mirror the health of state budgets. Another major factor in the health of school budgets will be rising health care costs. Education is a labor-intensive business, and employees like to have health insurance; but costs keep rising. North Clackamas has been relatively successful at controlling health insurance costs over the past few years. But asked for his fiscal wish list for the next five years, Superintendent Ron Naso quickly responded: “Some kind of universal health care.” Without that, Naso said, his district is “at the mercy of where hospital and pharmaceutical costs are going to go.”

How do Oregon schools spend their money? For Oregon schools, the Chalkboard Project’s “Open Books Project” is a reliable source of data. Figure 7 provides their data for Hillsboro, McMinnville, Scappoose, Portland and North Clackamas.



**Figure 7: School District Spending by Category, 2004-05**  
Source: [www.openbooksproject.org](http://www.openbooksproject.org)

### Hot Time, Money in the Cities

Cities rely much more on “fee for service” than do other governments. Water and sewer services, paid for by businesses and homeowners, are major portions of most cities’ budgets. The funding sources for the major general government services, such as police and fire, vary somewhat. But every city in the region relies significantly on property taxes to pay for those services. Taxes on utilities (such as natural gas, electrical service, and cable service) are also a significant factor. Table 2 summarizes general fund revenue and spending categories for a few cities in various parts of the region.

**Table 2: City General Fund Revenue Sources and Spending Categories**

	Hillsboro	Lake Oswego	McMinnville	Portland	Vancouver
Revenues	2006-07	2005-07	2006-07	2006-07	2005-06
Property Taxes	65.60%	18.30%	39.60%	37.40%	33.10%
Other Taxes	0.00%	0.00%	0.00%	15.10%	44.60%
Fees and Service Charges	21.10%	66.10%	38.60%	20.20%	13.50%
Intergovernmental Revenue	3.00%	13.90%	9.10%	9.40%	4.50%
Other Revenues and Transfers	10.30%	1.80%	12.80%	17.90%	4.30%
Total general fund, less beginning balances	100.00%	100.00%	100.00%	100.00%	100.00%

Expenses					
Public Safety	51.60%		50.50%	49.20%	50.80%
Parks Recreation and Culture	14.80%		0.00%	11.00%	8.70%
Libraries	8.50%		12.80%	0.00%	0.00%
Planning and Development	0.00%		4.80%	10.10%	5.10%
Transportation, Utilities and Public Works	6.20%		12.20%	1.60%	14.90%
General Government, Reserves, and Other	19.00%	100%	19.70%	28.00%	20.50%
			0.00%	0.00%	0.00%
Total	100.00%	100.00%	100.00%	100.00%	100.00%
General fund, pct. total budget	22.13%	10.48%	21.40%	16.01%	75.87%

Note: Beginning fund balances are not included in revenue calculations; “other” includes reserves and contingencies. Sources: City of Hillsboro, 2006. 2006-07 Budget. [http://www.ci.hillsboro.or.us/Finance/Budget\\_Info.aspx](http://www.ci.hillsboro.or.us/Finance/Budget_Info.aspx); City of Lake Oswego. 2006. Lake Oswego Finance. 2005-07 Budget. <http://www.ci.oswego.or.us/finance/Budget05-07/Message.htm>; City of McMinnville. 2006. Finance Department. 2006-2007 Adopted Budget <http://www.ci.mcminnville.or.us/city/departments/finance-department-2006-2007-budget/>; City of Portland. 2006. Adopted Budget Fiscal Year 2006-07, Volume One. Bureau of Budgets, Programs and Services. <http://www.portlandonline.com/shared/cfm/image.cfm?id=125246>; City of Vancouver. 2006. 2006-2006 Biennial Budget. [www.ci.vancouver.wa.us/budget/](http://www.ci.vancouver.wa.us/budget/)

The City of Vancouver, like the Oregon cities, spends the biggest portions of its money on police, fire, streets, utilities (water and sewer) and parks / recreation. Unlike the Oregon cities, Vancouver has a local retail sales tax, which provided 18.7% of its 2005-2006 General Fund revenue.

Portland business leaders (and not just conservative anti-taxers) often cite the Portland business license fee as a drag on the economy and a reason to move somewhere else—possibly across the river, to Vancouver. So Oregonians might be surprised to learn that Vancouver is currently considering restoring its own, local B&O tax after having phased out such a tax between 1993 and 2002. The City explains this move by citing revenue losses due to initiatives—the property tax limitation, I-747, and I-695, which eliminated the motor vehicle excise tax.

