

HOUSE COMMITTEE ON TRADE AND ECONOMIC DEVELOPMENT

February 26, 2002 Hearing Room D
1:00 PM Tapes 18 - 19

MEMBERS PRESENT: Rep. Patti Smith, Chair
Rep. Vicki Berger, Vice-Chair
Rep. Mary Gallegos, Vice-Chair
Rep. Mark Hass
Rep. Dave Hunt
Rep. Steve March
Rep. Dennis Richardson

STAFF PRESENT: Kimberly A. Medford, Committee Administrator
Linda K. Gatto, Committee Assistant

ISSUES HEARD: Informational Meeting
Sandy Cutler, PhD, Oregon Small Businesses Dev. Center Network
HB 2299 Public Hearing
Work Session
Introduction of Committee Bills

These minutes are in compliance with Senate and House Rules. Only text enclosed in quotation marks reports a speaker's exact words. For complete contents, please refer to the tapes.

<u>TAPE/#</u>	<u>Speaker</u>	<u>Comments</u>
TAPE 18, A		
004	Chair Smith	Calls the meeting to order at 1:05 p.m. and opens the informational meeting.
<u>INFORMATIONAL MEETING</u>		
009	Sandy Cutler	State Director, Small Business Development Center Network, (SBDC). Recalls that in 1982 – 1983 Lane County unemployment was 16-percent and the prime lending rate for businesses to borrow money was 21-percent. Submits (EXHIBIT A) .
033	Cutler	Highlights Oregon small business facts: <ul style="list-style-type: none">• Over half of the workforce in Oregon is employed by small businesses.• Over half of the small businesses in Oregon were founded after 1985.• 62 percent of businesses in Oregon survive the first year; 76.5 percent survive 2 to 5 years, and 81.2 percent survive 6 to 10 years.
065	Cutler	Notes that although these are small operations that gross \$500,000 or less a year, small businesses are vital to Oregon's prosperity. Discusses firms by industry and size.
090	Cutler	Reviews the decline in firms between 1998 and 2002. Explains the zero category; sole proprietorships started by laid-off workers. Comments on the resiliency of small businesses.
134	Cutler	Reviews OECD's small business assessment evaluation.

		Provides an overview of the SBDC's funding, purpose and activities.
194	Chair Smith	Asks if there has been a decline in entrepreneurship due to recent economic conditions.
195	Cutler	Responds that it is because of the economic challenges being faced today that there is an increase in new entrepreneurship.
206	Rep. Gallegos	Asks if there is a focus on traded sector jobs.
214	Cutler	Responds affirmatively.
227	Rep. Hunt	Asks how will the SBDC's services change in upcoming years.
230	Cutler	Notes that E-commerce has become an important component of most business operations and they will provide more services electronically. Adds that acquiring a qualified workforce is a challenge for small businesses.
258	Rep. Hunt	Asks what can the Trade and Economic Development Committee focus on that could provide assistance.
265	Cutler	Answers regulatory reform and adequate funding for community colleges and universities.
300	Rep. March	Asks about the source of the survival rate data.
304	Cutler	Responds that this is the David Birch study.
339	Rep. March	Asks if this is the same data source used in the figures for new business startups.
342	Cutler	Responds affirmatively.
371	Rep. Richardson	Refers to the loss of firms in the last year that employed ten or more employees and asks what was the basis for those losses.
383	Cutler	Responds that he will get some examples of what happened from the employment department. Explains that due to confidentiality laws the specifics are not available.
399	Rep. Richardson	States that the reason for the question is to identify what happened to lessen losses in the future. Asks does the SBDC assist existing businesses.
411	Cutler	Responds that 70-percent of the SBDC's clients are existing small businesses.
427	Rep. Richardson	Asks do businesses know to contact SBDC.
432	Cutler	Responds there are a number of ways. Notes the SBDC works closely with local Chambers of Commerce and economic development districts as well as the Small Business Association and may receive referrals from the OECCD.
450	Rep. Richardson	Asks about developing new markets.
458	Cutler	Responds that there are special programs for different industries depending on the expertise and resources available.

TAPE 19, A

028	Chair Smith	Closes the informational meeting and opens the public hearing on HB 2299.
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HB 2299 PUBLIC HEARING

033	Mike Burton	Assistant Director, Oregon Economic and Community Development Department, (OECCD). States that today's focus will be on the Strategic Investment Program and the Small Cities Business Incentive Program. Submits (EXHIBIT B) .
061	Burton	Submits (EXHIBIT C) . Comments on the Strategic Investment Plan and Intel's relationship to the program.
093	Burton	Begins review of the Small Business Development Program. Reviews proposed amendments clarifying boundaries of a city
120	Burton	Reviews proposed amendments regarding timing.
136	Rep. March	Clarifies that a community that could not qualify today could

