

SENATE REVENUE COMMITTEE
JUNE 2, 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: Rep. Tom Butler, District 60
Roger Roper, State Historic Preservation Office (SHPO)
Michelle Deister, League of Oregon Cities
Marge Kafoury, City of Portland
James Hamrick, OPRD
John Williams, Oregon City former mayor
Tom Hughes, Hillsboro mayor
Joe Schweinhart, Associated Oregon Industries
Larry Pederson, City of Hillsboro
Hasina Squires, Special Districts Association of Oregon
Alec Jenson, Tualatin Valley Fire and Rescue
Lynne Angland, Bend
Jana Jarvis, Oregon Association of Realtors
John Fletcher, Oregon Housing and Community Services
Dexter Johnson, Legislative Counsel

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

TAPE 131, SIDE A

005 Chair Deckert Calls meeting to order at 9:20 a.m. Opens public hearing on HB 2776-A.

PUBLIC HEARING, HB 2776-A

010 Mary Ayala Gives overview and background of HB 2776-A (**EXHIBIT 1**). Eliminates the calendar year 2010 sunset date for the historical property, special assessment program which has a 15-year term for each property.

057 Ayala Discusses revenue impact, two estimates (**EXHIBIT 2**).

076 Rep. Tom Butler Testifies in favor of bill. This is a local government option which replaces a program that is being sunset. Because the 15-year period is nontransferable, if new owners want to apply the updated values would come back onto the record. This makes it less lucrative, but

these properties would still be subject to a high level of oversight.

The standards provided by the U.S. Secretary of the Interior are elements in maintaining these properties when they come in for re-application. By using those standards, local governments will still be able to attract tourists to view these historic properties.

- 112 Sen. George Notes, the bill only received four “no” votes in the house. Asks how many of these properties would fall into disrepair without this incentive to maintain them.
- 118 Rep. Butler Responds, those “no” votes were mostly a result of a second vote on a Portland option. That is a separate issue; this is a local option. A number of people have testified that they would not be able to maintain their historical properties without this program. The owners are spending money at the local stores to maintain these properties in their historic form. Because the properties are so expensive to keep up, there will be less and less of them.
- 192 Roger Roper Reads testimony which details concerns about HB 2776-A (**EXHIBIT 3**) on behalf of the State Historic Preservation Office.
- 233 Chair Deckert Asks if Roper testified in the House Revenue Committee about his concerns on Section 3.
- 236 Roper No, SHPO was not asked to testify.
- 248 Roper Asks Roper to give examples of problems with Section 3.
- 255 Roper Gives example of selling to a business partner. Does not anticipate this happening often.
- 259 Sen. Prozanski Comments, this sounds similar to enterprise zones when companies come in and get the benefit, then move out. There should be a call-back.
- 267 Sen. George Once property is designated historic, is it that easy to get out from under that designation?
- 277 Roper Yes, it is easy to opt-out of this benefit by writing a letter and paying the back-taxes.
- 290 Sen. George Asks, what are the odds of opting out and putting in condominiums? Would think the chances of that would be zero.
- 295 Roper Responds, this occurs more often than people think.
- 308 Chair Deckert Asks for suggestion of language to Section 3 that would resolve this.
- 314 Roper Responds, the simplest solution is to take out the phrase (page 3, lines 2 and 3).
- 347 Sen. Prozanski Summarizes Roper’s testimony: If someone opts into the program they are in for the duration.

- 355 Roper Very much so. The new owner could opt-out, but would have to pay back the tax benefit.
- 359 Vice Chair C. Starr Asks Rep. Butler to respond to this new information.
- 379 Rep. Butler The likelihood of this happening is close to zero. There is a diminishing group of owners who continue to maintain these properties in such a fashion that they're spending more than they would save in property taxes. Wishes SHPO had commented sooner. The maximum value a person would receive would be only the incremental increases in property values, and they would have been spending dollars to save dimes. Does not see this as a threat to the program.
- 468 Chair Deckert Asks who Rep. Butler worked with in developing this legislation.
- 483 Rep. Butler The cities and others interested in historic preservation. SHPO was aware of this bill. To replace a residence with a condo would entail a major change in zoning laws.

