REVENUE MEASURES PASSED BY THE 77th LEGISLATURE 2014 Session

RESEARCH REPORT #2-14
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OVERVIEW

In the context of a relatively stable General Fund revenue situation and the passage of major tax policy changes in the 2013 special session, 2014 revenue policy focused on minor adjustments in a number of policy areas. Actions centered on modifications and clarification of existing tax base definitions, adjustments to tax credits and clean-up language for HB 3601—the major tax policy bill passed in the 2013 special session.

Revenue Situation

The March revenue forecast, released on February 12, showed General Fund revenue at $192.8 million above the 2013-15 close of session estimate. Revenue actions contained in HB 3601 is responsible for $168 million of the change. This means that changes in the current law revenue estimates have been very minor since May of last year. However, the May 2013 revenue estimate, which is the basis for the 2013-15 close of session forecast, over-estimated 2011-13 General Fund revenue by $81.5 million. This results in an $81.5 million over-estimate of the 2013-15 beginning balance. The combination of a stable 2013-15 revenue forecast, the revenue impact of the special session actions and the smaller than expected beginning balance left the March estimate of General Fund resources $116.8 million above the close of session forecast. General Fund/Lottery resources combined are $110.4 million above the close of session estimate.

Revenue policy changes and fund shifts enacted by the 2014 Legislature had a net impact of +$2.6 million on General Fund revenue. The largest impact is a fund shift of $2.2 million involving previously enacted Secretary of State registration fees from an Other Fund account to the General Fund. The net impact of revenue policy changes is less than $500,000. General Fund expenditures were increased by $124.7 million as the Legislature partially released General Fund that had been set aside during the 2013 regular session. The net impact of these actions is to leave a projected 2013-15 General Fund ending fund balance of $120.9 million.

Table 1 shows the state's reserve position following the 2014 session. It is based on the March 2014 revenue forecast adjusted for the legislative actions described above.

Table 1: 2013-15 Reserve Position

Sources of Reserves	Projected Ending Balance (in millions)	Ending Balance as Percentage of 2013-15 Appropriations
General Fund	$120.9	0.8%
Lottery	$10.1	0.1%
Rainy Day Fund	$210.2	1.3%
Education Stability Fund	$176.9	1.1%
Total Reserves	$518.1	3.3%

Table 1 indicates that projected reserves are equivalent to 3.3% of 2013-15 General Fund appropriations. In the event of a sizable downward revision to the revenue forecast, the projected General Fund ending balance would be eliminated. Projected balances in the Rainy Day Fund and the Education Stability Fund (based on Lottery earnings) could also be affected by an unexpected decline in economic activity but the impact would likely be relatively small.
A potential complication in planning for the 2015-17 General Fund budget is the prospect of a 2% surplus kicker being triggered at the end of the 2013-15 biennium. Since the calculation is based on actual non-corporate 2013-15 General Fund revenue compared to the close of the 2013 regular session estimate, the kicker will not affect 2013-15 revenue. However, if a 2% kicker were to materialize, it would have the effect of increasing the 2013-15 ending balance as unanticipated revenue came in but reduce revenue by the total amount above the forecast in the 2015-17 biennium as taxpayers receive a credit calculated to reflect the difference between actual non-corporate revenue and the close of session forecast. The most recent forecast, adjusted for the 2014 session changes, puts estimated revenue at $101 million below the amount needed to trigger the surplus kicker credit. If actual non-corporate revenue exceeds the current estimate by $101 million or more, the trigger would be certified in August of 2015 and the credit allocated in the following tax filing season.

Key Revenue Measures

This section highlights several key revenue measures passed in the 2014 legislative session. A review of all 2014 revenue measures, including the ones in this section, can be found in the remainder of this report. For a review of the revenue measures approved during the 2013 special session, see Research Report #4-13. For a review of budgetary actions taken during the 2014 session, see Legislative Fiscal Office (Budget Highlights, April 2014).

The key revenue measures approved during the 2014 session fall into three categories: adjustments to recent legislation, refinements to existing tax base definitions and tax credits.

