

**PUBLIC HEARING: HB 2752, HB 2753, HB 2840**

**WORK SESSION: HB 2050**

**PUBLIC HEARING & WORK SESSION: HB 2461**

**TAPES 85, 86 A/B**

## **HOUSE REVENUE COMMITTEE**

**MARCH 12, 1999 ñ 8:30 A.M. - HEARING ROOM A - STATE CAPITOL BUILDING**

---

Members Present: Rep. Ken Strobeck, Chair

Rep. Anitra Rasmussen, Vice Chair

Rep. Deborah Kafoury

Rep. Jeff Merkley

Rep. Diane Rosenbaum

Rep. Lane Shetterly

Rep. Jim Welsh

Rep. Max Williams

Rep. Bill Witt

Staff: Paul Warner, Legislative Revenue Officer

Lizbeth Martin-Mahar, Economist, Legislative Revenue Office

Steve Meyer, Economist, Legislative Revenue Office

Barbara Guardino, Committee Assistant

Witnesses: Paul Chalmers, Umatilla County Assessor

Gary Bauer, Oregon Telecommunications Association

Brian Boe, Portland General Electric

Jim Manary, Oregon Dept. of Revenue

Hersh Crawford, Dept. of Human Resources (Office of Medical Assistance)

Program)

Rep. Jeff Kruse, Roseburg

Ed Patterson, Oregon Association of Hospitals

Kellie Shoemaker, Oregon Student Association

John Powell, Regence Blue Cross/Blue Shield of Oregon

David Fiskum, Providence Health System

Bruce Bishop, Kaiser Permanente

Ellen Lowe, Ecumenical Ministries of Oregon; Tobacco Free Coalition of Oregon

Maura C. Roche, Oregon Health Leadership Against Tobacco

Jim Scherzinger, Portland Public Schools

**TAPE 085, SIDE A**

Meter # 001 ñ 029 blank

030 Chair Strobeck Called meeting to order at 8:35 a.m. Opened work session on HB 2050. Stood at ease to await ñ2 amendments.

**WORK SESSION ñ HB 2050**

054 Gary Bauer Discussed intent of ñ2 amendments.

073 Paul Warner Gave brief review of revenue impact for HB 2050-2 amendments (**EXHIBIT 1**). Gives a range of what impacts might be, based on estimates from the utility industry versus Dept. of Revenue estimates. Emphasized uncertainty of impact is due to assumptions as to what will be included as intangibles.

Impact includes removal of generating plants in Columbia and Morrow counties.

123 Paul Chalmers Spoke in opposition to the measure. See written testimony, Umatilla County Department of Assessment & Taxation (**EXHIBIT 2**). Three reasons for opposition:

1. Proposed bill doesn't meet the directive given by Governor Kitzhaber
2. Fiscal impact to Umatilla County would further erode the county and taxing authorities' ability to provide current services.
3. Clarity in implementing the bill.

191 Rep. Merkley How would Umatilla County compensate if it lost this tax revenue?

196	Chalmers	Staff reductions, reduction of non-mandated services.  Has not reviewed ñ2 amendments.
245	Lizbeth Martin-Mahar	Noted, correct ñ1 amendments to be ñ2; correct ñ2 amendments to be ñ3.  Reviewed HB 2050 ñ2 amendments: See Revenue Impact of Proposed Legislation for HB 2050-2 ( <b>EXHIBIT 2</b> ). Adds franchise licenses and softwares including application programs and custom programs, but excluding basic operating system software to the list of intangibles. Adds a number of intangibles to the list.  Reviewed bill by sections ( <b>EXHIBIT 3</b> ).
286	Martin-Mahar	Continued review of bill with Section 8 (3).  Discussion and questions interspersed.
385	Brian Boe	Portland General Electric ñ concurred with Rep. Shetterlyís interpretation that ñ3 language is correct.  Questions on whether costs would be passed onto ratepayers.
404	Rep. Merkley	What is the interest of the power companies in this issue?
410	Boe	More competitive energy market.
446	Chair Strobeck	Current costs of assets are being included in rate base now. Were they to be exempted, there could be a reduction, not an increase.

