

## HOUSE REVENUE COMMITTEE

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

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Members Present: Rep. Ken Strobeck, Chair

Rep. Anitra Rasmussen, Vice Chair

Rep. Deborah Kafoury

Rep. Jeff Merkley

Rep. Diane Rosenbaum

Rep. Lane Shetterly

Rep. Jim Welsh

Rep. Max Williams

Rep. Bill Witt

Staff: Paul Warner, Legislative Revenue Officer

Lizbeth Martin-Mahar, Economist, Legislative Revenue Office

Ed Waters, Economist, Legislative Revenue Office

Richard Yates, Economist, Legislative Revenue Office

Barbara Guardino, Committee Assistant

Witnesses: Sen. Rick Metsger, District 14

Rep. Rob Patridge, District 50

Michael Powell, Portland

Paul Couey, Portland

John McMahon, Portland

Sen. Kate Brown, District 7

Sen. Susan Castillo, District 20

Rep. Steve Harper, District 53

Michael Cannarella, Portland

Lynn Schoessler, Housing and Community Services Department

John Schoon, First Break

Annette Talbott, Oregon Employment Department

Sharon Thornberry, Oregon Food Bank, Benton County

Karen Whitaker, Office of Rural Health

David Nebel, Oregon Law Center

Peter Hanely, Community and Shelter Assistance Corp. (CASA)

Cindy Becker, Oregon Emerging Business Initiative

Kathryn Weit, Oregon Developmental Disabilities Council

Dave Nelson, Oregon Seed Council, Oregon Dairy Farmers

**TAPE 124, SIDE A**

005      Chair Strobeck      Called meeting to order at 8:30 a.m. as subcommittee. Opened public hearing on HB 2947, tax credits.

**PUBLIC HEARING n HB 2947**

016      Sen. Metsger      Spoke in opposition to the measure. (Delete 1.130: Involuntary Mobile Home Moves)  
Many of Metsger's constituents live in manufactured homes. This tax credit hasn't been used since the 1980s because no manufactured home parks have been closed. Incentive to keep parks open is decreasing. When a manufactured home is displaced, value plummets. Sometimes this is the only asset mobile homeowners have. Many are elderly. It is next to impossible to start up new parks.

044      Rep. Patridge      Spoke in opposition to the measure. (Sunset Date to 1.123: Child and Dependent Care; Sunset Date to 1.124: Working Family Child Care; Delete 1.125 and 1.126: Dependent Care Assistance and Dependent Care Facilities)

See written testimony (**EXHIBIT 1**), letters from employers who would be adversely affected. Many Oregon businesses and their employees use these credits. Credits allow many people to work who otherwise could not.

Asked committee to retain these credits.

092	Chair Strobeck	Not everyone who has a child care program takes advantage of the credit. Why is the credit so essential to continuation to the program?
094	Rep. Patridge	On-site employer child care is not tracked by Dept. of Revenue. This credit is an incentive to encourage quality child care across the state.
116	Ed Waters	Reviewed HB 2947-1 amendments ( <b>EXHIBIT 2</b> ). Refers to 37 credits; 31 are deletions since 1999 is the last tax year of those credits. The others need sunset dates at the end of 2003.
122	Chair Strobeck	Asked committee members to note each credit separately and determine whether to continue or sunset that credit. When committee goes into work session, they will review them one at a time.
141	Waters	Explained a table listing Individual and Corporation Tax Credits ( <b>EXHIBIT 3</b> ).
168	Michael Powell	Spoke in opposition to the measure. (Delete 1.123: Child and Dependent Care) Owner of Powell's Books in Portland. Company has been using this credit since 1989. Many of his employees have entry level jobs. Has 48 staff members using this credit. Many of them are single parents entering the work force. Powell submitted a petition with 180 signatures in opposition to repeal. See <b>EXHIBIT 4</b> . Read letter from staff member.
199	Paul Couey	Spoke in opposition to the measure. (1.123) As previous speaker read, this credit allows people to remain in the workforce. Parents believe working is a good example for their children. It allows some people to work fewer hours, spend more family time. As an employee who is not a parent, he values this benefit because he and his wife want to have children.
268	John McMahon	Spoke in opposition to the measure. (1.123) Shares desk with two single mothers who benefit from this tax credit. This credit is critical. Urged committee to look inside their hearts and retain this credit.
286	Powell	Clarified previous testimony, tax credit is \$4,800 maximum figure, company kicks in \$200 per employee. Credit is \$2,500, company matches it with an additional \$2,500.
300	Chair Strobeck	Two ways that the state can fund these programs: Appropriations or tax credits. Tax credits reduce revenue, leaving less money to spend on other programs. Whether lawmakers are looking at appropriation end or credit end, everything has to be examined.
338	Sen. Brown	<p>Spoke in opposition to the measure. (Delete 1.129: Farm Worker Housing Lender's Credit)</p> <p>Credit has helped create 1,000 units for farm workers. Sens. Brown and Castillo toured</p>

