

HOUSE REVENUE COMMITTEE
APRIL 22, 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
Debra Buchanan, Department of Revenue (DOR)
Roger Martin, Timber Products (private firm headquartered in Springfield)
Norm Miller, DOR
Wallace Rutledge, Department of Forestry
Joe Misek, Department of Forestry
Representative Jeff Kropf, District 17
Tomas Endicott, SeSequential Biofuels, LLC
Charlson Carlson, Cascade Grain Products
Mike Graeny, Department of Energy
Gil Riddell, Association of Oregon Counties
Tom Linhares, Columbia County Assessors Office,
Oregon State Association of County Assessors

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

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

OPENED PUBLIC HEARING ON HB 3160

020 Martin-Mahar Described HB 3160 -1 amendment, (Exhibit 1 and 2). Provided revenue impact for HB 3160-1, (Exhibit 3).

038 Rep. Derrick Kitts Discussed -1 amendment, and \$2 million cap.

046 Rep. Barnhart Looking at the original Staff Measure Summary, it says it applies to tax years on or after January 1, 2002. Is that still true with the -1 amendment?

053 Rep. Kitts That did not change.

055 Rep. Barnhart Why adopt a tax credit to encourage companies to do what they have done?

058 Rep. Kitts It's related to purchases that may be leased, not disqualifying them from future investment.

063 Questions and discussion as to time period bill refers to. Bill means 2003.

080	Rep. Barnhart	Has the Committee received information discussing the need for this credit?
087	Rep. Kitts	Discussed need for credit as a pre-emptive measure with President Bush's Healthy Forest Initiative. Intent is to restart mills that have been shut down and help depressed areas. For the record, does not have mills in his district.
094	Rep. Farr	Does this address needs by mills to retool to handle smaller diameter logs?
096	Rep. Kitts	That's what the bill is geared for, modernization and upgrading of the mills. An overhaul to these mills costs between \$8 and \$15 million.
100	Rep. Farr	For the record, there are lots of closed mills in his district.
103	Chair Shetterly	For the record, has closed mills in his district.
105	Rep. Verger	Described bill as economic stimulus bill. It would be a real shame if Oregon is unable to process and harvested trees have to go to another state to be processed. Has closed mills in her district.
114	Rep. Kitts	If were able to process burnt timber in Biscuit fire, could open all mills. Would rather not send to Idaho, Northern California or Washington.
135	Rep. Verger	Agreed. If left on the ground and don't hire people to clear it up it will go into other systems, water for example.
145	Rep. Barnhart	Agreed with economic development, but does not see a link between economic development and the action of the bill. Have not received data explaining why this credit is going to have these affects. What information do is there that demonstrates this tax credit is necessary?
160	Rep. Kitts	It's an attempt to help. Its not to say the mills won't open anyway. Vowed he would not support tax credit bill this session that didn't have family wage jobs tied to it.
178	Rep. Hass	Where in this legislation is there a tie to good family jobs?
186	Rep. Kitts	There is not, mill jobs pay above \$11.05 that the AFL-CIO defines as family wage jobs. Mills built in Oregon for economic stimulus, will support Oregon jobs rather than being built and processed out of state.
185	Rep. Hass	This bill is not tied to language.
200	Rep. Kitts	This is geared to an industry that promotes family wage jobs.
204	Chair Shetterly	Clarifies confusion about January 1, 2002 date.
210	Chair Shetterly	Are you comfortable that wood products industry is defined well enough for purposes of this bill?
220	Rep. Kitts	Is comfortable with the language used.
228	Chair Shetterly	Would DOR want a tighter definition of wood products industry?
230	Debra Buchanan	Economic and Community Development is issuing a certificate for the credit. It would be helpful if described, provided examples of companies that use wood products that may argue to be included.
242	Chair Shetterly	OECD issued certification which includes tie in to wages, could be used

explicitly as a tax qualifier.

- 257 Rep. Kitts Will address in order to bring back living wage jobs to Oregon.
- 246 Roger Martin Spoke in support of HB 3160, as forest products industry is in desperate straights.
- 312 Chair Shetterly Closed Public Hearing on HB 3160.

