

Tapes 120-121

A/B

122 A

WRR SESSION:

HB 2500

HOUSE COMMITTEE ON HJR 10

REVENUE AND SCHOOL FINANCE

SUBCOMMITTEE ON INCOME TAXATION

July-6, 1993 7:30 AM HEARING ROOM D STATE CAPITOL BUILDING

Members Present: Representative John Schoon, Chair

Representative Ron Adams

Representative Tony Federici

Representative Delna Jones, Ex

Officio

Representative Gail Shibley

Members Excused: Representative Greg Walden

Witnesses Present: Paul Warner, State Economist for

the

Executive Department

Staff: Richard Yates, Legislative Revenue

Office

Katy Yetter, Committee Assistant

Jason Williams, Committee Messenger

TAPE 120 SIDE A

001 CHAIR SCHOON: Calls the meeting to order at 1:40 p.m.

WORK SESSION ON HB 2500 and HJR 10

025 SCHERZINGER: Reviews the agenda for the afternoon's hearing. -Based on the Governor's notion to allow a local option sales tax.

-New language in HB 2500 to decipher spending limit.

-Presents outline of spending limit issues on HJR 10 (EXHIBIT A).

-Personal income tax (all revenues other than corporate) and sole income/tax bracket. Requires a corporate refund of 17 million dollars.

-May 15 forecast did not anticipate the refund situation. Question is, "do these company payments reflect 1991-93 payments that were thought to be in 1993-95; and a result, is the 93095 forecast adjusted downward?"

151 PAUL WARNER, STATE ECONOMIST: States that they have received payments based on advanced payment liability.

-Significant portion of forecast includes advanced payments

-In terms of the forecast, the information will be set for a particular point in time with the required data.

-All issues should be evaluated before a forecast is produced.

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-Under current law, the budget would be 17 million less than if it were changed.

207 SCHERZINGER: All the money represents unanticipated funds below the previous session's closing forecast.

-One payment was 2% (from one company) caused the outcome to go from below the corporate forecast to surpassing the forecast.

-Spending limit would repeal the current spending limit. Funds would be dedicated to the sales tax.

263 WARNER: Corporate payments spread out over the entire year, so impact will be felt over the entire year.

274 SCHERZINGER: This program would start in the 1994 year based on the 1993 returns.

300 CHAIR SCHOON: Would like to deal with the provisions of law that would remain in effect if HJR 10 fails.

-Includes refunds and health care plans.

319 REP. SHIBLEY: Asks if there is a germaneness problem dealing with spending issues as well as other types of health plan financing.

324 SCHERZINGER: The plan is broad enough to have this not be a problem.

369 CHAIR SCHOON: Much cleaner to have a bill to keep in effect with HJR 10 regardless of subject.

379 REP. SHIBLEY: Something dealing with state spending unit and personal income tax should be included in this plan if the sales tax doesn't pass.

TAPE 121. SIDE A

001 REP. SHIBLEY: Continues to presentation of opinion on HJR 10. -How much total dollars have been brought in with income taxes that can be used to forecast.

033 SCHERZINGER: Discusses spending issues (EXHIBIT B). -Refers to index on consumer spending.

-Homeowner's costs amount to about 27%.

-Union contracts may use wage earnings specific to the employees.

-Different indexes for different cities, etc. Sampling may cause the US index to be more broad and fluctuate less.

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-Can construct an index that creates different commodities.

-Discusses Consumer Price Indexes (CPI's) and why they are used.

235 PAUL WARNER, EXECUTIVE DEPARTMENT: Discusses U.S. versus Portland CPI. The U.S. CPI has regional estimates. The Portland CPI is updated every 6 months. The U.S. CPI is updated every month.

324 SCHERZINGER: The problem is not the lag but rather that

- you're budgeting for the future. Discusses how budgeting it done.

-Can budget by a forecast or by an estimate

TAPE 120. SIDE B

040 CHAIR SCHOON: Asks Warner if there is deviation in forecast from actual numbers.

050 WARNER: Replies that the margin of error is smaller for the U.S. -- less than one percent.

-USC has unexpected variables that can throw off the index.

