

# SENATE SPECIAL SESSION COMMITTEE ON BUDGET SOLUTIONS

September 4, 2002 Hearing Room 357

9:00 a.m. Tapes 1 - 2

**MEMBERS PRESENT:** Sen. Lenn Hannon, Chair  
Sen. Ken Messerle, Vice-Chair  
Sen. Steve Harper  
Sen. Peter Courtney  
Sen. Joan Dukes

**STAFF PRESENT:** Gina Rumbaugh, Legislative Fiscal Office Manager  
Jennifer Simmons, Administrative Support

**MEASURE/ISSUES HEARD:** Informational Meeting  
Ken Rocco, Legislative Fiscal Office  
Paul Warner, Legislative Revenue Office

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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 1,A</b>		
<b>INFORMATIONAL MEETING</b>		
001	Chair Hannon	Calls the meeting to order at 9:05 a.m. Presents the committee rules.
003	Chair Hannon	<b>MOTION: Moves to ADOPT the proposed Committee Rules dated 09/04/02.</b>
004		<b>VOTE: 5-0</b>
	Chair Hannon	<b>Hearing no objection, declares the motion CARRIED.</b>
032	Paul Warner	Legislative Revenue Office. Presents written material <b>(EXHIBIT A)</b> . Speaks about the revenue forecast.
068	Chair Hannon	Asks if economic indicators were showing a revenue shortfall prior to September 11, 2001.
072	Warner	Answers that the forecast in August 2001 showed a shortfall of about \$250 million. Says that the biggest drop has been in the loss of capital gains revenue.
086	Chair Hannon	Asks if the economy is still down without the capital gains loss.
091	Warner	Answers that the recession started in the first quarter of 2001.
108	Chair Hannon	Asks why budget recommendations were not made during the 2001 session if the economic indicators were showing reductions in revenue.
115	Warner	Answers that at the time the forecast did not point to such a large decline in revenue.
135	Sen. Messerle	Asks when the loss in capital gains might be expected to recover.
141	Warner	Answers there may be a bounce back in the next two to three years.

162	Sen. Courtney	Asks if there is a problem with the economic forecast system.
189	Warner	Points out changes in the economic system, agrees that the forecasting system needs work.
229	Sen. Yih	Asks if there are any models that states use to predict revenue shortfalls.
237	Warner	Responds that Oregon's forecast system is modeled after the national system. Says that the systems in most states are similar. Points out that federal revenue has also decreased. Continues with presentation.
359	Sen. Yih	Asks what PIT is.
361	Warner	Answers that PIT is an acronym for Personal Income Tax. Continues with presentation.
379	Sen. Dukes	Asks what is happening with the S corporations that run through the PIT.
381	Warner	Answers that they do not have a good short term look at that because it all comes through as income tax.
399	Sen. Courtney	Speaks about his difficulty understanding the revenue system. Asks if business as a whole is down 47 percent.

**TAPE 2,A**

006	Warner	Clarifies that those filing as corporations are down 47 percent.
013	Sen. Courtney	Asks for clarification of an S corporation.
015	Warner	Responds that an S corporation is a small business that files a personal income tax.
016	Sen. Courtney	Says that he has always thought of Oregon as a small business state.
017	Warner	Responds that small business is very important in Oregon.
030	Sen. Harper	Asks if we separate the S corporations from any other category.
032	Warner	Responds that it is done when the returns come in.
054	Sen. Hannon	Asks if these numbers are really reflective of what is being done on the investment side.
067	Warner	Answers that the numbers have been adjusted for the September forecast.
075	Sen. Dukes	Clarifies that this is through June 30, 2003. Asks how comfortable Warner is with these numbers.
087	Warner	Answers that he is comfortable with the numbers being consistent with economic projection. Says that if the economy is weaker than expected the numbers are probably too high.
107	Sen. Messerle	Asks if we are looking at the worst case scenario.
113	Warner	Responds that this is a middle of the road estimate. Continues with presentation.
144	Chair Hannon	Asks if the \$487 million budget gap includes \$50 million from the proposed cigarette tax.
149	Warner	Answers that \$482 million is the projected deficit.
202	Sen. Harper	Asks if the House cigarette bond proposal is new cigarette tax money.

205	Warner	Answers that it only applies to cigarette revenue raised from rate increases after September 1, 2002.
210	Sen. Courtney	Asks what would happen if the cigarette tax increase fails and the bonding passes.
212	Warner	Answers that the Oregon Department of Treasury would have the authority to issue bonds but would have no revenue to back them up.
219	Sen. Courtney	Asks for clarification on the true number of the budget deficit.
223	Warner	Answers that it is currently \$482 million.
243	Sen. Yih	Asks what the annual interest cost is for the cigarette revenue bonds.
246	Warner	Answers that on a five-year bond the annual cost of interest is about \$15 million.
274	Warner	Continues with presentation.
295	Sen. Dukes	Asks if there is any reason to believe that this is constitutional.
296	Warner	Answers that in Legislative Counsel's opinion it is constitutional.
313	Sen. Dukes	Expresses concern with taking money from the Common School Fund.
379	Sen. Harper	Asks about selling state lands or timber for revenue.
386	Warner	Says that they have not looked at the numbers on those issues.
387	Rocco	Responds that it has been looked at in the past. Says that they are unaware of the value of the lands. Says that timber sales would not be a good short-term solution.
419	Sen. Dukes	Points out that the state would receive very little money from those types of solutions.

#### **TAPE 1, B**

005	Chair Hannon	Says that he would like to have the committee excused from the floor session because he would like to finish all bills on the agenda.
021	Rocco	Presents written material <b>(EXHIBIT B)</b> .
067	Sen. Harper	Asks if the \$482 million is interchangeable or if it is a straight percentage.
069	Rocco	Answers that it is the same percentage for all appropriations lines.
104	Sen. Messerle	Asks about reducing state workers to four day work weeks.
110	Rocco	Responds that under labor negotiations you can not furlough some workers due to contracts. States that this would also not be very effective.
125	Sen. Messerle	Asks if the state is allowed to reopen contracts.
126	Rocco	Answers that the Executive Branch has the authority to do that.
145	Chair Hannon	Explains the intent of the committee. Invites Senator Yih to testify before the committee.
170	Sen. Yih	Reads written testimony <b>(EXHIBIT C)</b> . Proposes a three step budget balancing guide.
272	Chair Hannon	Thanks Senator Yih for her testimony. Welcomes Representative Donna Nelson to testify before the committee.

300	Rep. Nelson	Testifies that the state needs to decide on core services and cut the rest to resolve this problem.
366	Chair Hannon	Recesses at 10:22 a.m. to return at the call of the chair.

Reviewed By,

Marjorie Taylor,  
Administrator

### **EXHIBIT SUMMARY**

**A – written material, Paul Warner, Legislative Revenue Office, 2 pp.**  
**B – written material, Ken Rocco, Legislative Fiscal Office, 9 pp.**  
**C – written testimony, Senator Mae Yih, 2 pp.**