

8-30-1985

## City Club of Portland Bulletin vol. 66, no. 13 (1985-8-30)

City Club of Portland (Portland, Or.)

Follow this and additional works at: [https://pdxscholar.library.pdx.edu/oscdl\\_cityclub](https://pdxscholar.library.pdx.edu/oscdl_cityclub)



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

Let us know how access to this document benefits you.

---

### Recommended Citation

City Club of Portland (Portland, Or.), "City Club of Portland Bulletin vol. 66, no. 13 (1985-8-30)" (1985). *City Club of Portland*. 398.

[https://pdxscholar.library.pdx.edu/oscdl\\_cityclub/398](https://pdxscholar.library.pdx.edu/oscdl_cityclub/398)

This Bulletin is brought to you for free and open access. It has been accepted for inclusion in City Club of Portland by an authorized administrator of PDXScholar. Please contact us if we can make this document more accessible: [pdxscholar@pdx.edu](mailto:pdxscholar@pdx.edu).

# **City Club** of Portland

**BULLETIN**

Portland, Oregon Vol. 66, No. 13

**Westin Benson, Mayfair Room**

**Noon**

**Friday, August 30, 1985**

## **LES ANDERSON**

President, Random Lengths Publications, Inc.

### **“THE WESTERN TIMBER INDUSTRY — HOPE FOR THE FUTURE?”**

The forest products industry is the underpinning of Oregon's economy. It provides 34% of the states's manufacturing payroll, over 75,000 jobs and is the largest generator of our gross product. When it goes into recession, the economic impact is felt not only in the downstate forest communities, but also in the Portland metro area which is the supply, finance and services center for the industry.

Yet nearly weekly news stories tell of plant closures and other troubles in the forest products industry, which has not fully recovered from the 1981-82 recession. The industry is undergoing major restructuring which could have a lasting effect on Oregon's employment base, and it is affected by a variety of sources ranging from federal forest policies to lawsuits from environmental organizations.

Our speaker this Friday is the owner and publisher of a world-wide market communications service for the North American lumber and plywood industry, publishing domestic and foreign reports on forest products markets. *Anderson*, former Mayor of Eugene, will speak about the timber industry's future, the nature of the restructuring that is going on, what it means for our state's economy, and the continuing threats to the industry's survival.

---

### **ALSO PRINTED HEREIN FOR DISCUSSION AND VOTE THIS FRIDAY, AUGUST 30**

#### **REPORT ON STATE BALLOT MEASURE NO. 1**

(“Amends Constitution. Approves Limited 5% Sales Tax For Local Education.”)

**SPECIAL NOTE: The program will begin at 12:15 p.m., starting with the discussion and vote on the ballot measure report.**

**RESERVATIONS & CANCELLATIONS: Call 222-2582 by 2:00 p.m. Thursday, August 29. Tickets: \$8.00 members, \$10.00 guests for lunch. Coffee tickets (available at the door on a very limited basis): \$2.25. Members wishing to vote can also sit in the back of the room. Doors open at 11:30 a.m.**

---

*“To inform its members and the community in public matters and to  
arouse in them a realization of the obligation of citizenship.”*

---

## OREGON'S LANGUISHING FOREST PRODUCTS INDUSTRY

The decline of Oregon's forest products industry, for decades the mainstay of Oregon's economy, has been so precipitous and sustained that many suggest it is a sunset industry slated to be the buggy-whip of the 21st century.

Oregon has 412 billion board feet of standing softwood timber, more than either the Rocky Mountain states or the Southeastern United States. Yet the actual supply of harvestable timber is declining in Oregon. The Northwest is yielding to the South as the nation's top producer of lumber. The reasons cited by industry spokesmen for this decline include the relatively slower growth rate of Northwest timber stocks, heavy cutting levels of old growth on private lands during the 1950s and 1960s, higher transportation costs resulting from deregulation and the Jones Act, competition with Canadian imports, competition with Japan, Korea and China for unprocessed timber, and various environmental restrictions on logging. Federal forest policies have shrunk the commercial forest land base, reduced annual harvest levels and raised prices to exact maximum revenues for the U.S. Treasury. The federal government has a virtual monopoly on Oregon timber supplies, with 75% of the merchantable timber under its control.

