

Work Session: HB 2500A
Tapes 124-125 A/B
126 -127 A/B

HOUSE COMMITTEE ON
HOUSE REVENUE AND SCHOOL
FINANCE
PROPERTY TAX SUBCOMMITTEE

JULY 7, 1993 7:30 AM REARING ROOM A STATE CAPITOL BUILDING

Members Present: Representative Tom Brian, Chair

Representative Mike Burton

Representative Margaret Carter

Representative Fred Girod

Representative Delna Jones

Representative Jim Whitty

Witnesses Present: Denise McPhail, Portland

General Electric

Tom Gallagher, Gunderson

Lana Butterfield, Northwest Propane Gas

Association

Mike Meredith, Oregon Trucking Association

John Power, Northwest Automatic Vending

Association

B.J. Smith, League of Oregon Cities

Tom O'Connor, Oregon Municipal Electric

Utilities

Marge Kafoury, City of Portland

John Brenneman, Manufactured Housing

Communities of Oregon

George Richardson, Northwest Natural Gas

John Powell, Central Lincoln PUD

Staff: James Scherzinger, Legislative Revenue Officer

Terry Drake, Legislative Revenue Office

Steve Meyer, Legislative Revenue Office

Paula McBride, Committee Assistant

TAPE 124 SIDE A

005 CHAIR BRIAN called the meeting to order at 7:46.

006 CHAIR BRIAN opened the Work Session on HB 2500A, and he asked for testimony about additional exemptions from the audience.

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These minutes paraphrase and/or summarize statements made during this meeting. Text enclosed in quotation marks reports the speaker's exact words. For complete context of proceedings, please refer to the tape recording.

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019 STEVE BENDER responded to previous questions on exemptions by referencing a handout entitled "Revenue Impacts of Various Exemptions." He first spoke about "soft drinks." He related that vending machine sales were taxable in HB 2500A and would require an additional exemption. Exhibit 1

044 CHAIR BRIAN clarified that all the items on the handout were currently taxable in HB 2500A, except the item "government utility purchases."

050 STEVE BENDER continued his explanation of the revenue impacts of the exemptions listed on the handout. Exhibit 1
Questions and discussion

065 STEVE BENDER talked about the "full government exemption" and its revenue impact. He proceeded to discuss the rest of the items on his list of possible exemptions. Exhibit 1
Questions and discussion

096 STEVE BENDER mentioned what items on his list were taxed under the California sales tax. Exhibit 1

123 STEVE BENDER related that coffee beans would be exempted from HB 2500A, but coffee sold in a cup was taxable.

Discussion

158 CHAIR BRIAN believed decisions could be made on some of the amendments, and he asked the members to engage in discussion. He began with HB 2500-A6 (see Exhibit 12, 7/6/93).

167 STEVE BENDER discussed the amendments HB 2500-A6, which would remove the exemption on government utilities. Although the services themselves would not be taxed, the members must decide whether or not to tax the purchases of the government units providing the services. He explained what purchases were exempted in HB 2500A, and the amendment HB 2500-A6 would eliminate all exemptions for these utilities, unless covered in other areas of the bill. This would increase the sales tax collection by about \$~.85 million in the 1995-97 biennium.

Questions and discussion

199 STEVE BENDER related that the amendments HB 2500-A6 would

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apply to leasing as well as ownership.

212 DENISE MCPHAIL gave the members some figures that would represent the amount of money her organization would pay if the sales tax were implemented, which was about \$21 million annually. She also provided some information about government units that provide utility services in the state.

Discussion

234 Members discussed the amendment HB 2500-A6.

263 DENISE MCPHAIL discussed the two main motivations for her organization's support of the HB 2500-A6 amendments.

Questions and discussion

294 MOTION REP. GIROD moved to adopt the amendments HB 2500-A6 to HB 2500A.

NO DISCUSSION

301 ORDER There being no objection, CHAIR BRIAN so ordered.

Questions and discussion

326 CHAIR BRIAN raised the issue of the amendment for coal, HB 2500A25 (see Exhibit 7, 7/6/93).

330 STEVE BENDER related that the revenue impact for adding an exemption to

the sales tax on coal was a negative \$1.2 million for the biennium, and he informed members why he would probably be adjusting this figure.

