

WORK SESSION: HB 3710

(MEASURE 50 IMPLEMENTATION)

TAPES 117 A/B, 118 A

HOUSE REVENUE COMMITTEE

APRIL 16, 1997 8:30 AM HEARING ROOM A STATE CAPITOL BUILDING

MEMBERS PRESENT: Rep. Tom Brian, Chair (Arrived 8:59 a.m.)

Rep. Lee Beyer, Vice-Chair

Rep. Tony Corcoran (Arrived 9:03 a.m.)

Rep. Randall Edwards

Rep. Leslie Lewis (Arrived 9:05 a.m.)

Rep. Anitra Rasmussen

Rep. Lane Shetterly

Rep. Mark Simmons

Rep. Ken Strobeck

WITNESSES PRESENT: Jerry Hanson, Washington County Assessor

Ray Erland, Clackamas County Assessor

STAFF PRESENT: James Scherzinger, Legislative Revenue Officer

Barbara Guardino, Committee Assistant

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TAPE 117 SIDE A

007 Vice Chair
Beyer Called meeting to order at 8:47 a.m.

013 Rep.
Strobeck Commenting on April 15 discussion, recommended leave Maximum Assessed Value (MAV) as it currently is, on a continuing line rather than resetting if it dips below Real Market Value (RMV).

015 Vice Chair
Beyer **ASKED FOR ANY OBJECTION FROM MEMBERS TO LEAVE THE LAW AS IS, IN RELATION TO REAL MARKET VALUE. HEARING NO OBJECTION, CHAIR SO ORDERED.**

Directed members' attention to April 15 List, "Measure 50 Implementing Draft."
Flagged Issues: Adjudicated value (Sections 219-221)

Noted committee's consensus not to reset MAV.

040 Jim
Scherzinger Next flagged issue:

Contents of Tax Roll chart (Refer to EXHIBIT A) Chart brings together a number of sections in HB 3710 that deal with reappraisal process and what information assessors will keep on tax roll, and how they will calculate Real Market Value of code area, assessed value of each property, and how they will calculate exception ratios.

045 Scherzinger HB 3710, Section 139: Lists what assessor is required to carry on tax roll. Currently, they are required to carry MAV of a property. Question is, whether to require assessors to keep RMV.

Three options:

1) Require RMV on tax roll for all properties

2) Require RMV on tax roll on some properties

3) Do not require RMV on tax roll

078 Scherzinger Chart continued:

Six-year appraisal cycle (Section 146)

096 Scherzinger Department of Revenue's review authority (Section 213) Refer to HB 3710, page 101, lines 32-33; lines 40 and 42.

Calculation of real market value of code area

124 Scherzinger Calculation of assessed value of each property

Calculation of exception ratio

Refer to written testimony (EXHIBIT B) "HB 3710 -- Is Real market Value needed at a code or an account level?"

168 Jerry Hanson For several years, Oregon tax assessors have been developing alternative methods to six-year cycle requirement. Three or four basic models are in place now. "Trending," percentage adjustment to existing values; and as-needed appraisal are two of these. Trending involves adjustments to account detail (or recalculation). Assessors are trying to find ways to compare results of their work based on uniformity with marketplace.

190 Ray Erland There are 12 counties on alternate appraisal methods that do not follow six-year cycle. They do complete analysis of all neighborhoods in county using statistical methods.

199 Hanson In terms of cost, the last six or seven years have been dynamic. Washington County has same staff as 20 years ago, twice as many accounts. Difference is computers. In regard to handout, estimated savings through M50 (approximately \$14 million from not maintaining market value system), does Oregon State Association of County

220 Chair Brian Assessors suggest maintaining it anyway?

235 Erland Does not cost more to maintain, it costs less. Real cost is whether assessors reappraise or not. Reappraisal takes 40 % of staff.

255 All Questions and discussion concerning appraisal process, data systems, recommendations

400 Erland Summarized Exhibit B: Assessors need to know what real market value is so they; will know when it falls below Maximum Assessed Value. Attached Dept. of Revenue study says, 30 % of all residential, commercial, industrial properties will now fall below Real Market Value, where market has slowed. Appraisers need to know ratio of market for appeals process. Citizens will ask how assessed value was arrived at. Exemption properties, over 4000 in Clackamas County alone.