**TAPE 086, SIDE A**

030	Rep. Shetterly	Asked about languageówho wrote it, who has reviewed it? Might there be unintended consequences?
038	Chair Strobeck	Amendments are close to those received earlier by utility work group.  Strobeck requested removal of "includes but not limited to" language; page 2 is explicit list, not open-ended, for what is an intangible.
051	Rep. Shetterly	Did Dept. of Revenue participate in drafting?

057	Jim Manary	<p>Basic change on revenue impact is Trojan and Boardman plants.</p> <p>List includes all intangibles that committee has talked about.</p> <p>Per Rep. Wittis question, any intangible not included on this list would be subject to tax.</p>
094	Rep. Witt	<p>Is committee voting to exempt intangibles from taxation, or just this list of intangibles?</p> <p>Opens up the door for a number of ways in which other intangibles could be determined to exist, then subject them to tax.</p>
102	Manary	<p>Language says this list, not all intangibles.</p>
102	Chair Strobeck	<p>Language is clear, purpose is to exempt taxation of intangibles of centrally assessed properties, not all intangibles.</p>
122	Rep. Merkley	<p>Is it correct that these intangibles will be subtracted from a specific evaluation of a company?</p>
130	Manary	<p>Explained two main approaches used by appraisers on these companies: Cost approach and income approach.</p>
155	Rep. Merkley	<p>Questions concerning how to value customized software.</p>
160	Manary	<p>Explained how customized software is evaluated, from cost approach and income approach.</p> <p>Follow-up questions on valuing/taxing software.</p>
237	Rep. Merkley	<p>More questions concerning use of income/cost approaches. Are numbers sometimes significantly different?</p>
245	Manary	<p>That can happen; depends on the industry.</p>
272	Chair Strobeck	<p>Will not move this bill today. Closed work session on HB 2050. Opened public hearing on HB 2461.</p>

**PUBLIC HEARING n HB 2461**

292	Paul Warner	<p>Directed members' attention to Staff Measure Summary for HB 2461 (<b>EXHIBIT 7</b>), Revenue Impact of Proposed Legislation (<b>EXHIBIT 8</b>).</p>
-----	-------------	--------------------------------------------------------------------------------------------------------------------------------------------------------

HB 2461 deletes sunset date from 10 cent per pack cigarette tax, which is dedicated to the Oregon Health Plan.

Gave brief history of 10 cent tax.

Extending sunset 18 months increases revenue for Health Plan, but causes a minor decrease in revenue for other funds. This is assuming that consumers purchase fewer cigarettes as the price increases. Revenue impact is \$33.6 million for this period. Net reduction in general plan revenue, increase in Health Plan revenue.

354 Warner Directed members' attention to bill amendments (**EXHIBIT 9**), restore sunset and extends it to 2002. Bill gives three policy choices: Allow current law; extend it; eliminate it.

399 Hersh Crawford Spoke in support of the measure. See written testimony, Department of Human Resources (**EXHIBIT 10**).

Continuation of tax would generate approximately \$30 million in "other fund" revenue that would support Oregon Health Plan. OHP is matching fund program. If tax were not continued, there would have to be a number of reductions in OHP programs including children, pregnant women, and college students.

#### **TAPE 085, SIDE B**

035 Rep. Jeff Kruse Author of bill amendments. Spoke in support of the measure. If tax were eliminated state would lose federal matching funds. If tax were eliminated, would cost of a pack of cigarettes drop by 10 cents? No. Believes Oregon Health Plan, is in danger of becoming like Medicaid. Prudent action might be to extend sunset two more years, per bill amendments. Then when discussion about future of OHP, lawmakers can decide what direction funding needs to go.

072 Rep. Merkley Asked Kruse to explain what he meant by OHP looking like Medicaid.

076 Rep. Kruse If legislators fund education at the levels that they are talking about, the first things cut from the budget will be parts of health care. The programs with no federal matching funds will be cut. Out.

