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City Club of Portland Report on Ballot Measure 1: The Sales Tax Initiative

City Club of Portland (Portland, Or.)

CITY CLUB OF PORTLAND
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The Sales Tax Initiative

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The City Club membership will vote on this report on Friday, November 5, 1993. Until the membership vote, the City Club does not have an official position on this report. The outcome of this vote will be reported in the City Club *Bulletin* dated November 19, 1993 (Vol. 75, No. 25).

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I. EXECUTIVE SUMMARY

Ballot Measure 1, which appears on the November 9, 1993, statewide ballot, proposes tax reform amendments for the Oregon Constitution. The **proposed constitutional changes** would:

- Limit sales tax.
- Dedicate sales tax proceeds to K-12 education and community college.
- Eliminate school property tax on residences occupied by owner.
- Limit state spending.
- Dedicate one-half of lottery funds to education.
- Require re-vote in 1998 to continue changes.

If the voters pass Measure 1, then a package of **statutory tax reforms** enacted by the legislature would:

- Place 5% sales tax on goods beginning May 1994.
- Increase corporate income tax rates from 6.6% to 7.6%.
- Create exemptions and tax credits.
- Appropriate additional funds for education.
- Repeal property taxes on certain business property.

The sales tax is projected to raise $1.95 billion in the 1995-1997 biennium.

The **proponents** argue that these tax reforms would:

- Provide reliable funding for education.
- Limit sales tax rates and state spending.
- Increase property tax relief.
- Shift tax burden from homeowners to businesses.
- Be an efficient and understandable sales tax.
- Add revenue from tourists.
- Be fair to low-income citizens.
- Maximize competitiveness with other states.

The **opponents** argue that these reforms would:

- Be unfair to renters.
- Remove government's incentive to economize.
- Leave too much discretion to the legislature.
- Collect unnecessary revenue.
- Introduce instability because of 1998 re-vote.
- Discourage nonresident shoppers.
- Increase government spending on administration.
- Complicate business taxes unfairly.

The study committee found some particularly adverse impacts that would result from Measure 1. Renters would suffer, local government would pay sales taxes and the additional costs of administration, and business would bear the costs of collection and uncertainty in the classification of property. However, many of these adverse impacts could be mitigated by improvements in the statutory design. The committee concludes that the fundamental impact of Measure 1 would be beneficial: to raise badly needed money for schools.

The committee was not in a position to analyze comprehensively whether government services are at an appropriate level or are efficiently delivered. It became clear, however, that drastic declines in education and state service funding could damage the state's infrastructure irreparably. With the adoption of Ballot Measure 1, government funds will decline 8%, compared to pre-Measure 5 levels. This will probably require some budget cuts, but stop short of major surgery. Without Measure 1, funding will decline 25%, a level of reduction that would severely damage state services and education.

The proposed system would have the following characteristics when measured against the **six criteria** identified in the May 1993 City Club *Report on Tax Reform in Oregon.*

- **Understandability** - The proposed system would be somewhat more complex, but would be basically understandable.
- **Fairness** - The proposed system would generally be progressive, but would be unfair to renters and to business equipment users.
- **Reliability** - Except for the 1998 re-vote, the proposed system would be more reliable.
- **Efficiency** - The proposed system would be relatively efficient.
- **Competitiveness** - The proposed system would enhance Oregon's competitiveness.
- **Political Viability** - The proposed system incorporates a number of political safeguards.

The proposed measure would raise sufficient revenue to maintain state and educational services at a tolerable level.

The committee **recommends** a YES vote on Ballot Measure 1.

The committee also **recommends** that the Oregon legislature enact renter relief and equalize the taxation of business equipment.

II. INTRODUCTION

This is the latest in a series of studies by the City Club on tax reform in Oregon. The study committee was originally formed in July 1992 to study Ballot Measure 7, the split roll property tax initiative. Voters defeated that initiative in November 1992. The committee's next task was to recommend a model tax reform package. This task culminated in the Club's *Report on Tax Reform in Oregon* adopted by the membership on May 21, 1993. Among the recommendations of that report were six criteria by which any tax reform package should be judged. The May report also recommended a package of reforms including a sales tax on goods and services to be dedicated to fund public schools.

The 1993 Oregon legislature adopted sales tax legislation that becomes effective only if the voters approve a constitutional amendment authorizing the tax.[1] The committee was reconvened to study the 1993 legislation and the sales tax referendum appearing on the November 9, 1993, statewide ballot as Measure 1.

The official ballot measure title, questions and summary are unusually lengthy, reflecting the complexity of the measure. The official ballot is set forth in Appendix A.

III. BACKGROUND

The 1993 Oregon legislature considered a variety of reform proposals, including the City Club's report of May 21, 1993. Ultimately, the legislature adopted a tax reform proposal that combines constitutional and statutory elements.

Portions of the tax plan, primarily limitations on taxing and spending authorization, are referred for a popular vote on placing these provisions in the Oregon constitution. Other portions of the plan are tax statutes that take effect only if the voters adopt the constitutional provisions at the November 9, 1993, referendum vote.

A. Constitutional Provisions

Measure 1 will amend the Oregon constitution if voters approve it. Once passed, the constitutional provisions can only be changed by a statewide vote. These constitutional amendments are highlighted with explanatory remarks following:

- **Sales tax monies must be used for public education programs.** These programs include kindergarten through community colleges.
- **Sales tax limits are established.** The maximum rate for the state general sales tax is limited to 5% on goods. Local general sales taxes are prohibited. Exemptions are required for food for home consumption, shelter, prescription medicines or devices, water, light, heat, power, motor vehicle fuel, essential services, and feed, seed and fertilizer for farm production.
- **Property taxes for schools are eliminated for owner-occupied principal residences.** This amendment reduces taxes by $5 per $1,000 of property value below Measure 5 limits.[2] Owner-occupied homes will still be taxed property taxes for school bonds, and for other government services and bonds. Property used for business, vacation or rental will continue to be taxed for property taxes for schools.
- **State spending is limited.** The growth in spending of income and sales taxes is limited to inflation plus the rate of population growth. Expenditures can exceed this constitutional limit only if approved by 60% of each house of the state legislature and by the governor.
- **At least one-half of net lottery funds is to be used for education and children's needs.** The constitution currently requires that all lottery funds be used for job creation and economic development.
- **All changes are temporary unless voters choose to continue them in 1998.** All of these constitutional provisions, as well as the statutory provisions listed below, are automatically repealed unless voters approve continuing them in the 1998 general election.

B. Statutory Provisions

The 1993 legislature enacted HB 2500 and HB 2443, statutes which take effect if Measure 1 passes but which the legislature could change without a vote of the people. These statutory provisions are highlighted and explained below:

- **The sales tax begins on May 1, 1994.** The tax would be on goods only, not services. It would have many exemptions.
- **The corporate income tax rate increases from 6.6% to 7.6%.** The increase would be effective January 1, 1994.

