

HOUSE SPECIAL SESSION COMMITTEE ON TAXATION

February 27, 2002 Hearing Room HR A

5:45 p.m. Tapes 1 - 4

MEMBERS PRESENT: Rep. Bruce Starr, Chair

Rep. Mark Hass

Rep. Tim Knopp * See vote explanations (Exhibit N)

Rep. Jerry Krummel * See vote explanations (Exhibit L)

Rep. Jan Lee

Rep. Tootie Smith * See vote explanations (Exhibit M)

Rep. Diane Rosenbaum

Rep. Vicki Walker

Rep. Jackie Winters * See vote explanations (Exhibit O)

STAFF PRESENT: Paul Warner, Legislative Revenue Officer

Richard Yates, Economist, Legislative Revenue Office

Ed Waters, Economist, Legislative Revenue Office

Greg Chaimov, Legislative Counsel

Cara Filsinger, Administrative Support

MEASURE/ISSUES HEARD: Adoption of committee rules

Introduction of committee bills

Public Hearing and Work Session – HB 4024

Public Hearing and Work Session – HB 4039

Public Hearing and Work Session – HB 4040

These minutes are in compliance with Senate and House Rules. Only text enclosed in quotation marks reports a speaker's exact words. For complete contents, please refer to the tapes.

TAPE/#	Speaker	Comments
TAPE 1, A		
005	Chair Starr	Opens the meeting at 6:29 p.m. Opens a work session for the purpose of adopting committee rules.
<u>WORK SESSION TO ADOPT COMMITTEE RULES</u>		
009	Rep. Winters	MOTION: Moves to ADOPT the proposed Committee Rules (EXHIBIT A).
010	Chair Starr	VOTE: 7-0 Hearing no objection, declares the motion CARRIED.
<u>WORK SESSION TO INTROUDCE COMMITTEE MEASURES</u>		
011	Chair Starr	Explains process for introducing measures.
013	Paul Warner	Legislative Revenue Officer.
020	Warner	Explains LC 44 (EXHIBIT B) relating to a two year delay in the implementation of Measure 88.
028	Warner	Explains LC 48 (EXHIBIT C) relating to an increase in the cigarette tax.
033	Warner	Explains LC 49 (EXHIBIT D) relating to an increase in the privilege tax on beer and wine. Says all measures require a 3/5 vote.
048	Rep. Rosenbaum	Asks about beer tax exceptions for small producers.
054	Warner	Answers there is an exception for producers of less than 200,000 gallons.
060	Rep. Rosenbaum	Asks how many companies are affected by the tax increases. Asks if Widmer Brewery would be affected.
065	Warner	Responds he does not know.
066	Dick Yates	Legislative Revenue Office. Answers that the measure would exempt all Oregon producers of malt beverages.
070	Rep. V. Walker	Asks which wines will have the increase of \$1.05.
072	Warner	Answers most wines are taxed at 67 cents and dessert wines at 77 cents. Says the increase of \$1.05 is for both.
077	Rep. Winters	Asks about volume limitations for wineries.
081	Yates	Responds that existing law exempts US producers with a domestic production volume of less than 100,000 gallons from tax on the first 50,000 gallons. Comments on tax credit measure that passed in 2001 session.
099	Rep. Winters	Asks how many Oregon wineries would be affected by the \$1.05 increase.
100	Yates	Replies he does not know, but says there is a person from Oregon Liquor Control Commission available to answer questions.
102	Chair Starr	

MOTION: Moves LC's 44, 48, 49 BE INTRODUCED as committee bills.

VOTE: 7-0

105 Chair Starr
099 Chair Starr

Hearing no objection, declares the motion CARRIED.

Recesses the committee at 6:35 p.m.

NOTE: The Speaker appointed Representatives Krummel and Lee to the committee during the recess.

100 Chair Starr

Reconvenes committee at 7:20 p.m.