- Adjustments to Recent Legislation
  - SB 1534 contained a number of clarifications and corrections to HB 3601 from the 2013 special session as well as some clarifying language for measures approved in previous sessions. In terms of adjustments to HB 3601, SB 1534 clarified the income phase out brackets for the senior medical deduction, aligned the components of the new Oregon IC-DISC, directed cigarette tax revenue to the General Fund, aligned definitions for the new non-passive income rate schedule and clarified that waiver of penalties due to 2013 tax changes apply only to the 2013 tax year. The bill also aligned statutory language with legislative intent in terms of interstate reciprocal bridge agreements, non-resident income earned on the state's river borders, penalties for not reporting certain types of income and clarification on details of how a county emergency surtax would be implemented.
  - HB 4148 changes the interest calculation used for computing re-payments for the senior and disabled property tax deferral program. Starting in the 2011 regular session, the legislature has made a number of modifications to the property tax deferral program in order to ensure the solvency of the revolving fund. One of the actions taken in 2011 was to change the basis of the deferral re-payment calculation from simple interest to compound interest. HB 4148 reverses this change starting with re-payments to the program made after July 1, 2016. This change is expected to reduce the ending balance of the fund by $650,000 in the 2015-17 biennium.

- Tax Base Refinements
  - HB 4055 modifies the method in which the 911 emergency service tax is collected on pre-paid phone services. Under current law, providers are to estimate the amount of the tax owed for these sales and remit them to the Department of Revenue on a monthly basis. HB 4055 establishes temporary procedures to continue collecting the tax from providers through September 30, 2014. Starting October 1, the collection system shifts to a point of sale basis. This shift, along with additional enforcement resources for the Department of Revenue is expected to generate an additional $400,000 in the 2013-15 biennium and $1.4 million in the 2015-17 biennium, net of collection costs, to fund 911 emergency services.
  - HB 4138 changes the method used to apportion the income of interstate broadcasting corporations. Under previous law, the proportion of broadcaster net income apportioned to Oregon was based on an estimate of the state's national television audience share. Starting with the 2014 corporate tax year under HB 4138, apportionment will be determined by the broadcaster's customers who have headquarters located in Oregon. This change is expected to increase

corporate income tax revenue by an estimated $900,000 in the 2013-15 biennium.

- Tax Credits
    - SB 1541 re-instates a tax credit for donations by agricultural producers to food banks that was allowed to sunset in 2012. SB 1541 allows 15% of the wholesale price of eligible food donations to be used as a credit on farmer's tax returns. The new credit is expected to reduce General Fund revenue by $360,000 in the 2013-15 biennium and $900,000 in the 2015-17 biennium.
    - HB 4005 expands the number of electronic commerce enterprise zones allowed in the state from 10 to 13. Qualified businesses are allowed a credit equal to 25% of the cost of the investment in the zone. Expanding the number of zones is expected to reduce General Fund revenue by less than $100,000 in the current biennium and $160,000 in the 2015-17 biennium.
    - In addition to cleaning up statutory language for the special session revenue bill and other previous legislation, SB 1534 re-instates the extra exemption tax credit for high income taxpayers who are severely disabled or have disabled children. Under HB 3601 from the special session, the credit was subject to elimination for single taxpayers with adjusted gross income above $100,000 and joint filers above $200,000. The General Fund impact of this portion of SB 1534 is estimated at $500,000 in the 2013-15 biennium and $300,000 in the 2015-17 biennium.

Summary of Individual Revenue Bills

PERSONAL AND CORPORATE INCOME TAX

HB 4003 (CH 52)

Generally updates Oregon's date of connection to certain federal laws from January 3, 2013 to December 31, 2013. Updates statutes pertaining to the tax qualification status of the Public Employees Retirement System plans, to unemployment insurance, and to the Oregon 529 College Savings Network. Includes income tax provisions pertaining to the definition of charitable organizations, federal Adjusted Gross Income (for the purposes of Oregon's Elderly Rental Assistance), rules for S-corporation representation before magistrate, the Department of Revenue, and the Oregon Tax Court. Specifies that interest and penalties will not be assessed for tax deficiencies attributable to the federal law connection changes in this Act. Specifies that if a refund is due a taxpayer for a tax year beginning before January 1, 2014 due to any retroactive treatment from these federal tax law connection changes then the refund will be paid without interest. Requires taxpayers to file an amended return for changes in Oregon's law due to these federal tax law changes for tax years beginning before January 1, 2014; requires the Department of Revenue to make changes to tax returns for taxpayers who do not file amended returns.

Revenue Impact: None.

HB 4005 (CH 53)

Increases the cap on the total number of electronic commerce zones from 10 to 15. Takes effect on the 91st day following adjournment sine die.

