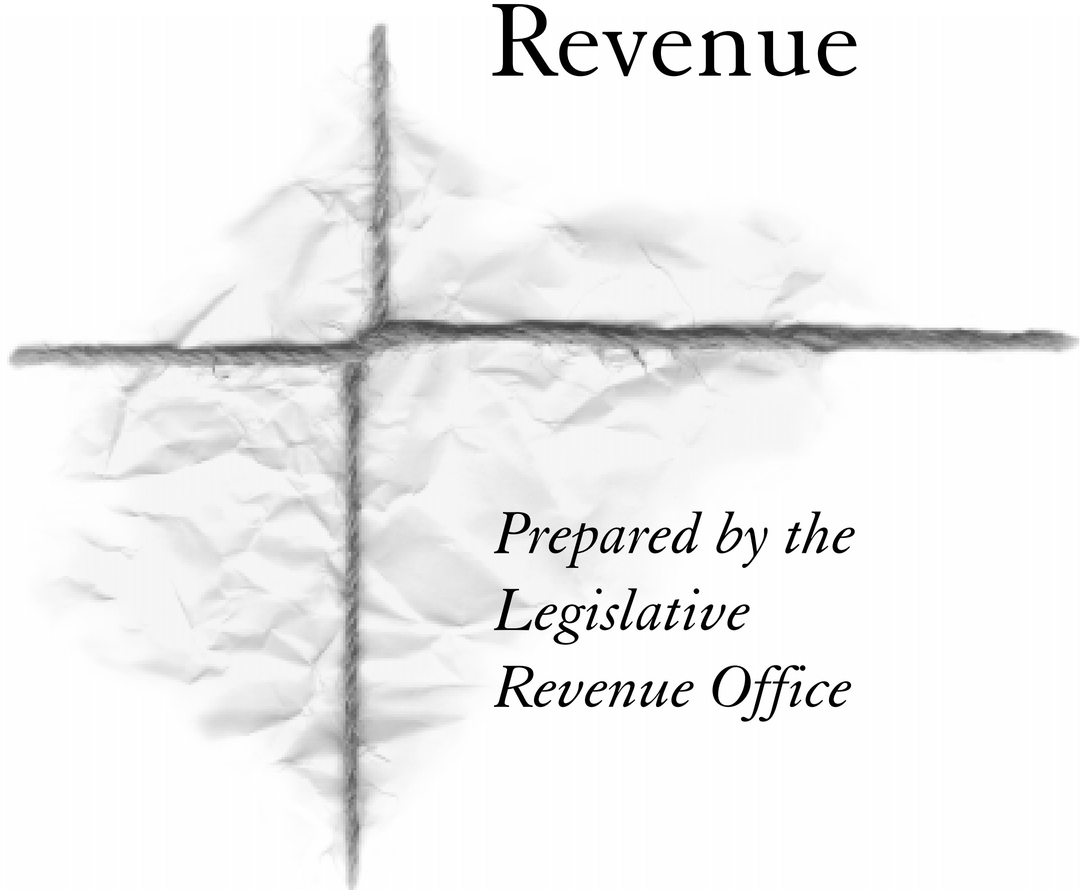
Revenue



Prepared by the Legislative Revenue Office

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Summary

of Major

Legislation

INCOME TAX

SB 347

Generally connects calculation of Oregon taxable income to the Internal Revenue Code as of December 31, 1996. This adopts for Oregon tax purposes all changes in the determination of taxable income made by Congress under the Small Business Job Protection Act of 1996 (P.L. 104-188), the Health Insurance Portability and Accountability Act of 1996 (P.L. 104-191), and the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (P.L. 104-193), but continues "disconnect" provisions where the Legislature (in prior sessions) chose to calculate Oregon taxable income differently than done for federal taxes.

REVENUE IMPACT:

State: Reduces General Fund revenue in the 1997-99 biennium by $0.8 million, and increases General Fund revenue by $1.6 million in 1999-01. Generally tends to reduce taxes of individual taxpayers, and increases taxes of corporate taxpayers as shown below.

	1997-99 Biennium	**1999-01 Biennium**
Personal Income Tax	-$5.9 million	-$7.6 million
Corporate Income Tax	+$5.1 million	+$9.2 million
TOTAL	-$0.8 million	+$1.6 million

SB 388

Establishes non-refundable child care credit for low income families. Calculates credit as a declining percentage of qualified child care expenses. Taxpayers under 150% of federal poverty level get 40% of expenses, the maximum credit. The credit phases out for taxpayers over 200% of federal poverty level and cannot exceed tax liability.

