

**SENATE REVENUE COMMITTEE
APRIL 8, 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: Dennis Mulvihill, Washington County
Lynn Lundquist, Oregon Business Association
Kate Richardson, State Treasury
Sen. Frank Morse, District 8
Daniel Yates, Portland Spirit
Sen. Bruce Starr, District 15

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

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005 Chair Deckert Calls meeting to order at 8:40 a.m. Committee will hear SB 899, SB 841, SB 853 then SB 896. Committee will not hear SB 845 until next week.

WORK SESSION, SB 899

024 Dennis Mulvihill Gives overview of SB 899-6 amendments (**EXHIBIT 1**). Abolishes Multnomah County Tax Supervising & Conservation Commission. It also allows any county that reaches 500,000 in population as of July 1, 2005 to decide whether or not to create a TSCC. Moves the decision to the county level. Any county under 500,000 can vote to create a TSCC.

049 Vice Chair C. Starr **MOTION: MOVES ADOPTION OF SB 899-6 AMENDMENTS.**

054 Sen. Metsger Comments that these amendments reflect the thoughts of the committee. This is good policy. If Multnomah County has a need for the TSCC, this bill will allow them to reconstitute it. The bill is permissive and he strongly supports it.

065 Vice Chair C. Starr Agrees with Sen. Metsger but expresses a slight reservation in that the TSCC has served a good purpose in Multnomah County. Believes local control should prevail.

073 Sen. Prozanski Concurs on the issue of local control.

078 Mulvihill Expresses appreciation for the help of Legislative Revenue and

099 Chair Deckert Legislative Counsel staff.
ORDER: THERE BEING NO OBJECTION THE CHAIR SO ORDERS.
VOTE: 4-0-1
VOTING AYE: METSGER, PROZANSKI, C. STARR, DECKERT
EXCUSED: GEORGE

101 Vice Chair C. Starr **MOTION: MOVES SB 899 AS AMENDED TO THE SENATE FLOOR WITH A DO PASS RECOMMENDATION**

103 Chair Deckert **ORDER: THERE BEING NO OBJECTION THE CHAIR SO ORDERS.**
VOTING AYE: METSGER, PROZANSKI, C. STARR, DECKERT
EXCUSED: GEORGE

WORK SESSION, SB 841

106 Paul Warner Gives overview of SB 841. Statutory proposal that establishes a reserve fund based on general fund ending balance. Cap is at 10%. Discusses the bill's revenue impact (**EXHIBIT 6**).

136 Warner Directs members' attention to two amendments to the bill: SB 841-1 and SB 841-2 (**EXHIBITS 7, 8**). SB 841-1 amendments require a policy choice based on discussions with Treasury. The current bill sets up the reserve fund separately from the general fund, and can retain its own interest earnings, which results in faster growth. It does not allow State Treasury to use those balances in its cash management of the general fund.

176 Warner Discusses SB 841-2 amendments, which address a percent in a calculation.

190 Chair Deckert Asks question concerning SB 841-1 amendments. Had this been in place in 1990, how would the state have been advantaged the most?

206 Warner Responds, a separate and distinct account would have been an advantage because the general fund was having large ending balances. More recent ending balances have been smaller, and that has squeezed the liquidity of the general fund. The question is, what will the next decade look like? Senses the 1990s were unique.

227 Chair Deckert Comments, perhaps this are a recommendation.

231 Sen. Prozanski Seems like the other alternative is more prudent at this stage. The legislature can always change back if the larger ending balances return.

238 Chair Deckert Concurs, this is statutory.

242 Vice Chair C. Starr Expresses preference for the SB 841-1 amendments.

248 Chair Deckert Asks Warner for more explanation on the interest rate. It appears high. Follow-up questions.

253 Warner Explains, with the revenue impact statement, there would be gross interest earnings of the general fund, but below that would be an

interest expense, for net interest revenue.

- 315 Lynn Lundquist Does not know the best outcome for this issue, except that “we need to do *something*.” It’s a policy choice, whether to leave an account separate or not. One advantage of leaving it separate is to satisfy the naysayers. Also if it is put into the general fund the interest goes into the general fund. It won’t grow as quickly, and therefore the fiscal impact moves from future activity into present activity. He is leaning toward keeping it separate but is open to either policy decision.
- 350 Lundquist Continues, one political danger of leaving it in the stability fund is that the cap will have to be raised, and that has to pass a vote of the people.
- 365 Chair Deckert Asks about the current 5 percent.
- 370 Warner Responds, the stability fund is over \$201 million for an ending balance. General fund is about \$11.4 million, so less than 2%.
- 378 Chair Deckert Asks at what point it would reach 5% in a stability fund.
- 399 Warner It could speed it up, probably the soonest would be the 2009-11 biennium.
- 413 Lundquist Asks about ending lottery balances and how they affect the stability fund in the various biennia.
- 420 Warner Responds to this and follow-up questions.

