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Lane Shetterly, Chair  
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Sen. Frank Morse  
Rep. Tobias Read  
John Russell  
Sen. Kurt Schrader  
Malia Wasson

*Staff*  
Paul Warner, Legislative  
Revenue Officer  
Tim Nesbitt, Governor's  
Office  
Anna Grimes, Task Force  
Coordinator



## **Task Force on Comprehensive Revenue Restructuring**

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Hon. Randall Edwards  
Ben Fetherston  
Ralph Groener  
Brad Hicks  
Tom Hughes  
Dan DeBoie  
Linda Modrell  
Chuck Sheketoff  
Bob Shiprack  
Alan Unger  
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Dennis Peterson  
Philip Romero  
Anthony Rufolo  
Carol Samuels  
Karey Schoenfeld  
John Tapogna  
*Adjunct Members:*  
Linda Ludwig  
Gil Riddell  
Hasina Squires  
David Williams

## **FINAL REPORT APPENDICES**

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# **Appendix A**

## **Text of House Bill 2530**

Enrolled  
House Bill 2530

Sponsored by Representatives JENSON, BURLEY, ESQUIVEL, BERGER, BRUUN, Senators  
SCHRADER, MORSE, DECKERT, WESTLUND

CHAPTER .....

AN ACT

Relating to taxation; appropriating money; and declaring an emergency.

Whereas Oregon needs a revenue system that is stable, predictable and adequate; and

Whereas Oregon needs a revenue system that stimulates the economy to create and retain family wage jobs; and

Whereas Oregon's financial support for critical services, including education, human services, public safety and the judiciary is stressed; and

Whereas the cumulative impact from initiatives coupled with a highly volatile revenue system has created the stress; and

Whereas Oregon's local units of government are experiencing a diminished ability to provide services vital to the well-being of Oregonians; and

Whereas the decline of Oregon's public-land-dependent timber economy and the effects of that decline are now finally being realized with the loss of federal rural payments; and

Whereas increases in property values are causing unsustainable increases in property taxes that threaten the financial security of Oregon homeowners, owners of small businesses and farm owners; and

Whereas Oregonians deserve a tax structure that is shared equitably by all for the benefit of all; now, therefore,

Be It Enacted by the People of the State of Oregon:

**SECTION 1.** (1) There is created the Task Force on Comprehensive Revenue Restructuring consisting of 30 members.

(2) The task force shall consist of the following voting members:

(a) The Governor or the Governor's designated representative, who shall be chairperson of the task force;

(b) Four members from the general public appointed by the Governor who shall represent different geographic regions of Oregon;

(c) One member appointed by the Governor who is a representative of an Oregon-based small business;

(d) One member appointed by the Governor who is a representative of an Oregon-based large corporation;

(e) Two members appointed by the Governor who represent organized labor;

(f) Four members from among members of the House of Representatives appointed by the Speaker of the House of Representatives; and

(g) Four members from among members of the Senate appointed by the President of the Senate.

(3) The following members shall be nonvoting members of the task force:

- (a) The State Treasurer or the State Treasurer's designated representative;
- (b) Two members from Oregon's business trade associations appointed by the Governor;
- (c) Two members from Oregon's labor associations appointed by the Governor;
- (d) Two members from associations representing taxpayers appointed by the Governor;
- (e) Two members from chambers of commerce appointed by the Governor;
- (f) Two members from the League of Oregon Cities appointed by the Governor; and
- (g) Two members from the Association of Oregon Counties appointed by the Governor.

(4) The task force shall:

(a) Provide advice to the Governor and the Legislative Assembly that may be used for drafting legislation for pre-session filing, by means of a blueprint for comprehensive revenue restructuring for local and state government. The blueprint shall provide a means for:

- (A) Promoting a stable revenue flow to fund all levels of state and local government;
- (B) Creating positive economic benefits for Oregon; and
- (C) Creating a financial foundation that will increase Oregon's ability to compete in a global economy.

(b) Develop a state plan for revenue and economic competitiveness. The plan shall include policy and program recommendations to:

- (A) Restructure the tax code to provide stable state, county and city funding;
- (B) Promote agreements among cities, counties and the state regarding funding; and
- (C) Stimulate economic growth in Oregon.

(5) A majority of the voting members of the task force constitutes a quorum for the transaction of business.

(6) Official action by the task force requires the approval of a majority of the voting members of the task force.

(7) The task force may adopt rules necessary for the operation of the task force.

(8) The task force may establish committees and delegate to the committees duties as the task force considers desirable.

(9) The Legislative Revenue Officer shall provide staff to the task force.

(10)(a) Members of the task force who are not members of the Legislative Assembly are entitled to compensation and expenses incurred by them in the performance of their official duties in the manner and amounts provided for in ORS 292.495. Claims for compensation and expenses of these members of the task force shall be paid out of funds appropriated to the Legislative Revenue Officer for that purpose.

(b) Claims for compensation and expenses of members of the task force who are public officers shall be paid by the public bodies that employ the members.

(11) All agencies of state government, as defined in ORS 174.111, are directed to assist the task force in the performance of its duties and, to the extent permitted by laws relating to confidentiality, to furnish such information and advice as the members of the task force consider necessary to perform their duties.

(12) The task force shall complete the initial state plan required by subsection (4)(b) of this section on or before November 1, 2008.

**SECTION 2.** (1) There is created the Oregon Revenue Advisory Council consisting of seven members appointed by the chairperson of the Task Force on Comprehensive Revenue Restructuring created under section 1 of this 2007 Act. The members shall represent accountants, economists and tax attorneys who are professionally involved in tax issues.

(2) The advisory council shall:

(a) Provide technical analysis for the task force; and

(b) Make recommendations for consideration by the task force.

# **Appendix B**

## **Summary of Public Meetings**

*Young members*  
Lane Shetterly, Chair  
Rep. Phil Barnhart  
Joe Benetti  
Rep. Scott Bruun  
Sen. Ginny Burdick  
Jerry Caruthers  
Jim Diegel  
Rep. Sal Esquivel  
Leslie Frane  
Jennifer Geller  
Henry Lorenzen  
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John Tapogna  
*Adjunct Members:*  
Linda Ludwig  
Gil Riddell  
Hasina Squires  
David Williams

## **PUBLIC MEETINGS**

### **Meetings:**

November 13, 2008: Jackson County Library, Medford  
November 19, 2008: Vert Auditorium, Pendleton  
November 20, 2008: Deschutes County Fair and Expo Center, Redmond  
December 8, 2008, Hatfield Marine Science Center, Newport  
December 12, 2008: Eugene School District Education Center, Eugene  
December 17, 2008: Tigard Public Library, Tigard—Canceled due to inclement weather

### **Summary of Meetings\***

#### **Key Themes:**

- Need for urgency in reforming state and local revenue system
- Local government fiscal pressures including:
  - Erosion of reserves and build-up of debt
  - Growing infrastructure needs
  - Fragmentation of local service provision
  - Inflexibility of Measure 50 system
  - Difficulty in passing local property tax option levies
  - Damage caused by state preemption of local revenue options and need for greater flexibility in diversifying revenue sources
  - Need to develop adequate response to phase-out of federal timber payments

- School funding concerns
  - Need for greater and more stable school funding
  - Need to diversify state revenue sources
  - Fear of repeating damaging impact of state cuts during 2001-03 recession
  - Inadequate work force training programs
- Changing fiscal environment
  - Falling property values
  - Emergence of deflation
  - Growing economic hardship
- Growing taxpayer inequities caused by Measure 50
- Pros and Cons of moving to state consumption tax
  - Benefits of expanding tax base to include underground economy and tourists
  - Economic benefits of reducing dependence on high marginal income tax rates
  - Concerns over regressive nature of traditional consumption taxes
  - Public reaction to previous sales tax proposals
- Need to emphasize public engagement and education on tax and budget issues as a short-term recommendation

\*For a complete record of the public testimony contact the Legislative Revenue Office.

# **Appendix C**

## **Summary of Stability Funds**

# EDUCATION STABILITY FUND

- STATUS: CONSTITUTIONAL
- REVENUE: 18% OF LOTTERY UNTIL CAP REACHED THEN 15% INTO CAPITAL MATCHING FUND
- TRIGGERS: (DECLINING EMPLOYMENT OR REVENUE 2% BELOW FORECAST OR EMERGENCY)+ 3/5 VOTE
- USES: PUBLIC EDUCATION
- CAP: 5% OF GF REVENUE

# RAINY DAY FUND

- STATUS: STATUTORY
- REVENUE: ONE-TIME CORP KICKER CREDIT + UP TO 1% OF GF APPROPRIATIONS IN PRIOR BIENNNIUM (ENDING BALANCE)+INTEREST
- TRIGGERS: SAME AS ESF EXCEPT EMERGENCY DECLARATION
- WITHDRAWALS CANNOT EXCEED 2/3 PER BIENNNIUM
- USES: GENERAL PURPOSE
- CAP: 7.5% OF GF REVENUE

## **Appendix D**

# **Variables Used for City/County Fiscal Projections**

LOCAL GOVERNMENT LONG-TERM PROJECTIONS  
 SCENARIO 1: BASELINE PROJECTIONS

GOVERNMENT	COUNTY 05-06	CITY 06-07	VARIABLES USED FOR PROJECTION
REVENUE (IN MILLIONS OF \$)			
PROPERTY TAX	713	920.5	4.5% ANNUALLY
HOTEL/MOTEL		52.1	CONSUMPTION DEFLATOR/OREGON POPULATION
OTHER TAXES & ASSESSMENTS	320.2	75.9	CONSUMPTION DEFLATOR/OREGON POPULATION
LICENSE/PERMITS & FINES	109.1	290.1	OREGON POPULATION
CHARGES FOR SERVICES	302.7	255.2	CONSUMPTION DEFLATOR/OREGON POPULATION
SYSTEM DEVELOPMENT CHARGES		82.1	CONSUMPTION DEFLATOR/OREGON POPULATION
FRANCHISE FEES		170.2	OREGON POPULATION
INTERGOVERNMENTAL	1153.3	413.6	CONSUMPTION DEFLATOR/OREGON POPULATION
PL 106-393 TITLE 1	199.1		12% OF HISTORIC LEVEL AFTER PHASE OUT
INTEREST EARNINGS	57.5	67.9	CONSUMPTION DEFLATOR
MISCELLANEOUS	211.6	90.8	CONSUMPTION DEFLATOR/OREGON POPULATION
BOND PROCEEDS	29.5	323	CONSUMPTION DEFLATOR/OREGON POPULATION
TOTAL	3096	2741.4	
EXPENDITURES (IN MILLIONS OF \$)			
GENERAL GOVERNMENT	441.7	334.4	OREGON POPULATION/STATE & LOCAL GOV DEFLATOR
PUBLIC SAFETY	820.5	866.3	OREGON POPULATION/STATE & LOCAL GOV WAGES
TRANSPORTATION	407.7	236.6	STATE & LOCAL GOV CONSTRUCTION DEFLATOR/OREGON POPULATION
HEALTH	857.7		MEDICAL CARE CPI/OREGON POPULATION
COMMUNITY DEVELOPMENT	131.2	254.4	OREGON POPULATION/STATE & LOCAL GOV DEFLATOR
CULTURAL & EDUCATION SERVICES	153.6	57.4	OREGON POPULATION/STATE & LOCAL GOV DEFLATOR
PARKS & NATURAL RESOURCES	5.7	163	OREGON POPULATION/STATE & LOCAL GOV DEFLATOR
CAPITAL OUTLAY	158	384.3	OREGON POPULATION/STATE & LOCAL GOV DEFLATOR
DEBT SERVICE	66.4	299.3	GDP CONSTRUCTION DEFLATOR/OREGON POPULATION
MISCELLANEOUS	18.3	32	OREGON POPULATION/STATE & LOCAL GOV DEFLATOR
TOTAL	3060.8	2627.7	

