

PUBLIC HEARING: SB 229-A, SB 468, SB 479-A, SB 499

WORK SESSION: SB 67, SB 260, SB 555

TAPES 105-106, A/B

SENATE REVENUE COMMITTEE

April 12, 2001 — 8:10 A.M. - HEARING ROOM A - STATE CAPITOL BUILDING

Members Present: Senator Ted Ferrioli, Chair (absent 8:32 to 8:55 a.m.)

Senator Lee Beyer, Vice Chair

Senator Susan Castillo

Senator Tony Corcoran

Senator Gary George

Senator John Minnis

Senator Charles Starr

Staff: Paul Warner, Legislative Revenue Officer

Steve Meyer, Economist, Legislative Revenue Office

Ed Waters, Economist, Legislative Revenue Office

Richard Yates, Economist, Legislative Revenue Office

Carol Phillips, Committee Assistant

Witnesses: Senator David Nelson, Senate District 29

Senator Ryan Deckert, Senate District 4

Craig Berkman, Oregon Internet Commission

Steve McClure, Union County Commissioner,
President of Association of Oregon Counties

Patrick Allen, Small Business and Emerging

Technology Manager, Oregon Economic &
Community Development Department

Terry Edvalson, Eastern Oregon Telecom Consortium
Union

Hal Scoggins, Attorney, outside counsel for Credit
Union Association of Oregon

Ralph Goodwin, President/CEO, Grant-Baker Federal
Credit Union

Pamela Leavitt, Credit Union Association of Oregon

Tim Martinez, Oregon Bankers Association

John de Pasquale, U.S. Bank, Portland

TAPE 105, SIDE A

005 Sen. Charles Meeting called to order at 8:32 a.m.
 Starr

OPENED PUBLIC HEARING ON SB 479-A

012 Ed Waters Gave overview of SB 479-A. This bill creates a
 tax credit for qualified advanced
 telecommunications facilities if they are certified
 by the Economic and Community Development
 Department. Criteria for certification include
 improved telecom access and technology
 availability in currently underserved areas. Total
 certified cost in one year cannot exceed \$10
 million. The tax credit would be equal to 20% of
 the certified cost of the facilities with no carry-
 forward. Effective date of the tax credit is
 January 1, 2002 and thereafter. Certifications
 may be issued by the Economic and Community
 Development Department between January 1,
 2002 and December 31, 2005.

030 Sen. David Testified in support of SB 479-A. Stated this is
 Nelson the continuation of a bill that was passed in the
 1999 session.

OPENED PUBLIC HEARING ON SB 229-A

- 058 Sen. David Nelson Testified in support of SB 229. Stated this bill is designed to create incentives to invite electronic commerce into enterprise zones. This bill and SB 479-A were devised to create opportunities to expand what was started in 1999 session to create infrastructure and interconnectivity necessary to move Oregon forward. The state pays for schools, health care, and public safety with income tax dollars that are only as good as the economy can make them. The 21st century requires participation in the global economy, and Oregon has to be equipped to take part in that.
- 074 Richard Yates Said that SB 229-A allows sponsors of an existing enterprise zone to request designation for electronic commerce. It allows the Economic and Community Development Department to approve up to five additional zones for electronic commerce designation striving to achieve a regional balance across the state. It makes firms engaged in electronic commerce eligible for property tax exemption on qualified new investment in enterprise zones approved for electronic commerce.
- 094 Sen. Ryan Deckert Testified in support of SB 229-A. Exhibit 1.
- 100 Craig Berkman Testified in support of SB 229-A. Oregon historically has had a number of debates about the inability of the state to compete in certain taxing areas. A sales tax initiative has been taken to voters on nine occasions, and the voters have spoken overwhelmingly against having a sales tax. This bill gives Oregonians an opportunity to take advantage of the fact Oregon is a non-sales-tax state for the economic benefit of people throughout Oregon. This bill should be looked at in the context of current federal law as well as state law that now exempts from taxation any commerce done over the Internet. There is growing debate at the federal level if that tax moratorium should continue.

