

**Testimony of Kristine Dankenbrink
Before the Oregon Senate Finance & Revenue Committee**

February 9, 2015

Senators, good morning. My name is Kristine Dankenbrink and I am the Senior Vice President of Taxation for Comcast. Before I begin, I would like to thank the Chair and all of the members of the Committee for the opportunity to discuss Oregon's central assessment regime and the latest efforts at reforming the system.

Comcast and its predecessors have been doing business in Oregon for more than 50 years. We provide broadband video, internet, and voice services to hundreds of thousands of customers in Oregon. We also employ thousands of people and invest millions of dollars annually to ensure that Oregon's residents have access to cutting edge broadband services.

I am here today to speak with you about Oregon's property tax system and its onerous impact on Comcast and the communication industry. Oregon's central assessment regime is very much an outlier in the world of property taxation. Taxation of intangibles is not the norm in the United States. Oregon's taxation of intangibles punishes the very companies that invest tens or even hundreds of millions of dollars in the state every year. In addition to discouraging capital investment in the state, taxation of intangibles disproportionately burdens companies like Comcast that have significant intangible assets.

I would like to share with you a few facts regarding the impact taxing intangibles has on Comcast:

- Oregon subscribers comprise just 3% of Comcast's total subscribers, but Comcast's Oregon property tax liability accounts for 11% of Comcast's property tax liability nationwide.

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- In states that tax real and personal property, the average annual property tax per Comcast subscriber is \$14.88. After central assessment, the average tax per subscriber in Oregon is \$52.53 or 3.5 times higher than the national average.

These statistics are not unique to Comcast. My colleagues in the communication industry are similarly impacted. With numbers like these, it makes little business sense to ramp up technology and infrastructure investment in Oregon. As the Department of Revenue's representatives testified in December, the current central assessment regime is archaic and broken. It punishes companies that other states, including neighboring states, are desperately seeking to attract and it does a disservice to Oregon's economy. For this reason, reforms are badly needed.

We are encouraged by the recent efforts of the Legislature, the Governor's Office and industry to develop legislation that would resolve some of the systemic problems with the existing central assessment regime. However, Senate Bill 570, which would cap the value of intangibles at a percentage of the historical or original cost of the company's real and tangible personal property, is not a fix. It only creates another type of problem. In its current form, SB 570 would make Oregon the only state in the country that uses historical or original cost, without taking into account depreciation, to value property.

A simple example demonstrates the problem with using historical or original cost. If I bought a computer for \$1,000 in 2010, and you bought a computer today for \$1,000, the fair market value of my computer would be far less than the value of your computer. Nevertheless, the historical cost valuation methodology would value both of our computers at \$1,000. We all know that a 5-year-old computer is not worth as much as a new one, even if we both paid the same original price. All else being equal, however, SB 570's historical cost methodology would cause us to have the same exact cap on intangible value.

There are those who would argue that a cap like the one proposed in SB 570 is just that—a cap—not a valuation methodology, and for that reason it need not make perfect sense. But even a cap should have some basis in reality and generally accepted appraisal standards. Instituting a cap that does not account for depreciation would simply replace one broken system with another. Even worse, the cap will be meaningless for many communication companies that, in addition to having significant intangible value, are infrastructure-intensive. If encouraging business investment in Oregon is the overarching goal, SB 570's cap will not have the desired effect.

The relevant starting point for a true fix to Oregon's central assessment regime would be a valuation methodology based on HCLD, or historical cost less depreciation. HCLD is a valuation methodology that is widely accepted by state and local governments across the country, and it is the most common valuation methodology for tangible personal property. In fact, the Oregon Department of Revenue already uses it when applying the cost approach to value centrally assessed properties. In other words, HCLD is a familiar concept. Even the Oregon counties account for depreciation under their basic cost approach methodology.

The "depreciation" in HCLD is book depreciation. Book depreciation is straight-line depreciation. It accounts for the reduction in value over the useful life of an asset, and it is recorded on the company's books and audited financial statements. Book depreciation is a widely known and accepted concept. It is universally applicable, frequently audited, and easy to track and administer. It is important to note that book depreciation is vastly different from tax depreciation, which the Department has indicated could be difficult to audit.

With HCLD as the starting point, Comcast proposes a fix that would resolve the problems with the current central assessment regime and fulfill everyone's goals:

- The assessed value of communication property is the lower of:

- Real Market Value or Maximum Assessed Value under the current methodology; or
 - HCLD of the tangible personal property on the company's balance sheet, multiplied by a percentage (e.g., 130% Y1, 120% Y2, 110% Y3 and thereafter)
- HCLD would be determined by the company's audited financial statements (e.g., the company's 10-Ks filed with the SEC). If the company does not have audited financial statements, HCLD would be the original cost of the company's tangible personal property multiplied by the appropriate valuation factor set forth in the Department of Revenue's personal property valuation guidelines, which are published annually.

Audited financial statements are relied upon by the SEC, investors and banks, and are the best evidence of book depreciation. Approximately 80-90% of the communication property tax base is comprised of public companies or regulated companies that have audited financial statements. For the remaining 10-20%, HCLD would be calculated under the basic cost approach, which simply takes the original cost of the asset and applies a valuation factor based on the age of the asset. Those valuation factors are in the Department's guidelines. This is exactly how locally assessed tangible personal property is valued in Oregon right now.

This proposal is simple and fair, and, most importantly, the fiscal impact is positive. The starting point for determining the fiscal impact of the HCLD proposal, and really any other legislative proposal, should be property tax collections. Oregon counties have not accounted for deferred billing credits in their budgets, which means they already have collected the money necessary to operate and otherwise meet their obligations, including schools and bonds. Using property tax collections as a starting point, the HCLD proposal would increase future property tax collections. We estimate

that the real impact of using an alternative HCLD methodology would be a multi-million dollar windfall to the counties.

Comcast remains committed to working with all stakeholders to develop a fair and balanced approach to central assessment in Oregon. We look forward to working with stakeholders and government officials to find a mutually agreeable solution that accomplishes these goals.