



**Joint Committee on Student Success
Testimony Hearing 4/16/2019
Oregon House Bill 3427**

The Papé Group, Inc., based in Eugene, operates 34 heavy equipment dealerships across Oregon. We employ over 1,100 Oregonians and support customers in nearly every sector across the state from farming and industrial to retail and construction.

More personally, my wife and I were both educated in Oregon's public education system and our children attend Oregon public schools in the Eugene 4J School District. We are strong advocates of improving Oregon's education system, as it is a key support structure to Oregon's families, businesses, and way of life.

As a Director for both Oregon Business & Industry and Oregon Business Council, I have been an active participant in the search for both an adequate funding mechanism as well as a process to appropriately ensure that the funding intended to improve our education system is dedicated to improving educational outcomes and not depleted by legacy pension expenses.

I have a great deal of concern with the structure of the new tax proposed by HB 3427. As a co-chair of the effort to defeat the last proposed Gross Receipts Tax in Oregon, I urge you not to continue to push a structure out of the committee that was hotly contested under ballot Measure 97. Record levels of campaign contributions were employed (by both sides) to educate Oregonians about this tax structure. In the end, the regressive nature of the pyramiding Gross Receipts Tax was widely rejected.

While HB 3427 attempts to improve upon the structure proposed by Measure 97, it does little to address pyramiding. The ability to deduct 25% of a company's inputs only eliminates approximately 8% of the ultimate pyramiding effect.

Pyramiding taxes are bad policy because they are both regressive to Oregonians while also harming Oregon's manufacturing and farming industries. A product that passes through multiple channels, on its way to final sale, will not only pass through the original 0.49% rate but they will also add their typical margin to the items that have been previously taxed in the process. This means the ultimate effect to the customer is not a simple, straight-line, addition of 0.49% but one in which the tax increases exponentially as wholesale and retail channels add their traditional margins. This could easily drive the tax to be equivalent to a 4% sales tax with only 4 steps in the product manufacturing and marketing channels. This will hurt Oregon families and make many manufacturing and trade sector businesses, located in Oregon, uncompetitive.

Oregon's Business associations have worked with tax policy experts and the Legislative Revenue Office to design a structure that eliminates pyramiding and can be tailored to address regressivity. The Business Activity Tax eliminates pyramiding by allowing for the 100% deduction of inputs. The modeling also indicates that it is a more stable and reliable revenue source than our existing income tax.

In addition to a flawed design, the targeted amount sought under HB 3427 is far higher than Oregon can accept at a time when we are also facing the implementation of the new 1% Portland Gross Receipts Tax and current proposals exceeding \$5.6 Billion in additional business taxes ranging from HB 3427 to taxes on Health Insurance Premiums, Carbon, and Family Leave taxes.

At a recent OBI Finance Committee meeting, Senator Haas explained that Oregon could tolerate \$1B in additional taxes and continue to expand our economic opportunity. We have far exceeded this threshold with the existing proposals. Ultimately, an expanding economy is the best resource to lift Oregonians out of poverty and create a larger middle class. At a time of record tax revenues, we should not create our own economic barriers to success for Oregonians.

To meet our shared objectives of a superior education system for Oregon's children, we must:

- Add a balanced and reliable Business Activity Tax that minimizes the pyramiding and regressive outcomes associated with a gross receipts tax;
- Supersede and eliminate any local commercial activity taxes, currently existing or proposed in the future;
- Ensure that the proposed taxes, in their entirety, will not harm job creation in Oregon;
- Implement cost controls to legacy PERS plans that are sapping our School Districts' budgets; and
- Channel the funds from savings and additional investments into targeted programs to improve educational outcomes for students across the state.

We have a unique opportunity to work together for the benefit of Oregon's students. It is my sincere hope that we do not force a structure or an amount that will lead to the next major wasteful ballot measure fight in Oregon. We can do this together and do it right - I hope we take advantage of the good will and positive intentions of all of the stakeholders at the table.

Jordan Papé
CEO
The Papé Group, Inc.