

Jeremy Rogers, Project Director
Oregon Business Council
Testimony, Senate Revenue Committee
March 23, 2010

Part 1

Senator Burdick, members of the committee. Thank you for the opportunity to testify before you. My name is Jeremy Rogers and I am the Project Director for the Oregon Business Council and the Project Manager for the Oregon Business Plan, a collaborative effort between private and public leaders to strengthen Oregon's economy. The work of the Revenue Committee is fundamental to Oregon's ability to both create jobs and to fund quality public services that Oregonians need and value.

One primary goal of the Oregon Business Plan is to raise per capita income above the national average by 2020. Oregon's per capita income sits at 90% of the US average and has been declining compared to the US, and particularly Washington State, for well over a decade. Washington State per capita income is over 105% of the US average and has been growing for the past decade.

This relative decline in wealth is significant not only for families wallets but for our state budget. Less personal income means less tax revenue which leads to fewer services and fewer services, particularly in education, leads to further declines in income. This is a toxic cycle and we believe that Oregon's unique in the nation tax policy is one of the factors contributing to it.

Oregon has the highest income and capital gains taxes in the nation and is one of only a handful of states that does not offer a reduced tax rate for capital gains. For top earners, Oregon's rate is now 11% and will settle at 9.8% in a couple of years. Washington State, which sits only miles from downtown Portland, has no capital gains tax. This is particularly important because Washington State offers similar quality of life amenities as Oregon, making it a unique situation in all of the United States.

Concerned about the impact to Oregon's economy of this situation, we hired ECONorthwest in 2009 to determine if there is a significant migration of wealth north of the border to Clark County. The results are found in a study which you have in front of you. The table on page 6 shows the differences in incomes of people moving to Clark County from Multnomah, Washington and Clackamas Counties versus people moving in the other direction. On average, those moving from the Oregon counties to the Washington counties earned 37% more than those moving in the opposite direction. The income gap tracked the performance of the S&P 500 almost to a T. In years where the stock market was booming, like 1999, those moving from Oregon to Washington made 68% more than their counterparts coming in the other direction, for a total net loss that year of 127, 000, 000 in income. In all, between 1992 and 2006, the net outflow of income to Clark County from these individuals was \$1.3 billion, and that counts only the taxable incomes reported in the first year after moving. It does not count the taxable income of those individuals in the subsequent years of their life. Nor does it count those

individuals who move to Washington from counties other than Multnomah, Clackamas and Washington. Nor does it count those individuals who never move to Oregon in the first place.

The problem is that these individuals, those that are sensitive to capital gains tax rates, are the people who have spent their life building companies and employing hundreds of people. They are the people who contribute seed capital to family, friends and other entrepreneurs with dreams of starting new businesses. They are mentors and philanthropists.

Oregon is an amazing place, but it is not an island. We approach tax policy like we are an island. Progressivity is a key goal of a tax system but it is not the only goal. The incentives that the tax system creates for wealth, investment and business formation is an equally important goal.

I'd also like to put this issue in the broader context of tax policy and the opportunity that I believe this legislature has to dramatically improve Oregon's tax and budget system on multiple fronts.

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This body is considering legislation to modify the kicker and require disciplined savings in order to fill the reserve fund. Its also considering reducing capital gains taxes. Taken together, these changes would dramatically improve Oregon's tax system. The system would be more stable, would provide stronger incentives for economic growth, and the increase in kicker revenues could offset the immediate loss of capital gains revenues. This body could, with no hit to the general fund, dramatically improve Oregon's tax system this legislative session. Doing so would send a signal to the rest of the world that Oregon is disciplined, strategic, and open for business.

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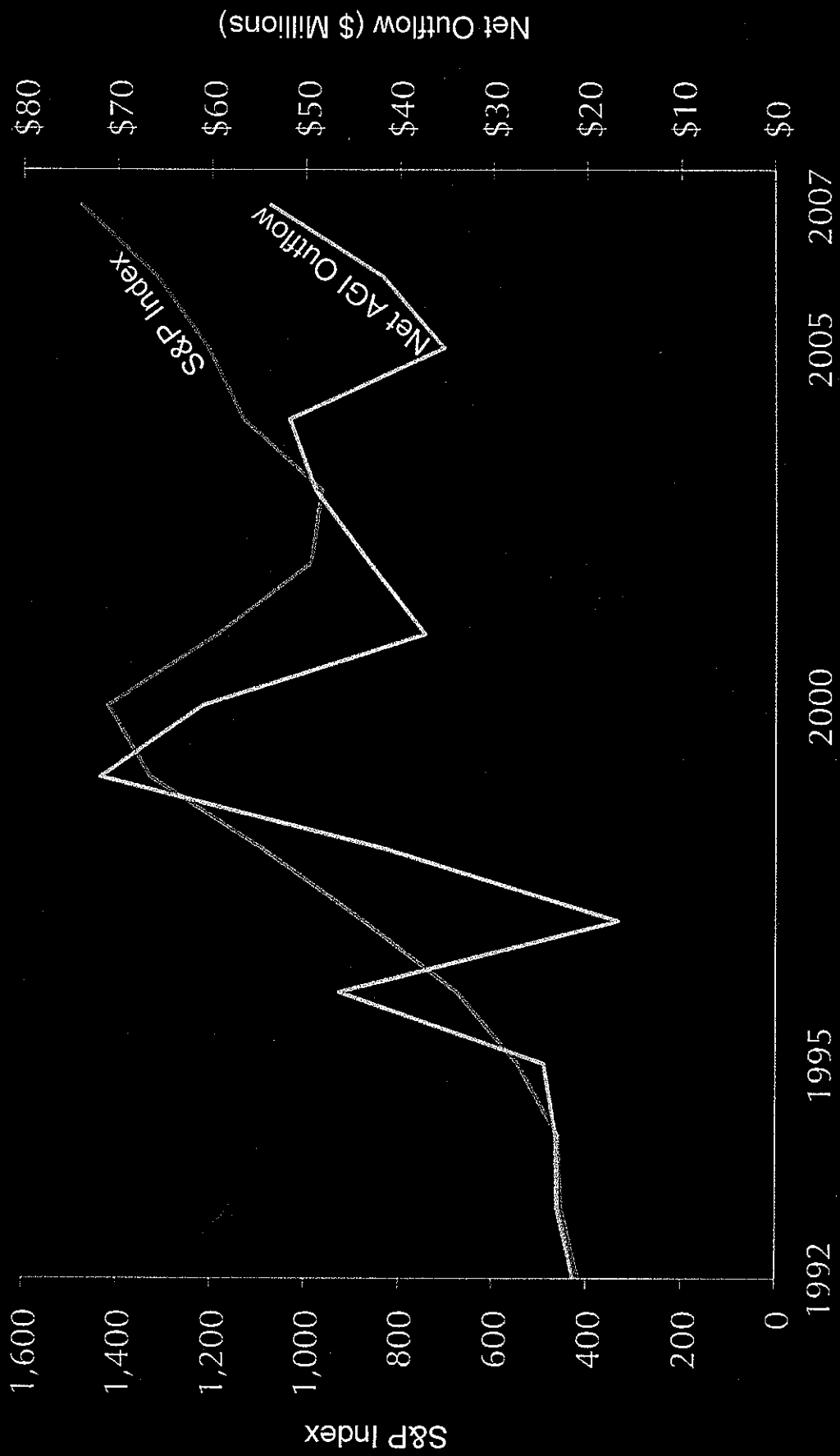
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Source: IRS County-to-County migration data. June 1, 2009.

