



Date: April 8, 2013

To: House Revenue Committee Chair Phil Barnhart
and Members

From: Laurie Wimmer, OEA Government Relations

Re: *HB 2503 [Allotment Cut Equity for Tax Expenditures]*

Oregon Education Association, representing 42,000 teachers, education support professionals, and community college faculty and staff throughout Oregon thanks this committee for sponsoring this bill. As a representative of OEA and also as Chair of the Oregon Revenue Coalition, which has requested this bill for three biennia, I offer **testimony in support of this concept.**

HB 2503 would require that state tax expenditures be on equal footing to most General Fund programs when fiscal crisis forces future governors to use their allotment cut authority to rebalance the budget.

As we have seen in recent biennia, across-the-board cuts to programs occurred mid-biennium, when it became clear through the quarterly Economic and Revenue Forecasting process that Oregon's budget would not balance by June 30 of the second year of the biennium. Our most recent effort to plug a \$377million budget gap came when then-Governor Ted Kulongoski enacted a 4% allotment cut to the \$13.5 billion General Fund Legislatively Approved Budget in September 2010.

Had HB 2503 been in effect at that time, Oregon's 28 state subtractions, 63 tax credits, and 5 other state tax-break programs could have shared the pain, thereby lessening the severity of cuts to services for Oregon's school children and most vulnerable citizens.

Those 96 state tax expenditures reduced levied tax revenues that otherwise would have been collected by more than \$3.3 billion in the 2011-2013 biennium. If these tax expenditures

represent roughly **22% more total dollars**, above the LAB General Fund for a biennium, resources could be spread (and thereby reduce the allotment cut “pain”) such that a governor might be able to lessen a 4 percent cut to approximately 3.5 percent.

In a \$6 billion K-12 budget (in this hypothetical scenario), such a spread of allotment cuts would reduce the public education cut by \$105 million – enough to retain 1100 teaching positions.

There are those who may argue that trimming 3.5 percent of a taxpayer’s tax break would be difficult to do – perhaps even ill-timed. This needn’t be the case. In the 2010 example, the governor announced his intention to execute his allotment cut authority in the fall, 15 months into the biennium. That budget did not need to balance, constitutionally speaking, until June 30, 2011, but to lessen the impact of the cut, taking it sooner rather than later would make the impact less draconian. Taxpayers filing 2010 returns after January 31, 2011 but before June 30 (as the vast majority of filers do) would simply multiply their tax expenditures by 96.5, in our current hypothetical example, to arrive at the total adjusted amount of tax breaks to which they would be entitled. **The revenues would be altered in time to balance the biennial budget, just as the cuts to services are enacted in time to balance the biennial budget.**

Obviously, if the bad news about an economic nosedive came later, in the final months of a two-year biennium, no allotment process would be enacted – for the program or tax expenditure side of the ledger. The regular session would take care of the shortfall instead, as was the case in the first weeks of the 2003 Session in what was infamously dubbed the “sixth special session”.

It is always possible to bring the Legislature into a special session to cut budgets, instead of using the allotment process. When that happens – and in 2002 it did five successive times – the Legislative Assembly rebalances the budget with whatever tools it chooses – budget cuts, tax break cuts, and use of reserves, if any. There is obviously a cost to run sessions, and there are political considerations to the exercise.

When allotment cuts are the chosen tool for rebalancing a budget in crisis, **the question remains on the table about the rationality and fairness of continuing to issue tax giveaways while cutting deeply into public education, health care, and public safety.** We humbly offer this tool – which will surely be used rarely – as a better, more logical way to manage in a fiscal emergency.

We respectfully ask this committee to send HB 2503 to the floor with a do-pass recommendation.

Thank you.