

STATE OF OREGON



1859

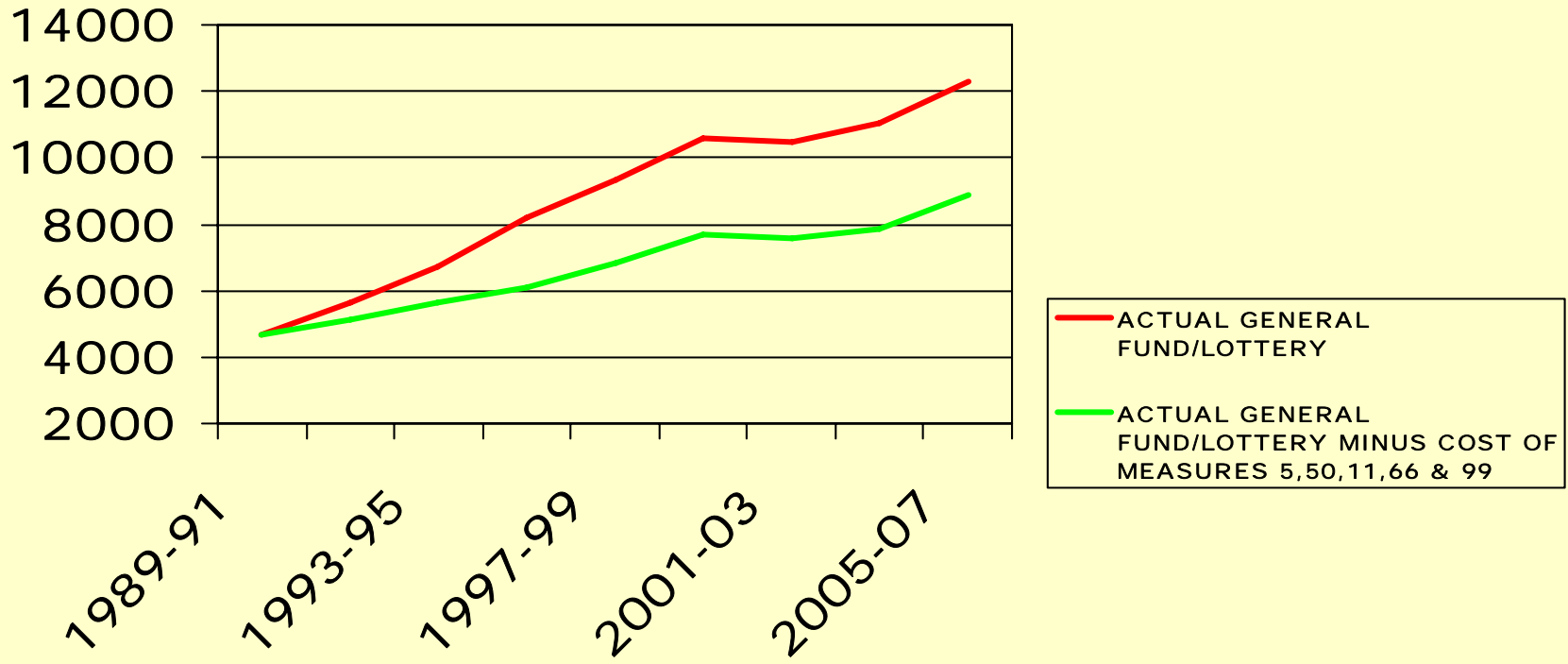
HOPEFUL REFORM

A Combination of Political, Economic and Budget Forces Have Come Together to Create the Perfect Fiscal Storm

- **Strain on budget due to initiatives passed by the voters, like you and me**
- **Volatile Revenue System**
- **Lasting effects from the Economic Recession (2001-2003)**
- **K-12 School Funding hasn't kept up with growth in number of students**
- **Higher Education Funding has declined**
- **Kicker equals no Rainy Day Fund**