120 Chair Starr

Opens public hearing on HB 4024, HB 4039, and HB 4040

PUBLIC HEARINGS – HB 4024, HB 4039, HB 4040

123 Ed Waters Legislative Revenue Office. Reviews the revenue impact statement for HB 4024 (**EXHIBIT E**). Says the effective date is 91 days after sine die.

140 Rep. Krummel Asks about the revenue impact in 2003-05 biennium.
143 Waters Responds that the measure affects revenue in the two tax years in the current biennium.

148 Rep. Krummel Asks clarification about when the measure would be in effect.
150 Waters Answers the measure would be in effect for tax years January 1 – December 31, 2002 and January 1 – December 31, 2003.

153 Chair Starr Points out revenue statement is available to the committee.
157 Rep. Krummel Asks what income level is required to take advantage of the increased deduction.

150 Waters Responds that need at least \$3,000 of federal tax liability.
168 Rep. Krummel Inquires what the poverty level is for a family of four.
169 Waters Responds he will get back to the committee with the answer.
181 Chair Starr Discusses process for public hearings.
192 Rep. Hass Expresses disappointment in late hour for the public hearings. Comments on possible technical errors in the bills.

203 Chair Starr Comments on public testimony received in December and January.
215 Rep. Rosenbaum Comments on process by which the committee was appointed.
250 Dick Yates Provides revenue impact statements for HB 4039 and HB 4040 (**EXHIBITS F and G**). Discusses reductions in distribution to counties.

311 Rep. V. Walker Asks about the transfers to counties versus the General Fund.
321 Yates Responds the tax from the existing rate would continue the current distribution through the Oregon Liquor Control Commission (OLCC) (56% to General Fund, 10% to counties, and 34% to the cities). Says that for the new revenue, OLCC will have to keep track of the additional tax collected, and that money will go directly to the General Fund.

336 Rep. V. Walker Asks whether OLCC would need to add staff to account for increased tax collections.
342 Yates Responds he does not think they would.
346 Rep. V. Walker Clarifies that no money would go to mental health, cities, or counties.

321 Yates Responds they get the same distribution as under current law, except that due to the tax increases in the measure, consumption will be reduced and the total revenue will decrease slightly.

357 Rep. Winters Asks about reduced consumption.

361 Yates Responds yes.
363 Rep. Hass Asks about section 3 in HB 4039. Asks if it was the intent to eliminate the tax on the smaller microbreweries.
371 Yates Says that is how the measure reads.
372 Rep. Hass Asks if smaller producers would benefit because the tax is removed.
374 Yates Answers yes.
384 Chair Starr Says the draft was intended to be that way.
386 Rep. Rosenbaum Asks if the revenue impact statement includes removal of the tax on small producers.
389 Yates Answers yes.
390 Rep. Rosenbaum Asks if there are figures available reflecting revenue impact if the tax on small producers was not removed.
400 Rep. Hass Comments on the issue of fairness.
415 Yates Reviews revenue impact statement for HB 4040 (**EXHIBIT G**). Comments on consumption decline.
463 Rep. Winters Asks about reduction in consumption.
474 Yates Responds that the tax rate is fixed per pack. Says there is typically a decline in consumption due to tax increases.
480 Rep. Winters Asks if campaign to reduce tobacco consumption is included in the figures.
490 Yates Responds no.
500 Rep. Krummel Asks what effect tax evasion will have on beer and wine or cigarette tax.