071 REP. SHIBLEY: Asks if there would also be regional events that reflect in the local index.

080 WARNER: Indicates that regional events could be reflected in the local index.

-Such a case would be a natural

disaster

100 REP. ADAMS: Asks if the national index on housing tend to take out the margin of error.

105 WARNER: States that measuring the true cost of living is done through the cost of housing.

119 REP. ADAMS: All the pieces that logically represent the gain should be included in the spending limitation.

129 WARNER: Housing expense shouldn't rise more than the inflation rate.
-In the future because of demographics, housing costs may actually rise less than the inflation rate

142 REP. FEDERICI: If Portland is tagged as the CPI, than it is subject to volatility.

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153 CHAIR SCHOON: States that housing would be a good point of reference in the short term, but may not be the best variable for the long-term planning.

158 WARNER: Demand revenue determines the demographics of a population.
-Extended periods of the housing cycle rising faster than what was expected.

-Over time, housing prices on average will grow faster than the rest of the index.

182 REP. SHIBLEY: Asks Warner to indicate a starting point.

197 CHAIR SCHOON: States that it will be the historical CPI as well as the forecast.

204 REP. SHIBLEY: States that Portland should be used with all variables included.

-It is representative of all of Oregon.

235 CHAIR SCHOON: Discusses the housing aspect.

255 REP. ADAMS: If housing (20% of total) is pulled out of the picture, how is the difference made up?

-Would this be 4% minus the 20%?

262 WARNER: States that the figure is pulled out of the base and the index is adjusted to the difference.

-Will not be consistently higher over the next ten years.

294 REP. ADAMS: If housing is based on demand, then it should reflect population The committee is using a different set for population reference.

-Does this give a double count effect?

306 WARNER: Using national CPI independent on determining the Portland CPI would not effect the figures on housing and rates of population.

320 REP. ADAMS: Once a county reaches a certain size, there is a point of diminishing returns on government.

347 WARNER: Estimates on rate of change are based on amounts of government expenditures.

-In terms of housing, labor costs are critical to government costs. Housing will become a secondary factor.

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380 YATES: States that services are affected by population and cost of providing those services.

-Interaction should not be eliminated.

TAPE 121, SIDE B

003 CHAIR SCHOON: States that the system is selfcorrecting every two years.

015 REP. ADAMS: At this time, the highest priced area is the Portland area at 47% growth rate.

-Is that growth reflective of statewide service?

040 REP. FEDERICI: The lower the CPI, the sooner the spending limit is triggered.

045 JONES: Depending on incoming revenues, a lower CPI would allow for more growth.

053 REP. ADAMS: If we include or exclude shelter, are talking about less than one percent?

058 WARNER: States that typically, natural markets are concerned with core inflation.

-Shelter growth is less than one percent.

093 REP. ADAMS: Touched on energy and oil prices.

118 WARNER: Portland State University (PSU) is the official census forecaster. Volatility in numbers due to school enrollment.

-Net population tough to forecast.

186 REP. ADAMS: Asks Warner how different they are from PSU forecasts.

190 WARNER: Indicates that PSU does not do forecasts, but they do use the consensus data.

-There is an extensive review process on the forecast. -Population growth consistent with job expectation.

240 SCHERZINGER: Draft sets base at estimate of shortfall to reflect these issues as well as the reserve front.

-Reserve fund a trigger of 2%.

-If the forecast is completed during current legislative session, the limit would be effective in 1995-97. This would act as the base for all future biennia.

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296 CHAIR SCHOON: Asks if there is anything in HJR 10 requiring a spending limit in place of actual spending.

-Is there any requirement for a 1995-97 spending limit to be completed during this session?

304 SCHERZINGER: The state appropriations from state income and sales taxes for a biennium shall not exceed estimated appropriations from those taxes beginning July 1, 1995. This is in accordance with consumer prices or growth population.

332 REP. ADAMS: Adds the changes in the CPI as a factor.

371 SCHERZINGER: Discusses the 1995 Session and the estimated appropriations.

TAPE 123. SIDE A

013 SCHERZINGER: States that if the figures turn out to be less than the statutory figure has indicated.

-For example, if the estimate is 8.5 million and sales tax is overestimated, and only enough sales tax revenue is raised to cover 8 million --that means the estimate is as of a certain date. The 8.5 million figure can be kept as to get around the shortfall.

044 REP. ADAMS: If the numbers are raised beyond the estimate, it could be advantageous in creating flexibility of spending.

