

PUBLIC HEARING: HB 3575

WORK SESSION: HB 3345, HB 3371

TAPES 184, 185, A/B

HOUSE REVENUE COMMITTEE

MAY 13, 1999 ñ 8:15 A.M. - HEARING ROOM A - STATE CAPITOL BUILDING

Members Present: Rep. Ken Strobeck, Chair

Rep. Anitra Rasmussen, Vice Chair

Rep. Deborah Kafoury

Rep. Jeff Merkley

Rep. Diane Rosenbaum

Rep. Lane Shetterly

Rep. Jim Welsh

Rep. Max Williams

Rep. Bill Witt

Staff: Paul Warner, Legislative Revenue Officer

Lizbeth Martin-Mahar, Economist, Legislative Revenue Office

Richard Yates, Economist, Legislative Revenue Office

Barbara Guardino, Committee Assistant

Witnesses: Elizabeth Harchenko, Oregon Dept. of Revenue

Dave Fiskum, Electric Lightwave, Inc.

Beth Vargas Duncan, League of Oregon Cities

Tony Hyde, Columbia County Commissioner

Hasina Squires, Special Districts Association

Ralph Groener, American Federation of State, County & Municipal Employees
(AFSCME)

TAPE 184, SIDE A

008 Chair Strobeck Called meeting to order at 8:25 a.m. Opened public hearing on HB 3575.

PUBLIC HEARING ñ HB 3575

011 Elizabeth Harchenko Spoke in support of the measure. See Governor's Forestland Taxation Task Force Final Report (**EXHIBIT 1**). Gave brief overview of task force, history of forestland taxation. After close of 1997 session, governor vetoed similar bill (HB 3794) and asked Harchenko to put together a task force. Included small and large woodland owners, Dept. of Forestry, Harchenko, governor's office. Purpose was to change system to give forestland owners same protection under Measure 50 as other property owners.

066 Harchenko Task force learned from a variety of experts about the forest industry. Learned about the diversity within the industry, which creates challenges to make changes that don't have unintended adverse consequences. Forestland owners manage their properties in a variety of ways for different purposes. Most are small owners. Big owners don't have trouble complying with taxes because they have experts who understand the system.

114 Harchenko Task force learned that products and issues differ significantly in Eastern Oregon from Western Oregon. Learned about national and international competition. Task force operated on a consensus model rather than majority model. Dick Yates talked to the task force on changes in tax structure.

143 Harchenko Directed members' attention to Chapter 4 ñ Guiding Principles (Page 19): Reviewed the principles developed by the task force.

233 Harchenko Chapter 5 ñ Forestland Taxation Proposals (page 21):

1. 100 percent ad valorem forestland taxation with a partial deferral option.
2. Retain current taxing system for small woodland owners, but simplify privilege tax system for administrative simplicity and savings.
3. Encourage Long-term Rotation Periods for Timber.

307 Harchenko

- Provide an option for an industry-funded "conservation pool" for the purchase of conservation easements in environmentally sensitive areas.
- Tax rate differentials or rebates to reward landowners for practices that enhance watershed health above those required by law.
- Watershed Enhancement Fund

334 Harchenko Chapter 6 ñ Conclusions

Task force was not equipped to come up with a proposal to the governor for change. Some people were satisfied with current system, others were concerned with revenue impact of change.

343	Harchenko	Discussed Forest Products Harvest Tax, its relation to salmon listing. Industry continues to protect habitat, wildlife, water shed. In discussing creation of special funds, industry would prefer others to help address this issue. Group was unable to achieve consensus on this matter.
406	Chair Strobeck	Asked who selected the group.
411	Harchenko	Governor's office identified the representation that it wanted in the group.
436	Harchenko	Key themes that emerged from task force: There are differences, taxes have different impacts on the different groups, and forest owners have strong values about maintaining healthy forests. Group agreed that any proposal must take these groups into account.

TAPE 185, SIDE A

045	Chair Strobeck	Asked Harchenko to review task force's discussion on relationship between payment of taxes and predictability and stability of revenue. Impact on other services.
057	Harchenko	Those issues came up. Although the current property tax system is complicated to understand, it is now possible to predict how much money it will produce for local governments. Privilege tax is more volatile than property tax. If timber values are low, receipts will be low. The privilege tax for non-school governments does not have same impact on a government unit as it does for schools. It impacts the tax burden of other property owners.
096	Harchenko	The most severe problem that local governments are facing is the loss of federal forest receipts. U.S. Congress has created a support system and the real impact has not hit, but counties are concerned that even that will be discontinued.
115	Chair Strobeck	Asked for comment on Measures 5 and 50 in terms of intent regarding forestland.
122	Harchenko	Most public discussion on these measures dealt with property taxes. Does not believe voters were very aware of the impact of these measures on the timber industry. When Measure 5 passed, the privilege tax was called a severance tax. Attorney General concluded that the timber severance tax is a property tax within the meaning of property tax contained in Measure 5. Tax rate on west side was 6%. Had the legislature not changed the system, the rate would have dropped to 1.5%. Legislature determined the relief was too great and raised it.
203	Rep. Shetterly	Asked the status of litigation on the issue of privilege tax and Measure 50.

