

HOUSE REVENUE COMMITTEE
JULY 29, 2003 8:30 AM STATE CAPITOL BUILDING

Members Present: 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

Members Excused: Representative Lane Shetterly, Chair

Witnesses Present: Joe Schweinhart, Associated Oregon Industries
John Blatt, Association of Oregon Community Development Organizations
Jack Kenny, Oregon Housing and Community Services
Lynn Partin, Oregon Housing and Community Services
Phyllis Rand, Governor's Commission on Senior Services
Peter Hainley, CASA of Oregon
Paul Romain, Oregon Beer and Wine Distributors Association
Gary Fish, Deschutes Brewery Company
Kurt Widmer, Widmer Brothers Brewing Company
Fred Bowman, Portland Brewing Company
John Harris, Full Sail Brewing Company
Jim Bernau, Oregon Wine Growers Association
Willamette Valley Vineyards
John Powell, Miller Brewing Company
Richard Kosesan, Coors Brewing Company
Mark Nelson, Anheuser Brewing Company
Linn and Deschutes Counties

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

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

OPENED WORK SESSION ON HB 2182

018 Paul Warner Provided distributional analysis of itemized deductions for 2001 Full Year Returns and the personal exemption credit, (Exhibit 1).

040 Questions and discussion regarding the breakdown of the first quintile and second quintile.

058 Rep. Barnhart Is the average the right number to use as a measuring device for this, are these numbers relatively unskewed?

065 Warner The average is useful to look at in terms of the exemption credit amount, in terms of income it is skewed toward the higher end.

069 Rep. Barnhart The median is probably lower than on the income piece, is that a fair guess?

070	Warner	Answered affirmatively.
080	Joe Schweinhart	Said it is difficult for AOI to support revenue increases in this bill, as tax increases at this time would be damaging to the economy. Discussed need for agreements to help grow the economy with efforts to balance the budget. Discussed forecasts for declines in semi-conductor, transportation, construction and manufacturing, with little growth projected for non-manufacturing and the timber industry. To promote recovery, the Legislature should take action on the removal of disincentives on business such as the high capital gains tax; and increase incentives for the R&D tax credits to keep and increase business.
131	John Blatt	Testified in opposition to a 20% reduction in the Oregon Affordable Housing Tax Credit. Said banks would reduce the relief given by 20%; resulting in an estimated rent increase of \$200 a year significantly affecting low income families, (Exhibit 2).
161	Jack Kenny	Concurred with Blatt in opposition to reduction of the Oregon Affordable Housing Tax Credit, but supported the three year deferral. This reduction in the affordable housing credit could result in an increased cost to the state that could offset the savings. Bankers get the credit, but it results in a rent reduction to low income housing, the tenants in many cases are developmentally disabled and cannot sustain a \$200 rent increase. Bankers could raise the interest rates which would result in increased rents; deferral would make the credit difficult for banks to administer.
218	Lynn Partin	Spoke in opposition to a reduction in the Farm Worker Housing Tax Credit Program. Concerned regarding retroactive aspect of the proposal. Taking 20% out of a project that was barely viable puts the project at risk. Heartened by the -3 amendments which exempts the Farm Worker Housing Tax Credit from the overall reduction; however, in the -12 amendments that is not the case.
255	Rep. Verger	The -12 amendments in HB 2182?
255	Warner	-3 amendments refer to certified programs only which can be carried forward after the 3 year suspension; the -12 amendments look at expanding that to all credits, but have not been considered by the Committee yet.
268	Rep. Farr	For clarification, the provider cannot take the credits so they sell them to lending institutions?
270	Partin	True, for the bulk of the credits. In order to get equity into the project; individual for profit farmers with on-farm housing can take the credit directly for themselves.
278	Rep. Farr	Noted retroactive sale of credits problematic.
283	Partin	Concurred. Said one of two parties loses depending on the contract.
298	Rep. Farr	The amount is \$7.25 million?
300	Partin	It was reduced to \$7.25 million from \$7.5 million in HB 2166 which the Governor has signed.
313	Phyllis Rand	Concerned about across the board deductions as it impacts low income families struggling to make ends meet.

324 Peter Hainley Discussed need for certainty, and 10-year struggle to get investors and keep them interested. Noted federal money is allocated to these projects through the use of tax credits; discussed competitive nature of these funds.

350 Discussion regarding characteristics of investors in farm worker credits.

372 Vice Chair Scott Closed Work Session on HB 2182.

OPENED WORK SESSION ON HB 2837

386 Vice Chair Scott Recessed meeting at approximately 9:05.

388 Vice Chair Scott Reconvened work session on HB 2837 at approximately 9:10.

393 Richard Yates Provided description of HB 2837-1 amendment (Exhibit 3), which replaces the bill; Staff Measure Summary HB 2837-1 (Exhibit 4); Revenue Impact HB 2837-1, (Exhibit 5); and "HB 2837 Analysis of Distribution", (Exhibit 6).

