

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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Work Session HB 3349, 2134, HJR 26, SB 251, HB 2855 A, HB 3464  
Public Hearing SB 329 A HB 2855 A, 3464, SB 782  
Tapes 225-228 A & B

House Committee on  
State and School Finance  
May 12, 1995 Page

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HOUSE STATE AND SCHOOL FINANCE COMMITTEE

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MAY 12, 1995 8:00 AM HEARING ROOM A STATE CAPITOL BUILDING  
MEETING RECONVENED AT 1:00 P.M.

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Members Present: Rep. John Schoon, Chair  
Rep. Lee Beyer  
Rep. Tony Federici, Vice Chair (8:25 a.m. late arrival)  
Rep. Tim Josi (8:25 a.m. late arrival, excused at 1:00 p.m.)  
Rep. Jane Lokan  
Rep. Anitra Rasmussen (excused at 3:15 p.m.)  
Rep. Ken Strobeck  
Rep. John Watt (excused at 2:00 p.m.)  
Rep. Jim Welsh

Witnesses Present: John Mangan, Domestic Insurance, Standard  
Jack Barnes, Domestic Insurance, Farmers  
Fred VanNatta, Liberty Northwest Insurance  
Rep. Eldon Johnson, District 51  
Fred McDonald, Attorney General's Office  
Bill Sizemore, Oregon Taxpayers United  
Dave Hendricks, Legislative Counsel  
Randall Edwards, State Treasurer's Office  
Alan Willis, Port of Portland  
Tom Linhares, Columbia County Assessor

Staff: James Scherzinger, Legislative Revenue Officer  
Rhonda Wehler, Committee Assistant  
Terry Drake, Legislative Revenue Office  
Dick Yates, Legislative Revenue Office  
Steve Meyer, Legislative Revenue Office

TAPE 225 SIDE A

007 Chair Schoon -calls the meeting to order at 8:20 am and conducts  
administrative business  
-OPENS PUBLIC HEARING IN HB 2855 A

HB 2855 A

014 Terry Drake -explains domestic firms are taxed (excise tax) differently  
than foreign firms (based on premiums they write in Oregon at 2.25%)  
Drake -some states have moved to premiums tax on domestic firms to equalize  
-currently challenge by foreign insurer is in court system in Oregon  
-General Fund is at risk if Oregon's tax system is determined to be illegal

and unconstitutional

-HB 2855 A is attempt to make future court cases moot  
-refers to Exhibit D, Policy Outline

092 -foreign companies pay substantially more taxes than domestic, due to  
retaliatory taxes (if foreign company comes to Oregon, they will be taxed  
at same rate as our companies doing business in their state)

-HB 2855A is attempt to change formula for foreigners to look the same as  
domestic, and would basically pay excise tax  
-practical impact is substantial reduction in amount foreign insurers pay,  
excise tax would be offset by guaranteed fund

-cites revenue impact:  
-reduction in 1997 of \$40 million  
-turns revenues flat for 6 years, then grows at lower level in 2002  
-future revenues dependent upon other state's policies

202 -defines excise tax-tax on corporate net income  
-defines premium tax-tax on gross income tax

248 Rep. Eldon Johnson -explains need to move bill to Senate in order to

continue negotiations  
 -notes state is close to settlement in court case  
 -\$61 million is what insurance companies currently pay in taxes  
 -under this bill, revenue stream does not drop off as anticipated, but rather stays the same, which might encourage Governor to settle

TAPE 226 SIDE A  
 010 John Mangan -speaks in favor of HB 2855 A  
 -informs nine companies involved in litigation  
 -trial date is October 8, 1995  
 -bill limits state's liability form 1993-forward  
 -foreign insurance companies hold over twice premiums as domestic in Oregon  
 -both pay property taxes, but home offices pay much higher property taxes

in Oregon  
 -amendments include a credit against premium tax, so companies don't pay full premium tax on worker's comp  
 -summarizes all worker's comp companies pay assessment to fund worker's comp division, also pay premium tax, workers comp carriers pay credit to wipe out assessment

088 Chair Schoon -adds assessment is collected from employers and passed on to insurance to equalize worker's comp companies with SAIF

117 Jack Barnes -speaks in favor of HB 2855 A  
 -refers to Exhibit E, -7 Proposed Amendments, which allows companies who are both foreign and domestic to file consolidated tax

