

WORK SESSION: HB 3710

(MEASURE 50 IMPLEMENTATION)

TAPES 115 A, 116 A

HOUSE REVENUE COMMITTEE

APRIL 15, 1997 8:30 AM HEARING ROOM A STATE CAPITOL BUILDING

MEMBERS PRESENT: Rep. Lee Beyer, Vice-Chair

Rep. Tony Corcoran

Rep. Leslie Lewis

Rep. Anita Rasmussen

Rep. Lane Shetterly

Rep. Ken Strobeck

MEMBERS EXCUSED: Rep. Randall Edwards

Rep. Mark Simmons

Rep. Tom Brian, Chair

WITNESSES PRESENT: Jim Manary, Dept. of Revenue

Tom Linhares, Columbia County Assessor

Carol Samuels, League of Oregon Cities

Gary Carlson, Associated Oregon Industries

STAFF PRESENT: James Scherzinger, Legislative Revenue Officer

Barbara Guardino, Committee Assistant

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TAPE 115 SIDE A

016 Vice Chair Beyer Called meeting to order at 8:55 a.m.

Directed members' attention to "Measure 50 Implementing Draft" (EXHIBIT A)

020 Jim Scherzinger

Will continue discussion on flagged issues

030 Scherzinger

Blackboard presentation -- Three situations:

1) Real Market Value (RMV) fluctuates; Maximum Assessed Value (MAV) of property grows at 3 % per year plus addition (if not a lot of additions). RMV fluctuates above MAV, and MAV still grows at 3 % per year. However, a big decline in value would cause RMV to drop below MAV. When it rises again the next year, there would be a n increase of 6 % or more.

2) In the case of a recession, RMV can stay below RMV for 3 - 4 years. The way the bill is written currently, increase after the recession could be larger than 3 %.

3) In case of industrial property or utility, MAV drops 10 % below RMV first year, then real market value grows slowly. This kind of property tends to have a lot of additions, and existing property depreciates over time. MAV rises at 3 % plus added value of additions. MAV will tend to grow faster than RMV. Property is always taxed at lower of RMV or MAV.

Further explained RMV/MAV" Refer to Example Industrial Property" (EXHIBIT B)

Real Market Value: M5, M50

Maximum Assessed Value: Base, additions, total

099 Scherzinger Assessed value

Assumptions:

Net additions of \$500,000 per year

Account consists of land, building and structure, and machinery and equipment.

Building and structure depreciates at about 3 % (net) per year and machinery and equipment at 5 % per year.

- 153 Rep. Lewis Asked, why is RMV for M50 greater than for M5?
The definition of RMV under M5 was "the lowest during the year." Beginning in 1990, an depreciation was allowed all through the year. Prior to M5, it was the value on the assessment date. An extra year was added for depreciation. Now, that extra year is being taken off, and the RMV is increased.
- 155 Scherzinger
- 165 Rep. Lewis Asked, is this the effect (as seen on timeline chart) where property owners only get one day of depreciation for first year.
Yes. Continued explanation of Exhibit B:

Second year (1998-99) half a year of growth/depreciation is allowed. Maximum assessed value of prior year, increase by 3 %, add on 6 months new construction.
- 170 Scherzinger Third year (1999-00). Assessed value is equal to real market value.

Pattern reveals, MAV grows more rapidly than RMV, so RMV is applied.
- 207 Scherzinger This is what will tend to occur with industrial/utility property. However, spikes can occur, or stock prices may vary, or properties become obsolete.
- 225 Rep. Corcoran Questions and discussion on MAV, RMV.

Issue is the definition of Maximum Assessed Value. Currently, MAV grows 3 % over prior year. Question was, if Real Market Value drops below MAV, should the base be dropped below MAV?
- 249 Scherzinger
- 294 Rep. Shetterly Asked whether business owners could manipulate their values to achieve artificially reduced values.

Explained, physical changes to a plant effect both real market value and limit. If a company delays purchase one year, it will drive RMV lower due to depreciation of other equipment. Real differences have to do more with market influences.
- 316 Jim Manary Office buildings go through a normal cycle of demand and construction. Market keeps adjusting to demand and building.
- 402 Manary
- Questions and discussion interspersed.
- 435 Rep. Shetterly Asked, how susceptible this is to carefully timed retirements, etc. that would cause a reset of 3 % growth value?

TAPE 116 SIDE A

- 024 Tom Linhares In answer to Shetterly's question: Does not foresee a lot of manipulation, although people might be encouraged to file appeals. Appellants would still have to make case that original value was too high.

- 057 Carol Samuels In answer to whether there is reason to change from existing model (to not reset): League of Oregon Cities would refer mechanism in current draft because there is a revenue impact involved in resetting MAV. This would have revenue impact on cities' ability to operate.
- 073 Gary Carlson Referring to Scherzinger's example blackboard chart, Maximum Assessed Value line should be steeper. In addition, this method is clearly different from language in M47.
- 106 Rep. Lewis Asked, wouldn't the situation be better under M50, since under M47 tax bill will grow 3 % per year even if industrial property land depreciates? In this version, there is a mechanism to return to Real Market Value.
- 110 Carlson Attorney General opinion indicates that Real Market Value will always be the default.
- 118 Vice Chair Beyer Suggested committee continue this discussion April 16. Adjourned meeting at 9:29 a.m.

Submitted by, Reviewed by,

Barbara Guardino Kim James

Committee Assistant Revenue Office Manager

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EXHIBIT SUMMARY:

A. HB 3710, Scherzinger, Measure 50 Implementing Draft, 3 pp.

B. HB 3710, Scherzinger, Example Industrial Property, 1 p.