The forest products industry is still Oregon's largest private industry with over 75,000 jobs. However, the number of jobs has diminished by over 28% since the onset of recession in 1979. Nearly 28% of all sawmills and plywood plants also have closed or experienced bankruptcy. In 1984 alone, Boise Cascade closed plants in Clatskanie and White City and closed the company town of Valsetz. Bohemia

closed plants in Drain and Culp Creek, while Champion International, fighting off a hostile takeover, announced closure of plants in Gold Beach, Lebanon, Idanha, Mapleton and Dee. Georgia Pacific closed a plant in Toledo and International Paper, a plant in Gardiner (which since reopened after staffing, wage rate and real property tax changes were made). Crown Zellerbach sold its Estacada plant, and Willamette Industries closed a plant in Griggs. Hudspeth Lumber Company in Prineville, Northside Lumber Company in Philomath, and Mazama Forest Products in Sutherlin and Creswell all have filed for Chapter 11 bankruptcy protection.

These events followed the well-publicized move of Georgia Pacific's headquarters to Atlanta in 1982. If massive disinvestment by major corporations occurs throughout Oregon, the results could be devastating to many smaller Oregon communities. Of the 296 mills and plywood plants operating in 1978 in Oregon, 67 (or 23%) have closed.

State and local governments have suffered from declining timber harvesting revenues. For example, in 1979, over \$277 million in taxes were paid by mills and logging operations to local governments. These revenues declined 28% to \$200 million in 1984. Up to 10% of the State's operating budget is attributed to income taxes from direct and indirect forest industry workers and corporate taxes, according to industry sources. Local government's share of timber harvest revenues from federal lands have also plummeted.

Land and timber taxes in Oregon, at the equivalent of approximately \$19.22 per 1,000 board feet, are the highest in the United States according to the 1983 "Study of Relative State Tax Burdens on a Timber Grower," prepared by Arthur Andersen & Co. The Oregon Forest Industries Council (OFIC), an industry group, reports that Oregon land and timber taxes are 37% higher than comparable taxes in the State of Washington. Oregon's land and timber taxes are nearly six times as high as the average tax in the Southeast.

There is little consensus over what specific actions and combinations of actions might improve the economic plight of the wood products industry. A few of the many issues identified include the following:

### The City Club of Portland Bulletin

(USPS 439-180) is published every week for \$10.00 per year (subscription rate included in annual dues) by the City Club of Portland, 730 S.W. First Ave., Portland, OR 97204. Second-class postage paid at Portland, OR POSTMASTER: Send address changes to CITY CLUB OF PORTLAND, 730 S.W. First Ave., Portland OR 97204.

Phone 228-7231

NINA JOHNSON *Editor*  
and *Executive Director*

*High U.S. interest rates/strong U.S. dollar* - Industry sources consider the federal reserve board's tight monetary policy, initiated in February, 1979, as the primary cause of high mortgage rates which caused housing starts to drop by 50% in recent years. As the recession spread throughout the economy, non-housing markets for forest products also were hurt. A strong U.S. dollar makes U.S. exports less competitive internationally. Imports to the U.S. therefore are more competitive with those of domestic producers. For example, Canada, where the dollar is worth \$.72 compared with the U.S. dollar, has increased its market share of foreign and domestic markets at Oregon's expense.

*Competition with Southern U.S.* - Seventy one percent of the South's standing saw timber (vs. 15% in Oregon) is located on private, non-industrial land. Industry sources say this gives the Southern U.S. a relatively larger supply of cheaper, less governmentally-regulated timber. In addition, the South has an advantage over Oregon with its cheaper, non-union labor. Changes in freight rates also have given the South a competitive advantage in non-Western U.S. markets. The South has been overcutting its timber and not reforesting and this will force reductions in the future, but provides no comfort to Oregon mills now.

*Labor Costs* - There is a good deal of controversy about the relative costs and productivity of Oregon's unionized labor force. On the one hand, Weyerhaeuser contends that labor creates 50% of timber cost. However, an economist for the International Woodworkers of America maintains that labor costs are only 20%, and that productivity has improved 20% over the last six years because of technological innovation. Labor and Management relations are reported to be at a low ebb with major contracts expiring in June 1986.

*State Economic and Environmental Goals* - In the opinion of wood products industry sources, Oregon's recent emphasis on economic growth and development mandates flexible management policies which would allow increased harvesting. Yet the OFIC claims environmental concerns and land use goals are removing vast acres of productive private land and harvestable timber from production. Representatives of environmental groups,

including 1000 Friends of Oregon, however, contend that land use goals conserving forest lands will ensure harvestable timber over the long term. Each group disputes the claims of the other.

