

SENATE REVENUE COMMITTEE
APRIL 5, 2005 8:30 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: Senator Bruce Starr, District 15
Senator Ben Westlund, District 27
Senator Alan Bates, District 3
Karen Whitaker, OHSU Center for Rural Health
Tom Holt, Oregon State Pharmacy Assoc.
Scott Gallant, Oregon Medical Association
Paul Cosgrove, Oregon Dental Hygienists Association
Damiana Merryweather, Oregon Psychological Assoc.

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

TAPE 87, SIDE A

005 Vice Chair C. Starr Calls meeting to order at 8:42 a.m. as a subcommittee. Opens public hearing on SB 891.

PUBLIC HEARING, SB 891

015 Sen. B. Starr Testifies in support of SB 891. Hundreds of Oregon men and women have served in the military overseas. As they have returned home many are without jobs. This bill supports them by providing an incentive for employers to hold positions open for them and encourage employers to maintain an income stream. Introduces three amendments with blanks for committee to consider concerning the level of the credit (**EXHIBITS 1, 2, 3**).

057 Sen. Metsger Has heard that some individuals don't get their jobs back despite a law requiring it. Wonders whether there has been discussion to ensure jobs remain in return for companies taking the credit.

078 Sen. B. Starr That is an important sideboard that needs to be put into the bill.

087 Sen. Prozanski Expresses concern that this bill may keep active duty employees from getting compensation from their employers. Fears that if an employer's situation changes, it might be forced to cut someone else.

105 Sen. B. Starr Discusses the amendments. They all fill in a blank on line 13 of the bill; 100%, 75% and 50%.

122 Lizbeth Martin-Mahar Will look at these figures. Does not know the percentage of active duty members currently being compensated by their employers. Will look

into it. Concerning Sen. Prozanski's issue, the credit has to be the amount of compensation that they've been paid while overseas.

131 Vice Chair C. Starr Closes public hearing subcommittee on SB 891. Opens public hearing on SB 403 with a quorum.

PUBLIC HEARING, SB 403

133 Martin-Mahar Gives overview of SB 403. Increases the annual maximum cap of the rural medical practice tax credit to from \$5,000 \$10,000 beginning tax year 2006. See Revenue Impact Statement (**EXHIBIT 5**) and Staff Measure Summary (**EXHIBIT 6**). Also discusses Oregon Rural Practitioner Tax Credit (**EXHIBIT 7**). Revenue loss is approximately \$6 million per year from doubling annual cap.

163 Sen. Ben Westlund Testifies in support of SB 403. Explains, this bill is to give health care providers an incentive to locate in rural areas. Comments on the costs associated with this legislation. Comments in regard to revenue figures: Does not see the benefit of the medical offset – that is, the benefit of people receiving preventative care because they can go to a doctor. Wonders if physician assistants are able to utilize the full amount of the tax credit. In rural areas the numbers of uninsured and underinsured patients are higher than in urban areas.

198 Sen. Westlund Oregonians are all getting older, as are the physicians. Many rural health care providers are reaching retirement age. The state is approaching a crisis and must do something to get younger physicians to replace them.

217 Sen. George Comments, many people retire to the coast, but doctors are leaving because they can't sustain their practices. The \$5,000 tax credits are the only reason others can stay. Asks if there are numbers on how many doctors are at that pivotal point.

233 Sen. Westlund Does not have those numbers, but this is a make-or-break situation for these physicians.

245 Sen. Alan Bates Testifies, during these tough budget times, there are tax credits that are appropriate; this one represents savings to a state. Gives a quick picture of what it's like to be a rural primary care physician. They are on call 24/7. They make substantially less money. Primary care has been nearly wiped out in rural areas. There is very little incentive to practice there.

294 Sen. Bates In rural areas, there is a high percentage of uninsured people – many on Oregon Health Plan – and a low percentage of commercial pay patients. The biggest driver for rising health care cost today is hospitalization. Would like to see a tight discussion of what a rural physician is. Would like the committee to consider what happens when rural communities lose their physicians. Also, look at the cost of losing the rural physicians, particularly to Oregon Health Plan.

347 Vice Chair C. Starr Asks for comments on an amendment – contained in the A-engrossed bill referred to Revenue by the Human Services Committee – that adds psychologists to this bill.

