

HOUSE REVENUE COMMITTEE

MARCH 2, 1999 ñ 8:30 A.M. - HEARING ROOM A - STATE CAPITOL BUILDING

Members Present: Rep. Ken Strobeck, Chair

Rep. Anitra Rasmussen, Vice Chair

Rep. Diane Rosenbaum

Rep. Lane Shetterly

Rep. Jim Welsh

Rep. Max Williams

Rep. Bill Witt

Members Excused: Rep. Jeff Merkley

Rep. Deborah Kafoury

Staff: Lizbeth Martin-Mahar, Economist, Legislative Revenue Office

Ed Waters, Economist, Legislative Revenue Office

Richard Yates, Economist, Legislative Revenue Office

Barbara Guardino, Committee Assistant

Witnesses: Tim Nesbitt, Oregon State Council Service Employees International Union

Susan Browning, Oregon Dept. of Revenue

Lynn McNamara, League of Oregon Cities

Robert Young, Robert Young & Associates

Hasina Squires, Special Districts Association of Oregon

Greg Smith, Port of Morrow

Greg Sweek, Morrow County Assessors

Jim Manary, Oregon Dept. of Revenue

Cindy Finlayson, PGE

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TAPE 072, SIDE A

- 007 Chair Strobeck Called meeting to order at 8:40 a.m.
- 018 Paul Warner Discussed concept of revenue impact statements in general; more specifically, in regard to questions that came up in relation to HB 2050. Legislative Revenue Office does static revenue impact analysis. These assume there is no behavioral response; any change will have no impact on that behavior. Dynamic analysis takes behavior change into account.
- 055 Warner Most of LRO analysis is short-term. Often there are conflicting impacts.
LRO has looked into expanding capacity to including dynamic analysis in its model. Expense to develop it is too great.
- 078 Chair Strobeck Opened public hearing on SB 251.

PUBLIC HEARING n̄ SB 251

- 081 Ed Waters SB 251 includes electronic funds transfers among the types of payments for which penalty can be imposed by the Department of Revenue following a repeat failure of funds transfer. See Staff Measure Summary (**EXHIBIT 1**).
- 093 Susan Browning Described electronic funds transfer. See Oregon Department of Revenue Bill Summary SB 251 (**EXHIBIT 4**). Includes personal income tax, corporate income tax, and withholding. Dept. of Revenue is increasingly moving to electronic funds transfer. So are larger companies. 30% of combined payroll owed is being paid electronically monthly. SB 251 extends current provisions for paper documents to electronic funds transfer.
- 134 Chair Strobeck Closed public hearing on SB 251. Opened work session on HB 251.

WORK SESSION n̄ SB 251

- 137 Rep. Shetterly **MOTION: MOVED SB 251 TO THE HOUSE FLOOR WITH A DO PASS RECOMMENDATION.**
- 141 **VOTE** **ROLL CALL VOTE: MOTION FAILS 4-1-4**
REPRESENTATIVES VOTING AYE: ROSENBAUM, SHETTERLY, WELSH, CHAIR STROBECK
REPRESENTATIVES VOTING NAY: WITT
REPRESENTATIVES EXCUSED: KAFOURY, MERKLEY, WILLIAMS, VICE CHAIR RAMUSSEN
- 151 Chair Strobeck Closed work session for SB 251.
- 155 Rep. Shetterly **REQUESTED UNANIMOUS CONSENT TO REOPEN WORK SESSION FOR SB 251 TO CHANGE HIS VOTE FOR THE PURPOSE OF POSSIBLE RECONSIDERATION.**
- 157 Chair Strobeck **ASKED FOR ANY OBJECTION TO REOPENING THE WORK SESSION. HEARING NO OBJECTIONS, THE CHAIR SO ORDERED.**
- 160 **VOTE** **REP. SHETTERLY CHANGED VOTE FOR PASSAGE OF SB 251 TO THE FLOOR TO "NO". GAVE NOTICE OF POSSIBLE RECONSIDERATION.**
VOTE FAILS 3-2-4
- 163 Chair Strobeck Closed work session on HB 251. Opened public hearing on HB 2050.