*Federal Forest Policies.* - Approximately one million acres of national forest lands were added to Oregon's 1.2 million acres of wilderness last year and the industry has learned that the national forests in this region plan to reduce the annual harvest by 1 to 1½ billion feet per year through forest plans now being developed. Forest management practice regulations are also restricting the types of practices allowed on all lands. Industry representatives believe that the reduced harvest levels are unjustified, and that "mandated" forest management requirements are not actually required by law. Environmental groups argue that these "management requirements" mitigate past abuses and are necessary safeguards to wildlife and water resources.

*Marketing* - Worldwide demand for wood products continues to grow as research and development discovers new uses for wood and wood byproducts. Oregon has a vast resource, but faces profound problems marketing the product.

In the seminal 1976 Beuter report, "Timber for Oregon's Tomorrow," published by the OI 1976 Beuter report, "Timber for Oregon's Tomorrow," published by the OSU School of Forestry, Oregon's forests were not considered the limiting factor in the projected decline in harvests. Instead, the problem identified was the absence of a comprehensive forestry program for the state. Almost 10 years later, this problem apparently still exists, as evidenced by economic development programs which do not focus on the forest industry and a lack of effective leadership and coordinated statewide policies.

*Prepared as background by the  
Business & Labor Standing Committee*

## NEW MEMBERS

The following individuals have applied to the Board of Governors for membership in the City Club of Portland, effective September 6, 1985:

*Christine Cooper*, Financial Consultant, Shearson Lehman Bros., sponsored by Kathy Park.

*Gerald Rich*, Director, NSC Regional Sleep Disorders Program, sponsored by Bobby Heagerty.

**NOTES**

## Report on

"AMENDS CONSTITUTION. APPROVES LIMITED 5% SALES TAX FOR LOCAL EDUCATION"  
(State Measure No. 1)

Question: "Shall people amend Constitution, approve limited sales tax partially replacing property taxes for schools, community colleges, reducing income, timber taxes?"

Explanation: "Approves sales tax law to fund schools, community colleges, reducing income, property, timber taxes. Amends Constitution to limit sales tax to 5%, exempts home consumed food, medical services, drugs, utilities, real estate transactions, animals, certain farm supplies. Prohibits local sales taxes. Directs legislation for administrative costs, tax relief for renters and low income individuals, limiting state spending increases. Provides school district tax bases, limits annual increases and school levy elections. Makes other changes."

To the Board of Governors,  
City Club of Portland:

#### I. INTRODUCTION AND SCOPE

On September 17, 1985, Oregon voters will consider a comprehensive sales tax, tax reform, and spending limitation plan referred by the 1985 legislature. Your Committee was appointed to review this ballot measure and to make a recommendation to the City Club as to whether it should support or oppose it. However, because the Club recently has considered Oregon's tax system in detail and has taken a definite position in favor of a sales tax, the charge to your Committee was not to debate the merits of a sales tax in the abstract or even the merits of this particular proposal. Rather, your Committee was asked only to determine whether Measure 1 is close enough to the model sales tax plan endorsed by the Club in February 1985 to justify Club support for it.

In 1984, the City Club adopted a report on Oregon's Tax System, which recommended that: "The state should enact a broad-based retail sales tax covering goods and services as the best means available to fund property tax relief in Oregon." The 1985 City Club report on Model Sales Tax extended that recommendation into a model sales tax proposal designed to achieve the goals expressed in the 1984 report in a manner that could be expected to receive voter approval.

Those two reports, which are summarized in the Background section of this report, were used by your Committee as the basis for evaluating Measure 1. The Background section also outlines the major provisions of the legislature's plan and identifies the major differences between it and the Club's model sales tax plan. The Discussion section then evaluates those differences to determine whether they warrant rejection of the ballot measure.

## II. BACKGROUND

A. 1984 City Club Report on Oregon's Tax System

The 1984 report examined both the major components of Oregon's tax system -- property tax, personal income tax, and corporate excise tax -- and the minor components, such as the workers' compensation tax and the cigarette tax. It concluded that, to achieve the related goals of economic health and growth and preservation of a quality system of public education, Oregon requires property tax reform. Continued reliance on the property tax for the primary funding of education carries with it an unacceptably high risk of disruption of funding, especially for school districts that have no tax base, because of the necessity to return to the voters year after year to seek approval of operating levies.