Establishes non-refundable state Earned Income Tax Credit (EITC) for families eligible for the federal EITC. Sets state credit to 5% of the federal EITC but cannot exceed tax liability. (Note: The federal EITC phases out for taxpayers earning over about $30,000).

Excludes any federal EITC benefits received when computing the federal tax subtraction.

REVENUE IMPACT:

State: Reduces General Fund revenue by about $34 million in 1997-99 and $37 million in 1999-2001.

	1997-99 Biennium	**1999-01 Biennium**
Child care credit	-$ 14 million	-$ 14 million
Earned income credit	-$ 18 million	-$ 20 million
Ignore federal EITC in tax subtraction	-$ 2 million	-$ 3 million
TOTAL	-$ 34 million	-$ 37 million

SB 1144

Automatically connects calculation of state taxable income to the federal Internal Revenue Code each Congress amends it.

REVENUE IMPACT:

No impact known at this time. However any future changes in federal taxable income will automatically be adopted and affect Oregon income tax revenue.

HB 3709

Imposes personal income tax on Oregon lottery prizes exceeding $600. Instructs Oregon State Lottery Commission to withhold income taxes on prizes over $600. Begins January 1, 1998.

REVENUE IMPACT:

State: Increases General Fund revenue by about $2.5 million in 1997-99 (one year) and by about $5 million in 1999-01 (full biennium).

HB 5053

Appropriates $80 million in General Fund revenues from the 1995-97 biennium to be applied to settlement of a case involving the Industrial Accident Fund.

REVENUE IMPACT:

State: Increases 1997-99 General Fund revenues by $80 million. [Note: The increase occurs because a 1996 special session law reduces 1995-97 kicker credits (paid in 1997-99) if more appropriations are made in the 1995-97 budget. Personal refunds are cut $49 million and corporate credits $31 million.]

PROPERTY TAX

SB 588

Expands activities that qualify as farm uses in an exclusive farm use zone to include processing of farm products and by-products, game farming, and greyhound breeding. Limits processing activities to facilities under 10,000 square feet in floor area in which at least one quarter of the crops processed at the facility are be grown on land owned by the facility owner.

REVENUE IMPACT:

Local: Including activities as farm uses makes the land involved in the activity eligible for farm use assessment. The processing facility provision exempts about $70 million in value from property taxation according to the Department of Revenue. The greyhound breeding and game farming provision exempts about $1.5 million.

The measure takes effect in 1997-98. Under Measure 50, the exemptions will not reduce revenue, but will shift the taxes from the exempted properties to other taxpayers.. The amount of the shift will be approximately $1.5 million in the 1997-99 biennium.

SB 1215

Implements Measure 50.

Calculates 17% statewide tax reduction on virtually all operating levies. Distributes constitutional Measure 50 tax cuts like Measure 47 cuts, except for differences required by Measure 50. Distributes statutory cuts required by this bill by equal rate (about 1.4%) against all operating levies except hospital districts. Makes special provision for high value growth districts, high 1995-96 offset districts, Heppner, and districts faring worse under Measure 50 than Measure 47.

Applies $5 school rate limits and $10 non-school limits to each property rather than applying the limits to each code area.

Establishes Measure 50 assessed value system. Determines value by property tax account. Sets value of new property by county-wide ratios areas and by property classes. Sets property classes by rule. For utility class, sets ratio statewide. Freezes maximum value growth if assessed value falls below maximum. Exempts up to $10,000 of minor construction from triggering higher taxes due to construction if it does not exceed $25,000 over 5 years. Prohibits assessor from revaluing property before applying Measure 50 limit.

Establishes similar assessed value system for specially assessed and partially exempt property. Increases veterans exemption by converting to assessed value. Repeals down-zoned property and home in commercial zone partial exemption. Allows casualty reduction for the duration of loss.

Specifies information that must appear on property tax election ballots. Requires red letters announcing tax election on mail ballot envelopes. Allows appeal of 50% turnout determination.

Repeals Board of Ratio Review. Converts Board of Equalization into Board of Property Tax Appeals. Extends Measure 5 appeal procedures to Measure 50. Gives supervisory authority to the Tax Court.