200 Fred VanNatta -speaks against HB 2855  
 -explains HB 2855 started with charge that solution be revenue neutral, treat everyone equal, and settle lawsuit, which bill does not do  
 -Liberty Northwest customers pay \$6 billion/year in taxes  
 -Liberty Northwest is classified as foreign company and is subject to premium tax  
 -bill without extended credit would increase taxes Liberty Northwest pays by 1/3  
 -bill reclassifies Liberty Northwest from foreign to domestic company  
 -foreigners now remain exempt from local income and property taxes

297 -first choice is that everyone pay premium tax, regardless of how they are organized (which is how 49 other states function)  
 -opposes excise tax  
 -want to use \$ customers pay to offset excise tax

343 Chair Schoon -notes excise tax permits Liberty Northwest to compete successfully with SAIF

349 VanNatta-informs issue is competitive position that private workers compensation companies have with SAIF  
 -without credit rate would increase 2.5%

TAPE 225 SIDE B  
 005 -notes Liberty Northwest would like to continue to file separate returns, unlike Farmers Insurance  
 -would like amendments to provide an option to file separately or jointly

048 Drake -clarifies assessment written on premiums for workers comp, Liberty is collection agency for funding of that activity, separate from premiums tax system used to fund General Fund

079 Chair Schoon -make as few changes to current law as possible, but still equalize structure between foreign and domestics  
 -conducts administrative business  
 -recesses at call of Chair  
 113 -reconvenes meeting at 1:00 p.m.  
 122 -REOPENS PUBLIC HEARING ON HB 2855 A  
 123

HB 2855 A  
 128 -CLOSES PUBLIC HEARING ON HB 2855 A  
 -OPENS WORK SESSION ON HB 2855 A  
 -suggests moving bill to floor and to Senate, since amendments are not prepared

142 Rep Strobeck -MOVES ADOPTION OF HB 2855 A-7 AMENDMENTS WITH HAND ENGROSSED CHANGES DATED 4/27/95  
 -THERE BEING NO OBJECTIONS THE CHAIR SO ORDERS

167 Chair Schoon -MOVES HB 2855 A AS AMENDED BE SENT TO THE FLOOR WITH A DO PASS RECOMMENDATION  
 -ROLL CALL VOTE: MOTION PASSES 7-0, MEMBERS VOTING AYE: REPS.: LOKAN, RASMUSSEN, STROBECK, WATT, WELSH, FEDERICI, SCHOON. EXCUSED: BEYER, JOSI.

Chair Schoon -to carry bill in floor debate

176 -OPENS WORK SESSION ON HB 3349  
 HB 3349  
 -explains lawsuit could be settled with a benefit increase  
 -Senate wrote preamble to that effect, but bill had nothing in it to keep it from going into effect if parties don't settle on their own  
 -stresses unwillingness to endorse the bill as written

264 Rep Lokan -suggests amendments by Bill Sizemore

272 Bill Sizemore -explains amendments deal with 8% guaranteed rate of return

on PERS fund that Attorney General is advising PERS Board to continue to pay despite Measure 8  
 -amendments repeal statute so Measure 8 can be implemented as drafted

287 Fred McDonald -informs Attorney General advised no changes were advisable, because of wording in Ballot Measure 8, to credit investment returns amounting to 8%  
 -reserve account was established by board to pay residuals from good investment years in case 8% is not reached in any given year  
 -amount of \$ in reserve account is two-year reserve

384 Rep Welsh -recommends reducing or limiting guarantee due to connection to General Fund

388 Chair Schoon -CLOSES WORK SESSION ON HB 3349  
 -OPENS WORK SESSION ON SB 251, HJR 26

SB 251, HJR 26  
 TAPE 226 SIDE B  
 004 Jim Scherzinger -refers to Exhibit F, SB 251-3 Proposed Amendments for homestead exemption  
 -Exhibit G, SB 251-2 increases veterans homestead exemption and requires the Governor's budget to include recommendations on tax expenditures that sunset and have a fiscal impact in the biennium covered by the budget (these amendments already adopted)  
 -HJR 26-2, Exhibit K, limits growth of property tax to 3% per year

063 -explains SB 251-3 exemption, Exhibit J, exempts up to \$25,000 of senior's home from property taxes

091 -exemption requires seniors to file application with Department of Revenue (Department of Revenue)

- requires DOR to send notice of need to file
- requires state to pay school tax on unpaid amounts
- begins in 1997-98

Scherzinger -revenue impact: state payment on non-school taxes would increase General Fund expenditures by \$59 million in 1997-99

- estimates 80% of those eligible would apply
- defines "household" is taxpayer and taxpayer's family occupying a residence for one year
- defines "household income" includes all income of all family members

196 -assessors will not have to determine household income

- request filed with DOR instead of assessor since income is determining factor in exemption

