

**SENATE REVENUE COMMITTEE**  
**MARCH 10, 2005 8:30 AM STATE CAPITOL BUILDING**

Members Present: Senator Ryan Deckert, Chair  
Senator Rick Metsger  
Senator Floyd Prozanski  
Senator Charles Starr, Vice Chair

Members Excused: Senator Gary George

Witnesses Present: Rep. Greg Macpherson, District 38  
Marge Kafoury, City of Portland  
Barbara Sack, City of Portland Planning Bureau  
Richie Weinman, City of Eugene  
Gerald Kubiak, Washington County  
Al Solheim, Portland real estate developer  
Ed McNamara, Portland real estate developer

Staff Present: Paul Warner, Legislative Revenue Officer  
Lizbeth Martin-Mahar, Economist  
Mary Ayala, Economist  
Barbara Guardino, Committee Assistant

**TAPE 63, SIDE A**

005 Chair Deckert Calls meeting to order at 8:35 a.m. Committee will begin work on SB 32 and SB 480. Committee will hear 4 amendments on SB 480 then recess until 10 a.m. to await a full committee.

**WORK SESSION, SB 32**

037 Lizbeth Martin-Mahar Dept. of Revenue introduced this bill to give them rules to waive penalties on taxpayers for good and sufficient causes that result due to a noncompliance incident being a first offense. Expands definition. Addresses concerns of Sen. George.

**WORK SESSION, SB 480**

055 Paul Warner Gives overview of SB 480-2 amendments (**EXHIBIT 1**). Language in the first section is "Voluntary Compliance Initiative". First major change is page 9, Section 15, defines effective date.

076 Warner Page 10, Section 4, deficiency notice  
Page 11, increase from 8 to 10 years

083 Warner Page 18, "General Tax Amnesty Program"  
Page 19, subject to penalty

109 Warner Page 21, Section 22 (d), date payments are to be completed

111 Warner Summarizes, taxpayers who have not been issued a notice of deficiency will have penalties and interest waived if they come

forward. Those who have received a notice of deficiency would be eligible under -2 amendments, and would have penalties waived, but not interest.

- 128 Warner Page 24, Section (4) is similar to SB 32 in terms of flexibility.
- 137 Warner Begins review of SB 480-3 amendments (**EXHIBIT 2**). Key difference is on page 20, Section 22 (3), line 8. Eliminates those who are already in the system.
- 149 Warner Directs members' attention to Revenue Impact of Proposed Legislation (**EXHIBIT 3**) Compares -2 and -3 amendments. Front section of this bill deals with the -2 amendments; the back defines VCI. Net revenue from unidentified taxpayers is \$10.1 million. Add these together to equal \$21.4 million for 2005-07. That's the -3 amendments.
- 185 Sen. Prozanski Asks if either version addresses a possible nominal penalty that the committee discussed.
- 187 Warner Responds, they do not.
- 199 Chair Deckert Favors -3 amendments. Chair intends to recess on SB 480 in order to examine SB 839. Then the committee will decide whether to work SB 480 or not.
- 205 Rep. Greg Macpherson Testifies in favor of SB 480-4 amendments. He has introduced a similar bill in the House. It is broken into two bills, HB 2486 and HB 2487. Senate Revenue has already picked up HB 2486 in the other amendments, dealing with abusive tax shelters. HB 2487, companion bill, has ideas aimed at the general goal of improving tax compliance, mainly for improved fairness.
- 237 Rep. Macpherson SB 480-4 amendments pick up the elements that were in HB 2487. There are four specific ideas and a fifth, general authorizing provision.
- 248 Rep. Macpherson Sections 8-10 apply income tax withholding to certain retirement distributions that are now subject to an elective withholding rule. Withholding distribution from the source – such as a 401(k) – gets the money up front and assures the tax is collected.
- 255 Rep. Macpherson Sections 11-12, pages 4-6. Provides withholding of income tax on capital gains transactions in real estate located in Oregon. Aimed at out-of-state property owners. They owe Oregon income tax when they sell. Deals with larger transactions.
- 298 Rep. Macpherson Page 4, Section 11 (2), 4% withholding dollars out of escrow.
- 334 Rep. Macpherson Pages 6-8, Sections 13-18, deals with mechanisms for collecting local income taxes. Adds one line to tax Form 440. Uses existing mechanisms. DOR administration costs would be reimbursed out of revenue collected.
- 354 Chair Deckert Asks, why change Form 440 just for one county?