In an August opinion piece in the Vancouver Business Journal, City Manager Pat McDonnell wrote:

*“Limitations on local taxing authority have left the City Council with few viable options to fund the services our community says are most important – police and fire – and to make critical investments in our transportation infrastructure ... A business and occupation tax is currently the only tool we can use to begin to address the basic transportation and public safety needs of our community.”*

The proposed tax would start at \$1.10 per \$1,000 of gross receipts and rise to \$1.50 by 2010.

Oregon cities also have concerns about the future, as a recent conversation with Hillsboro Mayor Tom Hughes suggests:

*“One thing that people might not realize is that in the context of our revenue system—no sales tax, capped property taxes, income taxes collected and distributed statewide instead of locally—having a strong local economy has a only a limited ability to improve the funding picture for public services,” said Hillsboro Mayor Tom Hughes. “It’s great to have Intel there, and having good jobs drives up home values, but the City doesn’t get the full benefit of rising housing values, because of 47/50. It’s nice when CostCo opens, but it’s not as if the City will capture revenue from a local sales tax. Having become the high tech corridor for the region, we have had to increase our level of services in areas like intellectual property crime.”*



And according to Rich Rodgers, a staffer for Portland City Commissioner Erik Sten who follows budget issues,

*“This year, we have enough money to pay for current services—even enough to pay for some one-time extras. But if you look out over five years, rising health care costs for employees start making it impossible to maintain current services—just as they do for every other government, and just as they cause problems for every labor-intensive business. And even now, we don’t have the resources we would need to maintain the on-duty strength we want in police and fire. In the long run, of course, we have to be really worried if we ever have severe inflation, because in that case, the Measure 50 3% limit on property tax increases—which has no inflation adjustment—will kill us.”*

### County Revenue and Spending

The counties in the region do not report their information in the same way, and they do not provide exactly the same services, making comparisons somewhat difficult. For instance, Clark County, unlike Multnomah County, has its own sewage treatment plant and administers solid waste collection, disposal and recycling. Thus, the “public works” component of Clark’s budget is proportionally larger than the equivalent portion of Multnomah budget would be if Multnomah had a “public works” budget category, which it does not. Similarly, Multnomah County maintains a large library system, yet libraries are often a city responsibility.

With that caveat, we have collected an assortment of on-line information on the general fund budgets of the six metro area counties (Table 3).

**Table 3: County Revenues and Expenditures**

	Clackamas	Clark	Columbia	Multnomah	Washington	Yamhill
	2004-05	2005-06	2006-07	2006-07	2006-07	2006-07
<b>Total Revenues<sup>1</sup></b>						
Property Taxes	16.4%	21.8%	43.7%	24.6%	19.5%	22.3%
Other Taxes	0.0%	10.7%	1.5%	10.2%	2.2%	0.0%
Fees and Service Charges	16.5%	21.4%	0.0%	31.1%	18.0%	33.5%
Intergovernmental Revenue	24.7%	21.8%	19.3%	29.3%	28.2%	37.5%
Other Revenues and Transfers	42.4%	24.2%	35.5%	4.9%	32.0%	6.7%
Beginning Balance		0.0%	13.9%	18.8%	46.4%	33.5%
Total less beginning balance	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
<b>Total Expenses</b>						
Public Safety	10.76%	18.7%	26.2%	21.0%	14.5%	68.0%
Parks and Recreation		0.0%	6.3%	0.0%	2.7%	0.0%
Libraries		0.0%	0.0%	5.0%	0.0%	0.0%
Planning and Development		3.9%	5.4%	0.0%	0.0%	0.0%
Transportation, Utilities and Public Works	45.42%	26.2%	45.5%	8.0%	14.2%	1.0%
General Government and Other	23.98%	10.3%	12.5%	31.0%	8.1%	15.0%
Human and Community Services	12.47%	16.9%	3.1%	35.0%	10.5%	7.0%
Capital, Debt, and Non-operating	7.37%	23.9%	0.9%		50.0%	

