

SENATE REVENUE COMMITTEE
MAY 10, 2005 9:00AM STATE CAPITOL BUILDING

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

Witnesses Present: Ken Yates, Northwest Food Processors Association
Katy Coba, Dept. of Agriculture
Gil Riddell, Association of Oregon Counties
Sen. Roger Beyer, District 9
Michelle Deister, League of Oregon Cities
Todd Davidson, Oregon Tourism Commission
Scott West, Oregon Lodging Association
Karey Schoenfeld, Oregon State Bar Tax Section
Mark Huglin, Oregon State Bar Tax Section

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

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005 Chair Deckert Calls meeting to order at 9:10 a.m.

WORK SESSION, SB 479

019 Mary Ayala Gives overview of SB 479-2 amendment (**EXHIBITS 1, 2**). Provides a 5-year property tax exemption for purchases of new equipment by qualified companies. Discusses SB 479-2 amendment (**EXHIBIT 3**), which changes the original bill from a proposed income tax credit to a proposed property tax exemption. Gives background. The bill will enable Oregon's food processing industry to compete more effectively in a global market.

052 Sen. Prozanski Asks whether the offset is dollar-for-dollar or a percentage.

056 Ayala No, it is a 5-year property tax exemption on the value of the new equipment, not on all equipment.

087 Chair Deckert Governor's office has been working with food processors on the SB 479-2 amendments. Hopes to move this bill next Tuesday with amendments.

095 Katy Coba Governor's office has been working with food processors to craft a bill

that can target a specific sector of the industry, which is tied closely to agricultural production. The Dept. of Agriculture does not take the notion of moving from an income tax credit to a property tax exemption lightly. Will continue to have conversations on this topic. One of the challenges is dealing with the tax code. The challenge with an income tax credit is that it assists companies that are making money. Dept. of Ag is concerned it wouldn't help the companies in agriculture and seafood that are struggling. To keep this industry competitive, Oregon needs to invest in new equipment. Agriculture is working on some new amendments, which should be ready by next Tuesday.

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| 132 | Chair Deckert | Would like to see a sunset on the bill. |
| 136 | Ken Yates | Has just received SB 479-2 amendment and will look at it and refine it. Wants to be sure this credit is as specific and targeted as possible to help the distressed sectors. |
| 173 | Yates | Begins discussion on SB 365, which is related to SB 479. Some existing codes can be eliminated, for instance, sugar beet manufacturing. Under the definition of seasonal labor in Section 2(c), there have been concerns raised about the length of hours. |
| 184 | Sen. Prozanski | Objects, this bill is not in front of the committee. Has a procedural concern. |
| 197 | Chair Deckert | Explains, the bills are very similar in nature. SB 365 will receive a full hearing later. |
| 206 | Sen. Roger Beyer | Comments on SB 479 and SB 365, drafted at his request. They both relate to taxation, so could be combined into a single bill. They both deal with tax credits for the food processing industry, a major employer in the state. Because of the global economy there has been a sharp decline. "If we don't do something, we're going to lose it." Oregon's land use system requires owners of agricultural land to use it for that purpose. If this industry leaves the state, there will be thousands of acres zoned for agriculture that can't be used. There will be a snowball effect in loss of manufacturing and processing plants. Time is crucial for this industry. |
| 258 | Sen. Beyer | SB 365 addresses the cost of labor in Oregon. SB 479 addresses upgrading facilities. Third world countries are more modern than U.S. companies. Urges passage of both bills, either separately or combined. |
| 291 | Gil Riddell | AOC would have appreciated being part of the earlier discussion on these amendments. Is interested to know where the affected facilities are located. |
| 318 | Chair Deckert | AOC will be included. |
| 327 | Michelle Deister | Echoes Riddell's comments on behalf of League of Oregon Cities. Would be interested to see where facilities are located. |

PUBLIC HEARING, HB 2197

- 340 Mazen Malik Gives overview of HB 2197-A (**EXHIBIT 4**). Modifies definition of “transient lodging” for tax purposes to include houses, cabins, condominiums, apartment units, tent spaces and other dwelling units that are used for temporary occupancy. Gives brief background of the state Transient Lodging Tax.
- 360 Malik HB 2197 remedies omissions, clarifies a segment of the statute. When Dept. of Revenue started the process, it became obvious that certain types of lodging were not included in the law. This bill was amended in the House to exempt nonprofit organizations and campsites used for nonprofit purposes. Reviews the revenue impact of the bill (**EXHIBIT 5**).