farm housing and found deplorable conditions. Oregonians should be ashamed of the conditions that families are living in. Asked committee to encourage, not discourage investments to improve the lives of human beings.

- 379 Sen. Castillo Spoke in opposition to the measure. (1.129) Visit was an awakening for the seven lawmakers who toured farm worker housing. Oregon should have laws that treat workers with respect and dignity. This credit is an unusual arrangement for farm workers because housing is tied to their employment. Farmers do want to do a better job, but there is a shortage of housing. This tax credit helps. Supports committee's efforts to review tax credits; review is needed. The public is watching what is on the list.
- 434 Chair Strobeck Farm worker housing tax credit is on the list because it is barely used. Would it be better to keep this tax credit or to give money?
- 447 Sen. Castillo This program has not been used because it is difficult to use. Is sponsoring a bill to encourage farmers to make better use of program. State needs to make more of an effort to offer assistance.

**TAPE 125, SIDE A**

- 028 Chair Strobeck In response to Rep. Williams' question, clarified this credit is lender's credit, *not* farm worker housing construction credit (1.128).
- 041 Rep. Merkley Farm worker housing lender's credit is not the same as the regular low income housing tax credit. It is necessarily passed through to the project in the form of interest reductions. Is there a way to make it more similar to the Oregon Affordable Housing Tax Credit?
- 050 Sen. Castillo Does not know.
- 073 Rep. Harper Spoke in opposition to the measure (Delete 1.113: Rural Medical Practice)
- This tax credit is working. Asked committee to take a look at this bill in context of SB 530.
- 109 Michael Cannarella Spoke in opposition to the measure. (Sunset Child and Dependent Care: 1.123) Talks to community groups and they understand the value of this credit whether they have children or not. He is a union organizer, works with employees at Powell's Books. The 400 employees at Powell's Books support this credit. They were offended and upset that anyone would even suggest sunseting this credit.
- See written testimony, Childcare Credit Giveaway or scare tactic? **(EXHIBIT 5)**.
- 149 Lynn Schoessler Spoke in opposition to the measure. (1.123). Oregon Housing and Community Services Dept. is working with Neighborhood Partnership Fund and The Enterprise Foundation to create the Oregon Facilities Fund, which would create additional child care facilities. See

**EXHIBIT 6**, letters.

Two reasons why employer-investor child credits are not used more: Not enough employers understand it. Also, some of the existing statutes are "economically obsolete." Encouraged some adjustments to credit. See Proposed Child Care Tax Credit Amendments (**EXHIBIT 7**).

