

**SENATE REVENUE COMMITTEE
MAY 5, 2005 9:00 AM STATE CAPITOL BUILDING**

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

Members Excused: Senator Gary George
Senator Charles Starr, Vice Chair

Witnesses Present: Pat Egan, Port of Portland
John Phillips, Oregon Dept. of Revenue
Jack Kenny, Housing and Community Services
Debra Buchanan, Oregon Dept. of Revenue

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

TAPE 113, SIDE A

005 Chair Deckert Calls meeting to order at 9:07 a.m.

PUBLIC HEARING, HB 3359

039 Mary Ayala Gives overview of HB 3359 (**EXHIBIT 1**). Clarifies ORS308.558 by exempting from property tax, aircraft used or held by foreign-owned carriers. Applies to tax years retroactively beginning on or after July 1, 2004. This bill clarifies current law and is consistent with the attorney general's position on this issue.

053 Pat Egan Presents written testimony (**EXHIBIT 2**). Explains the reason this bill exists is that the Port of Portland has direct international nonstop flight service to Europe and Asia. Lufthansa got a property tax bill from the Oregon Dept. of Revenue and had never been taxed in any other state. The Port came to recognize that there is a unique body of law called Taxation of Vessels of International Commerce. The idea is that a flight that originates in one country and ends in another country only gets taxed in one country. Lufthansa is headquartered in Frankfurt, Germany and is taxed in Germany.

094 Egan Refers to a letter from DOR Director Elizabeth Harchenko (not an exhibit) that the state lacks the authority to levy this tax.

121 Chair Deckert Asks why Mexicana Airlines was not assessed.

- 125 Egan They were, and the Port heard from them and other foreign flights.
- 130 John Phillips DOR assessed a Canadian flight, but later corrected it. DOR came to an understanding of the law. The key difference is, it's not international flights, it's foreign air carriers.
- 142 Chair Deckert Asks how an assessment is done on foreign air carriers.
- 145 Egan Believes it has to do with takeoffs and landings.
- 156 Phillips DOR views this bill as a cleanup of the statute.

PUBLIC HEARING, HB 2257

- 184 Ayala Gives overview of HB 2257 (**EXHIBIT 3**). Corrects and simplifies statutes that pertain to authorizing bond issuance amounts. Gives background. References in the current statute are being deleted because they were unintended.
- 205 Chair Deckert Asks for any testimony. Notes this is a clean-up bill. Closes public hearing.

PUBLIC HEARING, HB 2446

- 213 Paul Warner Gives overview of HB 2446 (**EXHIBIT 4**). Corrects errors and omissions in current Oregon tax statutes. Updates language. This is the reviser's bill.
- 223 Sen. Prozanski Comments on changing the term "non-urban" to "rural."
- 241 Chair Deckert Agrees, that could be a problem. Closes public hearing.

PUBLIC HEARING, HB 2054

- 245 Mazen Malik Gives overview of HB 2054 (**EXHIBIT 5**). Directs Housing and Community Services Department to establish threshold property purchase price that triggers State Housing Council review of loans for single-family home ownership. Places maximums and establishes processes. Also it extends state treasury bonds from 42 years to 47 years.
- 285 Jack Kenny Testifies in support of HB 2054 on behalf of Oregon Housing and Community Services (**EXHIBIT 6**). Oregon has led the nation in rise in housing costs over the last 10 years. This bill increases the loan period, which is necessary in order to meet HUD's minimum allowable rent.
- 322 Sen. Prozanski Asks Kenny for more information concerning HUD.
- 328 Kenny Responds, one of OHCS's main projects is to preserve Section 8 housing in depressed rural areas. HUD keeps us to market rates in rural areas. Rents are lower than what it takes to service debt, so OHCS has to increase the length of the loan. It helps first-time homebuyers who might not otherwise be able to afford a home.
- 351 Chair Deckert Asks, what are the income criteria? Follow-up discussion.

- 359 Kenny It is 100% or below median income, but OHCS strives to serve 80%. Median family income is \$48,000. There are a lot of safeguards in the bill
- 401 Chair Deckert Asks if there is a problem with loaning people more than they can afford.
- 411 Kenny Responds, it's the private sector mortgage lenders who determine who gets a loan, but OHCS's default rate is a full percentage point below the national average.

