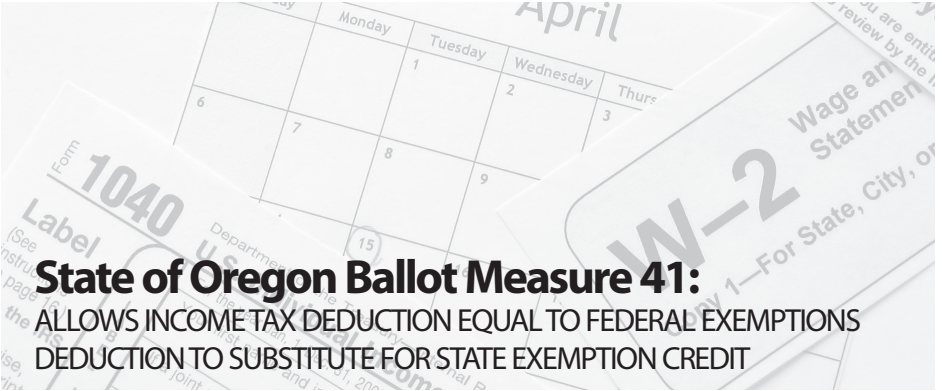


2006 Ballot Measure Report Measure 41

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State of Oregon Ballot Measure 41: ALLOWS INCOME TAX DEDUCTION EQUAL TO FEDERAL EXEMPTIONS DEDUCTION TO SUBSTITUTE FOR STATE EXEMPTION CREDIT

Ballot Measure 41 would allow Oregon income taxpayers to calculate their personal state income tax liability in one of two ways, both of which are linked to their federal tax liability. Proponents of Measure 41 proposed the measure as a means to reduce the amount of personal income taxes collected by the state of Oregon. They argue it is a necessary remedy for waste in government and an appropriate response to an ever-increasing cost of living for taxpayers.

Your committee acknowledges that state government, like other public and private organizations, could improve its service delivery and reduce unnecessary spending. However, Measure 41 is not the way to accomplish this goal. Your committee concludes that voters have no way of knowing the specific budgetary consequences of their vote on Measure 41, though your committee believes that public education, health and human services, and public safety are the programs most likely to be adversely affected by Measure 41.

Your committee concludes that the small tax benefit some taxpayers would receive from Measure 41 does not justify the negative impact on public services that benefit the state as a whole.

Therefore, your committee unanimously recommends a NO vote on Measure 41.

City Club membership will vote on this report on Friday, October 6, 2006. Until the membership vote, City Club of Portland does not have an official position on this report. The outcome of this vote will be reported in the City Club Bulletin dated October 20, 2006 and online at www.pdxcityclub.org.

I. INTRODUCTION

Ballot Measure 41 will appear on the ballot as follows:

ALLOWS INCOME TAX DEDUCTION EQUAL TO FEDERAL EXEMPTIONS DEDUCTION TO SUBSTITUTE FOR STATE EXEMPTION CREDIT

Result of "Yes" Vote: "Yes" vote allows personal income tax deduction equal to total federal deduction for all exemptions to substitute for state exemption credit; reduces revenue to state.

Result of "No" Vote: "No" vote rejects allowing personal income tax deduction equal to total federal deduction for all exemptions to substitute for state exemption credit.

Summary: To determine taxable income for federal personal income tax, taxpayers generally may claim deduction (\$3,100 maximum in 2004) for each exemption; exemption exists for taxpayer, spouse, each dependent. For state income tax purposes, taxpayers currently may not claim deductions based on federal return's exemptions but may subtract exemption credit (\$151 in 2004, multiplied by number of federally-allowed exemptions) from state income tax liability. Measure authorizes a deduction on state income tax return for each dependent, taxpayer, and spouse claimed as exemption on federal return; exemption credit may substitute for the deduction if lower tax results. Reduces revenue available for state expenditures; provides no replacement revenue. Other provisions.

The language of the caption, question and summary was certified by the Oregon Secretary of State.

