

HOUSE SPECIAL SESSION COMMITTEE ON ECONOMIC GROWTH AND JOB DEVELOPMENT

September 04, 2002 Hearing Room 357
9:00 am Tapes 1 - 4

MEMBERS PRESENT: Rep. Jeff Kropf, Chair
Rep. Alan Brown
Rep. Elaine Hopson
Rep. Al King
Rep. Tim Knopp
Rep. Kathy Lowe

MEMBER EXCUSED:
Rep. Greg Smith

STAFF PRESENT: Jim Stembridge, Administrator
Nancy Masee, Administrative Support

MEASURE/ISSUES HEARD: Committee Rules
Adoption of LC

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.

TAPE/#	Speaker	Comments
TAPE 01, A		
005	Chair Kropf	Calls meeting to order at 10:35 a.m. Refers committee to the rules offered (EXHIBIT A).
026	Rep. King	MOTION: Moves to ADOPT the proposed Committee Rules dated 09/04/02.
028		VOTE: 5-0
		EXCUSED: 2 – Rep. Tim Knopp, Rep. Greg Smith
030	Chair Kropf	Hearing no objection, declares the motion CARRIED.
033	Chair Kropf	Refers to proposed LC 6 (EXHIBIT B). Explains that the LC will be amended. There will be a continuation of this meeting this afternoon.
055	Rep. Alan Brown	MOTION: Moves LC 6 BE INTRODUCED as a committee bill.
056		VOTE: 5-0
		EXCUSED: 2 – Rep. Tim Knopp, Rep. Greg Smith
058	Chair Kropf	Hearing no objection, declares the motion CARRIED.
060	Rep. Hopson	Supports the idea of LC 6. Comments that there will be other ideas the committee should consider.
070	Rep. Lowe	Supports the idea of LC 6 but expects changes.
082	Rep. King	Shares some information on job incentives created in LC 6.
130	Rep. Brown	Comments on Freightliner layoffs. States job creation is very important to recovery. (Rep. Knopp arrives.)
147	Rep. Knopp	Comments on the importance of creating jobs and getting people to work.
156	Rep. Lowe	Asks if the Fiscal office could explain how LC 6 affects taxation.

187	Chair	Explains he wants LC 6 to be revenue neutral
206	Chair Kropf	Recesses meeting at 10:50 a.m. until this afternoon. Reconvenes meeting at 3:05 p.m. Announces amendments to HB 4072.
220	Jim Stembridge	Committee Administrator. Explains HB 4072 and -1 amendments. (EXHIBIT C, D)
236	Rep. King	Announces he has amendments also.
242	Chair Kropf	Asks the Department of Revenue to discuss the withholding tax aspect of HB 4072.
250	Deborah Buchanan	Department of Revenue. Explains concerns about HB 4072 based on the credit related to the withholding tax. There is the possibility of adjusting the withholding to greater than it otherwise might be to maximize the credit. There are other ways to do this such as basing on payroll. Explains the December 31, 2002 date with fulltime employees as related to fulltime employees December 31, 2003, which could be adjusted to maximize benefit. Average employment for the year might be a suggestion.
285	Buchanan	Continues presentation.
347	Buchanan	Explains IRC 267 defining related parties. Explains that using average payroll would be a better approach than withholding tax.
390	Rep. Lowe	Discusses average payroll, downsizing, and overhead.
400	Buchanan	Suggests looking at average number of fulltime employees.
424	Chair Kropf	Refers to Section 2 of HB 4702. Asks for additional questions. Asks if the credit were for six months instead of 40 weeks.
TAPE 2A		
023	Buchanan	Suggests more than 26 weeks.
030	Rep. King	Discusses the agriculture and construction industry which have seasonal employment.
032	Chair Kropf	Asks if 52 weeks is better than 40 weeks.
036	Rep. King	Responds 52 weeks is too extreme.
050	Chair Kropf	Asks for Legislative Counsel clarification.
098	Rep. Donna Nelson	House District 24. Asks about the wage level jobs this bill addresses. Asks if this bill will allow youth jobs. Asks if this bill will benefit sheltered workshops for disabled people. Expresses the need for funding for jobs for these types of employees.
147	Rep. Nelson	Discusses chart from Oregon Economic and Community Development Department (OECD). Suggests funding the program imposed by the bill by taking the \$88 million from OECD. (EXHIBIT D)
220	Chair Kropf	Responds to Rep. Nelson's questions. Explains this bill is meant for small businesses.
240	Stembridge	Explains how this bill would not apply to government agencies.
247	Rep. Nelson	Asks about contractors who work for the government.
258	Stembridge	Explains a contracting employer would be eligible.
270	Chair Kropf	States a nonprofit organization would be ineligible.
277	Dexter Johnson	Legislative Counsel (LC). Employers who are subject to income tax would benefit from this bill.
268	Rep. Nelson	Asks about nonprofit organizations exclusions.
288	Johnson	Reads lines 14 and 15. Nonprofit does not have taxes due.
292	Rep. Nelson	Asks about a temporary employment agency.
300	Johnson	Responds temporary agency would have employers subject to income tax.
320	Chair Kropf	Discusses nonprofit agencies competing with private businesses.