## **Appendix E**

# **Advisory Council Recommendations for Managing Reserve Funds**

# Advisory Council Recommendations for "Rainy Day" Funds

August 21, 2008

The Advisory Council recommends the following:

- The target for the Rainy Day Funds saving rate should be to maintain average growth in spending during the average recession. Both the Education Stability Fund (ESF) and the Rainy Day fund are expected to serve the stabilizing function and should be considered together. The saving rate should be based on achieving a 50% to 75% probability of having sufficient resources in the funds.
- From the information presented, this would require a saving rate of between 3% and 4% of general fund revenue during expansions. The funding for the Education Stability Fund is variable, but it amounts to about 1.5% of the general fund revenue. Thus, the revenue target for the Rainy Day Fund itself should be 1.5% to 2.5% of general fund revenue during periods of expansion.
- The maximum for the Rainy Day funds should be 12% to 15% of the biennial budget. This is projected to be sufficient to maintain spending through 90% of all recessions. Current maximums for the two funds would achieve the lower end of this range when both are fully funded.
- The current policy of adding the general fund ending balance, up to 1% of the general fund revenue, should be continued. Both the Governor's budget and the Co-chairs' budget should show an ending balance of at least 1% during periods of expansion. However, historical analysis shows that this method would not have been sufficient to fully fund the Rainy Day fund.
- Sources should be identified that would provide the additional 0.5% to 1.5% of general fund revenue on average during periods of expansion. More money should be set aside in periods of above average growth allowing for a lower rate of savings during expansion periods of below average growth.
- One proposal is to change the forecast method to allow for any revenue up to one standard deviation above the current forecast method to be allocated to the Rainy Day fund. Historical analysis shows that this change would have restored the Rainy Day fund within two biennia of recent recessions, and it is recommended as the most promising method of funding. If this is not adopted or does not generate enough revenue, then another source of additional money for the Rainy Day fund should be found.
- Other possible sources include the following:
  - Use corporate income tax kicker amounts

- Use personal income tax kicker amounts
  - Share of capital gains revenue
  - State interest earnings not otherwise earmarked
  - Corporate minimum
- 
- Utilization of the funds during a recession should take account of future prospects for replenishing the funds. With current funding methods, the ESF should be utilized first during periods of recession since it has a relatively stable source of replacement funding.
  - We do not recommend any changes to current policies for using the funds.
  - These recommendations are based on the current revenue system. Significant changes in the revenue sources could affect the volatility of state revenues and the desired level of the Rainy Day fund.

## **Appendix F**

### **States with Limitations on Initiatives with Fiscal and Revenue Impacts**

STATE RESTRICTIONS ON INITIATIVES WITH FISCAL IMPACTS	
STATE	RESTRICTION
Alaska	No dedication of revenues or making or repealing appropriations.
Florida	Tax or fee increase requires 2/3 vote.
Maine	Expenditures above available state funds remain inoperative until 45 days after legislative session, unless the measure provides for adequate new revenues.
Massachusetts	May not be used to make specific appropriations unless Legislature raises sufficient revenue to fund appropriation.
Mississippi	Sponsor must identify in the text of the initiative the amount and the source of revenue required to implement the initiative.
Missouri	May not appropriate money other than new revenues created by the initiative.
Montana	May not appropriate money.
Nebraska	No measure that interferes with the Legislature's ability to raise necessary revenues.
Nevada	No additional expenditures unless measure also raises sufficient revenue.
North Dakota	No appropriations.
Wyoming	No dedication of revenues or making or repealing appropriations.

Source: National Conference of State Legislatures

# **Appendix G**

## **Oregon Tax Incidence Model Summary of Simulation Results**

### Scenario 1 (effective 1-1-2011):

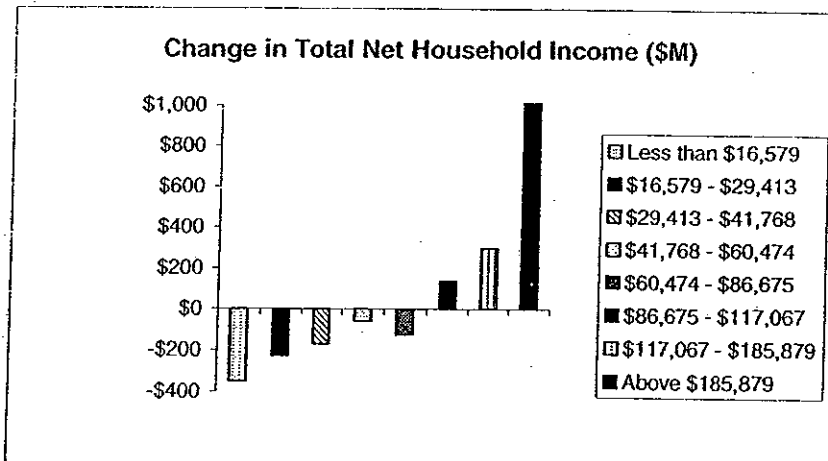
- (1) 8.5% sales tax rate, with exemptions
- (2) Eliminate the personal income tax (\$6,837 million in 2011)
- (3) Estimated sales taxes of \$6,837 million (2011)

Sales Tax and Personal Income Tax Swap				
2011 Levels				
	Baseline	New Equilibrium	Change From Baseline	Percent Change
<b>Private Sector</b>				
Personal Income (\$M)	160,400	157,940	-2,460.2	-1.5%
Employment	2,383,753	2,507,368	123,616	5.2%
Population	3,957,000	3,996,772	39,772	1.0%
Investment (\$M)	17,754	17,886	132.8	0.7%
Wage Index	100.0	94.2	-5.8	-5.8%
Return to Capital	100.0	100.8	0.8	0.8%
Price Levels	100.0	101.6	1.6	1.6%
<b>Private Sector</b>				
State Spending (\$M)	22,084.7	22,168.9	84.2	0.4%
GF Revenue (\$M)	7,098.4	7,127.7	29.2	0.4%
OF Revenue (\$M)	14,986.3	15,041.3	55.0	0.4%
Local Govt Revenue (\$M)	12,015.2	12,182.7	167.5	1.4%
Federal Tax Paid by Oregonians (\$M)	32,145.8	33,214.4	1,068.6	3.3%

Static Revenue Impact (\$ Millions)	\$0
Dynamic Revenue Impact (\$ Millions)	\$252
Net Revenue Impact (\$ Millions)	\$252
General Fund Change (\$ Millions)	\$29
Other Funds Change (\$ Millions)	\$55
Local Revenue Change (\$ Millions)	\$168

### Total Net Household Income

	Baseline (\$M)	New Equilibrium (\$M)	Difference (\$M)	% Difference	Change in Number of Hholds	Mean HH Income Change (\$)
Less than \$16,579	\$4,414	\$4,063	-\$351	-7.9%	-782	-\$1,661
\$16,579 - \$29,413	\$9,876	\$9,646	-\$230	-2.3%	905	-\$1,463
\$29,413 - \$41,768	\$14,142	\$13,970	-\$172	-1.2%	1,547	-\$1,626
\$41,768 - \$60,474	\$20,577	\$20,517	-\$60	-0.3%	4,299	-\$1,533
\$60,474 - \$86,675	\$33,115	\$32,988	-\$127	-0.4%	3,358	-\$2,009
\$86,675 - \$117,067	\$17,876	\$18,013	\$138	0.8%	2,587	-\$756
\$117,067 - \$185,879	\$14,947	\$15,246	\$299	2.0%	1,805	\$783
Above \$185,879	\$11,423	\$12,476	\$1,053	9.2%	2,118	\$11,677
<b>TOTAL</b>	<b>\$126,371</b>	<b>\$126,921</b>	<b>\$550</b>	<b>0.4%</b>	<b>15,837</b>	





## Scenario 2 (effective 1-1-2011):

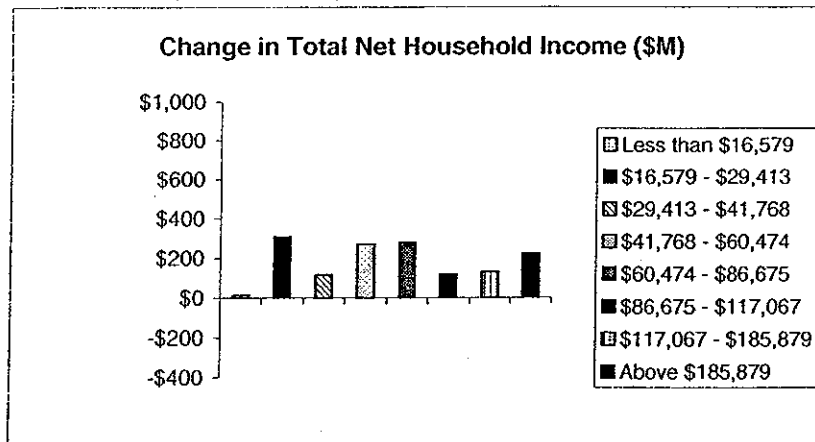
- (1) Reduce personal income tax rates to 2-4-6-8% (8% starts at \$75,000 if single)
- (2) Increase earned income credit to 50% of federal EIC
- (3) Eliminate corporate income tax
- (4) Create 1.31% gross receipts tax
- (5) Create a \$50,000 homestead property tax exemption

Reduce PIT, Increase EIC, Add Homestead Exemption, Swap CIT for GRT				
2011 Levels				
	Baseline	New Equilibrium	Change From Baseline	Percent Change
<b>Private Sector</b>				
Personal Income (\$M)	\$160,400	\$160,531	\$131	0.1%
Employment	2,383,753	2,477,008	93,256	3.9%
Population	3,957,000	3,997,462	40,462	1.0%
Investment (\$M)	\$17,754	\$17,903	\$150	0.8%
Wage Index	100.0	96.2	-3.8	-3.8%
Return to Capital	100.0	100.9	0.9	0.9%
Price Levels	100.0	100.4	0.4	0.4%
<b>Public Sector</b>				
State Spending (\$M)	\$22,085	\$22,785	\$701	3.2%
GF Revenue (\$M)	\$7,098	\$7,728	\$630	8.9%
OF Revenue (\$M)	\$14,986	\$15,057	\$71	0.5%
Local Govt Revenue (\$M)	\$12,015	\$11,732	-\$283	-2.4%
Federal Tax Paid by Oregonians (\$M)	\$32,146	\$32,716	\$570	1.8%

