

**PUBLIC HEARING AND WORK SESSION: SB 250**

**PUBLIC HEARING: SB 260**

**INVITED TESTIMONY**

**TAPES 022 A/B,**

**023 A**

## **SENATE REVENUE COMMITTEE**

---

**February 2, 1999 - 3:00 P.M. - HEARING ROOM A - STATE CAPITOL BUILDING**

---

Members Present: Senator Randy Miller, Chair

Senator Thomas Wilde, Vice Chair

Senator Lee Beyer

Senator Tom Hartung

Senator Charles Starr

Staff: Paul Warner, Legislative Revenue Officer

Ed Waters, Economist, Legislative Revenue Office

Richard Yates, Economist, Legislative Revenue Office

Joan Green, Committee Assistant

Witnesses: Susan Browning, Department of Revenue

Invited Testimony Mathew Evans, Oregon Tax Research

### **TAPE 022, SIDE A**

005      Chair Miller      Meeting called to order at 3:03 p.m.

## PUBLIC HEARING ON SB 250

022	Paul Warner	Gave brief description of SB 250; it would change the filing requirements for cigarette distributors.
039	Richard Yates	SB 250 deals with cigarette tax and is a housekeeping bill. Reviewed bill section by section.
059	Chair Miller	Is the intent of this bill to eliminate the tax stamps?
064	Yates	No. Continued with review of bill and referenced existing statute. (Exhibit 1)

Summation of what the bill would do:

- Cleans up the language, which relates to metered impressions
- Changes the reporting by distributors to a quarterly rather than monthly report
- Conforms audit and efficiency procedures for cigarette and other tobacco products taxes to the other programs administered by the Department of Revenue

133	Susan Browning	Presented testimony in support of measure. (Exhibit 2)
180	Sen. Beyer	If the stamps are damaged or the cigarettes are outdated are the distributors reimbursed?
185	Browning	Yes, under a different process.
189	Sen. Beyer	Why reimburse the distributor, why don't they stand the loss?
202	Browning	It is a physical tracking device and part of the audit control device.
231	Yates	The tax is imposed on the distribution of cigarettes not the sale of cigarettes; if the distributors were not reimbursed there could be a potential liability.

229      Browning                      Continued with testimony.

248      Sen. Hartung                    Where does the \$15 million per month that is collected go?

260      Yates                                The net use, per pack, after the Department deducts administrative charges are:

- Oregon Health Plan: \$0.27 (Measure 44) + \$0.10 (sunsets July 1, 2000) for a total of \$0.37
- Tobacco Use Reduction Account: \$0.03
- State General Fund: \$0.22
- Special Senior and Disabled Transportation Services at the local level: \$0.02
- Counties: \$0.02
- Cities: \$0.02

Fiscal impact statement distributed. (Exhibit 3)

#### WORK SESSION ON SB 250

278      Vice Chair Wilde                MOTION: MOVED SB 250 TO THE SENATE FLOOR WITH A DO PASS RECOMMENDATION. MOTION ADOPTED BY UNANIMOUS CONSENT. (ALL MEMBERS PRESENT)

Sen. Hartung will carry the bill.

#### OPENED PUBLIC HEARING ON SB 260

316      Ed Waters                            Explained purpose of the bill; it would exempt federal pensions for service before October 1, 1991 from Oregon Income tax. Discussed necessity for legislation and referenced research reports. (Exhibit 4)

410      Susan Browning                   Presented testimony in support of measure. (Exhibit 5) SB 260 is a companion bill to SB 259 and will be coming to the Senate Revenue Committee.

**TAPE 023, SIDE A**

040	Browning	Continued with testimony and review of bill section by section.
075	Browning	Continued with testimony and review of bill section by section.
085	Sen. Beyer	Will the federal agency that works with federal pensions be able to separate the pension amounts? It may not be as big a problem now as later when someone finishes their years of services and half of it is before and half of it is after that they owe taxes on.
Ten or twenty years from now, when there is a big split, federal employees will still be able to comply?		
092	Browning	It is for retirement income for before October 1, 1991; yes I hope it will be as easy for the people down the road as it is now. Effort has been put into making it easy for taxpayers.
105	Vice Chair Wilde	At what point will the chapter number in section 4 be filled in?
109	Browning	It is my understanding that it is tied to SB 259 and page 3, line 25 of SB 260 will be filled in when action is taken on SB 259. I can check with Legislative Counsel and the Attorney General to verify that.
118	Vice Chair Wilde	Are we not moving SB 260 today?
120	Chair Miller	My intent is to wait for SB 259 and move them together.
Distributed fiscal impact statement. (Exhibit 6)		

