

Work Session: Tax Reform HJR 4, HJR 5, HJR 10,  
HJR 18, HJR 25, HJR 28, HJR 44, HJR 60, HJR 61, HJR 66, HJR 71  
Tapes 118-119 A/B 120-121 A/B

HOUSE COMMITTEE ON  
REVENUE AND SCHOOL  
FINANCE

JUNE 2, 1993 8:00 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 Margaret Carter  
Representative Tony Federici  
Representative Fred Girod  
Representative Gail Shibley  
Representative Greg Walden  
Representative Jim Whitty  
Witnesses Present: Jack Bierwirth, Superintendent of Schools,  
Multnomah County  
Yvonne Katz, Superintendent of the  
Beaverton School District  
Tom Merrick, President, - Beaverton Area Chamber of Commerce.  
Staff: James Scherzinger, Legislative Revenue Officer  
Steve Bender, Legislative Revenue Office  
Paula McBride, Committee Assistant

TAPE 118 SIDE A -

008 CHAIR JONES called the meeting to order at 8:12 and conducted  
administrative business.

018 JACK BIERWIRTH related to members why he decided to live in Oregon and  
what makes Portland special. He believed Portland was unique in the United  
States, for reasons he enumerated, and he compared Portland with Seattle.  
He expressed concern that Portland would become like Seattle in that the  
educational needs of children would be ignored and begin to decline. He  
mentioned cuts made to his school district, which he believed were  
significant but did not

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meeting. Text enclosed in quotation marks reports the speaker's exact  
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yet involve services to students. He thought the district would receive  
about \$20 million less during the next biennium, \$18 million of which would  
have to come from services and programs. He expressed concern that Portland  
had begun the same process that had happened to all other major cities in  
the county, when people move outside a city to obtain quality education for  
their children. He talked about the economic repercussions of such a  
decline. Exhibit 1

123 CHAIR JONES and JACK BIERWIRTH explored the concept of a local option  
for the City of Portland (the Oregon School Board Association -- OSB A --  
tax plan doesn't allow this local option). He talked about how well the  
local option worked in other areas, but he related that most of his

colleagues do not like the local option for reasons he explained. He believed that taxpayers would want to remain connected with schools in Oregon, though some of that connection already had been severed.

165 REP. WHITTY and JACK BIERWIRTH talked about the level of funding that would be adequate for education, derived from a sales tax. BIERWIRTH believed that the range should be about \$2.6 billion.

181 REP. SCHOON and JACK BIERWIRTH talked about specific problems that have occurred with the Seattle school system.

195 REP. SCHOON and JACK BIERWIRTH discussed what kinds of cuts had been made in the Portland School District.

Discussion

215 REP. SCHOON and JACK BIERWIRTH discussed the issue of how much a school district has to pay to have high quality teachers in a system, particularly as related to Portland. They discussed salary and teacher examples from the Portland School District. BIERWIRTH believed that Oregon must pay teachers well enough to pull into school systems teachers who inspire students. He talked about what was needed to attract new teachers to the state.

312 REP. SCHOON and JACK BIERWIRTH explored the issue of the salaries of teachers compared with those of other Oregonians, given the indication that salary levels were dropping.

344 REP. GIROD and JACK BIERWIRTH talked about the raises teachers received in Portland from their latest contract. They also compared the salaries of city teachers with rural teachers.

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BIERWIRTH believed that all students in Oregon should be able to receive the same education, and he talked about the different costs of education in various areas of the state.

TAPE 119 SIDE A

002 BIERWIRTH continued his advocacy of equitable education throughout the state. He reiterated that the Portland School District had made cuts to administrative services, but what he abhorred was the cuts that were going to have to be made directly to student services.

023 REP. SHIBLEY and JACK BIERWIRTH explored whether or not a new sales tax might be dedicated to school funding. BIERWIRTH wanted as much revenue dedicated to education as possible, and he expressed concern about "chopping up revenue sources." He talked about the consequences of shifting from using mixed taxes that were Federally deductible to a tax (sales tax) that was not, which would result in giving the Federal Government hundreds of thousands of dollars.