Taxes and Multi-State MSAs

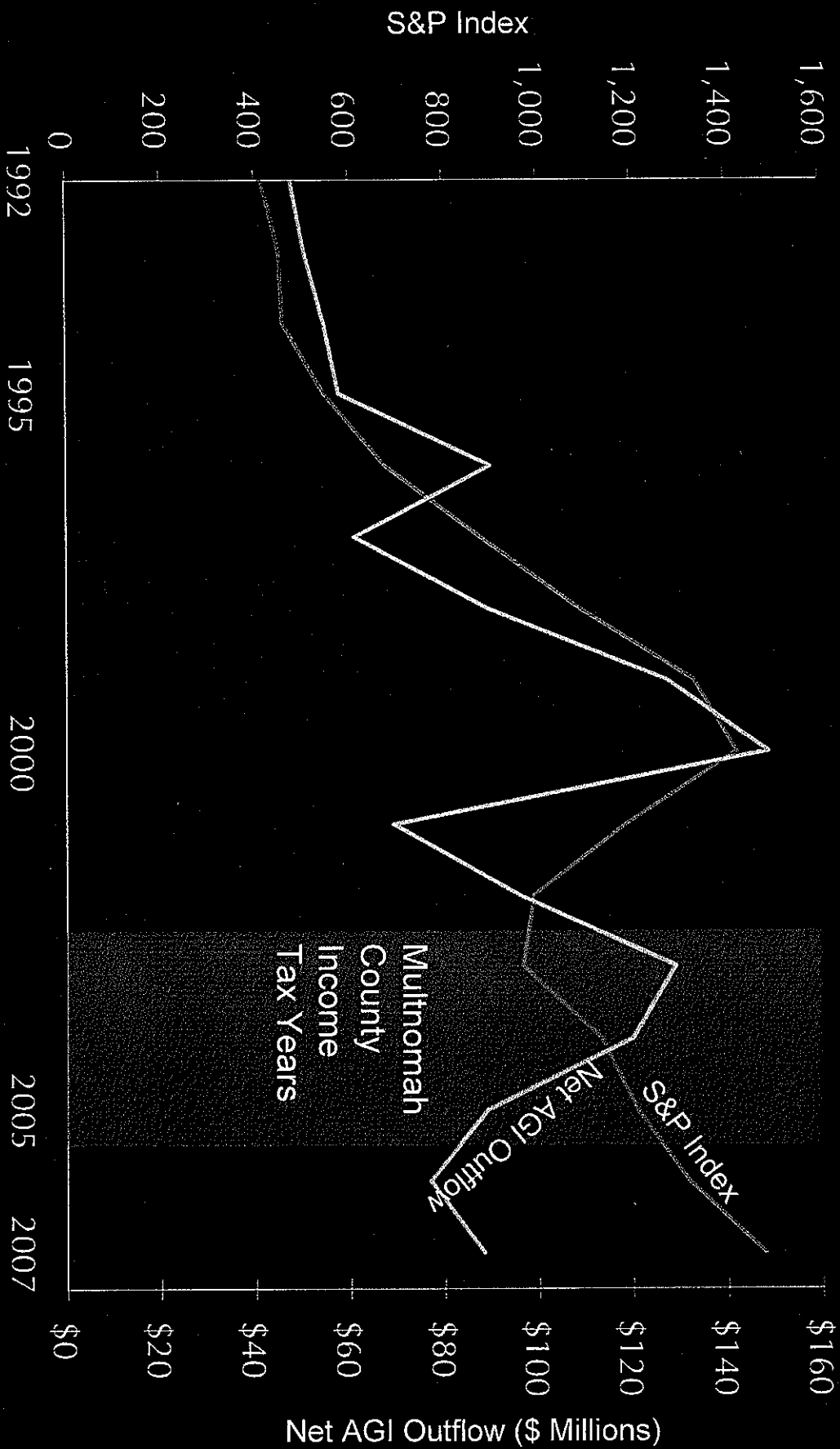
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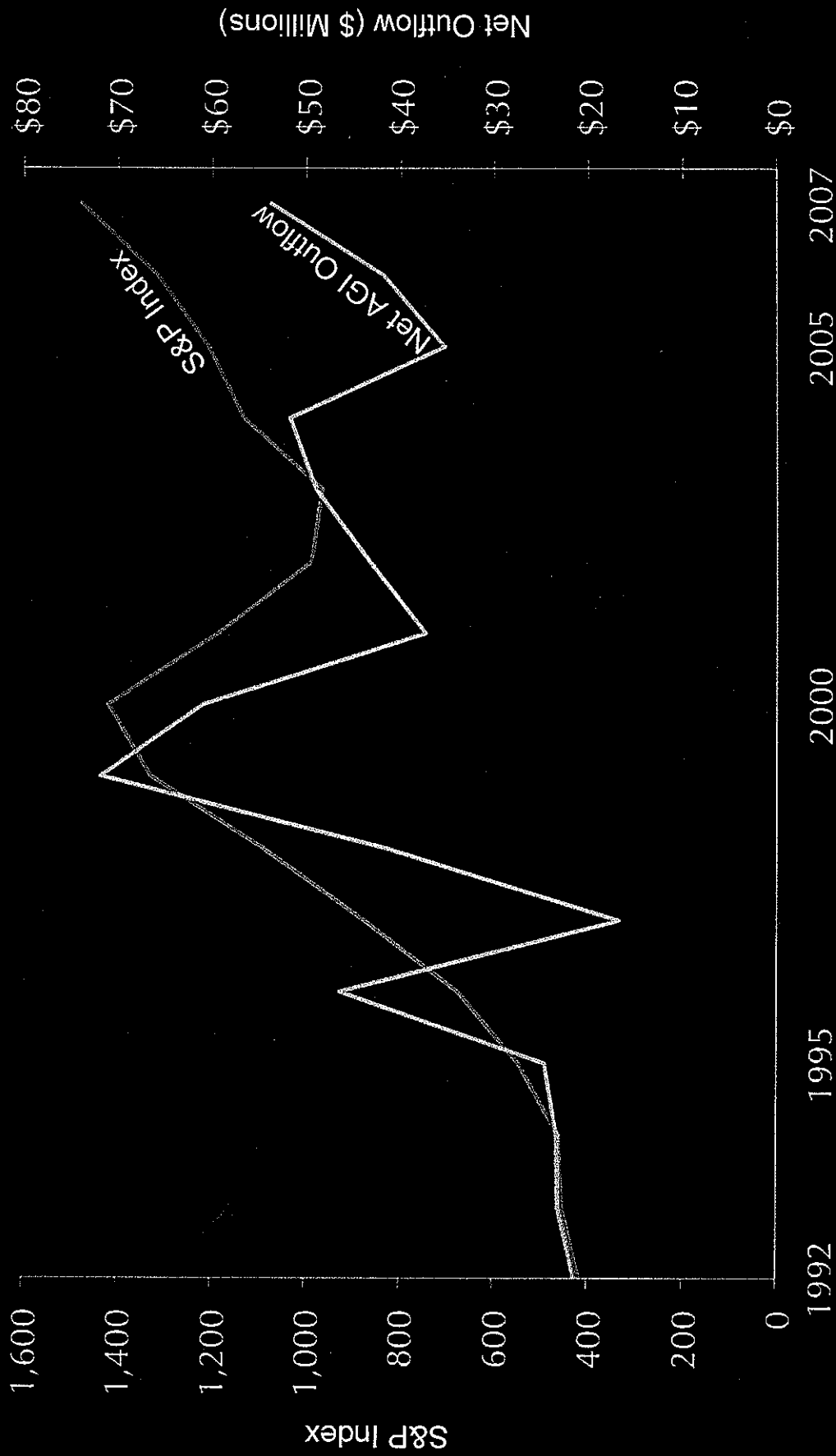
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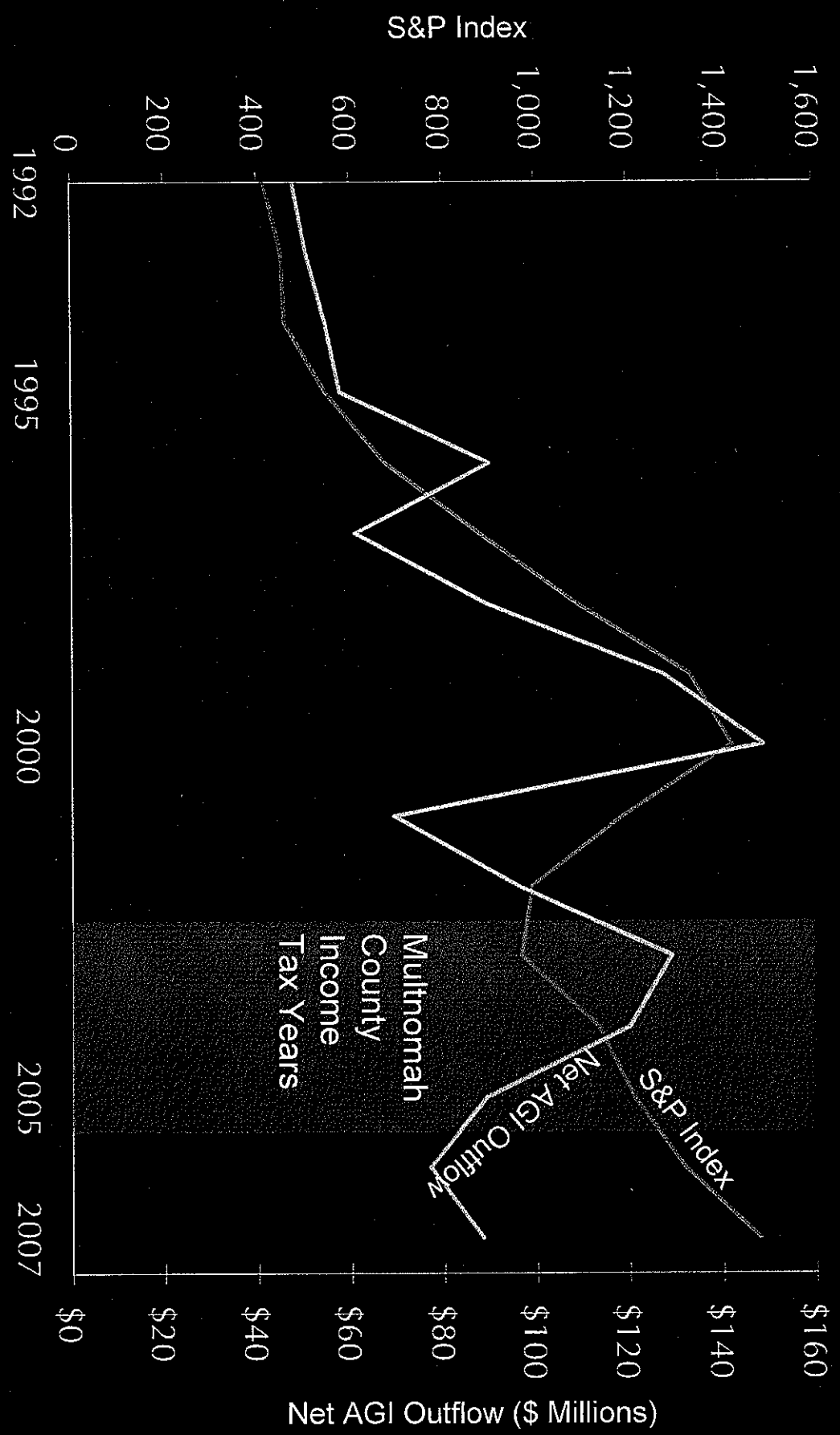
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Source: Clark County Department of Finance, Multnomah County Department of Finance, Washington County Department of Finance, and S&P Index data from Standard & Poor's.