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- 022 Chair Deckert Concerning the revenue impact, asks why collections are so short in regard to the 1% statewide lodging tax.
- 025 Malik Responds, this is a new tax for the state, and it took time to establish the mechanism and give people the chance to comply. It also takes time to process. 2007-09 will be the first biennium to have a full implementation period with a fully functioning collection system.
- 055 Todd Davidson Would like to reconcile the estimate comments and questions made earlier. DOR was initially looking at “total accommodation sales in the state” when it arrived at the \$11 million figure. Not everything is subject to the 1% statewide lodging tax. It’s erroneous. Oregon Tourism Commission anticipates lodging tax would generate \$7.5- to \$8 million per year. It is on target. Will work with DOR and Legislative Revenue Office to adjust those figures.
- 076 Davidson The state lodging tax has been utilized about 10 months. HB 2197-A is a technical fix to a definitional issue in HB 2267. It substitutes the words “designed” for “used”. It also incorporates exemptions previously adopted by DOR in its administrative rules, such as church camps and health care facilities.
- 095 Chair Deckert Asks for examples of where the initial appropriation has been spent.
- 100 Davidson Will provide the committee with this information.
- 105 Sen. Metsger Asks question in regard to page 3, line 7 concerning exemptions on a unit occupied or leased for 30 days or more. If someone took a 30-day vacation would they be charged?
- 114 Davidson In application, that is correct. After 30 days the lodging is no longer considered transient, and can fall under tenant-landlord agreements. That is why that exemption is spelled out in statute.
- 130 Scott West These delineations have been clear a long time and are imbedded in local statute. That’s why it’s mirrored in state statute. “Good bill, should pass.” This is the appropriate fix.

PUBLIC HEARING, HB 2469

- 149 Lizbeth Martin-Mahar HB 2469, is the committee’s first estate tax bill. Refers members to

2005 Oregon Public Finance: Basic Facts booklet (**EXHIBIT 6**). Reviews last session's HB 3072, which connected with federal legislation of 1997, the Taxpayer Relief Act. See chart on top of page F2, Gross Estate Value Filing Threshold. Bill clarifies confusion, deals with discrepancy between federal estate filing threshold and the state's 1997 legislation. The threshold grows in the future.

- 214 Martin-Mahar Last session in HB 3072 there was a provision to allow surviving spouses to make an election for Oregon's estate tax. HB 2469 allows a taxable estate value for Oregon estate tax purposes to be reduced by the value of all of the Oregon special marital property in the estate.
- 254 Martin-Mahar Reads measure description in revenue impact statement (**EXHIBIT 7**). There is no revenue loss to the state general fund. Small number of estates will be affected.
- 282 Karey Schoenfeld Testifies in favor of HB 2469. Oregon State Bar Tax Section felt there was a problem when the state disconnected with the inheritance tax last legislative session. This fixes the problem. It defers the tax until the second death. See written testimony (**EXHIBIT 10**). Will provide a listing of the members of the work group.
- 306 Mark Huglin Policy issues involved at the federal and state level have always been to defer the estate tax until the death of the surviving spouse. This allows that to occur. In regard to revenue impact, it is still possible that a person can go to court and have a trust re-formed. This is costly and a waste of resources only the lawyers benefit. This bill makes it unnecessary to go to court.
- 331 Sen. Prozanski Asks for clarification: the purpose is to defer taxes owed until the death of the second spouse?
- 341 Schoenfeld Yes, to the extent that the second spouse needs the funds, then it is taxed at the second death. There is no distribution to other family members.
- 373 Sen. Prozanski Follow-up questions concerning attorney fees, going to court, and reimbursements.
- 424 Chair Deckert Asks, if a family wanted to go to court would they be successful?
428 Huglin They can go into court and try to get the will or the trust re-formed. To do that you'd need all the beneficiaries to agree to it. It would be a nightmare with a large family and would cost several thousand dollars.

WORK SESSION, HB 2469

480 Vice Chair C. Starr

MOTION: MOVES HB 2469 TO THE SENATE FLOOR WITH A DO PASS RECOMMENDATION.

482 Chair Deckert

**ORDER: THERE BEING NO OBJECTION THE CHAIR SO ORDERS. MOTION PASSES: 5-0-0
VOTING AYE: GEORGE, METSGER, PROZANSKI, C. STARR, DECKERT**

TAPE 117, SIDE B

041 Chair Deckert

Closes work session. Reminds the committee that Friday, May 13 at

8:30 a.m. the committee will host the House Revenue Committee for the May economic forecast.

046 Chair Deckert Adjourns meeting at 10:05 a.m.

Tape Log Submitted by,

Barbara Guardino, Committee Assistant

Exhibit Summary:

1. SB 479, Staff Measure Summary, Ayala, 5/10/05, 1 pp.
2. SB 479, Revenue Impact of Proposed Legislation, Ayala, 5/10/05, 1 pp.
3. SB 479, Amendment SB 479-2, Legislative Counsel, 5/9/05, 3 pp.
4. HB 2197, Staff Measure Summary, Malik, 5/10/05, 1 pp.
5. HB 2197, Revenue Impact of Proposed Legislation, Malik, 5/10/05, 1 pp.
6. HB 2469, 2005 Oregon Public Finance: Basic Facts, Martin-Mahar, 6 pp.
7. HB 2469, Revenue Impact of Proposed Legislation, Martin-Mahar, 1 pp.
8. HB 2469, Staff Measure Summary, Martin-Mahar, 5/9/05, 1 pp.
9. HB 2469, Staff measure Summary from House Revenue Committee, 3/16/05, Martin-Mahar, 1 pp.
10. HB 2469, testimony of Karey Schoenfeld, 2 pp.