Ballot Measure 41 was placed on the November 2006 ballot by initiative petition. Russ Walker, director of Oregon FreedomWorks, the state chapter of a national lower-tax, smaller-government organization, and Abner and Carol Bobo are the chief petitioners. If approved, Ballot Measure 41 would reduce Oregon state revenue through a personal state income tax reduction. Proponents of Measure 41 propose the measure as a means to reduce the amount of personal income taxes collected by the state of Oregon, asserting it is a necessary remedy for waste in government and an appropriate response to an ever-increasing cost of living for taxpayers.

City Club created a committee of eight Club members to analyze Measure 41 and issue a voting recommendation. Committee members were screened to ensure that no member had a direct stake in the outcome of the study (other than as a taxpayer) or has taken a public position on the subject of the measure. Your committee conducted its research from July 25 to September 14 by interviewing proponents and opponents of the measure, as well as relevant experts on state revenue. Your committee also reviewed numerous articles, reports and other pertinent documents and attended a public hearing on the explanatory statement and financial estimate statement for Measure 41.

II. BACKGROUND

Ballot Measure 41 would allow Oregon income taxpayers to calculate their personal state income tax liability in one of two ways, both of which are linked to their federal tax liability. Under the current system, taxpayers calculate their state income tax liability by their taxable income and then subtracting a fixed credit amount (currently \$151) multiplied by the number of allowable exemptions.[†] If passed, Measure 41 would allow state income taxpayers to reduce their taxable income by the same amount deducted on their federal income tax (\$3,200 per exemption in 2005).[†] Proponents of Measure 41 assert that most filers would benefit from taking the deduction rather than the credit, but the measure allows taxpayers to choose one of the two options, but not both.

Using the federal tax exemption rather than a state credit has precedent in Oregon. Oregon used the federal deduction until 1983 when the state passed a measure temporarily instituting a tax credit to replace the federal deduction in an effort to raise more revenue. That tax credit was made permanent in 1985 and indexed for inflation in 1987. Should Measure 41 pass, any future changes to federal tax exemption deduction rates would consequently be adopted in Oregon's state tax system as well.

Estimate of Financial Impact

The state's financial estimate committee is required by statute to estimate only the *direct* financial effects of ballot measures. The committee is comprised of the Oregon Secretary of State, State Treasurer, director of the Department of Administrative Services, director of the Department of Revenue, and a representative of local government (currently the chief financial officer for Tualatin Valley Fire and Rescue).

Measure 41 would allow state income taxpayers to reduce their taxable income by the same amount deducted on their federal income tax (\$3,200 per exemption in 2005).

* A **tax deduction** is any allowable item or expenditure subtracted from gross income to reduce the amount of income subject to tax. A **tax credit** is a dollar-for-dollar reduction in the tax payment required from a person. Deductions and exemptions reduce the amount of your income that is taxable. Tax credits reduce the actual amount of tax owed.

[†] The 2005 federal personal tax deduction was \$3,200 (maximum). The ballot measure summary published by the Secretary of State's office cites the 2004 figure of \$3,100.

The committee estimates Measure 41 would reduce state revenue by approximately \$151 million for fiscal year 2006-07. In fiscal year 2007-08 the measure would reduce state budget revenues by \$385 million and reduce the 2007 personal income tax “kicker” by \$151 million. The measure would reduce state budget revenues \$407 million for fiscal year 2008-09 and \$430 million for fiscal year 2009-10. The annual impact would increase over time due to population growth and increases in the amount of the federal income tax personal exemption, which is indexed for inflation.

Measure 41 would require \$114,750 in state expenditures to pay for the cost of implementation. The measure would have no *direct* financial effect on local government revenue or expenditures.

