

HOUSE REVENUE COMMITTEE
MARCH 20, 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

Witnesses Present: Holly Schroeder, Department of Environmental Quality
John Ledger, Associated Oregon Industries (AOI)
Mark Nelson, Oregon Metals Industry Council
Doug Riggs, Pacwest Communications/Golden Northwest Aluminum
Jean Wilkinson, Oregon Farm Bureau (OFB)
Matt Blevins, Oregon Environmental Council
Patrick Green, Oregon AFL-CIO and Oregon Revenue Coalition
Charles Sauvie, National Association of Business Economics.
Alan Thayer, Perrin & Thayer, LLP and AOI
Joe Schweinhart, AOI
Eric Blackledge, Blackledge Furniture
Darrell Fuller, Oregon Small Business Coalition
Oregon Auto Dealers Association,
Don Schellenberg, OFB
Donald Cersovski, Grass Seed Grower
Jason Williams, Taxpayer Association of Oregon
Jim Haynes, Business Reputation Management Consultant
Chuck Sheketoff, Oregon Center for Public Policy
Laurie Wimmer Whelan, Oregon Education Association
Gweneth Van Frank Carlson, General Contractor, Catalyst Works,
Support Oregon Services Alliance
Lane Independent Living Alliance
Paul Phillips, Smart Growth Coalition and Pac West Communication
Don Lance, Monaco Coach Corporation
Eric Amos, Columbia Sportswear
Al Logan, Nike
Jim Craven, American Electronics Association

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

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004 Chair Shetterly Calls meeting to order as a subcommittee at 8:43 a.m. until such time as a quorum was reached.

OPENED PUBLIC HEARING HB 2652

017 Lizbeth Martin-Mahar Discussed background and revenue impact of HB 2652, (Exhibit 1).

051 Holly Schroeder Testified against HB 2652, (Exhibit 2) as it pertains to the transfer from DEQ

to Oregon Economic and Community Development Department (OECDD).

- 077 Chair Shetterly Did you want to testify as to the tax credit information in your testimony?
- 079 Schroeder The fact sheet is a basic summary of the tax credit describing eligibility requirements, type of facilities, cited technical nature of the credit.
- 086 Chair Shetterly This is current as the legislative changes from the 2001 session?
- 088 Schroeder Answered affirmatively.
- 084 Rep. Verger Were you made aware earlier, that this thought process was going through a shifting from one department to another for the responsibility of pollution tax credit?
- 092 Schroeder It has been discussed, not extensively. Appreciate the economic component of the tax credit law, due to expertise required to administer law, and the knowledge of environmental regulations required, should stay with DEQ.
- 103 Rep. Verger Is the economic aspect the only reason for the transfer to your knowledge?
- 105 Schroeder Answered affirmatively
- 160 John C. Ledger Testified in support of HB 2652, provided history of tax credit.
- 181 Chair Do you know the number of applications that go to DEQ and OECDD?
- 182 Ledger Answered no. Support movement to OECDD for three reasons: Programs go into a higher tier if going into an economically depressed area; OECDD supports the program; DEQ response to this program is less than enthusiastic.
- 206 Ledger Discussed removal of sunset.
- 229 Ledger Discussed change in percentage tiers.
- 258 Ledger Discussed need for incentives to attract and maintain companies.
- 273 Chair Shetterly Walk the Committee through elements that qualify an application for top tier.
- 288 Ledger Discussed top tier qualifications.
- 327 Chair Shetterly Applications falling under top tier would still be governed by DEQ?
- 332 Ledger Answered affirmatively.
- 337 Chair Shetterly (Section 4H), location within an enterprise zone, is strictly economic development, not environmental?
- 340 Ledger Answered affirmatively.
- 352 Rep. Berger Can you give a sense of how recent changes are working?
- 358 Ledger Cites lack of incentives, new program disappears after 2003 and goes away after 2005. Now using as an economic tool.
- 364 Rep. Barnhart Does it make more sense to budget, rather than give a tax credit, targeting businesses to come to Oregon, rather than scattered approach to tax credit without controls that an expenditure item would receive?

