

Work Session: HJR 10
Tapes 162-163 A/B

HOUSE COMMITTEE ON
REVENUE AND SCHOOL
FINANCE

JUNE 22, 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: Ozzie Rose, Confederation of Oregon School
Administrators

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

TAPE 162 SIDE A

006 CHAIR JONES called the meeting to order at 10:02 and conducted
administrative business.

050 CHAIR JONES discussed issues that would be addressed relating to the
proposed sales tax, including adequacy and the base rate. Also members
would decide what relief to provide for other taxes through the
constitutional amendment.

Questions and discussion

076 CHAIR JONES opened the Work Session on HJR 10.

Discussion

090 CHAIR JONES asked for a continuation of the discussion of adequacy. She
referred to a previous exhibit of a sales tax plan (see "\$1.9 Billion Plan
(A)," Exhibit 3, 6/11/93). Also she

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referred to a handwritten exhibit related to the issue of funding adequacy
(see Exhibit 1, 6/17/93).

Discussion

148 CHAIR JONES asked members to discuss what programs they wanted to fund.
She began with the "Oregon Health Plan" and mentioned what work was being
done on this. She asked members if they wanted to pledge \$200 million to
the Oregon Health Plan.

Discussion

186 CHAIR JONES said the funding totals was up to \$1.67 billion. She wanted

to talk about school funding, the formula, and the issue of equity.
197 REP. WHITTY spoke about salary schedules for teachers that were used in the past. He mentioned a system whereby application of the principles of those schedules could be applied to school districts today in Oregon for the purposes of equity.

Discussion

292 TERRY DRAKE listed categories of dealing with the school distribution formula on the whiteboard, including the tier system described by REP. WHITTY. He described how he had separated out the Portland School District and had added numbers depicting population plus cost of living; thus, in essence, he created a twotier system. He mentioned the discrepancy between the Portland School District and others, although some districts are closer to Portland than many of the rural districts. He believed more tiers would have to be implemented into any system because of the differences between the districts, and he talked about how he might approach constructing such a system, using a "sliding scale" approach rather than a "tier" approach. He placed various districts on his "sliding scale," using two formulas -- a "temporary" and a "permanent." He explained where the vast majority of districts would fit on it and what increases in funding they would receive. Exhibit 2 (Exhibit 1 was the updated version of the daily matrix.)

TAPE 163 SIDE A

002 TERRY DRAKE continued his explanation of a "sliding scale" to achieve equity in school funding throughout Oregon. He cited a

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figure of \$2.922 billion needed in total resources for this equity, and he thought there was already \$2.724 billion in the system. Exhibit 2

027 JIM SCHERZINGER clarified that the numbers TERRY DRAKE was using were contained in the adequacy report from the SENATE PRESIDENT.

Discussion

040 TERRY DRAKE believed that it had already been planned to give money for population plus inflation to those districts that fell below the average. He mentioned having had problems with the "tier system" in small districts in terms of "big negatives." Using the "sliding scale" method of distribution, he managed to reduce negatives, and he explained the reasoning for this. He talked about the category "Cost of Business", which would probably be a region index, placed over the "sliding scale." This would primary benefit the higher-cost districts.

Questions and
discussion

112 TERRY DRAKE talked about how much "disequalization" would be left in the Oregon school system if his "sliding scale" were implemented.

Discussion

150 CHAIR JONES asked staff how much it was going to cost if his "sliding scale" were implemented within four years.

153 TERRY DRAKE related that the question of "how much equity was going to cost" would depend on how fast the members wanted to achieve equity and how much equity they wanted to receive.

Discussion

168 TERRY DRAKE related it would cost roughly \$3 billion to implement the "sliding scale" and still give the highest spending districts the ability

to maintain their programs at the same level as they will have in 1993-94.
179 JIM SCHERZINGER believed the results of TERRY DRAKE's analysis were not much different from the numbers submitted by the Partner's Group (see Exhibit 1, 6/16/93). He mentioned numbers for specific districts. He believed it will cost \$300 million to reach 50%

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equity in 1993-95.