PUBLIC HEARING ñ HB 2050

- 179 Tim Nesbitt Spoke in opposition to the measure. See Outline of Testimony Re: HB 2050 by Tim Nesbitt See testimony (**EXHIBIT 5**). Opposition based on the following:
1. Cost! HB 2050 will cost schools and local governments \$17.4 million per year
 2. Expands the tax breaks that now consume 55 cents of every dollar we levy in taxes.
 3. Furthers the shift of tax burden from corporations to individuals.
 4. Directs its tax relief to those who need it least
 5. Selectively targets a perceived tax inequity, but ignores other, more problematic, inequities
 6. Fails to consider the total tax environment for centrally assessed companies
- Asked committee to look at total tax picture in relation overall taxes paid in Oregon and in other states; now compared to 10 years ago. Urged committee to vote against HB 2050.

- 301 Rep. Witt Do two wrongs make a right? Does Mr. Nesbitt agree that the current tax on intangibles is inequitable? Is it good public policy to impose taxes that are inequitable just because they bring in revenue?
- 310 Nesbitt There are a lot of wrongs in the tax system. They need to be looked at comprehensively. There are many inequities in Oregon's tax system. To take a piecemeal approach is not the way to solve the problem.
- 376 Lynn McNamara Spoke in opposition to the measure. See Testimony of the League of Oregon Cities to the House Revenue Committee on HB 2050 (**EXHIBIT 6**) verbatim.
- Exemption is about fairness, not only to centrally assessed companies, but about fairness in tax system among classes of taxpayers.

TAPE 073, SIDE A

- 040 McNamara Referred to written testimony, chart on page 3, Change in Property Taxes Paid 1990-97. Chart indicates that the centrally assessed companies do not have a significant disadvantage, even though they are assessed differently. Measure 5 benefited these companies. Nobody has reviewed the relative tax burdens of the taxpayers, nor reached conclusions about what share of taxes each segment should pay and why.
- 057 McNamara Page 4: Phrase "including but not limited to" is like writing a blank check, opens the door for litigation.
- Favors amendment to exclude Trojan Nuclear Power Plant.
- 138 McNamara Page 7: Estimated Impact of Intangible Exemption on Oregon Cities.
- Among communities there are no winners, but some very significant losers.
- 174 Robert Young Spoke in opposition to the measure. See testimony, Taxation of Centrally-Assessed Intangible Property in Oregon (**EXHIBIT 7**). Reviewed findings of his study for League of Oregon Cities:
1. Dramatic tax shift since passage of Measure 5.
 2. Estimate of intangibles prepared by Oregon Dept. of Revenue significantly understates magnitude of intangible deductions.
 3. Proposed legislation's definition of intangibles is too broad and would result in lengthy litigation.
 4. Annual accounting reports of utilities reveal only a small percentage of assets are classified as intangible.
 5. Companies examine the total tax structure in decision to move to Oregon. Economic growth makes it attractive. Tax burden is comparable to other states.
- 265 Young Summarized: Centrally assessed companies have enjoyed substantial tax relief over past

nine years. Simultaneously, taxes for residential property owners increased. Need for more relief has not been demonstrated by centrally assessed industries. Oregon ranks in bottom third of property tax rates. Bill opens door for litigation. Industry estimates of the potential impact are dramatically understated.

- 284 Rep. Witt Questions regarding McNamara's statement of erosion of the property tax base for commercial industrial firms. Follow-up questions.
- 294 McNamara Was referring to expansion of internet commerce and the potential it has to affect main street businesses.
- 314 Rep. Williams Asked Young about a chart shown March 1 by Jim Manary (slide presentation). It showed that benefits that corporations received from Measure 5/Measure 50 tax reductions were short-term and would expire. What are the long-term effects?
- (Subsequently submitted paper copy of slide show. See March 9 minutes, "Effect of M50, previously requested by committee" (EXHIBIT 2).)*
- 335 Young Clarified, will growth of new investment eventually recapture loss of taxes from intangibles? Yes, but it will take time.
- 380 Jim Manary Explained, graph showed savings from Measures 5/50 only. *(See March 9, exhibit 2.)*
- 395 Rep. Williams Requested comparing this chart with Young's testimony of 33% reduction. Follow-up questions.
- 403 Manary M5 benefited businesses more than home owners because values of homes were changing more quickly.

