

## **SENATE REVENUE COMMITTEE**

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**March 12, 2001 — 8:30 A.M. - HEARING ROOM A - STATE CAPITOL BUILDING**

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Members Present: Senator Ted Ferrioli, Chair

Senator Lee Beyer, Vice Chair

Senator Susan Castillo

Senator Tony Corcoran

Senator John Minnis

Senator Charles Starr

Members Excused: Senator Gary George

Staff: Paul Warner, Legislative Revenue Officer

Ed Waters, Economist, Legislative Revenue Office

Richard Yates, Economist, Legislative Revenue Office

Carol Phillips, Committee Assistant

Witnesses: Senator Steve Harper, SD30

Phyllis Rand, Capitol Coordinator, Governor's  
Commission on Senior Services

Bill Sizemore, Oregon Taxpayers United

Laura Pryor, Gilliam County Judge

Virlena Crosley, Director, Oregon Employment  
Department

Frank Ritchey, Manager, Unemployment Insurance  
Programs and Analysis

TAPE 069, SIDE A

005 Chair Ferrioli Meeting called to order at 8:37 a.m.

OPENED PUBLIC HEARING ON SB 613

014 Sen. Steve Harper Testified in support of SB 613. The purpose of the bill is to deduct federal income taxes off state income tax returns, thus eliminating a tax on a tax. (-1) amendments came from Legislative Counsel because wording of bill was not quite correct.

Questions and answers interspersed.

078 Phyllis Rand Testified against SB 613 stating it was a bad idea last year when the expected state budget deficit was \$800 million and an even worse idea this year with a revenue shortfall still predicted. Senior Services needs all the revenue support it can get. Read Exhibit 3.

106 Bill Sizemore Testified in support of SB 613. Thanked Senator Harper for introducing the bill. Stated that most Oregonians still believe that double taxation is wrong. Even the IRS does not engage in this type of double taxation. Federal government allows taxpayers to deduct all state income taxes on federal returns, so people do not have to pay income taxes on their income taxes. Property taxes are deductible, so taxpayers do not have to pay taxes on taxes.

Stated that taxpayers cannot get away from double taxation all together, but charging income taxes on income taxes is a kind of double taxation that strikes people as being grossly unfair. To have to pay money to the state on money people did not get to keep is unfair, and it makes people angry.

Added that this bill will probably not make it out of committee, in which case it will appear on the ballot. Stated further that arguments that this bill would benefit only the wealthy "do not wash". Some are of the opinion it is okay to double-tax people if they make more money

than others do, but that is a class envy reaction.

Said he hears frequently from elected officials statements along the lines of: The Lottery is wrong and that taxing the ignorance of some people, especially those addicted to video poker, is wrong; but the state cannot stop doing it because "we need the money". Or that inheritance tax is wrong, but the country cannot stop taxing because "we need the money". The same holds true with the tax in SB 613. People say it is not fair, but the state needs the money. The poor and needy and schools and any number of worthwhile causes that need the Lottery money, or inheritance tax money, or money from double-taxation, so the bill cannot be passed.

Stated further that ill-gotten gains are still ill-gotten, and decent communities cannot be built by taxing people wrongly or unfairly. In spite of the fact that good things could be done with the money, the way it is acquired counts just as much as how much is acquired.

- 193 Vice Chair L. Beyer Asked Mr. Sizemore how he would change the tax system, if in his opinion it is unfair. Asked if there was too much or too little money raised, or what should be cut.
- 196 Sizemore Responded that he is not an elected official, so it is not his position to decide what would be cut. Said that in his opinion there are many functions of government that are not legitimate functions of government, particularly the areas of human services. Those should be the functions of charities, churches, relatives, friends, neighbors, and clubs; but not the function of government, which is not capable of charity.
- Vice Chair L. Beyer Asked Mr. Sizemore if he would leave seniors and disabled people out in the street, following that line of thinking. Took exception to Mr. Sizemore's comments.

Chair Ferrioli Interjected that members were to allow witnesses to fully answer questions put to them without interruption, and that witnesses were to give complete answers to questions.

Sizemore In answer to what would he cut, continued that he would reign in the Public Employee Retirement System. Recent data indicates that the average 30-year retiree receives 107% of their highest working salary. Oregonians feel it is a bit of a stretch when those in government say there is not enough money to fund certain programs, but there is enough money for public employees to retire making much more than they did when working full-time.

To suggest that SB 613 should fail, while money is being spent so lavishly on public employee retirees, causes Sizemore great indignation. Feels caring for the poor, needy, and elderly should be a function of society and should be done voluntarily, not forced by government in the form of taxes.

279 Vice Chair L. Beyer Apologized to Mr. Sizemore for his outburst. Stated he strongly disagrees with Mr. Sizemore's views.

286 Chair Ferrioli Stated the apology was noted for the record. Agrees with Mr. Sizemore's comment that there is more than one side to this story. Not sure that everyone agrees that government has no function in helping to protect the weak.

299 Sen. Minnis Pointed out that in reality, absent charities doing the work to provide for the poor, needy, elderly, etc., government has to do it. Asked where all those people would go if all the government programs were withdrawn.

308 Sizemore Answered that services considered not to be real functions of government would grow smaller over time. At present, people have become

accustomed to government being the provider of those services. The only way to have others step in is if government stops usurping the responsibility for doing those things. If done gradually, others will fill in and take responsibility.