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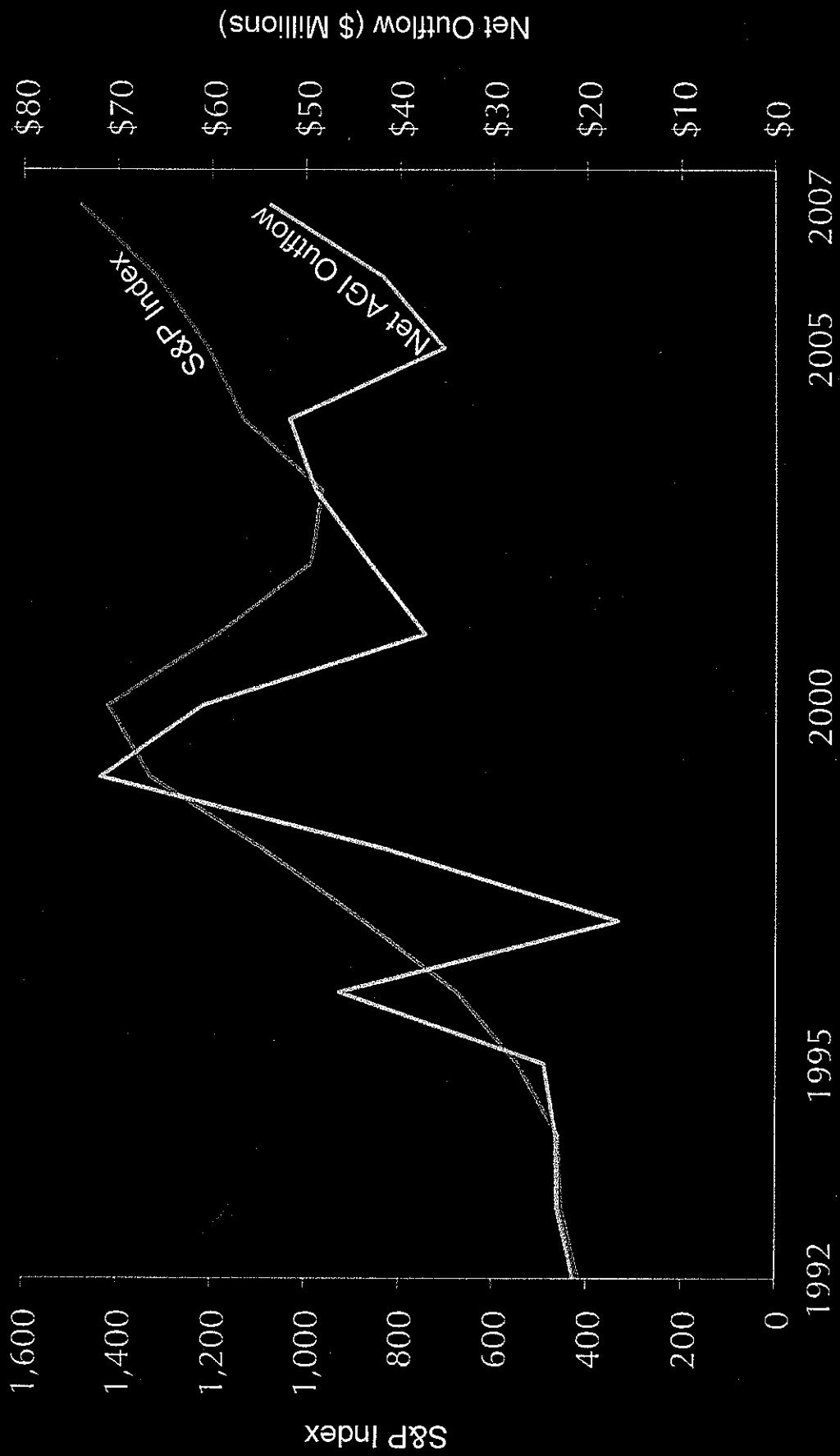
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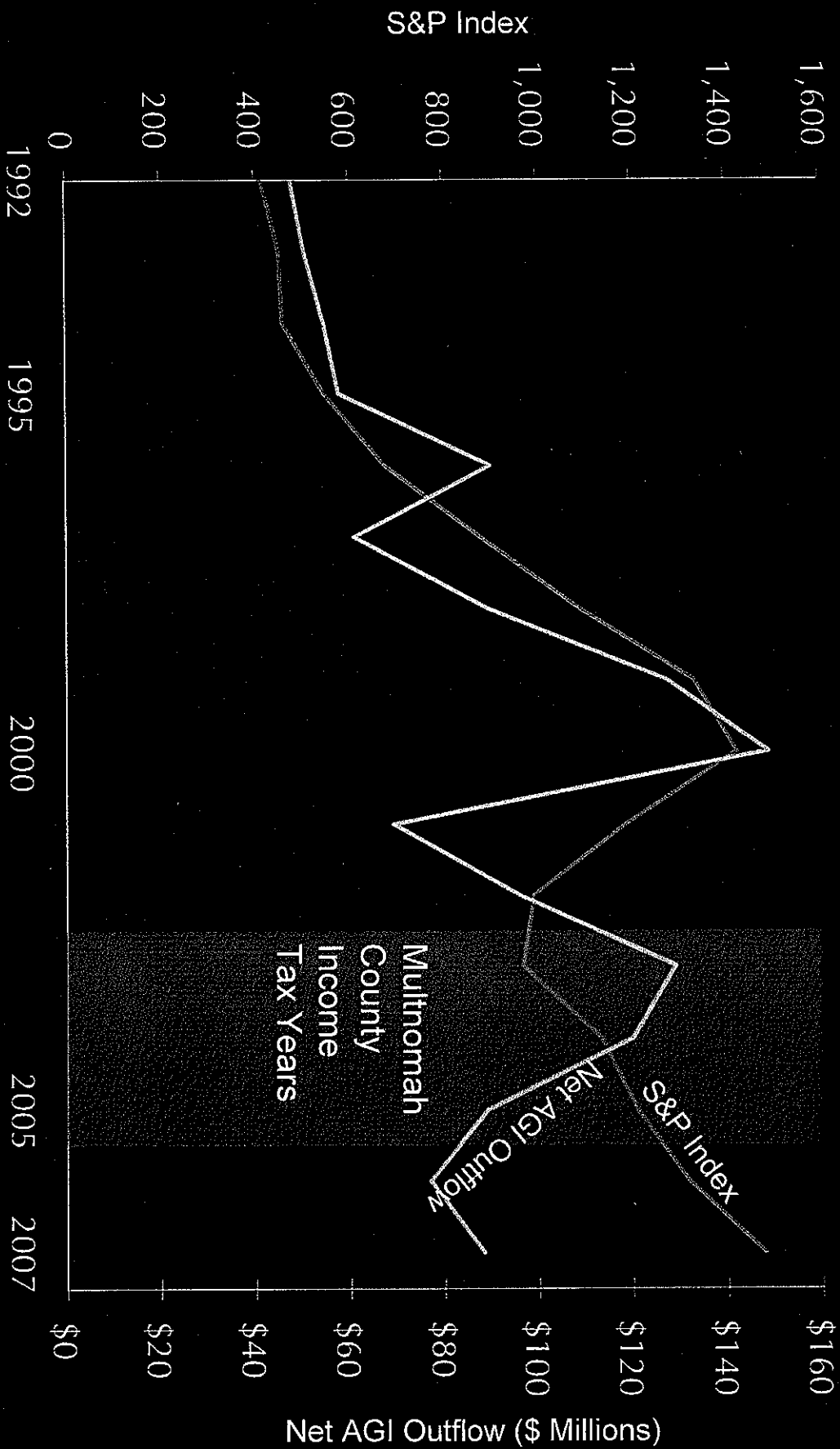
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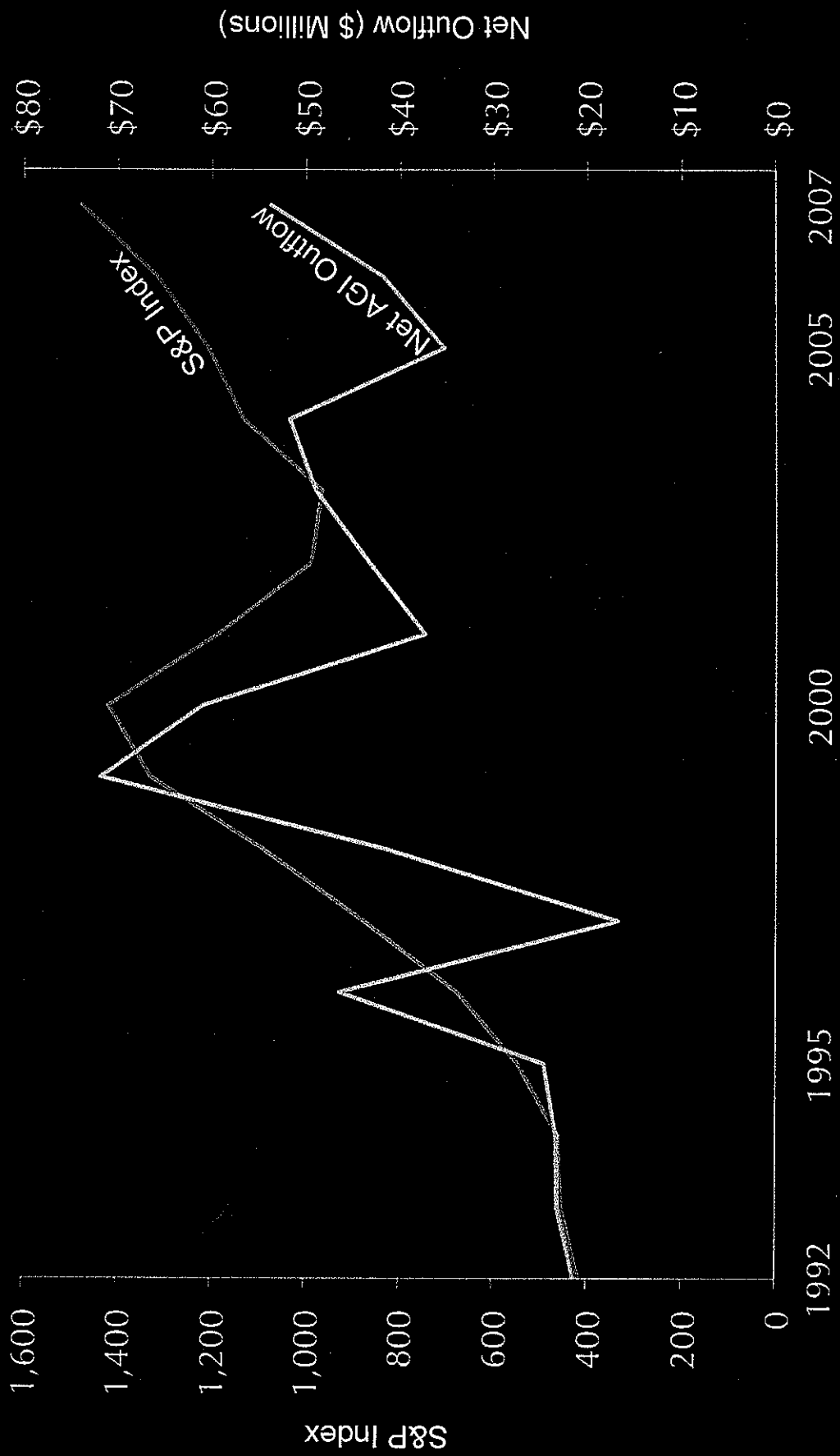
