PUBLIC POLICY:
Why We Oppose Measure 97

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What was the genesis of Measure 97? It's a complicated story. In the 1990s, Oregon's economy grew substantially thanks primarily to the tech sector. Unfortunately, one byproduct of the unprecedented growth were various decisions by our Public Employee Retirement System Board that resulted in overestimating the performance of our state employee retirement accounts (PERS). The cumulative impact of overestimating the returns on PERS investments resulted in unrealistic actuarial projections. Coupled with an aging population that is living longer, we now have a massive unfunded liability in the state budget. Currently estimated at $20 billion, any funding gap between the account balance and the performance of the investments must be paid by the taxpayers of Oregon.

While controlling costs has been one approach, another strategy that has proven to be more successful is increasing taxes. Only a few short years ago, Measures 66 & 67 were affirmed by the Oregon voters to increase taxes on corporations and higher-income individuals. Unfortunately, the funds projected to help Oregon's budget were never fully realized, and the PERS unfunded liability has continued to grow. Starting in 2017 the state's budget will feel the impact of the unfunded liability. Without the ability to control costs or increase tax revenue the state budget will begin to be cannibalized by the debt obligation. This means larger class sizes and fewer services provided to vulnerable Oregonians.

In 2015 a new campaign was initiated to raise taxes. Initiative Petition 28, now qualified for the ballot as Measure 97, is an initiative on the November 2016 statewide ballot. It would impose $6 billion in new taxes per biennium on the sales of products and services that Oregonians buy every day.

If Measure 97 were to pass it would imposes a new gross receipts tax on C-corporations with sales greater than $25 million, a new tax rate of 2.5 percent imposed on all sales above the $25 million threshold. For example, a C-corporation with Oregon sales of $50 million would pay a corporate minimum tax of $30,001 for the first $25 million in sales (the current tax) plus 2.5 percent on the second $25 million ($625,000) for a total minimum tax of $655,001. **That tax is based solely on gross sales, not on actual profitability.**

So why does the Oregon Association of REALTORS® care about tax that impacts C-corporations with $25 million in sales?

Put simply, "It's the economy." While Measure 97 represents a politically expedient solution to the gap between tax revenues and liabilities, the economic ramifications to our state's economy and our housing markets have been modeled to demonstrate dire consequences to homeownership and economic growth.

But don't take our word on it. Here are some excerpts from the Legislative Revenue Office (LRO) — the non-partisan group of economists that review and provide analysis to our state legislative branch.

Direct Impacts:

- LRO calculated that real estate, rental, and leasing firms paid $7 million in corporate taxes in 2013. **Had Measure 97 been in effect in 2013, LRO estimates the industry would have paid $28.1 million in taxes (a four-fold increase).**

- LRO's analysis demonstrate Measure 97 is regressive, likely impacting rental markets; estimating the average Oregonian will see $600 of additional costs as pass-through taxes on groceries, gas, prescription drugs, and utilities. **Since the tax impacts very low income level Oregonians hardest, we can assume that renters will be impacted in greater proportion when compared to current home owners.** The measure will likely have subsequent impacts on a tenant's ability to pay rents.

- Measure 97's taxing structure stacks; it is a tax on a tax. For raw materials, and at each stage of manufacturing or production, there is a taxable event every time a durable good passes through another impacted company, so it's a tax on a tax through distributors and then to the final sale. **For new home construction, the compounding additional costs of building materials will add to those transactions.**

- LRO anticipates slower job growth, predicting that Measure 97 would reduce employment by about 20,000 in 2022: **a loss of roughly 38,000 private sector jobs** partially offset by a gain of about 18,000 public sector jobs. On the private sector side, the loss of 38,000 jobs represents about one-quarter of the growth predicted during 2017-2022. The net effect is to increase the share of public employment in the Oregon economy.

- **LRO predicts slower income growth.** The agency predicts that, with the passage of Measure 97, **total personal income in 2022 would be $430 million below the current law baseline. After-tax incomes would decline by $372 annually for low-income households (i.e., less than $21,000/year) and by $1,282 for higher income households (i.e., more than $206,000)**. Previous studies have documented relative out-migration of higher income households as the result of other Oregon tax policies. As a result, Oregon ranks low among the states in terms of household median income and the percentage of households who enjoy incomes over $100,000 dollars. Indeed, Oregon ranks only 28th among the states by both measures, far below its sister states of Washington and California. This income class is key to supporting the development purchase of costly new housing and, thereby, increasing the state's overall housing stock. This is particularly challenging in the setting of Oregon's high home prices. In 2015, the Eugene-Springfield and Portland- Vancouver metro areas ranked 159th and 165th lowest, respectively, out of 185 U.S. metro areas in the unaffordability of regional housing**. In this setting, depression of incomes by Measure 97 will weaken further the economic support for housing in the state.**

- LRO predicts slower population growth. The agency predicts that the M97 population forecast for 2022 is 16,600 people below current projections. The report goes on to caution, **"There is very little empirical evidence on how state economies respond to such large changes because they rarely occur at the state level."** However, statistical analysis by ECONorthwest using national figures reveals that a one-time reduction in population growth will reduce real gross domestic product (real GDP) for about 10 quarters after the change. **The peak percentage effect on GDP growth may be as much as 5 times the percentage change in population growth.** This suggests that the negative effects of M97 on population growth provide a channel for M97's effects to be propagated throughout the economy.

On Thursday, April 21, 2016, during our Spring Governance Meeting, our Board of Directors voted unanimously to officially join the opposition campaign through the Defeat the Tax on Oregon Sales committee.

REALTORS® are politically diverse. There are Democrats, Republicans, Independents, non-affiliated voters, and those who would rather not vote at all. But first and foremost we are REALTOR® Party. And, there is little question that if Measure 97 were to pass, it would not be without impact on the housing economy and on your ability to provide services to your clients.

Learn more here: https://www.noon97.com

Watch more here: https://www.youtube.com/watch?v=owFxNDBBU18