392	Ledger	Depends on view of how market should work. Telling corporations that if they are willing to provide high wage jobs, Oregon will provide a tax credit, rather than establishing board and picking companies to come to Oregon.
435	Rep. Barnhart	A state administered program expending money in a targeted way, might expend fewer dollars over all, rather than this approach.
474	Ledger	The business community would be very concerned with state sponsored selection of companies welcomed to the state. The credit is only used if make money, it's self-regulating during a recession, state is not expending. The credit offered as a promise if the company invests.
065	Chair Shetterly	The amount of the credit is applied against the particular qualified pollution control component, not total project, correct?
077	Ledger	Answered affirmatively.
079	Rep. Berger	How does the lower tier play out, for example a service station fixing a tank?
082	Ledger	Describes make up of tiers.
084	Mark Nelson	Testified in favor of HB 2652. Discussed percentage reduction and sunsets in the bill. Reiterated Ledger's testimony on the need for movement to OECDD, certification should be retained by DEQ. The program is effective in attracting business and encouraging environmental cleanup and controls.
140	Chair Shetterly	An enterprise zone does not go to DEQ, should the \$200,000 category be exempt, does not have environmental judgment attached to it?
194	Nelson	Answered affirmatively.
196	Barnhart	Without certification from DEQ how do we know if it is a pollution device?
210	Edgar	In the rules, the applicant is required to have an audited certification for pollution control.
232	Doug Riggs	Spoke in favor of HB 2652. Provided background and example of struggling aluminum company that would be impacted by the bill. Two issues: Who would be on the government screening committee and would they be able to identify potential significant employers; second goal of the program is to provide incentive to invest in environmental and pollution control.
314	Rep. Hass	Supported program in the past, where does this rank in terms of tax breaks for economic development in the big picture with regards to research and development, and capital gains? The state can't afford to do all these things, is this the best bill to turn the economy around?
320	Nelson	This is a small piece, not a silver bullet.
341	Riggs	This bill is an important piece of the puzzle, provides incentives for a manufacturing company and helps the economy and environment.
336	Rep. Hass	Development is one of the most important things to do, but pales in comparison to economic disaster when chopping days off school, more Oregon pays for tax credits, more difficult to send economic development message that Oregon has good schools and strong quality of life, need to balance and do both.

- 367 Ledger Oregon has had a huge loss of high paying union industrial jobs, and are not paying taxes to support schools any more. Oregon not viewed as business friendly; this program doesn't have a huge expenditure to it.
- 430 Chair Shetterly Discussed need for balance.
- 445 Riggs 800 Steelworkers that are unemployed, would be paying taxes if could get operations started up. This is a small factor to get them restarted.

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- 035 Jean Wilkinson Senator Dave Nelson sponsored the -1 amendment at the request of the Oregon Farm Bureau (Exhibit 3). Discussed relationship between agriculture and pollution control.
- 065 Chair Shetterly Credit is directed at facilities, how do you attach a cost to that for the purpose of claiming a credit?
- 072 Wilkinson If farmer feels they have a pollution issue, they go to the Soil and Water Conservation District and the NRCS field office for technical assistance and cost estimate.

Questions and discussion regarding biodigesters.
- 100 Matt Blevins Spoke in opposition to HB 2652. It eliminates Section 6-10. and would significant budget impact (Exhibit 4). Urged committee members to review the evaluation in the Tax Expenditure Report.
- 208 Rep. Verger Would you comment on the transfer to OECDD?
- 212 Blevins Would oppose move from DEQ as there is expertise needed for evaluation.
- 224 Rep. Barnhart This credit may impede corporations from using improved methods to control pollution as are used now, can you expand on that?
- 229 Blevins It's not that it impedes, but there are better ways to do it more effectively.
- 241 Chair Shetterly Revenue impact in the Tax Expenditure Report is probably overstated. Does not take into account the 2 tier approach in effect last session. It moves in the direction of creating an incentive to go above and beyond.
- 254 Blevins Analysis is not sufficient, that is why changes to this program are premature
- 260 Patrick Green Reiterated the testimony of Matt Blevins. It should not move to OECDD. Where is the stimulus, where are the jobs?
- 300 Chair Shetterly Closed the public hearing on HB 2652

OPENED PUBLIC HEARING ON HB 2505

- 308 Martin-Mahar Provided background on HB 2505, (Exhibits 5-6).
- 348 Charles Sauvie Spoke in favor of HB 2505, (Exhibit 7).

Questions and discussion regarding taxation of pension account transactions.
- 433 Alan Thayer Spoke in favor of HB 2505, (Exhibit 8). Passage of HB 2505 is critical to reduce negatively perceived capital gains tax. Described mail order retailers,

order takers are located in Oregon, warehouses capital investments are in Nevada where taxes on inventories are less. Discussed competition for business extends to other nations. HB 2505 retains employers, attracts new capital investments; stimulates economic growth.