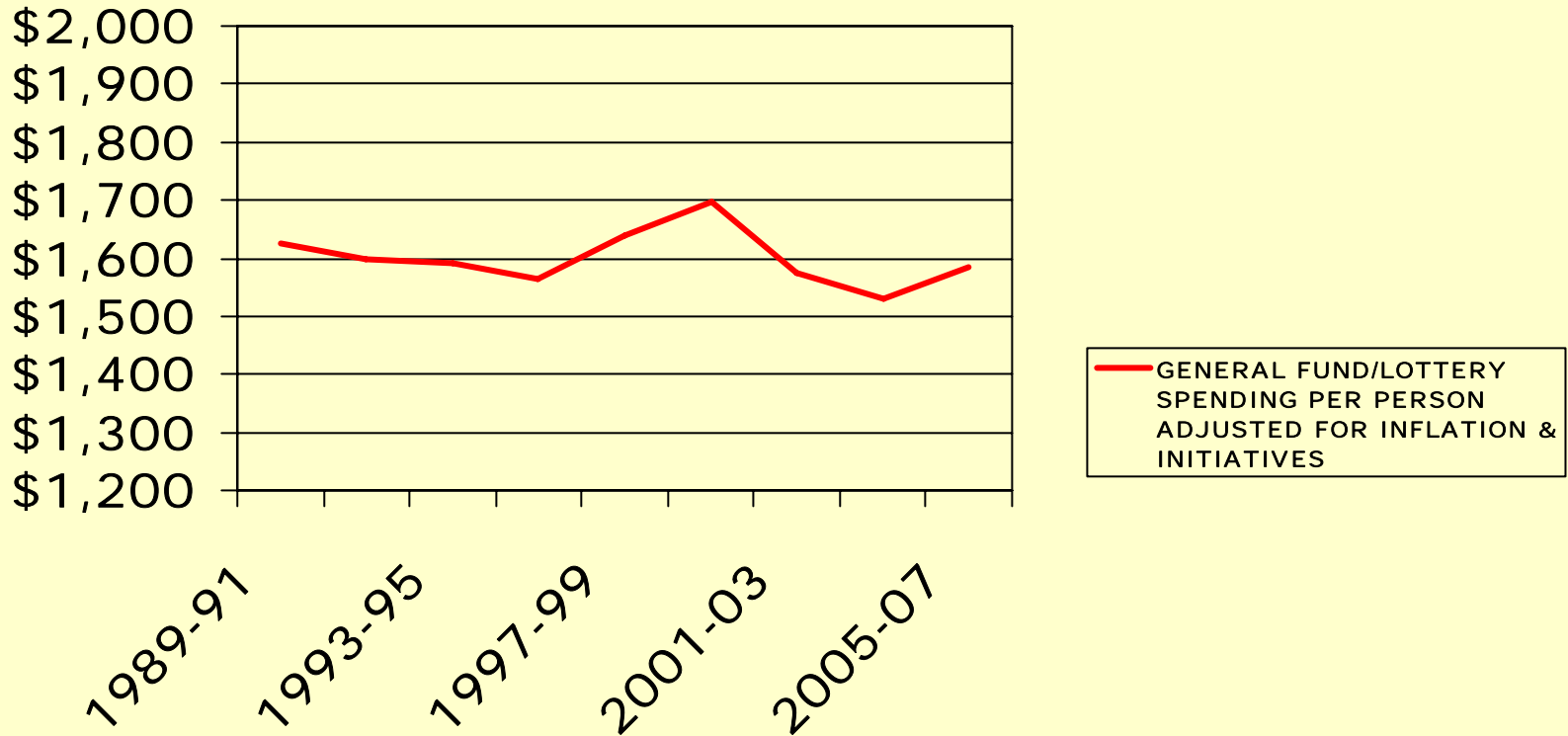
IMPACT OF VOTER INITIATIVES: SINCE 1990 – 50% OF NEW SPENDING HAS BEEN DETERMINED BY VOTERS

IN MILLIONS OF \$



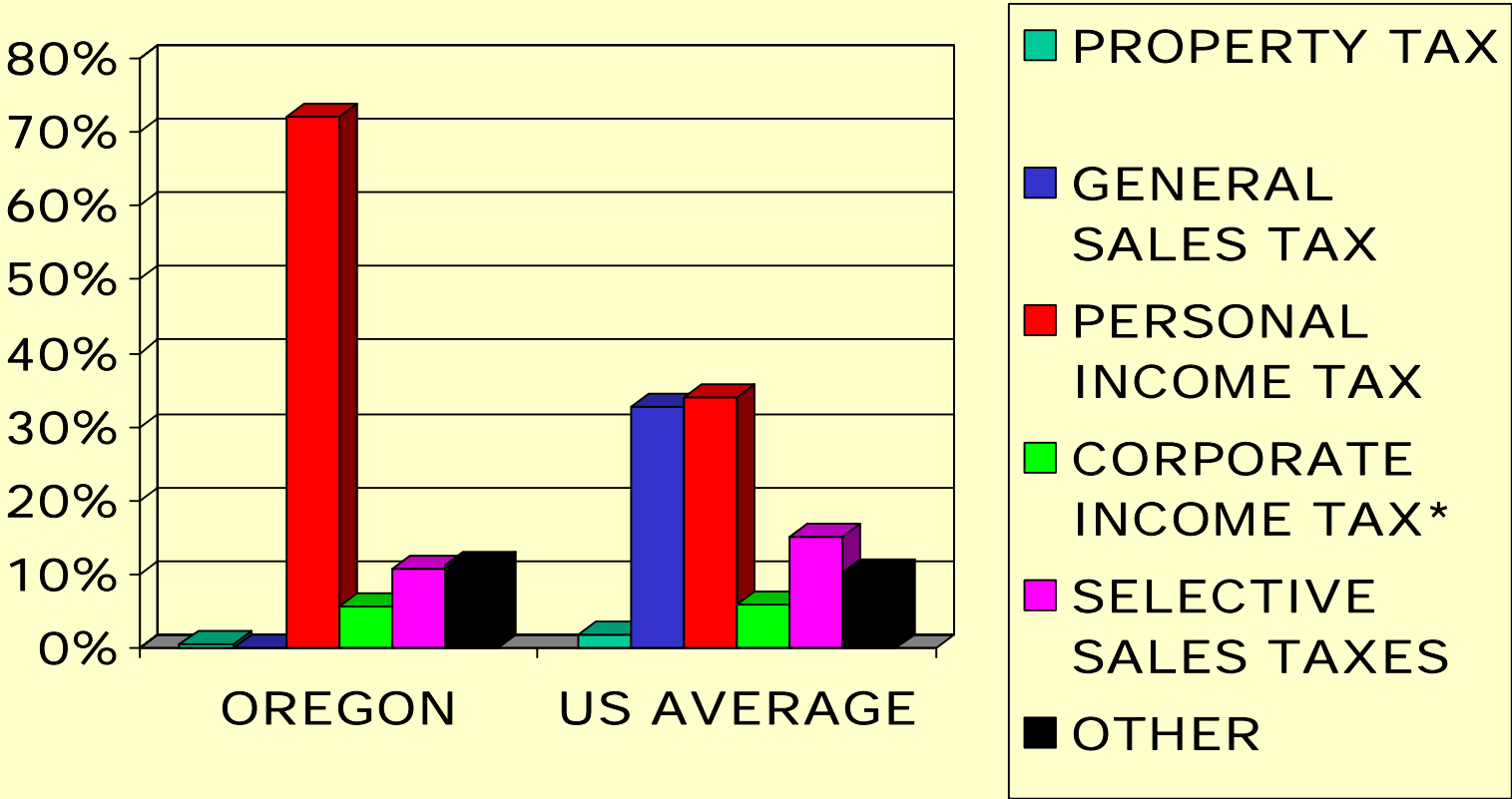
DISCRETIONARY SPENDING PER PERSON HAS DECLINED WHEN ADJUSTED FOR INFLATION AND THE IMPACT OF INITIATIVES

