Our state's financial situation is worse than the two documents from LRO and DAS as they don't account for new administrative costs, lost funds that don't flow through the state to universities, for renewables, and for non-profits. They don't account for reduced taxes from laid off workers. So our situation is worse than the $15 billion in federal cuts to services over the next six years and over a billion in lost revenue to new and revised tax breaks. Without action, we're likely facing a $17-20 billion hit over six years.

And this is not a party issue. Both Republican and Democrats will lose SNAP and WIC benefits. Both Republicans and Democrats will lose Medicaid and health insurance tax credits. We're all in this together. These are issues to solve jointly.

Some have made light of this biennium's $888 million in lost revenue from the tax breaks in HR 1 by suggesting you use your nearly $500 million ending balance to pay for tax breaks, reducing the budget cuts to $373 million. But frankly, paying for tax breaks seems the wrong use of the ending balance ... shouldn't it be used to keep the SNAP and WIC programs whole?

When we face $17 – 20 billion in cuts to services – with 200,000 at risk for losing Medicaid and thousands more at risk for loosing SNAP and/or WIC benefits, with many losing jobs and the state losing their tax revenue, this is not the time for tax cuts. Every revenue dollar is precious.

To Ignore the chance to recoup as much as possible of the billion or more available from disconnection is legislative neglect. Throwing away a chance to reclaim $300-$400 million via a special session is essential.

Particularly since some of the HR 1 tax breaks are ones you've never considered and are bad tax policy. There's been no bill to end income taxes on overtime pay for firefighters, police officers, nurses or construction workers. And just last year there were two tip bills, but neither had a hearing. These are just not Oregon ideas. We treat all income – or nearly all income – the same here.

Yet if you adopt these, along with all the other provisions in the bill, I am certain they will be with us forever. Why do I think that?

- We're still tied to the federal law's mortgage interest deduction.
- Data centers are still using the property tax breaks designed for very different kinds of businesses, despite a cost of $330 million a year.
- Unlike at the federal level, Oregonians pay no tax any of their social security income. That 1985 law costs us a billion and a half this biennium, I don't recall a single bill to change that, despite the fact that neither Phil Knight or I need a better deal on tax on our social security than we get on our federal taxes.

Over the last three sessions which tax breaks has this legislature ended? Essentially none.

You did end the tax credit for Opportunity Grant donations, but changed to direct funding, and You made tiny changes to the SIP and e-zones.

No - what you've done is create new tax breaks. The Kid's credit, R&D tax credit for semiconductors, estate tax changes, the SALT work around, 1st time homebuyers tax credit, wildfire judgements, and expansions for farmers machinery and low income housing. Reducing revenue is what you're experienced at, but now is not the time for that.

A special session is still possible. Based on the precedents of past delayed filings, you should be able to delay filing in 2026 until 90 days after the passage of a bill in a special session in October.

You can delay the opening of tax filing season:

- It was done in 2002 for those with tobacco income,
- It was done for 2013 for everyone because Congress acted late, and

- In 2025 DOR and the IRS began processing e-filed 2024 returns on January 27th.

We call on you to immediately form two workgroups – next week:

- One with legislators, LRO and other tax brains, and unions to prepare a bill for a special session before the end of the October, dealing with the HR 1 tax changes, which to disconnect from, which to keep. And then to work on plans for the short session.

- The second workgroup to build a communications plan to explain to the citizens the straits we're in and what you're doing. Because we're an income tax dependent state and we've fully expanded Medicaid the HR 1 tax breaks and program cuts will hit Oregon worse than most states.

Finding the $3-400 million loss to 2025 revenue without action <u>this year</u> will not be easy – I've attached to my testimony a list of options – there are no easy places to generate increased revenue, and the federal cuts to employment, SNAP, Medicaid and new expensive administrative requirements will have you looking for new revenue soon enough.

But more importantly, act now and you keep the new tax breaks in HR 1 from continuing into the foreseeable future as a part of our Oregon tax code.

Sure taking action in a special session in October is inconvenient and will create hassles for legislators, for DOR, for CPAs and for taxpayers.

But $300 to 400 million is more than a hassle as you will find in a few months when you start looking for ways to generate new revenue to fill the holes in our current budget, and for SNAP and Medicaid recipients, at food banks, etc.

Failure to act means rural hospitals will close. Oregonians will lose SNAP benefits and be turned away from empty foodbanks, and schools will lose funds.

You can stop some of this nightmare. Because you cannot stop it all does not mean that you should not do everything possible to minimize the pain and the loss for Oregon's least well off.

I know what I'm saying is asking more than you want to hear, but people's lives are going to be deeply impacted with loss after loss over then next six years. They will not be easy for you as legislators either.

Thank you facing the task ahead of you, it will not be easy. Thank you.

There's nearly a $2 billion hole in the all-funds budget for this biennium and a $17-$20 billion hole over the next three biennium. Using the ending balance to fund tax cuts rather than Trail Cards is the wrong use of that money.

A Menu of Ideas for Where to Find Money

Act now:

- **Disconnect from some or all of the tax provisions in HR 1**
  Up to $888 million for this biennium if you act now
  $400 million already given up if you wait until 2026
- Keep the Kicker or some portion thereof up to $1.3 billion

Investor/individuals side:

- **Disconnect from Opportunity Zone continuation**
  Revenue Loss due to connection to federal law passed in 2017.
  $103.2m TER 2017-19 thru 2025-27 cost to date of the 2017 Opportunity Zone program
- **Mortgage Interest Deduction**
  $1010M TER 2025-27 + the additional added in the OBBBA
- **End Like kind Exchange**
  $95m TER 2025-27
  Ranch purchaser saves $400,000 on purchase of ranch
- **Millionaires tax or Measure 66/67 type increase for three years** with the money used to replace lost federal funding for critical services.

Business side:

- **Data Center no longer eligible for enterprise zone or SIP subsidies**
  $330m for 2023 per Oregonian
- **International tax reforms World wide reporting/GUILTI**
- **IC-Disc** tax break
- **Small business stock**
- **Pass thru businesses' lower income tax rates** $253m TER 2025-27
- **Bonus Depreciation and others in HR 1**

We read the bills and follow the money