

HOUSE REVENUE COMMITTEE

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

Members Present: Rep. Ken Strobeck, Chair

Rep. Anitra Rasmussen, Vice Chair

Rep. Deborah Kafoury

Rep. Jeff Merkley

Rep. Diane Rosenbaum

Rep. Jim Welsh

Rep. Max Williams

Rep. Bill Witt

Members Absent: Rep. Lane Shetterly

Staff: Paul Warner, Legislative Revenue Officer

Lizbeth Martin-Mahar, Economist, Legislative Revenue Office

Richard Yates, Economist, Legislative Revenue Office

Barbara Guardino, Committee Assistant

Witnesses: Marge Kafoury, City of Portland

Tim Grewe, City of Portland, Multnomah County

Dan Brosnan, Morrow County Commissioner

Greg Sweek, Morrow County Assessor

Jon Wenholtz, Morrow County Commissioner

Gil Riddell, Association of Oregon Counties

Steve McClure, Washington County

Jerry Hanson, Washington County Assessor

Susan Browning, Oregon Dept. of Revenue

Jim Manary, Oregon Dept. of Revenue

Frank McNamara, Confederation of Oregon School Administrators

TAPE 079, SIDE A

010 Chair Strobeck Called meeting to order at 8:37 a.m. Opened public hearing on HB 2050, intangible taxes.

PUBLIC HEARING ñ HB 2050

018 Marge Kafoury Introduced colleague, Tim Grewe.

022 Tim Grewe Spoke in opposition to the measure. See written testimony (**EXHIBIT 1**) verbatim. Three concerns:

1. Bill will continue trend toward tax policy shifting the tax burden from commercial/industrial to residential.
2. The revenue loss to local governments.
3. The vagueness of the proposed bill language concerning what is intangible property.

111 Grewe Urged committee to vote no. Enactment would further shift the property tax burden, resulting in revenue loss to local governments.

118 Marge Kafoury Has worked on this bill the past three sessions and believes the more things stay the same more they change. Arguments against and for have stayed the same ñ Discriminatory; level playing field; disadvantage with competitors; economic consequences; litigation; size of revenue loss and what will replace it. What has changed is the body of evidence surrounding the arguments by both sides. It has been five years since first claims of consequences of intangibles were made, so it is possible to analyze whether those consequences have occurred. There are two Dept. of Revenue and industry estimates of revenue losses; also the League of Oregon Cities research study.

152 Kafoury

1. Is it unfair and discriminatory? Does it differentiate? Yes. Is differentiation unfair? Answer is less clear.
2. Level playing field? This notion simply does not exist in tax law.
3. Does Oregon tax policy create competitive disadvantage? No evidence that companies are not investing in Oregon, nor are investments declining.
4. Economic consequences? Have businesses declined to locate here? Are investments in Oregon falling behind? No.
5. Possible litigation? Look to other states, Harchenko report, Legislative Revenue Office fiscal report. Some states have experienced lengthy litigation. Reports are

littered with questions, but different views. Sounds like an open invitation to sue the state if the intangible tax is repealed.

6. Revenue loss? Last session it was agreed that intangible property is only about 7% of the total roll value of centrally assessed companies. Today the estimate ranges from 8.3% to 23.8%. Does not believe that planned tangible investments will compensate for this revenue loss.

227	Kafoury	Summarized, this issue is not about equity; it is about a big tax break for an industry that doesn't need it. Urged committee to reject bill.
232	Rep. Merkley	Concerning Kafoury's claim that if intangible taxation is repealed, it is an open invitation for litigation. What is the reasoning?
238	Kafoury	Harchenko report and LRO fiscal report raise issues about how to determine what is intangible and what is not. This lack of clarity suggests a lot of debate between Dept. of Revenue and industry.
262	Chair Strobeck	Asked Grewe, if these companies were being hurt by a bad economy, would his testimony be different? Is the fact that they are making money in a strong economy reason enough to continue an unfair tax? Follow-up questions.
274	Grewe	There is no evidence that these industries need some sort of a tax break to improve their competitiveness. Discussed history of attempts to put more into intangibles definition than originally anticipated.
311	Chair Strobeck	Asked Kafoury to comment on whether these industries in other states would have a competitive advantage over Oregon industries.
319	Kafoury	The issue that has been explored over the past number of years is the overall tax burden of this industry in Oregon and in relation to other states. Oregon doesn't have sales tax or a business and occupation tax. Question remains, what is the overall tax burden and is it unfair?
331	Rep. Welsh	What is the overall policy reason to continue intangible taxation?
335	Kafoury	Industry has not made a case that tax cut is needed. None of the anticipated consequences has occurred.
351	Gil Riddell	<p>Spoke in support of the measure. See written testimony (EXHIBIT 2) paraphrased.</p> <p>HB 2050 encourages litigation. Association of Oregon Counties hoped the interim committee would make the definition of intangibles more clear, but it didn't.</p> <p>Expensive for taxpayers; Unwarranted and unnecessary; Poor tax policy</p>

438 Dan Brosnan Spoke in opposition to the measure. See written testimony (**EXHIBIT 3**) verbatim.

HB 2050 would result in devastating reductions in Morrow County services; county is already struggling. Suggested consideration of amending bill to remove PGE's coal-fired plant from the bill.