III. ARGUMENTS PRO & CON

Arguments Advanced in Favor of the Measure 41

Proponents of Measure 41 made the following arguments in support of the measure:

1. Working families in Oregon pay more than they should in taxes. Measure 41 redresses an excessive level of taxation in Oregon.
2. Oregonians can spend their money better than government can.
3. With constant increases in the cost of living, families deserve to keep more of their money. Measure 41 will provide \$600 to \$1,000 per year in tax relief for the typical family of four.
4. Measure 41 is fundamentally fair to all Oregonians in that every Oregonian will receive the same benefit from the measure.¹
5. Measure 41 is a response to government inefficiency. Waste in government, particularly public employee retirement benefits (PERS) and in the public school system, would be reduced as a byproduct of lowering income tax revenue.
6. Measure 41 could force state government to privatize some public services thereby reducing public spending.

Arguments Advanced Against Measure 41

Opponents of Measure 41 made the following arguments in opposition to the measure:

1. Measure 41 would force budget cuts to vital state services as a result of decreases in revenue to the general fund. The services most likely to incur the greatest reductions would be education, health and human services, and public safety because they are the largest budget categories in the general fund.
2. The benefits that proponents claim would result from Measure 41 are illusory. Measure 41 would offer little tax relief to low-income individuals or to fixed-income seniors.
3. The immediate individual tax relief promised by Measure 41 would be partially offset by a one-time reduction in personal kicker refunds in 2007.
4. Any economic stimulus that would result from tax relief to individual Oregonians would be outweighed by the negative impact that would result from curtailed public spending.
5. Privatization is not a panacea for alleged misuse of public funds; some of the most egregious cases of government inefficiency occur with public-private partnerships. Oregon's current method of delivering health care services is an example.
6. By decreasing the amount of paid state income tax that is deductible when calculating federal tax liability, Measure 41 would increase the amount of taxes Oregonians will send to the federal government by an estimated \$40 million per year.
7. Oregon would likely lose some federal matching dollars as a result of state budget cuts.
8. Measure 41 would connect Oregon's state income tax to the federal tax system, thereby ceding some local control to the federal government because state revenues would be affected by future changes to the amount of the allowable exemption in the federal tax code.
9. If Measure 41 and Measure 48 (state spending limit) both pass, their collective impact will have a devastating effect on state services.

IV. DISCUSSION

Your committee used City Club's *Tax Reform in Oregon* report adopted by Club members in 2002 as a framework for evaluating Measure 41. The tax reform report is the product of a thorough and objective effort by City Club to analyze the tax system in Oregon. The report serves as a guide for evaluating tax reform efforts, both comprehensive and singular.

The report established six major criteria for evaluating a state tax system based in large part on Adam Smith's *The Wealth of Nations*. The criteria are sufficiency, fairness, certainty, clarity, efficiency and neutrality. The report states, "While this set of criteria is most appropriately applied when judging an overall tax system, some of them can also be relevant in attempting to measure the nature and likely effects of individual taxes and tax proposals to change the system." Acknowledging the precedent that has been established with the tax reform report, and your committee's belief in its usefulness as a guiding tool, we accepted and used these six principles to evaluate Measure 41.

SUFFICIENCY: What effect would Measure 41 have on the ability of the state to fund public services deemed necessary by citizens and the Legislature?

State income tax revenue is directed to Oregon's general fund—a discretionary pool of money that the state Legislature budgets every two years primarily for education, health and human services and public safety. Ninety-six percent of the general fund is spent on these services.* Other state programs, such as the Department of Transportation, Department of Motor Vehicles and the Department of Forestry, are funded primarily by other sources (e.g., dedicated fees and taxes). Should Measure 41 pass, the overall state budget would decrease by 1 percent while decreasing the general fund by 6 percent in the first full fiscal year (2007-08) and 6.5 percent beginning in fiscal year 2008-09.

Proponents argue that this budget reduction is desirable because state government already has more than adequate funds to pay for public services. They hope the measure will indirectly force the Legislature to address specific areas of alleged misspending, such as funding unstaffed positions as a means to maintain budget levels from year to year and the prevailing wage law. Proponents of Measure 41 also believe the measure will be a catalyst for rectifying what they identify as overpaid non-teaching positions in K-12 education and wasteful transportation projects. "Budget growth at the state level has

* Fifty-eight percent of state income tax revenue is spent on education, including K-12, community colleges and universities; 22 percent is health and human services, such as welfare and the Oregon Health Plan; and 16 percent is spent on public safety, including prisons and state police. (League of Women Voters of Oregon, Fact sheet "Oregon Tax Myths and Facts").

been going up 10 to 11 percent when averaged out over 20 years. This does not fit any economic model. No private industry has that growth, but the state thinks they have that right," argued one proponent. Further, proponents reason that government should play a smaller role in people's lives.

