

## HOUSE COMMITTEE ON COMMERCE

February 1, 1999 Hearing Room 350

1:00 p.m. Tapes 17 - 18

**MEMBERS PRESENT:** Rep. Jim Hill, Chair

Rep. Ryan Deckert, Vice-Chair

Rep. Al King

Rep. Jerry Krummel

Rep. Bob Montgomery

Rep. Anitra Rasmussen

Rep. Diane Rosenbaum

Rep. Mark Simmons

Rep. Bill Witt

**STAFF PRESENT:** Jason Cody, Administrator

Annetta Mullins, Administrative Support

**MEASURE/ISSUES HEARD:**

HB 2247 ñ Public Hearing and Work Session

HB 2246 ñ Public Hearing and Work Session

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
<b>TAPE 17, A</b>		
004	Chair Hill	Calls meeting to order at 3:06 p.m. and opens public hearing on HB 2247.
<b><u>HB 2247 ñ PUBLIC HEARING</u></b>		
010	Mike Burton	Assistant Director, Economic Development Department (EDD). Introduces Arthur Fish, EDD. Submits summary of HB 2247, explanation and criteria for enterprise zones, chart of information on existing enterprise

		<p>zone and book, "Oregon Enterprise zones" (<b>EXHIBIT A</b>). Explains that enterprise zones are incentives for communities that are either distressed or meet other criteria that justify extra incentive for industrial growth. Adds that HB 2247 would increase the number of communities that could receive enterprise zones.</p>
031	Rep. Montgomery	<p>Asks if the 37 enterprise zones are all in use and whether they are being handled the way the Legislature had wished.</p>
034	Burton	<p>Responds affirmatively. Adds that five of the zones expire at the end of the fiscal year and they expect all five of the sponsors to reapply.</p>
039	Rep. Montgomery	<p>Asks why Grant County does not have an enterprise zone.</p>
043	Arthur Fish	<p>EDD. Responds that Grant County did not show interest previously. Currently, Grant County cities of John Day, Prairie City, Canyon City and Mt. Vernon are looking at the zones and are very likely will be applicants for future zones or replacement zones.</p>
057	Rep. Simmons	<p>Asks how the initial 37 zones were established and why they are asking for five more. Also asks how they decided to require that at least two be in eastern Oregon, instead of three or four of them.</p>
062	Fish	<p>Explains 30 zones were created by the 1985 legislature. The legislation left few areas wanting zones. The 1993 legislature created additional non-urban zones. Refers members to the statement submitted for an explanation of the rational for the additional five zones (<b>EXHIBIT A, pages 1-2</b>).</p>
097	Rep. Simmons	<p>Asks if there was any discussion of establishing socioeconomic criteria to qualify if a local government desired an enterprise zone, rather than putting a cap on the number.</p>
105	Fish	<p>Responds yes, and explains that he thinks the assumption has been that it has never been the desire of the legislature that the cap keep areas from getting enterprise zones. Thinks the number of enterprise zone is a legislative decision.</p>

122	Rep. Krummel	Asks if a total property tax exemption given is for personal property as well as real property when a business moves into an enterprise zone.
134	Fish	Responds they can receive an exemption of three to five years on the full assessed value of their new plant and equipment, inclusive of personal property as well as modifications to existing buildings.
142	Rep. Krummel	Asks if the idea is that the value of the property will increase and when it does come on the property rolls, it will be paying a higher rate.
147	Fish	Explains the value of the property would not be greater. To the extent an area is successful in attracting more property, it could recoup more of the taxes. The planners for the enterprise zone must look into that.
160	Rep. Krummel	Asks if there has been an idea discussed of ramping up the property taxes. Explains that when you look at the cumulative effect, the number of properties that are tax exempt or have some kind of abatement causes a shift to everyone else while the property continues to receive the services.
183	Burton	Responds it has been useful to think of the program as a short-term investment and a long-term gain. The impact is for three years. There is a cost to the local jurisdiction short term for the long-term benefit. Adds EDD is expecting 10-12 applicants for the next zones.
210	Fish	Comments that from 1985 to 1989 there was a phased exemption; it started out at 100 percent, then 20 percent for the second year, then 40, and 60. In the fifth year it was 80 percent.
226	Rep. Montgomery	Asks if they have ever put an enterprise zone where a local government did not want it.
228	Fish	Responds negatively.
244	Judge Mike McArthur	Sherman County Judge, and President, Association of Oregon Counties. Introduces Wallowa County Commissioner Mike