(GENERAL FUND/LOTTERY SPENDING PER PERSON)



STATE TAXES BY SOURCE

(PERCENT OF STATE TAX COLLECTIONS IN FISCAL YEAR 2005)



WHICH REVENUE SOURCES ARE MOST STABLE?

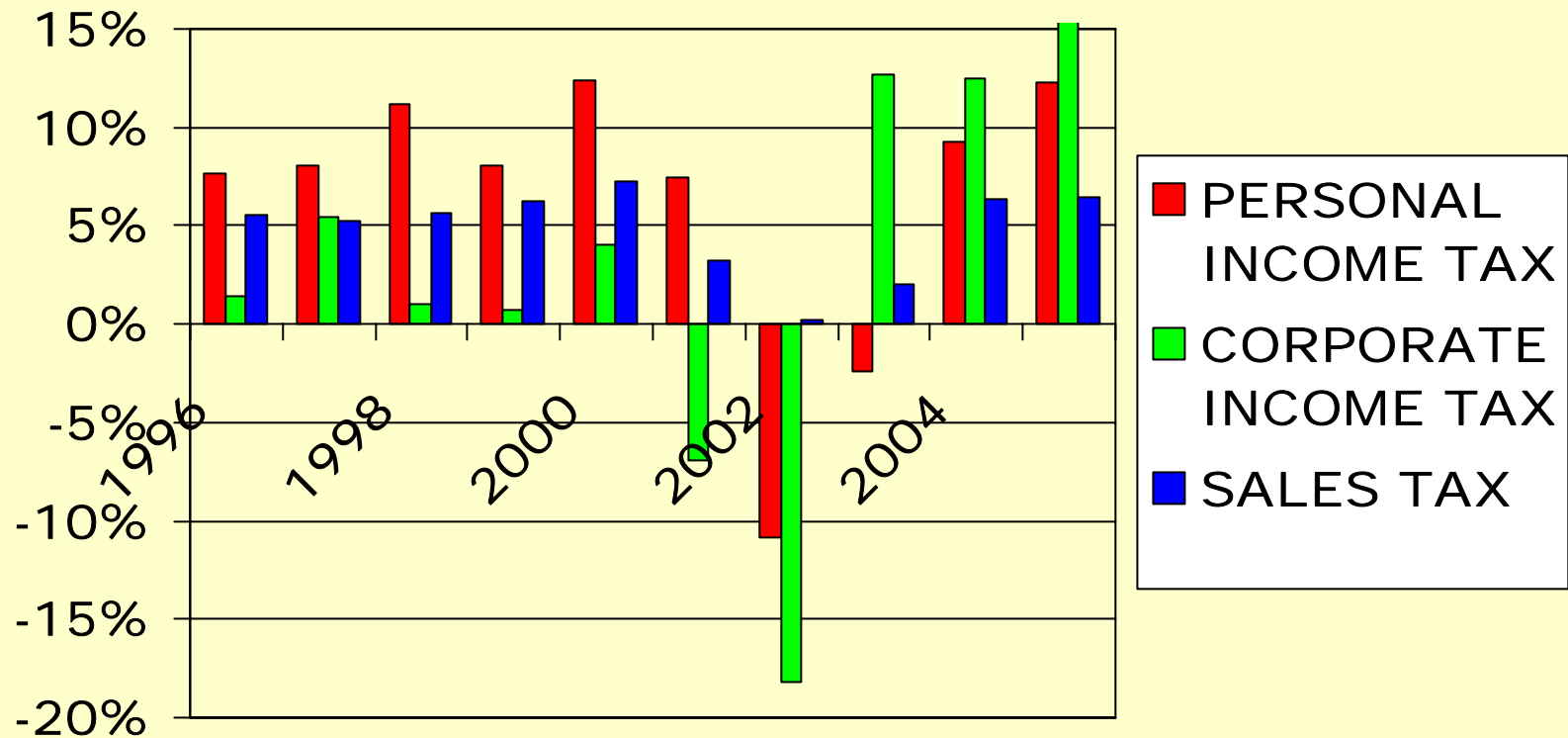


- **A 10% CHANGE IN TOTAL INCOME MEANS:***
 - A 29% CHANGE IN PERSONAL INCOME TAX COLLECTIONS
 - A 17% CHANGE IN CORPORATE INCOME TAX COLLECTIONS
 - A 12% CHANGE IN SALES TAX COLLECTIONS
- **CONCLUSION: PERSONAL INCOME TAX MOST UNSTABLE**
 - SHARP PAINFUL BUDGET CUTS IN DOWNTURNS
 - FALSE EXPECTATIONS, UNSUSTAINABLE PROGRAMS IN UPSWINGS

