

**PUBLIC HEARING: HB 2281-A**

**TAPES 136-137, A/B**

**TAPE 138, A**

## **SENATE REVENUE COMMITTEE**

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**May 10, 2001 — 8:10 A.M. - HEARING ROOM A - STATE CAPITOL BUILDING**

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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

Steve Meyer, Economist, Legislative Revenue Office

Carol Phillips, Committee Assistant

Witnesses: Laurie Wimmer Whelan, Oregon  
Education Association

Rich Peppers, SEIU Local 303, Oregon Public  
Employees Union

Representative Bill Witt, House District 7

Paul Romain, Attorney representing MCI WorldCom

Steve Vincent, Avista Utilities

John McNamara, Regional Tax Director, AT&T

John Powell, AT&T

Curt Copenhagen, Director of Public Affairs,  
Longview Fibre Co.

Bud Cockrell, Director of Taxes, Longview Fibre Co.

John Brennemen, Idaho Power Co.

Paul Phillips, Smart Growth Coalition

Mark Modjeski, Senior Tax Manager, Tektronix

Paul Kelly, Jr., Nike

Bill Linden, Oregon Metals Council

**TAPE 136, SIDE A**

- 005 Chair Ferrioli Meeting called to order at 8:24 a.m.
- 007 Chair Ferrioli Stated that SB 260 will not be discussed today, and will be placed on the calendar for Wednesday, May 16, 2001.
- 019 Paul Warner Gave overview of HB 2281. This bill changes the apportionment formula for multi-state corporate income and excise taxpayers. Eliminates payroll and property factors for apportioning income. Apportions multi-state income exclusively by sales. Effective for corporate tax years beginning on or after July 1, 2003.
- 021 Warner Pointed out that this bill was discussed in Portland on April 9, 2001 at a joint meeting of Senate and Revenue committees at the Metro Center. On the agenda that day were for bills all having to do with apportionment of corporate income from multi-state corporations. HB 2281 is the bill passed out of House Revenue and passed on the House Floor with a 46 to 12 vote. Exhibit 5 was distributed at the April 9 meeting but is provided here for reference.

- 029 Warner The same author of the pro and con arguments highlighted in Exhibit 5 also contributed to Exhibit 6: A Lawmaker's Guide to Corporate Income Tax Apportionment. Tax apportionment is one of the biggest tax issues in the country at present.
- 053 Warner Discussed Exhibit 2 page 2: Revenue Impact Statement in conjunction with Exhibit 3: Oregon Tax Incidence Model: Feedback Effects and Distribution Effects.
- 131 Chair Ferrioli Commented on the joint meeting held in Portland on April 9 and the feedback effects that have been studied since then.
- 141 Warner Explained that feedback effects are outlined on Exhibit 3 entitled OTIM Results: Feedback Effects. Stated job impacts are relatively small; the bigger impacts are on personal income and wages.
- Extensive discussion, and questions and answers interspersed.

#### OPENED PUBLIC HEARING ON HB 2281-A

- 271 Laurie Wimmer Whelan Testified against HB 2281-A. Exhibit 7. Concerned about the revenue impact for the first two biennia under the proposed bill. The impact on the General Fund of \$109 million in 2003-05 and \$128.7 million in 2005-07 is too great to dismiss. It seems to make no fiscal sense that when funding of current services (those Oregonians consider vital) is impaired, Oregon's future would be speculated with by changing the apportionment structure.
- Questions and answers interspersed.

#### **TAPE 137, SIDE A**

- 001 Rich Peppers Testified against HB 2281-A mainly because of the perceived revenue loss of over \$100 million

per biennia. In the current economic environment that is something OPEU cannot endorse. Feels the projection of job growth and wage increases is not convincing.

Questions and answers interspersed.

