

PUBLIC HEARING AND WORK SESSION ON SJR 28B, HJR 37A,
AND HB 3140A TAPES 229 - 230 A/B

SENATE REVENUE COMMITTEE

JULY 1, 1997 - 1:15 P.M. - HEARING ROOM B - STATE CAPITOL BUILDING

Members Present: Sen. Ken Baker, Chair

Sen. Neil Bryant, Vice Chair (arrived 2:40 p.m.)

Sen. Joan Dukes

Sen. Verne Duncan

Sen. Tom Hartung

Sen. Randy Leonard (arrived 2:55 p.m.)

Testimony: Sen. Jeannette Hamby, District 5, Hillsboro

Tim Nesbitt, Oregon Public Employees Union

Peter Grundfossen, Associated Oregon Housing Authorities

Sen. Eileen Qutub, District 4, Beaverton and Tigard

Paul Warner, Department of Administrative Services

Jack Kane, Oregon Optometric Association

Wayne Schumacher, Oregon Optometric Association

Jeff Gilmour, Oregon Office of Rural Health

Staff: Ed Waters, Economist

Richard Yates, Economist

Carol Phillips, Committee Assistant

-

TAPE 229, SIDE A

005 Chair Baker Opened meeting at 1:37 p.m.

OPENED PUBLIC HEARING ON SJR 28B / HJR 37A

013 Sen. Jeanette Hamby Testified in strong support of SJR 28B. It does not go as far as she would like it to; however, she is pleased that this first step is being taken. Understands the bill will cap Lottery proceeds into a "rainy day" fund and suggested \$550 million which is slightly less than allowed today. The \$550 million cap would allow a potential \$30 million to flow into a rainy day fund to be used in times of economic downturn in Oregon's economy. The original intent of the bill was to allow legislative oversight of the Lottery, which is currently in statute but not in the constitution.

044 Tim Nesbitt Said that they discovered one problem in particular on page 1 line 20 which is a reference to a balance of a reserve fund exceeding 7% of the General Fund for the fiscal year. However, the standard that was created for considering the reserve fund to be full or maxed out is 7% of the General Fund for the biennium. So there is one standard in one context, and another context in another context. Both should refer to the same parameters.

072 Nesbitt Said that in looking at the implementation legislation of HB 2007 there are other problems.

075 Chair Baker Said that the current thinking of the economists and Legislative Counsel is that if HJR 37 is presented to the voters in November 1998 legislators would not need do anything to the language until the 1999 Legislative Session. Thus there would be no HB 2007.

085 Nesbitt Continued that there is no reference in HJR 37 to an "education rainy day fund"; it creates and refers to a "reserve fund". It is confusing to see the reserve fund in constitutional language translated into an education rainy day fund in the implementing language.

100 Peter Grundfossen Said he has a problem in testifying because Amendments have been produced but he has not seen them yet. Based on rumors of what the Amendments are about he had comments about concepts. Said that the biggest problem with HJR 37A is a matter of over-arching public policy about how decisions get made about money which has arrived at the capitol because taxes have been assessed and collected. Said that if HJR 37A is allowed to proceed requires under the constitution that kicker money be

returned to the taxpayers without any further discussion by the legislature. Further comments on the kicker.

135 Grundfossen Stated he comes to the legislature every biennium looking for more money for housing for poor people. Per the 1990 census 85,000 households earned 30% or less of median income and spent more than 50% of that income on rent and utilities. Another 6,000 households are homeless in Oregon every single night; 41% of that number are families, 31% are children. It is estimated that 50,000 units of low income affordable housing is needed to offset that problem. To be permanently precluded from ever receiving additional funds from the kicker by a constitutional mandate seems to be a step too far in the wrong direction.

156 Chair Baker Said that the Amendments being drafted at this time would only use Lottery funds in excess of \$600 million and would not touch the kicker at all.

CLOSED PUBLIC HEARING ON HJR 37A

OPENED PUBLIC HEARING ON SB 1219

Sen. 400 Eileen Qutub Stated that this bill provides an income tax reduction of one-half of one percent beginning next biennium on all income tax rates in the state. Studies have shown that when taxes are reduced revenues to the state increase. Believes the bill should be sent to the voters for approval. Encourages Committee's consideration of this proposal. Questions and discussion interspersed.