TAPE 2, A

030 Yates Responds the beer and wine tax is relatively low. Says he is not aware of problems with smuggling relating to the beer and wine tax. Speculates that this measure would not increase illegal activity. Says relating to cigarette taxes, the Western states are relatively high. Comments on efforts to reduce illegal activity.
058 Rep. Krummel Asks if it is illegal to purchase wine, beer, or cigarettes over the Internet.
061 Yates Says no, but that buyers are liable for the tax.
065 Rep. Winters Asks about cost for enforcement.
070 Yates Responds that was addressed during 2001 session. Says that the Attorney General (AG) and Department of Revenue are scheduled to begin the process of enforcement.
085 Rep. Winters Ask about the tax per pack for Idaho.
089 Warner Responds it is 28 cents.
096 Chair Starr Says the bills before the committee are drafted the same as the Governor's proposals.
100 Rep. Haas Says there may be some disagreement about whether the measures are drafted that way.
107 Rep. Randy Leonard District 48. Comments on his past legislative experience. Discusses status of the budget in Oregon.
160 Rep. Leonard Relates his disappointment in the process.
200 Rep. V. Walker Comments on Rep. Leonard's testimony. Discusses public hearing process.
223 Rep. Krummel Asks if the Governor should reconsider his vetoes of the budget bills.

230	Rep. Leonard	Clarifies his position. Relays personal experience with firefighters union.
308	Rep. T. Smith	Asks if Rep. Leonard supports tax increases to balance budget.
311	Rep. Leonard	Responds that he supports a balanced process.
317	Rep. T. Smith	Comments on the tax increases proposed by the measures.
332	Rep. Leonard	Responds to Rep. Smith's statements.
367	Rep. Ben Westlund	District 53. Comments on the negotiations of the "Group of 5". Outlines the revenue proposals that were discussed by the group. Comments that Sunday liquor sales was the only long-term revenue proposal that had consensus.
445	Rep. Westlund	Discusses the Education Endowment Fund proposal.
<u>TAPE 1, B</u>		
011	Rep. Westlund	Says that it is necessary to determine whether the legislature will approve increased taxes before the budget process can continue.
033	Rep. V. Walker	Asks about sending tax proposals for a vote instead of as part of a whole package.
045	Rep. Westlund	Comments that during a special session, it is necessary to know the revenue first.
070	Chair Starr	Says that if any of the measures pass the House floor, there would be a bi-partisan group making determinations on how to allocate the revenue.
075	Rep. Westlund	Replies that a special session is different.
092	Chair Starr	Says that Legislative Counsel reports there are no drafting mistakes in the measure.
096	Rep. Hass	Comments on the drafting process for the measures.
103	Paul Romain	Oregon Beer and Wine Distributors Association. Discusses HB 4039. Explains privilege taxes on beer and wine. Says that the tax should be on the end transaction, not the wholesalers. Points out the tax increase in HB 4039 is very large. Discusses effect of tax increase on consumers.
120	Romain	Provides examples of other states' taxes. Comments on the effect of HB 4039 on microbreweries.
210	Romain	Says the measure is not constitutional. Comments the measure will be challenged in court.
230	John Powell	Miller Brewing Company. Comments on HB 4039 and excise taxes. Relates personal experience relating to excise taxes.
258	Powell	Discusses the difference between average and median taxes. Comments that beer is also taxed federally. Relates the proposed tax increase in HB 4039 compared to other state's rates.
302	Powell	Comments on the regressive nature of excise tax on beer.
348	Rep. V. Walker	Asks if Oregon's tax on beer and wine is fair.
355	Romain	Says the tax is too high. Comments that consumers pay more than others, for example costs such as the bottle bill and wages.
400	Powell	Comments on tax fairness issues as compared to other states. Relates examples of other kinds of taxes.
428	Rep. Winters	Asks about microbreweries and the production threshold contained in the measure.
441	Powell	Defers question to Mr. Romain.
438	Romain	

Answers the largest microbrewery, Widmer Brothers, produces about 127,000 barrels. The next largest, Deschutes Brewing Company, produces about 103,000 barrels. Says the exemption level in the bill was increased in later versions of the measure.

