

**SENATE REVENUE COMMITTEE**  
**MAY 17, 2005 9:00 AM STATE CAPITOL BUILDING**

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

Witnesses Present: Katy Coba, Dept. of Agriculture  
Ken Yates, Northwest Food Processors Association  
Gil Riddell, Association of Oregon Counties  
Michelle Deister, League of Oregon Cities  
John Marshall, Oregon School Board Association  
Chuck Bennett, Confederation of Oregon School Administrators

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

**TAPE 121, SIDE A**

005 Vice Chair C. Starr Calls meeting to order at 9:05 a.m.

**WORK SESSION, HB 2449**

016 Sen. Metsger **MOTION: MR. CHAIR, I MOVE WE SUSPEND THE RULES FOR THE PURPOSE OF RECONSIDERATION OF HB 2449-A WHICH WAS SENT TO THE SENATE FLOOR WITH A DO PASS RECOMMENDATION.**

018 Vice Chair C. Starr **SEN. METSGER MOVES THAT WE SUSPEND THE RULES TO RECONSIDER HB 2449-A WHICH WAS SENT TO THE SENATE FLOOR WITH A DO PASS RECOMMENDATION. DISCUSSION.**

022 Vice Chair C. Starr **ORDER: THERE BEING NO OBJECTION THE CHAIR SO ORDERS. VOTE: 3-0-2. MEMBERS VOTING AYE: GEORGE, METSGER, C. STARR. EXCUSED: PROZANSKI, DECKERT**

024 Lizbeth Martin-Mahar Explains the reason the bill has returned to the Senate Revenue Committee is that there were conflicts with another bill that was already passed, HB 2448. That bill permitted the Dept. of Revenue to refund amounts determined to be overpayments on the original tax returns which were filed more than three years after the due date. That bill amended ORS 314.415. This bill deals with apportionment of tax refunds among married couples, based on adjusted gross income of each spouse.

043 Sen. Metsger **MOTION: MOVES ADOPTION OF HB 2449-A3 AMENDMENT.**

- 045 Vice Chair C. Starr **ORDER: THERE BEING NO OBJECTION THE CHAIR SO ORDERS. VOTE: 4-0-1. MEMBERS VOTING AYE: GEORGE, METSGER, PROZANSKI, C. STARR. EXCUSED: DECKERT**
- 047 Sen. Metsger **MOTION: MOVES HB 2449-A AS AMENDED TO THE SENATE FLOOR WITH A DO PASS RECOMMENDATION.**
- 049 Vice Chair C. Starr **ORDER: THERE BEING NO OBJECTION THE CHAIR SO ORDERS. VOTE: 4-0-1. MEMBERS VOTING AYE: GEORGE, METSGER, PROZANSKI, C. STARR. EXCUSED: DECKERT**

#### **WORK SESSION, SB 479**

- 064 Paul Warner Directs members' attention SB 479-3 amendment (**EXHIBIT 3**). This amendment is based on SB 479-2 amendment. The involved parties have just received it, and will comment on it.
- 071 Chair Deckert Senate President Courtney wants the committee to hold onto the tax credit bills. Chair Deckert would like the committee to settle on which tax credit bill it wants to present for final budget negotiations.
- 079 Mary Ayala Gives overview of SB 479 (**EXHIBIT 4**). Provides a 5-year property tax exemption for purchases of new equipment by qualified companies. Qualified companies must engage in the processing of raw or fresh fruit, vegetables, legumes or seafood. SB 479-3 was requested because during prior testimony there was a request for a sunset provision and clarifying language. This amendment narrows the list of industries affected, and adds seafood processing. This increases the impact from \$.67 million to \$1.23 million (**EXHIBIT 5**) in the 2005-07 biennium.
- 130 Chair Deckert Calls on focus panel to update committee on their progress over the last week. (Panel includes Departments of Agriculture and Revenue, along with counties and cities.)
- 135 Katy Coba Recommends passage of SB 479-3 amendments. They include definitions of food processing for the purpose of this property tax exemption. Focuses on primary processing. Language in the bill defines the panel's intent in terms of primary processing. Focus is to provide incentive for the industry to remain competitive by investing in equipment and technology. Currently processors that would qualify are in existing enterprise zones which already have similar exemptions. The panel is not interested in having companies "double dip." They need to choose one exemption or the other, and that needs to be stated in an amendment.
- 166 Ken Yates Echoes, this has been a productive collaboration. The intent is to fill the gap for approximately half of the processors, which are not in enterprise zones. They'd be given the option of an enterprise zone or this tax exemption. The thrust of this legislation is to address the distressed commodity processors, to provide technology that will increase productivity and provide higher skilled and higher wage jobs. Feels good about the bill, although it could use some additional tweaking.