Revenue Impact ($Millions):

	Fiscal Year			Biennium		
	2013-14	2014-15		2013-15	2015-17	2017-19
General Fund	$0	-$0.08		-$0.08	-$0.16	-$0.08

The estimated revenue impact is based on historical tax returns. The number of claimants has varied between roughly 10 and 20 for tax years 2005 through 2010. Due to the historical volatility, the estimates represent the expected value over time. The revenue impact estimates reflect the current law sunset date of January 1, 2018.

Policy Purpose: To meet the increased demand for these zone designations.

HB 4107 (CH 38)

Continues the redirection of $3 million of transportation project tax credits for the 2015-17 biennium to a credit that will be auctioned. Extends the auctioned tax credit for tax years 2015 and 2016. The proceeds from this tax credit will be deposited into the Alternative Fuel Vehicle Revolving Fund, which was created by the 2013 Legislature.

Revenue Impact: None

Under current law, there is a $20 million biennial cap on tax credits to be issued by the Department of Energy for transportation projects. The current revenue forecast incorporates the assumption that these tax credits will be issued. Because this bill does not change the cap, there is no revenue impact. The redirection of the $3 million in tax credits (for the 2015-17 biennium) to the Alternative Fuel Vehicle Revolving Fund will change the nature of which tax credits will be issued but are not expected to change the total amount of tax credits issued.

HB 4138 (CH 103)

Modifies the method of corporate apportionment of business income for interstate broadcasters. Defines terms. Changes the basis of apportionment from viewing audience to gross receipts from Oregon domiciled customers. Applies to tax years 2014 through 2016. Requires the Legislative Revenue Officer to produce a report on the impact and utilization of the policy change. Requires that the report be presented to the Legislature by January 1, 2017.

Revenue Impact ($Millions):

	Fiscal Year			Biennium		
	2013-14	2014-15		2013-15	2015-17	2017-19
General Fund	**$0**	**$0.9**		**$0.9**	**$1.7**	**$0**

The estimates are based on aggregate data provided by the Motion Picture Association of America for a single tax year. The growth rate over time depends on a variety of factors in an industry where technology and consumer demand are rapidly changing. The two primary sources of revenue for these types of companies are from advertising (roughly 67%) and licensing (roughly 33%). With this proposed change in the apportionment method, changes over time to advertising revenue will depend, in part, on the location choices of the broadcasters' customers. Changes over time to licensing revenue are likely to be dominated by structural changes to the industry. Given the current level of uncertainty, the estimates reflect a relatively flat projection for the revenue gain.

While this bill does not change the definition of interstate broadcaster, current uncertainty surrounding which businesses fit into the statutory definition could affect the estimated revenue impact. Depending on the nature and operations of which businesses may or may not be included in that definition, the estimated revenue impact could be higher or lower.

SB 1534 (CH 114)

Makes a number of technical clarifications to existing statute and reinstates language pertaining to reciprocal state tax exemptions. Clarifies an Internal Revenue Code reference and the calculation of the phase-out for the medical subtraction. Clarifies the applicability of the 2.5 percent tax on IC-DISCs to those formed prior to January 1, 2014 and aligns the IC-DISC provisions for the 2.5 percent tax, the deduction, and the subtraction. Clarifies that certain cigarette tax revenue is directed to the General Fund. Ties the meaning of "material participation" to the definition in the Internal Revenue Code. Makes the use of the non-passive income tax rates an 'opt-in' choice for taxpayers instead of an 'opt-out'. Limits the authority of the Department of Revenue to waive penalty and interest in certain cases to tax year 2013. Reinstates the handicapped child and severe disability tax credits beginning with tax year 2013. Changes the word "on" to "in" for statutes relating to navigable waters. Limits potential filing penalties to W-2s. Allows a potential local income surtax to be apportioned analogous to the state level approach.

Revenue Impact ($Millions):

	Fiscal Year			Biennium		
	2013-14	2014-15		2013-15	2015-17	2017-19
General Fund	**-$0.2**	**-$0.3**		**-$0.5**	**-$0.3**	**$0**

The only part of the bill with a revenue impact is the reinstatement of the personal exemption tax credit for taxpayers who are severely disabled or have disabled children. The estimate is based on the historic use of the credits and their respective growth rates. In tax year 2011, there were a total of 528 severely disabled tax credits and 685 disabled child tax credits claimed by filers with income above the thresholds. The personal exemption credit is $188 for tax year 2013 and is projected to grow to $194 by tax year 2015. The revenue impact estimates reflect the current law sunset date of January 1, 2016.