Discussion

360 DENISE MCPHAIL thought the total coal purchase figure in 1993, from Wyoming, Utah, and Montana, would be \$13.9 million, Utah and Montana. She thought coal was the only source for generating electricity that was not exempted in HB 2500A.

Questions and discussion

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414 MOTION REP. CARTER moved to adopt the amendments HB 2500-A25 to HB 2500.

NO DISCUSSION

417 ORDER There being no objection, CHAIR BRIAN so ordered.

422 CHAIR BRIAN related that HB 2500-A26 had been requested by the Oregon Dental Association (see Exhibit 5, 7/6/93).

429 STEVE BENDER said HB 2500-A26 would replace existing language in HB 2500A on the exemption on oral prosthetic appliances and dentures. The amendments would not extend the exemption but merely qualify the exemption.

TAPE 125 SIDE A

002 STEVE BENDER continued his explanation of the amendments HB 2500-A26, and said the revenue impact was negligible.

021 MOTION REP. CARTER moved to adopt the amendments HB 2500-A26 to HB 2500A.

NO DISCUSSION

023 ORDER There being no objection, CHAIR BRIAN so ordered.

027 REP. GIROD asked members to consider the amendments HB 2500-A2 (see Exhibit 8, 7/6/93).

028 STEVE BENDER explained HB 2500-A2, related to "cargo containers and rack systems for use in interstate or foreign commerce." He read the items that would be exempted under these amendments. He thought the exemption would apply to one item only, used by an Oregon company that had testified in support of the exemption.

Questions and discussion

107 TOM GALLAGHER said the phrase "related equipment" in HB 2500A2 were from Legislative Counsel and did not, to the best of his

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knowledge, relate to actual equipment. Additionally, he clarified the need for an exemption for the particular items in HB 2500-A2.

Questions and discussion

137 STEVE BENDER said anything that would be produced in Oregon to be sold out-of-state would be exempt under HB 2500A. The issue was if the equipment was taxed or exempt if sold in the State. HB 2500-A2 would exempt this particular equipment sold in Oregon.

148 TOM GALLAGHER related that the equipment exempted in HB 2500A2 was put on the market only this year. He discussed the two ways his company would distribute the equipment -either by outright sales to another transportation company or outright sales to a leasing company.

Questions and discussion

280 MOTION REP. CARTER moved to adopt the amendments HB 2500-A2 to HB 2500A.

DISCUSSION

281 REP. BRIAN stressed that acceptance of the amendments HB 2500A2 would be with the understanding that Legislative Counsel will check the language "and related equipment" to make the amendments as narrow as possible.

286 ORDER There being no objection, CHAIR BRIAN so ordered.

291 REP. GIROD suggested discussing HB 2500-A17 (see Exhibit 6, 7/6/93) -

280 STEVE BENDER related that the amendments HB 2500-A17, related to liquid petroleum gas, would amend language in the utilities exemption (Section 203) of HB 2500A. There was a complete exemption for utilities for all purposes in that section, and he read the original language in HB 2500A. Liquid petroleum gas would be exempt only if being delivered through pipes from some source, and the amendments would expand this.

310 LANA BUTTERFIELD explained the changes in language she had requested regarding liquid petroleum gas in Section 203, and why

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her organization was asking for the amendments HB 2500-17.

Questions and discussion

361 MOTION REP. CARTER moved to adopt the amendments HB 2500-A17 to HB 2500A, with the following change in language: Move the words "liquid petroleum tax as described under ORS...." to Line 2 of HB 2500-A17.

NO DISCUSSION

371 ORDER There being no objection, CHAIR BRIAN so ordered.

381 CHAIR BRIAN asked members if they wanted to consider the amendments HB 2500-A7 (see Exhibit 9, 7/6/93).

Discussion

391 STEVE BENDER explained the amendments HB 2500-A7, related to an exemption for meals served on airlines. Under HB 2500A, meals that would be served would be taxable. He discussed provisions of the proposed exemption. Questions and discussion

TAPE 124 SIDE B

002 Questions and discussion continued about the amendments HB 2500A7.

021 CHAIR BRIAN announced that the members did not wish to move the amendments HB 2500-A7.

022 REP. WHITTY asked members to consider the amendments HB 2500A10 (see Exhibit 3, 7/6/93).

030 STEVE BENDER explained the exemptions for "durable medical equipment" that were part of HB 2500-A10, and he related what language these amendments would replace in the bill.

