

**HOUSE COMMITTEE ON AGENCY OVERSIGHT AND EFFICIENCY**

April 8, 1997 Hearing Room H-170

1:00 P.M. Tapes 35-36

**MEMBERS PRESENT:**

Rep. Jane Lokan, Chair

Rep. Richard Devlin, Vice-Chair

Rep. Tom Brian

Rep. Ryan Deckert

Rep. Steve Harper

Rep. Eldon Johnson

Rep. Mike Lehman

**STAFF PRESENT:**

Judy Edstrom, Administrator

Valerie Luhr, Administrative Support

**MEASURE/ISSUES HEARD:**

HB 2017 Public Hearing

These minutes are in compliance with Senate and House Rules. Only text enclosed in quotation marks reports a speaker's exact words. For complete contents, please refer to the tapes.

Tape/#	Speaker	Comments
<b>TAPE 35, A</b>		
005	Chair Lokan	Calls the meeting to order at 1:08 p.m. Announces the day's agenda. Opens public hearing on HB 2017.
<b><u>HB 2017 PUBLIC HEARING</u></b>		
016	Judy Edstrom	Committee Administrator, reviews the provisions of HB 2017.
		District 7, submits and presents testimony [EXHIBIT A] in support of HB 2017. The bill will dismantle Oregon Economic Development

	Rep. Chuck Carpenter	Department (OEDD). Key programs will be salvaged and placed under control of Department of Consumer & Business Services (DCBS). Identifies which programs could be transferred. Can be funded by \$17.5 million. Elimination of OEDD would save \$55 million per biennium.
	Rep. Brian	Is it also your intention to eliminate the SPF&W and waste-water kinds of infrastructure systems and programs?
	Rep. Carpenter	Committee should hear out testimony before making decision.
120	Steve Buckstein	President, Cascade Policy Institute, submits and presents testimony. [EXHIBIT B] on the state's involvement in economic development.
	William B. Conerly	President, Conerly Whelan Inc., submits and presents testimony [EXHIBIT C] on economic development and a copy of his paper, <i>The Unseen Costs of Ribbon-Cutting: Losses From Economic Development Programs</i> [EXHIBIT D], written for Cascade Policy Institute.
265	Conerly	Continues testimony. Believes tax incentives are not necessary to encourage business.
310		Recommends returning money spent on economic development to the taxpayers. He encourages the legislature to review process that business start ups go through and identify ways to make government less of an obstruction. Getting government out of the way of entrepreneurs is more useful than subsidizing.
	Chair Lokan	Comments on Mr. Conerly's expertise and on tax incentives. Questions whether businesses such as Intel would have located in Oregon without the incentive.
	Conerly	Many high-tech businesses would be here anyway, but it is hard to tell to what extent they would be here without incentives. Eighty percent of jobs created go to out of state people. Limiting tax breaks to large businesses is unfair to small business.
384	Rep. Harper	You made a good point of leaving money in the pockets of the people; this is gambling money. How do we do that?
	Conerly	* Cut taxes elsewhere, return the kicker * Lottery is a tax; if you allow private sector gambling, would not have the profit margin.
TAPE 36 , A		
004	Rep. Lehman	Dredging harbors in his area is massive subsidy. If Conerly's logic is followed, small ports should clog up and shut down because private enterprise cannot afford to dredge.
	Conerly	The logic is why develop a harbor that needs to be dredged when there is an equal location that does not need dredging?
028	Rep. Brian	