Requires urban renewal districts to make good faith estimate of total indebtedness needed to finance existing plan. Allows district to impose special levy to finance existing plan. Allows municipality one-time election in 1998-99 to permanently limit the amount raised from the tax increment for an existing plan, raising the rest from the special levy.

Moves property assessment date to January 1, beginning in 1998-99. Lengthens time to file property tax returns. Allows Department of Revenue to design property tax statement by rule. Makes other changes to property tax timelines. Repeals six year reappraisal cycle. Repeals requirement to remove large contested values from the tax roll. Allows counties, with approval of commissioners, to hold appeal reserve.

Ends practice of offsetting severance taxes and other receipts against tax levies before Measure 5 compression. Offsets severance taxes against rate limits.

Refines definitions of capital improvement bonds repayable by taxes imposed outside Measure 5 limits. Defines capital projects fundable by local option levies. Specifies remedies court can order if district spends funds contrary to definitions. Allows community colleges to ask voters to impose local option levies up to amount of district's Measure 50 loss..

Specifies process for determining if local fee increases are property tax shifts requiring voter approval. Limits effect to first year of measure.

Allows urban renewal district to retroactively impose 1995-96 taxes that were not collected due to failure to file notice. Makes Boardman annexation effective on July 1, 1995.

Conforms local budget law to Measure 50 changes. Allows districts to adjust budget to correct errors in 1997-98 if approved by the Department of Revenue.

Conforms district formation, merger, and consolidation laws to Measure 50 changes. Allows city not imposing property taxes to combine merger vote with permanent tax rate vote.

Declares emergency.

REVENUE IMPACT:

State – General Fund reduction of $6 million in 1997-99 from higher property tax deductions on personal and corporate income tax returns. (This combined effect of Measure 50 and SB 1215).

Local – Reduces revenue (in addition to the reductions required by Measure 50) as follows:

	1997-98	1998-99
Schools	-$19 million	-$21 million
Non-schools	-$17 million	-$18 million
Total	-$36 million	-$39 million

If a municipality elects to limit the amount raised for urban renewal from its increment, schools and non-schools in the area will gain back some of the revenue they would otherwise lose under Measure 50 and this bill. This effect begins in the second year (1998-99). It could be significant in some areas, such as Portland and Salem, depending on local decisions.

The veterans exemption expansion will save participants an additional $1.4 million over Measure 50 reductions in the 1997-99 biennium. These taxes will be shifted onto other taxpayers. Repeal of the down-zoned property and home in commercial zone exemptions will have virtually no effect. The down-zoned property exemption has no known participants. The effect of the home in commercial zone assessment is achieved by the normal operation of Measure 50.

The Boardman annexation fix will increase the city's property tax revenue about $200,000 per year. The retroactive urban renewal tax provision will increase the City of Redmond's urban renewal revenue about $135,000 in 1997-98.

The entire bill in combination with Measure 50 will produce the following total property tax reductions.

HB 2062 [Vetoed by Governor]

Exempts intangible property of utilities from property taxes. Adds franchises and licenses, including Federal Communications Commissions (FCC) licenses, to list of property defined to be intangible. Specifies that a nuclear power plant is not an intangible as long as the Public Utility Commission includes it the companies rate base.

Begins changes in 1997-98 tax year.

REVENUE IMPACT:

Local – 1997-98: Relatively little reduction in the short run because the exemptions begin in the first year of Measure 50, the year permanent property tax rates are set. The exemption will increase these rates, thus shifting the taxes saved by utilities onto other property. There will some revenue reductions to a few local governments where Measure 50 tax rates will exceed the $10 Measure 5 limit.

The bill exempts about $760 million in value from tax in 1997-98. This estimate comes from two places:

(1) $670 million from a joint industry - Department of Revenue study. Because most large companies have agreed to abide by the study's valuation methods and the Department of Revenue has developed rules based on them, the results are likely to be reliable for 1997-98.

(2) $90 million in FCC cellular and personal communication systems (PCS) licenses. About $34 million of these licenses was on the roll in 1996-97.

The total exempt value implies a tax increase on other property of about $10.6 million. About 5% of this represents a reversal of a decrease that would otherwise occur.

1998-99: In addition to the shift described above, the bill will exempt another $80-90 million in cellular and PCS licenses that otherwise would be added to the roll in 1998-99. Since permanent tax rates were set in the prior year, this exemption will reduce revenue (prevent an increase) of local taxing districts by about $1.1 million.

