

WORK SESSION ON SJR 28A

WORK SESSION ON SB 1215 TAPES 177-178 A/B, 179/180 A

**SENATE REVENUE COMMITTEE**

JUNE 9, 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

Sen. Verne Duncan

Sen. Tom Hartung

Sen. Randy Leonard (arrived 8:45 a.m.)

Invited Testimony: Tom Linhares, Columbia County Assessor

Gil Riddell, Association of Oregon Counties

Gary Carlson, Associated Oregon Industries

Jerry Hanson, Washington County Assessor

Chris Lyons, Director of Oregon Lottery

Staff: Jim Scherzinger, Legislative Revenue Officer

Carol Phillips, Committee Assistant

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**TAPE 177, SIDE A**

005 Chair Baker Opened meeting at 8:16 a.m.

#### OPENED WORK SESSION ON SB 1215

- 010 Scherzinger Under Measure 50 the Measure 5 limits, which are based on real market value, must be met on a code area basis. In other words, the total taxes in a code area cannot exceed \$5.00 per thousand for schools and \$10.00 per thousand for non-schools. Definition of "code area" means all people in a geographic code share the same combination of taxing districts. SB 1215, however, imposes Measure 5 limits on a property-by-property basis. Questions and discussion interspersed.
- 052 Scherzinger Discussed Exhibit A - Measure 5 Limits Property-by-Property. Gave example of four different properties and how to determine their rates. Comparisons were made with Proposition 13 in Los Angeles and how that property tax legislation was implemented. Questions and discussion interspersed.
- 213 Chair Baker Asked the Members if they preferred code area or property-by-property? (The House chose property-by-property.) Several Members chose code area. Questions and discussion interspersed.
- 262 Scherzinger Did not have good data yet to determine which method (code area or property-by-property) will have the most impact on businesses or individuals homeowners.
- 263 Chair Baker Concerned that there needs to be a solid starting point on which to base future growth of 3% per year. If that starting point is artificially established, future growth will be locked in a lower rate forever even though property values may be higher. Questions and discussion.
- 280 Scherzinger On the non-school side there are very few code areas close to the \$10.00 limit. On the school side there are about \$2 billion worth of codes that are over \$5.00 limit. The county assessors have not run the assessed value numbers on a property-by-property basis yet, so it has been difficult to forecast. Questions and discussion.
- 319 Tom Linhares Would like to go property-by-property as a policy decision. But the next policy decision would be whether rates would be adjusted upward to try to capture lost revenue.
- 343 Scherzinger The way the bill is written now, the losses from Measure 47 on a district basis are calculated, then you adjust to get to 17%. Only after that are Measure 50 rates calculated and compression is determined. Anything lost to compression after calculating 17% levy reductions is a further loss in addition to the 17%. Supplemental Reduction issue not in this bill. Questions and discussion interspersed.
- 422 Sen. Bryant Asked Linhares if he could run figures on two or three commercial properties to compare property tax figures using both methods.

427 Linhares Said he will provide required information by 6/11/97.

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**TAPE 178, SIDE A**

- 030 Linhares Continued that even though statewide property-by-property compression is not significant on the general government side, for those areas already under Measure 5 compression it compounds the problem; and it usually impacts those districts that can least afford additional revenue losses. Most of the revenue losses compressing property-by-property will be on the school side.
- 060 Chair Baker Said he favors the code area method, as do Linhares and other county assessors. Asked Scherzinger to draft code area language for clarification of method.
- 070 Sen. Hartung Asked for an overview on how the House arrived at their preference for property-by-property method.
- 074 Scherzinger Believes the House felt people should be assured that their property would not go over \$5.00 or \$10.00 per thousand. Illustrated comparison of market value, maximum assessed value, and real market value by drawing chart on the board. Questions and discussion interspersed.
- 316 Gill Riddell Pointed out that the way the bill is drafted sets up a potential situation similar to one in the early 1980s when because of dramatic revenue shortfalls in the counties they were not able to get out and do necessary appraisals. Thus there were properties in the same neighborhoods, some even next door to each other, which were appraised at sometimes significantly different amounts. It created such a sense of cynicism toward government in general, and toward the property tax system in particular, that it created a spawning ground for Measure 5 and successive similar bills. Counties will lose about \$70 million property tax revenues under Measure 50, and they will prioritize public safety as a constitutional requirement. Assessment taxation is not public safety. Questions and discussion interspersed.
- 411 Chair Baker Asked what the House's rationale was for stopping any further 3% growth?
- 419 Gary Carlson Answered that the House debate revolved around comparison of Measure 47 impacts and the broadly understood goal of Measure 47, which was to control growth rate of property taxes on individual properties to no more than 3% per year. Believes the compromise proposal adopted by the House would primarily have an impact on commercial property, not industrial property. It would be unusual for an industrial plant to decline severely in value. Can recall only one instance in the early 1980s in the severe timber recession when the Department of Revenue applied an economic obsolescence adjustment to the entire base of industrial facilities dealing with wood products to recognize the fact that their economic circumstances had changed substantially. That decline lasted for two or three years.