087 Ed Patterson Spoke in support of the measure. Oregon Health Plan is threatened in today's economic environment. See Governor Kitzhaber's budget reduces spending on Oregon Health Plan by \$158.7 million (**EXHIBIT 11**). Exhibit points out that governor's budget has reduced OHPP by almost \$85,000. This will cause state to lose federal matches of \$73.7 million.

If 10 cent tax is not extended, OHP will lose another \$35 million in general fund money, which would cut federal match. Encouraged elimination of sunset.

Tobacco consumption has decreased; proceeds have decreased also.

Urged committee to approve HB 2461.

138	Kellie Schoemaker	Spoke in support of the measure. See written testimony <b>(EXHIBIT 12)</b> , paraphrased. Continuing HB 2461 would allow students to remain on Oregon Health Plan, and sometimes to stay in school.
179	John Powell	Spoke in support of the measure. Dedication to OHP is very integral part of the bill.
196	Dave Fiskum	Spoke in support of the measure. This revenue source is critical to Health Plan to offset likelihood of reductions. The issue is the people who are served by OHP. Would prefer tax to become permanent.
232	Rep. Witt	Noted, federal tobacco settlement will be used for health care. Isn't that a good argument for extending sunset until state knows how those dollars will be used?
244	Fiskum	Other elements of this bill are more important than sunset language. If sunset language were required for passage, medical insurers would not stand in the way.
266	Ellen Lowe	<p>Spoke in support of the measure. See written testimony <b>(EXHIBIT 13)</b>. Increases in tobacco taxes and in cost of cigarettes impact how many young people who start smoking. Smoking in Oregon has decreased 11%, partly because of Ballot Measure 44, which increased tobacco tax. It was to provide health care, but also other programs that will avoid human costs.</p> <p>Lowe organized the group that brought the 10 cent tax in 1993. They originally asked for 25 cents. Object was to provide dollars for OHP, and to get people quit smoking.</p> <p>Encouraged discontinuing of sunset.</p>
322	Maura Roche	<p>Spoke in support of the measure. See written testimony <b>(EXHIBIT 14)</b>.</p> <p>Spoke in opposition to 11 amendments on behalf of American Cancer Society, American Lung Association, and American Heart Association.</p>
340	Chair Strobeck	Closed public hearing on HB 2461. Opened work session on HB 2461.

#### **WORK SESSION 5 HB 2461**

342	Vice Chair Rasmussen	<b>MOTION: MOVED HB 2461 TO THE HOUSE FLOOR WITH A DO PASS RECOMMENDATION.</b>
245	Rep. Welsh	10 cent tax was originally supposed to be for a period of time. Would not vote to delete the sunset, could vote to extend it.

352

**VOTE**

**ROLL CALL VOTE: MOTION PASSES 7-2-0**

**REPRESENTATIVES VOTING AYE: KAFOURY, MERKLEY, ROSENBAUM, SHETTERLY, WILLIAMS, VICE CHAIR RASMUSSEN, CHAIR STROBECK**

**REPRESENTATIVES VOTING NAY: WELSH, WITT**

**REP. ROSENBAUM WILL CARRY THE BILL.**

369

Chair Strobeck

Closed work session on HB 2461. Opened public hearing on HB 2752, HB 2753, HB 2840.

**PUBLIC HEARING n HB 2752, HB 2753, HB 2840**

381

Steve Meyer

Reviewed HB 2752. See Revenue Impact of Proposed Legislation (**EXHIBIT 17**). Local option bill that allows school districts to impose local option taxes with voter approval. This includes personal income tax, corporate income tax, property tax, sales tax, excise tax, gross receipts tax, other. Requires simple majority of voters unless it is a property tax local option which would require a double majority.

423

Chair Strobeck

Introduced bill due to need for local voters to once again have control over the quality of schools. Once the state achieves "virtual equity" (dollar equity) there will not be an equity issue of having additional dollars raised if voters choose to do so. Concern was to avoid dealing with property tax, and in giving voters a choice in the type of tax to levy.