		<b>Most of your (Conerly's) concerns regarding OEDD focused on interference with the private market. How do you feel about OEDD's involvement with infrastructure assistance to small towns and counties.</b>
	<b>Conerly</b>	<b>Not a free market in utilities. Mistake to spend too much money in discretionary programs that do not economically work. There needs to be a rational way to assess spending.</b>
	<b>Rep. Brian</b>	<b>Talks about need of small communities for economic assistance for needed projects.</b>
	<b>Conerly</b>	<b>Close to break even when you try to stimulate employment in areas where infrastructure is already established.</b>
<b>072</b>	<b>Rep. Deckert</b>	<b>Focus on the location of the plant in Hermiston. Plant would never have located there without the tax break. Was it not a wise investment? What happens to the people who live in such communities without the assistance?</b>
<b>082</b>	<b>Conerly</b>	<b>People involved with the project will say they need the investment. Not convinced we got a \$500,000 benefit.</b>
<b>095</b>	<b>Rep. Deckert</b>	<b>The investment revitalized the community.</b>
<b>107</b>	<b>Conerly</b>	<b>If it is a good place to locate, a company will do it.</b>
<b>129</b>	<b>Rep. Deckert</b>	<b>For example, if Washington is recruiting Wal-Mart, why does it not benefit Oregon to compete.</b>
<b>140</b>	<b>Conerly</b>	<b>Negligible value to Oregon if it is on Washington side.</b>
	<b>Rep. Johnson</b>	<b>Use of trucks brings in additional weight-mile tax, taxes on employee income, home construction, etc. Revenues the states will enjoy will far exceed the investment.</b>
<b>168</b>	<b>Conerly</b>	<b>The trucks will roll; wherever the distribution center is.</b>
	<b>Rep. Johnson</b>	<b>A great place to do business; low unemployment rate, money in reserves, workers' compensation rates are dropping, etc. We should be careful of subsidies we provide.</b>
	<b>Conerly</b>	<b>Business climate in Oregon is good.</b>
<b>201</b>	<b>Chair Lokan</b>	<b>Asks about his involvement in work groups.</b>
	<b>Conerly</b>	<b>Has had requests for background information, provided that in various meetings.</b>
<b>211</b>	<b>Vice-Chair Devlin</b>	<b>How do you differentiate between the OEDD investment in the locating of Wal-Mart in Hermiston and the Bull Run project to get water to communities in his area?</b>
<b>235</b>	<b>Conerly</b>	<b>We need to look for ways to gauge market demand.</b>
<b>250</b>	<b>Rep. Lehman</b>	<b>Do people have right to band together to tax themselves to provide service that can be done by private enterprise.</b>
	<b>Conerly</b>	<b>Does not mind voluntary associations.</b>
<b>260</b>		

	Rep. Lehman	As a state government should we prohibit any attempt by local citizens to band together and do anything that would compete with private enterprise?
	Conerly	Would counsel municipality not to tax themselves to bring in business.
	Rep. Lehman	City of Eugene passed an ordinance restricting ability of industry to come into the community due to toxic substance. Should local voters have right to do that?
	Conerly	Has not reviewed the toxic substance issue
280		Rep. Brian and Rep. Johnson leave at 1:57 p.m.
286	Dale Rubin	Former law professor, Willamette University, testifies on the constitutionality of government involvement in economic development. Cites sections of the Oregon Constitution that preclude granting of subsidies to private corporations. Submitted for the record, the article, <i>Corporate Welfare Violates Oregon Constitution</i> [EXHIBIT E], which reviews Rubin's report, <i>Public Subsidies, Private Gain: Stop Violating the Oregon Constitution.</i> "
370	Rubin	Continues testimony.
TAPE 35, B		
	Rubin	Continues testimony. The bill in question does not address the issue
	Chair Lokan	You are questioning the use of tax dollars to entice industry?
	Rubin	More rational approach to the granting of subsidies needs to be employed. For example, I do not think the Trail Blazers needed \$35 million to build a parking lot.
	Rep. Harper	If it is illegal, how have we gotten away with it?
	Rubin	Cites a Supreme Court decision in 1968 came up with a public purpose exception.
066	Vice-Chair Devlin	You are aware that a portion of parking receipts are paid back.
	Rubin	Supposedly; either through jobs or strategic investment programs. Interestingly, nobody looks back after five years to see how it came out.
078	Vice-Chair Devlin	For the record, that was a \$34 million public subsidy on a quarter of a billion dollar project.
085	Chair Lokan	Where do you see the role of the Economic Development Commission?
	Rubin	In the constitutional framework, does not see a role for the Economic Development Department. Does not oppose government involvement in some areas, such as infrastructure when it is not to benefit one entity. Is upset when governments grant huge subsidies to firms who leave the state in five or more years.
120		