WORK SESSION, HB 2054

- 419 Sen. Prozanski **MOTION: MOVES HB 2054 TO THE SENATE FLOOR WITH A DO PASS RECOMMENDATION.**
- 423 Chair Deckert **ORDER: THERE BEING NO OBJECTION THE CHAIR SO ORDERS. VOTE: 3-0-2
VOTING AYE: METSGER, PROZANSKI, DECKERT
EXCUSED: GEORGE, C. STARR**

WORK SESSION, HB 2446

- 433 Sen. Prozanski **MOTION: MOVES HB 2446 TO THE SENATE FLOOR WITH A DO PASS RECOMMENDATION.**
- 435 Chair Deckert **ORDER: THERE BEING NO OBJECTION THE CHAIR SO ORDERS. VOTE: 3-0-2
VOTING AYE: METSGER, PROZANSKI, DECKERT
EXCUSED: GEORGE, C. STARR**

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WORK SESSION, HB 2257

- 030 Sen. Prozanski **MOTION: MOVES HB 2257 TO THE SENATE FLOOR WITH A DO PASS RECOMMENDATION.**
- 033 Chair Deckert **ORDER: THERE BEING NO OBJECTION THE CHAIR SO ORDERS. VOTE: 3-0-2
VOTING AYE: METSGER, PROZANSKI, DECKERT
EXCUSED: GEORGE, C. STARR**

WORK SESSION, HB 3359

- 040 Sen. Metsger Comments, he has struggled with this bill but will support it.
- 044 Sen. Prozanski **MOTION: MOVES HB 3359 TO THE SENATE FLOOR WITH A DO PASS RECOMMENDATION.**
- 046 Chair Deckert **ORDER: THERE BEING NO OBJECTION THE CHAIR SO ORDERS. VOTE: 3-0-2
VOTING AYE: METSGER, PROZANSKI, DECKERT
EXCUSED: GEORGE, C. STARR**

WORK SESSION, SB 639

- 049 Metsger **MOTION: MOVES THE RULES BE SUSPENDED FOR THE PURPOSE OF RECONSIDERING THE VOTE ON SB 639.**
- 051 Chair Deckert **SEN. METSGER MOVES THE RULES BE SUSPENDED FOR THE**

PURPOSE OF RECONSIDERING THE VOTE ON SB 639. THOSE OF THE OPINION THAT THE RULES SHOULD BE SUSPENDED FOR THE PURPOSE OF RECONSIDERING THE VOTE ON SB 639 WILL VOTE "AYE" – THOSE OPPOSED "NO". THE CLERK WILL CALL THE ROLL.

VOTE: 3-0-2

VOTING AYE: METSGER, PROZANSKI, DECKERT

EXCUSED: GEORGE, C. STARR

- 064 Sen. Metsger **MR. CHAIR, I MOVE WE RECONSIDER THE VOTE BY WHICH SB 639 WAS SENT TO THE WAYS AND MEANS COMMITTEE.**
- 066 Chair Deckert **SEN. METSGER MOVES THAT WE RECONSIDER THE VOTE BY WHICH SB 639 WAS SENT TO THE WAYS AND MEANS COMMITTEE. DISCUSSION.**
VOTE: 3-0-2
VOTING AYE: METSGER, PROZANSKI, DECKERT
EXCUSED: GEORGE, C. STARR
- 087 Steve Meyer Begins review of SB 639-6 amendment (**EXHIBIT 7**). This bill clarifies who are eligible employees. The new language is on page 2, lines 5-7. Following that is language from SB 639-2 amendment concerning the public contracting code not applying, and language about not being able to exclude a carrier because it does not serve all counties. Page 2, middle, Oregon Educators Revolving Fund.
- 101 Meyer Page 3, top, has language from SB 639-4. Adopts October as the starting month. Section 19, October date.
Page 4, bottom, language replaces reference to "public school teacher:"
- 121 Sen. Prozanski Questions concerning certain changes.
- 135 Sen. Metsger **MOTION: MOVES ADOPTION OF THE SB 639-6 AMENDMENTS.**
- 136 Chair Deckert **ORDER: THERE BEING NO OBJECTION THE CHAIR SO ORDERS. VOTE: 3-0-2**
VOTING AYE: METSGER, PROZANSKI, DECKERT
EXCUSED: GEORGE, C. STARR
- 140 Sen. Metsger **MOTION: MOVES SB 639 AS AMENDED TO THE HOUSE SPECIAL COMMITTEE ON BUDGETS WITH A DO PASS RECOMMENDATION.**
- 145 Chair Deckert Asks for any discussion.
- 147 Metsger Hopes the budget committee will further revise this bill. Expresses concerns:
First, he is concerned that the exclusion of some large districts from this pool puts savings into questions. Lawmakers should make modifications to that so the bill will provide the intended benefit.
Second, he agrees that the makeup of the board is too weighted toward those it would benefit and should be modified.
Gives reasons why he is supporting this bill. Has not heard any

testimony that suggests a negative cost to the state, but has questioned how much savings would occur. "If we're going to take a risk I'd rather risk how much savings we're actually going to make. If we don't save much, we haven't lost anything."