TAPE 072, SIDE B

- 019034 Hasina Squires Spoke in opposition to the measure. See Testimony of Special Districts of Oregon in the House Revenue Committee in Opposition to HB 2050 **(EXHIBIT 8)**. Testimony includes estimated impact of intangible exemption on special districts in Morrow, Washington, and Multnomah counties.
- 073 Greg Smith Spoke in opposition to the measure. Bill would devastate Morrow County. Over next three years, \$6.5 million in revenue would be lost. This would affect roads, schools, basic infrastructures. Believes utility industry must pay equitable share in Morrow County.

108	Greg Sweek	<p>Spoke in opposition to the measure. Over 60% of Morrow County's value is tied up in utilities. Majority is in two PGE plants. The bill would reduce the value of the coal-fired plant by \$120-130 million, or 14%. That means</p> <p>\$560,000 in county's tax revenues. Would increase the rate on the school bond, shift burden to residents.</p> <p>Port of Morrow potential growth in enterprise zone. New businesses won't pay taxes 3-5 years; this bill aggravates the problem.</p>
145	Sweek	<p>Doesn't understand how coal-fired plant became considered intangible. Industry says it has stranded assets, but Sweek believes it's a marketable asset. Questions and discussion.</p>
183	Cindy Finlayson	<p>Spoke in support of the amendment requested by Columbia County to exclude Trojan Nuclear Power Plant from the list of intangible property taxes. See written testimony (EXHIBIT 9) verbatim.</p>
200	Rep. Witt	<p>Are the taxes that PGE is paying as a centrally assessed utility included in the rate base?</p>
205	Finlayson	<p>Yes.</p>
215	Manary	<p>Addressed effective date of bill. Present date (1999) is too short a time period for Dept. of Revenue to react.</p>
249	Chair Strobeck	<p>Prior to 1996 Oregon did not tax intangible assets of cellular companies. What process does the Dept. of Revenue go through to decide what should be centrally assessed, what are Intangible?</p>
260	Manary	<p>Briefly explained process. Historic process. If it falls into a particular category it automatically becomes centrally assessed. Also, it is up to the legislature.</p> <p>Will provide a list of centrally assessed companies and their valuations.</p>
347	Chair Strobeck	<p>Why are cable companies not centrally assessed?</p>
348	Manary	<p>That was the choice of the legislature in 1991.</p>
345	Chair Strobeck	<p>Closed public hearing on HB 2050. Adjourned meeting at 9:55 a.m.</p>

Submitted by, Reviewed by,

Barbara J. Guardino Kim T. James

Committee Assistant Revenue Office Manager

Exhibit Summary:

1. SB 251, Waters, Staff Measure Summary, 1 p.
2. SB 251, Waters, No Revenue Impact Analysis, 1 p.
3. SB 251, Waters, No Fiscal Impact Assessment, 1 p.
4. SB 251, Browning, Oregon Department of Revenue Bill Summary for SB 251, 1 p.
5. HB 2050, Nesbitt, Outline of Testimony Re: HB 2050 by Tim Nesbitt, 10 pp.
6. HB 2050, McNamara, Testimony of the League of Oregon Cities on HB 2050, 24 pp.
7. HB 2050, Young, Taxation of Centrally-Assessed Intangible Property in Oregon, 18 pp.
8. HB 2050, Squires, Testimony of the Special Districts Association of Oregon in Opposition to HB 2050, 6 pp.
9. HB 2050, Finlayson, Testimony Before the House Revenue Committee on HB 2050-Taxation of Intangible Property, Portland General Electric, 1 p.