

HOUSE COMMITTEE ON

• TRADE AND ECONOMIC DEVELOPMENT

March 2, 2005 Hearing Room 343

8:30 A.M.am Tapes 35 - 36

Corrected 10/14/05

MEMBERS PRESENT: Rep. John Lim, Chair

Rep. Scott Bruun, Vice-Chair

Rep. Jeff Merkley, Vice-Chair

Rep. Peter Buckley

Rep. John Dallum

Rep. Donna Nelson

Rep. Chuck Riley

MEMBER EXCUSED:

STAFF PRESENT: Jim Stembridge, Committee Administrator

Erin Seiler, Committee Assistant

MEASURES/ISSUES HEARD:

HB 2234 – Public Hearing and Work Session

HB 2349 – Public Hearing

These minutes are in compliance with Senate and House Rules. Only text enclosed in quotation marks reports a speaker's exact words. For complete contents, please refer to the tapes.

TAPE	Speaker	Comments
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TAPE 35Tape, A

003	Chair Lim	Opens the meeting at 8:35 a.m. OOpens a public hearing on HB 2234 and HB 2349.
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HB 2234 and HB 2349– PUBLIC HEARING

010	Jim Stembridge	Committee Administrator. Explains HB 2234, which increases the number of enterprise zones that may be designated for electronic commerce. Explains HB 2349, which reduces total cost requirement for exemption from property tax for eligible projects under strategic investment program.
025	Ron Fox	Business Development Division Manager, Oregon Economic and Community Development Department (OECDD). Introduces Victoria Pruett and Arthur Fish from OECDD.
031	Victoria Pruett	Market Development Manager, OECDD. Submits Business Incentive and Oregon Taxes presentation packet (EXHIBIT A). Summarizes why incentives are necessary to attract business to Oregon (EXHIBIT A, Page 3).
053	Pruett	Reviews the main Oregon business taxes (EXHIBIT A, Page 4).
065	Pruett	Explains the purpose and locations of Oregon enterprise zones (EXHIBIT A, Pages 5 – 6).
083	Pruett	Reviews the standard tax exemptions for enterprise zones (EXHIBIT A, Page 7).
100	Pruett	Explains the Long-Term Rural Incentives and Electronic Commerce Programs (EXHIBIT A, Pages 8 - 9).
128	Pruett	Reviews the Strategic Investment Program (SIP) (EXHIBIT A, Page 10). Comments that the State of Oregon gives up very little in revenue with SIP because it is controlled at the local level and related to property taxes.

163	Pruett	Explains the additional property tax abatement programs and non-business related tax abatement programs in Oregon (EXHIBIT A, Pages 11 - 12).
187	Chair Lim	Asks if businesses that were located in a newly designated enterprise zones, prior to the designation, have complained about new businesses receiving tax credits or exemptions.
198	Pruett	States businesses within an enterprise zone are eligible for tax benefits if they make incremental investments.
200	Arthur Fish	Business Incentive Coordinator, OECDD. Points out that there are nearly 100 companies in Oregon participating in the enterprise zone program and of that only 25 to 30 are new businesses, the others are existing businesses that have made incremental investments.
212	Rep. Buckley	Asks how many of the companies are using the Energy Tax credits or the Dependent Care credit.
220	Fish	States that they would have to ask another department, but will find out for the committee.
232	Pruett	Concludes explanation of the additional tax abatement programs administered by OECDD (EXHIBIT A, Page 13).
252	Pruett	Explains the Taxable Income Exemption, which allows for project-specific income subtracted from state taxable income for ten years (EXHIBIT A, Page 14).
268	Pruett	States that tax benefits or incentives are mostly defined by law, but there is local discretion and negotiations above and beyond tax incentive provided for SIP and certain enterprise zone (EXHIBIT A, Page 15).
279	Pruett	Concludes presentation by stating again the necessity for tax incentives to attract business and business growth to Oregon (EXHIBIT A, Page 16).
301	Pruett	Submits and summarizes OECDD Report titled, "What Other States are Doing..." (EXHIBIT B) and <i>Idaho Statesman</i> newspaper article titled "Micron Tells Legislators it Needs Tax Breaks" (EXHIBIT C).

307	Pruett	Identifies potential incentive programs to further drive economic development in Oregon.
342	Rep. Riley	Asks if there is “a good reason” why there are limits on the number of enterprise zones and the length of time that they can exist.
350	Fish	States the reasons why there are limits on the number of enterprise zones and the length of time that a locality can hold designation.
386	Rep. Merkley	Comments on the low corporate tax burden in Oregon and explains that corporations thinking about coming to Oregon may not qualify for these tax incentives and cannot predict, with any real certainty that the tax incentives will be there in the future.