Policy Purpose: To reinstate the full amount of the tax credits.

SB 1541 (CH 115)

Reinstates the tax credit for crop donation program (ORS 315.156). The bill also increases the percentage of wholesale price allowed as credit amount from the original 10% to 15%. The bill applies to tax years beginning on or after January 1, 2014 and before January 1, 2020.

Revenue Impact ($Millions):

	Fiscal Year			Biennium		
	2013-14	2014-15		2013-15	2015-17	2017-19
General Fund	$0	-$0.36		-$0.36	-$0.9	-$1.2

The revenue impact estimates are based on growth projections that take into account historical use of the tax credit. Other market conditions involving the costs and market value of donated food by producers were not quantified but may impact the future use of the tax credit.

The crop donation program (as described in ORS 315.154 and ORS 315.156) was established in 1977 and most recently, in effect from 2005 through 2011 and did sunset on January 1, 2012. In its last year of working in tax year 2011, the tax credit was claimed by 123 personal income tax filers for an average tax credit claim amount of $1,804.

Policy Purpose: To increase the amount of food donated by food producers to charities that serve individuals and families experiencing hunger by offsetting expenses incurred during the collection, transportation, and storage of donated food.

PROPERTY TAX AND LOCAL GOVERNMENT FINANCE

HB 4039 (CH 7)

Provides property tax exemption for property of a nonprofit corporation that was actually offered, occupied or used as low income housing and granted exemption by the county as of the property tax year beginning July 1, 2012. Applies to property tax years beginning on or after July 1, 2012. Provides for refunds without interest of property tax from the 2012-13 and 2013-14 tax years and waives taxes that have not been paid without charging interest. Requires a $200 filing fee to claim tax refund for these two years. Provides for disqualification from the exemption if the property changes ownership to an entity other than a nonprofit corporation, is no longer used for low income housing, or is leased for a use other than low-income housing. Allows the sale of the property to a nonprofit corporation under whose ownership the property continues to be offered, occupied, or used as low-income housing. Adds a sunset of this exemption of July 1, 2018.

Revenue Impact ($Millions):

	Fiscal Year			Biennium		
	2013-14	2014-15		2013-15	2015-17	2017-19
Local Government	-$ 4.37 to -$17.46	-$ 1.70 to -$ 6.78		-$ 4.99 to -$19.96	-$ 3.60 to -$14.38	-$ 1.91 to -$7.63
Local School Districts	-$ 3.29 to -$13.18	-$ 2.25 to -$ 8.99		-$ 6.61 to -$26.45	-$ 4.77 to -$19.07	-$ 2.53 to -$10.11
Total	-$7.66 to -$30.64	-$3.94 to -$15.77		-$11.60 to -$46.41	-$8.36 to -$33.45	-$4.43 to -$17.74

Note: Revenue impact could be $0, see the discussion below.

The property tax exemption for charitable, literary, and scientific organizations is anticipated to have $157.7 million in revenue impact in 2013-15 in total (As provided by the 2013-15 Tax Expenditure Report.) The information for the amount of this tax expenditure is provided in aggregate by the county assessors and it is not possible to separate out how much is due to the exemption for nonprofit organizations providing housing. For the purposes of this analysis, it is assumed that five percent to 20 percent of the tax exemption is granted to these organizations. The measure only applies to organizations that were receiving an exemption for the property tax year beginning July 1, 2012. The measure has a sunset date for the property tax year beginning July 1, 2018. Pending the result of a Supreme Court case (Corvallis Neighborhood Housing Association et al. vs. Linn County Assessor), if the nonprofit housing providers prevail, there is no revenue impact to this measure. If the assessor prevails, the revenue impact is given above. Revenue impacts in the FY 2013-14 reflect the payment of taxes back to the tax year beginning July 1, 2012.

HB 4148 (CH 41)

Changes interest rate accruing on deferred taxes under homestead property tax deferral program from six percent compounded annually to six percent per annum. Applies the interest change retroactively to when it first became compound in 2011 for program participants who pay their balances on or after July 1, 2016.

