

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 77
Tapes 140-141 A/B
142 -143 A

HOUSE COMMITTEE ON
REVENUE AND SCHOOL
FINANCE

JUNE 11, 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 Gail Shibley

Members Excused: Representative Fred Girod
Representative Greg Walden
Representative Jim Whitty

Witnesses Present: Barbara Seymour, Legislative Counsel
Staff: James Scherzinger, Legislative Revenue Officer
Steve Bender, Legislative Revenue Office
Paula McBride, Committee Assistant

TAPE 140 SIDE A

008 VICE CHAIR SCHOON called the meeting to order at 8:20.

014 STEVE BENDER discussed information given to the members on the funding of education for 1993-95 and 1995-97. He first explained the category "Pre-Kindergarten." Exhibit 1.

Questions and discussion.

075 REP. SHIBLEY believed that the main three issues for the funding of education are as follows: (1) what are we going to do, (2) how much is it going to cost, and (3) where are we going to get the money. She mentioned some benchmarks for different levels of

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education in Oregon, and she noted that the budget levels (the figures in Exhibit 1) would not allow the state to reach benchmarks in the educational area.

Discussion

111 STEVE BENDER reminded the members that it would take \$682 million to take schools entirely off the property tax rolls.

Discussion of the revenues that might be needed to fund education.

175 STEVE BENDER discussed material that was previously distributed to the members concerning the total General Fund Expenditures.

198 STEVE BENDER corrected Exhibit 1, specifically the number related to

funding grades K-12, and thus changed the total number.

Discussion

223 JIM SCHERZINGER confirmed that the portion of General Fund revenue from the Personal Income Tax was about 85 percent and discussed further General Fund revenues.

250 REP. SHIBLEY brought the discussion back to the funding of education.

Discussion

274 VICE CHAIR SCHOON asked members if they wanted to have a tax that would fund 100 percent of educational costs.

Discussion

395 CHAIR JONES asked the members how serious they were about removing all property taxes from all "Owner Occupied Principal Residences" (OOPR). This would entail having a distribution formula for local government, plus having a source of replacement revenue for local government. Exhibit 2 (updated Tax Reform Proposal matrix).

Discussion

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TAPE 141 SIDE A

002 Discussion continued on the issue of removing property taxes totally from all OOPR's.

049 CHAIR JONES noted that the members did not approve of removing all property taxes from OOPR's.

Discussion.

065 CHAIR JONES asked members if they wanted to remove the \$5 foreducation from the property tax.

Discussion.

199 CHAIR JONES summarized the discussion: the members were interested in removing the \$5 from property tax with some caveats.

She directed staff to present further information on this subject.

213 STEVE BENDER called members' attention to a handout that was a sample tax plan based on a Washington-based sales tax. He explained the line on the handout that provided information about the base of that sales tax relating to exemptions, Exhibit 3.

Discussion.

245 STEVE BENDER continued his explanation of Exhibit 3 entitled "\$1.9 Billion Plan (A)" that showed an example sales tax plan, beginning with the costs of two additional subtractions from the base. There was no subtraction for a low-income credit because the Committee had decided to provide low-income relief through income tax changes. He reviewed other provisions of this sample plan, including three methods of tax relief.

Questions and discussion.

282 STEVE BENDER further explained the sample tax plan, discussing what taxes could be changed or eliminated.

293 CHAIR JONES explained her reasons for instructing STEVE BENDER to structure the example tax plan as he did.

Questions and discussion.

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339 STEVE BENDER explained items that would be exempt from a sales tax under an "direct use rule." He differentiated this rule from the "ingredient rule" and gave examples of what might or might not qualify under these rules.

Discussion

390 STEVE BENDER discussed what neighboring states do or do not exempt under their sales taxes. Idaho was the only close state that currently had the "direct use rule."

Discussion

TAPE 140 SIDE B

002 Discussion continued about what would or would not be taxable under a "direct use rule."

050 STEVE BENDER put material on the white board that further clarified the "direct use rule" and the "ingredient rule."

135 Discussion continued amongst members on what to include, or exclude, in an Oregon sales tax, using the sample sales tax plan. Exhibit 3.

260 CHAIR JONES clarified that much of what was contained in the sample sales tax plan would not be incorporated into an Oregon constitutional tax plan. The information was provided to show members how revenue streams can be adjusted and then who would pay to make up lost revenue for exemptions. She believed it was necessary to have a plan that was both easy to understand and that worked. She believed that the detail the members were working through for a tax plan would not be of interest to the public.

297 Discussion continued about a tax reform plan in Oregon, based on the sample sales tax, Exhibit 3.

390 CHAIR JONES related that it would take a 6.7 percent sales tax in an Oregon base to raise the same amount of money as the sample sales tax. She also revealed that the broader the tax base (i.e., the fewer the exemptions), the less costly a sales tax would be to administer. Exhibit 3.

Discussion

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TAPE 141 SIDE B

002 CHAIR JONES asked staff to provide information about how much money a sales tax would provide if there were no exemptions.

007 STEVE BENDER responded that for 1 percent of the broad base goods and services tax, \$993 million would be raised. This included some exemptions, such as food for home consumption. He believed over \$1.1 billion could be raised, per each 1 percent of a sales tax rate, if nothing were exempt.

Discussion of possible exemptions to the proposed sales tax and possible sales tax rates.

