

HOUSE COMMITTEE ON RULES, ELECTIONS, AND PUBLIC AFFAIRS

June 16, 1999 Hearing Room D

3:00 P.M. Tapes 98 - 101

MEMBERS PRESENT: Rep. Mark Simmons, Chair

Rep. Richard Devlin, Vice-Chair

Rep. Bruce Starr, Vice-Chair

Rep. Roger Beyer

Rep. Randall Edwards

Rep. Dan Gardner

Rep. Kevin Mannix

STAFF PRESENT: Cletus B. Moore, Jr., Administrator

Brad Daniels, Administrative Support

MEASURE/ISSUES HEARD: HB 3053 Work Session

SB 535A Public Hearing

SB 722A Public Hearing

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 98, A		
004	Chair Simmons	Opens the meeting at 3:30 p.m. Opens the work session on HB 3053.
<u>HB 3053 WORK SESSION</u>		
009	Rep. Starr	MOTION: Moves to SUSPEND the rules for the purpose of amending HB 3053.

		VOTE: 4-0 EXCUSED: 3 - Devlin, Gardner, Mannix
	Chair Simmons	Hearing no objection, declares the motion CARRIED .
014	Rep. Beyer	MOTION: Moves to RECONSIDER the vote by which HB 3053 moved to the floor with a DO PASS AS AMENDED recommendation.
		VOTE: 4-0 EXCUSED: 3 - Devlin, Gardner, Mannix
	Chair Simmons	Hearing no objection, declares the motion CARRIED .
026	Rep. Beyer	States that the ñ3 amendments would replace the ñ2 amendments by deleting pages 2-5.
030	Rep. Beyer	MOTION: Moves to RECONSIDER the vote by which the HB 3053 ñ2 amendments dated 06/14/99 were adopted.
		VOTE: 4-0 EXCUSED: 3 - Devlin, Gardner, Mannix
	Chair Simmons	Hearing no objection, declares the motion CARRIED .
034	Rep. Beyer	MOTION: Moves to RESCIND the ñ2 amendments dated 6/14/99.
		VOTE: 4-0 EXCUSED: 3 - Devlin, Gardner, Mannix

	Chair Simmons	Hearing no objection, declares the motion CARRIED.
038	Rep. Beyer	MOTION: Moves to ADOPT HB 3053-3 amendments dated 06/16/99.
		VOTE: 4-0 EXCUSED: 3 - Devlin, Gardner, Mannix
	Chair Simmons	Hearing no objection, declares the motion CARRIED.
040	Rep. Beyer	MOTION: Moves HB 3053 to the floor with a DO PASS AS AMENDED recommendation.
		VOTE: 5-0 EXCUSED: 2 - Devlin, Mannix
	Chair Simmons	Hearing no objection, declares the motion CARRIED. REP. MANNIX will lead discussion on the floor.
052	Chair Simmons	Closes the work session on HB 3053. Opens the public hearing on SB 535A.
<u>SB 535A PUBLIC HEARING</u>		
059	Cletus Moore	Committee Administrator. Explains SB 535A, which reduces the capital gains tax rate.
070	Charles Sheketoff	Executive Director, Oregon Center for Public Policy. Introduces an analysis of SB 535A by the Institute on Taxation and Economic Policy. Notes that a reduction in the capital gains tax will reduce the share of taxes paid by the wealthy while excluding the poorer members of society from any refund (EXHIBIT A).
115	Sheketoff	Explains that the capital gains deferral program is not working to aid Oregonís

		economy.
129	Rep. Starr	Asks if the study acknowledges that a lower capital gains rate actually increases the circulation of dollars and stimulates the economy.
136	Sheketoff	Replies that a state-specific capital gains tax cut will not affect state development if it is not targeted to capital investments in Oregon.
150	Rep. Starr	Asks if the study basically did not address the relationship between lower taxes and increased economic stimulation.
152	Sheketoff	Replies that the study summarized the available literature. Reiterates that the Legislative Revenue office and the Department of Revenue did study the capital gains deferral program and found it was not working well.
158	Rep. Edwards	Asks about the impact of a capital gains tax cut on corporations.
160	Sheketoff	Replies that it is difficult to tell. Stresses that a capital gains tax cut is a bad policy.
186	Rep. Edwards	Asks why the cost is so hard to compute.
187	Sheketoff	Replies that a model, which has not been created, is needed to analyze the capital gains tax rate and beneficiaries.
196	Rep. Mannix	Asks if anyone will pay higher taxes as a result of SB 535A.
198	Sheketoff	Replies that the answer is perhaps.
203	Rep. Mannix	Summarizes the hypothesis that, due to a proposed tax reduction, someday someone will have to pay higher taxes. Asks if the same argument could be made about any bill that reduces taxes.
210	Sheketoff	Replies yes, but his opposition is centered on the fact that, in this case, over half the tax break goes to the wealthiest 1% of Oregonians while the remaining 80% will get an average of \$16 each. Adds that it has no clear economic benefit to Oregon because it does not limit its scope to Oregon investments.
217	Rep. Mannix	Asks if the capital gains tax rate should be set to encourage particular kinds of investments rather than a neutral program.
220	Sheketoff	Replies that an effort to do this was made in 1995 through a capital gains deferral program and is not working very well. Adds that this type of tax reduction also raises federal taxes.

