

M I N U T E S

SPECIAL COMMITTEE ON ASSESSMENT AND TAXATION

July 17 and 18, 1975

The Committee was called to order by the Chairman, Senator Norman Gaar, shortly after 10:00 a.m. with all members present except Representative Hineman and Representative Wilkin. Staff present included Richard Ryan, Arden Ensley, Bill Edds and Mike Heim. Motion was made by Representative Brooks and seconded by Representative Powell to approve the minutes of the meeting held on June 20. Motion carried.

Proposal No. 7 - Job Expansion Act

Mr. Bud Grant, Director of Economic Development for the Kansas Association of Commerce and Industry, said that H.B. 2153 had been endorsed by the board of directors of the Kansas Association of Commerce and Industry, the Kansas State Federation of Labor (AFL-CIO), the Kansas Economic Development Department and the Governor. He noted also that the House of Representatives had passed H.B. 2153 by a vote of 119 to 3. He said the Kansas Legislature must recognize the significant strides that other states have taken in this area. He said that a Wall Street Journal article dated July 11, 1975 explains some of the incentives that other states provide in this area. He also noted an article in the Wichita-Eagle concerning the Gates Lear Jet Corporation expansion in Arizona rather than in Kansas. He expressed disagreement with the fiscal note prepared by the Budget Division dated July 17, 1975. (A copy of his statement is attached).

Dr. Jarvin Emerson, of Kansas State University and a former state economist, passed out a statement which is in the Committee notebook.

In further comments, Dr. Emerson stated that in the past five years, firms have changed the criteria they use in selecting expansion sites for industry. Firms have started considering such things as energy needs and controls imposed by the states, as well as the general climate for the industrial expansion and state incentives. In response to a question Dr. Emerson noted that the 2.5 employment multiplier referred to in his written statement was based

on a recent study he conducted in the period between 1969 and 1973. A question was asked if the bill would actually expand jobs. Dr. Emerson responded that in order to maintain past competitive advantages states must keep up with what other states are doing in the area of incentives. He said the risk is minimal compared to the potential tax gain for the states. The comment was made that some firms will expand regardless of what the state does. It was noted that Arkansas has an industrial incentive program and has been quite successful in attracting new industry.

Senator Gaar asked if it would be possible to evaluate reliably the effects of H.B. 2153, if enacted, on revenues of the state. Dr. Emerson said that it would be difficult to do because of problems relating to isolating those revenues lost or gained as a direct result of the bill and to determining whether or not enactment of the bill was the sole or primary cause of business location or expansion in Kansas.

Mr. Jim DeCoursey, Director of the Department of Economic Development, said that even though industrial expansion policies are influenced greatly by federal action, local policies also have a direct effect. He said that an unscientific study done by the Kansas Department of Economic Development recently indicated that the state was deficient in about 11,000 to 14,000 jobs each year which are needed to keep up with the number of high school graduates and "drop-outs" who enter the employment market. He noted that KDED has an item in next year's budget request that would allow them to conduct a more scientific study in this area.

Dr. Tom Severn of the Budget Division then discussed the revised fiscal note dated July 17, 1975, based on the last version of H.B. 2153 as amended by the Senate tax committee. He noted that even in a stable economic climate new firms replace old firms and the former would qualify for the tax credit. He said that for the bill to do any good it must generate about 500 new jobs; otherwise the state will suffer a tax loss. A copy of the updated fiscal note is in the Committee notebooks.

Dr. Emerson was asked if he agreed with the figure of 500 new jobs? He indicated that he did agree with this as a gross estimate of how many jobs were needed. Severn noted that the 500 new job estimate was not a hard and fast figure because it would depend to some extent as to what type of jobs were generated.

Kent Kalb, general counsel for the Department of Revenue, raised a series of questions and problems concerning the wording and possible interpretation of H.B. 2153, as last amended. Most of his comments were based on a memorandum dated July 16, 1975, a copy of which is in the Committee notebook. He agreed to submit proposed amendments to the bill for the Committee's consideration at the next meeting. It was suggested that Don O'Conner, an attorney

representing the KACI, assist Mr. Kalb in the preparation of clarifying amendments. Senator Gaar said that would be a satisfactory arrangement.

#### Proposal No. 6 - Assessment Ratio Study

Mr. James F. Bock of the Research and Management Services of the Department of Revenue, presented a written report on procedures used in the Kansas assessment-sales ratio study. He commented on each of the five procedural steps that are followed in the ratio study. They are: collection of data, screening and editing of the data, preparation of the data, computation procedures, and final edit. Mr. Bock noted that in the collection of data process two forms are used. These are the certificate of value and the real estate transfer questionnaire. Mr. Bock's report is in the Committee notebook.

