

Tapes 127-128, (A\B)

Work Session: 2550-A

SENATE COMMITTEE ON REVENUE AND SCHOOL FINANCE

April 24, 1991 1:00 PM Hearing Room A State Capitol Building

Members Present: Senator Jane Cease, Chair

Senator Joan Dukes, Vice Chair (arrived 1:28)

Senator John Brenneman

Senator Shirley Gold (arrived 1:29)

Senator Ron Gensky "arrived 1:28, departed 2:15)

Senator Bill McCoy

Senator Tricia Smith

Staff Present: Jim Scherzinger, Legislative Revenue Officer

Mary Ann Zimmermann, Committee Assistant

TAPE 127. SIDE A

005 CHAIR CEASE called the meeting to order at 1:22 and conducted administrative business.

WORK SESSION - HB 2550-

A

013 JIM SCHERZINGER explained timber severance taxes under current law with reference to the research report on the implementation of Measure 5. Timber tax would be limited by Measure 5 if left as is in current law. EXHIBIT 1

042 JIM SCHERZINGER explained the House Revenue Committee decided to change the timber severance tax into a privilege tax and not be subject to the limits of Measure 5 and the rates were temporarily lowered. Discussion follows explaining how the timber taxes work in HB 2550A. Reference is made to the chart on timber severance tax rates on page 10, EXHIBIT 1.

086 JIM SCHERZINGER reported that Section 277 in HB 2550A deals with Western Oregon Severance Tax (WOST) and Section 301 relates to Eastern Oregon Severance Tax (EOST). Reference is made to reforestation rates.

102 JIM SCHERZINGER explained the impact of HB 2550A compared to current law.

110 SEN. SMITH questioned the Attorney General's opinion regarding timber severance tax.

113 JIM SCHERZINGER responded the Attorney General reported that timber severance tax is under the limitation of Measure 5.

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122 Discussion follows regarding leaving the timber severance tax as is in current law as opposed to changing it into a privilege tax.

137 JIM SCHERZINGER presented a copy of the Oregon Forest Industries Council (OFIC) testimony intending to figure out what the average reduction was in Measure 5 and reduce the rate by the same percentage. Discussion follows explaining how the rate was calculated. EXHIBIT 2

165 JIM SCHERZINGER explained the districts listed on Page 2 of EXHIBIT 2 were excluded from determining the calculation.

170 SEN. DUKES asked what the reduction would be if all cities were eliminated from the calculation because generally speaking forests do not grow in cities. It would be interesting to see the calculation with all cities removed compared with where the timber is located.

197 JIM SCHERZINGER responded the rates will be lower in rural areas. Discussion follows regarding school levies.

200 SEN. DUKES asked if there was a correlation between the rural areas reaching the limit as quickly as the cities.

205 JIM SCHERZINGER responded it is mixed and the individual situations need to be addressed.
215 SEN. DUKES voiced concern in explaining to rural taxpayers why some areas are paying less than others.
233 SEN. GOLD asked if the House Revenue Committee dealt with any other issues dealing with equity. Discussion indicated the House did not deal with issues that was in addition to what Measure 5 would have done alone.
275 SEN. GOLD discussed the difference in how residential and commercial property are treated in relation to property tax relief.
296 JIM SCHERZINGER explained estimates have been done on what classes of taxpayers receive benefits from Measure 5. The issue was not discussed under the context of HB 2550A.
305 SEN. GOLD asked for further information regarding differential treatment of particular classes of taxpayers.
320 SEN. SMITH questioned the comparison between the contribution of the different classes of taxpayers prior to Measure 5 as opposed to post Measure 5.
334 JIM SCHERZINGER clarified the question by integrating a pre and post Measure 5 on regular property tax into the same comparison on timber severance tax.

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351 SEN. SMITH asked if it was possible to compare the taxes dealing with ad valorem and severance tax.
365 JIM SCHERZINGER explained the severance tax is based on the harvest rather than on property. Another problem is putting timber tax back on the tax roll at a percentage of value. Discussion follows.
410 JIM SCHERZINGER commented the issue is very complex and could be an interim study.
TAPE 128 SIDE
A
003 CHAIR CEASE asked if a comparison could be presented of the current substitute severance system projected into the future against the HB 2550-A proposal.
010 JIM SCHERZINGER pointed out the timber land value could be included in the comparison.
015 JIM SCHERZINGER raised the question of how the rate reduction impacts the state's obligation on schools. The current numbers are depicted in a blackboard illustration. EXHIBIT 3
031 JIM SCHERZINGER explained the figures are estimated collections from WOST. As taxes are collected they are not automatically turned into offsets but go through other funds. The dollars collected are all used to reduce the local property tax levy. EXHIBIT 3
052 SEN. GRENSKY questioned how the offset figures were derived in EXHIBIT 3.
059 It was clarified that the figures on the board are if Measure 5 had not occurred.
063 CHAIR CEASE asked if there was an indication of the impact of leaving it as a property tax as suggested by the Attorney General.
067 JIM SCHERZINGER responded there would be about a 60 percent reduction if it was left alone and there is a 10 percent reduction in HB 2550A.
078 JIM SCHERZINGER explained the reserve fund and guarantee fund under current law is an attempt to put the system on a precollection basis.