052 REP. WHITTY believed it had been requested that "hospital-type

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beds" be added to the amendments HB 2500-A10.

Discussion

059 STEVE BENDER further explained the language in HB 2500-A10, which he believed included "hospital-type beds" in concept.

Questions and discussion

090 MOTION REP. WHITTY moved the conceptual amendment to HB 2500-A10 that would add "hospital-type beds" to the language in Section 2a of the amendments HB 2500-A10, and to adopt the amendments HB 2500-A10 to HB 2500A.

DISCUSSION

106 ORDER There being no objection, CHAIR BRIAN so ordered.

103 CHAIR BRIAN asked members to discuss the amendments HB 2500A8. Exhibit 2.

109 STEVE BENDER said HB 2500-A8 would change the definition of gross receipts that were taxable in the case of manufactured housing or structures. The amounts excluded would be the amounts of subsidies received by the manufacturer for "meeting manufacturing housing acquisition program technical specifications for energy efficiency."

Questions and discussion

128 STEVE BENDER explained the "special treatment" for manufactured housing that existed in HB 2500A.

Questions and discussion

138 CHAIR BRIAN said HB 2500-A8 would be reconsidered later.

132 CHAIR BRIAN asked members to consider the amendments HB 2500A12 (see Exhibit 4, 7/6/93).

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141 STEVE BENDER did not have a revenue impact for the amendments HB 2500-A12, but he thought it would be substantial. He read language in HB 2500A, Section 227, that already exempted "articles sold or used to modify a vehicle for a person with physical disabilities." However, the base vehicle would not be exempt, only the modifications to the vehicle. He explained how the amendments HB 2500-A12 would change the bill.

Discussion

171 CHAIR BRIAN noted that there was no support among the members on the amendments HB 2500-A12.

182 CHAIR BRIAN determined that the amendments HB 2500-A14 would be considered with HB 2500-A1 (not yet introduced). Exhibit 3

Discussion

198 CHAIR BRIAN believed that any discussion of "ingredients and materials" used in manufacturing was mainly contained in the amendments HB 2500-A1. He wanted to consider the other amendments before addressing HB 2500-A1.

Discussion

214 STEVE BENDER related that the amendments HB 2500-A18 would not be exempt under existing language in HB 2500A because they were not items that became a part of a final product. He gave examples of these items. Exhibit 4

Questions and discussion

245 REP. BRIAN thought that HB 2500-A18 should be discussed with the "ingredients and materials" exemption in HB 2500-A1 (not yet introduced).

246 CHAIR BRIAN asked members to consider HB 2500-A20 amendments (see Exhibit 10, 7/6/93).

249 STEVE BENDER explained the amendments HB 2500-A20, which would expand the existing exemption for motor vehicles and trailers being used in interstate or foreign commerce by a "common carrier" to a "private company."

Questions and discussion

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318 STEVE BENDER responded that there was already language in HB 2500A that included leased and rented vehicles in the concept "use;" therefore, additional language did not have to be added to HB 2500-A20.

Discussion

362 MIKE MEREDITH clarified some issues for the members centering on the amendments HB 2500-A20. He stressed that to qualify for this exemption, the carrier would have to qualify for interstate authority and use it principally in his/her business. The intent of the amendment was to bring Oregon into line, if the sales tax passed, with Washington and California, except for the provision to include "motor private carriers." He explained why his industry had asked for this provision.

Questions and discussion

394 MOTION REP. WHITTY moved to adopt
the

amendments HB 2500-A20 to
HB 2500A.

NO DISCUSSION

377 ORDER There being no objection,

CHAIR

BRIAN so ordered.

402 CHAIR BRIAN asked members to consider HB 2500-A21 (see Exhibit 13,
7/6/93).

404 STEVE BENDER explained the exemption in the amendments HB 2500-A21 for
"state instrumentalities." He discussed related language in HB 2500A and
language that would change in Section 35 because of the amendments.

TAPE 125 SIDE B

002 STEVE BENDER continued his explanation of HB 2500-OA21, explained that
in these amendments "state instrumentalities" referred to "state chartered
credit unions" and were requested because "federally-chartered credit
unions" cannot be subject to any state sales tax.

