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March 7, 2011

MEASURE: SB 818
EXHIBIT: D
Senate Finance and Revenue 76th Session
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SUBMITTED BY: CHRISTOPHER ROBINSON

Ginny Burdick, Chair
Frank Morse, Vice-Chair
Senate Committee on Finance & Revenue
Oregon State Capitol
900 Court Street NE, Room 143
Salem, OR 97301

Re: SB 818
Hearing March 7, 2011 at 1:00 pm
Hearing Room A

Dear Madam Chair, Vice-Chair and Members of the Committee,

My name is Chris Robinson. I am a member of NAIOP and have been a practicing member of the Oregon State Bar since 1977. For the past 20-plus years my practice has been limited to consulting with and representation of taxpayers on property tax valuation issues on all types of real property. I am here today to urge passage of SB 818.

The purpose of SB 818 is to counteract a change made by the Department of Revenue that has had a serious and negative impact on the property tax burdens imposed on properties with exception value. It is about restoring motivation for people to invest in Oregon.

Exceptions

Certain changes to a property that allow an increase in Maximum Assessed Value (MAV) of more than three percent. An exception occurs if:

- New property or new improvements to property exceeding \$10,000 in Market Value.
- The property is partitioned or subdivided.
- Omitted property is discovered.
- Rezoning occurs and the property is used consistently with rezoning.
- Property is disqualified from exemption, partial exemption or special assessment.

In 2006 the Department amended OAR 150-308.215 which has created the problem we seek to address. The rule relates to classification of real property. (See Exhibit A.)

In discussions with counties and DOR personnel, we learned that the ostensible purpose of the rule amendment was to obtain some uniformity between counties on how they were classifying commercial and industrial properties. However, in the quest for uniformity the DOR has created a situation where newly constructed distribution and storage warehouses, for example, are put at a permanent disadvantage with existing comparable properties.



Storage and distribution warehouses and mini-storage facilities are not in the same class as machinery and equipment, processing and manufacturing plants. The end result is that properties that were formerly classified as commercial prior to implementation of the amended rule are now being classified as industrial.

The industrial changed property ratio (CPR) is being applied to the Real Market Value (RMV) to determine the Maximum Assessed Value (MAV). The taxes are based upon the MAV with some kind of exception value.

I have provided a survey of changed property ratios from various counties below. You can see in most cases there is a significant difference between the CPR for commercial and industrial properties.

Summary of 2010 Commercial v Industrial CPRs for Select Counties

County	Commercial CPR	Industrial CPR
Washington	.607	1.00
Marion	.6359	.8401
Multnomah	.4549	.8750
Benton	.57	1.00
Lane	.507	1.00
Clackamas	.811	.870
Linn	.714	1.00

I have authorization from one of my clients to share the impact of the amended administrative rule which will be repeated throughout the state as properties in various counties come off the enterprise zone exemption.

Oregon Transfer

Storage & distribution warehouse built 2005	
2010 RMV:	20,000,000
Industrial CPR:	.875
Taxes:	316,251
Commercial CPR:	.4549
Taxes:	186,422

As a result of this rule, Oregon Transfer's taxes are 316,251 instead of 186,422. This is hardly a reward for investing in Oregon. Prior to the amendment and implementation, we believe that it would have been classified as commercial with the commercial CPR being applied. The difference in tax is almost 70%. There is nothing special purpose about this building that would make it comparable to a manufacturing or processing plant. (See Exhibit C.)

Examples of properties impacted:

1. Distribution & storage warehouses;
2. Self-storage facilities;
3. Regional headquarters buildings with office/warehouse
4. Flex/warehouse buildings



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The purpose of multiplying the RMV of the exception value is to bring the MAV of new (changed) property to the same general assessment level as unchanged property. The amendment and implementation of OAR 150-308.215 violates this premise in spades.

(See Exhibit B from the 2011 BOPTA manual published by the DOR. See also Exhibit D, Rivergate example.)

You may hear from the DOR that uniformity was eliminated with the implementation of Measure 50. While this may be true, it should not be the rationalization for creating an environment where newly constructed properties are put at a permanent competitive disadvantage with comparable pre-existing properties. The way the rule was implemented, affected properties are being lumped into the same category as machinery and equipment, processing and manufacturing plants. This is not right. I ask for your support in passing this bill. Oregon desperately needs investment that will get us on the track of economic recovery and job creation. Oregon has one of the highest unemployment rates in the nation.

Oregon has been and is currently dealing with the impact of a severe economic recession. I believe that most of us are in agreement that in order for Oregon to get on track we need policies that reward rather than penalize new investment. OAR 150-308.215 as it has been implemented presents a severe financial impediment for developers and investors who are willing to take the risk and develop vacant industrial land located within our state. We need economic development and job creation.

We urge your passage of this bill so that Oregon will not be handicapped in its attempt to gain traction towards recovery from our current economic malaise.

Thank you for your consideration.

Very truly yours,

Christopher K. Robinson

CKR:sm
Enclosures