

PUBLIC HEARING AND WORK SESSION: SB 260 A-ENG.; HB 3555

WORK SESSION: SB 519 A-ENG.; HJR 64 A-ENG.; HB 2550

TAPES 206 — 207 A/B

TAPE 208 A

HOUSE SCHOOL FUNDING AND TAX FAIRNESS/REVENUE COMMITTEE

JUNE 11, 2001 — 9:30 A.M. - HEARING ROOM A - STATE CAPITOL BUILDING

Members Present: Representative Lane Shetterly, Chair

Representative Janet Carlson, Vice Chair (10:05 arrived)

Representative Deborah Kafoury, Vice Chair

Representative Alan Bates

Representative Chris Beck

Representative Alan Brown

Representative Mark Hass

Representative Max Williams (9:54 arrived)

Representative Bill Witt

Staff: Paul Warner, Legislative Revenue Officer

Steve Meyer, Economist, Legislative Revenue Office

Ed Waters, Economist, Legislative Revenue Office

Richard Yates, Economist, Legislative Revenue Office

Joan Green, Committee Assistant

Witnesses: Rep. Tom Butler, Legislative House
District 60

Rep. Wayne Krieger, Legislative House District 48

Rep. Patty Smith, Legislative House District 56

Del Cesar, Citizen

Ozzie Rose, Confederation of Oregon School Administrators

Ann Hanus, Division of State Lands

Don Arnold, Attorney General's Office

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006 Chair Shetterly Meeting called to order at 9:45 a.m.

OPENED WORK SESSION ON HB 2550

011 Chair Shetterly HB 2550 is replaced by the (-1) amendments, (Exhibit 1). Ed Waters will give a brief report on the revenue impacts of the federal tax legislation signed into law that will relate to Rep. Butler's (-1) amendments, (Exhibit 1).

017 Ed Waters Reviewed the Research Brief #3-01. (Exhibit 2)

083 Rep. Hass "Can this be tweaked to avoid the impact on the 2003-05 biennium and yet not have the windfall in the first biennium?"

090 Waters "There is the option to connect or not connect to changes in federal tax law affecting taxable income; that would limit the choices to the "Reconnect" impact portion shown in the second column of the first table, (Page 2, Exhibit 2). Some adjustment can be made by selectively connecting or not connecting to individual pieces, but other sorts of problems can be created."

095 Chair Shetterly Referenced the (-1) amendments, which address the direct federal tax refund; (Exhibit 4). Noted at this point in session there is no legislation to address the estate tax connection or non-connection and will be addressed during interim.

108 Rep. Brown The upper table is what will happen without legislation, (Page 2, Exhibit 2)?

109 Chair Shetterly Without HB 2550 the upper table is the result; noted that the \$39.6 was not included in the May

forecast, at this point it is new money, (Page 2, Exhibit 2).

- 116 Waters Concurred. Described what the measure does, as amended by the (-1) amendments and provided background material. (Exhibit 1)
- 136 Rep. Tom Butler Spoke in support of the measure, as amended by the (-1) amendments. (Exhibit 4)
- 175 Rep. Bates Where is written that this for a family making \$40,000 or less?
- 184 Rep. Butler Explained that currently the \$40,000 is the limit at which a person is paying approximately \$3,600 in federal tax; explained how this measure would work.
- 204 Rep. Witt The bulk of the tax relief from this proposal would apply to adjusted gross incomes between \$35,000-40,000, correct?
- 270 Rep. Butler Concurred, gave income tax brackets and percentages for the bulk of the recipients.
- 278 Rep. Witt Have these dollars been contemplated in the Ways and Means process?
- 223 Rep. Butler "No; this is new money that has not been contemplated."
- 228 Chair Shetterly Referenced the Research Brief and the total of \$39.6, which is in addition to the May forecast, but the Co-chairs of Ways and Means have anticipated an additional \$21-22 as a feedback from the President's tax plan, (Page 2, Exhibit 2).
- 255 Rep. Williams Is this a better priority on allocation than the other tax credit proposals considered to date by this Committee?
- 276 Rep. Butler Emphasized this is found money and therefore should be considered separate and apart from other tax credits for the working poor.
- 312 Chair Shetterly Noted the balancing that has been done all session was done on a budget that did not anticipate any of the \$39.6, (Page 2, Exhibit 2). Requested Waters confirm the manner in which this gets at the income level of \$40,000 and below.
- 327 Waters Explained how this measure will work for

someone with federal taxable income of \$20,000 at 15% rate for Oregon taxes. The federal advance refund could knock some people who are at or above the \$3,000 federal tax exemption level below it for a net federal tax liability of less than \$3,000 resulting in a net increase in Oregon tax.

