

These minutes paraphrase and/or summarize statements made during this meeting. Text enclosed in quotation marks reports the speakers exact words. For complete context of proceedings, please refer to the tape recording.

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Revenue Forecast

House Committee on  
State and School Finance  
March 1, 1995 Page

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HOUSE STATE AND SCHOOL FINANCE COMMITTEE

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MARCH 1, 1995 8:30 AM HEARING ROOM A STATE CAPITOL BUILDING

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Members Present: Rep. John Schoon, Chair  
Rep. Adams  
Rep. Lee Beyer  
Rep. Tony Federici, Vice Chair  
Rep. Tim Josi  
Rep. Jane Lokan  
Rep. Anitra Rasmussen  
Rep. Ken Strobeck

Members Excused: Rep Welsh

Witnesses Present: Paul Warner, State Economist  
John Mitchell, Governor's Economic Advisors  
Dave Griffiths, Lottery Economist  
Hans Radtke, Resource Economics from Yahachts  
Ham Nguyen, PGE, Regional Analysis  
Becky Johnson, Department of Forestry  
Tom McCoy, Wasco County Farmer

Staff: James Scherzinger, Legislative Revenue Officer  
Steve Bender, Legislative Revenue Office  
Rhonda Wehler, Committee Assistant

TAPE 88 SIDE A

004 Chair Schoon -calls the meeting to order at 8:30 am  
006 Paul Warner -refers to Exhibit A, Oregon Economic and Revenue Forecast  
020 John Mitchell -explains method of operation of Economic Advisors, input of national model  
158 All -questions and discussion  
183 Warner -reviews economic forecast, map, page 4, Exhibit A  
-1994 best year economically in decade, housing up, unemployment down,  
employment up, inflation adjusted personal income grew fastest since 1978  
-Oregon benefited from outmigration of capital and skilled labor from  
California  
227 Warner -refers to page 5, Exhibit A  
Warner -says Oregon in period of vulnerability  
-without adverse shock state can miss recession  
267 -refers to Page 6, Exhibit A  
276 -explains interest rate lags run approx. 18 months, anticipate  
noticeable slowing in 1995  
-predicts no serious interest rate increases  
341 -refers to page 7, Exhibit A, Personal Income, will be after inflation  
per capita gains, long-term growth is in 6.5% rate, which means income tax  
will grow  
-per capita growth forecast is to break even  
397 -refers to page 8, Exhibit A, Job Growth, significant slowing will cause  
growth of unemployment  
-concerns in housing sector, rise in house appreciation, immigration  
slowing

TAPE 89 SIDE A

011 -questions and discussion  
048 Warner -assessed values will slow by late 1990s, regional differences  
exist for assessed values (Eugene and Bend are hot property markets)  
067 -refers to page 10, Exhibit A, Oregon Timber Harvest and Employment,  
timber harvest will drop to less than 1/10 of what it was in late 80's  
078 Chair Schoon -asks about nationwide shortage of lumber  
083 Warner -increase in imported lumber and lumber from the south has offset  
shortage, some demand driven

