

PUBLIC HEARING: HB 3770

WORK SESSION: HB 2131, HB 2729, HB 2730

TAPES 177 — 178 A/B

HOUSE SCHOOL FUNDING AND TAX FAIRNESS/REVENUE COMMITTEE

MAY 10, 2001 — 1:00 P.M. - HEARING ROOM A - STATE CAPITOL BUILDING

Members Present: Representative Lane Shetterly, Chair

Representative Janet Carlson, Vice Chair (1:32 arrived)

Representative Deborah Kafoury, Vice Chair

Representative Alan Bates

Representative Chris Beck

Representative Alan Brown

Representative Max Williams

Representative Bill Witt (1:32 arrived)

Members Excused: Representative Mark Hass

Staff: Paul Warner, Legislative Revenue Officer

Lizbeth Martin-Mahar, Economist, Legislative Revenue Office

Ed Waters, Economist, Legislative Revenue Office

Richard Yates, Economist, Legislative Revenue Office

Joan Green, Committee Assistant

Witnesses: Rep. Tom Butler, Legislative House
District 60

Jim Craven, American Electronics Association

Fawn McNeely, Smart Growth Coalition

Mike Burton, Oregon Economic and Community
Development Department

Debra Buchanan, Department of Revenue

Mike Swaim, City of Salem

Michael Mason, Confederated Tribes of Warm
Springs Reservation of Oregon

Olney Patt, Confederated Tribes of Warm Springs
Reservation of Oregon

Mike Morgan, Jefferson County Commission

TAPE 177, SIDE A

007 Chair Shetterly Meeting called to order at 1:30 p.m.

OPENED PUBLIC HEARING ON HB 3770

- 015 Ed Waters Described what the measure does and provided background material. (Exhibit 1)
- 027 Rep. Tom Butler Spoke in support of the changes to the measure and noted that amendments have not been provided to the Committee, but will be.
- 155 Chair Shetterly Where do the concentric circles intersect?
- 157 Rep. Butler Described the six targeted cities and an example of how this measure would be implemented.
- 167 Chair Shetterly Questioned if Grass Valley would have the infrastructure to handle a new Saturn plant, for example?
- 173 Rep. Butler No, and attracting large businesses are not the intent of the measure; this is to attract a smaller business that could provide a minimum of ten jobs.
- 249 Rep. Beck Discussion regarding the encouragement of development in rural communities where it ought not to occur based on infrastructure needs

to support additional business and questioned if this measure would place undue pressure on a county or regional economic development staff person in making a decision on appropriate placement.

- 273 Rep. Butler Noted that this measure is in search of the small business in areas of high unemployment; infrastructure is already in place to support the unemployed people living there.
- 303 Chair Shetterly Questioned the certification process on the local government level and questioned if some sort of standards could be included for local governments use.
- 316 Rep. Butler My intent was that the business not be in direct competition to an already existing business.
- 347 Rep. Witt Questions and discussion regarding whether it would be more appropriate to base the formula on unemployment rates rather than the median income rates, which don't reflect uniformity around the State.

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- 012 Chair Shetterly Questioned if the new business activity portion of the measure would allow for an existing Oregon corporation to spin off a new business.
- 050 Rep. Butler As long as it creates new business to Oregon that is not currently provided it would qualify.
- 054 Rep. Bates Spoke to his concerns of communities in his district that would not qualify under this measure and questioned if there was discussion in opening this up to depressed communities located within a prosperous or sustaining county.
- 071 Rep. Butler No, discussed reasons why.

OPENED WORK SESSION ON HB 2729

- 093 Ed Waters Reviewed the purpose of the measure; the (-5) amendments basically replace the original measure and insert a straight extension of the sunsets of the sunsets on the two research

credits. (Exhibits 3-4)

Continued at 1:58 p.m. as a sub-committee with Rep.'s. Bates, Brown, Witt and Chair Shetterly in attendance.