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- 010 Lundquist Continued discussion on when the 5% cap would be hit.
- 021 Chair Deckert Likes idea of a stability fund. The downside would be cash management.
- 025 Kate Richardson Chair’s assessment is correct. However, the State Treasurer would put it in an education stability fund because it is constitutionally protected. A statutory reserve fund could be changed by voters. An education stability has stronger sideboards.
- 047 Richardson Clarification, there are many funds within the fund that can’t be used as part of the general fund. They are used as cash flow,. Treasurer recommends placing it in the education stability fund for greater protection. If not, he asks that it become part of the general fund.
- 071 Chair Deckert Comments, having protections in place will help with bond ratings.
076 Vice Chair C. Starr Would not be opposed to drafting of more amendments.
- 086 Sen. Metsger Contends lawmakers did an excellent job in establishing the education stability fund. It is the state’s rainy day fund, since education is half the budget. There are other expenditure limitations needed. Putting the money into a stability fund absolutely makes sense, but some lawmakers still believe we still don’t have a reserve fund.
- 120 Chair Deckert The question is whether the reserve fund is adequate.

- 129 Sen. Frank Morse Endorses the creation of a stability fund. One thing not addressed is the structural deficit in the current system. Oregon's revenues do not support all the current policies that are in place. Before enacting legislation to create a reserve fund from current revenues, the legislature needs a complete evaluation of the structural budget gap. Lawmakers have refused to come to grips with the most serious of all problems, and that's the structural budget gap. Some programs are going to have to be eliminated. This structural issue is very serious.
- 175 Chair Deckert Asks Sen. Morse, what would foster that debate? It's only going to get worse, even in a growing economy.
- 190 Sen. Morse Suggests letting Legislative Revenue and Legislative Fiscal do projected revenue analyses on issues that require fiscal balance. What is the structural deficit faced today? Structural means ongoing, not temporary. That's the place to start. Today in both budgets being advanced, the ending balances are so small that they are woefully inadequate. Demand far exceeds Oregon's ability to supply revenue. Lawmakers must look at the bigger picture and make an informed choice.
- 223 Vice Chair C. Starr Agrees emphatically with Sen. Morse. Oregon's future only gets darker if this is not dealt with. Lawmakers have not evaluated how to find sustained revenues. "We tend to just put it off because we can get by another session. But it only gets thinner and thinner." We need the debate whether to continue to try to support all of the programs before us. Must also recognize the people have strongly said "no more taxes." If we don't deal with these issues here, they will be dealt with on the ballot.
- 267 Sen. Prozanski Agrees with Sens. Morse and C. Starr. The voter initiatives are demanding money to be spent, and we have no guidance as to how to do it. We all want public safety and other issues, but they all have costs. We have to either give somewhere else or bring in additional revenue to pay for these services. Supports the initiative process, but there is no accountability.
- 305 Sen. Prozanski If this committee wants to set up a reserve fund, can it be set up without being fully funded? We do have an educational reserve fund, but it's almost half of the general fund's expenditures. Maybe the state needs another reserve fund. The legislature does not have the ability or time to deal with these issues this session. They are huge issues and need lots of public input throughout the state during the interim.
- 369 Chair Deckert The reserve fund, given the volatility of Oregon's income tax, is just too small. Not acting during this legislature would be a mistake. If the economy dipped again lawmakers would look back at this session and say at least we had the opportunity to put a couple million into the fund.
- 394 Lundquist Adds to Sen. Morse's assertions that this needs to happen, but SB 841 does not preclude that from happening. You just can't function in a fiscally responsible manner when you don't have some sort of

reserve. It's not possible to fix the problem by July 1, but there is a resolve in this building like never before to do something now. Don't lose this opportunity.

438 Chair Deckert

Committee will hear this bill again next week.

WORK SESSION, SB 896

TAPE 93, SIDE B

023 Dan Yates

Testifies in support of SB 896, which establishes a new employer tax credit for wages paid to employees who assist in the manufacture of a water transit vessel. Gives background of the fast ferry industry. The United States has over 3,000 commercial vessels that carry 300 million people per year. The fastest growing segment of the industry is the fast ferry segment. The U.S. has been slow to adopt fast ferry technology due to regulatory constraints. The domestic ferry market is growing rapidly, and has become part of the solution to traffic gridlock.

075 Yates

Continues, all fast ferries in the U.S. are constructed out of aluminum, since it is strong and light weight. Over the last 15 years hull designs have had "the greatest rate of change in the history of man." Believes the best hull design for restricted waterways is built by Harley Craft. It produces a material that is used for armored military vehicles. The design leaves virtually no wake.

116 Yates

Discusses the downside of this new technology. It is a slow material to work with, and the industry has lost its primary financing agent. This makes it difficult to finance construction of these vessels.