*BASED ON CALIFORNIA DEPARTMENT OF FINANCE STUDY - CA REVENUE 1980-2004

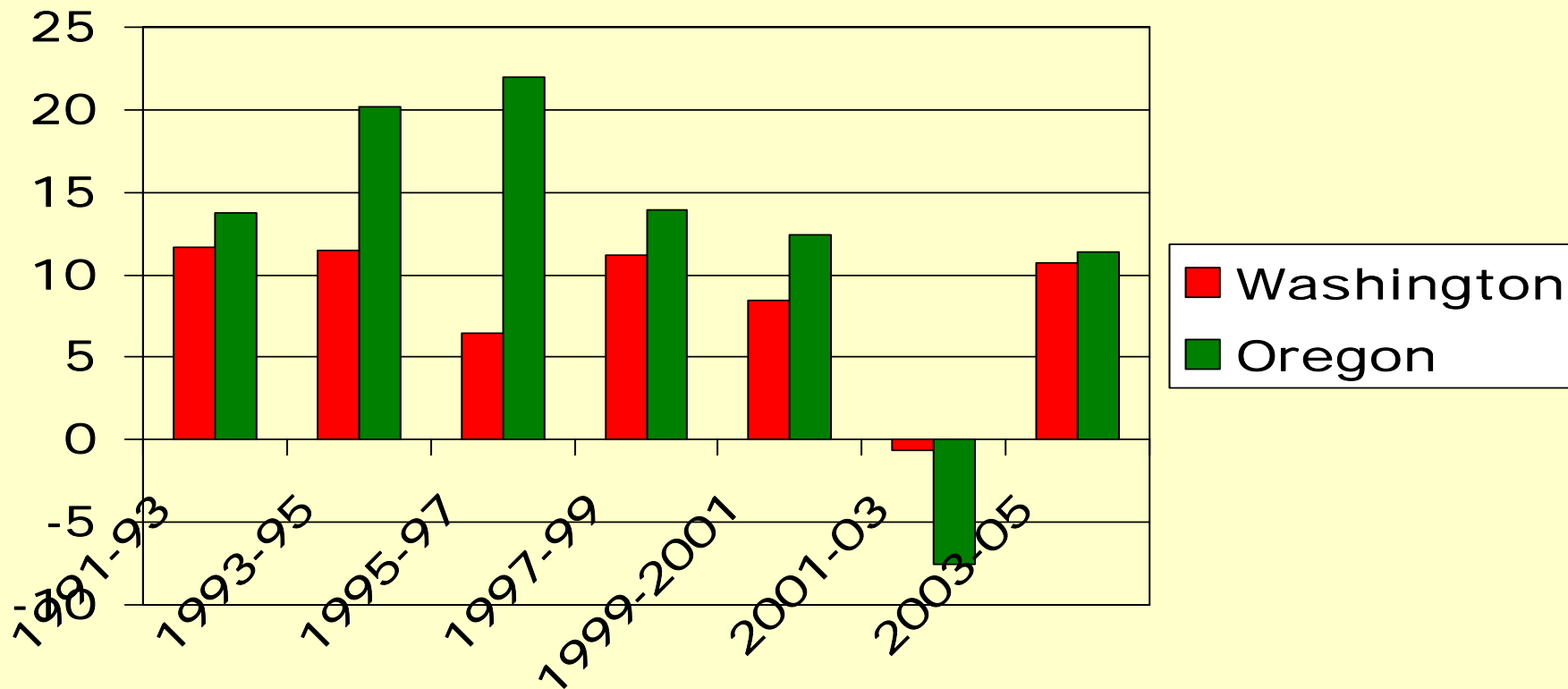
DATA REFLECTS UPS AND DOWNS OF INCOME AND SALES TAXES

(PERCENT CHANGE BY FISCAL YEAR FOR ALL STATES OVER LAST DECADE)



