REVENUE MEASURES PASSED BY THE 78th LEGISLATURE 2016 Session

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OVERVIEW

Oregon's General Fund revenue performed close to expectations through the first quarter of the 2015-17 biennium. In the absence of significant changes to the state's revenue outlook, legislative revenue policy adjustments were focused on tax credit policy, Other Fund excise tax adjustments and completion of property tax legislation started in the 2015 regular session.

Revenue Situation

The March revenue forecast, released during the second week of the 2016 session showed General Fund resources tracking very closely to the close of regular session estimates used when finalizing the 2015-17 Legislatively Adopted Budget. Stronger than expected growth in Lottery earnings provided some additional discretionary revenue for budgetary adjustments during the session.

Table 1 displays the 2015-17 General Fund resource situation and how it changed between the end of the 2015 session and the close of the 2016 session.

Table 1: 2015-17 General Fund/Lottery Revenue Situation

Sources	2015-17 COS Estimates	Updated 2015-17 Estimates	Change
		(in millions)	
Beginning Balance	$532.9	$528.8	-$4.1
Transfer to Rainy Day Fund	-158.9	-158.3	+0.6
Personal Income Tax	15,713.5	15,694.2	-19.3
Corporate Income Tax	1,100.0	1,134.3	+34.3
Other General Fund	1,184.6	1,176.1	-8.5
Administrative Adjustments	-20.2	-14.0	+6.2
Other Transfers	-42.8	-43.1	-0.3
Total General Fund Revenue	18,309.1	18,319.7	+8.9
Lottery resources	1,155.9	1,214.5	+58.6
Transfers to Ed Stability Fund	-203.2	-213.2	-10.0
Net Lottery	952.7	1,001.3	+48.6
Combined General Fund/Lottery	19,261.9	19,320.9	+57.5

The figures in Table 1 include the General Fund revenue impact of measures approved in the 2016 session as well changes to the forecast since the end of the 2015 regular session. After transfers, General Fund/Lottery resources are $57.5 million higher than assumed at the close of the 2015 session. This is primarily due to the surprising strength of Lottery earnings which is reflected in a $58.6 million upward adjustment in the gross earnings forecast.

The projected General Fund ending balance following the March revenue forecast was $319 million. Adjustments to the budget along with the revenue adjustments listed below during the 2016 session left a projected General Fund ending balance of $228.5 million at the end of session. In addition, the Lottery Fund is projected to a have a 2015-17 ending balance of $15 million.

The net General Fund revenue impact of 2016 legislative actions is -$1.7 million. The following measures had an estimated impact on 2015-17 General Fund revenue:

HB 1507 (Miscellaneous tax credit changes): -$0.2 million

HB 4072 (University Venture Development Fund tax credit extension): -$0.5 million

SB 1532 (minimum wage increase): +$2.8 million

HB 5207 (Criminal Fines & Assessments fund shift): -$3.8 million

Key Revenue Measures

This section highlights several key revenue measures passed in the 2016 legislative session. A review of all 2016 revenue measures, including the ones in this section, can be found in the remainder of the report. For a review of measures passed during the 2015 session, see Research Report #3-15. For a review of budgetary actions taken during the 2016 session, see Legislative Fiscal Office (Budget Highlights Update, March 2016).

SB 1507

In addition to a series of technical changes to existing tax credits, SB 1507 modifies the credits for film and video and biomass manure. The annual cap for the film and video credit is increased from $10 million to $12 million for the 2016-17 fiscal year and to $14 million afterward. The credit's sunset date had previously been extended until 1-1-24 during the 2015 session. SB 1507 also extends the sunset for the biomass manure credit from 1-1-18 to 1-1-22 and reduces the credit rate from $5 per wet ton to $3.50 per wet ton. The net General Fund revenue impact of SB 1507 is -0.2 million for the 2015-17 biennium and -$10.3 million in the 2017-19 biennium.

HB 4110

HB 4110 continues the Legislature's policy of expanding the earned income tax credit. During the 2013 special session, the credit was increased from 6% of the federal credit to 8% beginning with the 2014 tax year. HB 4110 increases the credit to 11% for those taxpayers who have one or more dependents less than 3 years old starting with the 2017 tax year. The measure is expected to have no revenue impact in the 2015-17 biennium and reduce General Fund revenue by $10 million in the 2017-19 biennium. Under current law, the earned income tax credit sunsets 1-1-20.

HB 4146

HB 4146 increases the statewide transient lodging tax to 1.8% for a four year period starting on July 1, 2016, beginning July 1, 2020 the rate drops to 1.5%. This marks the first change in the state transient lodging tax since it was established at 1% by the 2003 Legislature. Under current law, transient lodging service providers are allowed to retain 5% of gross collections to cover collection costs. The Department of Revenue is permitted to retain 2% of revenue to offset its related administrative costs. Net revenue generated by the tax is managed by the Oregon Tourism Commission.

