

The Oregonian

Kicker won't go for a rainy day

Stalemate - After a partisan vote, it's likely voters will decide whether the corporate refund should go into savings

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BETSY HAMMOND
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SALEM -- In the first partisan showdown this session, House Republicans on Tuesday killed a plan by Democrats and Gov. Ted Kulongoski to divert \$275 million in corporate kicker refunds into a rainy day savings account.



Rep. David Edwards, D-Hillsboro, was the point man for Democrats arguing to divert the \$275 million corporate kicker into a rainy day fund. The freshman was disappointed when Republicans killed the plan, which could go before voters in May.

ROSS WILLIAM
HAMILTON
THE OREGONIAN

The stalemate paves the way for Oregon voters to decide the fate of the corporate kicker in the May 15 election.

Voting a straight party line, Democrats and Republicans each refused to sign on to the other party's plan to cancel this year's corporate tax rebates to build a state savings account.

Oregon's leading business groups advocate taking the kicker to build a rainy day fund to avoid the cuts to schools and services that Oregon endured during the recession four years ago. Economists argue that awarding unpredictable rebates to corporations when tax payments surge beyond what was predicted -- a law unique to Oregon -- does virtually zilch to grow the state's economy.

Democrats were unable to capture the necessary Republican votes to pass their business-backed version.

Though Democrats hold majorities in both houses, they need Republican help to pass tax measures or keep the corporate kicker. That takes a two-thirds vote in both chambers, meaning 40 votes in the House. All 31 Democrats voted for their kicker plan, and all 26 Republicans opposed it, supporting their own plan. Three Republicans were absent for the vote.

The Democrats' plan to ask voters to permanently repeal the corporate kicker is expected to make the May ballot. Some polls suggest voters will say yes to withholding tax rebates from corporations to plow them into state savings, lawmakers and lobbyists say.

The House spent more than two hours debating the difference between the two plans -- a difference that might have escaped many voters.

Business leaders, who lobbied to raise their own taxes to build state savings, said they were disappointed both sides couldn't close the deal.

Kulongoski also said he was disappointed, but he holds out hope lawmakers might forge a compromise. If not, he will work to promote the ballot measure, spokeswoman Anna Richter Taylor said.

During hours of floor debate, Republicans emphasized that their plan would allow about 11,000 corporations to get small kicker rebates totaling \$35 million, rather than cancel the whole corporate kicker, and that their plan would guarantee 1 percent of the budget would be set aside for savings each time.

Democrats emphasized that their rainy day fund would grow twice as large as the Republican fund and that more than half of the \$35 million in rebates the Republicans championed would be sent to out-of-state corporations.

House Revenue Chairman Phil Barnhart, D-Eugene, pleaded with Republicans to step across the party line to protect children and other vulnerable Oregonians who suffer when services get cut during recessions.

"We cannot allow our differences to overshadow this important and moral calling," he said.

Greg Macpherson, D-Lake Oswego, noted that many corporate leaders live in his district -- yet they favor building state savings over getting a corporate rebate because profits were high. "The corporate kicker really doesn't make sense. It's a windfall . . . and it's better that it fall into our state's rainy day account."



But many Republicans said raising taxes on businesses, including small ones, was unthinkable.

"We're talking about a tax increase here," said Kevin Cameron, R-Salem.

"The Legislature is an addict, and the drug of choice is money," said Dennis Richardson, R-Central Point.

Going with the Democrats' back-up plan to ask voters to repeal the corporate kicker will require supporters of the rainy day fund to campaign for it during April and May, a busy time on the legislative calendar.

It also raises the risk that voters will say no and the state will lose its opportunity to capture \$275 million, said Lynn Lundquist, head of the Oregon Business Association.

Both Democratic and Republican plans had the same central features: set up a rainy day fund, withhold huge rebates from corporations, plug the money into savings and require ongoing income tax revenues to be put into savings.

The differences were in the details. The Democrats' plan would have allowed for a larger rainy day fund -- 10 percent of the state budget, not 5 percent. The Republicans would have required that 1 percent of the state budget be put into savings at the start of each budget, rather than wait until the end of the spending period to put in money left unspent.

House Majority Leader Dave Hunt, D-Gladstone, and Minority Leader Wayne Scott, R-Canby, both said the other man was unreasonable in discussing the rainy day plan.

Hunt said Republican leaders don't actually want a rainy day fund and that Scott asked for unreasonable and unrelated changes in return, such as reducing the capital gains tax. Scott said that Hunt never discussed the matter with him, simply insisting "it was their way or the highway."

Rep. Tom Butler, R-Ontario, vice chairman of the House Revenue Committee, said he thinks putting the kicker question before voters is a good idea.

When Oregon voters last fall elected Democrats to take control of both houses and rejected ballot measures that would have cut taxes and spending, it was widely interpreted as showing a swing away from Republican anti-tax positions and toward pro-government spending. But he isn't convinced.

"It will show us the depth of the win of the Democrats back in November," Butler said.

Betsy Hammond: 503-294-7623; betsyhammond@news.oregonian.com