In addition, the report found that the high level of property tax necessary to maintain public education presents a continuing risk that Oregon voters will pass a measure radically limiting government spending and property taxes. Adoption of such a measure would hamper Oregon's prospects for economic health and growth, and even the continuing threat of such a measure has a disquieting effect on economic planning.

The report further concluded that existing revenue sources cannot fund property tax relief, and it specifically recommended that personal income taxes not be increased. Instead, it recommended a sales tax as the preferred method of funding property tax relief. It concluded that a sales tax would: (1) provide a more stable system of financing local government services; (2) decrease the dependence of school funding on local property tax levies; (3) produce a better climate for economic health and growth in Oregon; (4) offset any increased administrative costs with collection from otherwise untaxed persons such as tourists; (5) offset the more regressive\* property tax, if properly designed; (6) present no greater likelihood of numerous and increasingly inequitable exemptions than any other tax system; and (7) achieve structural reform of the tax system. While the report recognized that the current level of personal income tax also is high, it recommended that the sales tax be used for personal income tax relief only if the resulting total tax system would not be more regressive.

B. 1985 Report on Model Sales Tax

Using the 1984 Oregon Tax System report as a foundation, the Model Sales Tax report recommended specific provisions for: (1) the structure of a sales tax; (2) property and income tax reform; and (3) state and local spending limitations.

For the sales tax, the report recommended a single-stage 5 percent tax imposed at the retail level. The exemptions proposed in the report were

---

\*This report adopts the definitions for "regressive" and "progressive" used in the 1984 report on Oregon's Tax System: "A tax is considered "progressive" if people with higher incomes pay a greater percentage of their income to the tax. A tax is considered "regressive" if people with greater incomes pay relatively less."

aimed at preserving as broad a base as possible, while addressing issues of both regressivity and fairness. Specific exemptions recommended by the report were:

- (1) food for home consumption, meals for school children and the needy, and fund-raising meals by charitable organizations;
- (2) prescription medicines and equipment;
- (3) goods and services purchased from utilities, such as electricity and natural gas;
- (4) production materials that become part of the goods ultimately sold at retail;
- (5) motor vehicle and aircraft fuel;
- (6) rail cars and trucks sold or used in interstate or foreign commerce;
- (7) cars sold to non-residents;
- (8) commercial fishing boats;
- (9) trade-in allowance for used vehicles;
- (10) all services;
- (11) government purchases; and
- (12) real estate transactions.

In addition, the report recommended rebates to low-income persons to compensate further for regressivity. Finally, the report recommended compensation to retailers for collecting the sales tax.

The report recommended that 80 percent of the funds generated by the sales tax be devoted to property tax relief, with the remaining 20 percent going to personal income tax relief. That percentage of property tax relief would achieve approximately the same reduction in property taxes as a 1.5 percent property tax limitation measure would achieve. The recommended level of income tax relief to individuals was intended to redress the imbalance caused by the disproportionately high property tax relief that would go to business. To reduce further the shift of tax burden from business to individuals, the report recommended retention of the existing Property Tax Relief Program, the Homeowners and Renters Refund Program (HARRP), and the Senior Citizen Homestead Deferral Program. The latter two programs also provide relatively greater property tax relief for low-income individuals and low-value homes. However, the report did not recommend any additional renter relief from sales tax proceeds.

The report concluded that it was unlikely that any sales tax would achieve voter approval unless it was accompanied by assurances that the



overall tax burden would not increase, now or in the future. The report therefore recommended limiting spending by both the state and the school districts to current levels, subject to increase only for increases in population (for school districts, population of students) and per-capita income. It recommended that in emergencies, the elected representative body at the state or school district level be permitted to override the limitation for one year upon a vote of three-fifths of the members of the body. Permanent changes would require voter approval.