HB 4146 modifies how the revenue from the tax is allocated. Under previous law the Tourism Commission may spend up to 15% to implement the regional cooperative tourism program. HB 4146 requires the commission to spend 20% of revenue on the program and further allocates 10% for a competitive grant program that may include tourism related facilities or events. The measure also requires the commission to provide the Legislative Fiscal Office with annual reports on how funds are spent and directs the Legislative Revenue Office to study policies related to distribution of revenue.

The higher tax rates are expected to increase revenue $12.7 million in the 2015-17 biennium and $27.4 million in the 2017-19 biennium after allowance for collection costs.

SB 1565

SB 1565 establishes a temporary property tax exemption designed to encourage industrial development in rural parts of the state. The exemption becomes effective only after an ordinance or resolution is issued by a county or city. Local governing bodies that constitute at least 75% of the combined tax rate on the qualified property must approve of the ordinance or resolution for it to take effect.

Under the measure, the property tax exemption is equal to 100% of real market value for any three of five consecutive tax years. The local governing body may extend the exemption to a full five years or provide deferral of taxes rather than an exemption. To be eligible, investment must be at least $1 million and be located in a rural area. Rural areas are defined as those outside an urban growth boundary of a city with population greater than 40,000. Local authority to grant new exemptions sunsets on 1-1-24.

The revenue impact of the measure is dependent on local government decisions. The average tax rate in the 2014-15 tax year, including schools and all other taxing districts, was $12.27 per $1,000 of real market value. Using the statewide average, an exemption on a $5 million investment would temporarily reduce revenue by about $61,000 annually.

SUMMARY OF INDIVIDUAL REVENUE BILLS

PERSONAL AND CORPORATE INCOME TAX

HB 4072 (CH 31)

Reinstates the tax credit for University Venture Development Fund contributions by moving the sunset date from January 1, 2016 to January 1, 2022. Changes the structure of the tax credit from a maximum $50,000 taken over three years to a one-year tax credit up to $600,000 with a three year carryforward. Maintains the existing program cap of $8.4 million but reorganizes how credits are allotted among the universities.

Revenue Impact (in $Millions):

	Fiscal Year			Biennium		
	2015-16	2016-17		2015-17	2017-19	2019-21
General Fund	**$0**	**-$0.5**		**-$0.5**	**-$1.7**	**-$1.8**

By maintaining the prior program cap of $8.4 million this bill would allow the issuance of up to $4 million in tax credits by tax year 2021. (Roughly $4.4 million has been issued to date.) This impact assumes they will be issued in a roughly uniform manner over that time period, with the exception that the existing sunset date may have had on current donations. In tax year 2013, roughly 85 taxpayers claimed $550,000 in tax credits. Of that total 97% were used to reduce tax liability.

The estimated impact does not include the potential impact from repayments made to the General Fund. As universities reimburse the General Fund, they effectively create room under the program cap for additional tax credits to be issued. Since 2008 roughly $500,000 has been repaid.

The estimated impact also does not include the secondary impacts of income tax collections from individuals employed by the affected start-up companies. Preliminary survey data suggest that the affected companies employed roughly 270 individuals in 2015. Assuming a higher than average wage rate, roughly one million dollars in personal income tax would have been owed in 2015.

Policy Purpose Statement:

The policy purpose of this measure is provided in Section 5 of the bill and in ORS 350.550(1): To facilitate the commercialization of university research and development.

HB 4025 (CH 33)

Updates connection to the Internal Revenue Code and to other provisions in federal tax law from December 31, 2014 to December 31, 2015. Updates references in the governing statutes of the Public Employees Retirement System (PERS) to federal law that establishes taxable income, affects annual benefits payable to members, specifies rules around minimum distribution requirements under certain circumstances, and relates to benefits and service credit for a period in the uniformed services. Updates connection to the federal code that defines shareholders in S corporations who may represent their companies in proceedings before the tax court magistrate or the Department of Revenue. Updates connection to the Internal Revenue Code to define which organizations may qualify for consideration for a charitable tax checkoff. Updates statutes governing the Oregon College Savings Plan, Individual Development Accounts, and unemployment insurance to connect to the latest version of the Internal Revenue Code as of December 31, 2015. Specifies that if a refund is due a taxpayer for a tax year beginning before January 1, 2016 due to any retroactive treatment from these federal tax law connection changes then the refund will be paid without interest and cancels the interest or penalties from any deficiencies caused by the reconnect. Makes changes to ABLE account eligibility to reflect changes in federal regulations.

