

**WORK SESSION: HB 2082-A, HB 3344-A, HB 2495-A**

**PUBLIC HEARING: HB 2248-A, HB 3595**

**TAPES 182, 183 A/B**

## **HOUSE REVENUE COMMITTEE**

**MAY 12, 1999 ñ 8:15 A.M. - HEARING ROOM A - STATE CAPITOL BUILDING**

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Members Present: Rep. Ken Strobeck, Chair

Rep. Anitra Rasmussen, Vice Chair

Rep. Jeff Merkley

Rep. Diane Rosenbaum

Rep. Lane Shetterly

Rep. Jim Welsh

Rep. Max Williams

Rep. Bill Witt

Members Excused: Rep. Deborah Kafoury

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: Bill Scott, Economic Development Department

Art Fish, Enterprise Zone Coordinator

Marge Kafoury, City of Portland

Terry Thatcher, City of Portland Attorney

Lynn McNamara, League of Oregon Cities

**TAPE 182, SIDE A**

009 Chair Strobeck Called meeting to order at 8:25 a.m. Opened public hearing HB2248-A. Relating to tax exemptions available to qualified business firms and enterprise zones.

**PUBLIC HEARING n HB 2248-A**

019 Bill Scott Spoke in support of the measure. See written testimony (**EXHIBIT 1**). House Commerce Committee made a number of amendments designed to expand application of long-term exemption to situations that will make the exemption more likely to be used.

Gave brief overview of changes beginning with three-to-five-year property tax exemption (see testimony, page 2 chart).

092 Scott Testimony, page 3, lists significant policy changes, which Dept. of Economic Development supports:

1. Expansion of uses to include corporate headquarters as well as manufacturing facilities
2. To include Sherman County among counties in which an enterprise zone may offer these incentives
3. Varies the threshold criteria for minimum investment and new hires and workers' pay
4. Allows separate, concurrent facilities of the same business firm to aggregate investments in more than one enterprise zone

155 Rep. Shetterly Questions concerning Revenue Impact Statement (undetermined impact).

160 Lizbeth Martin-Mahar Commented on Revenue Impact (**EXHIBIT 2**).

175 Scott Two ways to have a revenue impact from expanded enterprise zone:

1. Any local property tax break has some impact
2. Income tax exemption

186 Art Fish Does not have analysis of Coos Bay facility. Has analysis of effects of proposal in Riddle. Will get these numbers for committee.

236 Rep. Merkley Questions concerning changes in long-term rural tax incentives in relation to amount of hires or money invested.

238	Fish	<p>Directed members' attention to <b>EXHIBIT 6</b> page 2: A-Engrossed House Bill 2448 ñ Business Tax Incentives in Enterprise Zones Line-By-Line Explanation. Summarizes changes.</p> <p>Directed members' attention to EXHIBIT 8: County By County Implications of Alternatives to the Thresholds to Qualify Facilities For Long-Term Rural Enterprise Zone Tax Incentives.</p>
266	Rep. Rosenbaum	<p>Asked for explanation of conflicting language between summary and bill. Summary says 90% of customers must be outside Oregon. Bill says 90% have to be outside area of business.</p>
280	Scott	<p>Good point. In general, the philosophy of enterprise zone is to give benefit to businesses that are bringing new wealth into Oregon rather than providing tax relief to facilities within Oregon. Was not aware of discrepancy in language.</p>
297	Fish	<p>Language in bill has always referred to area code. Provision for geographical service ensures no direct competition.</p>
326	Rep. Rosenbaum	<p>Appears that the purpose is to prevent competition with businesses operating within the enterprise zone.</p>
335	Scott	<p>Theory involves relationship between producer and consumer. Supporting businesses that are producing for consumers outside Oregon. Most people who produce in Oregon for export have some customers in Oregon.</p>
417	Vice Chair Rasmussen	<p>Expressed concern that there are no revenue numbers for this bill. Time is critical because end of session is nearing. Urged witnesses to get the numbers to Legislative Revenue Office quickly.</p>
445	Chair Strobeck	<p>Closed public hearing on HB 2248-A. Opened public hearing on HB 3595.</p>