- 354 Rep. Wayne Krieger Spoke in support of the measure.
- 413 Rep. Beck Questioned why this "windfall" should not go to the State School Fund or dedicate some to the Small School Fund rather than provide an overall tax cut.
- 436 Rep. Butler Spoke to the 45% of the taxpayers that benefit by not taxing this rebate represents a broad cross-section of Oregon.

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- 027 Rep. Krieger "I believe that we can do both, (HB 2550 and SB 519), and give a broad section of Oregon taxpayers a break."
- LRO Staff Distributed a letter from Legislative Counsel dated June 6, 2001. (Exhibit 3)
- 040 Rep. Witt **MOTION: MOVED LC (-1) AMENDMENTS DATED 06/07/2001 TO HB 2550 BE ADOPTED.**
- 047 Chair Shetterly Spoke in support of motion with a referral to Ways and Means.
- 056 Rep. Beck Spoke in opposition to motion.
- 063 Rep. Hass What is the strategy in requesting a referral to Ways and Means instead of directly to the floor?
- 065 Chair Shetterly "If negotiations on the budget should take a turn adjustments can be made in taxable levels; I don't anticipate that, but they would have that kind of control in finalizing the last pieces of the budget."
- 070 Rep. Hass Concurred with Rep. Beck's comments on the rural school district piece and this could be a small solution.
- 076 Rep. Witt Spoke in support of motion.
- 094 Rep. Bates Spoke in support of motion.

117 Chair Shetterly Noted that he received a letter from the Senate President that the Working Family Child Care Credit is dead, this provides an alternative vehicle for low income tax relief.

127 Vice Chair Kafoury Responded to the Chair's comments, but concurred with Rep. Beck's comments that there is parallel between this measure and SB 519.

141 Chair Shetterly Restated motion and asked if there was objection.

144 Rep. Beck Objected.

144 Chair Shetterly **HEARING ONE OBJECTION, THE CHAIR SO ORDERED ADOPTION OF THE AMENDMENT. (OBJECTED: Beck) THE VOTE WILL BE RECORDED AS 8-1-0.**

146 Rep. Witt **MOTION: MOVED HB 2550 TO THE HOUSE FLOOR WITH A DO PASS AS AMENDED RECOMMENDATION AND THE BILL BE REFERRED TO THE JOINT COMMITTEE ON WAYS AND MEANS.**

156 **ROLL CALL VOTE: MOTION PASSED 8-1-0**

REPRESENTATIVES VOTING AYE: Bates, Brown, Hass, Williams, Witt, Carlson, Kafoury, Chair Shetterly

REPRESENTATIVES VOTING NAY: Beck

OPENED PUBLIC HEARING ON HB 3555

175 Richard Yates Described what the measure does and provided background material. (Exhibit 5)

Chair Shetterly Left at 10:28 a.m., passed gavel to Vice Chair Carlson.

229 Rep. Brown "Are all private retirement programs taxable?"

230 Yates Yes.

232 Rep. Witt "Public Employee Retirement System (PERS) benefits are not taxable?"

233 Yates "They are currently being taxed; the court found that taxation to be in breach of contract." Described what the State has done in lieu of not taxing PERS benefits.

240 Rep. Witt "What is the effect of this bill, is this an attempt

to make equivalent to the tax treatment of retirement benefits to the way PERS is currently taxed or not taxed?"

- 248 Yates "It might be, I would need more information."
- 249 Rep. Witt There is no Revenue impact?
- 250 Yates No.
- 260 Rep. Bates Requested information on the thinking in not taxing PERS, based on negotiations.
- Chair Shetterly Returned at 10:30 a.m.; resumed gavel.
- 268 Yates Reviewed PERS taxation history.
- 297 Rep. Bates "Federal employees have been exempted and essentially state employees have been exempted from State taxation, this measure would extend the same treatment to a very small group of people to level a playing field. Is there logic in that approach?"
- 303 Yates "Balance will be achieved down the road, but meanwhile balance must be achieved." Reviewed how state taxes have applied to different groups of retirees, both currently and in the past.
- 346 Chair Shetterly Notes this came from the Rules Committee with a Do Pass recommendation and a unanimous vote, questioned the Revenue impact on this measure.
- 390 Yates I believe it would be small, but have not done a Revenue impact statement yet. Referenced spreadsheet on Tax on Pension Income and walked through an example, (Page 2, Exhibit 5).
- 395 Vice Chair "Would this pension credit apply to PERS or Carlson federal retirees or only just certain segments?"
- 396 Yates "It would apply to any taxable pension income."
- 402 Vice Chair "If the playing field is not level right now Carlson between PERS and small local governments this would not necessarily level it?"
- 404 Yates "It makes it more level."