471 Ed Waters Exhibit D - Income Tax Reduction Figures. The 1999-01 biennium shows an anticipated revenue loss of \$500 million. In 1997-99 because the effective date for this legislation would be 1/1/99, it would actually include six months of the 1997-99 biennium and would be an anticipated loss of \$98 million. Questions and discussion interspersed.

TAPE 230, SIDE A

CLOSED PUBLIC HEARING ON SB 1219

OPENED WORK SESSION ON HJR 37A

041 Waters Exhibit E - (-A14) Amendments. These Amendments stipulate that all Lottery revenues in excess of \$600 million per biennium revert to a reserve fund from which appropriations could be made only under certain economic conditions, which are a two quarter decline in actual employment and a forecast negative ending balance. Both conditions have to be met before trigger is kicked. Once the fund balance

exceeds 7% of the General Fund, a certain amount would go to the Education Endowment Fund. Also allows for use of Lottery funds for treatment of gambling addiction, and Lottery Commission budget subject to legislative oversight.

- 075 Chair Baker Asked Waters to walk Committee through entire (-A14) Amendments, which is a complete rewrite of HJR 37.
- 080 Waters Said that if HJR 37 is passed, it would be referred to voters at the next regular general election in November 1998. If passed it would become part of the constitution and establish a Reserve Fund to consist of excess Lottery revenues, which are defined as net proceeds per biennium exceeding \$600 million.
- 094 Sen. Dukes Asked why a figure of \$600 million had been set. Was that the amount of Lottery revenue this biennium?
- 94 Chair Baker Answered that about \$580 million is what is left to go to the General Fund and the amount stays about the same every biennium with little growth. In time the state will have to become less dependent on Lottery revenues. Questions and discussion.
- 105 Waters Continued that amounts held in the reserve fund at the close of a biennium exceeding 7% of General Fund revenues for the biennium shall be distributed to the Education Endowment Fund. Questions and discussion interspersed.
- 164 Chair Baker Added that the funds have to be put somewhere that the Lottery-dependent legislature cannot find some way to access them directly. If issue is referred to voters, they need a clear idea of where the funds would go and for what purpose. The ultimate beneficiary would be public education in one form or another. Further questions and discussion.
- 215 Sen. Hartung Asked for a definition of "public education".
- 220 Chair Baker Answered that in this context it means K-12, community colleges, higher education, 0-5 pre-K, and Head Start. Said there is no limitation at this point except as the legislature chooses to use those dollars in a time of financial crisis. Comments and discussion.
- 249 Waters Regarding definition of "public education" there would need to be implementing legislation for that, and the thinking is that legislation would be drafted and passed out of the 1999 legislative session. That implementing legislation would include definitions of public education. There is a provision in this bill that any change in the first implementing legislation would need two-thirds majority vote to change.
- Said that Section 4a. on page one of (-A14) stipulates the conditions under which a

273 Waters distribution could be made from this reserve fund to use for public education. Those conditions are that the seasonally adjusted non-farm payroll employment declines for two or more consecutive quarters and the quarterly economic and revenue forecast projects a negative ending balance for the biennium. Appropriations pursuant to this subsection must be dedicated to public education. Questions and discussion interspersed.

382 Grundfossen Said that page 2 line 2 Subsection (b) dedicates all expenditures from the reserve fund to public education, which is an alteration from how Lottery funds have been spent in the past. They have been spent for both economic development programs and public education. At present 75% of Lottery proceeds are dedicated to public education. That leaves 25% available for economic development programs, and housing has been construed as an economic development program in the past. He is disappointed to see closure on those funds, particularly with conditions in a recession. In a recession the need for housing of all types will increase. Questions and discussion interspersed.

440 Sen. Duncan Said housing will be better off with this legislation than without it.

TAPE 229, SIDE B

021 Nesbitt Pointed out that the original bill had as a source of revenues excesses from the entire General Fund sources, i.e. corporate income tax, personal income tax, etc. This created a much bigger pot of money, the excess of which flowed to another pot which was capped at 7% of General Fund revenues. Does not believe the intent of this Committee was to send Lottery moneys to flow into a reserve fund that never fills up.

040 All Comments and discussion regarding the fund.

065 Chair Baker Asked Warner about the typical economic cycles Oregon goes through. Asked how often the two trigger events occur: 1) 2 quarters of decline in employment and 2) negative ending balance.

