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City Club of Portland (Portland, Or.)

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Information Report on Ballot Measure 26-48



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Information Report on Measure 26-48

Multnomah County Ballot Measure 26-48: Three-year Income Tax for Schools, Human Services, Public Safety

*Should Multnomah County enact three-year
1.25% income tax for county schools, health and
senior care and public safety?*

Background

The State of Oregon has experienced a series of revenue shortfalls during the last two years. As a result of these shortfalls, state government has cut funding for programs and services. These funding cuts have, in turn, meant less revenue at the county and city levels for schools, health and senior care, public safety and other public services.

The state legislature called five special sessions in 2002 to address these funding cuts. After the five special sessions, the legislature agreed to some service and program cuts, borrowed money against future revenues and referred Ballot Measure 28 to voters. Measure 28 proposed to increase Oregon's top income tax rate by 0.5%. Oregon voters rejected Measure 28 in a January 2003 special election; however, the measure passed in Multnomah County.

Following the defeat of Measure 28, many jurisdictions, including Multnomah County, made cuts to their current budgets (2001-03). Additional cuts are being made to the 2003-05 budgets at the state, county, city and school district levels.

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What would Ballot Measure 26-48 do?

To address the decreased revenue from the state, Multnomah County placed Ballot Measure 26-48 on the May 2003 ballot. Measure 26-48 would institute a three-year income tax of 1.25% on all county residents earning more than \$2,500 as a single filer or \$5,000 for joint filers. This would be the only county income tax in the state of Oregon.

By imposing this tax, Multnomah County would raise approximately \$135 million. Approximately 75% of that amount (less administrative costs) would be directed to county schools and the remainder would go to restore some funding to county human service programs and public safety.

The revenue generated by Measure 26-48 would:¹

- Restore over 600 teaching positions at Portland Public Schools and prevent class size ratios from increasing to 46:1;
- Restore a full school year;
- Restore school athletic programs;
- Restore professional technical education, in-school alternative programs and Outdoor School;
- Restore additional positions for high school: career education, International Baccalaureate and arts magnet;
- Restore contracted alternative school slots and funding for Vocational Village;
- Restore supplemental funding for language immersion, arts magnet programs and HOLA HOLA;
- Prevent sharp reductions in prescription drug benefits for low-income individuals, housing assistance for the elderly and the disabled, and drug and alcohol treatment programs;
- Prevent early release of inmates from Multnomah County jails.

Arguments For and Against Measure 26-48

As of this writing, one political action committee, *It's our Future Committee*, has registered a pro-Measure 26-48 campaign with the Multnomah County Elections Division. No campaigns opposing Ballot Measure 26-48 have been registered. A community-based organization known as HOPE (Help Out Public Education) is actively organizing the community in favor of the measure. HOPE believes that cutting teachers and programs, and increasing class sizes would lower the quality of education, thereby lowering the vibrancy of the community.

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Multnomah County commissioners have put forth many of the same arguments, i.e., providing services to the county's vulnerable citizens is an investment in the overall quality of our community.

While Measure 26-48 has no formal opposition as of this writing, your committee anticipates that many of the arguments put forth against Measure 28 will be raised again. Such arguments will likely include the following:

- Any tax increase is bad for the economy because it takes money out of the pockets of most Oregonians at a time when many are struggling with the impacts of the recession;
- Higher taxes are disincentives for business investment;
- Plugging part of the budget deficit with a tax increase reduces the incentive to further reduce inefficiencies in government and school districts;
- Though ranking low in overall tax burden, Oregon ranks eighth in state and local government spending per capita and second in income taxes as percentage of income. (Additional revenue is derived from fees, federal matching dollars and miscellaneous charges.)

Additionally, some members of the state legislature have questioned the legality of a county income tax to fund schools in light of a state law that requires equal funding for all school districts. Some legislators claim that Measure 26-48 subverts the spirit of the "equalization" concept, if not the letter of the law and have suggested that state government should subtract the amount raised by Measure 26-48 from the state's school funding allocation for Multnomah County.

Relevant City Club Positions

City Club has established positions relevant to Measure 26-48. Members adopted the recommendations of the "Tax Reform in Oregon" report in May 2002. Members also approved the Club's report and recommendation to vote "yes" on Measure 28 in January 2003. City Club members and others may want to consider the information presented in these two reports when evaluating the merits of Ballot Measure 26-48.

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Ballot Measure 28

City Club members supported Ballot Measure 28 which would have imposed a three-year, statewide, 0.5% income tax surcharge on the highest of Oregon's three income tax brackets. The relevant arguments put forth in the Measure 28 study included the following:

Is a temporary tax increase bad for Oregon's economy?

Conclusion: *"None of the witnesses interviewed could cite hard evidence that a tax surcharge would result in much, if any, impact on Oregon's economy in the short term, and at worst, only a minimal impact in the long term."*

What are the likely impacts if Measure 28 fails?

"If Measure 28 fails, Oregonians will feel the impact most drastically in a few key areas. These include education, health and human services, and the justice system."