214 CHAIR JONES believed there was money already in the school system, for inflation plus population growth, which will move the districts toward equity, and she wanted to know how much more it would cost.

232 JIM SCHERZINGER related that in the 1995-97 biennium, in order to achieve 50% equalization and hold the Portland district at inflationary growth, between \$200 - \$300 million more would have to be dedicated to schools. The cost would grow in the biennium after that.

Discussion

268 TERRY DRAKE explained his methodology for the "sliding scale" system for achieving school equity, and he believed \$88 million would be needed to bring all districts up to the Portland district for one year with no growth.

Questions and discussion of the current school formula and what revenue would have to be generated if the formula were changed.

TAPE 162 SIDE B

002 Questions and discussion continued about the school formula, both as it was constructed and about possible changes to it for the purpose of achieving equity.

075 REP. WHITTY wanted to know why there were such differences in funding between districts, a question he believed had never been answered.

Discussion

080 CHAIR JONES believed the school distribution formula would continue to be adjusted indefinitely, but she did not want to adjust the formula at the current time. Rather, adjustment of the revenue level was the goal to be achieved. She related two reasons for why district spending varies throughout the state.

103 OZZIE ROSE talked about his concerns that only "inflation growth" was being considered for school districts, whereas he believed "real growth" should be taken into account. He thought

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"real growth" had to be considered if Oregon was going to implement any of its long-term plans for schools.

Discussion

146 CHAIR JONES summarized the amount of revenue dollars members had

already decided upon, including \$300 million for equity balance as per the discussion this morning. The total figure was \$1.97 billion, to be raised by the proposed sales tax.

Questions and discussion

181 CHAIR JONES outlined the questions members had to answer, beginning with a constitutional change that would dedicate half of the lottery proceeds for educational purposes. She mentioned some of these possible purposes. She asked staff what revenues from the General Fund would be "freed up" if \$1.97 were raised by a sales tax for the purposes already decided upon.

196 JIM SCHERZINGER related that the preliminary figure of revenue "freed up" from the General Fund was \$531 million, but that was based on a sales tax that would raise \$1.9 billion. The additional \$.07 billion would add \$70 million to the General Fund.

203 CHAIR JONES summarized that the General Fund would have about \$600 million more, and the members would decide where and how it should be spent. The lottery money would be in addition to this figure.

211 REP. BURTON discussed a proposal before the Legislature that would dedicate of half the proceeds of the lottery to education. He mentioned the instabilities of the lottery and the pending court case about video poker. He thought these funds should be used only for construction costs and none at all for operational costs, specifically because of the instabilities.

242 CHAIR JONES said, for purposes of discussion, she would assume a figure of \$1.97 billion to be raised by a sales tax, and she wanted to construct the base rate at that amount.

Discussion

248 CHAIR JONES conducted administrative business.

268 CHAIR JONES announced that staff would present material that compared the Oregon base with the Washington base. Exhibit 3

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296 STEVE BENDER explained that his handout listed items that were in the Washington base but not in the HB 2500 base. He didn't have revenue impacts for all the items. Exhibit 3

306 STEVE BENDER explained some differences between the Oregon base from the 1985 sales tax proposal and the base in HB 2500, the major one being that more was exempted in HB 2500 than in the 1985 Oregon base. Exhibit 3

322 CHAIR JONES listed the similarities between the 1985 Oregon base and that in HB 2550.

334 STEVE BENDER explained the meaning of the columns "A" and "AAA" on his handout. Exhibit 3

344 REP. SHIBLEY informed the Committee of her intent to raise the issue of a retailer discount in the proposed sales tax -- that is, whether or not it would be implemented.

