

# HOUSE SPECIAL SESSION COMMITTEE ON BUDGET RESTORATION

## 5<sup>th</sup> Special Session

September 9, 2002 Hearing Room 343  
5:00 P.M. Tapes 16 - 19

**MEMBERS PRESENT:**        **Rep. Ben Westlund, Chair**  
                                 **Rep. Alan Bates**  
                                 **Rep. Rep. Richard Devlin**  
                                 **Rep. Cedric Hayden**  
                                 **Rep. Betsy Johnson**  
                                 **Rep. Susan Morgan**  
                                 **Rep. Lane Shetterly**

**VISTING MEMBERS:**        **House Speaker Mark Simmons**  
                                 **Sen. Ken Messerle**  
                                 **Sen. Frank Shields**

**STAFF:**                        **Paul Warner, Administrator**  
                                 **Adrienne Sexton, Administrator**  
                                 **Linda K. Gatto, Assistant**

**MEASURE/ISSUES HEARD:**        **Public Hearing – Budget and Revenue Options**  
                                 **Work Session – Introduction of Committee Bills**

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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.

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<b>TAPE/#</b>	<b>Speaker</b>	<b>Comments</b>
<b>TAPE 16, A</b>		
003	Chair Westlund	Calls meeting to order at 5:38 P.M. Opens the public hearing on the tobacco bonding measure (LC 20), <b>(EXHIBITA)</b> .
<b><u>PUBLIC HEARING – Tobacco Bonding Measure (LC 20)</u></b>		
033	Chair Westlund	Requests for information on timelines, cost, and aspects of this measure.
034	Kate Richardson	Chief of Staff, Oregon State Treasury. Explains that this is a complex bond transaction that involves the sale of a portion of the revenue stream for the Master Settlement Agreement. Explains that this involves selling the rights to the revenue stream for a period of time.
048	Rep. Johnson	Asks to whom would the anticipated proceeds be sold to.
052	Richardson	Responds it would be sold to a niche market that buys tobacco assets.
056	Rep. Johnson	Explains that her concern is the reliability of the market at a time of increased market scrutiny. Inquires about the Treasury's familiarity with the niche market.
068	Chuck Smith	Oregon State Treasury. Responds that the market is primarily American Mutual Funds. Explains that underwriters purchase and distribute the securities in a manner similar to state bonds. Explains that \$8 to \$10 billion of these bonds have been utilized

		by other states, names the states. Adds that American Mutual Funds is a big buyer for these. Explains the complexity of the model.
081	Smith	Comments on efforts to work the numbers with a six-year maturity. States the associated cost would be below a five percent rate on these securities. Adds they are also looking for a set-aside of approximately \$17 million in general obligation bonds for Oregon Health Sciences University, (OHSU).
111	Rep. Devlin	States that originally the numbers were approximately \$180 million a biennium and dropping. Asks what is the long term outlook.
121	Smith	Responds that the payments are to go on forever but for computational purposes the first 25 years are used as a manageable horizon. Over a ten year period, on average, it is estimated at \$176 a biennium.
138	Rep. Devlin	Asks for clarification on selling for a limited time.
145	Smith	Responds that in an asset sale, future payments are accelerated. The bond is borrowing for a particular purpose.
172	Chair Westlund	Clarifies that approximately a third of the revenue stream would be dedicated.
175	Smith	Explains that as the repayment time is shortened, the payments go up, compares it to a 30 year mortgage versus a 15 year mortgage.
177	Richardson	Clarifies it would be a portion of the revenue steam leaving a residual portion for the OHSU payments.
189	Smith	States that it is approximately two-thirds of the tobacco settlement over the next five or six years, leaving approximately \$17 million set aside for the OHSU bonds.
197	Rep. Bates	Asks if the settlement money is being discounted because the market is flooded.
202	Smith	Answers that the tobacco settlement market is sensitive to volume swings. Adds that tobacco bonds sell at a higher rate of interest than other bonds.
219	Rep. Bates	Asks when is California anticipated to float their tobacco settlement bonds and how much money is involved.
226	Smith	Responds it is expected sometime in January or February time. Approximately \$2.5 billion is involved.
236	Rep. Devlin	Refers to a previous proposal to back this with cigarette tax revenues. Asks what the rate would have been.
243	Smith	Responds if either was paid off in six years it would be a comparable rate.
251	Rep. Hayden	Inquires what the biggest discount that has been paid is.
255	Smith	Responds that interest rates close to 6.5 percent have been paid. Explains that some of the tobacco bonds are long term.
285	Paul Warner	Administrator. Announces that Legislative Counsel is working on a draft that contains the settlement agreement amounts. Explains that the policy issues are the target rate amount and the repayment period.
303	Warner	Notes that there is model legislation incorporated into the bill.
314	Warner	Explains the projection incorporates the strategic payment, inflation adjustment factor, and volume adjustment.
332	Rep. Morgan	Comments that it appears that the volume decreases over time while the payments increase over time.
338	Warner	Responds that it is predicted that the volume decrease over time,

