TONKON TORP LLP
ATTORNEYS

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TO: Jon Stark, Chad Freeman

Cc: OEDA Government Affairs Committee

FROM: Rocky Dallum, Drew Hagedorn, Katy McDowell

RE: 2017 Legislative Session Wrap-up

2017 LEGISLATIVE SESSION OVERVIEW

Three major themes dominated the 2017 session: 1) the state budget and a potential shortfall of approximately $1.8 billion; 2) a push to raise revenue by implementing a new gross receipts tax on corporations; and, 3) addressing Oregon's transportation infrastructure needs.

The legislature managed to balance the budget. Favorable revenue projections in May provided additional funds for the state budget, and project a kicker rebate to taxpayers in 2018. Most notably, a new tax on hospitals and private health insurance plans provided over $500 million to cover Medicaid populations and other health care related services. Overhauling two ballot measures passed in November 2016 realized savings on career and technical education, and outdoor school. Several cost-containment bills limited some new government spending and hiring. Overall, there were no major cutbacks to the big-ticket items (education, public safety, human services), but also, no meaningful reform on the looming public pension fund unfunded liability.

Democrats, public employees and school advocates pushed to implement new corporate taxes, but those efforts fizzled late in session, creating significant friction amongst legislative leadership, political parties, and public employee unions along the way.

The legislature claimed its biggest bi-partisan success by passing a new, massive transportation investment package. The package includes a phased-in gas tax increase for highway maintenance and upgrades to address congestion, a privilege tax on the sale of new vehicles to fund rail and marine infrastructure, a bike tax for new trails and paths, and an employee payroll tax to fund transit throughout the state.

Aside from avoiding major business tax increases, it was not a banner year on the economic development policy front. The legislature allocated bonding capacity to recapitalize several critical infrastructure financing programs, but at levels below the Governor's recommendation. The industrial land coalition (supported by OEDA) obtained changes to the industrial site readiness program, but without funding. Several new rural economic development and workforce bills passed as well. However, Oregon loses several useful tax credits and incentives like the R&D tax credit, new markets tax credit and electronic commerce (e-commerce) zones. The legislature created new labor laws regarding gender compensation disparity, requiring predictive scheduling for some employers, and implementing new restrictions on overtime for manufacturers. OEDA successfully opposed implementation of prevailing wage requirements on private projects that access state incentives, defeated a tax policy proposal that would hamper foreign direct investment, and delayed implantation of changes to urban renewal programs.

OEDA 2017 LEGISLATIVE PRIORITIES

Prior to the 2017 session, OEDA's Government Affairs Committee developed a list of its 2017 legislative priorities. Below is an outline of those priorities and the specific bills that OEDA tracked, supported, or opposed based on those priorities.

Economic Development Resources and Tools

Preserve lottery fund allocations to local governments for economic development programs. Early in session, OEDA worked with Associated Oregon Counties as well as several individual counties to protect and secure lottery dollar disbursements to counties for economic development. During our discussions, we learned about several budget directives in prior sessions that created some uncertainty in economic development funding, and the method for determining allocations. For the 2017-19 biennium, instead of a percentage of the lottery receipts, counties will receive a total of $41,285,992 for county economic development activities (SB 5529).

Partner with Business Oregon and advocate for agency policy concepts and resources, including Regional Solutions, Special Public Works fund, regional accelerators and business incubators. In 2017, OEDA strengthened its relationship with Business Oregon by communicating closely on legislative issues, and strategizing on outreach and targets. In addition to weekly meetings in the Capitol with Business Oregon, Business Oregon provided updates on regular OEDA Government Affairs calls.

OEDA urged membership to reach out to legislators to share success stories and request additional funding for Regional Solutions bonding and operations budgets, as well as recapitalizing the Special Public Works Fund (SPWF). While Business Oregon, and the Governor's original budget, requested $50 million for SPWF, the legislature only allocated $20 million in new bond funding as well as $8 million for Regional Solutions (HB 5530). In addition, Business Oregon survived significant budget cuts (HB 5525) and the state business incubators maintained, or increased budgets, as well.

Finally, OEDA supported Business Oregon's policy bills, particularly expanding the definition of "Traded Sector" (HB 2242), the extension of the sunset for e-commerce zones (HB 2243), and technical amendments to the administration of enterprise zones (e-zones) (HB 2833)

Protect current e-zones and oppose measures that would mandate prevailing wage requirements on private industries within existing or new enterprise zones. This year, the legislature introduced three bills proposing to require prevailing wage requirements on private projects that receive public incentives (HB 2194, HB 2583, SB 291). Similar bills in the past limited prevailing wage requirements to construction in e-zones, but this year broadened the proposal to all state supported projects. OEDA again partnered with local governments and the construction industry in opposition, and all bills died mid-way through session without public hearings.

