

PUBLIC HEARING, HB 3710

(MEASURE 50 IMPLEMENTATION)

TAPES 111, 112 A/B

HOUSE REVENUE COMMITTEE

APRIL 11, 1997 8:30 AM HEARING ROOM A STATE CAPITOL BUILDING

MEMBERS PRESENT: Rep. Tom Brian, Chair (Arrived 9:40 a.m.; absent 10:10 a.m.)

Rep. Lee Beyer, Vice-Chair

Rep. Tony Corcoran

Rep. Randall Edwards

Rep. Leslie Lewis (Arrived 9:30 a.m.)

Rep. Anitra Rasmussen

Rep. Lane Shetterly

Rep. Mark Simmons (Excused, arrived 9:45 a.m.)

Rep. Ken Strobeck (Absent 9:10 - 9:40 a.m.)

WITNESSES PRESENT: Jerry Hanson, Washington County Assessment and Taxation Jim Manary,
Dept. of Revenue

Gary Carlson, Associated Oregon Industries

STAFF PRESENT: James Scherzinger, Legislative Revenue Officer

Barbara Guardino, Committee Assistant

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006 Chair Brian Called meeting to order at 8:56 a.m.

Today committee will discuss flagged issues in HB 3710.

010 Jim Scherzinger First issue, property class and area, page 3 - the effect of using an area smaller than a county.

Refer to HB 3710, Page 3, "Maximum Assessed Value Adjustments."

Directed members' attention to chart, "Assessment Ratios Various Neighborhoods vs. County Average" (EXHIBIT A). Follows market value changes from 1989-90 to 1996-97.

016 Jerry Hanson Market values

Maximum Assessed Values

Assessment Ratios

Assumptions

078 Rep. Corcoran Asked whether county-wide ratio is weighted.

In bill, average maximum assessed divided by average real market value.

From county-wide perspective it would be a straight average.

080 Hanson Actual markets in past 6 or 7 years, higher priced houses have increased in value more rapidly. Now the affordable housing prices are rising quicker.

098 Rep. Corcoran This reinforces challenge to M47 concerning equal treatment. Chart indicates significant variation in tax reduction among neighborhoods.

143 Hanson That is correct. Averages tend to equalize over time. Dislikes new concept, does not believe homeowners will have equity in system based on market value.

152 Rep. Asked Hanson to define "neighborhoods."

- Strobeck
- 158 Hanson Must be enough properties to be reliable statistically, at least 200-300 homogeneous properties.
- 180 Rep. Edwards Asked if three-year rolling average is possible rather than county average, to equalize reduction.
- 194 Hanson Hesitated to agree to this. Once base value is established in M50 system, that is the permanent basis.
- 215 Jim Manary Example: If a homeowner adds rooms to the home, at what ratio is the home put on the roll? That home will be treated differently in all of the 36 counties. Dept. Revenue is looking at this in terms of all kinds of properties. Question is, what ratio is used. Same issue with commercial/industrial assessed property -- should ratio be created county by county, or state-wide?
- 257 All Questions and discussion concerning ease in administration, ratios by county, unincorporated rural areas.
- 297 Rep. Edwards Suggested differentiating ratios of how to address rural-urban, and different industries.
- 316 Manary Agreed, there is great variation in terms of market. More sub-groups equals more work. From taxpayer viewpoint, countywide ratio leads to more predictability. Breaking down to smaller groups invites comparisons.
- 340 Rep. Edwards Questioned wisdom of divorcing from market value system of tax assessment.
- 357 Manary Under this method, 80 % of assessors' appraisal staff will be cut.
- 378 Vice Chair Beyer Asked whether assessors get sales data on resale of houses.
- 383 Hanson Yes, depending on the situation. Technique used measures inflation.
- 414 Rep. Corcoran Supported the residential by county method.

