

Work Session: HJR 10 (Possible intended vehicle for tax reform)
Tapes 144-145 A/B
146 A/B
147 A

HOUSE COMMITTEE ON
REVENUE AND SCHOOL
FINANCE

JUNE 14, 1993 9:30 AM HEARING ROOM A STATE CAPITOL BUILDING

Members Present: Representative Delna Jones, Chair
Representative John Schoon, Vice Chair
Representative Ron Adams
Representative Mike Burton
Representative Margaret Carter
Representative Tony Federici
Representative Fred Girod
Representative Gail Shibley
Representative Greg Walden
Representative Jim Whitty

Members Excused: Representative Tom Brian

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

TAPE 144 SIDE A -

006 CHAIR JONES called the meeting to order at 10:13 and conducted administrative business.

041 CHAIR JONES opened the Work Session on HJR 10.

044 STEVE BENDER pointed out material in the members' books. Exhibits 1, 2 and 3

096 STEVE BENDER talked about the handout that corrected numbers discussed by the members previously. He cautioned members about the numbers relating to community colleges, which he explained. Exhibit 2

Questions and discussion

211 CHAIR JONES referred members to the matrix for tax reform. She asked JIM SCHERZINGER to continue his presentation on the

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"spending limitation" in Oregon. Exhibit 1

220 JIM SCHERZINGER talked about studies from other states related to spending limits. The first page of the handout gave summary information from 19 states on limitations, and he reviewed some data from it. He also referred to the table that displayed the effectiveness of limitations in various states and the analysis by the author of the table. Exhibit 3, pages 1 and 2

Questions and discussion

354 JIM SCHERZINGER explained the term "TEL" on the table in the handout on spending limitation studies. Exhibit 3, page 1

360 Questions and discussion continued about the results of studies on the effectiveness of spending limitations in various states.

393 CHAIR JONES clarified that Oregon does not have a 6% spending

limitation; rather, there existed in Oregon the opportunity to have a 6% limitation.

Discussion

407 JIM SCHERZINGER discussed the last study in his handout, which compared states with spending limitations to those who didn't have them, related to their effectiveness. He read from the "Introduction" of this study. Exhibit 3, page 9

TAPE 145 SIDE A

002 JIM SCHERZINGER continued his explanation of the last study in his exhibit. Exhibit 3, page 9

033 JIM SCHERZINGER pointed out a table from the last study in his handout, entitled "Ratio of State Tax Revenues to State Personal Income." This table compared "TEL" states with "Non-TEL" states. Exhibit 3, page 13.

Questions and discussion

058 JIM SCHERZINGER discussed the 2% kicker in Oregon related to the information on the table from the last study in his handout. Exhibit 3, page 13.

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068 JIM SCHERZINGER continued his explanation of the table, discussion the numbers "on the spending side." Exhibit 3, page 13

Questions and discussion

098 JIM SCHERZINGER explained the table entitled "Percent of Funds Exempt from TELS." He reviewed economic fluctuations that influence spending limitations. Exhibit 3, page 18

Questions and discussion

220 CHAIR JONES asked members to give of what kind or how much income tax relief they wanted to include in the tax reform plan. This information would be used by staff to create data on families at three income levels and what the impact of the tax reform would be on each. She referred to a previous exhibit, entitled "1.9 billion Plan (A)." (see Exhibit 3, 6/11/93)

Discussion

293 CHAIR JONES presented some numerical options to staff on the personal income tax for his modeling of family taxes in Oregon.

Questions and discussion concerning the numbers for various options in the exhibit (see Exhibit 14, 6/5/93).

384 DICK YATES related that the Senate had been dealing with the "earned income credit," and he wanted to know if members wanted to allow for this credit in the material that staff would prepare for a tax reform plan. The issue was if the credit would be in addition to the standard Federal deduction, which would cost about \$44 million.

Discussion

400 REP. WHITTY raised the issue of how to explain proposed changes in the voters' pamphlet statement.

Discussion

TAPE 144 SIDE B

005 CHAIR JONES raised two other issues: What do members want to put into the constitution (as opposed to what goes into the statutes), and then how will the constitutional and statutory

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language be used in terms of the relief the members want to give taxpayers. She believed the statutory language would need the most adjustment.