Questions and discussion

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048 MOTION REP. BURTON moved to adopt the
amendments HB 2500-A21 to
HB 2500A.

NO DISCUSSION

050 ORDER There being no objection, CHAIR

BRIAN so ordered.

054 Discussion continued concerning the amendments HB 2500-A21.

068 CHAIR BRIAN informed members that he had received a request to add
language to Section 197 of HB 2500A, as follows: The word "ophthalmologist"
would be added.

079 STEVE BENDER believed that this issue might be covered in Section 189
of HB 2500A, which provides an exemption for devices prescribed by a
"practitioner." The term "practitioner" would include an "ophthalmologist."
Questions and discussion

103 STEVE BENDER further clarified the language in Section 197,
specifically related to the term "practitioner," defined in the Oregon
Revised Statutes (ORS) which includes a medical doctor (an ophthalmologist
in this case).

Discussion

155 MOTION REP. BURTON moved to amend
HB 2500A, Section 197, by adding
the word "ophthalmologist."

DISCUSSION

161 ORDER There being no objection, CHAIR

BRIAN so ordered.

163 REP. WHITTY raised the issue of applying the sales tax to vending
machine sales, contained in the amendments HB 2500-A16 (see Exhibit 2,
7/6/93). He believed the amendment was not an exemption request, but rather
an effort to tax vending machine sales at 50% of the gross receipts.

California taxed vending machines at 33% and Washington taxed at 6% (see Exhibit 2, 7/6/93).

Discussion

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206 STEVE BENDER said that in HB 2500A as introduced, vending machine sales of food were taxable, and the amendments HB 2500-A16 would exempt half the sales from vending machines of food products from sales. The relevant section was Section 163b. Hot prepared food products, such as soups, would continue to be taxed at 100 %

Questions and discussion

268 STEVE BENDER related that subsection (2) of HB 2500-A16 was more relevant than subsection (1), which would apply to almost nothing. He went through the language in subsection (2).

299 JOHN POWER explained the difficulty of vending machine companies "recouping" the sales tax imposed on vending machines in other areas. He talked about how other states applied their sales tax to vending machines, and about competition between his operators with "convenience stores."

Questions and discussion

416 CHAIR BRIAN said the amendments HB 2500-A16 possibly would be amended by removing lines 9 (after the words "bakery items") and line 10 (up to the words "is not a hot prepared food product") from page 2, after the word "product."

427 Questions and discussion about the applying the sales tax to "bakery" items in HB 2500-A16.

TAPE 126 SIDE A

002 Questions and discussion continued about the application of the sales tax to "bakery" items.

025 STEVE BENDER clarified the circumstances of when the sales tax would be applicable to "bakery" items.

Questions and discussion

055 STEVE BENDER further clarified how "bakery" items would be taxed in by HB 2500A.

Members suggested language changes for HB 2500A16.

087 STEVE BENDER summarized members' suggestions for proposed language changes to HB 2500-A16, as follows: On page 2, line 9,

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delete everything after the period and delete line 10; on line 8, delete the word "or" after "consomme", add a comma, and after the word "soup" add "or hot beverage." He read the paragraph with the language changes.

104 MOTION REP. GIROD moved to conceptually amend HB 2500-A16, as follows:
(see meter 87 above for the conceptual language).

NO DISCUSSION

106 ORDER There being no objection, CHAIR BRIAN so ordered.

112 JOHN POWER asked members to consider that many "soft-drinks" go through vending machines.

116 MOTION REP. GIROD moved to adopt the amendments HB 2500-A16, as conceptually amended, to HB 2500A.

NO DISCUSSION

117 ORDER There being no objection, CHAIR BRIAN so ordered.

121 CHAIR BRIAN asked members to consider the amendments HB 2500A23 (see Exhibit 11, 7/6/93).

126 STEVE BENDER explained the issue contained in HB 2500-A23, requested by the Port of Portland, related to "dry docks." These amendments would add a new subsection to Section 125 of HB 2500A.

