

WORK SESSION: HB 3710

TAPES 167, 168 A/B, 169 A

HOUSE REVENUE COMMITTEE

MAY 14, 1997 8:30 AM HEARING ROOM A STATE CAPITOL BUILDING

MEMBERS PRESENT: Rep. Tom Brian, Chair (Arrived 9:03 a.m.)

Rep. Lee Beyer, Vice-Chair

Rep. Tony Corcoran

Rep. Randall Edwards

Rep. Leslie Lewis

Rep. Anitra Rasmussen (Arrived 9:03 a.m.)

Rep. Lane Shetterly

Rep. Mark Simmons

Rep. Ken Strobeck

WITNESSES PRESENT: Gary Hansen, Multnomah County Commissioner

John DiLorenzo, Jr., Oregon Taxpayers United

Jerry Hanson, Washington County Assessor

Tom Linhares, Clackamas County Assessor

Dexter Johnson, Deputy Legislative Counsel

Gary Carlson, Associated Oregon Industries

STAFF PRESENT: James Scherzinger, Legislative Revenue Officer

Barbara Guardino, Committee Assistant

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- 007 Vice Chair Beyer Called meeting to order at 9:02 a.m. Opened work session on HB 3710
- 015 Gary Hansen Thanked members for their work on M50. However, local government in Multnomah County is still having to make dramatic cuts. These affect public safety, libraries, health clinics. In the next few weeks, committee will review two bills: One that applies to county school fund; and assessment and taxation budget. Multnomah county is in state of crisis. Voters have overwhelmingly approved these services.
- 048 Rep. Rasmussen Computer system in Multnomah county needs replacement. Asked, how will this be handled under M50 or M47?
- 051 G. Hansen Computer system must be replaced. Timeline rushed. One problem is, it is difficult to permanently fix computer system under M50. County may have to repair it one more year. Full replacement will cost over \$1 million.
- 074 Rep. Rasmussen Asked about ramifications of two health clinics that are scheduled to close.
- 077 G. Hansen Significance is, 9,000 patients will not be seen. They have no other insurance or resources. This pushes them into emergency rooms, where they will be treated for more serious illnesses at a higher cost.
- 104 Chair Brian Asked Scherzinger to begin presentation on HB 3710 amendments.
- 115 Jim Scherzinger Directed members' attention to HB 3710 -4 (EXHIBIT A): Base distribution formula for tax reductions and revenue loss. Referred to box chart on chalkboard - summarizes what amendments do. They start by calculating taxes on a property imposed on a district under M5; then calculate taxes under M47 (or M50 if it passes). For levies that are subject to reduction under M50, calculate gap between M5 and M47. Certify through Dept. of Revenue statewide, which adjusts to bring average to 17 %. Assessors reevaluate property. Assessors get, from Dept. of Revenue, M50 taxes imposed, adds assessed values and calculates tax rates for all districts (except grandfather levies on urban renewal). With those rates, they figure out increment of urban renewal, subtract and get grandfather levies. Then run M5 compression against Real Market Value (RMV). Adjust rates to fit within compression then impose taxes on assessed value.

- 176 Rep. Shetterly Asked whether 17 % refers to bonds in the base or bonds out of the base.
Bonds out of the base calculation. The 17 % is only levies that are subject to reduction under M50. Bonds, urban renewal, gap bonds, etc. are not included.
- 179 Scherzinger Does not reflect -12 amendments.
- 210 Rep. Shetterly Referred to "Research Report" (EXHIBIT J) page 3: "Effect of Measure 50 and Measure 47 on Taxing District Revenue." Total taxes, column 3, clarified, is this the statewide actual reduction in property taxes.
- 220 Scherzinger Yes, except it is a little misleading in that some policy choices might affect this number.
- 238 Rep. Corcoran Requested that Scherzinger do a run that reflects attorney general's opinion on M47. Expressed concern about media opinions about M47 and M50 with no discussion of consequences.
Continued discussion on HB 3710 -4:

Sections 1 - 11: Deal with distribution
- 257 Scherzinger Section 12: Defines minor construction as construction that costs less than \$10,000

Section 13: Provision on ballot title for local option election

Section 14: Emergency clause permitted under HJR 85
- 302 Rep. Simmons Question concerning HB 3710 -4 Section 12: Can this be construed to mean existing things on tax roll valued at less than \$10,000?
No, this says that the exception to the 3 % limit on growth of value relating to new or improved property does not take effect if value of construction is less than \$10,000. It does not exempt value that is currently on the roll.
- 310 Scherzinger
- 322 Rep. Edwards Suggested, HB 3710 -6 (EXIBIT C): Insert up to \$10,000 in "a single year."
- 335 Jerry Hanson Commented on issue of \$10,000 exceptions. Two administrative problems need to be considered:

1) On HB 3710 -6 amendments: Value should be the basis for the definition rather than cost. Cost differs for each individual. A carpenter who does work on his own home can do much more. Cost becomes an administrative problem for the assessor, whereas value is more equitable.