INVITED TESTIMONY

132	Chair Miller	Welcomed Mr. Evans and requested his response to Mr.is. Timpe and Mr. Mitchell presentation yesterday.
134	Mathew Evans	<p>Complimented the Governor's two appointed Committees and the work that they did.</p> <p>Comments on the stability fund; generally it is prudent fiscal management. The question is how do you fill this account/fund and how is it established and accessed.</p> <p>Once established, this fund should compete with all other general fund obligations for funding.</p> <p>The Committee's recommendation was the account is statutory; I believe it should be constitutional to protect it from premature withdrawal from the fund by the legislature.</p>
205	Evans	<p>Addressed local government and the State's ability to preempt certain kinds of local revenues. I would recommend the legislature tread carefully hear for several reasons:</p> <ol style="list-style-type: none"> <li>1. I don't think Oregon wants a crazy quilt of revenue raising measures around the State where every municipality has a different way to tax.</li> <li>2. Revising the appropriation growth limit. This is a perfect example of why the stability fund can not be statutory. An appropriation growth limit already exists, it is statutory and continually evaded by statute.</li> <li>3. Discussed the consumption tax issue. The Committee made some good points. It is a difficult issue in that the political will is lacking and the public is resistant to a sales tax, as proven in the past.</li> </ol>
285	Chair Miller	If we had identifiable economic indicators that the State is on a downswing would that trigger the availability of the stabilization fund? And, further, should that be surrounded with a super-majority requirement in both chambers to protect this fund or not?
292	Evans	The triggers are important pieces to be put in place. What needs to be avoided is negotiation on how it is used. To do that I feel it needs to be locked into the constitution.
309	Chair Miller	Are you suggesting with your comment that this fund should compete with all other general fund expenditures that we not to look at, say the tobacco money or lottery, as potential sources for funds available to put into this account.

329	Evans	Those could be sources. Stated concerns about the use of the tobacco money for this purpose. The lottery is not a stable funding source, although it is currently a source of revenue.
		The question is whether the constitution would state where the monies come from or simply that it will be. Competition in the general fund process assures a relatively stable source of funding to fill it up in the near term, but also after the next economic downturn.
353	Chair Miller	Have you heard anybody volunteer a portion of their Agency/Organizations current appropriation to fill the stabilization fund?
361	Evans	No.
379	Chair Miller	Is it prudent that this fund should have a cap on it?
381	Evans	Yes. Discussed other states that have a similar fund. There is no point in going over a certain amount; particularly combined with Committee's other recommendation that however much is spent from the stability fund is matched with cuts in continuing programs. That provides for about \$1 billion cushion, which ought to be sufficient.
425	Warner	Provided a clarification on the appropriation growth limit.
434	Vice Chair Wilde	Spoke to the Committee's discussion on the use of tax policy to influence behavior. Requested discussion of how a value-added tax could be used to recapture some of the dollars Oregon loses as an exporting State and sending unprocessed agricultural products out of State.
464	Evans	Many states use a value added tax or something similar. The question is what incentive will be used for people to want to increase the amount of tax paid if value is added.

**TAPE 022, SIDE B**

041	Sen. Beyer	Sen. Wilde raised a good question. Hard to take a look at Washington State which is successful at it. Asked Evans to comment on this.
-----	------------	---

052	Evans	More competition among businesses in location of plants, looking for tax breaks, etc. In an economic downturn this would increase aggressively. Doesn't believe Oregon is at a disadvantage with Washington state with regard to business tax policy. Companies will look at tax system in state. How multi-state income is apportioned should be looked at. All areas should be addressed. Is there a way to capture more of that.
082	Vice Chair Wilde	The incentive to having a tax can be addressed by the Economic Development Department that is supposed to direct growth in various ways. Rural Oregon has an untapped labor pool, which is also our agricultural center. Oregon should encourage development in areas that can process raw agricultural products and utilize labor force that exists. Capture taxes at same time.
099	Evans	Discussed exportation of logs and the economic decline.
150	Sen. Beyer	Intel clearly stated in the early 1990s that they could not afford to invest in Oregon under current tax law and they did not. When the tax law changed they invested \$2.5 billion in Oregon. Under SEP, people forget, the first \$100 million is taxable. Normal industrial investment in Oregon is \$10-25 million.
		It is not just competition amongst the lower 48 it is worldwide. Companies like Intel are fleeing the United States due to tax policies.
186	Chair Miller	Asked Evans for advice to tax policymakers concerning a law that would allow a uniform tax imposed by city or county jurisdiction, but would not include restaurants, etc. Should we pursue uniformity or allow local jurisdictions to raise taxes to support their parochial programs and let them live with the consequences?
214	Evans	There is no one single answer. It would be economically dislocating to allow open tax season and should be avoided, tax policy should be as uniform as possible, but there will be differences geographically, but flexibility must be allowed for the local jurisdictions to have local options.
239	Chair Miller	Requested that Evans review the Tax Expenditure Report and advise committee whether some of the credits should be altered or eliminated.
246	Evans	Will respond at later date. The state provides many scholarships, both academically and athletically. None of this money is accounted for in the Tax Expenditure Report, although it is money that would have been collected, but was not because state gave them a break.

265	Sen. Beyer	Would tuition reductions at private schools be treated the same way?
268	Evans	They are accounted for in some way, although I cannot tell you exactly how.
275	Sen. Wilde	What about the nonprofit status of hospitals?
280	Evans	They are not taxed.
315	Chair Miller	Meeting adjourned at 4:15 p.m.

-

Submitted by, Reviewed by,

Joan Green Kim T. James

Committee Assistant Revenue Office Manager

Exhibit Summary:

1. SB 250, Yates, ORS Chapters, 5 pages
2. SB 250, Browning, Written testimony, 2 pages
3. SB 250, LRO Staff, Fiscal Impact Statement, 1 page
4. SB 260, Waters, Research reports, 6 pages
5. SB 260, Browning, Written testimony, 1 page
6. SB 260, LRO Staff, Fiscal Impact Statement, 1 page