360	Johnson	Explains there is no specific definition for fulltime employment for legal purposes. This bill defines it as 37.5 hours for 40 consecutive weeks. A different definition could be adopted.
365	Rep. Nelson	Supports not having specified time length. Total number of hours is more important than number of hours per week.
397	Chair Kropf	Explains some work goes much longer than 37.5 hours per week. Comments this does not really apply to seasonal labor. Looking to long-term and fulltime employment.
430	Chair Kropf	Asks LC about technicalities in seasonal employment.
451	Johnson	Responds on specifying time length policies.
451	Rep. Brown	Asks about line 17 of bill.
500	Johnson	Responds if you had just one employee it would discriminate but over a net basis, it would not.
522	Brown	The amount of withholding is based on the number of dependents.
526	Johnson	But ultimately the withholding is based on the amount of tax that the employee is likely to pay.
TAPE 1,B		
062	Rep. King	Discusses how number of deductions might not relate to actual tax filing.
076	Chair Kropf	Says the concept was to be based on what the employee paid in taxes.
082	Rep. King	Says payroll basis is probably better than withholding number.
084	Chair Kropf	Asks if average payroll is used instead of withholding tax, is concept changed.
091	Johnson	Replies the concept is similar. Comparing average payroll before and after a period.
090	Chair Kropf	Asks how the calculation would be made. To create a job that pays taxes to the state. As an incentive to supplying that job, the tax credit would be applied to the employer.
104	Johnson	Responds to Chair's comments.
110	Chair Kropf	Asks if that can be achieved realistically by using average payroll?
133	Johnson	Responds yes. Discusses aspects of the bill from employer's standpoint. Limiting number of employees per employer versus the location concept is less problematic.
180	Chair Kropf	Asks if this bill would fall on the 91st day requirement.
187	Johnson	Answers that is correct, it could not be enacted upon passage.
198	Rep. Hopson	Agrees with jobs for fulltime workers rather than seasonal workers. Discusses using this bill to add new employees to generate more income.
230	Rep. Nelson	Comments on businesses reorganizing, relocating, and buyouts that would create situations that would allow misuse of the intention of the bill.
260	Chair Kropf	Answers that is a good point.
262	Johnson	Comments on line 30, page 1, which prohibits wages from a relation of the employer being qualified for this credit. That includes subsidiary corporations and partnerships.
300	Chair Kropf	Asks if the committee has any questions for Mr. Johnson.
305	Mike Burton	Assistant Director, Oregon Economic and Community Development Department (OECD). Discusses the possibilities of short term investments that would lead to long term benefits. Discusses potential investment benefits from tax credit incentives.

442 Burton Continues discussing possible program procedures. Says this is a new idea to OECD.

TAPE 2,B

044 Burton Continues giving examples that could cause more concerns in new businesses.

076 Rep. King Responds with an example of equipment as a down payment.

095 Burton Discusses how payroll increases can earn tax credits.

127 Rep. Brown Comments earning a tax credit based on living wage jobs.

150 Burton Describes markets in Oregon where there are not living wage jobs. Likes the payroll approach, which shows a payroll increase.