		Hayward. Supports HB 2247 with a reservation that the five enterprise zones may not be enough, especially in Eastern Oregon. Explains need for enterprise zones in Sherman County and in Eastern Oregon.
276	Rep. Montgomery	Asks if other states have enterprise zones.
278	Rep. Montgomery	Acknowledges that a member of the audience is shaking his head yes.
281	Rep. Montgomery	Asks if other states have unlimited numbers of enterprise zones.
285	McArthur	Responds the zones must be approved by EDD. Believes the criteria EDD uses are fairly self-limiting. Does not believe there would be enterprise zones everywhere.
295	Rep. Montgomery	Asks if the witnesses would like to have EDD make the decisions rather than have a limited number of enterprise.
296	McArthur	Responds he would like to see more flexibility. Believes the criteria developed by EDD, that could be reviewed by the legislature, are fairly stringent. Believes with the criteria there would be limitation.
304	Rep. King	Questions whether all communities that might seek enterprise zones can be successful and asks what staff time is needed by EDD.
313	Hayward	Responds he believes very little state resources are required to run this program, with the exception of some staff at EDD. Adds it seems to be a question of equity.
322	Rep. Krummel	Asks if cities in Sherman County favor this because they can make the decision themselves.
343	McArthur	Explains Sherman County's application for an enterprise zone was a partnership between four cities and two service districts in the county. Adds it would not make much difference to the cities; it might make more of a difference to the counties. People in Sherman County are desperate enough for some type of industrial growth and

		jobs created that this looks like a win-win.
360	Mike Hayward	Commissioner, Wallowa County. Testifies in support of HB 2247 <b>(EXHIBIT B)</b> .
400	Rep. Montgomery	Asks if Wallowa County would be applying for a zone.
409	Hayward	Explains that in Wallowa County they could have one enterprise zone to include all four incorporated cities.
425	Rep. Montgomery	Asks if EDD would look favorably on a combined zone.
430	Rep. Montgomery	Notes Mr. Fish is nodding affirmatively.
<b>TAPE 18, A</b>		
015	Fish	Explains it is feasible due to the close proximity of the four cities in Wallowa County. Adds that it is great when areas can work together and join up.
030	Rep. Simmons	Comments that the committee could amend the bill to increase the number of zones or define criteria they would have to meet to qualify. Asks if Mr. Hayward would raise the cap or establish a criterion, and if there were criteria, whether it would put them in competition with each other.
058	Hayward	Responds that sometimes incremental steps have to be taken. Suggest this time perhaps five could be added with the idea of looking at criteria for the future on how to evaluate enterprise zones or enterprise zone applications. Adds that they do not want to put themselves in a competitive nature with other communities. Suggests if there is going to be competitive criteria, they would like to see the criteria spelled out very carefully and a lot of thought put into it.
072	McArthur	Responds that he would rather see the playing field level. Suggest a bigger question is the community being ready to proceed to actually accommodate a business once it is located. Adds that six communities

		are pursuing enterprise zones and others are considering enterprise zones. Suggest 10 zones may be sufficient through the next biennium. Encourages the committee to open the number of zones to accommodate the number of communities that has shown an interest. . Comments that without telecommunications the enterprise zones won't make a lot of difference
093	Rep. Simmons	Asks if the witnesses would look favorably on increasing the number of enterprise zones to 10.
096	Hayward	Responds he thinks that would be a good starting point. .
100	Rep. King	Asks if the state picks up any responsibility for helping convert brown sites into workable sites.
114	Burton	Responds there has been a lot of thought given to the number of zones over time. EDD believes there should be more. Explains that EDD has asked for incremental increases to the level of requests they have expected in order to give the legislature an opportunity to review EDD's activities.
121	Burton	Adds that EDD would be open to consider a larger number or no limit. Adds it is a local investment, cost and a local call.
128	Burton	Comments EDD does not have an obligation to work on brown fields because an enterprise zone is created. EDD has an obligation to help people work on brown field sites and would be willing to help people either in enterprise zones or without the zone.
145	Rep. King	Asks if funds are in the budget to deal with brown fields.
148	Burton	Responds the funds are not in the budget yet, but there is money in the budget that has been proposed to help address brown field issues.
155	Chair Hill	Asks if there is correlation between the number of enterprise zones and resources in EDD.
160	Burton	Responds they have never had more