WASHINGTON'S REVENUE STREAM IS MORE STABLE

General fund % change per biennium



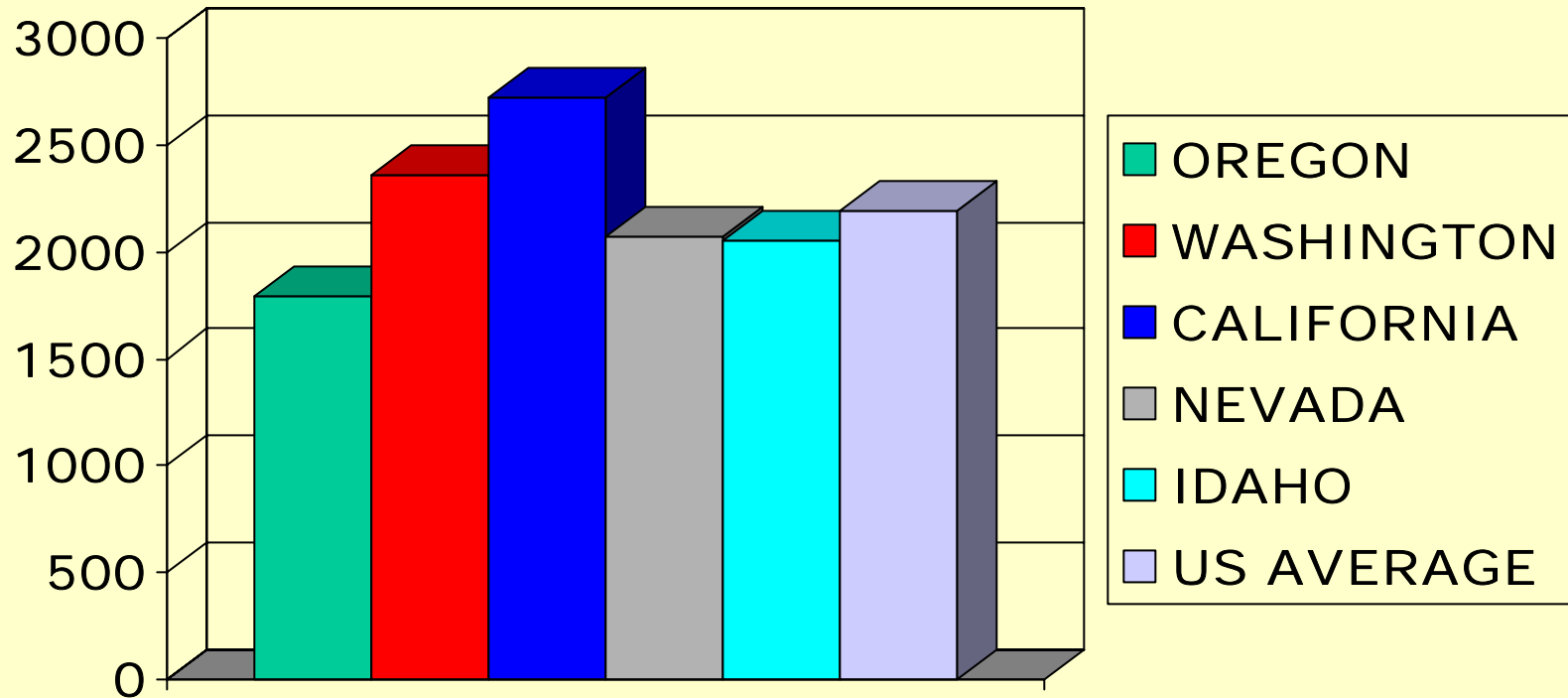
OREGON AMONG HARDEST HIT BY 2001 RECESSION

(FY2002 COMPARED TO FY2001)

	% CHANGE IN TAX REVENUE	RANK AMONG THE STATES
ALL STATES	-5.6	--
ALASKA	-28.1	50
OREGON*	-20.3	49
CALIFORNIA	-17.6	48
MASS.	-14.6	47

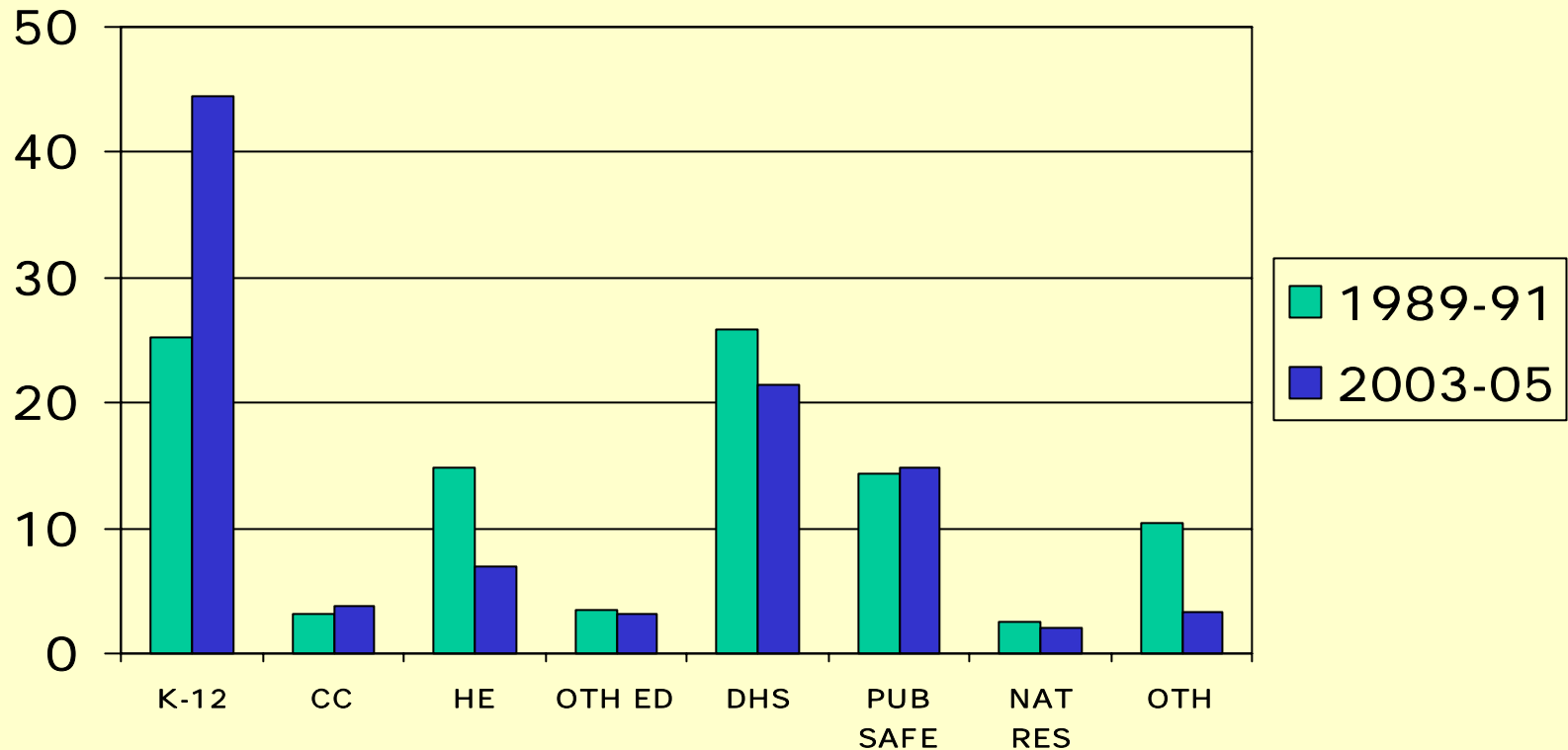
STATE TAXES PER PERSON

(FISCAL YEAR 2004 - 05)

