

SENATE COMMITTEE ON BUDGET SOLUTIONS

September 15, 2002 Hearing Room 357

Time: 10:00 a.m. Tapes 5 - 6

MEMBERS PRESENT: Sen. Lenn Hannon, Chair
Sen. Ken Messerle, Vice-Chair
Sen. Peter Courtney
Sen. Joan Dukes
Sen. Steve Harper
Senate President Gene Derfler

STAFF PRESENT: Jennifer Simmons, Committee Assistant

MEASURE/ISSUES HEARD: Introduction of Committee Measures
HB 4072 Public Hearing and Work Session
HB 4073 Public Hearing and Work Session
HB 5100 Public Hearing and Work Session

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 5, A		
004	Chair Hannon	Calls the meeting to order at 10:15 a.m. Opens a work session for the purpose of introducing committee measures.
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<u>INTRODUCTION OF COMMITTEE MEASURES</u>		
006	Adrienne Sexton	Legislative Fiscal Office. Provides an explanation of LC 35 (EXHIBIT A), which sets the procedure for a special election related to the temporary income tax surcharge measure, HB 4072.
028	Chair Hannon	MOTION: Moves LC 35 BE INTRODUCED as a committee bill.
030	Chair Hannon	VOTE: 5-0 Hearing no objection, declares the motion CARRIED.
031	Chair Hannon	Opens a work session on HB 4072
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<u>HB 4072 WORK SESSION</u>		
042	Paul Warner	Legislative Revenue Officer. Submits the -9 amendments (EXHIBIT B), and informational materials (EXHIBITS C, D, E) related to HB 4072.
090	Warner	Provides a section-by-section overview of the -9 amendments.
150	Chair Hannon	Asks whether there is a fiscal impact to the measure.
154	Warner	Answers that there is a \$5 million fiscal impact for the 2001-03 biennium resulting from the increase to the filing threshold. Indicates that the measure phases out Oregon's inheritance tax by 2007.

174	Sen. Dukes	States that the only way to increase revenue is if the federal threshold were lower than the state threshold.
181	Warner	Explains the administrative issues involved, specifically that filers must file both state and federal tax returns. Provides an explanation to the credit provisions within the measure.
199	Sen. Dukes	Requests clarification on the credit.
202	Warner	Elaborates that the federal government has allowed states to use a “pickup tax” to use the maximum credit, which is why Oregon law sets inheritance tax liability equal to the maximum allowable credit.
210	Sen. Dukes	Compares the credit to that for the income tax.
212	Warner	Clarifies that it is not exactly similar to the deductions allowed for income taxes. Recalls that Oregon’s inheritance tax was phased out in 1981.
224	Sen. Harper	Solicits Mr. Warner’s opinion as to whether the measure is a good idea.
226	Warner	Says that one of the Department of Revenue’s primary concerns is how it would collect the retroactive taxes owed.
237	Sen. Harper	Asks how the law may be clarified in order to avoid the \$5 million issue for the 2003-05 biennium.
244	Warner	Notes that the net revenue impact of the –A9 amendments is about \$310 million increase this biennium and \$395 million in 2003-05. Acknowledges that there is a long-term issue related to the elimination of the credit, which would require the state to develop a stand-alone state inheritance tax.
264	Sen. Harper	Concludes it may be worth the \$5 million to clarify the system for citizens, administrators and legislators.
272	Warner	States that there could be confusion related to connections to the federal issue, because Oregon administers its inheritance tax differently than most other states.
294	Sen. Dukes	Comments that many people have expressed confusion about why they needed to file state taxes even if they didn’t need to file federal taxes, particularly those managing estates for non-relatives. Says those people are often forced to pay out of the estate itself. Asserts that there is a need for consistency.
313	Chair Hannon	References the informational materials.
324	Sen. Dukes	MOTION: Moves to ADOPT HB 4072-A9 amendments dated 9/14/02.
330		VOTE: 5-0
	Chair Hannon	Hearing no objection, declares the motion CARRIED.
334	Chair Hannon	Closes the work session and opens a public hearing on HB 4072.
		<u>PUBLIC HEARING HB 4072</u>
335	Chair Hannon	Closes the public hearing and reopens the work session on HB 4072.

WORK SESSION HB 4072

350 Sen. Harper

MOTION: Moves HB 4072 to the floor with a DO PASS AS AMENDED recommendation.

356

Chair Hannon

VOTE: 5-0

Hearing no objection, declares the motion CARRIED.

SEN. HARPER will lead discussion on the floor.

360 Chair Hannon

Closes the work session on HB 4072 and opens a public hearing on HB 4073-A.

HB 4073-A PUBLIC HEARING

370 Richard Yates

Legislative Revenue Office. Provides an explanation of the measure and the –A11 amendments (**EXHIBIT F**). Says the measure would bond a portion of the revenues from the Master Settlement Agreement (MSA) tobacco lawsuit

TAPE 6, A

026 Sen. Harper

Asks how the bonds will be called.