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| 197 | Chair Strobeck | One reason to review tax credits is because they do become obsolete. Strobeck questions whether some of these credits are essential if people aren't using them.   |
| 204 | Schoessler     | State is trying to increase capacity state-wide and get more facilities in place.  |
| 219 | Chair Strobeck | Concerning Cannarella's comments that people were offended by the review of 1.123, is that appropriate? A tax credit increases taxes for everyone else in the state. Isn't it responsible to decide whether this is a program that everyone else should be paying for?   |
| 233 | Cannarella     | This is an employment issue for employees both with children and without children. If a person with children doesn't come to work it has a dramatic impact on those who are at work. Child care worries make people less productive.   |
| 256 | Chair Strobeck | If people are offended that lawmakers would question use of taxpayer dollars, are they also offended that people without children have to have their taxes raised?   |
| 264 | Cannarella     | Many people at Powell's Books with no children support this credit. The issue is good quality child care, which costs money.   |
| 298 | Rep. Welsh     | Would individual taxpayer view this credit as an incentive to keep people employed? Oregon has done wonderful job of moving people off welfare. Agreed with Cannarella.  |
| 325 | John Schoon    | <p>Spoke in opposition to the measure. (Delete 1.127: First Break Program)</p> <p>See The First Break Program testimony (<b>EXHIBIT 8</b>). Thirty percent of Oregon's children don't graduate from high school.</p> <p>Section 32 of bill addresses First Break Program that helps youths get out of gangs and into the work force. Met with Employment Division to revise bill to make it more usable. Current bill would sunset this credit because it's not being utilized. School districts and Employment Division believe it has potential for solving social problems.</p> |
| 381 | Rep. Shetterly | Spoke in support of the measure. (1.127) See written testimony ( <b>EXHIBIT 9</b> ). Believes this credit was not able to succeed because it had too many limitations. First Break Program increases employability of chronically at-risk young people. Mr. Schoon is proposing amendments to expand this credit to include a workable pool of youths that could benefit.  |

Getting these children to work increases job skills, helps make them taxpayers and productive members of society. The youths that need the most help are targeted. Cost compared to long-term benefits is negligible.

**TAPE 124, SIDE B**

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| 025 | Annette Talbott   | Spoke in opposition to the measure. (Delete 1.127: First Break Program) See Oregon Employment Department First Break Program Report ( <b>EXHIBIT 10</b> ). This program is opportunity for youths to get their first job. Attached proposal of revisions would simplify the program, and allow alternative education and schools to participate in credit. Reference to gang-affected youth narrowed the credit. Proposal broadens language to involve more youth.   |
| 058 | Rep. Rosenbaum    | Asked for clarification as to how these revisions would be made.   |
| 060 | Rep. Shetterly    | Changes would have to be made in statute.  |
| 066 | Rep. Williams     | Has there been an analysis of revenue impact for broadening of the program?  |
| 069 | Talbott           | Not to date.   |
| 072 | Schoon            | Gave rough estimates of revenue expenditures. Employment Division would absorb the cost. Maximum cost would be \$1.5 million. 30 % of youths does not include youths in alternative education. Oregon still has 30% dropout rate. These are the youths that become social problems. In other states, students concentrate on a vocation for two years. This allows them to build skills, raises their aspirations as their abilities increase. This is a multi-win situation.  |
| 119 | Talbott           | Fiscal impact: Funds would go to community-based organizations that are interested in marketing the program. Not asking for additional funds; the requested funds would be used for marketing the tax credit.  |
| 135 | Sharon Thornberry | <p>Spoke in opposition to the measure. (Delete 1.132, Crop Gleaning; Delete 1.138: Fish Gleaning; Add sunset date to 1.111: Earned Income Credit)</p> <p>Crop gleaning credit has been under-utilized because of a ruling by Dept. of Revenue that it only applies to crops picked by gleaning volunteers in the field. Previously, credit applied to already picked crops. Needs remedies to make it an effective tax credit. HB 2339 has been passed out of House Agricultural and Forestry Committee with referral to House Revenue Committee. Bill would reactivate the fish credit. This tax credit will be utilized in the future.</p> |