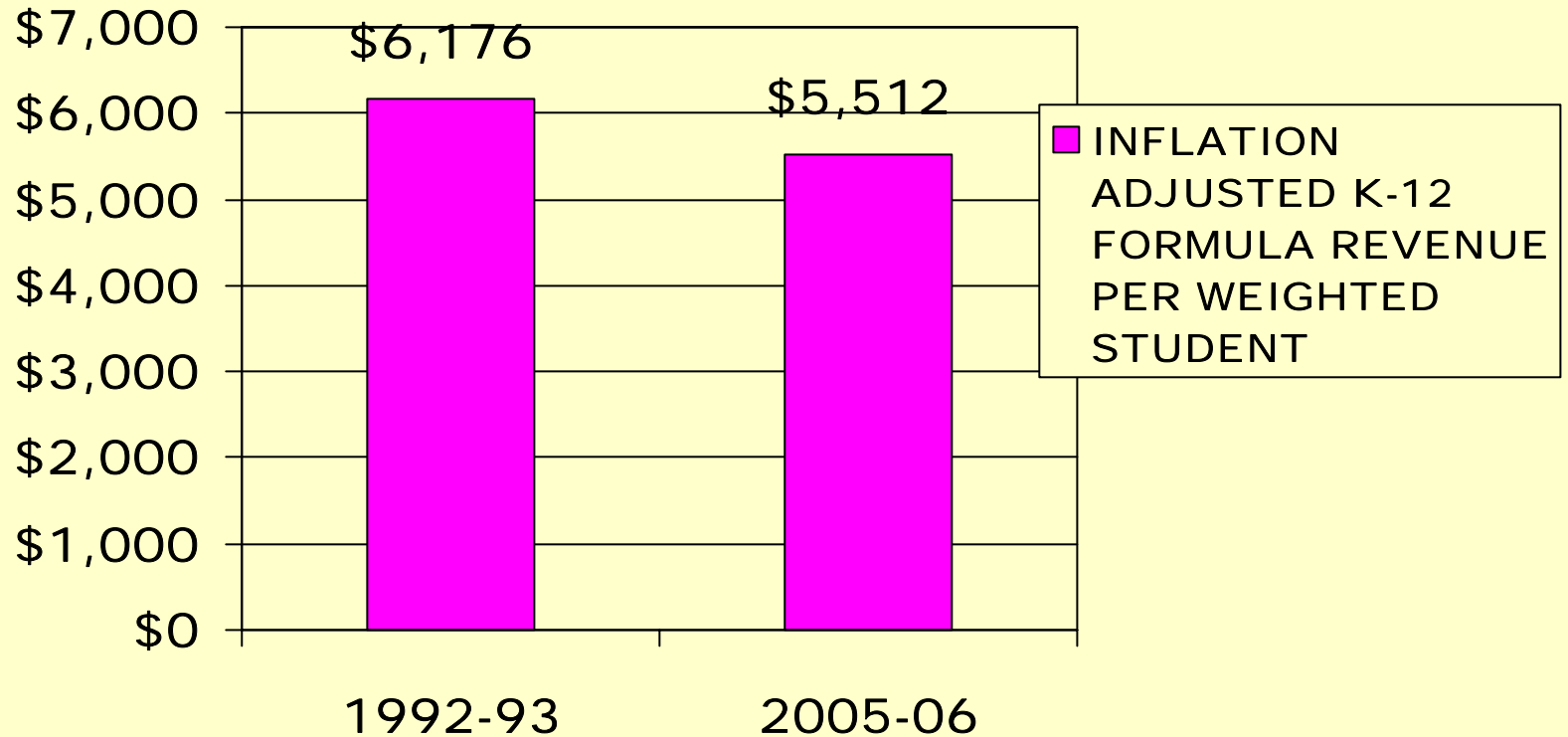


SHIFTS IN THE STATE BUDGET

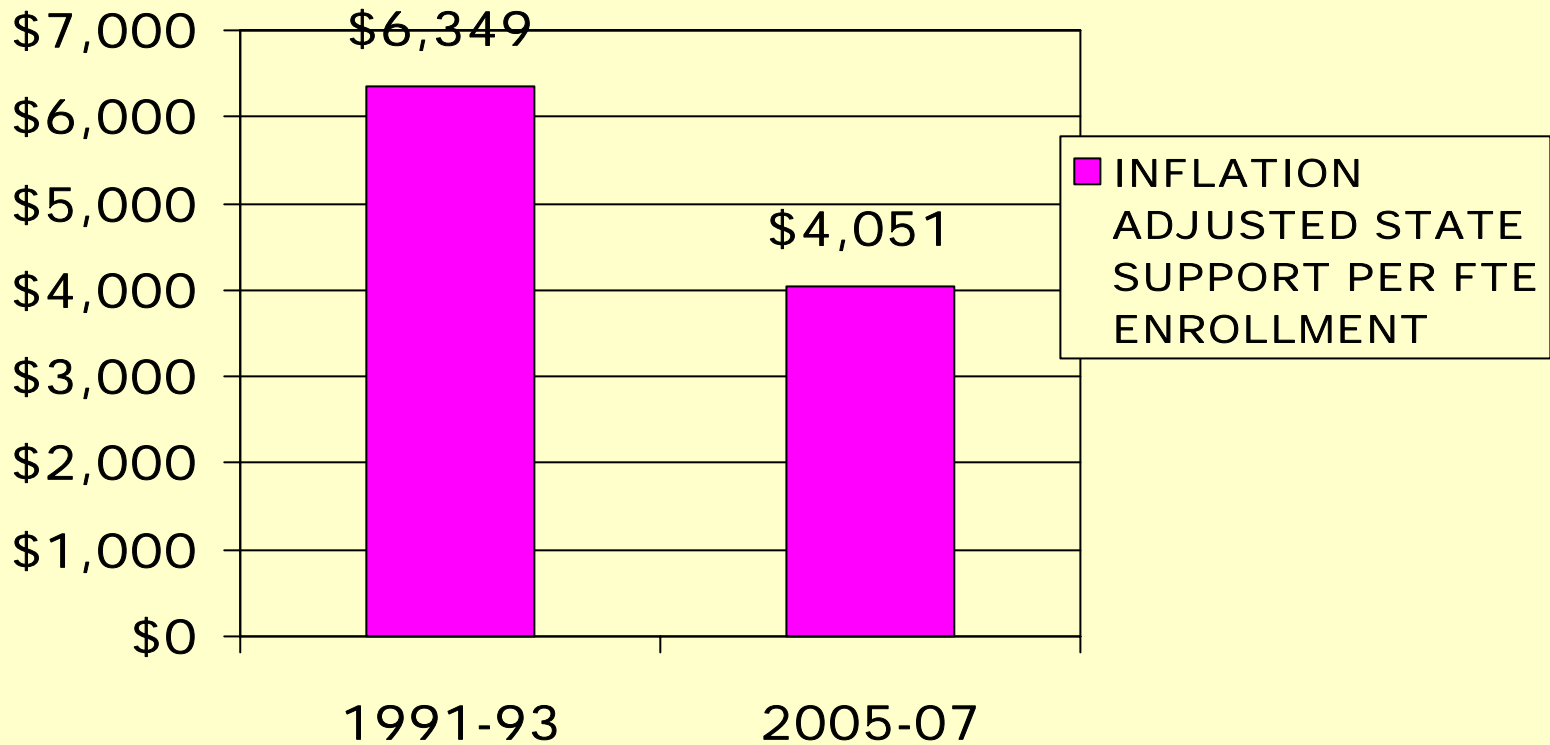
(% OF GENERAL FUND/LOTTERY BUDGET)



SCHOOL REVENUE HAS NOT KEPT PACE WITH INFLATION & STUDENT GROWTH SINCE MEASURE 5 PASSED



STATE SUPPORT FOR HIGHER EDUCATION HAS DECLINED



FISCAL IMPACT OF THE KICKER LAW*

	PERSONAL INCOME TAX (IN MILLIONS)	CORPORATE INCOME TAX (IN MILLIONS)
TOTAL AMOUNT REFUNDED SINCE 1979	\$1,962	\$732
AVERAGE AMOUNT PER BIENNIUM	\$140	\$52

* Includes projected 2007-2009 kicker

What will make it better?



- ✔ Leaders who solve problems
- ✔ Legislators who work together
- ✔ Politicians who listen to us

+

- ✔ A plan to lead Oregon into a more stable financial future

Hopeful Reform

What would you think about a bipartisan plan that:

- *Reduce taxes for taxpaying Oregonians;*
- *Create new jobs;*
- *Increase economic development;*
- *Stabilize Oregon's volatile revenue stream;*
- *Establish discipline and openness in our spending and budget process;*
- *Establish a realistic rainy day fund; and*
