

Informational: State Tax Policy
& Oregon's Key Industries,
Janet Jones, Econ. Dev. Dept.
Work Session: HB 2436
HB 2923
Public Hearing: HB 3457
Tapes 36 -37 A/B

HOUSE COMMITTEE ON
REVENUE AND SCHOOL FINANCE
SMALL BUSINESS SUBCOMMITTEE

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APRIL 27, 1993 9:00 AM HEARING ROOM A STATE CAPITOL BUILDING

Members Present: Representative Greg Walden, Chair Representative Ron Adams
Representative Margaret Carter Representative Delna Jones

Witnesses Present: Janet Jones, Manager, Key Industries Program,
Oregon Economic Development Department Jerry Fisher, Hewlett-Packard
Company;
American Electronics Association
Jim Manary, Department of Revenue
Rep. Cynthia Wooten, District 41
Mark Huston, Manager, Business & Finance,
Oregon Economic Development Department

Staff: James Scherzinger, Legislative Revenue Officer
Steve Bender, Legislative Revenue Office
Paula McBride, Committee Assistant

TAPE 36 SIDE A

007 CHAIR WALDEN called the meeting to order at 9:14 and conducted
administrative business.

012 JANET JONES talked about key industries and the impact of revenue bills
on them. The thirteen identified key industries share in common the
following qualities: They are crucial to the vitality, competitiveness, and
diversity of Oregon's economy, they offer well-paying, productive jobs,
they focus on value added products and market, and they are initially
competitive. She talked about the Key Industries Program in the Oregon
Economic Development Department (OEDD) and its goals, among which are
growth

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recording.

House Committee

on

Revenue and School Finance Small Business Subcommittee April 27, 1993 Page

2

in Oregon and competition in world markets. Their focus is not on
recruitment of new business, but to help existing companies grow in Oregon
and compete. Exhibit 1

034 JANET JONES talked about HB 2436, which would increase the maximum
amount of qualified Research & Development (R & D) credit allowed for
corporate taxes from \$50,000 to \$500,000. She said R & D and technology

were high priorities for a number of key industries, and HB 2436 could impact these. She believed that the plastics industry should not have been left out of HB 2436, which would be remedied by adding language about "composites." She believed research lead to competitiveness, which was a Key Industries Program goal. She gave members a handout on "Biotechnology in Oregon" and talked about this industry in the state. However, she stressed that small firms don't budget at all for research, and even when the large firms do have a line item for R & D, they tend to budget less than 1%. Exhibit 2

068 JANET JONES said HB 2446, which related to a credit on capital gain on founder's stock, would appear to benefit start-up companies, which were important to a number of industries, which she enumerated. She thought HB 244 6 would also help significantly industries increase competitiveness by providing capital.

080 JANET JONES talked about HB 2923, which is similar to but broader than HB 2446. She believed the benefits from this bill likely would provide investors and capital to industries identified in the bill.

086 JANET JONES related that Oregon tax credits are very helpful to mid-size and small businesses, but may or may not be enough of an inducement to change the behavior of the largest companies in the state. She explained the state's strategy to increase local competitiveness, and world competitiveness, both of which were based on a broader agenda that she discussed.

Questions and discussion

140 JANET JONES explained the concept "composites" as applied to new technologies or products being developed.

Questions and discussion

171 JANET JONES believed, in conclusion, that quality would be what sets Oregon's industries apart and will help create a climate

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House Committee on
Revenue and School
Finance
Small Business
Subcommittee

April 27, 1993 Page 3

for competitiveness. The Key Industries Program is encouraging Oregon companies to see themselves as special and able to compete in the world market.

Questions and discussion

210 JANET JONES discussed the various incentives Oregon offers to businesses to start up or expand here.

243 CHAIR WALDEN opened the Work Session on HB 2436, which was the R & D tax credit bill. He discussed the bill and suggested language changes regarding "composite material", specifically as related to the plastics industry.