2) When this \$10,000 exception is treated as a single year issue, encourages gamesmanship. Examples: Someone builds a new house, does foundation and framing first year, finish house next year. The foundation and framing would be exempt.

Believes \$10,000 limit is too high. In counties in Eastern Oregon, almost half accounts are valued at less than \$10,000 - specially assessed land and mobile homes.

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- 035 J. Hanson Example: Mobile home valued at less than \$10,000 is moved to a new lot. The move becomes an improvement on a new parcel. That mobile home will not be assessed.
- 055 Chair Brian Exception in M50 says "new property and improvements to property."
Asked, would it help to change language to "minor construction to real property?"
- 057 J. Hanson Would not solve problem, because moving a mobile home onto new property improves real property.
- 061 Rep. Edwards Suggested inserting "new construction," to imply a deck or other add-on.
- 066 Rep. Rasmussen If "per year" language is added, there will be a lot of building the end of December and beginning of January totaling \$20,000.
- 076 Rep. Corcoran In looking at relationship between Scherzinger's Research Report and a May 13 memo listing 17 counties that wanted a \$2,500 threshold, it is those very counties that are the most affected by M47. (Refer to May 13 EXHIBIT J) Seems committee should pay special heed to their concerns. Comparison of damage inflicted under M50 or M47, higher rate due to less population and lower property value.
- 101 Vice Chair Beyer Asked if the problem would be solved by wording such as "changes to an existing structure".
- 110 J. Hanson \$10,000 value threshold is what is causing the problem. Assessors would prefer \$5,000 threshold. Mobile homes would not fall under this threshold. Other issue is whether "cost" or "value" is used to figure threshold.
- 122 Tom Linhares Through M47 and M50, county assessors made distinction between addition to existing property as opposed to freestanding building. Not good tax policy when one neighbor pays taxes on a garage, the other does not. Garages or mobile homes should be taxable.
- 151 Rep. Lewis Dealing with mobile home issue is important. However, it is a false assumption that legislators want a fair property tax system, when \$10 billion off the tax rolls and \$4 billion on the rolls. Minor construction at \$10,000 would return some fairness to the rolls.
- 179 Chair Brian Asked committee for its opinion on "cost" versus "value". (line 28 page 16)
- 185 Vice Chair Beyer Summarized, there are four issues:

- 1) Single year or not
- 2) Amount
- 3) Value versus cost
- 4) Existing structure

Senses on value versus cost, property tax system is driven on value, and this should be the case with HB 3710 -6 amendments.

197 John DiLorenzo Had two comments about -6:

- 1) Taxpayer concerns should be considered paramount over administrative convenience
- 2) With respect to cost versus value, keying in on cost gives advantage to a homeowner who does his own work.

With respect to mobile homeowners, if all a person can afford to live in is a mobile home, him a break.

Asked committee to adopt -6 amendments.

- 252 Rep. Shetterly Argued, this only helps a small percentage of "little guys" who are capable of doing the work themselves. Elderly and disabled will not be helped by using "cost" to figure threshold.
- 274 Vice Chair Beyer Directed comments to assessors: Building permits are figured by value, not by cost. If an assessor saw a figure less than \$10,000 on the building permit, they wouldn't bother to investigate it.
- 295 J. Hanson Agreed, many assessors have policies like this. They don't look at every permit, they make judgments. Has no idea how assessors can figure costs.
- 333 Chair Brian Suggested moving onto another amendment, return to this later with new versions to -6 amendments.
- 366 Chair Brian Referred members to HB 3710 -5: (EXHIBIT B)
Explained -5 amendments, referred to chalkboard chart. Run through M5 compression after tax rates calculated. Under -4 amendments, M5 compression is done on code area basis. Look at total taxes in code area; under M50 -- \$5 on Real Market Value (RMV) for schools and \$10 for non-schools. These amendments are intended calculate on property by property basis instead of on a code area basis.
- 375 Scherzinger This revision needs work in Section 11 (2). These amendments do not deal with a related issue: Compression will make relief more than 17 %. There may be no compression loss under -4 amendments. If these amendments are adopted, significant number of properties will go into compression on property-by-property basis, causing revenue loss. Question is whether to readjust 17 % after compression. This would set higher permanent rates for districts.