- *Put \$1 billion new money on the table for critical investments in K-12, Higher Education and health care for individuals and business*

Principles for Hopeful Reform

- ✓ ACCOUNTABILITY IN GOVERNMENT
 - BUDGETING PROCESS
 - EFFICIENT SPENDING
- ✓ REDUCE THE TOTAL TAX BURDEN
- ✓ STABLE REVENUE SOURCE
- ✓ SAVING FOR THE FUTURE

HOPEFUL REFORM

- **How we collect:**
 - TAX REFORM
- **How we budget:**
 - BUDGET REFORM
- **How we spend:**
 - CONTINUOUS IMPROVEMENT
- **How we save:**
 - KICKER REFORM



TAX REFORM: KEY TARGETS

- CREATE JOBS/STRENGTHEN THE ECONOMY
- REDUCE TAXES FOR OREGONIANS
- INCREASE AND STABILIZE REVENUE
 - UNREPORTED TAXABLE INCOME
 - ILLEGAL DRUG ECONOMY
 - BUSINESS
 - TOURISTS



TAX REFORM PROPOSAL
TAX REFORM PACKAGE
BASIC STRUCTURE

	REVENUE IMPACT IF FULLY IMPLEMENTED IN 2007-09
PERSONAL INCOME TAX •REDUCE RATES TO 2,4,6% •CAPITAL GAINS @ 4% •REFUNDABLE EARNED INCOME CREDIT @ 25% FEDERAL	-\$4.4 BILLION (39% TAX CUT)
ADDITIONAL ECONOMIC GROWTH INCENTIVES	-\$100 MILLION
PROPERTY TAX & RENTER RELIEF	-\$1 BILLION (11% TAX CUT)
SALES TAX @ 5% (WITH 1.5% RETAILER COMP)	+\$6.5 BILLION
NET REVENUE	+\$1.0 BILLION

