

Approved On: _____

Minutes of the House Committee on Assessment and Taxation. The meeting was called to order by E. C. Rolfs, Chairman, at 9:00 a.m. on March 21, 1985 in room 519 South at the Capitol of the State of Kansas.

All members of the Committee were present.

Committee staff present:

Tom Severn, Legislative Research
Melinda Hanson, Legislative Research
Don Hayward, Reviser of Statutes
Millie Foose, Committee Secretary

Representative Braden discussed HCR-5004 and suggested that it be withdrawn as he believes HCR-5018 is a better solution to the classification problem and that vacant lots should be assessed at 12%. He said that use value might be considered as an alternative.

Marian Warriner, representing the League of Women Voters, testified in support of SB-164, saying that reappraisal should begin without delay. (Attachment 1)

Barbara Koirtyohann, representing Hallmark Cards, supported HCR-5018 as she believes its adoption would encourage economic growth and business development in the state of Kansas. She also mentioned that Hallmark has five plants and over 5000 employees in Kansas. (Attachment 2)

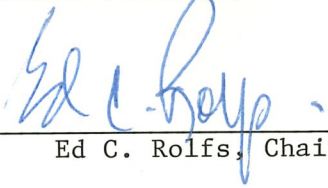
John Koepke, Executive Director Kansas Association of School Boards, expressed their members' concern over the property tax assessments which have been projected and endorsed the concept of a constitutional amendment which would provide for the classification of property in Kansas. (Attachment 3)

Brian Whitehead, representing railway employees and retirees, spoke in support of classification and suggested several amendments to HCR-5018 as a compromise.

Dr. Glenn Fisher, Wichita State University, said that it is necessary to adopt some measure to cushion or prevent the shifts which will occur as a result of reappraisal and stressed the need for a simple, broad based, administratively feasible tax. (Attachment 4) He also submitted figures showing changes in property taxes within classes which would result from reappraisal of property in Kansas. (Attachment 5)

The minutes of March 20 were reviewed. Representative Crowell requested that an addition be made to Mr. Robert Walters' testimony of March 20. "Mr. Walters testified that land values would change dependent on agriculture use (farm to pasture/pasture to farmland); that it would not be valued on a highest or best use concept; and that he would not think an eastern Kansas farm set up to use irrigation in dry years would be valued as irrigated land." With this correction, the minutes were approved.

There being no further business, the meeting was adjourned.



Ed C. Rolfs, Chairman

LWVK LEAGUE OF WOMEN VOTERS OF KANSAS

909 Topeka Boulevard-Annex

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Topeka, Kansas 66612

March 21, 1985

STATEMENT TO THE HOUSE COMMITTEE ON ASSESSMENT AND TAXATION IN
SUPPORT OF SB 164 CONCERNING REAPPRAISAL.

I am Marian Warriner speaking for the League of Women Voters of
Kansas in support of SB 164.

Our strong support of reappraisal continues. Our position is
this:

1. REAPPRAISAL SHOULD BEGIN WITHOUT DELAY.
2. STATE CONTROL IS IMPERATIVE to achieve:
 - statewide uniformity of property appraisals and assessments;
 - a sound basis for equalization of school finance;
 - consistency in the base of the formulae for distribution
of state revenue through the LAVTRF and CCRSF to local
governments;
 - equity in statewide property taxes.
3. ACTION SHOULD BE TAKEN TO REDUCE THE ADVERSE IMPACT ON SOME
PROPERTY TAXPAYERS.

We recommend that you take action now to ease the shifts that
will develop. We endorse a simple classification plan with
two property classes -- income-producing and non income-
producing -- HCR 5018.

4. ROLLBACK OF LEVY RATES must accompany reappraisal. After the
first year this restriction should be lifted. SB 164 includes
the rollback, and a mechanism for local governments to set
their own budget requirements and limits.
5. USE VALUE APPRAISAL OF AGRICULTURAL LAND. No position. We
suggest however, that this not be mandated, but that the
legislature have the option of either use value or a lower
assessment rate for agricultural land.

Thank you.

Marian Warriner

Marian Warriner
LWVK Lobbyist

Mr. Chairman, members of the committee, I am Barbara Koirtyohann, Manager of State and Local Public Affairs for Hallmark Cards. I am accompanied by Chip Moxley, our Tax Manager. Hallmark employs over 5,000 residents of the State of Kansas, and has five plants in Kansas: one here in Topeka, Osage City, Lawrence, and two in Leavenworth.

