

**INFORMATIONAL MEETING
REVENUE FORECAST MARCH 2005
TAPES 45 A-B, 46 A**

**SENATE REVENUE COMMITTEE
FEBRUARY 25, 2005 9:00 AM STATE CAPITOL BUILDING**

Senate Members Present: Senator Ryan Deckert, Chair
Senator Gary George
Senator Rick Metsger
Senator Floyd Prozanski
Senator Charles Starr, Vice Chair

House Members Present: Rep. Tom Butler, Chair
Rep. Vicki Berger, Vice-chair
Rep. Mark Hass, Vice-chair
Rep. Brian Boquist
Rep. Sal Esquivel
Rep. Larry Galizio
Rep. Betty Komp
Rep. Andy Olson
Rep. Chuck Riley

Witnesses Present: Tom Potiowsky, State Economist, Office Economic Analysis
Michael Kennedy, Senior Revenue Economist, OEA

Staff Present: Paul Warner, Legislative Revenue Officer
Lizbeth Martin-Mahar
Barbara Guardino, Committee Assistant

TAPE 45, SIDE A

005 Chair Deckert Calls meeting to order at 9:02 a.m. Announces March forecast, welcomes House Revenue Committee members.

021 Paul Warner The Supreme Court last night issued a ruling on Bobo vs. Kulongoski (**EXHIBIT 1**). This involved 2001 legislature. Medicaid money from federal government was counted as general fund dollars. Legislature pulled it from general fund. Consequence was kicker refund for biennium was reduced by \$113 million. Supreme Court sided with Circuit Court, overruled Appeals Court. Legislature acted properly in pulling local dollars out. This will have no impact on economic forecast. It removes one of the economic forecast risks.

REVENUE FORECAST MARCH 2005

065 Tom Potiowsky Briefs committee on process by which Office of Economic Analysis creates the quarterly economic forecasts. Directs members' attention to Oregon's Economic and Revenue Outlook, Release of March 2005 Quarterly Economic & Revenue Forecast (**EXHIBIT 2**). Begins with slide 2: Economic and Revenue Forecast

119 Potiowsky Slide 3: Unemployment Rate by Region, December 2004

129 Potiowsky Slide 4: U.S. Business Investment Drops Nine Consecutive Quarters –

		UP Seven
163	Potiowsky	Slide 5: Oregon's Total Exports Slide 6: Oregon Index of Leading Indicators
186	Potiowsky	Slide 7: 64,000 jobs lost; 3,000 left to gain back.
224	Rep. Butler	After the revision, Oregon is still 3,000 jobs short. What should the gain back be?
231	Potiowsky	Responds, doesn't have the exact number, but state has a way to go to meet that benchmark.
239	Potiowsky	Slide 8: Total Non-farm Employment (Annual Percentage Change)
255	Potiowsky	Slide 9: Manufacturing Industry Employment (Annual Percentage Change)
272	Potiowsky	Slide 10: Private Non-Manufacturing Industry Employment (Annual Percentage Change)
284	Potiowsky	Slide 11: Comparison of Last Three Forecasts
294	Potiowsky	Slide 12: Oregon Outlook Summary
327	Rep. Butler	With personal income steady, does income tax collection go up?
330	Michael Kennedy	Responds, the national figure includes wages and salaries.
315	Chair Deckert	Asks questions concerning a previous slide.
327	Potiowsky	Refers to press packet (EXHIBIT 3) which highlights risk factors. Risks include China's economy, declining dollar, inflation and energy due to low snow pack. Estimates 25% likelihood of any of these risks affecting the economy. Higher energy costs are of the most concern.
423	Rep. Boquist	Questions the decrease in manufacturing strength.
429	Potiowsky	High tech sector is very mature and it will likely follow the national trend for manufacturing. There will probably be more outsourcing. Employment won't return to its previous peak till 2011. Unknown are technological changes.
459	Kennedy	Begins review of personal and corporate income tax forecast, general forecast. Slide 13: Revenue Forecast

TAPE 46, SLIDE A

023	Kennedy	Slide 14: 2003 Tax Year Statistics
045	Kennedy	Slide 15: Recent Forecast Performance
060	Kennedy	Slide 16: 2004 Tax Year
068	Kennedy	Corporate Income Tax ... Slide 18: Recent Forecast Performance

