

Work Session: HB 2456
Public Hearing: Tax Reform,
(HJR 4, HJR 5, HJR 10, HJR 18, HJR
25, HJR 28, HJR 44, HJR 60, HJR 61,
HJR 66, HB 2393, HB 2394, HB 2432,
HB 2500, HB 2501, HB 2872,
HB 3388)
Tapes 102-103 A/B
HOUSE COMMITTEE ON
REVENUE AND SCHOOL
FINANCE

MAY 26, 1993 8t30 AM HEARING ROOM A STATE CAPITOL BUILDING

Members Present: Representative Delna Jones, Chair
Representative John Schoon, Vice Chair
Representative Ron Adams.

Representative Tom Brian
Representative Mike Burton
Representative Tony Federici
Representative Fred Girod
Representative Greg Walden
Representative Jim Whitty

Members Excused: Representative Margaret Carter

Witnesses Present: Mark Ford, Oregon Department of Transportation Bill
Penhollow, Association of Oregon Counties Rich Peppers, Political Director,
Oregon Public Employees Union

Tom Rhoades, Bandon Resident Bill Lamb, Citizen

Monte James, Lebanon

Owen MosSB argar, Portland

Ruth Bendl, Enough Is Enough In Oregon (EIEIO) Ann Schartz, Roseburg
Citizen

Ken Kite, Stayton Citizen

Peggy Stevens, Sherwood School District Parent Dorene Steffeck, Sherwood
School District
Parent

Donna Macklin, Sherwood School District Parent Ben Gardner, Salem Citizen

Staff: James Scherzinger, Legislative Revenue Officer
Steve Bender, Legislative Revenue Office
Terry Drake, Legislative Revenue Office
Paula McBride, Committee Assistant

TAPE 102 SIDE A

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meeting. Text enclosed in quotation marks reports the speaker's exact
words. For complete context of proceedings, please refer to the tape
recording.

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011 CHAIR JONES called the meeting to order at 8:08.

018 CHAIR JONES opened the Work Session on HB 2456.

022 TERRY DRAKE explained HB 2456 dealt with the partial exemption for
ethanol fuel that currently existed in law but would sunset in 1997. DRAKE
noted Federal restrictions on ethanol fuel, and HB 2456-3 would accelerate
the sunset (HB 2423, which was the original bill that would accelerate the
sunset, was put into HB 2456). HB 2456-3 also established a property tax
exemption for ethanolproduction facilities, and he talked about the

limitations of this exemption. He reviewed the revenue impact, which was mainly due to the funds that would go back into the Highway Fund when the ethanol-fuel exemption was sunsetted early. Exhibits 1-2

077 MOTION REP. BRIAN moved adoption of amendments HB 24563.

DISCUSSION

078 REP. BRIAN further explained the motivation for the amendments to HB 245 6, specifically to encourage the production of ethanol fuels in Oregon rather than just the use of the fuels. He revealed that EPA had determined that the use of ethanol-blended fuels in the summer months was potentially damaging to air quality (ozone).

Questions and discussion

151 TERRY DRAKE discussed the effect of HB 2456-3 to the "weightmile tax," and he explained how this tax works. He believed HB 2456-3 could be "folded into" any changes that might be made to the "weight-mile" tax within the transportation package.

177 REP. BRIAN related that the Oregon Department of Transportation (ODOT) was reconsidering transportation bills to include any possible effects resulting from HB 2456-3.

Discussion

187 TERRY DRAKE stressed that if only HB 2456-3 was passed, there would need to be an adjustment to the "weight-mile" tax schedule.

Discussion

206 MARK FORD responded to the concerns of members of the effect of HB 245 6-3 if this was the only bill in the transportation package that passed. He discussed the ramifications of the bill, including the provision that the repeal of the sunset on the ethanol fuel exemption.

Questions and discussion

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264 REP. BRIAN related that the counties had not given response to HB 245 6-3, but they had been in the hearings.

274 BILL PENHOLLOW related that the counties had requested the repeal of the exemption on ethanol fuel, and that they had indicated that the exemption should be directed toward the production end of ethanol fuel. He had no objections to HB 2456-3.