-Greater flexibility using estimate rather than reality.

083 CHAIR SCHOON: States the estimate may indeed work better.

-As long as the phrase is in statute, "the estimated appropriations."

099 SCHERZINGER: Agrees that an estimate creates better flexibility in that it would not force spending all the way up to the cap.

118 CHAIR SCHOON: Any growth that we have could be caused directly by inflation or population growth.

130 SCHERZINGER: Indicates that under the spending limit cap, there is a reduction in income tax spending.

148 WARNER: Assumptions are standard. Oregon's per capita income is growing on a per capita basis.

-Growth on inflation plus growth on population 10% and on income down to 10.5 percent.

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-If US grows 1% per year, Oregon grows 1.5%. Consistently grows 2% more in Oregon than the US.

243 CHAIR SCHOON: Asks Warner how the base will be established for the base year.

249 WARNER: Has added 2 billion for sales tax. Estimated from the tax proposal.

279 CHAIR SCHOON: Closes the meeting at 3:50 p.m.

Submitted by: Reviewed by:

Katy Yetter Kimberly James
Committee Clerk Office Manager

EXHIBIT LOG

A - Spending Limit Issues - LRO Staff - 1 page

B - Importance of Commodities - LRO Staff - 5 pages

C - Memo to Revenue Office from P. Warner - P. Warner - 1 page

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Tapes 123-124 A/B

HOUSE COMMITTEE ON
REVENUE AND SCHOOL FINANCE
SUBCOMMITTEE ON INCOME TAXATION

July 6, 1993 6:00 PM HEARING ROOM D STATE CAPITOL BUILDING

Members Present: Representative John Schoon, Chair

Representative Ron Adams
Representative Tony Federici
Representative Gail Shibley

Members Excused: Representative Greg Walden
Representative Delna Jones, Ex Officio

Witnesses Present: Paul Warner, Executive Department

Staff: Jim Scherzinger, Legislative Revenue

Office

Richard Yates, Legislative Revenue

Office

Rick Gaupo, Committee Assistant

TAPE 96, SIDE A

001 Chair Schoon calls the meeting to order at 6:15 p.m.

005 Jim Scherzinger describes the implementations of HJR 10

026 > Changes to HJR 10 would require 2/3 of the Legislature and the
concurrence of the Governor

054 SPENDING LIMIT ISSUES - (Exhibit 1)

> "Reserve fund"

> Discussion of "Triggers" and "Caps"

> Jim Scherzinger describes how the reserve fund works

> Chair Schoon refers to the expenditure category, which does not calculate
a reserve. Tax relief would be put into a reserve fund up to a certain cap

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069 > Rep. Adams asks about the cap on the reserve. Jim Scherzinger
describes the 2% cap. Up to two percent above the amount
appropriated can be carried over to the next biennium. Excess over
2% would be put into a reserve fund. If the reserve got over 6%
there would be a reduction in taxes

1 14 > Rep. Shibley asks about the difference between a trigger and a cap.
Jim Scherzinger responds

127 > Rep. Adams suggests using three instead of two percent for a cap.
The reduction in taxes after the reserve is three times larger than
the cap

> Rep. Federici and Rep. Shibley agree

> Chair Schoon states that it will be 3% and 9%

> Discussion of "Withd rawals "

> Discussion of "If shortfall"

172 > Jim Scherzinger describes the process of dipping into the fund

189 > Chair Schoon: Can you withdraw from a fund when a shortage
is present

217 > Jim Scherzinger: What mechanisMdo you want to require to
dip into the fund in the interim

> Rep. Shibley supports a bill which requires a special session

> Discussion of "Vote of legislature"

280 > Jim Scherzinger describes the 2/3 vote. If you want to spend
over the cap it requires a 2/3 vote

- > Discussion of "Formula"
- 326 > Jim Scherzinger talks about the dedication of the excess.
There are states that use formulas based on the economy to determine whether money is pulled out of or put into the fund
- ~ Discussion of "Dedication of excess"
- 368 > If the reserve gets too large, then something will have to happen
- > Chair Schoon states that the committee should let future legislators wrestle with how to get rid of excess funds

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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TAPE 124, SIDE A