365 Chair Ferrioli Agreed that taxpayers do deserve some consideration in how government fulfills its functions by the assessment of taxes. There are different philosophical approaches. Taxpayers need representation, and sometimes it does not all come from with the legislature. That is why there is the initiative and referendum process.

#### CLOSED PUBLIC HEARING ON SB 613

404 Richard Yates Discussed SB 622. The bill changes the definition of "federal and state dedicated resources" to include reserves for the purpose of allocating the Special County Distribution of Highway Fund revenue among counties.

#### OPENED PUBLIC HEARING ON SB 622

#### **TAPE 070, SIDE A**

016 Laura Pryor Testified in support of SB 622. Discussed Exhibit 7. Stated that for many years there was a Small Cities Allotment for road repair, but until 1991 there was not a Small Counties Allotment. The program worked well until timber revenue declined. The counties that had been relying on those timber revenues began losing funding for their road repair. For example, Harney County just received \$400,000 for road repair, while Gilliam got \$35,000. Recommended to the board overseeing this program that any county with timber reserve money should not be included in the Small County Allotment.

Questions and answers followed.

087 Chair Ferrioli Summarized the purpose for the bill. Explained that many counties used to receive large federal timber receipts. When the timber revenues

stopped, several counties were drastically impacted. Also, several counties never had timber in the federal program at all. By adding timber reserves to the total allotment of money to be divided among counties, it helps those that never had timber reserves to acquire more money for road repair.

139 Yates Further stated this applies only to US forest distributions, and only the 75% dedicated to the county road fund.

Extensive comments, and further questions and answers followed.

245 Chair Ferrioli Stated that this discussion has educated committee members on the purposes of the bill, but technical questions remain. Staff will provide further data at a later time.

#### CLOSED PUBLIC HEARING ON SB 613

#### OPENED PUBLIC HEARING ON SB 397

260 Yates Began discussion of SB 613 with slide show. Printed copy is Exhibit 11: Page 1: Unemployment Tax System.

Questions and answers interspersed.

335 Yates Discussed page 2: How Are Tax Rates Set.

340 Yates Discussed page 3: Two Groups of Schedules.

365 Yates Discussed page 4: Schedule in Effect.

387 Yates Discussed page 5: Basic Calculation.

#### **TAPE 069, SIDE B**

027 Yates Discussed page 6: Calendar Year 2001.

- 049 Yates Discussed page 7: Unemployment Compensation Trust Fund.
- Questions and answers interspersed.
- 122 Yates Discussed page 8: Graduated Schedules.
- 151 Yates Discussed page 9: Schedule III Tax Rates.
- 180 Virlena Crosley Testified in support of SB 397. ORS 657.615 allows the Employment Department Director to come to the legislature and to recommend to the governor when change is needed in unemployment tax rates. The fund has increased significantly due to large principal balance and beneficial interest rates. Oregon's unemployment fund is one of the top fine trust funds in the country. Discussed Exhibit 14.
- Extensive questions and answers interspersed.
- 327 Chair Ferrioli Stated that a question just asked by Sen. Minnis was an excellent one. If the fund is over-accruing, as evidenced by Exhibit 14, and if a potential downturn in Oregon's economy is forecast, why would the interest rate be lowered? Why not accrue as much of the fund when financial times are relatively good to last through a downturn.
- Further questions and answers.
- 336 Crosley Answered that estimates had been projected through 2005. For the last three years Oregon has been in the top five highest tax rates for unemployment insurance in the country. The two primary reasons are that Oregon was growing and had a lot of in-migration (people being unemployed and receiving benefits) and that Oregon tends to be a higher than average seasonal employer (agricultural).

Numerous questions and answers interspersed.

**TAPE 070, SIDE B**

- 021 Crosley Continued comments, with questions and answers interspersed.
- 035 Frank Ritchey Reported that for the last several years, the unemployment fund has been approaching \$100 million per year in interest earnings.
- Questions and answers interspersed.
- 066 Chair Ferrioli Stated that because of the time, asked if the witnesses who had not yet testified to this bill could return at a later date. The witnesses said they could do so.
- 099 Chair Ferrioli Adjourned the meeting at 10:06 a.m.

Submitted by, Reviewed by,

Carol Phillips Kim Taylor James

Committee Assistant Revenue Office Manager

Exhibit Summary:

1. SB 613-1, Waters, (-1) Amendments, (DJ/ps) 3/9/01, 1 pp.
2. SB 613, Waters, Revenue Impact Statement, 1 pp.
3. SB 613, Rand, Written testimony dated March 12, 2001, 1 pp.
4. SB 622, Yates, Staff Measure Summary, 1 pp.
5. SB 622, Yates, Revenue Impact Statement, 1 pp.
6. SB 622, Yates, Fiscal Impact Statement, 1 pp.
7. SB 622, Pryor, 2001 Special County Appropriations chart, 1 pp.
8. SB 397, Crosley, Written testimony dated March 12, 2001, 2 pp.
9. SB 397, Yates, Staff Measure Summary, 1 pp.
10. SB 397, Yates, Revenue Impact Statement, 1 pp.
11. SB 397, Unemployment Tax System slides, 8 pp.
12. SB 397, Fiscal Impact Statement, 1 pp.
13. SB 397, Crosley, Unemployment Tax Schedules, 1 pp.



14. SB 397, Crosley, Average Tax Rate slides, 3 pp.
15. SB 397, Lanning, Written testimony dated March 12, 2001, 4 pp.