

HOUSE REVENUE COMMITTEE
MARCH 18, 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

Witness Present: Representative Derrick Kitts, District 30
Angela Dilkes, Smart Coalition
Harvey Mathews, Associated Oregon Industries
Joe Schweinhart, AOI
Brian Reader, Department of Education
Paul Phillips, Smartgrowth Coalition
Pac/West Communications
Al Logan, Nike
Jonathan Williams, Intel
Jim Craven, Oregon Council of American Electronics Association

Staff Present: Paul Warner, Legislative Revenue Officer
Lizbeth Martin-Mahar, Legislative Revenue Office
Kathy Tooley, Committee Assistant

TAPE 85, SIDE A

004 Chair Shetterly Calls meeting to order at 8:40 a.m.

OPENED PUBLIC HEARING HB 2721

022 Lizbeth Martin-Mahar Provided background and description HB 2721; discussed revenue impact, (Exhibits 1, 2).

040 Chair Shetterly Directed the Committee to review the staff measure summary for a list of counties eligible for the tax credit.

043 Martin-Mahar There are two different criteria, unemployment, and distressed area.

045 Rep. Derrick Kitts Spoke in support of HB 2721, described as economic stimulus, providing incentive to invest in Oregon.

063 Angela Dilkes Spoke in support of HB 2721, Smart Coalition members would consider speeding up equipment upgrades or expansion if this bill was approved.

075 Rep. Verger If you only look at unemployment, can you defend this position; a county may have high unemployment, but little infrastructure or industrial land?

090 Dilkes When looking at distressed areas, what factors in more than unemployment rate, is to get investment in areas outside where it might normally happen.

103 Chair Shetterly Closed Public Hearing HB 2721

OPENED PUBLIC HEARING HB 2506

106	Martin-Mahar	Gave background and description of HB 2506, (Exhibit 3), provided revenue impact.
125	Martin-Mahar	Provided summary for the Committee, "Differences between Federal and Oregon State Law Research and Development Credit", (Exhibit 4).
170	Harvey Matthews	Supported HB 2506, discussed growth benefits of research and development spending (RD) and competitive nature. This bill would provide the potential to entice other companies to Oregon, in combination with investment in schools, capital gains reduction, and investments in engineering and business capital.
220	Joe Schweinhart	Spoke in favor of HB 2506. Oregon has two advantages which may change this session: low Worker's Compensation and Pollution Control Tax Credits.
231	Rep. Berger	How do you resolve conflict with business investment and education? How does Oregon get there if it keeps giving tax breaks and doesn't have revenue to build education base to attract RD business?
267	Mathews	Hewlett Packard, Intel, use and sponsor educational events, the impact of these companies on educational system, with their donations, is equal to and better than what is invested in RD tax credit. If Oregon has strong university system, must have business to keep students here or lose them.
289	Schweinhart	RD will bring in high paying jobs and increase tax revenue. This is a jobless recovery, need to have stimulus to increase jobs and revenue.
300	Rep. Berger	Is Intel a member of AOI?
301	Schweinhart	Answered affirmatively.
303	Rep. Hass	I very much support this bill, have question regarding changing limitations on field of basic and qualified research to the federal rules, why do that?
308	Schweinhart	Expanding federally will include more people and provide further stimulus.
321	Patrick Green	Spoke in opposition to HB 2506, (Exhibit 5), concerned about price tag. If it is the right thing to do, should consider eliminating what is not working and not producing high paying jobs. Concerned about 20 year carry forward. Where is current investment and what evidence is there that it would bring more high paying jobs? What is Oregon's business plan before opening tax credits to RD, may want to focus on 1-2 industries?
409	Rep. Verger	Agree Oregon needs jobs, but must be thoughtful in how we move forward.
397	Rep. Hass	Oregon can distinguish itself as a place for RD, may be able to use this expenditure by eliminating another, or by disconnecting from the federal tax code.
422	Chair Shetterly	Are we looking at particular industries that are not covered right now? And who is not covered?
447	Joe Schweinhart	AOI did not go out and try to identify particular industries, could see who is taking advantage of federal tax credits. Would like to promote diversity through this credit.

TAPE 86, SIDE A

020	Rep. Scott	HB 2506 allows for diversification, and for companies to come in give us potential diversification. New revenue sources would allow Oregon to fund education and other issues if disconnected from federal reductions.
038	Schweinhart	Although specific business is unknown, do know stimulus for the economy is needed. This bill will promote growth.
040	Brian Reader	Department of Education is not taking position on this bill. HB 2506 trades off resources that could alleviate potential additional revenue; in the long run this bill makes sense, in the short run would not agree.
087	Rep. Verger	Education is not in competition it is too important. Must prioritize education, where are the suggestions, criteria to solve funding problems for schools. Don't see ideas coming from the education community?
106	Reader	Quality Education Commission and its model is well regarded and has specific recommendations to improve quality of schools. The Commission has not gone after recommendations for stable funding; it is not seen as their charge. Their charge is the development of a high quality education system.
119	Rep. Verger	Quality Education Model is fine, but need to have a partner; can't avoid funding and just discuss performance and standards.
129	Rep. Scott	Quality Education is important, but HB 2506 creates opportunity for long-term funding. Education community should come forward with ideas to stably fund schools.
147	Reader	SJR 18 originated with education community.
156	Chair Shetterly	The Committee needs to educate itself, look at price tags and the stimulus and revenue affects over time. The Committee will have to wedge priorities into a sustainable budget for 2003-2005.
206	Chair Shetterly	Closed Public Hearing on HB 2506.