1. Revenue percentages back out beginning fund balances.

Source: Clackamas County, Department of Finance. 2004. Summary of Clackamas County Budgets 2004-2005. <http://www.co.clackamas.or.us/finance/finance/revenue.htm>; Clark County. 2005. 2005-2006 Budget in Brief. <http://www.clark.wa.gov/budget/>; Multnomah County. 2006. Budget Manager’s Message, Summary of Resources 2006-07. Fiscal Year 2007 Adopted Budget; Washington County. 2006. 2006-2007 Adpoted Budget Summary Schedules and Trends; Yamhill County. 2006. 2006-2007 Yamhill County Budget. <http://www.co.yamhill.or.us/commissioners/yamhill06.pdf>

As addenda to the table, consider the following information and tidbits:

■ Counties spend heavily on public safety – jails, Sheriffs, District Attorneys, and supervision of released offenders (parole and probation). (If Dick Wolf of Law and Order were a public finance geek, the show would begin: “In the criminal justice system, the people are represented by two separate yet equally important groups — the city employees, known as police, who investigate crime, and the county employees, known as district attorneys, who prosecute the offenders. These are their stories.”) A significant portion of property tax money normally goes to public safety.

■ Counties rely heavily on state and federal funds for social services, like mental health services. Multnomah County’s \$1.15 billion all funds budget includes \$246 million in Federal / State program money. Thus, counties are at the mercy of state and federal budgeteers.

■ All counties spend money on transportation, using gas tax and other generally dedicated funds. Multnomah County’s \$1.15 billion “all funds” budget for 2006-2007 includes a \$53 million road fund and a \$41 million Willamette River bridge fund. Washington County spends more money on transportation, land use and housing (which they combine into one category) than on human services.

■ Counties get stuck with random bits and pieces of government that nobody else wants, like Elections, Assessment and Taxation, and animal control. These are included in the “General Government” category.

■ Washington County, alone among Oregon counties, is allowed to collect a real estate transfer tax – a 1/10 of 1% tax that yields several million dollars per year.

*If Dick Wolf of Law and Order were a public finance geek, the show would begin: “In the criminal justice system, the people are represented by two separate yet equally important groups — the city employees, known as police, who investigate crime, and the county employees, known as district attorneys, who prosecute the offenders. These are their stories.”*

■ Multnomah County projects that with the expiration of the local income tax, it will have a \$24 million General Fund deficit in 2006-2007.

■ In November, Washington County breathed easier after passing two local option levies to maintain library and public safety services.

■ Clark County’s web site contains the following message: “Do more with less—or if that’s not possible, spend strategically! Because population growth and the demand for county services continue to outstrip revenue sources, Clark County has prioritized its delivery of services. The focus is on services that most directly affect citizens and the community’s well-being. This is reflected in the county’s budget, with the largest segments allocated to public works and public safety projects and services.”

### **The Future of Local Public Finance**

Oregonians, at least, hear more about threats to the State and to schools than about cities and counties. But a sword of Damocles hangs above city and county heads. The Oregon 3% limit and the (rather different) Washington 1% limit on property tax “increases” posed difficulties even in an age of low inflation. But when the double-digit inflation rates of the late ‘70s and early ‘80s return (as, inevitably, at some future time, they will) property-tax dependent governments will be ruined.

Cities and counties will have to turn to special “local option” elections for most of their revenue for every service, including some that are far from warm and fuzzy. How excited will the voters be about a dedicated local option tax for code enforcement, or tax assessment? Absent a change to the property tax limitations, Oregon and Washington are probably going to have to learn the answer to that question.

## References

Hughes, Tom. 2006. Personal communication with the author, November 17, 2006.

McDonnell, Pat. 2006. City Running Out of Solutions? *Vancouver Business Journal*, August 4, 2006, accessed at <http://www.vbjusa.com/>.

McIntire, Robert S, Robert Denk, Norton Francis, Matthew Gardner, Wil Gomaa Fiona Hsu and Richard Sims. 2003. *Who Pays? A Distributional Analysis of the Tax System in All 50 States*. 2nd Edition. Institute for Taxation and Economic Policy. Accessed at <http://www.itepnet.org/wp2000/text.pdf>

Oregon Department of Education, 2006. Budget data accessed at <http://www.ode.state.or.us/data/reports/toc.aspx#Finance/Funding>

Rodgers, Rich. 2006. Personal communication with author, October 23, 2006. Vancouver Public Schools. News Release, August 14, 2006. Accessed at [www.vansd.org](http://www.vansd.org)

Warner, Paul. 2006. Personal communication with the author, Nov. 20, 2006

Washington Department of Revenue. 2006. <http://dor.wa.gov/content/taxes/busoccupation/#WhatIs>