

HOUSE REVENUE COMMITTEE

MARCH 11, 1999 ñ 8:00 A.M. - HEARING ROOM A - STATE CAPITOL
BUILDING

Members Present: Rep. Ken Strobeck, Chair

Rep. Deborah Kafoury

Rep. Diane Rosenbaum

Rep. Max Williams

Members Absent: Rep. Anitra Rasmussen, Vice Chair

Rep. Jeff Merkley

Rep. Lane Shetterly

Rep. Jim Welsh

Rep. Bill Witt

Staff: Paul Warner, Legislative Revenue Officer

Steve Meyer, Economist, Legislative Revenue Office

Joan Green, Committee Assistant

Witnesses: Hal Brauner, Corvallis Education Coalition

Connie Bartlett, Corvallis Education Coalition

Ozzie Rose, Confederation of Oregon School Administrators

Todd Kellstrom, Mayor of Klamath Falls

Lynn McNamara, League of Oregon Cities

Gary Bauer, Oregon Telecom Association

Gary Carlson, Associated Oregon Industries

Robert Strong, Robert G. Strong and Associates

Jim Manary, Department of Revenue

TAPE 083, SIDE A

005 Chair Strobeck Meeting called to order at 8:35 a.m. as a subcommittee for the purposes of public hearing.

Full committee convened at 8:40 a.m.

PUBLIC HEARING ON HB 2840 and HB 2753

013 Steve Meyer Reviewed chart describing school local option tax issues and property tax local option constitutional limits. (EXHIBIT 1)

Spoke to administrative costs; those costs should be added to the list.

100 Meyer Continued with review of chart and column on current statutes. (Page 1, Exhibit 1).

130 Meyer Referenced HB 2855, the 1997 session provided a local option for school districts. Discussed conditions of the 1997 legislation. It was conditional on \$150,000,000 lottery backed bonds not being approved at the November 1997. It did not take effect because the voters approved the bonds, (Page 3, Exhibit 1).

150 Rep. Shetterly Discussed the history and background for the 1997 legislation.

155 Chair Strobeck Elaborated on the background of the 1997 legislation. Is there a similar double majority requirement to other forms of taxation as the one referenced, which applies to B11 Article 11 of the Constitution dealing with property taxes?

164 Meyer No.

Distributed Revenue impact statement for HB 2840. (EXHIBIT 2)

Distributed Revenue impact statement for HB 2753. (EXHIBIT 3)

177	Hal Brauner	Spoke in support of the measure.
250	Brauner	Continued with testimony in support of measure.
		Requested local options to allow communities to go beyond the State level of support, that they be as broad-based as possible and that the same choices be given to school districts that cities and counties have.
307	Connie Bartlett	Spoke in support of the measure.
356	Bartlett	Continued with testimony in support of measure.
411	Rep. Shetterly	Commented that Measure 50 intentionally left the availability of local options open for school districts with the expectation that it would be revisited.
430	Vice Chair Rasmussen	Spoke to a long-term permanent solution and support of that.

TAPE 084, SIDE A

017	Rep. Merkley	Does the Corvallis district have a high property tax base, compared to other districts around the State?
020	Brauner	The property tax base is relatively low compared to other districts in the State.
028	Rep. Merkley	What other taxing options has the community talked about?
032	Brauner	That discussion has not occurred because there is not authority for other taxing options.
041	Bartlett	A property tax-type of local funding option would generate approximately \$1.5 million. Currently the district has a \$39 million budget.

In 1993 the community worked actively to pass the State school sales tax. Lane and Benton Counties voted 40% on behalf of that sales tax; the rest of the State voted about 25%. For many years every school bond that has been requested has been passed.