- **An earned income tax credit is added.** The personal income tax would have a credit equal to not more than half of the federal earned income tax credit. This credit would reduce the taxes of working families with dependent children whose income is under $24,000 per year.
- **A low-income sales tax credit would be established.** This credit would refund part of the sales tax paid by lower-income households. The credit is based upon household income and size.
- **An additional $351 million would be appropriated to schools for the 1994-95 school year.** This funding would come from sales taxes collected before July 1, 1995.
- **An education trust fund would be established.** All remaining sales taxes collected before July 1, 1995 (up to $300 million) would be put into an education trust fund. The trust fund is projected to be $176 million initially. The trust fund earnings would then be dedicated to education reform and improvement programs.
- **Property taxes on certain business property would be repealed.** To qualify for the property tax exclusion, the property would have to be essential to production and generally moveable. This class of business property would also be subject to a lower 3% sales tax.

C. Revenue Raised by the Measure 1 Tax Plan

The legislature's tax plan is projected to raise a total net revenue of $387 million in the 1993-95 biennium and $1.948 billion in the 1995-97 biennium. The figure below shows the revenue that would be raised by the Measure 1 tax package in the 1995-97 biennium.[3]

	(Millions)
5.0% Sales Tax	**$2,633**
Less: State Administrative Costs	($20)
Low-Income Credit	($44)
Net Sales Tax Collections	$2,569
Corporate Income Tax Increase to 7.6%	$69
Income Tax Feedback	$25
GROSS REVENUES	$2,663
Eliminate Homeowner School Taxes	($682)
Personal Income Tax Relief	($44)
Business Property Tax Reductions	($14)
Education Trust Fund Earnings	$26
NET REVENUES	$1,949

IV. ARGUMENTS ADVANCED IN FAVOR AND AGAINST THE MEASURE

The committee heard testimony from proponents and opponents of Ballot Measure 1. The most significant arguments advanced by those appearing before the committee are:

A. Proponents' Arguments

Measure 1 provides reliable, stable funding for schools and state programs. Measure 1 dedicates sales tax revenue to K-12 schools and community colleges.

It creates an education trust fund for education reforms. And it takes pressure off the state general fund to replace school revenue lost under Measure 5, thus reducing the need for additional state program cuts.

Measure 1 constitutionally limits the sales tax rate and state spending levels. The sales tax rate cannot exceed 5%. State spending cannot increase more than the rate of population growth plus inflation. This limit locks in state program cuts prior to the 1995-97 biennium.

Measure 1 accelerates Measure 5 property tax relief for homeowners. It eliminates homeowner property taxes as a source for school financing.

Measure 1 is not a long-term commitment to a new tax. It will be repealed in 1998 unless the voters ratify it.

Measure 1 shifts the tax burden away from individuals and toward business. The share of total taxes paid by individuals relative to businesses increased during the last decade. Measure 1 decreases the share of taxes that individuals pay by 1%.

Measure 1 enables the state to remain economically competitive. It provides a moderate sales tax to fund basic education and public services. It includes appropriate exemptions. It averts the need for alternatives (e.g., raising the income tax) that would discourage economic development.

Measure 1 is efficient to administer. The sales tax will cost less to administer than the existing property tax. The cost of administering the sales tax as a percentage of revenue raised is relatively low.

Measure 1 is understandable. Dedicating sales tax revenues to education establishes a clear link for voters between spending and services funded.

Measure 1 captures additional out-of-state revenue via tourists. Sales taxes in other states have not reduced tourism.

Measure 1 adds stability to the existing tax system. Once a jurisdiction reaches Measure 5 rate limits, property tax revenues change with the assessed market value of the property. Assessed values have been volatile in recent years, reducing the stability of the property tax. Income taxes have traditionally been unstable.

Measure 1 mitigates harm to low-income citizens. It includes an earned income credit and a low-income sales tax credit, reducing income taxes paid by working families with children.

Most individual taxpayers will have lower tax burdens under Measure 1 than they did before Measure 5. Except for renters, taxpayers will pay less in sales tax than they will save in the property and income taxes that existed before Measure 5 was enacted.

Measure 1 will bolster the state's bond rating, maintaining or improving its ability to raise inexpensive capital. Passage of Measure 1 will demonstrate to investors that Oregon has the political will to deal with its fiscal problems. The improved bond rating preserves the state's ability to access capital markets for infrastructure development.

B. Opponents' Arguments

The harm Measure 5 does to local and county governments will be aggravated. Local and county governments are only partially exempt from the sales tax. Under Measure 1 they will be constitutionally prohibited from raising revenue through property or sales taxes to pay these additional expenses. Measure 1 includes exemptions for certain classes of business property that will reduce local and county property tax bases.

The stimulus for efficiencies in state government and schools will disappear. Once schools and state agencies receive added Measure 1 revenue, they will not be inclined to develop more efficient programs.

The tax is unfair to renters, who have a heavier tax burden under Measure 1 than they did prior to passage of Measure 5. Most property tax savings from Measure 1 are reserved for owner-occupants and will not go to landlords or renters. Renters, however, will incur sales taxes. By contrast, wealthy homeowners who are modest consumers of goods will have lower overall taxes.

Measure 1 shifts lottery money away from economic development at a critical time. Measure 1 takes half of the lottery revenues away from economic development at a time when the state needs resources to diversify its economic base and when natural resource-based industries are declining.

Measure 1 leaves too much discretion for the legislature to tamper with the sales tax. It does not limit the legislature's ability to create and abolish sales tax exemptions, and it does not prohibit a sales tax on services.

Measure 1 is unreliable and uncertain. It will be repealed unless it is ratified by the voters in 1998.

The revenue Measure 1 will generate is unnecessary. Government and school budgets can absorb additional budget cuts without significantly reducing service levels.

Measure 1 perpetuates state control of school financing. By retaining Measure 5 property tax limits and providing replacement revenue through a statewide sales tax, Measure 1 effectively removes local control of school districts.[4]

Measure 1 will increase the federal income taxes exported from Oregon. Measure 1 replaces deductible property tax payments with non-deductible sales tax payments. Because Oregon homeowners will have less to deduct from their gross incomes, their federal income tax liability will be greater.

Measure 1 will reduce income from out-of-state consumers. Oregon will no longer be a discount destination for out-of-state shoppers and tourists. Oregon's competitive position will suffer.

Measure 1 is inefficient and does not treat business even-handedly. It imposes administrative costs on businesses that sell goods, especially those that sell both exempt and non-exempt goods, but not on businesses that sell services. It unfairly provides sales tax exemptions for a small number of business goods (e.g., feed for agricultural businesses). It disproportionately benefits property-intensive businesses. The same piece of equipment can have a different tax rate when moved to a different part of a business.

Measure 1 is complicated and makes Oregon tax laws less understandable. This legislation adds another dimension of taxation that complicates legal interpretations of the entire tax code.

Measure 1 is inefficient and will increase government spending on tax administration. Administering the sales tax under Measure 1 will build a large and expensive bureaucracy costing the state approximately $20 million per biennium. Administering the property tax provisions of Measure 1 will cost local governments more than $2 million per biennium.

Measure 1 will drive housing prices up. Lower property taxes and cost of homeownership will increase demand, driving prices up.

V. DISCUSSION

A. Introduction

The arguments the committee heard generally revolved around two issues: the criteria established by the committee in its May 1993 report, and the funding levels of basic education and state government services.

