

Work Session: Tax Reform Bills HJR 4, HJR 5, HJR 10, HJR 18, HJR 25, HJR 28, HJR 44, HJR 60 HJR 61, HJR 66, HJR 71
Public Hearing & Work Session: SB 58A Work Session: HB 2177 HB 2428 HB 2883
HB 3031
Tapes134-135 A/B
136 -137 A

HOUSE COMMITTEE ON
REVENUE AND SCHOOL FINANCE

JUNE 8, 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: Mark Nelson, Public Affairs Counsel Tim Hibbits, TH
Research, Inc.

Bob Moore, Moore Information, Inc.

Victor Dodier, Liaison, Public Transit Section, Oregon Department of
Transportation

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

TAPE 134 SIDE A

012 CHAIR JONES called the meeting to order at 8:43 and conducted
administrative business.

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

House Committee

on

Revenue and School Finance June 8, 1993 Page 2

016 CHAIR JONES opened the Work Session on the Tax Reform Bills, and she
conducted administrative business.

074 JIM SCHERZINGER referred to a one-page matrix that listed the decisions
the Committee had made and will have to make concerning the tax reform
plan. Another page JIM SCHERZINGER handed out delineated "Tax Equity
Issues" related to previous questions from members. The first issue he
discussed was "benefits received" in a tax system. The second was "ability
to pay." He talked about issues related to the second issue, which lend
themselves to serious debate. Exhibits 1 and 2

Discussion

159 JIM SCHERZINGER continued his discussion of the issue "ability to pay"
in a tax system. He defined the terms "regressive," "proportional," and
"progressive" as related to the "vertical equity" category. He also

explained the second category, "horizontal equity." Exhibit 2

Questions and discussion about the difference between "horizontal equity" and "proportional." Exhibit 2

259 JIM SCHERZINGER related that the rest of the information on the handout related to the issues surrounding taxes on "Owner Occupied Principal Residence" (OOPR). The primary issue was that a sales tax individuals pay might not match the benefits they receive in their local areas (whereas presently the tax system related taxes to benefits on the local level).

Exhibit 2

Questions and discussion

326 JIM SCHERZINGER related that OOPR taxes were not as much an issue with school taxes, and he explained this point, which was principally due to the fact that part of the provisions of Measure 5 had already been implemented. Exhibit 2

340 CHAIR JONES summarized the testimony of JIM SCHERZINGER by stating the following: It will be more difficult to deal with a local government equalization process than with a school equalization process (partly due to the effects of Measure 5).

Discussion

375 JIM SCHERZINGER discussed the issue of "tradeoff" as related to the "equity" issue with OOPR taxes. Exhibit 2

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

House Committee

on

Revenue and School Finance June 8, 1993 Page 3

396 JIM SCHERZINGER talked about the category "Incentive" in relation to OOPR taxes. Any state-wide pool or fund will encourage local governments to spend and impose higher taxes, depending on the structure of the distribution formula. He went through options for types or methods of distribution of OOPR taxes. Exhibit 2

TAPE 135 SIDE A

002 JIM SCHERZINGER continued his explanation of the "Incentive" category on his handout about OOPR taxes, specifically of the options for distribution formulas. Exhibit 2

Questions and discussion concerning options for a distribution formula given various factors that effect Oregon counties.

161 STEVE BENDER gave members a two-page handout on tax "elasticity." He began his explanation with the second page, entitled "Washington Nominal Sales Tax Elasticity." He explained that elasticity was "the growth of the sales tax base with respect to the growth in personal income." Exhibit 3

Questions and discussion

211 STEVE BENDER related that the numbers in his chart were based on 1978 data from Washington, which was the base Washington State, itself, used in spite of the fact that there have been changes on what the sales tax applied to. Exhibit 3

237 STEVE BENDER explained the numbers on the second page of his handout for FY 91 (the fiscal year 1990-1991), which delineates the elasticity of the sales tax in Washington from 1978 through 1990. The data showed that the sales tax was unstable during that time. Exhibit 3

Questions and discussion

294 STEVE BENDER continued his explanation of the chart on the elasticity of the Washington sales tax. He believed the instability of the sales tax was due to the fact that it was imposed on construction, which varies from

year to year. Exhibit 3
Questions and discussion

313 STEVE BENDER clarified that the data did not look at the

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

House Committee on
Revenue and School
Finance
June 8, 1993 Page 4

actual growth of the sales tax base, but compare the rate of growth with the rate of growth in personal income. Exhibit 3