OEDA supported several other bills addressing e-zones. HB 2066, which passed, included changes to wage rates in rural county e-zones to spur development. OEDA provided testimony on Long-Term Rural Enterprise Zones and the associated tax credits

(SB 173), which unfortunately died in Joint Committee on Tax Credit. As noted above, OEDA worked closely with Business Oregon to extend the sunset on e-commerce zones, but were ultimately unsuccessful (HB 2243).

Expand capability for private and public entities to provide development-ready industrial sites. Since 2013, OEDA has worked with a larger industrial lands coalition to support the Oregon Industrial Site Readiness Coalition. In 2017, the coalition decided to address language changes to the program, but not seek funding. SB 333, which the Governor signed on July 6, eliminates reporting requirements for employers benefiting from the site, instead shifting reporting to the sponsoring local jurisdictions. The coalition also worked with several state agencies to make technical fixes to the statute to clarify administrative issues.

Transportation and Infrastructure Investment

Support legislative proposals aimed at investing and improving Oregon's highway infrastructure for the transportation of Oregon-based goods and services. With so many organizations desperate for a new transportation package (HB 2017, SB 5545, SB 5530), OEDA only played a part in its final passage, but supported the larger effort. After a years' worth of hearings across the state, the legislative Joint Transportation and Modernization Committee developed a major transportation investment package. The package aims to get goods and services moving more efficiently through Oregon by addressing congestion, providing much needed investment in maintenance for local governments (earmarking $10 million for rural counties and small cities), and supplementing rail and marine projects with a new privilege tax on sales of new vehicles.

Explore opportunities for intermodal projects and other infrastructure, including ConnectOregon. ConnectOregon has traditionally been funded through lottery backed bond proceeds. As lottery funds were originally intended for economic development, the bonding capacity has become incredibly oversubscribed, particularly in light of other lottery bond-backed programs - such as Special Public Works Fund and Regional Solutions, also supported by OEDA, and individual legislator requests. This year the legislature allocated $30 million of lottery bond proceeds to ConnectOregon (HB 5530), and will supplement the fund with proceeds from the new vehicle privilege tax (HB 2017). The vehicle privilege tax is projected to generate over $40 million in the 2017-19 biennium, and around $55 million in future biennia, with the bulk of those proceeds going to fund multimodal infrastructure through ConnectOregon.

The transportation package also included a restructuring of the Oregon Transportation Commission and other administrative changes to ConnectOregon, creating a special fund for "projects of statewide significance" that enhance or maintain air, marine, Class I, Class II or Class III railroads. In addition, a new bike tax will create a new funding source for bike and pedestrian projects, freeing up valuable dollars for true, economic development infrastructure investment, and reducing the pressure on available ConnectOregon dollars.

Workforce Development

Enhancing the existing pool of Oregon's skilled workers, including on-the-job training. The OEDA Government Affairs Committee aimed to monitor relevant workforce training bills, albeit with the challenge of narrowing them appropriately to traded-sector results. Workforce development encompasses everything from pre-kindergarten education to college tuition, and on-the-job training.

Several bills passed aiming to optimize workforce development in Oregon. HB 2012 creates an Eastern Oregon Border Economic Development Board that will provide grants for workforce development programs in Eastern Oregon. HB 3437 reorganizes the State Workforce Investment Board and aims to coordinate workforce-training efforts amongst many state agencies. Notably, in regards to workforce development, the legislature reduced the allocation for implementing Ballot Measure 98, a measure providing for additional career and technical education for high school students. Also, 2015's "Oregon Promise" aimed at providing free community college for qualifying students, suffered some changes due to the budget constraints (SB 1032). Several other workforce development bills OEDA tracked died in committee without hearings (HB 2999, HB 3000, HB 3001, HB 3002).

Revenue Issues

Monitor and engage in any discussions related to revenue reform in order to achieve an attractive environment for new industries and businesses throughout Oregon. As noted above, legislators spent significant time during the 2017 session focusing on revenue reform and potential corporate tax increases. Coming off the defeat of Ballot Measure 97 in November 2016, public employee unions and several Democrats voiced their desire to increase corporate taxes during the 2017 session. In addition, Senate Democrats continued their focus on replacing the corporate income tax with a "commercial activities tax" to raise some revenue and reduce volatility in revenue collection.