480 Questions and discussion regarding monthly rates per barrel of beer.

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035 Questions and discussion regarding number of distributors that will be paying the increased tax.

057 Questions and discussion regarding seasonal variation in production and distribution monthly.

065 Rep. Barnhart Is there a section that refers to what happens in the event the matter is referred by petition, or a law that applies that would set any date other than the November 2004 election?

072 Yates No, there is nothing in the bill that addresses that question. Were it referred it would be suspended until the election in November 2004.

076 Rep. Williams Your analysis of the distribution, is it to the -1 amendment or the original version of the bill?

077 Yates Discussed proceeds of the tax.

083 Questions and discussion regarding the per drink number.

092 Rep. Williams The current -1 amendment does not impact the current tax on wine?

093 Yates Answered affirmatively.

099 Paul Romain Spoke in opposition to HB 2837. Said the proposed increase would take up a beer distributor's net profit. The tax would increase from \$2.60 to \$12.52 a barrel, the highest tax rate in the Western United States. By formulating the tax on a monthly basis, it will include a number of Oregon micro breweries for half the year resulting in a competitive disadvantage. Described complicated taxation process. Described affects of recession on beer purchases. The purpose of the exemption is to protect Oregon's thriving beer industry. Warned the Committee of a severe constitutional problem with trying to limit the impact on the Oregon beer industry. Clarified this is not a drink tax or a sales tax; it is a wholesale or producer tax. The affect of the excise tax would be to markup the price 10-15 cents in order to achieve a price point. Oregon

Beer and Wine distributors have supported a sales tax, as being part of the total solution; said singling out the beer drinker is horrible tax policy, and advised the Committee the tax would be referred to the voters.

- 243 Rep. Barnhart Asked for description of why the bill would be considered unconstitutional.
- 247 Romain Provided two U.S. Supreme Court cases that provide the basis for his argument; and discussed the Commerce Clause.
- 304 Rep. Farr Question regarding the number of people employed in the state in brewing and distribution.
- 306 Romain Approximately 3000 in the wholesale industry; including brewing and restaurants will grow the number dramatically.
- 324 Gary Fish Imposition of this tax could not come at a worse time as Deschutes Brewery is in the throes of expansion. Compared tax credits for bringing film to Oregon for limited duration jobs vs. long term nature of brewery jobs. Described excise tax as regressive and not a 2 cent a drink consumption tax as suggested. Described wholesale/distributorship price structure. The tax would hurt the Oregon beer industry with or without an exemption for small brewers. The constitutional challenge to an exemption would, if overturned leave the small brewing industry vulnerable; said it is wrong to damage one of the few parts of Oregon's economy that is working.

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- 024 Fred Bowman Discussed community involvement surrounding each brewery, and positive affects on tourism from brew festival. Concerned that the exemption would not stand and that brewers would be saddled with a large tax increase.
- 075 Kurt Widmer Discussed number of people directly and indirectly employed by brewing industry. Provided examples of the affects of potential increase on wages and employment.
- 124 John Harris Full Sail Brewing started from a grant from the Lottery, and one of two companies to pay the grant back. Described growth of organization into one which provides family wage jobs. Emphasized that the tax proposed is actually a production tax levied, not a per drink tax. Called singling out one industry and taxing it as unfair and irresponsible. Described positive affects on tourism. Explained beer pricing set with distributors not at retail.
- 189 Rep. Barnhart To what extent do your business plans include increased sales in other states of beer brewed in Oregon?
- 199 Harris Full Sail is in about 14 states; nearly one-third of beer is sold in Oregon.
- 204 Widmer Widmer Brewing sells nearly one-third of its beer in Oregon. Rate of growth outside the state of Oregon exceeds growth in Oregon and comparable to the rate of unemployment. Said beer drinkers will drink less and trade down, if people choose to drink less they can drink less expensively, negatively impacting their business.
- 220 Rep. Barnhart Do your business plans have you continuing to produce primarily or exclusively in Oregon?
- 225 Widmer Discussed a licensing arrangement with brewery on the east coast. Said the family brewing business has no plans to construct breweries else where.

- 233 Question and discussion regarding Full Sail annual and monthly production.
- 259 Jim Bernau Spoke regarding previous and possible future wine tax proposals. The Legislature should find revenues without taking them from consumers, risk takers or entrepreneurs. Winemakers have converted undeveloped marginal land into highly valued farm production. Described community service provided by wine growers and beer brewers. A tax increase on wine production would be damaging at this time, based on costs; drop in sales and inability to raise prices based on competition with large wineries.