Questions and
discussion

406 STEVE BENDER explained to members how to look at a longterm impact using the data in his handout. Exhibit 3

Questions and
discussion

TAPE 134 SIDE B

002 STEVE BENDER continued his discussion of the data on page 2 of his handout. Exhibit 3

Questions and
discussion

020 STEVE BENDER related that the first page of his handout was designed to look at the elasticity of property tax collections ("in a post-Measure 5 type of world"), based on the assessed value of property in Oregon. Exhibit 3

Questions and
discussion

051 STEVE BENDER clarified that the data on the first page reflected purely value increases for property, for specific periods of time, divided by personal income growth increase. The elasticity was derived from this comparison. He provided this data because he wanted members to consider the consequences of replacing the property tax with a sales tax; that is, would a sales tax generate more money than the property tax over time, and would it be more or less stable (especially now that there was a rate cap on the system). Exhibit 3

Questions and
discussion

077 STEVE BENDER explained specific numbers on page 1 of his handout, which, he again pointed out, showed the relationship between property taxes and the rise or lowering of personal income. Exhibit 3

115 Members discussed the issue of whether or not there had ever been a drop in the growth of personal income in Oregon during the years covered by STEVE BENDER's chart, although there had been changes in the rate and base of the income tax. The consensus was

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

House Committee on
Revenue and School
Finance
June 8, 1993 Page 5

that it had not. Exhibit 3

147 STEVE BENDER summarized the information in his handout, specifically that the sales tax over a defined period of time was more stable than the type of income tax system in Oregon that has a rate cap. He discussed factors that influenced this situation, the most important of which was the impact of the economy on property values during the same period of time. He informed members that even the school portion of property taxes could be eliminated and replaced with sales

Questions and discussion

185 STEVE BENDER talked about long-run elasticity for the property tax in Oregon, as defined by his chart. He also discussed what had happened with property taxes in the state during the last few years. Exhibit 3

Questions and discussion

219 STEVE BENDER dealt with the issue of whether or not the elasticity would have been different in Oregon than in Washington over the same period of time, if Oregon had a sales tax.

Questions and discussion

275 STEVE BENDER talked about factors that could cause instabilities with the economy, including inflation. He compared this information to his handout. He reiterated that his chart was designed to examine whether or not a sales tax grows, nominally, with income growth. Exhibit 3

Questions and discussion

353 STEVE BENDER clarified that there would be differences between an Oregon and a Washington sales tax, principally because Washington has one major employee, thus making the economy of that state different. As a result, each state would have different reactions to fluctuations in the economy.

Questions and discussion

TAPE 135 SIDE B

004 STEVE BENDER stated that base broadening generally added

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

House Committee on
Revenue and School
Finance
June 8, 1993 Page 6

stability to a tax system rather than hurting stability.

015 STEVE BENDER related that the non-school situation was somewhat different, because there were areas in the state that hadn't yet reached the \$10 cap. If assessed value growth slowed down more than personal income, or if it actually dropped (like in the 80's), local government could recapture some of the loss if they impose higher rates because they were not yet at the cap.

045 CHAIR JONES asked members to return to the form that listed the options they would have to consider for a tax reform issue. She began discussion with the issue "major revenue source." She proposed that the sales tax be the major revenue source. Exhibit

Discussion

072 CHAIR JONES noted consensus for a sales tax.

Discussion

092 CHAIR JONES asked those members who did not prefer a sales tax if they would still work on crafting the best possible sales tax.

Discussion

135 CHAIR JONES reiterated that there was consensus on the Committee for a sales tax.

Questions and discussion

163 STEVE BENDER related that the statutory elements of a tax reform package could be linked by legislative language to the constitutional amendment that goes to the voters.

Discussion

181 CHAIR JONES asked members if they wanted to create constitutional provisions for a sales tax rate and for exemptions in the sales tax.

Exhibit 1

Discussion of this issue by the members.

207 CHAIR JONES separated the issues of "rate" and "exemptions" to further simplify the discussion. She began with "rate." Exhibit 1

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

House Committee

on

Revenue and School Finance June 8, 1993 Page 7

Discussion of both the "rate" and "exemptions" continued among the members.