Your committee did not research or evaluate funding levels for or the performance of specific government programs. However, to the degree that proponents raised the issue of government waste and sufficiency of funding, your committee sought information from other parties to help analyze these arguments. A 2006 survey by the Center on Budget and Policy Priorities, a national nonpartisan research organization, finds that Oregon's general fund spending for fiscal year 2007—five years into an economic recovery—remains below pre-recession levels as a share of gross domestic product. Of the 26 states where general fund budget remains below pre-recession levels, only six other states are spending less than Oregon relative to 2000 spending levels.²

Proponents assert that spending on education exceeds what is reasonably warranted. One proponent suggested that Oregon's neighboring states do a better job of spending less money on education than Oregon with better results. However, the National Education Association, in a 2005 report, ranked Oregon 31 out of 51 in per student spending. Oregon's spending is in line with its west coast neighbors. In academic year 2004-05, Oregon spent \$7,842 per student for operating expenses compared to \$7,858 in Washington (ranked 30th) and \$7,815 in California (ranked 32nd). In addition, this report indicates that Washington's spending on students was up 6.9 percent in the 2004-05 school year from the previous year while California's spending was up 3 percent in the same time frame. Oregon increased spending by 1.8 percent.³

As mentioned earlier, Measure 41 would reduce state revenue by approximately \$151 million for fiscal year 2006-07 and \$385 million in fiscal year 2007-08. Proponents agree with this estimate. Your committee, along with state officials, can only speculate as to how these reductions in state revenue would be absorbed by the state since the Legislature is responsible for adopting the general fund budget. It is your committee's belief that because 96 percent of the general fund is currently spent on education, health and human services, and public safety, these are the programs that would be most affected.

It is your committee's belief that because 96 percent of the general fund is currently spent on education, health and human services, and public safety, these are the programs that would be most affected.

As reported by the state's financial estimate committee, Measure 41 would have no *direct* effect on local government revenue or expenditures. However, state general fund dollars have historically been allocated to local services such as health care, social services and public safety—often through contracts with counties and, in some cases, with private entities. Though the indirect effect of these proposed changes is unknown, your committee believes it is logical to conclude that Measure 41 would reduce state funding for services provided by local governments.

In response to lower state income tax revenue should Measure 41 pass, proponents of the measure recommend privatization of some government services as a means to reduce government spending. A leading proponent of the measure acknowledged that privatization also has the potential for corruption and waste but that "it doesn't hold a candle to the waste in government spending."

Though the indirect effect of these proposed changes is unknown, your committee believes it is logical to conclude that Measure 41 would reduce state funding for services provided by local governments.

While proponents of the measure offer privatization as a response to the reduction in state revenue that the measure would create, the language of Measure 41 does not promote or enforce privatization of government services. For that reason, researching the effectiveness of privatization falls outside the scope of your committee's work. Your committee offers no conclusion on the merits of privatization or the likelihood that Measure 41 would promote privatization of government services.

FAIRNESS: Would Measure 41 make Oregon's tax system more or less fair?

To analyze the fairness of Measure 41, your committee considered three definitions of fairness: (1) the fairness of the tax burden on Oregon citizens compared to citizens of other states, both currently and in the event of Measure 41 passing; (2) the fairness of Measure 41 in terms of the different levels of tax relief it would deliver to Oregon taxpayers; and (3) the effect Measure 41 would have on the fairness of Oregon's overall tax system as measured in terms of "progressivity". Your committee found Measure 41 to fall short in terms of the first two definitions and to have little positive or negative effect in terms of the third definition.

