

PUBLIC HEARING:

SJR 16, SB 188, SB 467

TAPES 093-094, A/B

SENATE REVENUE COMMITTEE

April 3, 2001 — 8:30 A.M. - HEARING ROOM A - STATE CAPITOL BUILDING

Members Present: Senator Ted Ferrioli, Chair

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

Lizabeth Martin-Mahar, Economist, Legislative
Revenue Office

Carol Phillips, Committee Assistant

Witnesses: Senator Avel Gordly, Senate District 10

Mitch Conley, Warm Springs Tribe

Michael Mason, Warm Springs Tribe

Mark Huston, Oregon Economic Development
Department

Mike McArthur, Sherman County Judge

Genoa Ingram, Multi-Family Housing Council of
Oregon

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- 005 Chair Ferrioli Meeting called to order at 8:42 a.m.
- 017 Lizbeth Martin-
Mahar Stated that SB 188 allows the Oregon Economic and Community Development Department (OECDD) to establish areas of economic distress and inadequate lending practices as community development investment areas. Criteria shall be established to identify economic distress. The bill establishes a tax credit for financial institutions that make loans to owner-occupied housing, commercial development, or agricultural development located in the community development investment areas. Certain percentages relative to aspects of the bill in Section 8 (2)(b), (3), and (4) are yet to be determined.

Questions and answers followed.

OPENED PUBLIC HEARING ON SB 188

- 054 Sen. Avel Gordly Testified in support of SB 188. Read Exhibit 3. Testified before this committee today to advance the discussion of supports and incentives to invest in the economic and community development of Oregon's economically distressed urban and rural communities. SB 188 is intended to use the distressed area criteria already developed with and through the OECDD. Requested that a work group be formed to study further. Local needs of economically distressed communities and the OECDD seed money and regional reinvestment funds necessitate private financing support.
- 165 Sen. Gordly Suggested Chair Ferrioli appoint members to a work group to determine what the above-referenced missing percentages should be.

Questions and answers followed.

- 223 Chair Ferrioli Commented that access to credit is an issue in Northeast Portland and inner city areas, but elements of access to credit problems exist in distressed communities throughout the Willamette Valley and rural Oregon. The consolidation of banking into multi-state conglomerates has created a situation where access to local lenders and local decision-makers is largely absent. Community based banks are more responsive than multi-state banks based elsewhere and has filled some of the need. However, every institution in Oregon is subject to the Community Reinvestment Act, requiring certain numbers of dollars be available for lending into distressed communities they serve. Raised the question of "red-lining" practiced by lending institutions in certain areas of Oregon. Believes SB 188 is a good approach to take in getting funds to small and rural businesses.
- 311 Mitch Conley Testified in support of SB 188. Stated the bill is important. Access to sources of lending on the Warm Springs reservation is almost nonexistent. Last year the Small Business Administration guaranteed six Indian loans...in all of Oregon. The tribe had to resort to funding its own credit because credit could not be obtained for members off the reservation. Explained that a tribal member who had been in business for twelve years and had a net worth of \$1.5 million but had no business debt was unable to get a business loan from a bank off the reservation. Suggested the bill apply to anyone who is capable of making loans, not just commercial institutions.
- 370 Chair Ferrioli Pointed out that only profit-making institutions would be covered by legislation in this bill. The bill in its present form would not cover credit unions and other non-profit organizations.
- 381 Conley Suggested that perhaps non-profit making institutions should be included in the bill. Believes any entity capable of making loans on

reservations would be a valuable asset to tribal members.

Questions and answers interspersed.

- 413 Chair Ferrioli Asked if commercial loans were difficult to obtain, what about access to other forms of credit, i.e. credit cards and lines of credit.
- 429 Conley Stated that several of his clients, who are in their mid-40s, have never had credit. Credit reports are blank, and lending institutions do not know how to deal with no credit history. It is not that individuals have bad credit...they just do not have any credit.
- 440 Chair Ferrioli Summarized that in this case, no credit is bad credit.
- 448 Conley Confirmed it is a serious problem for people on reservations, and agreed that any program providing benefit to lending institutions to reward them for taking an occasional risk on a loan of this type would be very valuable for the small business community. No economy can be good without a thriving private sector economy.
- 460 Vice Chair L. Beyer Asked, based on Mr. Conley's business experience, how much of a credit did he think it would take to induce a bank to make loans in distressed areas.
- 471 Conley Responded that since most would be small loans, banks would not make much profit on them at all. It would probably take a fairly significant tax break to encourage participation. Does not think revenue lost to the state would be significant.