133 Chair Deckert

The reason the legislature is looking at this new tax credit is so it could create jobs.

147 Yates

Responds, there is a need for 30 of these boats on the Willamette River alone. There's talk of financing for a new bridge over the Columbia River. Suggests ferry boats might be an option. Oregon has a long shipbuilding history. There's an opportunity for a West Coast shipbuilder to supply the market with these vessels.

159 Chair Deckert

Asks Sen. B. Starr if he is willing to add a 10- or 12-year sunset.

169 Sen. Bruce Starr

Responds, there is an opportunity here that wouldn't be here without providing incentive for investors to come here. Understands a sunset, that's appropriate. This tax can be reassessed any time. Will introduce a sunset in the House if that's the will of this committee.

207 Sen. Prozanski

Asks for some type of callback – that the builder would commit to remaining longer than the length of the tax credit.

229 Chair Deckert

Responds, if a manufacturer commits to come here, that is a big enough investment.

241 Yates

Shipyards have huge capital up-front costs. A credit is only a small percent of a shipyard's decision to locate here. Shipyards don't tend to move away. Portland has shipyards that have gone out of business that could be restarted.

- 267 Sen. Prozanski Expresses concern that the state would invest in this company and then it would move. Follow-up questions.
- 299 Yates Has spoken to Mr. Harley, and he is interested in locating in Portland.
- 307 Chair Deckert Asks whether 10 years is a good sunset time period.
- 327 Yates Responds, that would be perfectly adequate. Oregon's regulatory system is impossible. Portland as a city has forgotten it is marine dependent. There has been an explosive growth of cruise ships in Portland, and Portland has no plan how to deal with it. Envisions that this shipyard would not be located in Portland. The state has not addressed the structural issues of its economic situation, and Oregon will be the first back into the next recession. Summarizes, this tax credit is a step in the right direction.
- 383 Chair Deckert Is ready to move this bill. The case has been made that this will create jobs.
- 395 Sen. Prozanski Agrees, is ready to move this. Asks whether the shipyard would create "family wage jobs."
- 402 Yates Shipyards pay somewhere around \$20 per hour. It's skilled labor.
- 412 Sen. Metsger **MOTION: MOVES ADOPTION OF SB 896-1 AMENDMENTS.**
- 415 Chair Deckert Asks if there is any discussion on this amendment. Asks Lizbeth Martin-Mahar to facilitate drafting of a sunset amendment.
- 422 Chair Deckert **ORDER: THERE BEING NO OBJECTION THE CHAIR SO ORDERS.**
VOTE: 5-0-0
VOTING AYE: GEORGE, METSGER, PROZANSKI, C. STARR, DECKERT.
- 428 Sen. Metsger **MOTION: MOVES SB 896 AS AMENDED TO THE SENATE FLOOR WITH A DO PASS RECOMMENDATION.**
- 430 Chair Deckert **ORDER: THERE BEING NO OBJECTION THE CHAIR SO ORDERS.**
VOTE: 5-0-0
VOTING AYE: GEORGE, METSGER, PROZANSKI, C. STARR, DECKERT.
- 440 Chair Deckert Closes work session on SB 896. Committee stands at ease to await the arrival of Sen. Morse to introduce SB 853. Adjourns meeting at 10:10 a.m.

Tape Log Submitted by,

Barbara Guardino, Committee Assistant

Exhibit Summary:

1. SB 899, proposed SB 899-6 amendments, 4/7/05, Mulvihill, 3 pp.
2. SB 899, Staff Measure Summary, 4/7/05, Ayala, 1 pp.
3. SB 899, RE: Differences between SB899-1 to SB 899-6, 4/6/05, Ayala, 4 pp.
4. SB 899, proposed SB 899-5 amendments, 4/7/05, staff, 4 pp.
5. SB 899, Staff Measure Summary for SB 899-5 amendments, 4/7/05, Ayala, 1 pp.
6. SB 841, Revenue Impact of Proposed Legislation, 4/7/05, Warner, 1 pp.
7. SB 841, proposed SB 841-1 amendments, 4/6/05, Warner, 1 pp.
8. SB 841, proposed SB 841-2 amendments, 4/6/05, Warner, 1 pp.
9. SB 841, Staff Measure Summary, 4/7/05, Warner, 1 pp.
10. SB 896, Revenue Impact of Proposed Legislation, 4/6/05, Martin-Mahar, 1 pp.
11. SB 896, Staff Measure Summary, 4/6/05, Martin-Mahar, 1 pp.
12. SB 896, proposed SB 896-1 amendments, 4/5/05, staff, 1 pp.
13. SB 853-A, proposed SB 853-A2 amendments, 4/6/05, Staff, 2 pp.
14. SB 853-A, letter from Oregon universities, 4/7/05, Frohnmayr, 1 pp.