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- 060 John Powell Testified in opposition to the tax increase. Discussed "Oregon's Beer Tax in Perspective", (Exhibit 7) which describes where Oregon is in relationship to other beer producing states and beer producing/high tax states.
- 117 Richard Kosesan Provided overview of tax rate increase, reiterated that the tax was not a two or five cent tax on a drink, called the tax regressive and hard to absorb.
- 138 Mark Nelson Described polls done over the years and defeat of 1 cent tax by voters. Described negative impacts on growth for the micro-brewing industry. Discussed how tax money would be used. The industry has supported enhancement of general fund dollars to alcohol and mental health. Described industry concerns about where existing beer, wine and liquor markup taxes are spent. Although did not support the bill, if it went forward urged the Committee to add a "Maintenance of Effort" clause.
- 223 Powell Said to make charts in (Exhibit 7) more realistic, it should add \$18 a barrel to every line to indicate the Federal tax on beer.
- 226 Rep. Williams Question regarding moneys generated by the beer and wine tax that isn't being directed to treatment and mental health addiction-related programs. Do you believe that should be the sole purpose of any money raised by the beer tax?
- 238 Nelson Opposed a beer tax because of its regressivity. There is a substantial tax already paid in beer, wine and in liquor markup and those dollars should be looked to first.
- 250 Rep. Williams Moneys given to cities and counties often go to their general funds and budgeted law enforcement and public safety responsibilities. Most law enforcement responses to domestic violence calls, or other altercations, is due to the result of using alcohol in an irresponsible manner. Is it your belief that revenues generated off the beer tax be used to offset the costs of the product that the city, county and public has to deal with as a result of misuse of the product?
- 277 Nelson Do not believe in regressive taxation, or excise taxes. Nexus can be made, but do not agree to the strength of the nexus. Those services should be paid for out of across the board taxes and not picking on one industry or product. Many products cause a social ill and are not taxed.
- 294 Rep. Williams As one looks at total costs of funding city and county law enforcement, is it your belief that the state is not spending that amount of money statewide for those programs? In fact, the general tax burden of citizens is paying for the substantial part of providing law enforcement, safety and security. The amount currently used for general funds is pretty small, would you agree?

311	Nelson	Did not know what the amount is associated with abuse of the product. Clearly general fund dollars are being used for those purposes and there should be more. If the programs are that important, should look at how tax dollars are used now. The industry has said it would go to Ways and Means and advocate for removal of general fund dollars to those programs.
335	Rep. Williams	Your analysis seems to suggest that there is zero sum gain; if that \$100 million was put into treatment it would solve our problem. That \$100 million through its current allocations is already going to meet the struggling demand to address public safety issues and doesn't begin to scratch the surface of the problems of addiction, treatment and prevention. Those costs are more expensive than what is allocated to treatment. Is it appropriate to say as a privilege of having this product, there is a social cost to level a responsible and adequate tax to help make up some of those social costs?
366	Nelson	Felt it is inappropriate, but believed the programs to be valuable. There are resources that are not used when going after more revenue.
396	Powell	Also represents the Oregon State Sherriff's Association, but not aware of its position on the tax. Would make them aware.
401		Questions and discussion regarding last election held on the tax increase.
414	Rep. Barnhart	The \$100 million from beer, wine taxes and liquor markup, what are the proportions that makes up that money?

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002	Koesan	The vast majority is attributed to distilled spirit markup, \$6 million from the beer; a similar amount from dessert and table wines.
005	Rep. Barnhart	That's about \$87 million dollars out of the \$100 million?
008	Koesan	Answered affirmatively.
020	Vice Chair Scott	Meeting adjourned at 10:35 a.m.

Tape Log Submitted by,

Kathy Tooley, Committee Assistant

Exhibit Summary:

1. Warner, "Total Itemized Deductions + Personal Exemption Credit 2001 Full-Year Returns", 1 page
2. Blatt, "Rough Estimate of Impact of 20% Reductions in Oregon Affordable Housing Tax Credit (OAHTC)", 1 page
3. Yates, "HB 2837-1 Amendment", 11 pages
4. Yates, "Staff Measure Summary HB 2837-1" 1 page
5. Yates, "Revenue Impact HB 2837-1", 1 page
6. Yates, "HB 2837 Analysis of Distribution", 1 page
7. Powell, "Oregon's Beer Tax in Perspective", 4 pages
8. Cooper, "House Bill 2182, dash-6 amendments", 3 pages