Long-awaited business tax proposal unveiled

By Mark Miller
Oregon Capital Bureau

Oregonians could pay less on their state income taxes but pay more for some goods and services under a legislative proposal to raise money for the state's struggling public school system.

The long-awaited proposal will tax businesses just under one-half of 1 percent of their gross receipts over $1 million while cutting Oregonians' income tax rates by one-quarter of a percent for all but the top bracket. Sales of groceries, gasoline and diesel would not be taxed under the proposal.

The smallest businesses — those that make less than $1 million in taxable revenue per year — will not be subject to the tax, nor will any that already pay the medical provider tax. Businesses that are taxed will be able to allay the impact by deducting one-quarter of either their labor costs or the amount they paid to other businesses during the course of the year.

A small group of state senators and representatives from both parties, led by Sen. Mark Hass, D-Beaverton, and Rep. Nancy Nathanson, D-Eugene, has been meeting for weeks to hammer out a business tax proposal. In addition to taxing businesses on their sales, they have agreed to cut Oregon's personal income tax rates as a way to offset costs that companies will likely pass along to consumers.

Gov. Kate Brown called last year for lawmakers to find new revenue for K-12 education over the next biennium. Hass said he is shooting for at least $1 billion per year.

Money from the new tax will go into a new state fund called the Fund for Student Success, which will support K-12 and early childhood education statewide.

Revenue from the corporate activity tax will pay for the $2 billion Student Success Act that legislators unveiled last week. The tax plan, which is still subject to change, is a part of that act.

A version of the proposal was posted as an amendment on the Legislature's website briefly on Thursday afternoon before being taken down due to drafting errors, according to Hass' office, which confirmed the basic outlines of the plan.

Hass, Nathanson and other key legislators have been studying two closely related models for several months, trying to decide how to craft their corporate activity tax plan.

Oregon Business & Industry, a coalition of some of the state's largest employers, suggested that lawmakers look into a value-added tax to ensure businesses don't have to pay more for every step in their production process. At least some production costs would be deducted from the tax bill — an idea lawmakers have incorporated into their plan.

A rival group called Coalition for the Common Good, made up primarily of labor groups and Beaverton-based Nike Inc., put forward another option modeled off of Ohio's commercial activity tax. That proposal resembled Ballot Measure 97, a proposed gross-receipts tax that Oregon voters rejected in 2016.

The current plan is a blend of the two competing concepts.

"I want to do the best policy that is most fair to most businesses," Hass said earlier this spring. "I'm going to avoid a situation where this places a greater burden on one sector or one size of business."

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> **Sandra McDonough**, Oregon Business & Industry executive director

Melissa Unger, executive director of SEIU 503, reacted positively to the plan.

"We are encouraged about the direction the Legislature is headed, funding critical services with a reasonable corporate tax," Unger said Thursday.

OBI isn't quite on board yet, said its executive director, Sandra McDonough, but it does see encouraging aspects of the plan now on the table.

"We were happy to see that they have introduced this concept of a hybrid that starts to address some of our concerns about pyramiding," McDonough said, referring to the accumulation of taxes on every stage in the production process. Gross-receipts tax critics argue that pyramiding is unfair because it disproportionately affects producers of complex goods.

She added, "It's not where we think it needs to be, but we've indicated we're willing to continue the conversation."

In Oregon, raising taxes or creating a new tax requires the approval of three-fifths of senators and three-fifths of representatives. That gives the Democratic majority a narrow path to passage, as the 18 Senate Democrats constitute exactly three-fifths of the chamber.

Lawmakers also have other major issues to sort through.

The education package itself is complex, and it has already faced pushback from Brown, who said Thursday she wants a share of the new tax revenue to bolster career and technical education and expand financial aid for college students.

As proposed by legislators, the Student Success Act would invest $2 billion over a biennium into K-12 education. Those dollars would pay for more teachers and support staff, instructional days, elective and extracurricular activities while also investing in early childhood education and preschool programs, mental and behavioral health resources and recovery planning for struggling school districts, among other areas.

Both the business tax and the lower personal income tax rates would take effect next year. Projections suggest the tax plan would bring in just shy of $1 billion for K-12 education in 2020.

However, opponents could force a statewide vote on the tax changes if they get through the Legislature. Controversial bills are often referred to the ballot, a process that a senator and a representative can initiate.

"We're ready for that," Hass said of a potential referral. "If that's the way it goes, that's the way it goes."

