

**SENATE REVENUE COMMITTEE**  
**APRIL 26, 2005 9:00 AM STATE CAPITOL BUILDING**

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

Members Excused: Senator Ryan Deckert, Chair

Witnesses Present: J.L. Wilson, National Federation of Independent Business  
Joe Schweinhart, Associated Oregon Industries  
Jim Craven, American Electronics Association  
Darren Bond, Oregon State Treasury  
Tim Martinez, Oregon Bankers Association  
Bruce Bryant, Oregon Bankers Association  
Laurie Wimmer Whelan, Oregon Education Association  
Ralph Groener, AFSCME  
Tim Nesbitt, Oregon AFL-CIO

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

**TAPE 104, SIDE A**

005 Chair C. Starr Calls meeting to order at 9:00 a.m. Committee will set aside HB 2033 for discussion at a later date.

**PUBLIC HEARING, HB 2542**

018 Lizbeth Martin-Mahar Directs members' attention to information packet (**EXHIBITS 1-6**), which she will review on Thursday.

033 J.L. Wilson Testifies in support of HB 2542. NFIB supports a full reconnect to the federal tax code because it is necessary to assure Oregon businesses have every advantage in the marketplace. A full connect is conducive to a business friendly atmosphere and is a competitive advantage. Draws members' attention to the component relating to health savings accounts. They enable an employer to buy a high deductible insurance policy and allow employees to contribute to a health savings account to meet those deductibles. Considers these accounts to be the wave of the future.

061 Chair C. Starr Asks what impact this will have on health insurance rates.

065 Wilson The more people in the system the more rates will be kept down. It also gives consumers more discretion on which doctors they see and how they spend their dollars. It maximizes utilization; people will be

- 085 Joe Schweinhart very careful in how they use their dollars. Testifies in support of HB 2542 on behalf of AOI (**EXHIBIT 7**). Congress adopted these tax code changes in 2004 as the American Jobs Creation Act. Separation from any part of this bill would damage the intent of the bill and damage Oregon business. Addresses the aspect of deduction for income attributed to production. It will offset additional tax liability from the extraterritorial income (ETI) exclusion forced by the World Trade Organization. Oregon businesses need to be able to compete in global markets. It could increase returns on manufacturing by as much as 20%.
- 110 Schweinhart Comments in favor of health savings accounts reconnect. Costs of benefits are prohibitive. Directs members' attention to letters of support for the bill: See Monaco Coach (**EXHIBIT 8**) page 2, paragraph 3. Letter from Brad George of Oregon Steel Mills (**EXHIBIT 9**). Also mentions two e-mails (no exhibits) urging legislators to support HB 2542.
- 137 Sen. George Comments on the Monaco Coach letter. Notes, last session when Oregon failed to stay connected to the changes, he thought it was a terrible mistake. Asks if there is any evidence that Oregon's failure to track the federal tax break has hurt the state in its economic recovery.
- 149 Schweinhart No, but many businesses are still not coming here or are leaving due to no tax breaks and not enough venture capital.
- 156 Sen. George Believes Oregon is sending the message that we are not open for business and is reaping the consequences of that message. Follow-up comments on the importance of sending the right message.
- 163 Schweinhart Agrees.
- 177 Jim Craven See written testimony in favor of SB 2542 (**EXHIBIT 10**) paraphrased. AEA supports a permanent rolling reconnect. He recommends reconnecting in full to the federal code rather than picking and choosing. He warns against selectively disconnecting from certain provisions. The manufacturing ETI provision is controversial and it has been repealed. It has been replaced with an incentive for companies which provide jobs in the United States.
- 250 Craven Oregon is twice as dependent on manufacturing as the average state. Of the 30 largest high-tech states in the U.S., Oregon is the most dependent in terms of this sector. A provision of this reconnect helps keep jobs in America.
- 271 Craven It is important to remember that Oregon selectively disconnected last session. Encourages members to look at all the numbers (to be issued on April 28). Those things that Oregon is still automatically connected to are to the plus. If Oregon had totally disconnected last session, "this would be a revenue raising bill that would require a 3/5 vote." It's tempting to pick and choose, but that is not a worthwhile approach when Oregon has a long-standing policy of connecting in full. Revenue impact is not a budget-buster compared to the benefits of remaining fully reconnected. Failing to do this is imposing a tax

increase. Urges members to look at the big picture and pass this bill.