Static Revenue Impact (\$ Millions)	\$150
Dynamic Revenue Impact (\$ Millions)	\$267
Net Revenue Impact (\$ Millions)	\$417
General Fund Change (\$ Millions)	\$630
Other Funds Change (\$ Millions)	\$71
Local Revenue Change (\$ Millions)	-\$283

### Total Net Household Income

	Baseline (\$M)	New Equilibrium (\$M)	Difference (\$M)	% Difference	Change in Number of Hholds	Mean HH Income Change (\$)
Less than \$16,579	\$4,414	\$4,429	\$15	0.3%	480	\$27
\$16,579 - \$29,413	\$9,876	\$10,185	\$309	3.1%	5,156	\$359
\$29,413 - \$41,768	\$14,142	\$14,261	\$119	0.8%	1,913	-\$107
\$41,768 - \$60,474	\$20,577	\$20,849	\$272	1.3%	3,670	-\$2
\$60,474 - \$86,675	\$33,115	\$33,397	\$281	0.8%	2,659	-\$97
\$86,675 - \$117,067	\$17,876	\$17,995	\$119	0.7%	1,118	\$49
\$117,067 - \$185,879	\$14,947	\$15,080	\$134	0.9%	688	\$475
Above \$185,879	\$11,423	\$11,647	\$224	2.0%	429	\$2,621
<b>TOTAL</b>	<b>\$126,371</b>	<b>\$127,843</b>	<b>\$1,473</b>	<b>1.2%</b>	<b>16,113</b>	



**Scenario 2**  
**Gross Receipts Tax by Industry**  
(1.31% rate), tax year 2011

Industry	Total (\$M)	Share
Livestock	\$28	0.8%
Crops	\$22	0.6%
Nurseries and greenhouses	\$5	0.1%
Other agriculture and natural resources	\$119	3.5%
Construction	\$140	4.1%
Agricultural processing	\$111	3.2%
Tobacco and alcohol	\$23	0.7%
Apparel	\$41	1.2%
Wood and construction products	\$135	3.9%
Pulp, paper printing and publishing	\$112	3.3%
Chemical products	\$137	4.0%
Petroleum products	\$24	0.7%
Hi-tech manufacturing	\$120	3.5%
Motor vehicles	\$111	3.2%
Other manufacturing	\$179	5.2%
Transportation	\$115	3.3%
Communication	\$113	3.3%
Utilities	\$9	0.3%
Wholesale trade	\$193	5.6%
Retail trade except restaurants	\$226	6.6%
Eating, drinking and lodging	\$121	3.5%
Banking	\$116	3.4%
Insurance	\$70	2.1%
Real estate	\$152	4.4%
Other financial insurance	\$97	2.8%
Business services	\$255	7.4%
Health services	\$279	8.1%
Entertainment	\$49	1.4%
Other services	\$330	9.6%
Total	\$3,431	100.0%

### Scenario 3 (effective 1-1-2011):

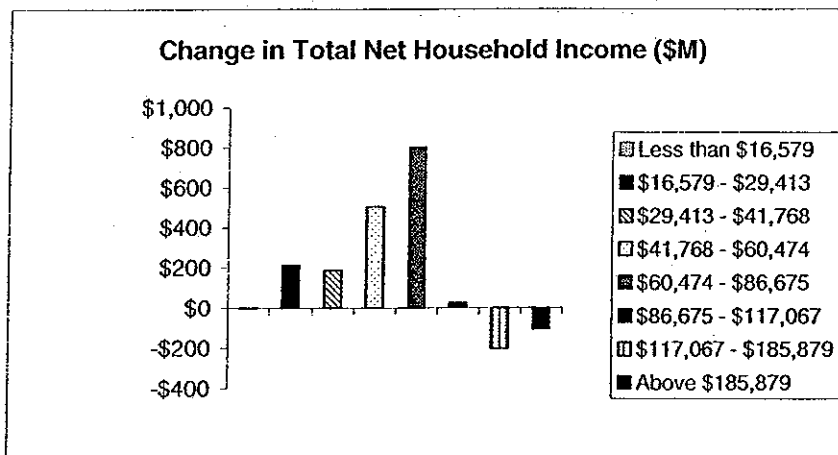
- (1) Double the personal income tax brackets (to \$6,400 & \$16,100 if single)
- (2) Create a \$750,000 homestead exemption
- (3) Create a 2.7% sales tax, with exemptions

Reduce PIT, Add Sales Tax & Homestead Exemption				
2011 Levels				
	Baseline	New Equilibrium	Change From Baseline	Percent Change
<b>Private Sector</b>				
Personal Income (\$M)	\$160,400	\$160,854	\$454	0.3%
Employment	2,383,753	2,461,386	77,633	3.3%
Population	3,957,000	3,992,951	35,951	0.9%
Investment (\$M)	\$17,754	\$17,882	\$129	0.7%
Wage Index	100.0	97.3	-2.7	-2.7%
Return to Capital	100.0	100.8	0.8	0.8%
Price Levels	100.0	100.6	0.6	0.6%
<b>Public Sector</b>				
State Spending (\$M)	\$22,085	\$24,041	\$1,956	8.9%
GF Revenue (\$M)	\$7,098	\$8,980	\$1,882	26.5%
OF Revenue (\$M)	\$14,986	\$15,061	\$75	0.5%
Local Govt Revenue (\$M)	\$12,015	\$10,561	-\$1,454	-12.1%
Federal Tax Paid by Oregonians (\$M)	\$32,146	\$32,537	\$391	1.2%

Static Revenue Impact (\$ Millions)	\$170
Dynamic Revenue Impact (\$ Millions)	\$332
Net Revenue Impact (\$ Millions)	\$502
General Fund Change (\$ Millions)	\$1,882
Other Funds Change (\$ Millions)	\$75
Local Revenue Change (\$ Millions)	-\$1,454

### Total Net Household Income

	Baseline (\$M)	New Equilibrium (\$M)	Difference (\$M)	% Difference	Change in Number of Hholds	Mean HH Income Change (\$)
Less than \$16,579	\$4,414	\$4,413	-\$1	0.0%	299	-\$35
\$16,579 - \$29,413	\$9,876	\$10,088	\$212	2.1%	3,280	\$312
\$29,413 - \$41,768	\$14,142	\$14,330	\$188	1.3%	2,003	\$253
\$41,768 - \$60,474	\$20,577	\$21,082	\$505	2.5%	4,749	\$616
\$60,474 - \$86,675	\$33,115	\$33,917	\$802	2.4%	4,445	\$1,133
\$86,675 - \$117,067	\$17,876	\$17,903	\$28	0.2%	369	-\$58
\$117,067 - \$185,879	\$14,947	\$14,743	-\$203	-1.4%	-569	-\$1,219
Above \$185,879	\$11,423	\$11,316	-\$107	-0.9%	-260	-\$1,092
<b>TOTAL</b>	<b>\$126,371</b>	<b>\$127,793</b>	<b>\$1,423</b>	<b>1.1%</b>	<b>14,317</b>	



### Scenario 4 (effective 1-1-2011):

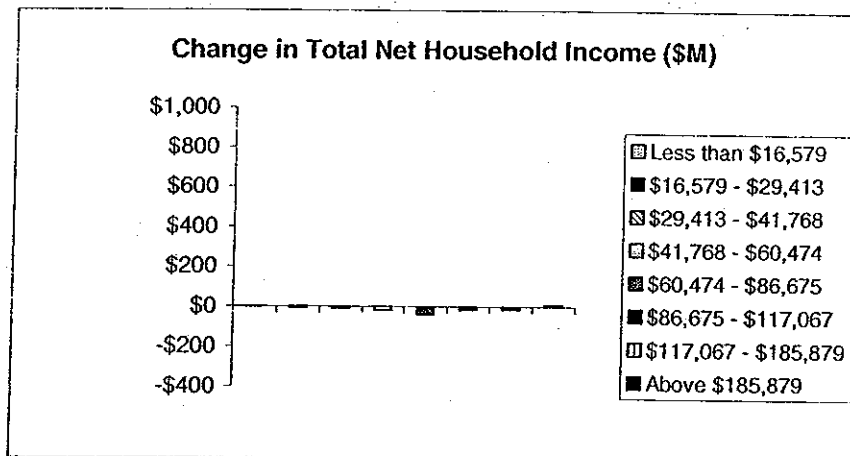
- (1) Eliminate corporate income tax (\$487 million in 2011)
- (2) Create a 0.3% value added tax (\$487 million in 2011)

Value Added Tax and Corporate Income Tax Swap				
2011 Levels				
	Baseline	New Equilibrium	Change From Baseline	Percent Change
<b>Private Sector</b>				
Personal Income (\$M)	\$160,400	\$160,332	-\$68	0.0%
Employment	2,383,753	2,382,936	-817	0.0%
Population	3,957,000	3,956,605	-395	0.0%
Investment (\$M)	\$17,754	\$17,795	\$42	0.2%
Wage Index	100.0	99.8	-0.22	-0.2%
Return to Capital	100.0	100.2	0.22	0.2%
Price Levels	100.0	99.95	-0.05	0.0%
<b>Public Sector</b>				
State Spending (\$M)	\$22,085	\$22,071	-\$14	-0.06%
GF Revenue (\$M)	\$7,098	\$7,087	-\$11	-0.16%
OF Revenue (\$M)	\$14,986	\$14,984	-\$3	-0.02%
Local Govt Revenue (\$M)	\$12,015	\$12,026	\$11	0.09%
Federal Tax Paid by Oregonians (\$M)	\$32,146	\$32,172	\$26	0.08%

Static Revenue Impact (\$ Millions)	\$0
Dynamic Revenue Impact (\$ Millions)	-\$3
Net Revenue Impact (\$ Millions)	-\$3
General Fund Change (\$ Millions)	-\$11
Other Funds Change (\$ Millions)	-\$3
Local Revenue Change (\$ Millions)	\$11

### Total Net Household Income

	Baseline (\$M)	New Equilibrium (\$M)	Difference (\$M)	% Difference	Change in Number of Hholds	Mean HH Income Change (\$)
Less than \$16,579	\$4,414	\$4,411	-\$3	-0.1%	8	-\$14
\$16,579 - \$29,413	\$9,876	\$9,870	-\$6	-0.1%	-3	-\$31
\$29,413 - \$41,768	\$14,142	\$14,132	-\$10	-0.1%	-10	-\$52
\$41,768 - \$60,474	\$20,577	\$20,558	-\$19	-0.1%	-44	-\$66
\$60,474 - \$86,675	\$33,115	\$33,074	-\$41	-0.1%	-75	-\$129
\$86,675 - \$117,067	\$17,876	\$17,859	-\$17	-0.1%	-25	-\$92
\$117,067 - \$185,879	\$14,947	\$14,932	-\$15	-0.1%	-24	-\$109
Above \$185,879	\$11,423	\$11,433	\$10	0.1%	18	\$116
<b>TOTAL</b>	<b>\$126,371</b>	<b>\$126,269</b>	<b>-\$101</b>	<b>-0.1%</b>	<b>-156</b>	



**Scenario 5** (effective 1-1-2011):

- (1) Eliminate corporate income tax (\$487 million in 2011)
- (2) Create a franchise tax (\$987 million in 2011)