Long Run Effects: Uncertain loss of revenue in the future. The exemption could grow in the future because the statute appears to be drawn more broadly than the rules. The ultimate outcome depends on how a court would interpret the statute. The existing statute for industrial property has seen little litigation. The outcome could also be influenced by the development of more sophisticated appraisal techniques as intangible wealth becomes more important in a modern economy.

HB 2066

Raises minimum amount of personal property subject to property taxation from $3,000 per county for each taxpayer to $10,000 per county for each taxpayer. Increases penalties for late filing or non-filing of personal property returns. Sets penalty based on how late return is filed, up to 100% of tax for return over five months late.

Exempts mineral interests owned separately from surface interests if the property is not being mined.

Continues property tax lien leased property after the lease expires.

Establishes that water improvement district charges are to be collected just like ad valorem property taxes and special assessments. Clarifies that all charges on the tax roll are to be paid on the same schedule and that all charges, taxes, and assessments must be paid on time to obtain the 3% discount.

Changes forest land special assessment filing dates to be consistent with other special assessments.

Begins higher penalties and mineral interest exemption in 1998-99. The rest begin in 1997-98.

REVENUE IMPACT:

Local: No revenue reduction from raising the personal property minimum because it begins in the first year of Measure 50, the year permanent property tax rates are set. The exemption will increase these rates, thus shifting the taxes onto other property. The bill will exempt about $136 million in personal value, thus shifting about $1.9 million in taxes per year.

Exempting inactive mining claims will reduce revenue about $65,000 per year starting in 1998-99.

HB 2143

Allows 15-year property tax exemption for investment in a non-urban enterprise zone in a county with chronic unemployment. Requires that investment exceed $50 million, the firm hire at least 100 full-time employees within 5 years, and the average wage be at least 50% above the county average. Exempts project from property taxes during construction.

Grants corporate income tax credit to taxpayers receiving the property tax exemption above, if approved by the Governor. Sets credit to 62.5% of the taxpayer’s payroll and employee benefit costs at the facility. Allows credit against state corporate income, gross receipts, sales and use, and similar taxes relating to the facility. Applies credit only to tax liabilities above $1 million. Allows credit for 15 years. Allows credits to be carried up to 5 years after 15-year period expires. Exempts taxpayer from state corporate income and similar taxes relating to the facility until facility placed in service. Distributes 30% of any tax paid by taxpayer receiving credit to local sponsor.

Sunsets new exemption and credit after 2002.

Allows enterprise zones to have separate areas up to 15 miles apart if the enterprise zone is in a non-urban area of a sparsely populated county. (The current limit is 12 miles.) Allows Astoria Enterprise Zone to be extended to the Clatsop County boundary.

Allows local governments to enhance public services to enterprise zones.

Allows business that missed first-year filing deadline to apply for remaining 2 to 4 years of exemption.

Allows zone sponsors to give hotel, motel, and resort properties enterprise zone exemptions.

REVENUE IMPACT:

Local: The 15-year property tax exemption is aimed at a corporation considering a $280 million investment near Coos Bay. At the planned site, this implies tax savings of about $2.2 million per year once the facility is operational. Other firms could also qualify for this exemption if approved by local ordinances. How much the exemption reduces revenue depends largely on whether the development or some other would occur without the exemption. Some reduction will occur because the exemption applies to all property at the facility, including land.

Coos County would receive 30% of taxpayers state income tax (up to $300,000) after the facility is placed in service.

The other provisions of the measure have an indeterminate but small revenue local impact. Because this measure eases restrictions on enterprise zones, some additional zone activity could occur. If the activity would have occurred elsewhere, the enterprise zone exemption will reduce revenue. If the activity would not have occurred, then local governments may receive higher property tax revenue from the increased investment after the exemption period expires.

State: Probably little effect on 1997-99 General Fund revenue due to the long time lines needed to develop these types of projects. Future revenue losses are indeterminate but potentially large. The corporation targeted by the credits estimates, when fully operational, its payroll will be about $14 million a year, creating a potential credit of $8.75 million per year for this one firm. Other firms could also qualify depending on how widespread the property tax exemption is used.

How much these credits reduce revenue is difficult to determine. Although these may be large credits, the profits attributable to the facility would have to high to use them all. The bill also allows the credits to be used against any state gross receipts tax, sales and use tax, or similar taxes. Oregon does not generally impose a large amount of these taxes (assuming the employment taxes are not similar taxes).

