Hello Friends,

Yesterday the Joint Committee on Ways and Means approved SB 5517 A. It is the $8.2 billion K-12 education budget for the 2017-2019 cycle. That is an 11.2% increase in funding over the K-12 allocation in the 2015-2017 biennium. It is the largest education budget in state history. Not everyone is happy with this funding level. Some school leaders believe it is $200 million short of funding school programs. Others are concerned that it is not enough because much of that money doesn't go to the class room.

Less than a month ago, people were telling us that unless we raised taxes, schools would be vastly short changed in the budget. I have received many emails asking for my support of a new tax increase that has been strategically named, "The Education Investment Plan." Like many of you, I am deeply concerned about the budget for schools. Oregon's abysmal school performance, class sizes, and graduation rates for K-12 are a national embarrassment. I completely support funding schools at the levels they need; however, we have a spending prioritization problem, NOT a revenue problem.

There are many considerations to account for when it comes to revenue and education funding. In this newsletter, I have done my best to make the case for reining in our spending problem so schools can get the money they need. I first want people to understand the historical amount of revenue the state is receiving, and then compare that to how your money is funneled to programs that are significantly less important than our schools. I also thought it
would be useful to show how Oregon compares to other states when it comes to spending per capita and then give a recent history of ballot measures that raised taxes but failed to deliver on promises to secure our children's future. I address in this newsletter some of the misconceptions about businesses NOT paying their "fair share" and the partisan narrative that "Republicans don't have any solutions." I then offer a few solutions and hope you will consider some of the unintended consequences of a new regressive tax and how it can negatively affect our children's education.

Regards,

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Oregon's Record Revenue

Holding school funding hostage against a massive tax increase is a partisan strategy that suspiciously and conveniently leaves out the fact that we have $1.5 BILLION more in state revenue to spend in this budget than the last biennium. In fact, according to the non-partisan Legislative Revenue Office (LRO), Oregon's revenue has significantly increased in the last two decades. Below is a chart that shows the combined Personal Income Tax, Corporate Income Tax, and Property Tax the state and local governments have received in the last two decades.
As you can see, Oregon's revenue is the highest it has ever been. Even more, according to a recent economic analysis by PEW research, Oregon is the number one state in the country for tax revenue growth since the recession. Again, why is Oregon able to bring in record revenue but still fall short of funding schools at the levels desired?

There are several explanations for this shortfall. The $22 billion unfunded liability of PERS, and Oregon's extremely high health care costs seem to make the most headlines. Given the legislature's refusal to address PERS in a responsible and Constitutional way this session, it is necessary to look at cost containment strategies in other areas. It is NOT a state secret that the government is very crafty at wasting your hard-earned tax dollars. What is less known, is exactly where some of your money is mismanaged and NOT prioritized properly.

**Where and How Your Money Was Wasted**

The serious mismanagement of your tax dollars by the state is staggering. Some of you remember the $175 million spent on consultants for the Columbia River ghost bridge that was never built; or the national embarrassment of spending $305 million for Cover Oregon's failed website. Even more recently, an audit alert from the Secretary of
State exposed the *possibility* that the Oregon Health Authority (OHA) is spending **$37 million per month on Medicaid benefits for ineligible recipients**. A recent Forbes article exposed the fact that from 2012 through 2016, Oregon state agencies spent $278 million dollars hiring public relation firms to convince citizens that their agencies are useful.

State agencies don't just have a problem managing their money; the legislature has a problem with the prioritization of the funds it allocates. The majority party that controls the budget has long prioritized pet projects over schools. Look no further than the most recent budget bill for 2016. In **SB 5701** that I voted against, much of the pork barrel spending can be found. Below is a plethora of examples from that thirty-six-page bill of unnecessary expenditures. I also marked every section so you can find it. Keep in mind how these tax expenditures were given prioritization before our children's education and allocated by the majority:

**Pork Projects that total $2,460,000:**

- Portland Playhouse renovation/restoration $200,000 - Section 72(8)
- Cully Park (Portland) $300,000 - Section 72(7)
- Medford Holly Theater restoration $1,000,000 - Section 72(4)
- Cornelius Place Project (library/housing/YMCA) $500,000 - Section 72(3)
- Capital upgrades debt service and related costs $460,000 - Section 65(12)

**Agency Overreach and Red Tape totaling $2,000,491:**

- Marketing and outreach activities for Oregon Health Insurance Marketplace $1,732,528 - Section 108(3)
- Extra BOLI funding $95,963 - Section 35(2)
- Commission on Judicial Fitness and Disability extraordinary expenses for prosecution of judges $172,000 - Section 46(1)

**Pay Raises and Perks totaling $13,480,000:**

- **Non**-state employee raises $10,000,000
- University staff raises $1,900,000 - Section 31(2)
- Free bus passes for state employees working in the capitol mall area and operation of a Park and Ride Shuttle $650,000 - Section 72(1)

