

HOUSE REVENUE COMMITTEE
MARCH 26, 2003 8:30 AM STATE CAPITOL BUILDING

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

Members Excused: Representative Phil Barnhart

Witness Present: Linda Burglehaus, Oregon Municipal Finance Officers Association
Tax Supervising & Conservation Commission
Tom Gallagher, Oregon Newspaper Publishers
Curt Copenhagen, Longview Fiber Company
Joe Schweinhart, Associated Oregon Industries (AOI)

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

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004 Chair Shetterly Calls meeting to order at 8:35 a.m.

PUBLIC HEARING ON HB 3050

010 Mazen Malik Presented background and described HB 3050, no revenue impact, no fiscal impact as yet (Exhibit 1).

040 Linda Burglehaus Spoke in favor of HB 3050, (Exhibit 2). Discussed scope of the bill.

094 Burglehaus Discussed audit violation problem.

115 Burglehaus Discussed capital expenditures.

135 Burglehaus Discussed 5 year loan and setting of rate of interest.

145 Burglehaus Discussed clarifying jurisdiction language; change filing date to July 15.

159 Burglehaus Discussed Multnomah County tax supervising issue.

180 Burglehaus Discussed error in law regarding ending fund balance that was just noticed.
Questions and discussion regarding organization structure.

205 Chair Shetterly Are you aware of any possible fiscal impact?

207 Burglehaus Don't believe so, may relieve some of the burden on the districts.

210 Tom Gallagher Would like to look at in more depth, feels he may not oppose, but would like

252	Chair Shetterly	to review. Concerned regarding elimination of salary listing. May come in with a bill next session requesting that information in a simpler format. For the record, received written testimony from League of Oregon cities, (Exhibit 3).
267	Chair Shetterly	Closed public hearing on 3050

OPENED PUBLIC HEARING ON HB 2505, HB 3183, HB 2506 AND HB 2950

294	Lizbeth Martin-Mahar	Provided background and described Oregon Tax Incident Model, (Exhibit 4)
308	Martin-Mahar	OTIM addresses two policy objectives: Provides lawmakers on overall distribution of Oregon tax burden by household, incorporating all of Oregon's taxes; develops a capacity to identify and quantify behavior responses to significant tax changes.
390	Martin-Mahar	Discussed feedback affects, assume 5 year period of time for adjustments.
402	Martin-Mahar	Discussed "Basic Circular Flow Diagram", (Page 2, Exhibit 4). OTIM tries to capture feedback affects with factors of production adjusting for different shocks imposed on system.
460	Rep. Verger	Is it calculated 5 years into the future or back?
470	Martin-Mahar	Described calculations based on 1997 dollars. Described methodology involved with "shocking the system".
483	Paul Warner	5 years is an assumption about how long it takes the system to adjust back to a new equilibrium. Look at current system, make big policy change, then adjustments, assume 5 year period. It is a supply driven model, responds to labor and capital. When in a recession, business is not going to invest regardless of cost of capital. 5 years is an average dependent on external circumstances.

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043	Warner	OTIM is not a business cycle model; it is a long term equilibrium model. This is about changing our competitive position and the speed of adjustment is influenced by external factors like the business cycle.
054	Chair Shetterly	For the record, why 1997?
055	Warner	1997 is the base year used because there is complete data.
064	Chair Shetterly	When it is updated, when will it update to?
065	Warner	Believe it is 2000.
070	Warner	OTIM assumes have to balance budget, it reduces expenditures by equal amounts to restore balance. Less confident of feedbacks on spending side, for example education. Comfortable on the tax side in terms of behavior.
083	Rep. Scott	Why doesn't the business cycle affect household, supply and revenue?
089	Warner	It doesn't affect responses, it affects overall level of activity, key parameters are its response to prices; how workers respond to changes in wages; capital response to net returns.

