

REVENUE FORECAST

TAPES 059 - 060 A/B

SENATE REVENUE COMMITTEE

FEBRUARY 27, 1997 - 8:30 A.M. - HEARING ROOM A - STATE CAPITOL BUILDING

Members Present: Rep. Lane Shetterly

Rep. Tony Corcoran

Rep. Ken Strobeck

Rep. Anitra Rasmussen

Rep. Leslie Lewis

Rep. Randall Edwards

Rep. Mark Simmons

Rep. Lee Beyer, Vice Chair (House)

Rep. Tom Brian, Chair (House)

Sen. Ken Baker, Chair

Sen. Neil Bryant, Vice Chair (arrived at 9:06 a.m.)

Sen. Joan Dukes (arrived at 8:46 a.m.)

Sen. Verne Duncan

Sen. Tom Hartung

Sen. Randy Leonard

Witnesses: Paul Warner, Office of Economic Analysis, Department of Administrative Services

John Mitchell, Chair of Governor's Council of Economic Advisors

Dave Griffiths, Office of Economic Analysis

Mazen Malik, Oregon Department of Transportation

Cam Gilmour, Oregon Department of Transportation

Staff: Ed Waters, Economist

Richard Yates, Economist

Carol Phillips, Committee Assistant

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005 Chair Brian Opened meeting at 8:40 a.m.

PRESENTATION OF ECONOMIC FORECAST

017 Paul Warner Gave brief summary of the March Forecast. Continues to believe economy will slow, but there is no hard evidence to support that. Revenue and job growth continue to be strong. Anticipates that slowing will be gradual, but concerned that periods of great economic strength are followed by less than gradual changes, such as a sharp downturn. A simulation is provided in the forecast which looks at how a national recession might develop and what impact that might have on Oregon's economy. Concerned about timing of payment patterns. Seeing unusual activity in estimated payments. Also concerned about 2% corporate kicker credit and its timing (credit from last biennium). It makes it confusing to analyze current corporate revenue patterns. Concerned about volatility of personal income tax, particularly because of proportion of tax coming from very high income individuals. Part of this is due to very strong stock market and capital gains.

The Oregon Council of Economic Advisors has 12 members who serve without remuneration or reimbursement. Members include:

Tom Potowski, formerly Chairman of the Department of Economics at Portland State University, and currently faculty member there;

Ken Choy of KC International and involved in international trade activity;

Bill Connerly, formerly Chief Economist of Northwest Region for First Interstate Bank and currently running a money management firm;

Jay Patrick Dunne of the Ralph's Corporation which manages shopping centers in Salem, Portland, and Seattle;

Anne Eike, an economist with Port of Portland, formerly with Oregon Department of Transportation;

Rebecca Johnson, professor in College of Forest Resources at Oregon State;

Tom McCoy, wheat rancher from Sherman County with a Ph.D. in economics from Stanford;

Ham Wynn, an economist with Portland General Electric;

Hunt Rodke, fisheries economist from Yachats;

Ralph Shaw, legendary Northwest venture capitalist;

Dave Cox, with Mason, Bruce & Gerrard, a forestry consulting firm in Portland.

048 John Mitchell Council meets eight times a year and reviews the input coming from Data Resources International (DRI), which provides the national scenario that drives the Oregon model. Reviews Oregon Forecast as it develops, giving input to Paul. Group sometimes disagrees with national model. Process works well to get best possible forecast for Oregon economic performance. A Canadian province has called group to get input on setting up program similar to Oregon's.

Oregon is in a relatively unusual situation now. In looking at the U.S. economy, and Oregon's in particular, this has been an extraordinarily long-lasting upturn. As of this weekend, we are in the 72nd month of national expansion, and it is the fourth longest expansion in U.S. history. The only periods longer were the '60's, '80's, and 1938-1945. Not marked by imbalances that would indicate ending soon. Very important to know that business cycle is not dead. There is another downturn out there somewhere, but it does not like it will happen in 1997. Imbalances that would suggest an end are not there. Massive expansion in technology investment and employment. No major exposure to curtailments in defense side which have hurt some states. Oregon has not had major agricultural problems and continues to have strong population growth.

132 Warner Outlined general numbers for the economy in terms of Employment Income, High Tech Employment, U.S. Employment, and U.S. Personal Income. March Forecast based on the assumption we do not have a national recession over the next four-year period. National forecast group is working with continues economy with long-term growth average. Don't think unemployment rate can get much lower without generating inflation, and don't think Federal Reserve will allow inflation to occur. Key reason why financial markets and stock market is doing so well is because of the positive environment. Oregon will slow from three-year rapid growth because of near capacity in employment market and does not have capacity to continue to grow at 4%. The things that will slow Oregon down are

rising land costs, rising home prices, and higher wages. California's recovery and growing strength in Washington State will slow Oregon's rapid growth.

183 Mitchell Most likely scenario for recession on national level would be one in which the economy grows too fast over the next couple of years. Sharp rise in interest rates would stop rapid growth. Possible to see some sectors of economy hit more than others. 1990-1991 recession was mild in Oregon because of the in-migration experienced from California. Very unlikely a severe recession will be experienced anytime soon. Questions and discussion interspersed.

294 Mitchell Tried to estimate how much of \$167 million kicker credit will affect all aspects of projected Total Resources. 1995 corporate returns are still being processed because of staggered tax years, etc. Two-thirds of returns are in, but only one-third of the income is in. Total revenue up about \$62 million. Important to recognize that about 50% of taxes are paid by filers with over \$60,000 in adjusted gross income. 30% of taxes are paid by those with \$100,000 or more adjusted gross income. Questions and discussion interspersed.