Revenue Impact (in $Millions):

	Fiscal Year			Biennium		
	2015-16	**2016-17**		**2015-17**	**2017-19**	**2019-21**
General Fund	$0	$0		$0	-$2.0	-$5.4

Oregon has a “rolling reconnect” in which it ties to the federal taxable income as it is in the Internal Revenue Code (I.R.C.) each year. The reconnect bill changes dates in statutes that reference the I.R.C. The revenue impact from the dates changed in the annual reconnect bill is much smaller than the impact from the automatic reconnect. Changes to federal tax law occurred under the “Protecting Americans from Tax Hikes Act” in 2015. Most of these changes are automatically adopted by Oregon, but the reconnect bill changes the dates of reference to the I.R.C. The Earned Income Tax Credit (E.I.T.C) in Oregon is 8 percent of the federal Earned Income Tax Credit. Since this measure updates the connection to the I.R.C., it incorporates changes to the E.I.T.C. at the federal level at the state level. In recent years, there has been a credit percentage of 45% for taxpayers with three or more qualifying children. This change was made permanent in the “Protecting Americans from Tax Hikes Act.” Previously, the provision was scheduled to sunset in tax year 2017. The reconnect bill would therefore make the change permanent, affecting tax years 2018 and beyond. The income brackets for married filers has been elevated by $5,000. That change has been made permanent at the federal level as well.

HB 4110 (CH 98)

Increases the Earned Income Tax Credit (EITC) from 8% to 11% of the federal credit for taxpayers with a dependent under the age of three. Applies to tax years 2017 through 2019. Clarifies the meaning of the term 'conveyance' so that the partial transfer of property for state highway, county road or city street purposes is exempt from the requirements of ORS 311.411. Grants a two-month extension for an energy conservation project in Harney County. Modifies the statutory duties of the Director and Deputy Director of the Department of Revenue

Revenue Impact (in $Millions):

	Biennium		
	2015-17	2017-19	2019-21
General Fund	$0	-$10	-$5

The table reflects only the revenue impact for the change in the EITC; it is based on an analysis of tax returns focusing on the age of dependents as reported by taxpayers. An estimated 58,000 taxpayers will have a tax reduction from the policy change. Their average credit is projected to increase from $229 to $315. The change to the definition of 'conveyance' is expected to have a minimal impact on property tax collections. The other two changes have no revenue impact.

Policy Purpose Statement:

The policy purpose of the change to the EITC is to provide additional assistance to working families with young children.

SB 1507 (CH 29)

Makes technical corrections to the rural medical provider, personal kicker, and residential energy tax credits. Imposes an annual per taxpayer cap of $500,000 for the credit for donations related to the Individual Development Account program. Generally applies to tax years 2016 and later. Increases the annual program cap on Film & Video tax credits from $10 million to $12 million in 2016 and then to $14 million in 2017. Modifies how the resources are allocated. Extends the Biomass Manure tax credit through January 1, 2022 and reduces the tax credit rate from $5 per wet ton to $3.50 per wet ton beginning with tax year 2016.

Revenue Impact (in $Millions):

	Fiscal Year			Biennium		
	2015-16	2016-17		2015-17	2017-19	2019-21
General Fund	$0	-$0.2		-$0.2	-$10.3	-$17.5

The revenue impact is due solely to the changes in the Film & Video and Biomass Manure tax credits. The estimates are based on the historical use of the tax credits and their projected future use. The increase in the Film & Video tax credit results in a revenue loss of roughly $1.8 million in the first year and gradually increasing to a revenue loss of $4 million per year. The lower tax credit rate for the Biomass Manure tax credit results in a revenue gain of roughly $1.6 million for tax years 2016 and 2017. (The credit had been scheduled to sunset on 1/1/2018.) The extension beyond 2017 results in a revenue impact that grows from -$4.3 million in 2018 to -$4.9 in 2020.

Policy Purpose Statement:

The policy purpose of the change in the Film & Video tax credit is to increase the capacity of the state to develop a sustainable infrastructure for this industry in Oregon.

The policy purpose of the change in the Biomass Manure tax credit is to increase the capital investment in manure digesters.

PROPERTY TAX AND LOCAL GOVERNMENT FINANCE

HB 4081 (CH 40)

Extends sunset from June 30, 2018 to June 30, 2022 for property tax exemption available to property of a nonprofit corporation that, for tax year 2012-13, was actually offered, occupied or used as low-income housing and granted exemption under ORS 307.130 by the county in which property is located.

Revenue Impact (in $Millions):

	Fiscal Year			Biennium		
	2015-16	2016-17		2015-17	2017-19	2019-21
Local Governments	N/A	N/A		N/A	-0.3	-0.5
Local Education Districts	N/A	N/A		N/A	-0.2	-0.4
Total Revenue Change	N/A	N/A		N/A	-0.4	-0.9

The revenue impact is based upon responses received from county assessors detailing the amount of property receiving exemption under ORS 307.130 as it relates to exemption provided in Chapter 7, OR Laws 2014 (HB 4039 - 2014).