245	Tim Nesbitt	Service Employees International Union (SEIU). Opposes SB 535A. Describes the bill as a multimillion dollar gift to the least needy portion of society. Indicates that the bill does not affect taxes on wages. Stresses that the bill does not benefit the lowest tax bracket, who already have the highest tax burden as a percentage of their income. States that the bill rewards corporations for passive investments rather than active savings in operations (EXHIBIT B).
295	Nesbitt	Stresses that SB 535A is fiscally irresponsible by creating a revenue problem for future legislators. Relates the impact of one million dollars on residents of Oregon.
340	Gary Carlson	Associated Oregon Industries (AOI). Supports SB 535A. Reviews the tax policy bills that were introduced by AOI this session. Stresses that SB 535A is not a broad giveaway for the rich, but rewards people who are saving and investing for their future. Underlines the strong effect of a capital gains tax when investments are sold (EXHIBIT C).
402	Carlson	Describes the effect of federal and state actions on capital gains tax policy. Notes the beneficial effect of a reduction on capital gains taxes, including encouraging businesses to stay in Oregon.
TAPE 99, A		
008	Carlson	Emphasizes that changes in tax laws affect behavior and are not reflected by a static model.
016	Rep. Mannix	Discusses the relationship between government benefits received and the amount of tax paid.
030	Carlson	Agrees with Rep. Mannix's analysis
031	Rep. Mannix	Asks if SB 535A will simply trim the tax burden on people who are already paying their fair share.
035	Carlson	Replies yes.
038	Rep. Devlin	Asks if most of the tax burden is borne by middle-income Oregonians.
047	Carlson	Replies that the numbers are probably available.
053	Rep. Edwards	Notes that SB 535A benefits a certain group of people. Asks how the bill's impact can be stated more broadly.
068	Carlson	Answers that the measure compensates for a bad decision in 1986: the elimination of the 60% exclusion for capital gains.

077	Rep. Edwards	Asks if the state also lowered the personal income tax rates in 1986.
082	Carlson	Replies that the state attempted to follow the federal changes, which lowered personal income tax rates.
091	Chair Simmons	Underscores complaints about capital gains taxes. Supports a reduction in the capital gains tax rate.
098	Rep. Mannix	Notes the economic theory of velocity and the increase in velocity that comes from the reduction of taxes. States that economic enhancement comes from reinvestment.
111	Carlson	Agrees with Rep. Mannix's analysis.
116	Chair Simmons	Refers to Nesbitt's testimony that too many people earn too little. Stresses that a reduction in capital gains taxes will help people earn more.
129	Rep. Edwards	Asks about the corporate impact.
132	Carlson	Expresses uncertainty.
135	Rep. Edwards	Asks about the rationale for applying the reduction to corporations.
137	Carlson	Replies that there was not a specific rationale other than applying a broad change to the tax code.
144	Chair Simmons	Asks if the Governor has given any indication of his position.
145	Carlson	Replies that there was a less-than-enthusiastic response in the media.
152	Rep. Mannix	Suggests a referral clause for the November 2000 election.
166	Terry Lamars	Oregon Small Woodlands Association. Supports SB 535A. Describes the unique nature of investments in timber. Indicates that the current capital gains rate provides no incentive for landowners to make these types of investments.
203	Rep. Devlin	Asks about his view of an amendment phasing the tax reduction in over a long period of time.
209	Lamars	Expresses neutrality toward this option, but supports indexing the reduction with an exclusion for very long term investments. States that Don Schellenburg of the Oregon Farm Bureau supports SB 535A.

