

HOUSE REVENUE COMMITTEE
FEBRUARY 28, 2003 9:00 AM STATE CAPITOL BUILDING

Members Present: Representative Lane Shetterly, Chair
Representative Wayne Scott, Vice Chair
Representative Joanne Verger, Vice Chair
Representative Phil Barnhart
Representative Vicki Berger
Representative Pat Farr
Representative Mark Hass
Representative Elaine Hopson
Representative Max Williams

Guest Members Present: Senator Ryan Deckert, Chair
Senator Ted Ferrioli, Vice Chair
Senator Tony Corcoran
Senator Bruce Starr

Witness Present: Tom Potiowsky, State Economist, Office of Economic Analysis
Michael Kennedy, Revenue Economist, Office of Economic Analysis

Staff Present: Paul Warner, Legislative Revenue Office
Kathy Tooley, Committee Assistant

TAPE 61, SIDE A

004	Chair Shetterly	Calls meeting to order at 9:10 a.m.
011	Tom Potiowsky	Released and discussed the March 2003 quarterly economic and revenue forecast, (Exhibit 1).
030	Potiowsky	Presented slide presentation on "Oregon's Economic and Revenue Outlook", (Exhibit 2).
038	Potiowsky	Discussed economic outlook, methodology, which feeds into revenue forecast.
062	Potiowsky	
070	Potiowsky	Described stabilization in business investment. Described drop in consumer sentiment estimates, which feeds into consumer spending.
076	Potiowsky	Discussed federal funds rate drop and recovery's affect on interest rates.
082	Potiowsky	Discussed national indicators of recovery which feed into the Oregon model. Viewpoint is that it is not a double-dip recession, but a very weak, jobless recovery, but would not slip back into recession.
105	Deckert	What are indicators that support that?
101	Potiowsky	The economic indicators haven't dropped to recession levels consistently; the Institute of Supply Management index has gone above 50 indicating expansion within 6 months. However, the Iraq war could lead to recession.

112	Ferrioli	What indicators on the West Coast suggest Oregon is recovering? Is there strength in other states' markets?
120	Potiowsky	Corporate profits are picking up marginally. Discussed unique characteristics of Washington and California. Oregon exports are up 13% on the year, and the value of the dollar is coming down helping the manufacturing sector.
150	Potiowsky	As business picks up it should not make the mistake of hiring back people too soon. May even see unemployment creep up.
165	Potiowsky	Described Oregon as a manufacturing-based economy, subject to volatility.
175	Potiowsky	
249	Potiowsky	Continued presentation discussing expectations in: employment; lumber and wood, high tech; construction; per capital income; and personal income growth.
249	Potiowsky	Described upside and downside risk factors affecting the forecast and how it feeds into the Oregon Model.
421	Michael Kennedy	Described changes in methodology to develop a more accurate forecast.
500	Kennedy	Described the Personal Income Tax Liability Model and its components.

TAPE 62, SIDE A

030	Chair Shetterly	Question regarding "% of Totals for 2000", (Page 12, Slide Top, Exhibit 2), with capital gains is down, how are some of the other numbers changing.
044	Kennedy	Just received 2001 data, which is much the same, except capital gains is down to 4%.
068	Rep. Corcoran	Discussed annual percentage change to each component of gross income.
095	Sen. Corcoran	Were these changes reviewed against prior forecasts to understand their accuracy? If they had been taken into account, would it have made a difference in the ability to forecast?
102	Kennedy	Responded that he had not. Noted the model will be more pertinent to future biennium, and there are still issues with the methodology. The model benefits by tying to economic factors and forces assessment of the future by component. There are still issues in data lag. The last gross taxable information is for 2001. 2002 is still a forecast in the model even though the year is complete.
142	Chair Shetterly	Could this be applied to 1999 and see if this does help get closer to the mark for 2001?
150	Sen. Corcoran	Specifically interested in retirement numbers.
158	Kennedy	What you would see is the dependence on the underlying forecasts. Using the new methodology should be able to pinpoint what component caused discrepancy in the forecast.
168	Chair Shetterly	We'll know better why we were wrong?
169	Kennedy	It will improve the accuracy, not eliminate errors in forecasting.

166	Rep. Verger	Do you feel you know enough of the retirement issue and its impact to make it a significant part?
184	Kennedy	Retirement demographics are fairly stable over time.
200	Rep. Hass	Would it make more sense to put in a range to within \$100 to \$200 million dollars, so plans could be made for the worst case?
204	Kennedy	That is correct and should have been the case. Today's presentation is modified to take that into account.
225	Potiowsky	Prior approach has been to give one number to deal with. Proposing to handle it this way from now on when there is volatility around a forecast.
226	Kennedy	Continued presentation forecasting withholding to be flat.
255		Questions and discussion interspersed.
278	Kennedy	Continued presentation regarding corporate signs of recovery.
300	Kennedy	Presented General Fund Forecast, difference in forecast of \$245 million is entirely driven by personal income tax, cites increase in insurance taxes.
310	Kennedy	Described immediate risks: 5 months withholding remaining; 2 estimated payments remaining; estimated payments shortfall. Discussed 2003 tax filing season and withholding issue. This forecast does not have any expectation of a return for the biennium.
415	Chair	Short of a catastrophic event, this forecast tries to wash out downside of forecast?

TAPE 61, SIDE B

004	Kennedy	Answered affirmatively. In all likelihood should not see more than \$100 million either way.
010	Barnhart	There's a 5% chance either way you could be wrong?
015	Kennedy	Answered affirmatively.
018	Kennedy	Described variance of close of session vs. actual revenue forecasts track record, two negative episodes both were related to recessions, otherwise positive areas. Questions and discussion regarding accuracy of forecasts.
60	Kennedy	General Fund Revenue Forecast 2003-2005 \$10.4 billion vs. \$10.9, which is tied into change in liability model. Described areas Oregon had potential for future problems. Discussion of variance.
085	Chair Shetterly	Stated for the record, that recent statements in the press, some attributed to me, show lack of confidence. These are not statements critical to either of you or your staff. You have a tough job. I want to say on the record that we appreciate and understand that.
115	Chair Shetterly	Meeting adjourned at 10:15 a.m.

Tape Log Submitted by,

Kathy Tooley, Committee Assistant Reviewed by Kim Taylor James

Exhibit Summary:

1. Potiowsky, "Oregon Economic and Revenue Forecast", 14 pages
2. Potiowsky-Kennedy, "Oregon's Economic and Revenue Outlook", 21 pages
3. Martin-Mahar, "LRO Forecast Summary", 6 pages