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- 060 Scherzinger Directed members' attention to Hanson's analysis of ratios: This determines value of new property or additions. In areas where values grow more slowly, new property owner will benefit from county-wide ratio as opposed to neighborhood method. Lower ratio also means less revenue for a district.
- 080 Scherzinger Bill is drafted to include countywide for all property except for industrial and utility properties.
- Dept. of Revenue likes the idea of state-wide system for centrally assessed property. Problem with industrial is of timing. If industrial is figured state-wide, state will have to get information from 36 counties before they can do state-wide calculations.

- 085 Manary Administratively, county system is easier. In counties where there isn't much industrial property, question arises whether there is a big enough group to get a reasonable ratio. Perhaps a combination can be used in this case.
- Questions and discussion on figuring ratios.
- 119 Scherzinger As bill is drafted, classes will be determined by rule of Dept. of Revenue except utility properties. Department not yet settled on what classes they want. This can have a significant effect on who pays taxes and how much.
- 132 Rep. Edwards Concerning homeowners, what would be the effect of a three-year rolling average?
- 166 Manary Agrees, this would smooth out average from year to year, but is not possible under Constitutional limitations.
- 191 Vice Chair Beyer **ASKED FOR ANY OBJECTIONS TO RESIDENTIAL AND BUSINESS PROPERTIES BEING FIGURED COUNTYWIDE, EXCEPT LARGE INDUSTRIAL PROPERTIES AND CENTRALLY ASSESSED PROPERTIES WHICH WOULD BE FIGURED STATEWIDE. CLASSES OF PROPERTIES WOULD BE DETERMINED BY RULE OF DEPARTMENT OF REVENUE. HEARING NO OBJECTIONS, CHAIR SO ORDERED.**
- 196 Scherzinger Directed members' attention to HB 3710, next flagged issue: Definition of new property and improvements, page 4, line 27. Does not include maintenance and repair or minor construction.
- Referred members to "Improvements and Minor Construction" (EXHIBIT B): Details JTAG group discussions, recommendations.
- 222 Rep. Corcoran Concerning definition of minor construction, it does not increase value. Seems a new deck would increase value. Asked, would it make more sense to do an indexed dollar amount.
- 230 Hanson Agreed, that might be easiest way to understand and administer. Would prefer low dollar amount.
- 243 Rep. Shetterly Noted, definition of HB 2048 does address this. Threshold must be small enough that construction is considered minor.
- Questions and discussion on what is considered minor construction, whether to use dollar amount or percent to limit it.
- 315 Hanson Agreed, the lesser of a small dollar amount or percent of property value sounds reasonable.
- 342 Rep. Strobeck Part of reason for M47 was concern that someone made a minor home improvement, property taxes would automatically go up. Would prefer to set slightly higher threshold.
- 360 Gary Carlson Associated Oregon Industries has a work group that is studying HB 2048. One issue they are dealing with is minor construction, renovation, rehabilitation -- industries constantly making "minor" improvements that are costly (ex: carpet replacement).

- 391 Rep. Shetterly Considers this to be maintenance, not minor construction.
- 402 All Questions and discussion on what is meant by minor construction.

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- 039 Rep. Shetterly Similar to "gifting" in estate planning - It is possible to unload \$20,000 tax-free in two days (\$10,000 on Dec. 31, and \$10,000 on Jan. 1). There will be gamesmanship no matter what limit is set.
- 957 Rep. Lewis Supports the idea of lesser of \$5,000 or 5 % idea. Suggested treating different classes of property differently.

- 068 Rep. Edwards Focus is, what is a homeowner? \$5,000 amount makes sense for homes, but not for businesses.
- 076 Carlson Volunteered to bring in someone next week to discuss this issue.

- 105 Chair Brian Questions and discussion.
- ASKED FOR ANY OBJECTIONS FROM MEMBERS ON LIMITING MINOR CONSTRUCTION IMPROVEMENTS TO \$5,000 OR 5 % OF PROPERTY VALUE WITHOUT INCREASING PROPERTY VALUE. HEARING NO OBJECTION, CHAIR SO ORDERED.**
- 111 Scherzinger Directed members' attention to HB 3710, page 5, lines 4, 13 - "new property or improvements". In adding new property improvements, value is "real market value of the new property improvements reduced, (but not below zero) by the real market value of retirements ..." Question is what is the effect of "but not below zero."