032 Kate Richardson

Oregon State Treasury. Replies that the bonds would be issued for a set amount of time. Indicates that the measure should provide some guidance as to the length of time.

040 Sen. Harper

Asks whether there would be penalties for early call.

043 Richardson

Replies that she does not know whether such penalties would apply.

045 Yates

Submits a model payment structure (**EXHIBITS G, H**). Reiterates that it is still unknown how the corporation would structure the debt, but that the exhibit provides a possible example. Indicates that such a structure can garner a 3.72 percent interest rate

104 Sen. Harper

Wonders why the corporation would not dissolve following the repayment of the bonds.

106 Yates

Describes the process by which the corporation would be dissolved. Suggests the legislature may wish to retain its ability to issue additional bonds should the economic downturn continue.

146 Richardson

Adds that both models maintain enough in reserve to pay for general obligation bonds.

150 Sen. Courtney

Recalls that the House version of the measure authorized \$400 million in bonding, while this version authorizes \$150 million.

157 Yates

Clarifies that the original measure stipulated that the maturity of the bonds was limited to 14 years.

163 Richardson

Explains that there is a “turbo-payment” option to pay the bonds off sooner, while the maximum allowed would be 14 years.

171 Sen. Courtney

Asks what would be the latest the bonds could be paid off.

178 Chair Hannon

Clarifies that the maximum time is 14 years, but that it could be paid off sooner.

185 Sen. Courtney

Concludes that the state is effectively purchasing \$240 million later in exchange for \$150 million right now.

192 Yates

Corrects Sen. Courtney in that the total bond issue will be \$204

million, while the payment will be \$220 million, with the interest paid in front. Adds that the payment will go up the longer it takes to pay off the bonds.

206	Sen. Dukes	Presumes that the other data in the materials includes the extended payment schedule options.
211	Yates	Disagrees with Sen. Courtney's assessment in that there is risk associated with the payment stream, which would jeopardize the ability to pay off the bonds in time, even if it takes 50 years to do so.
222	Sen. Dukes	Agrees with Mr. Yates' assessment, adding that the MSA payments have been smaller than originally estimated due to lower than anticipated sales.
239	Richardson	Mentions that the numbers were run with the risks of reduced revenue streams included.
253	Chair Hannon	Closes the public hearing and opens a work session on HB 4073-A.

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HB 4073-A WORK SESSION

259	Sen. Courtney	MOTION: Moves to ADOPT HB 4073-A11 amendments dated 9/14/02.
263	Chair Hannon	VOTE: 5-0 Hearing no objection, declares the motion CARRIED.
282	Sen. Courtney	MOTION: Moves HB 4073 to the floor with a DO PASS AS AMENDED recommendation.
287	Chair Hannon	VOTE: 5-0 Hearing no objection, declares the motion CARRIED.
		SEN. COURTNEY will lead discussion on the floor.
290	Chair Hannon	Closes the work session on HB 4073 and opens a work session on HB 4074

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HB 4074-B WORK SESSION

292	Rick Olson	Legislative Fiscal Office. Presents the committee with copies of the -B10 (EXHIBIT I) and -B7 (EXHIBIT J) amendments. Explains the provisions of the amendments.
315	Sen. Messerle	Requests clarification whether the fund is different than the one discussed in a previous work group.
320	Olson	Explains that \$500,000 is to be set aside in the Cultural Trust, of which \$250,000 will be distributed to Morrow County through the Emergency Fund.
330	Chair Hannon	MOTION: Moves to ADOPT HB 4074-B7 amendments dated 9/13/02.
336		VOTE: 4-1 AYE: 4 - Courtney, Dukes, Messerle, Hannon NAY: 1 - Harper

Chair Hannon

The motion Carries.

339

Chair Hannon

MOTION: Moves to ADOPT HB 4074-B10 amendments dated 9/14/02.

342

Chair Hannon

VOTE: 5-0

Hearing no objection, declares the motion CARRIED.

345

Chair Hannon

Closes the work session and opens a public hearing on HB 4074-B.

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HB 4074-B PUBLIC HEARING

346

Ruby Haughton

Legislative and Public Affairs Director, Care Oregon. Testifies regarding the issue of distribution of safety net money.

367

Chair Hannon

Indicates that Ms. Haughton's concerns were addressed in the amendments. Closes the public hearing and reopens the work session on HB 4074-B.

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HB 4074-B WORK SESSION

376

Chair Hannon

MOTION: Moves HB 4074-B to the floor with a DO PASS AS AMENDED recommendation.

379

Chair Hannon

VOTE: 5-0

Hearing no objection, declares the motion CARRIED.

SEN. HANNON will lead discussion on the floor.

389

Chair Hannon

Closes the work session on HB 4074-B and opens a work session on HB 5100-A.

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HB 5100-A WORK SESSION

TAPE 5, B

021

Ken Rocco

Legislative Fiscal Officer. Provides the committee with copies of the -A10 amendments (**EXHIBIT K**) and a brief description of how they alter HB 5100. Outlines the cuts presented in the measure.