176	Thornberry	Discussed Earned Income Credit. Urged committee not to sunset this at a time when other credits are being cut.
185	Karen Whitaker	Spoke in opposition to the measure. (Delete 1.113: Rural Medical Practice) See written testimony ( <b>EXHIBIT 11</b> ). Cover sheet gives background, traces loss in physician workforce, enactment of credit, and recovery of physicians and other medical practitioners. Credit has been an incentive to maintain rural medical work force.
216	Rep. Welsh	Supports this tax credit. Is it getting tougher to keep rural medical practitioners? Follow-up questions.
222	Whitaker	Turnover of work force is up to 8%. Lots of pressures on practitioners because of changes in way health care is being financed. Retention is the biggest problem. This credit is a big incentive for retention. Will return to testify in support of SB 530.
254	Rep. Witt	Does Whitaker believe 58% of practitioners would leave rural practice if they lost this \$5,000 tax credit?
259	Whitaker	This is what State Office of Rural Health found in a questionnaire. Average median income for physicians is \$117,000 compared to \$199,000 nationwide for urban physicians. Will bring map of where rural physicians are practicing.
288	Chair Strobeck	Testimony in 1997 session indicated some Portland-based practitioners were traveling to rural areas so they could get this credit. Is this continuing to occur?
298	Whitaker	There are none. 60% of a practice has to be in a rural area in order for a practitioner to receive this credit.
326	David Nebel	Spoke in opposition to the measure. (Delete 1.129: Farm Working Housing Lenderis Credit) On behalf of Housing Lobby Coalition, firmly supports this credit, as well as credits for low income housing in general.
353	Peter Hanely	<p>Spoke in opposition to the measure. (Delete 1.129: Farm Working Housing Lenderis Credit) See CASA: Retain Farmworker Housing Tax Credit for Lenders (<b>EXHIBIT 12</b>).</p> <p>Lenderis tax credit has been crucial in helping CASA reach its goal to construct farm worker housing. Reason for reduction in use is decreased incentive because it reduces the amount of the loan by a smaller amount than before.</p> <p>As to whether this tax credit is similar to the Oregon Affordable Housing Tax Credit: Are interest savings getting passed through to nonprofit corporations and farmers by lower interest loans? Yes.</p>

Many housing authorities and community develop corporations have used it as well, although less successfully because it is a 10-year loan, not 20 years. Tax credit is not widely known to farmers or to Oregon Safety and Health Administration (OSHA). To remedy that, SB 981 would move investor portion of tax credit from OSHA to Housing and Community Services.

- 409 Hanely Responded to question of why credit instead of a direct appropriation? This has helped establish partnerships with banks.
- 419 Rep. Witt Why not give credit directly to people who are investing the dollars into building the housing? Why not just increase credit available to the builder?
- 427 Hanely That is an excellent idea.
- 447 Chair Strobeck Only six taxpayers claimed this credit in 1995 for a total amount of \$51,000. Does that represent something that would be defined as crucial?
- 459 Hanely It is crucial, but farmers don't know about it and so are not taking advantage of it. If this tax credit is marketed better to farmers, they will take advantage of this credit. Advocates off-farm housing, but if farmers are willing to build the housing, they should be given the opportunity.

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**TAPE 125, SIDE B**

- 031 Chair Strobeck Farm worker credit has been in effect since 1989 and few people are aware of it. Expressed concern that this review will result in more requests for tax credits.
- 060 Cindy Becker Spoke in opposition to the measure. (Delete 1.120: Qualified Research Activities).
- Purpose of Oregon Emerging Business Initiative is to create a good business climate for fast-growing emerging companies. Tax Expenditure Report (March 24, exhibit 9), page 124, says expenditure is achieving its purpose. Becker is proposing an expansion of this program.
- 075 Chair Strobeck Would research activities not occur if this tax credit disappeared?
- 076 Becker Does not know, although compared to other states, Oregon does not have the research and development types of investments.
- 083 Rep. Merkley One reason for research and development problems in Oregon is absence of high tech research in universities. Would it make more sense to dedicate this \$17.8 million to high tech university research centers?



