

**WORK SESSION, INVITED TESTIMONY - HB 2048**

**(MEASURE 50 IMPLEMENTATION)**

**TAPES 094, 095 A/B**

**HOUSE REVENUE COMMITTEE**

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**APRIL 1, 1997 8:30 AM HEARING ROOM A STATE CAPITOL BUILDING**

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**MEMBERS PRESENT:** Rep. Tom Brian, Chair (Absent)

Rep. Lee Beyer, Vice-Chair

Rep. Tony Corcoran

Rep. Randall Edwards (Absent)

Rep. Leslie Lewis (Arrived 9:06 a.m.)

Rep. Anitra Rasmussen (Arrived 9:05 a.m.)

Rep. Lane Shetterly

Rep. Mark Simmons (Arrived 9:30 a.m.)

Rep. Ken Strobeck

**WITNESSES PRESENT:** Dean Schmidt, Dept. of Revenue

Roy Swanson, Dept. of Revenue

Jerry Hanson, Washington County

Jim Manary, Dept. of Revenue

**STAFF PRESENT:** James Scherzinger, Legislative Revenue Officer

Barbara Guardino, Committee Assistant

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**TAPE 094 SIDE A**

- 007 Vice Chair  
Beyer Called meeting to order at 8:56 a.m.
- Called members' attention to outline, "Measure 50 Implementing Draft" (EXHIBIT A): Legislative Counsel is working on a draft that will address the issues in this outline. Anticipates it will be ready by Friday, April 4.
- 009 Jim  
Scherzinger **Assessed Value**
- \* Definition - M50 sets up a limitation on value, maximum assessed value to impose taxes beginning 1997-98. Will deal with issues surrounding definition at a later date.
- 032 Scherzinger Unit of Property -- Referred members to handout, "Unit of Property" (EXHIBIT B). Residential, Commercial, Industrial, Utilities
- Definition of unit of property is the entire plant. Makes no difference under M5 how to apply rate limitations; does make a difference under M47 and M50. Gave example of industrial plant with two accounts. Real market value and assessed value decrease in this example. The broader the unit of property, the higher the assessed value. Chart assumes structure and land are increasing in value, machinery and equipment are decreasing. Real market value decreases, so limit has no effect. Generally, the more aggregate a unit of property is, the higher the assessed value.
- 040 Scherzinger Draft will consider unit of property by account except for utilities.
- 123 Scherzinger Questions and discussion concerning aggregate units of property, who gets tax relief.
- 163 Vice Chair  
Beyer Asked what is included in accounts (per Unit of Property handout). In the case of industrial facility, question is whether to include in the same account, the physical facility as well as the equipment in it.
- 182 Dean  
Schmidt Explained, accounts are set up in a variety of ways for a number of reasons. In metro areas, there is often one owner for the building, another owner for the machinery and equipment. Appreciating property should be split into separate accounts.
- 221 Scherzinger Summed up, value is partially dependent on how an assessor splits properties into accounts. This is a policy choice, no single right answer.
- 236 Scherzinger Continued with outline -- discussion of Unit of Property: Utilities. Administrative issues on how to deal with utilities.

- \* Classes of Property -- How many? Effect of switching classes. In the event of new construction, rezoning, etc., the new assessed value will be determined based on a ratio of assessed to market value by class and area. Each class would have its own ratio of assessed to market.
- 264 Scherzinger
- 286 Ron Swanson Directed members to "Current Property Classes" (EXHIBIT C). Explained three-digit property tax code.
- 325 Swanson Directed members to "HB 2048: Proposed Property Classes" (EXHIBIT D). Uses first digit in current property class system. Broad class would include land only and improved accounts.
- 345 Jerry Hanson Joint Tax Administrative Group has discussed this classing issue. Thoughts that have come out of these discussions: This will be applied in 2 % of property, the exceptions for new construction and zone changes. Administrators believe viewpoint is, it should be a system the public can relate to and can understand. Classification should be as broad based as possible. Suggested dividing residential from other properties. Basic system is already in place, but needs fine-tuning.
- 391 Hanson Two levels of approach: Rough break-down in terms of use of property; and dividing out commercial, industrial, utility, farm forest, personal property. If breakdown was by neighborhood, some neighborhoods would be more volatile than others. This will cause differences in ratios, and the public won't understand this. Assessors and Dept. of Revenue staff conclude, keep it as general as possible.

### **TAPE 095 SIDE A**

- 040 Vice Chair Beyer Cannot picture tax policy impact over time in relation to fairness in the market.
- 055 Hanson M 47 does not address how ratios will relate to market. M47 is only concerned about this in terms of new construction. There is no mechanism other than direct assessment of real market value. The 3 % limit does away with linkage on account by account basis.
- Ratios tend to equalize over time. Long-term, this will be a stabilizing process for residential markets. Look at the big picture, from a long-term perspective.
- 101 Hanson Under M47 there will be different assessment ratios on different properties, no way to escape this.
- 158 Vice Chair Beyer Asked about multi-family units.
- 168 Hanson Suggested separating multi-family from single family, as well as separating residential from commercial.
- 197 All Questions and discussion concerning property classes.