-long-term forecast, lumber is low growth area, due to demographics unfavorable to housing market, increasing use of subsidies  
099 -refers to page 11, Exhibit A, High Tech Manufacturing Employment emphasizes number could increase, but not immune to cycles  
120 -explains machinery is category that includes computers, appliances, office equipment  
- research and development pays higher wage than assembly line plants, apparel, food processing lower wages  
157 -summarizes economy will slow, but high tech expansion, export activity, immigration all pluses, no outright decline  
179 -predicts Oregon will continue to do better economically than rest of country  
201 Ham Nguyen -says future of industry is bright  
228 Rep Lokan -asks what it would take to be competitive with neighboring states  
233 Warner -replies productive skilled labor force, quality of life, energy costs must be kept competitive  
251 Hans Radtke -agrees  
270 Warner -refers to page 14, Exhibit A, Corporate Income Tax Revenue graph  
321 Vice Chair Federici -asks if corporate growth matched by wage growth  
330 Warner -answers firms staying flexible by using temporary help, (30,000 workers in Oregon)  
- predicts wages will rise 4-5%  
342 Vice Chair Federici -asks disparity in rural vs. urban  
345 Warner -resource-based industries (timber, fisheries) decreased, growth of retirees a factor, expect spottier performance in rural areas  
TAPE 88 SIDE B  
004 Nguyen -explains revenue plus cost incurred is formula for profit  
- tourism affected by California's and Japan's weakness  
042 Johnson -stresses with California economy improving, Oregon tourism will improve  
057 Warner -refers to page 12, Exhibit A  
087 -kickers from corporate and household (non corporate) are in place, Page 15, Exhibit A  
152 Chair Schoon -refers to non-corporate kicker, page 15, Exhibit A  
168 Warner says-second quarter calendar year is big return, even so prediction is less \$ than kicker amount  
183 -kicker calculation based on actual revenues received, not on forecast  
- revenue data received daily, will predict kicker again on May 15  
- kicker is credit based on liability (the more I pay, the more I will get back)  
243 -credit based on liability for 1995 tax year  
261 Steve Bender -clarifies kicker based on 5.8% of whatever my taxes are for 1995  
284 Warner -refers to page 16, Exhibit A, Two Percent Kicker  
320 Dave Griffiths -explains lottery forecast history, Page 17, Exhibit A, no change in 1995-97  
375 -notes significant errors in past predictions  
394 -explains line items, video lottery down \$11 million  
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029 Griffiths -predicts 1995-97 good biennium, includes reduction in retail commission rate, worth about \$16 million  
064 -new lottery building already netted out in forecast (paid for with 10% administrative costs)  
099 Griffiths -discusses forecast process  
126 -net sales per week graph of Lottery Sale, page 18, Exhibit A, explosive growth of video sales not expected to continue  
161 All -questions and discussion  
208 Warner -explains lottery sales increase as jackpot increases, higher spending at first week of month  
259 -explains Exhibit B, Assumptions for 1997-99 Preliminary Budget, resources plus preliminary look shows \$230 million deficit  
314 All -questions and discussion  
334 Warner -says growth factor is 10.8%, all other components not adjusted for inflation  
362 Scherzinger -explains two major revenue sources  
- General Fund revenues growing faster than spending  
- Property Taxes growing for local schools,  
- notes reason for unbalanced budget (Oregon is over-spending revenues in this biennium)  
398 -beginning balance is high due to lottery and General Fund balance  
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011 Warner -kickers taken out of resources  
- holding spending to population growth will increase revenue  
047 All -questions and discussion  
163 Bender -summarizes changes in revenues since December 1994 forecast, Exhibit C  
- explains difference between beginning balance and combined resources, all additional revenues will go back to taxpayers since kicker was due to kick in December 1995  
- change in predicted resources is extra \$54.2 million, but this can quickly change  
340 -explains state lottery resources, bottom line figure is \$62.5 million increase over what was predicted 3 months ago  
403 Rep. Adams -refers to Exhibit D, What Is Included in Personal Income Tax When Computing the 2% Kicker  
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006 Bender -explains figures based on assumption kickers are returned to taxpayers, if not General Fund Resources total will increase by up to \$318.6 million  
010 All -questions and discussion  
083 Chair Schoon -adjourns meeting at 10:55 am

Rhonda Wehler, Committee Assistant

Kimberly Taylor James, Office Manager

Exhibit Summary

- A. Revenue Forecast, Warner, Oregon Economic and Revenue Forecast, 3/95
- B. Revenue Forecast, Warner, Assumptions for 1997-99 Preliminary Budget, 3/1/95
- C. Revenue Forecast, Bender, Summary of Change From Prior Forecast, 3/1/95
- D. Kicker, Adams, What Is Included in Personal Income Tax When Computing 2% Kicker
- E. Revenue Forecast, Warner, Revenue Forecasting
- F. Revenue Forecast, Warner, News Release, 3/1/95
- G. Revenue Forecast, Warner, Oregon Economic and Revenue Forecast, 3/95