- Summer summit for high school and post-secondary staff including counselors and financial aid staff $300,000 - Section 98

Environmental Pet Projects totaling $1,105,514:

- PUC implementation of HB 4036 RPS standards $170,226 - Section 76
- DEQ cap and trade study $230,000 - Section 75
- Greater Harney Valley Groundwater Study $705,288 - Section 58

Even more recently, $300,000 was spent to have a California company move FOUR trees around the state Capitol building. Last year alone Oregon state employees received a total of $290,800,000 in raises. State employee pay raises are not necessarily a misappropriation of funds, and most of them work very hard; however, $290 MILLION is a significant amount of money that is not going to the classroom.

As you can see, these special "little" programs add up quickly and your tax dollars are not being prioritized for schools. Given all the facts above, it should NOT be a surprise that last year the non-partisan state economist gave legislators a presentation that emphasized how the budget writers "spent like drunken sailors." The difference of course is that sailors spend their own money. Despite record revenue, the state has become desperate in its hang-over to pay its bills. It should come as no surprise that some people at the legislature have the intoxicating impulse to increase your taxes as they face the sobering reality of their self-inflicted spending problem. There is much talk about funding education, but the real focus seems to be the continued expansion of the government's pocketbook. Something needs to change and giving the state more money to spend should not be the knee jerk response.

Comparing Oregon to Other States

Oregon ranks 6th in the nation for total state expenditures per capita at $9,245. In comparison, Washington ranks 33rd at $5,598, and California
ranks 21st at $6,420. Oregon is spending more than 30% the US national per capita average that is $5,777. Even more troubling, during the 2015-16 school year, Oregon's health plan premiums for K-12 schools, on average, cost $12,204 per employee. In California, the average premium was $9,825 per worker. In Washington, it was $9,360. This is unacceptable, and these costs can be contained.

It is now imperative that we examine how money is already being spent before we impose a new regressive back-door sales tax hidden behind the guise of a "gross receipts" scheme called the "Education Investment Plan." If history is any guide, then it should be clear that there will be no guarantee the money from this new proposed tax would even make it into the classroom.

**Recent History of Your Money for Schools**

In almost each election cycle citizens are asked by their state and local governments for more money.

In 2009, during the greatest economic catastrophe since the 1930's, the Oregon legislature passed HB 2649 and HB 3405. Both bills became Measures 66 and 67 on the 2010 Oregon special election ballot through referenda. Ultimately, Oregonians voted for these measures with the ostensible promise that the new tax increases would help pay for public schools, health care, and public safety. The 2010 voter's pamphlet was full of impassioned pleas from proponents of the measures on how the money would supposedly be spent. They praised the new tax increase with statements such as,

"Measures 66 and 67 will ensure that we can keep our local class sizes manageable, keep teachers in the classroom, and protect vital education programs for our students."

The measures were supposed to raise $727 million from Oregon's top earners and corporations. However, the revenue from those measures fell significantly short of initial projections because business and higher income earners left the state. The money brought in by these measures went into the general fund and it is very difficult to parse out how much actually went to the classroom. In retrospect, two things are certain about
Measures 66 and 67: your taxes were raised, and it did NOT ultimately stabilize our schools' needs.

There is clearly an emerging pattern in the history of the state asking for more money while simultaneously claiming it will be "for the children," only to deliver a broken promise. Many Oregon citizens are catching on to schools becoming a "carrot on a stick" dangled in front of them that is never attainable no matter the pace of our state's revenue increases.

Just last November, voters were again asked to raise their taxes with Measure 97 to allegedly pay for a number of things, schools being at the top of the list. Voters overwhelmingly from both sides of the aisle voted against Measure 97 because they knew consumers would ultimately foot the bill. They knew there would be NO guarantee the money would fix, let alone go to, the schools. Despite voters' overwhelming rejection of Measure 97, misconceptions persist about taxes and who pays them.

**Paying a Fair Share**

One of the most repeated rallying cries for a new tax is that "corporations don't pay their fair share." Well, over the last two decades, corporate income taxes have more than doubled its contributions to state revenue. This follows a similar trend line of revenue generation in other categories such as income and property taxes.
It is true that Oregon corporations pay a low corporate tax rate relative to the other states - another well-repeated platitude. However, only focusing on a single way businesses are taxed omits critical considerations. The obsessive fixation by some on corporate tax rates paints an opaque picture about the actual aggregate of their tax contributions. There are many other ways businesses pay taxes. For example, businesses also contribute their "fair share" through other taxes such as excise taxes, unemployment insurance taxes, property taxes, pass-through income taxes, and hefty licenses and fees. A recent study, accounted for these other taxes and compared them to the other forty-nine states. Below captures a better picture of other ways Oregon businesses paid taxes in 2015:

Interestingly enough, on Thursday during the Joint Committee On Tax Reform, legislators were presented with ideas from businesses about how they could work together, fund education and fix the budget. Businesses were willing to negotiate and compromise on raising revenue ONLY IF the government would seriously take a look at issues such as "cost containment" among several other issues. You can watch that hearing by clicking here. Businesses and some of my colleagues urged the committee not to pass a new tax without bipartisanship. They advised legislators to work together on this issue so many of the unintended consequences of a hastily crafted tax could be avoided.
The Unintended Implications of This Tax

If the legislature passes the secondhand version of Measure 97 behind a smoke screen they are calling the "Education Investment Plan," Oregon citizens will be paying more for virtually everything. Corporations will rightfully see these taxes as another expense of doing business and simply pass the cost on to the rest of us as consumers. Even if this regressive tax passed, how long will it be before the state comes back begging for more taxpayer money "for the children"?

Given the history of the state's mismanagement of money, its troubling spending priorities, and its immortal appetite to always ask for more, I take serious issue with plundering more money from Oregonians. The last thing struggling Oregon families need is a new regressive tax.

As you know, a child's school performance is greatly impacted by the parental involvement and home environment they go to AFTER school. Taxing our families even more through a back-door sales tax will put even more pressure on the family unit to find other ways to provide for the basic needs of their children. It is not hard to imagine that the increased costs proposed under the new tax increase will force some families, especially single mothers, to take on jobs in addition to the employment they already have. This has the potential to further erode the parent's ability to be at home to help their child succeed in academic studies.

Republican Alternatives for Schools and the Budget

The criticism that "Republicans have NO solutions and only complain" could not be further from the truth. Unfortunately, that sentiment is often repeated. I am not sure if it is bad marketing by Republicans, or budgets generally lack sensationalism for the media to report. Either way, I get emails with this criticism and I think it should be addressed.

I have proposed several bills to fix these problems but they have all been stifled in the legislative process. For example, I chief-sponsored SJR 20 that would require the legislature to fund schools within the first 65 days of the long legislative sessions. The bill would penalize the legislature by withholding legislators' pay if they fail to meet this deadline. This bill seems reasonable to me and I am willing to bet if it was ever given a chance for citizens to vote upon, it would be very popular.
Furthermore, I sponsored, SB 1063, that would require an "outcome-based," or in accounting speak, "zero-based" budgeting. Currently, the budget writers take the budget from the previous biennium and automatically add increases with limited reevaluation of programs and expenditures.

If we moved to a budget that starts at "zero," and then expenditures are added we could have much more accountability. Budgets would be built from scratch and start with priorities first - such as education. Agencies would be forced to responsibly craft their budgets and build around what is needed for the upcoming biennium. An agency may need more money this biennium, while another agency may need less and a "zero" based budget could help with cost containment.

I am also the chief sponsor of SJR 43. This bill would direct the governor to make reductions in state agencies based on priorities that are expressed in statutes before she recommends cuts. In past sessions I have introduced HB 2780 and SB 103 that use results-based methodology and performance measurements of state agencies to identify where they are failing to meet the core functions of government. These bills require a result driven achievement standard for agencies and would introduce much more accountability within the agencies.

There are alternatives to the status quo. Obviously the criticism that Republicans have no solutions is a bogus charge. If Republicans are complaining, its because the problems they identify are not being addressed and the solutions they offer are not being heeded.

In Conclusion

I recently wrote about the lack of transparency and accountability in our legislative process. That lack of transparency contributes to the appropriation of pet projects and the state's mismanagement of your money. There is a direct correlation between the state's negligent fiscal prioritizations and the legislature's ability to give appropriate resources to schools. Our children's education does not need to suffer because of this mismanagement. There are solutions to this 1.4-billion-dollar ditch created in previous biennia, that don't include raising taxes. Hopefully, all of the above made it clear that the deficit ditch was dug by mismanagement and
pet project spending. It is time to recognize the budget hole we are standing in and stop digging - NOT give the state another shovel (tax) to keep digging.

Like I said before, we need to fully fund our schools and prioritize them. I know this can happen in a responsible way. Pitching the budget imbroglio in a way that puts school funding in jeopardy, is pure political posturing. Schools should have been funded months ago. It is imprudent to raise taxes while not having a budget reckoning to account for Oregon's spending problem. A new tax will not only continue pet project funding, it would also stifle efforts to address the underlying problem. Creating a new slush fund for the state through a regressive tax that has no guarantee of helping in the classroom is simply irresponsible. We can save our schools and secure a bright and sustainable future for our children with adequate funding levels. That requires the government to first deal with cost containment.

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