* Readers are encouraged to read and consider City Club's 1999 research report entitled *Privatization of Government Services*. Available online at www.pdxcityclub.org.

Proponents of Measure 41 state that Oregonians pay a disproportionately high level of taxes and thus deserve the tax relief the measure would deliver. Your committee found little evidence to support proponents' claims that the tax burden on Oregon's citizens is unjustifiably high.

(1) Taxes in Oregon Relative to other States

Generally, there are two ways to compare the tax burden in Oregon to the tax burden in other states: by comparing only personal income tax liability or by comparing all taxes paid. Because Oregon depends heavily on income tax and has no sales tax, individual income tax liability tends to be high compared to other states that have an income tax. The Legislative Revenue Office has used data from 2003-04, the most recent year for which information is available, to compare the tax burden in Oregon to that of other states. (See Figures 1 and 2 below.) The LRO found that Oregon ranks second in terms of the percentage of personal income paid in personal income taxes (4.2 percent). According to the LRO, Measure 41 would cause Oregon to move to third, with the percentage of personal income paid in taxes falling to 3.9 percent. In terms of overall taxes paid, however, the LRO found that Oregon ranks near the bottom nationally: 42nd in 2003-04, with Oregonians paying 10.1 percent of their income in total state taxes. Should Measure 41 pass, Oregon would drop to 44th nationally, with individuals owing 9.8 percent of their personal income in total state taxes.

Figure 1 Personal Income Tax as a Share of Personal Income

| Current Law Scenario | | | Measure 41 Scenario | | |
|----------------------|------|---------|---------------------|------|---------|
| State | Rank | Percent | State | Rank | Percent |
| New York | 1 | 4.4% | New York | 1 | 4.4% |
| Oregon | 2 | 4.2% | Maryland | 2 | 4.0% |
| Maryland | 3 | 4.0% | Oregon | 3 | 3.9% |
| Ohio | 4 | 3.6% | Ohio | 4 | 3.6% |
| Massachusetts | 5 | 3.5% | Massachusetts | 5 | 3.5% |
| Kentucky | 6 | 3.4% | Kentucky | 6 | 3.4% |
| Minnesota | 7 | 3.3% | Minnesota | 7 | 3.3% |
| North Carolina | 8 | 3.2% | North Carolina | 8 | 3.2% |
| Wisconsin | 9 | 3.1% | Wisconsin | 9 | 3.1% |
| Maine | 10 | 3.1% | Maine | 10 | 3.1% |

Source: Oregon Legislative Revenue Office (fiscal year 2003-2004)

Figure 2 Total Taxes as a Share of Personal Income

| Current Law Scenario | | | Measure 41 Scenario | | |
|----------------------|------|---------|---------------------|------|---------|
| State | Rank | Percent | State | Rank | Percent |
| Montana | 41 | 10.1% | Montana | 41 | 10.1% |
| Oregon | 42 | 10.1% | Virginia | 42 | 10.0% |
| Virginia | 43 | 10.0% | Texas | 43 | 9.9% |
| Texas | 44 | 9.9% | Oregon | 44 | 9.8% |
| Missouri | 45 | 9.7% | Missouri | 45 | 9.7% |
| Colorado | 46 | 9.3% | Colorado | 46 | 9.3% |
| New Hampshire | 47 | 9.2% | New Hampshire | 47 | 9.2% |
| South Dakota | 48 | 9.1% | South Dakota | 48 | 9.1% |
| Tennessee | 49 | 9.0% | Tennessee | 49 | 9.0% |
| Alabama | 50 | 8.9% | Alabama | 50 | 8.9% |

Source: Oregon Legislative Revenue Office (fiscal year 2003-2004)

Ken Rocco, Oregon's legislative fiscal officer, told your committee that Oregonians' individual tax burdens relative to their incomes, on the whole, have decreased over the past 15 to 20 years. Although the amount of dollars collected in state income taxes has increased, the increase reflects the effects of inflation and increases in population and income levels—not an increase in the percent of personal income paid in taxes. A report by the League of Women Voters of Oregon demonstrates that, as a percent of taxpayers' personal incomes, state and local taxes have gone down from more than 12 percent in 1990 to less than 10 percent in 2005.⁴ Given this evidence, your committee found that there is not an inherent unfairness in the current tax burden in Oregon that would be redressed by Measure 41.