Mr. Lyle Clark, of the Property Valuation Division, said that no appraisals had been used in the 1974 ratio study. It was also pointed out that contract sales are not included in the ratio study either.

Representative Stark said that more than 30% of all sales in the rural areas are by contract. He pointed out that it is not mandatory for either the grantor or grantee to complete the real estate transfer questionnaire. In response to a question, Mr. Clark stated relatively few questionnaires are actually being filled out.

Senator Gaar asked if the questionnaire had merit, and if so whether it should be made mandatory or whether the necessary questions should be made part of the certificate of value. Mr. James McDonald, Secretary of Revenue, pointed out the banks and mortgage companies claim that this form creates tremendous problems for them and that it all puts an additional burden on the county officials. He said that part of the problem is that people move out of the state and it is hard or impossible to get them to fill out the questionnaire. It was pointed out that these six questions are the same questions that were stricken from the certificate of value form by the 1975 Legislature.

Mr. Clark stated that in order to verify sales he was aware of only two feasible procedures. One would be for someone to go out in the counties and run down the grantor and grantee involved in the sale of property. He noted that this would be an expensive process. The second alternative is to have persons fill out a form like the real estate transfer questionnaire.

The question was asked of Mr. McDonald as to why the six questions were taken off the certificate of value in the first place. He responded that the issue stemmed from hearings on the Department of Revenue rules and regulations. Lending institutions said these questions caused them tremendous problems.

Mr. Clark pointed out that there may be no statistical reason for verifying sales and that verification of a sale is the only purpose for the questionnaire. He also noted that there is not a statutory requirement for confidentiality of information obtained from this questionnaire. There was the requirement that the information be confidential when it was obtained from the certificate of value. It was pointed out that the questionnaire is authorized by K.S.A. 79-1442.

Dr. John Tollefson, of the University of Kansas, School of Business and a member of the Technical Advisory Committee on the ratio study, said that a sample size of between 15 and 20 was normally quite adequate. He said that if all of the transactions in the sample cluster close to the median, then a sample of only four or five may be adequate. Senator Christy stated that many sales occur in areas close to urban centers and that this distorts the results when used as a sample as of what property in the rest of the county is worth. Dr. Tollefson proposed that appraisals could be used to supplement the sales sample. He noted that people differ as to what is the best way to determine value. He said his personal preference is the sales price. He said you can never determine the exact value of real estate; there are only indicators, such as sales price or a professional appraisal.

Mr. Richard Almy, a staff member of the International Association of Assessing Officers, said that between 36 and 40 states and the District of Columbia were regularly conducting an assessment ratio study. Three states (California, Arkansas, and Florida) use only appraisals in their study. Between 13 and 18 states make appraisals to supplement sales. He said that he thought all states that use sales have some type of screening to determine if the sale was conducted at arms length. He pointed out that there are a number of reasons for making these studies, one of the primary reasons being for use in the distribution of state aid. He pointed out that the sales sample used in a study is normally quite small.

Mr. Almy noted that the approach taken by states to their study depends on the amount of funding available. He noted that using appraisals only or even supplementing sales with appraisals can be costly. Some states feel, however, that the expense is justifiable to insure that they have an adequate sample size.

He pointed out that the states vary as to the type of strata that are used for the purposes of classifying land. These include (1) separation of urban and rural property; (2) classification based on assessed values; and (3) use classification, e.g., commercial, industrial, residential, etc. He said that while the basic methodology employed by Kansas in its ratio study is sound, he had two possible suggestions: (1) the state might consider stratifying or classifying property on a different basis and (2) the state might use some appraisals to insure an adequate sample.

A Committee member stated that the assessment process always lags behind changes in market values. He asked if there was any penalty other states imposed if assessments were not kept up to date. Mr. Almy said that states and local governments do not have the money to reassess as often as perhaps they should. He said that Arkansas, for example, reappraises only three percent of the land each year for the sales ratio study. In practice only 3% of the land contained in 20% of the counties in Arkansas is appraised each year. He said that Arkansas has a budget of \$470,000 and that the state agency involved is expected to do other things besides appraise property. In California, which has 58 counties, 1/3 of the counties are appraised each year. Mr. Almy said California spends approximately \$1.8 million on appraisals each year and that 240 and 250 appraisals are conducted per county. In Florida, he noted that 1/3 of the counties are to be appraised each year.