Finally, the report separated those provisions of the plan that require constitutional amendment from those that the legislature may enact by statute. The majority report recommended that the Constitution should include provisions: (1) identifying the types of goods subject to sales tax; (2) establishing the maximum rate of 5 percent; (3) exempting basic necessities, such as food, medicine and utilities; (4) requiring relief for low-income residents; (5) requiring statutory provision of a method to compensate retailers; (6) dedicating the proceeds 80 percent to schools and 20 percent to personal income tax relief; (7) limiting spending by schools and from the state General Fund; and (8) prohibiting sales taxes by local taxing districts. The minority report accepted all of those recommendations, and added recommendations that a sales tax plan should include features to increase the progressivity of Oregon's overall tax program and to insure that individuals receive a higher proportion of tax relief than businesses. The City Club adopted both the majority and the minority recommendations.

### C. The Referendum Sales Tax Plan

Like the City Club's model sales tax, the legislature's package addresses the structure of the sales tax, personal income and property tax reform, and government spending limitations. It does so both through constitutional amendments and through a comprehensive statute. (Statutory provisions may be changed by the legislature but constitutional amendments require a vote of the people.)

House Joint Resolution 4, upon which Oregon residents will vote, contains the constitutional amendments and enacts House Bill 2010, the sales tax statute, into law. The constitutional amendments: 1) define the tax as a general retail sales tax on personal property; 2) establish 5 percent as the maximum rate; 3) exempt basic necessities of life, including food for home consumption, medicines, and utility services, and require a vote of the people on any changes in exemptions after July 1, 1987; 4) prohibit local sales taxes; 5) dedicate all sales tax revenues to the schools, with 85 percent of the revenues going to property tax relief and 15 percent going to personal income tax relief (and reducing state basic school support accordingly); 6) require retailer compensation; 7) require sales tax relief for low-income individuals and residential renters; 8) permanently adjust school district tax bases and restrict future tax base elections to once per year; and 9) limit the rate of growth in state general operating expenditures to the rate of growth in personal income. All other provisions discussed below are statutory.

The sales tax applies to tangible personal property sold at the retail level. By this definition, the legislature automatically exempts real

property transactions, services, and sales of intangibles. The legislature includes all of the exemptions identified in the City Club's model sales tax and adds:

- (1) containers;
- (2) newspapers, magazines, and trade goods used in printing;
- (3) used mobile and floating homes;
- (4) occasional sales, such as garage sales and individual sales through newspaper classified advertisements (except that occasional sales of vehicles are not exempt);
- (5) all purchases by schools, churches, and charitable organizations; and
- (6) sales by charitable organizations.

Through the 1987 legislative session, the legislature could add or delete exemptions. Thereafter, a vote of the people would be required to change the items subject to tax.

The legislature's plan includes both low-income relief, as recommended in the City Club's model sales tax, and renter relief, a provision not recommended by the model sales tax. The low-income rebate establishes a sliding scale of per-person refunds depending upon household income. For example, in a household with income less than \$5,000, each person would receive a refund of \$40, which represents \$800 of purchases subject to sales tax for each person. All residential renters, regardless of income, could apply to receive a refund equal to 6 percent of rent. This 6 percent figure represents the 35 percent average property tax reduction that would result from the sales tax, multiplied by 17 percent, which is the estimated amount of rent that represents property taxes.

The legislature's plan would allow retailers to retain 2 percent of all sales tax moneys collected. In addition, the timing of payment of sales tax proceeds to the state would depend upon the amount collected.

Measure 1 would dedicate all sales tax revenues to the schools. It would allocate 85 percent of those revenues to property tax relief by reducing school tax bases, and 15 percent to personal income tax relief by reducing the Basic School Support payments from the State. The average property tax reduction would be 35 percent and the average income tax relief would be 9.6 percent. As recommended in the City Club's model sales tax, the legislature's plan would retain the existing Property Tax Relief, HARRP, and the Senior Citizen Homestead Deferral Program. Unlike the model sales tax, the legislature added some timber severance tax relief.

The legislature's plan adopts the state General Fund spending limitation suggested in the City Club's model sales tax, but employs a different school spending limitation formula. Generally, during the first two years that the sales tax produced revenue, the school districts would establish new tax bases by determining their total operating levies, increasing those amounts by 12 percent over the two years, and subtracting the sales tax revenue received. After the second year, the new tax bases would become permanent, subject only to 3 percent annual growth or greater amounts by a once-yearly election to increase the tax base. While this limitation would not restrict the amount of sales tax revenue received by

the districts, the legislature's plan would establish a sales tax leveling account for sales tax proceeds in excess of annual growth in personal income. Excess collections would enter this account and remain until a year in which sales tax revenue was insufficient to provide schools the same amount as the prior year plus any increase in personal income. A similar "rainy day" account would exist for state General Fund spending as well. Finally, the legislature's plan also would limit tax elections by counties, cities, and special districts to two per year.