**TAPE 177, SIDE B**

- 052 Chair Baker Stated when coming out of a recession there will be increases exceeding 3%, but the question is how large will increases be. Asked Committee for their preference on putting a cap on the cap. Asked Scherzinger to draft language to go back to maximum assessed value when coming out of recessions. Questions and discussion interspersed.
- 130 Scherzinger Exhibit B - Item 4. Discussed exemption for minor construction for up to \$10,000 per year. Under Measure 50 when new construction occurs you add value to a property for the amount of the new construction based on the real market value of the new construction times the ratio of assessed value-to-market value in the area. The constitution says "new construction" does not include "minor construction". SB 1215 defines "minor construction" to include "additions of real property, the value of which does not exceed \$10,000 per year". Questions and discussion interspersed.
- 155 Chair Baker Asked if Members would agree to \$10,000 within a three-year period of time.
- 163 Sen. Dukes Stated she would be more comfortable with \$10,000 if it would not increase square footage to a house. Questions and discussion.
- 188 Riddell Would rather see language read "additions to existing real property" instead of "additions of real property" as it states now. Further questions and discussion regarding difference between "new" and "maintenance".
- 222 Sen. Dukes Asked Riddell if "per year" was omitted, would that not then mean per project?
- 225 Riddell Responded if it was coupled with additions to an existing structure they would interpret that to mean total additions, not per project, over the life of the structure.
- 230 Sen. Dukes Continued that implies an owner gets one shot to remodel at the limit of \$2,500 or the assessor would be called in to reappraise the property? Questions and discussion interspersed.
- 251 Jerry Hanson Believes this will become an issue in administering the tax system. Do not want to create a record-keeping problem in terms of who owns what property. Believes it should be project oriented, not per year; and should be concise in terms of a dollar limit. A limit of \$5,000 per project was suggested in the House Revenue Committee. Questions and discussion interspersed.
- 326 Chair Baker Asked Members their preference on this matter.
- 337 Scherzinger Pointed out page 5 of SB 1215 says "new property or new improvements does not include changes in the value of property's general ongoing maintenance and repair or

minor construction".

352 Sen. Dukes Stated the exemption should be limited to existing structures with no increase in square footage. Not so concerned about the dollar amount. People will creatively get around the limits no matter what is stipulated. Questions and discussion.

402 Linhares Responded that even before Measure 47, county assessors would not have gone out on a new roof; that is considered routine maintenance. They get copies of all building permits for examination as to which are obviously for routine maintenance, wood stoves, small decks, etc.

437 Chair Baker Asked Members for their preference on this matter. Questions and discussion.

443 Sen. Leonard Said he is uncomfortable with the \$10,000 and stated a lot can be done with that amount. Agrees with Bill Sizemore who testified during writing of Measure 50 that people should be able to put a deck on their home without being assessed again. Does agree with \$10,000 over three-year period. Further questions and discussion interspersed.

#### **TAPE 178, SIDE B**

038 Sen. Hartung Said the legislature should do everything possible to encourage homeowners to upgrade their property and does not want to present a disincentive to do so. Questions and discussion.

081 Chair Baker Asked if value can be added substantially without increasing square footage.

088 Hanson One of the things that has created concern about all this is the situations of "gentrification" going on in certain areas such as North Portland. Substantial value can be added to a property simply by repairs, maintenance, and basic "sweat equity". By picking right property in right location substantial value can be added to properties. Equity and administering program are the two main issues assessors consider.

124 Chair Baker Inclined to go along with \$10,000 a year or does not increase square footage. Asked Scherzinger to draft language on this.

