

HOUSE REVENUE COMMITTEE

MARCH 1, 1999 ñ 8:30 A.M. - HEARING ROOM A - STATE CAPITOL BUILDING

Members Present: Rep. Ken Strobeck, Chair

Rep. Anitra Rasmussen, Vice Chair

Rep. Deborah Kafoury

Rep. Jeff Merkley

Rep. Diane Rosenbaum

Rep. Lane Shetterly

Rep. Jim Welsh

Rep. Max Williams

Rep. Bill Witt

Staff: Lizbeth Martin-Mahar, Economist, Legislative Revenue Office

Richard Yates, Economist, Legislative Revenue Office

Barbara Guardino, Committee Assistant

Witnesses: Rep. Jackie Taylor, Columbia County

Jim Manary, Oregon Dept. of Revenue

Gary Bauer, Oregon Telecommunications Association

Daurell Bell, AT&T

Bob Strong, R. Strong & Assoc.

Steve Winslow, Voice Stream Wireless

Tom Linhares, Columbia County Assessor

Roger Martin, Alaska Airlines

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005 Chair Strobeck Called meeting to order at 8:37 a.m. Opened public hearing on HB 2050.

PUBLIC HEARING ñ HB 2050

016 Jim Manary Slide presentation concerning appraisal, examples of intangibles
Slide 1: Cost Approach: Three Year Old Office Building

053 Manary Slide 2: Income Approach: Three Year Old Office Building

070 Manary Slide 3: Comparable Sales Approach

- Three similar building sell
- Indicated value

095 Manary Slide 4: Evaluate Indicators: Three Year Old Office Building
Which approach has the best data?

110 Manary Slide 5: Multiple Indicators

- Balance weakness of data in each approach
- Allow best indication

146 Manary Slide 6: FCC License

- Purchased in bid auction ñ \$75,000,000
- Booked for ñ \$75,000,000

178 Manary Slide 7: Customer Base
Slide 8: BPA Intertie

230 Manary Slide 9: Effect of M50: Typically Centrally Assessed Company

Based on a house model; business property tends to depreciate; residential tends to appreciate.

275	Rep. Jackie Taylor	Introduced proposed amendments, HB 2051 (EXHIBIT 1). Would exclude Trojan Nuclear Plant from the bill. Trojan provides 12% of Columbia County revenues, and school district would lose \$1.5 million.
329	Lizbeth Martin-Mahar	<p>Reviewed Revenue Impact of Proposed Legislation (EXHIBIT 2). Exempts intangible personal property from taxation for centrally assessed utility companies. It also adds franchises and licenses to the list of intangible personal property.</p> <p>Used two sets of numbers for two separate estimates, by Dept. of Revenue and by industry, to determine estimates of intangibles.</p>
358	Martin-Mahar	<p>Four primary differences in these two estimates of intangibles. They drive the differences in the revenue impact.</p> <ol style="list-style-type: none"> 1. Airlines claim higher exempt estimate for their intangible value of 22.4% 2. Communications companies would like to be valued by cost approach 3. Electric companies disagree between contracts and contract rights 4. Railroad industry wants to remove entire appraisal value of software
458	Martin-Mahar	Summarized: Revenue measures could be between \$30 and \$61 million in next two biennia. Range of intangibles that cannot be evaluated at this time. Future growth of intangibles is expected, but this was not considered in the estimates.

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031	Martin-Mahar	<p>Directed members' attention to Oregon Utility Roll (EXHIBIT 3).</p> <p>Page 1: Real market value by industry</p> <p>Page 2: 1998 Real market Value Expressed as a Percent</p> <p>Page 3: Intangibles Exemption Analysis</p> <p>Page 4: HB 2050 ñ Reasons for Differences in Estimates of Intangibles</p> <p>Page 5: Revenue Impact ñ Breakdown by Year and County</p>
077	Martin-Mahar	Page 6: Final point: Property Tax Exemption Effect on Schools? If additional state general fund money is not appropriated, property tax exemptions will result in less total revenues for schools.
1079	Gary Bauer	<p>Spoke in support of the measure. See Testimony Before the House Revenue Committee on HB 2050 ñ Taxation of Intangible Property (EXHIBIT 4).</p> <p>The Issue (page 1): Goal is to have Oregon's property tax system treat centrally assessed companies the same as all other property taxpayers. Proposal removes intangible assets from the definitions of property of centrally assessed companies.</p>

129	Bauer	Political History (page 1): Bill failed during 1995 session. Passed in 1997 but governor vetoed it and instructed Dept. of Revenue to form an interim work group. Group did not reach overall consensus.
169	Bauer	Discussion (page 3): Centrally assessed companies are assessed on the value of their real and personal property, whether it is tangible or intangible. Times have changed for these companies, more competition.
235	Bauer	Directed members' attention to proposed amendments (EXHIBIT 5). HB2050 Amendments Centrally Assessed Companies. Changes to HB 2050 (Exhibit 4) <ol style="list-style-type: none"> 1. Clear and predictable system 2. Minimize Litigation 3. Process to identify and resolve issues and refine statutes in the future
279	Bauer	Discussed potential for litigation. There are some issues that some parties might litigate.
306	Bauer	Summarized: This is not a tax break for special interest groups. It corrects a discrimination in Oregon's property tax system. Oregon's tax structure should not place centrally assessed companies at an economic disadvantage over their competitors. It will have a revenue impact, but will not undermine tax system. All companies have intangibles, but only centrally assessed properties pay taxes on them.
332	Daurell Bell	Spoke in support of the measure. Telecommunications industry is sensitive impact on state and local governments. This is an equity issue. Expressed concerns with language.
369	Steve Winslow	See VoiceStream Wireless: Testimony in Support of House Bill 2050 (EXHIBIT 6) Paraphrased. Background on Federal Licenses
398	Winslow	History of Oregon Taxation of Wireless Companies

