Property Tax Central Assessment

This document provides a brief background of Oregon’s central assessment process. It is meant to provide a very high level overview of central assessment.

Background

Oregon statute requires most property assessment in Oregon to be done by county assessors. The Department of Revenue (DOR) is required to assess industrial properties with improvements valued greater than $1 million (ORS 306.126) and “centrally assessed properties” as defined and required in ORS 308.505-308.681. Centrally assessed property is also widely referred to as utility property. This background relates to the valuation of centrally assessed property, valuation practices for large industrial property are not discussed.

ORS 308.515 and 308.516 describe the property that is subject to central assessment. General categories of property include:

- Air Transportation
- Rail Transportation
- Water Transportation
- Communication
- Electric
- Gas
- Pipeline Gas & Oil
- Private Rail Cars

How Property is Assessed

The process of central assessment generally follows a unitary valuation approach.[1] Unitary valuation is singularly valuing an integrated group of assets functioning as an economic unit without reference to the component values. A widely used example is that of copper wire which does have a singular value as scrap metal, but the market value of the wire is its functional part of an integrated electrical system. The logic behind unitary valuation is that the approach more accurately reflects the value that informed buyers and willing sellers would reach in an open market transaction.

The unitary valuation process is informed by statutes, rules, best practices, and court decisions. Oregon is also a member of the Western States Association of Tax Administrators (WSATA) which issues and provides trainings on its appraisal handbook for utility and railroad property. The handbook provides the appraisal foundation for over a dozen western states including Oregon.

Four approaches to central assessment exist and each is described briefly below. All four approaches attempt to determine the value at which an arm’s length buyer and a willing seller would agree to exchange property for. To estimate this value, the four approaches each use a different estimation technique. The two primary approaches used by DOR are the cost approach and income approach. Oregon includes intangible assets in valuing property subject to central assessment.

Valuation Approaches

Cost Approach

The cost approach to valuation consists of estimating the cost of replacing existing property with new property and then applying a suitable depreciation factor to account for the age and condition of the existing property being valued.

Income Approach

Predicated upon the assumption that a willing buyer would value utility property based upon its anticipated future income, the income approach estimates the value of future income based upon current income of the utility, current and expected future costs, and expected utility duration.

[1] ORS 308.555 gives DOR the authority to value using a unitary approach, but does not require it.

Stock & Debt Approach
The stock and debt valuation approach is based upon the summed established market value of securities. Asset values are determined using actual market transactional values of the firm's liability and equity claims.

Sales Comparison Approach
Value is determined using an analysis of comparable sales that have taken place in the market. Considered an ideal way in which to estimate value, but often irrelevant as few if any comparable sales generally exist.

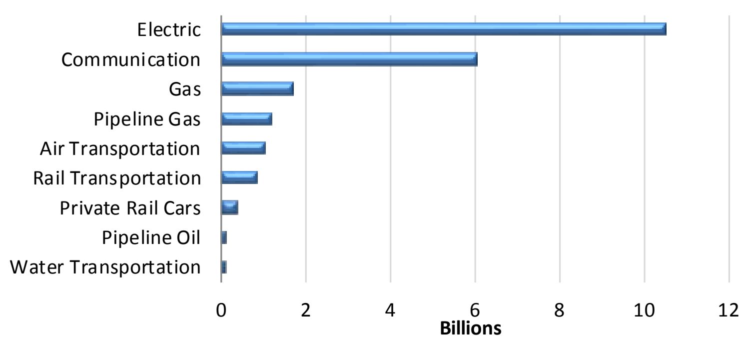
Reconciliation
Reconciliation is the process of examining and resolving the differences among the various valuation approaches used. There is no requirement that all four valuation approaches must be used, various estimates of value may be created using the same general approach by tweaking some of the variables in the estimate. Appraiser experience, agency rules, and best practices can all influence the reconciliation process an appraiser follows. There is no one right way to determine value. The WSATA utility valuation handbook states:

> "This is the time in the appraisal process when the appraiser, after careful review of the entire appraisal process, draws upon experience, expertise, and professional judgment to evaluate the relative significance, applicability, and sensibility of the various indicators of value." (WSATA, 1989).

Allocation of Unitary Value
After a unitary value has been determined, the next step is to assign a portion of the unitary value to Oregon. ORS 308.550(1) describes the allocation process to be used. Where appropriate, DOR is to allocate based upon the number of miles of rail, wire, pipe or pole lines or operational routes in Oregon as compared to the company total in all states. ORS 308.550(2) states that when property value cannot be fairly determined using the process described in 308.550(1), DOR may use any other reasonable method to determine the proper proportion of the entire property assessable for taxation in Oregon. Allocation formulas used by DOR are based upon WSATA accepted formulas which allocate based upon a combination of property, use, and revenue factors.

Recent Developments
Beginning with the 2009-10 tax year, reflective of general industry changes, Department of Revenue changed its interpretation of a communication company as defined in ORS 308.515(1). This change resulted in companies being subject to central assessment that were previously locally assessed. This change in interpretation was upheld by the Oregon Supreme Court in Comcast Corporation v. Department of Revenue (issue related to maximum assessed value remanded to Tax Court). The result of interpreting more companies as being "communication" companies and therefore subject to central assessment is the inclusion of those company's tangible and intangible value in their property tax assessment. The composition of a communication company's tangible and intangible value can vary considerably. High levels of intangible to tangible value can result in tax assessments several times greater than what would be assessed if the assessment was based on tangible value only. This can be especially acute for companies newly investing tangible communication property in Oregon.

Assessed Value of Centrally Assessed Property
FY 2015-16



Note: AV refers to AV on utility roll, and does not reflect exemptions which are applied by county assessors.

Percent of Total Tax Certified by Type FY 2015-16	
Real Property	92.4%
Centrally Assessed	4.4%
Personal Property	2.7%
Manufactured Structures	0.5%