100		Questions and discussion regarding effect of responses.
131	Rep. Scott	What would be the margin of error?
134	Warner	It will vary with individual assumptions.
151	Chair Shetterly	On each of these bills the margin of error would be comparable; concern may be comparative value rather than actual accuracy?
154	Warner	Answered affirmatively. Revenue impact is prepared in the usual way, and then tied to the latest economic and revenue forecast. It is then modified on percentage basis based on OTIM feedbacks.
163	Martin-Mahar	Discussed OTIM results averaged over 5 years. Discussed comparison criteria from tax cut proposals. (Page 3, Exhibit 4). Discussed rankings.
208	Chair Shetterly	The positive feedback is the growth stimulus affect of each proposal?
210	Martin-Mahar	Answered affirmatively.
212	Warner	The positive feedback is a revenue feedback determined by the revenue system.
240	Martin-Mahar	Discussed static and dynamic revenue impacts of the four bills.
254	Warner	Discussed how OTIM is affected if consumer spending is increased.
273	Rep. Verger	21.5% does it make the assumption that the RD credit was successful?
292	Warner	Shows that as a result of the RD credit, the net after tax return to capital is higher in Oregon than before the tax change.
305	Martin-Mahar	Discussed personal income criteria.
324	Rep. Hass	For every \$1 million spent in RD, the result is 1.98?
328	Martin-Mahar	Answered affirmatively, it is personal income that is created in the economy.
339	Rep. Hass	Personal income, not revenue to the state?
333	Warner	Answered affirmatively. Personal income is measure of overall economic activity.
343	Chair Shetterly	What is the connection between \$1 million spent and \$1.98 million in additional revenue? Where is that coming from?
345	Martin-Mahar	RD is a very broad credit, causes firms to invest more in their capital. Discussed single-sales apportionment.
360		Discussion of RD credit affects.
381		Questions and discussion regarding 5 years and RD credit.
405		Discussion regarding equilibrium.
428	Martin-Mahar	Change in investment is what is driving the increase in personal income; RD is ranked 1, followed by single sales apportionment; and capital gains.

430	Martin-Mahar	Discussed net job change when shocked; the most employment and increase in wages would come from the capital gains tax cut.
480	Chair Shetterly	OTIM says capital gains tax cut would generate more new employment, and generate less in additional personal income, please explain?
486	Martin-Mahar	Function of in-migration and out-migration, not stimulating production factors. Not as great a stimulus as RD credit or single sales factor which changes prices of capital encouraging firms to stimulate the economy.

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046	Warner	OTIM looks at long term competitive position, does not deal with the business cycle. Net job growth comes from getting more labor to come to Oregon. RD credit pulls in new capital and gives existing workers more to work with. Capital gains increases net income of high income households;. OTIM assumes this group has a higher mobility and will respond more to a higher net income.
065	Martin-Mahar	Capital gains tax cut produces largest net jobs; RD ranks second, single sales ranks third.
071	Martin-Mahar	Single sales benefits manufacturers, those with property and payroll, but does not help labor-intensive industries such as retail.
081	Martin-Mahar	Discussed capital index. RD gives biggest percentage increase in return to capital; followed by single sales; capital gains does not create an incentive.
092	Martin-Mahar	Discussed wage affects: RD positive return followed by single sales; capital gain causes a reduction because of net migration of individuals to the state.
094	Chair Shetterly	Is that because RD and single sales focus on industries with higher paying jobs? Capital gains affects a broader spectrum and lower paying jobs?
102	Warner	Capital gains increases the supply of labor, reduction in wage is offset by increased number of jobs in higher income.
116	Warner	RD and apportionment benefit manufacturing sector where higher paying jobs are.
118		Discussion effects on personal income for each reduction
137	Martin-Mahar	OTIM adds a tax incident model, breaks down households and the impacts they will feel from tax changes. OTIM can add tax reforms together and show overall tax burden.
165	Martin-Mahar	Discussed HB 2505 capital gains tax cut proposal (Exhibit 5)
171	Martin-Mahar	Discussed how HB 2506, HB 3183, and HB 2950 affect OTIM and tax liability for various income groups.
233	Chair Shetterly	What accounts for jump under capital gains 3%, to 14%, to 8% (Page 3, Exhibit 4)?
220	Martin-Mahar	Could be the seniors in this category.
242	Rep. Hass	Ultimate question, which would do the most to stimulate the economy, short term, long term?