Discussion

313 ORDER There being no objections, CHAIR JONES so ordered.

314 MOTION REP. BRIAN moved HB 2456 as amended to

the

House Floor with do-pass recommendation.

Discussion

345 VOTE In a roll call vote, the motion passed 10-

0.

Ayes: Representatives Adams, Brian,

Burton,

Federici, Girod, Delna Jones, Schoon,

Shibley,

Walden, Whitty. Excused: Rep. Carter

354 REP. SCHOON offered a vote explanation: "I am very skeptical of the whole ethanol thing, and have been a long, long time. I vote with some apprehension, if not reluctance."

365 CHAIR JONES closed the Work Session on HB 2456 and conducted administrative business

409 CHAIR JONES opened the Public Hearing on the Tax Reform bills.

416 RICH PEPPERS talked about the set of criteria his organization had used to evaluate any tax reform that might occur. He believed at least \$2.5 billion should be raised by any tax measure, and he explained his rationale for this amount. His testimony was based on a handout given to members.

Exhibit 3

103 SIDE A

020 RICH PEPPERS continued his testimony about criteria that should be incorporated into any tax reform plan. He stressed the principles and progressivity and adequacy. Exhibit 3

Questions and discussion

066 RICH PEPPERS talked about one "tax type" as an illustration of the principles he espoused. He believed the "gross receipts tax proposal" had merit, and he believed there were ways to deal with the concerns people have about this tax type, particularly those related to small business. He urged members to put together a tax

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package that would not be "doomed to failure," which might mean not incorporating the gross receipts tax into the package. He pledged his support for working with the members to find a solution and to education the public about the package before any vote. Exhibit 4

Questions and discussion with RICH PAPERS concerning his criteria for a tax reform package.

Questions and discussion with RICH PEPPERS concerning the dollars versus possibility of winning issue with a tax reform package.

Questions and discussion with RICH PEPPERS concerning the design of a financial package that takes into account needs other than education in Oregon.

230 RICH PEPPERS said he would not support the repeal of Measure 5 unless it was clear that such a move would succeed.

Questions and discussion with RICH PEPPERS concerning the issue of winning with the sales tax.

332 TOM RHOADES testified in support of tax reform in Oregon, as a taxpayer. He supported education and talked about its specific benefits to the state, and he expressed concern about the effect of the economy of education. He also was concerned about rising taxes, and the effect of prohibitive taxes on the economy and education. Exhibit 4

TAPE 102 SIDE B

002 TOM RHOADES talked about the cuts that have been proposed to the education system in his area, and gave an example of a person who had been effected. Exhibit 4

Questions and discussion

045 TOM RHOADES said he was leaning toward supporting the "2% Equal Tax." Questions and discussion

095 BILL LAMB talked about his work on the "2% Equal Tax" with business groups in Oregon, and he stressed that the support for this tax was tremendous in the state. He supported HJR 44, and believed that the "equal tax" was needed particularly because the cost of housing has become

prohibitive in Oregon. He believed many problems were linked to the high cost of housing, especially crime.

Questions and discussion

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159 BILL LAMB believed there would be no "losers" if the "equal tax" passed. He mentioned a housing project that he was attempting to build in Sherwood, and the costs of fees and taxes that would be charged by the government; and he stressed that government could get away with these charges because there were no checks or balances on state government. He believed the "equal tax" was truly tax reform, and he reiterated that many people supported this tax. He urged members to put the "equal tax" on the ballot.

207 MONTE JAMES discussed his involvement with educating people about the "2% equal tax" since its inception, and he talked about how government was out of control with charging citizens taxes and fees. He believed housing was becoming unaffordable, and he mentioned the loss of the timber industry to the state. He stressed that new businesses would flock to Oregon if the "equal tax" was passed. He implored members to give Oregon citizens the chance to vote on this tax. Exhibit 6

266 OWEN MOSSB ARGAR talked about the necessity for good government and that the "ultimate object of all government and industry was to benefit the family." He testified in support of the "2% Equal Tax" because it was "equitable, ..., timely, and flexible." Additionally, this tax would be a better support for Oregon schools. He thought this tax would be a big change, but one that Oregon could handle. Exhibit 7

370 REP. BURTON and BILL LAMB discussed the issue of how "service charges" would be handled under the "equal tax."

TAPE 103 SIDE B

002 REP. BURTON and BILL LAMB continued discussing "service charges" in relation to the "equal tax" if it passed.

045 CHAIR JONES asked BILL LAMB to provide figures that would compare the taxes and fees he would currently pay for a development and what he believed he would pay if the "equal tax" passed.