068 REP. ADAMS and JACK BIERWIRTH explored the discrepancy of what was offered to students in areas outside Portland, the issue being that the magnet programs Portland offers students help keep people attracted to Portland. This, in turn, stimulates the economy of the city, because people who want a high level of educational services for their children will move and/or stay there. BIERWIRTH reiterated that current cuts wouldn't hurt as much as the next cut that will be directed toward programs and materials. He thought the superintendents throughout the state would be able to devise an equitable school funding formula.

145 REP. FEDERICI and JACK BIERWIRTH discussed the issue of "urban flight" that effects city schools. BIERWIRTH believed there were a number of influences that cause people to move to areas outside a city. Additionally, he mentioned a number of factors that had kept people in Portland.

Discussion

184 REP. CARTER and JACK BIERWIRTH talked about the issue of "homogeneity" versus "cultural diversity" in Portland as related to the cost differential of education throughout the state. BIERWIRTH cited factors that contribute to the higher costs of education in Portland.

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Discussion

264 CHAIR JONES recessed the meeting at 8:59 and reconvened at 9:26, and she conducted administrative business.

296 JIM SCHERZINGER pointed out material to the members on the "issue of the adequacy question;" that is, what the impact of the budget cuts being proposed, in the Appropriations and Ways and Means Committees, would have to the 1995-97 General Fund budget. He stipulated that the situation was constantly changing, though he thought the numbers in his material were roughly accurate. Exhibit 2

Discussion

309 JIM SCHERZINGER related that the numbers in his chart reflected the Senate budget discussions, but he thought they would also be compatible with the House budget cuts. Exhibit 2

330 JIM SCHERZINGER talked about his graphical depiction of the projected information related to the General Fund for 1995-97. The chart also had a graph that showed the current service cuts (1993-95). He explained the differences between the two graphs, and provided information about the line labeled "reduced level budget." Exhibit 2, page 2

Discussion

409 CHAIR JONES opened the Work Session on the Tax Reform bills.

TAPE 118 SIDE B

010 JIM SCHERZINGER continued his explanation of the material he had provided members on the "1995-97 General Fund." He mentioned the 1993-95 "shortfall," and stated this "shortfall" would be balanced by four things, which he enumerated. He also talked about the three largest components of the "fund shifts." Members discussed various numbers during this explanation. Exhibit 2

063 JIM SCHERZINGER explained the "reduced ending balance" in the category "Reduced Level Current Service Budget" of his handout. Exhibit 2

069 JIM SCHERZINGER related that there was \$65 million in new revenue, the sources of which he explained.

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Questions and discussion concerning specific numbers related to the 1995-97 General Fund.

180 JIM SCHERZINGER gave the 1991-93 General Fund budget (\$5.6 billion was appropriated, from the May 15th Forecast), and revenue for this biennium was about \$5.4, but there was a carry-over of \$400 million, giving the state resources totalling about \$5.8 billion. This will leave a \$300

million "carry-over." Exhibit 2

Questions and discussion

214 JIM SCHERZINGER related that the amount lost to Measure 5 in 1991-93 was \$467 million. Exhibit 2

Discussion

243 JIM SCHERZINGER talked about anticipated revenues for 1993-95, and gave an ending balance number. Exhibit 2

260 CHAIR JONES summarized the figures for the 1995-97 biennium, as follows: \$6.9 billion in revenue, \$82 million ending balance, leaving \$7.0 billion for resources.

