

# Failure of Measure 97 left Oregon in a budget hole

By Gordon Friedman  
Statesman Journal

SALEM (AP) — Since voters roundly rejected a corporate sales tax last Tuesday, legislators and the governor have been considering options for cutting the budget and raising revenue.

One plan may be to revive a commercial activity tax on businesses, reports the *Statesman Journal*. What's the difference between that proposal and Measure 97, the tax that failed Tuesday? Well, about \$2.5 billion per year, for one thing.

Other options being floated by officials include raising already existing fees and assessments, bumping up personal income tax and property tax rates, or a so-called sin tax on unhealthy products.

Lawmakers caution, however, that no proposal is certain. What is? A \$1.4 billion budget hole. Measure 97 would have more than plugged the hole. Now, officials face the reality of budget cuts and a need for revenue.

Finding a plan that will work is a conundrum with no easy solutions.

Compounding the problem is the fact that business and labor groups — which spent heavily on opposite sides of Measure 97 — may be reluctant to negotiate on taxes.

What's more, Senate President Peter Courtney, the top Democratic lawmaker, said he is unsure there are enough votes to pass a balanced budget.

## Governor to propose budget cuts

Gov. Kate Brown will release a proposed budget on Dec. 1, which will include plans for budget cuts and likely options for raising revenue. Brown has signaled that she plans to avoid cutting programs that help children and

poor families.

Kristen Grainger, Brown's communications director, said it's too early to say what cuts or revenue options will be included in the governor's budget. Grainger said the state budget is concentrated mostly in schools, health and human services and public safety. Some funding schemes are codified in law, which means there are few options for Brown.

"There's not a lot of flexibility. She's got to be really thoughtful and strategic about how she does this," Grainger said.

Top lawmakers also said cuts are certain.

"We're not going to get through this without some cuts somewhere," said Courtney, a Democrat who has represented Salem since 1999. He added that he had not yet spoken with the governor about where she plans to propose cuts.

"I don't have a path right now and I'm very concerned about it," Courtney said.

State agencies submitted hypothetical cuts budgets to the governor's office months ago, a routine aspect of planning the state's next two-year budget. Brown will develop her plan from those proposals.

## Lawmakers to consider revenue options

February will bring the 2017 legislative session, and lawmakers will be tasked with passing a balanced budget by July 10, based on Brown's proposal.

Sen. Mark Hass, who chairs the Senate revenue and finance committee, said the discussion on how to raise revenue is already underway.

"The failure of Measure 97 does not change the fact that we have one of the most volatile tax codes in the country or that we seriously underfund education," said Hass, a Democrat who represents

Beaverton. "But it's not like we're back to square-one."

Oregon's revenue system is volatile because it remains tied to personal income taxes, which rise and fall with the economy. States that rely more on sales tax revenues are less susceptible to economic shocks.

Assessments, fees, a sin tax and more are being considered from a philosophical standpoint, Hass said. He's already been in talks with legislative leaders and representatives of business interests and labor unions. They're examining what Plan B might look like, he said.

Courtney said he and House Speaker Tina Kotek, D-Portland, were set to meet Thursday, though they have not yet discussed a specific plan of action. Kotek declined to comment.

Hass and Rep. Mark Johnson, a Hood River Republican who sits on the House revenue committee, proposed a bill in 2015 advertised by the pair as a "peaceful solution" between business and labor interests. The plan would have repealed Oregon's corporate income tax and replaced it with a commercial activity tax; the law was predicted to raise \$1 billion in new revenue per two-year budget cycle. The plan never came up for a vote.

Hass said the commercial activity tax may come up again in 2017, though nothing is certain yet.

For his part, Johnson said the Legislature should figure out how to rein in spending before asking taxpayers and businesses for more revenue.

"The budget is growing faster than our economy's ability to sustain it," Johnson said. "We've got to take a serious look at the cost drivers."

Johnson said he expects little leadership out of the

governor's office when it comes to the budget; it's legislators that can iron out a budget with bipartisan support, he said.

Passing a budget may not come easy. Although Democrats secured majorities in the state House and Senate on Election Day, they lost one seat in the Senate. Eighteen votes are needed to pass a tax increase; there will be 17 Senate Democrats during next year's legislative session.

Courtney, the long-time Senate president, said the situation makes him nervous.

"I don't have a guaranteed 18 votes in the Senate for any given revenue measure. I don't have a guaranteed 18 or even 16 votes for any given cut," he said.

Hass, though, said the debate over Measure 97 was not in vain.

"Maybe it took this battle to get us to the next step. Let's keep the discussion going," he said. "Instead of rancor or 30-second ads let's have a conversation and move towards consensus."

## Business, labor interests weary after tax fight

As lawmakers and the governor draft budget proposals, they'll seek input from lobbyists representing business and labor union interests. But one prominent lobbyist sees a challenge in getting competing business and labor groups

to come to the table.

Last year, Courtney likened the Measure 97 battle to a "civil war," going as far as comparing the political fight to the Battle of Antietam, the Civil War's bloodiest day. Indeed, the Measure 97 fight was the most expensive in Oregon history. Groups on opposite sides of Measure 97 spent more than \$40 million on the tax battle, mostly on advertising.

Gary Conkling, co-founder and managing partner of Portland lobbying firm CFM Strategic Communications, said Measure 97's real fallout may not be the revenue shortfall but a lack of willingness by lobbyists to participate in talks on what to do next.

"There's a rupture out there that's very visceral," he said.

Despite losing the Measure 97 fight, labor interests are primed to propose new tax increases. Ben Unger, executive director of Our Oregon, the labor union coalition that proposed and financially backed Measure 97, said he's "sure" that new tax ideas will be floated during the 2017 legislative session. They'll likely try again to increase corporate taxes, he said.

"I'm very confident that as we move forward now you just won't hear people talk about budget cuts unless they're also talking about corporate taxes," he said.

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