207	Harchenko	Still awaiting a decision from tax court.
213	Rep. Merkley	Asked for background on how various land values were established. Follow-up questions.
221	Harchenko	During interim before 1993 session, a model was developed to determine land values. There are eight land classes based on productivity.
279	Chair Strobeck	Suspended public hearing on HB 3575. Opened work session on HB 3371.

WORK SESSION ñ HB 3371

284	Rep. Witt	HB 3371 adjusts tax on cigars. Proposed conceptual amendment: Section 1, line 15, page 1 change "25 cents for each cigar" to "65 percent of the wholesale price of cigars, not to exceed a maximum of 25 cents for each cigar".
316	Yates	Discussed HB 3371-1 amendments (EXHIBIT 2). Gives a definition of cigars, including size and ingredients. Definition is consistent with Rep. Witt's proposed conceptual amendment.
346	Rep. Witt	Does not have problem with ñ1 amendments.
370	Rep. Witt	MOVED ñ1 AMENDMENTS TO HB 3371 BE ADOPTED. ASKED FOR ANY OBJECTIONS TO MOVING ñ1 AMENDMENTS INTO HB 3371. HEARING NO OBJECTIONS, THE CHAIR SO ORDERED.
378	Rep. Witt	MOVED CONCEPTUAL AMENDMENT: PAGE 1, LINE 15, DELETE "25 CENTS FOR EACH CIGAR OR" AND INSERT "65 PERCENT OF THE WHOLESALE SALES PRICE OF CIGARS, NOT TO EXCEED A MAXIMUM OF 25 CENTS FOR EACH CIGAR".
397	Vice Chair Rasmussen	Is there a revenue impact?
399	Yates	<p>Difficult to generate revenue impact. Most tax revenue is generated through grocery stores and large distributors, not the specialty stores.</p> <p>Believes the 25-cent figure is revenue neutral. Conceptual amendment would create a small revenue impact. Question is whether those losses will be offset by increased consumption of cigars purchased in Oregon rather than out of state and on the Internet.</p>

TAPE 184, SIDE B

030	Kafoury	How did Rep. Witt arrive at 25-cent figure? What is the range of cost?
032	Rep. Witt	That represents a good faith attempt to set a tax point that will help keep business in Oregon while bringing in significant tax revenues. Cost range varies widely.
045	Vice Chair Rasmussen	Will oppose conceptual amendment. Is concerned about possible negative impact on Oregon Health Plan.
049	Rep. Merkley	This is an interesting case of impact of the Internet. Are there similar problems with other goods, or are cigars unique?
054	Yates	Does not know, but there are some alcoholic products that are skirting around paying taxes.
071	Rep. Merkley	Are there other options in the tobacco industry to make Internet sales of cigars illegal? Follow-up questions.
073	Chair Strobeck	Does not believe state has power to do that.
078	Yates	States with sales tax are struggling with this issue.
068	Rep. Kafoury	How was current 65% tax rate set?
084	Yates	Ballot measures, etc. resulted in current rate.
099	Rep. Merkley	Seems this change strikes below the luxury cigar level. Is it reasonable to target only luxury cigars?
109	Rep. Witt	Purpose of 25 cents is twofold: To protect local cigar merchants and to maximize revenues.
113	Yates	Tax is on wholesale price, not retail.
122	Rep. Rosenbaum	Would not support this amendment. It changes a voter-approved initiative. Also, Oregon

Health Plan will lose funding.

132	Chair Strobeck	ASKED FOR OBJECTIONS TO PROPOSED CONCEPTUAL AMENDMENT. NOTING OBJECTIONS OF REPS. RASMUSSEN AND ROSENBAUM, THE CHAIR SO ORDERED.
134	Rep. Merkley	Would like to propose a conceptual amendment to raise the level of tax from 25 cents to \$1. This would target luxury cigars.
150	Rep. Witt	Would oppose conceptual amendment.
158	Rep. Merkley	MOTION TO CONCEPTUALLY AMEND HB 3371 TO RAISE THE MAXIMUM LEVEL OF FROM 25 CENTS TO \$1. Questions and discussion.
224	Rep. Kafoury	Will oppose amendment.
229	Chair Strobeck	Recessed meeting at 9:40 a.m. Reconvened meeting at 9:45 a.m.
235	Rep. Merkley	WITHDREW MOTION.
239	Rep. Witt	MOTION: AMEND CONCEPTUAL AMENDMENT ON PAGE 1, LINE 15, TO STATE: "65 PERCENT OF THE WHOLESALE SALES PRICE OF CIGARS, NOT TO EXCEED A MAXIMUM OF 50 CENTS PER CIGAR".
251	Rep. Kafoury	Objected. Issue should go before the voters.
255	Rep. Merkley	Will oppose amendment. Purpose of bill is to target luxury cigars. This amendment goes away from the will of the voters.
263	Rep. Shetterly	Will reluctantly support bill.
268	Rep. Rosenbaum	Objected.
270	Chair Strobeck	NOTING OBJECTIONS OF REPS. ROSENBAUM, MERKLEY, AND KAFOURY,

CHAIR SO ORDERED.