		<p>than 10 zones awarded because of the level of work. Suggest if the number of zones was limited, they may not see an unlimited number of applications. Adds if they did, EDD would have to staff for it. It appears there will be roughly twice the applicants as zones available.</p>
174	Rep. Krummel	<p>Asks how many of the applicants would qualify under the criteria set out.</p>
	Burton	<p>Responds they expect a minimum of six applications. Six additional applicants are interested and EDD believes most of them will qualify.</p>
194	Don Mann	<p>General Manager, Port of Newport. Testifies in support of HB 2247 even through ports are not singly eligible to apply for an enterprise zone. Explains that the Port of Newport has been engaged in discussions with the City of Newport and the surrounding communities for the management of an enterprise zone in Lincoln County. Adds that HB 2247 expands the opportunity for the future. The benefits can be long term and adds to the marketing capability for attraction of industrial development.</p>
218	Gary Neal	<p>General Manager, Port of Morrow. Comments Morrow County was a recipient of an enterprise zone. Encourages the committee to expand the opportunities. It is a tool they need to attract business in their county. Adds that Morrow County competes with Tri-Cities and it makes it difficult when Tri-Cities put forth the dollars.</p>
264	Rep. Deckert	<p>Asks what tools Washington EDD uses.</p>
267	Neal	<p>Responds that the Washington Department of Energy, through the Hanford program, has identified about \$27 million in economic diversification dollars to replace Hanford-related jobs. Adds that with the enterprise zones they have been able to counter some projects.</p>
271	Rep. Deckert	<p>Asks how the \$27 million is being spent.</p>
	Neal	<p>Responds Washington has different programs. Some are joint venture</p>

		investments. Some are job retraining and transfer of assets from the Hanford facilities to private enterprises.
286	Rep. Montgomery	Comments that two of the additional enterprise zones would be in Eastern Oregon, but according to the bill Hood River County is not in Eastern Oregon. Asks if the witnesses consider the Port of Cascade Locks and the Port of Hood River to be in Eastern Oregon.
296	Fish	Comments inclusion of the number would be an assurance there could be more enterprise zones in Eastern Oregon, however it is defined. Adds they use a ready-made definition. It does have Hood River County in the western part of the state. Adds that EDD knows there might be interests out of Cascade Locks and Hood River. If that is so, and the five reapply this year, they could be served with the three.
318	Rep. Montgomery	Asks if the answer is yes.
318	Fish	Responds, "yes".
308	Jason Cody	Administrator. Informs members that the definition of Eastern Oregon is cited in the staff measure summary.
325	Chair Hill	Comments the definition would exclude Hood River from Eastern Oregon.
325	Rep. Montgomery	Comments he is not in favor of more zones unless part of the criteria is unemployment. Adds that communities that have 3.3 unemployment do not deserve, nor need, an enterprise zone.
333	Fish	Explains the statutes provide for mandatory qualifications for areas that can be designated as enterprise zones. Adds the criteria would require unemployment be over seven percent. Adds that there are alternative measures that can be used.
354	Rep. Rasmussen	Comments she is uncomfortable putting "Eastern Oregon" in the statute, and is trying to find a description following unemployment or economic distress. Suggests the reason Eastern Oregon is losing out



		<p>on the number of opportunities is that in a competitive situation the potential zones with businesses ready to go are getting the zones. Adds that the statute could be amended to say Eastern Oregon is worthy of continued special development tools.</p>
390	Rep. Witt	<p>Comments that inasmuch as the businesses within the enterprise zones are exempt from property taxes used for K-12 education, and asks if it not true that school districts all over the state are impacted because of equalization law and school funding.</p>
398	Fish	<p>Responds it is his understanding that it should have some effect it is not isolated in the local school district.</p>
404	Rep. Witt	<p>Comments further on funding for schools that would not be collected in enterprise zones.</p>
<b>TAPE 17, B</b>		
039	Rep. Witt	<p>Comments a tax expenditure report, published, possibly by the Governor's office, lists tax breaks provided for various activities in the state budget. Quotes from the report that "property tax exemptions this biennium have caused a loss of \$38 million in property tax revenue" and indicates that of the loss, 10 businesses received 75 percent of the benefits."</p>
025	Fish	<p>Responds he has looked at the report and agrees with the amount of property taxes that were forgiven on investment how much is lost and how much is taxes that would not have collected during the biennium anyway. The report does not answer the question. Adds that a small number of companies that have very huge investments easily dwarf the small investments by small businesses.</p>
038	Rep. Witt	<p>Asks if Mr. Fish knows which 10 businesses benefited.</p>
040	Fish	<p>Responds he would have access to that information.</p>
045	Rep. King	<p>Comments that the taxes would be forgiven on development that has not occurred yet, and that the</p>