		adjusted by the inflation factor.
350	Chair Westlund	Asks what impact are off-shore cigarette sales having on the settlement.
358	Richard Yates	Legislation Revenue Office. Responds if they become parties to the agreement there is no effect, if they do not it affects their share of the national market.
<b>TAPE 17, A</b>		
010	Yates	Adds that the Attorneys General of all states are parties to the agreement and have accepted the responsibility of enforcing the agreement.
023	Chair Westlund	Asks for public comment (none received). Closes the public hearing on the tobacco bonding measure (LC 20) and calls for a brief recess.
066	Chair Westlund	Reconvenes and opens a work session on LC 20.
<b><u>WORK SESSION – LC 20</u></b>		
077	Adrienne Sexton	Administrator. Explains that LC 20 provides the ballot title for LC 17 for the November general election. Notes that LC 20 provides a blank amount for an appropriation.
<b>096</b>	<b>Rep. Morgan</b>	<b>MOTION: Moves that LC 20 BE INTRODUCED as a committee bill.</b>
<b>098</b>		<b>Representatives Devlin, Johnson, Bates and Hayden are courtesy votes.</b>
<b>108</b>	<b>Chair Westlund</b>	<b>Hearing no objection LC 20 is introduced.</b>
109	Chair Westlund	Closes the work session on LC 20 and opens a work session for purpose of introduction of committee bills.
<b><u>WORK SESSION – INTRODUCTION OF COMMITTEE BILLS.</u></b>		
113	Dallas Weyand	Legislative Fiscal Office. States that LC 22 –1, <b>(EXHIBIT B)</b> essentially adds \$2.6 million to the General Fund.
121	Rep. Johnson	Asks if the sale of the Boardman is \$3.2 million.
123	Weyand	Responds that the sale price is \$7.6 million. States there has been \$200,000 in expenses and net proceeds are expected to be \$7.4 million. Explains 77 percent of the net proceeds will be transferred to the General Fund and \$1.7 million to the Trust for Cultural Development. Adds that \$500,000 will be paid to Morrow County out of the \$1.7 million.
145	Rep. Johnson	Asks what remains in the trust.
147	Weyand	Answers \$1.2 million.
168	Rep. Johnson	Inquires if this is consistent with the potential cut list.
173	Weyand	Responds affirmatively, it adds \$2.2 million to the General Fund.
201	Rep. Johnson	Confirms that Morrow County agreed to take a 50 percent reduction.
203	Chair Westlund	Answers yes.
220	Weyand	Notes that LC 22-1 also: <ul style="list-style-type: none"> <li>• transfers excess funds from the Department of Justice</li> <li>• adds a federally recognized tribe as a recipient of funds from the Cultural Trust.</li> </ul>
229	Chair Westlund	Explains this is a technical amendment that allows tribal nations to receive funds.
240	Weyand	Informs of other changes: <ul style="list-style-type: none"> <li>• adds a couple of members to the Board who must have a background in fiscal matters</li> </ul>
253	Rep. Morgan	Asks about the language on page 4, line 11.
256	Chair Westlund	Explains that the language was changed from mandatory

