

PUBLIC HEARING: HB 3734

WORK SESSION: RESCIND AND RE-PASS HJR 37, HB 2007

TAPES 209 A/B, 210 A

HOUSE REVENUE COMMITTEE

JUNE 10, 1997 8:30 AM HEARING ROOM A STATE CAPITOL BUILDING

MEMBERS PRESENT: Rep. Tom Brian, Chair

Rep. Lee Beyer, Vice-Chair

Rep. Tony Corcoran

Rep. Randall Edwards

Rep. Leslie Lewis

Rep. Anitra Rasmussen (Arrived 9:05 a.m.)

Rep. Lane Shetterly

Rep. Mark Simmons

Rep. Ken Strobeck

WITNESSES PRESENT: Tim Nesbitt, Oregon Public Employees Union

John Foster, Oregon Small Woodlands Assn.

Ilene Waldorf, Oregon Small Woodlands Assn.

Jim Manary, Department of Revenue

Ray Wilkeson, Oregon Forest Industries Council

Linc Cannon, Oregon Forest Industriars Council

STAFF PRESENT: Ed Waters, Economist

Dick Yates, Economist

Jim Scherzinger, Legislative Revenue Officer

Jim Scherzinger, Legislative Revenue Officer

Barbara Guardino, Committee Assistant

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012 Chair Brian Called meeting to order at 9:00 a.m.

WORK SESSION -- HB 2007

014 Chair Brian Requested suspension of rules in order to reconsider HB 2007 and HJR 37 for the purpose of rescinding subsequent referral to Ways and Means Committee.

Vice
019 Chair Beyer **MOTION TO RECONSIDER HB 2007 AS AMENDED IN ORDER TO RESCIND SUBSEQUENT REFERRAL TO WAYS & MEANS COMMITTEE.**

022 Chair Brian **ASKED FOR ANY OBJECTIONS TO RECONSIDERING HB 2007 IN ORDER TO RESCIND SUBSEQUENT REFERRAL TO WAYS & MEANS COMMITTEE. HEARING NO OBJECTION, CHAIR SO ORDERED.**

Vice
024 Chair Beyer **MOTION TO MOVE HB 2007 AS AMENDED TO THE FLOOR WITH A DO PASS RECOMMENDATION, AND TO RESCIND SUBSEQUENT REFERRAL TO WAYS& MEANS.**

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030 VOTE **IN A ROLL CALL VOTE, MEMBERS VOTING AYE: REPS. EDWARDS, SHETTERLY, SIMMONS, STROBECK; VICE CHAIR BEYER, CHAIR BRIAN.**

MEMBERS VOTING NO: REPS. CORCORAN, LEWIS

MEMBERS EXCUSED: REP. RASMUSSEN (*Refer to # 061 for Rep. Rasmussen's vote*)

MOTION CARRIED. HOUSE SPEAKER LUNDQUIST WILL LEAD DISCUSSION ON THE FLOOR.

WORK SESSION -- HJR 37

- 037 Vice Chair Beyer **MOTION TO RECONSIDER HJR 37 AS AMENDED IN ORDER TO RESCIND SUBSEQUENT REFERRAL TO WAYS & MEANS COMMITTEE. ASKED FOR ANY OBJECTIONS TO RECONSIDER HJR 37 AS AMENDED**
- 040 Chair Brian **IN ORDER TO RESCIND SUBSEQUENT REFERRAL TO WAYS & MEANS COMMITTEE. HEARING NO OBJECTION, CHAIR SO ORDERED.**
- 042 Vice Chair Beyer **MOTION TO MOVE HJR 37 AS AMENDED TO THE FLOOR WITH A DO PASS RECOMMENDATION, AND THAT SUBSEQUENT REFERRAL TO WAYS & MEANS BE RESCINDED.**

7 - 2

IN A ROLL CALL VOTE, MEMBERS VOTING AYE: REPS. EDWARDS, RASMUSSEN, SHETTERLY, SIMMONS, STROBECK; VICE CHAIR BEYER, CHAIR BRIAN.

050 VOTE

MEMBERS VOTING NO: REPS. CORCORAN, LEWIS

MOTION CARRIED. HOUSE SPEAKER LUNDQUIST WILL LEAD DISCUSSION ON THE FLOOR.

Closed work session on HJR 37. Requested unanimous consent to allow Rep. Rasmussen to vote on HB 2007.

059 Chair Brian

VOTE: AYE. FINAL VOTE FOR HB 2007: 7 - 2

061 Rep. Rasmussen

PUBLIC HEARING -- HB 3734

070 Chair Brian Opened public hearing on HB 3734.

072 Rep. Simmons For the record, will leave options open on the floor in regard to HB 2007 and HJR 37.

Tim Testimony on behalf of Oregon Public Employees Union in opposition HB 3734 in wake of M5 and M50 revenue reductions. Asked, what is the case for further revenue reductions to benefit a particular class of taxpayers? Can it be equity when all of property tax cuts since 1990 have gone to commercial/industrial property owners? Can it be equity when "C" (largest) corporations are reaping 2 to 3 times kicker refund as personal income tax payers? The effect of timber severance tax rate has been cut 36 % since 1990. "Show me a homeowner or a wage earner who has gotten tax breaks of