- 035 Conley Discussed the group Oregon Native American Business and Entrepreneurial Network (ONABEN) created by the Indian tribes of the state of Oregon. ONABEN processes approximately 40 to 50 tribal member businesses through education classes every year. Less than 10% of those are able to find financing of any kind to actually go into business.
- 046 Vice Chair L. Beyer Stated that the problem in securing business start-up funding for first-time entrepreneurs applies whether they are in a distressed area or not. It may be more problematic in remote and distressed areas.
- 050 Conley Agreed with the Vice Chair and said that most start-ups finance their operation from family and friends. Unfortunately, family and friends are usually poor.
- 060 Michael Mason Stated that people in the Warm Springs tribe are better off than other Indians in the state because they have a lending program. Believes other tribes and reservations do not have that access.
- Questions and answers interspersed.
- 095 Vice Chair L. Beyer Commented on Grande Ronde business group. Suggested several Warm Springs members could collectively put together an investment corporation and use leverage to obtain business loans.
- 105 Mason Added that the tribal council of the confederated tribes of Warm Springs considers SB 188 a very important bill and urges committee support.
- 113 Chair Ferrioli Stated that the approach in this bill is different from that in loan guarantee programs. Every financial institution, including credit unions, has access to Ginny Mae, Fanny Mae, HUD 235 programs, etc. Those programs are

primarily a guarantee that a portion of the loan repayment exists above the value of the security. The incentive for the lender is to reduce the risk on loans to as close to zero as possible. That approach does not work in areas where security is farm equipment, livestock, rurally situated businesses, where security is not located in a convenient location, or where the security may not be portable. SB 188, however, takes a different approach to increase the yield net to a lender; therefore there's more money in it for a lender.

141 Chair Ferrioli Stated the Chair is inclined to poll committee members to see if there is interest in hearing the bill again after the work group has filled in the blanks on the bill.

Questions and answers followed.

157 Mark Huston Testified in support of SB 188. Stated he would be happy to contribute to the committee or work group related to the bill. Stated from a technical perspective that the bill envisions a community develop investment area would be established. The committee may want to look into an exact definition of "distressed area" that may be identified through previous legislation that would be a standard cutting across different economic development programs. Continued testimony regarding how the program works and who has utilized it.

Several questions and answers interspersed.

392 Vice Chair L. Beyer Asked Huston to provide a report or other information to committee members outlining loan programs offered, number of loans, volume of business, default rates compared with industry standard, etc.

407 Sen. Minnis Stated he had been in this process for a long time and has found it fascinating that tax increment financing districts have always

seemed to stop right at the edge of blighted areas, where help is needed the most. The areas where the Portland Convention Center and Clackamas Town Center are located were tax increment financing projects. Knows that a certain amount of small business failures are inherent in the process, but wants to see documentation of real success stories in which a risky loan was offered to a particular entrepreneur, but they succeeded, and here is what was created.

- 477 Mike McArthur Stated the problem with financing any type of economic development or business in Sherman county or surrounding region has bothered him for a long time . Capital flows out from the area, but not much stays. Economic development plan shows approximately \$36 million a year is generated in the county, but only \$10 million stays to be recirculated.

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- 0041 Mike McArthur The problem is investments that could be made with those dollars elsewhere are much more profitable than within the county. There need to be additional incentives to invest in rural distressed areas. Anything that could be done to encourage local investment would be greatly appreciated.

Questions and answers interspersed.

- 061 Chair Ferrioli Stated the Chair is inclined, after work group input, to hear more on this bill. Asked if Sen. Minnis, Sen. Messerle, Mitch Conley, Tim Martinez (or designee), and a community-based banking CEO would participate in the work group to help fill in the blanks.
- 125 Senator Gordly Suggested that Robin Roberts of the Portland Development Commission and Robert McCain, President of Albina Community Bank be included in the work group,

137 Chair Ferrioli Received committee consensus to hear SB 188 after receiving report from proposed work group.

CLOSED PUBLIC HEARING ON SB 188

OPENED PUBLIC HEARING ON SB 467 AND SJR 16

154 Genoa Ingram Testified against SB 467. Objects to legislation that would treat non-owner-occupied properties differently from owner-occupied. It seems to place different standards on non-owner-occupied properties than if an owner-occupied property was in the same state of disrepair. Multi-Family Housing Council has questions regarding why rental properties would be treated in a different manner than properties in a worse state of repair but occupied by an owner. Believes this bill would be detrimental to affordable housing.