Advantages: Page 2: Maintaining RMV saves enormous amount of time and provides better service. Staffing requirements are lower. No need to reappraise.

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No advantages to RMV by code, only disadvantages.

042 Erland

Recommendation: Maintain RMV at account level; alternative method as approved by Dept. of Revenue could be allowed with requirement at next legislative session.

Two separate issues:

060 Erland

Oregon State Association of County Assessors recommends taking six-year cycle out of statute.

Recommends RMV be maintained at account level, but if a county wants to try something different, give flexibility (code level vs. account level).

Association recommends elimination of six-year cycle under any conditions. Assessors believe they can maintain adequate values and save money. Association recommends it not be required by law.

067 Hanson

Questions and discussion

097 Rep. Lewis

Asked how much will be saved by this.

098 Erland

In Clackamas County, he just cut 17 % of his staff and 12 % of budget. This will result in significant savings first year. Reductions have already occurred.

114 Vice Chair
Beyer

They make a compelling case. No reason to keep the six-year cycle. Property owner always has right to appeal.

Recommended staying at account code level and letting Dept. of Revenue approve methodologies for appraisal.

Commented on Exhibit B, page 4, "Is it necessary to maintain RMV? Bottom of page, chart of accounts.

139 Scherzinger

Doesn't look at effects of 10 % rollback, so doesn't give accurate picture of how many properties will fall below Real Market Value.

Whether to maintain RMV is a policy choice that committee can make. If committee wants to allow flexibility, it will have to write this into the bill.

176 Hanson

Expressed concern that people are making assumptions about how this will work, nobody really knows. Assessors are being conservative in their recommendation.

204 Vice Chair
Beyer

Warned of danger in concentrating on residential properties.

211 Erland

In California, per Proposition 13, assessors did not track Real Market Value, and market fell below annual 2 % increase, and courts ordered them to do so.

220 Vice Chair
Beyer

MOTION TO DO AWAY WITH THE SIX-YEAR CYCLE; PROVIDE DEPT. OF REVENUE SOME FLEXIBILITY TO SPECIFY METHODS ASSESSORS WILL USE TO SET REAL MARKET VALUE; AND MAINTAIN REAL

MARKET VALUE AT THE ACCOUNT LEVEL.

249 Chair Brian **ASKED IF ANY OBJECITONS BY COMMITTEE. HEARING NO OBJECTION, CHAIR SO ORDERED.**

Continued April 15 M50, Flagged Issues:

Personal Property (Section 148) - Will address later

Special assessments and partial exemptions (Sections 20-25) -Will address later

257 Scherzinger Timelines/January 1 assessment date

Repeal quarter and tenth of 1 % rules (Sections 132-134). With fixed rates, if value is pulled off the roll, it won't effect any other property or drive rate up. M50 repeals two rules. Question arises, what to do about reserve to pay a large appeal, create a mandatory reserve or leave it discretionary.

322 Jim Manary Pointed out problem with large plant where value is significant part of code area. Balance in statutes, avoid significant cash flow problem for a district. An appeal can take 2-3 years. Under current system, when value is taken off the roll, it affects rates.

366 Vice Chair Beyer Summed: In the past, if an appeal was won, the burden would be spread out over everyone else. In moving to a fixed rate system, that spread doesn't happen. The taxing jurisdiction takes a revenue loss.

377 Manary Agreed, tax collections coming into unsegregated tax account would be distributed out to districts. If jurisdiction does this then loses a big appeal a couple of years later, that money is taken out for a refund. This can be a significant hit. With fixed rates, value can be left on the roll. Before, value was reduced so less taxes were collected. Choice is, giving discretion to county to decide whether it has an appeal, put money into a reserve; or require money to be pulled out under certain circumstances.

409 All Questions and discussion concerning who will make appeal decisions.

TAPE 117 SIDE B

037 Rep. Edwards In relation to establishing a refund reserve account, asked is there a rule of thumb concerning how large that account would be. Also, what happens to account if company loses.