OPENED PUBLIC HEARING ON HB 2188

- 322 Richard Yates Provided description of HB 2188, (Exhibit 4), described as a housekeeping bill to clean up the timber statutes.
- 358 Chair Shetterly Explain to the Committee how this bill relates to HB 2197, timing and where HB 2197 is in the Senate process presently.
- 368 Norm Miller Spoke in favor of HB 2188, (Exhibit 5). Discussed privilege tax and implementation aspects of the bill which are being eliminated. HB 2197 is in the Senate Revenue Committee where there is concern regarding issues of how land is valued in Eastern Oregon vs. Western Oregon's productivity classes method of establishing land value. Senate Revenue Committee also has concerns regarding the revenue impact.
- 418 Wally Rutledge Concerns with conflict with HB 2197. Will work with DOR to amend HB 2188 to make it compatible with HB 2197.
- 445 Joe Misek Reiterated Yates, Rutledge and Miller's testimony, (Exhibit 6).
- 448 Chair Shetterly Are we ready to move or do we need to wait to know what is going on with 2197 to make some conforming amendments?
- 453 Miller The original intention is to have HB 2197 go through the process and amend HB 2188 to conform on the House side. HB 2188 regardless needs to pass. If HB 2197 does not pass out of Senate Revenue, need this bill to be implemented with current legal language.
- 494 Chair Shetterly Closed Public Hearing on HB 2188.

COMMITTEE STANDS AT EASE

OPENED PUBLIC HEARING ON HB 3551 TAPE 138, SIDE A

- 056 Mazen Malik Provided background and described HB 3551, (Exhibit 7); Revenue Impact (Exhibit 8); "Property Tax Expenditure Funding", (Exhibit 9); and -1 amendment (Exhibit 10).
- 115 Rep. Jeff Kropf Spoke in support of HB 3551, issues came out of a task force charged with discussion of alternative fuels in Oregon. Cited environmental benefits; crop mix grown specifically for alternative fuels; and reduction of reliance on foreign fuels. Provided history of Minnesota construction of ethanol facilities and 1:12 return on their investment. Described HB 3278 as companion bill pollution control tax credit.
- 180 Thomas Endicott Spoke in support of HB 3551 and HB 3278. Provided PowerPoint presentation on context and vision for biofuels "Expanding Renewable Fuel Choices in the Pacific Northwest", (Exhibit 11).

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- 151 Rep. Kropf Discussed bills as foundation, HB 3551 proposes changing 50% property tax credit to 100% for 10 year period; would agree to 50% for 10 years.
- 179 Rep. Kropf Discussed success of Minnesota program due to placement of a mandate and incentive at the same time. The Oregon approach would offer incentives that help stimulate and create jobs in rural Oregon.
- 205 Rep. Kropf Discussed barriers; some based on cost. Governor's office has been supportive of biofuels concepts, have not discussed specifics.
- 200 Rep. Kropf Discussion regarding methods of producing biodiesel.
- 254 Rep. Kropf Missing element is research.
- 262 Rep. Kropf Described California market and movement from nursery stock and Christmas tree crops.
- 303 Rep. Farr This is a growth industry, has there been discussion about a phased out percentage; starting out at 100% and phasing out at 50%, coupled with a phased in mandate of a mixture of fuels?
- 313 Rep. I Kropf No discussion regarding phase issue; discussed mandates in the Biofuels Task Force. If Oregon provides incentives, may not need mandates. A 100% tax exemption would not provide revenue for local counties; a 50% exemption for 5 years would. Prefers 10 year period as important for business plan and model to take to the bank.
- 353 Chair Shetterly What is the connection to strategic investment program, or expansion of enterprise zone, have potential production facilities looked at that as a vehicle for a tax exemption? Expansion of the strategic investment program to include rural and specifically addresses energy production HB 2299.
- 360 Rep. Hass It would lower SIP cap to \$25 million and is designed for energy facilities.
- 387 Rep. Kropf Department of Energy has a matrix of federal and state tax credits, overlaps, prohibitions and gaps. These two pieces of legislations try to fill in the gaps.
- 398 Malik Ethanol has a seasonal requirement from federal government for mixing, does biodiesel have that issue.
- 419 Endicott The only increase in ozone type gases with biodiesel is NOx, that is consistent across summer and winter.
- 498 Charles Carlson Spoke in support of HB 3551. The biggest problem in the summer is not the contamination of the ozone; it's the vapor pressure if the gas gets too high which can cause stalling.
- 444 Malik Does biodiesel have the same problem?
- 446 Discussion regarding vapor issue.
- 452 Carlson Discussed ethanol presentation (Exhibit 12), and Port Westward facility.

