

PUBLIC HEARING ON

SB 326 AND SB 388

WORK SESSION ON SB 346 TAPES 099 - 100 A/B, 101 A

SENATE REVENUE COMMITTEE

APRIL 2, 1997 - 9:00 A.M. - HEARING ROOM B - STATE CAPITOL BUILDING

Members Present: Sen. Ken Baker, Chair

Sen. Neil Bryant, Vice Chair

Sen. Joan Dukes (arrived at 10:00 a.m.)

Sen. Verne Duncan

Sen. Tom Hartung

Sen. Randy Leonard (arrived at 9:27 a.m.)

Witnesses: Sen. Jeannette Hamby, District 5, Portland

Jessica Harris, Legislative Assistant to Sen. Hamby

Walter Kosher, Department of Education

Ozzie Rose, Confederation of Oregon School Administrators

Former Sen. Ron Cease, Oregon Food Bank

Tamara Barreto, Beaverton

Sharon Miller, Executive Director, Central Oregon Community

Action Agency Network

Andrea Carr, Cornelius

Staff: Steve Meyer, Economist

Ed Waters, Economist

Carol Phillips, Committee Assistant

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TAPE 099, SIDE A

005 Chair Baker Opened meeting at 9:20 a.m.

OPENED PUBLIC HEARING ON SB 326 AND SB 388

Exhibit D - Map of country. Exhibit E - SB 388 (-1) Amendment. SB 388 serves as a reminder to look at the flow of revenue and where it comes from. Oregon is the fifth highest in the nation for taxing the lowest of the working poor. Any family that earns in excess of \$15,570 pays \$352 state tax. The

008 Sen. Hamby (-1) Amendment to SB 388 further compounds the problem by taxing the federal earned income tax credit. It is time for Oregon to see what it is doing to the working poor. Oregon has been in national headlines for its innovative welfare system and approach to getting people off welfare. Perhaps it is time to take a look at how those individuals trying to work themselves off the welfare roles are taxed.

034 Jessica Harris Further comments regarding SB 388. An earned income tax credit will not keep someone from going into debt, but it is a step in the right direction. In this booming economy, it is time for Oregon to find a way to help those who are working to try to get ahead.

CLOSED PUBLIC HEARING ON SB 326 AND SB 388

OPENED WORK SESSION ON SB 346

065 Steve Meyer Exhibit F - SB 346 (-22) Amendments. These replace the (-19) discussed previously. Questions and discussion interspersed.

148 Chair Baker Exhibit G - Average Daily Membership. Impression until ten minutes ago was that Petersburg students did not physically change location but stayed in their original classrooms. That may not be the case.

Reference to students not physically changing schools is true. The issue was that the students who were residents of The Dalles School District stayed at Petersburg for the

- whole three years. In the middle year they were counted in a different manner, but physically they remained in attendance at the Petersburg school. They were counted in both locations because of the extended ADM and because they were counted in the previous year with Petersburg; therefore, they were in the extended ADM of Petersburg, but for that so-called current year they were counted with The Dalles because The Dalles for that particular year had tuitioned them into Petersburg. Physically they remained at Petersburg, but were residents of The Dalles and counted twice because of the extended ADMw. 1994-95 started at Petersburg, but were residents of The Dalles. Counted twice because of weighted ADM system. Page Two shows number of dollars moved because of this strategy. Had to make an assumption as to what would have happened in the absence of this strategy. Assuming The Dallas and Petersburg would have made this agreement for allowing students from The Dalles who chose to go to the Petersburg school, calculations show a difference of only \$88,672 for the combined districts. Questions and discussion interspersed.
- 165 Walter Kosher
- 217 Sen. Leonard Asked if the Petersburg School Board would have had to change the status of the students every two years in order to keep this scam going?
- 221 Kosher Answered yes, each year the school boards had a different agreement between them.
- 223 Sen. Leonard Asked if The Dalles was not a co-conspirator in this scam?
- 224 Kosher They would have had to agree to the contract, yes.
- 226 Sen. Leonard What was in it for The Dalles?
- 228 Kosher Did not know.
- 232 Chair Baker Asked Kosher if there was any back-door flow of money from Petersburg to The Dalles. Did The Dalles provide any free services or free buses or whatever?
- 236 Kosher Answered it was a possibility but did not really know.
- 241 Chair Baker What they did was technically legal, but ethically questionable. When did the Department of Education first become aware of what Petersburg was doing and what did it do to try to stop that activity?
- 244 Kosher First became aware several years ago. Personally did not care for what Petersburg was doing, but saw no legal way of preventing them from doing it.
- 255 Sen. Leonard Asked Kosher if, had the legislature known of this activity, at minimum frowned at Petersburg's actions? Questions and discussion.