Sentence intends to say that if retirements succeed additions, there will be no addition to value.

Explained wording:

- 142 Manary Tax -- If retirement on a property is greater than additions, value will go down. For regular market calculation, add new and subtract depreciation. Question, if someone has retired more than he has added, does this lower the 3 % growth limit?
- 165 Rep. Lewis Gave an example of maximum assessed value for a home valued at \$100,000. Homeowner would pay lowest taxable limit.

- 197 Scherzinger Continued to next flagged issue: "Other exceptions" (other than new property improvements). Difference in way bill handles these exceptions. Difference is, with new property or improvements, only looking to value of improvement in applying ratio. With other exceptions, ratio is applied to entire unit of property. Question is, what if exception applies only to a portion of affected property? The way the bill is written, it appears calculation would be on entire property.

Calculation made page 5, line 34.

Next flagged issue is partial exemptions or special assessed property. Refer to example "Farm Use" (EXHIBIT C). Real market value per acre of a farm. Example:

259 Scherzinger * Average Property under farm use since 1995-96. (Refer to HB 3710, page 7, lines 25-59)

* Newly Eligible Property One (Higher market value, same farm use value)

* Newly Eligible Property Two (Same market value, higher farm value)

382 Scherzinger Appears that latter calculation is closer to what M50 is trying to do. This is first-time calculation.

420 Rep. Lewis Summarized: Potentially, maximum assessed value for this property could exceed true cash value in farm use over time.

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041 Rep. Lewis Suggested committee change page 7, lines 25-29 ratio as "maximum assessed value" to farm "true cash value."

048 Vice Chair Beyer **ASKED FOR ANY OBJECTIONS FROM MEMBERS TO CHANGING PAGE 7 LINES 25-29 FROM "MAXIMUM ASSESSED VALUE" TO FARM "TRUE CASH VALUE." THERE BEING NO OBJECTION, CHAIR SO ORDERED.**

Directed members' attention to "Veterans" example, (EXHIBIT D) based on dollar amount of exemption permitted under law. This exemption is allowed for disabled veterans or their widows. Example is based \$11,000 exemption.

050 Scherzinger * Average property (\$100,000 home). Calculated ratios to real market value and to veterans market value.

* Newly Eligible Property One (Higher market value)

* Newly Eligible Property Two (Same market value)

Committee will have to figure out how to handle all partial exemption laws (15-20).

158 Scherzinger Referred members to "Measure 50 Implementation Index -- HB 3710 (EXHIBIT E); Veterans exemption is located on pages 95-100 (Section 95).

Blackboard presentation: Property worth \$100,000: 3 % growth, subtract \$10,000; at \$90,000 will give lower dollar amount of growth. Can't just subtract \$11,000 every year. Only way to do it is get it out of value system entirely.

180 Scherzinger Part of problem of homestead exemption with this system is it needs to be consistent with 3 %.

211 Rep. Rasmussen Asked if there is a way to approach veterans exemption via a state income tax credit. Requested committee return to this model.

234 Vice Chair Beyer Adjourned meeting at 10:29 a.m.

Submitted by, Reviewed by,

Barbara Guardino Kim James

Committee Assistant Revenue Office Manager

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EXHIBIT SUMMARY:

A. HB 3710, Hanson, Assessment Ratios Various Neighborhoods vs. County Average, 1 p.

B. HB 3710, Scherzinger, Improvements and Minor Construction, 6 pp.

C. HB 3710, Scherzinger, Farm Use, 1 p.

D. HB 3710, Scherzinger, Veterans, 1 p.

E. HB 3710, Scherzinger, Measure 50 Implementation Index, 2 pp.

F. HB 3710, Scherzinger, Additional Taxes, 3 pp.