HJR 85 (Measure 50)

Replaces existing constitutional property tax limits, except for Measure 5.

Requires 17% statewide cut of operating property taxes in 1997-98. Exempts bonds, hospital districts, some police and fire retirement fund taxes, and levies for 1996-97 and later that met Measure 47 voting requirements. Distributes statewide cuts to reflect Measure 47 cuts while recognizing new levies.

Limits 1997-98 assessed value of each property to its 1995-96 market value less 10%. Limits growth to 3% thereafter. Allows additions to value for new construction, subdivision, rezonings, omitted property, and loss of exemption. Adds new value at the ratio the average assessed to market value of existing property in the same class and area. Applies similar limit to farm use and other special values.

Establishes permanent rate limits for each taxing district based on reduced levies and new assessed values. The fixed rate and 3% value cap limit the tax on each existing property to 3% growth.

Allows voters to approve new levies outside the rate limit (but not over Measure 5's rate limits). Limits operating levies to five years. Limits capital project levies to 10 years or the useful life of the project, which ever is less. Allows voters to establish permanent rate limit for district not imposing property tax.

Requires levies outside the rate limits, new rate limits of previously untaxed districts, and bond levies outside the Measure 5 rate limits to be approved at the general election or an election with a 50% turnout.

Requires Legislature to limit local ability to raise fees to make up cuts made by this measure unless approved by voters.

Applies Measure 5 rate limits ($5 per $1000 of real market value for schools and $10 per $1000 for non-schools) by code area rather than property-by-property. Allows property assessment date to be moved back to January 1. Requires value reduction of property suffering significant casualty loss.

Returns hybrid urban renewal system to one dedicating all taxes on growth in renewal area to the urban renewal district. Allows district to impose taxes above tax increment to repay debt of existing plans.

Requires the state to replace school revenue lost due to the 17% cut.

Allows HJR 85 implementing statute to take effect immediately.

REVENUE IMPACT:

See SB 1215.

SCHOOL FINANCE

SB 346

Submits state education lottery bond program to the voters at a November 4, 1997 special election. Allows lottery bonds to finance up to $150 million for acquisition, construction, improvement, remodeling, maintenance, or repair of school facilities. This could include land, site preparation, buildings and equipment, telecommunications equipment, computers, software and related technology, textbooks, library books, furniture and furnishings, vehicles, capital planning costs, revenue bond debt service, and reserves. Allows debt payment from Education Endowment Fund earnings, lottery proceeds, and any Legislative appropriations.

REVENUE IMPACT:

School Districts: See HB 3411.

HB 2192

Distributes state school aid among K-12 schools and education service districts (ESD's). Continues a constrained equalization formula based on total state aid and local revenue for the next four years. Phases down districts above $4,800 per student. (All "per student" calculations are based on weighted and extended student counts.)

1997-99 Constraints

Allocates to each district the higher of (1) its equalization grant – the permanent grant in current law; (2) its flat grant, or (3) its stop-loss grant.

Sets flat grant to the district's 1996-97 allocation per student plus $50 in 1997-98 and plus $100 in 1998-99. Sets stop-loss grant in both years to the district's 1996-97 total allocation. However, in 1998-99 the flat and stop-loss guarantees are phased down by one-third of the amount the guarantee exceeds $4,800 per student. In addition, the guarantees of districts above $7,000 per student in 1996-97 phase down to $6,720 in 1997-98 and $6,079 in 1998-99.

1999-01 Constraints

Sets flat grant for both years to the district's 1998-99 allocation per student. Sets stop-loss grant for both years to the district's 1998-99 total allocation. Phases down guarantees by two-thirds of the amount they exceed $4,800 in 1999-00. Limits guarantees to $4,800 per student in 2000-01.

PERS and Desegregation Costs

Allows Portland to fund its PERS and desegregation program costs from local revenue without including this revenue in the distribution formula. Adjusts 1996-97 base year revenue accordingly. Limits growth in excluded desegregation costs to 3% a year. Repeals desegregation cost exclusion July 1, 2005.

Education Service Districts

For two years, increases funding for Education Service Districts from 71.3% to 75% of Measure 5 losses and funds 100% of Measure 50 losses. Sets aside $1 million each year for ESD network technology and training.

