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To: Senate Taxation Committee

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Subject: **SB 258** – Opposing Increases in the Property Tax Burden on Kansas Families through the Repeal of the \$20,000 Property Tax Exemption on Residential Properties

Chairman Donovan and members of the Senate Taxation Committee, thank you for the opportunity to provide written testimony today on behalf of the Kansas Association of REALTORS® in opposition to **SB 258**, which would increase the property tax burden on Kansas families through the repeal of the \$20,000 property tax exemption on residential properties found in K.S.A. 79-201x. Through the comments provided in our testimony, we hope to provide some additional legal and public policy context on this issue.

KAR is the state's largest professional trade association, representing nearly 8,000 members involved in both residential and commercial real estate and advocating on behalf of the state's 700,000 property owners for over 95 years. REALTORS® serve an important role in the state's economy and are dedicated to working with our elected officials to create better communities by supporting economic development, a high quality of life and providing affordable housing opportunities while protecting the rights of private property owners.

Does Kansas have a property tax problem?

Over the last 16 years, the property tax burden imposed on Kansas property owners by local governments has increased exponentially. From 1997 to 2013, the total amount of property tax revenues collected by Kansas counties increased from \$547.6 million in 1997 to \$1.2 billion in 2013, which is a total increase of 116.9% over this time period. On average, Kansas counties have increased the property tax burden by 7.3% each year.

Similarly, the total amount of property tax revenues collected by first class cities increased from \$226.8 million in 1997 to \$447.6 million in 2013, which is a total increase of 97.4% over this time period. On average, Kansas first class cities have increased the property tax burden by 6.1% each year. No reasonable individual could look at this data and conclude that the property tax burden was not skyrocketing on Kansas families, farmers and small businesses.

At the same time, inflation increased by an average of 2.4% and the Kansas statewide population grew by just 0.6% each year over the same time period. As a result, the property tax burden is currently growing at a rate that is nearly double the rate of inflation plus population growth. Your constituents cannot continue to shoulder a property tax burden that vastly outweighs the growth of the Kansas economy, wages, inflation and the statewide population.

If the Kansas Legislature does nothing to address this growing problem, then the total property tax burden on Kansas families, farmers and small businesses will most likely double again over the next decade. Can your constituents withstand another 100% to 120% increase in their property tax burden over the next decade?

Unfortunately, REALTORS® believe that this dramatic growth in the property tax burden stifles the economic prosperity of many Kansas farmers, self-employed professionals and small businesses that have seen a consistent and drastic increase in the amount of their income that is devoted to paying their property tax assessments. Regardless of whether the underlying business made a profit or not in a given year, every farmer or small business owner is required to pay an ever-increasing amount of property taxes each year to subsidize local government spending.

The ever-increasing property tax burden increases business input costs just like any other tax and decreases the amount of capital that can be poured back into the business by hiring new employees or investing in new business capacity. If Kansas wishes to continue on the path of becoming a low tax burden state for families, farmers and small businesses, then something must be done to address our exponentially increasing property tax burden.

According to a detailed analysis by the Tax Foundation, Kansas currently has one of the most burdensome property tax systems for businesses with a ranking of 41st in 2012. In addition, the Tax Foundation recently ranked Kansas as 47th overall in terms of the most favorable tax climate for mature business operations and 48th overall for newly-established business operations. In doing so, the report stated that Kansas has one of the highest (if not the highest) property tax burdens on business operations across nearly all 14 categories of business operations.

Furthermore, we believe that this increasing property tax burden makes it more difficult for Kansas families to make ends meet and is severely burdensome for many senior citizens and low-income Kansans living on fixed incomes. Over the last few years, we have heard many anecdotal stories of Kansans literally being forced out of their homes due to their inability to keep up with the drastic increases in their property tax burdens.

What has caused local governments to increase the property tax burden on Kansas property owners?

Unfortunately, the conventional wisdom pushed by local governments and certain members of the media is that local governments have resorted to increasing the property tax burden in response to the loss of state revenue transfers to local governments since 2003 and the reduction in funding for local government programs by the Kansas Legislature from 2009 to 2013. Under this line of reasoning, the reduction (or elimination) of state funding transfers to local governments has forced local governments that have otherwise been responsible with property tax collections to increase property taxes to make up for this lost funding.

In particular, local governments have lamented the fact that the Kansas Legislature stopped providing funding for the Local Ad Valorem Tax Reduction Fund (LAVTRF) and the City-County Revenue Sharing Fund (CCRSF) in 2004. Basically, both of these funds worked by taking state income and sales tax revenues and transferring a portion of these funds to local governments to subsidize local government programs and services. Local governments were supposed to utilize the funds provided through these funding streams to reduce property taxes.

From 1997 to 2003, the Kansas Legislature appropriated nearly \$573.3 million in funding for these two programs, which was an average of \$81.9 million each year. At the same time, Kansas counties and first class cities continued to increase the property tax burden on Kansas property owners by an average of \$63.8 million each year. As a result, while the Kansas Legislature appropriated nearly \$82 million each year for “property tax relief” through these two programs, Kansas counties and first class cities simultaneously continued to increase the property tax burden on Kansas families, farmers and small business owners by nearly \$64 million each year.

If you were to accept the theory advanced by local governments and certain members of the media that the loss of the revenue transfers from the state government to local governments caused the massive increases in the property tax burden, then you would anticipate that the total amount of property taxes collected by Kansas counties and first class cities would have increased at a more rapid pace since the elimination of the LAVTRF and CCRSF funding. If their theory was correct, then the annual growth of property tax increases should have been lower when these programs were fully funded and higher following their elimination by the Kansas Legislature in 2004.