- 354 Sen. Bates Responds, they are needed because there are no psychiatrists in rural areas. The other issue is that pharmacists leaving and pharmacies are losing business.
- 400 Karen Whitaker Testifies in favor of SB 403. See written testimony, paraphrased (EXHIBIT 8). Fact Number One: the program has grown from 572 practitioners to 1668. See pie chart, page 1.

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- 021 Whitaker Fact Number Two: Page 2: Refers to graph, Oregon Tax Credit Recipients, Annual Income
Page 3: Physician incomes – Oregon and the U.S.
Clearly the best incentive we can offer is economic.
- 048 Whitaker Fact Number Three: The program showed rapid growth in the first half of the decade, and then slowed. The program has not been increased in 15 years, and yet medical CPI has increased nearly 220%.
- 062 Whitaker Page 4 graph: Percent growth in population and number of physicians, 1954-2004. Growth in population is outpacing the growth in the number of physicians. The physician shortage is increasing, and Oregon can't compete. It's tough to say to a physician, "We'd like to offer you less money to work harder."
- 095 Whitaker The 4th and final fact: In order to turn that around, we need to modify the practice environment. Investing in the rural infrastructure creates jobs and state gets money back. Concerning an earlier comment about the medical offset, it's important to understand that every physician in a rural community creates 17 jobs. That's \$400,000 in economic benefit.
- 104 Sen. George Asks whether rural practitioners are more subject to liability insurance than their urban counterparts.
- 115 Whitaker Rates probably don't differ, but according to percentage of income it is more. Gives example of a Reedsport physician who was willing to provide obstetrical surgeries but changed his mind because it would cost him half of his income in malpractice insurance.
- 136 Sen. Metsger Asks if OHSU has ever done an audit of where these people work and who they serve.
- 144 Whitaker Responds, many have a split practice. Dept. of Revenue audits them.
- 160 Sen. Metsger It is important to make sure scarce dollars actually benefit the right people. Gives an example of his district in Hood River, with 47 medical doctors. Its hospital is not really rural. Wants to look at criteria to assure those dollars are going to the areas where they are really needed.
- 191 Whitaker Responds, it is a real challenge to apply objective criteria to issues that are not objective. Gives current definition of rural – 10 or more miles from a town of 30,000 or more. * Ashland qualifies but Medford

does not. Ashland has an abundance of practitioners and Medford has a shortage. As areas gain in population their physicians are no longer eligible.

* (See corrected statement, tape 88-A, tape log No. 425)

- 221 Tom Holt Testifies in favor of adding pharmacists to the program. The average age of a rural pharmacist is five years older than elsewhere, and their income is substantially less. They are approaching retirement and can't hang on any longer to wait for someone to replace them. This results in closure of pharmacies. There is a potential domino effect when a pharmacy closes.
- 282 Holt Explains an amendment that the health committee added to the bill, which carefully defines who would be eligible. They tried to focus on smaller pharmacies that provide services to very rural areas. Many are high Medicaid areas. They need to practice in a pharmacy that's not part of a larger pharmacy. Calculates there are fewer than 140 eligible pharmacists.
- 322 Scott Gallant Testifies in favor of bill (**EXHIBIT 9**). Oregon Medical Association is very concerned about the physician work force. Average age of a physician today is 50 to 60. Because of the current work environment – including cuts in Medicaid – Oregon is having great difficulty producing and maintaining physicians. Medical students average \$100,000 in debt before they begin practice. Oregon also competes internationally for physicians.
- 376 Gallant Understands state's budgetary situation, but hopes the legislation does not get too broad and cause a financial impact that might kill the bill. Warns, "those that you represent will be asking why they don't have access to medical services and physicians to provide those services." This bill may have substantial fiscal impact, but down the road as physicians retire, the impact will be much greater.
- 412 Vice Chair C. Starr Asks, if the credit limit is raised, will the number of those who can't use the full credit increase?
- 420 Gallant That is correct. Probably most will not use the full credit.
- 425 Whitaker * Corrects a statement she made earlier. Ashland physicians are not eligible.

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- 015 Sen. Prozanski Asks, how much revenue has to be realized before physicians can max out the credit?
- 018 Martin-Mahar Responds, there is no criteria. Clarifies, 87% of the credit is currently being used. There is no carry-forward. The higher rate will be used. It is dollar-for-dollar.
- 030 Vice Chair C. Starr If they don't have the income or the tax liability, it won't be used. Many of these folks won't have sufficient income to allow the full use of the credit.
- 035 Martin-Mahar It's not possible to gather whether they have liability or not from the

available information. This credit is clearly being used well.

