

HOUSE REVENUE COMMITTEE
MARCH 19, 2003 8:30 AM STATE CAPITOL BUILDING

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

Members Excused: Representative Wayne Scott, Vice Chair

Witness Present: Randall Edwards, State Treasurer of Oregon
Representative Westland, District 53
Sen. Peter Courtney, District 11
Cynthia Burris, Attorney General's Office
Ozzie Rose, Confederation of Oregon School Administrators
Steven Lowder, Superintendent of Tigard-Tualatin School District
Deborah Sommer, Superintendent of Canby School District
David Williams, Oregon School Employees Association
Laurie Wimmer Whelan, Oregon Education Association
John Marshall, Oregon School Boards Association
Michael Parker, Oregon College Savings Plan
David Williams, Oregon Revenue Coalition

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

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004 Chair Shetterly Calls meeting to order at 9:30 a.m.

OPENED PUBLIC HEARING ON HJR 18, HB 2663

014 Steve Meyer Provided overview of HJR 18 (Exhibit 1) and HB 2663, (Exhibit 2).

023 Randall Edwards Testified in favor of HJR 18 (Exhibits 3, 4). Described school financing system as broken. This bill is important for investment in the local capital infrastructure. Local school districts can use the state's credit rating to lower costs of issuing bonds. These bills are essential for long term health of public schools. Described how the bond would work, adds match, legislative proposal, amendment to the constitution.

138 Rep. Ben Westland Spoke in favor of HJR 18 and HB 2663. Described as important legislation, \$2.4 billion needed for school maintenance and renewal documented in a Secretary of State's Audit Division opinion (Exhibit 5). This bill provides environment for learning.

151 Sen. Peter Courtney Spoke in favor of HJR 18 and HB 2663. Discussed bonding, earthquake, and election history. This bill will be in the May 2004 ballot and believes the public

will support it.

- 248 Rep. Verger Why do we need to be the benevolent grandfather and save people from their mistakes, mismanagement or lack of vision? Is sympathetic to capital projects for schools, problem is with fairness. Neighboring cities which did not obligate themselves will be able to get monies if it can get voter support. Cited need for teachers in the classrooms rather than capital projects.
- 274 Rep. Westland This would help future bond measures, all districts can benefit from this legislation.
- 310 Sen. Courtney Discussed education philosophy. Believes in common school fund and the responsibility for educating all kids throughout the state. Support is for the kids, whether parents support bond measure or not.
- 360 Rep. Verger Do you include capital projects in that philosophy?
- 363 Sen. Courtney Answered affirmatively.
- 370 Rep. Verger Discussed two Marshfield High School graduates who contributed over a million dollars to the district for fitness center as a way of saying thanks.
- 380 Edwards Described requirements of the bill. Bill sets framework, bond authority, implementing law, and long term planning.
- 420 Chair Shetterly Recess public hearing on HJR 18 and HB 2663.

OPENED WORK SESSION ON HB 2152

- 443 Chair Shetterly Recapped sense of the Committee regarding HB 2152.
- 448 Rep. Verger **MOTION: MOVED APPROVAL OF -1 AMENDMENT (Exhibit 6) INTO HB 2152.**
- 452 Yates Discussed model effects of extending \$.10 tax, estimated impacts of the bill, new rate and revenues, revenue impact, tracking for cigarette revenues (Exhibit 7-8).

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- 068 Rep. Barnhart Prefer the bill as it stands and intends to vote against the amendment.
- 070 Chair Shetterly **ORDER: HEARING NO OTHER OBJECTION, THE -1 AMENDMENT IS ADOPTED. Members Present: Berger, Farr, Hass, Hopson, Scott, Verger, Williams, Chair Shetterly. VOTING NO: Rep. Barnhart.**
- 072 Rep. Verger **MOTION: MOVED HB 2152 AS AMENDED TO THE HOUSE FLOOR WITH A DO PASS RECOMMENDATION**
- 074 **ROLL CALL: MOTION PASSED 9-0-0 REPRESENTATIVES VOTING AYE: Barnhart, Berger, Farr, Hass, Hopson, Scott, Verger, Williams, Chair Shetterly.**
Rep. Verger will carry the bill.
- 082 Chair Shetterly Closed work session on HB 2152.