- Nesbitt that magnitude."
- 076 Questioned whether this tax break and other proposed tax breaks are affordable. Asked committee to consider if tax breaks of this magnitude are reasonable, and how counties and schools can absorb them. Asked committee to please reconsider further tax cuts. Asked committee to allow 1999 legislative assembly to take up matter.
- 120 Vice Chair Beyer Pointed out fairness doctrine, whether state can tax different entities in different manners.
- 122 Nesbitt In 1992, voters said "no" to split roll approach. Changes in severance taxes in last two sessions has provided a "me too" environment to timber industry.
- 139 Vice Chair Beyer Compared timberland to crop lands, where land only is valued. State taxes farmland, not the crop. Key policy question is, what is the fair way to tax?
- 148 Nesbitt Argued, timber has already gotten tax break from M50.
- 160 Rep. Shetterly Noted, world of property taxation has changed. Believes it is necessary to review taxing of forestlands in light of M50.
- 171 Rep. Corcoran If that is the case, farmlands should be taxed 100 % ad valorem. Asked, hasn't there already been a significant reduction in privilege tax?
Gave brief history of severance tax/privilege tax reduction, policy changes beginning in 1991 with M5. Phasing down process over five years.
- 194 Dick Yates Questions and discussion interspersed.
- 281 Rep. Edwards Asked Yates to describe how is tax calculated for forestland on ad valorem basis if trees are removed.
Complicated process, U.S. Supreme Court indexed trees according to timber price increases. 1993 legislature adopted values. Now, there is a seven-year rolling average.
- 286 Yates Refer to chart: "OFIC Proposal To Tax Forest Land" (EXHIBIT A)
Questions and discussion interspersed.
- 372 Rep. Rasmussen Asked, which counties will be most impacted by tax change?
- 375 Yates Can get that information.
- 391 All Questions and discussion.

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- 019 Yates Cautioned, under M50 there will be some tax shifts.
- 047 Yates Concerning page 1 of Exhibit A, assumes stumpage prices will remain flat for awhile. That produces strange result because property values will continue to increase even though based on flat stumpage prices.

Page 2, more typical situation, where prices for stumpage will increase by Consumer Price Index plus 1.8 %.

069 Rep.
Edwards

Asked, how much income tax has been collected in timber industry lately.

074 Yates

This would be difficult to figure out because most firms are diversified.

094 Rep.
Strobeck

Asked for clarification, 20 % deferral on value of land and 80 % was to match remaining value of land? Yes. Then, why is there lost revenue?

1993 legislature achieved a political solution. Substantially redistributed who will pay the tax. Currently those who are harvesting are paying most of the tax. With 100 % ad valorem tax, people will pay tax whether harvesting or not.

105 Yates

Severance taxes, as in -1 amendments, ends Jan. 1, 1999.

Questions and discussion interspersed.

136 Rep.
Rasmussen

Noted, 85 % of severance tax goes toward funding local schools. When this is reduced, base drops. Is reduction spread around other school districts, or does local school district take the impact?

144 Yates

Reduction would be spread throughout the state. Aim of authors of bill is to have impact in 1999-2001 biennium.

160 John Foster

Refer to written testimony verbatim (EXHIBIT B) in support of HB 3734-1 amendments. (Refer to June 9, 2 p.m. meeting, Exhibit A)

Issues concerning HB 3734 -1 amendments:

(Leaves current system in place including administration of severance tax; (approximately \$2 million) and funding mechanisms. Administrative costs come out of severance money. Yates' projection for 1999 is 0 severance tax money.

184

(Under current law, owners can elect by tax lot. Assumes under this program an election will be by tax lot. Owner can split property 80/20

(Asked attorney general for opinion whether this would violate M50 constitutional provision for a 3 % increase. Program in 1999 will create 400 % increase.

230 All

Questions and discussion.

332 Ray
Wilkeson

Refer to written testimony "Oregon Forest Industries Council" (EXHIBIT C) in support of HB 3734 -1 amendments.

Only adjustment is to clear up confusion about collection/distribution lag time, in terms of setting date for repeal of privilege tax to make it revenue neutral for 1997-99 biennium.

- 007 Wilkeson If small timber owners if go to 100 % ad valorem system, there will be a revenue impact. This indicates forestland owners are paying more than their fair share. They want to be taxed at same rate as everyone else.
- Oregon Forest Industries Industries Council would like to be part of comprehensive tax reform.
- 028 Linc Cannon Estimated average value of timber land per acre: \$400-500. (This does not include value of trees.)
- 035 All Questions and discussion.
- 071 Chair Brian Asked Wilkeson and Cannon to address predicted attorney general's opinion, if it says timber land owners cannot move to 100 %.
- 075 Wilkeson OFIC attorneys have concluded that a shift could be made without violating M50. Concerning revenue projection: In order to get revenue impact, revenue staff had to presume what would happen under M50, particularly way offsets are handled.
- 089 Cannon Estimated state revenue impact of less than \$20 million annually.
- 117 Vice Chair Beyer Asked, in terms of timing, if legislators implement this July 1, total assessed value in a district would be lowered, which would raise permanent tax rate for everyone else. 20 % would still be on the roll, and would be used to calculate permanent rate. When it went on roll at 100 %, that would be taxed at permanent rate. Concerning handling of severance tax, if offset is eliminated, it would generate higher calculation of rate.
- 128 Jim Scherzinger Higher levy would up to M5 cap be allowed in some cases, generally non-schools.
- Suggested changing date to pay out severance tax April 1 from Jan. 1. This will make it revenue neutral until next biennium. This amendment is being written.
- 168 Cannon Questions and discussion.
- 220 Chair Brian Recessed meeting at 10:07 a.m.

AFTERNOON CONTINUED MEETING CANCELLED.

Submitted by, Reviewed by,

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Barbara Guardino Kim James

Committee Assistant Revenue Office Manager

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EXHIBIT SUMMARY:

A. HB 3734, Yates, OFIC Proposal To Tax Forest Land, 2 pp.

B. HB 3734, Foster, Testimony on HB 3734 Before the House Revenue Committee, 1 p.

C. HB 3734, Wilkeson, Testimony on HB 3734 -1 Ray Wilkeson -- Oregon Forest Industries Council, 3 pp.