- 279 Rep. Witt **MOTION: MOVED HB 3371, AS AMENDED, TO THE HOUSE FLOOR WITH A DO PASS AS AMENDED RECOMMENDATION.**
- 286 Rep. Merkley It is accurate to say that there is a problem with luxury products being purchased over the Internet. Extent of the problem in cigar industry is unknown. Problem should be addressed, but more comprehensively.
- 304 Rep. Williams Will support vote, reserves right to vote no on floor.
- 307 Rep. Witt 50-cent tax is still \$12 on a box of cigars. This bill is not just about protecting revenue, it is about protecting small businesses that have been damaged by an unfair tax policy.
- 328 Rep. Rosenbaum Will oppose bill. Does not believe this bill will change buying patterns. This would change a voter-approved initiative.
- 330 Vice Chair Rasmussen Will oppose bill. Cigars are a tobacco product and should be taxed. This bill would affect revenues to Oregon Health Plan.
- 341 Yates Addressed Internet situation. The seller is not required to pay the tax; the buyer is responsible.
- 359 Chair Strobeck Will support bill with hope that Senate Revenue will modify the rates.
- 399 **VOTE** **ROLL CALL VOTE: MOTION PASSES 5-4-0**
REPRESENTATIVES VOTING AYE: SHETTERLY, WELSH, WILLIAMS, WITT, CHAIR STROBECK
REPRESENTATIVES VOTING NAY: KAFOURY, MERKLEY, ROSENBAUM, VICE CHAIR RASMUSSEN
REP. WITT WILL CARRY THE BILL.
- 420 Chair Strobeck Closed work session on HB 3371. Opened work session on HB 3345.

TAPE 185, SIDE B

WORK SESSION n HB 3345

004	Dave Fiskum	Spoke in support of HB 3345-4 amendments (EXHIBIT 4), which represents consensus of all parties involved.
017	Beth Vargas Duncan	Concurred with Fiskum's testimony. Parties will submit lists to Senate President, House Speaker, and Governor who will make their selections for the task force.
052	Rep. Williams	MOVED n4 AMENDMENTS TO HB 3345 BE ADOPTED. ASKED FOR ANY OBJECTIONS TO MOVING n4 AMENDMENTS TO HB 3345. HEARING NO OBJECTIONS, THE CHAIR SO ORDERED.
056	Rep. Williams	MOTION: MOVED HB 3345 AS AMENDED, TO THE HOUSE FLOOR WITH A DO PASS AS AMENDED RECOMMENDATION.
058	VOTE	ROLL CALL VOTE: MOTION PASSES 8-0-1 REPRESENTATIVES VOTING AYE: KAFOURY, MERKLEY, ROSENBAUM, SHETTERLY, WELSH, WILLIAMS, VICE CHAIR RASMUSSEN, CHAIR STROBECK REPRESENTATIVES EXCUSED: WITT REP. WILLIAMS WILL CARRY THE BILL.
066	Chair Strobeck	Closed work session on HB 3345. Reopened public hearing on HB 3575.

PUBLIC HEARING n HB 3575

075	Tony Hyde	Spoke in support of the measure. See testimony, The Association of Oregon Counties (EXHIBIT 9) verbatim. Asked lawmakers to treat forestland owners the same as other taxpayers.
105	Hasina Squires	Spoke in support of the measure on behalf of Special Districts Association.
128	Ralph Groener	Spoke in support of the measure on behalf of American Federation of State, County & Municipal Employees. Industry gets singled out for taxes, and that adversely affects AFSCME members. Small percent of general fund budget allow county commissioners much leeway. With passage of this bill, counties where timber industry has shrunk will adversely affect programs related to children. Any help county general funds can receive will help children and seniors.
180	Chair Strobeck	Closed public hearing on HB 3575. Adjourned meeting at 10:00 a.m.

Submitted by, Reviewed by,

Barbara J. Guardino Kim T. James

Committee Assistant Revenue Office Manager

Exhibit Summary:

1. HB 3575, Harchenko, Governor's Forestland Taxation Task Force Final Report, 103 pp.
2. HB 3371, Yates, Proposed Amendments to House Bill 3371 (HB 3371-1), 3 pp.
3. HB 3371, Yates, Tax on Tobacco Products Other Than Cigarettes, 2 pp.
4. HB 3345, Fiskum, Proposed Amendments to House Bill 3345 (HB 3345-4), 3 pp.
5. HB 3345, Martin-Mahar, Staff Measure Summary, 1 p.
6. HB 3345, Martin-Mahar, Proposed Amendments to House Bill 3345 (HB 3345-2), 2 pp.
7. HB 3345, Martin-Mahar, Staff Measure Summary, 1 p.
8. HB 3345, Martin-Mahar, Proposed Amendments to House Bill 3345 (HB 3345-3), 2 pp.
9. HB 3575, Hyde, Association of Oregon Counties: House Bill 3575 ñ Revision of Forest Taxation Major Points In Support, 1 p.