055 REP. WHITTY asked if any witness knew how long a dollar stayed in Oregon and what the multiplier factor was. He thought it was necessary to know this information to know how much the "equal tax" would raise.

Discussion

107 CHAIR JONES defined the "equal tax" as a combination of a value added tax and a sales tax.

Discussion

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159 CHAIR JONES told the witnesses that her main concern with any tax plan

was whether or not it would work, and she assured them that she was not being critical of only the "equal tax" but of all proposed tax reform suggestions.

202 RUTH BENDL posed the question of is too much of Oregon's tax dollars was being set aside into pension funds? She referred members' attention to her written testimony and a summary sheet illustrating her concerns about PERS contributions. Exhibits 8, 9

Questions and discussion interspersed

315 RUTH BENDL summarized her testimony emphasizing that before the Legislature could ask for more money, it must be sure the money already being taxed was fairly and reasonably spent. She urged members not to put a tax reform package on the ballot in November.

360 REP. WHITTY and RUTH BENDL talked about issues concerning pensioners in Oregon.

Discussion

390 REP. WHITTY and RUTH BENDL talked about the ignorance of people as to what their tax dollars support.

TAPE 104 SIDE A

09 RUTH BENDL talked about meetings she had been to where she had learned that the public was a lot better informed about excesses in government than those who receive the excesses.

Discussion

029 REP. FEDERICI and RUTH BENDL talked about the membership of her organization, which she had described as a "grass roots" group.

Discussion

064 REP. SHIBLEY and RUTH BENDL talked about whether or not she supported taxing property that was currently not taxed, particularly churches. RUTH BENDL related that she had not considered taking away the exemption on churches, but she had concentrated on exempted municipal property. She didn't know about farm deferrals.

109 REP. SHIBLEY and RUTH BENDL discussed the activities of her organization, EIEIO. One activity in which she was involved was Measure 5.

Discussion

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149 ANN SCHARTZ supported the "2% Equal Tax," and her reasons for her support. Her testimony was verbatim (only partially given). Exhibit 10

175 CHAIR JONES asked ANN SCHARTZ what authority or ability was in the "equal tax" measure to ensure state programs were properly funded.

190 ANN SCHARTZ believed the "equal tax" did take into account the funding of essential programs, but she believed like all tax measures or state-wide programs, the tax would have to be micromanaged. She talked about her business.

210 REP. BURTON and ANN SCHARTZ discussed whether or not the "equal tax" would account for future societal needs.

Discussion

294 ANN SCHARTZ summarized her testimony, stressing that the "equal tax" would be innovative and was needed.

301 KEN KITE talked about what her termed as a crisis situation in Oregon, and noting his belief Oregon is at a crossroad. He stressed that Measure 5 was a "wake up call" to government officials in Oregon who must change

"things," specifically the tax structure. He described his work in support of the "equal tax," and he believed Oregon taxpayers would not support a sales tax because there wouldn't be a guarantee that a sales tax would be fixed at a particular amount. He asked members to not be closeminded to the "equal tax," even if they had questions about how this tax would work.

TAPE 105 SIDE A

002 KEN KITE continued his testimony in support of the "equal tax."

010 REP. SCHOON expressed his concern about the lack of a solid analysis of the "equal tax", specifically who or what would be taxed. He believed this tax was based on a false premise, which he explained, and he thought no one had adequately explained what would be done to administer it.

030 ANN SCHARTZ described how she believed the "equal tax" would work, and she stressed that the tax would put "everybody on equal footing."

Discussion

045 ? REP. SCHOON and ANN SCHARTZ explored the issue of whether or not the "equal tax" would attract new business to Oregon.

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073 CHAIR JONES asked supporters of the "equal tax" to produce figures on how the tax would effect various sectors of the Oregon economy. Without these numbers, discussion of the "equal tax" remained in a philosophical realm.