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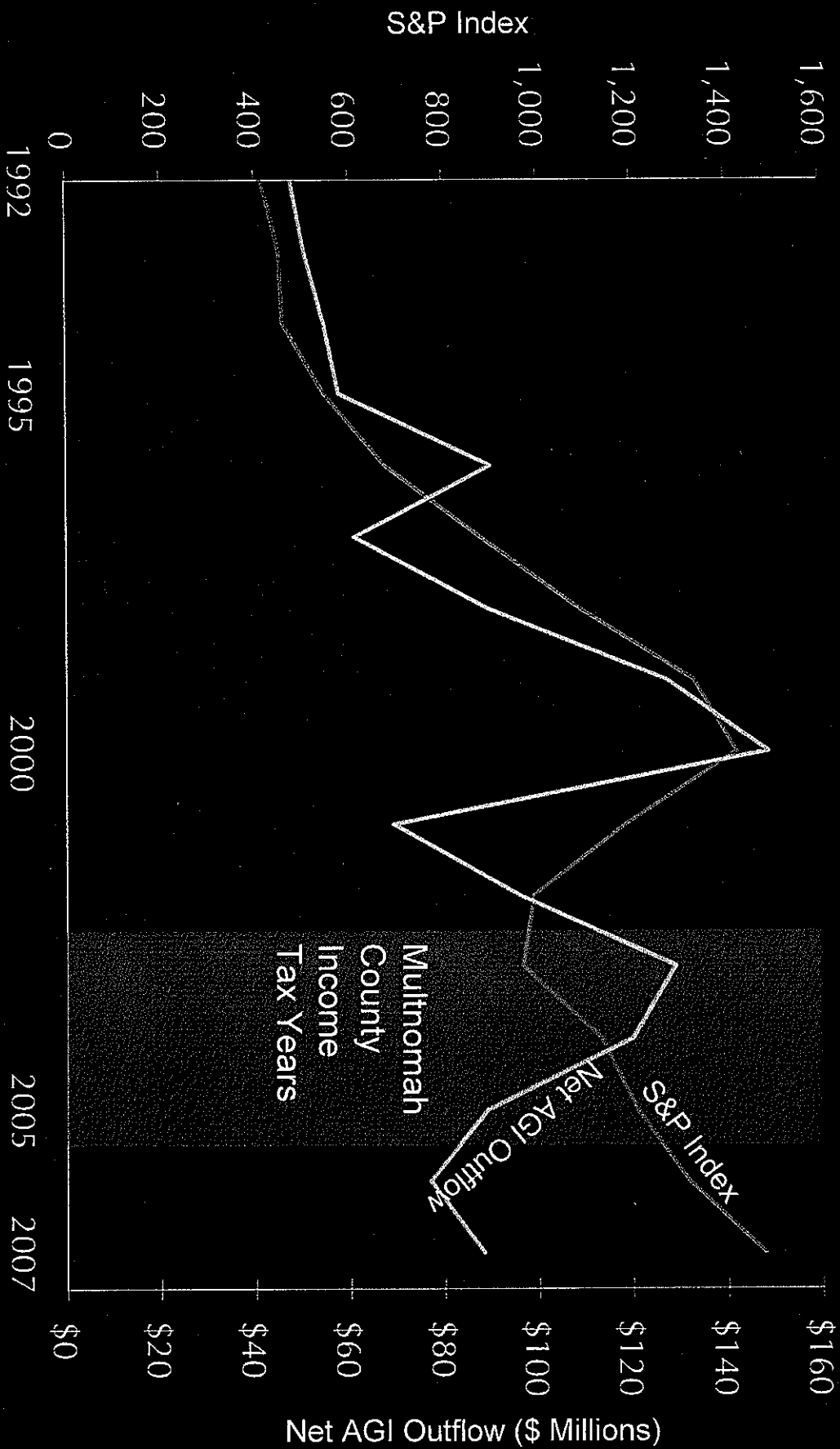
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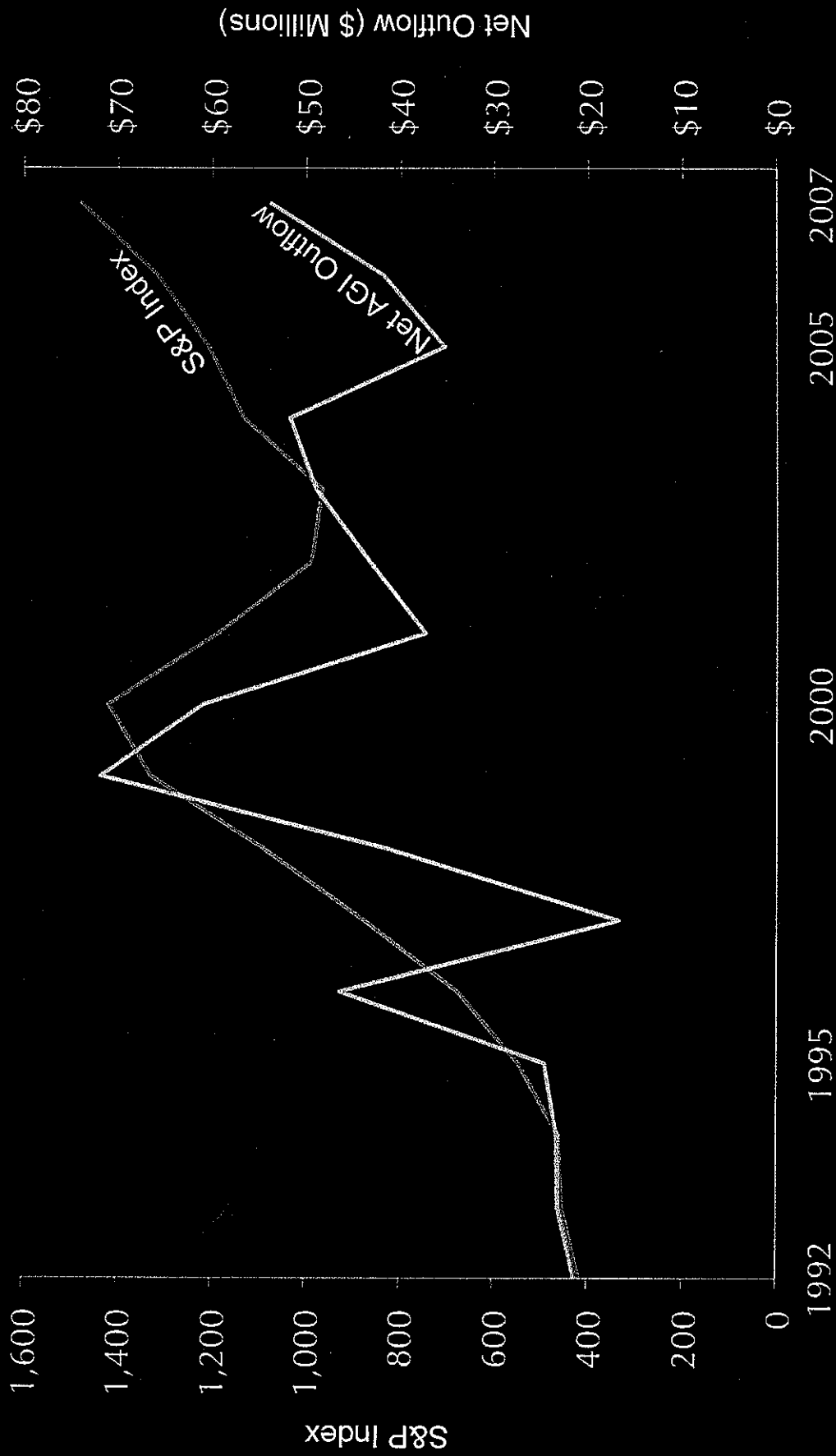
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Year	Average AGI of Taxpayer		% difference of out migrants	\$ Value of net outflow from Oregon