Mr. McDonald said that, based on the data the Revenue Department has, there are a number of counties in Kansas where an adequate sample size is not obtained. He expressed concern about using appraisals in with sales for the sales/ratio study since many persons believe sales and appraisals are two different concepts. Mr. Almy pointed out that some states do mix sales and appraisals. He said that Minnesota was an example of a state that does combine sales and appraisals in the same study.

Mr. McDonald pointed out that appraisals can be made on different sets of criteria. For example, an appraisal can be made on the income value of property as well as on its potential sales value.

Dr. Wilfred Pine, of the Department of Economics at Kansas State University and another member of the Technical Advisory Committee, said that some contract sales may be included in the sales/ratio study if they are recorded. Dr. Pine mentioned a 1970 study entitled "Rule Real Estate Transfers in Clay County". He pointed out that 38.5% of all sales in that county were contract sales. He passed out copies of this study to the Committee members. He said that this would indicate that many sales conducted in the county are not included in the present sales/ratio study. However, that particular study showed that inclusions of contract sales would have had only a slight effect on the median ratio.

Dr. Pine also mentioned another publication entitled "Factors Affecting Prices Paid for Land in Four Areas of the State", published in 1964. He pointed out that proximity to a city does have a direct effect on the value of land. For example, in eastern Kansas the study revealed that one mile from a city could mean a variation of \$1 per acre. In western Kansas this could mean a possible 25¢ per acre variation. He said also that the quality of road had more effect in the eastern half of the state than it did in the western part.

Dr. Pine said there are three basic approaches to determining value of land: sales or market price, earning or income, and cost of reproduction less depreciation. He said an appraisal is an estimate whereas the sale price, in his opinion, is a more concrete figure. He stated that there is a serious weakness in the rural part of the assessment/ratio study, namely, land sales that are made to complete or expand existing farms. He said that in these cases farmers are willing to pay much more than the land may be worth.

Dr. Pine said he would like to see the legislature require that any document regarding the transfer of real estate be recorded and this would include contract sales.

Senator Gaar asked if the Technical Advisory Committee had anything to submit to the Committee re proposed changes in the ratio study. Dr. Pine said that nothing had been prepared in writing to date. He pointed out that the Advisory Committee had met two or three times last year and had just met on July 16. Senator Gaar asked the Secretary of Revenue to get together with the Technical Advisory Committee and the Division of Property Valuation and to prepare written suggestions for the improvement of the existing sales/ratio study as well as some other alternatives.

Dr. Pine said that he did have some recommendations of his own. These were: (1) experiment with appraisals as supplements to sales, (2) require the recording of all real estate transfers (3) use a three-year or five-year average or a moving average in the assessment ratio report, (4) give more attention to the income approach, and (5) scrutinize sales in the rural-urban fringe and sales involving "add-ons" to existing farms and ranches.

The Committee then discussed the 1974 amendments to the ratio study law and appropriations made that year to improve administration of the study. Mr. Clark noted that a research analyst (Mr. Bock) and two additional field appraisers have been hired, and that it would be several months before the field staff is actually involved in making appraisals to supplement or verify the sales ratios.

Returning to the request of the Committee for suggestions from the Department of Revenue and the Technical Advisory Committee, Senator Gaar stressed that they should determine whether or not the real estate transfer questionnaire is necessary. If it is determined that certain questions are essential, should responses be made mandatory either as part of the Certificate of Value or as a separate document?

A member of the Committee asked the Department of Revenue to report on the status of the soil classification survey when it presents its suggestions re the ratio study.

Mr. Ray Vaughn, director of the Property Valuation Division, said that he hated to see the Committee members put themselves in the position of making the questionnaire mandatory. He said he sent out a letter explaining the purpose for the questionnaire to some legislators and that there was even confusion over the letter. He indicated, however, that he was not recommending that the legislature repeal the statute which requires verification of sales. Mr. Kalb, legal counsel of the Revenue Department, said that he thought that it should be left to the Advisory Committee to determine if the questionnaire was needed. If they felt it was needed then the questionnaire should be made mandatory.

Mr. Bock said that the questionnaire, as well as the certificate of value, are used for information to edit and screen the data. The real question is whether editing is needed. If editing is not needed, the questionnaire is not needed. Mr. Clark pointed out that there is confusion as to what the Property Valuation Division is trying to determine. The questionnaire is not used to determine the value of real estate but to verify that the sale was made at arms length and what rights to property were exchanged.