093 REP. WHITTY believed that the best thing about the "equal tax" was that it would be invisible, and this was especially attractive because at the present time the tax system in Oregon was highly visible and highly reacted to by taxpayers.

Discussion

120 REP. BURTON and ANN SCHARTZ discussed the relationship of the "equal tax" to federal taxes. Additionally, she related that loans would be subject to the tax.

140 REP. GIROD and ANN S CHART Z further discussed how the "equal tax" would be assessed against loans.

Discussion

184 KEN KITE believed the "key" to the "equal tax" was that it was based on a broader base than currently was employed in the tax system in Oregon. He also explained why he thought the "equal tax" would be good for small business in the state.

230 PEGGY STEVENS discussed the impact of state budget issues on the Sherwood School District. She supported the tax reform package proposed by the Oregon School Boards Association (OSB A), but she preferred to support a tax reform package that came from the Legislature. Her testimony was verbatim. Exhibit 12

308 DORENE STEFFECK talked about her family and cuts the Sherwood School District had suffered. She supported the 5% sales tax dedicated as replacement revenue for schools. Her testimony was verbatim. Exhibit 13

355 REP. GIROD and PEGGY STEVENS discussed what the Sherwood School District had done to cut costs.

385 REP. ADAMS and PEGGY STEVENS discussed the good job the Sherwood School District had done to cut extraneous costs.

TAPE 104 SIDE B

002 Discussion continued between members and PEGGY STEVENS.

032 DONNA MACKLIN gave some personal comments on how cuts to the Sherwood

School District has effected her family.

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057 BEN GARDNER testified in support of the "2% equal tax," and he cited his reasons for this support. He gave the members a handout that included a sheet with "20 Questions and 20 Answers" about the "equal tax." He urged the members to review all the available information on the "equal tax" before making their decision about what to include in a tax reform package. Exhibit 14

157 REP. SCHOON and BEN GARDNER explored the issue of who was going to pay the "equal tax." He mentioned some of the taxes that the "equal tax" would eliminate. He believed that everyone would pay this tax, the same as the sales tax, and he thought the "equal tax" would raise "about 8 billion dollars a year."

198 REP. WALDEN pointed out that the state currently raises \$6.1 billion in revenues per year, which means that the "equal tax" would have to raise a great deal more. He pursued the issue of who would pay the additional taxes.

Discussion

230 Steve Bender related that LRO believed the amount of money that would have to be replaced was about \$7.5 billion/year (this included all fees, licenses, and taxes in Oregon).

Discussion

250 Steve Bender believed that those who had developed the tax base for the "equal tax" had made errors on exactly what that base would be. He described these potential errors. Because it was difficult to determine the actual base, he had difficulty in actually determining how much revenue the "equal tax" would raise.

280 CHAIR JONES conducted administrative business. She asked proponents of the "equal tax" to continue providing information to the Committee about their financial analysis.

308 BEN GARDNER concluded his testimony.

Discussion

324 CHAIR JONES conducted administrative business.

343 CHAIR JONES closed the Public Hearing.

343 CHAIR JONES adjourned the meeting at 11:16.

Paula K.McBride, Committee Assistant

Kimberly Taylor, Office Manager

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EXHIBIT SUMMARY

1. HB 2456-A, 5/19/93

2. Revenue Analysis, HB 2456-A, 5/20/93
3. Peppers, Testimony, 5/26/93, Tax Reform
4. Rhoades, Testimony, HJR 44
5. Beaverton Ed. Assn, Alert, 5/24/94, HB 5051
6. James, News Opinion, "Equal Tax Would Fix Budget Problem,"
4/28/93 & Letter to Editor, 2% Equal Tax Could Replace All Others, by Hess, HJR 44
7. MosSB arger, Testimony, 5/26/93, HJR 44
8. Bendl, Testimony, 5/25/93, Tax Reform
9. Bendl, Reference Sheet, Lets Be Reasonable, Tax Reform
10. Schartz, Testimony, HJR 44
11. Cardiff, Testimony, HJR 44
12. Stevens, Testimony, Tax Reform
13. Steffeck, Testimony, Tax Reform
14. Gardner, Testimony & 2% Equal Tax Reference Sheets,
5/26/93,
HJR 44

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