076	Kennedy	Slide 19: Oregon Corporate Profits (\$Billions)
094	Kennedy	Slide 20: General Fund Revenue Forecast (2003-2005) Biennium Total 2003-05 revenue forecast has been revised up \$96 million, ending balance is \$187 million.
111	Kennedy	Slide 21: Kicker Update 2003-05
118	Kennedy	Slide 22: GF Forecast Variance by Forecast
129	Kennedy	Slide 23: Potential Variance from March Forecast
150	Kennedy	Slide 24: General Fund 2005-07 Forecast Bottom line is, with increase in beginning balance plus increase in revenue projection, total resources for next biennium are about \$202 million higher than in December 2004 forecast.
187	Kennedy	Comments about risks.
192	Chair Deckert	Questions what legislative actions OEA watches when compiling forecasts.
212	Kennedy	Everything in terms of tax law changes.
218	Chair Deckert	Questions concerning bonus depreciation.
221	Potiowsky	Responds, revised GDP figures showed 14% expenditure increase on business computers and equipment. There was a definite bump-up and it was probably related to bonus depreciation reserves.
231	Rep. Boquist	Asks for comments on impact of a potential 100% Bonneville Power Admin. increase, and of a possible second 9/11 terrorist attack.
240	Potiowsky	Bonneville situation is a definite risk, it would hurt the economy badly, particularly in high tech. This worry is longer term, not immediate. As for another terrorist attack, it would be easier to react to a second one. But the closer to home, the bigger the impact.
267	Kennedy	Continues slide presentation. Slide 25: General Fund Revenues (\$Billions)
297	Rep. Butler	It appears Oregon is approaching capacity to expand. Is this true?
299	Kennedy	Oregon is not at capacity, in terms of office space and labor force.
315	Kennedy	Slide 26: General Fund Revenue Growth
330	Kennedy	Lottery Revenue Forecast ... Slide 28: Lottery Revenues, 2003-05
359	Kennedy	Slide 29: Slot (Line) Games and VLT Sales
395	Kennedy	Slide 30: Lottery Revenues, 2005-07

418	Kennedy	Slide 31: Extended Lottery Forecast (\$Millions)
<u>TAPE 45, SIDE B</u>		
020	Kennedy	Slide 32: Lottery Resource Available to the State (Millions) Slide 33: For more information ...
025	Rep. Boquist	In regard to assumed long-run sales impact of 12% vs. growth rate of 2%, how realistic is the 12% figure?
030	Kennedy	Responds, Lottery has looked at West Virginia's lottery as fairly comparable. OEA has taken middle-of-the-road estimate and it could be 5- to 20 percent.
047	Chair Deckert	Questions concerning commission rate structure.
055	Rep. Butler	Asks how lottery revenues compare nationally.
066	Kennedy	It's difficult to tell because it is so variable. State's share is very low relative to other states.
075	Chair Deckert	Asks, how is Oregon doing on diversifying the economy?
084	Potiowsky	Oregon's economy is more diversified than before. Manufacturing is more diverse, but all of manufacturing was hit by the recession. Oregon has positive growth, even though it booms and falls more than other states. High-tech has spread into other industries, for example, logging, which doesn't equate to more employment.
110	Potiowsky	Oregon has a niche in nanotechnology (pertains to building microscopic machinery).
117	Rep. Hass	Asks, of the 61,000 jobs gained back, are employees earning more or less than those who lost jobs?
123	Potiowsky	Average earnings are a little less than jobs lost.
135	Rep. Galizio	Where would you advise policymakers to invest?
145	Potiowsky	State is worried about outsourcing and how to compete better in the world. Arguments about outsourcing are similar to arguments on unfair trade practices. U.S. needs to improve its higher education system in order to compete internationally.
179	Chair Deckert	Adjourns meeting at 10:09 a.m.

Tape Log Submitted by,

Barbara Guardino, Committee Assistant

Exhibit Summary:

1. Informational, Oregon Judicial Department Appellate Court Opinions, In the Supreme Court of the State of Oregon, February 25, 2005, Warner, 7 pp.

2. Informational, Oregon's Economic and Revenue Outlook, Release of March 2005, Quarterly Economic & Revenue Forecast, Potiowsky, 33 pp.
3. Informational, Oregon Economic and Revenue Forecast, Summary, Potiowsky, 16 pp.
4. LRO Forecast Summary, March 2005, New Facts Since the Last Forecast, Warner, 6 pp.