062 Rep. Bill Witt As sponsor of HB 2281, testified in its support. Stated the current system creates disincentive for businesses to remain in or come to Oregon. Although there may be revenue shortfalls in the short term, the long-term prospect for Oregon is great. And, because more states are going to the single-weighted or super-weighted tax system, Oregon will eventually have to follow suit. The longer Oregon waits, the more businesses and investment opportunities will be lost.

Questions and answers interspersed.

185 Paul Romain Testified against the bill. Stated MCI WorldCom opposes HB 2281-A in its current form because it increases tax burden. Would rather see a bill similar to what Wisconsin has done. Wisconsin put in an exemption for telecommunications, and the bill passed.

215 Steve Vincent Testified against HB 2281-A. Avista operates power plants in four western states. Because of the anticipated power shortage this coming summer and increased prices, Avista encourages opposition to this bill.

251 John McNamara Testified against HB 2281-A. Exhibit 9 and 10. Those at AT&T do not necessarily see four states utilizing single-weighted sales for all industries as a national trend. At present the majority of states apportion sales at 50% or less. Recent studies show that the 11 top states between 1995 and 2000 in terms of creating manufacturing jobs were not the states that had single-sales factor apportionment formulas. Most of them were 50% or less formula. Pointed out that in some states after companies received huge tax breaks workers were actually laid off, but the companies kept the tax

exemptions.

Questions and answers interspersed.

337 McNamara Gave example of how Arizona handled a similar bill. Proponents in Arizona wanted a 100% sales factor. But what their legislature has passed and their governor has signed is a bill that super-weights the factor on an optional basis. Corporations can choose to use the existing formula (which is comparable to Oregon's formula) or they can opt to use super-weighted sales formula, which is not at 100% but at 65%. Arizona's bill also provides a cut in the income tax rate, and both rates are tied to a budget surplus. If there is a surplus, then companies can choose to use the super-weighted factor.

356 McNamara Stated that corporate investment in a state takes many different forms. Tax breaks should not be dispensed just because of the public relations value of calling your state your home state. Many large multi-state corporations like AT&T have made and continue to make very significant investments in Oregon, but AT&T would be seriously harmed by the proposed bill. Not only do Oregonians buy goods and services from out-of-state corporations, they are also employed by them. AT&T has over \$450 million invested in telecommunications facilities in Oregon and a payroll of over \$60 million for its 2,000 Oregon employees.

Questions and answers followed.

**TAPE 136, SIDE B**

018 John Powell Testified against HB 2281-A. Discussed Exhibit 11.

Questions and answers interspersed.

105 Curt Copenhagen Testified against HB 2281-A. Exhibit 12. Gave detailed testimony at joint Senate and Revenue

Committee meeting held in Portland on April 9, 2001. (See those minutes for detailed testimony.)

168 Bud Cockrell Testified against HB 2281-A. Exhibit 13. Outlined important points to consider regarding the bill:

- Easier to strategically plan around the single-sales factor.
- Increased volatility of income tax revenues.
- No assurance that the change will significantly increase investment in Oregon.
- Fairness issue.
- Distorts economic activity through creating winners and losers.
- Substantial loss of revenue to Oregon.
- HB 2281-A legislation is a time bomb.
- Potentially increases pressure in future biennia to raise corporate tax rates.
- Loss of equity between benefits received and taxes paid.

Questions and answers interspersed.

346 John Brennemen Testified against HB 2281-A. Exhibit 14. Idaho Power has several dams across the Snake River that help provide power for Oregon. Because of the anticipated power crises this summer, consumer prices will be increased and will affect the 17,000 people in Oregon that are customers of Idaho Power. HB 2281-A as written would not be good for Idaho Power or their eastern Oregon customers.

Questions and answers followed.

### **TAPE 137, SIDE B**

014 Paul Phillips Testified in support of the bill. Exhibits 15 and 16. Reiterated that HB 2281-A affects only multi-state businesses and would be the most significant statewide economic development issue to pass this session, particularly from the

manufacturing perspective. Explained that currently the Oregon taxable income of corporations with operations in Oregon and in other states is determined by a three-factor formula that apportions income according to sales, property, and payroll that a company has in Oregon. The current system acts as a disincentive for companies to expand in Oregon because they will be penalized for any property and payroll they locate here.