### III. ARGUMENTS ADVANCED IN FAVOR OF THE MEASURE

1. The ballot measure is substantially consistent with the City Club's Model Sales Tax report. In this regard, the measure:
  - Fixes the sales tax rate constitutionally at 5 percent, subject to change only by a vote of the people.
  - Excludes services from the sales tax.
  - Provides exemptions for food, prescriptions, utilities, real property, rents, medical services, ingredients, and government purchases.
  - Enacts property and income tax relief, although the distribution of this relief differs from that proposed by the City Club.
  - Prohibits local sales taxes.
  - Provides for compensation to retailers for collection expenses.
  - Restricts special levy elections.
  - Imposes limits on most components of state spending.
  - Includes features which diminish the regressivity of the sales tax, including maintenance of the HARRP program and a sales tax rebate for low-income residents.

Additional arguments advanced in favor of the measure are:

2. It reduces property and income taxes, and its restructuring of Oregon's tax system will encourage business investment in the state with no net increase in state taxes.
3. It provides a permanent, stable method of financing schools.
4. It broadens Oregon's tax system by taxing those who do not pay income or property taxes, such as tourists and those who earn their livings in the cash economy.
5. It places constitutional limits on the growth in property taxes levied by local schools and community colleges to 3% per year, absent a vote of the people.

6. It puts a constitutional limit, indexed to the growth in statewide personal income, on state spending for items other than basic school and community college support and bonded debt.
7. It contains other features that may diminish the regressivity of the sales tax, including renter relief and an exemption for gasoline sales.
8. It limits school district revenue from the sales tax to the rate of growth in statewide personal income.
9. Passage of the measure may alleviate pressure for a more drastic property tax limitation measure.

#### IV. ARGUMENTS ADVANCED IN OPPOSITION OF THE MEASURE

1. The ballot measure differs significantly from the City Club Model Sales Tax report. In this regard, the measure:
  - Enacts a distribution formula for property and income tax relief that differs from the formula in the model sales tax proposal. The City Club proposed that 80 percent of sales tax revenue be dedicated to the schools and to reduce property taxes, and 20 percent be allocated to personal income tax relief, not necessarily to be distributed to the schools. The ballot measure proposes that all sales tax revenue be dedicated to the schools, with 85 percent going to property tax relief and 15 percent going to personal income tax relief.
  - Limits the legislature's ability to create new exemptions without a vote of the people.
  - Includes a constitutional requirement that the legislature establish a limit on state general operating expenditures, in contrast to the City Club's plan which proposed a direct constitutional limit on state General Fund and local school district spending.
  - Includes a 3 percent limitation on property tax base increases, which may be more restrictive than the personal income and population restriction proposed by the City Club. This limitation restricts the ability of schools to adjust their tax bases in response to the economic climate and the needs of the state without a vote of the people.
  - Provides for renter relief, which was not included in the City Club's plan, in addition to the current HARRP and 30 percent programs.
  - Includes more exemptions from the tax than the City Club proposed.
  - May have a regressive effect on Oregon's tax structure. Features proposed in the City Club's model sales tax to mitigate these

effects, such as a homestead exemption and an exemption for the first \$5000 of an automobile purchase, are not included in the ballot measure.

Additional arguments advanced against the measure are:

2. It shifts the tax burden from businesses to individuals and from larger businesses to smaller ones.
3. It does not address the concerns of those who wish to reduce overall government spending through property tax limitation measures.
4. It writes restrictive language (such as the 3 percent tax base growth limitation) into the Constitution.
5. Sales tax revenues can vary depending on the economic condition of the state, undermining the purported stability of this source of funding for schools.
6. The collection of a sales tax requires high administrative overhead expenses.

#### V. DISCUSSION

Two principal differences exist between the model sales tax proposal approved by the City Club and the sales tax proposal developed by the 1985 Oregon legislature. These differences relate to the limits imposed on government spending, and to the shift of tax burden from business taxpayers to individual taxpayers. In addition, one aspect of the City Club and legislative proposals cannot be meaningfully compared.