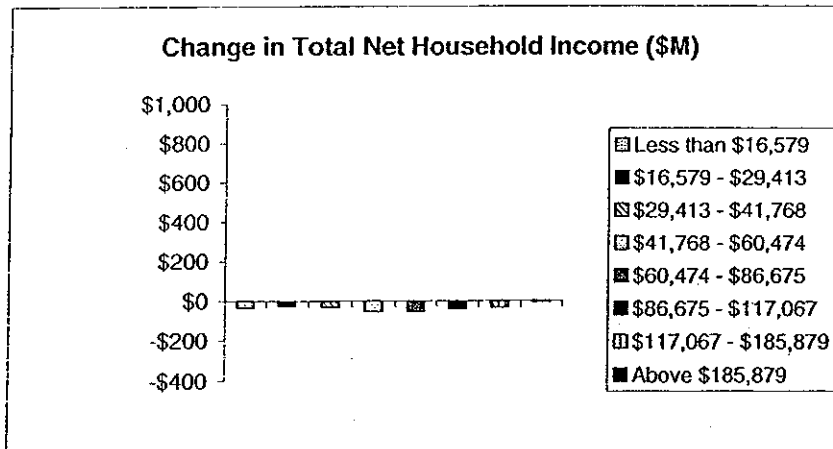
Franchise Tax and Corporate Income Tax Swap				
2011 Levels				
	Baseline	New Equilibrium	Change From Baseline	Percent Change
<b>Private Sector</b>				
Personal Income (\$M)	\$160,400	\$160,729	\$329	0.2%
Employment	2,383,753	2,385,593	1,840	0.1%
Population	3,957,000	3,958,895	1,895	0.0%
Investment (\$M)	\$17,754	\$17,818	\$64	0.4%
Wage Index	100.0	100.0	0.02	0.0%
Return to Capital	100.0	100.3	0.28	0.3%
Price Levels	100.0	99.92	-0.08	-0.1%
<b>Public Sector</b>				
State Spending (\$M)	\$22,085	\$22,555	\$470	2.13%
GF Revenue (\$M)	\$7,098	\$7,570	\$471	6.64%
OF Revenue (\$M)	\$14,986	\$14,985	-\$1	-0.01%
Local Govt Revenue (\$M)	\$12,015	\$12,048	\$33	0.27%
Federal Tax Paid by Oregonians (\$M)	\$32,146	\$32,266	\$120	0.37%

Static Revenue Impact (\$ Millions)	\$500
Dynamic Revenue Impact (\$ Millions)	\$3
Net Revenue Impact (\$ Millions)	\$503

General Fund Change (\$ Millions)	\$471
Other Funds Change (\$ Millions)	-\$1
Local Revenue Change (\$ Millions)	\$33

**Total Net Household Income**

	Baseline (\$M)	New Equilibrium (\$M)	Difference (\$M)	% Difference	Change in Number of Hholds	Mean HH Income Change (\$)
Less than \$16,579	\$4,414	\$4,381	-\$33	-0.7%	42	-\$166
\$16,579 - \$29,413	\$9,876	\$9,849	-\$26	-0.3%	66	-\$159
\$29,413 - \$41,768	\$14,142	\$14,111	-\$31	-0.2%	76	-\$214
\$41,768 - \$60,474	\$20,577	\$20,525	-\$53	-0.3%	142	-\$260
\$60,474 - \$86,675	\$33,115	\$33,060	-\$55	-0.2%	172	-\$296
\$86,675 - \$117,067	\$17,876	\$17,834	-\$41	-0.2%	112	-\$334
\$117,067 - \$185,879	\$14,947	\$14,913	-\$34	-0.2%	81	-\$381
Above \$185,879	\$11,423	\$11,419	-\$5	0.0%	63	-\$287
<b>TOTAL</b>	<b>\$126,371</b>	<b>\$126,092</b>	<b>-\$278</b>	<b>-0.2%</b>	<b>755</b>	



# **Appendix H**

## **Stability Study Results**

## REVENUE STABILITY SIMULATIONS

### *Description*

The stability simulations are based on historic U.S. Census data for quarterly state and local government tax collections. The data are based on collections for the 12-month period ending in March, June, September and December of each year. The quarterly series begins in December 1988 and runs through March of 2008. The Base Case starts with the national tax source proportions in December 1988 and applies the historic growth rate to each source, in effect replicating history. Sims 2 through 5 alter the initial proportions (for example double sales tax and eliminate personal income tax) and then apply the historic growth rate to each of the tax sources. This allows for a comparison of the hypothetical tax combinations with the actual national averages in terms of average growth, standard deviation (a measure of stability) and the minimum and maximum quarterly change.

### *Simulations*

#### Sim 1

Base Case (Based on actual December 1988 national data)

Personal Income Tax = 20.5%

Corporate Income Tax = 5.6%

Property Tax = 29.6%

General Sales Tax = 24.9%

Excise Taxes = 19.4%

Total Collections = 100%

#### Sim 2

Sales Tax/ No Personal Income Tax

Personal Income Tax = 0%

Corporate Income Tax = 5.6%

Property Tax = 29.6%

General Sales Tax = 45.4%

Excise Taxes = 19.4%

Total Collections = 100%

#### Sim 3

Personal Income Tax/ No Sales Tax

Personal Income Tax = 45.4%

Corporate Income Tax = 5.6%

Property Tax = 29.6%

General Sales Tax = 0%

Excise Taxes = 19.4%

Total Collections = 100%

Sim 4

No Residential Property/ Higher Sales Tax

Personal Income Tax = 20%

Corporate Income Tax = 5.6%

Property Tax = 15%

General Sales Tax = 40%

Excise Taxes = 19.4%

Total Collections = 100%

Sim 5

No Corporate Income Tax/ Higher Sales/Gross Receipts Tax

Personal Income Tax = 20%

Corporate Income Tax = 0%

Property Tax = 29.9%

General Sales Tax = 30.6%

Excise Taxes = 19.4%

Total Collections = 100%

*Simulation Results*

SUMMARY MEASURES	SIM 1	SIM 2	SIM3	SIM 4	SIM 5
AVERAGE QUARTERLY CHANGE	1.39%	1.3%	1.45%	1.37%	1.41%
STANDARD DEVIATION	0.78%	0.68%	1.06%	0.83%	0.74%
MAX	3.4%	2.8%	4.3%	3.5%	3.2%
MIN	-0.6%	-0.1%	-2.6%	-1.1%	-0.4%

SIM 1 = Base Case (Based on actual December 1988 national data)

SIM 2 = Sales Tax/ No Personal Income Tax

SIM 3 = Personal Income Tax/ No Sales Tax

SIM 4 = No Residential Property/ Higher Sales Tax

SIM 5 = No Corporate Income Tax/ Higher Sales/Gross Receipts Tax

LRO: 9-5-08

# **Appendix I**

## **Summary of Poll Results On Public Attitudes Toward Revenue Restructuring**

November 17, 2008

To: Senator Morse and Senator Nelson  
From: Davis, Hibbitts, & Midghall, Inc  
Re: Tax Reform Survey Results

## I. Introduction

This memo highlights the results of a statewide telephone survey conducted for Senator Frank Morse. The overall purposes of the research were to examine voter opinions about tax reform, their support for a potential ballot measure reforming Oregon's tax system, and to test arguments for supporting and opposing tax reform.

**Research Methodology:** Between November 6 and 10, 2008, DHM, Inc. conducted a telephone survey of 600 registered voters in Oregon that lasted an average of 20 minutes. This is a sufficient sample size to assess voter opinions generally and to review findings by multiple subgroups including gender, age, area of state, and political affiliation.

In gathering responses, DHM employed quality control measures, including questionnaire pre-testing, callbacks, and validations. In addition, quotas were established for age, gender, and area of state based on the total population of voters in Oregon to ensure a representative sample. Computer abstracts for the survey accompany and are referenced throughout this report. They present a number of cross-tab variables based on demographic groupings. Combined percentages in the report may not always equal the sum of individual percentages because of rounding.

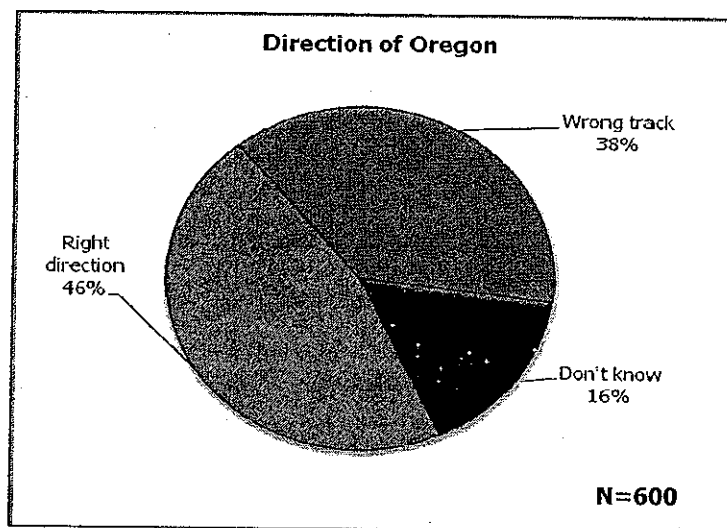
**Statement of Limitations:** Any sampling of opinions or attitudes is subject to a margin of error, which represents the difference between a sample of a given population and the total population (here, voters in Oregon). For a sample size of 600, the maximum margin of error would be +/- 4.1%.

These plus-minus error margins represent differences between the sample and total population at a confidence interval, or probability, calculated to be 95%. This means that there is a 95% probability that the sample taken for this study would fall within the stated margins of error if compared with the results achieved from surveying the entire target population.