Lacking a quorum to continue in work session recessed the meeting at 2:01 p.m.; reconvened at 2:07 p.m. as a full committee with the Rep.'s Bates, Beck, Brown, Williams, Kafoury, and Chair Shetterly in attendance.

093 Waters Restated what the (-5) amendments would do. (Exhibits 3-4)

134 Jim Craven Testified that the measure as amended by the (-5) amendments would be more representative of the Governor's recommendations in the Tax Expenditure Report and are included in the Governor's and Co-chairs of Ways and Means budget, (Exhibit 3).

148 Chair Shetterly Concurred with Craven; reviewed the (-2) amendments and the Revenue Impact based on those amendments and testimony at that time was that went further than the Governor's budget, (Reference 04/24/2001, Exhibits 22-23). The (-5) amendments are meant to be an extension of the current credit, (Exhibit 3).

Requested an explanation of the (-5) Revenue Impact of \$3.7 million for the 2001-03 biennium and noted the Governor's budget includes \$3.5 million, (Exhibit2).

157 Waters There has been additional data showing utilization of the research credit during the 1999 tax year since the Governor's budget was published, (Exhibit 2).

178 Rep. Williams **MOTION: MOVED LC (-5) AMENDMENTS DATED 05/10/2001 TO HB 2729 BE ADOPTED. HEARING NO OBJECTION, THE CHAIR SO ORDERED. (ALL MEMBERS PRESENT EXCEPT Hass, EXCUSED)**

183 Rep. Williams **MOTION: MOVED HB 2729 TO THE HOUSE FLOOR WITH A DO PASS AS AMENDED RECOMMENDATION.**

ROLL CALL VOTE: MOTION PASSED 7-0-2

REPRESENTATIVES VOTING AYE: Bates, Brown, Williams, Witt, Carlson, Kafoury, Chair Shetterly

REPRESENTATIVES EXCUSED: Beck, Hass

Rep. Williams will carry the bill.

OPENED WORK SESSION ON HB 2730

213 Ed Waters Reviewed the background and provided a description of the original measure and reviewed the (-1) amendments, which set graduated credit amounts based on the unemployment level in the area where the investment occurs, (Reference 04/25/2001, Exhibit 15).

Described the (-2) amendments, which try to incorporate Rep. Butler concept from HB 3770, except instead of an income mechanism there is an investment credit effective 2002 through 2007 tax years and reviewed a technical change. (Exhibits 4-5)

Described the (-3) amendments, which narrow the definition of qualified investments. (Exhibit 6)

278 Fawn McNeely Spoke to the (-2) amendments. (Exhibit 5)

303 Chair Shetterly Questioned if the (-1) amendments with a cap might be the appropriate way to proceed, (Reference 04/25/2001, Exhibit 16).

319 Rep. Witt Concurred with Chair's suggestion. Recommended the following changes to the (-1) amendments, (Reference 04/25/2001):

1. Lower the percentages somewhat.
2. Cap the maximum credit per business entity.
3. Cap the credit at \$1 million and make it available in areas of high unemployment.

Noted that the (-3) amendments address

technicalities in the measure, as requested by the Department of Revenue. (Exhibit 6)

- 345 Chair Shetterly The (-2) amendments have both a per business cap and a \$1 million aggregate cap. (Exhibit 5)
- 379 McNeely The (-2) amendments have a 10% investment tax credit up to \$50,000, (Exhibit 5).
- 354 Rep. Witt Offered to work with the measure to meet the following criteria:
1. Cap it per business entity.
 2. Direct it primarily at areas of high unemployment.
 3. Lower the percentages to something meaningful, but allow it to be used by more business in high unemployment areas.
 4. Retain the (-3) amendments for the technical issues, (Exhibit 6).

364 Vice Chair Kafoury What is the position of the Oregon Economic and Community Development Department, (OECDD), is this a stand-alone program or is it being done in conjunction with other programs?

374 Mike Burton Support the concepts of both HB 2730 and HB 3770, but cannot speak to what the impact would be to the Department in terms of staffing and workload in certifying businesses.