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- 040 Vice Chair Beyer Clarified, trade-off is lower permanent rates versus higher permanent rates? New properties onto the rolls would pay at higher rate.
- 045 Scherzinger Higher permanent rates would apply to all properties. No difference in effect between new properties or old.
Commented, she is glad to hear that -5 amendments are being fixed. It is important to

- 056 Rep. Lewis keep faith with M5, the \$5 and \$10 limits have always been on a property-by-property basis. She wants the -5 amendments to be correct.
- 079 Rep. Lewis In relation to M5 compression and exceeding the \$10 or \$5 limit based on RMV: Given the 17 % cuts and M50 rates different from M5 rates, what is the likelihood for compression?
It would be likely, especially on school taxes. The 17 % reduction will reduce school taxes by 17 %. Value reductions will be greater than 17 %, so rates will be higher than \$5 for schools across the state Any property that gets no value reduction from M50 will be thrown into compression.
- 081 Scherzinger Any property that doesn't get any value reduction under M50 will likely be thrown into compression on school taxes. No good way to estimate effect of this because tax is calculated property by property.

This impact concerns M50, not M47. If M50 passes, it will reduce the amount of additional property tax revenue above M47. M50 will result in more school property taxes than M47.

Questions and discussion interspersed.
- 139 Chair Brian Key issue is, if committee adopted -5 amendments with further amendments, this would result in property-by-property M5 limitation. Summarized, committee has agreed upon:

1) Average statewide reduction of 17 %

2) Maintain M5 \$10 limit.

- 168 Scherzinger Envisions, 17 % adjustment process would result in the amount of revenue each district can raise. Assessor would then calculate M50 rates, figure urban renewal, figure compression, adjust rate for that district. Shifts tax burden away from properties that hit M5 limits onto properties that do not.
Gave example of a school district: Out of this process this district can raise \$1 million in property tax under 17 % average. Calculate: rate for district (example \$4) and other schools, add up to more than \$5.50 Run through M5 compression, and any property whose value does not go down will be under compression and revenue will be lost.
- 184 Scherzinger Assessor would calculate loss, put in higher rate and run through compression again until net is \$1 million. Properties not under compression will rise. Property that is in compression, tax will not go up anymore.
If local option levy is approved that causes compression under M50 system (as in Heppner), rate has to be set high enough that everyone is under compression. Everyone will be paying \$10 of RMV.
Noted, school and non-school compression work separately.
- 217 Scherzinger Questions and discussion concerning rate increases, who pays.

Vice Chair

265 Beyer Concluded, this process shifts tax burden from one group of taxpayers to another.
281 Chair Brian 10:15 a.m. recessed meeting. Committee will reconvene at 3:30 p.m. in Hearing Room B.

MEETING CONTINUED, AFTERNOON WORK SESSION - HB 3710

290 Chair Brian Reconvened meeting at 4:10 p.m.
Advised committee members to discard HB 3710 -5, -8, -11, which have been rewritten.

320 Jim Scherzinger Referred members to HB 3710-16 (EXHIBIT N) which replaces -11.
"In determining maximum assessed value for first year of M50, assessors shall not alter real market value for tax years 1994-95 or 1995-96 as reflected on tax roll ..."

338 Rep. Lewis Restated case of a constituent whose 1995-96 assessed value was too high. Through computer trending, this man's property value was greatly over-valued, and was de-valued the next year by \$20,000. This person would not get the benefit of 10 % cut.

Questions and discussion concerning how to prevent this person from losing money.

411 Scherzinger Explained, for determination of Maximum Assessed Value, 1995-96 is used. Reason is, difference between 2 years was not simply value difference, it was also rate difference. Rates were generally higher in 1994-95. Lot of people had lower property value in 1994-95 that didn't have lower taxes.

436 Rep. Shetterly Referred to HB 3710 -16: This limitation on revaluation is already in M50. Questioned whether this is needed, or whether committee use language of measure.