274 JIM SCHERZINGER discussed the projected numbers for 1993-95 spending. Exhibit 2

Questions and discussion

321 Members discussed the effect of Measure 5 on the General Fund. Exhibit 2

Questions and discussion

355 JIM SCHERZINGER discussed the biennial growth in total resources to schools, from information in his handout. He also mentioned the relationship of the Health Plan to the General Fund. Exhibit 2

Discussion

TAPE 119 SIDE B

002 Discussion continued concerning the Health Plan as it would impact the General Fund, and other potential funding for this Plan (about \$200 million needed). Exhibit 2

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025 JIM SCHERZINGER talked about possible "add on's" to the General Fund. Exhibit 2

Discussion

159 JIM SCHERZINGER explained the last page of his handout, which showed details on assumptions for school funding, entitled "Local School Resources" for the biennia 1991-93, 1993-95, and 1995-97. The first category ("All Local Schools") included community colleges, which the second did not. Exhibit 2

Questions and discussion

282 JIM SCHERZINGER discussed the third category under "Local School Resources" related to "K-12 and ESD's," which represented the money that would be distributed through the State School Fund depicted on a year-by-year basis (rather than by a biennium). He judged that 2% growth was not enough to keep up with population growth during the first and second years of the 1993-95 biennium, and he explained what adjustments would have to be done to the numbers as a result. Exhibit 2

Questions and discussion.

TAPE 120 SIDE A

002 Questions and discussion continued concerning page 3 of the handout on "Local School Resources." Exhibit 2

022 JIM SCHERZINGER continued his explanation of page 3 of his handout, related to "State School Fund Grants (assuming permanent formula in

199 5-96). He began with the category "per-student grant" and the percentage of change. Exhibit 2

Questions and discussion

123 JIM SCHERZINGER talked about adjusting for inflation for the per-student weighted grants, resulting in the numbers on page 3 under the category "Statewide Average." Exhibit 2

140 CHAIR JONES explained to members the origin and goals of the group "Partners" in relation to school funding.

156 JIM SCHERZINGER explored the second category under "State School Fund Grants" related to per-student grants under the "Full House Committee

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Formula." He discussed variances with different types of school districts. He explained the term "high revenue district" as related to potential funding. Exhibit 2, page 3

Questions and discussion

243 CHAIR JONES conducted administrative business.

Discussion

290 JIM SCHERZINGER pointed out material on the "valueadded" tax previously discussed. He said the chart in this material showed the differences between this tax and other proposed taxes. He proceeded to explain the "value-added" tax to the members, specifically how it would work. (see Exhibits 2 & 3, 5/7/93)

Questions and discussion

420 JIM SCHERZINGER summarized the definition of the "value-added" tax.

Questions and discussion

TAPE 121 SIDE A

002 Questions and discussion continued with JIM SCHERZINGER concerning how the "value-added" tax would work. (see Exhibits 2 and 3, 5/7/933

020 JIM SCHERZINGER explained how a business would end up with "net profit" if a "value-added" tax were implemented in Oregon. He related there would be different ways to handle capital equipment, and imports/exports, which he said he would explain later. -

030 JIM SCHERZINGER described a table (see Exhibit 3, 5/7/93) that compared various taxes, including the "gross receipts" tax, with multiple forms of the "value-added" tax.

Questions and discussion

079 JIM SCHERZINGER talked about the second table on his handout, which showed how the various taxes might be applied by business size. (see Exhibit 3, 5/7/93)

Questions and discussion

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102 STEVE BENDER provided requested information to the members listing

three categories of services. The purpose of the request was to look at what might be included in a tax reform plan. He explained some of the services in the category called "Personal Services." Taxation of personal services would include both individual or business purchase, and STEVE BENDER talked about when a service might or might not be taxed. Exhibit 3

184 STEVE BENDER explained the category "Financial Services" from his chart on services, and related information about possible taxation of items in the category. Exhibit 3

Questions and discussion

242 STEVE BENDER continued his explanation of items in the "Financial Services" category that might or might not be taxed. Exhibit 3

Questions and discussion

313 STEVE BENDER related that a general rule would be that the tax for services wouldn't be so much on the type of business as on the type of activity.