We are here in support of HCR 5018. We share your concern for all property owners in Kansas. We have also testified in support of SCR 1616 before the Senate Assessment and Taxation Committee.

Over the past several years we have monitored developments in the state legislature relative to statewide reappraisal and classification of property. In addition, we have been through the continuing experience of statewide reappraisal and classification in Missouri.

First, HCR 5018 avoids a major shift in the tax burden on the residential class, and second by eliminating the inventory and other personal property taxes relative to business property, it is more likely to encourage economic growth and business development in the state.

In particular under HCR 5018 the various classes of property are treated equitably in terms of distribution of the tax burden. The bill minimizes the number of classes of property, by structuring a two tier system which incorporates agricultural land at its use value. This proposal is as close to the current constitutional mandate as any we have seen to date.

Additionally the elimination of all personal property tax facilitates the administration of the property tax system, and eliminates problems inherent in the status quo which have penalized the honest taxpayer. Because Kansas' neighboring state of Missouri, like many other states, has exempted inventory from taxation, for Kansas to do otherwise could close the door to many business development opportunities.

HCR 5018 would eliminate the threat of judicially ordered property reappraisal. As we have witnessed in Missouri this type of reappraisal can be a very difficult experience. We believe a legislated approach is more orderly and results in sound tax policy.

In summary, we chose to locate in Kansas with our first jobs over 40 years ago. Our employees like it here and so do we. We hope that by working together, Kansas will continue to grow, prosper and be a quality state in which to live, work, and do business.

Mr. Chairman, thank you for this opportunity to testify. If you have questions we'll be happy to try to answer them for you.



Testimony on HCR 5004
before the
House Assessment and Taxation Committee
by
John W. Koepke, Executive Director
Kansas Association of School Boards
March 21, 1985

Mr. Chairman and members of the Committee, we want to express our appreciation for the opportunity to present the views of the school boards of Kansas on this topic of vital interest to the financing of public education. As you know, nearly half the cost of elementary and secondary education in Kansas is borne by local property taxes levied by the 304 unified school district boards of education. Any action which affects that property tax base has grave implications for public school financing.

With that in mind, our members have expressed deep concern over the property tax shifts which have been projected to occur between classes of property if reappraisal of property in Kansas were to be imposed, either by a court order or through legislative action. We are also dismayed by the results of studies undertaken by the Property Valuation Department which show wide disparities in assessment within property classes in the same taxing jurisdiction. The disparities demonstrate the need for some remedial action.

As a result of their study of these factors, our members have reached the same conclusion as the 1981 Interim Committee which studied the subject. Our Delegate Assembly has overwhelmingly adopted a policy statement endorsing the concept of a

constitutional amendment which would provide for the classification of property in Kansas with assessment percentages for each class specified in the amendment. This would be designed to prevent annual legislative battles over which classes of property should be assessed at what level.

The Committee should also be aware that enactment of any such amendment needs to take into consideration the changes in district wealth in the school finance formula that would occur as a result of any classification amendment, so that adjustments can be made to allow for those shifts. We believe that the correlation between a classification amendment and the school finance formula has not received the attention it deserves to this point.

A classification amendment also offers the opportunity for the legislature to deal in a comprehensive manner with the proposed and existing tax exemptions such as livestock, farm machinery and merchants and manufacturers inventories and to resolve those issues in a conclusive fashion.

If Kansas schools are to continue to be supported in any major portion by the property tax, then the concerns which are mounting regarding that tax base must be addressed. We believe that the resolutions before you offer the best vehicle to begin addressing those concerns. We believe that they should be addressed by legislative action rather than court fiat. We thank you for the opportunity to address our concerns, and I will be happy to answer any questions.

March 21, 1985

Statement by Glenn W. Fisher, Wichita State University
to
House Assessment and Taxation Committee

Chairman Rolfs and Members of the Committee:

I have appeared before this committee and the Senate committee several times. I suggest you pass a reappraisal bill and an appropriate constitutional amendment so you can stop hearing me--or at least let me talk on a different subject.

To repeat a little bit of history:

- 1. The uniform, universal or general property tax was an American invention.

The ultimate in tax democracy.

In conformity with Adam Smith's idea of considering society as a great estate in which all contributed to expenses in proportion to one's interest in the estate.

- 2. Requirements for uniform universal taxation were written into many state constitutions (including Kansas).

- 3. Modification were soon made because of:

Poor administration

Increasingly complex kinds of property and property rights.