076	Rep. Merkley	Introduced and spoke in support of the HB 2840.
129	Chair Strobeck	Introduced and spoke in support of the HB 2753.
150	Ozzie Rose	Spoke to the measures; the Confederation of Oregon School Administrators is neutral, but wants to participate in the discussion. Reviewed data sheet of local option available under the \$5 CAP. (EXHIBIT 4)

PUBLIC HEARING ON HB 2050

264	Todd Kellstrom	Spoke in opposition to the measure.
305	Kellstrom	Continued with testimony in opposition to the measure.
332	Lynn McNamara	Spoke in opposition to the measure.
379	McNamara	Continued with testimony in opposition to the measure.
425	Vice Chair Rasmussen	How many police officers does Klamath Falls employ?
427	Kellstrom	Approximately 32.
430	Vice Chair Rasmussen	How many of those 32 are actively on patrol?
431	Kellstrom	At three shifts a day, seven days a week it averages 3-4, depending on the day of the week.
437	Vice Chair Rasmussen	What area and type of population do the police patrol?
423	Kellstrom	Currently the figures are 1.8 police officers per thousand within the City limits.

TAPE 083, SIDE B

024	Vice Chair Rasmussen	The loss of this officer would be a large impact?
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025	Kellstrom	Yes.
026	Rep. Witt	Is it good public policy to continue a tax that is not equitable just because it brings revenue to a particular level of government?
032	Kellstrom	No.
036		Discussion and questions whether private business, in principle, pays taxes on intangibles.
049	Chair Strobeck	Explained to the witness the difference between intangibles and tangibles.
064	McNamara	There are larger questions of fairness that ought to be considered before an exemption of this type is passed.
070	Chair Strobeck	That argument has been advanced before, but has little to do with the inherent fairness or unfairness of the appropriateness of this tax.
081	McNamara	Suggested that there may be other ways to address this issue rather than taking the approach put forth with HB 2050.
083	Vice Chair Rasmussen	The two issues are intertwined. In addressing taxation between different businesses the question of how to fund local government services must also be answered. Responsible legislation will require fully considering both issues.
095	Kafoury	Does the League of Oregon Cities have documentation of the tax burden on companies in Oregon vs. those in outlying states? The issue of fairness, to me, is defined as how is Oregon competing with other states.
100	McNamara	Distributed chart of comparative state and local tax burden for electric power companies for four states. (EXHIBIT 5)
111		Discussion and questions as to the purpose of the measure.
123	Rep. Witt	Should the bill be amended to tax the intangibles of all businesses instead of exempting the intangibles of centrally assisted utilities?

125	McNamara	The question needs to be asked about the best way to achieve fairness among all classes of taxpayers.
134	Gary Bauer	Spoke in support of the measure and discussed proposed amendment. (EXHIBIT 6)
206	Rep. Merkley	When were taxes on intangibles first assessed?
207	Bauer	Intangibles have been part of the taxation system since utilities were formed in the late 1800s.
215	Rep. Merkley	Spoke to the special opportunities given to utilities in the early part of the century. How is the tangible property of a mile-section of railroad track and the surrounding property valued?
234	Robert Strong	Explained the appraisal process that would be used. Discussed an example of two railroads with exactly the same property, but one is very profitable and the other is marginally profitable or losing money. Explained the difference in taxing systems for the given example.
259	Rep. Merkley	Noted for the Committee that the example given defines the underlying philosophy as to why intangibles were included in the tax system. There is essentially no way to level the playing field because the State cannot allow everyone to run a railroad down the same track.
271	Strong	The process, described by Rep. Merkley, is referred to as a unitary model; the entire unit is valued because it would be difficult to determine the value of a piece. Intangibles may or may not be included.
280	Chair Strobeck	The proposal does not seek to eliminate the centrally assessed nature of these businesses; the measure addresses only the taxation of the intangible assets of the businesses.
310	Chair Strobeck	Utilities pay personal property tax on office equipment, etc.?
313	Bauer	Yes. Enumerated other taxes/fees utilities pay, for example the use of right-of-ways an electrical utility pays a franchise fee to local governments. Local governments have reported that those franchise fees are generally their second largest revenue source.

Referenced industrial properties that burn certain fuels and generate their own electricity and how the Department of Revenue for taxing of tangibles/intangibles treats those properties.