Absent extension of sunset, properties currently receiving exemption under ORS 307.130 as it relates to provisions in HB 4039 (2014), would no longer be exempt under ORS 307.130. This interpretation of current law is based upon the vacated Oregon tax court decision in Corvallis Neighborhood Housing Services Inc. v. Linn County Assessor (decided February, 2013).

Policy Purpose Statement:

The purpose of this measure is to provide exemption certainty, while the legislature is examining property tax exemptions for nonprofits generally, for nonprofit owned low-income housing that was receiving exemption under ORS 307.130 as of July 1, 2012.

HB 4084 (CH 96)

The measure authorizes certain local governments to adopt ordinance or resolution providing property tax incentive programs that grant special assessment to brownfields or exemption to new and existing improvements and personal property on brownfields for period of up to 10 years, with additional period up to five years based on locally adopted criteria. The measure caps dollar amount of benefits at specified eligible costs for property, eliminates statutory citation that refers specifically to Portland Harbor (the intent is for this exclusion to apply to all federal Superfund sites). Clarifies that tax incentives end when end of time period called for in local ordinance or resolution, or when total tax benefit exceeds eligible cleanup costs. The measure requires that threshold for agreement among taxing districts to be agencies adding up to 75% of the tax rate. Clarifies that owner who contributed to or exacerbated contamination is not eligible to participate in program. Clarifies that tax incentives are associated with the property rather than with the owner, and lays out requirements for new owner to continue to receive benefits after property changes hands. Provides that eligible costs equal discounted present value of estimated after-tax costs directly related to remaining work necessary to remove, contain or treat contamination of brownfield. Provides for clawback of property tax incentive program benefits upon disqualification for failure to comply with eligibility requirements or make reasonable progress on remediation or redevelopment or for misleading or false statements in application to participate in incentive programs. Finally the measure sunsets authority to adopt ordinance or resolution on January 2, 2027.

Background:

HB 2734 of the 2015 session authorized local government to establish a Land Bank Authority. HB 2734 detailed the process of establishment, the purpose and mechanism of governance for the LBA. It also provided for the legal terms of ownership, bonding authority and disillusion of the authority. The element dealing with property tax exemption and abatement was pulled from the bill in 2015 since it had both technical and political problems that needed more work and resolution. This bill attempts to introduce a solution for those issues in order to introduce a second option for the treatment of brownfields. This measure introduces a second tool that will help in resolving another segment of the block of properties which exist within the definition and the frozen statues of brownfields. As defined in ORS 285A.185, a “brownfield” is real property where expansion or redevelopment is complicated by actual or perceived environmental contamination. Brownfields must be cleaned up before they can be reused for jobs, housing, and other community needs.

Revenue Impact: The measure has a revenue impact that is indeterminate for the following reasons:

The measure gives the governing body of local government the authority to adopt a program with time length and process for the tax treatment of brownfields properties. The number of local governing bodies who (agree at the 75% level of taxing districts) are likely to take advantage of this measure is not known. Furthermore they will have a choice of property tax incentives. Whether they choose exemption from taxes or special assessment of value or both will depend on what the local government sees more conducive to its own circumstances. After that the number of properties that will take up and exercise this new offering of this new provision is also not known.

However, this measure is expected to contribute in creating a market for the brownfields properties and help in allowing for the cleanup and mitigation of these properties. By providing a level of incentive (based on property tax) a new market segment will be created and that will allow a whole layer of that block of properties that otherwise is not easy to move to become included and reintroduced in the market for commercial property. The result that can be expected after 10 to 15 years of tax reductions and incentives, is that a number of properties might be reintroduce to the tax rolls (after being developed and cleaned up). These properties have not been considered previously taxable at normal levels when they were frozen by their contamination and lack of incentive to clean up and decontaminate.

SB 1506 (CH 105)

Modifies the minimum expenditure requirement for the property tax exemption available to qualified machinery and equipment used to process grains or bakery products. Changes requirement for qualified machinery and equipment from minimum real market value of at least $100,000 when placed in service, to total cost of initial investment to food processor of at least $100,000. Applies to property tax years beginning on or after July 1, 2016.

Revenue Impact: Minimal

The definitional change is technical in nature and is expected to have no more than a minimal effect, if any, upon exemption qualification and property tax revenue.

SB 1513 (CH 56)

Allows county, by ordinance or resolution, to exempt up to $250,000 of assessed value of homesteads of surviving spouses of a fire service professional, police officer or reserve officer killed in the line of duty. Requires surviving spouse to remain unmarried in order to qualify for exemption. Applies exemption to all ad valorem property taxes imposed by all taxing jurisdictions on the homestead. Defines homestead as real or personal property that is an owner-occupied primary residence and tax lot upon which the dwelling is located.