360	Rep. Macpherson	It wouldn't be just for one county. Explains, counties would have to request it.
435	Rep. Macpherson	Sections 21-22 authorize state agencies to require evidence of income tax compliance as a condition for issuance or renewal of a license.
470	Rep. Macpherson	Sections 23-24 give broader authority to DOR to adopt rules providing additional income tax withholding.
490	Sen. Prozanski	Asks how these three amendments would work with one another.
509	Warner	The -4 amendments are currently a separate bill, HB 2487.
511	Chair Deckert	Committee will decide whether to adopt -2 or -3, and will then consider -4 separately. Asks Rep. Macpherson to visit with committee members to get a sense of where they are in regard to this bill. If/when the committee returns in a quorum, Chair will allow people to weigh in on the -4's, especially if there are objections. Recesses work session on SB 480 until 9:45 a.m. Opens public hearing on SB 839.

**TAPE 64, SIDE A**  
**PUBLIC HEARING, SB 839**

001	Mary Ayala	Gives overview of SB 839. See Revenue Impact Statement ( <b>EXHIBIT 5</b> ). Extends the sunset provision from January 2006 to January 2016 for a statute that provides a property tax exemption for qualified multi-family units that are rented to households that satisfy low-income requirements.
008	Ayala	Continues explaining exhibit 5, page 2, Staff Measure Summary. Points out error in Background, paragraph 1: "0 years" should be "10 years".
043	Marge Kafoury	Reads letter for the record in support of SB 839. Unico Properties, Seattle, Washington, owner and operator of the U.S. BanCorp tower in downtown Portland. Reviewing a development opportunity in Portland for construction of workforce multifamily housing. The project is made feasible by continuation of the 10-year tax exemption program.
059	Barbara Sack	Testifies in favor of SB 839 on behalf of the Portland Planning Bureau. SB 839 extends the sunset from 2006 to 2016. See written testimony, verbatim ( <b>EXHIBIT 6</b> ).
102	Chair Deckert	Asks for an income breakdown on 1,000 units. Follow-up comments.
127	Sack	City of Portland has affordability requirements for rental housing projects. Requires developers to make 20% of units affordable to households at or below 60% median family income. Tax exemption has been used in conjunction with other subsidies to help fund low- and mixed-income projects.
144	Sen. Prozanski	Asks, are dollars being maximized for those who need the most assistance?

- 151 Sack Points out, there are assessments for historic properties. Under this program there would be a tax exemption but it's under a state program and there would be no price limits on the units. City program has price caps and buyer income limits.
- 165 Chair Deckert Asks, what is the price cap?
- 177 Sack Responds, it is 95% of FHA's maximum mortgage amount, so this year a unit could not be priced higher than \$203,000. In central city, the program has been mostly used to support rental housing units. Responds to follow-up questions.
- 209 Sack Concludes, City of Portland urges committee to support this bill.
- 229 Chair Deckert Expresses concern that property taxes go to important purposes, so any exemption has to meet a pretty high test.
- 248 Sen. Prozanski Asks Ms. Sack to provide criteria used to establish percentage of housing that has to meet threshold and how it is determined.
- 245 Sack Will get back with that information.
- 324 Richie Weinman Testifies in support of SB 839. See written testimony (**EXHIBIT 7**). In Eugene the multi-family housing that gets built wouldn't happen without this exemption. In the past, projects have been built on bare land, so no loss as a result because no tax exemption anyway. Projects have helped Eugene's downtown and university areas. This is a local option, so school districts have supported it. After M50 passed, Eugene put a moratorium on projects, and no projects were built. Proved without the exemption it didn't work.
- 380 Chair Deckert Asks how the city consults with school and fire districts.
- 385 Weinman City asks taxing districts to agree with these projects. They recognize they are foregoing almost nothing in the short-term and get a windfall in the long-term.
- 420 Weinman This is the only incentive program to help level the playing field. It is not a windfall for developers. The idea is to encourage compact urban growth, not so much a low income housing program.
- 434 Weinman Encourages extension of the sunset and wonders why there's a sunset at all. It's been extended three times.
- 443 Chair Deckert Does not support another extension. Legislators are scouring every area of government to find money for school funding.
- 469 Weinman Responds, this adds to the long-term tax role.

**TAPE 63, SIDE B**

- 022 Gerald Kubiak Testifies in favor of SB 839. Washington County has not used this mechanism in the past. Other jurisdictions have been successful, and Washington County could use this in the future with opening of Wilsonville-Beaverton commuter rail line and Highway 217 corridor redevelopment.