		look back two years and now qualify.
150	Burton	Responds affirmatively.
160	Burton	Explains the comment period and precertification on page 4, lines 28 and 29.
176	Rep. Hass	Asks why not allow for a year.
180	Burton	Explains the preference for the language “reasonable period of time” and adds that it can be adjusted under rule, (EXHIBIT D) . Explains the intent is to allow a business to respond to the incentive, make their decision to invest, complete the investment and open for business.
197	Rep. March	Requests an example of what “reasonable” entails.
203	Burton	Discusses page 3, lines 29 – 31 regarding location of operations.
218	Rep. Hunt	Asks where “substantially” is defined.
219	Burton	Responds it is defined in rule, (EXHIBIT D) . Notes that normal standards are 10-percent.
260	Burton	Begins a review of exemptions under the Strategic Investment Program. Notes that these projects are negotiated and includes the impact on public services such as fire departments and schools.
326	Burton	Comments on the characteristics of the exemptions in place.
342	Rep. March	Asks if there is information on the total value of the exemptions to the firm relative to the firm’s investment.
352	Burton	Responds that the investments are over \$100 million and run into the cap on annual service fees. States he will get the figures.
360	Burton	Begins review of the proposed changes; allowing electrical generating facilities.
409	Burton	Explains the second change is to create a scaled down version in rural communities.
430	Burton	Discusses the option for special districts to opt-out. Explains this is limited if an exemption is already in place.
485	Burton	Reviews change #5 page 4, (EXHIBIT B) .
TAPE 18, B		
043	Rep. Gallegos	Asks what criteria defines the term “eligible project”.
057	Art Fish	Enterprise Zone Coordinator, OECCD. Responds that the current definition of an eligible project is on line 22. Notes that all large investments are eligible except electrical generation facilities.
096	Kimberly Medford	Committee Administrator. Refers to lines 34 - 37 stating that this is the current statute and explains that the department has the ability to determine the eligibility of a project.
103	Burton	Notes that the change being proposed is to allow electrical generation facilities. Comments on the threshold of size as criteria for qualification.
113	Rep. Hunt	Asks how industries other than semi-conductor facilities are being addressed.
140	Burton	Responds that the \$100 million threshold is semiconductor fabs. Notes that at the \$25 million threshold there would be a broader range of investments that could qualify.
163	Rep. Hunt	Asks if consideration has been given to counties that have significant unemployment levels but have been unable to meet the threshold.
171	Burton	Responds that OCEDD is responding to this request and notes that reducing the threshold statewide would encourage a number of projects.
185	Rep. Hunt	Comments on large population centers that are not defined as

201	Burton	rural and asks if there are tools available to them. Responds that the tax rolls could be surveyed for large investments and reported back to the committee.
209	Medford	Reads the definition of rural area contained in ORS 285A0107.
224	Rep. Hass	Asks what prompted the change for rural areas.
228	Burton	Responds that the \$25 million level arises periodically and may provide a fit for smaller communities.
240	Rep. Hass	Asks what are the mechanics to this program, how does it look in 15-years.
243	Burton	Responds that the potential is for a 15-year property tax exemption and a 15-year exemption on income taxes subject to minimum thresholds and annual service fees.
255	Fish	Clarifies that in this program they do get the income.
268	Rep. Gallegos	Comments that the investment is huge but the life cycle is short. Asks if companies that are currently in down cycles benefiting from exemptions if in order to receive the tax credits certain goals need to be met
279	Burton	Responds affirmatively.
300	Rep. March	Notes that the contracts are reviewed each year and the designation can be withdrawn if the goals are not being met.
312	Rep. Richardson	Asks would county representatives claim there is a negative impact on the municipalities.
321	Burton	Responds that so far this program has applied to Multnomah and Washington counties and both have been willing participants. Notes there is a tax impact but it is limited, representative of the huge investment.
340	Duke Shepard	Representing Multnomah County Chair Diane Linn. States that he managed the Strategic Investment Program agreements with LSI Logic, Intel and IDT in Washington County and Microchip in Gresham. Comments that the program is working as intended.
370	Shepard	Notes concerns with HB 2299: <ul style="list-style-type: none"> • Ability over time for special districts to opt out potentially complicating the tax structure. • Notification requirements to shareholders and a 30-day notice can be problematic.
435	Rep. March	Asks what parties have to agree in negotiations.
455	Shepard	Explains the process and provisions.
TAPE 19, B		
027	Rep. Hunt	Asks how many special districts are there.
032	Shepard	Responds he does not know.
035	Rep. Hass	Comments on the net tax gain.
038	Shepard	Notes that the tax abatement for LSI Logic has been between \$4 - \$6 million in a given year and Microchip is expected to be \$1.6 million next year.
050	Hacina Squires	Special Districts of Oregon. Notes that most of the special districts in Multnomah do not have permanent rate authority, however, it is an issue in Clackamas and Washington counties.
066	Chair Smith	Closes the public hearing on HB 2299 and opens the work session for the purpose of introducing committee bills.

WORK SESSION – Introduction of Committee Bills

072	Medford	Recaps that LC 3185 is the bill that was discussed during the SUMCO meeting on February 5. Explains LC 3185, (EXHIBIT E) . Explains the process of introducing committee bills noting
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		that the vote is for the purpose of moving the LC draft on to the next process.
092	Rep. Gallegos	MOTION: Moves LC 3185 BE INTRODUCED as a committee bill.
095		VOTE: 7-0
	Chair Smith	Hearing no objection, declares the motion CARRIED.
105	Chair Smith	Closes the work session and adjourns the meeting at 2:31 p.m.

EXHIBIT SUMMARY

- A – Oregon Small Business – Informational material, Sandy Cutler, 20 pp**
- B – HB 2299, written testimony, Michael Burton, 10 pp**
- C – HB 2299, comparison chart, Representative Tom Butler, 6 pp**
- D – HB 2299, Enterprise Zone Administrative Rules, staff, 2 pp**
- E – LC 3185 draft dated 2/24/03, staff, 2 pp**