While these two issues may seem unrelated, funding levels affect several of these criteria—understandability, fairness and competitiveness. Funding levels can determine whether the taxpayer knows what services taxes pay for (understandability), whether the taxpayer receives value commensurate with taxes paid (fairness), and whether government maintains its educational and state service infrastructure to compete with other jurisdictions in maintaining a high quality environment for its citizenry (competitiveness).

After describing the impact of Measure 1 on several key sectors, the committee will assess Measure 1 both in terms of the six criteria of its May 1993 report and in terms of the need for new funding.

B. Impact

This section describes the impact of Measure 1 on several key sectors: schools, municipalities, individual taxpayers and businesses.

1. Schools

Under Measure 1, according to projections of the legislative revenue office, state government will net approximately $387 million in the 1993-95 biennium. Of this, $351 million is earmarked for state school support. Another $162 million will be placed in an educational trust fund for educational reform.[5] The trust fund will eventually total $214 million by the 1997-99 biennium.

All sales tax funds will be distributed to the state's public schools, kindergarten through community college. Measure 1 will result in an increase in revenues from those generated under Measure 5. However, revenue levels for the 1995-97 biennium will be 8%, or $919[6] million less than those which would have been generated for the same biennium had Measure 5 not passed (based on 1991-93 service levels).

With passage of Measure 1, the state's responsibility to support local schools will be reduced. This reduced support will allow more of the state's general fund to go to other state services, including higher education, corrections and human services. Because the legislature retains discretion over the state basic school support portion of the general fund, however, funding for education may decline at the same rate as for state programs and services (i.e., 8%).[7]

While providing additional funding for the basic school system, Measure 1 continues and accelerates the erosion of local control described in the May 1993 City Club *Report on Tax Reform in Oregon*. Based upon the more rapid phasing-in of Measure 5 and the state's role in collecting and distributing sales tax dollars, local school jurisdictions will be less able to affect their level of funding. The only additional local basic school funding contribution will come from property taxes on business property, assessed at $5 per $1000 of value, and from local bond levies. Local school district control may decline as a result of this decrease in local funding. Furthermore, federal and state mandates and high personnel costs will continue to constrain quality, diversity and creativity in local school programming. However, additional funds may help mitigate some of this impact.

2. Municipalities

In contrast to its beneficial funding for schools, Measure 1 will have several negative impacts on cities, counties and other local governments.

Property tax exemptions for equipment used in production will reduce non-school real property tax revenues by approximately $12 million annually.[8] Additionally, local taxing districts must pay sales tax on certain classes of personal property they purchase, including vehicles and construction materials. The total sales tax paid by local governments could be as high as $13 million annually.[9] Although local governments would pay more in tax and collect less revenue, they would be prohibited from levying a sales tax to offset the lost revenue. However, testimony we heard indicated that the net effect on individual local governments was not significant.

Administrative costs for assessing real and personal property will increase under Measure 1. We heard testimony that the cost of distinguishing which residential property is occupied by owners would add $2 million annually to local taxing districts. Local government will also bear the cost of distinguishing between taxable and exempt personal property and equipment, which may drive this administrative cost significantly higher.

3. Taxpayers

The Legislative Tax Revenue Proposal — Household Examples chart attached as Appendix B[10] demonstrates differences in tax burdens on selected representative taxpayers under Measure 1 from current and pre-Measure 5 levels. Except for renters, all selected classes of taxpayers will have lower tax liability than they did in 1989-91.

Conversely, nearly all selected classes of taxpayers shown on the chart will face increased tax liability from passage of the sales tax when compared to the current law under Measure 5. The sole exception to this would be low-income homeowners, including seniors, who benefit from the earned income tax and sales tax credits of HB 2443. The earned income tax credit equals one-half the federal earned income tax credit. The state credit is computed as half of the federal credit that existed prior to its expansion in the 1993 Omnibus Budget Reconciliation Act signed by President Clinton on August 10, 1993.[11] This credit will reduce income taxes on working families earning less than $24,000 annually. Income and sales tax credits for lower-income groups total $43 million and $88 million in the next two bienna, representing 5% and 12% of overall revenue reductions.[12]

Homeowner real property tax reductions total $304 million and $682 million in the next two bienniums, representing 36% and 93% of total revenue reductions for these bienniums.[13] An additional $358 million reduction, attributable to the acceleration of Measure 5 rate reductions on all property, reduces total tax revenue received in the 1993-95 biennium.[14] The greatest beneficiary from Measure 1 and the corresponding property tax reduction is the homeowner, especially one whose consumption of non-essential goods is relatively low. However, most homeowners will pay income and sales tax increases that will exceed their property tax savings.

Renters will see their total taxes dramatically increase, even at lower income levels. According to the 1990 census, renters compose 37% of Oregon's populace, consisting mainly of the young and lower-income people.[15] Given the simultaneous decline in real estate taxes on owner-occupied residential property, housing demand and prices may rise correspondingly, compounding the impact on lower-income individuals who are saving to purchase a home.

Conversely, the measure would disproportionately benefit those individuals who own moderate- to higher-priced residences, live on low incomes and who consume modestly. For example, many senior or retiree homeowners would actually face a large reduction in tax liability both as measured from pre-Measure 5 and current levels.

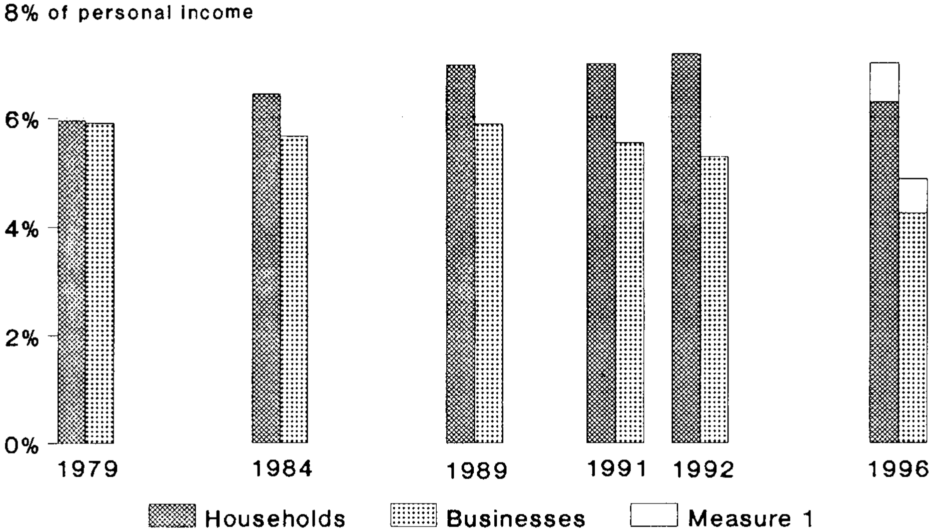
The reduction of local property tax levels will significantly increase state and federal personal income tax upon state residents. Residential real estate taxes for owner-occupants are tax-deductible for federal income tax purposes. Reduced property taxes result in reduced income tax deductions and, consequently, a higher income tax. The legislative revenue office estimates that Oregon homeowners will pay $85 million in taxes annually to the federal government.[16] Over the next two biennia this revenue will total $340 million. Consequently, Oregonians will have millions less to spend, and the adverse economic impact on Oregon's economy will be amplified by the economic multiplier effect. This impact will be slightly offset by business income tax savings from deducting sales taxes.