Discussion

025 CHAIR JONES asked members to consider the matrix again. She addressed the issue of what provisions of a sales tax to put into the constitution. She asked if members wanted the rate in the constitution. Exhibit 1

Discussion

040 CHAIR JONES noted consensus for putting the rate into the constitution.

044 CHAIR JONES asked for consensus for a maximum of a 5% rate in the constitution for the proposed sales tax. Exhibit 1

Discussion

063 CHAIR JONES noted consensus for a maximum of a 5% rate in the constitution for a sales tax. Exhibit 1

Discussion

086 CHAIR JONES asked members what exemptions they wanted stipulated in the constitution. Exhibit 1

Discussion

137 STEVE BENDER referenced material about "base adjustments" related to exemptions from the proposed sales tax. For an exemption on "food for home consumption," the cost would be \$440 million based on a 5% rate. He will provide the cost for other exemptions desired by the members. (see Exhibit 1, page 4, 6/1/93)

Discussion

174 CHAIR JONES noted consensus on the proposed exemptions as listed in the matrix of 6/14/93 (food for home consumption, prescription medicine, utilities, intangible & real property, certain agricultural items). Exhibit 1

178 REP. SHIBLEY discussed three problems with putting any

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exemptions in the constitution for the proposed sales tax.

She pointed out that no one knew what any of the exempted categories meant and that, therefore, there would be various interpretations and manipulations of them which would cause tremendous difficulties.

241 CHAIR JONES asked members which of the exemptions they would change and not put into the constitution.

Discussion

255 CHAIR JONES talked about implications of excluding food from the exemptions.

Discussion

273 CHAIR JONES noted consensus that food should not be excluded from the exemptions.

277 CHAIR JONES asked members for consensus to dedicate the sales tax to education.

Discussion

338 CHAIR JONES noted consensus to dedicate in the constitution the sales tax to education, primarily. She asked members if they wanted to also put language in the constitution stipulating the levels of grades to be funded.
Discussion

TAPE 145 SIDE B

004 CHAIR JONES expressed concern about being too specific with what grades to support with the proposed sales tax revenues. She asked members to postpone a decision about this issue.

Discussion

013 CHAIR JONES returned to the issue of the expenditure and tax limits in Oregon. She asked members to think about a discussion to be held this evening on this issue and about any additional changes that members want to make to the constitution. One issue was a sunset date for the proposed sales tax.

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037 REP. GIROD talked about his visit to Washington, DC, where he received a briefing on the health care system and proposed models of change related to the system. He mentioned the officials who briefed the group of which he was part.

Discussion

081 CHAIR JONES recessed the meeting at 11:42 am.

082 VICE CHAIR SCHOON reconvened the meeting at 5:17 pm.

084 STEVE BENDER referred to a handout with requested information on estimates of the revenue impact of sales tax exemptions, entitled "Constitutional Sales Tax Exemptions." He reviewed the numbers on the list.
Exhibit 4

Questions and discussion about services and goods that would or would not be subject to the proposed sales tax.

110 STEVE BENDER continued his explanation of the list on possible sales tax exemptions, discussing the category of "real property." He discussed some assumptions on which this figure was based. Exhibit 4

Questions and discussion

154 STEVE BENDER addressed the category of "manufactured homes" under a proposed sales tax based on the Washington tax.

168 STEVE BENDER explained the final category of "animal life, feed, seed, plants and fertilizer" as exempt items on a proposed Oregon sales tax. The number on the handout was incorrect, as it included pesticides, which were not included in the proposed constitutional exemption. Exhibit 4

Questions and discussion

194 CHAIR JONES asked staff to provide a figure related to how much an exemption on medical equipment would cost.

206 CHAIR JONES asked members to look at the updated matrix. She reviewed what had been accomplished during the morning session, and she asked members if they had thoughts to share about the spending limit. Exhibit 1
Discussion, particularly of whether or not to have a revenue

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limit rather than a spending limit

297 JIM SCHERZINGER believed the members had to decide what the purpose of the spending limitation was. He reviewed options for defining the purpose of the spending limit. Some of the options could only be defined as spending limits, but others could be either a spending limit or a revenue limit. He reiterated that members must decide what their purpose was for either a spending or a revenue limit.

390 CHAIR JONES asked REPS. BURTON and GIROD to examine issues with the spending limit, and then to lead a discussion with the Committee.

Discussion

415 CHAIR JONES asked members what they believed they wanted to do with a spending limitation.

Discussion

TAPE 146 SIDE A

002 Discussion continued among members concerning the spending limit.

020 ? CHAIR JONES mentioned the kinds of issues she would like REPS. GIROD and BURTON to review in their discussion of the spending limit.

045 CHAIR JONES asked members to discuss the sales tax base, reminding them of the information they had received on different bases. Each base would allow the Committee to address different needs or issues in Oregon. She wanted to know which base the members seriously wanted to pursue.

