

WORK SESSION ON SJR 25 TAPES 143 - 144 A/B

**SENATE REVENUE COMMITTEE**

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**MAY 8, 1997 - 9:00 A.M. - HEARING ROOM B - STATE CAPITOL BUILDING**

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Members Present: Sen. Ken Baker, Chair

Sen. Neil Bryant, Vice Chair

Sen. Joan Dukes

Sen. Verne Duncan

Sen. Tom Hartung

Sen. Randy Leonard (arrived at 9:16 a.m.)

Witnesses: Sen. Lenn Hannon, District 6, Ashland

Lynn Lundquist, Speaker of the House

Sen. Lenn Hannon, District 26, Ashland

Paul Warner, State Economist, Office of Economic Analysis,

Department of Administrative Services

Staff: Jim Scherzinger, Legislative Revenue Officer

Carol Phillips, Committee Assistant

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**TAPE 143, SIDE A**

005 Chair Baker Opened meeting at 9:10 a.m.

## OPENED PUBLIC HEARING ON SJR 25

01 Lynn Lundquist Exhibit F - Written testimony. Rainy Day Fund as drafted is for future tax surpluses and moneys to be used in times of economic downturn. SJR 25 does not address this year's kicker which has been promised to the taxpayers. Believes budget can be balanced without it. Looking to the future involves vision. Lawmakers fail if they do not look forward in addition to dealing with current issues. Cannot risk children's future because of the fact state relies on income tax, not property tax, for funding. Calls it Rainy Day Fund, but should have called it Education Stabilization Fund. Oregon is behind the pace of the 45 states which have a rainy day account. As a former economics professor he knows that the boom on Wall Street will not go on forever, and neither will the current economic climate in Oregon.

057 Lundquist Besides education stabilization, there are other major strengths within the rainy day account proposal. Talked before on concerns regarding building a budget base which cannot be sustained in future years. A rainy day fund would tend to curb unmanageable budget growth. The existence of a rainy day fund could substantially enhance Oregon's bond rating as a side benefit. Oregon could enjoy substantial savings with bond rating increase.

067 Lundquist First main question which should be asked is "Where would the funds come from?" They simply would come from what is called "the kicker", i.e. any revenues exceeding the estimates. The difference between the present kicker law and the one being proposed is the fact that in this proposal the fund takes the first money; the first 2% would not go to the state. This account builds up to 7% of the General Fund, then caps out. The excess goes back to the people, just like the present kicker law. Has written an amendment to the base bill which proposes lottery be capped at approximately \$600 million. Anything over that would go into the rainy day account. One benefit would be tendency to limit addiction to lottery process.

128 Lundquist Funds are to be used only during times of economic downturn and for education. Realizes that present members of Senate Revenue Committee would not use the funds for anything else, but future legislators might. Trying to put safeguards in place so funds are used appropriately. When state is in economic downturn, the fund would become a stabilizer to education funding. There are three criteria to initiate the kicking mechanism: (1) If employment has declined for two consecutive quarters, (2) If employment is estimated to decline for the next three quarters, and (3) If revenues have come in below estimates, throwing the budget out of balance. Typically, all three criteria do occur at the same time. In the last 25 years, this would have occurred in the late 1970s and in 1983-84. Does not make sense to have a recession and increase taxes.

Lundquist Asked Members to remember that the state now provides 70% of education funding, compared with 30% prior to Measure 5. There must be some way to guarantee funds would be available for education no matter what. Asked Members to resist the temptation to consume windfall moneys (kicker) and give it to education.

- 205 Sen. Hartung Agrees with Speaker on SJR 25.
- 227 Sen. Leonard Stated many Members feel that in spite of the fact of the economically booming climate, schools seem to receive support as if there were a recession. Many feel there is a rainy day fund now from \$110.2 to \$444 million, known as the kicker. Why won't Speaker support using that money this biennium to fund education at a level that adequately staffs classrooms at proper level, allow school districts to by needed books, etc.
- 244 Lundquist Responded that question has been asked many times. Believes it is not fiscally prudent to use windfall moneys on a base that cannot be sustained. As far as education funding today, are looking for more revenues. This is not the answer to education funding.
- 264 Sen. Leonard Said in current economic boom schools are doing worse than the recession of the 1980s. Asked how Speaker's proposal is any different by using one-time moneys to sustain schools than if the kicker money were to be used now to sustain schools.
- 275 Lundquist Answered that the difference is that Oregon is on an escalating scale now with economic growth going up. All economists would confirm that growth will be trailing off.
- 294 Sen. Leonard Stated what he finds frustrating is why is state not trying to come up with a plan now to fund schools adequately now while Oregon enjoys a booming economy. Why this concentration of effort for sometime down the road if there is a recession, when the are schools now suffering?
- 308 Lundquist Responded that on House side they are looking at other sources of revenues and possible taxes on lottery winners. Looking at ways to get us through that process. Does not want to go through another session of throwing dollars into the air, not knowing if it is enough to fund education. Questions and discussion.
- 410 Chair Baker Asked Speaker Lundquist to expand on definition of economic recession. On a biennial budget, how is two quarters of declining employment a recession indicator?
- 423 Lundquist Deferred that information to Jim Scherzinger. Believes Legislative Revenue and Legislative Fiscal can provide better answer.
- 439 Chair Baker Stated he was looking for a reliable historical indicator of how funds would be accessed.