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035 Rep. Lewis Not asking to resolve her constituent's problem, just to be aware of it.

048 Scherzinger Statutorily, anybody can be assessed at any value lower than maximum.

065 Tom Linhares Questions and discussion concerning how to handle this constituent's situation.
Noted three situations where over-valuation could occur:

- 1) If this was clearly an error on the part of assessor, statute allows assessor to correct it.
- 2) If this was not a clerical error, but the assessor valued property incorrectly, property owner could appeal to Dept. of Revenue.
- 3) Based on sales data, etc., opinion of assessor could have been that the value of property in 1995 was more than in 1996. In this situation there is no remedy.

- 094 Linhares Once an appeal is filed, an assessor can stipulate to the lower value; or property owner file an appeal and go through a hearing.
- 131 Rep. Shetterly Directed members' attention to HJR-85 Page 2, line 17: Says there shall not be a reappraisal of RMV. That language may leave room for assessor to correct computer error, whereas new language might not. Constitutional language may be better.
- 141 Jerry Hanson Concurred with Shetterly. The amendment prevents assessors from correcting lots of clerical errors.
- 149 John DiLorenzo Discussed issue of clerical errors with legislative counsel. They said no reason to go beyond indicating further modifications by adjudication of value because a statute addresses clerical errors. Committee could state "clerical errors" if it would make them more comfortable.
- 170 J. Hanson Assessors don't want to reappraise property, they want to be able to correct errors on the rolls. Wants public to be assured the assessors will not go back and reappraise them.
- 189 DiLorenzo If M50 passes, there will be a need for enactment legislation. Suggested asking legislative counsel to decide whether there is a need to further modify this, then address it in second round of enacting legislation.
- 241 DiLorenzo Questions and discussion
Believes the term "adjudication" relates to Dept. of Revenue, Tax Court or Supreme Court. Has nothing to do with omitted property, clerical errors or other changes.
Suggested committee flag this issue, leave it in bill as a statement of policy, then deal with it in implementing language.
- 303 Vice Chair Beyer Committee is all in agreement in what it is trying to do, it's just a matter of wording. They don't want to foreclose a legitimate property adjustment.
- 310 Dexter Johnson Legislative counsel is uncertain exactly as to what happens, has not gotten into implementing legislation. Believes there should be a mechanism where, omitted property or error correction can be added to roll as far back as five years.
- 335 Scherzinger Clarified, provision in constitutional amendment for adding omitted property as an exception as opposed to going back and adjusting base year. In M50, take market value of omitted property value in year it is added to roll, take ratio of assessed market, put it on roll at that value. Adjusting the base year would result in a different answer as to what is the MAV of that property. Committee must reconcile which approach to take. Because in M47 there was no provision for error corrections, they used omitted property provision. This is not necessary, because M50 provides for method of dealing with omitted property.
- 364 Rep. Lewis Noted, errors are not just for added property, but also property that is dropped from rolls.
There is a difference between error correction and omitted property in the way this

374 Scherzinger measure was constructed.

384 Vice Chair Beyer Noted, existing law allows for this. Does anything in M50 change statutory law?
Under M50 , appraisers shall not reappraise property. Clerical error statute is specific in saying a they cannot correct, as a clerical error, anything that is a change in valuation judgment. Distinction exists between changing judgment of value and correcting an error.

393 Scherzinger

407 Vice Chair Beyer Echoed Hanson's concern that language in -16 amendments limits assessors' ability to make corrections.

418 Johnson Noted, there may be a risk of this, but adding language such as "after adjudication of value, error correction or addition of omitted property" would eliminate risk.

432 Vice Chair Beyer Asked Johnson to write an amendment to deal with assessors' concern.

444 Johnson Suggested wording: "the assessor shall not reappraise or alter the real market value other than for error corrections or additions of omitted property."

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039 Scherzinger Directed members' attention to HB 3710 -10 amendments: (EXHIBIT G)
(Refer to HB 3710-4, page 17) Ballot title on local option levy.

1) Adds requirement that ballot title state length and year taxes are to be imposed.

2) In mail in election, red letters are required to appear on envelope that tax increase is contained.

This adds length to the existing word count limit.

060 Rep. Lewis **MOTION TO MOVE HB 3710-10 AMENDMENTS INTO HB 3710-4 AMENDMENTS.**

Reps. Preferred to delete lines 8-10.