Vice Chair Federici -asks if it would be easier to have county assessors handle forms

228 Tom Linhares -explains administration

- some people may not want to inform county assessor of income, may not trust them as much as DOR
- application form could include a cross reference to tax return, which would allow DOR reference to incomes and make it easier for them to process
- by decreasing value from a group of properties, the total value on roll would decrease, and would shift tax burden to all other property

343 Vice Chair Federici -summarizes bill is a policy question to refund school from state General Fund or shift to other taxpayers

366 All -questions and discussion

TAPE 227 SIDE A

004 Vice Chair Federici -prefers shifting revenue to other taxpayers, rather than to General Fund

- low or fixed income seniors are most seriously impacted, so homestead exemption is targeted to them

044 Rep Beyer -suggests referring bill to ballot

046 Scherzinger -informs entire bill must be sent to ballot

053 All -questions and discussion

132 Scherzinger -explains HJR 26-2 amendments, which amends constitution, limits growth of property tax on each property to three percent per year, exempts bond levies, reduces permitted growth of local district property tax bases to 3% per year, increased tax base by construction rate in each taxing district, submits measure to voters at 1996 general election

- refers to Exhibit K, Revenue Impact, property tax revenue reduction of \$115 million in 1997-98 and \$210 million in 1998-99

190 Rep Lokan -proposes changing effective date to 1996

200 Chair Schoon -explains that idea would create havoc with budget process

214 Sizemore-informs passage of HJR 26-2 would eliminate need for initiative

- proposes cap based on 1995-96 tax year as further protection to taxpayer

252 Chair Schoon -CLOSES WORK SESSION ON HJR 26 AND SB 251

- OPENS PUBLIC HEARING ON SB 782

SB 782

271 Meyer -explains bill exempts aircraft if it is in Oregon undergoing major work

317 Randall Edwards -refers to Exhibit L, Written Testimony, in favor of SB 782

- refers to Exhibit Q, Aircraft Maintenance Center Report

385 Alan Willis -speaks in favor of SB 782

TAPE 228 SIDE A

001 Rep Beyer -MOVES SB 782 BE SENT TO FLOOR WITH A DO PASS RECOMMENDATION

004 Alan Willis -requests no sunset for bill

007 Rep Rasmussen -notes sunset forces a review

- ROLL CALL VOTE: MOTION PASSES 5-0, MEMBERS VOTING AYE: REPS.: BEYER, LOKAN, RASMUSSEN, STROBECK, SCHOON. EXCUSED: JOSI, WATT, FEDERICI, WELSH

029 Chair Schoon -asks Rep Rasmussen to carry bill in floor debate

034 -OPENS PUBLIC HEARING ON HB 3464

HB 3464

- explains this is school choice bill with referral to the public in November 1996
- superintendent of public instruction would award scholarships to all students attending school
- private school students receive half scholarship, home district would keep other half
- priority given to students with disabilities and low income families first, then to all other families

067 Drake -qualifies new students in the private schools for 50% funding from state school fund, which is transition provision

- refers to Exhibit R, HB 3464-1 Proposed Amendments
- those currently enrolled in private or home schools (about 10% of Oregon students) are not eligible for scholarship

102 Rep Beyer -questions and discussion

145 Chair Schoon -explains intent of bill is to create competition for schools to do equal job

163 Rep Beyer -responds at full implementation competition wouldn't be realized

179 Drake -notes administrative rules must be in place for when demand is higher than supply

- proposes adding that state resources are limited, to protect state from legality

202 Chair Schoon -affirms this is not a constitution change

213 Rep Rasmussen -sees bill as inducement to families to enroll kids in private school

231 -CLOSES PUBLIC HEARING ON HB 3464

235 -OPENS WORK SESSION ON HB 3349

HB 3349

253 Dick Yates -gives overview, refers to Exhibit T, Benefit Increases Under HB 3349-5

- deals with increasing PERS benefits to retirees to pay breach of contract

-Section 2 benefits would not be paid in any year that benefits are exempt from taxation

- taxation is now uniform for all retirees
- recalculation of benefits for PERS retirees, before given date
- Section 4 deals with retirees who retired after Jan. 1, 1991
- for anyone who is a member of PERS following effective date of this act, no breach of contract exists
- Sections 5-8 do same thing for members retired before Jan. 1, 1991

238 Dave Hendricks -informs Oregon Supreme Court declared anyone first hired after 1991 has no right to provisions in this bill

TAPE 227 SIDE B

015 -summarizes history that Supreme Court decided federal retirees must also be exempted from state income tax if state retirees are exempted

