

HOUSE REVENUE COMMITTEE
MARCH 12, 2003 8:30 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

Witness Present: Representative John Mabrey, District 59
Randall Edwards, State Treasurer
Gary Weeks, Department of Administrative Services
Tom Potiowsky, Office of Economic Analysis
Charles Stern, Yamhill County Clerk
Oregon Association of County Clerks Legislative Committee
Dexter Johnson, Legislative Counsel Office

Staff Present: Paul Warner, Legislative Revenue Officer
Dick Yates, Legislative Revenue Office
Mazen Malik, Legislative Revenue Office
Kathy Tooley, Committee Assistant

TAPE 77, SIDE A

004 Chair Shetterly Calls meeting to order at 8:34 a.m.

OPENED PUBLIC HEARING HB 2698

018 Dick Yates Provided background and described HB 2698.
029 John Mabrey Spoke in favor of HB 2698, bill would allow non-PERS retiring local employees to be treated equally to federal employees.
080 Chair Shetterly Recessed public hearing on HB 2698

INFORMATIONAL MEETING

085 Chair Shetterly Discussed credit rating downgrades and what it means to short term and long term planning in Oregon.
077 Treasurer Randall Edwards Discussed recent credit downgrades from two ratings agencies, Moody's, (Exhibit 1), Fitch's, (Exhibit 2), provided Standard and Poor's (Exhibit 3).
110 Edwards Current downgrade based on systemic problems, Oregon's income tax system termed one-legged stool. Report cited income tax, and kicker law which prohibited putting money aside to weather downturns. Discussed short term liability; recent negative revenue forecast tipped the scale in favor of downgrade. Rating based on Oregon's track record relative to other states coming out of recession; one-time monies depleted; questioned Oregon's ability to meet future obligations.

160	Edwards	Other issues highlighted past ratings include: initiative process adds volatility and affects general fund; Measure 5, 4750, unfunded mandate passed 12 years ago in funding schools.
172	Edwards	Need to look at short term and long term opportunities to show Oregon can manage itself. Must view Oregon's finances relative to public school system; credit agencies see rainy day fund as a positive. Need to expand and grow economic base.
188	Edwards	Discussed independent nature of Moody's, Fitch, Standard & Poor's.
212	Rep. Berger	How do you explain to Oregonians how important this is?
220	Edwards	This is a hidden tax or fee increase. Oregon will now pay more for bonds for roads and schools. The Oregon School Bond Guarantee Act, bond rating was also lowered which had saved local school districts \$100 million in interest savings.
228	Rep. Williams	Is it an appropriate time to begin conversation about long term tax structure reform in Oregon?
240	Edwards	This conversation should have happened a long time ago. One of the credit agencies senior analysts said it would benefit the state to broaden its revenue source.
248	Rep. Barnhart	Is the issue the nature of the tax itself as a type or the volatility, or all of the above?
271	Edwards	Rating agencies won't advise on policy, they point out vulnerability. Rating agencies noted other states are equally challenged, but few downgraded due to having more revenue sources.
288	Edwards	Discussed uniqueness of Oregon's Kicker Law and vulnerability it causes.
315	Rep. Shetterly	At issue is exposure of weaknesses in the system that is easy to mask when revenue is coming in. However, during periods of reduced revenue, the structure is not there to sustain government services. Need to address issue, so the system works in good times and in lean times
335	Edwards	Oregon has dropped \$2 billion in revenues because of the recession in a short period of time, worse than any other state. Moody's point is to have money put aside for rainy day. Time is now to have a long term discussion.
355	Rep. Verger	Multi-tax structure states are also in trouble, state's problem not just because Oregon has income tax. Votes approved Measure 5 and Measure 50. Kicker law is unique but was designed to keep government from growing. Failure to diversify, overregulation put companies out of business. Time is of the essence asked for Edwards comment on the crisis.
408	Edwards	Has to be an enormous sense of urgency on many fronts. What are we doing with economic development? Did diversify the economy by growing technology broader. Challenge is in changing economic course, Governor is right on improving the climate. Change takes time; global issues will keep market from booming; fiscally challenge is what to pay for and how. K-12 situation critical, consequences for passing Measure 5 and 4750 have not truly been understood until today. Local option is part of the solution, but part of the long term discussion.