Questions and discussion

176 STEVE BENDER said HB 2500-A23 would fall into the "enterprise category," and the language in HB 2500 would create a tax applied to the purposes by the Port of Portland for their operations. The amendments HB 2500-A22 would exempt those purchases, but HB 2500A22 could not replace HB 2500-A23 because of the leasing issue in HB 2500-A23. Exhibit 5
Discussion

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210 CHAIR BRIAN asked members to consider HB 2500-A22. Exhibit 5

212 STEVE BENDER explained the amendments HB 2500-A22, requested by the League of Oregon Cities and the Association of Oregon Counties. The amendments would expand the exemption on government purchases to all state and local government purchases used for the "conduct of government of functions." He related that passage of this amendment would override the amendments HB 2500-A6 that the Subcommittee passed earlier in the hearing, which he explained this. (STEVE BENDER mistakenly referenced the amendments HB 2500A8, when he meant HB 2500-A6.) Exhibit 5

Questions and
discussion

268 STEVE BENDER talked about the revenue impact of HB 2500A22,
specifically the three sources of that \$60 million impact. Exhibit 5

Questions and
discussion

328 STEVE BENDER related that the organizations representing the cities and
counties have requested the removal of subsection 2 in HB 2500-A22, and he
explained the reason for this. Exhibit 5

342 Members and staff discussed the items to which HB 2500A22 would or
would not apply, and about how to progress with these amendments. Relevant
language in HB 2500A was also explored. Exhibit 5

TAPE 127 SIDE A

002 Members and staff continued their discussion of HB 2500A22 and the
relevant provisions of HB 2500A. Exhibit 5

116 STEVE BENDER related that the revenue impact of \$60 million was based
on the assumption that subsection 2 was already removed from the bill. He
reiterated the three sources of the revenue impact of the proposed
amendments HB 2500-A22 (see meter 268 above). Exhibit 5

138 B.J. SMITH addressed the issue of how the exemptions in HB 2500-A22
would "be managed administratively." She explained three models of
management. Exhibit 5

Questions and
discussion

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194 STEVE BENDER explained the table he had written on the white board,
related to "two sets of amendments" discussed during the present hearing
compared with the original HB 2500 (amendments HB 2500-A22 and HB 2500-A6).
Exhibits 5 and 6

Questions and
discussion

264 CHAIR BRIAN asked members to discuss the potential effects of HB
2500-A6 (already adopted by the Subcommittee) which exempted the purchases
of government utilities (see Exhibit 12, 7/6/93).

Discussion

356 B.J. SMITH explained when the exemption would be applicable to cities
and counties.

339 TOM O'CONNOR related that his association represented the eleven
city-owned, city-chartered electric and water utilities in Oregon. He said
the effect of the "PGE amendment" (HB 2500-A6) was to single out the
individual utility as different from the rest of the city bureaus in the
way their purchases would be treated. He thought was not "sensible," and
that the amendments HB 2500-A6 were not necessary.

Questions and
discussion

TAPE 126 SIDE B

002 Questions and discussion continued with TOM O'CONNOR.

016 MARGE KAFOURY amplified on information already given on Portland

utility bureaus, and the effect of the amendments HB 2500A6, which she thought would create an "administrative nightmare."

Discussion

042 CHAIR BRIAN stressed that the primary rationale behind HB 2500-A6 was the "leveling of the playing field between private and public competition in the area of utilities." He thought there were not private sewer or water delivery systems in Oregon.

058 CHAIR BRIAN recessed the meeting at 10:34 and reconvened at 11:27. He conducted administrative business.

079 CHAIR BRIAN reminded members they had been discussing the

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amendments HB 2500-A6 and HB 2500-A22, and he recapped relevant issues.

Exhibit 5

Discussion

100 JOHN BRENNEMAN discussed private water systems used by members of his organization in Oregon, but he didn't have a full accounting.

Questions and

discussion

137 CHAIR BRIAN cited statistics from a "1991 Oregon Utility Statistics" published by the Public Utility Commission (PUC), which stated there were "104 verified investor-owner water utilities" in Oregon.

Questions and

discussion

160 STEVE BENDER reminded members that the issue was not the taxation of the sale of the water, which was exempt from the sales tax in HB 2500; rather, the issue was the taxation of inputs that the utility purchased (e.g., office supplies, equipment).

Questions and

discussion

211 STEVE BENDER talked about possible ramifications of "exempting all purchases of properties for utilities," and he asked if members wanted to extend the exemption to purchase of pharmaceutical companies. He thought the exemption in HB 2500-A22 was much broader than members realized.