TAPE 070, SIDE B

023	Winslow	Pattern of New Investment Urged legislature to end disparities, encourage more investment and help to stabilize and increase local tax revenues.
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064	Robert Strong	<p>Spoke in support of the measure. Emphasized two areas:</p> <ul style="list-style-type: none"> • Policy versus valuation. These problems are not insurmountable. Dept. of Revenue can write rules and regulations with help of companies.
126	Strong	<ul style="list-style-type: none"> • New investments (measured in billions) are not constrained by M50. These are new dollars outside the limits of net gains. <p>Is not arguing against concept of central assessment, but in some instance it is no longer necessary. Industry is changing quickly.</p>
155	All	Questions and discussion concerning revenue impact summary.
237	Vice Chair Rasmussen	Questions concerning severe impact in Morrow and Columbia Counties. Will increase in values for the industries make up for the loss for these two counties?
243	Bauer	Some counties will have some impact, growth may not match county by county. This could be looked at.
254	Strong	Impact of those two counties is primarily from electric generating plants. Techniques to determine what is intangible and what is not. In Columbia County, value will continue to go down anyway.
281	Rep. Witt	<p>If HB 2050 passes, will these revenue projections reflect additional investment in Oregon that will lead to higher tax revenues on tangible properties?</p> <p>There is a disagreement on how to back the intangibles out and how they are valued. Why not just value the tangibles that will be taxed. This would eliminate argument of what the intangibles are.</p>
316	Strong	It can be done that way. Possibly, don't include intangibles in the first place, so it won't be a problem to take them out.
335	All	Questions and discussion concerning history of intangibles, handling in other states, VoiceStream, etc.
394	Rep. Williams	Is it true that the largest asset growth component among most of the affected businesses is the growth in value of assets that are quantified as intangible?
416	Bell	<p>In telephone industry, intangibles are definitely growing, mainly in wireless area.</p> <p>Substantial amount of hard assets. Intangibles don't become valuable unless large amount of hard assets.</p>

444 Chair Strobeck Was there anything in other states that softened impact on local governments and school districts?

446 Bell Will get this information.

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046 Bauer Discussed legislation processes in California, Washington, Utah, Idaho.

Discussion and questions interspersed.

075 Tom Linhares See Testimony Regarding HB 2050, Proposed Amendment (Trojan) (**EXHIBIT 7**) verbatim. Spoke in support of amendment by Rep. Taylor to exclude the value of Trojan Nuclear Power Plant from the list of intangible properties that would be exempted from property taxes under bill.

132 Rep. Witt Has Columbia County done a study to show the current property tax revenues per capita under current law, and how it compares with other counties?

Removal of intangible value of Trojan would bring Columbia County back to a more equitable situation.

135 Linhares No, will put information together.

146 Rep. Merkley Why is Trojan considered intangible?

150 Linhares While it was operating it was considered tangible. When it closed, the PUC (Public Utilities Commission) allowed Trojan to continue to collect money from ratepayers. That is the only reason it has value. Trojan is collecting same amount of revenue today as before it closed. They said it would be beneficial to ratepayers to close it. It has no market value. Would fall under the term "stranded costs."

187 Rep. Witt Questions concerning testimony chart (page 5 of testimony). \$2.4 million from governments that receive revenue at Trojan. If this bill passes, will Trojan be valued at zero?

196 Linhares That is correct.

Follow-up questions.

220	Roger Martin	Spoke in support of the measure. Airlines are centrally assessed because individual county assessors could not figure out how to assess them. Oregon Dept. of Revenue is effective in assessing airline property. Discussed differences between airlines and other properties that are centrally assessed. They are not PUC regulated; they are competitive, interstate entities. They are in competition with surrounding states.
280	Martin	Passage of this legislation will have no affect on Morrow and Columbia counties; it will not affect revenues on any counties, especially Multnomah County. Referred to EXHIBIT 3, Oregon Utility Roll. Airlines will continue to increase in value. Air travel at PDX is surpassing every estimate. Airlines are investing huge amounts of money to update their equipment.
335	Martin	Airlines disagree with Dept. of Revenue on estimated intangible value. Airlines in the past have litigated over this. Airlines put very little demand on local governments for use of tax dollars. They are required to pay for new facilities in addition to paying taxes.
394	Martin	Summarized, airlines are getting impatient with local governmentsí continued opposition based on "we canít afford to lose the revenue in spite of bad tax policy." This is not good tax policy. Encouraged lawmakers to change it.
406	Chair Strobeck	Adjourned meeting at 10:20 a.m.

Submitted by, Reviewed by,

Barbara J. Guardino Kim T. James

Committee Assistant Revenue Office Manager

Exhibit Summary:

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1. HB 2050, Taylor, Proposed Amendments to House Bill 2050 (HB 2050-1), 1 p.
2. HB 2050, Martin-Mahar, Revenue Impact of Proposed Legislation for HB 2050, 3 pp.
3. HB 2050, Martin-Mahar, Oregon Utility Roll, 6 pp.
4. HB 2050, Bauer, Testimony Before the House Revenue Committee on HB 2050 ñ Taxation of Intangible Property, March 1, 1999, Gary Bauer, Centrally Assessed Working Group, 6 pp.
5. HB 2050, Bauer, HB 2050 Amendments, Centrally Assessed Companies, Feb. 23, 1999, 4 pp.
6. HB 2050, Winslow, Voice Stream Wireless, Testimony in Support of House Bill 2050, 2 pp.

7. HB 2050, Linhares, Testimony Regarding HB 2050, Proposed Amendment (Trojan) Presented by Tom Linhares, Columbia County Assessor, 5 pp.