

SENATE REVENUE COMMITTEE

February 13, 2001 — 8:30 A.M. - HEARING ROOM A - STATE CAPITOL BUILDING

Members Present: Senator Ted Ferrioli, Chair

Senator Lee Beyer, Vice Chair

Senator Tony Corcoran

Senator Gary George

Senator John Minnis

Senator Charles Starr

Members Excused: Senator Susan Castillo

Staff: Paul Warner, Legislative Revenue Officer

Steve Meyer, Economist, Legislative Revenue Office

Carol Phillips, Committee Assistant

Witnesses: Brian Reeder, Financial Analyst,
Department of Education

TAPE 039, SIDE A

- 005 Chair Ferrioli Meeting called to order at 8:36 a.m.
- 015 Paul Warner Advised that the schedule for the next two days will be focused on education related bills.
- 030 Warner Because Oregon is one of only five states that do not have a formal stabilization fund, there have been many attempts over the years to create one.

Discussed the following elements useful in attempting to create a workable stabilization fund (Exhibit 2):

A. Revenue Sources

B. Triggers

- Economic
- Budgetary
- Political

A. Uses of Fund

B. Size of Fund

Revenue from the Master Tobacco Settlement (1998) is forecast to total \$328 million for the 2002 to 2005 calendar years. This could provide \$246 million for the stabilization fund over the four-year period. No lottery revenue would be available for the fund until the 2003-05 biennium. SJR 2 calls for transferring 50% of lottery revenue growth to the stabilization fund. Another source of funding would be a percentage of the charitable check-off from tax returns.

An imminent or predicted economic recession would trigger use of the stabilization funds. If after sine die an interim quarterly forecast shows revenues are predicted down, this would trigger use of the stabilization funds. Also, a three-fifths vote of both houses of the legislature declaring an emergency would allow the fund to be tapped.

The wording in SJR 2 specifies the use of fund interest earnings only, not principal. The fund is capped at 5%. Dollars would go in to build principal. As the dollars go in, they generate interest earnings. The interest earnings eventually will be the biggest part of the 5%. Over time the fund will mostly be those interest earnings, and any excess over 5% would flow back to the General Fund.

Extensive comments, and questions and answers interspersed.

OPENED PUBLIC HEARING ON SJR 2

381 Brian Reeder Expressed the Department of Education's support for the concept of a budget stabilization fund for several reasons. Oregon needs a fund to two main reasons: 1) Maintain Oregon's bond rating, which allows the state to borrow at lower interest rates, and 2) allows for more even funding when facing a revenue shortfall due primarily to an economic slowdown or recession. Although the past ten years have been good for the country and Oregon, income tax revenue has been growing rapidly, but property taxes have been cut dramatically. The result is that the total revenue picture is not nearly as "rosy" as in many other states.

The language in the bill is slightly ambiguous regarding what part of the fund represents principal and what part represents earnings. Mr. Reeder believes the two should be kept separate so that the 5% applies only to the principal of the account and that earnings never turn into principal. Those are the monies that can be spent. This fund is a long-term endeavor and should be started now.

TAPE 040, SIDE A

030 Reeder Continued comments.

Questions and answers interspersed.

128 Warner Stated there are four other bills in the legislature now attempting to address this same issue but come from different perspectives.

More extensive comments, with questions and answers.

204 Chair Ferrioli Said it was important for consideration to be made for a stabilization fund. There are good arguments to have one. Suggested SJR 2 be studied further. Suggested doing a side-by-side comparison of all bills addressing a stabilization fund.

General discussion, and questions and answers followed.

CLOSED PUBLIC HEARING ON SJR 2

OPENED PUBLIC HEARING ON SB 61

309 Steve Meyer Began discussion of SB 61, which deals with definition of extended ADMw. Extended ADMw compares ADMw in different years. Currently the statute says extended ADMw is the higher of the current or prior year ADMw. This bill would change definition to compare current year ADMw with one of the prior four years. As drafted, the bill implies the ADMw be added together for four years, and that was certainly not the intent. An amend-ment draft compares current year with highest year within the four-year period. (Exhibit 6.)

Extensive questions and answers interspersed.

TAPE 039, SIDE B

025 Chair Ferrioli Gave an example of Hepner and how the ADMw formula would work for that district. Pointed out that the bill puts more dollars into the districts that have lost student population.

086 Meyer Stated that fast-growing districts would be better off using their current year ADMw. Has not converted percentages from Exhibit 6 into dollar amounts yet.

More questions and answers.

156 Chair Ferrioli Stated this bill is not a massive shift of money, but it helps those schools that have suffered a large downturn in student population. It allows the schools to count the students at their highest population level and keep stabilization of programs while they restructure.

Summarized the bill explanation as districts having either steadily declining enrollments or

precipitously declining enrollments would receive a higher distribution based on their historical ADMw numbers rather than the anticipated recent lower number. It would focus assistance where the needs are greatest.

Extensive comments, and questions and answers followed.

359 Sen. Minnis Stated he would like to have a serious discussion about student attendance. Suggested that attendance, in the Portland schools in particular where there are attendance problems, should maybe be brought into the funding determination process. Thinks it may be more of a problem in urban areas than in rural.

389 Chair Ferrioli Agreed the point should be discussed, but added attendance may be a problem in rural areas, too.

Further comments, and more questions and answers followed.

TAPE 040, SIDE B

020 Reeder Talked about problem encountered in planning for ADMw and projections. Districts have an incentive to project a lower number than actual. If they project too high and budget for that, but actual student numbers are lower, then they have a budget problem. The district would have less money than they thought they would, so districts tend to forecast low. But that creates a problem for the Department of Education forecasters.

General comments followed.

056 Chair Ferrioli Adjourned meeting at 10:03 a.m.

Submitted by, Reviewed by,

Carol Phillips Kim Taylor James

Committee Assistant Revenue Office Manager

Exhibit Summary:

1. SJR 2, Warner, Staff Measure Summary, 1 pp.
2. SJR 2, Warner, Stabilization Fund Issues, 1 pp.
3. SJR 2, Warner, Revenue Impact Statement, 1 pp.
4. SB 61, Meyer, Fiscal Impact Statement, 1 pp.
5. SB 61, Revenue Impact Statement, 1 pp.
6. SB 61, Meyer, School Revenue Formula (Extended ADMw Options), 6 pp.