Conclusion: *"A vast majority of Oregonians will directly or indirectly share in the pain of the slated budget cutbacks if Measure 28 fails. Given the severity of the program cuts that have already taken place, combined with those expected to take place even if Measure 28 passes, your committee believes that the need for additional revenue is legitimate and should be a concern for all Oregonians."*

City Club's 2002 Report "Tax Reform in Oregon"

In 2002, City Club adopted the position that tax measures should be evaluated against established criteria. The following table evaluates Measure 26-48 against these five criteria:

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Criteria	City Club Definition	Ballot Measure 26-48
Fairness	<ul style="list-style-type: none"> ▪ A tax system should be progressive. As a taxpayer's income increases, so should the percentage of that income that he or she pays in tax. ▪ Taxpayers with similar levels of income or assets should generally pay similar amounts of tax. ▪ Individuals, organizations or companies that receive special benefits from government services and programs should generally be subject to taxes or fees to reimburse the cost of those services and programs. 	<p>Measure 26-48 imposes a flat 1.25% tax on Oregon taxable income above \$2,500. This is not a progressive tax because the percentage of tax paid does not increase with income.</p> <p>Four examples of how Measure 26-48 would affect the tax burden of Multnomah County residents are included in the appendix.</p>
Sufficiency	<ul style="list-style-type: none"> ▪ A tax system should produce a flow of revenue adequate to pay for public services and programs established by law. ▪ Sufficiency is better served by deriving revenue from a balance of several types of taxes. 	<p>Measure 26-48 continues a high level of dependence on only one type of tax—the income tax.</p>
Certainty	<ul style="list-style-type: none"> ▪ A tax system should be subject to only limited changes over time ▪ A tax system should produce a reasonably predictable level of revenue. 	<p>Measure 26-48 includes a “sunset clause” that eliminates the tax after three years. Replacement revenue after three years is uncertain.</p>
Clarity	<ul style="list-style-type: none"> ▪ The basic functioning of a tax system should be understandable and capable of being described in clear and simple terms. This allows citizens to understand and debate the value of the system and the likely impact of proposed changes to the system. 	<p>Measure 26-48 is an easy-to-understand flat tax of 1.25% on taxable income for all Multnomah County residents.</p>
Efficiency	<ul style="list-style-type: none"> ▪ The cost and complexity of taxpayer compliance and collection and enforcement should be kept to a minimum. ▪ The state tax system should work well with the Federal tax system. 	<p>How the Measure 26-48 income tax would be collected has not been determined. However, the option to use the State Department of Revenue to collect the tax in conjunction with the state income tax has been eliminated. Other options are being explored, including use of a private third party. Multnomah County has predicted a tax payment delinquency rate that is 8% higher than the delinquency rate for state income taxes. Not enough information is available to fully evaluate this criterion.</p>

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Bottom Line

Measure 26-48 does not comport with important criteria for tax equity established by City Club after extensive research. Nonetheless, your committee believes the impact of the proposed cuts to education, human services and public safety will be significantly detrimental to the health and welfare of our community. Your committee urges you to consider all aspect of Measure 26-48 before casting your vote on May 20, 2003.

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Appendix

Examples of Effect on Tax Burden for Multnomah County Residents

County Resident #1

Assumptions - single tax payer, no dependents, standard deductions only.

\$30,000	Total Income
- 4,700	Federal Standard Tax Deduction
- 1,789	Federal Taxes Paid
- 1,640	State Standard Tax Deduction
- 2,500	County Income Tax Exemption
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19,371	Total County Taxable Income
X 1.25%	County Income Tax Rate
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\$242.14	Total County Tax Paid (Effective Tax Rate = .81%)

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County Resident #2

Assumptions - single tax payer, no dependents, multiple itemized deductions (house mortgage of \$100,000, property tax value of \$85,000).

\$30,000	Total Income
- 1,811	Property Tax
- 6,900	Mortgage Interest
- 1,789	Federal Taxes Paid
- 500	Charity
- 2,500	County Income Tax Exemption
\$16,500	Total County Taxable Income
X 1.25%	County Income Tax Rate
\$206.25	Total County Tax Paid (Effective Tax Rate = .69%)

County Resident #3

Assumptions - single tax payer, no dependents, multiple itemized deductions (house mortgage of \$100,000, property tax value of \$85,000).

\$40,000	Per Year Total Income
- 1,811	Property Tax
- 6,900	Mortgage Interest
- 700	Charity
- 3,250	Federal Taxes Paid
- 2,500	County Income Tax Exemption
\$24,839	Total County Taxable Income
X 1.25%	County Income Tax Rate
\$447.85	Total County Tax Paid (Effective Rate = .75%)

County Resident #4

Assumptions - single tax payer, no dependents, multiple itemized deductions, (house mortgage of \$200,000, property tax value of \$170,000).

\$60,000	Per Year Total Income
- 3,622	Property Tax
- 13,800	Mortgage Interest
- 1,000	Charity
- 3,250	Federal Taxes Paid
- 2,500	County Income Tax Exemption
\$38,828	Total County Taxable Income
X 1.25%	County Income Tax Rate
\$485.35	Total County Tax Paid (Effective Rate = .81%)