

**SENATE REVENUE COMMITTEE**  
**JANUARY 30, 2003 1:00 PM STATE CAPITOL BUILDING**

Members Present: Senator Ryan Deckert, Chair  
Senator Tony Corcoran  
Senator Lenn Hannon  
Senator Charlie Ringo  
Senator Bruce Starr

Members Excused: Senator Ted Ferrioli, Vice-Chair

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

Staff Present: Paul Warner, Legislative Revenue Office  
Tara Lantz, Committee Assistant

**TAPE 14, SIDE A**

003	Chair Deckert	Calls meeting to order at 1:05 pm.
009	Paul Warner	Refers members to memo in response to Rep. Shetterly's request for a review of the General Fund revenue forecasting process. Exhibit 1.
031	Tom Potiowsky	Begins presentation on Oregon's Revenue Forecast Process. Exhibit 2, slide 1.
038	Potiowsky	Discusses forecast objective. Exhibit 2, slide 2.
054	Potiowsky	Discusses General Fund forecast components.
060	Potiowsky	Discusses economic and revenue models. Exhibit 2, slide 3.  Questions and answers interspersed.
110	Sen. Hannon	Asks how Oregon's economic drop compared to the national trend and commented on following trends and forecasting for two years rather than one.  Discussion follows.
154	Sen. Deckert	Asks how much of the drop in the economy can be attributed to 9/11.
160	Potiowsky	Responds that there is no way to give an exact number because there were many other factors to the recession.  Discussion follows.
191	Michael Kennedy	Discusses Personal Income Tax Model. Exhibit 2, slide 4.
225	Kennedy	Discusses the tax calculator and developing the total liabilities forecast. Exhibit 2, slide 5.  Questions and answers interspersed.

295	Kennedy	Discusses personal income tax and quarterly collections models. Exhibit 2, slide 6.
306	Kennedy	Discusses the timing of collections in relation to tax year 2001.
328	Kennedy	Discusses the history of the personal income tax collections forecast. Exhibit 2, slide 7.
337	Kennedy	Discusses the Corporate Income Tax Model. Exhibit 2, slide 8.
343	Kennedy	Discusses corporate income tax quarterly collections models. Exhibit 2, slide 10.
350	Kennedy	Discusses the relationship between corporate income tax collections and liability. Exhibit 2, slide 9.
363	Kennedy	Discusses the history of the corporate income tax collections forecast.  Questions and answers interspersed.
411	Sen. Hannon	Asks about the effects of the corporate kicker.  Discussion follows.

**TAPE 15, SIDE A**

010	Kennedy	Discusses Close Of Session (COS) forecast.
015	Kennedy	Discusses the historical performance of forecast. Exhibit 2, slide 11.
018	Kennedy	Discusses graph showing that revenues exhibit considerable volatility. Exhibit 2, slide 12.
047	Kennedy	Discusses actual revenues compared to COS Forecast and a naive trend.
082	Kennedy	Discusses data available for December forecast. Exhibit 2, slide 14.
093	Kenedy	Discusses factors that make quarterly PIT collections volatile. Exhibit 2, slide 13.
148	Sen. Deckert	Asks if there were ways to build the budget incrementally.
164	Kennedy	Responds that he's never heard of such a methodology.
170	Sen. Hannon	Responds that that might make it difficult to be cushioning the budget all the time.  Discussion follows.
202	Sen. Hannon	Brings up the Washington State model of giving a high and low estimate and taking the middle road and proposes that Oregon should look at different approaches such as this.  Discussion follows.
280	Potiowsky	Discusses the recent unusual events that have affected the economy.
300	Potiowsky	Discusses estimated Oregon employment growth rates available for the May 2001 forecast compared to revised data to date.

- 336 Kennedy Reviews the current General Fund Revenue Forecast. Exhibit 2, slide 16.
- 347 Kennedy Discusses the historical and forecast General Fund growth, not including kicker refunds.
- Questions and answers interspersed.

**TAPE 14, SIDE B**

- 010 Kennedy Discusses factors influencing projected growth in general fund revenues. Exhibit 2, slide 17.
- 025 Kennedy Discusses the December Personal Income Growth Forecast. Exhibit 2, slide 18.
- 045 Kennedy Discusses graph showing that historically, capital gains and retirement income has outpaced gross income growth.
- 056 Sen. Hannon Points out that capital gains have not outpaced gross income growth in the past year and a half.
- 061 Kennedy Responds that it will be interesting to see what happens with capital gains in the 2001 data.
- 073 Warner Points out that there won't be a major drop in capital gains in the next year because they are starting out from such a low level.
- Discussion follows.
- 092 Sen. Hannon Asks about the effects of corporations on the forecast.
- 101 Kennedy Responds that the personal income tax was the major driving force in the forecast.
- Discussion follows.
- 123 Kennedy Discusses the history of the effective tax rate. Exhibit 2, slide 20
- 146 Kennedy Discusses graph showing that the PIT forecast is slightly below the long-term trend.
- Questions and answers interspersed.
- 154 Sen. Hannon Asks how the proposed moving of dates at the federal level, such as the marriage penalty, would effect the personal income tax growth.
- 168 Warner Responds that the economists are waiting to look at the effects of the proposed federal legislation until they get an actual bill, but that in general the changing of those dates should increase Oregon's tax growth.
- Discussion follows.
- 240 Warner Outlines review of the revenue forecast process at request of Rep. Shetterly. Exhibit 3.
- 268 Warner Discusses the reasons for the difference between the close of session and the current forecast beginning with wage and salary income. Exhibit 3.

Questions and answers interspersed.

389 Warner Discusses corporate income as it affects the difference between the close of session and the current forecast. Exhibit 3.

### **TAPE 15, SIDE B**

012 Warner Discusses capital gains, other business and investment income, and miscellaneous factors as they affect the difference between the close of session and the current forecast. Exhibit 3.

065 Warner Briefly discusses history of the forecast process.

095 Warner Discusses strength of current forecast system. Exhibit 3.

Questions and answers interspersed.

143 Warner Discusses recommended technical changes. Exhibit 3.

Questions and answers interspersed.

204 Warner Discusses recommended structural and reporting changes beginning with establishing a Revenue Forecast Board. Exhibit 3.

235 Sen. Deckert Asks if Warner thinks that will make process more politicized and if it is necessary.

Discussion follows.

322 Warner Discusses the recommendation of creation of a new Revenue Forecast Advisory Committee. Exhibit 3.

351 Warner Discusses the recommendation of providing a monthly revenue tracking report. Exhibit 3.

377 Warner Discusses the recommendation of having a budgetary review of the Office of Economic Analysis functions. Exhibit 3.

Questions and answers follow.

401 Sen. Starr Suggests that Warner talk to Sen. Beyer about some of the recommendations.

### **TAPE 16, SIDE A**

007 Sen. Deckert Asks Warner about making statutory changes.

Discussion follows.

017 Sen. Deckert Asks about how the kicker would effect the statutory changes.

Discussion follows about changing the constitutional wording regarding the kicker and changing the methodology of the forecast in order to affect the kicker.

063 Sen. Deckert Adjourns meeting at 2:58 pm.

Tape Log Submitted by,

Tara Lantz, Committee Assistant Reviewed by Kim Taylor James

Exhibit Summary:

1. Paul Warner, Review of Revenue Forecasting Process, 7pp.
2. Tom Potiowsky and Michael Kennedy, Oregon's Revenue Forecast Process, 11pp.
3. Paul Warner, Revenue Forecast Review, 1p.
4. Paul Warner, Oregon Economic and Revenue Forecast, 123pp.