

SENATE REVENUE COMMITTEE
MARCH 8, 2005 8:30 AM STATE CAPITOL BUILDING

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

Members Excused: Senator Gary George

Witnesses Present: Lynn Lundquist, Oregon Business Association
Edward Randall, Oregon State Treasurer
Sen. Frank Morse, District 8
Theresa McHugh, Governor's Office

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

TAPE 59, SIDE A

005 Chair Deckert Calls meeting to order at 8:38 a.m. Today the committee will hear 3 more ideas for a reserve fund. Will appoint a work group which will discuss seven ideas for stability funds.

COMMENTS ON ISSUES RELATING TO:
SB 841, SJR 29, SB 974, SJR 23, SJR 19, SJR 2

021 Paul Warner Directs members' attention to comparison table, Reserve Fund Bills (EXHIBIT 1).

030 Randall Edwards Gives general testimony on state's need for a rainy day fund. Rainy day fund is one factor that credit rating agencies consider in calculating a state's bond rating. The higher the rating the lower the interest. A constitutional amendment to create a rainy day fund for schools (Education Stability Fund) was one of the bright spots of the recent recession. Rating agencies have criticized Oregon for its lack of foresight. Now credit reports have become positive.

058 Edwards One priority in respect to rainy day funds is that the state needs to fill the Educational Stability Fund. Has received questions of whether the school fund is adequate. Yes, it is, and the state needs to demonstrate its commitment to refill the fund for times of economic downturn.

083 Edwards Asks lawmakers to dedicate the new rainy day fund to the general fund to help the state manage its imbalances of cash flows. Doing this would allow the state to utilize these monies for cash flow purposes at less expense than borrowing from other internal funds or the capital markets.

110 Edwards Credit rating agencies still acknowledge several weaknesses: initiative

system, kicker law, low ending fund balances and a narrow general fund that relies on a single tax system – the income tax.

- 126 Chair Deckert Asks Treasurer for his counsel in ranking the various proposals.
- 130 Edwards Would be happy to help.
- 156 Chair Deckert Asks Treasurer to comment on tapping the stability fund to meet today's needs.
- 159 Edwards One thing Oregon has to show is discipline, and tapping the fund would not show that. Oregon has to show there's an economic downturn in order to tap this fund. Would oppose it.
- 188 Warner Follows up on Treasurer's comments on the cash flow issue. Also, a definition of ending balance is needed. Begins overview and comparisons of proposed bills and joint resolutions listed on exhibit 1. Explains SB 841.
- 258 Warner Explains SB 974, companion language to SJR 29.
- 276 Warner Explains SJR 23.
- 309 Warner Explains SJR 19 and SJR 2. Notes a mistake in the chart.
- 320 Warner Top proposals – SB 841, SJR 29 and SJR 23 – all complement the current Education Stability Fund. Major differences in the proposals are new funds versus public education, and revenue sources.

PUBLIC HEARING, SB 974

- 355 Sen. Frank Morse Testifies in favor of SB 974, which creates a general fund operating reserve fund. One component absent from discussions is the spending cap. House members see this as important. Asks committee to consider SB 470, which would require assembly to establish the size of the pie based on the March 2005 forecast. Opposes a spending cap.
- 389 Voter initiatives have far more impact on state spending than recognized. Encourages discussion on how to improve fiscal discipline. Intent of SB 470 is to set a template and put fiscal discipline in the process.
- 394 Sen. Prozanski Ask question concerning SB 470, even though the public hearing is on SB 974.
- 405 Morse Responds, the March forecast would become the driver for the broad appropriations.
- 454 Chair Deckert Closes public hearing on SB 974.

CONTINUED COMMENTS ON STABILITY FUND

TAPE 60, SIDE A

- 022 Theresa McHugh Gives an overview of Gov. Kulongoski's vision of a rainy day fund. Governor contends there is information lacking for decision makers to make thoughtful choices on allocating scarce resources. He had his

staff go through the processes of ensuring the technical budget was still connected to the accounting system, looking at principles for allocation of resources in the future, and ensuring a discipline around fiscal issues.

- 049 McHugh The governor said Oregon has to learn lessons from the 1990s recession about preparing, providing stability, having a vision for the future. Governor's staff had to project forward revenue and expenditures for several biennia.
- 076 McHugh Oregon is one of 3 states with no rainy day fund of adequate size. That drove a system of making sure spending was in check of what was reasonably expected to be collected under the current system, as well as allowing them to start talking about investments over time.
- 097 McHugh Stability over time is important to the governor. He has no specific proposal, but would set 4% aside for a rainy day fund. ESF is also key, and amounts to another 1%. Total projected about 6%.
- 115 Chair Deckert Questions and discussion concerning governor's intent, percentages, bond ratings.
- 177 Chair Deckert Requests a written summary of governor's stance on the rainy day fund issue.

*** WORK SESSION SJR 2, SJR 19, SJR 23, 2JR 29**

- 195 Chair Deckert Clarifies, it is not the Chair's intent to hold a formal work session. Refer to Comments on Issues Relating to SB 841, SJR 29, SB 974, SJR 23, SJR 19, SJR 2)

PUBLIC HEARING, SB 841

- 196 Lynn Lundquist Testifies in support of SB 841 on behalf of Oregon Business Association.. See written testimony, verbatim (**EXHIBIT 2**). The question is not should we do it, but do we have the resolve.
- 230 Lundquist Explains what the bill does (page 2).
- 285 Lundquist Explains what the bill doesn't do. Warns, changing the kicker fund is simply not going to happen. Oregonians will not give it up when Freedom Works and Lars Larson are claiming the legislature is stealing taxpayers' money and building a slush fund.
- 322 Lundquist Closing remarks: "We better not blow this opportunity."
- 353 Chair Deckert Questions concerning public support for Sen. Morse's bill, SB 974. Polling seems to indicate support.
- 360 Lundquist OBA has done polling too, and has concluded that chances for changing the kicker would be 50/50 at best. Freedom Works is a major force. It's sad, but the lottery is the state's most stable income source.
- 401 Chair Deckert Committee will bring one or two of the proposals back. Closes public hearing on SB 841. Adjourns meeting at 9:30 a.m.

Tape Log Submitted by,

Barbara Guardino, Committee Assistant

Exhibit Summary:

1. SB 841, SJR 29, SB 974, SJR 23, SJR 19, SJR2, Reserve Fund Bills, 3-8-05, Warner, 1 pp.
2. SB 841, Oregon Business Association, Senate Revenue Committee Testimony in Support of SB 481, Lundquist, 2 pp.
3. SJR 2, Oregon Community College Association RE: Education Stability Fund and the Oregon Opportunity Grant, Suchanek, March 7, 2005, 1 pp.