117 Berkman As one of very few states without a sales tax, Oregon has a unique opportunity to become the electronic commerce capitol of the country. That would have many positive economic development activities for communities throughout Oregon. Gave example of a company in Portland called "800.Com" and how it benefits Oregon. Any short-term adverse impact on revenue would be far outweighed by the increased income taxes that would come to Oregon in creating new jobs and investment opportunities that would be beneficial to everyone.

Questions and answers followed.

175 Sen. Deckert Added that Mr. Berkman, as a venture capitalist, brought a valuable perspective to this discussion. The question is how to ensure that all of Oregon benefits from the technology and the new economy in not just the urban areas but rural, remote, and economically depressed areas, and to give them access to the prospect of diversification via new technology and electronic commerce.

Questions and answers followed.

259 Steve McClure Testified in support of SB 229-A. Stated that from the local perspective it gives another opportunity to be involved in economic development, but local governments can decide if they want to participate or not. Encourages support of the concept and the bill.

Questions and answers followed.

294 Patrick Allen Testified in support of SB 229-A. Stated that the bill would specify creation of five zones in response to applications from jurisdictions with enterprise zones that want to offer the electronic commerce feature. The bill requires where possible to use a degree of geographic diversity in making those designations so there is a variety of different economic circumstances in

various areas of the state.

Extensive questions and answers interspersed.

TAPE 106, SIDE A

029 Terry Edvalson Testified in support of SB 479-A. Discussed Exhibit 2. Asked that SB 479-A be considered as an economic development and quality of life investment. It is the next step in investment in rural infrastructure and for underserved areas like northeast Portland to give them access to advanced telecommunications services. Access to information technology in telecommunications has profoundly affected business location decisions. SB 479-A is a step to ensure that Oregon is positioned to participate in the new Internet-driven information economy. Passage of SB 479-A as an economic and community development investment will assure that Oregon's information society is inclusive.

084 Steve McClure Testified in support of SB 479-A. This bill tries to find a way to help rural businesses make technology investments that people in urban areas ask them to make. It facilitates the "last mile from the big rings into the communities".

CLOSED PUBLIC HEARING ON SB 229-A AND SB 479-A

OPENED PUBLIC HEARING ON SB 499

124 Hal Scoggins Testified in support of the bill. Exhibit 5. Stated that current law authorizes public officials to place money with any bank or trust company up to the amount insured by the FDIC or a qualified excess deposit insurance company. Credit unions are not among institutions currently permitted to receive deposits of public funds, and that is the purpose of SB 499. The Credit Union Association believes public officials should have the choice to deposit public funds in credit unions if they choose to do so.

Questions and answers interspersed.

- 198 Ralph Goodwin Testified in support of SB 499.
- 245 Pamela Leavitt Testified in support of the bill. Stated the purpose of the bill is to provide an open marketplace so that public agencies can choose the most advantageous financial agreements for their dollars. Allowing credit unions to accept public funds will increase competition. Deposits would reside in locally owned cooperatives instead of out-of-state financial conglomerates. Many of the dollars would be reinvested back to their communities and invested back to the membership. More than 20 states now allow credit unions to accept public funds for deposit. The Oregon State Treasurer supports this bill. (At the end of testimony stated she had some letters of support she would submit for the record, but she did not provide them.)
- 285 Tim Martinez Testified against SB 499. Has not had an opportunity to oppose any credit union issue since 1997, because there are not that many issues left between the banks and credit unions that are in dispute. SB 499, however, is an issue the banks cannot support. The banks have a fundamental disagreement on the ability of credit unions to take public fund deposits. Pointed out that 29 states do not allow credit unions to accept public funds for deposit. Does not believe "the playing field is level" because banks have to pay corporate income taxes but credit unions do not. Because of that, credit unions can offer higher rates of return on deposits and lower loan rates.
- 339 Chair Ferrioli Observed that the past cooperation between banks and credit unions is very important. Encouraged further discussions between the banks and credit unions to work out any differences they have.