##### A. Government Spending

The model sales tax plan recommended a constitutional restriction on state government and school districts to limit spending to present levels, to be increased or decreased according to changes in per capita income and population within the state. The proposal reasoned that voters would not approve a sales tax unless it was accompanied by a constitutional limit of this kind.

The legislature's sales tax plan does not include a spending limit of the type recommended in the model sales tax plan. Instead, the legislature's plan includes a constitutional limit on the amount of revenue received by school districts and community colleges from property taxes, and a constitutional requirement that the legislature enact a statutory limit on state government spending other than spending for schools, community colleges, and bonded indebtedness.

The constitutional spending limits proposed by the legislature are less restrictive than those recommended by the model sales tax plan. The legislature's limits may be sufficiently restrictive, however, to prevent significant growth in government spending if the sales tax is adopted.

## B. Shift from Businesses to Individuals

To address any shift in tax burden from business taxpayers to individual taxpayers, and to give homeowners a greater share of property tax relief than that given other property owners, the model sales tax plan recommended adoption of a \$20,000 property tax exemption for homesteads. The legislature's sales tax plan does not include a homestead exemption of any kind.

Whether the legislature's plan will produce relatively more tax relief for households (including homeowners and renters) or for businesses turns on whether landlords who rent residential property will pass property tax relief on to tenants. The City Club's model sales tax assumed that landlords eventually would pass such relief on to tenants. If this assumption is correct, data developed by the Legislative Revenue Office indicate adoption of the legislature's proposal would not alter the respective shares of taxes paid by households and businesses. If landlords passed on only half the property tax relief received by them to tenants, the legislature's plan would produce a \$51 million increase in the share of the total tax burden of households. Similarly, if none of the property tax relief were passed on by landlords to residential tenants, the legislature's plan would increase the household share of total tax burden by \$108 million. Of course, no matter which assumption is correct, passage of the legislature's plan would result in lower property taxes for all households and businesses.

A \$20,000 homestead exemption would have been more than ample to insure that households would have received significantly more tax relief than businesses, but those households would not have included residential renters. Many renters still would have paid more in taxes if any portion of the property tax relief received by landlords were not passed on to residential tenants.

The extent of any shift in tax burden from businesses to households also would have been different if the legislature had allocated 20 percent of sales tax revenue to personal income tax relief as the City Club's model plan recommended. The legislature's plan allocates only 15 percent of sales tax revenue to this relief. Use of the 20 percent amount would have reduced the overall tax burden of households in comparison to businesses because personal income tax relief benefits only individuals, while property tax relief benefits both individuals and businesses.

## C. Progressivity of Tax Package

The aspect of the two plans that cannot be meaningfully compared concerns sales tax rebates for low-income persons. The model plan, as amended by the minority report to that plan, included the following recommendation:

"Sales tax rebates to low-income groups must be large enough to make the tax package's total impact progressive."

The problem with this recommendation is that it is difficult, if not impossible, for low-income rebates to make the overall effect of a sales

tax plan progressive. Rebates given to low-income groups will have little effect on middle-income taxpayers, and they cannot, by themselves, make the "total impact" of a sales tax "progressive," at least if the word "progressive" is taken to refer to the entire range of taxpayers, from the lowest income to the highest income. Standing alone, a flat-rate sales tax on goods is not progressive, i.e., little correlation exists between the ability to pay taxes and the amount of sales taxes paid. Reducing the amount of sales taxes paid by low-income groups through rebates or other means will make a sales tax more progressive, but it is very unlikely to make a sales tax completely "progressive."

As it is, the legislature's sales tax plan includes sales tax rebates for low-income people. The maximum rebate is \$40 per person, which represents \$800 of purchases subject to the sales tax. In addition, the legislature's plan includes a tax refund equal to 6 percent of the amount paid in rent by residential tenants, and restructures the state income tax to make it more progressive. The model sales tax plan included neither of the latter changes, but both of them presumably will enhance the overall progressivity of the tax package.

Against the foregoing background, your Committee simply was unable to determine whether the legislature's sales tax plan deviates from the recommendation in the model sales tax plan on low-income rebates and progressivity. The issue that appears more relevant is whether Oregon's total tax system will be more or less progressive after passage of the legislature's sales tax plan than it was before passage. Unfortunately, your Committee was unable to obtain information sufficient to resolve this issue. The Committee was told that a study of tax progressivity in Oregon is underway, but the results of the study apparently will not be available until several months after the election.

