

**HOUSE REVENUE COMMITTEE**  
**MAY 14, 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: Tom Tuchmann, US Forest Capital  
Doug Goe, Orrick, Herrington  
Representative Tom Butler, District 60  
Senator Ryan Deckert, District  
Patrick Green, AFL-CIO

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

**TAPE 163, SIDE A**

004 Chair Shetterly Calls meeting to order at 8:35 a.m.

**OPENED PUBLIC HEARING ON HB 3633**

018 Richard Yates Provided description and background on HB 3633, discussed -1 (Exhibit 1) and -2 (Exhibit 2) amendments, -2 replaces -1.

030 Tom Tuchmann Spoke in support of HB 3633, (Exhibit 3). Looked at financing large scale forest acquisitions that bring conservation community, local officials and timber industry together.

100 Tuchmann Discussed creation of forest authority as having broad support, although no specific transaction in Oregon to date. Need the legislative authority in case a transaction does take place.

133 Tuchmann Discussed technical amendments and difference between -1 and -2.

141 Rep. Verger The municipality creates the authority, does it own the land?

143 Tuchmann No, it is quasi public/private. Municipalities create the authority and hire a private company to manage the land. There is no recourse back to the municipality financially or with the land. It is a private transaction, the bondholders hold the property and it would be auctioned off.

152 Doug Goe Described bill establishing forest authority is based on statutes written for a hospital authority; where without the hospital's participation could not take advantage of the tax code.

172 Rep. Verger How much authority does the city have if it creates an authority, in

		determining where forest is cut?
196	Tuchmann	None the authority would run as an independent body.
199	Chair Shetterly	Under Section 5, the governing body can appoint and remove the board at will; they would not get too far out of line because the municipality could pull them off the board.
215	Tuchmann	There is a requirement for a member of the municipality governing body to be on the board.
217	Rep. Barnhart	Why is this useful?
220	Tuchmann	Discussed historical creation of municipal financing vehicle and application of that concept to forest acquisitions.
262	Rep. Barnhart	There are several issues; this is another mechanism for getting conservation and economic interests to work together for economic and environmental, and conservation purposes.
259	Tuchmann	And community development.
272	Rep. Barnhart	It is financed because of the scale issues, to get debt costs at lower rate because of tax exempt bond funding.
276	Rep. Hass	What are the clear public benefits?
278	Tuchmann	Described the bill as putting in place a board that defines the public benefit.
294	Rep. Hass	Sounds like a national forest, isn't that mechanism in place?
311	Tuchman	It is not a national forest. In the end it's the public land manager that makes the decision influenced by people all over the nation. This bill is affected by a local municipality to a group of people that make that decision.
332	Goe	The other point is HB 3633 provides flexibility to create non profit authority to loan the proceeds to a non-profit corporation set up for the purpose of having balance of local business/community interests.
336	Rep. Farr	Funding for communities, potentially money could go to Lane County's general fund?
363	Tuchmann	Nodded affirmatively.
364	Rep. Farr	If a municipality were to engage in this activity, would it typically be out of the urban growth boundary?
355	Tuchmann	Answered affirmatively, hadn't thought of that, typically large scale forests are outside the urban growth boundary.
375	Chair Shetterly	There's no geographic limitation, Lane County could buy land in Clatsop?
391	Goe	Answered affirmatively. Have drafted the bill to the extent that there was a forest authority between two counties, both counties would work on an intergovernmental agreement basis. The bill contemplates multiple counties that overlap such as central Oregon.
397	Rep. Berger	Has anyone done this? Is there a model?

- 429 Tuchmann Yes and no. Described an agreement with Weyerhaeuser outside Seattle a year ago, which fell through because of clarification on private use did not come through in time and Weyerhaeuser sold it to another company. Financing associated with this works, described relationships, need is for the forest authority.
- 490 Tuchmann Described Catch 22. Landowner would not engage with buyer if could not close a deal within six months. If authorized can transaction be completed. Need authority upfront based on experience in Washington.
- 496 Rep. Berger Under this enabling piece what prevents Multnomah County from buying a forest in Coos County?

