

**WORK SESSION: SB 718, SB 245, HB 2670-A, SB 1275-A**

**PUBLIC HEARING & WORK SESSION: HB 2732**

**TAPES 205 A, 206 A**

## **HOUSE REVENUE COMMITTEE**

**JUNE 1, 1999 ã 8:15 A.M. - HEARING ROOM A - STATE CAPITOL BUILDING**

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Members Present: Rep. Ken Strobeck, Chair

Rep. Deborah Kafoury

Rep. Diane Rosenbaum

Rep. Lane Shetterly

Rep. Jim Welsh

Rep. Max Williams

Rep. Bill Witt

Members Excused: Rep. Jeff Merkley

Rep. Anitra Rasmussen, Vice Chair

Staff: Paul Warner, Legislative Revenue Officer

Lizbeth Martin-Mahar, Economist, Legislative Revenue Office

Steve Meyer, Economist, Legislative Revenue Office

Barbara Guardino, Committee Assistant

Witnesses: Kathy Thole, Grand Ronde

Paul Phillips, Nike, Inc.

Gary Odegaard, Nike, Inc.

**TAPE 205, SIDE A**

008 Chair Strobeck Called meeting to order at 8:25 a.m. Opened work session on SB 718. Exempts school districts from paying diesel fuel tax. -2 amendments add rural fire protection district to bill.

**WORK SESSION n SB 718**

020 Steve Meyer Directed membersi attention to SB 718n2 amendments (**EXHIBIT 1**) and SB 718n2 Revenue Impact Statement (**EXHIBIT 2**). Dept. of Transportation has withdrawn its request to be exempted from this tax.

025 Chair Strobeck **MOVED n2 AMENDMENTS TO SB 718 BE ADOPTED. ASKED FOR OBJECTIONS. HEARING NONE, CHAIR SO ORDERED.**

028 Chair Strobeck **MOTION: MOVED SB 718 AS AMENDED, TO THE HOUSE FLOOR WITH A DO PASS AS AMENDED RECOMMENDATION.**

031 Rep. Shetterly Will support bill with reluctance. Troubled with creating special exemption for fire districts and not other districts.

035 **VOTE**

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

**REPRESENTATIVES VOTING AYE: KAFOURY, ROSENBAUM, SHETTERLY, WELSH, WILLIAMS, CHAIR STROBECK**

**REPRESENTATIVES VOTING NAY: WITT**

**REPRESENTATIVES EXCUSED: MERKLEY, VICE CHAIR RASMUSSEN**

**REP. WILLIAMS WILL CARRY THE BILL.**

047 Chair Strobeck Closed work session on SB 718. Opened work session on SB 245.

**WORK SESSION n SB 245**

051 Chair Strobeck Noted, SB 245-1 amendments replace the entire bill and follows federal law in regard to tax exemption of Indian property.

062 Kathy Thole Spoke in opposition to the measure. Directed membersi attention to Cass County V. Leech Lake Band of Chippewa Indians (**EXHIBIT 6**).

Repeated request that committee either oppose this bill or use it to remove statute from the law. The ñ1 amendments accomplish removal of objectionable language.

084 Rep. Kafoury **MOVED ñ1 AMENDMENTS TO SB 245 BE ADOPTED.**

092 Martin-Mahar Amendments will not reflect change in existing law, will clarify it.

097 Rep. Shetterly Will vote for bill, although unsure purpose has been accomplished.

Chair Strobeck **ASKED FOR OBJECTIONS TO MOVING ñ1 AMENDMENTS INTO SB 245. HEARING NO OBJECTIONS, THE CHAIR SO ORDERED.**

110 Rep. Kafoury **MOTION: MOVED SB 245, AS AMENDED, TO THE HOUSE FLOOR WITH A DO PASS AS AMENDED RECOMMENDATION.**

114 Chair Strobeck **ASKED FOR ANY OBJECTIONS TO MOTION. HEARING NONE, THE CHAIR SO ORDERED. REP. KAFOURY WILL CARRY THE BILL.**

**REPRESENTATIVES PRESENT: KAFOURY, ROSENBAUM, SHETTERLY, WELSH, WILLIAMS, WITT, CHAIR STROBECK**

**REPRESENTATIVES EXCUSED: MERKLEY, VICE CHAIR RASMUSSEN**

117 Chair Strobeck Closed work session on SB 245. Opened work session on HB 2670-A.

#### **WORK SESSION ñ HB 2670-A**

123 Rep. Witt **MOTION: MOVED HB 2670-A TO HOUSE RULES, ELECTIONS, AND PUBLIC AFFAIRS WITHOUT RECOMMENDATION.**

125 Chair Strobeck **ASKED FOR ANY OBJECTIONS TO MOTION. HEARING NO OBJECTIONS, THE CHAIR SO ORDERED.**

127 Chair Strobeck Closed work session on HB 2670-A. Opened work session on SB 1275-A, allocation of corporate income, apportionment formula.