**TAPE 183, SIDE A**

**PUBLIC HEARING ñ HB 3595**

036	Marge Kafoury	<p>Spoke in opposition to the measure. HB 3595 was introduced to correct what is believed to be the unfair imposition of City of Portland's business license tax, on lawyers whose principle practice is outside Portland. Lawyers believe Portland is taking advantage of them with this tax because they have to use the courthouse. Explained how tax works. Minimum is \$100 per year. Net adjusted income earned in Portland would have to be more than \$5,000 per year to pay more than this.</p>
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078	Kafoury	Refuted claim that attorneys are being exploited. Premise that they are forced to pay tax because courthouse is located within Portland city limits. License fee was designed to level the playing field. Taxing only those located in Portland would create an unfair advantage over those who live in Portland. Attorneys are not the only ones who have to come to Portland to do some of their business.
108	Kafoury	Bill is poorly drafted and would create unintended consequences. Could open floodgates to challenges. Would result in substantial revenue loss.
130	Lynn McNamara	Spoke in opposition to the measure. Many cities have business license tax. See list, Cities Reporting "Business and Occupation Taxes, Licenses, Fees" on U.S. Census Annual City Fiscal Report, 1994-95 <b>EXHIBIT 14</b> . And city ordinances ( <b>EXHIBITS 12, 13</b> ). Bill is simple on its face, but could have significant consequences in long run. If more taxpayers were to be exempted, those who live in Portland would pay higher level of tax.
178	Rep. Witt	Believes there is a significant difference between these attorneys who have to go to courthouse to file papers, and other businesses
187	Terry Thatcher	Lawyers are businesspeople like anyone else, and don't deserve special exemption. Lawyers can decide not to be involved in litigation, so never go to the courthouse. Also, lawyers can choose to take a Portland client or not. If they do business in Portland and take advantage of city services, it is only fair to pay for those services.
229	Rep. Witt	Follow-up questions concerning difference between trial attorneys and other businesses.
247	Thatcher	Analogy of import/export businesses that must come to Port of Portland. They must pay the city tax. If this bill passes, the import/exporters will argue that they shouldn't have to pay. Tax currently is fair. If Portland makes exceptions, it will no longer be fair. Lawyers must play by the rules of everyone else.
288	Kafoury	The City of Portland was sued by another lawyer. Court found in favor of the City, upheld the tax.
298	Thatcher	Believes distinction is not significant enough to change the law. If bill is to be changed, suggested exempting only trial lawyers. City would be very concerned about this exemption.
321	Rep. Merkley	Questions concerning \$25,000 gross income test. If 100% of customers live in Portland, but if lawyer meets with them outside of Portland, he would never have to pay the tax. Follow-up questions concerning \$100 minimum fee. Pointed out, lawyers can gross a huge amount inside Portland and pay only \$100 tax.

379	Rep. Shetterly	If a lawyer comes into Portland courthouse to see a client, pays parking fee, does business in courthouse, eats lunch, then leaves. How is this different in impact on city services from simply driving into Portland with his family to eat?
411	Kafoury	Tax is based on creating level playing field, not on ancillary activities.
432	McNamara	Issue is not business in one day, it is the generation of income over the a period of time.

**TAPE 182, SIDE B**

024030	Thatcher	That could be one form of doing business. Business is essentially any activity for gain. Courts have made this distinction for decades.
046	Rep. Williams	Hypothetical case concerning \$25,000 threshold. If a firm performed five trials in Multnomah County Courthouse, each lasting a week, the fees would clearly exceed \$25,000. They have no choice but to go to Multnomah County.
066	Thatcher	Repeated analogy of an importer/exporter, others who have no choice.
095	Chair Strobeck	City of Portland doesn't appear to have a pro-business attitude in telling people not to come to Portland if they don't want to.
105	Kafoury	Portland's business tax is examined from time to time. The business community does the examining. They are very concerned about maintaining a positive business climate in downtown Portland.
135	Rep. Shetterly	Expressed doubt that this bill would have much fiscal impact.
164	Vice Chair Rasmussen	Would oppose this bill.
168	Rep. Witt	Would support this bill.
183	Rep. Shetterly	Likes this bill, but is troubled by narrowness of its scope. Suggested

conceptual amendment. Believes there should be interim discussion on the statewide impact of this bill.