Revenue Impact ($Millions):

	Fiscal Year			Biennium		
	2013-14	2014-15		2013-15	2015-17	2017-19
Senior and Disabled Property Tax Deferral Account	$0	$0		$0	-$0.65	-$0.85

The measure would apply to repayments of property tax that are made after July 1, 2016. The change would reduce the amount repaid in 2016 and later years. The projected account balance for the program is below, with the changes of HB 4148 incorporated.

Impact on Projected Account Balance ($Millions)

	2014	2015	2016	2017	2018
Payments	16.6	16.4	16.4	16.4	16.4
Repayments	18.5	17.9	17.1	17.3	17.4
Administrative Costs	0.9	0.9	1.0	1.0	1.0
November 16th Balance	8.0	8.5	8.3	8.2	8.1
<<Shift to 6% simple interest from 6% compound, Lost repayments			-0.4	-0.5	-0.6
<< Net Balance with Interest Change (Nov. 16th)	8.0	8.5	7.9	7.4	6.7

SCHOOL FINANCE

HB 4008 (CH 6)

Specifies that the extended weighted average daily membership (ADMw) be used for purposes of the State School Fund distribution in funding the Youth Corrections Education Program (YCEP) and the Juvenile Detention Education Program (JDEP), beginning with the 2014-15 school year. Takes effect on July 1, 2014.

Revenue Impact ($Millions): None

The revised method of funding for YCEP and JDEP does not change the total formula revenue available for distribution. Currently the Oregon Department of Education projects that the ADMw for both YCEP and JDEP will be higher in the 2014-15 school year than in 2013-14. This means that the currently used fixed weight ADM method and the revised extended ADMw method will result in the same level of funding for both programs. The use of extended ADMw is consistent with overall State School Fund distribution scheme.

HB 4009 (CH 81)

Requires the Oregon Department of Education (ODE) to provide educational services for those students admitted to a statutorily defined pediatric nursing facility, and to pay for costs of those services. Creates a carve-out within the State School Fund (SSF), for expenses to provide such educational services. Applies first to the SSF distribution in the 2014-15 school year. Takes effect on July 1, 2014.

Revenue Impact ($Millions): None

This bill does not change the total formula revenue available for distribution to school districts, education service districts and other education programs. However, this bill does create a shift of the formula revenue, away from school districts and educational service districts to the educational services under the bill. Based on the ODE estimates and program costs, this shift will result in about $1.80 decline per ADMw (weighted average daily membership) in formula revenue distribution to school districts in the 2014-15 school year.

HB 4117 (CH 98)

Directs the Oregon Department of Education to make grants to improve student achievement in low performing Title I schools. Appropriates $500,000 out of the General Fund for the grant program. Declares an emergency and takes effect on passage.

Revenue Impact ($Millions):

	Biennium
	2013-15
Title I School Achievement Improvement Grants	**+ $ 0.5**
General Fund balance	**- $ 0.5**

The bill provides grants totaling $500,000 out of the General Fund to certain Title I schools with low performance so that grants can be used to improve student achievement. As part of the Oregon's Elementary and Secondary Education Act (ESEA) Flexibility Waiver, the Oregon Department of Education is required to identify certain low performing Title I schools for additional review and support.

TRANSPORTATION

HB 4131 (CH 13)

This measure allows a person who uses natural gas or propane as fuel in a motor vehicle to pay an annual special use license fee in lieu of a per-gallon tax. Takes effect July 1, 2015.

Background:

Under current law, motor vehicle users pay taxes on the fuel they use in their vehicle, whether it is gasoline, diesel, propane, compressed natural gas, or biodiesel fuel. The tax is mostly considered paid at the pump when the fuel is purchased. Motor fuels are taxed at a rate of 30 cents per gallon. The same is true for vehicles that run on propane or compressed natural gasoline (CNG); however, because these fuels are dispensed in gaseous form, it is necessary to convert the amount of propane and CNG to a figure that is equal to a gallon of liquid fuel. For propane, this is calculated by dividing taxable gallons by 1.3; for CNG, it is calculated by dividing gallons by 1.2. Most commercial fueling stations are set up to collect motor fuel taxes, but not all commercial fueling stations that carry propane or CNG for non-roadway use sell those fuels for use in vehicles propulsion due to the complexity of calculating and collecting the converted use-fuel tax. This results in limited options for owners of vehicles that use propane or CNG. This measure changes that as the owner of a vehicle that utilizes propane or CNG can annually purchase a decal in lieu of paying the use fuel tax at the pump. The fee for the decal is based primarily on the weight of the vehicle. A three tiered fee of $60, $300, and $400 are assessed for weights of 0-10,000 lb., 10,000 – 26,000 and the highest for vehicles heavier than26,000. Persons with such a decal would be able to fuel their vehicle at any commercial fueling station that dispenses propane and/or CNG. The measure creates a program similar to those that have existed in California, Washington and Idaho since the 1970s.