Revenue Impact:

The measure as amended allows but does not require counties to provide an exemption. As the measure is permissive, no direct revenue impact exists.

According to the Oregon fallen police and firefighter memorials, since 1970 about 70 police officers and 55 fire service professionals have died in the line of duty. Since 1995, the respective numbers are about 25 police officers and 30 fire service professionals.

Depending upon location of homestead, the average loss in tax revenue that would result from exempting $250,000 in assessed value ranges from $2,700 to $3,900.

Policy Purpose Statement:

This measure shows support for police, firefighters, and their families and to send a message of support to first responders.

SB 1533 (CH 59)

Allows city or county to adopt land use regulation or functional plan provision, or impose as a condition of approving permit, requirements that effectively establish sales or rental price for multifamily structure or require multifamily structure to be designated for sale or rent as affordable housing. Requires city or county to provide developers the option to pay an in-lieu fee in amount determined by city or county. Requires city or county to offer developers that do not elect to pay in-lieu fee one or more of specified incentives. Requires adopted incentives, to be related in a manner determined by city or county, to the required percentage of affordable housing units.

Allows city or county to impose a construction tax that conforms to requirements provided in measure. Specifies distributions of construction tax receipts. Prohibits local government or local service district, or a special government body from imposing construction tax with exception for city, county or school district. Allows existing construction taxes to continue being imposed under specified limitations.

Revenue Impact:

Measure provides permissive authority to city and county governments but does not require adoption of measure content and as such, no direct impact upon revenue exists. Measure includes provisions for allowing as incentives to housing developers, existing property tax full/partial exemptions. Measure specifies instances where qualification criteria is expanded from 60 percent of the area median income to 80 percent.

Policy Purpose Statement:

This measure aligns qualification for property tax exemptions, to be used as developer incentives, with the definition of affordable housing contained in measure.

SB 1565 (CH 112)

Allows county or city, by ordinance or resolution, to provide property tax exemption or deferral for newly constructed or installed industrial improvements with cost of initial investment of at least $1 million. Requires property tax exemption to be granted equal to 100 percent of qualified property's real market value for any three out of five consecutive property tax years. Allows city or county to specify in ordinance or resolution any number of years not greater than five for which the exemption shall be granted and the percentage of the real market value of the qualified property granted exemption for each year. Requires governing bodies, representing 75 percent or more of total combined rate of taxation on qualified property, to agree to ordinance or resolution in order for ordinance or resolution to take effect. Requires applicant and the governing body of the city or county to enter into agreement that includes specified employment requirements. Requires property to be located in an area located entirely outside of the urban growth boundary of a city with a population of 40,000 or more. Allows city or county to grant deferral of property taxes instead of exemption within same parameters of exemption. Authority of county or city to provide exemption and deferral sunsets on January 2, 2024. Takes effect on the 91st day following adjournment sine die.

Revenue Impact:

Property tax exemption and/or deferral is permissive to local governments, and as such, no direct revenue impact exists.

As an example of potential revenue loss, a qualifying project valued at $4.1 million in real market value would translate into an average revenue loss of $35K to general government districts and $23K to education districts. As measure provides permissive authority to county and cities to provide exemption from property taxes, any impact upon revenue will depend upon adoption of exemption at local government level.

Policy Purpose Statement:

This measure allows cities and counties the ability to provide temporary property tax relief to industrial property owners newly constructing or installing qualified industrial improvements in rural areas, thereby encouraging business investment in such property and contributing to overall economic development.

MARIJUANA LEGALIZATION AND TAXATION

SB 1511 (CH 83)

The measure directs Oregon Liquor Control Commission to register qualified marijuana producers, marijuana processors, marijuana wholesalers and marijuana retailers who intend to be in business for purposes of producing, processing and selling marijuana and usable marijuana and medical grade cannabinoid products, cannabinoid concentrates and cannabinoid extracts.

Background:

The 2015 session allowed the early start program for marijuana sales. The medical dispensaries were allowed to sell to all customers and act as a commercial dispensaries. However, that early start allowance was limited to flowers and leafs, this measure expands the base of the program to edibles and extracts.

Revenue Impact:

The measure is likely to generate close to $1 million in new revenue during the 15-17 biennium.

Most of this increase in revenue is a result of allowing the early start medical dispensaries to sell edibles, extracts and topicals. Some revenue will be increased in 15-17, 17-19 and beyond as a result of more users utilizing the commercial outlets and away from the reduced number of medical dispensaries. However, the impact of combining the distribution channels of the medical and commercial is not clear, and might cause some confusion in the system until it stabilizes.