TAPE 78, SIDE A

010	Rep. Farr	Oregonians need to be aware that there is a tremendous natural resource that is not being used. Need to use forests wisely using new techniques, and maintain a strong ecology.
034	Rep. Scott	Tax reform is an issue that needs to be discussed, but in context. Should not reform taxes without making adjustments in essential needs.
055	Edwards	The expenditure side is also one to look at, but will take time. Tax reform takes time to change the revenue stream, should review in stages of what is possible, time urgency, long term tax base and how to pay for critical services. Keep coming back to how Oregon's public school system is funded; with all the other demands on general fund can't sustain it.
074	Rep. Hass	Discussed that a long term plan will take a year and half to get to the voters, discussed research on more successful systems. Given the urgency, what should be done immediately?
081	Rep. Edwards	Broader discussion on tax expenditures, and federal hookup. Rating agencies don't like to see state rely only on economic recovery to rebound. Don't have the ability to find any more money to cut, have to look at revenues to balance.
105	Rep. Williams	In favor of addressing immediate needs with long term tax restructuring. Few long term solutions will resolve immediate problems. Will have to look at painful reduction in services. Do not want to get through short term problem without having a long term solution in place. States with diversified tax system are not suffering at the magnitude Oregon is.
148	Chair Shetterly	Summed up Committee's challenge as complex in reviewing Oregon's budget, spending, revenue structure and service as stewards of the economy including the revenue derived from natural resources.
171	Edwards	Oregon has short term and long term opportunities; the credit rating indicates change is needed.

OPENED PUBLIC HEARING ON HB 2705

176	Paul Warner	Described and gave background on HB 2705; does not have a revenue or fiscal impact, (Exhibit 4).
202	Warner	Reviewed forecasting process and recommended structural changes (Exhibit 5).
223	Warner	Discussed issue simultaneous distribution of forecasts to legislative and executive leadership.
227	Warner	Discussed creation of statutory authority of State Economist.
240	Warner	Discussed issues as: <ul style="list-style-type: none">• Relationship of Revenue Forecast Advisory Group and current Governor's Council of Economic Advisors, noted as a strongpoint in the current system.• Open meetings law, when discussing hard revenue numbers in open forum is not addressed in the bill.
255	Gary Weeks	Discussed Governor Kulongoski's view of HB 2705. Two priorities regarding

forecasting:

- Continue to not politicize process of forecasting.
- Supported Governor's Council of Economic Advisors, would like to maintain as core advisors, discussed possible evolution of duties.

311	Weeks	Gov. Kulongoski views the board as an appropriate forum for the release of revenue and economic forecasts to all interested parties at the same time, as well as instrumental in recommending candidate to fill the state economist's position.
338	Weeks	Deferred to Tom Potiowsky to give governor's view of Council Economic Advisors.
349	Tom Potiowsky	Described voluntary membership and expertise of the Council of Economic Advisors, and its input in the development of the economic forecast and recent exposure to the revenue forecast.
019	Rep. Hass	Don't oppose creation of the boards, but don't see improving accuracy and methodology in HB 2705.
028	Potiowsky	Have moved to range forecast rather than particular number. The bill addresses the Revenue Forecast Advisory Committee as a technical group of tax practitioners, some with forecasting experience, that could influence the look of corporate taxes.
049	Weeks	Methodology is not a part of this bill, but the Governor is more than willing to discuss strategies regarding methodology.
055	Chair Shetterly	This bill does not change the process, but strengthens and institutionalizes the revenue component into the forecasting process.
069	Rep. Farr	In favor of statuting the board, the commission and the position of the economist, but what is the full value for the future? Do you see this board as having a role in alerting the legislature or decision making bodies to avert future crisis?
091	Potiowsky	That would be the role of the Revenue Forecast Board depending on members chosen.
105	Rep. Verger	Critical of Section 5, Council consisting of an indeterminate number of members, appointed by the Revenue Forecast Board. Should be limited, others could be asked testify. Where does Economic Development Department fit into this, do they get the final reports done currently.
133	Weeks	Would agree; urge consideration of an amendment, fixing a number with regard to Section 5, and the role the Governor should have in appointing members.
167	Potiowsky	Economists are part of DAS committee meeting quarterly, may not be able to divulge a company coming into the state. May be able to discuss plant siting or departure, this would not otherwise be picked up in the forecast.
178	Rep. Verger	The DAS group, is that the extent of Economic Development Department's participation in the process.
199	Potiowsky	It's the main function, but not the only function.
205	Rep. Hopson	There is nothing wrong with getting this into statute, isn't there a way to

merge this together so it doesn't become redundant.