However, the actual data on property tax collections in Kansas does not support the conventional wisdom pushed by local governments and certain members of the media. In fact, Kansas has had a major problem with property tax increases by local governments since 1999 and the trend of property tax increases by local governments has actually slowed down since 2004 (when there has been no LAVTRF and CCRSF funding).

Not surprisingly, the data actually shows that the average annual growth rate of the property tax burden imposed by local governments was significantly HIGHER when the LAVTRF and CCRSF programs were fully funded by the Kansas Legislature. From 1997 to 2003, when the LAVTRF and CCRSF programs received record amounts of funding, the average annual growth rate of the property tax burden was 6.9%.

From 2004 to 2013, following the elimination of all funding for the LAVTRF and CCRSF programs, the average annual growth rate of the property tax burden was actually reduced to 3.5%. As result, the average annual growth of the property tax burden imposed by local governments is actually 48.9% lower following the elimination of funding for the LAVTRF and CCRSF programs compared to when the programs were fully funded by the Kansas Legislature.

Moreover, an additional argument advanced by local governments and certain members of the media is that the passage of the property tax exemption for machinery and equipment (M&E) also caused the drastic increase in the property tax burden imposed by local governments. However, the data also shows that the average annual growth rate of the property tax burden imposed by local governments is again significantly LOWER following the passage of the M&E property tax exemption at an average annual rate of 3.2%, which is 54.3% lower than the average annual growth rate in the years prior to the passage of the M&E property tax exemption.

Accordingly, the data proves that the elimination of funding for the LAVTRF and CCRSF revenue sharing programs and the passage of the M&E property tax exemption by the Kansas Legislature have not been the primary causes of the drastic increase in the property tax burden imposed by local governments. In fact, the data shows that the average annual growth in the property tax burden was actually significantly HIGHER during the years in which those programs were funded at record levels and no changes had been made to the taxation of machinery and equipment.

What is the real cause of the drastic growth in the property tax burden?

In contrast, the actual data demonstrates that local governments have continually increased the property tax burden on Kansas property owners since the Kansas Legislature's decision to repeal the property tax lid in 1999. Prior to the repeal, local governments were essentially prohibited from increasing property taxes over the preceding year unless they took a supermajority vote to "charter out" of the requirement. Obviously, not many local governments had been able to circumvent these requirements and property taxes essentially did not go up significantly prior to 1999.

During the 1999 Legislative Session, local governments came to the Kansas Legislature and promised to be "responsible" with property tax increases if the Kansas Legislature repealed the "burdensome" and "unfair" property tax lid. During that session, the Kansas Legislature did in fact repeal the property tax lid in one very small provision tucked into a large income and sales tax reform package (**SB 45**). According to an article published by the *Topeka Capitol-Journal* at that time, the reaction from one prominent local government lobbyist was literally (not a joke) the following: "Whoopee! We're out from under the tax lid!"

In response to the repeal of the property tax lid and in carrying out their promise to be "responsible" with property tax increases, Kansas counties and first class cities increased the property tax burden on Kansas property owners by new annual records of 6.9% in 1999, 7.5% in 2000 and 10.0% in 2001. This compared to a comparatively small 3.8% increase in the property tax burden in 1998, which was the year before the property tax lid was repealed.

The record annual increases in the property tax burden in 1999, 2000 and 2001 by local governments came at a time when the LAVTRF and CCRSF programs were fully funded, the Kansas economy was growing along with the national economy, property values were steadily increasing and the state government was flush with funding and experiencing no major budget problems. As a result, it is clear that the lack of funding for the LAVTRF and CCRSF since 2004 has not been the primary reason for the exponentially increasing property tax burden in Kansas.

By reviewing the historical data on local government property taxes from 1997 to 2012, it becomes very clear that the overwhelming driver behind the exponential increase in local property taxes is increasing assessed valuations on existing properties. Over this time period, the average mill levy rate imposed by local governments only increased by around 21.1%, which is an average of just 1.4% each year over this 15-year time period.

In contrast, the total amount of property tax revenues collected by local governments increased 111.2% over the same time period, which is an average of 7.0% each year over the time period. As a result, you can see that roughly 80% of the increase in the property tax burden on property owners by local governments resulted from increases in assessed valuations rather than increases in the mill levy rate.

As a result, there is no way to fundamentally reform our property tax system until something is done to rein in the escalating property tax revenues that result from assessed valuation increases. Although there will be no effort to modify how the value of properties is assessed for property tax purposes, the Kansas Legislature can approve reforms that would prevent local governments from automatically collecting more property tax revenues from property owners just because there was an increase in the assessed valuation of existing real properties.

How would **SB 258** affect the current property tax problem?

Unfortunately, the provisions of **SB 258** will only worsen our existing property tax problem. If passed by the Kansas Legislature, it is estimated that the property tax increase allowed under this legislation would increase the property tax burden on the owner of a home by nearly \$46 a year.

Now is not the time to pass legislation that increases the property tax burden on Kansas families that already pay one of the highest property tax burdens in the nation. If anything, the Kansas Legislature needs to continue to study reforms that will actually reduce or slow the growth of the property tax burden for Kansas property owners.

Conclusion

In closing, we would respectfully request that the members of the Senate Taxation Committee oppose the provisions of **SB 258**, which would increase the property tax burden on Kansas property owners by roughly \$40 million each year. Thank you for the opportunity to provide comments on this very important issue for Kansas families.