- 337 Rep. Rosenbaum Requested Mr. Bauer's response to the suggestion that equity could be achieved by taxing every business the way centrally assessed utilities are taxed.
- 349 Bauer I would not advocate all businesses be assessed the same; that policy would create a heavy budget impact for the Department of Revenue to centrally assess all industrial property.
- 372 Strong Spoke to the complexity of taxing intangibles for all businesses in Oregon.
- 403 Rep. Rosenbaum How do you assess the value of customer lists, good will, etc. that are included in intangibles for centrally assessed companies?
- 411 Strong It is not a given the listing in the bill is an automatic deduction. The burden is shifted to the Company to go to the Department and prove two things:
1. The value of a customer list or other intangible.
 2. It is already in the value that the Department has determined.
- 408 Rep. Rosenbaum Referenced proposed amendment and the creation of the Advisory Committee, (Page 3, Exhibit 6). Isn't this the same make-up as the work group that was created to make recommendations to the Legislature, and why would this group be more successful with coming up with recommendations and agreement?
- 443 Bauer The difference between what happened during the interim and this advisory committee is it would already be phased in.

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TAPE 084, SIDE B

- 015 Rep. Witt Historically, is it easier for centrally assessed companies to build the costs into rate structures and pass the costs on to the customer?
- 022 Strong Historically it was a way to extract a tax on what was considered excess profits. Companies could pass costs on to the customer, however with today's competition that is no longer the case.
- 033 Discussion and questions regarding taxes being built into a utilities rates and if a tax is no longer paid it is removed from the rate by the Public Utilities Commission.

044	Rep. Witt	In essence, the savings would be passed on to the consumer, should this measure pass?
050	Bauer	Yes, to the extent that it is a regulated company under the Public Utility Commission.
052	Strong	Concurred.
058	Vice Chair Rasmussen	What is the benefit of this measure if regulated companies pass this saving through to the ratepayers, yet counties and cities will be devastated?
066	Bauer	It is an issue of competition with companies that are not regulated.
080	Vice Chair Rasmussen	"I'm not sure that I see the totally competitive market place that is being described."
089	Strong	For electric generating companies it is in a transitional phase; there is competition at the industrial level today. Companies that can generate their own electricity are loss as a customer.
110	Chair Strobeck	Requested an explanation for lines 35-37 of the proposed amendment, (Page 1, Exhibit 6).
115	Strong	Provided an analogy of a radio station; the language would prevent the scenario represented in the analogy.
128	Gary Carlson	Spoke to the measure and how this issue has been impacted by Measures 5 and 50.
173	Carlson	Provided historical background to current language in the law. Spoke in opposition to B1, lines 5-7 of the proposed amendment, (Page 1, Exhibit 6).
226	Carlson	Associated Oregon Industries has no concern with the remainder of the proposed amendment.
241	Chair Strobeck	Requested further information on "entrepreneurial profit" and how the deletion of B1, lines 5-7 would effect that.

259	Carlson	It is at issue currently in property tax cases; from the taxpayers point of view it is an intangible, from the Department's point of view it is not an intangible and the courts would decide. The whole area of intellectual property is rapidly changing and can become quickly outdated, if enumerated.
290	Chair Strobeck	Wouldn't those values fall under the unitary model?
298	Carlson	Clarified concern and the history of the current language in statute.
324	Chair Strobeck	The number of utilities that are centrally assessed is not that great and nothing else is being opened on a locally taxed basis.
332	Carlson	Clarified the concern is for non-centrally assessed property owners who are subject, under an income approach, to this list.
344	Jim Manary	Spoke to the history of ORS 307.020, which was passed in the early 1990s, as a reaffirmation of the law passed in the 1930s. Described the kind of dispute that would be of concern.
425	Chair Strobeck	Adjourned meeting at 10:22 a.m.

Submitted by, Reviewed by,

Joan Green Kim T. James

Committee Assistant Revenue Office Manager

Exhibit Summary:

1. *HB 2840, Meyer, Chart, 3 pages
2. HB 2840, Meyer, Revenue impact statement, 1 page
3. HB 2753, Meyer, Revenue impact statement, 1 page
4. *HB 2840, Rose, Data sheet, 1 page
5. HB 2050, McNamara, Chart, 1 page
6. HB 2050, Bauer, Proposed amendment, 3 pages

*Refers also to HB 2753