265 CHAIR WALDEN believed that the Federal Tax Credit for R & D had sunsetted, so HB 2436 would be solely an Oregon tax credit, which he thought about \$1 million/biennium at a \$50,000 cap (HB 2436 proposed to raise the cap to \$500,000).

Discussion

300 JERRY FISHER did not have a breakdown of what credits various members of his group take, but he did believe that several members haven't been

able to take the R & D credit in the last years because of a number of reasons. He stressed that raising the credit did not mean there would be a corresponding rise in companies using the credit, and he also explained reasons for this.

Questions and discussion

352 JIM MANARY related that research facilities at state universities would not use the credit because they don't earn an income to which it would be applied.

Questions and discussion about the relationship between the businesses that would get the credit in HB 2436 and universities.

395 JERRY FISHER talked about the differences between "basic" and "applied" research, and about projects that involve a business working with a university on a specific problem.

TAPE 37 SIDE A

002 JERRY FISHER continued his discussion of the relationship

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House Committee on

Revenue and School Finance Small Business Subcommittee April 27, 1993 Page 4

between businesses and universities, specifically related to research.

Questions and discussion

054 CHAIR WALDEN explained what changes he believed should be made in language to HB 2436, and he encouraged the public to testify before the full Committee on the consequences of these changes.

070 Members discussed specific language in HB 2436 that concerned them.

163 JANET JONES addressed the issue of language in HB 2436 that would apply to the "environmental industry" specifically concerning the definition of this industry.

Questions and discussion

195 DICK YATES reminded members that there were two different credits in HB 2436, both of which he described. Each related to funding research in Oregon.

Questions and discussion

220 MOTION REP. CARTER moved to amend HB 2436 by adding a sunset of 10 years (to the year 2003).

DISCUSSION

237 ORDER There being no objection,

CHAIR

BRIAN so ordered.

238 MOTION REP. CARTER moved to amend HB 2436 language on Line 20, to read "advanced materials means high value metals, new and improved wood-based materials, composites, and plastics."

NO DISCUSSION

243 ORDER There being no objection,

CHAIR

WALDEN so ordered.

247 DICK YATES reiterated that in relation to Section 1, the

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House Committee

on

Revenue and School Finance Small Business Subcommittee April 27, 1993 Page

5

Federal Government was expected to take some action to continue their credit; therefore, the state will need to reconnect to the Federal law at a later date.

254 MOTION REP. CARTER moved that HB
243 6

as amended be sent to the
full

Committee with a do-pass
recommendation.

DISCUSSION

269 DICK YATES said the original bill that authorized this particular research tax credit was designed to offer a million dollars/biennium for this credit, and HB 2436 might expand this. Originally there were 44 firms that took advantage of the credit, and there will be more research done on how many firms might take the increase in the credit.

Questions and discussion of whether or not to send HB 2436 to the full Committee with a recommendation without yet knowing the revenue impact.

363 CHAIR WALDEN preferred to send HB 2436 to the full Committee and then discuss the revenue impact before the full Committee.

Discussion

423 WITHDRAWN MOTION REP. CARTER withdrew her motion.

424 CHAIR WALDEN closed the Work Session on HB 2436 and conducted administrative business.

TAPE 36 SIDE B

010 CHAIR WALDEN opened the Work Session on HB 2923, which related to capital gains rollover reinvestment in Oregon companies.

016 DICK YATES related that amendments HB 2923-1 already had been adopted (see Exhibit 4, 4/15/93).

019 CHAIR WALDEN discussed other matters that had been discussed and resolved regarding HB 2923.

Questions and discussion

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House Committee

on

Revenue and School Finance Small Business Subcommittee April 27, 1993 Page

6

043 Members discussed other issues with HB 2923 that were still of concern.

089 MOTION REP. WALDEN moved HB 2923 as
amended to the full

Committee

with a do-pass
recommendation.

NO DISCUSSION

098 ORDER There being no objection,
CHAIR

WALDEN so ordered.

