

ORIENTATION
Tapes 2-3 A/B & 4 A

SENATE COMMITTEE ON
REVENUE AND SCHOOL FINANCE
JANUARY 19, 1993 1: 00 AM HEARING ROOM A STATE CAPITOL BUILDING

Members Present: Senator Tricia Smith, Acting Chair
Senator Brady Adams
Senator Ron Cease (arrival 1:10, absent 1:35-2:05)
Senator Rod Johnson
Senator Peg Jolin
Senator Paul Phillips (absent 2:10-3:05)

Members Excused: Senator Shirley Gold, Chair

Staff: James Schersinger, Legislative Revenue Officer
Jennifer Belkle, Committee Assistant
TAPE 2 SIDE A

001 CHAIR SMITH called the meeting to order at 1:05 p.m.

009 JIM SCHERZINGER began an overview of the orientation packet. Exhibit 1. He pointed out specific information in the packet regarding Measure 5 and its impact on the Oregon Tax System.

027 JIM SCHERZINGER drew members' attention to the fact that in Oregon the personal income tax and property tax are significantly larger than all others taxes.

Questions and discussion.

070 JIM SCHERZINGER continued by going over sources of local revenue.

102 JIM SCHERZINGER discussed local expenditures and state general fund revenue and expenditures.

143 JIM SCHERZINGER declared that implementation of Measure 5 will cause state aid to local government to increase.

156 SEN. JOLIN inquired regarding the state's obligation to replace lost revenue to the school districts.

155 JIM SCHERZINGER explained that 1995-96 is the last year that the state is obligated under Measure 5 to replace revenue lost by the local school system.

173 SEN. JOHNSON pointed out an error in Exhibit 1 page 6. The footnote and table should read at the ** "1993-95."

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Senate Committee
on

189 JIM SCHERZINGER noted that there is no difference in the terms "mandated" or "mandated plus" when referring only to the General Fund.

250 JIM SCHERZINGER discussed the problems with dedicating some of the funds from certain programs to the General fund.

Questions and discussion.

295 JIM SCHERZINGER continued his testimony regarding bond sales and the consequent loans made from this revenue.

300 JIM SCHERZINGER addressed the use of lottery funds to solve the General Fund problem and continued discussion on the PERS fund.

Questions and discussion.

353 JIM SCHERZINGER clarified confusion on the state tax and spending limits. He explained that these are separate issues, and while they may work toward the same purpose, they are independent of one another.

384 JIM SCHERZINGER explained how the 2% surplus kicker works on the revenue side of the budget. This budget will be balanced on a revenue estimate. If there is more than a 2% surplus than the excess must be credited to the taxpayers.

TAPE 3 SIDE A

016 JIM SCHERZINGER continued regarding the state spending limit. He explained that this works on the fiscal side of the budget. It mandates that expenditures out of the General Fund, from one biennium to the next, cannot grow greater than the rate of growth of personal income of the state with the exceptions of tax relief and debt service.

Questions and discussion.

070 JIM SCHERZINGER pointed out that the Oregon per capita income dropped significantly compared to the U.S. average in the late 1970s and has not recovered completely.

077 JIM SCHERZINGER reported that Oregon ranks high in tax rates as a percentage of personal income.

135 JIM SCHERZINGER explained that a tax capacity index has been developed which measures the tax base for each tax that a state has. It then measures how much effort is made to tax that wealth. Oregon was operating at 1% below average capacity to tax.

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Senate Committee

on

175 JIM SCHERZINGER reminded the Committee that the studies should not be used individually as a source of comparative information about the tax system. The better picture comes for looking at all of them together.

189 JIM SCHERZINGER discussed the Money magazine study which ranked Oregon 7th highest in total taxes. This article looked at the direct tax burden on typical Money Magazine reader with an average family income of \$76,000. JIM SCHERZINGER pointed out that this is a relatively high income bracket.

219 JIM SCHERZINGER clarified that this article only counted taxes that are directly imposed, which does not include business taxes. However, economists believe that all business taxes eventually are passed on to some individual (consumer, employee, or stockholder). This information looks at taxes only on the individual and does not take business taxes into account. He related that Oregon imposes a higher direct tax burden upon its citizens relative to other states.

300 SEN. JOLIN inquired about the impact of adding a sales tax to an already highly burdened state.

311 JIM SCHERZINGER maintained that a sales tax on this type of household

will not have the same effects that it would on lower income families and business.