- > Discussion of "1993 kicker rebate"
- 013 > Chair Schoon states that the language in HB 2500 should reflect the kicker in HJR 10
- 020 > Chair Schoon asks about money collected before June 30. A tax credit would be issued on the next tax return
- 064 > Chair Schoon asks Paul Warner, Executive Department, about the money generated from the personal income tax. Paul Warner responds that personal income is about 7 million dollars above predictions
- 094 > Rep. Shibley asks why there are the different tax fields
- > Jim Scherzinger: personal and corporate tax were established at a different tax rate in 1979
- > Last biennium the kicker fund went into the education budget
- > Rep. Shibley states that all excess should go into education
- Jim Scherzinger outlines the subjects in TAX PLAN OPTIONS - (Exhibit 2)
- 140 > Discussion of "GROSS REVENUE"
- 196 > Discussion of " Feed backs "
- > Dick Yates explains "Feedbacks"
- 227 > Discussion of "DESIRED NET REVENUE"
- 283 > Discussion of "AVAILABLE TO INCOME SUB"
- 295 > Discussion of "POSSIBLE SALES TAX BASE ADJUSTMENTS"
- Discussion about increasing the corporate tax rate
- 306 > Chair Schoon asks whether to increase corporate tax
- > Rep. Shibley: Leave corporate tax the same, remove business property tax, and remove the 2% business compensation
- 378 > Rep. Shibley states her reasons why she does not support a business compensation
- 408 > Rep. Federici states that he supports the business compensation
- > Rep. Shibley suggest 2% for gross receipts under \$500,000, and 0% for gross receipts above that
- 467 > Rep. Shibley describes why she wants to reduce property tax

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TAPE 123, SIDE B

- 051 Discussion of property tax
> Discussion of the acceptance of a sales tax by big businesses and small businesses
> Jim Scherzinger states that small businesses can benefit by being able to hold their payments longer
- 080 > Rep. Adams brings up HB 2400 on personal property cancellation
- 097 > Chair Schoon states that he favors removing the personal property tax
> Jim Scherzinger clarifies that reduction of the personal property tax would take money away from schools, cities and counties under compression
- 142 > Jim Scherzinger cites the memos from the Oregon State Association of County Assessors - (Exhibit 1)
TAX PLAN OPTION (see Exhibit 2)
> "DESIRED NET REVENUE"
> Discussion of N 1995-97 reduced budget"
- 174 > Jim Scherzinger uses the drawing board to describe how to determine the 1995-97 budget
- 228 > Discussion on "lottery feedback"
- 251 > Discussion of "K-12 equalization"
> Rep. Adams supports 50% growth in other areas and 3% real growth in Portland
- 320 > Rep. Federici states that Portland should also increase
> Rep. Shibley, Rep. Federici and Chair Schoon concur
> Discussion of "AVAILABLE TO INCOME SUB"
> Discussion of "health plan"
> Rep. Shibley objects to the health plan being categorized under "AVAILABLE TO INCOME SUB," and should be placed under "DESIRED NET REVENUE"
- 380 > Chair Schoon suggest moving lottery feedback down to be categorized under "AVAILABLE TO INCOME SUB." In other words, the health plan would be categorized with all other non-education issues

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- > Discussion of "property tax relief"
- 426 > Rep. Federici says he would like to see more property tax relief

TAPE 124. SIDE B

- 025 > Rep. Adams states that measure 5 in its fullness would put Oregon in the same category as Washington
> Rep. Shibley supports property tax relief over income tax relief and making the income tax more progressive. Also supports a person not owing state tax if they don't owe federal tax
- 087 > Rep. Federici states that he would like to remove all education revenue from property tax

- 118 > Chair Schoon asks at what rate owner-occupied property was
taxed. Jim Scherzinger states that the tax rate for owner-occupied
property was reduced by 30%
- 155 > Jim Wilcox, Department of Revenue, describes the process of
determining owner-occupied property. In Multnomah County these
numbers were fewer than expected

210 Chair Schoon adjourns the meeting at 8:10 p.m.

Submitted By	Reviewed By	
Rick Gaupo	Kimberly Taylor J	s
Clerk	Office Manager	

Exhibit Log:

- 1 - HB 2500, Staff, 1 page
- 2 - HB 2500, Staff, 1 page
- 3 - HB 2500, Oregon State Association of County Assessors, 3 pages

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