4. Businesses

By virtue of the increase in corporate taxes from 6.6% to 7.6% and the retention of non-owner-occupied school taxes, the business sector will bear a larger relative tax burden than households with the passage of the sales tax initiative.

Businesses will pay 1% more of the overall tax bill after passage of Measure 1 than under current Measure 5 law.[17] This is the first real increase in business taxes relative to households in over a decade. Nonetheless, as the figure below shows, the percentage of income that businesses will pay under Measure 1 will continue to decline.

DIRECT TAX BURDEN
Total state & local taxes



Years are fiscal years

The business community has traditionally supported a sales tax, but this initiative has gotten a mixed reception. One prominent business group, Associated Oregon Industries, opposes this measure despite AOI's historical support of sales tax measures. Other groups, such as the Oregon Business Council, the Portland Chamber of Commerce and the Oregon Homebuilders, are supportive, though with varying degrees of enthusiasm.

Even those business groups who oppose the measure are not basing their opposition on the concept of the sales tax or on the minor shift of the tax burden to the business sector. Their objections center on this particular initiative and its potential impact on business and Oregon's economy. Most business groups express concern about the legislature's ability to raise future revenue via statutory tinkering with sales tax exemptions, especially for "essential services." Business discontent with this measure is fortified by the general belief among many groups that Oregon has not acted prudently in restructuring and cutting state government budgets.

Furthermore, most prominent business groups would have preferred to see personal income tax relief. They believe Oregon's income tax rate, traditionally high relative to other states, discourages many businesses from relocating here. Some business groups believe that future legislatures may even increase income taxes to raise additional revenue, despite the constitutional spending limitation.

The business community has also expressed concern over the taxation of personal property and equipment. Equipment purchased for productive use will be subject to a 3% sales tax.[18] Businesses argue that even at the lower 3% level, the sales tax will have a disproportionate impact on capital-intensive industries such as the forest products industry. Despite the property tax reduction on this class of equipment, many manufacturers believe the sales tax will still cost the business community millions of dollars.

The committee heard testimony that retailers who must collect the sales tax might suffer. Retailers would recapture the cost of administering the sales tax in the first two years of the measure. Retailers could keep between 1% and 3% of the tax receipts collected. After the first two years, the retailers would no longer be compensated for collection. Some testimony suggests that this lack of compensation would place a burden on retailers, especially smaller ones. However, other testimony suggests that most of the costs on existing businesses occur in the first two years, when the tax collection system is set up. In any event, this mechanism would not help start-up businesses in the years ahead.

The committee also heard testimony that the proposed Oregon sales tax might discourage tourism. *The Oregonian* estimated that tourists will contribute $53 million in added sales tax to the state in 1995-97.[19] The 5% rate compares favorably with the sales tax in neighboring states and should not deter tourism.

The committee is concerned about the impact the measure may have on Oregon retailers' competitive advantage over retailers in other states. For example, many businesses in the Jantzen Beach area may lose much of their competitive advantage over Vancouver area businesses with enactment of a sales tax. Some studies indicate that other more distant retail areas such as Clackamas Town Center could also suffer a loss in business.

Clackamas Town Center claims that 15% of all its sales are from Washington residents, which may account for up to 40% of its total revenue.[20] It is difficult to know how much of this is due to sales tax differential and how much is due to convenience, i.e., proximity to work. This casts uncertainty on the overall economic impact a sales tax would have on Oregon's border areas and on the ultimate impact it would have on Oregon's economy.

C. City Club Tax Reform Criteria

The May 21, 1993, report to the Club outlined six criteria for assessing the tax system and recommended changes to the tax system by addressing the six criteria. Below we summarize definitions of those six criteria, our May recommendations, and how Measure 1 addresses each criterion.

1. Understandability

a. Definition

Taxpayers, public officials and revenue administrators should understand the revenue system.

b. Components Proposed by City Club in May 1993

The May report concluded that a sales tax is generally well understood by taxpayers and public officials and the tax is identifiable at the point of sale. Understandability was enhanced under this proposal by applying the tax to virtually all goods and services and by dedicating it to schools.

c. Components of Measure 1

The sales tax should be readily understandable by the public, particularly since the proceeds are dedicated to schools.

The public may be confused by the interplay between the constitutional and statutory provisions. The committee heard significant testimony that understandability is compromised by the differences between exemptions and limitations contained in the constitution, and by those contained in the statutes. The legislature's ability to change exemptions undermines understandability. Finally, earned income and low-income credits and rebates may be difficult to understand for those who would benefit from them.

2. Fairness

a. Definition

Taxpayer revenue burdens should be progressive — that is, the tax burden as a percent of income should rise as income rises; the revenue burdens on taxpayers with equal incomes, consumption or wealth (depending on the basis of taxation) should be approximately equal; and tax bases should be broad and rates low as a result of minimal exclusions. Enforcement should be consistent and even-handed. Taxpayers should also receive benefits commensurate with taxes paid.

b. Components Proposed by City Club in May 1993

The May report concluded that a sales tax generally is regressive because it is not based on ability to pay. Exemptions and credits can make it less regressive, particularly exemptions for necessities, e.g., food, clothing, housing, medical care, etc. The committee also concluded that the progressivity of a sales tax was enhanced by a broad tax base, including services.

c. Components of Measure 1

The proposal incorporates many provisions that ameliorate the regressivity of a sales tax, including exemptions for necessities. Indeed, the exemptions are so numerous as to include many non-necessities, e.g., agricultural products, electric arc furnace electrodes, soda pop, etc. One concern witnesses expressed was that many exemptions can be changed by statute, providing the legislature with opportunities to make the sales tax either more or less progressive.

Fairness was further promoted by the earned income credit and a sales tax credit for-low income households. Whether the administrative cost justifies the marginal improvement in fairness that these programs create remains to be seen.

Testimony was presented to the committee that the sales tax is unfair to local municipalities which must pay the tax on many goods, cannot levy local sales tax and will lose property tax revenue.

Fairness was promoted by the increase in corporate income tax from 6.6% to 7.6%.[21] Committee members were uncertain whether this really promoted fairness or merely disguised a tax in the form of increased prices to consumers. Or will it reduce business profit margins, thus adversely affecting competitiveness?

The committee believes that fairness is significantly undermined by the failure to compensate renters in a manner comparable to the one-third reduction in property tax afforded owner-occupied principal residences.

The progressivity of the entire tax system was not addressed by the legislature. The income tax, traditionally the most progressive of the state's taxes, has become more of a flat tax in Oregon. The City Club's May report concluded that it is time to restore progressivity to the income tax. Despite calls for reform, including strong support in the business community to cut personal income tax rates, the legislature ignored the income tax (other than to raise corporate income tax rates slightly).

3. Competitiveness

a. Definition

Oregon's ability to compete economically with other states should be maximized. On the one hand, taxes should not be so high as to be a disincentive in business location choices. On the other hand, taxes should be adequate to fund high-quality and effectively delivered public services which enhance competitiveness.

b. Components Proposed by City Club in May 1993

The May report concluded that, because Oregon was only one of five states without a sales tax, the addition of a modest sales tax would not significantly alter our competitive position.