198	Chair Deckert	Asks those involved to put out a joint statement on the process by which they arrived at this bill.
215	Gil Riddell	AOC sees this bill as promising. Is pleased that it is precisely targeted and supports the bill for that reason. It may well work. Notes, this is a switch from tax credits to property tax exemptions, which means local revenues are being spent for a statewide problem. AOC takes the five-year sunset date seriously and wants to be sure this money is well spent.
246	Yates	Will witness the signing of a similar bill in Olympia, Washington this afternoon. Is encouraged by Washington's efforts.
264	Vice Chair C. Starr	Appreciates the work that's been done. Is involved in the agriculture industry and realizes it is struggling. Large numbers of processors have disappeared over the last five years, and taxes disappear with them. Hopes this will improve profitability and opportunity in Oregon.
286	Sen. George	Asks whether this bill includes hazelnut processing.
289	Coba	Responds yes, nuts are considered fruits.
297	Sen. George	Comments, it's important to keep these businesses alive. It's a tough business with diseases and foreign competition. Applauds Washington state governor's efforts.
322	Michelle Deister	League of Oregon Cities opposes converting this tax from a tax credit to a property tax exemption. Acknowledges Dept. of Agriculture, Revenue and food processors' hard work. Agrees with Riddell's comment that this is a statewide problem.
349	Sen. George	Wonders how much revenue Salem and other communities have lost over the last five years due to local plant closures.
360	Deister	There are tax consequences to these building closures, but there are plenty of deserving companies that are struggling and need help.
365	Chair Deckert	Closes work session on SB 479.

#### **WORK SESSION, SB 427**

376	Chair Deckert	Notes, there are amendments to look at which have to do with the high cost disability grant in the school equalization formula.
380	Sen. Metsger	Sponsored the original bill, which was a transportation bill. It is now a vehicle for another bill.
385	Chair Deckert	Has asked for another amendment to sunset the school formula in three years. Would like to discuss this during the interim. Asks if anyone else is interested in this amendment.
415	Meyer	Directs members' attention to SB 427-1 amendment ( <b>EXHIBIT 6</b> ). It is not quite the same as he had intended, which was the same as HB 2450-A. The amendments were left off the Senate version. He will take care of this. Sunset must be removed. The high cost disability

grant for 2004-05 states that all of the costs above \$25,000 for each high cost student are eligible for this grant. At that level the total cost was about \$17 million and the maximum amount for the grant was \$12 million. So districts got less than the full reimbursement. The House changed that to \$30,000, which cut the total down.

**TAPE 122, SIDE A**

022	Meyer	Directs members' attention at School Finance Distribution table ( <b>EXHIBIT 7</b> ). It doesn't match the SB 427-1 amendment. He used the \$30,000 figure for the floor in calculations in this table. The House bill also removed the sunset for the small high school supplemental fund, which is \$2.5 million per year. Has used the Senate's appropriation figure of \$5.325 billion for the state school fund in running the formula numbers.
053	Meyer	Eighty districts receive revenue under the high cost disability grant; 99 districts qualify for the small high school supplemental fund allocation.
056	Chair Deckert	Summarizes, there are three questions: high cost disability reimbursement; small high schools; and a general formula conversation.
067	Sen. George	Asks how many districts are in the minus category.
072	Meyer	Responds, about 110 show a gain and 88 show a loss.
078	Sen. Prozanski	Requests more information on the small high school fund. There are small schools in his district (Lane County) that don't qualify and he believes they should.
087	Chair Deckert	Would like a review of changes made last session on the high cost disability fund.
099	Meyer	Responds, high cost disability students are Individual Education Program (IEP) students. They also qualify for double weight in the formula. The number of IEPs that can be weighted is limited to 11% of students without a waiver.
104	Sen. Prozanski	Notes, Cottage Grove area has 19% of students qualifying but they are only being funded at 11%. Can they go through the waiver process?
112	Meyer	Responds, yes. There are districts spending more than the double weight allowed. Typically they are in urban areas where other services are available. Portland area has a higher percent of high-cost students than the state average. The interim group proposed that they be eligible for those high costs as a new grant in the formula. It was set at \$25,000. Adds, at the \$25,000 floor, the total number of qualified students is 2,000. With the \$30,000 floor it is half that number.
156	Sen. George	Compares this process with shuffling the deck chairs on the Titanic. The districts are required by law to meet the needs of these students. Who will pickup the difference?
159	Meyer	There is nothing in the numbers that change the total amount available to school districts. It's a matter of how funds are distributed.