Revenue Impact: The measure has a minimal impact.

Although the weight classes might give the indication of impacting the different highway revenue sources, the number of basic vehicles that are propelled by CNG or propane is limited. Furthermore, the statutes governing weight class method of payment (Weight Mile) is still applicable and takes precedence when dealing with heavy vehicle taxation.

BONDING AND DEBT

SB 5703 (CH 121)

Limits the maximum amount of bonds and third party financing agreements that may be issued and the amount of revenue state agencies may raise from such issuance.

Revenue Impact ($Millions):

General Fund Obligation	Total Issuance 2013-15	Debt service 2015-17	Debt service 2017-19
XI-G Education (OUS)	3.85	(0.56)	(0.56)
XI-G Education (OHSU)	161.49	(23.36)	(23.35)
XI-Q DAS for Judicial (Jefferson court)	4.1	(0.65)	(0.64)
XI-Q DAS for OUS	29.5	(4.6)	(4.6)
All GF Bonds	**199.91**	**(29.16)**	**(29.15)**
Lottery Fund Obligations			
DAS (multicity & OHSU)	51.89	(8.31)	(8.32)
Housing& Community services	2.82	(0.51)	(0.51)
C. Colleges &Work Development	1.85	(0.33)	(0.33)
Dept. of Energy.	5.6	(1.04)	(1.04)
Lottery Bonds	**61.16**	**(10.19)**	**(10.20)**
Other Financing Agreement			
DAS (Department of Admin Services)	15.6	(2.31)	(2.32)
Other Debt	**15.6**	**(2.31)**	**(2.32)**
Not affecting capacity Pass-Through Revenue Bonds			
Oregon Business Dev. Dept.			
Industrial Development Bonds	105.0	(15.32)	(15.32)
Farmer Loan program	10.0	(1.4)	(1.4)
Oregon Facilities Authority	500.0	(74.8)	(74.7)
Total Conduit Revenue Bonds	**615.69**	**(91.5)**	**(91.5)**

The detail of the bonding revenue and payments as well as the projects can be found in the LFO budget report.

JUDICIAL SYSTEM AND COURT FUNDING

HB 4066 (CH 76)
This measure authorized the Chief Justice of Supreme Court to establish reasonable fees for use of Oregon Judicial Case Information Network.

Revenue Impact ($Millions):

	2013-15	2015-17	2017-19
Court Technology Fund	1.91	3.92	4.02
General Fund	0.03	0.05	0.11
Total	**$1.94**	**$3.97**	**$4.12**

The impact in the first biennium will start on 07/1/2014, and thus be for only one fiscal year.

This bill was introduced by OJD to follow up on two issues presented to the 2013 Legislature, both relating to funding for state court technology services.

The first proposes to expand specific authority for the Chief Justice to establish user fees for online access and use of OJIN (the Oregon Judicial Information Network) to include the new state court technology systems. This source is considered a fee that is meant to cover costs and thus doesn't figure as a revenue impact.

The second makes permanent the statutory filing fee increases (5%) adopted by the 2013 Legislature in HB2562, part of which also are directed into the State Court Technology Fund. Those fees will sunset July 1, 2014, absent approval of this bill. The court technology fund gets 4.75% of the finale fee, and the General Fund gets the rest of the increase. The amounts of revenue are meant to fund about $3 million of the courts budget.

911 TAX

HB 4055 (CH 59)
Extends tax on customer access to 9-1-1 emergency reporting system to prepaid telecommunications service customers. The measure establishes procedures for collecting emergency communications tax on prepaid wireless telecommunications service and interconnected Voice over Internet Protocol service. The beginning of the measure describes legislative findings concerning the scope and breadth of the existing tax, and intent of the Act to facilitate administration of collection of the current tax. The measure extends the current tax (provider pay method) to prepaid subscribers from 1/1/2015 to 10/1/2015 using two different methods. After that it establishes a $0.75 tax on each prepaid transaction. It allows 2% for retailers for collection costs and increases the Department of Revenue admin allowance to 1%. The measure also directs the Department of Revenue to report on collection and administration of tax imposed to the revenue committee by Feb, 2017.