- 052 Paul Cosgrove Oregon Dental Hygienists Association supports SB 403. Sen. Jeff Kruse, one of the sponsors, has authorized drafting an amendment to add limited access dental hygienists. Oregon has 62 of these practitioners; most are in metropolitan areas, but it is important to encourage some of them to move to rural areas. They do mostly preventative work. Refers to page 8 of Ms. Whitaker's testimony.
- 081 Sen. Prozanski Asks, if they were under dental criteria, how many would qualify?
- 086 Cosgrove Will try to get that information.
- 090 Sen. Prozanski Asks if Cosgrove can find figures on their range of incomes.
- 114 Damiana Merryweather Testifies in support of SB 403 on behalf of Oregon Psychological Association. Explains why psychologists were added to this A-engrossed bill in a previous committee. It fills a tremendously unmet need for mental health care in rural areas. There is an extreme shortage of psychiatrists in urban and rural areas. Gives examples.
- 166 Merryweather Psychologists educated in Oregon have tremendous debt, and a tax credit would make a difference in choosing where they will settle. OPA is open to working to narrowly target rural areas of real need.
- 201 Sen. Metsger Asks criteria questions to Dept. of Revenue: When credits are applied, if they meet criteria and claim the credit, is it identified in the return that the credit is only applied against that portion of their income that they earn as a practitioner?
- 217 Debra Buchanan Believes credit is not limited to the tax generated from income earned in the qualifying practice; it is applied against total tax liability. In order to have it apply only to liability generated from practice, the statute would have to be changed.
- 229 Sen. Metsger Follow up comments on physicians with income other than their medical practice and whether they would qualify for this credit.
- 240 Buchanan Will verify whether this is correct.
- 261 Sen. George Notes, it would only be logical that they'd try to generate other income. If they're not in the rural community, the health care is zero. Asks Whitaker for a response.
- 274 Whitaker Does not have any data showing their outside income. They work long hours so probably don't have time to pursue other income forms. Believes the credit is taken against adjusted gross income. Sen. George is correct in that this credit would entice physicians who wouldn't otherwise be practicing.
- 301 Sen. Prozanski Counter-point question concerning doctors who have retired who wish to re-start their practice in a certain settings. Is concerned about making the pie so large it will become ineffective. There are a lot of possibilities, but this is still a work in progress.
- 329 Sen. George Comments that Whitaker's chart on page 4 is disturbing. This credit is

a modest investment relative to the total cost of health care.

348 Whitaker Agrees and gives an example of a practice where physicians took a pay cut to obtain a new physician, and still were not able to retain that physician. This is a modest investment for a good return.

PUBLIC HEARING, SB 758

364 Martin-Mahar Gives brief overview of SB 758 (**EXHIBIT 10**). Exempts military compensation for active duty Oregon National Guard, military reservists or organized militia from personal income tax. There is no new information from March 31 hearing.

376 Vice Chair C. Starr Closes public hearing on SB 758. Adjourns meeting at 10:00 a.m.

Tape Log Submitted by,

Barbara Guardino, Committee Assistant

Exhibit Summary:

1. SB 891, proposed -1 amendment, 3/24/05, B. Starr, 1 pp.
2. SB 891, proposed -2 amendment, 3/24/05, B. Starr, 1 pp.
3. SB 891, proposed -3 amendment, 3/24/05, B. Starr, 1 pp.
4. SB 891, Staff Measure Summary, 4/4/05, Martin-Mahar, 1 pp.
5. SB 403, Revenue Impact of Proposed Legislation, 4/5/05, Martin-Mahar, 1 pp.
6. SB 403, Staff Measure Summary, 4/4/05, Martin-Mahar, 1 pp.
7. SB 403, Oregon Rural Practitioner Tax Credit, Martin-Mahar, 1 pp.
8. SB 403, testimony of Karen Whitaker, OHSU Center for Rural Health, 4/5/05, 12 pp.
9. SB 403, testimony of Scott Gallant, Oregon Medical Association, 4/05/05, 1 pp.
10. SB 758, Staff Measure Summary, 4/4/05, Martin-Mahar, 1 pp.