066 Shetterly, Rasmussen Questions and discussion concerning whether to delete lines 8-10. Lines not deleted.

CHAIR BRIAN ASKED FOR ANY OBJECTIONS FROM MEMBERS TO MOVING HB 3710-10 AMENDMENTS INTO HB 3710-4 AMENDMENTS. IN A VOICE VOTE, ALL MEMBERS PRESENT VOTED AYE.

089 **VOTE**
(ABSENT, REPS. CORCORAN, EDWARDS)

Directed members' attention to HB 3710-18 amendments (EXHIBIT O): This adds a new section to -4 amendments. Requested by counsel. Deals with urban renewal

- 097 Scherzinger districts. Grandfather levy in -4 amendments is restricted to existing plans, and nothing in language requires certification that a plan for a levy is an existing plan. Also, it requires certification that a district wants to have a special levy if the assessor says it needs one.
- 110 Vice Chair Beyer **MOTION TO MOVE THE HB 3710-18 AMENDMENTS INTO HB 3710-4 AMENDMENTS.**
- 150 Chair Brian Questions and discussion
ASKED FOR ANY OBJECTIONS FROM MEMBERS TO MOVING HB 3710-18 AMENDMENTS INTO HB 3710-4 AMENDMENTS. HEARING NO OBJECTIONS, CHAIR SO ORDERED.
- 157 Scherzinger Directed members' attention to HB 3710-13 amendments (EXHIBIT L):
\$10,000 cancellation of personal property taxes and filing requirements. Only new issue is question of whether adding something that was not required to implement HB 3710 might jeopardize emergency clause. Counsel responded, it might.
- 166 John DiLorenzo Suggested committee ask counsel whether they could avoid the emergency clause problem if they include another provision to -13 amendments that provide for an effective date.
Suggested effective date be Jan. 1, 1998, 1 a.m.
- 188 J. Hanson Questions and discussion concerning an effective date.
- 228 Scherzinger Noted, there is difference between effective date of bill and tax year it will affect.
259 Rep. Shetterly Referred to April 17, 1997 written testimony from Multnomah County Assessor Bob Ellis; and Proposed Property Tax Return Penalties from LRO from April 22, 1997. These were supposed to be integrated into -13.
- 274 Gary Carlson Expressed concern about real and personal property returns being together with regard to industrial property. Not comfortable with language in -13.
- 297 Chair Brian Noted, committee is in consensus with -13 amendments except for figuring out the effective date.
- 330 Chair Brian Adjourned meeting at 5:07 p.m.

Submitted by, Reviewed by,

Barbara Guardino Kim James

Committee Assistant Revenue Office Manager

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EXHIBIT SUMMARY:

A. HB 3710, Scherzinger, Proposed Amendments: HB 3710-4, 17 pp.

B. HB 3710, Scherzinger, Proposed Amendments: HB 3710-5, 3 pp.

C. HB 3710, Scherzinger, Proposed Amendments: HB 3710-6, 1 p.

D. HB 3710, Scherzinger, Proposed Amendments: HB 3710-7, 2 pp.

I. HB 3710, Scherzinger, Proposed Amendments: HB 3710-8, 1 p.

K. HB 3710, Scherzinger, Proposed Amendments: HB 3710-9, 2 pp.

M. HB 3710, Scherzinger, Proposed Amendments: HB 3710-10, 1 p.

O. HB 3710, Scherzinger, Proposed Amendments: HB 3710-11, 1 p.

I. HB 3710, Scherzinger, Proposed Amendments: HB 3710-12, 2 pp.

J. HB 3710, Scherzinger, The Effect of Measure 47 and Measure 50 on Taxpayers and Taxing Districts, 46 pp.

K. HB 3710, Scherzinger, List of Amendments to HB 3710-4 prepared for afternoon committee meeting, 1 p.

L. HB 3710, Scherzinger, Proposed Amendments: HB 3710-13, 1 p.

M. HB 3710, Scherzinger, Proposed Amendments: HB 3710-14, 3 pp.

AA. HB 3710, Scherzinger, Proposed Amendments: HB 3710-16, 1 p.

O. HB 3710, Scherzinger, Proposed Amendments: HB 3710-18, 1 p.

P. HB 3710, Scherzinger, Proposed Amendments: HB 3710-19, 1 p.

Q. HB 3710, Nesbitt, Oregon Public Employees Union Local 503 written testimony, 4 pp.