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- 073 Rep. Barnhart Are there scientifically valid studies that would support your propositions, looking at potential losses of a third of a billion dollars in the future?
- 088 Thayer Not scientific studies, but Joe Schweinhart will refer to Wall Street Journal article that shows the top 10 states that cut business taxes had tax revenues 27% higher than rest of the country; Oregon rated last. State of New York is enticing companies with 157 eliminated or reduced taxes.
- 102 Rep. Barnhart Where do you place this proposal vs. pollution tax credit proposal, or other proposals? Not convinced this is the bill.
- 120 Thayer Look at from a business owner's perspective instead of legislator's. Have to weigh pluses and minuses of doing business in Oregon vs. another state.
- 136 Rep. Farr When fully rolled out we'll be at 5%, where is Oregon vs. other states?
- 144 Schweinhart Close to the middle, which we can live with.
- 149 Schweinhart Spoke in support of HB 2505, (Exhibit 9). Described benefits of the bill, provides incentives to grow. Capital gains one piece that needs changing and is a burden on seniors. Discussed Oregon study by Dr. Roger Brenner. Parthenon Consulting Group, consumer confidence is powerful source in economy; profit and payroll taxes are major disincentives in economy; adverse tax climate encourages migration out of state.
- 265 Schweinhart Read for the record, people who support of this bill.
- 270 Schweinhart Discussed pollution control tax credits.
- 282 Chair Shetterly Remembered Dr. Brenner's presentation, he said our economist was undershooting his recovery projection.
- 287 Rep. Barnhart Do you disagree with the revenue impact statement on this bill?
- 303 Schweinhart Have not seen it.
- 305 Rep. Barnhart It shows a huge reduction in tax revenues, would like comment from AOI because if true, the dynamic analysis of the tax receipts should show an increase in income.
- 310 Schweinhart Will have some numbers from Legislative Revenue and will respond.
Discussion as to subjective nature of impacts and inadequate data.
- 348 Eric Blackledge Spoke in support of HB 2505, (Exhibit 10), from two perspectives, as a small business owner; and from economic development perspective.
- 430 Darrell Fuller Reiterated Blackledge's comments in support of HB 2505, (Exhibit 11). Discussed negative perception of Oregon as a place to do business, and the lack of incentive to invest in Oregon.

468 Don Schellenberg Reiterated Blackledge's comments. Discussed history of capital gains, need to be in sync with the federal government. OFB supports HB 2505.

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049 Don Cersovski Spoke in support of 2505, (Exhibit 12) discussed importance of capital gains cuts to the family farmer.

083 Rep. Hass After 1986 tax law, Oregon's economy doubled. The largest expansion was in the 1990s, with or without change in tax policy, capital gains tax is higher in California, and they attract business. Does not believe capital gains should be taxed on inflation. There is no evidence that it will create new business or jobs in Oregon.

100 Schellenberg Agree, not the argument. Have not said there would be more jobs in agriculture, simply trying to save family farm.

109 Blackledge Economic growth can occur regardless of the tax situation. Capital gains tax rate has the greatest impact on business.

Questions and discussion regarding marketing function.

140 Rep. Hass Discussed study which said businesses care about taxes, tax rates, but not as much as amenities and quality of life.

155 Blackledge Would agree, but capital gains taxes are out of proportion with other states and need to be reduced or replaced with broader base of tax.

155 Jason Williams Spoke in support of HB 2505. The second highest capital gains tax makes it attractive to leave Oregon. People are leaving Oregon for Vancouver.

208 Jim Haynes Spoke in support of HB 2505. Gave personal example of how capital gains tax inhibited generation of revenue in his company.

252 Chuck Sheketoff Spoke in opposition to HB 2505, (Exhibits 13-14). Disputed anecdotal testimony using IRS migration data in and out of Oregon; referred to previous testimony to the Committee "Cutting Capital Gains Taxes will Hurt Not Help Oregon's Economy". Characterized credit as a jobless credit for a jobless recovery.

398 Patrick Green Spoke in opposition to HB 2505, citing sources.

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043 Lori Widmer Whelan Opposition to HB 2505, reiterated comments by Sheketoff and Green. Discussed balancing act between economic recovery and support of state infrastructure. Discussed reduced education budget and 8000 teacher job loss for 2003-05. Revenue losses amount to \$383 million loss in 2007-09. Public education system is best economic recovery program referred to ECONorthwest Study on effects of public education on the economy.

084 Rep. Verger Discussed decision to move to Oregon and provision of family wage jobs for 35-50 employees. Does not feel Oregonians have anti-business atmosphere, they connect business to schools. Believes Oregon is adversarial to workers. Dilemma for Committee is not only balance, but to not turn to workers to supply the money. Need to create more jobs, not tax people more. Asked witnesses want to know not what you are against, but what you are for. Need

discussion of how to fund schools, and are talking how to build buildings. Need to think of workers and their connection to successful business, and that successful business in connection to schools.