223	Chair Simmons	Closes the public hearing on SB 535A. Opens the public hearing on SB 722A.
<u>SB 722A PUBLIC HEARING</u>		
231	Moore	Explains SB 722A. Introduces letters from the Governor, the city of Portland, the city of Eugene and the ñA8 and ñA9 amendments (EXHIBITS D ñ H).
270	Gratten Kerans	Oregon University System (OUS). Discusses the Senate action on the bill. Relates that Sen. Bryant and Sen. Derfler do not object to the ñA8 and ñA9 amendments (EXHIBIT I).
314	Kerans	Describes the optional retirement plan offered by OUS in 1995 as opposed to the fixed contribution system. Indicates that the ñA8 amendments allow OUS to maintain the optional retirement plan as it is now. States that adopting the amendments protects the optional retirement plan as a recruiting tool and does not affect the Public Employees Retirement System (PERS).
370	Kerans	Explains the ñA9 amendments, which leave out a portion of the measure that is unnecessary.
TAPE 98, B		
007	Helen Berg	Mayor, City of Corvallis. Stresses the astronomical increases suffered by Corvallis. States that the League of Oregon Cities (LOC) has endorsed a comprehensive approach to PERS review. Mentions the opt-out provisions of the bill. Indicates that the proposed Tier 3 will be beneficial to the government and employers. Agrees that employees should have a stable and comfortable investment plan (EXHIBIT J).
052	Bob Cantine	Association of Oregon Counties (AOC). Supports SB 722A. Stresses that the impact of rate increases is significant on many counties.
070	Maria Keltner	LOC/AOC. Supports SB 722A. Underlines that they are working on an amendment to address local governmentsí bonding options (EXHIBITS K & L).
086	Rep. Devlin	Asks about the possibility that more than a few cities will opt out of PERS.
090	Cantine	Replies that cities will opt out of PERS if no changes are made.
098	Rep. Devlin	Asks about the effects of opting out on the governmentsí obligation to retirees.
108	Keltner	Replies that the obligation to people already in PERS would continue; the opt out would be only for future hires.

116	Rep. Devlin	Notes the fear surrounding a multiple tiered system. Asks if a tiered system will cause problems.
126	Keltner	Replies that a Tier 3 is needed to uncouple the alternative benefit calculations in Tier 1 and Tier 2. Concedes that different benefit packages could create problems, but notes that there are already people working side by side with different benefit packages.
148	Rep. Devlin	Discusses the confusion surrounding a multi-tiered system.
156	Keltner	Notes that some cities and counties did not join PERS and have their own local pension plan.
161	Rep. Devlin	Describes the City of Tualitanis experience in and out of PERS.
167	Keltner	Responds that other states have multiple-tiered retirement plans.
171	Rep. Gardner	Asks about the requirements for new employees after a local government has opted out of PERS.
175	Keltner	Replies that there are no statutory requirements under current law and SB 722A.
182	Rep. Gardner	Asks if essentially there are no statutory requirements on local governments once they opt out of PERS.
185	Keltner	Replies yes.
187	Rep. Gardner	Asks if opting out affects portability between different municipalities.
192	Keltner	Expresses uncertainty.
198	Berg	Stresses that no public employer is eagerly awaiting the opportunity to opt out. Underlines the financial shock that occurred as a result of the increases in PERS and the essential, long term changes included in SB 722A.
231	John Ramig	Variable Annuity Life Insurance Company. Supports the opt out provision of SB 722A. Addresses the portability problem and its impact on employees who are in PERS, underlining that the bill will enhance portability. Comments that the opt out language should be viewed as a safeguard for cities and counties.
292	Chair Simmons	Asks about the attractiveness of opting out of PERS.
303	Ramig	Replies that the decision to opt out depends upon the goals of the employer.

		Cites certainty and the advantages of other funds.
328	Fred McDonnal	<p>Director, PERS. Outlines PERS's interpretation of various parts of the bill:</p> <ul style="list-style-type: none"> • The Tier 3 benefit calculation would reinstate the pension plus annuity for new employees. • The bill adds the employer portion to the lump sum withdrawal for Tiers 1 and 2. • The lump sum withdrawal saves the cost of living expense (EXHIBIT M).
394	McDonnal	States that the pooling of local government employers is an important part of the bill. Explains the pooling structure and the "smoothing" process that results. Stresses that local governments need to pool.
TAPE 99, B		
013	Mark Johnson	PERS. Indicates that pooling provides for more stability, allows the sharing of gains and losses, and reduces volatility.
033	McDonnal	Adds that pooling will not reduce present unfunded liabilities, but is a prospective option. Describes employer participation in the variable annuity account investments, which allows employers to invest in the same manner as employees variable dollars. Opposes the opt out provision of the bill because it will not be in the best interest of local governments who are pooled.
067	Rep. Gardner	Asks about the portability of PERS.
073	McDonnal	Answers that PERS is portable, citing the higher education system as one example. Acknowledges that opting out will affect portability, but also comments that the assets will remain in the system and can be accessed upon retirement.
090	Rep. Devlin	Asks about the effects on rates if a number of governments opt out.
100	Johnson	Replies that pooling will lessen the liability issues. Comments that employers who opt out can not ignore the obligations to employees who are currently covered.
122	Rep. Gardner	Asks about the use of sick leave.
125	McDonnal	Expresses uncertainty. Indicates that people do pay more attention to their sick leave if it affects their retirement.
138	Johnson	States that the sick leave system has a very small impact compared to the money match system. Notes that sick leave is a factor in the Tier 3 portion of the bill.