Because the report contemplated an expansive base including services, 2% was thought sufficient to ensure competitiveness.

c. Components of Measure 1

The committee continues to believe that any sales tax with a competitive rate will not damage the competitiveness of Oregon business. The sales tax is constitutionally limited to 5%, a competitive rate when compared with neighboring states (Washington ranges from 7.5% to 8.2% statewide and 7.6% to 7.8% in Clark County; California ranges about 6%; Idaho ranges from 6% to 7%; Nevada ranges about 6.5%).[22] The most significant benefit to competitiveness comes from maintaining the quality of schools and state services. However, the committee is concerned that Washington state consumers will have less incentive to shop in northern Oregon.

4. Reliability

a. Definition

The revenue system should be stable, sufficient and certain. *Stability* means that revenues are relatively constant over the business cycle. *Sufficiency* means that revenues grow with the economy over time, increasing government revenues to keep pace with increasing demands for public services. *Certainty* means that tax laws do not change frequently or significantly, thus facilitating efficient revenue administration and taxpayer planning.

b. Components Proposed by City Club in May 1993

Stability: The May report concluded that the sales tax was desirable to complement the relatively unreliable and unstable income and property taxes.

Sufficiency: The May report concluded that a sales tax would grow with the Oregon economy, particularly when the tax was based on the entire economy (i.e., including the service sector).

Certainty: The May report concluded that a sales tax would facilitate revenue administration and taxpayer planning if it were not changed frequently.

c. Components of Measure 1

Stability: The committee heard testimony confirming that a sales tax is more stable than property or income taxes.

Sufficiency: Limiting the sales tax to goods reduces its relationship to expansion of the entire Oregon economy, which has a significant service component.

The constitutionally imposed state spending limit suggests that spending will grow by as much as the population plus inflation; that is, per capita revenue should continue to be "sufficient" in today's dollars.

Certainty: The tax will sunset if not reapproved through the "second chance" given to voters in 1998; this undermines certainty. Passage of Measure 1 and sunset of the provision in 1998 would create a roller coaster of funding for Oregon's programs and services.

5. Efficiency

a. Definition

Collection and enforcement costs should be kept to a minimum for taxpayers and revenue administration. There should be maximum compliance, neutrality among different forms of economic activity, and clarity and accountability in state and local relationships.

b. Components Proposed by City Club in May 1993

The May report concluded that the sales tax would be less expensive to administer than the income or property tax. Costs of collection by business were believed to be nominal; they could be collected through delayed payments and tax credits.

c. Components of Measure 1

The cost of administering the sales tax under Measure 1 will be in addition to, not in place of, the cost of administering the property or income taxes. For example, the committee learned that it will cost an additional $2 million[23] to administer the split roll property tax and the differential treatment of productive equipment and personal property.

We found little support for opponents' assertions that costs of sales tax collection would be high and that another state bureaucracy would result. The start-up cost for creating a sales tax compliance division is approximately $22 million.[24] The latest figures from the legislative revenue office indicate that approximately 250 new state employees would be needed by the 1995-97 biennium,[25] at a cost of less than $20 million per biennium. In the context of a $2 billion tax, such administrative costs to the state are nominal.

The committee was concerned about the state's failure to consider adequately the additional cost of compliance on businesses. Given the complexity of the law (over 200 pages of statutes; unknown number of pages in administrative interpretations), this expense ought not to be ignored. The fact that the budget calls for another tax court judge to handle sales tax litigation further suggests administration and compliance may not be simple.

Collection costs of private business are offset during the first two years by allowing retailers to keep between 2% and 3% of gross tax receipts.[26] Thereafter, costs of collection are borne entirely by the private sector. We heard testimony that private costs diminish dramatically after the first two years, but that these costs would nevertheless be unfair to small and start-up retailers.

6. Political Viability

a. Definition

A tax reform proposal should be acceptable to voters as a reasonable alternative that is preferable to the present system. Any tax reform proposal must be politically viable, or its creation will be a futile exercise.

b. Components Proposed by City Club in May 1993

The May report concluded that the political viability of the sales tax remains one of the biggest barriers to tax reform in Oregon. To make it more politically acceptable, the report concluded that the sales tax should be dedicated to basic education. Safeguards such as fixing the sales tax rate in the state constitution could assure voter control. Such politically motivated assurances as fixing the rate in the constitution and dedicating the revenues might not be considered good tax policy, but the committee concluded that any attempt to implement a sales tax without voter-controlled safeguards would be overwhelmingly defeated at the polls.

c. Components of Measure 1

Political viability will be tested at the polls on November 9. Measure 1's tax revenues are dedicated to education, which should help viability, although a dedicated funding mechanism potentially removes fiscal discipline by insulating legislators and regulators from the electorate. The committee heard testimony that the sunset provision was primarily included because polls indicated it would help viability. Likewise, the legislature inserted the spending limitation with the avowed purpose of attracting support in the business community and the general public.

D. Financial Needs of Government

A comprehensive assessment of the financial needs of Oregon's government is beyond the scope of this report. However, the committee necessarily has addressed the adequacy of funding for government services in this state, for three reasons. First, Oregon must remain economically competitive, which requires adequate funding for education and public services. Second, funding adequacy has been the central issue in the public debate about the Oregon tax system in recent years. Third, the taxpayer needs to identify value from taxes paid.

1. Government Effectiveness and Efficiency

Both before and after the passage of Measure 5, public attention has focused on the escalation of state government taxation and spending. This escalation has raised two questions. First, have taxpayers received the benefits they want (the question of effectiveness)? Second, are government programs being operated at minimal costs (the question of efficiency)?

Public schools have become the defining issue of this debate. Schools are used to gauge both the effectiveness and the efficiency of government taxation and spending. What constitutes good education and at what cost?

Determining appropriate levels of taxation requires widely accepted definitions and measures of costs, effectiveness and efficiency. Yet citizens and policymakers are unable to agree on these principles.

Public and private leaders in Oregon have recognized the need to define and measure effectiveness of government and have developed new tools to measure it. The Oregon Benchmarks, a comprehensive set of quantitative standards for measuring government performance, are one example. The Oregon Business Council's Values and Beliefs Survey is another tool developed to help define the state's community and economic values. Nonetheless, the committee believes there is no present consensus on measuring effectiveness.

Similarly, there is no agreement on measuring efficiency. The legislative revenue office issues budgetary information in one format. The Cascade Policy Institute, a non-profit organization that analyzes public policy based on free market principles, uses another. The Cascade Policy Institute contends that the legislative revenue office excludes relevant costs such as capital construction, debt service and extra-curricular activities.

