

**HOUSE REVENUE COMMITTEE**  
**MARCH 13, 2003 8:30 AM STATE CAPITOL BUILDING**

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

Members Excused: Representative Joanne Verger, Vice Chair

Witness Present: Lynn Read, Department of Human Services, Medical Assistance Program  
Courtnei Dresser, American Cancer Society,  
American Lung Association,  
American Heart Association  
Mark Nelson, R.J. Reynolds Tobacco  
Dick Kosesan, Brown and Williamson Tobacco  
Lee Hazelwood, Senior Advocate  
Maura Roche, Tobacco Free Coalition of Oregon  
Bruce Bishop, Oregon Association of Hospitals and Health Systems  
Scott Gallant, Oregon Medical Association

Staff Present: Paul Warner, Legislative Revenue Officer  
Lizbeth Martin-Mahar, Legislative Revenue Office  
Dick Yates, Legislative Revenue Office  
Kathy Tooley, Committee Assistant

**TAPE 79, SIDE A**

004 Chair Shetterly Calls meeting to order at 8:40 a.m.

**PUBLIC HEARING HB 2152**

013 Dick Yates Provided description of HB 2152, (Exhibit 1), the bill extends the sunset on the temporary cigarette tax which provides funds for the Oregon Health Plan, explained the -1 amendment (Exhibit 2) removes the sunset and makes the tax permanent.

024 Chair Shetterly These funds are in the Governor's recommended budget, correct?

025 Yates Answered affirmatively.

030 Lynn Read Spoke in favor of HB 2152, (Exhibit 3), without passage of the bill it would sunset, January 1, 2004. Discussed programs the 10 cent tax funds, and programs that would be eliminated if the tax were to sunset reducing revenues by \$30.7 million. Federal funding mandates some of these programs and Oregon would have to negotiate with the federal government to reconfigure the Oregon Health Plan.

084 Courtnei Dresser Spoke in support of HB 2152, (Exhibit 4), cites need for stable funding and eliminate the need to request extensions biennially.

100	Mark Nelson	Provided history and spoke in opposition to HB 2152. The original intent of 10 cent tax was to be bridge financing and would sunset. Looking at preliminary numbers to see if the 10 cent tax and the 60 cent tax passed in September 2002, is bringing in revenues projected.
135	Richard Kosesan	Provided history and spoke in opposition to HB 2152. State taxes have reached a point of diminishing returns. Encouraged committee to examine the statistics for receipts vs. tax revenues.
181	Nelson	Preliminary numbers point to major problem in Oregon in compliance with gray and black markets, internet sales, and cross border sales, caused by tax rates which differ dramatically from neighboring states, especially Nevada and Idaho.
191	Chair Shetterly	Have you looked at these numbers?
191	Yates	December is the only month for which statistics have been received.
206	Lee Hazelwood	Gave history on 10 cent tax, spoke in favor of removing the sunset clause.
252	Maura Roche	In favor of ending the sunset, said taxes are in alignment with Washington and California. Describes a study which estimates that in order for cigarette taxes to reimburse the state for the amount of tobacco-related services provided, a tax on each pack of cigarettes would need to be \$5.
302	Bruce Bishop	Spoke in favor of HB 2152, urged the committee to approve without -1, amendments, eliminating the sunset, making the tax permanent.
322	Scott Gallon	Spoke in support of the tax, and favored elimination of the sunset.
350	Chair Shetterly	The surtax will probably continue into the next biennium, the question is will it continue with or without a sunset. Asked Yates about three different statistics regarding 10 cent tax, Governor's 30.7 million, Legislative Fiscal \$24.16 million, Legislative Revenue \$22.0 million, does this represent a challenge in predicting tobacco tax revenue.
375	Yates	That is the case for Legislative Fiscal and Revenues discrepancy.
356	Lynn Read	Fiscal analysis for Governor's budget derived from Department of Revenue December 2002 Tobacco Tax Revenue Forecast, estimated for 2003-2005, 2005-2007 biennia. The 10 cent tax was calculated from that volume.
390	Yates	Problem in past is the lag involved in how many months of additional revenue would be received. It appears tax starts on January 1, but the revenues don't come in until the following month.
407	Chair Shetterly	Closed Public Hearing HB 2152

#### **OPENED PUBLIC HEARING ON HB 2764**

425	Martin-Mahar	Provided history and description of HB 2764, deletes sunset of December 31, 2001, allows for amendment of 2002 tax return, alters limitation on credit, has a minimal revenue impact.
485	Chair Shetterly	Closed public hearing on HB 2764.

#### **INFORMATIONAL MEETING**

495	Chair Shetterly	Discussed Randall Edward's, State Treasurer's appearance before the Committee, March 12, 2003, regarding the impact of the current economic recession on state budgets and revenue.
037	Paul Warner	Discussed comparison of Oregon-Washington revenue stability (Exhibit 6). The key difference is sales tax vs. income tax driven economy.
085	Rep. Hass	This supports the comment that a sales tax is not as volatile as an income tax.
093	Chair Shetterly	Washington doesn't have a large sales tax; it has a narrow base, doesn't it?
094	Warner	Discussed Washington's business purchases tax, which is a key factor in the stability of a sales tax. Washington does not tax food; many southern states tax food and that provides stability. The percentage of business purchases that are taxed makes up 20% of Washington's base.
105	Chair Shetterly	Asked for comparison to California?
110	Warner	California is highly dependent on income tax with a higher rate than Oregon; and has a sales tax. California is more dependent on capital gains than Oregon; it has been an important part of compensation in California.
123	Chair Shetterly	What is the impact of energy problems on California's economy?
125	Warner	Energy problems are still a significant factor in long term stability for California. Discussed California's economic history in the 1990s. Southern California is rebounding and Northern California is similar to the Northwest.
138	Rep. Scott	Good information with a couple of different interpretations. When the state is not in a recession, obvious growth does not occur and it is more stable; second, it is dependent on what taxes are allowed to be charged on; third, California is a good example, because it has income tax, and have diversified their economy allowing them to coming out of a recession much quicker. Does not feel sales tax is the only approach.
166	Chair Shetterly	If Oregon had been putting money aside during growth spurts, the impact of the recession would have been mitigated.
174	Rep. Barnhart	If Oregon had kept money from kicker in reserve, it would be in better shape now. As a result of Measure 5, the state budget has been under stress. As a result of the property tax reduction, the equalization of school funding did not succeed in establishing a level of school funding necessary for the long term.
196	Rep. Williams	Discussed Moody and Fitch's statements regarding Oregon's ratings downgrade. Those reports add to discussion of the need for long term thinking regarding the overall structure of Oregon's economy.
234	Chair Shetterly	Meeting adjourned at 9:20 a.m.

Tape Log Submitted by,

Kathy Tooley, Committee Assistant Reviewed by Kim Taylor James

Exhibit Summary:

1. Yates, "Staff Measure Summary, Fiscal and Revenue Impacts, referral letter on HB 2152", 4 pages
2. Yates, "HB 2152-1 Amendment", 1 page
3. Read, "Testimony HB 2152", 2 pages
4. Dresser, "Testimony HB 2152, 2 pages
5. Martin-Mahar, "Staff Measure Summary, Fiscal, Revenue Impact, Sunset HB 2764", 4 pages
6. Warner, "Washington vs. Oregon Revenue Stability", 2 pages
7. Oregon Revenue Coalition "Written Testimony HB 2764" 2 pages