	Rep. Deckert	Would like to see Oregon involved in infrastructure the same as other states.
	Rubin	Wonders why Oregonians want the state's economy but not the population to grow. If you have a good infrastructure and a good work force, companies will come.
166	Bill Scott	Director, Oregon Economic Development Department (OEDD), submits and presents information [EXHIBIT F] on the organization of OEDD. (Committee members were also given copies of the <i>Oregon Economic Development Commission Biennial Report 1995-1997</i> and <i>Oregon Economic Development Commission Getting It Right in Oregon</i> , February 1995.)
275	Scott	Continues presentation.
290		Should take a serious look before dismantling the department, and take a lot of time to decide which services you want to retain. Appeal to dismantle is theoretically based.
350		Uses Baker City as a case study for economic development.
TAPE 36, B		
001	Scott	Continues testimony on Baker City case study.
055	Scott	Continues testimony.
	Chair Lokan	Questions how long Scott was involved in Behlen Manufacturing.
	Scott	This was a three-year process. Will employ 100 people. State invested \$400,000 grant.
	Chair Lokan	Questions if staff time from OED is included in \$400,000 grant. Was told it was not. Wonders how much money would come back to state.
	Scott	Comments on grants. There is a calculation of increased tax revenues.
110	Chair Lokan	Refers to sheet of OEDD's programs. Asks what they think is their most successful and how would they define success.
	Scott	Uses company in Baker City as an example.
	Chair Lokan	Asks if he was to start OEDD from scratch right now, what would be first priority.
	Scott	Organization would be first, followed by regional industry and international development.
172	Chair Lokan	What two would you drop first if you found some didn't live up to expectations?
	Scott	Consolidate things rather than dropping them.
200	Chair Lokan	Asks which areas have asked for most assistance.
	Scott	Work more in the rural areas, especially where unemployment is high.
250		

	<b>Rep. Deckert</b>	<b>Declares if he had to decide what to drop first in OEDD, it would be industry development. Asks for response.</b>
	<b>Scott</b>	<b>Industry development would be first to save. Suggested consolidating Ports Division with Regional Development.</b>
<b>283</b>	<b>Chair Lokan</b>	<b>Asks if the state has to be involved in attracting companies when county, city, municipal, and private organizations already are doing these things.</b>
	<b>Scott</b>	<b>Suggests state sees its role as a wholesaler, not a retailer. State would supply the appropriate tools to help others attract industry.</b>
<b>318</b>	<b>Vice-Chair Devlin</b>	<b>Asks if committed dollars for regional development projects are beyond this biennium.</b>
	<b>Scott</b>	<b>New lottery resources being asked for, essentially have not been designated for a specific project.</b>
<b>344</b>	<b>Chair Lokan</b>	<b>Concludes the public testimony. Extends apologies to those who were unable to testify. Closes the public hearing on HB 2017. Declares the meeting adjourned at 2:57 p.m.</b>

Submitted by, Reviewed by,

**Valerie H. Luhr Brad Harper**

**Administrative Support Specialist Administrator**

Transcribed by,

**Gertie Webb**

**EXHIBIT SUMMARY**

**A - HB 2017, written testimony, Chuck Carpenter, 2 pp**

**B - HB 2017, written testimony, Steve Buckstein, 1 p.**

**C - HB 2017, written testimony, William Conerly, 3 pp.**

**D - HB 2017, written information, William Conerly, 4 pp.**

**E - HB 2017, written information, Dale F. Rubin, JD, 1 p.**

**F - HB 2017, written information, Bill Scott, 14 pp.**