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029	Carlson	Discussed lack of state incentives hampering construction in Oregon. Requested incentives to take back to investors. Discussed family wage jobs; affects on environment benefits to entire state.
131	Rep. Barnhart	Described mid-west environment for these plants are over built. How long would it take for Oregon and Washington to get saturated in the market?
154	Carlson	Development is expanding ethanol usage. Discussed Oregon 150 million gallon levels vs. South Dakota 40-50 million gallons.
169	Rep. Barnhart	What are odds of this being built without this bill?
171	Carlson	Going to New York to finalize the terms. For site economics, the issue of state incentives will come up.
179	Chair Shetterly	Have you looked at enterprise zones, encouraged review.
180	Carlson	No, have discussed enterprise zones with Columbia County. Best incentives come from production credits.
192	Mike Graeney	Office of Energy supports the bill and the amendment, governor's office staff is supportive of the bill, provides good energy and environmental policy.
210	Gil Riddell	Spoke in opposition to HB 3551 as a property tax expenditure that local government did not request. It spends local revenues and school money for general essential purposes. The bill is not needed with federal incentives and regulations; California mandates and promising future. Current state and local tools and initiatives have been successful in Columbia County. There is a strategic investment initiative, enterprise zones and urban renewal. If this bill passes as is, it will disrupt the total package in Columbia County and negotiations for two power projects.
230	Tom Linhares	Oregon Association of County Assessors opposes change from 50% to 100% exemption program as removing land, buildings, machinery and equipment values from the tax roles. Leaving exemption at 50% would solve that problem. There is no prohibition of getting enterprise exemption for 3-5 years and then getting 10 year exemption under this bill. Language of the bill is archaic and some sections do not make sense from a property tax exemption, administration standpoint.
300	Lindares	As a representative of Columbia County, excited about Cascade Grain project for Westport project. The problem is infrastructure. Discussed urban renewal plan, enterprise zone exemption.
319	Lindares	Discussed of Cascade Grain's receipt of tax abatement under 5 year enterprise zone program. As bill is currently written, they would pay zero taxes which throws off financial plan for county.
365	Rep. Barnhart	\$34 million into infrastructure necessary to make these plants usable?
330	Linhares	Answered affirmatively.
370	Chair Shetterly	What else is in this urban renewal plan area for development?
373	Linhares	Two power companies.
380	Rep. Barnhart	How do you plan to finance the \$34 million without this bill?

384	Linhares	Discussed phasing in infrastructure projects based on incremental increases in tax base.
414	Rep. Barnhart	You are bonding the income stream to pay for the improvements?
415	Linhares	Answered affirmatively.
423	Rep. Kropf	In response to concerns on legislation. Did not intend legislation to create issues in urban renewal. Will address double dipping issue. Strategic investment lowers the cap to \$25 million. Discussed small biodiesel plants as costing \$5 million to produce. Trying to encourage homegrown industry where farmers could produce their own biodiesel facilities. Would still like to encourage small facilities.
462	Chair Shetterly	How big are some of these plants? Could they be agricultural operations that placed on farm land, such as a farmer's cooperative?
475	Endicott	Looked at producing small scale production facility, 12-15 million gallons, not farm scale.
480		Questions and discussion regarding footprint and costs of ethanol and biodiesel plants.

TAPE 139, SIDE A

045		Questions and discussion regarding land use and farm deferral.
051	Rrep. Kropf	Columbia County circumstance will require infrastructure investment, not every potential facility will require infrastructure of that magnitude. Should encourage industry through incentives, cited gains as vibrant communities, with businesses and increasing property taxes.
075	Chair Shetterly	Closed Public Hearing on HB 3551.
077	Chair Shetterly	Meeting adjourned at 10:35 a.m.

Tape Log Submitted by,

Kathy Tooley, Committee Assistant

Exhibit Summary:

1. Martin-Mahar, "Staff Measure Summary HB 3160-1", 1 page
2. Martin-Mahar, "HB 3160-1 Amendment", 1 page
3. Martin-Mahar, "Revenue Impact Statement HB 3160-1", 1 page
4. Yates, "Staff Measure Summary HB 2188", 2 pages
5. Miller, "Testimony HB 2188", 1 page
6. Misek, "Testimony HB 2188", 1 page
7. Malik, "Staff Measure Summaries HB 3551", 2 pages
8. Malik, "Revenue Impact Statement HB 3551", 1 page
9. Malik, "Property Tax Expenditure Funding – HB 3551", 3 pages
10. Malik, "HB 3551-1 Amendment", 1 page
11. Endicott, "SeQUential Biofuels, LLC", 6 pages
12. Carlson, "Ethanol Presentation", 12 pages