241 CHAIR JONES summarized the discussion, stating that the members didn't want to "box themselves in" with too narrow a base, but that they preferred some specific exemptions. Therefore, she concluded that there would be some exemptions in the proposed sales tax.

273 CHAIR JONES raised the next issue, which was "dedication" of the revenues gathered from the proposed sales tax.

Discussion of this issue by the members.

310 CHAIR JONES clarified that on the handout the issue was "major" dedication rather than total dedication.

Members continued to discuss the issue of dedicating the revenues.

323 CHAIR JONES noted consensus on the issue of dedicating the major portion of revenues from the proposed sales tax, which would be to education.

335 CHAIR JONES conducted administrative business.

347 CHAIR JONES recessed the meeting at 10:27 and reconvened at 10:50, and she conducted administrative business.

390 MARK NELSON gave a package of material to the members related to a June poll (including information from two previous polls, one taken in September 1992 and the other in the early spring of 1993) by Moore Information, The Nelson Report, and TH Research concerning issues of taxation in Oregon. The polls were sponsored by the Associated Oregon Industries (AOI). Exhibit 4

407 TIM HIBBITS worked on the polls provided by AOI. He believed there were both similarities and differences between the previous polls and the latest poll conducted in June, which he discussed. Issues included cynicism with government and growing concern over the effects of Measure 5. He stressed that as election day gets closer to the voters, the more cynical they will become. He believed there were concerns about education and other necessary government programs, but he thought it would be difficult to pass any new tax. Exhibit 4

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

recording.
House Committee
on
Revenue and School Finance June 8, 1993 Page 8

TAPE 137 SIDE A

002 TIM HIBBITS continued his testimony about the polls sponsored by AOI.
Questions and
discussion

095 BOB MOORE provided information about one sales tax proposal that polled taxpayers favored. He also talked about how people responded to the AOI tax proposal, and he compared the AOI proposal with the "generic" sales tax. He spoke about other questions, referred to as "push questions," included in the poll that included potential, additional options for tax plans. People most often supported options that would favor local schools. Additionally, an option of decreasing personal income tax was supported. He mentioned other options that were viewed more favorably in the poll. Exhibit 4
Questions and
discussion

141 BOB MOORE further discussed issues for which responses were elicited from the public, beginning with the Oregon Health Plan.
Questions and
discussion

222 MARK NELSON discussed how the questionnaire was constructed and why it was constructed that way. He discussed specific issues covered by the poll, using THE "Executive Summary" of the published poll entitled "Alternative Solutions to State Government Restructuring and Finance." He began with the issues related to current political climate and perceived effects of Measure 5, and he discussed specific "push questions" and the reactions of respondents to them. Exhibit 4, pages 3-6

281 MARK NELSON explained the public response to questions about "revenue replacement." Exhibit 4, pages 7-9

300 MARK NELSON reviewed the issue of the timing of an "replacement revenue" election. Exhibit 4, page 9.

315 MARK NELSON explained the poll's data about a generic sales tax as the method to obtain replacement revenue. He provided information about and response to the AOI proposal which contained all the options of the generic sales tax, plus additional elements. Exhibit 4, pages 10-12

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

House Committee
on
Revenue and School Finance June 8, 1993 Page 9

383 MARK NELSON related that dedication of revenues to schools was highly approved by those polled. He mentioned information on page 14 related to opinions about the AOI proposed sales tax. Exhibit 4

403 MARK NELSON explained what a "push" question was and how it was used in the described poll. The "push" concept centered on the fact that people will respond differently to issues depending on how a question was phrased. Exhibit 4, pages 15-20

TAPE 138 SIDE A

002 MARK NELSON continued his explanation of "push" questions, and he cited responses to these questions. Exhibit 4, pages 15-20
Questions and
discussion

108 MARK NELSON summarized what he believed would pull people toward a sales tax, so they would support it in an election. The following provisions would be necessary: (1) a sunset date and (2) a decrease in the personal income tax. Additionally, changing the corporate income tax both attracts some people and pushes away others.