	Moves to Clark County from PDX area	Moves from Clark County to PDX area		
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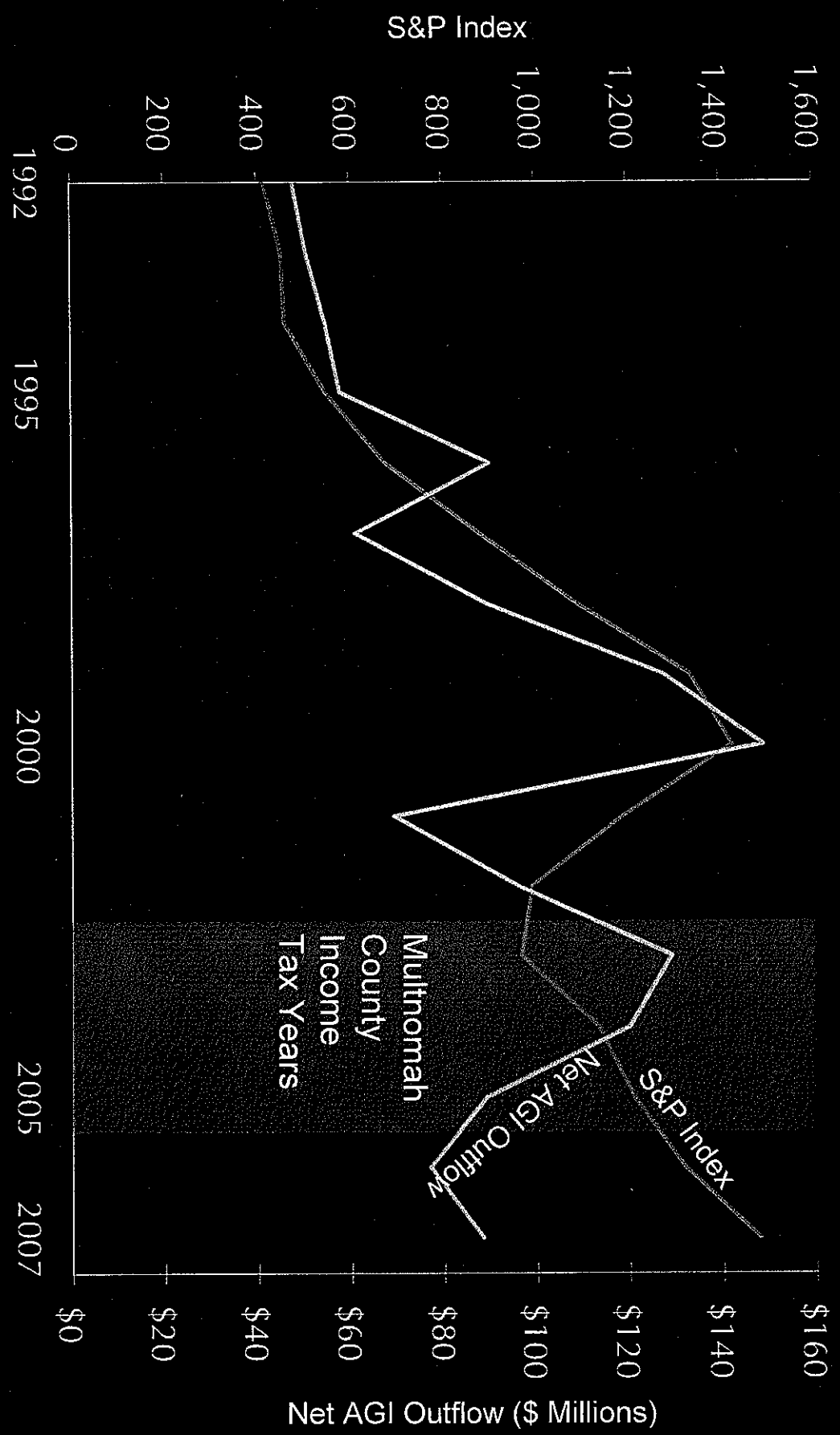
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Net AGI Outflow from three counties to Clark County v. S&P Index Average, 1992-2007