(2) Levels of Tax Relief Provided by Measure 41

Proponents of Measure 41 further argue that it is fair because, according to a press release from FreedomWorks Oregon, "every Oregonian receives the same benefit from the tax cut." Your committee found this statement to be inaccurate.

Because Measure 41 offers the alternative of a deduction for each exemption, rather than a credit, the measure would not affect some taxpayers at either extreme of the economic scale. Twenty-one percent of taxpayers would receive no benefit—mostly in the bottom two-fifths of the income scale. About half of the lowest income quintile would receive no benefit. In addition, under current law, only about

one in ten of the top 1 percent would receive a tax benefit from Measure 41, but federal law is changing. By 2010, the benefit would be extended to all taxpayers in the highest 1 percent of income earners.⁵ On average, if this measure becomes law, the middle three income quintiles would receive a tax reduction of \$160 annually per person. Because the amount a taxpayer benefits depends on income and on the number of dependents claimed, many single and elderly taxpayers would receive less of a tax benefit from Measure 41, and some would receive no benefit at all. Generally, taxpayers earning between \$27,000 and \$72,000 who can claim multiple dependents would have the greatest reduction in taxes should Measure 41 pass.

Your committee found that there is not an inherent unfairness in the current tax burden in Oregon that would be redressed by Measure 41.

(3) Measure 41's Effect on the "Progressivity" of Overall Taxation in Oregon

Although taxpayers would not all benefit equally from Measure 41, proponents and opponents agree that this measure would have little effect on the overall "progressivity" of Oregon's tax system. In simple terms, a progressive income tax is one

where the tax rate increases or decreases proportional to income. In isolation, Oregon's personal income tax could be considered mildly progressive—almost flat—in that those at the very bottom of the income scale have a slightly lower tax burden proportional to their income than those just above them. Oregon's overall tax structure is also mildly progressive, relative to other states, because Oregon does not have a sales tax, which tends to be regressive. Your committee found that Measure 41 would not have a substantial effect—positive or negative—on the overall “progressivity” of Oregon's entire tax system.

CERTAINTY: What effect would Measure 41 have on the certainty or predictability of Oregon's tax system?

Changes in the amount allowed for federal deductions would directly affect Oregon's tax collections. Currently, federal taxpayers can take a deduction of \$3,200 (2005 tax year) for each personal exemption allowed under federal law. This personal income exemption is adjusted for the cost of living each year and is not immune to other changes.

A look at the recent history of the federal personal exemption reveals that it has increased every year since 2001; increasing from \$2,900 to \$3,300 per exemption. Connecting Oregon's state tax deduction to the federal tax code would bind to Oregon whatever changes to the exemption levels are made in the federal tax code, which could be more extensive than the increases based on inflation. Your committee found that connecting Oregon's state tax deduction to the federal tax code has,

in the past, produced uncertainty in state revenue. Measure 41 would increase this uncertainty.

Your committee concludes that Oregon should not subject its income tax collections to changes in the amount of the federal deduction.

CLARITY: Are the potential effects of Measure 41 on Oregon and its taxpayers understandable and described in clear and simple terms?

Your committee applied City Club's clarity criteria to individual taxpayers' ability to understand their tax situation as well as voters' abilities to understand the budgetary implications of the tax reduction proposed by Measure 41.

Measure 41's state tax benefit for individual households is calculable even though it is not uniform for every taxpayer. Proponents state that Measure 41 would result in \$600 to \$1,000 in tax relief for the typical family of four.⁶ When it comes to federal taxes, however, some taxpayers who itemize deductions would pay more federal income taxes because the state tax they are allowed to deduct from their federal tax returns would be less. Oregon tax code includes three situations which are not addressed in federal tax code. The measure would have unclear consequences for the following exemption categories: (1) taxpayers with severe disability and handicapped children; (2) non-resident filers; and (3) taxpayers subject to the federal alternative minimum tax.