		development would not be made if there were no incentive.
057	Rep. Witt	Asks if Mr. Fish is conclusively saying that the businesses would not have established or made the investment but for the property tax exemption that was granted.
061	Fish	Responds he cannot make that conclusion. Adds that he thinks it is an assumption of EDD and local governments that many of them fit that case. For the smaller investments, it is a fair bet that many of them are business-as-usual investments.
078	Rep. Deckert	Asks if there is a good test case.
088	Fish	Responds that an example would be the expansion of Precision Cast Parts.
093	Rep. Deckert	Asks what would leave EDD to believe Precision Cast Parts would not have located where they did were it not for the tax exemption.
094	Fish	Responds that the company told EDD that and the previous expansion by the company took place in Washington, partly because, according to the company, they did not have enterprise zone expectancy.
100	Rep. Witt	Asks where Precision Cast Parts made the investment.
100	Fish	Responds it was in Clackamas County.
102	Chair Hill	Closes the public hearing and opens the work session on HB 2247.
<b><u>HB 2247 ñ WORK SESION</u></b>		
105	Rep. Montgomery	Requests that Section 4 identify eastern Oregon as including Hood River County because they have always felt they were in eastern Oregon. States he would not be opposed to increasing the number of zones to seven or eight10 might be too manyóand the criteria should be that the unemployment rate must be over one percentage point above the average.

129	Rep. Montgomery	<b>MOTION:</b> Moves to AMEND HB 2247 on page 2, in line 22, after "ORS 321.405", insert "but also includes Hood River County" and replace "5" with "8" with criteria that the unemployment rate be one percentage point above the average."
137	Rep. King	Comments he would like to increase the number to 10 zones statewide with a minimum of four in Eastern Oregon. Notes that on the map the zones are following the transportation corridors and counties like Grant and Wheeler are left out
157	Rep. Montgomery	Adds that he does not know that the unemployment figure needs to be included, and that staff knows what the intent is.
173	Rep. King	<b>Suggests that Rep. Montgomery's motion to replace "5" with "8" be changed to say "replace "5" with "10".</b>
172	Rep. Montgomery	Accepts Rep. King's suggestion as a friendly amendment to his motion.
180	Chair Hill	Comments there will be other bills; the committee can deal with the numbers in this bill and the criteria can be included in another bill.
187	Rep. Montgomery	<b>MOTION:</b> Moves to suspend the rules and to conceptually amend HB 2247 to define Eastern Oregon as including Hood River County and to increase the number of eligible urban enterprise zones to 10.

193		<b>VOTE: 8-1</b> <b>EXCUSED: 0</b>
193	Chair Hill	Noting objection by Rep. Witt, declares the motion CARRIED.
196	Rep. Witt	Comments he does not object to Hood River County being placed in Eastern Oregon; he does object to the attempt to increase the number of zones.
202	Rep. Montgomery	<b>MOTION:</b> <b>Moves to suspend the rules and to amend HB 2247 to increase the number of zones in Eastern Oregon from two to four.</b>
204		<b>VOTE: 8-1</b> <b>EXCUSED: 0</b>
204	Chair Hill	Noting objection by Rep. Witt, declares the motion CARRIED.
206	Rep. Montgomery	<b>MOTION:</b> <b>Moves HB 2247 to the floor with a DO PASS AS AMENDED recommendation.</b>
210	Rep. Rasmussen	Comments that the session is not to the point where the committee needs to move measures without having time to review printed amendments.
235	Rep. Montgomery	Withdraws his motion.
236	Chair Hill	Closes the work session on HB 2247 and opens the public hearing on HB 2246.
<b><u>HB 2246 n PUBLIC HEARING</u></b>		

