



# PORTLAND BUSINESS ALLIANCE

*Leading the way*

Testimony of Sandra McDonough  
President & CEO  
Portland Business Alliance  
Senate Committee on Finance & Revenue  
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Chair Burdick, members of the committee, thank you for the opportunity to appear before you today. My name is Sandra McDonough, and I am President and CEO of the Portland Business Alliance. We have nearly 1,400 small, medium and large employers in the greater Portland area, representing some 325,000 employees.

First, I want to thank you, Chair Burdick and Senator Morse, for starting a thoughtful and meaningful conversation about how we can address Oregon's budget and revenue rollercoaster - a reform that is long overdue.

Second, like my colleagues, I believe that discussions about the creation of a rainy day fund must follow the hard but necessary work of reforming the delivery of state services and budget realignment called for in the Governor's budget and in the recommendations of the Reset Committee. Without budget and service delivery reforms, a rainy day fund cannot be effective.

The Alliance, like the other business organizations here today, has long advocated for a more robust rainy day fund to provide stability for critical state programs such as K-12 education, higher ed, economic development and human services. Oregon's reliance on the income tax makes our general fund revenue stream the most volatile in the nation.

Effective long-range budgeting is, frankly, impossible under these circumstances. When the economy is booming, revenue - much of it related to one time only capital gains - goes up dramatically. The legislature typically spends all that new revenue as if it were an ongoing resource, establishing new higher baselines for current services and future budgets. But inevitably the economy cools, profits and capital gains dry up, resulting in dramatic current-services budget gaps like the one we face this year.

The kicker has proven not to be an effective tool in stabilizing the state budget. It does not truly trim the upswings in state spending and, at the same time, prevents the state from setting aside surplus dollars for use when times turn bad.

The Alliance believes it is critical to the state's future that we finally fix this problem. And we believe your proposal is a significant step in the right direction.

The Alliance supports the creation of a rainy day fund that is big enough to sustain us during most historical downturns. We support putting the rules for accessing that fund in the Constitution so the public feels confident that it will be used only for its intended purpose. We agree that the kickers should be adjusted to capitalize the rainy day fund but should also continue to return excess revenues to tax payers.

We also believe that there must be a real contribution from the general fund to discipline the legislature to save money when times are good so that it is available when they are not.

Finally, we believe that these changes should be made in the context of a review of the Oregon tax structure with an emphasis on job creation and economic development. Specifically, we believe:

- Oregon's exceptionally high capital gains rate discourages investment and job creation in the state, and they should be reduced,
- There needs to be a sunset on the top personal tax rate imposed under Ballot Measure 66, and
- There needs to be strategic adjustments to the corporate minimum tax as it impacts low margin - high volume businesses.

The recent economic analysis conducted by our four organizations showed that Oregon has fewer and lower paying jobs than the national average. We all recognize that an income-tax-fueled general fund relies on good jobs paying good wages. Oregon doesn't have a budget gap; it has an earnings gap. A rainy day fund alone is an important part of the answer. But we must recognize that we will only really solve the state's budget gap when we close the earnings gap by enabling the creation and retention of more quality private sector jobs.

Taken together, these changes hold the promise of putting the state on a more stable fiscal foundation and opening the door for more robust economic growth - two accomplishments that will benefit the state and its citizens for generations to come.

Thank you again, Chair Burdick, for the opportunity to appear before you today in support of this concept.