Recalculates state managed county trust forest distribution for counties in Northwest Regional ESD. Transfers calculated difference from County School Fund to school districts in the county. Sunsets recalculation on April 1, 1999.

Out-of-State Placement

For two years, allocates $400,000 per year from the State School Fund to the Out-of-State Disabilities Placement Education Fund. Gives grants to districts with disabled students in facilities in other states. Pays costs that exceed of twice district allocation (excluding transportation) for these students. Prorates grants if funds insufficient.

Youth Corrections Education Program

Adjusts permanent formula to treat state YCEP like an equalization school district with no transportation. Makes grant per student the target grant ($4,500) multiplied by equalization formula percentage. Makes permanent local district responsibility to educate youths in county corrections facility.

Classroom Grants

Distributes one-time classroom needs grants (see SB 5519) in 1997-98 based on prior year student count.

Facility Grants

Creates new facility grant within State School Fund to pay startup (not construction) costs of new school facilities. Sets grant to 6% of construction cost, excluding land acquisition. Limits grants to $10 million per biennium. Delays effective date of grant until the 1999-01 biennium.

Other

For 1997-98 only, allows districts to request an advance payment of 1998-99 estimated revenue growth and accelerates December SSF payment into November. For both years, if actual state and local revenue falls short of forecast, distributes shortfall proportionally to all districts.

Adds a preamble. Includes distribution formula factors in annual audit. Adjusts definition of resident student to prohibit switching the district counting the student each year. Allows Department of Education to create reserve when district student count estimates are less than statewide projections.

Eliminates county contribution to County School Fund beginning in 1999-00.

REVENUE IMPACT:

School Districts and ESDs: See Simulation 56 for 1997-98 district estimates for state and local revenue and comparable 1996-97 numbers.

In 1997-98 the total difference between the proposed distribution formula and full equalization formula is less than 1%. This means about 95% of the inequality that existed before passage of Measure 5 will be eliminated. In 1998-99 and later, the phasing down of high revenue districts will virtually achieve full equalization under the permanent equalization formula.

Based on a total appropriation of $4.15 billion, this bill distributes the funds as follows:

State School Fund	1997-98	1998-99	Total
School Districts	1,963.7	2,021.1	3,934.8
Education Service Districts	78.3	84.1	162.4
ESD Network Technology	1.0	1.0	2.0
Out-of-State Disability Placement Districts	0.4	0.4	0.8
Total SSF			4,150

Dollars in millions.

The bill also distributes $50 million in classroom need grants to school districts in 1997-98.

The Northwest ESD adjustments shift about $1 million per year to school districts in the ESD from other districts statewide.

Repealing the county contribution to the County School Fund will reduce school revenue by about $5 per year, beginning in 1999-00.

Counties: No revenue effect. Repealing the county contribution to the County School Fund will save the counties about $5 million per year in expenditures, beginning in 1999-00.

State: Decrease in 1997-99 General Fund and lottery interest earnings of up to $800,000 due to acceleration of December SSF payment.

HB 2855

Allows K-12 school districts to seek voter approval of a local option property tax if voters reject state education lottery bonds on November 4, 1997. (See SB 346).. Sunsets local option elections January 1, 2003. Limits local option levy to $250 per weighted student. Excludes levy from local revenue in State School Fund formula up to $250 per weighted student.

REVENUE IMPACT:

School Districts: No direct impact. If the education lottery bond program is defeated, school districts must seek voter approval for a local option tax. About 77% of the districts will be limited by the difference between Measure 50 and Measure 5. The rest will be limited by the $250 per weighted student.

HB 3411

Implements sale of $150 million in education lottery revenue bonds if voters approve SB 346 at the November 4, 1997 special election. Distributes proceeds to K-12 school districts in 1998-99 based on prior-year weighted students. Allows proceeds to be spent on acquisition, construction, improvement, remodeling, maintenance, or repair of facilities. This could include land, site preparation, buildings and equipment, telecommunications equipment, computers, software and related technology, textbooks, library books, furniture and furnishings, vehicles, capital planning costs, revenue bond debt service, and reserves.

Requires bond sale on request of the Superintendent of Public Instruction. Limits net bond proceeds for projects to $150 million. States intent to pay debt service after 1997-99 from Education Endowment Fund earnings. Dedicates 75% of Education Endowment Fund earnings to repay bonds beginning July 30, 1999. (This changes dedication in HB3695.)