TAPE 2, B

002	Romain	Comments that the brewers are growing fast. Outlines increased distribution for various breweries. Says exemptions are a bad policy.
010	Chair Starr	Says Legislative Counsel will explain constitutionality of the measure.
020	Rep. Krummel	Asks for a percentage of people that earn under \$30,000.
021	Powell	Says he does not know.
030	Rep. Krummel	Asks what percent of consumers earn less than \$30,000 per year.
035	Powell	Responds that it varies across the state.
040	Rep. Rosenbaum	Asks what effect a price increase will have on consumption.
050	Powell	Comments that beer consumption has remained about the same over time. Says there would be some reduction, but he does not know how much.
060	Rep. V. Walker	Asks about how other types of alcohol products (e.g., coolers, Zima) are taxed.
068	Powell	Responds that he does not know how the other kinds of products are taxed.
074	Romain	Discusses “malt-ernatives”. Says they are taxed the same as beer.
097	Ken Strobeck	Oregon Winegrowers Association. Says the bulk of the product sold in Oregon comes from out of state, so consumers will end up paying for the cost of HB 4039. Comments on small family farm wineries.
110	Strobeck	Says only ten wineries in Oregon produce above 100,000 gallons. Says one half of the larger wineries will go out of business if HB 4039 passes. Outlines other taxes imposed on wineries.
137	Nancy Baker Kroft	Comments on difficulties to get the public to testify. Says local wineries should be exempted from taxes. Says she represents teachers and schools and is concerned about the future of education. Comments on cutting services without increasing taxes. Says wine and beer are not a necessity, so the taxes on them cannot be considered regressive because they are optional.
188	Dan Kohler	Keizer small business owner. Discusses the nature of his business. Comments on detrimental effect on his business if taxes were increased.
259	Rex Daines	Salem. Comments on alcohol and cigarette taxes. Says as a bankruptcy lawyer, his business will increase if taxes are increased.
295	Chris Mickelson	Keizer. Asks that taxes not be increased.
311	Rep. V. Walker	Provides example of the Alaska state budget. Asks about Oregon government services and what services they would cut.
345	Mickelson	Comments on past increases in the budget. Emphasizes the more money taken from the “public’s pocket”, the less money they have to spend. Urges the committee move forward with the “Group of 5” proposal.
393	Kohler	Reiterates that more cuts should be made than increasing taxes.

410 Laura Aviani Candidate for House District 7. Urges prioritizing cuts in food, shelter, and safety first. Says anything less is unacceptable.
451 Aviani Says that only making cuts, without considering revenue, creates more problems in the future. Asks legislators to contact the federal government to urge cuts not be made.

TAPE 3, A

040 Rep. Jeff Merkley District 47. Asks for a different process to get bills to get these issues to the floor.
070 Greg Chaimov Legislative Counsel. Comments on constitutionality of HB 4039. Says as long as there are neutral criteria it would be acceptable.
114 Steve Dixon OSPIRG. Says his organization is neutral on HB 4040. Says **(EXHIBIT H)** was prepared before HB 4040 was printed. Comments on tobacco tax increases as a tool for tobacco use reductions.
159 Dixon Comments on health care costs due to tobacco use. Says that tobacco is a luxury purchase.
180 Rep. Winters Asks what he means by “luxury” purchase.
187 Dixon Replies that it is not necessary for a day-to-day living.
188 Rep. Winters Asks for clarification.
189 Dixon Says people may need a haircut to look presentable. Says tobacco is a luxury.
198 Rep. Winters Asks if a latte or soda qualifies as a luxury.
200 Dixon Says he would not qualify them as a luxury. Says tobacco is an addictive substance.
206 Rep. Winters Comments that caffeine is also addictive.
216 Rep. Krummel Asks about tobacco education programs and whether Mr. Dixon would support future tax increases.
220 Dixon Responds he may support a future tax increase.
223 Rep. Krummel Clarifies that the revenue source will decrease.
228 Dixon Responds his interest in reduction in tobacco use.
230 Rep. Krummel Asks about Oregon Health Plan (OHP) data cited in testimony.
233 Dixon Says he can get the source of the data.
238 Rep. Krummel Asks if OHP clients should pay for their health care services by increasing taxes on tobacco products.
243 Dixon Says all people who smoke will pay the tax.
251 Rep. Krummel Repeats the question.
253 Dixon Responds that in a way it would require the OHP clients to pay for part of the cost of their services.
266 Rep. Krummel Asks why smokers should pay to solve the budget problem.
267 Dixon Replies that it is a privilege tax. Says if people do not want to pay the tax, they should not smoke.
276 Rep. Lee Asks about the \$350 million in medical expenses cited in his testimony.
280 Dixon Says he will review his handout and get back to the committee.
290 Phyllis Rand Governor’s Commission on Senior Services. Says the commission has not reviewed the measures at hand, but is in favor of increased beer, wine, and cigarette taxes to offset budget cuts, and also supports delaying Measure 88 implementation.
310 Rep. V. Walker