Questions and discussion

352 STEVE BENDER discussed "Business Services" listed on page 2 of his handout. The figures represented the amount of money that might be raised at a 5% rate, in millions of dollars. These services were primarily purchased by businesses, but the revenue impact included those services of this type purchased directly by individuals.

Questions and discussion

379 STEVE BENDER referred members to another handout, entitled "Estimated Initial Impact of Oregon State and Local Taxes on Households and Business." This was the historical information rather than a breakdown of specific tax plans, broken down for individual taxes in Oregon. Exhibit 4

Questions and discussion

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TAPE 120 SIDE

B

015 STEVE BENDER discussed another table given to the members, entitled "Tax Reform Decision Matrix," which listed potential issues that the members might want to consider for any tax proposal they approved. Exhibit 5

045 STEVE BENDER pointed out additional material in the members books. The first item listed taxes and how they related to specific goals. The second exhibit was labeled "Sales Tax Goals, which more narrowly focuses on questions and issues with a sales tax. Exhibits 8 and 9

075 CHAIR JONES asked the Committee to stand at ease.

098 STEVE BENDER and members briefly discussed information in Exhibit 9.

120 The Committee stood at ease.

146 CHAIR JONES called the meeting back to order. She invited testimony from the Beaverton School District.

152 DR. YVONNE KATZ discussed the needs and challenges of the Beaverton School District, "one of Oregon's largest and fastest growing school districts." She supported a "stable, adequate source of funding for public education." Her testimony was verbatim. Exhibit 10

323 TOM MERRICK presented the business perspective of school funding to the Committee. He pledged his support for a tax reform initiative sponsored by

the Legislature. His testimony was verbatim. Exhibit 11  
400 REP. CARTER and DR. KATZ explored the issue of having a local option,  
which DR. KATZ supported.  
420 REP. CARTER and DR. KATZ discussed the problems with measuring student  
performance with the a highly mobile population that currently existed in  
Oregon.

TAPE 121 SIDE

B

018 CHAIR JONES encouraged the witnesses to think of ways to keep and  
encourage a local option for school systems in spite of the

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state assuming more responsibility for school funding during the next two  
years.

Discussion

050 REP. SCHOON and DR. KATZ explained the local option that would have a  
built in dollar amount and time limit. DR. KATZ revealed the decisions her  
board had made about this issue this spring. She talked about the potential  
financial impact of HB 3565, if it was passed by the Legislature.

094 CHAIR JONES pointed out the resolution passed by the Beaverton Chamber  
of Commerce. Exhibit 9, page 3

099 TOM MERRICK described the last two pages of his handout. Exhibit 9,  
pages 7-8

108 DR. KATZ said a chart was missing from her handout, which would be  
provided to the members.

113 CHAIR JONES adjourned the meeting at 12:02.

Paula K.McBride, Committee Assistant

Kimberly Taylor, Office Manager

#### EXHIBIT SUMMARY

1. Proposed 1993/94 Budget, John E. Bierwirth, Superintendent, Multnomah County.
2. 1995-97 General Fund, Jim Scherzinger, Legislative Revenue Office.
3. Handout on "Services," Steve Bender, Legislative Revenue Office.
4. Estimated Initial Impact of Oregon State and Local Taxes on Households and Business, Selected Fiscal Years, Steve Bender, Legislative Revenue Office.
5. Tax Reform Decision Matrix, Steve Bender, Legislative Revenue Office.

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EXHIBIT SUMMARY (continued)

6. Two-page tables on "Goals" and "Options" of various taxes, Steve Bender, Legislative Revenue Office.
7. Sales Tax Goals, Steve Bender, Legislative Revenue Office.
8. Testimony of Dr. Yvonne Katz, Beaverton School District.
9. Testimony of Tom Merrick, Beaverton Area Chamber of Commerce.
10. Memorandum to Committee, from Associated General Contractors, Oregon-Columbia Chapter (submitted by mail).
11. Testimony of James Getten, Eugene (submitted by mail).

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