## Findings

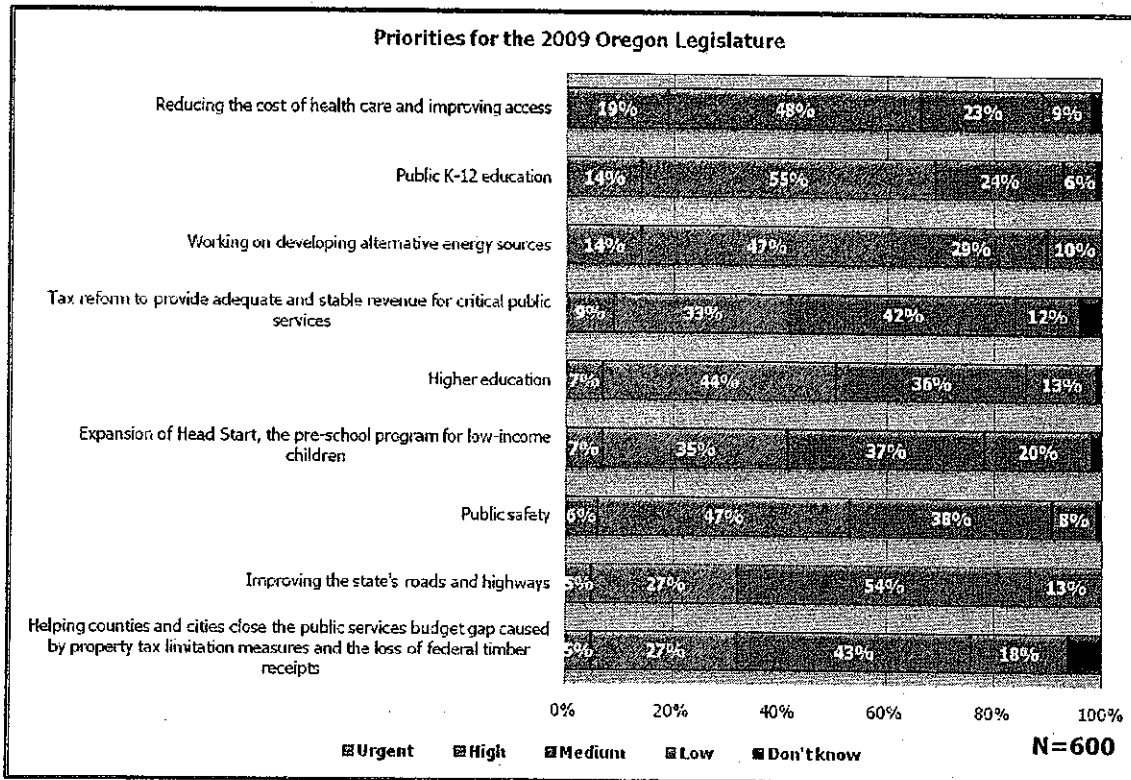
### II. Priorities for the 2009 Oregon Legislature

A narrow plurality of 46% said the state was headed in the right direction, 38% felt things were off on the wrong track, and the remaining balance were undecided (Q1). Perhaps the key differences were found by party and ideology, with Democrats, Independents and liberals who said things in the state are headed in the right direction, while Republicans and conservatives were pessimistic. An observation that we would make here is that field work for the survey was completed immediately following the election, which produced substantial victories for the Democrats both nationally and in Oregon. The election results probably lifted up the Democrats and depressed the Republicans regarding the direction of the state. This is a pattern we have seen in other elections, and we would caution the reader that external events may well bring the upbeat numbers for Democrats down in the coming months, or even weeks.



Source: Davis, Hibbitts, & Midghall, Inc, November 2008

Voters were read a list of items and asked if the 2009 Oregon legislature should give each a low, medium, high, and urgent priority, knowing that financial resources are limited (Q2-Q10). The following chart highlights the order of priorities for voters:



Source: Davis, Hibbits, & Midghall, Inc, November 2008

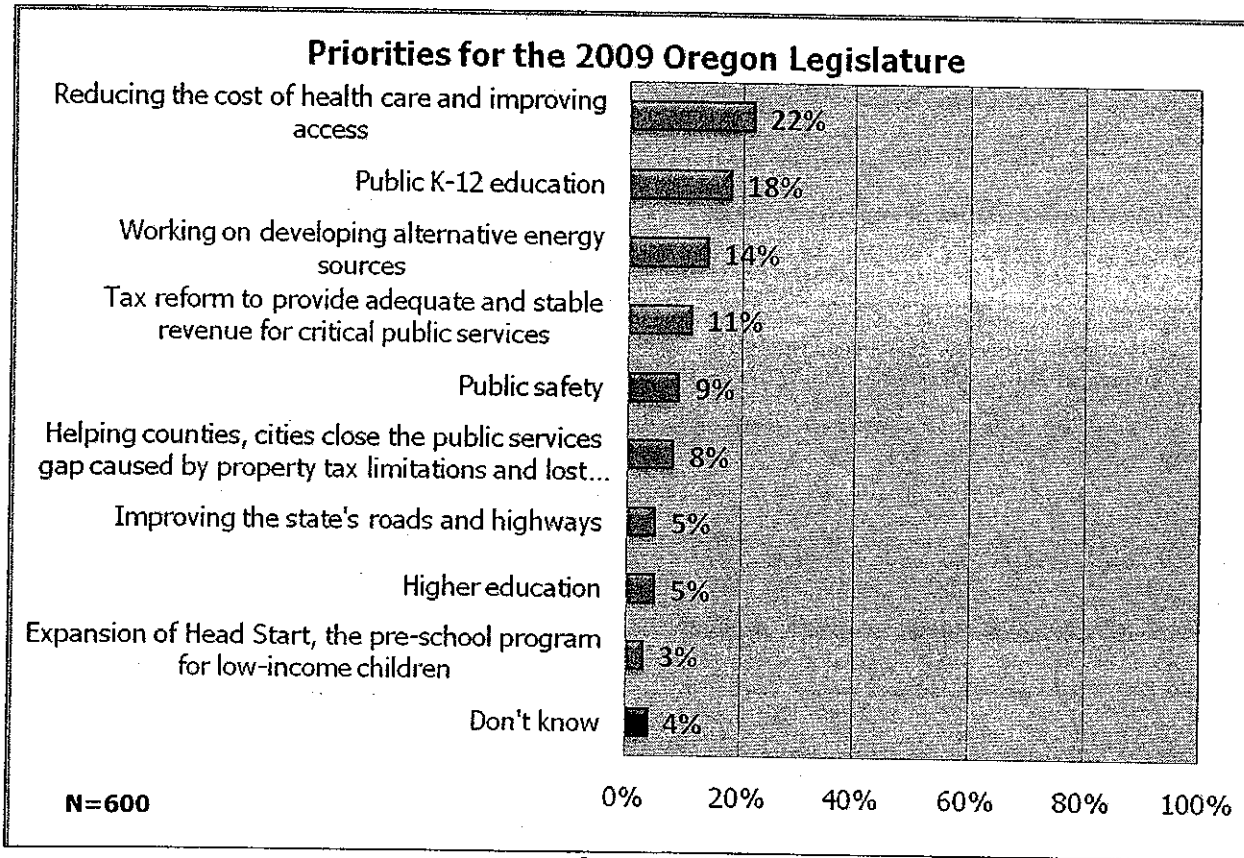
When looking at these priorities for the next session of the Legislature, three stood out (with more than 60% rating it a high or urgent priority). These included public K-12 education (69% high/urgent priority), reducing the cost and increasing access of health care (67% high/urgent priority), and working on developing alternative energy sources (61%). All other priorities were seen as urgent or high by less than six in ten respondents.

Around one-half of voters viewed public safety (53% high/urgent) and higher education (51% high/urgent) as urgent or high priorities, followed by expansion of Head Start (42% high/urgent). Slightly over four in ten respondents (42% high/urgent) viewed tax reform to provide adequate and stable revenue for critical public services as an urgent or high priority, 42% said it was a medium priority, and 12% reported it was a low priority.

At the bottom, 32% of voters reported improving the state's roads and highways as an urgent or high priority, followed by helping counties and cities close the public services budget gap caused by property tax limitation measures and the loss of timber receipts (32% high/urgent).

One point we would make is that there was a partisan coloring to these priorities, as Democrats and Independent voters had a noticeably higher level of focus on the top issues than Republicans. In fact, the number one priority issue for Republicans was public safety (59% high/urgent priority), followed closely by K-12 education (58% high/urgent priority).

When asked to pick the top priority for the 2009 Legislature from the same list of issues, we received no decisive direction from voters, though the top priorities tended to match what we found in the previous question (Q11).



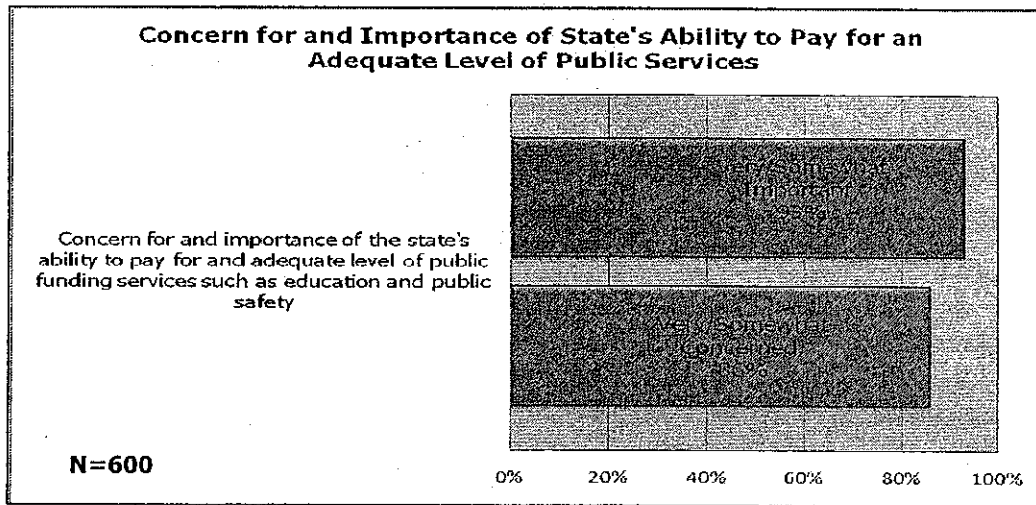
Leading the list at 22% was improving the cost and access to health care, followed by 18% who selected public K-12 education. In the second tier, 14% rated working on alternative energy sources as the top priority, and 11% said tax reform. Last, 9% ranked public safety as a top priority, 8% said helping cities and counties close the budget gap from property tax limitations and the loss of timber receipts, 5% each picked improving roads and highways or higher education, and 3% selected expanding Head Start.

It is worth noting that the timber receipts issue is viewed as one that Oregonians say needs to be addressed (80% felt it was very or somewhat important that the Legislature help cities and counties close the budget gap caused by the loss of timber receipts: Q15), but it is not viewed as a front rank issue at this time.

It is clear that voters are concerned about the state's ability to pay for an adequate level of public services for things like education and public safety (Q12), as fully 86% said they were very or somewhat concerned (50% somewhat, 36% very).

This was a consensus finding, though Democrats (42%) and liberals (41%) were noticeably more likely to say they were very concerned about this than either Republicans (32%) or Independents (30%). Further, fully 93% of those polled said it was very (57%) or somewhat (36%) important for the Legislature to address the problem of the state's ability to fund adequate levels of public services.

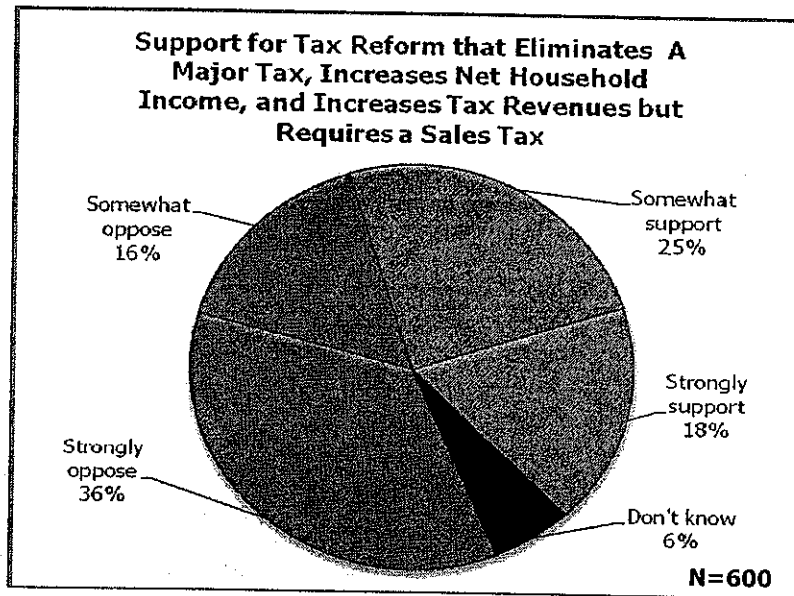
This was a consensus finding with huge majorities in all subgroups saying that it was very or somewhat important that the issue be addressed by the Legislature. It is worth noting that 64% of Democrats and 46% of Republicans described this as very important, indicating a somewhat heightened sense of urgency about the problem from Democrats.