EXHIBIT 3

094 It was clarified that the money in SB 815B is taken from the guarantee fund raising the offsets for schools for 1991-92.

106 JIM SCHERZINGER explained HB 2550A reduces the tax in 1991-92 by \$5 million using the blackboard illustration. There is little effect from the 1991-92 severance reduction on offsets until 1992-93.

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145 JIM SCHERZINGER explained the effect of the reduction on the state is when the offsets are reduced then the state is making up the losses in the distribution formula in SB 814. It was clarified that 60 percent of schools are over the \$15 dollar cap.

164 SEN. GRENSKY clarified that HB 2550A in Western Oregon reduced the severance tax rate 10 percent so the net result will be a loss on income.

177 SEN. SMITH asked if runs have been done to show the effect on individual districts.

183 JIM SCHERZINGER responded there are runs showing offsets of the \$46.2 and the impact is not on the individual districts. EXHIBIT 3

208 SEN. DUKES addressed the issue of districts under the cap. It was pointed out there are only four districts that are under the Measure 5 limit.

222 SEN. DUKES pointed out the state will eventually pick up the reduction but until then the local property taxpayers will pick up the loss.

Reference is made to the competition among the local school districts.

235 CHAIR CEASE commented on the need to decide how to deal with the 5 dollar limit by 1993.

240 SEN. GOLD asked if there was discussion on the manner of how offsets are used.

246 JIM SCHERZINGER explained all offsets were removed and became a source of revenue in HB 2550A.

255 SEN. GOLD asked if there was any discussion to place the offsets in the General Fund. Discussion follows.

260 JIM SCHERZINGER discussed the state is picking up the cost of schools and any other sources are offsetting the state's contribution. It was removed from HB 2550A because it was not related to Measure 5.

277 Discussion follows regarding the House Revenue Committee working with the offset issue. Reference was made to an increase in property tax rates when dealing with the offset issue. Discussion follows.

339 JIM SCHERZINGER referred to the issues list dealing with proposals under timber severance taxes which needs to be addressed by the committee.

EXHIBIT 4

373 CHAIR CEASE recapped the request by Sen. Dukes to see the HB 2550A calculation for the reduction of all non-city taxpayers in Eastern and Western Oregon. Also there was the request for the average reduction for all timber land.

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392 SEN. SMITH questioned the difference between the average reduction for taxpayers not in the city and the calculation by OFIC. EXHIBIT 2
TAPE 127 SIDE

B

001 JIM SCHERZINGER explained the difference involves the non-uniform tax rates within a county causing for non-uniform reduction. It makes a difference when asking what is the average reduction for all taxpayers not in the city versus what is the average reduction for all taxing units that are not cities.

020 JIM SCHERZINGER rephrased the request of Sen. Gold to make an estimate of the different property classes and how much benefit each received from Measure 5.

033 CHAIR CEASE asked if there were other options that should be discussed by the committee regarding timber.

038 JIM SCHERZINGER pointed out the House committee changed the timber severance to a privilege and lowered the rate. Reference was made to the change by the DOR involving the timing of the calculation.

047 CHAIR CEASE conducted administrative business. Discussion regards the passage of SB 815B on the House floor.

077 CHAIR CEASE discussed getting a draft of SB 814 by May 7. Discussion follows regarding the committee's agenda for the issues surrounding HB 2550A.

097 JIM SCHERZINGER explained the DOR is working on technical amendments to HB 2550A.

118 SEN. GOLD asked if the House considered a sunset on HB 2550A.

123 JIM SCHERZINGER responded that timber is the only section in HB 2550 that has a sunset.

130 Discussion continues regarding the agenda for HB 2550A.

152 CHAIR CEASE adjourned the meeting at 2:20.

Mary Ann Zimmermann, Committee Assistant

Kimberly Taylor, Office Manager

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EXHIBIT SUMMARY

1. Research Report: Implementation of Measure 5, LRO, 3/25/91 (See Senate Revenue and School Finance Committee Meeting 4/3/91 - HB 2550A)
2. OFIC Proposal for Equivalent Relief for Western and Eastern Oregon Timber Severance Taxes, OFIC, 4/24/91 - HB 2550-A
3. Blackboard Illustration, LRO, 4/2/491 - HB 2550-A
4. HB 2550A Issues, LRO, 4/16/91 (See Senate Revenue and School Finance Committee Meeting 4/16/91 - HB 2550A)

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