#### General Fund Receipts

Mr. Ryan presented a preliminary report on state general fund receipts in FY 1975. A copy is in the Committee notebook.

#### Plans for Meeting on August 21-22

The following items were discussed for inclusion on the agenda at the meeting scheduled on August 21-22:

Proposal No. 5 - Motor Vehicle Taxation. Report on the results of the 24-county survey, if it is completed or largely completed.

Proposal No. 6 - Assessment Ratio Study. Suggestions of the Department of Revenue and the Technical Advisory Committee, if they are prepared to report in August, and report on status of the soil classification survey.

Proposal No. 7 - Job Expansion Act. Suggested amendments to H.B. 2153 by Kent Kalb, general counsel of the Department of Revenue.

Proposal No. 8 - Agricultural Use Value Appraisal. Conference with Dr. Barry Flinchbaugh concerning (1) his survey as to the potential impact on the tax base of counties if the proposed constitutional amendment (HCR 2005) is adopted in 1976 and (2) development rights legislation.

Board of Tax Appeals. Conference with the Chairman of that Board on two matters which he wants to discuss with the Committee.

Prepared by Mike Heim

Approved by Committee on:

August 21, 1975  
Date



ATTACHMENT

STATEMENT OF BUD GRANT

July 17, 1975

Mr. Chairman and members of the Committee, my name is Bud Grant, Director of Economic Development for the Kansas Association of Commerce and Industry and I would like to thank you for once again giving us the opportunity to appear before you in support of House Bill No. 2153, the Job Expansion and Investment Credit Act.

Since I appeared before both the Senate and House Assessment and Taxation Committees during the 1975 Legislative Session, I will not take the Committee's time by repeating the testimony that was given during these appearances. There are other conferees in attendance who wish to visit with the Committee about this proposal I do not intend to take much of the Committee's time this morning. I would simply like to make a few brief observations. First, the proposal which you have before you has been endorsed by the Board of Directors of the Kansas Association of Commerce and Industry, the Kansas Federation of Labor AFL-CIO, the Kansas Economic Development Commission, the Governor and has passed the House of Representatives of the State of Kansas by a vote of 119-3. I believe that this displays some recognition on the part of these individuals of the fact that Kansas is in need of this legislation which will assist in the stimulation of business activity which will ultimately result in the creation of additional jobs for the people of Kansas.

Secondly, and there are others who will follow who will speak to this point in greater depth, the Kansas Legislature must recognize the significant strides taken by other states as they attempt to attract business and industry. According to a front page article which appeared in the Friday, July 11, 1975, Wall Street Journal, dozens of states are making a costly well-organized effort to ease their unemployment rates and widen their tax bases with a wide variety of lures. I think Kansas can accept this challenge in an attempt to stay in the game, or it can sit back and watch the world go by.

The 1975 Kansas Legislature should be congratulated for passing the Executive Reorganization Order No. 7 which reorganizes the Kansas Department of Economic Development into a cabinet level department. This is a significant step, however, this department must have the tools with which to work. House Bill 2153 is such a tool.

I am sure that many of you saw the recent article in the Wichita Eagle concerning the fact that Gates Lear Jet is expanding its operation to Tucson. Included in the article was a summary of what the states of Arizona, California, Colorado, Kansas and Texas provide to assist industry in locating and expanding within their states. As has been the case in virtually every list of this kind which I have seen, Kansas again trailed in the number of incentives provided. I have been advised by some people in Wichita who are

familiar with the aircraft industry, that this move of Gates Lear Jet is only the beginning and that eventually we will be losing that industry completely. This may or may not be true, but I do think it points out that Kansas is seriously lacking in those incentives which are becoming more vital every day.

One additional fact. In the July 17 fiscal note from the Office of the Division of the Budget, 22,855 new jobs were calculated annually for credit. I feel it should be pointed out that between 1965 and 1974, Kansas' population grew from 2,197,815 to 2,299,220, and average annual growth of only 10,140. And according to Kansas 2000, the recently released report of Kansas Division of State Planning and Research between 1975 and the year 2000, Kansas population will increase to 2,331,170 or an average of 3,029 people per year. I find these figures very difficult to reconcile with the more than 20,000 new jobs created annually according to the fiscal note.

We have in the past, and will continue to work with you on the Committee in an attempt to work out those amendments which you feel are necessary. It is our hope that the final determination of the Committee will be favorable consideration for passage of House Bill 2153.