Source: Davis, Hibbitts, & Midghall, Inc, November 2008

### III. Tax Reform Options

We asked respondents if they would strongly or somewhat support, or strongly or somewhat oppose a tax reform plan that eliminates a major tax, increases revenues for state programs, but requires a sales tax (Q14). Given this construct, 52% would oppose the idea (36% strongly, 16% somewhat), while 43% would favor it (25% somewhat, 18% strongly).

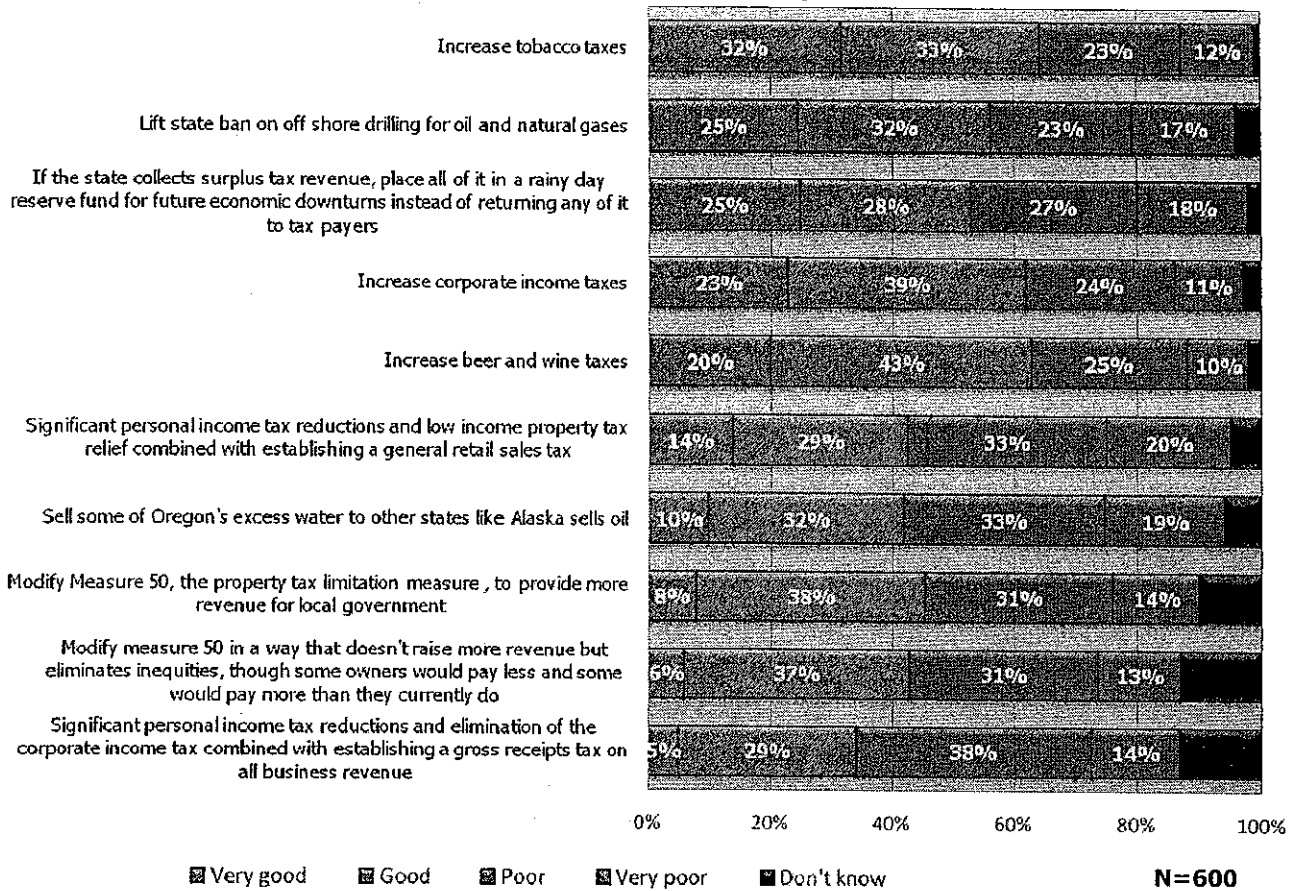


Source: Davis, Hibbitts, & Midghall, Inc, November 2008

There was little in the way of subgroup difference here with two exceptions. First, those over the age of 55 were more resistant to this idea, as 56% opposed it and only 38% were in favor. By contrast, those 18-34 years of age split 48% in favor and 45% opposed. Additionally, there was a noticeable difference by ideology (but not by political party), with conservatives opposing this idea by 60% to 33%, compared to moderates (51% oppose and 45% in support), and liberals (53% support and 41% opposition).

Voters were given a series of ten general proposals for restructuring the state's tax system, and asked for each if the respondent thought it was a very good, good, poor, or very poor idea (Q17-Q26). The following table reflects responses by subgroup:

## Priorities for the 2009 Oregon Legislature



Source: Davis, Hibbitts, & Midghall, Inc, November 2008

As the table indicates, there is substantial majority support for increasing tobacco taxes (65% good/very good idea), increasing beer and wine taxes (63% good/very good), increasing corporate income taxes (62% good/very good), and lifting the ban on offshore drilling for oil and natural gas (57% good/very good). Republicans are willing to support increasing beer and wine and tobacco taxes, but not increasing corporate income taxes (a proposal that is very popular among Democrats and Independents). Republicans and conservatives also overwhelmingly support lifting the ban on offshore drilling, while Democrats and liberals oppose this idea.

No other proposal garnered a huge majority of support among voters, though a narrow majority of 53% favored the idea of placing surplus tax revenues in a rainy day fund rather than return any of it to taxpayers. Some 53% of those surveyed thought this was a good or very good idea, while 45% thought it was a poor/very poor idea. Again, subgroup differences were driven by party and ideology. In short, Democrats and liberals strongly endorsed the idea, Republicans and conservatives strongly opposed it. Independent voters split about evenly (53% good, 47% poor), and the large bloc of moderate voters gave a 57 to 41% endorsement to the idea of using surplus tax revenue for a rainy day fund, rather than return it to the taxpayers.

Other proposals fared less well with voters. Voters split about evenly on the idea of modifying Measure 50 to provide more revenue to local governments. Some 46% thought it was a good idea, 45% said it was a bad idea. Ideological divisions were not as great on this proposal, though they still existed. In short, liberals favored this idea by 50% to 38%, conservatives opposed it by 51% to 40%.

A similar idea to modify Measure 50 in a way that does not increase revenues but eliminates inequities also divided voters. Some 44% said this was a poor idea, 43% thought it was a good idea. Again, the only notable subgroup difference here was ideology, with liberals marginally supportive (48% good idea, 37% poor idea), and conservatives in opposition (52% poor idea, 36% good idea).

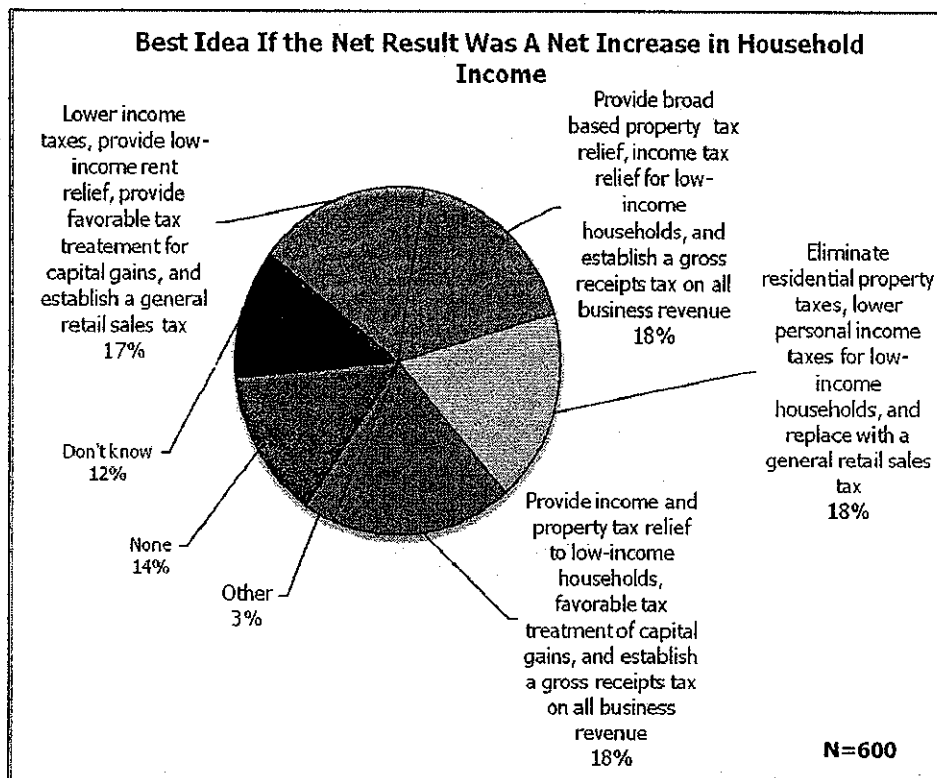
The remaining proposals were even less popular. Some 52% thought it was a poor/very poor idea to sell excess water to other states like Alaska sells oil, while 42% thought this was a good or very good idea. Opposition to this idea was centered among those outside the Tri-County area, among voters over age 55 (where it was thought to be a poor idea by 65 to 28%), and among liberals and Democrats (63% poor idea and 61% poor idea respectively). Republicans (52% good idea), and conservatives (49% good idea) were the most supportive.

A sales or gross receipts tax did not fare well with voters, as 52% said it was a poor idea, and 34% felt it was a good idea. The results were very consistent among subgroups, with nearly all subgroups clustered around the overall average of opposition (52%).

The proposal of a significant personal income tax reduction and low income property tax relief in exchange for a general retail sales tax was viewed as a poor idea by 53% of those polled, 43% thought it was a good idea. There are a group of potentially persuadable voters, as only 20% described this as a very poor idea and 14% thought it was a very good idea. Subgroup differences were not that great, with Democrats and conservatives slightly more inclined than average to say this proposal is a poor idea. Men also were more resistant than women, as 57% of the former and 49% of the latter saw this as a poor idea.

Lastly, the idea of eliminating property taxes for nearly all residential property owners combined with the establishment of a general sales tax was not viewed favorably by voters. Overall, 62% said this was a poor idea (26% very poor, 36% poor), while just 34% saw it as a good idea (13% very good, 21% poor). This proposal was turned down by a large majority of respondents in all subgroups, but it was especially unpopular among Democrats (72% poor idea) and liberals (70% poor idea).