Background:

The tax is collected by phone companies and wireless providers each month and then remitted to the Department of Revenue. There is presently a 75 cent per month tax on every subscriber who has telecommunication services with access to the 9-1-1 emergency reporting system with the exception that federal, state, and local governments are tax exempt. This tax is collected by the service provider from the subscriber. There have been six sunset extensions of this tax since 1981. The tax rate is set in statute and has been set to $0.75 since 1995. The program collects about $39 million a year but is set to expire every eight years or so, currently it is scheduled to sunset on 2022.

Revenue Impact ($Millions):

	Biennium		
	2013-15	**2015-17**	**2017-19**
Gross Revenue	**$0.62**	**$2.43**	**$2.52**
Collection Costs	**($0.20)**	**($0.44)**	**($0.46)**
Net New Revenue	**$0.42**	**$1.39**	**$1.35**

This measure clarifies that the current $0.75 tax on each circuit per month continues is inclusive of prepaid services and remains effective for phones(landlines), postpaid and prepaid cellular phones a well as VOIP. Prepaid are explicitly required to pay the same tax from 1/1 to 10/1/2014 using one of two methods specified in the measure. After that the prepaid customers move to a Point Of Sale system where they pay $.75 per retail transaction regardless of the different time period it occurs. The assumption for this statement is that the new tax will capture about 143,000 phones (six year annual average) that previously did not pay. DOR will receive an additional ½ percent of the overall revenue stream to a total of 1% to offset costs of collection. Retailers receive 2% of the POS revenue they collect (about $23,000 a year). The collection is assumed to be effective and able to capture all the revenue (which in fact will be dependent on DOR staffing and funding). Total collection allowance is slightly less than $400,000 a year. There will be about $350,000 shifted (and some lost) revenue as a result of moving the current prepaid payers to the new point of sale system.

The tax is used to pay for the Department of Revenue's collect costs (up to one percent), the Military Department's - Office of Emergency Management program's administrative costs and 9-1-1 training conducted by the Department of Public Safety Standards and Training (up to 4%); and statewide equipment and circuit charges (35%). The remaining revenue is distributed primarily to cities and counties on a quarterly basis to fund over 45 Public Safety Answering Points across the state (60.5%). Funds are distributed on a per capita basis; however, each county must receive a minimum of one percent of the net account balance.

FINANCIAL MANAGEMENT AND ADMINSTRATION

SB 5701 (CH 109)

This appropriation measure adjusts existing allocations of lottery revenues from the Administrative Services Economic Development Fund.

Revenue Impact:
The March 2014 revenue forecast is $6,421,394 (or 0.6%) below the level of revenues assumed for the 2013-15 Legislatively Adopted Budget. Revenue allocation changes and adjustment of different funds can be found in the LFO budget report. The measure also reduces criminal fines and assessment revenues going to the General Fund for the 13-15 biennium by $41,347, and allows that amount to go to the court facilities account.

The detail of the lottery revenue allocations, changes and transfers to the different funds including the debt service payments, as well as the transfers to the constitutional uses can be found in the LFO budget report. The reduction to debt service requirements is $1.4 million and reduction to the ending balance of $4.4 million. The remaining changes are reduction to the transfers and allocation of the mandatory uses.

Oregon Lottery revenues are generated from traditional and video lottery. It pays prizes and its operating expenses out of these revenues and then transfers the balance (net proceeds) to the Administrative Services Economic Development Fund (EDF). The Department of Administrative Services then distributes funds from the EDF in adherence with constitutional and statutory funding priorities, including specific legislative allocations. $1,053,052,830 is the total lottery resources projected for the biennium in the March 2014 revenue forecast, while statutory allocations approved in the 2013 and 2014 sessions, total $1,042,422,873. This leaves an ending balance of $10,629,957 for 2013-15 biennium.

SB 1535 (CH 18)

This financial management measure limits investment of local funds to statutory investment pool. It also authorizes State Treasurer to require local or tribal governments to enter into investment agreement as condition of placing funds in investment pool.

Background:

This measure is meant to be a cleanup language from the change made by HB2140 and SB 351 of the 2013 session. The language needed to include only local governments by removing ambiguities and by not including state agencies. Although the changes are recommended by the Department of Justice and align with current practices, the new language also grants rulemaking authority to the State Treasurer.

Revenue Impact: None