Questions and discussion

177 CHAIR JONES closed the Work Session on the tax reform bills.

187 CHAIR JONES opened the Work Session on HB 3031.

182 STEVE MEYER referred members to the amendments HB 30313, which would exempt from property taxes machinery and equipment used to "produce, prepare, and ship fresh-shelled eggs." He gave examples of "machinery and equipment," and said the bill would first apply to the 1994-95 tax year. There was also a retroactive exemption in HB 3031-3, and he explained both the benefits and the requirements to obtain exemption retroactively. HB 3031 would not apply to the processing of eggs; processing machinery or equipment was eliminated by HB 3031-3. Exhibit 5-8

226 MOTION REP. BRIAN moved adoption of the

amendments HB 3031-3 to HB

3031.

228 ORDER There being no objective, CHAIR

JONES so ordered.

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

House Committee on

Revenue and School Finance June 8, 1993 Page 10

230 REP. BRIAN explained the purpose of HB 3031, including why the exemption was narrowed through the amendments. Exhibit 5

Discussion

265 MOTION REP. BRIAN moved HB 3031 as amended to the House Floor with a do-pass recommendation.

DISCUSSION

274 VOTE The motion passed 10-0. Ayes: REPS. SHIBLEY, WALDEN, WHITTY, ADAMS, BRIAN, CARTER,

FEDERICI,

GIROD, SCHOON, and CHAIR

JONES.

Absent: REP. BURTON.

Discussion

302 CHAIR JONES closed the Work Session on HB 3031 and opened the Work Session on HB 2171.

314 DICK YATES related that HB 2177 dealt with the "Forest Products Harvest Tax," which funded research at Oregon State University. He described the bill as it came to the Income Tax Subcommittee, and the changes the subcommittee provided through the amendments HB 2177-1. Exhibits 9-12

Questions and discussion

356 REP. SCHOON further clarified the amendments HB 2177-1.

Questions and discussion

391 DICK YATES explained how the "Forest Products Harvest Tax" that already existed was distributed, and how the amendments HB 2177-1 related this distribution.

Questions and discussion

423 MOTION

REP. SCHOON moved to adopt the amendments HB 2177-1 to HB

217 7.

428 ORDER

There being no objection,

CHAIR

JONES so ordered.

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

House Committee on
Revenue and School Finance
June 8, 1993 Page 11

TAPE 136 SIDE B

005 MOTION

REP. SCHOON moved HB 2177 as amended to the House Floor with a do-pass recommendation.

DISCUSSION

010 VOTE

The motion passed 11-0. Ayes:
REP. WALDEN, WHITTY, ADAMS,
BRIAN, BURTON, CARTER,

FEDERICI,

GIROD, SHIBLEY, SCHOON, and
CHAIR JONES.

017 CHAIR JONES closed the Work Session on HB 2177.

021 CHAIR JONES opened the Work Session on HB 2428.

030 TERRY DRAKE related that HB 2428 came out of the Oregon

Transportation Plan, and that it had a subsequent referral to House Appropriations because it dealt with an extension of a current discretionary state payroll assessment for mass transit or transportation districts. He named the districts. The amendments HB 2428-1, he explained, were technical to clarify the original intent of the bill. He talked about the revenues that would be raised, and about why HB 2428 had to be reviewed by the House Appropriations Committee. Exhibits 13-15

051 CHAIR JONES clarified that HB 2428 allowed state agencies to pay for transit.

Questions and discussion

060 TERRY DRAKE further clarified that the assessment would be at the discretion of the Executive Department, and he referred to the relevant Oregon Revised Statute (ORS).

077 MOTION REP. BRIAN moved to adopt the amendments HB 2428-1 to HB 2428.

DISCUSSION

088 VICTOR DODIER revealed the agencies in Woodburn that might receive revenues from HB 2428.

DISCUSSION of HB 2428 continued

-

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

House Committee on

Revenue and School Finance June 8, 1993 Page 12

120 ORDER There being no objection, CHAIR
JONES so ordered.

121 MOTION REP. BRIAN moved HB 2428 as

amended to the House Appropriations Committee with a do-pass recommendation.

DISCUSSION

157 VOTE The motion passed 10-0. Ayes:

REPS. WHITTY, ADAMS, BRIAN, CARTER, FEDERICI, GIROD, SHIBLEY, WALDEN, SCHOON, and CHAIR JONES. Absent: REP. BURTON.