When asked which (of four) ideas was best for the respondent if it led to a net increase in household income (Q27), we received no clear direction.



Source: Davis, Hibbits, & Midghall, Inc, November 2008

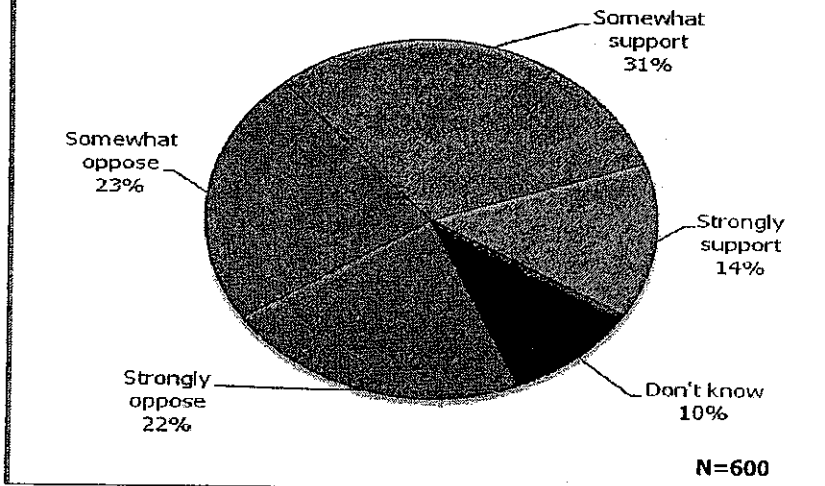
Some 18% said providing income and property tax relief to low income households, favorable tax treatment for capital gains, and establishing a gross receipts tax on all business revenue would be the best, the same percentage (18%) said that broad based property tax relief, income tax relief for low-income households and a gross receipts tax on all business revenue would be the best for them, a further 18% said eliminating residential property taxes, lower personal income taxes for low-income households, and a general sales tax would be best. Seventeen percent (17%) of voters reported that lower income taxes, low income rent relief, providing favorable treatment for capital gains, and establishing a general retail sales tax would be best, while 14% said that none of these options would be the best idea for them, and 12% were unsure. In short, there is absolutely no consensus among voters (not anything approaching a consensus) out of these options.

#### IV. Sales Tax/Gross Receipts Options

We posited a number of possible changes in the state's tax system to respondents, and asked for their opinion about the options. In short, none of the proposals garnered majority support from voters, though all had substantial support from voters.

Marginally, the strongest proposal was to create a 1.3% gross receipts tax on all business revenue, while eliminating the corporate income tax, reducing personal income tax rates, and eliminating property taxes on the first \$50,000 of assessed value (Q31).

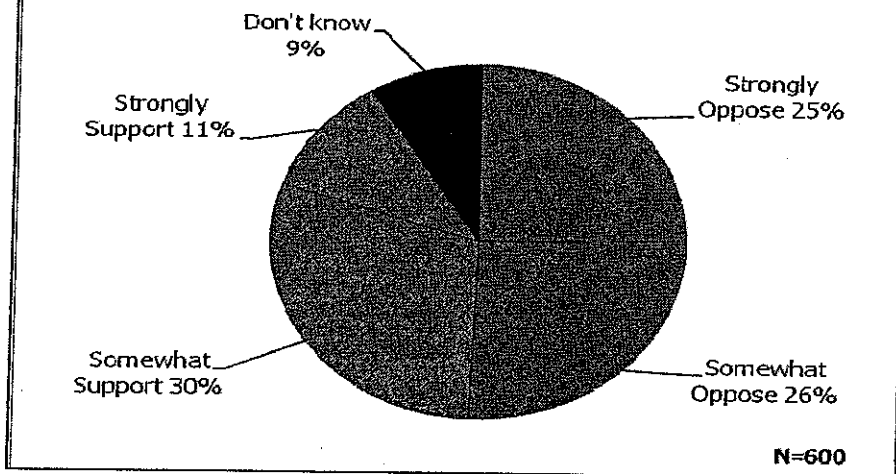
**Support for 1.3% Gross Receipts Tax On All Business Revenue, Eliminate Corporate Tax Income, Reduce Personal Tax Income Rates to 2, 4, 6, and 8%, and Eliminate Property Taxes on the First \$50,000 of Assessed Value**



Source: Davis, Hibbitts, & Midghall, Inc, November 2008

Some 45% of those polled would support this idea, 45% would oppose it, and the balance was unsure. It is worth noting that 22% strongly opposed this idea, while a smaller 14% strongly supported it. We found virtually no subgroup variations on this proposal, with the modest exception that conservatives opposed the idea by 50% to 42%. We then retested this proposal near the end of the survey, and received somewhat more negative results (Q37). In the second test vote, 51% opposed the proposal, 41% supported it. Strong opposition increased slightly from 22 to 25%, strong support decreased slightly from 14 to 11%.

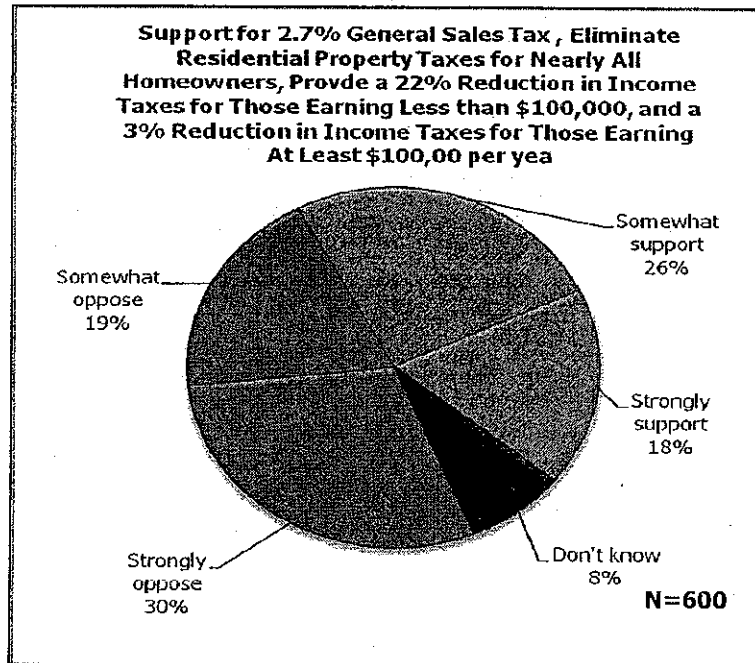
**Suppose there was a measure to create a 1.3% tax on all business revenue to be paid by business, eliminate the corporate income tax, reduce the personal income tax rates, and eliminate all property taxes on the first \$50,000 of assessed value**



Source: Davis, Hibbitts, & Midghall, Inc, November 2008

Opposition to the idea increased modestly across the board in subgroups, with conservatives again opposing the idea by the largest margin (57 to 37%).

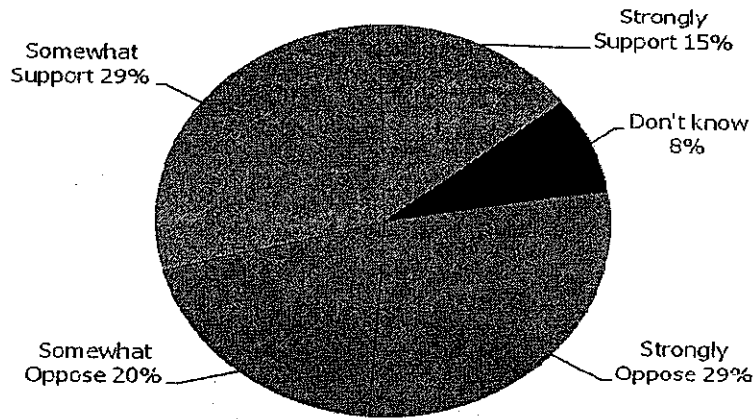
We also tested a proposal to create a 2.7% general sales tax, with the elimination of residential property taxes for most homeowners, and income tax reductions also included. In the first 'ask' about this proposal, it was rejected by a 49% to 44% margin, with 30% strongly opposed to the idea and 18% strongly supportive (Q32).



Source: Davis, Hibbitts, & Midghall, Inc, November 2008

This proposal creates some slightly different coalitions. Opposition to this proposal was greatest among Democrats (53%), liberals (52%), and conservatives (52%). We retested this proposal later in the survey (Q39) and got the same outcome (49% opposition, and 44% support). Strong support was at 15%, strong opposition was at 29%. Subgroups were effectively unchanged from the first test vote.

**Suppose there was a measure to create a 2.7% general sales tax, eliminate residential property taxes for nearly all homeowners, provide a 22% reduction in income taxes for those earning less than \$30,000, etc.**



N=600

Source: Davis, Hibbitts, & Midghall, Inc, November 2008

## V. Kicker and Measure 50 Options

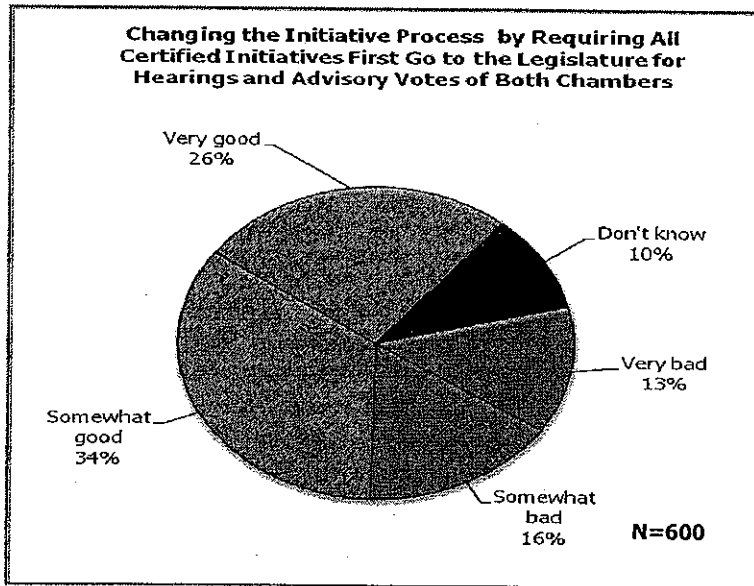
By a 68% to 29% margin, voters were supportive of the idea of keeping the kicker in a rainy day fund to sustain programs when the economy is down, with the understanding that any excess above 10% of the previous general fund budget would be returned to taxpayers (Q28).

Fully 38% of those polled strongly supported this idea; just 18% strongly opposed it. This was a consensus finding, with a large majority in every subgroup indicating support for this idea, including conservatives, who favored it by a narrower 55% to 42%.

Voters were evenly split on the notion of changing the maximum fixed rate of property taxes from \$15 to \$10 per thousand, but basing the tax on market value of the property rather than assessed value (Q29). Forty four percent (44%) supported this idea, 43% opposed it. Again, the key differences were by party and ideology. Democrats and liberals favored this idea, Republicans and conservatives were opposed, especially the latter (55 to 32%).