- 332 Sen. George Comments on the big picture and what's going on in the building today. It must balance out. If we don't fully reconnect, we send a message that Oregon doesn't want business here. Asks if Craven believes this bill puts the scale of bills back into balance.
- 366 Craven Responds, the Senate has not put out a negative bill yet. AEA is hopeful.
- 370 Sen. Prozanski Questions Craven on the selective disconnect in 2003. Asks why a 3/5 vote would be needed this session.
- 380 Craven Clarifies, the 2003 vote to disconnect did not require a 3/5 vote. But the revenue impact of the minority report on the House floor would have raised revenue and would have required a 3/5 vote.
- 414 Martin-Mahar Legislative Counsel made that decision. It was not the Speaker's decision.
- 425 Sen. Prozanski Based on Oregon's inability to pay for the state-mandated services, how can that be made up in order to pay for schools, etc.?
- 439 Craven Is working off the assumption that leadership has agreed on a bottom line and is trying to figure out how to allocate the \$12.393 billion. Assumes those revenues exist. Believes if a debate is needed about additional resources that is probably better than the reconnect bill, which is a back-door way of generating revenue.

#### **TAPE 105, SIDE A**

- 021 Chair C. Starr Recesses public hearing on HB 2542-A; opens public hearing on HB 2034.

#### **PUBLIC HEARING, HB 2034**

- 034 Mazen Malik Authorizes deposit of public moneys into financial institutions outside Oregon in specified circumstances. (**EXHIBIT 11**). Was introduced by the State Treasurer. There are no revenue or fiscal impacts. This bill was passed out of the House with majority support.
- 079 Darren Bond Paraphrases written testimony in support of HB 2034 (**EXHIBIT 12**) on behalf of the Oregon State Treasury.
- 106 Tim Martinez Oregon Bankers Association supports HB 2034. Believes it is ready to be moved.
- 111 Bruce Bryant Testifies in support of SB 2034. It would provide Oregon banks with a new tool and greater flexibility in accepting public fund deposits. It would allow Oregon banks to participate in the Certificate of Deposit Account Registry Service (CDARS) program. It allows for deposits in excess of FDIC. That money is re-deposited into insured certificates of deposit, in a process known as net settlement. Passage of HB 2034 will provide community banks greater flexibility in competing for and accepting public fund deposits. The public will have more protection of their public funds. CDARS is fully operational in a dozen states around the country.

156 Chair C. Starr Believes this bill is right for moving.

**WORK SESSION, HB 2034**

173 Sen. Prozanski **MOTION: MOVES HB 2034 TO THE SENATE FLOOR WITH A DO PASS RECOMMENDATION.**

176 Chair C. Starr **ORDER: THERE BEING NO OBJECTION THE CHAIR SO ORDERS ORDERS  
VOTE: 4-0-1  
MEMBERS VOTING AYE: GEORGE, METSGER, PROZANSKI, C. STARR  
MEMBERS EXCUSED: DECKERT**

179 Chair C. Starr Reopens public hearing on HB 2542-A.

**PUBLIC HEARING, HB 2542**

183 Laurie Wimmer Whelan Testifies in opposition to HB 2542 on behalf of the Oregon Education Association. Notes, written testimony (**EXHIBIT 13**) expresses OEA's concerns expressed before the House Revenue Committee. Some of them were contained in a minority report. The bill in its current form has a \$13 million negative revenue impact in the coming biennium, while the minority report has a \$13 million positive impact.

211 Wimmer Whelan OEA believes there are provisions that amount to new corporate, special interest tax breaks, along with the 352 existing tax expenditures. Chief among those are QPAI (Qualified Production Activities Income), a manufacturing tax break. Argues this is not easier to administer, as accountants have claimed.

221 Wimmer Whelan Touches on key points listed in exhibit 13.

- Decoupling from this single largest tax break for corporate America passed in years will protect the state from revenue loss.
- The QPAI deduction should not be seen as a "swap" for the loss of the extraterritorial income exclusion (ETI)
- A state-level QPAI deduction would have no direct relationship to jobs or income within Oregon Legislative Administration

267 Wimmer Whelan

- Revenue loss would be significant from the perspective of the services that are cut, such as public education
- The deduction has been widely derided by tax policy experts as an incentive for corporations to engage in complicated new accounting schemes for the purpose of reducing tax liability

377 Wimmer Whelan Asks the committee to decouple from QPAI deductions.

401 Ralph Groener Testifies against HB 2542 on behalf of labor. If people have problems paying their bills, they must cut back on spending. Tax policies have led this country into the largest deficit in its history. Objects, for example, to Humvees and hybrids receiving tax breaks when state police have been cut. "What would \$13 million do for my local?" It would finance state police, which has great impact on meth abuse and other crimes, teachers being laid off, and treating disabled children.