The last time a major tax increase was on the statewide ballot in Oregon was Measure 97 in 2016. Voters shot down the proposed $3 billion corporate sales tax, with 59 percent voting "no" to bury the measure.

Hass attempted to marshal support for a more modest tax package in 2017, but his plan died without a vote.

Last fall, Brown proposed $12.3 billion in spending for the Department of Education, 11 percent more than the current budget.

Oregon has the second-lowest high school graduation rate in the country, according to U.S. Department of Education data. Only New Mexico graduates fewer of its high school students within four years.

Funding levels for Oregon schools have declined since voters approved Measure 5 in 1990, slashing the amount of money schools receive from local property taxes. Instructional time has fallen in many school districts, as have staffing levels.

Ballooning public pension costs have also hit school districts hard. McDonough said OBI believes "cost control" needs to be addressed if taxes are being raised: "Specifically PERS reform, so that we can make sure that any new dollars raised actually make it to the education package that they want to support."

The Legislature passed major PERS reforms in 2013, but the Oregon Supreme Court invalidated most of them in 2015.

A citizens' group including former Gov. Ted Kulongoski and former state Sen. Chris Telfer is working toward petitioning PERS pension cuts onto the ballot in 2020.

Business interests pushing for PERS reform

By Claire Withycombe
Oregon Capital Bureau

Current and future public employees wouldn't have as generous a retirement under initiative petitions being pushed by business interests in yet another effort to reform the state's notoriously complex and expensive retirement system.

The effort has attracted two big names in Oregon politics — former Gov. Ted Kulongoski and Chris Telfer, a former state senator and currently a member of the Oregon Lottery Commission.

Kulongoski and Telfer say the amount that local governments, like cities and school districts, pay to the Public Employees Retirement System each year is poised to grow so much that they will struggle to provide basic services.

Oregon PERS Solutions, a business-funded group backing the petitions, estimates those payments will increase by $10 billion over the next eight years if the system isn't changed.

Instead, Kulongoski and Telfer want some of that money to go to other needs such as road repairs and teacher salaries.

They are putting their political might behind two ballot measure initiatives that would reduce future retirement benefits for current and new public employees starting in 2021.

The state's 145,000 current retirees in PERS wouldn't be affected.

Backers estimate one approach could save public employers $5 billion, and the second could save $3.3 billion. The backers would advance only one measure to the 2020 election.

PERS is a hybrid system, which, in simple terms, consists of two parts: a basic pension and a retirement savings account similar to a 401(k).

If successful, the effort may mean that for new employees, the state could emulate OHSU's retirement options.

Workers there have the option to either get the pension plan or to contribute to a 401(k)-style savings plan, but not both.

Under both petitions, current public employees would contribute to the costs of their pension. But they wouldn't have to contribute more money than they already do to retirement, because the money they contribute to the existing 401(k)-style plan could get redirected to make the required pension payment instead.

And the state would either create a new 401(k)-style savings plan for new hires or have the state treasury study creating one.

Although benefits would get reduced under the petitions, backers argue public employees and taxpayers could see other positive effects — such as being able to hire more teachers or paying those teachers more.

But if the state does nothing, schools and other public entities would have to make cuts to cover rising PERS bills, said Tim Nesbitt, interim executive director of Oregon PERS Solutions.

"If we make no changes, the path we're on means layoffs, and tighter budgets for raises," Nesbitt said.

Nesbitt was a chief of staff to Kulongoski when he was governor and, before that, was a state union leader. As part of Kulongoski's post-recession Reset cabinet, Nesbitt authored a report on the state's fiscal problems.

Oregon PERS Solutions has received funding from the Oregon Business Council to push the petitions.

The Oregon Business Council's directors include representatives of major Oregon businesses such as Intel, Portland General Electric and Columbia Sportswear.

Employer assessments to fund retirements are expected to subside eventually, as more current retirees — who benefit from more generous retirement plans before the state made drastic reforms in 2003 — die and their benefits end.

Unions counter that the latest proposal would effectively add a fourth tier to PERS, adding complexity to a famously mind-boggling system.

They also say cutting future benefits wouldn't provide any relief from the system's current $26.6 billion pension debt, or unfunded liability.

"These corporate-backed proposals would drastically reduce the promised retirement benefits to working teachers, firefighters and other public employees," Patty Wentz, a spokeswoman for the Oregon PERS Coalition, said in a statement. "They will create more problems than they solve, don't reduce the unfunded liability, and would result in more lengthy and costly legal battles for the state and local school districts."