REOPENED PUBLIC HEARING ON HJR 18 AND HB 2663

- 088 Rep. Hass Provided history, this component was removed in conference committee last year, any reason to be more optimistic this time around?
- 093 Rep. Westland I'm more optimistic.
- 096 Chair Shetterly It could have been a matter of capacity last time. This may stand a better chance moving by itself than attached to the other referrals for constitutional amendment.
- 101 Rep. Farr Oregon has a responsibility for the school children for the entire state and is firmly behind the bill.
- 111 Rep. Westland Redmond has failed its last four bonds, yet Bend rarely does, this bill helps level the playing field. Schools can take advantage of state's credit rating.
- 133 Chair Shetterly It's a matter of timing, some communities will have just passed bonds to support their infrastructure; once this passes the next round will be communities who just pay part and get the full benefit. Is this drafted in such a way that a community could vote to refund its bond measure and take advantage of state money?
- 152 Edwards I don't believe this is written that way.
- 155 Verger The rating drop doesn't mean anything unless community goes out for bonds? How does lower bond rating affect this bill?
- 161 Edwards It doesn't affect this bill. It is an indication of the financial health of the state. This is a tool to meet long term capital needs for the state as is done for road improvements. This has an economic development component to it by improving schools capital, means jobs and vitality for schools. This is a \$9 billion capital investment which puts it at the top of capital investment in Oregon, should not be neglecting capital improvements.
- 189 Rep. Barnhart -1 amendment, section 6, this may have the affect of amending capital definition costs for the purpose of ballot measure 50. Does it include the purchase of furniture to furnish a new building?
- 201 Edwards There is a discussion about how broad this is written.
- 218 Rep. Barnhart I would like a broader definition; schools have difficulty buying things to start up that are excluded from definition of capital in Measure 50.
- 223 Chair Shetterly Probably a question for counsel. What does it mean "this article supersedes any conflicting provision of the constitution"? The definition of capital within Measures 5 and 50 is limited to article 11, does not need to be superseded for this definition to apply. What needs to be superseded? Is it an amendment or revision?
- 240 Edwards Will get back to you on that. For the record, the state superintendent is also supportive of this package and submitted a letter of support (Exhibit 9).
- 249 Chair Shetterly With strong support this session and getting questions answered, this bill can move forward.
- 260 Chair Shetterly Looking at May 2004 primary election.

264	Edwards	Could debate if that's the right timing as well.
269	Chair Shetterly	Discussed definition of capital cost, bringing definition into concurrence.
282	Edwards	This creates a separate fund with the department managing both accounts to meet the state's capital needs.
292	Rep. Westland	To Rep. Verger's concerns, referencing districts that manage well and take care of capital costs, this bill in no way punishes those districts. It gives good stewards and those that don't equal access to bonds.
317	Chair Shetterly	Described cities that have capital needs, but tax base is too limited to fund, cited fairness issue.
349	Cynthia Burris	Capital costs definition in HJR 18 is broader and was intentional. It applies only to this measure does not amend Measure 5 and 50 definitions. Allows local districts to have bond measure, including projects outside of limits in up to 30% grant.
372	Rep. Barnhart	Would a school be able to buy furniture, books for the library?
380	Burris	Could be interpreted broadly, but not certain.
390	Chair Shetterly	This should be discussed with bond counsel.
394	Rep. Barnhart	This measure should put care into definitions to cover the real costs of a new building.
400	Chair Shetterly	The language "supersedes any conflicting provision of the constitution", why is it needed and does it create a revision?
395	Burris	I don't believe it creates a revision. The language is in there to be extra cautious. Described examples of language the article is modeled on. It does not create a revision to constitution; to have a revision you have to amend more than one section of the constitution. This creates a new section allowing authority for general obligation bonds and is written the way every state general obligation bond program has been set up.
461	Ozzie Rose	Members of the Confederation of Oregon School Administrators support the two measures. State should play a role in rebuilding and maintaining infrastructure in K-12 system. Cited maintenance deferred in times of distress. Two main points: equity has been ignored on the capital side; broadens definition of capital to include new technology to improve infrastructure.

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067	Steve Lowder	Spoke in favor of both measures, cited infrastructure needs. Previous bond \$86 million approved, but needs are greater. Discussed issue of equity for wealthy and poor districts. Encouraged committee to keep definition of equipment broad.
114	Deborah Sommer	Spoke in favor of the bills, discussed realities of passing bonds at locally and length of time it takes. Canby scaled down a bond request in order to get voter support over 6 years. Bond dollars were insufficient due to rising costs. Public expects the bond to take care of facility needs for next 25 years.
141	Rep. Verger	How do you see this bill playing out in high growth vs. declining enrollment areas? How will the fairness issue be addressed?