088	Becker	Does not want to speak for higher education, although higher education is concerned that it doesn't have the research dollars that other states have. One shouldn't substitute for the other. Dollars are critical in both places.
099	Rep. Witt	In 1996, only 80 taxpayers claimed this credit. Does Becker have concern that this credit is too narrowly focused, and only a low percentage of taxpayers would benefit from this credit? Follow-up questions.
107	Becker	Yes. That is why Oregon Emerging Business Initiative is proposing amendments to broaden who will be eligible. Would not support increase in corporate income taxes. Does not know how this loss should be made up.
124	Weit	<p>Spoke in opposition to the measure. Sunset dates for 1.115 Disabled Child; 1.118 Severe Disability; 1.124 Working Family Child Care; and 1.125 Dependent Care Assistance. See written testimony (<b>EXHIBIT 13</b>).</p> <p>Urged increases for disabled child and severe disability tax credits. 98% of children with development disabilities live in their homes. Less than 1% of state dollars are targeted to assist these families. Oregon provides significantly less support than neighboring states. While this credit is small, for many families it is an acknowledgement that cost for raising these children is incredibly high. About 9,000 families use this tax credit. That is close to the targeted number.</p>
164	Weit	Severe disability tax credit deals with severely disabled people who are employed. The unemployment rate for these people is 70%. Much of disincentive to work is system disincentive. Federal government has made changes in laws to allow these individuals to maintain their medical coverage. Result of these changes will mean additional people with disabilities will have sufficient income to pay taxes. Urged committee not to sunset these tax credits.
189	Dave Nelson	<p>Spoke in opposition to the measure. (Delete 1.133: Alternatives to Field Burning; and 1.135 Pollution Control)</p> <p>See written testimony (<b>EXHIBIT 14</b>) verbatim. Gave brief background of pollution control. Gave alternatives to field burning and pollution control facility.</p>
323	Nelson	Concluded testimony with comments on 2.040 Mobile Field Incinerators.
347	Rep. Merkley	Evaluation of 1.135 says that 75% of tax credit is for purposes that would have been required anyway, and 25% is for other measures. Why not limit tax credit to just activities that go beyond basic requirements of the law?
357	Nelson	That question goes to the heart of the debate on pollution control tax credits for years. What is the purpose, if public policy mandates significant change anyway? Is it to encourage pollution control, or is it to act as an inducement to draw investment. That is a

clear public policy debate. Grass seed growers were told that tax credits would cushion the impact of public policy shift.

395 Chair Strobeck

Adjourned meeting at 10:10 a.m.

Submitted by, Reviewed by,

Barbara J. Guardino Kim T. James

Committee Assistant Revenue Office Manager

Exhibit Summary:

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1. HB 2947, Patridge, Letters to Chair Strobeck from Protem and others, 4 pp.
2. HB 2947, Waters, Proposed Amendments to House Bill 2947 (HB 2947-1), 54 pp.
3. HB 2947, Waters, Individual and Corporation Tax Credits, 6 pp.
4. HB 2947, Powell, Powell's Books letters and petition, 25 pp.
5. HB 2947, Cannarella, Childcare Credit Giveaway or scare tactic? 4 pp.
6. HB 2947, Schoessler, The Neighborhood Partnership Fund, 2 pp.
7. HB 2947, Schoessler, Proposed Child Care Tax Credit Amendments, 6 pp.
8. HB 2947, Schoon, The First Break Program, 1 p.
9. HB 2947, Shetterly, First Break, 1 p.
10. HB 2947, Talbott, Oregon Employment Department, First Break Program Report, 8 pp.
11. HB 2947, Whitaker, Office of Rural Health, 13 pp.
12. HB 2947, CASA Community And Shelter Assistance Corp, Retain Farmworker Housing Tax Credit for Lenders, 1 p.
13. HB 2947, Weit, Oregon Developmental Disabilities Council, 2 pp.
14. HB 2947, Nelson, Dave Nelson & Associates, Inc., Statement in Ragard to HB 2947, 2 pp.

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