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001 Rep. Patty Smith Spoke in support of the measure.

010 Del Cesar Spoke in support of the measure.

OPENED WORK SESSION ON HB 3555

075 Rep. Witt **MOTION: MOVED HB 3555 TO THE HOUSE FLOOR WITH A DO PASS RECOMMENDATION.**

084 **ROLL CALL VOTE: MOTION PASSED 9-0-0**

REPRESENTATIVES VOTING AYE: Bates, Beck, Brown, Hass, Williams, Witt, Carlson, Kafoury, Chair Shetterly

Rep. P. Smith will carry the bill.

OPENED PUBLIC HEARING ON SB 260 A-ENG.

120 Steve Meyer Described what the measure does, provided background material and discussed the (-A14) amendments. (Exhibits 6-8)

182 Ozzie Rose Spoke in support of the measure, as amended by the (-A14) amendments and distributed a spreadsheet titled "Financial Impact SB 519 and SB 260 with Proposed Amendments". (Exhibit 9)

206 Vice Chair Questions and discussion regarding clarification of the differences between Rose's numbers and Legislative Revenue's numbers, (Exhibits 6 and 9)
Carlson

OPENED WORK SESSION ON SB 260 A-ENG.

223 Rep. Bates **MOTION: MOVED LC (-A14) AMENDMENTS DATED 06/08/2001 TO SB 260 A-ENG. BE ADOPTED. HEARING NO OBJECTION, THE CHAIR SO ORDERED.**

230 Rep. Bates **MOTION: MOVED SB 260 A-ENG. TO THE HOUSE FLOOR WITH A DO PASS AS AMENDED RECOMMENDATION.**

235 Vice Chair Noted that she will support the motion, but Multnomah Education Service District (ESD) is going to lose by this.
Kafoury

241 Vice Chair Spoke to her commitment to ESD's and the important role they play in the education system.
Carlson

247 Rep. Witt Spoke in support of the motion.

267 **ROLL CALL VOTE: MOTION PASSED 8-0-1**

REPRESENTATIVES VOTING AYE: Bates, Beck, Brown, Hass, Witt, Carlson, Kafoury, Chair Shetterly

REPRESENTATIVES EXCUSED: Williams

Rep. Bates will carry the bill.

OPENED WORK SESSION ON SB 519 A-ENG.

LRO Staff Distributed Simulation #26. (Exhibit 11)

312 Rep. Hass **MOTION: MOVED LC (-2) AMENDMENTS DATED 05/10/2001 TO SB 519 A-ENG. BE ADOPTED.**

315 Rep. Hass Spoke in support of the (-A2) amendments to modify SB 519 A-Eng. (Exhibit 10)

329 Chair Shetterly What effect do the (-A2) amendments have on the ADMw numbers in the formula?

Questions and discussion regarding the effect of the amendments to the numbers and referenced Simulation 18, (Reference 05/11/2001, Exhibit 10).

332 Ozzie Rose Estimated the reduction per child to every district that would not receive any of this money; spoke in opposition to the (-A2) amendment. (Exhibit 10)

360 Meyer Noted that it would amount to about \$22 for all of the districts and for all of those receiving the facility grant increase the negative would be reduced or become a positive, depending on the district's situation, (Reference 05/11/2001, Exhibit 10).

362 Chair Shetterly Spoke in opposition to the motion.

369 Rep. Hass Spoke in support of motion.

378 Rep. Bates Requested clarification of the (-A2) amendment, (Exhibit 10)?

380 Chair Shetterly Explained what the Facilities Grant is.

387 Meyer Clarified what the Facilities Grant is per biennium and it is based on the cost of

construction.

- 397 Rose Spoke to the start-up costs of opening a school and why the facilities grant was started, does not oppose that need, but opposes using operational money for facilities.
- 411 Rep. Bates The money is primarily for opening of new schools, does some go for upgrading older schools?