- 220 Potiowsky Responded favorably to meshing the functions of the councils.
- 222 Weeks Advised the Committee that the public aspect of the comments needs to be resolved.
- 246 Rep. Verger Are we going to address who recommends and the number?
- 249 Chair Shetterly It is noted as an issue to address.
- 255 Chair Shetterly Closed Public Hearing on HB 2705.

REOPENED PUBLIC HEARING ON HB 2698

- 250 Del Cesar Gave history and spoke in favor of HB 2698.
- 310 Yates Provided history and gave background of HB 2698, described scope of the bill (Exhibits 7-11).
- 351 Chair Shetterly Revenue impact includes more than just 9 people in The Dalles? It assumes employees of other districts that fall into the same category?
- 370 Yates Answered affirmatively.
- 388 Cesar Discussed highlighted letter he received from Dave Ammick of PERS, (Exhibit 12).
- 387 Chair Shetterly Closed public on HB 2698.

OPENED WORK SESSION ON HB 2489

- 400 Mazen Malik Described history and background of HB 2489, (Exhibit 13), and -1 amendment (Exhibit 14).

TAPE 78, SIDE B

- 009 Charles Stern Discussed general vs. limited power of attorney. Not intent of county clerks to allow out of state corporation to avoid obtaining professional, licensed representation. Intent was to meet the needs of a citizen, who could not take care of their business, have a trusted friend with a general power of attorney to sign the petition and represent the individual before the Board of Property Tax Appeals. Noted a requirement for notarization was deleted in the amendment, under current law not required. Intent that if this person had power of attorney, notarized or not notarized, they could meet the business needs of the principal individual.
- 038 Chair Shetterly You are comfortable with the use of the "general" in referencing power of attorney in the statute?
- 043 Dexter Johnson Explained ORS generally doesn't use "general power", instead limits it at "power". Discussed with Dave Hendricks and "general" is a well understood common law concept general power vs. special power and Legislative Counsel is comfortable with the use of that term.
- 053 Rep. Hass **MOTION: MOVED ADOPTION OF THE -1 AMENDMENT INTO HB 2489.**

055		ORDER: HEARING NO OBJECTION, THE CHAIR SO ORDERS. (ALL MEMBERS PRESENT EXCEPT REP. VERGER, EXCUSED)
056	Rep. Hass	MOTION: MOVED HB 2489, AS AMENDED, TO THE HOUSE FLOOR WITH A DO PASS RECOMMENDATION ROLL CALL: MOTION PASSED 8-0-1 REPRESENTATIVES VOTING AYE: Barnhart, Berger, Farr, Hass, Hopson, Scott, Williams, Chair Shetterly. EXCUSED: Verger Chair Shetterly will carry the bill.
064	Chair Shetterly	Closed the work session on HB 2489
065	Chair Shetterly	Meeting adjourned at 10:00 a.m.

Tape Log Submitted by,

Kathy Tooley, Committee Assistant Reviewed by Kim Taylor James

Exhibit Summary:

1. Edwards, "Moody's Global Credit Research March 10, 2003", 4 pages
2. Edwards, "Fitch Ratings: State of Oregon Department of Administrative Services", 5 pages
3. Edwards, "Standard & Poor's Research Summary: Oregon Department of Administrative Services, Appropriation", 2 pages
4. Warner, "Staff Measure Summary: HB 2705" 1 page
5. Warner, "Memo: Review of Revenue Forecasting Process", 6 pages
6. Warner, "Description of Economic & Revenue Forecast Council", 2 pages
7. Yates, "Staff Measure Summary HB 2698", 1 page
8. Yates, "Revenue Impact HB 2698", 1 page
9. Yates, "Pension Income Taxed by Oregon", 1 page
10. Yates, "Non PERS Employers with Social Security Section 218, 6 pages
11. Yates, "Pension Income Tax Credit: Joint Returns", 2 pages
12. Cesar, "Testimony HB 2698", 1 page
13. Malik, "Staff Measure Summary HB 2489-1", 1 page
14. Malik, "HB 2489-1", 1 page