- 4. All states have provided for exemption, classification or other special treatment of some or all kinds of personal property. Most have use value assessment of farm land and provisions for some kind of exemption or refund of residential taxes. Many of these residential refunds (Homestead exemptions or circuit breakers) are limited to elderly, low income persons or others with special needs
- 5. A few states have comprehensive classification which includes real estate. These systems have all been adopted, not because it was believed that they were desirable systems of taxation, but to minimize the shifts which would result from reappraisal.

I have attended most of the meetings of the Kansas Tax Review Commission and I have met with other groups considering possible classification schemes. Based upon that and upon my general knowledge of property taxation, I would like to make the following observations:

1. No system of classification will eliminate shifts in the tax burden upon individual taxpayer.

There will be shifts between classes because there is so much variation from place to place. Any plan that maintains the status quo in one place will cause shifts in other places

More importantly, the variation of assessment levels within classes is so great that many taxpayers will face large increases or decreases in tax burden regardless of the classification system used. A phase-in plan can spread the impact over time. I have made a very limited study of the shifts which would occur within the urban residential class in three counties and the commercial class in one county. (See handout entitled CHANGES IN PROPERTY TAXES WITHIN CLASSES, RESULTING FROM REAPPRAISAL)

2. The shift in taxes from class to class will be less than the shift in statewide or countywide assessed values.

Taxes cannot be shifted to or from property which is outside of the taxing jurisdictions in which it is located. For example, if there is concentration of property in a taxing jurisdiction a large decrease in assessed value will not result in an equally large decrease in taxes--in effect there is "no place to shift it."

Because data showing the composition of the tax base in each taxing jurisdiction are not compiled, it is a time consuming process to determine exactly what the tax shift will be. I have done a study of Kingman County which provides a good estimate of the shift of taxes in that county. Which would result from adoption of the 30-20-10 plan suggested by the Kansas Tax Review Commission. Because that plan is not now before you I have not provided you with copies, but it does confirm my statement that the shifts in taxes will be less than the shift in assessed values.

3. The more classes used, the greater will be the administrative problems of classifying property and the greater will be the demands for changing the classification system.
4. The wider the range between the assessment level of business property and other property, the greater will be the pressure for special business exemptions. (Such as inventory exemptions or IRB exemptions.)

For many years, students of taxation have extolled the virtues of broad-based, low rate, administratively simple taxes. Until recently, this advice has gone unheeded as exemptions and special provisions have been added to the tax system at all levels of government. Today, the advice is being given very serious attention at the federal level, but we are discovering that, once special provisions have been adopted, it is very difficult to eliminate them.

If it is necessary to adopt some measure to cushion or prevent the shifts which will occur as a result of reappraisal, I urge that much weight be given to the need for a simple, broad based, administratively feasible tax. It is also important that the plan minimize the opportunity and incentive for various groups to demand annual changes.

Although, I personally am not enthusiastic about classification, the inequities within classes and the uncertainty created by the present situation is so great that I believe adoption of reappraisal and the 30-12 plan of classification would be a big improvement. It would eliminate much of the inequity within classes and it would permit businesses to plan for the future with a much greater degree of certainty.

* * * * *

I spent the last two weeks in Chicago attending an intensive course on mass reappraisal of property. This course was sponsored by the International Association of Assessing Officials, the professional and educational organization of assessors. Among the 18 participants were two persons from the Kansas property valuation department and the deputy appraiser from Sedgwick County.

Some time was spent learning to plan and organize mass reappraisal projects, but much of the time was devoted to the newest developments in computer assisted appraisal. I was extremely encouraged by the developments that have occurred in this field since I attended a seminar on the same subject several years ago. New developments include:

1. Computer software that makes it possible to assess sizeable jurisdictions using IBM compatible micro-computers. This has been developed by the non-profit Lincoln Institute and the International Association Of Assessing officers. This is, or will be, available free to qualified users and is being further developed by the IAAO for free distribution to members. Commercial firms are also developing the software for sale or use in their own reappraisals.
2. This software is very flexible. It permits the appraiser to choose from several methodologies (cost, several kinds of multiple regression, feedback and comparable sales). It also permits the local assessor to feed his/her own knowldege of the local situation into the process. In other words it is computer assisted appraisal--not computer appraisal.
3. Much emplasia has been placed on using models that can be understood by appraisers and taxpayers and that follow commonsense notions of what affects value.
4. Appraisers do not have to be statisticians or computer experts to use this software. However, it will take some time and experience to use it well. Thus, there will be many cost advantages if there is some statewide standardization of computer software and methods. This will permit a great deal of "learning from your neighbor" and facilitate DPV assistance to local appraisers.