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- 003 Meyer It is eligible for other than new schools, if classroom space is being added.
- 005 Rep. Bates New classroom space must be added?
- 008 Meyer Yes.
- Questions and discussion regarding winners and losers under this motion.
- 039 Chair Shetterly Restates motion
- 045 **ROLL CALL VOTE: MOTION FAILED 2-7-0**

REPRESENTATIVES VOTING AYE: Hass, Witt

REPRESENTATIVES VOTING NAY: Bates, Beck, Brown, Williams, Carlson, Kafoury, Chair Shetterly

- 054 Chair Shetterly **MOTION: MOVED SB 519 A-ENG. TO THE HOUSE FLOOR WITH A DO PASS RECOMMENDATION AND THE BILL BE REFERRED TO THE JOINT COMMITTEE ON WAYS AND MEANS BY PRIOR REFERENCE.**

Questions and discussion regarding why the Ways and Means referral.

- 069 Chair Shetterly **MOTION: REQUESTED UNANIMOUS CONSENT TO WITHDRAW MOTION WHEREBY SB 519 A-ENG. WAS MOVED TO THE HOUSE FLOOR WITH A DO PASS RECOMMENDATION AND THE BILL BE REFERRED TO THE JOINT COMMITTEE ON WAYS AND MEANS BY PRIOR REFERENCE RECOMMENDATION. HEARING NO**

OBJECTION, THE CHAIR SO ORDERED.

070 Chair Shetterly **MOTION: MOVED SB 519 A-ENG. TO THE HOUSE FLOOR WITH A DO PASS RECOMMENDATION AND THE SUBSEQUENT REFERRAL TO THE JOINT COMMITTEE ON WAYS AND MEANS BE RESCINDED.**

080 Vice Chair Spoke in support of the motion.
Carlson

086 Chair Shetterly Spoke in support of the motion.

099 Vice Chair Spoke in opposition to the motion.
Kafoury

120 Rep. Brown Spoke in support of the motion.

123 Rep. Williams Spoke in opposition to motion.

140 Rep. Beck Spoke in opposition to motion.

165 Rep. Witt Spoke in support of motion.

199 Rep. Bates Spoke in support of motion.

Chair Shetterly Restated motion.

243 **ROLL CALL VOTE: MOTION PASSED 5-4-0**

REPRESENTATIVES VOTING AYE: Bates, Brown, Witt, Carlson, Chair Shetterly

REPRESENTATIVES VOTING NAY: Beck, Hass, Williams, Kafoury

Chair Shetterly will carry the bill.

250 Rep. Beck Served notice of possible minority report.

OPENED WORK SESSION ON HJR 64 A-ENG.

280 Rep. Witt Described the (-A5) amendments, which address the three concerns heard in debate on the House floor, (Exhibit 12):

1. A limit is set on the amount of appropriation that can be taken from the Common School Fund on any single date to not exceed a certain percent, (Lines 5-8, Exhibit 12).
2. Language to clarify that principle and

earnings the fund would have had, but not to exceed a figure to be determined, will be paid back, (Lines 13-15, Exhibit 12).

3. Clarification that the proceeds must be paid back within six years from the date in which the appropriation is made, (Lines 10-11, Exhibit 12).

- 309 Rep. Bates What percent did Rep. Witt have in mind for the blank on line 6, (Exhibit 12)?
- 310 Rep. Witt I had thought 10-15%, but want input from the Committee. Restates debate heard on the House floor and how the (-A5) amendments address those concerns.
- 336 Ann Hanus Spoke to the (-A5) amendments addressing concerns that were raised, both in Committee and on the House floor.
- 353 Don Arnold The (-A5) amendments appear to address our concerns with the measure. Spoke to the language on lines 14-15 and line 19. (Exhibit 12)
- 422 Chair Shetterly Questions and discussion regarding the language in lines 11-15 allowing the Legislature to set a limit of zero, (Exhibit 12).

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- 004 Rep. Witt That is not the intent, questioned if the deletion of "not more than" would address the Division's concerns, (Lines14-15, Exhibit 12).
- 014 Hanus Spoke to policy issues that are of concern and proposed statutory language rather than constitutional language via hand-engrossed HB 2299. (Exhibit 13)
- 038 Rep. Witt Noted that the Committee heard that measure and in hearing that measure was when we came around to this concept.
- 045 Chair Shetterly Questioned what number should be used for the blank on line 6, Rep. Witt's suggestion was 10%, (Exhibit 12)?
- 050 Rep. Witt I am open to what the members think is appropriate.
- 053 Vice Chair
Carlson Requested clarification of what "proceeds" does and does not include; what would we be taking

10% of what?