**TAPE 086, SIDE B**

030

Jim Scherzinger

Spoke in support of the measure. Four points:

1. Portland School District has shortfall, supports options to solve this problem. There is already a local option. Gives other districts same chance. Three purposes to a local option. Local option can be used to make up for deficiency problems. It is only an option, it is not imposing a tax.
2. District supports flexibility to use different approaches. Allows a district to impose virtually any tax. Portland Public Schools doesn't want to become a tax collection agency. Bill is written to require any tax be imposed solely within the district. Would prefer tax to be regional. This bill would make that difficult. Discussion and questions interspersed.

177

Scherzinger

- Dollar amounts available. For Portland Public Schools it looks like a relatively small amount for students. Main reason is, Portland is already imposing a tax in the gap. Tax is currently \$13 million. True size of gap is \$23 million. These numbers are for 1997-98. As market value grows faster than assessed value, gap will widen. Discussion and questions interspersed.
- Limit of 10% of budget. Definition of the budget is a plan for expenditures. Not sure what number lawmakers are talking about when they say the limit is 10% of budget. Requested amendment to clarify.

245	Vice Chair Rasmussen	Lawmakers are contemplating removing intangibles from property tax rolls. Asked Scherzinger to speculate on what this will do to the gaps. Follow-up questions.
258	Scherzinger	It would reduce the size of the gap. Statewide revenue effect would come back to a district in proportion to state school fund. Differential effect on gap would be unique to each district.
288	Rep. Merkley	Residential communities with no business base are afraid of local option unless state has identified and stood behind a core education for all school children. What would it take to frame such a commitment at state level?  Follow-up questions.
301	Scherzinger	There are a number of studies that address this. It's important to realize that the state set certain achievement goals; funding for achievement is more than just remaining at the current level.
355	Rep. Shetterly	Is it correct that a bill to authorize a local option would not come under the 3/5 majority requirement? Follow-up questions, discussion.
436	Chair Strobeck	Monday committee will talk about ESD's. Vice Chair Rasmussen will have a report available this afternoon.
445	Chair Strobeck	Adjourned meeting at 10:20 a.m.

Submitted by, Reviewed by,

Barbara J. Guardino Kim T. James

Committee Assistant Revenue Office Manager

Exhibit Summary:



1. HB 2050, Chalmers, Umatilla County Department of Assessment & Taxation, 5 pp.
2. HB 2050, Martin-Mahar, Revenue Impact of Proposed Legislation (HB 2050-2), 2 pp.
3. HB 2050, Martin-Mahar, Proposed Amendments to House Bill 2050 (HB 2050-2), 5 pp.
4. HB 2050, Martin-Mahar, Revenue Impact of Proposed Legislation (HB 2050-3), 2 pp.
5. HB 2050, Martin-Mahar, Proposed Amendments to House Bill 2050 (HB 2050-3), 1 p.
6. HB 2050, Martin-Mahar, Property Tax Revenue Loss chart, 2 pp.
7. HB 2461, Warner, Staff Measure Summary, 1 p.
8. HB 2461, Warner, Revenue Impact of Proposed Legislation, 1 p.
9. HB 2461, Kruse, Proposed Amendments to House Bill 2461 (HB 2461-1), 1 p.
10. HB 2461, Crawford, Dept. of Human Resources presented by Hersh Crawford, 2 pp.
11. HB 2461, Patterson, Governor Kitzhaber's budget reduces spending on Oregon Health Plan by \$158.7 million, 1 p.
12. HB 2461, Shoemaker, Oregon Student Assoc.: Testimony to House Revenue Committee, 1 p.
13. HB 2461, Lowe, Tobacco Free Coalition of Oregon, 1 p.
14. HB 2461, Roche, Oregon Health Leadership Against Tobacco, 1 p.
15. HB 2461, Roche, American Cancer Society letter of testimony, 1 p.
16. HB 2461, Hoggard, Oregon Medical Association letter of testimony, 1 p.
17. HB 2752, Meyer, Revenue Impact of Proposed Legislation, 1 p.