2. The Revenue Side of the Equation

The full impact of Measure 1 will not be felt until the 1995-97 biennium. The legislative revenue office has projected that Measure 1 and the statutory 5% sales tax will generate state gross revenues of nearly $2.7 billion in the 1995-97 biennium.[27] As shown in Appendix D, the gross sales tax revenues are supplemented by a projected $69 million from increases in corporate income taxes. Measure 1's total gross revenue is reduced by $740 million in the 1995-97 biennium, because of the owner-occupied property tax relief ($682 million) and other tax relief it provides.[28] The net revenue that Measure 1 generates totals $1,948 billion in the 1995-97 biennium. The net 1995-97 biennium revenues under Measure 1 result in total tax revenue receipts at 8% below pre-Measure 5 revenue levels when adjusted for the 1991-92 base year.[29]

In the event that voters elect not to continue the sales tax in 1998, state tax funding levels will revert to those dictated by Measure 5. These funding levels will limit the collections to then-prevailing income tax receipts and real property taxes at the $5 per $1,000 for schools and $10 per $1,000 municipal levels. Such a reversion will result in total tax funding levels at nearly 25% below pre-Measure 5 levels.[30] Consequently, the sunset provision may merely delay Measure 5 funding levels by two years.

Given the lack of consensus in measuring effectiveness or efficiency of government programs, the revenue side of the equation provides the best approach to judging appropriate levels of taxation. The revenue available for basic education and state programs combined is projected to decline as Measure 5 continues to be phased in. If Measure 1 is rejected, combined resources for basic education and the state will be 25% less than prior to Measure 5. The state's obligation to replace property tax revenue is projected to be $2.9 billion for the 1995-97 biennium.[31]

Given no additional cuts in school operating budgets and the continued state support of basic education, total state funding for K-12 education will rise dramatically, from 28% of the general fund in the 1989-91 biennium to 72% in the 1995-97 biennium.[32] To reach this funding level, the state will divert major funds from other state programs such as higher education, corrections and human resources.

The Oregon Committee, a political action committee representing education and labor interests, contends that without additional revenue, per-student funding for basic education statewide will decrease 14%, from $4,400 in 1992 to $3,800 in 1995, in real dollars. The Portland Public School District estimates that it will have to cut its budget 25%, from $354 million in 1992-93 to $265 million in 1995-96.

Recent articles and testimony we heard indicate that class sizes in public schools are growing disproportionately to student population. Considerable media attention has been directed to an alleged exodus of students from public to private schools due to parents' concerns over the quality of public education.

Access to higher education in Oregon is already decreasing due to financial constraints imposed by Measure 5. Higher tuition and budget cuts in the Oregon state system of higher education have resulted in enrollment dropping from 63,000 to 60,000 students between 1991-93.[33] Further cuts are likely to continue to reduce capacity, at the same time that the number of high school graduates increases 40% by 2001.[34]

Another example of the effect of Measure 5 is the budget of the Adult and Family Services Division (AFS), a state welfare agency. Two-thirds of AFS funds are federal dollars that are drawn to Oregon with matching state funds. Cuts of state matching funds reduce the federal government funding for this badly needed state program. Since 1991, AFS has already cut its payroll by 400 employees, from 2,300 to 1,900 positions.[35] As a result, the employee to supervisor ratio has nearly doubled, from 6.5:1 to 12:1.[36] The caseload per worker has increased over 11%, from an average of 135 to 150 cases.[37] Both the ratio of caseworkers to supervisors and the ratio of clients to caseworkers will continue to climb with less money available. Poorer supervision of caseworkers and their clients may result in less efficient allocation of funds. The typical AFS package provides client families with $932 per month in cash and food stamps for all essential living expenses.[38] If funding continues to decline, AFS will have three cost-saving options: decrease client benefits, increase caseloads, or scale back the very job training programs which are the only effective vehicle for getting clients back into the workforce.

Inadequate information exists for the committee to determine appropriate funding levels for education and state services. Even with the passage of Measure 1, revenue levels will drop 8%.[39] However, more drastic revenue reductions—which will occur if Measure 1 fails and Measure 5 is fully implemented—will force devastating cuts in public services and reduce Oregon's competitiveness. Deeper cuts would impair the state's educational and service infrastructure irreparably, and future attempts to rebuild would be more difficult and expensive. Moreover, severely reducing revenue for public services will not necessarily lead to greater efficiency. It may well have the opposite effect and severely damage Oregon's infrastructure.

Measure 1 is a less extreme approach that will still result in a reasonable reassessment of public priorities and in greater efficiency and effectiveness in the delivery of educational and state services. While alleviating the need for more drastic cuts, this more moderate decline could make education and state programs more efficient, and provide an incentive to eliminate those programs which are less necessary.

Before Measure 5, Oregon's government services were expensive relative to the state's average per capita income. In 1989, Oregon ranked tenth among all states in total taxes as a percentage of personal income.[40] By 1991, Oregon was ranked 12th among all states.[41] This ranking continues to fall as Measure 5 takes effect. The question the committee poses and which the voters will answer in November is, to what extreme will Measure 5 revenue declines be permitted, and at what cost to public education, other state services and Oregon's competitiveness?

Measure 1's spending ceiling should mitigate fears that the legislature may tamper with sales tax exemptions, or raise the income tax. This spending ceiling should help allay the fears of opponents who argue that the measure is simply another tax enhancement measure.

The committee is mindful of the fact that Measure 1 is no panacea. The sunset provision in the measure requires affirmative action by the public school system and state government to restructure and build new efficiencies into government. Without such efforts, passage of Measure 1 will simply be a temporary exercise, with the electorate allowing its demise in 1998.

VI. CONCLUSIONS

A. City Club Criteria

In evaluating the proposed sales tax initiative according to the criteria the City Club established in its May 1993 report, the committee came to the following conclusions:

1. Understandability

The sales tax itself is quite understandable and a simple tax collection mechanism. Revenue raised is clearly directed toward basic school education. Measure 1 makes the overall tax system more complex, however, primarily as a result of legislative attempts to make the measure more fair and to gain political support.

2. Fairness

Nearly all classes of taxpayers will pay higher overall state taxes under Measure 1 than they do under current tax law, yet will retain tax cuts from pre-Measure 5 levels. Only renters will see tax increases compared with pre-measure 5 levels. By contrast, Measure 1 benefits taxpayers with expensive personal residences, low to modest incomes and low levels of consumption. The dramatically higher relative tax burden on renters is distinctly unfair, but this aspect of Measure 1 could be alleviated if the next legislature adopts statutory renters' relief.

The tax burden on businesses will rise slightly relative to that of households, reversing a decade-long trend. Similarly, Measure 1's inconsistent taxation of business equipment could be corrected by the legislature.

3. Competitiveness

The sales tax component remains modest relative to other states and should not be a negative factor in attracting business. Measure 1 will provide badly needed funds for schools and state services. Some businesses, such as retailers near the border, may suffer. But overall, Measure 1 greatly improves Oregon's competitive tax posture despite the lack of personal income tax reform.

4. Reliability

Adding this sales tax to the Oregon tax system enhances the stability and sufficiency of the overall system. Ironically, however, the sunset provision undermines certainty of funding and contributes to the measure's unreliability.

5. Efficiency

Overall, various legislative refinements to the sales tax (including tax credits, split roll property tax and personal property treatment) cause the administrative cost of the tax system to increase. However, the sales tax itself is quite efficient and will not spawn a major bureaucracy. It will lower the average collection cost of taxes for schools and state services; the total added cost is relatively minor when compared to overall revenue raised.