TAPE 080, SIDE A

052 Vice Chair Rasmussen The 10 counties that will be most affected are in Eastern Oregon. The assumption is that tangible property value growth will override the cuts. Does he see other tangible property values growing that fast?

069 Greg Sweek Morrow County rate of growth is about 4%. New construction would be about 1%. Currently there are eight road deputies in the entire county of 3,000 square miles; no state police. At times there is nobody patrolling the roads.

089 Rep. Rosenbaum Asked Riddell for clarification of his definition of intangibles.

093 Riddell Association of Oregon Counties is concerned that, with centrally assessed utilities, appraisers have to take the value of the property because of nature of the property. Experience with cable companies is, it doesn't work well at county level. Cable companies should be centrally assessed.

126 Brosnan PGE is amenable to these changes; an amendment has been drafted.

141 Frank McNamara Spoke in opposition to the measure. Sat in on some of interim work group meetings. Was surprised that individuals within industry could not agree on what are intangibles. The same language describing intangibles was understood differently depending on the hearer, creating problems. Purpose of schools being present: Schools do not intend to be silent on the issue, but are not as versed as are cities and counties. The Dept. of Revenue report shows a \$12 million loss of revenue to schools; industries show \$23 million loss. This is about 40% of whatever is produced in a bill.

185 McNamara Impact by county shows marked differences. Presumably state will make up the losses, but there will eventually be a fixed rate for appropriation to schools. When this occurs, anything that deals with credits or tax exemptions will affect the total amount that gets to schools.

230 Chair Strobeck Asked committee for comments on HB 2050.

232	Vice Chair Rasmussen	Is very uncomfortable with this bill. It represents two policy issues: How to treat intangibles and centrally assessed; how county governments can continue to do the business that state requires them to do. State is moving tools away from cities and counties to do the business that the state has asked them to do.
250	Rep. Witt	Will support bill. Intangibles have been removed from most other western states. Lawmakers need to look at other ways to help counties.
262	Rep. Welsh	Will support bill.
270	Rep. Rosenbaum	Does not support bill. Rep. Shetterly has repeatedly said that there are a lot of proposals for tax exemptions/cuts, and lawmakers haven't even begun to look at them. Would prefer a more holistic approach rather than approaching it piecemeal.
284	Rep. Kafoury	Concurred with Rep. Rosenbaum's concern about giving a tax break before know where money is coming from.
293	Chair Strobeck	<p>This issue is reminiscent of what the committee went through in 1997 the session. Committee must decide if it is fair competition to have industries taxed in different ways. Must divorce issues of who is losing revenue from whether this tax is fair. This is a matter of equity that could be a liability in the long-run. Most testimony from local governments was, businesses already got tax breaks from M5 and M50. This logic does not address the issue of inequity.</p> <p>Conclusion of the Harchenko report was that the group was unable to agree on any specific recommendations. Recommended narrowing the list of intangibles, proposal for way to phase it down, consideration of second PGE amendment regarding Morrow County. Recommended work group.</p>
346	Rep. Witt	Commented, Morrow County is collecting twice as much revenue per county resident as the state average.
359	Chair Strobeck	Closed public hearing on HB 2050. Opened work session on SB 250.

WORK SESSION n SB 250

380-404		Committee stood at ease to await arrival of LRO staff .
405	Richard Yates	Began testimony on SB 250: Eliminates meter impression method of paying cigarette taxes (see Staff Measure Summary, March 4, exhibit 7).

TAPE 0079, SIDE B

- 016 Richard Yates Reviewed ñ1 amendments (see March 4, exhibit 8, regarding whether or not Dept. of Revenue would pay interest on refunds of stamps in the case of delay. Page 3 of bill, lines 31-32.
- 038 Susan Browning Clarified Dept. of Revenue created this amendment at the request of a distributor. It is an equity issue.
- 050 Vice Chair Rasmussen **MOTION: MOVED ñ1 AMENDMENTS TO SB 250 BE ADOPTED.**
- 052 Chair Strobeck **ASKED COMMITTEE FOR ANY OBJECTIONS TO MOVING ñ1 AMENDMENTS TO SB 250. HEARING NO OBJECTION THE CHAIR SO ORDERED.**
- 054 Vice Chair Rasmussen **MOTION: MOVED SB 250, AS AMENDED, TO THE HOUSE FLOOR WITH A DO PASS AS AMENDED RECOMMENDATION.**
- 056 **VOTE** **ROLL CALL VOTE: MOTION PASSES 8-0-1**
REPRESENTATIVES VOTING AYE: KAFOURY, MERKLEY, ROSENBAUM, SHETTERLY, WELSH, WITT, VICE CHAIR RASMUSSEN, CHAIR STROBECK
REPRESENTATIVES EXCUSED: WILLIAMS
REP. WITT WILL CARRY THE BILL
- 064 Chair Strobeck Closed work session on SB 250. Opened public hearing on HB 2139, assessment and taxation.