Exhibit 5

Questions and

discussion

246 CHAIR BRIAN believed that the members could not "venture into exempting purchases of all utilities" because of the major revenue impact that would have.

Discussion

283 DENISE MCPHAIL responded to the question of whether or not public utility districts compete with private utility districts (PUD's). She thought the private utility districts should be taxed the same as the public ones. She referred to a suggested language change in subsection (4) of HB 2500-A22, which would "take care of POE's concern about our competitors not paying taxes that we would be required to pay under HB 2500." Exhibit 5

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Questions and
discussion

369 TOM O'CONNOR said he didn't represent PUD's, but "cityowned electric utilities." He believed the amendment proposed by PGE to HB 2500-A22 would make PUD's ineligible for the exemption on the taxation of goods purchased. He talked about what he saw as the rationale for the amendment, and stated that the City of Portland Water Bureau would be covered under the basic exemption, as would any other joint water board in Oregon.

412 GEORGE RICHARDSON discussed a situation with Springfield Municipal, where "they are contemplating the take over or condemnation of our natural gas distribution system and then providing customers in their area with natural gas." He did not know what the proposed PGE amendment would cover.

426 DENISE MCPHAIL believed that Springfield Municipal "would become a taxing entity on its purchases" if the PGE amendment were incorporated into HB 2500-A22.

Questions and
discussion

TAPE 127 SIDE B

008 REP. GIROD suggested language changes for the amendments HB 2500-A22.

019 JOHN POWELL said he supported HB 2500-A2 as long as it was a broad amendment, but that he would have trouble with it if it was narrowed to where only a few PUD's "would come under the tax policy." He clarified that the PUC does not regular PUD's, which were governed by an elected board of directors. He talked about influences that will increase the rates of PUD's, and the motivate of PUD's to provide electrical services in Oregon.

Questions and
discussion

044 JOHN POWELL believed the original intention of HB 2500A22 was "to apply the tax policy to all public agencies providing utility services," and that PGE was proposing that it be narrowed "so that it would appear to effect a very limited number of those public agencies."

053 CHAIR BRIAN conducted administrative business.

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071 CHAIR BRIAN recessed the meeting at 11:59.

PLEASE NOTE: THE MEETING WILL RECONVENE AT 2:30 THIS AFTERNOON,
BUT THAT PART OF THE HEARING WILL BE RECORDED IN A DIFFERENT SET
OF
MINUTES AND WITH DIFFERENT TAPES"

Paula K. McBride, Committee Assistant

Kimberly Taylor James, Office Manager

EXHIBIT SUMMARY

1. Revenue Impacts of Various Exemptions, 7/6/93, Steve Bender, Legislative Revenue Office.
2. HB 2500-A2, Steve Bender, Legislative Revenue Office.
3. HB 2500-A14, Steve Bender, Legislative Revenue Office.
4. HB 2500-A18, Steve Bender, Legislative Revenue Office.
5. HB 2500-A22, Steve Bender, Legislative Revenue Office.
6. Proposed amendments related to government expenditures, material written on white board by Steve Bender, Legislative Revenue Office.

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Work Session: B2500 Sales Tax Elements of Tax Package Tapes 128129 A/B
130 A
HOUSE COMMITTEE ON
REVENUE AND SCHOOL FINANCE
PROPERTY TAX
SUBCOMMITTEE

JULY 7, 1993 2:30 PM HEARING ROOM A STATE CAPITOL BUILDING

Members Present: Representative Tom Brian, Chair
Representative Mike Burton
Representative Margaret Carter
Representative Fred Girod
Representative Jim Whitty

Witnesses Present: Keith Burnes, Container Recovery Inc. and Valley Wine
Alan Willis, Port of Portland
Mark Nelson, Anheuser-Busch Co., Miller Brewing Co., and Adolph Coors Co.
Don Miner, Oregon Manufactured Housing Assoc.
Fred VanNatta, Oregon State Home Builders Assoc.
Denise McPhail, Portland General Electric (POE)
Diane Cowan, Oregon Public Utilities District Assoc.
Jim Manary, Department of Revenue (DOR)
David Nelson, The New Portland Meadows
Mike Dewey, Multnomah Kennel Club
Ed Patterson, Oregon Association of Hospitals
Staff: James Scherzinger, Legislative Revenue Officer
Steve Bender, Legislative Revenue Office
Mary Gottlieb, Committee Assistant

(Continued from morning meeting, Tapes 124-127)

TAPE 128 SIDE A

004 REP. WHITTY, Acting Chair, reconvened the meeting at 2:42.
007 REP. WHITTY opened the work session on HB 2500.
008 KEITH BURNS testified that in Section 92, page 29, line 27, container deposits are exempt from the sales tax. When the container is returned, the deposit is refunded with no sales tax.