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- 034 Marge Kafoury Responds to scenario of a new owner wanting to tear down a federally designated historic property. The local government could intervene if federally designated property was threatened. The city could lose, but could negotiate an alternative use.
- 049 Michelle Deister Speaks to the original intent of the amendments that passed out of House Revenue Committee. The amendments did not reflect the intentions of SHPO. Explains the intended changes, which were supposed to apply to residential only, not commercial.
- 072 James Hamrick Responds, SHPO was asked to participate in the amendment writings, and told the League of Oregon Cities it had problems with the commercial property language. SHPO failed to relay this concern to Rep. Butler. SHPO can make it work; it will just create administrative difficulties.
- 095 Chair Deckert Would have preferred SHPO's comments earlier in the process.
- 099 Sen. George Does not draw the same conclusion from reading Section 3. Asks for clarification. Follow-up questions.
- 106 Hamrick Responds, if the special assessment ends and no back-taxes are owed, the owner can apply to the local jurisdiction to have the designation removed. Would like to see Section 3 changed to not apply to commercial or depreciable properties.
- 141 Chair Deckert Committee will move this bill next week to allow time for parties to settle this issue. Closes public hearing.

WORK SESSION, SB 479

- 165 Ayala Summarizes SB 479-4 amendment (**EXHIBIT 4**). Adds a provision that seeds and grains will be added to the list of food products for which processors will be exempt on purchases of new machinery (**EXHIBIT 5**). Contains clarifying language. Discusses revenue impact

(EXHIBIT 6).

- 177 Vice Chair C. Starr **MOTION: MOVES ADOPTION OF THE SB 479-4 AMENDMENTS.**
- 180 Chair Deckert **ORDER: THERE BEING NO OBJECTION THE CHAIR SO ORDERS. VOTE: 4-0-1. VOTING AYE: GEORGE, METSGER, C. STARR, DECKERT. EXCUSED: PROZANSKI**
- 182 Vice Chair C. Starr **MOTION: MOVES SB 479 AS AMENDED TO THE SENATE FLOOR WITH A DO PASS RECOMMENDATION.**
- 189 Chair Deckert **ORDER: THERE BEING NO OBJECTION THE CHAIR SO ORDERS. VOTE: 4-0-1. VOTING AYE: GEORGE, METSGER, C. STARR, DECKERT. EXCUSED: PROZANSKI**

WORK SESSION, SB 412-A

- 220 Chair Deckert Today the committee's big decision is whether to keep the opt-out language from urban renewal projects in special districts such as police and fire districts.
- 225 Ayala Notes, Sen. Schrader has drafted the SB 412-A5 amendment (**EXHIBIT 7**) to address this. Also, the SB 412-A4 amendment (**EXHIBIT 9**) takes the A-engrossed bill and includes the elimination of school district taxes from the financing.
- 230 Chair Deckert Would prefer to keep SB 412-A5 amendment and add schools to the list.
- 239 John Williams Speaks in favor of opt-out language for schools. The original intent of the bill was to help school funding. The other districts got added later. Calculates at least \$33 million is going from school funds into urban renewal projects. Gives an example of an Oregon City school bond. Urges the committee to return schools to the bill so residents can know where their school money is going.
- 274 Sen. George If a company moves in to revitalize a deteriorating area, newcomers will buy homes and jobs will be created. Does this mitigate the loss in school revenue?
- 286 Williams Responds, not in smaller towns. Gives an economic development example in Oregon City. It takes too long to pay off the debt. Urban renewal agencies don't end, and the money keeps going into urban renewal. Urban renewal doesn't work the way it is intended. Schools in Oregon City have gotten no benefit. The diversion of money has driven the city almost into bankruptcy.
- 340 Sen. Prozanski Asks for a review of the differences between the amendments. Follow-up discussion.
- 365 Ayala Responds, Sen. Schrader's SB 412-A4 amendment will eliminate school taxing districts, whereas the opt-out provisions in SB 412-A5 amendments deal mainly with special districts and the ability of a governing authority to consider whether to exclude them.
- 436 Tom Hughes Advocates for SB 412-A5 amendment which removes the opt-out

language. Gives a success story of urban renewal in Hillsboro, where the land became Intel and Orenco Station. This type of project would not occur with the opt-out provision because it would create a risk for the city.