Questions and answers followed.

CLOSED PUBLIC HEARING ON SB 499

OPENED PUBLIC HEARING ON SB 468

375 Chair Ferrioli Stated SB 468 is a bill critically important to the economic future of the state of Oregon.

CLOSED PUBLIC HEARING ON SB 468

400 Chair Ferrioli Discussed bills on today's agenda. Stated SB 555 affects many people, and this committee has heard some very compelling testimony on the issue. Unfortunately, if passed, the bill would need \$10 million to fund it. The Chair intends to move the bill to Ways & Means where it, along with many other bills, would await the May Revenue Forecast.

435 Chair Ferrioli Regarding SB 67, stated that the bill should be moved to the Senate Floor and let it stand or fall based on the merits of arguments. SB 260 has a new run for discussion, but much more information is needed before it can be moved out of this committee.

OPENED WORK SESSION ON SB 555

465 Sen. Starr Commented that there is growing interest in a program called Simple Care created by doctors in Renton, Washington. Doctors in Oregon have signed on as well. The purpose of Simple Care is to provide care for all people at a reasonable price. The program could provide cost savings of 30% to 40%. If people are unable to pay, a program has been devised where patients can work off their bill by providing public service or by working in the clinic. Believes it is a good program that is growing rapidly, with over 6,000 families participating at present. Over 600 physicians are part of the program.

TAPE 105, SIDE B

039 Sen. Starr Continued comments regarding Simple Care program.

050 Vice Chair L. Beyer MOTION:
MOVES SB 555 TO WAYS & MEANS WITH
NO RECOMMENDATION.

054 Chair Ferrioli ORDER:
HEARING NO OBJECTION, THE CHAIR SO
ORDERED.

CLOSED WORK SESSION ON SB 555

OPENED WORK SESSION ON SB 67

063 Ed Waters Stated that the (-5) amendments to SB 67 phase
in tax rate reduction for corporate capital gains
moving to a 7% maximum tax rate for capital
gains beginning in tax years 2003 and 2004,
moving to 6% for years 2005 and 2006, and
dropping to 4% for year 2007 and thereafter.
Discussed Exhibit 12, a comparison of all the
amendments to SB 67. Further discussion of
amendments.

100 Sen. Minnis MOTION:
MOVES THE (-3) AMENDMENTS TO SB 67
BE ADOPTED.

104 Sen. Corcoran Said he would vote no on the (-3) amendments
because they appear to benefit only wealthy
Oregonians.

121 Sen. L. Beyer Stated there were some interesting issues
discussed relative to the amendments, but given
the current fiscal climate in Oregon he cannot
support the (-3) amendments because the
primary bene-ficiaries would be high-income
individuals.

137 Sen. Castillo Stated her concerns are the same as Sen.

Beyer's. Until there are enough state police, and until every student in school has everything they need, and until every necessary program is funded adequately, she cannot support a capital gains tax reduction.

155 Sen. Minnis Stated he supports the (-3) amendments although he understands the concerns voiced by the democratic senators. However, there are many working couples whose two incomes put them in the "rich" category, even though they are not. Has heard the testimony about Oregon changing from a timber-based economy to a technology-based economy. Republicans and others who have a free-enterprise viewpoint and want that system to work well still must be cognizant that at some point if those theories do not work, then the questions that were raised by Sen. Castillo must be addressed, i.e. are there sufficient resources to meet the needs and demands of the public.

Extensive discussion, and questions and answers followed.

Chair Ferrioli ORDER:

ROLL CALL VOTE, MOTION PASSES: 4 —
3 — 0

SENATORS VOTING AYE: GEORGE,
MINNIS, STARR, FERRIOLI.