- 054 Paul Warner "There is not a precise number of what the proceeds are, but if we go on the advice from Legislative Counsel it is a very small amount. Counsel advised that proceeds would be the amount of receipts received from sale of the original land; most of which occurred prior to the 1900's."
- 073 Rep. Bates Spoke in support of the (-A5) amendments, (Exhibit 12).
- 088 Rep. Witt Spoke to 20% being a better number and stated reasons.
- 094 Warner Spoke to the 5% rule, which would be over \$500 million short of forecast; the need will be large if an average unanticipated recession were experienced.
- 099 Chair Shetterly The 20% would not be a total of the school funds, but only the funds available after backing out the Admission's Act and other restricted funds.
- Questions and discussion regarding whether the language in the amendment does or does not include the entire fund, (Lines 5-8, Exhibit 12).
- 134 Chair Shetterly The amendment says it may not exceed 20%; the other limitations are still in play creating a two-part test.
- 143 Chair Shetterly **MOTION: MOVED THE RULES BE SUSPENDED FOR THE PURPOSE OF CONCEPTUALLY AMENDING THE (-A5) AMENDMENTS, (Exhibit 12).**
- 144 Rep. Witt **MOTION: MOVED TO CONCEPTUALLY AMEND THE (-A5) AMENDMENTS, (Exhibit 12) BY INSERTING "20" IN THE BLANK ON PAGE 1, LINE 6, AFTER THE WORD "EXCEED" HEARING NO OBJECTION, THE CHAIR SO ORDERED. (ALL MEMBERS PRESENT EXCEPT Beck, EXCUSED).**
- 151 Rep. Witt **MOTION: MOVED TO CONCEPTUALLY AMEND THE (-A5) AMENDMENTS, (Exhibit 12) BY DELETING "NOT MORE THAN" ON PAGE 1, LINES 14-15, AND INSERT "8" IN THE BLANK ON PAGE 1,**

LINE 15.

Questions and discussion regarding whether this blank should be tied to the prime interest rate.

188 **HEARING NO OBJECTION, THE CHAIR SO ORDERED.**

193 Rep. Witt **MOTION: MOVED LC (-A5) AMENDMENTS DATED 06/11/2001 TO HJR 64 A-ENG., AS CONCEPTUALLY AMENDED, BE ADOPTED. HEARING NO OBJECTION, THE CHAIR SO ORDERED.**

200 Rep. Hass Spoke in support of measure.

217 Chair Shetterly Spoke in support of measure.

240 Rep. Bates Spoke in support of measure.

252 Rep. Witt Spoke in support of measure.

272 Rep. Beck Spoke in opposition to measure.

288 Chair Shetterly **MOTION: MOVED HJR 64 A-ENG. TO THE HOUSE FLOOR WITH A DO ADOPT AS AMENDED RECOMMENDATION.**

290 **ROLL CALL VOTE: MOTION PASSED 7-2-0**

REPRESENTATIVES VOTING AYE: Bates, Brown, Williams, Witt, Carlson, Kafoury, Chair Shetterly

REPRESENTATIVES VOTING NAY: Beck, Hass

Chair Shetterly will carry the bill.

329 Chair Shetterly Meeting adjourned at 11:54 a.m.

Submitted by, Reviewed by,

Joan Green Kim Taylor James

Committee Assistant Revenue Office Manager

Exhibit Summary:

1. HB 2550, (-1) Revenue Impact statement, Waters, 1 page
2. HB 2550, Research Brief #3-01, Waters, 2 pages
3. HB 2550, Letter dated June 6, 2001, Legislative Counsel, 2 pages
4. HB 2550, (-1) amendment, (DJ/ps) 06/07/01, Rep. Butler, 1 page
5. HB 3555, Staff Measure Summary and Spread Sheet on Tax Pension Income, Yates, 2 pages
6. SB 260, (-A14) Revenue Impact statement and Simulation #13-2, Meyer, 3 pages
7. SB 260, (-A13) amendment, (CH/ps) 06/05/01, ?, 33 pages
8. SB 260, Senate Staff Measure Summary, Revenue and Fiscal Impact statements, LRO Staff, 6 pages
9. SB 260, Spreadsheet comparing SB 519 and SB 260, Rose, 1 page
10. SB 519, (-A2) amendment, (CH/ps) 05/10/01, Rep. Hass, 2 pages
11. SB 519, A-Engrossed updated Simulation 26, Meyer, 8 pages
12. HJR 64, (-A5) amendment, (GAC/ps) 06/11/01, Rep. Witt, 1 page
13. HJR 64, Hand-engrossed measure, Hanus, 2 pages