All parties interviewed by your committee agree that Measure 41 would substantially

reduce revenue available to the general fund. However, uncertainty lies in which specific programs would suffer budget cuts or freezes to compensate for the loss in revenue. Thus, your committee concludes that Measure 41 does not make clear the consequences of voting for the measure.

EFFICIENCY: What effect would Measure 41 have on the complexity and cost of taxpayer compliance, as well as the burden of collection and enforcement?

Measure 41 would present an estimated one-time expense of \$114,750 to implement. Your committee concludes this is an insignificant amount in this context.

Measure 41 would allow the federal deduction to be used as an alternative to the state credit. While allowing both options does not simplify the collection process, your committee found no evidence that collecting taxes would be more difficult under this measure.

NEUTRALITY: Would Measure 41 create significant incentives or disincentives for particular economic behavior?

Certain tax policies, such as cigarette taxes or taxes on particular types of fuels, are likely to influence commerce and consumers' actions. Although passage of Measure 41 could cause mild changes in economic behavior by providing some taxpayers with increased disposable income, your committee determined that it would be neutral in that it would not create incentives or disincentives that would influence how that income would be spent.

ECONOMIC IMPACT: What effect would Measure 41 have on economic activities and private-sector decisions? Would Measure 41 adversely affect the ability of businesses within the state to compete with those outside of Oregon?

In addition to evaluating Measure 41 using the six criteria adopted by City Club, your committee also considered the potential economic impact of Measure 41 on the state of Oregon. It is difficult to determine specific long-term consequences for Oregon's economy and business climate should Measure 41 pass. Your committee considered evidence from several neutral sources in regard to the economic impact of the measure.

An analysis using the Oregon Tax Incidence Model by the Legislative Revenue Office showed a modest short-term stimulus to Oregon's economy, driven by increased purchasing demand on the part of Oregon households. The increased demand, however, would not be sufficient to offset the expected loss in state income tax revenue. In the long-term, the LRO expects Measure 41 would have little impact on the state's overall competitive position.

Several business groups are opposing Measure 41, citing its failure to address pressing concerns about Oregon's tax structure, revenues and expenditures. The Oregon Business Association states that although the measure would provide some tax relief to low- and middle-income earners, it fails to address what they see as a need for a more progressive tax structure across the board. OBA argues that meaningful tax reform must be broad and

comprehensive, and that the relatively small amount of relief Measure 41 would deliver to individual taxpayers would not offset the significant cuts it would cause to programs and services that are critical to Oregon and its citizens.

The Oregon Business Council voices similar concerns with Measure 41. OBC finds the measure incompatible with their stated public finance priorities:

1. Making selective investments in education and other services as the economy grows;
2. Building a rainy day fund to avert steep funding cuts during future recessions;
3. Developing a long-term revenue and spending plan to determine appropriate tax levels; and
4. Reforming the tax code with an aim to stabilize revenue and create stronger incentives for economic growth.

OBC notes that through property tax limitations and the kicker rebate system, Oregon has already adopted policies to lower state taxes per capita to among the lowest in the nation. The result is that spending for education (particularly higher education), health care and other services have been in decline relative to other states. OBC argues that before adjusting tax rates further, Oregon needs a long-term budget plan that addresses how the state will fund essential public services.

While neither OBA nor OBC nor any other source could predict the exact effects of Measure 41 on private-sector economic activities or on the competitiveness of Oregon businesses, your committee believes that the cuts to education likely to result should Measure 41 pass would have detrimental economic effects. The Portland Development Commission, which has not taken a public position on Measure 41, confirms that most businesses considering relocating to Oregon are concerned about the quality of the state's K-12 and post-secondary education systems, in terms of both the preparedness of our workforce and the effect on the families of employees relocating to the state.

Your committee believes that the cuts to education likely to result should Measure 41 pass would have detrimental economic effects.