6. Political Viability

The ultimate test of the viability of this measure will be in November. The legislature fashioned the measure based on extensive polling, and used provisions to attract the support of certain taxpayer groups. The tax initiative did not gain full support of a number of groups and officials who have traditionally been the strongest supporters of a sales tax.

The committee's overall evaluation of the post-Measure 1 tax system is presented schematically below:

	Much Worse	Slightly Worse	Neutral	Slightly Improved	Much Improved
Understandability			X		
Fairness		X			
Competitiveness					X
Reliability	X				
Efficiency				X	
Political Viability			X		

The post-Measure 1 system would be little better or worse than the present system if each criterion were assessed independently and equally. Yet, such an approach does not acknowledge the ease with which some deficiencies may be corrected, nor the priority of some criteria relative to others in evaluating Measure 1. The next legislative session could dramatically improve the fairness of the system by addressing the problems with renters and with business equipment taxation.

Competitiveness of the tax system is the criterion of paramount importance. While Measure 1 fails the reliability test due to its 1998 sunset, it would at least postpone Measure 5 funding cuts for one biennium, maintaining Oregon's competitive posture somewhat longer.

B. Funding Levels

Measure 1 will raise sufficient revenue to maintain educational programs and state services and keep Oregon competitive with other states. It raises this revenue by imposing a tax burden on Oregonians that is sufficiently low, to compete favorably with other states. If Measure 1 passes, the potential cuts in funding are less severe and more manageable. However, without Measure 1, alternatives, such as a substantial increase in the income tax, will be even less acceptable to Oregonians—particularly the business community.

Debate continues within the legislature and among Oregonians about appropriate levels of state government taxation and spending. While a comprehensive analysis of government spending levels is beyond the scope of this report, the committee concludes that if Oregon does not replace some of the revenue lost due to Measure 5, the costs to Oregon's economic development and quality of life will be excessive and irreversible. It is unwise to make deeper cuts in revenue for education and state programs, given the current debate surrounding the definition and measurement of effectiveness and efficiency. The future costs to rebuild will be excessively high.

The current tax system must be changed. Significant tax reforms seldom correspond to an ideal model and usually benefit some groups to the detriment of others. Measure 1 provides the most important needed change: a higher quality of public education and state government service than Oregon would have without Measure 1. Despite our serious reservations about its fairness to renters and to users of business equipment (which we believe the 1994-95 legislature must address), and about the unreliability of a tax measure (which sunsets in four years), we believe that Measure 1 improves the current system.

The committee concludes that Measure 1 will not solve public education and state government funding problems without legislative, public school and state administrator commitment to use funds more efficiently. Without more efficient spending on these levels, the electorate will simply allow Measure 1 to sunset in 1998.

VII. RECOMMENDATIONS

The committee unanimously recommends a "yes" vote on Measure 1.

The committee also unanimously recommends that the 1995 legislative assembly:

- Grant meaningful tax relief to Oregons' renters, especially lower income renters.
- Revise real property and sales tax statutes that result in the disparate treatment of business equipment.

Respectfully submitted,

Lewis Horowitz
Andrew Sloop
Jon P. Stride
Brian K. Teller
Pete Behr, Chair

VIII. APPENDICES

Appendix A

STATE MEASURE

REFERRED TO THE PEOPLE BY THE LEGISLATIVE ASSEMBLY

1 Should we pass a 5% sales tax for public schools with these restrictions?

YES ► ☐
NO ► ☐

- The 5% rate can only be raised by a statewide vote of the people. The legislature could not increase the rate.
- The sales tax moneys raised would be dedicated to public schools, including kindergartens and community colleges. This dedication cannot be changed without a statewide vote of the people.
- School property taxes on owner-occupied homes would be abolished. Sales tax moneys would replace the school property taxes on owner-occupied homes.
- The sales tax would be on goods only, not services.
- The sales tax could not be imposed on food for home consumption, housing, water, light, heat, power, prescription medicine, motor fuel, essential services, and farm animals, feed, seed, and fertilizer. These exemptions could not be changed by the legislature. They can only be changed by a statewide vote of the people.
- Cities, counties, and other local governments cannot impose a sales tax.
- Working families, with children, earning less than $24,000 a year would receive an earned income credit on their income tax.
- Low income households would receive a refund of some or all of the sales tax they would pay.
- The corporate income tax rate would be increased from 6.6% to 7.6%.
- The measure imposes a new constitutional state spending limit, restricting the legislature's spending authority.
- At least half of lottery proceeds would be used for education and the needs of Oregon's children. Currently lottery money must be used for economic development.
- The sales tax for schools would be imposed on a trial basis. The tax and all other provisions would stop in 1999 unless we vote to continue them at the 1998 general election.

ESTIMATE OF FINANCIAL IMPACT – Based on the 1995-97 biennium, when Measure 1 becomes fully implemented, government revenues will increase by $985 million per fiscal year and government expenses will increase by $41 million per fiscal year as follows:

Public Schools and Community Colleges:
Public school and community college revenues will increase by $953 million per fiscal year as follows:

- $1.285 billion in sales tax revenues received from the state. ($1.317 billion in gross sales tax revenues, minus $10 million in tax administration expenses and $22 million returned to lower-income households through a credit.)
- $13 million in interest earnings from the Education Trust Fund.
- $345 million in reduced property tax revenues.

Public school and community college expenses will increase by $4 million per fiscal year in sales taxes on purchases.

State Government:
Notwithstanding distribution of sales tax revenues to public schools and community colleges, revenues will increase by $35 million per fiscal year as follows:

- $35 million in additional corporate income tax revenues.
- $10 million in sales tax revenues for tax administration expenses.
- $10 million in reduced personal income tax revenues.

State government expenses will increase by $23 million per fiscal year as follows:

- $10 million in sales tax and related administration expenses, funded primarily from sales tax revenues.
- $13 million in sales taxes on state government purchases.

Local Government:
Local government property tax revenues will decrease by $3 million per fiscal year.

Local government expenses will increase by $14 million per fiscal year as follows:

- $1 million in property tax administration costs.
- $13 million in sales taxes on local government purchases.

(Note: During the December 1993 to July 1, 1995 phase-in period, one-time expenses will be as follows:

- $358 million to accelerate property tax relief required by 1990's Ballot Measure 5.
- $162 million to establish the Education Trust Fund.
- $7 million in state and local government start-up costs for tax administration.)

(Note: In addition to the above effects, after July 1, 1995, half of lottery revenues -- $91 million per fiscal year -- will be dedicated to education and children's needs.)