OPENED PUBLIC HEARING ON HB 2950

208	Chair Shetterly	Opened Public Hearing on HB 2950.
211	Martin-Mahar	Provided background and description of HB 2950 (Exhibit 6), eliminates sunset date, discussed revenue impact.
218	Paul Phillips	Spoke in favor of HB 2950 (Exhibit 7). This measure goes beyond the RD credit; it ties to federal tax definitions. <ul style="list-style-type: none">• Since it is a tax credit, it does not automatically reconnect to federal definitions.• Trying to phase in an increase in the cap and remove the sunset.
262	Phillips	Discussed benefits of RD, cited Coopers&Lybrand study, (Tab 7, Exhibit 8).
290	Phillips	Discussed issue of diversity, (Tab 8, Exhibit 8). Cited historical uses of economic stimulus.
312	Al Logan	Spoke in favor of HB 2950. The bill supports increased employment and

retention of jobs in RD for Oregon; and will be an incentive of companies to come to the state. Every dollar spent in RD is an income dollar in someone's pocket and taxable. If Oregon ties to the federal definition, it does not have to use resources to audit companies, the federal government will audit.

- 374 Jonathan Williams Discussed Intel's current and future RD plans, and competitive nature of RD spending. Intel struggling over how and where to spend RD dollars. Cited California and Arizona as having more aggressive RD incentives and do not have caps on their RD. Discussed quick multiplier effects and benefits of RD. Intel has made its name by investing through downturns and positioning for recovery.
- 034 Rep. Hass When strategists look at Texas and California, how would they look at Oregon differently if it removed cap and use 15-18%.
- 046 J. Williams Oregon would be the most attractive state to do RD.
- 050 Phillips Cites California Study, which shows Oregon positioned aggressively, (Tab 9, Exhibit 8).
- 057 Rep. Hass Of the tax breaks and expenditures, Oregon can pay for this bill by disconnecting, and closing loopholes.
- 075 Jim Craven Emphasized key element of tax incentives, only get credit if amount of RD is increased over a base year, not an entitlement program. The competitiveness cost advantage issue is important.
- 144 Chair Do you have a perspective on removal of the cap?
- 145 Craven Several avenues to approach, cap issue, percentage issue, will have comments on those issues.
- 153 Rep. Williams Question for those who testify, pro or con, looking for suggestions as to how to fund, operate, and maintain a stable system of services within the state.
- 175 Craven State will need a mixture of cost controls and revenue issuance as in business.
- 192 Chair Shetterly Discussed Atiyeh stimulus, also noted the temporary income tax increase during his tenure. Noted even a stimulus affect incurs an initial revenue cost. See long term stimulus, but have to deal with short term budgetary impacts.
- 212 Phillips Fault of Oregon is planning for immediate and next five years, did create strategic investment program, unitary tax changes, partial corporate apportionment. There will make Oregon competitive on national basis, but initially costs money. Balance Oregon's economy on national economy the hits are softer. Oregon has been too individualistic, which has had a more difficult impact, quicker and is harder to turn around. Issue is balance for the entire state of Oregon.
- 244 Chair Shetterly This session Oregon must be positioned to be able to take advantage of inevitable recovery to the greatest extent possible. This includes stimulus bills with short term costs; challenge for the Committee accommodating costs within a budget. May need to prioritize and offset reductions with existing tax expenditures.
- 278 Chair Shetterly Meeting adjourned at 9:50 a.m.

Tape Log Submitted by,

Kathy Tooley, Committee Assistant Reviewed by Kim Taylor James

Exhibit Summary:

1. Martin-Mahar, "Staff Measure Summary HB 2721", 1 page
2. Martin-Mahar, "Revenue Impact HB 2721", 1 page
3. Martin-Mahar, "Staff Measure Summary, Revenue, Fiscal Impacts HB 2506", 3 pages
4. Martin-Mahar, "Differences Between Federal and Oregon State Law, Research and Development Credit", 1 page
5. Green, "ORC Testimony HB 2506", 3 pages
6. Martin-Mahar, "Staff Measure Summary, Revenue Impact HB 2950", 2 pages
7. Phillips, "HB 2950: Research and Development Tax Credit Expansion", 9 pages
8. Phillips, "Smart Growth Coalition HB 2951", 91 pages