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004 Vice Chair Kafoury What tools are currently at the Departments disposal to encourage businesses to locate in the areas described in HB 2730?

007 Burton Spoke to the various tools and the limited array of incentives available.

029 Rep. Bates Spoke to desire that this measure be crafted to include small communities that are depressed that reside in prosperous counties.

057 Rep. Witt How would this create a fiscal impact to the OECDD, summarized his understanding of what the measure would do?

062 Burton Noted that OECDD has not seen the amendments so the role of OECDD is not clear.

- 070 Debra Buchanan Spoke to concerns with the original measure, and the (-3) amendments address some of those concerns, (Exhibit 6).
- 083 Rep. Witt Reviewed what he is considering for amendments and requested input from the Committee.
- 099 Rep. Bates Requested distressed area within a county that is not distressed be addressed, would Rep. Witt consider that?
- 105 Rep. Witt Spoke to concerns on how that would be quantified; unemployment data is kept on a county basis.
- 128 Vice Chair Concurred with Rep. Bates comments.
Kafoury

OPENED WORK SESSION ON HB 2131

- 149 Lizbeth Martin- Reviewed the taxation issues on Oregon Indian
Mahar Reservations and how the (-A6) amendment would compare to a traditional Enterprise Zone. (Exhibits 7-9)
- 220 Martin-Mahar Continued with review of the comparisons between the traditional enterprise zone and the (-A6) amendments, (Exhibit 7).
- 268 Mike Swaim Spoke in support of the measure.
- 398 Michael Mason Spoke in support of the measure and outlined two requests:

1. Removing the disincentive of double taxation to businesses that invest on a reservation.
2. Designate a Reservation enterprise zone similar to a rural enterprise zone.

Spoke to the (-A6) amendments:

1. Noted the changes made in uniformity of taxation, (Page 4, Exhibit 9).
2. Spoke to Tribe's intent and disagreed with the interpretation of Martin-Mahar, as it relates to existing structures, "new business facilities", (Page 1, Lines 19-20 and Page 2, Lines 15-18, Exhibit 9).

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- 034 Rep. Beck Questions and discussion regarding what kind of businesses would benefit from locating on a Reservation and are there any provisions that the new business would have to employ a percentage of Tribal members.
- 067 Olney Patt Spoke to the employment issues on Reservations.
Questions and discussion to clarify the mechanics of the measure and how the Tribes would benefit.
Continued with questions and discussion to clarify the mechanics of the measure and the benefit to Tribes.
- 190 Mike Morgan Presented testimony in opposition to measure and the (-A4) amendments. (Exhibit 11)
- LRO Staff Distributed submitted testimony for SB 397 from the Employment Department, Virlena Crosley. (Exhibit 10)
- 295 Chair Shetterly Meeting adjourned at 3:13 p.m.

Submitted by, Reviewed by,

Joan Green Kim Taylor James

Committee Assistant Revenue Office Manager

Exhibit Summary:

1. HB 3770, Staff Measure Summary, Waters, 1 page
2. HB 2729, (-5) Revenue Impact statement, Waters, 2 pages
3. HB 2729, (-5) amendment, (DJ/hm/ps) 05/10/01, Chair Shetterly, 1 page
4. HB 2730, (-2) Revenue Impact statement, Waters, 1 page
5. HB 2730, (-2) amendment, (DJ/ ps) 05/10/01, Chair Shetterly, 7 pages
6. HB 2730, (-3) amendment, (DJ/ ps) 05/10/01, Rep. Witt, 2 pages
7. HB 2131, Handout describing the Taxation Issues on Oregon Indian Reservations, Martin-Mahar, 1 page
8. HB 2131, (-A6) Revenue Impact statement, Martin-Mahar, 1 page
9. HB 2131, (-A6) amendment, (DJ/hm/ps) 05/09/01, Mason, 7 pages
10. SB 397, Submitted testimony, Crosley, 4 pages

11. HB 2131, Testimony, Morgan, 2 pages