Questions and answers interspersed.

054 Phillips

Stated that, contrary to the opinion of others who testified this morning, there is a nationwide trend regarding the single-sales factor, and states have two options: They can move in front of the curve or they can be behind the curve.

Questions and answers followed.

198 Mark Modjeski

Testified in support of HB 2281-A. Exhibit 17. Tektronix believes that a single-sales factor apportionment method will create additional economic stimulus in Oregon by removing the current income tax penalty that Oregon based corporations selling products in a multi-state environment face today. With an economic slowdown facing Oregon and the nation, a change in law is necessary to spur job growth and new investment opportunities in Oregon.

Questions and answers followed.

327 Paul Kelly, Jr.

Testified in support of HB 2281-A. Exhibit 18. Pointed out that this bill affects only multi-state businesses. Companies located in Oregon who do business only within the state will not be affected by this bill in any way. Advised the committee that by doing nothing, Oregon is allowing in-state companies to be hurt by tax apportionment changes taking place in other states. To remedy that, Oregon must adopt the single-sales factor formula.

Questions and answers followed.

**TAPE 138, SIDE A**

036 Bill Linden           Testified in support of HB 2281-A. Stated that Oregon Metals Council and Les Schwab Tire Companies support the bill. Believes the bill would provide a real incentive for Oregon-based companies to continue to invest in Oregon. Believes there is an issue of equity. The current system clearly gives the advantage to out-of-state companies who have chosen not to physically locate in this state over Oregon-based companies who have made that choice in locating all or part of their operations within Oregon. When businesses look to relocate, tax factors are a major consideration. By passage of HB 2281-A, Oregon has an opportunity to offer multi-state companies attractive reasons to locate here.

063 Various            General discussion, and questions and answers.

**CLOSED PUBLIC HEARING ON HB 2281-A**

116 Chair Ferrioli      Adjourned meeting at 10:20 a.m.

Submitted by, Reviewed by,

Carol Phillips Kim Taylor James

Committee Assistant Revenue Office Manager

Exhibit Summary:

1. HB 2281-A, Warner, Staff Measure Summary, 1 pp.
2. HB 2281-A, Warner, Revenue Impact Statement, 2 pp.
3. HB 2281-A, Warner, OTIM Results: Feedback and Distribution Effects, 2 pp.
4. HB 2281-A, Warner, Fiscal Impact Statement, 1 pp.
5. HB 2281-A, Warner, Apportioning Multi-State Corporate Income, 7 pp.
6. HB 2281-A, Warner, A Lawmaker's Guide to Corporate Income Tax Apportionment, 70 pp.
7. HB 2281-A, Whelan, Written testimony dated May 10, 2001, 2 pp.



8. HB 2281-A, Nesbitt, Written testimony dated May 9, 2001, 2 pp.
9. HB 2281-A, McNamara, Written testimony undated, 2 pp.
10. HB 2281-A, McNamara, Written testimony undated, 3 pp.
11. HB 2281-A, Powell, Written testimony undated, 3 pp.
12. HB 2281-A, Copenhagen, Written testimony dated May 10, 2001, 1 pp.
13. HB 2281-A, Cockrell, Written testimony dated May 10, 2001, 1 pp.
14. HB 2281-A, Brennemen, Written testimony dated March 30, 2001, 1 pp.
15. HB 2281-A, Phillips, Written testimony dated May 10, 2001, 2 pp.
16. HB 2281-A, Phillips, Written testimony undated, 13 pp.
17. HB 2281-A, Modjeski, Written testimony dated May 10, 2001, 2 pp.
18. HB 2281-A, Kelly, Written testimony dated May 9, 2001, 2 pp.