V. CONCLUSIONS

- Voters have no way of knowing the exact budgetary consequences of their vote on Measure 41; however, your committee concludes that the measure would inhibit the state's ability to provide sufficient revenue for essential public services.

- Public education, health and human services, and public safety are the programs most likely to be negatively affected by Measure 41.
- The small tax benefit some taxpayers would receive from Measure 41 does not justify the negative impact on public services that benefit our state as a whole.
- Oregon may need tax reform, but piecemeal measures such as Measure 41 draw attention and resources away from enacting comprehensive reforms.
- Oregon should not subject its income tax revenue to changes in the amount of the federal deduction.
- Cuts to Oregon's education budget, which likely would result from the passage of Measure 41, would have a long-term detrimental effect on the state's economy.
- Measure 41 would not make Oregon's tax structure any more or less fair than it is now.
- Measure 41 would have no appreciable effect on the state's government ability to collect taxes.
- Measure 41 would create no significant incentives or disincentives for particular economic behavior.

VI. RECOMMENDATION

Your committee unanimously recommends a No vote on Measure 41.

Respectfully submitted,

Vern Faatz
Brien Flanagan
Lois Leveen
Guenevere Millius
Pauline Krips Newman
Paul Schmidt
Mike Schryver
Jodi Heintz, chair

Thane Tienson, research adviser
Wade Fickler, policy director

ACKNOWLEDGEMENTS

Your committee thanks our research adviser, Thane Tienson, City Club's policy director Wade Fickler, and all witnesses who shared their time, knowledge and dedication to this issue with us.

CITATIONS

- 1 FreedomWorks press release. Available from www.freedomworks.org.
- 2 "Oregon Still Playing 'Catch-Up' In New State Budget," Center for Budget and Policy Priorities, August 2006.
- 3 2005 *Rankings and Estimates: A Report on School Statistics* by the National Education Association, August 2005.
- 4 League of Women Voters Oregon, Fact sheet "Oregon Tax Myths and Facts."
- 5 "Fool's Gold: How Measure 41 would leave seniors and others behind," Oregon Center for Public Policy, August 25, 2006.
- 6 FreedomWorks press release at www.freedomworks.org; interview with Tim Trickey.

VII. APPENDICES**Witnesses**

Phil Donovan, Campaign Manager, Defend Oregon Coalition
Michael Leachman, Policy Analyst, Oregon Center for Public Policy
Steve Novick, Pyramid Communications, consultant to Defend Oregon Coalition
Anita Olson, President-elect, Oregon PTA
Ken Rocco, Legislative Fiscal Officer, State of Oregon
Tim Trickey, President, Democracy Direct Inc.
Paul Warner, Legislative Revenue Officer, State of Oregon

Your committee had a challenging time finding people willing to testify in favor of Measure 41. For various reasons of their own, Kevin Mannix, a proponent of the measure on the state's explanatory statement committee; Bill Sizemore, author of the measure; Russ Walker, chief petitioner for Measure 41; and Loren Parks, a major contributor to the signature-gathering effort for this initiative declined to be interviewed by your committee. When contacted, the staff of the national FreedomWorks organization referred your committee to Mr. Walker.

Nonetheless, your committee collected considerable information in support of Measure 41 from other sources including the Web site for FreedomWorks Oregon as well as newspaper articles and published interviews with proponents. Tim Trickey, whose company collected most of the signatures to put the initiative on the ballot, was a valuable firsthand source of information.

Publications

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- "Oregon Fact Sheet," Center on Budget and Policy Priorities, April 11, 2003.
- "Rankings and Estimates: A Report of School Statistics," National Education Association, June 2005.
- Fact Sheet, "Oregon Tax Myths and Facts," League of Women Voters Oregon, 2005.
- "Tax Reform in Oregon," City Club of Portland *Bulletin*, Vol. 83, No. 47, April 19, 1993.
- "Privatization of Government Services," City Club of Portland *Bulletin*, Vol. 81, No. 3, June 11, 1993.