264 Rep. Morgan language to permissive using the base amount formulary.  
**MOTION: Moves LC 22-1 BE INTRODUCED as a committee bill.**

269 **Representatives Johnson, Devlin, and Bates are courtesy votes.**

274 Rep. Morgan **MOTION: Moves to AMEND the motion that LC 22-1 BE INTRODUCED as a committee bill.**

290 Chair Westlund **MOTION: Moves to SUSPEND the rules for the purpose of Rep. Morgan withdrawing her first motion.**

295 Chair Westlund **Hearing no objection, the first motion is withdrawn.**  
Rep. Morgan **MOTION: Moves to conceptually amend LC 22-1 to reflect the revised amounts in the transfer from the sale of the Boardman property to the General Fund and to the Trust for Cultural Development.**

302 Weyand Reviews that the Trust for Cultural Development will receive \$1.25 million, of which \$250,000 will go to Morrow county and the balance to the General Fund.

324 **Representatives Johnson, Devlin, and Bates are courtesy votes.**

334 Chair Westlund **Hearing no objection, LC 22-1 is conceptually amended.**  
336 Rep. Morgan **MOTION: Moves LC 22-1 as amended BE INTRODUCED as a committee bill.**

364 Chair Westlund **Announces that LC drafts cannot be conceptually amended.**  
377 Rep. Morgan **MOTION: Moves LC 22-1 BE INTRODUCED as a committee bill.**

382 **Representatives Devlin, Johnson, and Bates are courtesy votes.**

390 Chair Westlund **Hearing no objection, LC 22-1 is introduced. Closes the work session on LC 22-1 and opens the public hearing on LC 17.**

**PUBLIC HEARING – LC 17**

449 Warner Explains that LC 17 imposes an increase on personal income taxes for a three year period starting with the 2002 tax year and sunsets January 1, 2005. Outlines the breakdown of the brackets and notes that the brackets are adjusted annually for inflation. Provides details on the implementation, **(EXHIBIT C)**.

**TAPE 16, B**

005 Chair Westlund Opens a work session on LC 17.

**WORK SESSION – LC 17**

046 Rep. Devlin Inquires whether taxes received by the state are attributed to the fiscal year in which they were received.

060 Warner Explains liability is estimated first. Counts are on a cash basis except for the first 30 days of July, explains why.

085 Shetterly Notes that there is an error in the taxable income chart included in the SMS, **(EXHIBIT D)**.

097 Robert Castagna Oregon Catholic Conference. Asks what would happen if those people with total incomes under \$50,000 were exempted. Notes that the exception would include \$1.1 million of \$1.6 million total tax returns.

127 Castagna Notes that almost 25 percent of the potential increased tax is contained in the under \$50,000 category. Asks how the rates would be affected if the target revenue remained the same but the under \$50,000 category was exempted.

146 Warner Responds that they will look at that.

149	Rep. Johnson	Asks for his opinion on the political feasibility and tax equity in the absence of an income tax.
155	Castagna	Responds that Measure 5 created a shift and an equity issue. Explains that unemployment insurance should also be taken into consideration. Discussed the potential of a unemployment insurance tax rate increase in 2004.
174	Rep. Devlin	Discussion with Castagna on tax equity and ability to pay.
217	Rep. Bates	Asks to keep in mind that even at \$50,000 it is \$10 – \$13 a month.
230	Rep. Shetterly	Notes that it is also a question of equity among business filers, LLC's, and partnerships.
242	Rep. Morgan	Asks for an outline of what relief is available for low income filers.
246	Warner	Responds that taxable income is determined by the standard deduction and personal exception credit. Adds there is a tie into the federal earned income tax credit, and explains the working family credit.
281	Warner	Notes that Oregon does not have a consumption tax base.
287	Castagna	Notes that Oregon's highest rate comes in at a relatively low income level. Explains that 1986 Federal Tax Reform attempted to except from federal tax liability those families below the poverty level.
332	Rep. Morgan	Asks for public testimony on LC 17, (receives none). Closes the public hearing on LC 17.
342	Chair Westlund	Asks what is the committee consensus on LC 17. Requests comments or questions.
360	Rep. Johnson	Expresses that the case for the corporate component has not been decided yet.
372	Rep. Devlin	Notes that business-to-business equity issues have not been discussed in detail.
385	Rep. Shetterly	Asks what proportion of business income is reflected in personal income tax returns.
425	Warner	Responds that it tends to vary between 10 and 12 percent, and is business income that comes in the form of personal income tax collections.

