

Oregon Alliance of Business Associations "Shared Responsibility Proposal"

Oregon is in economic crisis. Private-sector job loss is at the root of our state's current budget shortfall. Creating and maintaining private-sector jobs that generate income-tax revenues is the only way out of Oregon's budget woes. Since November, Oregon has lost 46,700 jobs or 420 jobs per day. In February alone, Oregon lost 25,000 jobs or 775 jobs per day. Almost 82,000 Oregonians have lost their job over the last year. Oregon's unemployment rate has gone from 7.3 percent to 12.1 percent in half a year's time. More than a quarter million Oregonians are out of work today.

The solution to this crisis is to forge a balanced, targeted and temporary approach that creates and maintains private-sector jobs and helps those Oregonians who are most in need. These are extraordinary times. We've seen nothing like this in Oregon since the early 1980s and perhaps the 1930s. Oregonians across the political spectrum recognize that everything has changed, and Oregon's legislature must refocus its efforts on making it through this economic turbulence. The legislature must set aside partisan philosophies and work to craft a shared response to this crisis that does the least harm to Oregon's economy today and enhances our economic recovery going forward.

We are, therefore, deeply concerned with legislative leadership's first major tax initiative. The new value-added tax on Oregon business will tax Oregon employers regardless of their ability to pay. It will have an immediate detrimental effect on Oregon's ability to recover from the economic crisis. It's nothing more than a sales tax on wages and benefits.

We believe that any tax increase will hurt Oregon's economy, but Oregon employers also recognize that these extraordinary times require us all to compromise. We recognize a need to strike a balance between the requirements of a long-term economic recovery and the needs of all Oregonians. We understand the best way to stimulate the economy and provide tax dollars for state services is through private-sector job creation.

Our "Shared Responsibility Proposal" does that. It's a balanced, short-term solution to the situation Oregon finds itself in today. Essentially, it matches spending cuts with a temporary, broad-based tax surcharge to help us get through this current economic storm and addresses the state's 2009-11 budget shortfall - together.

Our "Shared Responsibility Proposal" emphasizes passing proposals that will create Oregon jobs and not passing ones that will kill jobs. It focuses on making common-sense budgeting decisions.

It's a do-no-harm, batten-down-the-hatches approach - no new government programs or government regulations -- that will help the government live within its means while taking care of Oregon's most vulnerable.

"Shared Responsibility Proposal"

GUIDING PRINCIPLES

1. Aggressive Legislation for Job Creation: Oregon's tax base for programs and services is in serious decline due to the current economic crisis. To be proactive the Oregon Legislature must enact aggressive legislation, such as a transportation funding package, designed to generate economic development and create private-sector jobs. A failure to act quickly and decisively will hurt all Oregonians.

2. The Whole Picture: Any tax proposal should be presented as part of a package of policies designed to create jobs and get Oregonians through our current economic crisis. Tax policy should not be done on a piecemeal basis. It's important to look at the whole revenue picture in order to appreciate the cumulative effect on Oregon's private sector's ability to recover from the economic crisis. Tax revenues must also be seen in the context of spending choices and the entire state budget.

3. The Root of the Problem: Legislation should not be a patchwork of policies addressing symptoms of the economic downturn, but rather a forward-looking proposal designed to stimulate the economy and put Oregonians back to work.

4. Shared Responsibility Model: The Oregon Legislature should develop a short-term "Shared Responsibility" model that is separate and distinct from long-term tax reform. The "Shared Responsibility" model should be a broad-based program to strengthen our economy by:

- A targeted reduction of taxes,
- Policies that create private-sector jobs, and
- A reduction, where appropriate, in the size of government
- Temporary, two-year, broad-based income tax increase and spending cuts

5. Tax Reform: The middle of an economic collapse is no time to engage in discussions about long-term tax reform or reinvent Oregon's tax structure. Legislators need to focus, for now, on policies that generate the jobs and the resulting income-tax revenue that is needed to provide essential services.

6. Corporate Minimum Tax or "No-Profits" Tax: The Oregon Corporate Minimum Tax has become a political distraction. We support updating the Corporate Minimum Tax or Noprofits Tax to cover the cost of processing tax filings. We agree that this filing fee should be paid even if an Oregon business has no tax liability. But the Corporate Minimum Tax or No-profits Tax cannot be set at a level that discourages economic growth, and job creation or that encourages Oregon businesses to move to other states or overseas.

7. Do No Harm: Any effort to provide bridge funding for Oregon public services must minimize harm to the state's troubled private-sector economy. This Legislature should nix all policy or regulatory initiatives that threaten to kill jobs in Oregon.

- I. Assumptions regarding Budget and tax figures
 - a. All figures based on Legislative Fiscal Office and Legislative Revenue Office numbers
 - b. Starts with "Essential Budget Level" of \$16.749 billion
 - i. Business Alliance doesn't necessarily agree with this start level, but is willing to start there for purposes of discussion
 - ii. This number needs to be adjusted with further discussion of what's in the "Essential Budget Level" figure and what has changed since it was announced in December 2008
 - c. 2009-1 Revenue Shortfall or Budget shortfall equals \$4.404 billion
 - i. This will be less if "Essential Budget Level" figure is adjusted down
2. Assumptions underlying the "Shared Responsibility" Proposal
 - a. All federal stimulus money available to state will be spent: \$91.1 million
 - b. All Rainy Day funds will be spent: \$91.1 million
 - c. These two funding streams reduce shortfall by \$1.822 billion
 - d. Any additional funds that become available will go toward reducing the shortfall and reduce required spending cuts and revenue increases below
 - e. Reconnect to federal tax code to stimulate private-sector job growth will add another \$76 million to the budget shortfall
3. "Shared Responsibility Proposal" to address remaining shortfall of \$2.581 billion
 - a. Budget Cuts equal 213's of the net shortfall: \$1.8 billion
 - b. Tax increases to fill one-third of this gap: \$855 million
4. Update of Corporate Minimum or No-Profits Tax to \$300 (permanent): \$14 million
5. Temporary, broad-based tax increases include:
 - a. Two-year 10% increase in corporate income-tax rate (7.25% from 6.6%): \$82.36 million
 - b. Two-year 7% increase in top personal income-tax rate, which includes businesses filing as LLCs, sole proprietorships and s-corps (9.65% from 9%): \$791.57 million
6. Total estimated additional tax revenues for 2009-1: \$887.93 million
7. Other conditions to create and maintain Oregon jobs
 - a. No other new taxes except with broad-based business stakeholder OK
 - b. No other fees or pass-through authority to local governments
 - c. No increase in the number of state employees and no new programs or major policy initiatives
 - d. Reconnect Oregon tax code to federal code
 - e. Gradual reduction cut in capital gains tax to 5 percent over next 4 years
 - f. Keep BETC

- g. Eliminate step and COLA increases for state workers and a commensurate reduction in the K-12 budget for 2009-1 1
 - h. Minimum wage freeze or modification
 - i. Other anti-business, anti-jobs bills die
8. In exchange, the Business Alliance not only agrees to stand with the legislative leadership and oppose any referral of the plan, but also work with our allies to discourage a referral of "Shared Responsibility" plan