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He clarified the fact that the excise tax on wine (adopted 1992) is the same as the sales tax, which means that wine will have a double tax. At the present time, the wine tax in Oregon equals the national average. He stated that the wine industry should not be burdened with anymore tax.

Discussion on the sale of beverages.

094 REP. WHITTY brought the committee's attention to the dry-dock exemption amendment HB 2500-23 (Exhibit 22, July 6, 1993).

114 ALAN WILLIS stated that he would like to suggest two changes to the HB 2500-23 amendment: 1) insert "a dry dock, crane, and other equipment," then strike "both only," and 2) instead of "if leased" put "if used." He feels that the amendment, as it stands, is too narrow.

Discussion concerning the Port of Portland and the type of equipment used.

230 ALAN WILLIS responded to a question by REP. CARTER by stating the customers pay the contractors and then the contractors pay the Port of Portland for the use of the facilities. The Port also enjoys international business. However, by adding another charge, the shipyard could become non

competitive.

Discussion and questions.

331 MOTION REP. CARTER moved to conceptually
adopt amendment HB 2500-23 amendment
with necessary corrections.

340 ORDER Hearing no objections, REP. WHITTY
so ordered.

371 MARK NELSON stated that the beer industry is not looking for an exemption to the sales tax. The beer industry estimates that the five percent will more than double the existing beer taxes. The industry favors a broad-base tax that will support a high level of services in the State of Oregon. He also favors no sales tax on bottle and can deposits.

TAPE 129 SIDE A

001 Discussion continued concerning the deposit on containers.

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026 DON MINER spoke in favor of HB 2500-8, Exhibit 2, July 7, 1993, which exempts building materials used to build homes.

042 STEVE BENDER testified that Section 113 deals with construction contracts. The language states that a construction contractor is a consumer of materials, which the contractor furnishes and installs in the performance of a construction contract. When the bill says that someone is a "consumer," it means that the sales tax is applied. No subsequent sale is taxed. HB 2500-8 would be a partial exemption from sales tax on materials whereby no sales tax would be applied to the construction contractor when constructing residential property.

069 DON MINER added that his request is consistent with the exemption for shelter contained in HJR 10.

Discussion and questions.

131 DON MINER pointed out that site-built homes are 40 percent material; manufactured homes are 60 percent material. Any added charge is passed on to the consumer.

Discussion with regard to the exemption of construction materials.

287 FRED VAN NATTA called the members' attention to the constitutional amendment to not tax shelter. He argued that since shelter is considered a basic need, building materials should also come under this exemption.

Discussion concerning the HB 25008.

382 MOTION REP. CARTER moved to adopt the
HB 2500-8 amendment.

391 ORDER CHAIR BRIAN, hearing no objections,
so ordered.

TAPE 128 SIDE B

001 Discussion concerning government utilities.

028 STEVE BENDER discussed that the amendment maintains all current exemptions for government utilities contained in HB 2500, with the exception of vehicles and construction materials

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purchases. There are two exceptions which have no exemptions: municipal light and power systems and people's utility districts.

040 DENISE MCPHAIL testified that there are no government gas utilities. Municipal Electric Springfield intends to amend the charter to take over the gas business of Northwest Natural Gas in Springfield. Since that is a municipal electric utility, language taxing municipal utilities could possibly include gas. The people's utility districts, that also have no exemptions, could include electric or water utilities.

Discussion to clarify exemption for utilities.

090 DIANE COWAN stated that she is concerned that the amendment is based on equally. She feels that it is very important to remember that Public Utility Districts (PUD) are not in competition. She opposes units of local government being treated differently.

Discussion on PUDs.