**TAPE 104, SIDE B**

- 035 Groener “Let’s just be real. You can’t support a tax increase or you’re going down.” So this union has stood up and said, let’s improve the economy of the state. Recommends using one-page OHSU sheet for recipients of these tax breaks to justify where the money goes. Does not like the rising debt that’s occurring nationally. Objects to passing these tax breaks on to the public and saying it will be good for business. We can’t live beyond our means, we can’t increase fees or taxes, and we need to grow the economy. But show me where this is occurring. We can’t treat this any different from a home budget. Legislators and the citizenry have to take into account tax expenditures.
- 085 Groener Does not believe this reconnect will help the economy. A brand new jail in Multnomah County is closed because it can’t be staffed. The problem with the disconnect is, that accountants and others are here with the best of intentions and are all honest people, but they don’t see the bigger picture.
- 100 Sen. George Sen. Morse has talked about a structural deficit. Over 46% additional benefits are guaranteed to employees. There’s another tax expenditure. City of Portland can’t fund its retirement plan. When are unions going to be accountable for the deficits they’ve put us into?
- 116 Groener Responds, his janitors, secretaries and support staff don’t have the great benefits that the legislature has given management. AFSCME employees have had salary freezes six of the last 10 years; their salaries haven’t kept up with the private sector.
- 136 Wimmer Whelan Responds, OEA members worked for free to keep school doors open. Government must be run like a business, and you get what you pay for. Oregon’s masters degree teachers are the lowest paid in the country. We can have a conversation about compensation packages, but this throws a red herring into the argument. To change the whole dynamic has its consequences.
- 160 Tim Nesbitt Written testimony in opposition to HB 2542 (**EXHIBIT14**) paraphrased. AFL-CIO objects to two provisions because they are new tax breaks for corporations that will cost \$27.8 million. These issues fit into two categories:  
1) Changes taking effect by virtue of what was left of previous reconnect policy. They are those affecting Medicare and health savings accounts. Refers to attachment A of written testimony concerning Medicare. Second, expresses concerns about the health savings accounts – see attachment B. They require \$1,000 deductible, which is high. Definite cost shifting to employees. Third, there is no limit on the management fess for these health savings accounts. Fourth, there’s nothing to keep insurers from hiking their fees by adding administrative costs.  
Notes, attachment B contains recommendations to resolve these issues.

252	Nesbitt	Objects to a new corporate tax deduction for qualified production activities income. States are required to balance their budgets; the feds are not. States have a lot to teach the federal government by being more discriminating on what they spend. You can choose to give up \$13.5 million more by blindly following deficit-creating tax changes enacted at the federal level or you can gain \$13.8 million by being more discriminating. Look at the minority report, it is more fiscally responsible.
294	Chair C. Starr	Closes public hearing on HB 2542-A. Adjourns meeting at 10:15 a.m.

Tape Log Submitted by,

Barbara Guardino, Committee Assistant

Exhibit Summary:

1. HB 2542-A, Revenue Estimate of the Major Components of Federal Legislation, 4/25/05, Martin-Mahar, 2 pp.
2. HB 2542-A, Staff Measure Summary, 4/25/05, Martin-Mahar, 1 pp.
3. HB 2542-A, Revenue Impact of Proposed Legislation, 4/25/05, Martin-Mahar, 1 pp.
4. HB 2542-A, Staff Measure Summary from House Revenue Committee, 2/21/05, Martin-Mahar, 2 pp.
5. HB 2542-A, Reconnect to Federal Law Changes, 4/26/05, Martin-Mahar, 7 pp.
6. HB 2542-A, Reconnect Bill: Section by Section Description, 4/26/05, Martin-Mahar, 2 pp.
7. HB 2542-A, testimony by Joseph Schweinhart, AOI, 4/15/05, 2 pp.
8. HG 2542-A, letter from Monaco, 4/15/05, Wanichak, 3 pp.
9. HB 2542-A, letter from Brad George to Rep. Nolan, 4/14/05, 1 pp.
10. HB 2542-A, testimony of Jim Craven, AEA, 4/25/05, 2 pp.
11. HB 2034, Staff Measure Summary, 4/26/05, Malik, 1 pp.
12. HB 2034, testimony of Darren Bond for Oregon State Treasury, 4/26/05, 1 pp.
13. HB 2542-A, Oregon Education Association HB 2542 Reconnect Legislation, Wimmer Whelan, 3 pp.
14. HB 2542-A, testimony of Tim Nesbitt, AFL-CIO, 4/26/05, 29 pp.