#### **TAPE 144, SIDE A**

Said he did some research on 1979 and feels there are many similarities between 1979 and 1997. Things were going great, but after 1981 came back three times after regular session to cut state government. In 1979 several measures were passed, i.e. A and B

- 026 Sen. Lenn Hannon Ballot Safety Net, one-time tax refund of \$70 million out of General Fund, and a kicker. State was trying to be magnanimous to Oregon voters and return money to them. In 1980 a 9-to-1 ballot showed people in favor of keeping kicker in place. Out of 90 legislators in 1981 there was only one no vote, Cliff Trow from Corvallis, opposed to the clarification made to implement the kicker.
- 060 Sen. Hannon Respects Speaker for what he is trying to do with fund. History repeats itself and goes through cycles. Possibly embarking on new cycle. One of the things that bothers him on kicker discussion is when voters voted for Measure 5, Measure 47, and prison bills, they voted in essence to spend the kicker, i.e. we don't want to pay for these things through property tax, let the State of Oregon take care of it through income tax. It was never intended for education to be funded by state government. If it had been there would have been something created years ago to fund it. Cannot put additional demands on General Fund without cutting back elsewhere. If economy goes "gunny bag" and Oregonians turn against the lottery and revenues decline, where do we get the funds for the Rainy Day Fund when we cannot fund what we are supposed to be now with additional demands? Does not believe we want to repeat ourselves in what state went through in 1980s.
- 140 Sen. Duncan Stated Sen. Hannon had just given Sen. Duncan a brilliant idea. Regarding discussion that the state should not mandate something unless they out the money with it, maybe in future it should be required that no initiative pass unless there is a companion money measure that goes with it.
- 150 Sen. Hannon Stated that what you have to ask people on the kicker is do they want \$100 back for one evening of entertainment, or do they want \$500 worth of government services reduced?
- 165 Sen. Hartung Said he did not realize until recently that students pay a fee for development of higher technology, which brings in about \$12 million a biennium. What if some of the kicker money was used to replace the \$12 million in student fees, thereby reducing their tuition somewhat which in the long term benefits the state.
- 183 Sen. Hannon Believes every avenue should be explored. Would be more than happy to join Sen. Hartung in exploring this idea. Unless we come up with a reasonable solution to recommend to voters to fund schools adequately and appropriately, the problem has not been solved.
- 210 Sen. Duncan Said that today's discussion reminded him how important institutional memory is.
- 229 Paul Warner Exhibit G - Written testimony. The current expansion is the third longest in the post WW II years. If it continues for four years it will be the longest since 1825. Oregon has a highly elastic tax structure; personal and corporate income taxes are very sensitive to changing economic conditions. The future is extremely uncertain. Believes a Rainy Day Fund is long overdue, and is essential for sound long-term management.

383 Sen. Dukes Thought the reason Oregon's bond rating was good was because bonds are backed by property tax.

390 Warner Stated the Treasury Department could answer that better, but economic base and tax base that are ultimate source of backing general obligation bonds. Their concern is stability of that tax base. Even though Oregon has grown rapidly, very hesitant to upgrade bonds because still seen as volatile economy.

415 Chair Baker Adjourned meeting at 10:04 a.m.

Carol Phillips

Committee Assistant

Kim James

Office Manager

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Exhibit Summary:

A. SJR 25, Scherzinger, (-1) Amendments, (DJ/ps) 5/7/97, 5 pages

B. SJR 25, Scherzinger, Flow chart, 2 pages

C. SJR 25, Scherzinger, Oregon's State Spending Limit and 2% Surplus Kicker, 8 pages

D. SJR 25, Scherzinger, Oregon Taxes Overview, Total State and Local Taxes, 19 pages

E. SJR 25, Scherzinger, 1995-97 Kicker Timeline, 1 page

F. SJR 25, Lundquist, Written testimony dated 5/8/97, 3 pages

G. SJR 25, Warner, Written testimony dated 5/8/97, 1 page