Decisions are made on case-by-case basis.

042 Manary Cash flow comes in regularly, account always has money in it. For small homes, no problem. Question is, leave it and take value off roll, or create reserve with money.

073 Rep. Lewis In the case of leaving the value on the rolls, what happens three years down the road if suit is ruled in company's favor, do they receive interest?

081 Manary Yes. Interest rate with refund is 12 %, statutorily.

097 Vice Chair Beyer Taxing districts can set up reserve mechanism, or provide discretion for counties to do it.

102 Scherzinger If committee decides to appeal existing rules in keeping value off the roll, there are existing provisions for refunds, but they are not in the bill. When committee gets to Section Chapter 311 of bill, it can deal with question of what kind of reserve, or whether it will be mandatory.

Decision will be to appeal _ or 1/10 of 1 % rule.

117 Vice Chair Beyer **ASKED IF COMMITTEE PREFERS TO REPEAL SECTIONS THAT DEAL WITH THIS ISSUE, AND WHETHER SCHERZINGER SHOULD RESEARCH SOME SUGGESTIONS FOR SETTING UP A RESERVE ACCOUNT. HEARING NO OBJECTIONS, CHAIR SO ORDERED.**

133 Rep. Lewis Favored a discretionary reserve account. Expressed faith in local government. If big appeal came about, they would do the right thing.

Remaining flagged issues:

140 Scherzinger Timeline - Exemption and qualification dates; appeals; tax statement

Also, committee must figure how to deal with adjustments for errors.

Future Issues:

164 Scherzinger Draft -1 amendment will deal with issues on outline - Elections, levy process, bonding, M5. Requests are still out for urban renewal, 1997-98 levy calculations.

202 Vice Chair Beyer 955 a.m., recessed meeting until 3 p.m.

Submitted by, Reviewed by,

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Barbara Guardino Kim James

Committee Assistant Revenue Office Manager

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EXHIBIT SUMMARY:

A. HB 3710, Scherzinger, Contents of Tax Roll (Section 139), 1 p.

B. HB 3710, Hanson, Oregon State Association of County Assessors - HB 3710 - Is Real Market Value needed at a code or an account level? 8 pp.

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

PUBLIC HEARING & WORK SESSION - HB 2479

TAPE 119 A

HOUSE REVENUE COMMITTEE

APRIL 16, 1997 3:00 PM HEARING ROOM 50 STATE CAPITOL BUILDING

MEMBERS PRESENT: Rep. Tom Brian, Chair (Arrived at 4:00 p.m.)

Rep. Lee Beyer, Vice-Chair (Arrived at 4:00 p.m.)

Rep. Tony Corcoran (Excused)

Rep. Randall Edwards

Rep. Leslie Lewis (Excused)

Rep. Anitra Rasmussen

Rep. Lane Shetterly (Excused)

Rep. Mark Simmons

Rep. Ken Strobeck

WITNESSES PRESENT:

STAFF PRESENT: Dick Yates, Economist

Steve Wermuth, Clerk

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TAPE 119 SIDE A

003 Rep. Strobeck Calls meeting to order at 3:45 p.m. Opens as Subcommittee on Revenue. States that public hearing and work session on HB 3495 will be postponed until 4/17/97. Opens public hearing on HB 2479.

**HB 2479 -
PUBLIC
HEARING**

013 Dick Yates States that cider has a .5-7% alcohol content. Cider is currently being taxed as table wine. Passage of HB 2479 would change cider category to beer, which would lower tax rate from \$.67 a gallon to \$.083 a gallon. Estimate by Oregon Liquor Control Commission (OLCC) is about 10,000 gallons of cider currently coming into the state, for which status would be changed. Revenue impact then is about \$113,000 loss.
President, Professional Administrative Services, Inc.; representing Valley Wine Co. **[EXHIBIT A]**.

* Support HB 2479.

037 John McCulley * States that Valley Wine Co. requested introduction of HB 2479.
* 1840 Presidential election was run on log cabin and cider platform.
* Cider production differs from that of beer and wine.
* Cider alcohol content varies from 4-6%.
* HB 2479 also states that changes in beer tax also apply to cider.