165	Sen. George	This is shifting the burden onto local districts. Wonders where that leaves the children with special needs.
173	Chair Deckert	Is glad this has been sunset so it can be revisited.
180	Meyer	Continues discussion, concerning small high schools. There is in the formula a small school correction weight. The school district must have less than 8500 ADMw to qualify. It is for existing high schools only, not for larger districts that split into smaller ones.
196	Sen. Prozanski	Asks how Bethel School District in Lane County fits into this small high school fund. Fern Ridge has nothing coming in, and yet would take a \$30,000 hit. Will take this information to his school districts and have them comment.
226	Meyer	During the 2003 session discussion, there was concern that small high school correction weight still didn't generate enough to serve larger high schools. This was a counter-weight to help larger and smaller districts.
242	Chair Deckert	Asks about the wide swing in formula per pupil throughout the state.
250	Meyer	There is a combination of factors including transportation costs, weighting, poverty factor, special needs students.
260	Vice Chair C. Starr	The more affluent communities like Sherwood don't have the student weighting that other communities have. These factors put them in a tough position on how to maintain programs with the growth.
278	Chair Deckert	This bill will not move today. Is interested in setting up a task force to revisit the whole formula.
309	John Marshall	Components of this bill were added by 2003 legislature following an interim study. Describes the high cost disabilities grant as an insurance program. Every school district pays a premium. Eugene, for example, has a student who costs over \$100,000/year and has to be placed out of district. It is not uncommon for a small district to receive one of these students. The idea was that every school district would pay a premium, and the deductible was \$25,000. But that level of reimbursement is not high enough, so the deductible was increased to \$30,000. This provides greater protection for schools. In small rural districts this provides a great deal of assistance. The other change last session was to increase the transportation grant in order to help small rural districts with high transportation costs.
375	Marshall	High cost students tend to live in urban areas where medical and other services exist. It's unusual to see them outside metro areas but it's possible, so that's why the concept was created.
389	Chuck Bennett	COSA supports the SB 427-1 amendment. Responds to Sen. Prozanski's questions concerning Bethel School District.
415	Vice Chair C. Starr	Asks whether the premium is high enough. Districts with large numbers of special needs students are still being penalized.

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| 425 | Marshall            | Moving from \$25,000 to \$30,000 is already 100% reimbursement. If you increase the premium, the question is whether to lower the deductible.                                |
| 446 | Vice Chair C. Starr | It seems these districts are paying large amounts for the difference in what they receive in the formula and the \$30,000 limit. It's a tough proposition to find a balance. |

**TAPE 121, SIDE B**

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| 033 | Sen. Prozanski | Follows up on Sen. Starr's comments. Also expresses concern over small rural districts that have timberland but don't get their money until the timber is harvested. They need a different formula to get them by while the timber money is unavailable. |
| 065 | Chair Deckert  | Wants Meyer to look at what would happen if the cap were dropped back to \$25,000 and the fund were bumped up to more fully reimburse the high cost districts. Several things within the formula should be looked at during the interim.                 |
| 088 | Chair Deckert  | Committee will bring this bill back on Thursday with a more perfected amendment. He asks Meyer to run the math on reimbursements.                                                                                                                        |
| 108 | Chair Deckert  | Closes work session on SB 427. Adjourns meeting at 10:07 a.m.                                                                                                                                                                                            |

Tape Log Submitted by,

Barbara Guardino, Committee Assistant

**Exhibit Summary:**

1. HB 2449-A, Staff Measure Summary, Martin-Mahar, 5/17/05, 1 pp.
2. HB 2449-A, Amendment HB 2449-A3, Legislative Counsel, 5/6/05, 6 pp.
3. SB 479, Amendment SB 479-3, Legislative Counsel, 5/17/05, 4 pp.
4. SB 479, Staff Measure Summary for SB 479-3, Ayala, 5/17/05, 1 pp.
5. SB 479, Revenue Impact of Proposed Legislation for SB 479-3, Ayala, 5/17/05, 1 pp.
6. SB 427, Amendment SB 427-1, Legislative Counsel, 5/16/05, 11 pp.
7. SB 427, School Finance Distribution, Meyer, 5/16/05, 8 pp.
8. SB 427, Staff Measure Summary, Meyer, 5/16/05, 1 pp.
9. SB 427, Revenue Impact of Proposed Legislation, Meyer, 5/16/05, 1 pp.