Establishes Education Lottery Bond Fund to repay debt and pay administrative costs. Credits unobligated net lottery proceeds, appropriated funds, and earnings to the fund. Requires state to continue operating lottery until debt paid.

REVENUE IMPACT:

School Districts: Raises $150 million for K-12 school projects in 1998-99 if voters approve the bond sale and the full bond authority is used.

TIMBER TAXES

HB 3700

Imposes temporary forest products harvest tax for watershed improvement. Sets the rate at $1.75 per 1,000 board feet for calendar 1998. Requires Department of Revenue set the 1999 rate, up to $2.00, to produce $15 million in total net receipts for the two years. Refunds any taxes collected after $15 million achieved.

Increases fishing license fee surcharges on January 1, 1998. Continues surcharges on catch fees and fishery permits. Sunsets surcharges on January 1, 2004. Dedicates first $1 million of 1997-99 surcharge revenue to watershed improvement.

Establishes Watershed Improvement Grant Fund from proceeds of above taxes above and other gifts and grants. Requires Governor's Watershed Enhancement Board to award grants from the fund for an independent science team, watershed and riparian habitat conservation and education, implementation of watershed enhancement and water quality improvement plans approved by ODOA or DEQ, and the acquisition of nonpossessory interests in land to protect watersheds. Limits eligible projects to those which are funded with matching contributions, are approved by technical committees, and benefit the public through improved water quality, fish or wildlife habitat, or education.

Makes harvest tax contingent on the appropriation of at least $15 million from the General Fund for the Oregon Coastal Salmon Restoration Initiative and related programs. Repeals the tax if any salmonid species is listed as threatened or endangered in Oregon under certain conditions.

REVENUE IMPACT:

State: Increase in Other Fund revenues of $8,244,000 in 1997-99 and $5,356,000 in 1999-01.

Note: This revenue impact is for the harvest tax imposed by this bill. Additional revenue also results from increased fees, as reported on the Fiscal Impact Statement.

HB 3734 [Vetoed by Governor]

Allows forest land owners to elect an alternative tax method. The alternative eliminates timber privilege taxes on harvest (the Western and Eastern Severance Taxes) and increases the property tax land value. Currently timber land is valued at 20% of indexed values set in statute. Under the alternative, the land would be at 100% of the statutory values. (In both cases, these values would be reduced by Measure 50.)

The election is irrevocable and applies to all designated forest land owned directly and indirectly by the person making the election. The election must be made between July 1, 1999 and January 1, 2000.

The land value increase under the alternative method begins in 2000-01 and the privilege tax elimination begins January 1, 2000.

REVENUE IMPACT:

	1997-99	1999-01	2001-03
Revenue changes			
School districts	0	-27.7	-40.9
Counties	0	+4.0	+8.4
Other districts	0	+2.4	+5.1
Total revenue change	0	-21.3	-27.4
Tax shifts	0	-13.8	-22.5
Total timber owner savings	0	-35.1	-49.9

In millions of dollars

Local: The bill generally reduces taxes of most timber owners. Some the tax savings mean lower government revenue while the rest represent tax shifts onto other taxpayers. The table below summarizes the statewide effect.

These estimates assume 98% of timber landowners elect the alternative. This appears reasonable because it produces lower taxes for most taxpayers, especially for large owners who are harvesting on a regular basis. Some owners, however, may elect to stay on the current system, particularly if their timber is far from harvest.

The estimates further assume Measure 50 as implemented in SB 1215. Under Measure 50, timber privilege taxes are offset against non-school taxes only. Measure 50 also fixes operating property tax rates. Because of this treatment, the effect of this bill varies by district.

For counties and other non-schools, eliminating privilege taxes does not reduce revenue. Instead it eliminates the offset, thus increasing property taxes to make up for the lost privilege taxes. In effect, this shifts the tax burden onto other taxpayers. Increasing land values, however, does increase revenue because Measure 50 fixes property tax rates. Thus counties and other local non-schools gain revenue under this bill.

For schools, eliminating the privilege tax reduces revenue. These losses outweigh the property tax gains. So schools lose revenue under the bill.

For bonds, property tax rates are not fixed. So all changes that affect bonds represent tax shifts.

MISCELLANEOUS

HB 2411

Extends the sunset on the existing 10¢ temporary cigarette tax to January 1, 2000.