121 DENISE MCPHAIL stated that investor owned utilities feel that PUDs are competing. She feels that municipal electric and people's utility districts are also competing for customers from private businesses and should pay a sales tax.

Discussion and questions with regard to municipal utilities.

256 CHAIR BRIAN received a consensus of the committee to have a Legislative Concept draft drawn up dealing with local utilities.

264 CHAIR BRIAN moved the discussion to the HB 2500-22, taxing government services.

Discussion and comments.

360 JIM MANARY stated the DOR would be equipped to handle any exemptions; however, any reimbursement would create another system. He said that when DOR audited, exemptions would be credited. The exemption certificates are very specific.

TAPE 129 SIDE B

001 Discussion continued with JIM MANARY.

008 STEVE BENDER showed the members how HB 2500-22 would change with the deletion of Subsection 2 and with the addition of a new

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Subsection 4 showing that the exemptions under this section would not apply to municipal light and power systems and people's utility.

034 MOTION REP. BURTON moved to adopt
HB 2500-22

as conceptually amended.

040 ORDER CHAIR BRIAN, hearing no
objections,

so ordered.

064 STEVE BENDER summarized HB 2500-27, Exhibit 1. The existing bill does

not contain any provisions for horses, and this amendment would exempt certain racehorses used for the horse racing business.

078 DAVID NELSON stated that there are two kinds of horses involved in racing in the state: quarterhorses and thoroughbreds. The first issue in HB 2500 to which he is opposed is the fact this would put any race meet licensee in the position of responsibility of collecting a sales tax when a horse is claimed, and no one knows when that is going to occur. The second issue is in the breeding and raising of horses for racing. Adding a sales tax to racehorses would be a discouragement to investors. He indicated that this exemption would not cost the state any sizeable revenue, but would save the horse racing business.

Discussion and questions.

186 MOTION REP. GIROD moved to adopt HB 2500-27.

DISCUSSION

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199 MIKE DEWEY indicated that this amendment would not include dogs used in racing.

214 ORDER CHAIR BRIAN, hearing no objections, so ordered.

226 STEVE BENDER introduced HB 2500-35, which would amend Section 216. This section denies an exemption to hospitals, either under the government exemption or under the charitable exemption, for purchases. The language of the amendment deletes the term "health care facility" as defined under ORS 127 .505.

265 ED PATTERSON stated that the intent of the amendments regarding Section 216 was to exempt hospitals by definition from other health care facilities. He suggested that the language be

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put in Section 216 to exempt hospitals under ORS 442.015, definition of hospital facilities. Two amendments are being drafted: one on specific exemptions for items purchased for use of direct patient care and one to exempt all purchases for nonprofit hospitals and government run hospitals. Thirty percent of all hospital costs not reimbursed. To cover a sales tax, hospitals would have to increase rates three times.

Discussion concerning the costs of patient care.

363 STEVE BENDER stated that the impact of these amendments would expand the exemption to include purchases by nonprofit health care facilities which would include hospitals and other facilities not listed on the amendments. Rehabilitation facilities, college infirmaries, chiropractic clinics, treatment centers for alcohol and drug abuse, inpatient care facilities, and other types of health care facilities would be included. Ambulatory services would have to be non profit to be exempt.

TAPE 130 SIDE

A

001 Discussion continued with ED PATTERSON.

030 ED PATTERSON stated that Section 216 was in the bill because it was in the 1985 version. He feels that there is a urgent need for the hospital exemption because of reimbursement policies for all hospital facilities.

050 MOTION REP. GIROD moved to adopt HB 2500-35.

053 ORDER CHAIR BRIAN, hearing no objections, so ordered.

056 REP. BURTON asked the member to consider service related issues that are not basic services. He indicated that services that should be subject

to a sales tax include: admissions (participatory and spectator), physical fitness centers, landscaping services, tanning salons, massage, dating, escort, steam baths, and tatoos.

096 CHAIR BRIAN adjourned the meeting at 4:39.

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Mary Gottlieb, Committee Assistant
Kimberly Tay James, Office Manager

EXHIBIT SUMMARY

1. Proposed Amendments to HB 2500-27, Steve Bender, Legislative Revenue Office.
2. Proposed Amendments to HB 2500-35, Steve Bender, Legislative Revenue Office.

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