

City tax for schools: No; Election Endorsement

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Even supporters can see that Measure 20-182 on the May 17 ballot is far from perfect. Yet a city of Eugene income tax is the only available means to soften the effects of budget cuts in the Eugene and Bethel school districts, cuts that will result in layoffs, fewer school days and larger class sizes. The malady is plainly serious - but the cure is harsh. The Register-Guard cannot recommend a yes vote.

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The defects in Measure 20-182 are many, starting with the fact that one local government, the city of Eugene, is proposing to use its taxing authority for the benefit of others, the two school districts. The Eugene City Council has attempted to ensure accountability by requiring that the Eugene and Bethel school districts use the income tax revenue for no purposes other than limiting class sizes and restoring school days.

But there's unavoidably a blurring of responsibilities, and even a potential for conflict. If a school district extends a bus route or buys a textbook, who's to say that the funds didn't indirectly come from the income tax? And if a school board believes that its top priority is adding a librarian or a counselor, why should the city be in a position to insist that the money be spent on a teacher instead?

Then there's the problem of leakage. Measure 20-182 would allow the city to collect an estimated \$24 million in income taxes in each of the next four years. Only \$16.8 million, however, would be turned over to the school districts. The other \$7.2 million would go to pay the cost of administration and to account for losses due to avoidance and exemptions. Every tax has collection costs and losses, but a bucket that leaks 30 percent of its water has bigger holes than most.

Among those holes are exemptions for income from the Public Employees Retirement System and the federal pension system. The City Council had no choice but to include these exemptions, which stem from the state's response to a U.S. Supreme Court ruling relating to the taxation of public pension benefits. The fact that the exemptions are an unavoidable defect of a local income tax makes it no less galling - and doubly so in view of the fact that the rising costs of PERS are part of the reason for the school districts' financial crisis.

Compounding the problem of leakage is the fact of incongruity. Roughly 24 percent of Eugene School District students and 12 percent of Bethel School District students live in households outside the city of Eugene. These households would not be subject to the income tax. Residents of Eugene tax themselves to pay for streets, parks and other services used by people who live elsewhere, but those services don't have their own units of local government that exist to provide them. It's possible to overlook the fact that the city and the school districts cover different geographic areas, but it can't be counted as an advantage.

Timing presents a further complication. The City Council rushed to place Measure 20-182 on the ballot so that the school districts would know whether they can include income tax revenue in their budgets for the school year that starts in September. But the revenue would not actually flow until people pay their taxes in 2012, when the school year will be nearly over. To bridge the gap, the school districts would have to borrow or draw down reserves.

Borrowings or drawdowns are prudent acts only to the extent that the districts can be confident that the promised revenues would actually materialize. That points to still another problem: Such confidence might not be justified. The seemingly precise estimate of \$16.8 million in revenue is based on extrapolations by EcoNorthwest consultants of tax information from 2008 - before the Great Recession gathered full force. Confidence in such projections has been shaken before, as when revenue from the state income tax increases approved by voters last year came in about 35 percent below estimates.

Volatility is a characteristic of any income tax, whose revenues fluctuate with the business cycle. Further volatility might stem from the fact that Measure 20-182 proposes a temporary tax, expiring in four years. Multnomah County had a 1.2 percent local income tax from 2003 through 2005. EcoNorthwest found that there were 8.3 percent fewer affluent taxpayers (those with incomes above \$250,000) in Multnomah County during that period, and they paid 13.5 percent less in income taxes than expected. The primary reason is that a temporary tax can be avoided by delaying taxable events such as the sale of stock or businesses. Affluent people in Eugene would probably do the same.

The structure of the tax itself is flawed. Measure 20-182 creates four income tax rates, ranging from 0.35 percent to 1.2 percent. These are not marginal rates. Joint filers with an income of \$50,000 would be taxed at a 0.47 percent rate. One additional dollar would boost the household into the 0.75 percent bracket, and every dollar of income would be taxed at the higher rate. A \$1 increase in income would trigger a \$140 difference in tax.

The effect is most extreme at the lower end of the income scale. Measure 20-182 exempts the first \$22,000 in income (\$11,000 for individual filers) from the tax. An income of \$22,001, however, would be taxed at a 0.35 percent rate from the first dollar, or \$77.

If the City Council had opted for marginality, higher tax rates would have been required to raise the same amount. With a top rate of 1.2 percent on joint incomes above \$75,000, the proposal was already pushing Eugene taxes to a level noticeably higher than elsewhere in Oregon - and Oregon is already tied with Hawaii in having the nation's highest income tax rates. But the lack of marginal rates turns the income thresholds into cliffs, with big jumps in tax liability resulting from small increases in income.

Jurisdictional blurring, leakage, the PERS exemption, geographic incongruity, the risk of borrowing against uncertain revenues from a volatile source - that's a lot to swallow.

Yet proponents, including most of Eugene's political and civic leaders, support Measure 20-182 anyway, saying that voters must do what they can to protect the quality of education. The school year is already so short, and classes are already so crowded, that even a partial and problematic solution is seen as better than none. Oregonians have waited in vain for the state to devise an adequate school finance system, proponents argue, and further erosion will cruelly shortchange children.

Inadequate public funding, however, is only one cause of the crisis confronting school districts across Oregon. Another contributor is costs that have risen at so rapid a rate that public funding can't keep up.

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The cost of salaries and benefits in the Eugene School District rose 22 percent from 2004-05 to 2010-11, while the general fund budget rose only 12 percent. The result is that the district can afford fewer staff members for fewer days. If voters reject Measure 20-182, they won't be the first group to make a decision with unwanted consequences for education.

It's hard to say no to Eugene's schools, and voters rarely do - but this time they should.

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