#### **CLOSED WORK SESSION ON SB 1215**

134 Chair Baker Meeting in recess at 9:50 a.m. and reconvened at 2:07 p.m.

#### **OPENED WORK SESSION ON SJR 28**

141 Chair Baker Exhibit C - SJR 28A. Discussed this bill, which deals with the State Lottery.

- 192 Chris Lyons Stated that about 6% of Lottery proceeds are used for administration including compensation and payments to vendors as long as the Oregon Lottery continues to offer some type of video game. If the Lottery Commission was able to offer only traditional games, it would not be able to operate on that margin. Traditional games are expensive and run as high as 16.1% of administrative cost.
- 233 Chair Baker Asked if because at this point the (-8) Amendments do not restrict video lottery games, would the Lottery Commission be able to handle administration costs and net revenues within the 93%?
- 237 Lyons Replied yes. SJR 28 would restrict the placement of new slot games, but the current video poker games can continue.
- 242 Sen. Leonard Asked what is the concern one may have regarding video slot games versus video poker? What is the difference?
- 248 Chair Baker Replied that the concerns expressed by Sen. Hamby and others were that video line games (also called video slots) play quite rapidly and tend to target a different demographic than those playing video games now; primarily women 25 to 35 who tend to become addicted to that particular type of game. Concern was to not keep expanding pool of potential gamblers but limit it to what it is now. Questions and discussion.
- 265 Lyons Added that there is no factual data on the issue of whether video slot games are more or less addictive than video poker. Governors Task Force spent several months trying to gather data. Demographics are different for slots versus poker players. Women tend to play slots more than men. Expect new players to be added from total population, and a certain percentage of that group will tend to become addicted to the game. Video poker players tend to be heavier betters.
- 305 Chair Baker Said the Constitution does not allow casinos, so this is a move toward limiting additional gambling. Tribal casinos cannot operate video games which are not allowed by Constitution. Extensive discussion among Members.
- 476 Chair Baker MOVES THE (-A8) AMENDMENTS TO SJR 28A BE ADOPTED. HEARING NO OBJECTION, THE CHAIR SO ORDERED.
- 481 Chair Baker MOVES SJR 28A AS AMENDED TO THE SENATE FLOOR WITH DO PASS RECOMMENDATION.
- ROLL CALL VOTE: MOTION PASSES: 4 - 1 - 1
- SENATORS VOTING AYE: DUKES, DUNCAN, HARTUNG, BAKER.

SENATOR VOTING NAY: LEONARD

SENATOR ABSENT: BRYANT

Sen. Hamby and Sen. Lim will carry the bill on the Senate Floor.

CLOSED WORK SESSION ON SJR 28A

OPENED WORK SESSION ON SB 1215

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**TAPE 179, SIDE A**

040 Scherzinger Referred to Exhibit B from 6/2/97, and continued discussion of issues dealing with how value is calculated. Many of the utilities want to present information to the Committee on how new construction is calculated for centrally assessed utilities.

064 Scherzinger Continued discussion with distribution of tax cuts and revenue reductions.

082 Hanson Said he has a basic understanding of general concept. County assessors, in order to figure out cuts to make statewide, have to look at Measure 47 tax impact. The problem is that that would be such a work intensive task that it would take additional weeks of time to do basic computations and then go from there. It would be a cumbersome process they would like to avoid. Recommended that assessors not have to go through that because they do not believe it would do anything to change the cut percentage. Questions and discussion interspersed.

225 Linhares Said that the Marion County assessors looked at all their accounts; and, other than those reappraised in the last two years, of approximately 60,000 accounts only 453 accounts had tax amounts less in 1994 than the 1995 amount less 10%. Of those 453, the difference for a number of them was only \$1.00, \$2.00, or \$5.00.

248 Scherzinger Said that the way the bill is written it requires 1994-95 tax rate survey.

256 Chair  
Baker Asked Scherzinger to work on a draft for further clarification of this matter.

267 Scherzinger Added that another significant issue regarding calculation is the treatment of offsets. Drew chart on the board to illustrate how system works now. Timber Severance Tax is one of the biggest offsets. Proposal is to first establish Permanent Rate, then figure offsets. Questions and discussion interspersed.

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- 010 Scherzinger Continuation of offsets discussion. The House Revenue Committee never really looked at this portion of the bill. Further questions and discussion.
- 062 Riddell Asked special consideration of offsets. Wants offsets other than Timber Severance Taxes to be treated as resources because they are unpredictable and often do not amount to much. Questions and discussion interspersed.
- 145 Scherzinger Added that if offsets are taken after Permanent Rate is established, it will reduce their Permanent Rate because the offset is not reducing the rate now.
- 158 Chair  
Baker Adjourned meeting at 3:04 p.m.

Carol Phillips  
Committee Assistant

Kim James  
Office Manager

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Exhibit Summary:

- A. SB 1215, Scherzinger, Measure 5 Limits Property-by-Property, 1 page
- B. SB 1215, Riddell, Measure 50 Priorities, 2 pages
- C. SJR 28A, Baker, Hand Engrossed Bill, 4 pages



D. SJR 28A, Geraghty, Memorandum dated 6/5/97, 6 pages