070 Paul Warner Responded that the two quarter decline in employment was suggested by his office. The last time that happened was in the early 1980s. Also had two quarters of decline in 1991, but that was a very mild recession. Before 1980s was 1973-1975 recession. Prior to that was 1969-70. Would be highly unlikely to exceed the "safety valve". The General Fund will grow much faster than the Lottery. Questions and discussion interspersed including detailed discussion of "negative ending balance" and how that would occur.

232 Waters Said that the original formulation required either two consecutive quarters of employment decline or projected negative ending balance.

238 Warner Agreed that this wording is more restrictive in requiring both criteria to be met before triggering release of funds from the reserve.

253 Chair Baker Agreed with Members that the wording should be changed back to either two consecutive quarters of employment decline or projected negative ending balance. Asked Members for their comments on Exhibit F - HJR 37 A14 Reserve Fund Basic Structure. Discussion and questions.

284 Warner Said it is still too early to get any history on video poker revenues, but they believe it will grow one-half to one percent for every one percent change in personal income. Traditional games show little growth and do not expect them to grow more than the rate of general population growth of 1% or so a year. Long-term revenue picture closely tied to policies issued. Current restrictions would limit Lottery growth to \$30 to \$40 million a year.

332 Chair Baker Proposed an Amendment be drafted based on Exhibit F figures. Chair's opinion is that right now the legislature has no oversight over the Lottery, and that is an unhealthy situation. The Lottery is a major source of funding for the state, and the legislature needs to know what is going on. Questions and discussion.

415 Chair Baker Recessed meeting at 3:00 p.m. and reconvened at 6:55 p.m.

420 Chair Baker Opened continuation of meeting with remarks about history of SJR 37A to date and how it has evolved from Speaker Lundquist's "Rainy Day Fund" to the current wording in SJR 37A. The growth of Lottery will be about 4% or 5% a year, and the maximum to be placed in this reserve fund would be about \$30 to \$40 million per year. With the General Fund growing at 6% or 7% per year, there is no need for an escape valve to siphon off funds if they over-accumulated in the reserve fund.

448 Waters Exhibit D - (-A15) Amendments make two small changes to the text of the (-A14) Amendments. The two conditions that could define an economic recession are considered either / or. Either one or the other by itself could define an economic recession, whereas before both were required. Also, the language was changed so that appropriations to public education made pursuant to an economic recession trigger would need the approval of three-fifths of the Members of each House.

TAPE 230, SIDE B

028 Waters Added that the only other change from the (-A14) Amendments is on page 4 clarifying that distributions of excess Lottery revenues to the reserve fund are counted after 15% taken off for Education Endowment Fund. If the remainder is above \$600 million, then the amount above \$600 million would go to the reserve fund. Questions and discussion interspersed.

040 Chair Baker Exhibit H - HJR 37A Reserve Fund Basic Structure. Said this was a straight forward chart to show where the funds would come from and where they would go. The Lottery excess goes to the reserve fund and will build until called upon in a recession, then appropriated to public education by a three-fifths vote of the legislature. The bill also retains the language from SJR 28 regarding Lottery funds being made available for the treatment of gambling addiction and providing that the budget of the Lottery Commission shall be

subject to oversight by the legislative assembly in the same manner as for other state agencies. Questions and discussion.

Sen. MOVES (-A15) AMENDMENTS TO HJR 37A BE ADOPTED. HEARING NO
Hartung OBJECTION, THE CHAIR SO ORDERED.

MOVES HJR 37A AS AMENDED TO THE FLOOR WITH DO PASS
RECOMMENDATION.

072 Sen. ROLL CALL VOTE: MOTION PASSES: 4 - 0 - 2
Hartung

SENATORS VOTING AYE: DUKES, DUNCAN, HARTUNG, BAKER.

SENATORS ABSENT: LEONARD, BRYANT

CLOSED WORK SESSION ON HJR 37A

OPENED PUBLIC HEARING ON HB 3140

090 Wayne
Schumacher Stated that in 1989 the Oregon Legislature passed HB 438 which established an income tax credit of up to \$5,000 for a ten-year period for physicians, physician assistants, and nurse practitioners practicing in rural areas. The tax credit was designed to provide an incentive for these practitioners to locate and remain in medically needy and under-served areas as designed by the Oregon Office of Rural Health. In 1995 the law was extended to include podiatrists and dentists. HB 3140 would amend the law to include optometric physicians.

