

HOUSE REVENUE COMMITTEE
JANUARY 31, 2003 8:30 AM STATE CAPITOL BUILDING

Members Present: Representative Lane Shetterly, Chair
Representative Wayne Scott, Vice Chair
Representative Joanne Verger, Vice Chair
Representative Phil Barnhart
Representative Vicki Berger
Representative Pat Farr
Representative Mark Hass
Representative Elaine Hopson
Representative Max Williams

Invited Witness Present: Joe Schweinhart, Associated Oregon Industries
Jim Craven, Oregon Council of the American Electronics Association
J.L. Wilson, NFIB Oregon
Dennis Peterson, Nike, and The Smart Growth Coalition
Lynn Lundquist, Oregon Business Association
Duncan Wyse, President of Oregon Business Council

Staff Present: Paul Warner, Legislative Revenue Officer
Kathy Tooley, Committee Assistant

TAPE i, SIDE A

004	Chair Shetterly	Calls meeting to order at 8:58 a.m. Meeting to discuss the inter-relationship of tax policy and economic development for job creation and investment.
020	Joe Schweinhart	Testified as to the state of Oregon business in the last two years: high unemployment, high energy costs, decline in revenue, highest capital gains, manufacturing going overseas. Clients frustrated about business regulation and land use laws. AOI recommends: <ul style="list-style-type: none">• Oregon must reform PERS and the Oregon Health Plan.• Streamline development process and implement regulatory certainty for business.• Ensure a fair and reasonable rate process before the PUC.• Continue to improve funding for schools and decrease non-instruction expenditures. Recommendations in the area of taxes: <ul style="list-style-type: none">• Capital gains must be reduced for growth, and capital to attract new business.• Research and development tax credits must be increased.• Pollution control tax credits have been successful in keeping business in Oregon, and should be extended.• Bridges and roads need to be repaired.
098	Chair Shetterly	Question for the panel, where is the balance between tax policy and level of public service and how do we make the two work within the constraints of our constitutional balanced budget requirement.
160	Schweinhart	AOI recommends: balanced budget, funding for K-12, realizing private sector revenues drive economy. For 2003, 2005 propose a start, decrease capital

gains taxes for instance a half a point in 2004, and one point in 2005, 2006, and 2007, hoping in those years the economy will increase and business can take advantage of cuts and grow.

- 158 Rep. Hass Supports the economic development incentives, but said those tools pale in comparison with Portland shaving 24 days off schools. Willamette University did a survey of reasons companies relocate and expand; it shows that taxes, capital gains are important, but not as important as amenities and quality of life and education. What do you propose in addition to these things in terms of that will draw key businesses?
- 184 Schweinhart Testified his membership is 98% small business and they feel tax policy is the most detrimental issue. Oregon has amenities, but so do other cities. A business wants a great place to locate, but it looks primarily at profits and will look elsewhere if can't make a profit.
- 210 Rep. Verger Has AOI looked to how we got here, is it a failure to diversify? There should be some analysis about getting Oregon in a business friendly condition? Has AOI looked into this?
- 270 Schweinhart Not formally.
- 284 Rep. Williams Asked if AOI supported a rainy day fund?
- 252 Schweinhart Did not know, generally believe it would support
- 302 Rep. Williams We need broad-based tax stability. What is AOI's position on that?
- 288 Schweinhart AOI has and would support the sales tax to stabilize funding. Suggests doing something with capital gains and research and development will jumpstart the economy. Need to look at efficiency in government structure, then look to growing the economy.
- 364 Rep. Farr Oregon has chosen every possible avenue to disincent people from locating here. We do it through probating, land use restrictions, watching the forest lands systematically closed down. We have to look at what we have and take advantage of that and then attract others to the state.
- 380 Jim Craven Testified that the high tech industry is a vital part of Oregon's economy, have lost 5000 to 6000 jobs in high tech last two years, mainly in manufacturing. The software part of industry remains strong, and cyber-security is a growing trend.