**TAPE 17, B**

016	Rep. Shetterly	Asks what is the amount in corporate income tax.
018	Warner	Responds that corporate income tax has dropped approximately 45- percent last year.
024	Rep. Shetterly	Asks how the number of business filers compare to corporate filers.
030	Warner	Responds there are a large number of corporate filers who do not pay income tax. The majority of corporate income tax collections come from a small number of filers.
050	Rep. Devlin	Asks what the net effect on corporations would be.
064	Warner	Responds that corporate tax-payers vary from year to year. States a corporation's ability to carry losses forward is a concern. Explains that for every \$1 the corporation pays in state taxes there is a 34-cent reduction.
068	Rep. Morgan	Notes that businesses at all levels get people back to work. Asks if there is any way to gauge the impact of recovery.
077	Warner	Responds there is a negative relationship between job growth, income growth, and tax rates. Expresses that the biggest factor influencing Oregon's recovery is the national recovery.

099	Chair Westlund	Notes the progressive rate structure of this bill; those with higher salaries are paying the higher rate and working in the profitable corporations. Expresses concern about the structure of the corporate tax.
136	Rep. Bates	Speaking for himself, states that the figures are fair provided the corporate surtax is added in.
135	Chair Westlund	Asks if there is a consensus among the committee that the corporate surtax be included.
139	Rep. Shetterly	States that he would be supportive if it is equitable among business taxpayers. Notes the difference in tax classifications among businesses.
185	Rep. Shetterly	Comments that he is unsure how including a corporate tax corresponds with other legislation being discussed.
202	Chair Westlund	Asks if conceptually this is revenue neutral.
191	Rep. Bates	Expresses that the proposed tax increases are not substantial to the tax brackets being considered.
218	Rep. Devlin	Ask how much is lost when the figure is changed from 9.6 to 9.5.
221	Warner	Responds that at the top rate, each tenth of a percent is approximately \$60 million.
247	Jim Craven	Representing the American Electronics Association, (AEA). Comments that the business community reacts to the big picture. States the corporate tax surcharge is a new concept and his customers have not been surveyed. Notes that Oregon's revenue is reliant on personal income taxes, and the high tech community has roughly 75,000 jobs with an annual average salary of \$75,000.
306	Rep. Johnson	Asks for his opinion about the Oregon Business Association being in support of a corporate tax increase that would be voted on by the legislature.
313	Craven	Responds that he does not have a clear consensus from his Association.
360	Craven	Adds that knowing how the components will affect the AEA is the big picture.
370	Joe Schweinhart	Representing the Associated Oregon Industries, (AOI). Summarizes that Oregon has the highest unemployment. Small business creates 75-percent of the new jobs, taxation is the major deterrent for business growth, and Oregon bankruptcies are up 20-percent. States an economic program needs to be developed that will promote new income taxes.
408	Chair Westlund	Adds that Oregon has the lowest job creation rate in the nation.
410	Rep. Johnson	Adds that there is a \$482 million problem. Invites suggestions on how to resolve the problem without taxes.
418	Schweinhart	Responds there are bonding proposals and cut proposals.
<b>TAPE 17, B</b> 009	Rep. Bates	Comments that in overall taxes against income, Oregon has fallen nationally from 25 <sup>th</sup> to 47 <sup>th</sup> over the last ten years. Expresses that maintaining a good school system is tied to bringing new business to Oregon.
035	Schweinhart	Responds that although he agrees, the backbone of Oregon's economy is income tax and capital gains.
053	Rep. Shetterly	Comments on the cut list, and available options.
092	Rep. Hayden	Comments on borrowing from the economy. Notes that Oregon has substantial opportunity to do more bonding. Asks if he has a bonding preference.