Impact Explanation:

The measure requires OLCC to register businesses of medical purposes if they join the system to sell marijuana and marijuana products. It also provides definitions and requires OHA to adopt rules allowing for the provision, transfer, and sale of usable marijuana. OHA is required to prescribe levels of tetrahydrocannabinol concentration permitted in a single serving for both medical and recreational users.

While the measure prohibits taxation of retail sales made to a medical registry identification cardholder or their designated primary caregiver and clarifies that the local option sales tax does not apply to medical marijuana; it expands “early start” retail sales to include edibles, topicals, and extracts.

Albeit it sets daily limits on sales of edibles and prefilled carbon dioxide vaporizer cartridges containing marijuana extract; Exempts producers from canopy limits under specified conditions and provides that limits on mature marijuana plants does not apply until April 1, 2016 or to a person who has applied for an OLCC license.

OLCC and OHA expect to experience the most significant fiscal impacts as a result of the measure. OLCC anticipates incurring staffing and costs in the amount of $250,000 annually, while OHA anticipates a significant decrease in fee revenue as registrants become OLCC licensed. While OHA would experience some cost reductions as a result, it is likely that the revenue reduction would occur sooner than the costs can be reduced. This increased costs and reduced fees and the lack of synchronization will lead to less net revenue to be transferred to the dedicated uses, particularly in the first 3 to 4 years.

HB 4014 (CH 24)

Repeals requirement that licensed marijuana producers, wholesalers, processors, and retailers be resident of Oregon for two years for both commercial and medical establishments. Directs OLCC to adopt rules allowing OHA registrants who apply for licenses to transfer inventory into the commercial system. Prohibits retailer from discounting marijuana item or offer marijuana item for free if sale of item is made in conjunction with retail sale of other item. Requires OLCC to increase viability of marijuana growers of limited size and revenue.

Allows governing board of city or county to repeal ordinances prohibiting establishment of one or more types of licensed or registered marijuana establishments. Allows Governor or Governor's designee to enter into agreements with federally recognized Indian tribes to allow for cross-jurisdictional enforcement and coordination of marijuana-related businesses on tribal lands. Allows all marijuana establishments to deduct business expenses allowable under section 280E of the Internal Revenue Code when filing a state tax return.

Background:

The 2015 session allowed for the taxation of marijuana on the point of sale. The medical dispensaries were allowed to sell to all customers and act as a commercial dispensaries. A residency of two years was required and cities and counties were given the choice and the process by which they could opt out of the system. Some needed fixes for issues and difficulties were identified, taken and fixed during the 2016 session.

Revenue Impact: The measure is likely to have impacts, but they are indeterminate for the following reasons:

Different parts of the bill interact with the legal marijuana market in various ways to produce impacts that might not all be operating in the same direction. While allowing segments of the medical system to integrate with the commercial market will produce more consolidation and ease of enforcement for tax collection and monitoring of the system, the smaller canopy and allowance for lower fees and less stringent requirements for small producers may have the opposite effect. In the same way, relaxed residency requirements interact with expedited card issuance requirement, sale of excess products, and transfer of inventories.

The revenue impact of new compacts and agreements (to be reached) with the native tribes on the participation into the different segments of the market is not clear. Similarly unknown, would be the level and size of the market and tax revenue that will result from the reintroduction of the commercial markets in previously opt-out local areas.

The allowance of the OMMP businesses, which are usually small and organized as nonprofits, to deduct their business expense not allowed by IRC 280E is expected to have a minimal impact. The ability of DOR to impose interest and penalties might also produce small amounts of revenue. However, the clearer level of penalties and violation might make it easier for law enforcement to impose and for the courts to collect those fines.

Finally, the new requirements workgroups, and programs required from the OLCC and OHA and perhaps Agriculture is likely to produce higher costs that might not all be covered by licenses and fees. If these programs are funded and compensated from the marijuana tax revenue, then the approximate $4 million in 15-17 and $7 million in 17-19 will be deducted from the revenue otherwise available for distribution to law enforcement, common school fund, local governments, addiction and other programs as prescribed by law.

SB 1598 (CH 23)

Exempts certain applicants for license to produce marijuana from requirement that land use compatibility statement be obtained. Makes other changes to marijuana programs. Repeals sections of House Bill 4014 A and Senate Bill 1511 A relating to taxation of cannabis. Sets operative dates for specific provisions of the measure.

Background:

The session passed two bills (.HB 4014 and SB 1511) with provisions that needed to be in a taxation regulation bill. This bill was introduced to allow for the taxation issues to work properly.

Revenue Impact: The measure is likely to have a minimal impact.