TAX REFORM PLAN MAKES OREGON ECONOMY MORE COMPETITIVE



- **PROJECTED ECONOMIC IMPACT***

- JOBS UP 41,000

- PRIVATE INVESTMENT UP \$57 MILLION

*(5 YEARS AFTER IMPLEMENTATION)

**TAX REFORM PACKAGE:
*REDUCES THE TAX BURDEN ACROSS
ALL INCOME GROUPS***

HH INCOME/FAMILY OF 4	NET CHANGE IN TAXES
\$15 K	-\$344
\$25 K	-151
\$35 K	-133
\$45 K	-170
\$55 K	-269
\$65 K	-301
\$75 K	-473
\$100 K	-663
\$125 K	-700
\$150 K	-1022

TAX REFORM PLAN: DESIGNED TO ACHIEVE RESULTS

- CREATE JOBS BY INCREASING RETURNS TO INVESTORS & WORKERS THROUGH LOWER INCOME TAX RATES
- STABILIZE REVENUE THROUGH DIVERSIFICATION TO MORE STABLE CONSUMPTION TAX
- SPREAD TAX BURDEN MORE FAIRLY BY CAPTURING REVENUE FROM:
 - BUSINESS
 - UNREPORTED ACTIVITY
 - ILLEGAL ACTIVITY
 - TOURISTS



BUDGET REFORM

- **EACH SESSION LEGISLATURE SETS BUDGET PLAN BASED UPON:**
 - BIPARTISAN OPEN PROCESS
 - GENERAL FUND/LOTTERY SPENDING TARGET
 - BROAD ALLOCATION AMONG PROGRAM AREAS
 - RESERVES NEEDED—BASED ON OBJECTIVE RISK ASSESSMENT

CONTINUOUS IMPROVEMENT



REDUCE COSTS



IMPROVE QUALITY



CHANGE BUREAUCRATIC CULTURE



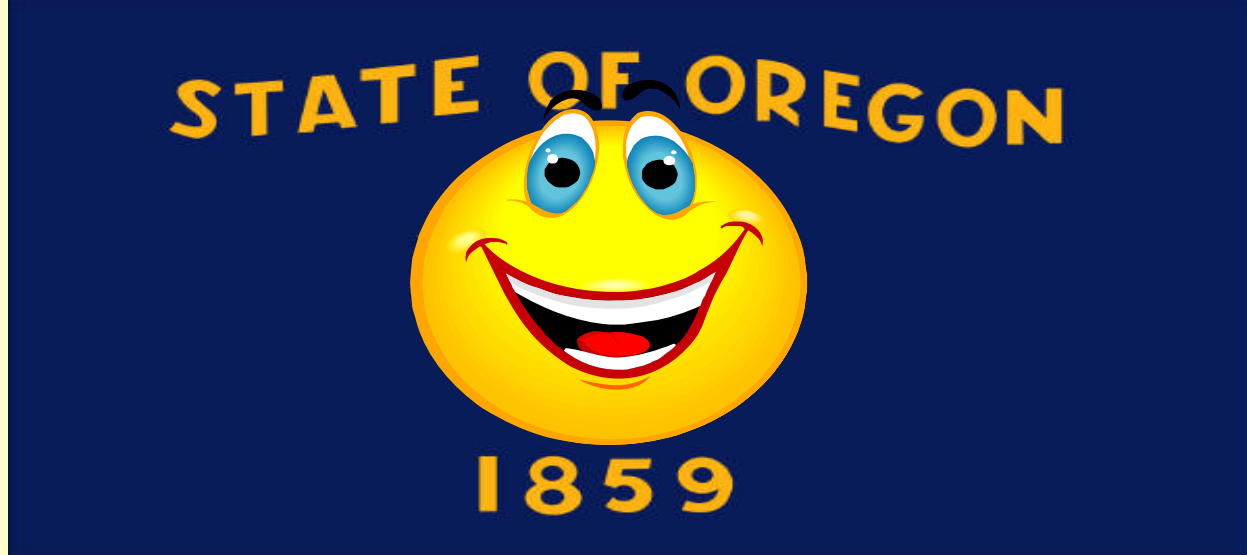
**TRACK EXPENDITURES/MEASURE
PERFORMANCE**

PREPARING FOR FUTURE DOWNTURNS: PROPOSED KICKER REFORM



CREATE NEW RAINY DAY FUND:

- **GENERAL FUND REVENUE > 1% ABOVE FORECAST**
- **CAP FUND @ 10% OF BUDGET THEN RETURN EXCESS TO TAXPAYERS**
- **LIMIT ACCESS TO FUND TO TIMES OF ECONOMIC STRESS**
- **ASK VOTERS TO DECIDE**



CONCLUSIONS

Oregon is at a crossroad. We need bipartisan leadership from legislators, business, labor, and from elected officials across Oregon to build a sound financial future for our state.

- **We can create a solid fiscal foundation for Oregon.**
This fiscal reform has four components:
 1. How we collect revenues
 2. How we budget
 3. How we spend
 4. How we save
- **We can stabilize our revenue system and reduce the tax burden.**
- **We can reform government without destroying it.**
- **There are three options: Stay with the current system; adopt Hopeful Reform; come up with a better comprehensive solution.**