106	Schweinhart	Responds there are a variety of ways.
116	Ozzie Rose	Confederation of Oregon School Administrators. Discusses past and proposed cuts and the uncertain fate of \$400 million. Explains that the cuts will be mostly personnel and a shorter school year.
174	Rep. Bates	Inquires what would happen with K-12 if all these funding options fail.
196	Rose	Responds it would mean shorter school years; rolling shutdowns.
234	Rep. Bates	Asks for his opinion to avoid a worse case scenario.
265	Chair Westlund	Begins to discuss the three year duration of proposed tax increase. Asks why three years.
288	Rep. Hayden	Comments that he also wonders why three years; the problem is between now and June 30, 2003.
300	Chair Westlund	Comments that the purpose of the special session is to balance the budget through the biennium.
306	Rep. Shetterly	Comments on the technicality of changing the tax rate in the middle of the tax year.
318	Paul Warner	Explains that it is assumed that the withholding tables will be changed. Explains the lag-time between when the liability occurs and when the tax is collected.
391	Rep. Bates	Explains that the Oregon biennium does not match with the federal tax year so the tables need to be moved at least two years to pick up the January to July timeframe.
438	Chair Shetterly	Suggests enacting it for two years with voter permission, then extend it for an additional year, depending on where things are at that time.
451	Rep. Morgan	Suggests that a two-year tax be presented.
470	Rep. Bates	Asks, on behalf of Senator Shields, if the tax is cut off at \$50,000 income level, what would be the impact be on 9.6 tax bracket.
<b>TAPE 19, A</b>		
034	Warner	Summarizes the question and states he will follow up.
042	Rep. Shetterly	Refers to the revenue impact statement and asks how much revenue would be carried forward to the 2003 – 2005 biennium if it was a two year tax.
051	Warner	Responds that he will provide that information.
064	Speaker Simmons	Requests a summary of the consensus among the committee
066	Chair Westlund	Responds there appears to be consensus to include the corporate tax, however, in regard to the duration of the temporary tax it is unclear.
080	Rep. Shetterly	Debates if a temporary tax increase is going to be determined by the voters, it could carry into the next biennium; however, does that make it difficult to pass?
110	Rep. Johnson	Comments that this committee is not the definitive consensus of the whole body.
122	Chair Shetterly	Answers that the majority of this committee is what will shape this tax policy.
132	Rep. Devlin	Comments that if this becomes referred, discussing what will impact the public's support is legitimate.
167	Speaker Simmons	Asks what amendments will be drafted for the committee to consider tomorrow.
170	Rep. Shetterly	Suggests amendments that include the two-year duration and the corporate surtax.
182	Chair Westlund	States that the bond piece will be worked by the committee in the morning.

201	Rep. Hayden	Asks what Section 4 addresses.
204	Warner	Responds it is a sunset clause.
		Informs the committee that in regard to corporate taxes, corporations select their tax year beginning and ending dates.
233	Rep. Bates	Expresses that there is concern about reducing the period from three years to two years and how that will affect the next biennium. Comments that there may be other amendments.
244	Chair Westlund	Thanks everyone for their attendance and adjourns the meeting at 9:40 p.m.

Submitted By,

Reviewed By,

Linda K. Gatto, Assistant

Marjorie Taylor, Administrator

**EXHIBIT SUMMARY**

- A. **Draft LC 20 dated 9/9/02-1, Christine Drazen, 5 pp.**
- B. **Draft LC 22-1 dated 9/9/02, Christine Drazen, 4 pp.**
- C. **Draft LC 17 dated 9/7/02, staff, 5 pp.**
- D. **Tax tables, staff, 2 pp.**