360 SEN. JOLIN comments on the rising rate of property assessments and their impact on taxes despite the relief from Measure 5.

378 JIM SCHERZINGER stressed that overall taxes on the average home, adjusting for inflation, have dropped.

Questions and discussion.

425 SEN. PHILLIPS pointed out that the \$76,000 annual income model family in the survey is actually the top 10% of Oregon families.

TAPE 2 SIDE B

001 JIM SCHERZINGER continued his discussion on the Money Magazine Article. Discussion .

068 SEN. ADAMS inquired if a sales tax would decrease the tax burden relative to other states.

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on

Revenue and School Finance January 19, 1993 Page 4

083 JIM SCHERZINGER clarified that if nothing was done to Oregon taxes, the tax ranking would lower in relation to other states. If a sales tax was imposed to counteract the effects of Measure 5, the State would be adding back toward the burden for lower income families rather than the higher income families. The replacement of a property tax with a sales tax could increase the tax burden.

Discussion .

198 SEN. CEASE contributed that many properties in his district had their assessment values double in one year.

227 JIM SCHERZINGER commented on the property tax heavy system in Oregon.

235 JIM SCHERZINGER testified regarding a study that looks at taxes on businesses as well as households. It showed that 34% of the tax burden falls upon businesses. In comparison with other states in the west, Oregon is at the low end of this comparison.

411 SEN. ADAMS commented about the unemployment tax burden in Oregon being significantly higher than other states in the west.

TAPE 3 SIDE B

001 JIM SCHERZINGER continued his testimony regarding taxes in Oregon.

088 JIM SCHERZINGER stated that Oregon is a fiscally challenged state. He cited that while the per capita income is low and there is a lack of a major resource to tax in Oregon, the state continues to attempt to provide services at a comparable level as that of its wealthier neighbors.

197 JIM SCHERZINGER commented on a study that provided data on taxes and their allocation to certain groups in society. He mentioned that this is a politically charged study.

235 SEN. ADAMS contributed that it would lead to two conclusions: 1) that Oregon's tax burden on the lowest twenty percent and the second lowest twenty percent in comparison to the U.S. is proportionately better and 2) if you were to have a sales tax that it would worsen the situation of this group of people.

234 JIM SCHERZINGER stated that a sales tax would tend to move Oregon towards the U.S. taxation average.

274 SEN. JOHNSON inquired about the politics of this study.

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278 JIM SCHERZINGER responded that in this study the basic argument is that the tax system is regressing and they are moving for a more progressive tax system.

300 JIM SCHERZINGER began an overview of Measure 5 and its impact on the state general fund. In 1991-92 the tax burden was the same. The effect of Measure 5 in the first year was to freeze the raw dollars of the tax system. In 1992-93 the tax burden dropped slightly. However, the school dollars dropped by 90 million dollars and the local government's bonds grew. This pattern will continue for the next few years. Local governments are now fully experiencing these caps. However, while the cap isn't going to drop anymore, the school taxes are going to continue to drop. The forecast predicts a drop to 787 million dollars from 1.5 billion dollars. Questions and discussion.

360 JIM SCHERZINGER responded to the question from the public, "Why haven't my taxes dropped?" First, he made clear that the problems being dealt with by the legislature with the budget are projected. The budget for 1991-1993 has been budgeted. Secondly, the burden of property taxes has shifted towards homeowners. Thirdly, inflation and population growth increase government costs. Finally, school taxes have dropped. Measure 5 is giving bigger reduction in schools which is the state's responsibility to cover.
TAPE 4 SIDE

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001 JIM SCHERZINGER continued his discussion on Measure 5.

030 JIM SCHERZINGER explained that the burden of taxes are shifting onto households and this is not due primarily to Measure 5. It is a economic trend nationwide. There are 4 main reasons for this shift: (1) Personal incomes are rising more rapidly than business incomes (2) Legislative cuts in direct property tax relief (3) Shifting within the property tax and (4) Unemployment taxes have remained steady. Questions and discussion interspersed.

090 CHAIR SMITH adjourned the meeting at 3:05 p.m.

Jenni~ r Belkle~Committee
Assistant
~ a
Kimberly ylor, Office
Manager

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Senate Committee on Revenue and School Finance January 19, 1993 Page 6

Exhibit Summarv

1. Scherzinger, Overview of Oregon Taxes, Orientation packet,
1-93

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