169	Rep. Devlin	Reviews the complaints of local governments about rate increases. Asks about the connection between these complaints and the implementation of a third tier and opt out provisions.
184	McDonnal	Replies that there is no connection between SB 722A and the tax liability brought on by the 1995 legislature, which was put on the backs of employers. Stresses that the last two years have seen the impact of the money match.
201	Rep. Devlin	Asks if the opt out has no real connection; it just provides an escape if needed.
203	McDonnal	Replies yes.
208	Rep. Devlin	Asks about the positive and negative impacts of instituting a third tier.
213	McDonnal	Responds that a positive effect is the impact on the money match. Adds that the disadvantages include the limiting of the money match situation, which has attracted people to government service. Stresses that costs must be contained. Relates that the disadvantages also include recruitment and the long-term solution of the third tier.
270	Chair Simmons	Asks about the size of unfunded liabilities.
284	Johnson	Replies that unfunded liabilities total about \$800 million. Stresses that the key is the interest rate environment. Explains the effect of interest rates on liabilities. States that bonding provides a good opportunity for local employers.
304	Chair Simmons	Asks about the size of some unfunded liabilities.
305	Johnson	Lists some unfunded liability amounts.
321	Rep. Devlin	Asks about the benefit of studying the opt out and the creation of the third tier.
342	McDonnal	Replies that the subject is complex and has been discussed elsewhere. Adds that the best way to study the changes would be to construct an interim committee to do a complete analysis.
390	Mary Botkin	American Federation of State, County and Municipal Employees (AFSCME). Opposes SB 722A. Supports various aspects of the bill, including the interest earnings crediting, the double lump sum withdrawal, employer participation in the variable account and pooling (EXHIBITS N & O).
TAPE 100, A		
027	Botkin	Opposes the institution of a third tier and the opt out provision. Notes that the opt

		out provision will complicate the bargaining environment. Reviews the history of sick leave's emergence in PERS.
090	Botkin	Explains that some employees are not using their sick leave when they should. Urges a more cautious, collective approach to reform.
125	Tricia Smith	Oregon School Employees Association (OSEA). Supports portions of SB 722A, but opposes the imposition of a third tier and opt out provisions. States that allowing employers into the variable accomplishes the same goals as a third tier without penalizing employees. Outlines the penalties to OSEA members that would result from a third tier.
190	Smith	Explains that classified school employees stay in their jobs because of their PERS benefits. Underscores that sufficient retirement is a reasonable reward for classified employees. States that many of the employers who opt out may simply not provide retirement benefits to employees.
225	Tricia Bosak	Oregon Education Association (OEA). Opposes SB 722A. States that SB 722A as written goes too far. Supports the ñA10 amendments. Opposes the idea of a third tier and the opt out provisions, which will restrict portability and reduce retirement income.
275	Bosak	Underscores that the majority of employees make 50% or less of their retirement benefits. States that reduced retirement, along with other factors, will exacerbate problems with employee retention and disparate treatment of employees.
310	Rep Edwards	Asks if this bill will affect school districts.
315	Bosak	Replies yes. Adds that school districts are not able to opt out.
317	Rep. Edwards	Asks about the rationale behind this exclusion.
320	Bosak	Replies that she assumes that it is due to the number of employees.
328	Rep. Edwards	Asks about different rates for school districts and local governments.
340	Botkin	Explains that the pools create a problem for opt outs.
350	Rep. Devlin	Adds that pooled entities are probably not pursuing the opt out provision because they are not experiencing the same rate increases as independent local governments.
360	Smith	Stresses that only certain local governments have experienced significant rate increases.