Discussion

364 STEVE BENDER continued his explanation of the handout that compared the Oregon base (from HB 2500) to the Washington base. The first nine items of the exhibit were taxed in the Washington base, with the exception of newspapers, but were not in HB 2500. The next eleven items were added to the sales tax base by Washington during their current Legislative Session. The last three items were not in the Washington base, but the members had asked specifically about them. Exhibit 3

410 STEVE BENDER began a more detailed description of items on his handout, beginning with the first nine items that have been a part of the Washington base. The first category was "Services to Properties." Exhibit 3

TAPE 163 SIDE B

002 STEVE BENDER continued his explanation of "Services to Properties," the first category on his handout. Exhibit 3

Discussion

032 STEVE BENDER mentioned the next item on his handout, a category entitled "Repeal Nonprofit Exemption." Washington does tax nonprofit groups. Exhibit 3

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Discussio

n

046 STEVE BENDER talked about the category "Repeal Government Exemption." Exhibit 3

050 STEVE BENDER discussed "Repeal Low Income Credit", which he believed should not be included in this group of items. Exhibit 3

Discussion

056 STEVE BENDER mentioned "Telephone Service" and what was included or exempted in the taxation of this service for both residences and businesses. Exhibit 3

Discussion

089 STEVE BENDER asked members to add "towing" to the category "parking" on his handout, and he described this category. Exhibit 3

099 STEVE BENDER said Washington did tax "Hotel/Motel Accommodations, the next item listed on his handout. Exhibit 3

Discussion

112 STEVE BENDER talked about three interrelated categories that were approached differently by the state for the sales tax (admissions (participatory), physical fitness, and admissions (spectator)). He first described the item "Admissions (participatory) which was included in the Washington base. Washington still doesn't tax spectator admissions, but health or fitness clubs were added during the last Legislative Session. Exhibit 3

142 CHAIR JONES discussed the next category, "newspapers/ magazines.". Staff confirmed her information. Exhibit 3

151 STEVE BENDER began his explanation of the second group of categories, beginning with "Landscape/Horticultural." This was the group that was taxed after the most recent Legislative Session. Exhibit 3

Discussion

163 STEVE BENDER discussed the category "Renting Equipment with Operator," including differences before and after the Legislative

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Session. Exhibit

179 STEVE BENDER explained the category "Tour Packages" that were taxed under the Washington base. Exhibit 3

185 STEVE BENDER reviewed the next six categories, related to personal services, that have been included in the Washington sales tax base.

194 STEVE BENDER explored the category "Ticket Service Charges." Exhibit 3 Discussion

205 STEVE BENDER again briefly mentioned the category "Physical Fitness". Exhibit 3

208 STEVE BENDER related that the next three items, "Tradeins," "Motor Fuels," and "Admissions (spectator)," were still not in the Washington base. Exhibit 3

Discussion

217 STEVE BENDER explained that HB 2500 did not tax the trade-in value of an item, and he gave an example related to an automobile trade-in. Washington does not tax tradeins either.

236 STEVE BENDER related that taxing "Motor Fuels," the next category, would raise considerable money, but Washington did not tax motor fuels and this was not included in HB 2500. Exhibit 3

240 CHAIR JONES clarified that a sales tax collected from motor fuels could not be used for education because of a constitutional provision.

247 STEVE BENDER brought up the first category of exemptions in the Washington sales tax, which was "production exemption." Exhibit 3

259 CHAIR JONES asked for further clarification between exemptions for "ingredients" and "production." She revealed what she believed was relevant about both these deductions.

Questions and discussion

296 CHAIR JONES wanted to know how much it would cost if, using

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the base from HB 2500, production was exempted.

302 STEVE BENDER believed the figure would cost \$2.12 million to exempt production using either the Oregon base or the base from HB 2500.

Questions and discussion

398 CHAIR JONES conducted administrative business.

421 CHAIR JONES adjourned the meeting at 11:52.

Paula K. McBride, Committee Assistant
Kimberly Taylor, Office Manager

EXHIBIT SUMMARY

1. House Revenue Committee Tax Reform Proposal (updated matrix), Steve Bender, Legislative Revenue Office.
2. Table of "Sliding Scale," (school distribution formula), Terry Drake, Legislative Revenue Office.
3. HB 2500 -- Revenue Impact (1995-97 Biennium), Steve Bender, Legislative Revenue Office.

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