- 183 Sen. Prozanski Agrees with Sen. Metsger's comments on his hopes for getting more dollars into the classrooms. Hopes the Budget Committee will hear this testimony. The bill could still be tweaked to make sure we maximize savings and get more money into the schools.
- 197 Chair Deckert Responds, the exclusions will be addressed. Wants another look at the composition of the board. Would also like to place a trigger into the bill to allow a bid and see if savings do manifest themselves. This bill will be amended again.
- 214 Sen. Prozanski The composition of the board is important. Criteria must be set for objectivity.
- 238 Chair Deckert Repeats motion on the table. Asks for any discussion or objections.
- 240 Chair Deckert **ORDER: THERE BEING NO OBJECTION THE CHAIR SO ORDERS. VOTE: 3-0-2**
VOTING AYE: METSGER, PROZANSKI, DECKERT
EXCUSED: GEORGE, C. STARR

PUBLIC HEARING, HB 2449

- 235 Lizbeth Martin-Mahar Gives overview of HB 2449-A (**EXHIBIT 8**). DOR bill deals with technical issues of tax refunds and how they are apportioned among married couples. Specifies that the default for apportionment is based on the adjusted gross income of each spouse. The change is using "adjusted gross income" versus "gross earnings." There is no revenue impact.
- 268 Debra Buchanan Views this bill as a housekeeping measure (**EXHIBIT 10**). It says that whatever refund that is available to the taxpayers can be reapportioned in a way that does not offset the debt.
- 286 Chair Deckert Asks Buchanan to walk the committee through the examples provided on exhibit 10.
- 292 Buchanan Expands upon example 2: Ron and Joan filed a joint tax return.

WORK SESSION, HB 2449

- 329 Sen. Metsger **MOTION: MOVES HB 2449-A TO THE SENATE FLOOR WITH A DO PASS RECOMMENDATION.**
- 331 Chair Deckert **ORDER: THERE BEING NO OBJECTIONS THE CHAIR SO ORDERS. VOTE: 3-0-2**
VOTING AYE: METSGER, PROZANSKI, DECKERT
EXCUSED: GEORGE, C. STARR

PUBLIC HEARING, HB 2452

- 355 Martin-Mahar Gives overview of HB 2452-A (**EXHIBIT 11**). Provides guidelines for allowing pass through entities (ex: S-corporations and partnerships) to file a composite personal income or corporate excise tax return with

DOR. Guidelines for nonresidents who are part of a composite return.

- 444 Martin-Mahar Revenue impact will be minimal (**EXHIBIT 12**). Act will increase state general funds but only minimal. It gives DOR a mechanism to collect these taxes.
- 461 Chair Deckert Asks DOR for examples how these recommendations would play out.
- 465 Buchanan Submits written testimony (**EXHIBIT 13**). Gives two reasons why the composite return provisions were enacted: It is administratively simple for taxing agencies; it's easier for nonresident members.

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- 030 Buchanan Gives an example of an Oregon partnership with rental property here but partners scattered across the country. The partnership can file one return instead of several. If a nonresident member has other Oregon income they don't participate in that filing. What is different with this multi-state tax commission recommendation is that withholding can be required on nonresidents who choose not to participate in the composite filing.
- 063 Sen. Prozanski Asks for an explanation of the changes made in HB 2452-A. Seems it would put more of a burden on DOR. Follow-up questions.
- 067 Buchanan House committee raised concerns about setting up a new process to do the withholding. Solution was to allow them to file an affidavit saying they are complying. This is a check to make sure they're doing what they're supposed to be doing.
- 088 Sen. Prozanski Asks if Buchanan feels comfortable with this change.
092 Buchanan Oregon Society of Certified Public Accountants raised a similar concern. This does give DOR rule-making authority. DOR is interested in trying to get another tool to help collect from non-compliers. Not interested in creating a burden on those who are complying. DOR is comfortable with this change.
- 102 Chair Deckert Closes public hearing on HB 2452. Adjourns meeting at 10:10 a.m.

Tape Log Submitted by,

Barbara Guardino, Committee Assistant

Exhibit Summary:

1. HB 3359, Staff Measure Summary, Ayala, 5/5/05, 1 pp.
2. HB 3359, Port of Portland, testimony of Pat Egan, 1 pp.
3. HB 2257, Staff Measure Summary, Ayala, 5/5/05, 1 pp.
4. HB 2446, Staff Measure Summary, Warner, 5/5/05, 1 pp.
5. HB 2054, Staff Measure Summary, Malik, 4/25/05, 1 pp.
6. HB 2054, Housing and Community Services, testimony of Jack Kenny, 5/5/05, 2 pp.

7. SB 639, Amendment 639-6, Legislative Counsel, 5/4/05, 4 pp.
8. HB 2449-A, Staff Measure Summary of HB 2449-A, Martin-Mahar, 5/5/05, 1 pp.
9. HB 2449-A, Staff Measure Summary from House Revenue Committee meeting, Martin-Mahar, 4/14/05, 1 pp.
10. HB 2449-A, Executive Summary from Debra Buchanan, 1 pp.
11. HB 2452-A, Staff Measure Summary of HB 2449-A, Martin-Mahar, 4/25/05, 1 pp.
12. HB 2452-A, Revenue Impact of Proposed Legislation, Martin-Mahar, 4/25/05, 1 pp.
13. HB 2452-A, Executive Summary from Debra Buchanan, 1 pp.