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- 040 Goe That is something that could be addressed as a technical matter.
- 052 Goe Discussed technical issue under federal tax law, requiring an elective body where community is being financed is located. Coos County would have to approve a bond issue for Multnomah County to do tax exempt financing.
- 068 Chair Shetterly That's a defacto requirement in federal law. Need to see an amendment addressing that concern.
- 079 Chair Shetterly Is there anything limiting ownership to the State of Oregon?
- 086 Goe Section 2 discusses providing the people of Oregon with renewable forest resources. That language is taken from hospital facility statute. Intended to mean State of Oregon, can tighten that language as well.
- 098 Chair Shetterly Not sure I would be bothered by the authority to invest out of state.
- 101 Chair Shetterly This forest land owned by a non-profit, does it stay on the tax role?
- 099 Goe Nothing in the bill that addresses the property tax exemption. That is something that is otherwise governed by state law. Don't know if that's consistent with the intent.
- 112 Tuchmann Our cash flows always include property taxes and every other tax. That is the intent and the practical application.
- 123 Chair Shetterly From Section (13), a community forest authority is deemed a municipal corporation, all assets and income and bonds are exempt from all taxation in Oregon. Section (2), discusses leases to a third party, how the management arrangement is set up may affect the taxation.
- 135 Goe Earlier comments address a situation where the authority loans the proceeds of revenue bonds to a non-profit corporation.
- 141 Rep. Barnhart The purpose of organization is to hold forest land and manage it? Defined forest land. Could this organization set up a park?
- 153 Tuchmann Forest authority is an issuing authority; revenue is generated from the forest harvest. Can set aside a portion.
- 171 Barnhart A conservation set aside?
- 167 Tuchmann Answered affirmatively. Can issue debt on behalf of private non-profits who

do not have ability to issue debt?

- 186 Goe Answered affirmatively.
- 188 Question and discussion relating to restrictions in federal rules that allow for nontaxable interest on these bonds.
- 200 Discussion regarding need for federal tax code clarification.
- 235 Question and discussion regarding language in Section 13 as it excludes income from taxation.
- 240 Goe The intent is where the authority is the owner that it be excluded from property taxes; also contemplates leasing.
- 279 Chair Shetterly If have authority within own jurisdiction is one thing, a requirement is needed for host authority.
- 286 Rep. Barnhart Being cautious on first go around on this to make it transparent makes sense. If it is being used for production it should be taxed, if used in a way that is not normally taxed it should receive an exemption.
- 295 Chair Shetterly What percent of forest land is public vs. privately owned in Oregon, County, Federal and State?
- 311 Tuchmann Believe its 55/45.
- 313 Chair Shetterly This creates a new municipal investment in what is currently a private forest land market. Do we want to expand public ownership under the guise of authority in these non-profits into minority private ownership of forest lands?
- 327 Rep. Barnhart Does not believe the case has been made for large scale financing of private forest lands. Model is interesting, but does not solve a problem.
- 320 Rep. Farr This seems like a good transition between private and national forests; it gives the best of both. Local governments get another revenue source.
- 333 Chair Shetterly On public vs. private, is private investment disadvantaged in forest land by creating purchases with tax free bonds? Would there be an imbalance in the market?
- 347 Tuchmann There is a cost to the purchaser for using lower cost of capital which is the cost of providing a public benefit for roads or schools, or taking property and using lighter forestry approach. Private sector can still meet or exceed price that a nonprofit that can pay. Most large forest landowners are disposing of industrial forest lands and fragmenting forests.
- 425 Chair Shetterly Closed Public Hearing HB 3633.

#### **OPENED PUBLIC HEARING ON SB 362-A**

- 409 Lizbeth Martin-Mahar Provided description and background of SB 362-A3, (Exhibit 4). Discussed -3 amendments before the Committee as "not being brought forward", Exhibit 5); staff summary and revenue impact noted -A3, remain valid. Described revenue impact of SB 362-A3 (Exhibit 6).