- after 1993, class action suit was filed in Marion County against the state by retirees being taxed
- other possible solution SB 562 exempts all state and federal retirees
- all benefits through PERS system are on amortized basis, which means 1% of payroll average or approximately \$25 million
- flat out appropriation would cost \$150 million plus interest of 5%

092 Chair Schoon -clarifies bill intended to settle suit, no contractual right for this benefit, -Section 2 states retirees being paid in compensation for damages

120 Hendricks -notes according to page 2 (3) line 11, in event this changes, all retirees will still have right to receive damages

- if plaintiffs decide not to accept, state is released from obligation
- some retirees say they will not accept this solution, since benefit is subject to federal tax, but they cannot bring a class action against the state again, only individual action

149 Yates -responds portion of benefits may not be taxable, some recipients live out of state where there is no income tax

- also individuals who have lower income, could be taxed less than 9%

176 Hendricks -informs provision added for lump sum payment as of January 1, 1996 to fully compensate, and recalculation of taxes for other retirees so they qualify for higher tax bracket

210 Rep Beyer -MOVES ADOPTION OF HB 3349-6 AMENDMENTS

- THERE BEING NO OBJECTION THE CHAIR SO ORDERS
- MOVES HB 3349 AS AMENDED BE SENT TO THE FLOOR WITH A DO PASS

RECOMMENDATION

- ROLL CALL VOTE: MOTION PASSES 6-0, MEMBERS VOTING AYE: REPS.: BEYER, LOKAN, RASMUSSEN, STROBECK, FEDERICI, SCHOON. EXCUSED: JOSI, WATT, WELSH.

224 Chair Schoon -to carry bill in floor debate

226 -OPENS WORK SESSION ON HB 2134

HB 2134

Chair Schoon -MOVES HB 2134 BE SENT TO FLOOR WITH A DO PASS RECOMMENDATION

- ROLL CALL VOTE: MOTION PASSES 6-0, MEMBERS VOTING AYE: REPS.: BEYER, LOKAN, RASMUSSEN, STROBECK FEDERICI, SCHOON. EXCUSED: JOSI, WATT, WELSH.
- asks Rep Strobeck to carry bill in floor debate

266 -notes action is without effect since 24 hour rule wasn't observed

284 -calls for stand at ease

- recesses meeting at 3:10 p.m.
- reconvenes meeting at 3:45 p.m.

287 -OPENS WORK SESSION ON HB 3464

HB 3464

- MOVES ADOPTION OF HB 3464-1 AMENDMENTS
- THERE BEING NO OBJECTION THE CHAIR SO ORDERS
- MOVES HB 3464 AS AMENDED BE SENT TO THE FLOOR WITH A DO PASS

RECOMMENDATION

- ROLL CALL VOTE: MOTION PASSES 5-0, MEMBERS VOTING AYE: REPS.: LOKAN, STROBECK WELSH, FEDERICI, SCHOON. EXCUSED: BEYER, JOSI, RASMUSSEN, WATT.
- asks Vice Chair Federici to carry bill in floor debate

289 -OPENS WORK SESSION ON WORK HB 2134

HB 2134

Rep Welsh -MOVES HB 2134 A BE SENT TO THE FLOOR WITH A DO PASS

RECOMMENDATION

- ROLL CALL VOTE: MOTION PASSED 6-0, MEMBERS VOTING AYE: REPS.: BEYER, LOKAN, STROBECK, WELSH, FEDERICI, SCHOON. EXCUSED: JOSI, RASMUSSEN, WATT.

Chair Schoon -asks Rep Strobeck to carry bill in floor debate

- OPENS WORK SESSION ON SB 251

SB 251

289 Vice Chair Federici -MOVES AMENDING SB 251-3 AMENDMENTS BY CHANGING LINES 1-18 TO \$25,000 AND LOWEST AMOUNT TO 0-\$20,000

- THERE BEING NO OBJECTION THE CHAIR SO ORDERS
- MOVES ADOPTION OF SB 251-3 AMENDMENTS AS AMENDED
- THERE BEING NO OBJECTION THE CHAIR SO ORDERS

301 Chair Schoon -MOVES SB 251 AS AMENDED BE SENT TO THE FLOOR WITH A DO PASS RECOMMENDATION

- ROLL CALL VOTE: MOTION PASSES 6-0, MEMBERS VOTING AYE: REPS.: BEYER, LOKAN, STROBECK, WELSH FEDERICI, SCHOON. EXCUSED: JOSI, RASMUSSEN, WATT.
- asks Rep Beyer to carry bill in floor debate