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067 Rep. Rasmussen Asked question regarding who fills Oregon's jobs. Noted that more people are coming in from out of state to fill high tech jobs than native Oregonians. Warner answered that it depends on the type of job. If you have a very high skill job in engineering at Intel or other major high techs, those kinds of jobs tend to be in the national market. Operator-type jobs tend to be more local hires. Rep. Rasmussen asked if we wanted to make graduates of the Oregon public school system competitive for the high-paying jobs, what must we do? Warner responded that educated people are mobile and tend to move to where the best opportunities are. If Oregon had a higher education level of people in the state, then income over time would be higher because there is a premium paid to education. Rep. Rasmussen asked if Oregon were to invest in K-12 education and higher education at this point in time, would that help protect Oregon from a boom or bust cycle in the future? Warner responded that a more diverse economy does not necessarily mean higher growth in the long term, but it does usually mean more stability. If Oregon had a more educated population and it helped Oregon to become a more diverse economy, that may be true.

137 Dave Griffiths Discussed Lottery Forecast. Video now accounts for two-thirds of total lottery revenues in Oregon. Now about 8,900 terminals installed generating between \$7 and \$8 million in revenue per week before retailer commissions and lottery expenses. Time of year is factor in revenue. Drops off in summer, with strongest months being March and April.

156 Sen. Hartung Asked if casinos have been in operation long enough to have an affect on the forecast. Griffiths answered that they do not have revenue figures for casinos and can only estimate but that it is a significant factor. It is estimated that approximately \$800,000 to \$1 million a week goes to casinos, which may otherwise have gone to state lottery. Possibly \$40 million a year. There are rumors that casinos are not doing as well as they have done. Initial curiosity was satisfied, so people revert back to state lottery. Rep.

Simmons asked what might be the impact of curtailing advertising of the lottery. Griffiths answered that in other states large jackpots with large advertising programs have seemed to generate more interest and more sales of lottery tickets. Questions and discussion interspersed.

308 Griffiths Discussed 1995-97 lottery figures. Video poker is up slightly. Non-video games had a slight reduction. Little more strengthening in video games would suggest that some of the fast-action games might be preferable but suggest that perhaps casinos have changed people's tastes in favor of video poker. Less fast-action games, particularly Keno in the non-video game segment, have seen relative weakness. Estimate for 1997-99 for Education Trust Fund is \$83.9 million. Questions and discussion interspersed.

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001 Warner Total resource picture is up \$87.7 million. Will see slowing in economy, but doing well overall. Will report back on May 15 with an update on the Forecast. Willamette Valley strongest area in state, but other areas of state are improving. Washington county probably the hottest labor market. Fastest growing population is in Deschutes and Jefferson Counties. Rep. Simmons asked if downturns in fishing and timber are in forecast. Warner answered baseline harvest will stabilize. In absence of national recession Oregon will see timber harvest in 4 to 4 _ billion board foot range. This is small compared with the over 8 billion board feet of the late 1980's. But the industry has stabilized this decade. Fishing industry is not big, but concerned about the listing of the coho and the potential impact that might have. Recovery process creates unknowns. Questions and discussion interspersed.

END OF PRESENTATION ON REVENUE FORECAST

PRESENTATION ON TRANSPORTATION FORECAST

208 Cam Here today to discuss three issues: (1) Highway revenues sources forecast and how it is behaving relative to the original forecast several years ago (2) how contributions coming from heavy vehicles over 26,000 pounds are doing relative to the forecast, and (3) how the forecast relates to the Governor's recommended budget based on the latest findings.
Gilmour

224 Mazen Increase in total revenue forecast comes from increase in all three revenue sources created by (1) increased use of lower mileage vehicles (sport utility vehicles and 4 x 4's) and greater gas consumption (2) increase in wholesale and retail sector of the economy causing a greater movement of goods and commerce; and (3) increase in the population of Oregon and increasing incomes. Questions and discussion interspersed.
Malik

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020 Richard Interjected that there will be some orientation later on the transportation issues. Concerned that the "cart is before the horse" in this discussion. The cost responsibility comes from the engineering analysis of projects which will actually be undertaken by the Department of Transportation. When you decide from that analysis what proportion of the costs should fall on heavy vehicles, then the legislature designs the tax rate and weight/mile tax
Yates

structure to raise that amount of money. Questions and discussion.

060 Sen. Baker Asked what happens when the legislature raises gas taxes. Would all that money come back or does it get shifted to other places? Malik answered that approximately 40% of population lives near state borders. Unless gas rates in border states are more attractive, any out-of-state gas buying is not anticipated to be significant. Gas prices now are about the lowest in 30 years. Does not believe 10 cent increase per gallon will impact consumption levels primarily because wages are increasing and compensate for small gas price increase. Gas prices making less and less of an impact on people's incomes. The gasoline cost of driving a vehicle in Oregon is approximately one cent per mile. The national cost of driving an automobile when you consider depreciation, insurance, etc. is close to 40 cents per mile compared with 33 cents per mile in Oregon. Gasoline cost is a very small percentage of the cost of operating a vehicle. Further questions and discussion.

174 Yates Commented that unlike the personal income and corporate forecasts which are quarterly, this forecast is semi-annual; so the forecast under discussion today is the forecast for the 1997 session.

188 Chair Brian Adjourned meeting at 10:06 a.m.

Carol Phillips

Committee Assistant

Kim James

Office Manager

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Exhibit Summary:

A. Warner, Oregon Economic and Revenue Forecast Summary, 24 pages

B. Warner, Oregon Economic and Revenue Forecast, 93 pages

C. Malik, Transportation revenue forecast testimony, Oregon Dept. of Transportation, 3 pages

D. Malik, Summary of Economic and Revenue Forecast, Oregon Dept. of Transportation, 19 pages