160	Rose	All districts will qualify in the same manner and the state will match 30%.
178	Rep. Verger	Won't the bonding be somewhat limited, there would only be so many schools eligible? Are high growth schools more eligible?
183	Rose	Will high growth schools eat up funding? That's an issue for future legislatures in how much is made available. Assume the legislature will have to establish a pattern of increasing the bonding capacity.
193	Chair Shetterly	Clarifies match is not exceeding 30%, will depend on what's available.
200	Rose	Vote is scheduled for 2004 primary. Bonds will have to be sold; the first time schools will be able to use the bond will be for the 2006-07 school year.
220	David Williams	Spoke in support of HJR 18 and HB 2663, as a tool for school districts to help with capital costs, (Exhibit 10).
245	Laurie Wimmer Whelan	Spoke in support of HJR 18, concerned about local match, would like source to be more flexible than local bonding to allow local district flexibility in terms of funding.
270	Chair Shetterly	Is that limitation in the joint resolution or in the bill?
272	Steve Meyer	It's in HB 2663?
274	Chair Shetterly	That's statutory and can be fixed.
276	Rep. Verger	Regarding OEA position, Oregon has operational needs and wants more teachers, higher standards. There are only so many things can ask the voters for, are you concerned that operations will suffer as a result?
290	Whelan	It's a struggle every district has with respect to bonding and local option. OEA supports having as many creative options to try to fulfill operational and capital needs of schools.
310	John Marshall	Spoke in support of the bills based on need to create the structure that will allow for funding. Need to build the foundation to give treasurer authority to build on in the future. The challenge will be to find revenue stream to pay debt service after establishment of fund.
361	Rep. Barnhart	In Section 3, says 50% has to come from local general obligation bonds, a maximum 30% from this bond, 20% can from somewhere else. Does require voter approval for local general obligation bonds, not specifying the amount. The trigger is local voter approval.
380	Chair Shetterly	Interested in finding out about definition of capital costs in HJR 18, on HB 2663 direction of administration of criteria.
404	Rep. Hopson	HJR 18 definition capital costs should be done in conjunction with definition for operating costs.
414	Rep. Verger	Will we know revenue source before going into work session?
417	Chair Shetterly	There will be a \$1 appropriation in this session to establish the fund, take action of next leg session to authorize issuance of bonds; debt service will be out of general fund.

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- 002 Edwards The key point is to set up a framework to address long-term need. This is a critical part of school funding to make sure the buildings are meeting the objectives.
- 027 Chair Shetterly Meyer confirmed the appropriation is still in the bill, the amendment takes out the limitation. It will take an amendment to take out the appropriation.
- 032 Edwards Intent was to take it out.
- 038 Chair Shetterly Closed public hearing on HJR 18 and HB 2663.

OPEN PUBLIC HEARING ON HB 2664

- 048 Lizbeth Martin-Mahar Provided background and description, discussed -1 amendment, (Exhibit 11-12).
- 072 Edwards Spoke in favor of HB 2664, (Exhibit 13) updated Committee on Oregon college savings plan. People have invested \$100 million, plan is viewed as an opportunity for the long term.
- 105 Edwards Described college savings plan, risk is on investor. Described features, tax benefits from federal and state; lifetime plan that can be passed on to next generation.
- 191 Rep. Barnhart Does this bill bring Oregon into conformity with federal law?
- 182 Edwards Changes are for how the program is administered in Oregon; name change now 529 plan; more a network with other vendors. Most of the changes are housekeeping for Oregonians to invest into program. Have to invest by end of calendar year, trying to extend up to the tax date, as an IRA.
- 245 Rep. Barnhart These changes would allow states to take advantage of flexibility under 529 that it doesn't now?
- 250 Edwards That's a fair statement, mostly programmatic changes that are being made after seeing the market place, giving investor more flexibility.
- Questions and discussion regarding frontloading.
- 279 Chair Shetterly Are there a surprising number of contributors that don't take the subtraction?
- 282 Michael Parker Answered affirmatively. Discussed people who have not taken the deduction.
- 294 Edwards Have sent letters reminding people to take the deduction. Have to explore why people aren't taking it.
- Questions and discussion regarding deductions.
- 314 Parker Discussed -1 amendment, loophole in non-qualified withdrawal, separate account for operation of plan.
- Questions and discussion regarding non-qualified withdrawals.
- 377 David Williams Clarify impetus for submitting testimony, (Exhibit 13) concerned with bottom line for this session needs to be revenue offsetting and revenue neutral.

Tape Log Submitted by,

Kathy Tooley, Committee Assistant Reviewed by Kim Taylor James

Exhibit Summary:

1. Meyer, "Revenue Impact HJR 18-1, HJR 18 -1 Amendment", 2 pages
2. Meyer, "Revenue Impact HB 2663-1", 1 page
3. Edwards, "Investing in our Future: School Capital Matching Program HJR 18 and HB 2663", 1 page
4. Edwards, "Investing in our Future: School Capital Matching Program, Answers to Frequently Asked Questions about HJR 18", 2 pages
5. Westland, "Correspondence from Oregon Audits Division", 3 pages
6. Verger, "-1 Amendment to HB 2152", 1 page
7. Yates, "Staff Measure Summary HB 2152", 1 page
8. Yates, "Monthly Output from Model", 3 pages
9. Edwards, "Testimony of Susan Castillo", 1 page
10. Williams, "Testimony HJR 18 and HB 2663", 1 page
11. Martin-Mahar, "Revenue, Fiscal Impact HB 2664-1", 2 pages
12. Martin-Mahar, "-1 Amendment HB 2664", 1 page
13. Edwards, "Testimony HB 2664", 2 pages
14. Written Testimony Oregon Revenue Coalition, 3 pages