040	Rep. Tom Butler	Spoke in support of SB 362-A as “a great jobs bill” for Western Oregon, providing seed money for intellectual and venture capital to come to Oregon. One other state legislature has adopted a similar bill. Described special tax exemption for new to Oregon business. This is intended to attract those who will invest large amounts of income into Oregon.
118	Senator Ryan Deckert	SB 362-A focused on venture capital flight from Oregon, discussed success stories of Boston, Seattle, Silicon Valley. SB 362-A is one of six bills to encourage new start up companies, (Exhibits 7, 8, 9, and 10).
149	Sen. Deckert	Cited tight language, with subsequent “but for” language companies must meet in order to receive credit. Discussed venture capitalists starting up in the 1990s and affects on Oregon’s economy.
181	Rep. Verger	\$2 million, that’s not the initial investment?
184	Sen. Deckert	Answered affirmatively. It is the seed money before marketing the product. The key is access to money to grow product.
187	Sen. Deckert	Cited Gatorade as an example of company developed from seed money and grown.
200	Rep. Butler	\$2 million per annum is the minimum amount of investment required. Anticipate companies establishing business in Oregon with \$75 million investment will likely make larger investments. Key person in that firm can apply to Oregon Council of Knowledge and Economic Development (OCKED) to get an annual exemption.
225	Rep. Berger	Can you discuss the nano technology/university faculty piece of this?
242	Sen. Deckert	OCKED people doing research; described MIT affect on Boston economy. This tries to incent researchers on projects unique to Oregon. Cited growth in biotech.
255	Rep. Butler	This is for new to Oregon business, may only have 10 employees. When business moves to research the pyramid gets larger. Described high end jobs.
295	Rep. Verger	Closed public hearing on SB 362-A

**REOPENED PUBLIC HEARING ON SB 362-A**

304	Patrick Green	Spoke in opposition to 362-A. Sen. Deckert gave examples of companies that received venture capital from venture capital firms without tax incentives, because it was a good idea worth funding. Concerned about offering a tax incentive for something that is already going to happen. Bill says investment will produce a good, but it could produce a loss. Concern there is no measure for job creation; is it possible eto have job guarantees as a part of the bill?.
360	Rep. Verger	Because companies are leaving the state and taking jobs with them, is the tradeoff for a tax exemption inclusion of a job guarantee, would you support?
380	Green	If the point is to create jobs, there should be an economic development strategy about creating jobs. Discussed one to one federal match to generate more jobs in the health care industry. A venture capitalist can invest \$2 million a year; the venture may not take off and this person would not be paying taxes. Cited strategic investment program as an example of program

that is local in nature with guarantees.

450 Rep. Verger If you were a company, do you believe Oregon is friendly to job creation and companies coming here?

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013 Green Answered affirmatively. Oregon has the lowest business tax burden of the 11 Western States. Cited Paul O'Neil, Treasury Secretary/businessman, never made investment decision based on tax code. Said there were lots of reasons to move to Oregon.

035 Rep. Verger Would agree, but there are a lot of places to go in competition with Oregon.

045 Rep. Verger Closed the Public Hearing on SB 362.

050 Rep. Verger Adjourned the meeting at 10:04 a.m.

Tape Log Submitted by,

Kathy Tooley, Committee Assistant

Exhibit Summary:

1. Yates, "HB 3633-1 Amendment", 1 page
2. Yates, "HB 3633-2 Amendment", 1 page
3. Tuchmann, "Written Testimony HB 3633", 5 pages
4. Martin-Mahar, "Staff Measure Summary SB 362", 2 pages
5. Martin-Mahar, "SB 362-3 Amendments", 2 pages
6. Martin-Mahar, "Revenue Impact SB 362", 1 page
7. Sen. Deckert, "Testimony SB 362-A", 2 pages
8. Sen. Deckert, "OCKED Executive Summary, December 2002", 5 pages
9. Sen. Deckert, "Langelier Written Testimony SB 362", 1 page
10. Sen. Deckert, "Chen Written Testimony SB 362", 1 page