		Asks if the commission would like more time to review the measures.
313	Rand	Responds that would be nice, but understands that it might not happen.
320	Rep. V. Walker	Asks if Ms. Rand could review them with the commission tomorrow.
321	Rand	Answers yes.
329	Bob Castagna	Oregon Catholic Conference. Presents (EXHIBIT I) . Comments on status of the economy and post-September 11 issues. Says things will probably get worse. Says government is not like a business. Comments on role of government in providing social services.
407	Castagna	Reviews page two of (EXHIBIT I) citing budget figures. Says churches and charities cannot replace government services.
<u>TAPE 4, A</u>		
010	Castagna	Says most affected by budget cuts are children. Says the safety net should be supported. Says the Catholic Conference opposed Measure 88.
057	Rep. Krummel	Asks how Mr. Castagna would define wealth.
060	Castagna	Says it is a question of resources.
064	Rep. Krummel	Asks for a dollar figure.
066	Castagna	Says it depends on the situation.
075	Rep. Krummel	Asks for further clarification. Questions how many taxes are enough.
087	Castagna	Says they are looking for equity. Comments on saving lives.
100	Rep. Lee	Comments on chart in (EXHIBIT I) .
102	Rep. Krummel	Asks whether counties should have responsibility to provide services.
112	Rand	Replies they should provide senior services.
121	Russ Walker	Oregon Citizens for a Sound Economy. Describes the purpose of his organization. Says budget issues are not solved by increasing taxes.
140	Walker	Discusses other state's efforts to address revenue issues. Says the tax proposals are regressive.
172	Walker	Comments on testimony provided earlier in the evening.
190	Rep. V. Walker	Discusses letters she has received from her constituents. Says many letters ask for tax increases. Asks if \$900 million should be cut from the state budget.
202	Walker	Says his organization has suggested an across the board cut. Comments on tax policy.
244	Rep. V. Walker	Comments her constituents would want to testify in public.
252	Rep. Winters	Asks if there are other indicators of the economic downturn, prior to September 11.
254	Walker	Responds there were signs as early as November 2000. Says September 11 exacerbated the problem.
264	Rep. Winters	Asks about Oregon conditions.
267	Walker	Replies that economists rank Oregon's fiscal discipline low. Says we rank well in some areas.
286	Joe Schweinhart	

318 Rep. Krummel Associated Oregon Industries. Comments on HB 4024. Says Measure 88 is a middle class tax cut and necessary for economic stimulus. Says that HB 4024 would harm the economy.
 333 Schweinhart Asks if the witnesses can define “wealth”.
 341 Chair Starr Answers that every person has a level where they feel comfortable.
 347 Chair Starr Says he cannot give a number.
 353 Chair Starr Closes the public hearings on HB 4024, HB 4039, and HB 4040.
 356 Chair Starr Recesses committee until 10:00 p.m.
 Calls the committee to order at 10:04 p.m.
 Opens a work session on HB 4024

WORK SESSION – HB 4024

360 Rep. Hass Asks for more time to review the issues.
 375 Chair Starr Responds that the process will be moved along. Says it is necessary to know what revenues are on the table.

441 Chair Starr MOTION: Moves HB 4024 to the floor WITHOUT RECOMMENDATION as to passage.

TAPE 3, B

003 Rep. Rosenbaum Says the measures need more work. Comments that there needs to be more public input. Says she is concerned about public perception of the process.