054 REP. WHITTY asked to start with the Washington base.

Questions and
discussion

066 CHAIR JONES requested that the discussion be centered on broad categories to include in the base of a sales tax. She referred to material in the members' books related to options with sales tax revenues and base adjustments. (see Exhibit 1, page 4, 6/1/93)

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074 STEVE BENDER described the Washington base, which included everything in the base of HB 2500 (also the 1985 sales tax base). (see Exhibit 2, pages 1 and 2, 6/1/93). However, the Washington base had some adjustments to the base of HB 2500, and he mentioned some of these exemptions. In addition, the Washington base included some services, whereas HB 2500 taxed only goods. For instance, in the Washington base, services to "real and tangible personal property" were subject to the sales tax, and he gave some examples of these. One major service that was taxed in Washington was telephone services for non-resident users. (see Exhibit 2, pages 1 and 2, 6/1/93)

Questions and discussion

183 STEVE BENDER continued to describe items that were taxed in Washington under the sales tax, beginning with hotel/motel accommodations. (see Exhibit 2, pages 1 and 2, 6/1/93)

Questions and discussion

219 STEVE BENDER addressed the issue of implementing the sales tax on items sold through vending machines.

Discussion

239 STEVE BENDER explained that a special provision existed for home delivery of newspapers.

Discussion continued about vending machine items and how the sales tax might be applied to these items.

266 CHAIR JONES asked members to consider whether or not the items that were taxed in Washington should be taxed in Oregon.

Discussion

291 STEVE BENDER informed members of an issue in Florida where the state attempted to tax advertising (both printed and broadcasted).

Discussion

340 STEVE BENDER discussed problems that might arise if newspapers and magazine were exempted from a sales tax.

Questions and discussion

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385 STEVE BENDER cited items that were subject to additional taxes beside the sales tax in Washington. Gasoline was not subject to the sales tax.

Discussion

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013 Discussion continued among members concerning items that were subject to the Washington sales tax.

031 STEVE BENDER discussed the difference between a tax on "amusements" (with a one-time admission basis) and a tax on an item such as a health club (that requires a membership). He also described the difference between "active" and "inactive" admissions.

Discussion

045 STEVE BENDER explained the term "abstract" in the next category, relating to transfer of property and dealing with services to "real and personal property."

Questions and discussion

062 CHAIR JONES reminded members that Washington exempted local state governments from the sales tax.

Discussion

081 CHAIR JONES believed it was important for members to decide upon a base and then look at its revenue stream. She asked members if they wanted to use the Washington base.

Members discussed the items they would like to add to the Washington base, which effectively would make the base broader.

105 STEVE BENDER referred to a previous handout to point out the possible revenues from a "goods and services base." (see Exhibit 1, page 4, 6/1/93).

107 CHAIR JONES related that about \$4.9 billion dollars would be raised if the Oregon tax was as broad based, including both goods and services, as some of the members were proposing (with exemptions for those items already decided upon by the members).

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This was assuming a 5% sales tax rate.

Discussion of the issue of creating a broad base sales tax in Oregon.
158 STEVE BENDER believed that a 2 1/2% sales tax would raise about \$2.4 billion if the base were very broad.

Discussion

198 CHAIR JONES wanted to know how what tax rate could accomplish, assuming a broad-based sales tax: (1) removing all schools entirely from the property tax, and (2) provide adjustment to the personal income tax.

217 STEVE BENDER referred to a previous exhibit that showed a sample sales tax plan. He thought \$1.628 billion would have to be raised to eliminate schools entirely from the property tax system. He cited other figures for other options the members might want to consider in regard to tax reform. He thought about a 4.5% tax rate would be needed to eliminate all schools from property taxes and to allow a decrease in the personal income tax rate. (see Exhibit 3, 6/11/93)

Questions and discussion

361 STEVE BENDER revealed that the 4.5% figure did not include either production exemption or a government/nonprofit purchases exemption. He talked about various ways the members might address these exemptions.

Discussion continued about the rate and base of the proposed sales tax in Oregon.

TAPE 146 SIDE

B

002 Members continued to discuss their preferences for a rate and base in a sales tax.

022 CHAIR JONES asked members to think about other issues on the matrix overnight and be ready to discuss them at the next meeting.

045 CHAIR JONES conducted administrative business.

080 CHAIR JONES adjourned the meeting at 5:40.

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Paula K. McBride, Committee Assistant

Kimberly Taylor, Office Manager

EXHIBIT SUMMARY

1. House Revenue Committee Tax Reform Proposal, updated version, Steve Bender, Legislative Revenue Office, 6/14/93.
2. General Fund Appropriations, updated version, Steve Bender, Legislative Revenue Office, 6/14/93.
3. Summary (of studies of spending limitations in various states done by the National Congress of State Legislatures - NCSL), Jim Scherzinger, Legislative Revenue Office.
4. Constitutional Sales Tax Exemptions: Estimated Revenue Impacts, (At a 5% Rate), in millions of dollars for 1995-97 Biennium, Steve Bender, Legislative Revenue Office.

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