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| 146 | Whelan | Will be able to bring proposals during presentation on April 4. |
| 151 | Sheketoff | We are for state government that plays an important role in Oregon's economy. Discussed unemployment insurance, federal match, concerned for working poor; taxation should be targeted at upper income. |
| 188 | Gweneth Van Frank
Carlson | Does not support HB 2505, government is not a business. It provides services and quality of life. |
| 264 | Chair Shetterly | Closed Public Hearing on HB 2505. |

OPENED PUBLIC HEARING ON HB 3183

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| 267 | Lizbeth Martin-Mahar | Provided description of HB 3183, (Exhibit 15). |
| 284 | Paul Phillips | Spoke in favor of HB 3183 (Exhibit 16). Detailed list of supporters, gave history. Described focus of Smart Growth Coalition. Discussed national competitive issue; long-range commitment. There is no fiscal impact. |
| 366 | Don Lance | Spoke in favor of HB 3183. Discussed short and long-term economic needs. Critical component to long-term economic success is successful businesses offering stable employment. Question is how much should the state be involved in attracting and retaining businesses? HB 3183 will say Oregon is open for business and will provide long term benefits. |
| 420 | Lance | Discussed facility siting elements, tax credits, tax system, single sales factor apportionment. |
| 454 | Lance | Discussed competitor in another state with better tax incentives. |
| 500 | Lance | Two year effective date allows time to recruit business, offsetting revenue losses to existing companies. This will trickle down helping small business. |

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| 074 | Eric Amos | Spoke in favor of HB 3183. Discussed growth in Columbia Sportswear over last 10 years. Oregon tax liability is twice what it would be in a single sales factor apportionment state. Penalized for creating high wage jobs, doubling size of distribution center. Stayed here because of Oregon roots. HB 3183 would: Encourage in-state economic development; side benefit, puts tax base at a national level. |
| 112 | Chair Shetterly | Doubling of tax liability, is that based on current rates, gone to 80% effective May 1? |
| 119 | Amos | Based on old rate. Probably increased 25% based on new rate. |
| 126 | Al Logan | Spoke in support of HB 3183. Feels investments from this bill could drive economic development and is the key to Oregon's financial health. By products of development would be jobs, and investments in state.

Discussed impacts on Oregon: Competitive position with surrounding states; direct impacts on Oregon tax payers; impacts tax revenues. |

162	Logan	By moving to single sales factor and 80% superweighted, Oregon has distinguished itself as a state that wants investments.
173	Logan	Discussed unique incentive in that no benefit goes to a company that does not invest in Oregon.
185	Logan	Discussed effective date 2005-2007, no immediate budget impact, double-weighted sales factor, single sales factor stimulation.
250	Phillips	Discussed contents of handout, (Exhibit 16).
260		Question and discussion regarding revenue impact review for possible error.
273	Phillips	Discussed decision regarding choice of May 1: during last year of biennium would have no revenue impact.
287	Jim Craven	Spoke in support for HB 3183. Reiterated Smart Growth testimony.
309	Barnhart	Ms. Carlson's asked to reiterate her testimony is the same for this bill.
337	Chair Shetterly	Meeting adjourned at 11:45 a.m.

Tape Log Submitted by,

Kathy Tooley, Committee Assistant Reviewed by Kim Taylor James

Exhibit Summary:

1. Martin-Mahar, "Revenue Impact HB 2652", 1 page
2. Schroeder, "Testimony HB 2652", 2 pages
3. Wilkinson, "HB 2652-1 Amendment", 1 page
4. Blevins, "Testimony HB 2652", 2 pages
5. Martin-Mahar, "Revenue Impact HB 2505", 1 page
6. Martin-Mahar, "HB 2505 OTIM Capital Gains Rate Feedback Estimate", 2 pages
7. Sauvie, "Testimony HB 2505", 1 page
8. Thayer, "Testimony HB 2505" 2 pages
9. Schweinhart, "Testimony HB 2505", 5 pages
10. Blackledge, "Testimony HB 2505", 2 pages
11. Fuller, "Testimony HB 2505", 1 page
12. Cersovski, "Testimony HB 2505", 1 page
13. Sheketoff, "The Capital Gains Bird Does Not Fly: The Unmoving Case of Tax Cut Advocates", 10 pages
14. Sheketoff, "The Wrong Answer for Oregon's Economy: Cutting Taxes on Capital Gains Income", 14 pages
15. Martin-Mahar, "Staff Measure Summary, Revenue Impact HB 3183", 2 pages
16. Phillips, "Testimony HB 3183", 17 pages