TAPE 27, SIDE A

- 05 Jim Craven High tech executives do not talk about the issue being Oregon. The issue is the global economy. One factor is the relationship of tax structure to economic development, advised the committee to remember to focus on what actually is the Oregon economy, not theoretical constructs. Oregon is an export-based, traded sector economy that has strengths in high tech, lumber and wood products, agriculture, metals, transportation equipment, athletic apparel. What makes the difference in whether a state moves forward or declines is the third of the economy which is competitive, global, market-based producers.
- 53 Craven Advised the Committee that incentives are needed for business growth and attracting high wage jobs.
- 63 Craven In the high tech industry, taxes are not the most important issue in business

growth or site location. Issues such as energy costs, wages/wage structure, cost of inputs, cost land, cost of regulation, are also important, as well as amenities and education structure. Siting factors depend on the industry as to what is more important. For example, land availability is important to siting a semiconductor fabrication facility which Portland does not have.

95	Craven	<p>Said tax issues fall into two categories:</p> <ul style="list-style-type: none">• Actual rate corporate excise tax is 6.6% which applies to everyone in the same way; corporate apportionment and throwback, are critical issues for businesses.• Second, are the targeted issues which incense certain behavior, pollution control tax credits, research and development tax credits, enterprise zones which are used to get certain behavior/results. <p>Sometimes it is the perception of the business community as to whether Oregon is willing to take the chance in providing incentives.</p> <p>Questions and discussion interspersed.</p>
150	Chair Shetterly	<p>Noted one of the common strains with manufacturing and high tech to bring in the high wage jobs is the importance of the university system, services and work force.</p>
146	Craven	<p>Cautioned the Committee that Oregon could send signals that would guarantee that the economy would not recover, for instance, a business activity tax. Companies are not here because of tax structure, or amenities, or Mount Hood. Companies are trying to make great products and compete in a vicious global market place, providing return on investment and return on capital.</p>
178	Barnhart	<p>Asked if there are there ways to improve the economy by providing incentives, while maintaining current way of life, or are we rushing to the bottom?</p>
200	Craven	<p>Testified that Oregon has to compete at the top, not bottom, there are smart hardworking people that will work for less that Oregonians. For example, India, has a non-innovative, non-entrepreneurial, heavily government-regulated economy, which invests a great deal in education, and economy. Their problem is they cannot encourage employees to remain in India..</p>
243	Craven	<p>We have to compete at the level of innovation, new product development, because we cannot compete at the bottom. This makes a higher education investment strategy important.</p>
262	Rep. Williams	<p>Regarding the dot com growth in the last 20 years, why do we have a declining interest in students to go into these fields?</p>
269	Craven	<p>Oregon is counter that trend. Due to Oregon government and private sector investments of \$120 million in higher education in the last 5 years, graduation rate of electrical engineers and computer scientists has gone up 36% in the last 5 years.</p>
290	Rep. Williams	<p>Is it the answer to the problem, because if we are not seeing results, what is?</p>
313	Craven	<p>It's a matter of getting serious in giving incentives to under-represented women and minorities starting in the middle school years to take math and science classes that will lead to employment as computer scientists or electrical engineers.</p>

360 J.L. Wilson Testified his constituents' premise on tax issues is significant long-term increases in Oregon revenues are a function of private sector vitality. Question is how will Oregon look after the recession as a place to do business?

406 Wilson Advised the committee, while Oregon's economy mirrors nation, factors tend to exaggerate our condition. He said his members have seen declining our stagnant sales in the last two years, but the cost of business in Oregon has increased particularly in energy, liability costs, healthcare, minimum wage increase, unemployment tax increase, worker compensation premium assessment which was increased 10% increase in last year.

446 Wilson NFIB favors the income tax because it is based on ability to pay which seems to be fair across sectors. It also seems to provide an accurate account of how constituents are doing economically. He cautioned the committee that the pursuit of tax stability is elusive. NFIB supports the tax priorities in capital gains return on investment issues as the main reason a business chooses to do business in a particular location. The Estate tax is a "small business" issue in the success rates of family businesses.

TAPE i, SIDE B –

004 Warner When you are looking at a long term investment in physical capital, your net return is what OTIM drives your decision. With a lower capital gains tax, you would reduce the cost of capital and have a net net impact on investment in Oregon. The other affect is the location of high income individuals, primarily in Clark County, the bigger affect is to increase the pool of saving. The economic feedback affect is around 10% in terms of its impact on revenue. Oregon gets better feedback affects when it looks at direct investment tax credits, which directly reduces the cost of capital in Oregon.

020 Rep. Hass When you look at capital gains data, the data doesn't show that it meets these claims that it spurs more investment in Oregon.