Multnomah
County
Income
Tax Years

Net AGI Outflow

S&P Index

Net AGI Outflow (\$ Millions)

Jeremy Rogers, Project Director
Oregon Business Council
Testimony, Senate Revenue Committee
March 23, 2010

Part 1

Senator Burdick, members of the committee. Thank you for the opportunity to testify before you. My name is Jeremy Rogers and I am the Project Director for the Oregon Business Council and the Project Manager for the Oregon Business Plan, a collaborative effort between private and public leaders to strengthen Oregon's economy. The work of the Revenue Committee is fundamental to Oregon's ability to both create jobs and to fund quality public services that Oregonians need and value.

One primary goal of the Oregon Business Plan is to raise per capita income above the national average by 2020. Oregon's per capita income sits at 90% of the US average and has been declining compared to the US, and particularly Washington State, for well over a decade. Washington State per capita income is over 105% of the US average and has been growing for the past decade.

This relative decline in wealth is significant not only for families wallets but for our state budget. Less personal income means less tax revenue which leads to fewer services and fewer services, particularly in education, leads to further declines in income. This is a toxic cycle and we believe that Oregon's unique in the nation tax policy is one of the factors contributing to it.

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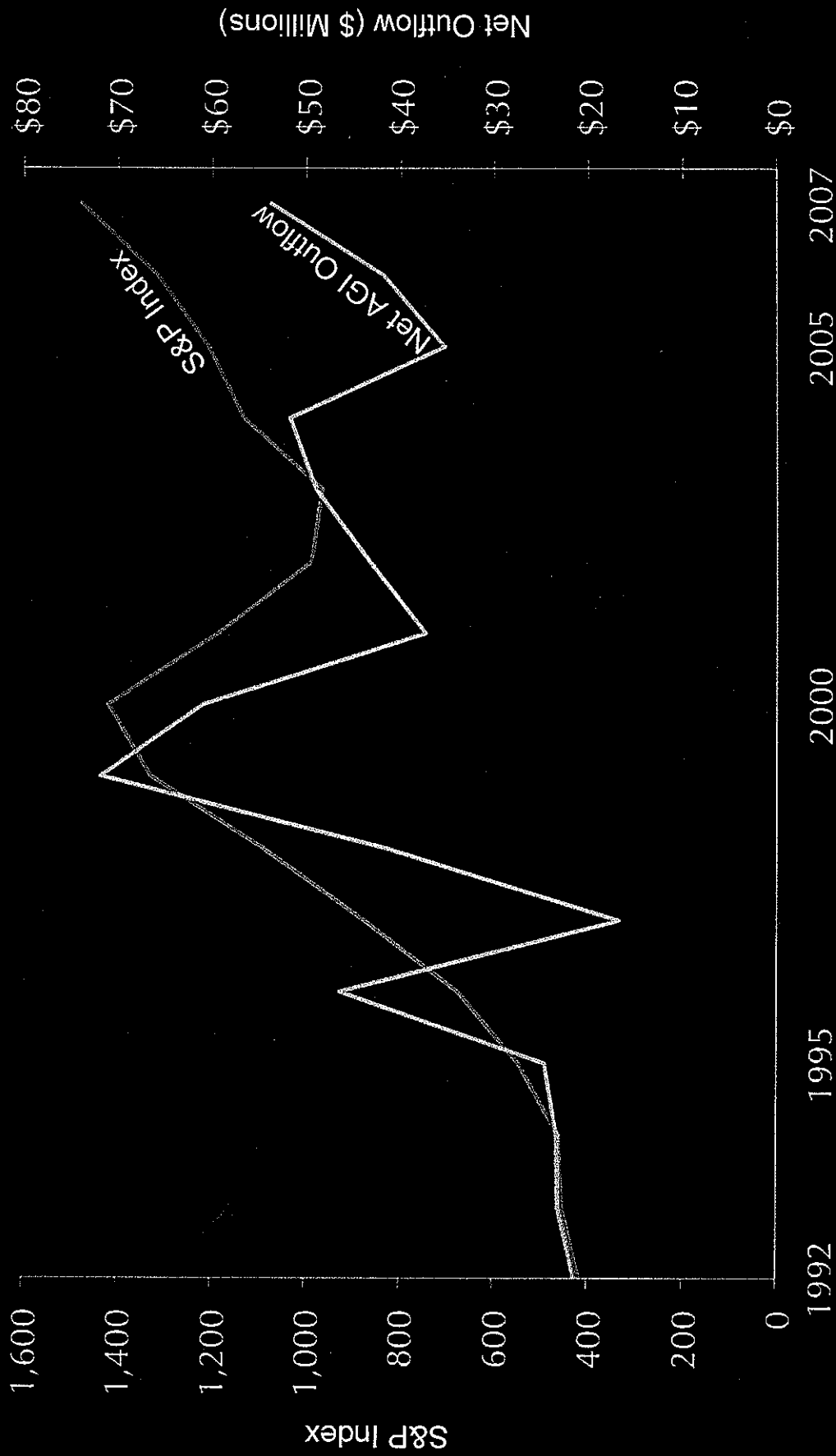
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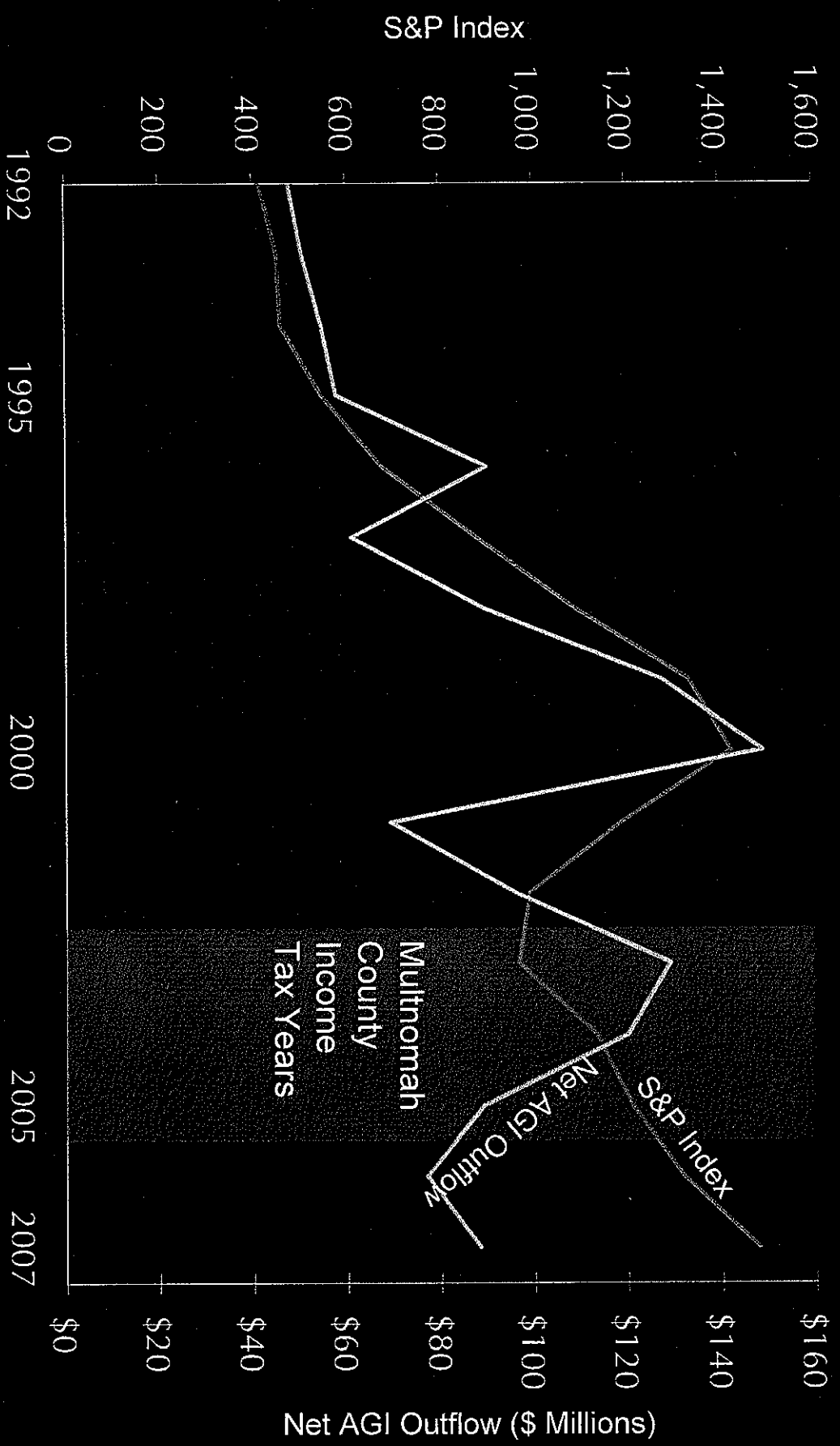
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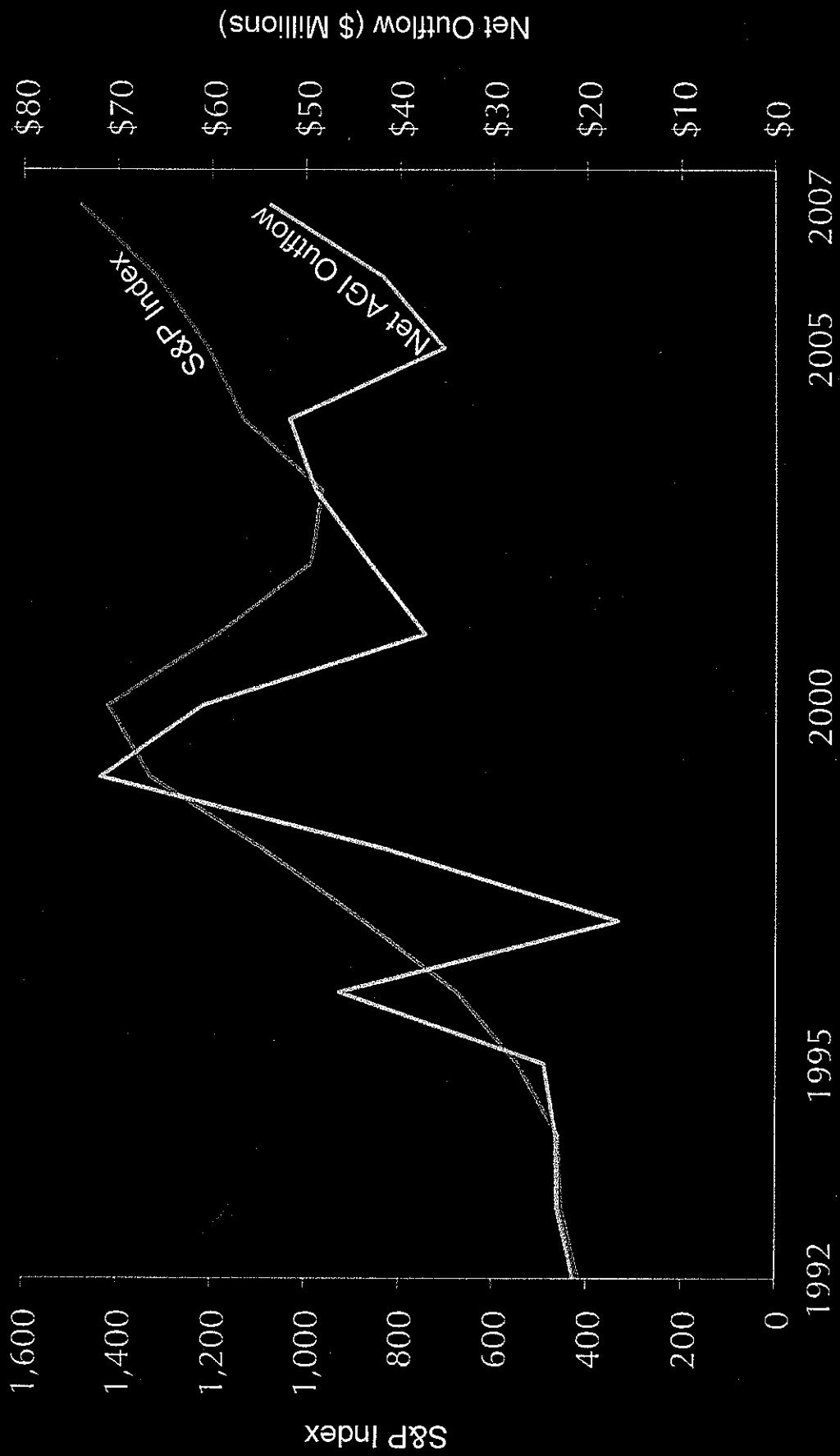
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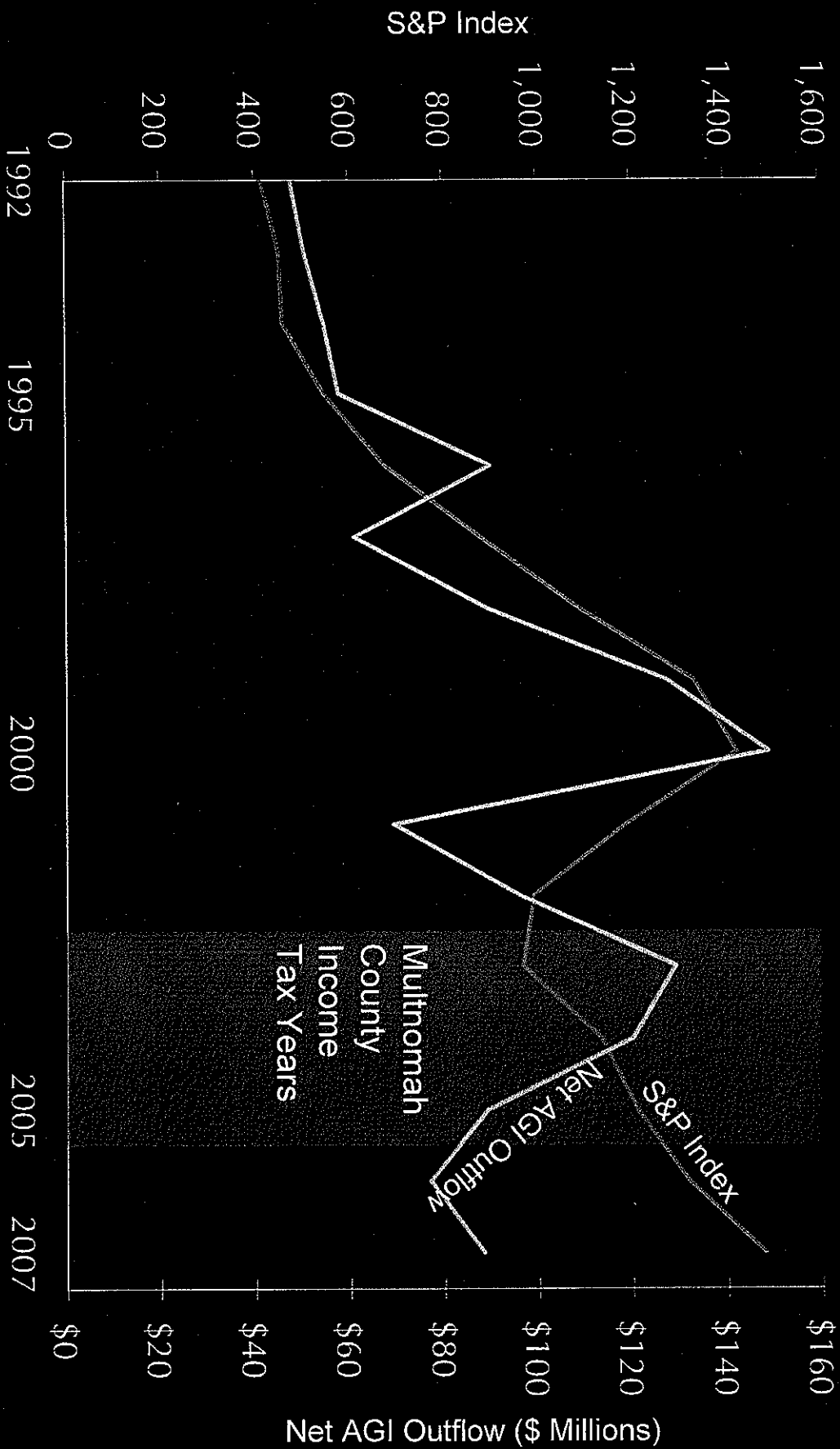
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