The measure requires OLCC to create a permitting process, which includes worker training, for producers, propagators, and processors. It also creates a new category of dispensary, a non-profit dispensary, which, under rules to be adopted by OHA, would be allowed to receive gifts or bequests of marijuana and to provide marijuana products free of charge or at a discounted price to a registry cardholder who is at or below the federal poverty level. This is likely to result in a minimal impact on revenue.

OLCC estimates costs associated with the increased number of workers in the marijuana industry that will require permits, background checks, and associated worker training. The cost is likely to reduce net revenue to the different legally specified uses by the amounts that is not recovered by permit fees.

Counties and cities may adopt local ordinances and enforcement, however, the anticipated impacts are also likely to be minimal.

This bill removes the tax regulation provisions in HB 4014 and SB 1511. Those provisions will be treated in SB 1601.

TRANSIENT LODGING TAX

HB 4146 (CH 102)

Increases state transient lodging tax rate from the current 1 percent to 1.8% till July 2020, then it goes down to 1.5% from that date forward.

Revenue Impact:

Increases the transient lodging tax from 1% to 1.8% for four years, then to 1.5% after that. It also changes the distribution of revenue from current law.

New revenue		BN 15-17	BN 17-19	BN 19-21	BN 21-23
Gross revenue		$13.6	$29.4	$25.9	$21.6
collection allowance	5.0%	($0.7)	($1.5)	($1.3)	($1.1)
DOR allowance	2.0%	($0.3)	($0.6)	($0.8)	($1.1)
Available Revenue		**$12.69**	**$27.38**	**$24.05**	**$20.10**
Regional	20%	$2.54	$5.48	$4.81	$4.02
Grants	10%	$1.27	$2.74	$2.41	$2.01
Tourism Commission		$8.88	$19.16	$20.82	$18.21

Current law revenue is also subject to the new distribution. Current law distribution has a ceiling of 15%, however the actual amounts are discretionary. This makes the increase in revenue going to the Tourism Commission inversely related to the percentage currently distributed. Currently the commission receives an average of $37 million a biennium before distribution to regionals.

Impact Explanation:

The amended bill changes the tax rate in two stages, adds a 10% regional grant distribution, and increases the regional distribution to 20% from the current discretionary language. Requires the Tourism Commission to report on expenditure and grants greater than $2 million to the Legislative Fiscal Office. The amounts shown as 20 % for the grant program and the regional distributions would actually be larger as a result of the bill operating in the same fashion on new and existing revenue streams (by $11 million a biennium). Providing that current law revenue is distributed at 12% level, the amendment leaves the tourism commission with a 43% increase in revenue. The total revenue (new and existing) to the tourism commission is expected to average about $47 million in a biennium, going down to $42 million when the rate reduces at the start of 2021 fiscal year.

LOTTERY REVENUE

HJR 202

Proposes amendment to Oregon Constitution to require 1.5 percent of lottery revenues to be expended for benefit of veterans.

Background:

The HJR doesn't cause an impact on its own. The resolution calls for referring the issue to the voters, which will cause the financial estimate committee to quantify the impact and include it in the voter pamphlet.

Revenue Impact (in $millions):

That 1.5% dedication is $9.4 million during the average year for that forecast period. The lottery revenue dedicated to veterans is likely to be around $18.8 million in each of the two biennia following its passage.

Impact Explanation:

The Constitution, originally, dedicated the net lottery proceeds to the purpose of creating jobs and furthering economic development. This was expanded by Measure 21 (May 1995) to include financing public education, and by Measure 66 (Nov 1998) to include restoring and protecting Oregon's parks, beaches, watersheds, and critical fish and wildlife habitats. Measure 21 also gave lottery bonds first claim on lottery proceeds and dedicated 15% of net proceeds to the Education Endowment Fund. Measure 66 dedicated 15% of net proceeds to the Parks and Natural Resources Fund with 50% dedicated to parks and recreational areas and 50% dedicated to fish and wildlife habitats. Measure 19 (Sept. 2002) converted the Education Endowment Fund to an Education Stability Fund, transferred $150 million of the principal to the State School Fund, and increased the lottery dedication to 18%. If the balance in the Stability Fund reaches 5% of General Fund revenue, the lottery dedication is reduced to 15% and deposited in a new school capital matching Subaccount. The 2005 legislature (HB 3466) repealed lottery games on sporting events starting in July 2007. The same bill also dedicated 1.0% of lottery proceeds to fund sports programs at Oregon universities. Measure 76 (Nov. 2010) made the 15% dedication to parks and natural resources permanent and allocated 12% to regional parks and grants. If this resolution is adopted by the voters the lottery will have an additional 1.5% dedicated to veterans, which will bring the total constitutionally dedicated revenues to 34.5%.

BONDING AND DEBT

SB 5202 (CH 66)

Revises amounts authorized for issuance of general obligation bonds of state during 2015-2017 biennium.