169 CHAIR JONES opened the Work Session on HB 2883.

172 STEVE MEYER pointed out the amendments HB 2883-4. Exhibit 16

190 CHAIR JONES talked about how she would like to proceed with HB 2883, given the fact that the Staff Measure Summary had not yet been completed. Discussion

202 STEVE MEYER explained HB 2883, which dealt with the "Special Property Appraisal Funding Program" established in 1989 and funded by a \$20 real estate transaction fee and a 4% higher interest rate on delinquent property taxes. The program has been administered by the Department of Revenue (DOR), and he discussed its purpose. The program was to sunset in 1998, but HB 2883 would change the sunset date to 1996. He explained other provisions of HB 2883 and of HB 2883-4. Exhibit 16

238 REP. BRIAN talked about considerations of the Subcommittee on Property Tax on HB 2883, one of which would be to have an Interim review of the "Special Property Appraisal Funding Program" given the changes that could possibly occur with the tax system in Oregon.

Questions and discussion

315 MOTION REP. BRIAN moved to adopt the amendments HB 2883-4 to HB 2883.

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

House Committee on

Revenue and School Finance June 8, 1993 Page 13

DISCUSSION

396 ORDER There being no objection, CHAIR JONES so ordered.

398 CHAIR JONES asked the Committee if they wanted to proceed with HB 2883. Questions and discussion

405 MOTION REP. BRIAN moved HB 2883 as amended to the House Floor with a do-pass recommendation.

DISCUSSION

414 VOTE The motion passed 9-1. Ayes:

REPS. ADAMS, BRIAN, CARTER, GIROD, SHIBLEY, WALDEN, WHITTY, SCHOON, and CHAIR JONES. Nays: REP. FEDERICI. Absent: REP. BURTON.

428 CHAIR JONES closed the Work Session on HB 2883

430 CHAIR JONES opened the Public Hearing on SB 58A, but there was no public testimony.

TAPE 138 SIDE B

005 CHAIR JONES closed the Public Hearing on HB 2883 and opened the Work Session on HB 2883.

006 STEVE MEYER related that SB 58A dealt with country clerks working at the stations of the Board of Equalization and Board of Ratio Review. He talked

about language in current statute and how SB 58A would change the requirements for these clerks to attend meetings of the boards. Another change related to orders sent by these boards.

022 CHAIR JONES closed the Work Session on SB 58A and conducted administrative business.

027 CHAIR JONES adjourned the meeting at 12:19.

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

House Committee on
Revenue and School Finance
June 8, 1993 Page 14

Paula K. McBride, Committee Assistant
Kimberly Taylor, Office Assistant
EXHIBIT SUMMARY

1. House Revenue Committee Tax Reform Proposal (third version), Steve Bender, Legislative Revenue Office.
2. Tax Equity Issues, Jim Scherzinger, Legislative Revenue Office.
3. Oregon Assessed Value Elasticity (pg. 1), and Washington Nominal Sales Tax Elasticity (pg. 2), Steve Bender, Legislative Revenue Office.
4. Alternative Solutions to State Government Restructuring and Finance, Mark Nelson, Bob Moore, and Tim Hibbits.
5. HB 3031-3, Steve Meyer, Legislative Revenue Office.
6. Staff Measure Summary, HB 3031-3, Steve Meyer, Legislative Revenue Office.
7. Revenue Analysis of Proposed Legislation, HB 3031-3, Steve Meyer, Legislative Revenue Office.
8. Fiscal Analysis of Proposed Legislative, Roz Shirack, Legislative Fiscal Office.
9. HB 2177-1, Dick Yates, Legislative Revenue Office.
10. Staff Measure Summary, HB 2177A, Dick Yates, Legislative Revenue Office.
11. Revenue Analysis of Proposed Legislative, HB 2177A, Dick Yates, Legislative Revenue Office.
12. Fiscal Analysis of Proposed Legislative, HB 2177-1, Roz Shirack, Legislative Fiscal Office.
13. HB 2428-1, Terry Drake, Legislative Revenue Office.
14. Revenue Analysis of Proposed Legislation, HB 2428-1, Terry Drake, Legislative Revenue Office.
15. Fiscal Analysis of Proposed Legislation, HB 2428-1, Roz Shirack, Legislative Fiscal Office.
16. HB 2883-4, Steve Meyer, Legislative Revenue Office.
17. Fiscal Impact Assessment, HB 2883, Legislative Fiscal Office.

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