In the final weeks of session, a bi-cameral proposal emerged, using HB 2038 as the vehicle to abandon the corporate excise tax, implement a temporary corporate income tax rate increase, and ultimately move to a gross receipts tax with varying rates for specific industries. Ultimately, the committee never amended or moved the bill to the full House Floor for a vote. Several groups have already filed ballot measures seeking to implement new corporate taxes or adjust any new gross receipts taxes, and we expect the discussion to continue in 2018.

The House passed, on party lines, an increase on the personal income taxes of some small businesses owners by seeking to roll back the reduction on "non-passive" income (HB 2060). While the bill passed the House after the larger revenue discussions broke down, it died in the Senate.

Oregon's ability to attract foreign direct investment landed in the crossfire over the gross receipts tax discussion. Oregon is one of only two states with a "tax haven" black list in statute, requiring companies in Oregon to include income from certain countries deemed "tax havens" in their Oregon tax returns. OEDA and its members advocated for an alternative to the list (HB 2672) that targets the income-shifting activity, rather than the countries where companies are headquartered. Each biennium, Department of Revenue recommends countries to be added to the list.

This risk to foreign direct investment emerged mid-session as the House Revenue Committee looked for avenues to increase revenue and amended HB 2067 to add Switzerland and the Netherlands to Oregon's list of "tax havens." OEDA joined a coalition of other trade associations to oppose the bill. In addition, OEDA, several members, and local manufacturers met with the revenue committee to express the concerns for attracting growth and new investment from companies in Switzerland and the Netherlands. While the House scheduled HB 2067 for a vote, it was ultimately sent back to committee where it died.

Support tax incentives aimed at increasing Oregon's traded-sector workforce. Given the budget environment and the growing opposition from legislators against tax credits, it was not a good session for economic development focused tax incentives. OEDA supported several bills that died: the Long Term Rural E-Zones program (SB 173); research and development tax credits (HB 2078), new markets tax credit (HB 2155). As mentioned above, in our work with Business Oregon, we supported HB 2243 (e-commerce zones) as well, which also died in the House Revenue Committee. Most of these bills appeared to be casualties of the gross receipts tax debates.

SB 936 provided one success story for economic development tools in 2017. SB 936 increases the increments of property eligible for incentives under the Strategic Investment Program in rural areas. The counties led the efforts on SB 936 and the bill represents a growing imbalance between rural and urban economic development tools.

Other Traded-Sector Issues Monitored by OEDA

The OEDA Government Affairs Committee frequently raises issues or questions over bills that may affect employers and manufacturers. In 2017 several labor and environmental bills emerged during weekly calls. In addition, OEDA coordinated with Association of Oregon Redevelopment Agencies (AORA) in opposing a bill threatening urban renewal.

Labor. The Oregon Legislature continued its recent trend of focusing on new worker protections by: implementing new limits on overtime hours for manufacturing employees (HB 3458); requiring scheduling predictability for retail, hospitality, and food service workers (SB 828); and, ensuring equal pay between men and women (HB 2005).

Environmental. Following the controversy over air quality with several Portland-area companies, the Governor has focused on air quality. Specifically, she made sweeping changes to the Environmental Quality Commission in spring 2017. In the same vein, legislators introduced a bill that would implement stringent monitoring and reporting requirement for air permit holders (HB 2669). Several OEDA members expressed great interest in the outcome of the bill given potential costs to manufacturers. While HB 2669 received several lengthy and passionate hearings, the bill ultimately died in the Joint Ways & Means Committee.

Urban Renewal. The special districts and school boards supported a bill requiring that all taxing jurisdictions receive a seat on urban renewal boards (HB 2470). OEDA opposed the bill, but leaned heavily on the efforts of AORA in killing the bill. The House Economic Development and Trade Committee plans to organize an interim workgroup on urban renewal. OEDA will participate going forward.

CONCLUSION

Legislators spent most of the session focused on budget issues, tax proposals and the transportation package. While the transportation package is a good development for economic development, 2017 was not a smashing success for economic development related tools and programs. Still, avoiding major new corporate taxes, prevailing wage requirements for state incentives, changes to urban renewal, and attacks on foreign direct investment, are all victories for OEDA this session.

The budgetary challenges and focus on corporate tax were major hurdles in preserving or expanding existing programs. However, OEDA's membership outreach was critical in opposition to tax changes, improving the industrial site readiness program, and ultimately helped Business Oregon secure infrastructure funding for SPWF. We continue to see legislators distinguish economic development and workforce needs of rural from those in the metro-area. Finally, expect continued efforts to raise corporate taxes in the 2018, both during legislative session, and on the ballot.