030 Warner In terms of economic feedback, that's true. You have a series of objectives in tax policy and get a larger economic feedback from investment tax credit or research and development tax credit than a capital gains tax cut.

052 Chair Shetterly One thing that hasn't gone up in the last decade is income tax as a business cost, is this part of the problem?

061 Wilson Our first premise is to hold the line and do no harm and let the business cycle run its course.

085 Dennis Peterson Testified that having a strong business community creates a greater personnel pool for recruiting. Made the connection of taxes to economic development in two ways:

- Tax as incentive for business, Texas has tax structure that is inviting;
- Taxes can serve as a funding for business, for example tax credits or capital improvements.

137 Berger What are the barriers to employment of high level managers, why not our students, and who is on the coalition?

140 Peterson Coalition includes Nike, Columbia Sportswear, Intel, Tektronics, Schnitzer, Louisiana Pacific and others. Nike has 5000 employees and has had to recruit outside Oregon for skill set for manager level positions.

172	Berger	Who is doing this better, we've mentioned India, what are other people doing? Why are we not competing?
192	Peterson	There needs to be a bigger cluster of companies of headquartered here, with headquarter-type functions, and sometimes specialty functions,.
208	Verger	What kind of impediments do we have in Oregon?
320	Peterson	Oregon economics and job opportunities, if they just see Nike, they may shy away. Stability of state, education for children is what families are concerned about when locating here. Shortening school years is a big negative.
235	Rep. Verger	How many employees do you have worldwide?
236	Peterson	35,000 worldwide, 10,000 in the U.S.

TAPE 27, SIDE B

001	Lynn Lundquist	<p>The OBA recommended the following:</p> <ul style="list-style-type: none"> • Minimizing the disincentives. • Supported reductions in regulations and permitting. • Provide incentives for long-term capital spending. • Phase out of capital gains as a place to start. • In international commerce, don't forget dredging and airlines. • Can PERS monies be invested in development within Oregon. • Suggested an inventory of all available industrial land in the state to have ready for companies seeking to move to Oregon. • In rural Oregon, the silver bullet is timber. • Suggested better collaborative efforts between all the agencies, particularly, timber, health and water quality. • Be vigilant in effort to maintain low cost electricity. • Be careful of deregulation with minimal positive effect • In the short-term don't add fees and taxes that increase the operating costs that will be passed on. • The Economic Development Department should be maintained and enhanced. • The greatest potential is in the infrastructure of the transportation system. • OBA favors large scale leveraging of bonds. • Maintenance of infrastructure is important and the gas tax should remain as it is, with an index capped on a CPI that eliminates discussion of the issue every session.
062	Chair Shetterly	Your organization does not support an increase in the gas tax? This becomes the foundation and you want to index from there?
067	Lundquist	The OBA would support an index and use a registration fee increase on the bonding side. On the revenue side, OBA supports a stable long-term state budget where education is the foundation. OBA does not believe Oregon can grow its way out the problem.
162	Duncan Wyse	Testified regarding the connection between the public finance system and the economy. The best source of new revenue for public service is a strong healthy economy. Submitted a 12 initiative plan to drive revenue right away. Must recognize public services, infrastructure, are critical for economy. ("Stepping Up", Exhibit 1).
203	Wyse	Submitted "Oregon Business Plan White Paper, "Stable and Adequate

Funding for Public Services”, (Exhibit 2). Outlined four challenges:

- Fix the public finance system
- Fix PERS
- Examine budget systems and build a long term budget; and
- Look at public finance system.

Once these things are done, look at the tax system, including a sales tax.

298 Chair Shetterly

Told Wyse, it is hard to jump start, with long term benefits.

305 Wyse

Outlined a jump start proposal: transportation infrastructure get it done right away, jobs will generate revenue; tourism marketing will pay off next biennium.

Questions and discussion interspersed.

340 Williams

What in transportation package should be chosen first?

345 Wyse

Answered bridge maintenance and repair.

Questions and discussion interspersed.

381 Chair Shetterly

Meeting adjourned at 10:40 a.m.

Tape Log Submitted by,

Kathy Tooley, Committee Assistant Reviewed by Kim Taylor James

Exhibit Summary:

1. Wyse, “Stepping up”, 7 pages.
2. Wyse, “Stable and Adequate Funding for Public Services”, 8 pages.