TAPE 36, A

002	Rep. Merkley	Asks whether it makes more sense to have a lower overall rate of taxation, producing the same revenue, rather than having little pieces of taxation that force communities to compete against each other.
016	Fox	Responds that the OECDD does regularly evaluate the corporate excise tax or comparable tax burden for Oregon relative to other states.
034	Fox	Explains that corporations “focus in on the total bottom line or a long period of time and are hesitant to consider tax deferrals that have a term associated with them because most corporations make decisions intending it to be a long- term business strategy.”
046	Fish	Affirms that Oregon is one of the lower cost states and do benefit from the generally good business climate in terms of taxation, but the high personal income tax rate does have an effect on the ability to attract business.
062	Rep. Bruun	Points out that the corporate excise tax in Oregon is above average and that Oregon has a unique industry blend of heavy manufacturing and high technology. Addresses the effect on the business climate that Oregon’s high capitol gains tax and property tax rates have on the ability to attract new investment and capitol.
089	Rep. Dallum	Speaks to the need to have a stable and well structured tax system in order to be an attractive and competitive business climate.

108	Fox	Agrees about the importance of a having a stable tax system because corporations want to be able to have predictability in their business costs and be able to project their profitability over a long period of time.
116	Rep. Dallum	Asks whether or not discussions about changing the structure make corporations “nervous” and make the new business investments “harder to capture.”
123	Fox	Explains how it is the overall cost implications of tax adjustments and the long-term predictability associated with tax adjustments that are important to corporations and drive initial investments.
152	Fox	Speaks to SIP projects and which firms are utilizing the program (EXHIBIT A, Page 26) .
165	Fox	Explains flow charts that identify the kind of business investments that OECDD wants to encourage in Oregon (EXHIBIT A, Pages 18 – 20) .
216	Fish	Submits the 2004 Overview of Activity in Oregon Enterprise Zones report (EXHIBIT D) . Summarizes the Basic Enterprise Zone Facts (2004) (EXHIBIT D, Page 2) .
236	Rep. Nelson	Asks why hotels and tourist attractions are not included in enterprise zone program.
244	Fish	Explains how hotels and resorts would be eligible businesses for the standard exemption if the enterprise zones governing authority has chosen to include them.
266	Rep. Buckley	Asks if there is a report that breaks down the states investment, net gain, and bottom line for each tax incentive program.
280	Pruett	States that OECDD will provide this information for the committee.
284	Rep. Buckley	Asks if OECDD’s Innovation and Knowledge Based Services include innovation in medical technology and delivery of healthcare services.
291	Fox	States that the many states are moving towards incentives based around human capital that a business creates “i.e. personnel income

generated by jobs, but in Oregon, human capital investment incentives are very limited.”

- 302 Fox Explains why OECDD focuses on the kind of business being proposed rather than the type of business, when developing its incentive programs.
- 326 Fish Speaks to the results of the analysis that OECDD did of its tax incentive programs and what the returns of income tax revenue and economic growth have been to the state **(EXHIBIT A, Page 23)**.
- 363 Chair Lim Asks for explanation of what an electronic commerce zones is.
- 365 Fish Submits and summarizes written testimony in support of HB 2234 **(EXHIBIT E)**.
- 384 Fish Explains electronic commerce zones, associated tax incentives, and the impact on economic growth and revenue **(EXHIBIT E, Page 1)**.

TAPE 35, B

- 020 Rep. Riley Asks if enterprise zones are such a great idea, why is there not one statewide enterprise zone.
- 027 Ron Fox Explains that the legislatures logic when the enterprise zone program, was established was based around an economic distress designation.
- 052 Rep. Nelson Asks if the 6 enterprise zones who have applied for an electronic commerce designations are “still in the works.”
- 057 Fish Clarifies that if additional enterprise zones designations were made the application process would be reopened to all localities that were interested, those appliques who applied in 2002 would not automatically receive a designation.
- 078 Fox Speaks to how the application and selection process for the original four electronic commerce zone designations and the inability of the OECDD to give “replicable equity” to the localities that were not chosen **(EXHIBIT E, Page 3)**.
- 096 Rep. Nelson

Questions why, since electronic commerce zones has proven to be “a good program,” is there a need to restrict the number of designations.