- 257 Koshier Assumed it was a short-term arrangement because Petersburg was scheduled to merge with The Dalles prior to the 1996-97 school year.
- 272 Sen. Asked Koshier if, according to Koshier's figures, \$88,672 which might have gone to other districts stayed within Petersburg and The Dalles.
Duncan
- 278 Sen. Came up with a figure closer to \$800,000 when he worked it out. Does not know where Leonard Koshier came up with such a small number.
- 292 Chair Wanted Koshier to testify as to how much money was actually in question. Prior testimony Baker inferred that Petersburg made off with \$500,000 or \$600,000.
- 298 Sen. If Petersburg is counting 80 students at \$7,500 they would not have otherwise got money Leonard for, how is it any less than \$600,000?

304 Koshier Made statistical assumption that an agreement between the two school boards was a legitimate agreement. The only point in question here is the way the students were counted back and forth. The difference in figures is in the assumptions. Assumed that those students would have stayed at Petersburg and would have been funded at Petersburg for all three years. Feels there was no impropriety on the part of either school board because they simply utilized an avenue which the legislature provided to them. Questions and discussion interspersed.

359 Sen. If he was in a different position he would think that this was fraud. Does not think a statute should be manipulated to gain \$600,000 by taking it away from other school Leonard districts and call it anything but fraud. Clearly every school district in the state would have been pulling the same kind of trick if they knew what Petersburg was doing. Stated that on second thought he does not believe any other districts could have brought themselves to do that. Stated what Petersburg did was appalling.

403 Sen. Would like to conceptually move that Petersburg and Riverdale be brought to same as Leonard Lourdes at \$6,720 for 1997-98 school year, then be reduced one-third each of following three years until they reach \$4,700. Questions and discussion.

TAPE 100, SIDE A

018 Chair Exhibit L - Copy of figures Sen. Baker wrote on board regarding Riverdale situation. Baker What was disclosed in discussion 4/01/97 was that Riverdale has a \$1.5 million cash reserve. Riverdale still is highest funded district in state. There are enough reserves to apportion those funds out over time and still have same funding level as current. Proposes dropping them to \$4,700 and forcing them to use cash reserve to subsidize. That \$1.5 million cash reserve is state money and should be utilized.

076 Reason for reserves is that Riverdale wanted them for times when cuts have to be made. Would like to see a report of every other school district's reserves before he would be Jim willing to utilize their funds. Also has a foundation with \$350,000 in place for the district.

- Mabbott The funds cannot be used for buildings or capital improvements. Various questions and discussion.
- 103 Sen. Bryant Cannot speak for all school districts. But the Bend-La Pine district with 11,000 students does not have a \$1.5 million cash reserve. It is not uncommon for their cash reserve to be below \$200,000 by the end of a school year. Believes many other districts have the same problem. Agrees a district should have reserves, but how much is enough is not known.
- 126 Ozzie Rose Cannot give a percentage but knows that advice to school districts was to keep as much cash in the bank as possible for eventualities. But all districts do not have as much as Riverdale's \$1.5 million.
- 144 Sen. Leonard Believes that the state is financing public schools based on representations given by witnesses without really making districts financially accountable for where the money goes. School districts are not made to go through their budgets line by line and account for every cent. The state simply takes districts' word for where the money is going. Districts can no longer audit themselves because of improprieties. Upset with situation in Petersburg, and advice they got from Department of Education was questionable. Out of fairness, these two districts should not be penalized all at once when what they did was partly the fault of the legislature and the Department of Education. Agrees with Chair Baker 100% in the direction he is going, but the same level of scrutiny placed on Riverdale and Petersburg needs to occur with every school district from the legislature now on. Questions and discussion.
- 200 Sen. Duncan Comments in defense of Department of Education and the generally good job they have done over the years.
- 234 Sen. Leonard Stated he was not implying that Walter Koshier of the Department of Education is not a good employee. But does want it known that Koshier should have put up a red flag when he became aware of what Petersburg was doing. Someone else should have been consulted.
- 242 Sen. Duncan Stated that the actual figure for the funds in question at Petersburg has not been clarified. Was it \$88,000 or was it \$600,000? That issue should not be left unclarified.
- 250 Chair Baker Stated Committee is going with the \$600,000 because Koshier said he credited them at \$7,400 per student in Petersburg. Chair Baker would have credited them with \$3,000 less per student. \$3,000 times 80 students times 3 years equals \$720,000.
- 258 Sen. Hartung Have arrived at a point where he knew the legislature would before this session was over. Legislature now constitutes a school board of 90. Not in favor of forcing Riverdale to use their cash reserves.
- 277 Chair Sen. Leonard has a motion on the table to reduce Riverdale and Petersburg in the first year to \$6,720 per student, then reduce the same as all other districts over the next three

Baker years.

284 Sen. Dukes Stated that her school district, Columbia 5j, had to do the very thing Sen. Hartung said Riverdale should not have to do, and that is use up their cash reserves of approximately \$400,000 to survive. In that situation, Sen. Dukes believes the state could not have cared less about the district's plight.