REVENUE IMPACT:

Local:	**1997-99**	**1999-01**
Counties	$ -236,775	$ -88,350
Cities	-236,775	-88,350
State:		
General Fund		
Oregon Health Plan	$ 33,037,065	$ 14,558,544
Undedicated	-2,604,530	-971,850
Total General Fund	$ 30,432,535	$ 13,586,694
Other Fund		
Special Transit	$ -236,775	$ -88,350
Tobacco Use Reduction	-355,163	-132,525

Note: All revenue from the increased rate is dedicated to the Oregon Health Plan. Less revenue is available for other programs because the higher tax rate reduces cigarette sales.

Measures Vetoed by the Governor

House Bill 2062

Relating to property taxation.

Governor's Veto Message (August 15, 1997):

I am returning herewith Enrolled House Bill 2062, unsigned and disapproved.

This veto represents a difficult choice. My staff and I spent considerable time with representatives of the centrally assessed companies as well as legislators discussing what is one of the most complex taxation issues to emerge this legislative session. I believe that with federal deregulation, global competition and other significant changes facing these industries, this issue merits further discussion

HB 2062 would exempt centrally assessed companies such as energy, telecommunications, airlines and railroads from paying taxes on the value of their intangible properties. How these industries are taxed and whether their tax burden is equitable compared to other industries as well as individual residential taxpayers requires greater analysis. Any major change in tax policy should receive a thorough public debate inside the larger context of economic and equity issues.

Further, I am concerned that the definition of an "intangible" found within HB 2062 is far too broad and will result in litigation. We have much to learn from the experience of other states that have struggled with this issue. The definition of intangibles has been in and out of the courts for years in California and has been challenged in a number of other states across the country. In preparing for the implementation of HB 2062 in Oregon, similar problems and disagreements have surfaced. For example, members of different industry groups are now identifying issues that might come within the scope of the legislation that were not identified during either the 1996 interim or during the 1997 legislative deliberations. Legislation which passed recently in the State of Washington has a much tighter definition of intangibles. We in Oregon can learn from their experience as well.

Lastly, HB 2062 will contribute to a shift in the tax burden from Oregon businesses to the individual Oregon residential property owner. I am not anxious to support any further shift of the property tax burden to homeowners from industry outside the context of a much broader discussion on tax equity. While the industry clearly has a strong argument on the basis of fairness this must be considered within the larger context of the overall taxation of centrally assessed companies.

As a result of my decision to veto HB 2062, I will instruct the Department of Revenue to establish an interim work group that includes the participation of these companies to look at the both the overall tax burden and changing nature of these industries and to develop a set of principles that should guide future decision making. If including intangibles in the assessment is not the way to arrive at a value of an industry we will need the assistance of these companies to identify a preferred option that is equitable, economically efficient and that can be administered with a minimum of litigation. This effort should lay the ground work for an approach to the intangibles issue for the 1999 legislative session.

House Bill 3734

Relating to forest taxation.

Governor's Veto Message (August 15, 1997):

I am returning herewith Enrolled House Bill 3734 to you, unsigned and disapproved. HB 3734 would provide timber companies with an option to move from a "privilege" or severance based tax to a full tax on timber land. This approach would provide the timber industry with an estimated $52 million in tax cuts. While I remain sympathetic with the issue of equity for the timber owners, I do not support HB 3734 as the correct approach to securing it.

My staff and I have spent many hours considering this bill as well as other approaches to timber taxation. During the legislative session I stated my support for insuring that the timber industry receive equal treatment under the provisions of ballot measure 50. I submitted letters of support for the HB 3734-minority report which would have provided the industry tax relief more comparable to that received by the average business.

Most recently I met with representatives of the Oregon Forest Industries Council to discuss the merits of HB 3734.

Since HB 3734 does not become effective until the following biennium there is adequate time to take a second look at this issue and draft an alternative approach for the consideration of the 1999 legislature. It is critically important that any major change in tax policy receive a thorough debate inside the larger context of economic and equity issues. Work in the interim would allow this to happen.

In closing, I would like to recognize the timber industry for the contribution it has made to the overall Oregon economy and particularly to the recent legislative session. Their support of the Oregon Salmon Restoration Plan, progressive landslide prevention legislation and the Oregon Transportation Initiative was significant and needs to be recognized.

Further I applaud their concern that local government services be protected in the course of developing the timber taxation legislation. I look forward to working with the industry on these and other issues.