197 Rep. Brown Discusses that a way is needed to determine how many dollars in payroll increase equals how many tax credits.

200 Burton Agrees that would be good. There is potential here but there are a lot of issues to resolve.

235 Tim Nesbitt President, AFL-CIO Oregon. Expresses concern of the bill. The bill has a central problem of creating incentives for a certain behavior. Problems of rewarding actions that are likely to occur without the incentives. Says it may be cost ineffective. Discusses unintended consequences.

276 Nesbitt Discusses the program may prove too expensive and not justifiable. Jobs will evolve anyway. Discusses possible manipulation by employers.

320 Chair Kropf Asks about targeting small employers. Wants incentive for a new job, not just a job they were going to rehire or hire anyway.

380 Rep. Lowe Asks what can be done to stimulate job creation.

395 Nesbitt Answers there are compelling projects such as rebuilding the infrastructure that would enable businesses and stimulate the economy and be ready when the economy begins to turn around. Bridges and construction jobs are an example. Borrowing funds makes sense. Increasing fees in vehicle registration is needed.

450 Chair Kropf Discusses the need for infrastructure rebuilding. Comments that ODOT is becoming more efficient and responsive.

477 Harvey Mathews Associated Oregon Industries (AOI). Describes layoffs in business, and high unemployment rates in Oregon.

TAPE 3,A

059 Mathews States that many jobs will not come back. Supports the tax credit incentive idea. Supports developing a bill that will minimize possibilities of manipulating the tax credit incentive.

088 Joe Gilliam Oregon Grocery Association. Payroll tax and income tax need to be separated. Explains how nonprofit businesses can still take advantage of this bill because they are paying a payroll tax on their employees.

105 Gilliam Continues discussing issues in the tax credit program. Discusses possible giving away tax incentive dollars to jobs that are going to appear anyway. Capital expansion in discount stores such as Wal-Mart will hire many people without this bill. The issue is a matter of capital. What profit a business has to spend determines how much it can expand and hire employees. Emphasizes the importance of not increasing taxes so that businesses can expand. Emphasizes that with low interest rates at this time, it is a good time to borrow.

174 Rep. King Agrees with Mr. Gilliam.

230	Gilliam	Explains the grocery business turnover has been very low in the late 1990s. It has been higher lately. How a business delivers capital for expansion is the incentive needed.
266	Chair Kropf	Compares increasing capital to creation of jobs. Asks what is most advantageous for business, a year-end credit or deducting on the quarterly payroll tax payment.
283	Gilliam	Responds on quarterly payroll tax and at the end of the period. When a business stabilizes the business would get the break.
300	Chair Kropf	Comments in six months there would have to be an audit for the next six months. The bill is intended to be for one year.
338	JL Wilson	NFIB. Supports the proposal. Thinks it will have a positive effect on creating jobs.
344	Chair Kropf	Asks about capping the amount of money that could be rebated to employer.
354	Wilson	Responds that the cap would be practical.
360	Gilliam	Agrees.
370	Chair Kropf	Asks if an expansion of employees would be limited by capping.
410	JL Wilson	Suggests a cap number based on prior year. For example, if a business had fewer than 100 employees in 2002, it could go up to 105 in 2003 without penalty.
419	Gilliam	Comments the total growth could be capped by a percentage.
TAPE 4,A		
005	Chair Kropf	Discusses expansion efforts of small businesses.
013	Buchanan	Explains the credit is set up as an income tax credit available to individuals or corporations in this bill. The measure of the tax is the withholding paid to the state by the employer. The withholding amount is the basis of the credit.
038	Chair Kropf	Asks what changes if the plan goes from withholding to total payroll.
043	Buchanan	Answers that payroll is simpler and less susceptible to changes.
069	Chair Kropf	Adjourns meeting at 5:10 p.m.

Submitted By,

Reviewed By,

Nancy Massee,
Administrative Support

Jim Stembridge,
Administrator

EXHIBIT SUMMARY

A – Committee Rules, staff, 1 p

B – LC 6, staff, 4 pp

C – HB 4072, staff, 3 pp

D - HB 4072 -1, staff, 2 pp

E – ECDD Chart, Rep. Donna Nelson, 1 p