251	Warner	OTIM gives results based on best economic theory; depends on what you are trying to achieve. If trying to increase personal income, comparing to loss in revenue, the biggest feedback would come from RD credit. If trying to increase long run employment, then biggest feedback is with capital gains. Role as policy maker is to decide what is trying to be accomplished.
		Questions and discussion regarding capital gains.
300	Martin-Mahar	Discussed HB 2950 revenue impact, (Exhibit 6).
342	Martin-Mahar	Discussed HB 2506 revenue impact, (Exhibit 7).
368	Chair Shetterly	Rep. Hass, are the amendments available on these?
370	Rep. Hass	No.
370	Martin-Mahar	Discussed HB 3183 revenue impact, (Exhibit 8).
403	Martin-Mahar	Discussed HB 2505 revenue impact, (Exhibit 9).

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020	Curt Copenhagen	Spoke in opposition to HB 3183, the bill when full implemented would cost the company \$500,000 a year.
060	Joe Schweinhart	Spoke in support of HB 2505; discussed OTIM model, concerned that it does not look at business cycle. Capital gains effects economy now vs. the future.
072	Chair Shetterly	Shows \$1.2 million revenue impact for 2003-2004, assumes a low impact in terms of real dollars?
074	Martin-Mahar	That's correct, the underlying assumptions as coming from OEA, we use the forecast from DAS for capital gains assumptions, it is not OTIM's.
098	Schweinhart	Discussed assumptions on which capital gains arguments are made.
123	Schweinhart	Discussed importing in-migration of workers, how does that affect capital gains? Need to see study over last few years where capital gains is going to affect revenue stream, then look at long term when economy starts to come back.
137	Schweinhart	Individuals make most of capital gains; the consumer spends the money that drives the economy the more money in their hands, the better.
149	Schweinhart	Discussed analysis of capital gains, (Exhibit 10).
153	Schweinhart	Described affects of cuts in capital gains, (Exhibit 11).
159	Schweinhart	Two points to consider: Capital gains is most volatile and hardest revenue to forecast; capital gains reduction is the number one issue for this legislative session, constituents contend this tax is harmful for business growth.
170	Schweinhart	Bipartisan Growth Caucus has said that the reduction in capital gains is part of their plan.

Tape Log Submitted by,

Kathy Tooley, Committee Assistant Reviewed by Kim Taylor James

Exhibit Summary:

1. Malik, "Staff Measure Summary HB 3050", 1 page
2. Burtlehaus, "Testimony HB 3050", 2 pages
3. Oregon League of Cities, "Testimony HB 3050", 1 page
4. Martin-Mahar, "Description of OTIM", 3 pages
5. Martin-Mahar, "HB 2505 – Phase in of 5% Capital Gains Rate – Static and Dynamic Revenue Impact", 1 page
6. Martin-Mahar, "Revenue, Fiscal Impacts HB 2950", 2 pages
7. Martin-Mahar, "Revenue, Fiscal Impacts HB 2906", 2 pages
8. Martin-Mahar, "Revenue, Fiscal Impacts HB 3183", 2 pages
9. Martin-Mahar, "Revenue Impact HB 2505", 1 page
10. Schweinhart, "Capital Gains Taxes and U.S. Economic Growth: A Retrospective Look", 2 pages
11. Schweinhart, "Double Whammy for U.S. Investors: Federal and State Capital Gains Tax Rates High", 5 pages.
12. Schnitzer Steel Industries, Inc., "Written testimony HB 3183", 1 page