

**INFORMATIONAL MEETING
RESERVE FUND OVERVIEW
TAPES 47 A-B, 48 A**

**SENATE REVENUE COMMITTEE
FEBRUARY 28, 2005 8:30 AM STATE CAPITOL BUILDING**

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

Witnesses Present: Paul C. Parker, Oregon Business Plan Public Finance Task Force

Staff Present: Paul Warner, Legislative Revenue Officer
Barbara Guardino, Committee Assistant

TAPE 47, SIDE A

010 Chair Deckert Calls meeting to order at 8:35 a.m. Welcomes Paul Parker.

INFORMATIONAL MEETING, RESERVE FUND OVERVIEW

022 Paul Warner Notes, Paul Parker was a member of Gov. Kitzhaber's tax review task force. Their primary recommendation was establishment of a stability fund. Directs members' attention to Review of Oregon's Tax System: Policy Recommendations, January 1999 (**EXHIBIT 1**).

035 Paul Parker Comments on stability fund. Now is the time to do the right thing. Begins slide presentation: Oregon Stability Fund (**EXHIBIT 2**).
Page 1, slide 2: Why a Stability Fund?
Oregon needs a stability fund more than most states because our tax system is so volatile. Business is overwhelming convinced that this is needed.

056 Parker Page 2, slide 1: Public Services are Critical for Business
Slide 2: Oregon Has a Volatile Tax System: In 2002, during the recession, Oregon experienced the second largest decline of any state in the nation in tax revenues

068 Parker Page 3, slide 1: Personal income taxes are extremely variable.
Slide 2: Most of the personal income tax is paid by higher income households

100 Parker Page 4, slide 1: Corporate taxes are extremely variable.
Slide 2: General Fund Resources, Discretionary Lottery, and One-Time Revenue

121 Parker Page 5, slide 1: There Are Two Broad Solutions
Slide 2: Most States Have Stability Funds

145 Parker Page 6, slide 1: Only Oregon Has a Limited Stability Fund
In 2002, the voters approved Ballot Measure 19, establishing the Education Stability Fund

		Slide 2: Oregon's 5% General Fund cap is well below recommended levels for stability funds.
157	Parker	Page 7, slide 1: What Proposals Will Business Support? Slide 2: Conclusions
165	Chair Deckert	Notes, some of the proposals that committee will hear tomorrow involve the kicker fund.
179	Parker	Fact that it needs to go to voters is a hurdle, but it also means it would remain in place. Businesses are open-minded to creating a stability fund. Believes the state could get broad support among businesses and individuals, even in talking about the kicker.
184	Chair Deckert	Committee will ask for participation from the business community.
190	Parker	Business community is supportive of stability fund regardless of how it is accomplished.
193	Sen. George	Asks, what is this biennium's estimated corporate kicker.
196	Warner	Economic forecast estimate raised it from \$43 million to \$60 million.
213	Sen. George	Would Oregon Business Plan support eliminating the kicker?
216	Parker	Cannot say whether business community would favor elimination or not, but wouldn't rule it out.
226	Sen. George	Comments concerning California's tax system. The taxes in Parker's presentation would hurt lower income people. Is that what the business community desires?
244	Parker	Business community's desire is to find how to deal with Oregon's economy. Oregon is the most dependent state in the country on one source of tax. Sales taxes, although regressive, aren't as volatile as Oregon's current system. Other means of taxation might be helpful, although Oregon taxpayers aren't receptive of consumption tax. Can still deal with the problem through a stability fund.
265	Sen. George	Other states that have stability funds seem to grow government slightly faster than those that don't.
287	Parker	That is a valid concern. Oregon Business Plan shares that concern. A stability fund could be structured to avoid this.
311	Sen. Metsger	Comments, with strong support in the business community about the nexus between business and education, it would seem an obvious answer that a corporate kicker should be redirected to stability fund.
317	Parker	Corporate kicker in itself wouldn't solve the stability funding issue. Many businesses won't be penalized by elimination of corporate kicker because they are "S" corporations.
336	Sen. Metsger	Continues discussion on educational stability fund. Wonders if it would be easier to raise the existing cap as opposed to creating another

fund.

- 360 Parker Business community would not object to raising the cap.
- 425 Warner Directs members' attention to C+ Oregon (**EXHIBIT 4**) paragraph 3.

TAPE 48, SIDE A

- 025 Warner Directs members' attention to exhibit 1, Review of Oregon's Tax System. Observations were done in 1998. The first recommendation is to create a stability fund. See page 21, Solutions: The committee recommends that Oregon establish a stabilization fund.
- 035 Warner Fifth bullet point addresses Sen. George's concern: Reserve fund should not be used to eliminate all budget cuts during difficult economic times. It should be used along with budget cuts.
- 045 Warner Table on page 18 details long-term and short-term stability options.
- 057 Warner Begins slide presentation (**EXHIBIT 5**): Stability Fund Issues, Legislative Revenue Office
Page 1, slide 2: Oregon's Post World War II Downturns
Recessions of the 1950s are more typical of what lies ahead.
- 089 Warner Slide 3: Oregon Remains a Goods Producing State
- 101 Warner Slide 4: Consequences of Being Goods Producing State
Nationally, the economy is less sensitive to recession than Oregon.
Slide 5: National Data Reflects Relative Volatility of Income and Sales Taxes Over Past Decade
- 118 Warner Slide 6: General Fund Revenue History
- 126 Warner Slide 7: Coping with Volatility: Periods of Revenue Decline
- 144 Warner Slide 8: Key Stability Fund Decisions
- 175 Warner Slide 9: Educational Stability Fund
Constitutional, revenue source, triggers
- 234 Warner Fund Size: 5% of general fund budget in prior biennium, uses of funds
- 265 Warner Slide 10: Reserve Fund Proposal: SJR 2/SB 5 from 2003 Session
Revenue source, triggers, fund size, fund uses
- 299 Chair Deckert The stability fund will be the committee's work for the week.
- 331 Warner Comments, the current education stability fund doesn't retain its interest earnings. That affects the growth over time.
- 358 All Committee discusses its March 4 field trip to Metro in Portland, which will be a public hearing on low income housing, from 9 a.m. to noon. It should be well attended.

TAPE 47 SIDE B

- 010 All Continued discussion on Friday's field trip, topics to be discussed.

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Chair Deckert

Adjourns meeting at 9:32 a.m.

Tape Log Submitted by,

Barbara Guardino, Committee Assistant

Exhibit Summary:

1. Informational, Review of Oregon's Tax System: Policy Recommendations, January 1999, Warner, 11 pp.
2. Informational, slide presentation: Oregon Stability Fund, Ronald C. Parker, 7 pp.
3. Informational, The Oregon Business Plan, A Guide for the 2005 Legislature, Parker, 17 pp.
4. Informational, C+ Oregon, Warner, 1 pp.
5. Informational, slide presentation: Stability Fund Issues, Legislative Revenue Office, Warner, 5 pp.