333 -OPENS WORK SESSION ON HJR 26

HJR 26

- reviews HJR 26-2 amendments cap property taxes at 3%, reduce levy growth to 3%, add new construction with a tax base, and must be sent to public for vote

364 All -questions and discussion about difference in HJR 26 -1 amendments, which capped property taxes at 6%

TAPE 228 SIDE B

003 Chair Schoon -answers change made because 3% was more consistent with actual inflation

016 Scherzinger -notes if given area at cap already, this bill wouldn't have much effect

- sale of property triggers nothing here, since this is not a tax on the value

069 Vice Chair Federici -asks how new valuation assessment methodology would

work

072 Linhares-asserts county assessment will be difficult with new  
construction calculated for every taxing district  
-new construction could be an addition, a house, a warehouse  
-no definition of new construction in this bill  
-assumes DOR will have to write rules to calculate accurately

130 Chair Schoon -MOVES ADOPTION OF HJR 26 -2 AMENDMENTS  
Vice Chair Federici -objects

ROLL CALL VOTE: MOTION FAILS 2-3. MEMBERS VOTING AYE: REPS.: LOKAN,

SCHOON. MEMBERS VOTING NAY: BEYER, STROBECK, FEDERICI. EXCUSED: JOSI,  
RASMUSSEN, WATT, WELSH

Rep Beyer leaves at 4:25 p.m.

175 -calls for stand at ease

233 Chair Schoon -recesses meeting at 4:35 p.m.

234 -reconvenes meeting at 4:36 p.m.

235 Chair Schoon -MOVES ADOPTION OF HJR 26-1 AMENDMENTS

Rep Welsh -objects

Rep Lokan -objects

-ROLL CALL VOTE: MOTION FAILS 2-3, MEMBERS VOTING AYE: REPS.: STROBECK,  
FEDERICI, SCHOON. MEMBERS VOTING NAY: LOKAN, WELSH. EXCUSED: BEYER, JOSI,

RASMUSSEN, WATT

268 Chair Schoon -ASKS FOR UNANIMOUS CONSENT TO RETURN TO HB 3349 FOR

PURPOSES OF DEALING WITH SUBSEQUENT REFERRAL TO WAYS AND MEANS

-THERE BEING NO OBJECTION THE CHAIR SO ORDERS

278 -MOVES TO AMEND MOTION ON HB 3349 TO INCLUDE SUBSEQUENT REFERRAL TO

COMMITTEE ON WAYS AND MEANS

-THERE BEING NO OBJECTION THE CHAIR SO ORDERS

-MOVES TO SEND HB 3349 AS AMENDED TO WAYS AND MEANS WITH DO PASS

RECOMMENDATION

ROLL CALL VOTE: MOTION PASSES 5-0, MEMBERS VOTING AYE: REPS.: LOKAN,

STROBECK, WELSH, FEDERICI, SCHOON. EXCUSED: BEYER, JOSI, RASMUSSEN, WATT.

300 Vice Chair Federici -adjourns meeting at 4:40 p.m.

Rhonda Wehler, Committee Assistant

Kimberly Taylor James, Office Manager

Exhibit Summary

A. HB 2855 A, Drake, Staff Measure Summary, 4/28/95  
B. HB 2855 A, Drake, Fiscal Impact, 5/5/95  
C. HB 2855 A, Drake, Revenue Impact, 5/12/95  
D. HB 2855 A, Drake, Policy Outline  
E. HB 2855 A, Barnes, -7 Proposed Amendments, 4/27/95  
F. SB 251, Meyer, -1 Proposed Amendments, 5/12/95  
G. SB 251, Meyer, -2 Proposed Amendments, 5/11/95  
H. HJR 26, Scherzinger, -2 Proposed Amendments, 5/12/95  
I. SB 251, Meyer, Revenue Impact, 5/11/95  
J. SB 251, Scherzinger, Revenue Impact, 5/12/95  
K. HB 26, Scherzinger, -2 Revenue Impact, 5/12/95  
L. SB 782, Meyer, Staff Measure Summary, 5/12/95  
M. SB 782, Meyer, Revenue Impact, 5/1/95  
N. SB 782, Fiscal Impact, 4/24/95  
O. SB 782, Written Testimony, 5/12/95  
P. SB 782, Brockley, Written Testimony, 5/12/95  
Q. SB 782, Brockley, Aircraft Maintenance Center Report  
R. HB 3464, Drake, -1 Proposed Amendments, 5/12/95  
S. HB 3349, Yates, -6 Proposed Amendments, 5/12/95  
T. HB 3349, Yates, Benefit Increases Under HB 3349-5