379	Brian Delashmutt	Oregon Council of Police Associations; Association of Oregon Corrections Employees; Federation of Oregon Parole and Probation Officers. Reviews the history of the implementation of a second tier. Expresses disappointment about the possible imposition of a third tier. Discusses the problem of unbundling sick leave and retirement, relating the example of his wife who judiciously used her sick leave (EXHIBIT P).
TAPE 101, A		
020	Delashmutt	Explains that, under the three tier system, public safety officers would not be able to retire after 25 years due to lower benefits, which he perceives as unfair. Indicates that the opt out provision would impede the transfer of retirement benefits between areas of the state and would prevent the retirement of many people.
071	Rep. Edwards	Asks how many people work in the same area their entire lives.
078	Delashmutt	Describes the career longevity of nurses and police officers.
090	Rep. Edwards	Asks if the adjustments to PERS represent an attempt to match a changing work environment.
115	Delashmutt	Replies that his impression was not that the third tier was an attempt to match the dynamics of the workforce.
125	Amy Hunter	American Federation of Teachers. Opposes the bill as written, but would support bill with the exclusion of opt out and third tier, represented by the ñA10 amendments (EXHIBIT Q).
170	Bob Livingston	Oregon State Fire Fighters Council (OSFFC). Opposes SB 722A. Reviews the original goals of PERS. States that a third tier will provide only 47-53% of pre-retirement gross income for police and firefighters. Addresses the problem of the gap in time before Social Security can be collected. Notes that firefighters have a mortality age of 69.
239	Pat West	OSFFC. Supports the ñA10 amendments, which deal with the problems in the current system, over the original SB 722A. States that the advantages of a third tier benefit employers exclusively.
280	West	Reports that current problems were caused by bad decisions that the employers made. Questions the willingness to rely on employees to pay for these mistakes.
305	Chair Simmons	Summarizes the reasoning for and against a third tier. Asks about the possibility of compromise.
320	West	Answers that the system is very good and should not be changed.

340	Rep. Mannix	Comments that the Governor does not support the opt out. Questions if West would support more bonds to pay for the liability.
360	West	Supports the bonding idea.
370	Rep. Mannix	Asks if the Governor has supported this idea.
375	West	Expresses uncertainty.
385	Rep. Mannix	Expresses interest in the bonding idea.
400	Rep. Devlin	Questions the logic of the opt out provision in conjunction with pooling.
410	West	Agrees with Rep. Devlin. States that the opt out provision is diametrically opposed to pooling.
TAPE 100, B		
020	Rep. Mannix	Suggests that the bonding proposal should be drafted into amendments to give local governments the authorization.
026	Livingston	Notes that both the ñA10 amendments and current form of the bill have a foundation for bonding.
039	Chair Simmons	Closes the public hearing on SB 722A. Reopens the work session on HB 3053.
<u>HB 3053 WORK SESSION</u>		
040	Rep. Gardner	MOTION: Requests unanimous consent that the rules be SUSPENDED to allow REPS. DEVLIN AND MANNIX to BE RECORDED as voting AYE on the "MOTION: Moves HB 3053 to the floor with a DO PASS AS AMENDED recommendation.".
		VOTE: 7-0
Chair Simmons		Hearing no objection, declares the motion CARRIED.
045	Chair Simmons	Adjourns the meeting at 6:15 p.m.

Submitted By, Reviewed By,

Brad Daniels, Cletus B. Moore, Jr.,
Administrative Support Administrator

EXHIBIT SUMMARY

A ñSB 535A, written testimony, Charles Sheketoff, 8 pp.

B ñSB 535A, written testimony, Tim Nesbitt, 4 pp.

C ñSB 535A, written testimony, Gary Carlson, 2 pp.

D ñSB 722A, letter, Gov. John Kitzhaber, 2 pp.

E ñSB 722A, letter, Marge Kafoury, 2 pp.

F ñSB 722A, letter, Jim Johnson, 2 pp.

G ñSB 722A, -A8 amendments, staff, 4 pp.

H ñSB 722A, -A9 amendments, staff, 1 pp.

I ñSB 722A, written testimony, Gratten Kerans, 1 p.

J ñSB 722A, written testimony, Helen Berg, 1 p.

K ñSB 722A, written testimony, Maria Keltner, 1 p.

L ñSB 722A, written testimony, Maria Keltner, 3 pp.

M ñSB 722A, written testimony, Fred McDonnal, 2 pp.

N ñSB 722A, written testimony, Mary Botkin, 2 pp.

O ñSB 722A, -A10 amendments, staff, 18 pp.

P ñSB 722A, written testimony, Brian DeLashmutt, 1 p.

Q ñSB 722A, written testimony, Amy Hunter, 2 pp.