## VI. Changing the Initiative Process

Voters indicated support (61%) for an idea that would change the initiative process to require all certified initiatives to go to the Legislature for hearings and advisory votes, with the option of the Legislature offering an alternative for voters to consider (Q30). Some 30% thought it was a bad idea.



Source: Davis, Hibbitts, & Midghall, Inc, November 2008

While there was majority support for the idea in all subgroups, Republicans and conservatives offered less support for the idea (54% and 51% respectively thought this was a good idea).

## VII. Summary and Observations

1. Key priorities for the upcoming legislature are public education, reducing the cost and improving access to health care, and working on alternative energy sources. Had we added economic concerns to the list we believe that they also would have been a high priority item, given current economic conditions. One point we would make is that tax reform was fairly low on the list of priorities, ranking in a tie for sixth of the nine issues we asked about. It did finish fourth when we asked voters to pick the single most important priority for the next legislature to work on, but was selected by only 11% as the highest priority.
2. There is a high level of concern about the state's ability to pay for public services, but a definite lack of consensus about what to do about it. This is a pattern that we have seen for the past several decades when asking about this issue; voters tend to express a fairly high level of concern about the issue of funding state services, but no policy consensus about what to do about it.

3. Revenue options that were broadly acceptable to voters were increasing the tobacco tax, increasing beer and wine taxes, and increasing corporate income taxes (no specific amount was suggested). Voters also supported changing the initiative process to require all certified initiatives to go to the Legislature for hearings and advisory votes, with an option of offering an alternative, by more than a 2:1 margin (61% to 30%).

A variety of other proposals provoked a fairly narrow split among respondents, including modifying Measure 50, and taking surplus tax revenues and placing them into a rainy day fund instead of returning the money to taxpayers. A narrow majority of 53% supported this idea, 45% opposed it.

Voters did not warm up to the concept of replacement tax in the form of a gross receipts or sales tax. A gross receipts tax, with elimination of corporate income taxes and significant personal income tax reductions was thought to be a poor idea by 52 to 34%. Likewise, elimination of property taxes for nearly all residential homeowners combined with a general retail sales tax was seen as a poor idea by 62% of those surveyed.

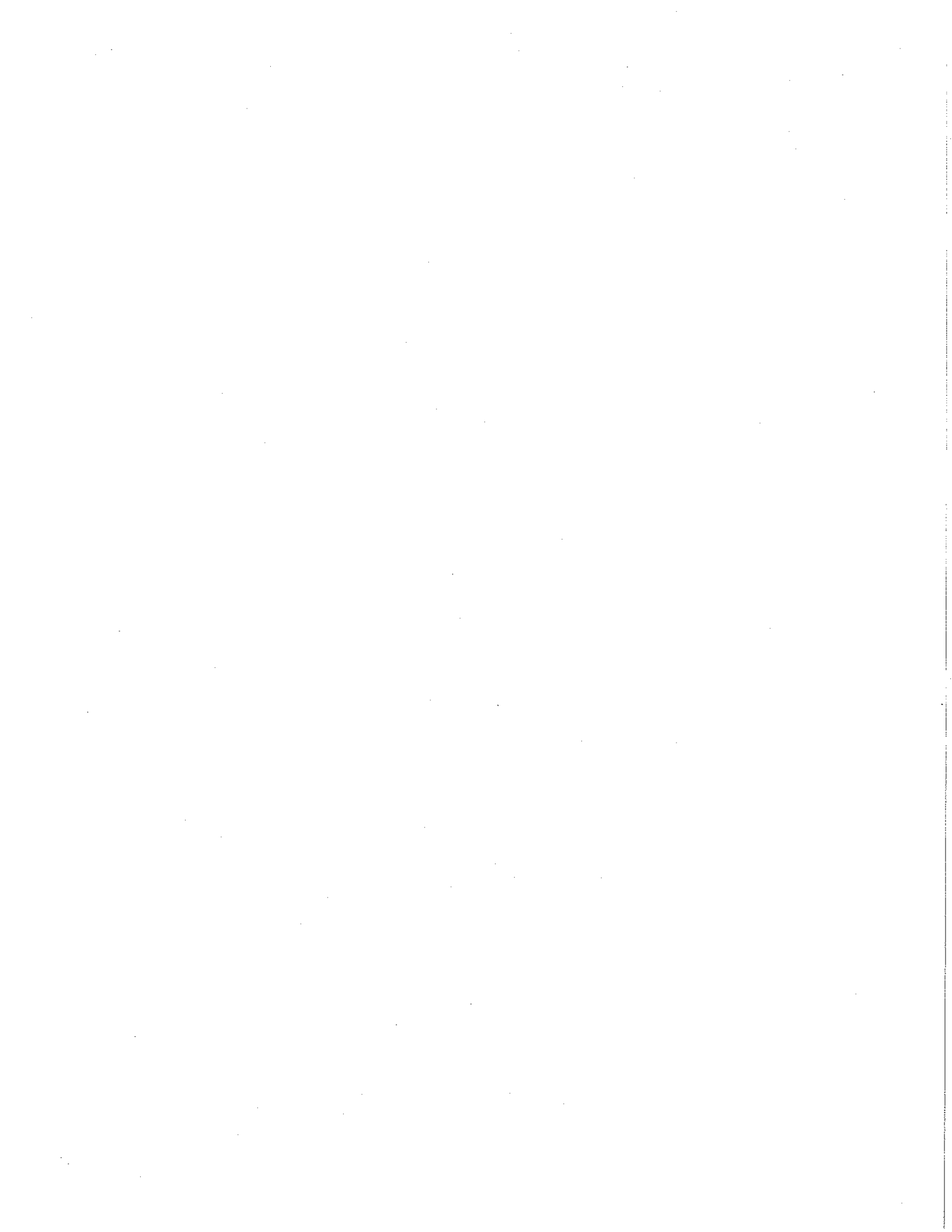
4. Some general thoughts on a sales tax are appropriate here. This is an issue we have polled repeatedly over the past three decades. We have never seen a sales tax (either conceptually or a specific proposal) start with majority support in a survey. We have often seen a sales tax proposal start in the 40-45% range, with similar numbers or slightly larger ones in opposition. In those circumstances where a measure has gone to the ballot, it has inevitably lost support over the course of the campaign, and wound up in the mid 20's percentage.

None of this means that voters would absolutely reject another sales tax proposal, but given the fact that it has been voted down nine times and never received more than 29% of the vote, and given the fact that nothing in this survey suggests that voters are more favorably disposed toward a sales tax now than they were the last time we looked at it two years ago, the odds of passage of any kind of sales tax or gross receipts tax measure seem slim at best, even when proposed as a replacement for the income or property tax.



# **Appendix J**

## **Glossary of Terms Used in Report**



## GLOSSARY OF TERMS USED IN REPORT

### **2% Surplus Kicker**

State revenue limit that was put into statute in 1979 and amended into constitution by voters in 2000 election. Limit goes into effect when General Fund revenue exceeds revenue forecast at time Legislature approves biennial budget by 2% or more. When 2% threshold is exceeded, entire amount of revenue above the forecast (including the 2%) is returned to taxpayers in following biennium. Kicker is calculated separately for personal income taxpayers and corporate income taxpayers. If corporate income taxes exceed revenue forecast by 2% or more, corporate income taxpayers receive a credit equal to the entire amount above the forecast. When all other General Fund revenue exceeds the forecast by 2% or more, personal income taxpayers receive a refund equal to the total amount of non-corporate General Fund revenue above the forecast.

### **Changed Property Ratio**

The ratio of average maximum assessed value under Measure 50 to the average real market value. This ratio is used in calculating the assessed value of new property that comes on the tax rolls.

### **Dynamic Revenue Impact**

Indirect revenue change resulting from impact of tax change on economic activity. The Oregon Tax Incidence Model (OTIM) is used to calculate the change in economic activity resulting from a tax change and estimating how much that will affect tax revenue. The dynamic revenue impact is added or subtracted from the static revenue impact to get the total long-term revenue impact of a proposed change.

### **Earned Income Tax Credit**

Income tax credit for low-income working taxpayers. Amount of credit depends on income and number of dependents. Oregon's credit is set at a percentage of the Federal credit and is refundable, meaning the credit can exceed the total amount of tax liability.

### **Effective Property Tax Rate**

Defined as the total taxes collected divided by the market value of property. Since the market value of property is greater than the assessed value on a statewide basis under Measure 50, the effective tax rate is less than the tax rate applied to assessed value.

### **General Fund Budget**

The state's discretionary budget decided every two years by the Legislature. Over 90% of General Fund revenue comes from income taxes. Over 90% of General Fund expenditures go to education, human services and public safety. Sometimes the General Fund budget is combined with the discretionary (non-dedicated) portion of the Lottery fund to get a broader measure of discretionary spending.

### **Gross Receipts Tax**

Tax paid by businesses based on the total dollar amount of receipts from sales. Broad tax base allows for large revenue collections from relatively low rate. Current state examples of gross receipts taxes are Ohio's recently enacted Commercial Activities Tax (CAT) and Washington's Business & Occupation Tax (B & O tax).

### **Homestead Exemption**

Form of property tax relief used in many states though not currently in Oregon. A homestead exemption exempts a set amount of assessed value from property taxes on owner occupied residential property.

### **Local Preemptions**

In most cases, Oregon cities and counties are free to impose taxes on income and sales, including specific types of sales. However, the Legislature can "preempt" local governments from taxing certain things by passing a law prohibiting them from doing so. Over the years, the Legislature has preempted a number potential revenue sources for local governments including real estate transfer taxes (Washington County has a real estate transfer tax because of a grandfather clause), cigarette taxes and construction excise taxes.

### **Measure 5**

Constitutional property tax limitation approved by voters in 1990. Measure 5 limits property taxes for schools (including K-12, education service districts and community colleges) to \$5 per \$1,000 of market value. The sum of nonschool property taxes is limited to \$10 per \$1,000 of market value. Levies to pay bond principle and interest for capital construction projects are outside the limits if approved by local voters.

### **Measure 50**

Constitutional property tax limitation referred to voters by the 1997 Legislature to replace Measure 47 which was approved by voters in November 1996. Measure 47 was deemed to have technical problems making it difficult to implement. Measure 50, reduced the assessed value of every property to 90% of its 1995-96 assessed value, and limited assessed value on existing property to 3% annual growth. New construction and other exceptions are brought on the tax rolls at the average assessed to market value ratio for properties of that class in that county (see changed property ratio). Measure 50 established permanent property tax rates for all taxing districts that had a tax rate at the time of implementation.

### **Oregon Tax Incidence Model (OTIM)**

OTIM was developed by the Legislative Revenue Office in conjunction with Oregon State University at the direction of the 1999 Legislature. OTIM is a computable general equilibrium model of the state economy designed to show how tax changes affect wages and prices and how these changes ultimately affect the overall level of economic activity as measured by total personal income and employment. OTIM compares the current economy (baseline) to how it would look after wages and prices have adjusted to the tax change. This is assumed to reflect a 5-year adjustment period. After accounting for these changes, OTIM produces a new set of estimates for the distribution of income and state revenue.