063

Sen. Dukes

Asks whether the \$310 million in across-the-board cuts are delineated anywhere.

065

Rocco

Responds that those cuts are outlined in section 2 of the measure.

070

Sen. Messerle

MOTION: Moves to ADOPT HB 5100-A10 amendments dated 9/14/02.

073

Chair Hannon

VOTE: 5-0

Hearing no objection, declares the motion CARRIED.

074

Chair Hannon

Closes the work session and opens a public hearing on HB 5100-A.

HB 5100-A PUBLIC HEARING

075	Jeff Gilmour	Oregon Health and Sciences University (OHSU). Testifies regarding the effect that the proposed cuts will have on OHSU. Emphasizes the importance of nurses.
096	Grattan Kerans	Oregon University System (OUS). Testifies regarding the effect that the proposed cuts would have on higher education in Oregon. Indicates that the cuts amount to 50 percent of the budgets for spring term, threatening the ability of schools to remain in operation.
177	Chair Hannon	Emphasizes that while there are concerns about the effects of the measure the primary goal now is to get the measure passed.
182	Sen. Dukes	Asks if tuition is expected to increase for winter quarter 2003.
184	Kerans	Replies that the Chancellor has asked school presidents to submit cut plans and to provide tuition surcharge proposals in the event that those cuts are too extreme. Warns against the potential for lost tuition and the downward spiral that could result.
207	Sen. Dukes	Remarks that if tuition is raised certain schools in other states will be cheaper for Oregonians to attend than in-state schools.
211	Kerans	Refrains from estimating the budget effect but says that lost tuition could have been as high as \$12 million. Declares that there is a great deal of frustration with the situation.
224	Chair Hannon	States that he shares Mr. Kerans' frustration.
227	Sen. Harper	States for the record that the cuts are not being taken lightly or willingly, but are instead a response to the economic situation of all Oregonians.
238	Chair Hannon	Closes the public hearing and reopens the work session on HB 5100-A.

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HB 5100-A WORK SESSION

243	Chair Hannon	MOTION: Moves HB 5100-A to the floor with a DO PASS AS AMENDED recommendation.
245	Chair Hannon	VOTE: 5-0 Hearing no objection, declares the motion CARRIED.
246	Chair Hannon	SEN. MESSERLE will lead discussion on the floor. Declares the meeting to be in recess subject to the call of the chair.

-----RECESS-----

247	Chair Hannon	Opens an informational meeting on selected budget cuts.
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INFORMATIONAL MEETING

248	Sen. Mae Yih	Submits a list of targeted budget cut proposals (EXHIBIT L). Says the programs are lower-priority and should be reduced or eliminated in order to prevent cuts to high-priority programs or borrowing against future revenues.
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300	Sen. Yih	Continues outlining proposed budget reductions.
370	Sen. Yih	Continues outlining proposed budget reductions. Emphasizes that the priority should be to use the funding gained from targeted reductions to shore up priority services, specifically law enforcement.
430	Sen. Yih	Continues providing recommendations regarding targeted budget cuts.
467	Chair Hannon	Thanks Sen. Yih for her suggestions and says some should be explored going into next legislative session. Recesses the committee subject to the call of the chair.

-----RECESS-----

TAPE 6, B

043	Chair Hannon	Reconvenes the meeting. Reopens the work session on HB 4072.
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HB 4072 WORK SESSION

047	Chair Hannon	Provides an overview of the proposed –B10 amendments to HB 4072.
071	Sen. Courtney	MOTION: Moves to ADOPT HB 4072-B10 amendments dated 9/15/02.
074	Chair Hannon	VOTE: 5-0 Hearing no objection, declares the motion CARRIED.
080	Sen. Courtney	MOTION: Moves HB 4072 to the floor with a DO PASS AS AMENDED recommendation.
082	Chair Hannon	VOTE: 5-0 Hearing no objection, declares the motion CARRIED. SEN. COURTNEY will lead discussion on the floor.
086	Chair Hannon	Declares the meeting to be in recess subject to the call of the chair. (Meeting is adjourned by implied consent.)

Submitted By,

Reviewed By,

Patrick Brennan,
Committee Assistant

Marjorie Taylor,
Committee Administrator

EXHIBIT SUMMARY

A – LC 35, staff, 7 pp.

B – HB 4072, -9 amendments, staff, 9 pp.
C – HB 4072, informational materials, staff, 1 p.
D – HB 4072, revenue impact statement, staff, 1 p.
E – HB 4072, informational materials, staff, 1 p.
F – HB 4073, -A11 amendments, staff, 1 p.
G – HB 4073, informational materials, staff, 2 pp.
H – HB 4073, informational materials, staff, 1 p.
I – HB 4074, -B10 amendments, staff 2 pp.
J – HB 4074, -B7 amendments, staff, 1 p.
K – HB 5100, -A10 amendments, staff, 26 pp.
L – HB 5100, informational materials, Sen. Mae Yih, 3 pp.