#### **WORK SESSION ñ SB 1275-A**

135	Chair Strobeck	Previously asked Mr. Warner to draft amendments to cover 80% sales factor with 10% remaining property and 10% remaining payroll. Believes 80% would be advantageous in relation to other states, while closing a loophole that might allow some companies to escape Oregon taxation.
155	Warner	Focus of discussion has been on economic development impact of allocation of corporate income. Other factors include linking allocation to income generation; reflecting benefits received by corporations; and uniformity. Goal is to have a system where states have the same allocation factors. A uniform formula would achieve this. Oregon is in a transition phase toward this.
204	Warner	Explained SB 1275-A4 amendments ( <b>EXHIBIT 8</b> ). Explained revenue impact, printout of Single Sales Phase-In ( <b>EXHIBIT 9</b> ). Revenue impact is based on 1995-97 corporate liability, apportioning it out. Effects are over-stated.
249	Rep. Witt	Have other states done studies on changing to single-weight revenues to see how development has led to additional revenues?
252	Warner	Some preliminary findings show there is some significant effect. No formal analysis, so results are tentative.
276	Paul Phillips	Concurred with Warner's comments. SB 1275-A phases in over five years at 10%. This bill is easily administered. Concerning A4 amendments, the 100% sales factor removes need for an audit on property and on personnel. Sales factor is easier way to do a check on audit. Additionally, support for this bill is broad. Oregon Tax Research (OTR) did a review on other states that have used this model (see May 27, exhibit 3). Bottom line is economic development: What is good for Oregon over the long-term? Bill addresses concerns of disincentive for reinvestment and uniformity. Nike is not trying to get out of paying taxes.
347	Chair Strobeck	Asked Mr. Odegaard to compare 80/10/10 model to 100% model.
349	Gary Odegaard	Single factor sales methodology treats all taxpayers the same. Corporations are subject to corporate income tax based on their access to Oregon's marketplace. Removes incentive to locate property and payroll in Oregon. There is no disincentive from a sales perspective. Price of a product remains the same throughout the states.
389	Phillips	Encouraged committee to adopt the 80% model and refer bill to Ways and Means. It will take two legislative sessions to phase in this bill entirely. Would prefer three-year phase-in period rather than five-years. Noted a recent study by University of Chicago on single factor sales model. Study predicted 3% jobs growth and \$200 million revenue growth over three years.
439	Rep. Welsh	How much slowdown would occur with the 80% model in three years? Follow-up

questions.

452 Phillips Other states are moving rapidly in direction of single factor. 80% version would help the economy, but not as quickly as states who use 100%.

**TAPE 206, SIDE A**

040 Chair Strobeck Cited Oregon Tax Research report Eight states located primarily in Midwest, have adopted an apportionment formula where sales factor is 60% or more. Four have adopted 100%.

065 Rep. Witt Oregon would be at an economic disadvantage not to take this approach. Would prefer 100% and oppose ñA4 amendments.

076 Rep. Welsh Concurred.

081 Chair Strobeck Any movement toward a greater emphasis on sales is positive. While Nike and larger companies would benefit, other businesses would be at a disadvantage because their corporate headquarters are out-of-state. The three-year, 80% version would give future legislators an opportunity to reevaluate this bill. Not comfortable to pass this not knowing what it will do to other companies. Intel received a penalty for excessive employee growth because of population control.

120 Rep. Witt Longview Fiber comes from a state without a corporate income tax. Nike is headquartered in Oregon. It is important to assure that locally headquartered businesses can compete. Will support bill as written.

138 Vice Chair Rasmussen Is uncomfortable with overall bill. Lawmakers are changing tax system without knowing how it will be financed. Governor has expressed concern in a letter that tax law changes could jeopardize school funding. Will oppose bill.

157 Rep. Merkley Expressed reservations about the bill. This is a form of sales tax. It could increase the price of products in Oregon. It has broad implications. Bill increases the problem of school funding. Oregon is not in a recession and the economy doesn't need help.

185 Rep. Shetterly Will support bill with or without ñA4 amendments. Disagreed with Rep. Merkley about the impact of the bill. Believes it will encourage continued economic growth. Noted Governor's letter and fact that this is not the only such legislation on the table. Encouraged committee to move this bill.

211 Chair Strobeck In response to Vice Chair Rasmussen's concerns, there is no bill that changes the entire tax system. Changes are always done incrementally. There will never be a point where every tax provision will be changed and a new tax system created. As the world and national

economy change, the state is changing course.