PUBLIC HEARING ñ HB 2139

- 077 Lizbeth Martin-Mahar Directed members' attention to Residential Property Typical Recording Costs During Closing (**EXHIBIT 4**). Explained current amounts per page, difference under proposed ñ4 amendments.

Discussed Buyer's Closing Statement (**EXHIBIT 5**) samples.

Discussion and questions interspersed.
- 201 Martin-Mahar Continued review Buyer's Closing Statement.

239	Martin-Mahar	Discussed proposed ñ4 amendments (EXHIBIT 6) which incorporate previous amendments. \$1 of recording fee will be used for mapping system. Dept. of Revenue would receive money from assessment and taxation account. Amends the bill to \$15 for recording fee. Revenue impact for next two biennia is \$50 million. See Revenue Impact of Proposed Legislation for HB 2139-4 (EXHIBIT 7).
278	Chair Strobeck	Continued questions about ñ2 amendments (see March 3, exhibit 5), reason for the blanks in section 8 in regard to the number of members in the advisory committee.
265	Jim Manary	Legislative counsel put those in to allow committee to decide.
299	Chair Strobeck	Asked committee for comments on ñ4 amendments.
301	All	Questions and discussion concerning various categories a \$15 fee would be applied to (about 30).
355	Rep. Welsh	Objected to proposed \$15 fee. Will stay with \$10 figure. At \$10 he still sees an increase to the county.
387	Rep. Witt	Concurred with Rep. Welsh. Average cost of dealing with 80% of these documents is \$1. Will support \$10 fee, although it is still too high.
427	Chair Strobeck	Interesting to have this discussion after the previous discussion about fairness and equity after M5 and M50. Bottom line is, lawmakers need to decide whether they want the system to be whole (a dollar-for-dollar exchange on cost), or if the taxpayer is buying the whole system. This is a redistribution but it is based on the principle that counties want the whole system in place.

TAPE 080, SIDE B

030	Rep. Witt	Chair has made good points, and counties have made compelling argument. But, whole assessment and taxation system is not just to help real estate industry, it is there to collect taxes that are used by many levels of government. Agreed, fees should be more than cost. Question becomes a matter of degree. \$31 million fee increase is sufficient.
060	Rep. Shetterly	Asked for input from counties on funding at \$10 and \$15 levels.
084	Gil Riddell	More of the money that will support this system will be county general funds from property taxes. Also some money comes in from cities and special districts. This is an attempt to acknowledge all of the beneficiaries to the system and try to do it proportionally.

108	Steve McClure	<p>Part of what counties want is a long-term, stable source of funding. This amendment does that. Believes counties can support this. This is not out of line given the benefits to the community. Effort is to look at all of stakeholders and come up with something that everyone can live with.</p> <p>Questions and discussion.</p>
133	Rep. Merkley	Counties noted during interim that if the processing fee were set at less than \$20, they would object to inclusion of prohibition on real estate transfer taxes. Please address this.
142	McClure	Objective was to come up with something that all stakeholders could live with. Not happy with preemption of real estate transfer taxes, but recognize politics.
166	Jerry Hanson	<p>Has no problem convincing stakeholders of these amendments. It is an investment.</p> <p>Correlation between investment and the counties' ability to provide required information.</p>
203	Rep. Welsh	Not satisfied with definition of quality of service and how much to increase per document. Is bothered by \$15. An increase can be justified, but not \$15, maybe not \$10. Needs more definition on quality of service.
236	Chair Strobeck	Asked Martin-Mahar to revisit some questions raised by the committee.
242	Martin-Mahar	<p>Discussed delinquent component of schools.</p> <p>Prohibition on local real estate transfer taxes is not in this bill.</p>
265	Chair Strobeck	Committee is not ready to move this bill. Will revisit bill Wednesday.
269	Rep. Witt	Asked for amendment to include prohibition on local government and real estate transfer taxes.
289	Chair Strobeck	Adjourned meeting at 10:15 a.m.

Submitted by, Reviewed by,

Barbara J. Guardino Kim T. James

Committee Assistant Revenue Office Manager

Exhibit Summary:

1. HB 2050, Grewe, Testimony of Tim Grewe, City of Portland, Director of Finance and Administration, 3 pp.
2. HB 2050, Riddell, Association of Oregon Counties, House Bill 2050 Major Points (3-8-99), 5 pp.
3. HB 2050, Brosnan, Testimony of the Morrow County Court to the House Revenue Committee in Opposition to HB 2050, 2 pp.
4. HB 2139, Martin-Mahar, Residential Property Typical Recording Costs During Closing, 2 pp.
5. HB 2139, Martin-Mahar, Key Title Company, Buyer's Closing Statement, 13 pp.
6. HB 2139, Martin-Mahar, Proposed Amendments to House Bill 2139 (HB 2139-4), 4 pp.
7. HB 2139, Martin-Mahar, Revenue Impact of Proposed Legislation for HB 2139-4, 2 pp.