Appendix B

MEASURE 1 HOUSEHOLD EXAMPLES

1995–96 FISCAL YEAR

Example	Household Income	Home Value	Filing Status	Family Size	Pre M5	Measure 5	MEASURE 1 Amount	MEASURE 1 Change from M5	MEASURE 1 Change from pre–M5
#1	$200,000	$350,000	JNT	3					
Property Tax					7,875	4,582	2,832	(1,750)	(5,043)
Income Tax					15,130	15,417	15,568	151	438
Sales Tax					0	0	2,213	2,213	2,213
Total					**$23,005**	**$19,999**	**$20,613**	**$614**	**($2,392)**
#2	$80,000	$150,000	JNT	4					
Property Tax					3,375	1,964	1,214	(750)	(2,161)
Income Tax					5,249	5,376	5,444	68	195
Sales Tax					0	0	1,106	1,106	1,106
Total					**$8,624**	**$7,340**	**$7,764**	**$424**	**($860)**
#3	$32,000	$73,000	JNT	4					
Property Tax					1,643	956	591	(365)	(1,052)
Income Tax					1,446	1,508	1,535	27	89
Sales Tax					0	0	566	566	566
Total					**$3,089**	**$2,464**	**$2,692**	**$228**	**($397)**
#4	$25,000	$40,000	JNT	4					
Property Tax					900	524	324	(200)	(576)
Income Tax					1,067	1,067	1,067	0	0
Sales Tax					0	0	480	480	480
Total					**$1,967**	**$1,591**	**$1,871**	**$280**	**($96)**
#5	$20,000	$125,000	SIN	1					
Property Tax			+65		2,813	1,636	1,011	(625)	(1,802)
Income Tax					210	300	345	45	135
Sales Tax					0	0	354	354	354
Total					**$3,023**	**$1,936**	**$1,710**	**($226)**	**($1,313)**
#6	$14,000	$50,000	JNT	4					
Property Tax					1,125	655	405	(250)	(720)
Income Tax					169	194	0	(194)	(169)
Sales Tax					0	0	190	190	190
Total					**$1,294**	**$849**	**$595**	**($254)**	**($699)**
#7	$50,000	Renter	JNT	2					
Property Tax			+65		0	0	0	0	0
Income Tax					3,408	3,408	3,408	0	0
Sales Tax					0	0	695	695	695
Total					**$3,408**	**$3,408**	**$4,103**	**$695**	**$695**
#8	$18,000	Renter	SIN	1					
Property Tax			+65		0	0	0	0	0
Income Tax					354	354	354	0	0
Sales Tax					0	0	326	326	326
Total					**$354**	**$354**	**$680**	**$326**	**$326**
#9	$12,000	Renter	HOH	3					
Property Tax					0	0	0	0	0
Income Tax					204	204	0	(204)	(204)
Sales Tax					0	0	179	179	179
Total					**$204**	**$204**	**$179**	**($25)**	**($25)**
#10	$9,000	Renter	HOH	3					
Property Tax					0	0	0	0	0
Income Tax					0	0	0	0	0
Sales Tax					0	0	(33)	(33)	(33)
Total					**$0**	**$0**	**($33)**	**($33)**	**($33)**

Appendix C

ESTIMATED INITIAL IMPACT OF OREGON STATE AND LOCAL TAXES ON HOUSEHOLDS AND BUSINESS

Selected Fiscal Years

Research Report 3-93
October 4, 1993

HISTORY	1978-79	1983-84	1988-89	1990-91	1991-92	1995-96		
						Without Measure 5	Current Law	With Measure 1
Households Share	$1,238 50.2%	$1,935 53.2%	$2,878 54.3%	$3,420 55.9%	$3,678 57.7%	$4,907 58.2%	$4,100 59.7%	$4,584 58.7%
Businesses Share	$1,231 49.8%	$1,700 46.8%	$2,423 45.7%	$2,699 44.1%	$2,701 42.3%	$3,527 41.8%	$2,767 40.3%	$3,178 40.7%
TOTAL % of Income	$2,469 11.9%	$3,635 12.1%	$5,301 12.9%	$6,119 12.6%	$6,379 12.5%	$8,434 12.9%	$6,868 10.5%	$7,815 12.0%

Tax figures include all state and local taxes.
Assumes 50% of property taxes on rental property paid by renters.
Low income sales tax credit is subtracted from household tax collections.
Measure 1 shares in 1995-96 do not add to the total because out-of-state tourists are not included in either share.
Dollar figures in millions.

Appendix D

REVENUE IMPACT

CONSOLIDATED REVENUE SUMMARY

	1993-95	1995-97
Sales Tax Collections	$1,231	$2,633
LESS: Low Income Credit	(14)	(44)
Retailer discount	(27)	0
State administrative costs	(15)	(20)
Net sales tax revenue	$1,175	$2,569
Corporate to 7.6%	46	69
Income tax feedbacks	25	25
Education trust fund earnings	0	26
TOTAL GROSS REVENUE	**$1,246**	**$2,689**
Earned income credit	(29)	(44)
Repeal OOPR school taxes	(304)	(682)
Business property tax reduction	(6)	(14)
Accelerate Measure 5	(358)	0
TOTAL REVENUE REDUCTIONS	**($697)**	**($740)**
TOTAL NET REVENUE	**$549**	**$1,948**
State School Fund Appropriation	(351)	
Deposit to education trust fund	(162)	
Beginning balance		36
TOTAL RESOURCES		**$1,985**
50% of Lottery to Education	**$0**	**$182**

This table shows the consolidated revenue impact on all state and local governments. For details by type of government and for cost impacts, see the body of the report. Figures in millions of dollars.

Appendix E

BUDGET IMPACT OF SALES TAX

CSB SUMMARY

	1991-93 Actual	1993-95 C.S.B. (91-93 Base)	1993-95 Legis. Adopted Budget	1993-95 Diff.	1995-97 C.S.B. (91-93 Base)	1995-97 C.S.B. (93-95 Base)
RESOURCES						
General Fund & backfills	5,870	6,445	6,787	342	7,124	7,240
Pre-5 School Oper. Prop. Taxes	3,629	4,063	4,063	0	4,532	4,532
Other school revenue	217	204	204	0	204	204
Pre-5 total revenues	9,716	10,712	11,053	342	11,860	11,976
Measure 5 loss	(566)	(1,655)	(1,655)	0	(2,904)	(2,904)
Measure 5 total revenues	9,150	9,057	9,398	342	8,956	9,071
CURRENT SERVICE BUDGET						
General Fund & backfills	5,508	7,537	6,667	(870)	9,472	8,305
Local schools	5,377	5,996	5,416	(579)	6,735	5,935
Less intergovernment transfers	(2,097)	(3,384)	(2,804)	579	(4,903)	(4,103)
Total	8,788	10,149	9,279	(870)	11,304	10,137
Desired ending balance	362	151	120	(31)	189	166
Total need	9,150	10,300	9,399	(901)	11,493	10,303
MEASURE 1						
Current service shortfall	0	(1,243)	(0)	1,243	(2,537)	(1,232)
Net Measure 1 revenue		387			1,985	1,985
Less higher ending balance		(8)			(6)	(30)
Net Measure 1 shortfall/balance		(864)			(559)	724

LRO: 13-Oct-93

F. Witnesses

Associated Oregon Industries
Gary Carlson

Homebuilders Association of Metropolitan Portland
Drake Butsch

League of Oregon Cities
B. J. Smith

"No on Sales Tax" Committee
Frank Eisenzimmer
George Starr
Phil Dreyer

Oregon State Department of Human Resources
Maureen Casterline

Oregon State House of Representatives
John Minnis, District 20

Oregon State Legislative Revenue Office
Steve Bender
Jim Scherzinger

Oregon State Senate
Shirley Gold, District 7

Portland Chamber of Commerce
Owen Blank

Portland Citizens for Oregon Schools
Roz Tucker

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