102 CHAIR WALDEN closed the Work Session on HB 2923.

103 CHAIR WALDEN opened the Public Hearing on HB 3457

104 REP. WOOTEN testified in support of HB 3457, which she sponsored, and which related to economic incentives for small businesses in Oregon. She related that HB 3457 was supported by the Bankers' Association, by the Oregon Economic Development Department, and by the State Treasurer's Office. Her testimony was based on a handout given to members and was, occasionally, verbatim. Exhibit 3

245 REP. WOOTEN stressed that Oregon should have a program for small businesses that would allow them "to have a higher degree of access with a lower ante rate than the existing capital program provides for right now." She reiterated the organizations that support H 3457, and asked that the members make time for other witnesses who would support the bill but were unable to attend the Public Hearing.

263 MARK HUSTON said HB 3457 was not part of the Governor's Budget, but he offered technical support for HB 3457. He referred to a recommendation from the Budget, however, for a "Wood Products and Agriculture Development Fund," which was a Benchmark proposal. A consultant was hired by OEDD to develop some options, one of which was HB 3457 related to capital for small businesses.

316 MARK HUSTON gave the members a summary of the consultant's report, as related to the agriculture industry. He explained the summary. Exhibit 4

358 MARK HUSTON talked about the options from the consultant's report about the "wood products" industry. Exhibit 5

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House Committee

on

Revenue and School Finance Small Business Subcommittee April 27, 1993 Page

7

350 REP. WOOTEN believed the summaries presented were founded in good evidence and research, and were the building blocks for the construction of HB 3457. She asked for a "separate but equal program...following in the footsteps of the Capital Access Program currently in existence for small business," but making capital more available.

Questions and discussion

383 REP. WOOTEN addressed the issue of the fiscal impact of HB 3457.

Discussion

413 STEVE BENDER believed HB 3457 had no specific revenue impact because no taxes would be changed, but it would authorize \$75 million in revenue bonds.

423 STEVE BENDER clarified that 100% of the funds authorized by HB 3457 would be reserved for business" with fewer than 20 employees, and 20% would be reserved for businesses owned by minorities and women.

Questions and discussion

TAPE 37 SIDE B

003 REP. WALDEN clarified the intent of HB 3457, which was to provide capital to small businesses with fewer than 100 employees, and 20% set aside for businesses owned by minorities and women.

Questions and discussion

047 MARK HUSTON believed the OEDD was set up already to manage loans like that which would be implemented by HB 3457. He discussed some of these loan programs and their purposes.

072 REP. WOOTEN talked about administrative issues concerning HB 3457, believing that solutions would come from both OEDD and the Bankers' Association.

Questions and discussion

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House Committee on
Revenue and School Finance
Small Business
Subcommittee
April 27, 1993 Page 8

118 MARK HUSTON gave members another handout that provided a technical background to HB 3457. Exhibit 5

127 CHAIR WALDEN closed the Public Hearing on HB 3457.

128 CHAIR WALDEN adjourned the meeting at 10:58.

Paula K. McBride, Committee Assistant

Kimberly Taylor Office Manager

EXHIBIT SUMMARY

1. Challenge the Future of Your Company, a pamphlet, Janet Jones, Key Industries Development, Oregon Economic Development Department.
2. Biotechnology in Oregon: A Summary of the Strategic Plan For Biotechnology in Oregon, Janet Jones, Key Industries Development, Oregon Economic Development Department.
3. Testimony of Representative Cynthia Wooten, on HB 3457, District 41.
4. Access to Capital For Oregon's High Value Crop and Value Added Agriculture Industry: Executive Summary, Mark Huston, Oregon Economic Development Department.
5. Access to Capital For Oregon's Secondary Wood Products Industry: Executive Summary, Mark Huston, Oregon Economic Development Department.
6. Memorandum, from Oregon State Treasury, on HB 3457, Mark Huston, Oregon Economic Development Department.

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