

**Testimony Regarding State Fiscal and Tax Reform  
Before the Joint Committee on Tax Reform**

**Presented by Patrick Criteser  
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President and CEO of the Tillamook County Creamery Association**

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Co-Chairs Hass and Barnhart, members of the committee, my name is Patrick Criteser. I am president and CEO of the Tillamook County Creamery Association and currently serve as chair of the Oregon Business Plan steering committee. Thank you for the invitation to present our thoughts for addressing the state's fiscal puzzle – record revenues from a robust economy yet projected deficits for the foreseeable future.

I will share with you our framework, and outline our specific policy preferences for cost containment and new revenue to put state budgets on a more sustainable path going forward.

The Oregon Business Plan was conceived more than 15 years ago with encouragement of Oregon's Senior Senator, Ron Wyden. The Oregon Business Council, in partnership with a number of business and trade associations, has staffed and organized our annual Leadership Summit to discuss and develop the Oregon business community's public policy agenda. At last December's leadership summit our clear priority was addressing the state's structural deficit.

The summit came just weeks after the costly and bruising ballot fight over Measure 97. So a second priority for us, then and now, is avoiding similar polarizing ballot battles in the future.

We offered a three-part policy framework at the summit to address Oregon's fiscal challenges:

1. Grow the economy. As each quarterly forecast since May 2015 has made clear, a growing economy is the most reliable way to generate new revenue for public services.
2. Identify and curb the growth of cost drivers that are growing far faster than revenues.
3. Adjust taxes to make investments with measurable outcomes, especially in education and health care.

From the beginning of the Oregon Business Plan, our role has been to provide policy counsel to state leaders like yourselves. The hard work of lawmaking belongs to you. We recognize how steep the hill is that Oregonians, including us, are asking you to climb. We know resolving problems decades in the making is asking a lot of you. We are grateful for the opportunity to engage in discussions with you as you wrestle with the challenge of taking input from us and many others and shaping it into legislation.

What we are outlining today are our policy preferences. And our hope is to engage with you and other legislators in these final weeks of the legislative session to get past partisan and special interest divisions to do what we collectively believe is the right thing for Oregon.

**Slide:** As we look at the state's budget situation, it is our intention to work toward key objectives, in support of our shared vision for Oregon:

1. Preserve critical state services, including gains in education funding and the Medicaid expansion.
2. Additional education funding to help kids read by 3<sup>rd</sup> grade, graduate high school and attend and complete college.
3. Avoid damaging ballot measure fights so we can work together to achieve better outcomes for Oregonians.

Last year, recognizing the looming budget issues posed by increasing PERS rates driving up costs, Oregon Business Council hired an economist to build a state budget policy model that had been discussed for years but never built. It's a tool that allows a high-level look at major segments of the state's General Fund budget not just in the current budget, but across a 10-year span. The tool shows plainly the impact in future biennia of budget decisions made in the current session. The model helped us better understand the key drivers of unsustainable cost growth and focus on policy recommendations to address them. Important work also has been done this session by legislators looking closely at cost drivers and we are encouraged by their work. And Governor Kate Brown has said she and her staff are working on substantial cost containment proposals. We applaud that work and look forward to seeing the specific proposals.

We have shared the budget model with many of you and other legislators. We've also shared it with business leaders and businesses around the state, inviting their input not only on cost containment but also on tax increase options. Their feedback has guided our policy preferences.

We believe it's essential that the structural spending problems be addressed this session. Bending the cost curves now will provide long-term benefits to students in schools and higher education as well as Oregon's vulnerable citizens.

Last week, legislative leaders lamented the lack of votes on key revenue measures. We think cost containment and a balanced budget are essential complements to support for new revenues.

**Slide:** here is the problem, a long-term look at state cost outpacing projected state revenue.

**Slide:** Our model and our analysis has shown us that, although not easy, the budget can be balanced through a combination of cost containment and Medicaid solutions that can both balance the current budget and change the trajectory of the state:

1. Control growth in PERS costs.
2. Control growth in state employee healthcare costs.
3. Criminal justice reform.
4. Additional operating cost control.

5. Medicaid solutions, including maximizing federal Medicaid match and implementing provider taxes.

**Slides:** here is a look at the analysis that has focused us on these particular cost drivers:

- PERS and Medicaid are significantly outpacing forecasted revenue growth
- PERS will become 30% of total state payroll costs
- State contribution to employee healthcare costs is far above average
- Our corrections spending is way above national average

Our coalition is prepared to support new revenue for new investments – investments aimed at important outcomes we found are widely supported by businesses across the state:

- Age-3-to-Grade-3 literacy programs to ensure all third graders are reading at grade level;
- CTE and improved high school graduation rates envisioned by Measure 98; and
- Additional funding to improve post-secondary affordability, access, student retention and degree completion.

We remain optimistic that the budget riddle can be resolved this session and programs like these can be funded. However, we're realistic enough to realize that with only a few weeks left, and with many interests reluctant to step forward with a plan, it's difficult to see how all these issues can be resolved in the few weeks remaining this session. We are laying out for you our policy preferences to show our willingness to join you in putting the state's fiscal house in order. Co-Chair Hass has provided important leadership to the discussion of revenue options. We thank you for your leadership, Co-Chair Hass. Your proposal for a corporate activity tax clearly demonstrates how much better a legislatively crafted plan can be.

However, we don't believe the corporate activity tax is a practical option this session. Its resemblance to Measure 97 and the limited time available to fully vet the impacts of such a significant change on businesses in all industries and in all parts of the state make it hard to see how it could pass.

**Slide:** We think adjustments to the current tax code can provide resources needed for investments in the 2017-19 budget. Our coalition believes adjustments to the current corporate income tax, refining the 2013 pass-through tax cut, premium taxes and elimination of business property tax discounts – all taxes businesses pay – are the mostly likely sources of revenue for new investments. We are willing to work with this committee, as well as House and Senate Revenue Committees on a range of options for revenues to invest in this biennium.

We also support the appointment of interim committee, like this one, to review Oregon's entire tax structure, with all elements and options on the table, to recommend structural tax reforms to a future legislative session. We encourage the appointment of such a committee to begin its work as early as this summer.

**Slide:** In Summary:

- The budget can be balanced through cost containment and Medicaid solutions.
- With meaningful cost containment, there is a broad base of business support for raising revenue to fund critical education investments.
- As we have been doing for the past several months, we are interested in working with elected leaders to achieve our shared objectives for Oregon.

The business community is serious about its willingness to work with you and other legislative leaders to resolve the vexing fiscal problems facing Oregon. Others of our coalition are here in the room this morning and many more are watching across the state. The resources and insights of our coalition are at your disposal.

What we have outlined isn't a proposal so much as a possible approach. It's expressed in the context of the work we've done over the past year to guide our policy preferences. We are at this table, but if this fiscal puzzle is to be solved, there will need to be a larger table where all the interests can work together on our shared responsibility to contain costs, address new revenues and do the right thing for all Oregonians.