TAPE 131, SIDE B

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| 030 | Hughes | Continues comments on Hillsboro urban renewal, which created thousands of living-wage jobs. Local governments have very few tools to do the type of development done there. Urges the committee to omit the opt-out provision. |
| 062 | Chair Deckert | All the City of Hillsboro would have to do would be to say "no." What makes that so difficult? |
| 065 | Hughes | Responds, perhaps Oregon City should change its leadership. For Hillsboro, the problem is less than for other cities. |
| 080 | Joe Schweinhart | Reiterates Mayor Hughes' comments. Urban renewal has been a major device for cities to push for new development. Property values go up and jobs are added. When you try to cut the plan apart it creates problems. Cannot understand why anyone would want to opt-out. This is a tremendous economic benefit across the state. The opt-out provision will hurt communities. |
| 103 | Sen. George | Comments on whether investors would go elsewhere if the opt-out provision were in place. Follow-up questions. |
| 127 | Hughes | Believes what Hillsboro has accomplished has been "with certainty" in the land use laws, financing and urban renewal. It is the certainty that gives Hillsboro that competitive edge. |
| 136 | Schweinhart | Concurs. It is important to weigh the benefits against the costs. |
| 177 | Larry Pederson | Comments, in addition to political uncertainty, there is the financial uncertainty of opt-out in regard to bonding capacity for an urban renewal district. Pinching cash flow will raise the cost of money. |
| 192 | Hasina Squires | Introduces panel that will testify in favor of SB 412-A4 amendment. |
| 209 | Alec Jenson | Defends the existing bill. This is not a debate about urban renewal; it is all about local control. Responds to comments by Mayor Hughes. There is no provision in the bill that allows anyone to opt-out in the future. Does not understand why the bill's opponents can't trust themselves to make the right decision. This puts the decision in their hands and brings an element of increased transparency. |
| 236 | Chair Deckert | Is there an assurance that there will be enough votes (16) to pass this in the Senate? |
| 250 | Jenson | Yes, as of yesterday. |
| 256 | Chair Deckert | Asks committee for input and discussion on the two amendments. |
| 259 | Sen. Prozanski | Summarizes, the committee has three options: Leaving the bill as is, or the two amendments. |

276	Sen. George	Worries that not passing SB 412-A5 would hurt a community's ability to bring in high-paying jobs. It is critical to tip the balance towards investment.
294	Vice Chair C. Starr	This has been a struggle. Not all urban renewal projects have been successful. What happens if the committee doesn't pass a bill?
313	Chair Deckert	It's not necessary to pass it, but there are good things in it for urban renewal.
319	Sen. Prozanski	It appears there should be another option on the table. The committee might consider the other work that his work group did and leave this as one of the options. In regard to the elimination of school districts, we are not funding schools and this is one way that money can stay within the school system. Is surprised to see SB 412-A4 amendment that takes schools completely out of the picture. It is another tool in the tool box for local control. Will go either way in order to move the bill, but favors looking at other options. Suspects this is a split vote.
361	Chair Deckert	Would reluctantly prefer to keep the SB 412-A5 amendment because this is a split issue in the Senate.
378	Sen. Metsger	Wonders if those 16 votes are there for SB 412-A5 amendment.
392	Sen. Prozanski	Asks the chair not to move the bill today and to look at another option.
423	Chair Deckert	Will hold this bill for another week.

PUBLIC HEARING, HB 2950-A
TAPE 132, SIDE B

020	Lynne Angland	Testifies in favor of HB 2950-A, which deals with dependent care compensation. See written testimony paraphrased (EXHIBIT 12). We need more quality child care in Oregon, and it costs more to provide quality child care than middle class employees are able to pay. Explains the IRC Section 129 plan. This benefit is not for employers, it is for employees.
091	Angland	"Oregon's reserves are sound and there is no reason to single out this area for disconnect." Quality care is very needed in Oregon. She has spoken to chambers of commerce and other groups. Complexity is the big problem for smaller employers. Asks for exclusion of Section 129 payments as part of clean-up in language. This is a benefit for the middle class, not the wealthy.
129	Chair Deckert	Likes this bill.
131	Sen. Metsger	Asks if this is covered in the reconnect bill.
135	Lizbeth Martin-Mahar	The employment department doesn't connect to all the federal law changes each session. The reconnect bill connects to federal law changes pertaining to taxable income. This is not a definition of taxable income, it is a definition of wages. This will conform to federal law. It will be a loss in payroll tax revenue, as shown in the revenue

impact statement (**EXHIBIT 13**).

158 Sen. George Asks if it is correct that Oregon's reserves are sound and there's no reason to single out this area for disconnect.