102	Fox	Explains why the OECDD recommended increasing the amount of designations to ten.
116	Rep. Nelson	Asks if the OECDD is working with the Oregon Department of Transportation to put in place the transportation infrastructure necessary to support the growth created by enterprise zones.
129	Fox	Explains that when developing programs, OECDD does consider the effect on the local support systems, including the availability of the workforce, capacity of the transportation infrastructure, and access and ability of the education system to create workers.
138	Fox	Addresses the improvements in the transportation infrastructure in Oregon, particularly bridge improvements and investments in intermodal types of transportation.
156	Rep. Bruun	Speaks to why there should not be a limit on the number of electronic commerce zones designations.
180	Fish	Points out that HB 2234 also includes long-term tax incentives and an extension of sunset provisions (EXHIBIT E, Page 2).
187	Doris Penwell	Policy Specialist, Association of Oregon Counties (AOC). Testifies in support of HB 2234. Discusses how electronic commerce zones have been an asset in bringing telecommunication companies into Oregon.
212	Penwell	Addresses AOC concerns with the income tax credit that is part of the electronic commerce zone tax incentive package and the statewide fiscal implications of further reducing the state’s income tax revenue.
239	Rep. Dallum	Asks if AOC would support eliminating the restriction on the number of electronic commerce zones.
242	Penwell	Explains why AOC supports eliminating restrictions on the number of electronic enterprise zones.
261	Rep. Buckley	Verifies that even if additional designations were made, a locality still must meet the criteria of being economically in need.

280 Chair Lim Closes the public hearing on HB 2234. Opens a work session on HB 2234.

HB 2234 -WORK SESSION

290 Rep. Nelson States that HB 2234 would best serve the state with an amendment to allow for an unlimited number of Electronic Commerce Zones.

308 Rep. Dallum Supports such an amendment to HB 2234, provided such a designation continued to target high unemployment areas.

324 Rep. Nelson MOTION: Moves to AMEND HB 2234 on page 1, in line 14, after "prove", delete "no more than 10".

364 Rep. Merkley Asks how long the Enterprise Zone “endures” for those who do qualify during the existing period.

376 Ron Fox Business Development Division Manager, Oregon Economic and Community Development Department (OECDD). Explains that the sunset provision has been amended by the legislature and the sunset provision prevents the designation of new enterprise zones after 2009.

TAPE 36, B

006 Arthur Fish Business Incentives Director, OECDD. Clarifies the language and intention of the sunset provisions in HB 2234.

030 Rep. Merkley Asks how many applications OECDD currently has outstanding for electronic commerce zone designations.

034 Fish Replies that there are no outstanding applications.

058 Rep. Merkley Clarifies that, in terms, of the number of enterprise zones, an increase in the number of designations would accommodate the anticipated statewide demand.

065 Fish Suspects that if 6 zones became available, there would be an excess of applications, but OECDD must consider the income tax implications before designating the additional zones.

089	Rep. Merkley	Asks if a fiscal statement is available regarding the impact on property tax revenue for cities and counties and whether there is “a point of diminishing returns on the impact of the program if they become too common place.”
105	Fox	Confirms that property tax revenue is an issue, but if the purpose of the program is to “raise the floor of the Oregon economy;” limiting it could prevent an Oregon business from being internationally competitive.
127	Fish	Verifies that a revenue statement is already available with respect to property taxes, but not with respect to the income tax credit.
149	Sen. Ryan Deckert	Senate District 14. Requests that HB 2234 be held until the committee speaks with the authors of the enterprise zone program regarding what they see as the future of the program.
163	Rep. Merkley	Asks if it would make sense to hold it here or send to the House Revenue committee for amendments.
168	Sen. Deckert	States that it is a program with incredible merit, but the committee needs to work with those who have a heavy investment in it and consider what they foresee as the logical progression of the program before amendments are adopted.
192	Rep. Nelson	States that this is a program that has worked, and does not understand the need to go back to the authors before moving forward.
231	Rep. Bruun	Explains why the number of electronic commerce zones designation should be equal to the number of enterprise zones.
249	Rep. Merkley	States that the proposed amendment is “interesting” because it eliminates the distinction between a regular enterprise zone and an electronic commerce zone. Asks that Senator Deckerts’ request be honored and hold HB 2234 until “all pertinent information” is gathered.
270	Rep. Nelson	Recommends that they go forward with the motion to amend HB 2234.
286	Rep. Buckley	Asks for the time to look more closely at HB 2234.

- 297 Chair Lim States that it is prudent to have more information on HB 2234 and have written amendment before moving forward. Suspends motion to amend HB 2234 until a written amendment is drafted.
- 335 Chair Lim Closes the work session on HB 2234 and the public hearing on HB 2349. Adjourns the meeting at 10:17 a.m.

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EXHIBIT SUMMARY

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- A. HB 2234/HB 2349, Business Incentive and Oregon Taxes Presentation Packet, Victoria Pruett, 26 pp
- B. HB 2234/HB 2349, “What Other States are Doing...” OECDD Report, Victoria Pruett, 2 pp
- C. HB 2234/HB 2349, *Idaho Statesman* Newspaper Article, Victoria Pruett, 2 pp
- D. HB 2234/ HB 2349, 2004 Overview of Activity in Oregon Enterprise Zones Report, Arthur Fish, 37 pp
- E. HB 2234/HB 2349, written testimony, Arthur Fish, 4 pp