206	Rep. Merkley	Tax only applies when an attorney earns more than \$25,000. Portland has resisted many special exceptions. If special exceptions begin now, it will create more. Issue should be discussed in interim. Premature for committee to make a decision.
235	Rep. Witt	It doesn't take long to reach \$25,000 threshold in attorney fees.
247	Rep. Welsh	Would support bill, although concurred with Rep. Shetterly.
258	Rep. Rosenbaum	This would impact many businesses. Would oppose bill.
271	Chair Strobeck	Discussed HB 3595-1 amendments, deletes hotel/motel ( <b>EXHIBIT 16</b> ).
299	Rep. Shetterly	The word is out, and Portland has to deal with this issue.
265	Chair Strobeck	Closed public hearing on HB 3595. Opened work session on HB 2495-A.

#### **WORK SESSION n HB 2495-A**

315	Ed Waters	Directed members' attention to Revenue Impact statement ( <b>EXHIBIT 18</b> ); and proposed nA3 amendments ( <b>EXHIBIT 19</b> ). Amendments lower income cap for eligibility to claim credit from \$50,000 to \$50,000. Move effective date to tax year 2000. Removes carry-forward provision for unused portions of credit. Reduces revenue impact.
338	Chair Strobeck	<b>MOVED nA3 AMENDMENTS TO HB 2495 BE ADOPTED. ASKED FOR OBJECTIONS TO ADOPTION OF nA3 AMENDMENTS INTO HB 2495. HEARING NO OBJECTIONS, THE CHAIR SO ORDERED.</b>
343	Chair Strobeck	<b>MOTION: MOVED HB 2495-A, AS AMENDED, TO THE HOUSE FLOOR WITH A DO PASS AS AMENDED RECOMMENDATION.</b>
348	Vice Chair Rasmussen	Will reluctantly oppose this bill due to need to know larger picture of balanced budget.

372 Rep. Witt House has been restrained in its tax breaks this session. Will support this bill, despite reservations about amendments.

395 Rep. Shetterly Will support bill, although expressed similar reservations as Vice Chair Rasmussen.

433 **VOTE**

**ROLL CALL VOTE: MOTION PASSES 6-2-1**

**REPRESENTATIVES VOTING AYE: MERKLEY, SHETTERLY, WELSH, WILLIAMS, WITT, CHAIR STROBECK**

**REPRESENTATIVES VOTING NAY: ROSENBAUM, VICE CHAIR RASMUSSEN**

**REPRESENTATIVES EXCUSED: KAFOURY**

**CHAIR STROBECK WILL CARRY THE BILL.**

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**TAPE 183, SIDE B**

019 Chair Strobeck Closed work session on HB 2495-A. Opened work session on HB 3344-A. Opened work session on HB 2082-A.

**WORK SESSION ñ HB 3344-A, HB 2082-A**

023 Richard Yates Continued discussion on HB 3344: ñA13 and ñA18 amendments (See May 11, exhibits 12 and 17).

-A13 amendments change recording dates in adjustment procedure. ñA18 amendments offer an alternative method.

051 Yates Section 82: Significant change. Question whether Oregon Dept. of Transportation (ODOT) can implement tax by Jan. 1, 2000. ODOT would prefer July 1, 2000.

075 Bob Russell Reviewed concerns about new cost allocation study as related to various rates charged to truck weights. Addressed ñA17 amendments that would increase gas tax by 17%. Shifts on cost allocation studies increase tax rates on small trucks and reduce tax rates on 80,000-pound trucks. Shifts burden onto lightest trucks and heaviest trucks.