- 229 Vice Chair Rasmussen Refuted Chair Strobeck's comments, repeated concerns about moving away from balanced budget and adequate education funding. Expressed frustration that lawmakers don't seem to know how they are going to balance the budget.
- 254 Rep. Rosenbaum Does not believe Vice Chair Rasmussen meant that the legislature has to overhaul the entire tax system, it just needs a means to take a look at it. Also, revenue impact might be overstated, but is not neutral. Will oppose bill.
- 274 Rep. Witt Believes bill has a positive revenue impact. Oregon can't ignore changes being made to tax systems in other states and around the world. Oregon can't pretend these changes don't affect it. Sales is the factor upon which corporate income should be based.
- 297 Rep. Welsh Growth of industry and their contributions to Oregon has been phenomenal in last 10 years. Legislature must look at bigger picture for long-term gains. Will support 100% version of bill.
- 322 Chair Strobeck **MOVED -4 AMENDMENTS TO SB 1275-A BE ADOPTED.**
- 324 **VOTE** **ROLL CALL VOTE: MOTION PASSES 5-4-0**  
**REPRESENTATIVES VOTING AYE: KAFOURY, ROSENBAUM, SHETTERLY, WILLIAMS, CHAIR STROBECK**  
**REPRESENTATIVES VOTING NAY: MERKLEY, WELSH, WITT, VICE CHAIR RASMUSSEN**
- 336 Chair Strobeck **MOTION: MOVED SB 1275-A AS AMENDED, TO JOINT WAYS AND MEANS COMMITTEE WITH A DO PASS AS AMENDED RECOMMENDATION.**
- 338 Rep. Kafoury Uncomfortable with bill. It represents huge change to Oregon's tax system. Will support sending to Ways and Means for further discussion.
- 348 **VOTE** **ROLL CALL VOTE: MOTION PASSES 6-3-0**  
**REPRESENTATIVES VOTING AYE: KAFOURY, SHETTERLY, WELSH, WILLIAMS, WITT, CHAIR STROBECK**  
**REPRESENTATIVES VOTING NAY: MERKLEY, ROSENBAUM, VICE CHAIR RASMUSSEN**

361 Chair Strobeck Closed work session on SB 1275-A. Opened public hearing on HB 2732.

**PUBLIC HEARING n HB 2732**

374 Lizbeth Martin-Mahar Reviewed HB 2732. See Revenue Impact Statement (**EXHIBIT 10**). Allows real and personal property tax exemption for volunteer fire departments. Affects departments in Wasco and Deschutes counties. Revenue impact less than \$1,000.

408 Chair Strobeck Closed public hearing on HB 2732. Opened work session on HB 2732.

**WORK SESSION n HB 2732**

409 Vice Chair Rasmussen **MOTION: MOVED HB 2732 TO THE HOUSE FLOOR WITH A DO PASS RECOMMENDATION.**

416 Chair Strobeck **ASKED FOR ANY OBJECTIONS TO MOTION. HEARING NO OBJECTIONS, THE CHAIR SO ORDERED. REP. WESTLUND WILL CARRY THE BILL.**

**REPRESENTATIVES PRESENT: KAFOURY, MERKLEY, ROSENBAUM, SHETTERLY, WELSH, WILLIAMS, VICE CHAIR RASMUSSEN, CHAIR STROBECK**

**REPRESENTATIVES EXCUSED: WITT**

422 Chair Strobeck Closed work session on HB 2732. Adjourned meeting at 9:20 a.m.

Submitted by, Reviewed by,

Barbara J. Guardino Kim T. James

Committee Assistant Revenue Office Manager

Exhibit Summary:

1. SB 718, Meyer, Proposed Amendments to Senate Bill 718 (SB 718-2), 1 p.
2. SB 718, Meyer, Revenue Impact of Proposed Legislation for SB 718-2, 1 p.
3. SB 718, Meyer, Staff Measure Summary, 1 p.
4. SB 245, Martin-Mahar, Proposed Amendments to Senate Bill 245 (SB 245-1), 1 p.
5. SB 245, Martin-Mahar, Staff Measure Summary, 1 p.
6. SB 245, Thole, Supreme Court of the United States: Cass County, Minnesota, et al. V. Leech Lake Band of Chippewa Indians, 3 pp.

7. HB 2670, Meyer, Staff Measure Summary, 1 p.
8. SB 1275, Warner, Proposed Amendments to A-Engrossed Senate Bill 1275 (SB 1275-A4), 1 p.
9. SB 1275, Warner, Single Sales Phase-In chart, 1 p.
10. HB 2732, Martin-Mahar, Revenue Impact of Proposed Legislation, 1 p.