- 275 Scherzinger Noted, the narrower the property classes, the more likely there will be disputes. Anticipates legal disputes over property class issue.
- 344 Scherzinger Even if initial value of property is set, the value will erode over time. Property that depreciates or grows slowly in value will erode over time. This is not a market value system, so assessors just have to do their best.
- 376 Jim Manary Explained depreciation in relation to an industrial plant. Assessors will value it at market, and depreciation will be based on normal market. What goes on the tax roll is a limit of 3 % value growth. Industrial plants, because they decline in value, will be under the tax limit.
- Houses that appreciate will be above the limit, so growth will be limited to 3 %.
- 426 Scherzinger Gave blackboard presentation: As market value declines, maximum assessment grows. Maximum assessed value rises until it hits market value, then drops.

### **TAPE 094 SIDE B**

- 049 Hanson Much of value in an industrial plant is machinery, which is depreciating. This will tend to overshadow the value of the building.
- 064 Scherzinger \* Improvements and New Property - Definition will be same as in HB 2047  
Asked, how big is a code area.
- 080 Rep. Lewis
- 085 Hanson Code areas vary dramatically in size. They are a common area with same taxing districts.
- 090 Lewis Asked how procedure will work county-wide.  
Two steps in this process: Apply real market value to property; or do a ratio study. Recommends maintain real market value with "trending approach" based on sales data.
- 100 Hanson Compare real market value to accounts and come up with ratio. Does not recommend pulling figures out of marketplace sales because there will be major variances in sales activity.
- 117 Hanson Explained trending -Take sales that occur in a neighborhood, compare them to assessed values to find the level of assessment in a neighborhood.
- 131 All Questions and discussion concerning trending.  
Gave an example of a land owner who has special farm use or forest use assessment, and portion of land gets disqualified from that use. That leaves one tract of land. Will
- 167 Rep. Lewis it end up in two different classes? If it leaves forest, does it become tract property?
- 182 Hanson Suggested avoiding splits on an account. Predominant use of property should be the one that is used.  
Continuing with outline, discussion on Improvements and New Property, directed members' attention to "Calculation of Value in 1997-98" (EXHIBIT E). Described five

case scenarios of determining assessed values. Under this system, it is the 1997-98 value that matters. Does not matter what 1996-97 market value is.

- 235 Scherzinger Bottom line is, if property existed in 1995-96, its assessed value is 10 % less than 1995-96 market value. If new, then assessed value is 1997-98 market value times the class and area ratio.
- 318 Scherzinger Paragraph 2 is inaccurate.  
Continued with Exhibit E -- Change in Assessment Date and Real Market Value Definition table: Assessment, depreciation dates.
- 331 Scherzinger  
For purposes of market value, there will only be six months of growth and six months of depreciation for 1998-99 tax year.  
When change definition of real market value to take away "lowest value during year," depreciation date is moved to end of tax year. Ends up with transitional effect of only one day of depreciation in 1997-98.
- 383 Scherzinger

Questions and discussion on depreciation.

### **TAPE 095 SIDE B**

Ratio of average assessed value (blackboard): Diagram on market and maximum assessed value. Question becomes, if maximum assessed value grows 3 % per year and at real market value, does that set a new growth point for maximum assessed value? The way constitutional amendment is written, can be interpreted that

- 045 Scherzinger maximum assessed value continues to grow.  
  
Amendment sets maximum assessed value and that continues to grow.  
  
Questions and discussion interspersed.  
Question is whether 3 % grows on maximum or actual assessed. Bill will probably say maximum assessed value.
- 104 Scherzinger  
  
Questions and discussion interspersed.  
M47 does establish a new base when taxes drop below maximum assessed value.
- 158 Manary  
Drastic drop of market value sets a new tax, so would still have a limit way below base. Choice whether limit comes back up, but in that case there would be more than a 3 % one-year increase.
- 176 Manary (Blackboard) Addressed depreciation questions.
- 216 Rep. Corcoran Concerned that under M5, commercial property had a greater advantage than residential. It appears the problem will be even greater with M50.  
Overall, the biggest reduction will be to residential sector because homes appreciates in value. For business property that is depreciating, the market will be below the limit.
- 230 Manary
- 257 Vice Chair Beyer Adjourned meeting at 10:30 a.m.

Submitted by, Reviewed by,

Barbara Guardino Kim James

Committee Assistant Revenue Office Manager

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**EXHIBIT SUMMARY:**

A. HB 2048, Scherzinger, Measure 50 Implementing Draft, 3 pp.

B. HB 2048, Scherzinger, Unit of Property, 1 p.

C. HB 2048, Swanson, Current Property Classes, 1 p.

D. HB 2048: Swanson, HB 2048: Proposed Property Classes, 1 p.

E. HB 2048, Scherzinger, Calculation of Value In 1997-98, 1 p.