SENATORS VOTING NO: CASTILLO,
CORCORAN, L. BEYER.

273 Sen. Corcoran Served notice of possible minority report.

275 Sen. Castillo Commented that this amendment gives the greatest tax relief to Oregon's least needy taxpayers, widens the gap between the haves and have-nots, and yet in this committee much time has been spent listening to the dire situation of needy programs in rural parts of the

state. This bill does nothing for the most needy people.

296 Chair Ferrioli Responded that although Sen. Castillo's comments were valid, anything the committee can do to grow the economy in those rural communities and incent investment will help more than just redistribution of existing revenue.

310 Sen. Minnis MOTION:

MOVES SB 67 AS AMENDED TO THE SENATE FLOOR WITH A DO PASS RECOMMENDATION.

312 Various General discussion and comments.

359 Chair Ferrioli ORDER:

ROLL CALL VOTE, MOTION PASSES: 4 —
3 — 0

SENATORS VOTING AYE: GEORGE,
MINNIS, STARR, FERRIOLI.

SENATORS VOTING NO: CASTILLO,
CORCORAN, L. BEYER.

Sen. Ferrioli will carry the bill on the Senate Floor.

361 Sen. Corcoran Served notice of possible minority report.

CLOSED WORK SESSION ON SB 67

OPENED WORK SESSION ON SB 260

388 Steve Meyer Stated that SB 260 deals with Education Services Districts and their funding. Gave overview of changes displayed in Exhibit 14.

- Assumes State School Fund at Governor's recommended budget of \$5 million.
- Sets minimum revenue per ADMw if below prior year state average.
- Keeps prior year revenue per ADMw if above prior year average.
- Equalizes to revenue available by same percent for all ESDs.
- Numbers for Grant and Wallow include dollars shared with component districts.

463 Chair Ferrioli Commented regarding last hearing on SB 260 that the larger ESDs said they wanted no decrease in the funding formula. The five smallest ESDs are below what is generally considered a minimum dollar amount to provide certain core services. One suggestion was to freeze the funding of the highest-funded ESDs, take the different between current levels and increased levels, and give the different to the five lowest funded ESDs to bring them up a little.

TAPE 106, SIDE B

028 Chair Ferrioli Continued comments. Stated that next Tuesday the Chair will bring forth a proposal that reflects freeze-funding the top ESDs and moving the bottom five ESDs up and a distribution formula that equalizes as much as possible. The entire work session will be devoted to SB 260 next Tuesday.

Further discussion, and several questions and answers followed.

CLOSED WORK SESSION ON SB 260

123 Chair Ferrioli Adjourned meeting at 10:02 a.m.

Submitted by, Reviewed by,

Carol Phillips Kim Taylor James

Committee Assistant Revenue Office Manager

Exhibit Summary:

1. SB 229, Sen. Deckert, Written testimony dated April 12, 2001, 1 pp.
2. SB 479-A, Edvalson, Written testimony undated, 7 pp.
3. SB 499, Warner, Fiscal Impact Statement, 1 pp.
4. SB 499, Warner, Revenue Impact Statement, 1 pp.
5. SB 499, Leavitt, Written testimony dated April 12, 2001, 12 pp.
6. SB 499, Warner, Staff Measure Summary, 1 pp.
7. SB 499, Warner, Credit Union information from ORS , 1 pp.
8. SB 499, Warner, Credit Union information from ORS, 2 pp.
9. SB 468, Waters, Revenue Impact Statement, 1 pp.
10. SB 555, Waters, Revenue Impact Statement, 1 pp.
11. SB 555, Waters, Oregon Medicaid Long-Term Care Rates, 1 pp.
12. SB 67, Waters, Amendments Comparison, 1 pp.
13. SB 67, Waters, (-1) Amendments (DJ/ps) 2/12/01, 1 pp.
14. SB 260, Meyer, ESD Revenue Estimates, 1 pp.