238	Mike Burton	Director, Economic Development Department (EDD). Testifies in support of HB 2246. Explains that HB 2246 removes the sunset on the current method of funding port planning and marketing and some staff activities. The Port Revolving Fund is roughly \$13 million. The department has been authorized on three occasions to use the proceeds to establish a grant program that allows ports to do the front-end work on large capital projects. Adds that the sunset was extended in 1992 and in 1996.
270	Rep. Rasmussen	Asks why the original legislation had a sunset clause.
267	Gil Wright	Manager, Port Revolving Loan Fund, EDD. Explains the grant program was established in 1985 with a General Fund appropriation of \$100,000. The current mechanism of transferring into the Port Revolving Loan Fund was established in 1987. There was a lot of money in the bank earning a high rate of interest.
310	Rep. Rasmussen	Asks what negative impacts could happen if the sunset is removed.
304	Wright	Responds the discussion has always been about what they are buying with the grant fund versus what could be done with a loan program. Explains EDD has been transferring from \$200,000 to \$350,00 a biennium. They have been transferring the equivalent of one average loan, and has been able to meet the demand.
352	Rep. Rasmussen	Asks what the impact on EDD would be if the sunset is left on.
355	Burton	Responds there is no programmatic implication.
380	Ken Armstrong	Executive Director, Oregon Public Ports Association. Testifies in support of HB 2246. Comments HB 2246 is a high priority to their association. Explains their association has a similar bill, HB 2487.
397	Armstrong	Adds that HB 2246 does call for a simple extension of the sunset from July 1999 to July 2003. They are endorsing this bill because it is the first and is conservative. In

		discussing the issue they would hope to see the sunset eliminated. Adds that their association has sponsored a bill and hopes to see the sunset eliminated this session, but will leave the decision to the legislature.
<b>TAPE 18, B</b>		
009	Don Mann	Port of Newport. Testifies in support of HB 2246. Comments the fund has allowed each port the opportunity to develop strategic marketing and business plans and to use the plans to further enhance their abilities and business opportunities. Adds it is a program that works, it has easy access and is low cost to administer.
018	Gary Neal	General Manager, Port of Morrow. Testifies in support of HB 2246. Port of Morrow has participated in the planning and marketing program and has a couple of planning grants that have been approved. Explains that the Port of Morrow received a \$25,000 grant assistance to prepare a strategic business plan several years ago. Adds that they update the plan all the time and it is an important document. Encourages the committee to either eliminate the sunset or extend the program.
036	Armstrong	Comments that he has received information from EDD that in 1995-97 20 applications were approved, \$232,275 was awarded and \$223,175 was directly leveraged. Adds that the projects included strategic business plans, facility planning projects and a marketing project. In 1997-99 almost \$305,000 was awarded. Nineteen applications were received, 18 were approved.
048	Rep. Witt	Asks where the dollars come from that go into the Revolving Fund.
052	Armstrong	Responds it is appropriated by the Legislature.
057	Rep. Witt	Asks how much money is in the fund.
	Armstrong	Explains it is in the neighborhood of \$300,000. Adds that \$350,00 was transferred from the Revolving Fund into the Planning and Marketing Fund for the 1997-99 biennium.

066	Gil Wright	EDD. Comments the total assets of the Port Revolving Fund currently are \$13.3 million. The fund was established in 1977 with a \$4 million interest-free loan from the General Fund; it was paid back at the end of the 1991 biennium. Adds there was an additional \$400,000 state appropriation in 1983. Then in 1987, \$1 million of lottery funds were put in the fund, \$2.5 million were put in the fund in 1989 and \$1 million was appropriated in 1991. Of the \$13.3 million, \$4.9 is contributed capital, the remainder is retained earnings.
083	Chair Hill	Closes the public hearing and opens the work session on HB 2246.
<b><u>HB 2246 n WORK SESSION</u></b>		
089	Rep. Deckert	<b>MOTION: Moves HB 2246 to the floor with a DO PASS recommendation.</b>
091	Rep. Rasmussen	Comments she is more comfortable with a sunset in place because it helps the legislature keep track of what is happening. Asks if there is another bill that would continue the program with a sunset, or if the committee wants to conceptually amend HB 2246 to get the sunset back in.
102	Chair Hill	Comments there is a motion on the Floor
108		<b>VOTE: 8-0</b>  <b>AYE: In a roll call vote, all members present vote Aye.</b>  <b>EXCUSED: 1 - Rep. Simmons</b>
	Chair Hill	<b>The motion CARRIES.</b>  <b>REP. Montgomery will lead discussion on the floor.</b>
117	Chair Hill	Announces that the subcommittees will start meeting.

Submitted By, Reviewed By,

Annetta Mullins, Jason Cody,

Administrative Support Administrator

#### **EXHIBIT SUMMARY**

**A ñ HB 2247, summary of HB 2247, explanation and criteria for enterprise zones, chart of information on existing enterprise zone and book, "Oregon Enterprise zones", Mike Burton, 55 pp**

**B ñ HB 2247, prepared statement, Mike Hayward, 2 pp**