049 CHAIR JONES asked members if there was consensus on having a base that would include everything.

Discussion

059 CHAIR JONES asked members what they wanted to exempt constitutionally from the proposed sales tax. The first category discussed was "food for home consumption."

Discussion of the phrase "food for home consumption."

088 CHAIR JONES noted consensus on exempting food for home consumption from the constitutional amendment.

089 CHAIR JONES asked members to decide whether or not to exempt medical services and drugs from the constitutional amendment.

Discussion

099 CHAIR JONES pointed out the items listed in HJR 10 (page 2) that would be exempt from the proposed sales tax.

110 STEVE BENDER explained the various categories to the members.

Questions and discussion about the possibility of having a real estate transfer tax if the sale of real property were exempt from the proposed sales tax (as language in HJR 10 stipulated).

172 BARBARA SEYMOUR thought that a real estate transfer tax would be allowed on real property sales, even if the sales were not

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subject to a sales tax. She reviewed differences between a transfer tax and a sales tax.

Discussion

261 CHAIR JONES asked BARBARA SEYMOUR to discuss the category in HJR 10 related to "animal life."

Questions and discussion.

321 STEVE BENDER related that oil for home use would be exempt; however, there were certain instances where oil would be taxed.

356 CHAIR JONES recessed at 10:08 and reconvened at 10:41, and she conducted administrative business.

36S CHAIR JONES asked members to note the Staff Measure Summary and Revenue Impact Statement on HB 2883-A, which had not been ready at the time the bill passed out of the full Committee.

Discussion

TAPE 142 SIDE A

002 CHAIR JONES noted that HJR 10 did not have a sponsor; however, she stated that she has spoken to the individuals who submitted substantial sales tax bills and they understand why the committee is not using their bills.

Discussion

011 CHAIR JONES recapped what had been decided by members regarding exemptions listed in HJR 10 -- food; prescription medication; water, electricity, natural gas (other fuels will be added); intangible personal property or real property; and animal life, seed, fertilizer. She mentioned the "other" category, to which members could add. She asked the committee if they had any other items they wished to list as exempt in the constitution.

Questions and discussion.

050 CHAIR JONES conducted administrative business.

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064 Questions and discussion continued among members concerning items that might or might not be exempted from the proposed sales tax.

079 STEVE BENDER summarized what he believed the members had agreed to, using the updated matrix entitled "House Revenue Committee Tax Reform Proposal." Exhibit 2.

090 CHAIR JONES mentioned material prepared by staff on limits for raising revenues and for state expenditures, on which she asked staff to comment.

10? JIM SCHERZINGER explained what information was contained in his handout entitled "Revenue/Expenditure Limit" Exhibit 6.

135 JIM SCHERZINGER began a detailed explanation of his handout, with the outline on page 1, which had four categories, as follows: (1) constitutional/statutory, (2) revenue or expenditure limit, (3) state or/and local government, and (4) state. Exhibit 6.
Questions and discussion.

181 JIM SCHERZINGER continued his explanation of revenue and expenditure limits, beginning with "program or fund transfer" in the fourth category related to "state" on the first page. Exhibit 6.

Questions and discussion.

213 JIM SCHERZINGER stated that it was unlikely that the two percent kicker on personal income taxes would be effective, and he thought it would be the same with corporate taxes; but it will be some time before that was known.
Discussion

234 JIM SCHERZINGER explained the "2% Surplus Kicker" to the members. Exhibit 6, page 3.

251 JIM SCHERZINGER discussed how the "state spending limit" was derived, as was delineated in his handout to members. Exhibit 6, page 3.

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285 JIM SCHERZINGER pointed out the tables on the "kicker" and on the "spending limit" that gave an historical perspective of them in the state. Exhibit 6, page 3.

Questions and discussion about the effectiveness of the "spending limit" in Oregon and about what might be changed to make it better.

TAPE 143 SIDE A

002 Discussion continued concerning the "spending limit" in Oregon, and about possible ways of dealing with surplus revenues.

068 JIM SCHERZINGER gave a history of the "rocketing effect" of the current state spending limitation.

Discussion about this mechanism and about how the spending limit system might be changed by the present Committee.

151 JIM SCHERZINGER explained the organization of the tables in his handout that provided information about spending limitations in other states. Exhibit 6, pages 7-9.

Questions and discussion.

180 JIM SCHERZINGER continued his explanation of variations on the spending

limitations in other states. Exhibit 6, page 7-9.

Questions and discussion.

280 CHAIR JONES conducted administrative business. She reminded members to look at the "Staff Measure Summary" and the "Revenue Impact Analysis" of HB 288 3, which had already been passed out.

Discussion.

370 CHAIR JONES conducted administrative business.

TAPB 142 SIDE B

002 Discussion continued concerning the agenda.

020 CHAIR JONES adjourned the meeting at 11:42.

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Paula K. McBride, Committee Assistant

Kimberly Taylor James, Office Manager

EXHIBIT SUMMARY

1. General Fund Appropriations, Steve Bender, Legislative Revenue Office.
2. House Revenue Committee Tax Reform Proposal (updated version), Steve Bender! Legislative Revenue Office.
3. House Revenue \$1.9 Billion Plan (A), Steve Bender, Legislative Revenue Office.
4. Staff Measure Summary, HB 2883A, Steve Meyer, Legislative Revenue Office.
5. Revenue Analysis of Proposed Legislation, HB 2883A, Steve Meyer, Legislative Revenue Office.
6. Revenue/Expenditure Limit, James Scherzinger, Legislative Revenue Officer.

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