Questions and answers followed.

190 Chair Ferrioli Stated that there is an evolutionary pattern neighborhoods go through in their life span. Asked Ms. Ingram to describe the stages that indicate a neighborhood is in decline.

197 Ingram Stated a declining neighborhood starts out with yards not being kept up, shrubs overgrown, and lawns not mowed. Next, physical appearance of structures would change. Paint begins to peel, windows could be broken, and litter would be evident. Her experience indicates that the bulk of these types of buildings are non-owner-occupied. Activities around the structures are not policed; sometimes they are illegal activities. In worst case scenarios involving drug houses and other illegal activities, a ripple effect occurs throughout an entire neighborhood, impacting property values and taxes. But it is not just non-owner-occupied properties where those things happen.

- 222 Ingram Having just briefly reviewed the bill, believes treating a rental property differently from what would be done with an owner-occupied property, even though the condition of a property may be the same, would be damaging to the issue of affordable housing.
- 229 Chair Ferrioli Thanked Ms. Ingram for pointing out potential constitutional problem, which is the disquietable treatment of classes of property owners. Believes the author of SB 467 may want to address that issue. Asked if perhaps the ultimate outcome of decline was redevelopment. Asked if neighborhood values drop to a level so low, doesn't that prompt gentrification? Cited areas of Portland as examples. Usually that cycle may take 50 to 75 years. Asked if there was a way to speed up the redevelopment of deteriorated neighborhoods.
- 266 Ingram Stated the answer was "Yes". Agreed it was unfortunate that properties have to "bottom out" before they become affordable. It is expensive to refurbish a drug house. Usually everything has to be replaced in homes that have been in disrepair for extended periods of time. Believes this is an important issue not addressed in previous legislative sessions. The end result of maintaining properties is beneficial to entire neighborhoods, to the cities, and to other taxpayers.
- 299 Vice Chair L. Beyer Asked the Chair, as sponsor of SB 467, what he was trying to accomplish within the bill.
- 300 Chair Ferrioli Responded that taxation is used to raise revenue for local services, but rundown properties generally have lower tax burden than similarly situated properties that are not rundown. Entire neighborhoods suffer valuation erosion, local taxing districts lose revenue, and the cost of services to rundown and depreciated properties goes up with higher maintenance costs, higher police and fire protection, public services, etc. It

is not a desirable condition to provide a tax incentive for that kind of disrepair or deferred maintenance. If owners faced higher taxes by not keeping their properties in good repair, it might motivate people to make timely repairs and perhaps redevelop rundown neighborhoods.

330 Michelle Deister Testified in support of concepts to preserve residential property. To maximize the potential of this proposal, the League suggests additional flexibility in how the additional revenue resulting from the inverse taxing district is allocated.

Questions and answers interspersed.

405 Vice Chair L. Beyer Stated he liked the philosophy of SB 467's concept, but was skeptical that because of Measure 50 the tax system would work. Would like to hear input from property tax assessors.

415 Chair Ferrioli Appreciated the committee's willingness to hear the SB 467. Will work with League of Oregon Cities and Multi-Family Housing Council of Oregon to come up with a concept that might be approved by all.

CLOSED PUBLIC HEARING ON SB 467 AND SJR 16

429 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 188, Martin-Mahar, Revenue Impact Statement, 1 pp.
2. SB 188, Martin-Mahar, Written testimony dated March 30, 2001, 1 pp.

3. SB 188, Sen. Avel Gordly, Written testimony dated April 3, 2001, 5 pp.
4. SB 467, Martin-Mahar, Staff Measure Summary, 1 pp.
5. SB 467, Martin-Mahar, Fiscal Impact Statement, 1 pp.
6. SB 467, Martin-Mahar, Revenue Impact Statement, 1 pp.
7. SJR 16, Martin-Mahar, Staff Measure Summary, 1 pp.
8. SJR 16, Martin-Mahar, Fiscal Impact Statement, 1 pp.
9. SJR 16, Martin-Mahar, Revenue Impact Statement, 1 pp.
10. SB 61-2, Meyer, School Finance Distribution, 8 pp.