Revenue Impact:

The bond bill includes the bond proceeds as revenue and the debt service payment as negative revenue or a transfer out.

GENERAL OBLIGATION BONDS	Program Designation	Projects Approved in 2016 Session (HB 5202)		Debt Service 2015-17	Debt Service 2017-19
XI-G	Higher Education Coordinating Comm. - CC	5,070,000		-	(975,949)
XI-Q	Department of Administrative Services	81,095,000		(1,866,167)	(2,737,988)
XI-F(1)	Higher Education Coordinating Comm. - PU	3,240,000		-	(9,746,967)
	Total	89,405,000		(1,866,167)	(13,460,904)
REVENUE BONDS					
	Department of Energy	(20,000,000)			
	DAS Lottery Revenue Bonds	11,330,000			($909,149)
	Total	(8,670,000)			(909,149)

Impact Explanation:

The detail of the bonding revenue and payments as well as the projects can be found in the LFO budget report.

FINANCIAL MANAGEMENT AND ADMINISTRATION

SB 5201 (CH 65)

The budget measure adjusts seven existing allocations of lottery revenues from the Administrative Services Economic Development Fund, and establishes one new allocation.

The measure also increases allocation from the Criminal Fine Account (CFA) of $3,853,875, thereby increasing total CFA allocations for the 2015-17 biennium to $76,306,988.

Revenue Impact:

Allocation increases from the Criminal Fine Account (CFA) of $3,853,875 and since unallocated CFA revenue is transferred to the General Fund, these increases have the effect of decreasing the 2015-17 biennium General Fund revenue by the same amount. The CFA transfer to the General Fund is forecast to total $61,617,982, approximately $1.2 million higher than in the close-of-session forecast despite the CFA allocations contained in this bill.

Impact Explanation:

The Oregon Lottery collects revenues from traditional and video lottery gaming. It pays player prizes and its operating expenses out of these revenues and then transfers the balance (net profits) to the Administrative Services Economic Development Fund (EDF). The Department of Administrative Services then distributes funds from the EDF in adherence with constitutional and statutory funding priorities, including specific legislative allocations

Funds that are not allocated from the CFA account transfer to the general fund. The February forecast showed increases and allocations are made in this bill. The LFO budget report offers more detail of the allocation and agency effect. Moreover, the lottery forecast increase is anticipated in the forecast of available resources, but this bill allocates the resources to the different funds in each fund and agency detail.

HB 4094 (CH 97)

Exempts financial institutions providing services to licensed businesses in the marijuana industry from certain Oregon criminal laws. Directs Oregon Liquor Control Commission (OLCC), Oregon Health Authority (OHA), and Department of Revenue to provide, upon request, financial institutions with information on licensees or permit holders in the marijuana industry. Prohibits financial institution from sharing this information except as specified. Directs Department of Consumer and Business Services (DCBS) to study, among other items, the federal laws, regulations and administrative actions related to providing financing and other financial services to businesses in the marijuana industry. Requires agency to report to Legislative committees by January 1, 2017.

Background:

Marijuana is federally classified as a Schedule 1 drug, thus offering financial services to marijuana businesses introduces difficulties to financial institutions. Even with the legalization of marijuana in Oregon, businesses in the marijuana industry are still to find financial institutions to serve their needs. Currently, Oregon criminal laws treat financial institutions as conspirators by association with their marijuana business clients. Moreover, state-chartered financial institutions maintain federal depository insurance and need to be in compliance with Federal requirements and criminal concerns. Guidance issued by the U.S. Department of Justice (referred to as the Cole Memorandum) and by the federal Financial Crimes Enforcement Network (FinCEN) requires due diligence and monitoring requirements for financial institutions servicing businesses in the marijuana industry. However, the guidelines do not provide protection from potential criminal actions.

House Bill 4094-A is intended to provide financing and other financial services for Oregon's legal marijuana businesses by exempting the financial institutions providing such services from certain Oregon criminal laws. The measure also requires the OLCC, OHA, and Department of Revenue to provide information on the license and permits holders in the marijuana programs they regulate when requested by a financial institution so that

Revenue Impact: The measure is likely to have indeterminate impact for the following reasons:

This is intended to provide options for Oregon's legal marijuana businesses by exempting them from related Oregon criminal laws. The measure also requires the OLCC, OHA and DOR to provide information on the license and permits holders in the marijuana programs they regulate when requested by a financial institution. That will help the financial institutions meet federal guidelines without allowing the financial institutions to disseminate, release or otherwise make this information available. Some level of federal government cooperation is necessary to achieve significant efficiency gains.

If this measure succeeds in providing a more modern banking services to the marijuana industry, it will be a catalyst for a much smother process of transferring money and paying taxes electronically. This will be an improvement in the process of collection and an advancement in the efficiency of keeping books and records.