050 Rep. Knopp Says he will provide courtesy votes to move the process forward.

072 Rep. V. Walker Asks about tax pledge.

081 Rep. Knopp Responds to question.

086 Chair Starr VOTE: 5-4

AYE: 5 – Knopp, Krummel, Smith T, Winters, Starr

NAY: 4 - Hass, Lee, Rosenbaum, Walker V

088 Chair Starr The motion CARRIES.

NOTE: Four members submitted vote explanation letters (EXHIBITS L, M, N, and O).

094 Chair Starr Closes work session on HB 4024 and opens a work session on HB 4039.

WORK SESSION – HB 4039

100 Chair Starr MOTION: Moves to ADOPT HB 4039-1 amendments dated 2/27/02 (EXHIBIT J).

VOTE: 9-0

101 Chair Starr Hearing no objection, declares the motion CARRIED.

105 Chair Starr Comments on new revenue statement that reflects the –1 amendments(EXHIBIT K).

119 Warner Explains the revised revenue statement.

125 Yates Explains the change is the reduction for mental health services.

146 Rep. Krummel Asks what the HB 4039–1 amendments do.

150 Yates Explains the effect of the amendments.

163 Rep. Knopp Clarifies his vote.

166 Chair Starr States the nature of certain votes on the committee.

172 Rep. Krummel Comments on shared revenue for cities and counties.

185 Chair Starr MOTION: Moves HB 4039 to the floor AS AMENDED WITHOUT RECOMMENDATION as to passage.

VOTE: 5-4

AYE: 5 - Knopp, Krummel, Smith T, Winters, Starr

NAY: 4 - Hass, Lee, Rosenbaum, Walker V

189 Chair Starr

The motion CARRIES.

NOTE: Four members submitted vote explanation letters (EXHIBITS L, M, N, and O).

193 Chair Starr

Closes the work session on HB 4039 and opens a work session on HB 4040.

WORK SESSION - HB 4040

196 Chair Starr

MOTION: Moves HB 4040 to the full committee without RECOMMENDATION to passage.

198 Rep. Krummel

Reiterates comments regarding county revenues.

VOTE: 5-4

AYE: 5 - Knopp, Krummel, Smith T, Winters, Starr

NAY: 4 - Hass, Lee, Rosenbaum, Walker V

203 Chair Starr

The motion CARRIES.

NOTE: Four members submitted vote explanation letters (EXHIBITS L, M, N, and O).

208 Chair Starr

Comments on the process.

213 Chair Starr

Closes work session on HB 4040 and adjourns the committee at 10:30 p.m.

Submitted By,

Reviewed By,

Cara Filsinger,

Kim Taylor James,

Administrative Support

Revenue Office Manager

EXHIBIT SUMMARY

A – Proposed committee rules, Staff, 1 p

B – LC 44, Staff, 14 pp

C – LC 48, Staff, 5 pp

D – LC 49, Staff, 6 pp

E – HB 4024, Revenue Statement, Staff, 1 p

F – HB 4039, Revenue Statement, Staff, 1 p

G – HB 4040, Revenue Statement, Staff, 1 p

H – HB 4040, Written Testimony, Steve Dixon, 1 p

I – HB 4024, 4039, and 4040, Written Testimony, Bob Castagna, 5 pp

J – HB 4039-1 Proposed Amendments, Staff, 1 p

K – HB 4039-1 Revenue Statement, Staff, 1 p

L – HB 4024, HB 4039, HB 4040, Vote Explanation, Rep. Jerry Krummel, 3 pp

M - HB 4024, HB 4039, HB 4040, Vote Explanation, Rep. Tootie Smith, 1 p

N - HB 4024, HB 4039, HB 4040, Vote Explanation, Rep. Tim Knopp, 1 p

O - HB 4024, HB 4039, HB 4040, Vote Explanation, Rep. Jackie Winters, 1 p