073 McCulley * If cider were priced as wine, there would be less revenue.
* Washington state made this change in July 1996, since then, three wineries have begun producing cider.

104 Rep. Edwards Asks if fermenting apples and pears is the only way to make cider.
Explains that cider can be made from other fruit, but federally, apples are

107	McCulley	seen as the broad definition of what cider includes. States that pears are also commonly used.
113	Rep. Edwards	States that in HB 2479, cider producers would not be taxed when product has been made but not sold. Asks if that is that is similar to how Oregon treats other alcoholic beverages.
116	McCulley	Responds affirmatively.
119	Rep. Edwards	Comments this is an infant industry that has potential, and adds value.
124	Rep. Strobeck	Asks if the reasoning behind this is to essentially encourage the market for cider.
126	McCulley	Responds affirmatively. Comments that other states have done this, and it encourages more entry into the market and tends to broaden the category.
130	Rep. Strobeck	Asks why settle on beer rate.
134	McCulley	Explains that other states made the change and cider producers were just following them.
143	Rep. Strobeck	Asks for a forecast on market growth. Comments that nationwide growth has been phenomenal.
147	McCulley	* Fastest growing alcoholic beverage category in the country, but still only comprises less than 1% of alcoholic beverages sold. * Growing at annual rate of over 70% per year.
158	Rep. Strobeck	Asks if cider market is successful, can Oregon expect increase in revenue.
165	McCulley	Responds that it's a possibility, and that has happened in Washington state.
187	Chair Brian	Asks Representative Strobeck to summarize what has been discussed up to this point because he and Vice-Chair Beyer had just arrived.
188	Rep. Strobeck	Summarizes what had been discussed up until this point.
192	Chair Brian	States that the Revenue Committee is currently in public hearing.
194	Rep. Rasmussen	Asks if there is an idea as to how many local people are getting involved with HB 2479.
198	McCulley	States that Hood River Winery is interested in participating, and someone in Newberg is developing cider production.
208	Rep. Rasmussen	Asks why there is a difference in tax between wine and beer.
212	Dick Yates	Explains that there is an alcohol content difference.
216	Rep. Rasmussen	Asks how many other states separate taxes on beer versus wine.
218	Dick Yates	Believes that all other states separate taxes.

* Support HB 2479.

* Stroh is involved in partnership with Green Mountain Cidery in Vermont, which produces Woodchuck Cider.

* Alcoholic ciders are similar to beer. Approximately same alcohol content, typically consumed by beer drinkers, and are distributed and displayed like beer.

232

Gary
Conkling

* Reducing tax level of cider to level of beer should boost sales and generate higher tax revenues for Oregon.

* Fruit growers in Oregon should also benefit from increase in demand for alcoholic cider.

* An economic benefit to Oregon by potential distribution of cider through Blitz-Weinhard Brewery in Portland.

269

Chair Brian Closes public hearing. Opens work session on HB 2479.

272

Rep. Beyer MOTION: Moves HB 2479 to the floor with a DO PASS recommendation.

VOTE: 6-0-3

AYE: 6 - Beyer, Edwards, Rasmussen, Simmons, Strobeck, Brian

EXCUSED: 3 - Corcoran, Lewis, Shetterly

The motion CARRIES.

288

**Chair
Brian**

REP. EDWARDS will lead discussion on the floor.

Closes work session on HB 2479. Opens public hearing on HB 3495.

292

Chair Brian States that the hearing is continued until 3:00 p.m., April 17, 1997. Closes public hearing on HB 3495. Adjourns meeting at 4:07 p.m.

Submitted by, Reviewed by,

Steve Wermuth Kim James

Committee Clerk Revenue Office Manager

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EXHIBIT SUMMARY:

A - HB 2479, John H. McCulley, written testimony of John H. McCulley, 6 pp.

B - HB 2479, Gary Conkling, written testimony of Gary Conkling, 1 p.

C - HB 2479, LRO, Staff Measure Summary, 1 p.

D - HB 2479, LRO, Fiscal Impact Assessment, 1 p.

E - HB 2479, LRO, Revenue Impact Statement, 1 p.