298 Chair Baker Stated that Portland schools had a \$50 million cash reserve in the mid-1980's.

301 Sen. Hartung Does not want to second-guess local school districts who accumulated reserves for whatever reason. Does not want to fund schools in equity if at the same time they are accumulating cash reserves.

309 Chair Baker THE MOTION BEFORE THE COMMITTEE IS TO HAVE PETERSBURG AND RIVERDALE FUNDED AT \$6,720 FOR THE 1997-98 SCHOOL YEAR AND THEN FUNDED IN DECREASING AMOUNTS ONE-THIRD LESS OVER NEXT THREE YEARS UNTIL THEY REACH \$4,800 IN 2000-01.

ROLL CALL VOTE: MOTION PASSES: 6 - 1

322 Chair Baker SENATORS VOTING AYE: DUKES, DUNCAN, HARTUNG, LEONARD, BRYANT, BAKER.

332 Chair Baker Motion passes, and asked Steve Meyer to put some language together for Amendments for 4/03/97.

346 Sen. Bryant Congratulated Chair Baker and staff for the way this subject has been handled and presented. Sen. Bryant now has a much clearer understanding of subject. Chair Baker's presentations and careful thoughtful approach has put it in a form that will allow Sen. Bryant to cast an intelligent vote. Also commended Chair Baker on his courage because of the difficult topic. If it were not for Chair Baker's leadership, equalization would not be achievable.

357 Chair Baker Believes next session this Committee or the Education Committee, or both, need to look at educational funding and also have an omnibus bill to look at districts that should be merged, study anomalies in districts, etc.

366 Sen. Leonard Important to hear from the minority; he echoes everything Sen. Bryant said. In addition, Chair Baker has been an example of bi-partisanship and dealing with issues from the point of view of public policy. The subject has been a difficult one, but it has never come down on partisan sides. Said Chair Baker has served the state well.

OPENED PUBLIC HEARING ON SB 326 AND SB 388

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TAPE 099, SIDE B

- 003 Ron Cease Exhibit H - written testimony from Jerry Tippens, Chairman, Oregon Food Bank. In support of earned income tax credit proposal. (Read written testimony.) Former President Ronald Reagan stated in 1985: "The tax system should not be an additional burden on those who are struggling to escape from poverty; insofar as possible, those below the poverty line should be freed from taxation altogether." Clearly Oregon is not meeting that challenge. Believes that Oregon is a progressive state, but on this issue it is not.
- 056 Tamara Barreto Exhibit I - Written testimony. Read written statement.
- 082 Sharon Miller Exhibit J - Written testimony. What needs to be considered in terms of Oregon's tax code is fairness. Many exemptions are provided for middle class taxpayers, such as home mortgage exemption, yet Oregon taxes the poorest working people in the state at the highest rate totally opposite of what they can afford to pay. Looking at welfare reform requiring recipients to work. If one works, one should be able to earn a living. The Earned Income Credit would be a way to provide a resource to a family or an individual. If a person is working and making between \$10,000 and \$15,000 per year with two children to support, the Oregon tax code is a burden to these struggling families.
- 106 Sen. Bryant Regarding previous witness (Tamara Barreto) , asked if she has court orders requiring the fathers of her children to pay child support.
- 107 Barreto Stated there are orders to pay child support, but several of the fathers went back to Mexico to escape paying.
- 110 Sen. Hartung Even though the state is making progress in getting people off welfare, it is creating a new generation of people who do not have welfare benefits and do not have the ability to earn a decent wage.
- 134 Miller Families who work for a living and then try to put themselves through school have the added burden of child care costs. In Central Oregon there are many more people applying for positions than there are positions to fill.
- 150 Andrea Carr Exhibit K - written testimony. Supports SB 326 and SB 388. Read written testimony.
- 178 Chair Baker Adjourned meeting at 10:26 a.m.

Carol Phillips

Committee Assistant

Kim James

Office Manager

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Exhibit Summary:

- A. SB 326, Waters, Revenue Impact Statement, 1 page
- B. SB 326, Waters, Fiscal Impact Statement, 1 page
- C. SB 388, Waters, Fiscal Impact Statement, 1 page
- D. SB 388, Hamby, Map of U.S., 1 page
- E. SB 388, Hamby, (-1) Amendments, (DJ/ps) 3/28/97, 2 pages
- F. SB 346, Meyer, (-22) Amendments, (CH/ps) 4/01/97, 11 pages
- G. SB 346, Baker, Petersburg and The Dalles figures, 2 pages
- H. SB 326, Tippens, Written testimony dated 4/2/97, 1 page
- I. SB 326, Barreto, Written testimony dated 4/2/97, 1 page
- J. SB 326, Miller, Written testimony dated 4/2/97, 1 page
- K. SB 326, Carr, Written testimony dated 4/2/97, 1 page
- L. SB 346, Baker, Petersburg figures, 1 page