100 Schumacher There are currently no optometric physicians practicing in Wheeler, Sherman, or Gilliam counties. Lake, Morrow, Harney, and Grant counties have only one optometric physician practicing. In many areas of the state optometric physicians are the only eye care professional within a 50 to 60 mile radius. Including optometric physicians in the tax credit could attract practitioners to locate in rural areas. Believes Eastern Oregonians need availability of primary eye care

137 Chair Baker Asked how the Office of Rural Health will select the five optometrists to be covered by this bill.

140 Jack Kane Responded it would based on qualified applications received on a first come, first served basis. Grants consulting privileges but not hospital privileges. This focuses on what are considered frontier, rural counties in Oregon.

Clarified that this bill does not establish the ability for optometrists to get hospital privileges. The bill states that in order to qualify in what the Office of Rural Health states as less remote rural, and remote rural, then in those cases they would have had

164 Schumacher to have hospital privileges. The reasoning worked out with Hospital Association is to reduce the number of those in eligible for the program to very needy areas, i.e. remote rural and less remote rural. Questions and discussion interspersed.

213 Waters Said that the maximum fiscal impact estimated under the original bill is about \$176,000 per biennium based on an estimate of 22 optometrists qualifying and taking the credit. Questions and discussion.

241 Schumacher Stated that there are three types of areas established by the Office of Rural Health: Less Remote Rural, Remote Rural, and Frontier. The Remote and Frontier areas are the least populated areas of the state and the most needy. In Remote Rural area there are some Class B hospitals.

255 Sen. Dukes The main point of all this was to get physicians to remote areas, and some have "jumped on the bandwagon". Although this bill limits the tax credit to five optometric physicians at this time, it could be increased to 20 or 22 over time. Questions and discussion.

280 Jeff Gilmour The Office of Rural Health is opposed to this bill. Tax credit was devised by several legislators to attract and retain services medical services to under-served areas. Believes the need does not exist in the areas in which the tax credit would be applied. There has been no inquiries from rural communities to attract or retain optometrists. By expanding this beyond medical emergencies, it jeopardizes the whole tax scheme. Believes further study is warranted to determine if service is needed; and the Amendment requests \$70,000 from the General Fund to do this. Questions and discussion.

346 Chair Baker Asked if optometrists were not considered valuable as a front line medical skill? They screen for glaucoma and other eye diseases in rural communities. They do a lot of triage work out in the field.

356 All Comments and discussion.

CLOSED PUBLIC HEARING ON HB 3140

OPENED WORK SESSION ON HB 3140

386 Sen. Duncan MOVES (-A5) AMENDMENTS TO HB 3140 BE ADOPTED. HEARING NO OBJECTION, THE CHAIR SO ORDERED.

MOVES HB 3140 AS AMENDED TO THE SENATE FLOOR WITH DO PASS RECOMMENDATION.

ROLL CALL VOTE: MOTION PASSES: 6 - 0 - 0

398 Sen. DUNCAN SENATORS VOTING AYE: DUKES, DUNCAN, HARTUNG, LEONARD,
Duncan BRYANT, BAKER.

Sen. Duncan will carry the bill on the Senate Floor.

423 Chair Baker Adjourned meeting at 7:22 p.m.

Carol Phillips

Committee Assistant

Kim James

Office Manager

-

Exhibit Summary:

A. HJR 37A, Waters, Staff Measure Summary, 2 pages

B. HJR 37A, Waters, Revenue Impact Statement, 1 page

C. HJR 37A, Waters, Fiscal Impact Statement, 1 page

- D. HJR 37A, Waters, Percentage Differences, 1 page
- E. HJR 37A, Waters, (-A14) Amendments, (DJ/ps) 7/1/97, 5 pages
- F. HJR 37A, Waters, Reserve Fund Basic Structure, 1 page
- G. HJR 37A, Waters, (-A15) Amendments, (DJ/ps) 7/1/97, 5 pages
- H. HJR 37A, Waters, Revised Reserve Fund Basic Structure, 1 page
- I. HB 3140, Schumacher, Written testimony dated 7/1/97, 3 pages
- J. HB 3140, Waters, (-A5) Amendments, (DJ/ps) 7/1/97, 1 page