160 Martin-Mahar Correct. This won't have an impact as far as overall solvency.

WORK SESSION, HB 2950-A

175 Vice Chair C. Starr

MOTION: MOVES HB 2950-A TO THE SENATE FLOOR WITH A DO PASS RECOMMENDATION.

177 Chair Deckert

ORDER: THERE BEING NO OBJECTION THE CHAIR SO ORDERS. VOTE: 4-0-1. VOTING AYE: GEORGE, METSGER, C. STARR, DECKERT. EXCUSED: PROZANSKI

PUBLIC HEARING, HB 3358

180 Jana Jarvis

See written testimony (**EXHIBIT 16**), on behalf of the Oregon Housing Lobby Coalition which advocates for housing for low-income individuals. Oregon is 42nd in the nation for home ownership. That rate is declining steadily. HB 3358 targets a narrow group of people by expanding a program that is already in place.

213 John Fletcher

This bill is targeted for a very narrow group to help with home ownership. The Housing Lobby Coalition is interested in a much wider group, but is starting at the bottom income range and is a first step. They are looking at existing programs. This program has been in place since 1999, and has had three good years of a pilot stage. About 500 people have been through the program. Explains how the program works – it sets participants up with a caseworker and they get matching funds for every dollar saved.

274 Sen. Metsger

Asks how this tax credit can be claimed by a nonresident, since it is for primary residents.

282 Fletcher

This is typical tax credit language. In practice eligibility does not apply to nonresidents. You can't distinguish between residency and non-residency.

292 Martin-Mahar

Concurs. This is common language. Legislative counsel will tell you nonresidents must have the opportunity to take the credit.

309 Sen. Prozanski

Asks how many people would be living in these residences as compared to living somewhere else. Sounds like the program does not allow a nonresident to apply.

322 Fletcher

That is correct. Nobody can just walk in and qualify.

337 Dexter Johnson

The issue is, if a bill requires the primary residence be in Oregon, why all the nonresident language? The answer is, the U.S. Constitution requires equal treatment between residents and nonresidents. The federal government requires this language.

345 Chair Deckert

Closes public hearing on HB 3358. Adjourns meeting at 11:05 a.m.

Tape Log Submitted by,

Barbara Guardino, Committee Assistant

Exhibit Summary:

1. HB 2776-A, Staff Measure Summary, Ayala, 6/2/05, 1 pp.
2. HB 2776-A, Revenue Impact of Proposed Legislation, Ayala, 6/2/05, 1 pp.
3. HB 2776-A, testimony of Roger Roper, 6/2/05, 1 pp.
4. SB 479, Amendment SB 479-4, Legislative Counsel, 6/1/05, 4 pp.
5. SB 479, Staff Measure Summary, Ayala, 6/2/05, 1 pp.
6. SB 479, Revenue Impact of Proposed Legislation, Ayala, 6/2/05, 1 pp.
7. SB 412-A, Amendment SB 412-A5, Legislative Counsel, 6/1/05, 1 pp.
8. SB 412-A, Staff Measure Summary for SB 412-A5, Ayala, 6/02/05, 1 pp.
9. SB 412-A, Amendment SB 412-A4, Legislative Counsel, 6/1/05, 20 pp.
10. SB 412-A, Staff Measure Summary for SB 412-A4, Ayala, 6/2/05, 1 pp.
11. SB 412-A, Approximate Urban Renewal Division of Tax by Fire District: Fiscal Year 2003-04, Ayala, 4 pp.
12. HB 2950-A, notes for testimony of Lynne Angland, 1 pp.
13. HB 2950-A, Revenue Impact of Proposed Legislation, Martin-Mahar, 4/27/05, 1 pp.
14. HB 2950-A, Staff Measure Summary, Martin-Mahar, 6/2/05, 1 pp.
15. HB 2950-A, Staff Measure Summary, Martin-Mahar, 4/27/05, 1 pp.
16. HB 3358, testimony of Jana Bader Jarvis, 6/2/05, 5 pp.
17. HB 3358, Staff Measure Summary, Martin-Mahar, 6/2/05, 1 pp.
18. HB 3358, Revenue Impact of Proposed Legislation, Martin-Mahar, 4/19/05, 1 pp.
19. HB 3358, Staff Measure Summary, Martin-Mahar, 4/28/05, 1 pp.