

WORK SESSION ON SB 1215 TAPES 218 - 219 A/B

SENATE REVENUE COMMITTEE

JUNE 24, 1997 - 8:00 A.M. - HEARING ROOM B - STATE CAPITOL BUILDING

Members Present: Sen. Ken Baker, Chair

Sen. Neil Bryant, Vice Chair

Sen. Joan Dukes (arrived 8:30 a.m.)

Sen. Verne Duncan

Sen. Tom Hartung

Sen. Randy Leonard

Invited Testimony: Denise McPhail, Portland General Electric

Jim Manary, Department of Revenue

Everett Cutter, Manager, Oregon Railroad Association

Tom Linhares, Columbia County Assessor

Gil Riddell, Association of Oregon Counties

Carol Samuels, League of Oregon Cities

Staff: Jim Scherzinger, Legislative Revenue Officer

Carol Phillips, Committee Assistant

-

TAPE 218, SIDE A

005 Chair Baker Opened meeting at 8:20 a.m.

OPENED WORK SESSION ON SB 1215

013 Scherzinger Exhibit A - (-15) Amendments. Chair Baker preferred not to use it "as is" but include in another amendment.

Exhibit B - (-16) Amendments. Previous railroad and PacificCorp testimony addressed Utility New Construction Value, and they have proposed these Amendments which would define new construction for utilities to include only the addition of functional capacity. Does not include replacement of existing property or the addition of value recorded in a centrally-assessed company's records if the replacement or addition does not add functional capacity. Difficult to say what kind of revenue impact this may have. Previous testimony said that most of what the Department of Revenue would determine to be new construction under Measure 50 would not be under this Amendment. Scherzinger drew an example on the board:

026 Scherzinger

-

1995-96 1996-97 1997-98

RMV 8,384 8,981 9,853 94% ratio

MAV 9,228

4% 8,139 83%

3% 7,982 81%

2% 7,831 79.5%

150 Scherzinger

Said that the bottom line is that the less new construction you have, the lower the values will be, and the chart shows the range for 1997-98. 1997-98 does not have a revenue effect; it just drives the rate up until compression is hit. After compression, slower growth will mean revenue loss that would otherwise occur.

157 Sen.
Hartung

Asked for examples of centrally-assessed utilities.

- 159 Scherzinger Answered the are utilities, i.e. electric utilities, gas utilities, telecommunications companies, phone companies, cellular companies, railroads, and airlines. With centrally-assessed companies the books are examined to determine value. Does not necessarily include intangibles, but does include all property, both personal and real (large machinery).
- 197 Denise McPhail Utilities are required under utility law to capitalize things that other people would not. Normally a replacement roof on a commercial building would be upkeep and maintenance, but on a centrally-assessed property it would be considered new property and taxed accordingly. Railroad example was a \$10 million commitment to restoring railroad beds, ties, and rails. Under language currently in SB 1215 that would be considered new rather than upkeep or maintenance as it would in other businesses.
- 222 Chair Baker Asked if by rule the Department of Revenue could handle this because of the changing landscape in regulated versus unregulated centrally-assessed utilities.
- 228 McPhail Responded that appropriate rules could be established to separate what is essentially a maintenance activity from actual expansion of facilities to make new money. Replacing poles knocked down in a storm would be replacement, but poles in a new subdivision would be new property. Questions and discussion interspersed.
- 248 Jim Manary Stated that the issue of "functional capacity" is a good one. When centrally-assessed companies are appraised, the appraisal is based on data submitted; the DOR does not go out to physically look at a railroad or a utility. If under accounting rules items are expensed, the DOR would treat it as an expense. If items are capitalized and amortized over years, it is treated as a capital improvement. All businesses in the course of time replace old or worn out items.
- 292 McPhail Added that utilities are required to capitalize items that other businesses would expense, and that is the difficulty with the way the DOR reviews utility books.
- 297 Manary Said the DOR would be happy to look at this with the industry over the interim and try to adopt rules. If problems continue, there is always the 1999 session to address the issue.
- 312 Everett Cutter Said that at the request of Chair Baker some amendments were submitted in the form of a position paper to the Western States Association of Tax Representatives and were the basis for the (-16) Amendments to SB 1215. An example of improvement vs. mere maintenance is what happened on 12th Street in Salem two months ago. The Union Pacific came in with a complete tie replacement program, took out old wooden cross ties and put in all new wooden ties. Just replacing ties is analogous to replacing a roof on a home. Read letter from Chief Tax Counsel of Burlington Northern-Santa Fe.

383 Tom Linhares Definition of what could be an exception under Measure 47 is much broader than in Measure 50. Under Measure 50 it was made clear that the exceptions to value shall be net retirements to additions, which was done at the request of industry.

451 Gil Riddell Directed attention to the definition of new improvements at the top of page 5 of SB 1215. The definition is consistent for all taxpayers now and does not include changes in value as a result of ongoing maintenance or repair and minor construction.

467 Carol Samuels Concurred with County Assessors and Association of Oregon Counties and further note that as much as 80% to 90% of new construction for the railroads would be taken off the table if the (-16) Amendments are passed. Encouraged that it be left to the DOR to work out administrative rules for when there are difficulties as noted by previous speakers.

TAPE 219, SIDE A

030 Chair Baker Concurrence of Committee was to leave (-16) Amendments alone and come back in interim or 1999 for further review.

047 Scherzinger Stated that in working on Amendments that would pick up technical corrections to Minority Report, issues came up that need Committee guidance, i.e. definition of minor construction to go to \$10,000 and \$25,000 over five years and expansion of square feet; the red letters on mail ballots for bonds; and exclusion of offsets before calculating Measure 47 taxes. Questions and discussion interspersed.

068 Scherzinger Exhibit C - Effect of Including Offsets in the Calculation of Measure 50 Tax Rates. This run shows difference in including and excluding offsets. One thing to notice is because the way Measure 47 works some districts end up with less revenue if the offsets are not made, although they tend to be small amounts. Questions and discussion interspersed.

133 Chair Baker Said he prefers to set the Permanent Rate more realistically where it should be, and then subtract any offsets.

140 Scherzinger Further discussion of offsets before or after establishment of Permanent Rate. Comments regarding over-realized property taxes and their distribution which typically go to equalization districts. Only error he sees in Forecast is estimating error because it is unknown what Measure 50 will do. Questions and discussion interspersed.

284 Scherzinger On property-by-property limits, asked if the Committee wants to do one round of rate recalculation? It would provide more funding temporarily, and has to be done by Assessors at the local level because the DOR does not have the data to do it.

332 Chair Baker Adjourned meeting at 9:10 a.m.

Carol Phillips

Committee Assistant

Kim James

Office Manager

-

Exhibit Summary:

A. SB 1215, Scherzinger, (-15) Amendments, (DJ/ps) 6/23/97, 1 page

B. SB 1215, Scherzinger, (-16) Amendments, (DJ/ps) 6/23/97, 1 page

C. SB 1215, Scherzinger, Effect of Measure 50 and Measure 47 on Taxing District Operating Taxes, 31 pages