Testimony on House Bill 2070 (-1 amendment)
House Committee on Revenue

Representative Tina Kotek
Speaker of the House
April 9, 2015

Thank you for the opportunity to testify in support of the –1 amendment to House Bill 2070. The –1 amendment replaces the original bill.

The topic under consideration today is the revenue sharing program known as Gain Share. Created by the Legislature in 2007 at the request of Washington County, Gain Share allows state income tax revenue to be shared with local governments who decide to enter into property tax abatement agreements through the state's Strategic Investment Program (SIP), a local economic development tool that has been available since 1993.

SIP arrangements to reduce property taxes for large capital investments have facilitated the recruitment and expansion of high-tech companies in Washington County and the growth of wind farms in Eastern Oregon. House Bill 2070 does not address the Strategic Investment Program. That tool has strong merit, and local governments had a history of entering into SIP agreements prior to the implementation of Gain Share.

Colleagues, I believe we need to revamp Gain Share. We didn't get it right in 2007. I voted for the legislation. As a freshman at the time, I agreed with the notion that counties should receive some portion of the income tax revenue generated by the jobs resulting from SIP agreements. The thinking was counties were choosing to give up some property tax revenue to recruit and retain employers, therefore they should get some help with increased infrastructure needs. And, if you look back at the revenue impact estimate, you'll find it was anticipated to be $600,000 for 2009-11 and $4.5 million in 2011-13.

So how did we go wrong? First of all, we allowed the computation of income tax to include jobs that were already there when SIP agreements in Washington County were approved. Because of this, the payments to counties in 2013-15 ballooned to $62 million. Now, for the 2015-17 biennium, Gain Share payments are expected to be nearly $95 million.

The second thing we miscalculated was the impact that this revenue sharing with particular counties would have on the rest of the state. Since the state's General Fund is the prime funding source for education, human services, and public safety for all 36 counties, we didn't adequately take into account how this generosity would take away from essential services around the state – our schools, our programs for seniors and people with disabilities, our community colleges.

It's time for a reset.

The –1 amendment of House Bill 2070 revises Gain Share in the following ways:

- Redefines the base by calculating income tax revenue on “newly created jobs” only;
- Caps the total distribution from the Shared Services Fund at $10 million per taxing district per biennium;
- Extends the program’s sunset under this new framework to January 1, 2025; and
- Directs any unspent money in the Shared Services Fund to the State School Fund.

Consequently, instead of sending $94.9 million to SIP districts next biennium ($94.2 million to Washington County alone), Gain Share would pay out a more sustainable $10.7 million to SIP districts (with the $10 million maximum to Washington County). A “leftover” amount of $7.9 million would go into the State School Fund.

These changes also would redirect $57.6 back to the General Fund for allocation through the regular budget process for essential services.

Last week, the Senate Committee on Finance and Revenue passed Senate Bill 129-A to Ways and Means. That bill takes a different approach to revising Gain Share. It is essentially a spending plan to change how the currently-calculated SIP-generated income taxes get allocated. The only fundamental change it makes to Gain Share is to modify and extend the sunset. While I support sending more resources to the State School Fund, Oregon State University extension programs, and career and technical education programs in our schools, the changes to Gain Share contained in Senate Bill 129-A do not solve the underlying flaws, unfairness, and unsustainability of the revenue sharing program.

We should do something to support counties who enter into SIP agreements to promote economic development and help local governments serve new residents that accompany major projects. But the offset the state provides must be reasonable and sustainable when placed in the context of all the state’s essential needs.

Colleagues, we must reinvest in our entire state – our schools, quality and accessible child care, universities and community colleges, programs to help seniors and people with disabilities, mental health services, local courts, and the other critical services that Oregonians rely on. Adjusting the formula to reform Gain Share is one step we can take in the larger effort to make these crucial investments possible.

I encourage you to amend House Bill 2070 and pass it to Ways and Means for further consideration.

Thank you for your attention to this important issue.