- 044 Al Solheim Testifies in favor of bill. Investor in Portland's River/Pearl District. Active in Pearl since 1980. Today, Pearl is one of the most successful urban renewal districts in country. Critical to its success has been this tax abatement program. Gives example of a program that won't go forward without the extension of this program.
- 082 Ed McNamara Urges the committee to support this extension for at least 10 years. Gives examples of what would happen without this tool. Developers aren't making money, it's not a subsidy, it's an incentive. It allows them to borrow more money.
- 144 McNamara Continues testimony with an example of a Portland project, 210 units for moderate income central city workers. Most units have income restrictions for 60 years. Tax abatement for 10 years is only for the improvements, and it lowered developer's property tax by \$100,000 and allowed them to borrow an additional \$1.5 million.
- 180 Chair Deckert Asks, what is the total cost of the project?
- 184 McNamara Responds, \$30 million. There's not enough cash flow to justify finding another investor to put in another \$1.5 million. There are limited resources to support affordable housing. Concludes, the city makes a modest investment and gets a lot out of it.
- 195 McNamara Appreciates the committee's concern about looking for school dollars. Some of these projects take 3-4 years. If this program sunsets, he can't count on those dollars being there to finish this project. Asks for a 10- year extension.
- 215 Chair Deckert Test is whether a project would occur otherwise. The purpose of a sunset is to allow lawmakers to review the law to determine if it is a good use of money.
- 213 McNamara Does not object to a sunset. Less than 10 years would undercut the success of this program.
- 218 Al Solheim Agrees.
- 242 Chair Deckert Asks, why did 1999 legislators allow a 2006 sunset rather than pushing it out a few more years?
- 255 Solheim Many projects are critical to passage of this bill.
- 268 Chair Deckert Committee will think about this bill long and hard before making a decision.
- 289 Chair Deckert Closes public hearing on SB 839. Recesses meeting to await a quorum. Reopens work session for SB 480.

**WORK SESSION, SB 480**

290 Sen. C. Starr

**MOTION: MOVES ADOPTION OF SB 480-3.**

294 Chair Deckert

**ORDER: THERE BEING NO OBJECTION THE CHAIR SO ORDERS.**

**VOTE: 4-0-1**

**MEMBERS VOTING AYE: METSGER, PROZANSKI, C. STARR,  
CHAIR DECKERT**

**MEMBERS EXCUSED: GEORGE**

- 301 Sen. C. Starr **MOTION: MOVES ADOPTION OF SB 480-4.**
- 304 Chair Deckert **ORDER: THERE BEING NO OBJECTION THE CHAIR SO ORDERS.**  
**VOTE: 4-0-1**  
**MEMBERS VOTING AYE: METSGER, PROZANSKI, C. STARR,  
CHAIR DECKERT**  
**MEMBERS EXCUSED: GEORGE**
- 308 Sen. C. Starr **MOTION: MOVES SB 480 AS AMENDED TO THE SENATE FLOOR WITH A DO PASS RECOMMENDATION.**
- 310 Sen. Prozanski Discussion on moving SB 480 to floor. Would have preferred a nominal penalty for individuals who have intentionally not paid their taxes. Will support this bill but hopes lawmakers are not sending out a wrong message. Those who protest government actions to the point of "civil disobedience" will normally take the penalty.
- 345 Chair Deckert The House will revisit this bill and will deliberate on this issue.
- 356 Chair Deckert **ROLE CALL VOTE: 4-0-1**  
**MEMBERS VOTING AYE: METSGER, PROZANSKI, C. STARR,  
CHAIR DECKERT**  
**MEMBERS EXCUSED: GEORGE**
- 364 Chair Deckert Adjourns meeting at 10:00 a.m.

Tape Log Submitted by,

Barbara Guardino, Committee Assistant

Exhibit Summary:

1. SB 480, (LC 2364) -2 amendments, 3/10/05, Warner, 25 pp.
2. SB 480, (LC 2364) -3 amendments, 3/10/05, Warner, 25 pp.
3. SB 480, Revenue Impact of Proposed Legislation for SB 480-2, 3/10/05, Warner, 2 pp.
4. SB 480, (LC 2364) -4 amendments, 3/10/05, Macpherson, 11 pp.
5. SB 839, Revenue Impact of Proposed Legislation, 3/10/05, Ayala, 2 pp.
6. SB 839, Testimony, Senate Committee on Revenue by City of Portland, Bureau of Planning, March 10, 2005, Senate Bill 839, Sack, 3 pp.
7. SB 839, Testimony of Richard Weinman, City of Eugene, Urban Services Manager, before the Senate Revenue Committee, March 10, 2005, Weinman, 3 pp.
8. SB 839, Pearl District Neighborhood Association letter from Patricia Gardner, Chair, Pearl District Planning & Transportation, Gardner, 1 pp.
9. SB 839, Metro, letter from Council President David Bragdon, 3/8/05, Bragdon, 1 pp.
10. SB 839, Trammell Crow Residential letter to Senator Ryan Deckert RE: Senate Bill 839, Multiple

Housing Statutes ORS 307.600-.691, March 9, 2005, Hinnen, 1 pp.

11. SB 839, REACH Community Development Inc., letter to Senator Ryan Deckert from Dee Walsh, March 8, 2005, Walsh, 1 pp.
12. SB 839, Gordon C. Jones, letter to Senate Committee on Revenue RE: SB 839, March 8, 2005, Jones, 2 pp.
13. SB 480, SB480 Response by Tax Fairness Oregon, 3/8/05, Wiser, 3 pp.