Directed members' attention to Progress Report SPR Project 313 (**EXHIBIT 20**). Intent is to encourage additional axles under heaviest trucks. ñA17 amendments extend axle weight distance tax to 26,000 pounds. See paragraph 2: Axle weight distance tax has little impact. Incentive to add additional axles does not work. These amendments extend this tax, which does not work. OTA suggests take existing weight distance tax tables, adjust based upon cost responsibility differential between cars and trucks, increase based on gas tax increase. To do otherwise will raise havoc within trucking industry.

152	Russell	<p>Trucking industry supports the adjustment that makes differential between cars and trucks. OTA is uncomfortable with new methodology. Suggests the 80,000-pound trucks pay more than results would indicate. Does not disagree with overall results of cost allocation study, but it is not complete. OTA is reluctant to accept results of an incomplete study. Suggested continued study during interim.</p> <p>Discussion and questions interspersed.</p>
242	Yates	<p>It is important to think about why new highway cost allocation study results in a shift. There have been significant changes in how to go about estimating cost responsibility. Explained old and new methodologies.</p>
352	Russell	<p>Referred to May 11, exhibit 3 chart: Comparison of Current WMT Rates, Preliminary, and New Recommended Weight-Mile Tax Rates. The theory does not work in practice. It does not provide inducement to increase axles. This has no impact on highway fund, or on relationship between cars and trucks. Only impact is within trucking industry. By adopting new methodology and not knowing whether figures are correct would create havoc within trucking industry.</p>
387	Chair Strobeck	<p>Questions concerning chart.</p>
413	Russell	<p>This chart deals with revenue neutrality.</p>
419	Chair Strobeck	<p>Adjourned meeting at 10:12 a.m.</p>

Submitted by, Reviewed by,

Barbara J. Guardino Kim T. James

Committee Assistant Revenue Office Manager

Exhibit Summary:



1. HB 2248, Scott, Testimony Before House Revenue Committee, 4 pp.
2. HB 2248, Martin-Mahar, Revenue Impact of Proposed Legislation for HB 2248A, 2 pp.
3. HB 2248, Martin-Mahar, 2,009 Enterprise Zone Businesses, 6 pp.
4. HB 2248, Martin-Mahar, Legislative Fiscal Office Potential Impact statement, 1 p.
5. HB 2248, Scott/Fish, Oregon Enterprise Zones, 2 pp.
6. HB 2248, Scott/Fish, A-Engrossed House Bill 2248 ñ Business Tax Incentives in Enterprise Zones, 8 pp.
7. HB 2248, Scott/Fish, House Bill 2248 ñ Business Tax Incentives in Enterprise Zones, 4 pp.
8. HB 2248, Scott/Fish, County by County Implications of Alternatives to the Thresholds to Qualify Facilities for Long-Term Rural Enterprise Zone Tax Incentives, 3 pp.
9. HB 2248, Scott/Fish, Rural Oregonís Long-Term Tax Incentive, 2 pp.
10. HB 2248, Scott/Fish, Overview of Activity in Oregon Enterprise Zones (1998), 12 pp.
11. HB 2248, Scott/Fish, Oregon Enterprise Zones, 47 pp.
12. HB 3595, McNamara, Tigard Municipal Code, 5 pp.
13. HB 3595, McNamara, Beaverton Code, Chapter Seven: Licenses, Permits, and Business Regulation Business Tax, 4 pp.
14. HB 3595, McNamara, Cities Reporting "Business and Occupation Taxes, Licenses, Fees" on US Census Annual City Fiscal Report, 1994-95, 2 pp.
15. HB 3595, Weill, Troutdale law Firm letter to Chair Strobeck and Members of the Committee, 2 pp.
16. HB 3595, Waters, Proposed Amendments to House Bill 3595, 1 p.
17. HB 3595, Waters, Revenue Impact of Proposed Legislation, 1 p.
18. HB 2495, Waters, Revenue Impact of Proposed Legislation for HB 2495-A3 (revised), 1 p.
19. HB 2495, Waters, Proposed Amendments to A-Engrossed House Bill 2495, 1 p.
20. HB 3344, Russell, Progress Report SPR Project 313 (2/24/99), 3 pp.