Proponents of the measure generally expressed the opinion that passage of the measure would produce a tax system at least as progressive as the present system. Opponents of the measure expressed the opinion that it would produce a less progressive tax system. The available data permitted your Committee to determine only that the legislature's sales tax plan has a number of features which make it more progressive than other sales tax systems. Whether the overall tax system in Oregon would be more or less progressive following passage of the legislature's sales tax plan is not known, although it appears to your Committee that the overall tax burden on middle-income taxpayers would probably increase if the measure is adopted.

## VI. CONCLUSION

The proposal that voters will consider in September is not a verbatim copy of the City Club's model plan, nor could it reasonably be expected to be. The pulling and tugging of the legislative process inevitably leads to compromises, which may produce particular features that are undesirable to many supporters of the basic proposal. The City Club's own proposal, after all, was very much a product of the give and take of debate and compromise, for the model sales tax minority report that was adopted added certain features to the proposal that the committee majority had rejected. The lesson is obvious: no tax proposal is perfect, and no tax proposal is going to be perfectly acceptable to every member of a particular group --

whether that group is a City Club committee, the City Club itself, the Oregon legislature, or the Oregon electorate. The plan that emerged from the legislature may well be as close a copy of the City Club's proposal as any legislature would ever produce.

In light of the charge to this Committee, the question for the Committee boiled down to whether the two principal differences between the City Club's model and the legislature's proposal are great enough to justify opposition by the City Club to the ballot measure. As noted earlier, those two main differences relate to spending limitations and to the shift in tax burden from businesses to individuals.

With respect to spending limitations, it is important to remember that the City Club's model plan included this feature only because the committee that drafted it concluded that such a limit was necessary in order to make a sales tax package acceptable to voters. Given that fact, the failure to include a spending limit of the type recommended by the City Club is not grounds for City Club opposition to the legislature's plan. Failure to follow the City Club's recommendation may make the legislature's plan vulnerable at the polls, but it does not make the plan so inconsistent with the City Club's model as to justify opposition to the plan.

The other significant deviation from the model plan relates to the methods used to address progressivity and the shift of total tax burden from businesses to individuals. In your Committee's view, the differences between the legislature's plan and the model plan do not constitute a significant enough departure from the model to warrant City Club opposition to the ballot measure.

On balance, your Committee concludes that it is highly unlikely that Oregon voters will ever be asked to consider a sales tax proposal that is any better, or any more progressive, than the one now before them. Furthermore, your Committee finds that the legislature's proposal is substantially consistent with the model sales tax recommended by the City Club in February 1985.

#### VII. RECOMMENDATION

Your Committee recommends a YES vote on State Measure No. 1 at the September 17, 1985 special election.

Respectfully submitted,

Rex Armstrong  
John Bauman  
Curt B. Gleaves  
Helen J. Lee  
Pamela Grace Rapp  
Charles Williams  
Lloyd B. Williams  
Charles F. Hinkle, Chairperson



Approved by the Research Board on August 1, 1985 for submission to the Board of Governors. Approved by the Board of Governors on August 12, 1985 and ordered published and distributed to the membership for consideration and action on August 30, 1985.

## APPENDIX A

Persons Interviewed

State Senator Rod Monroe (Dist. 7)  
State Representative Ted Calouri (Dist. 7)  
State Representative Dick Springer (Dist. 12)  
Richard E. Roy, Attorney, Stoel, Rives, Boley et al and Chairman, Report on "Model Sales Tax"  
Allan R. Abravanel, Attorney, Perkins, Coie, Stone et al and City Club spokesperson, Report on "Model Sales Tax"  
Bob Baugh, Oregon AFL-CIO  
Rick Peterson, Legislative Revenue Officer

## APPENDIX B

Bibliography

"Report on Model Sales Tax," City Club of Portland Bulletin, Vol. 65 (special edition), February 15, 1985.  
"Report on Oregon's Tax System," City Club of Portland Bulletin, Vol. 64, No. 44, March 24, 1984.  
Oregon Taxpayers Association, "Special Report: Fiscal Reform - Finally?" Legislative Revenue Office, "1985 Tax Reform and Sales Tax Package."

---

NEWSPAPER SECOND CLASS POSTAGE PAID AT PORTLAND, OREGON

---