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CHANGES IN PROPERTY TAXES WITHIN CLASSES, RESULTING
FROM REAPPRAISAL*

Much attention has been focused upon the shifts in assessed values and, by inference, upon the shift in taxes levied upon the various classes of property which would result from reappraisal of property in Kansas. Several property classification proposals have been advanced as means of reducing the tax shifts. These proposals have as their main purpose reducing tax shifts and, thus, the opposition to reappraisal.

This paper is a brief analysis of another important aspect of the problem--the shifts which will occur within classes. Such shifts cannot be eliminated although some phase-in proposals would spread them over a period of time.

Four classes of property were chosen for analysis. They were:

1. Single Family Residential, Kingman County
2. Urban Commercial, Sedgwick County
3. Single Family Residential, Sumner County
4. Urban Commercial, Sumner County

Data were obtained from the 1984 assessment-sales ratio study. The Property Valuation Department provided printouts showing the assessed value and the sales price of each parcel which survived the editing process and was thus used in the 1984 study. It was assumed that each parcel would be reappraised at 100 percent (or a uniform percentage of 100 percent) of the sales price. A hypothetical tax levy was assumed and the tax levy on each parcel of property, before and after reappraisal, was computed. Tables 1 through 4 are summaries of tax shifts which would occur, assuming that the total tax levy on that class of property remains unchanged.

For example, Table I reveals that 12 parcels out of the 84 single family residential properties in Kingman County would receive a tax decrease of more than 40 percent and that 13 parcels would receive a tax increase of more than 40 percent. Summarized in another way, 56.6 percent of the parcels examined in Table 1 would have a tax increase or decrease of more than 20 percent.

Seventy-four percent of the commercial properties in Sedgwick County would have a tax increase or decrease of more than 15 percent.

*By Glenn W. Fisher, Hugo Wall Center for Urban Studies, Wichita State University. February 7, 1985.

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In Sumner County, 66.1 percent of the residents would receive an increase or decrease of more than 20 percent. The sample of Sumner County Commercial property is small, but the data for that sample indicate that 75 percent of the parcels would receive an increase or decrease of more than 20 percent.

Comparison of these figures with the shifts between property classes which would result from the various classification proposals would indicate that for many owners of real estate the shift in tax burden resulting from shifts between property taxes will be completely offset or greatly magnified by shifts within classes. Clearly this cannot be avoided if reappraisal is to have any purpose. To completely shield all parcels of property from shifts would be to render reappraisal meaningless.

TABLE 1
CHANGES IN TAX, SINGLE FAMILY, KINGMAN COUNTY

<u>Change</u>	<u>Number</u>	<u>Percent</u>
Decrease:		
More Than 40%	12	14.3
30 to 39.99	5	6.0
20 to 29.99	9	10.7
10 to 19.99	10	11.9
0 to 9.99	8	9.5
Increase:		
0 to 9.99%	19	22.6
10 to 19.99	0	0.0
20 to 29.99	3	3.6
30 to 39.99	5	6.0
Over 40	<u>13</u>	<u>15.5</u>
Total Number of Parcels	84	100.0*

*May not add because of rounding

TABLE 2
 CHANGES IN TAX, COMMERCIAL, SEDGWICK COUNTY

<u>Change</u>	<u>Number</u>	<u>Percent</u>
Decrease:		
More than 60%	2	.9
45 to 59.99	15	6.7
30 to 44.99	24	10.7
15 to 29.99	31	13.8
0 to 14.99	34	15.1
Increase:		
0 to 14.99%	24	10.7
15 to 29.99	20	8.9
30 to 44.99	15	6.7
45 to 59.99	16	7.1
Over 60	<u>44</u>	<u>19.6</u>
Total Number of Parcels	225	100.0*

*May not add because of rounding

TABLE 3
 CHANGES IN TAX, SINGLE FAMILY, SUMNER COUNTY

<u>Change</u>	<u>Number</u>	<u>Percent</u>
Decrease:		
More than 40%	21	10.0
30 to 39.99	20	9.5
20 to 29.99	31	14.8
10 to 19.99	21	10.0
0 to 9.99	22	10.5
Increase:		
0 to 9.99%	17	8.1
10 to 19.99	11	5.2
20 to 29.99	12	5.7
30 to 39.99	6	2.8
Over 40	<u>49</u>	<u>23.3</u>
Total Number of Parcels	210	100.0*

*May not add because of rounding.

TABLE 4
 CHANGES IN TAX, COMMERCIAL, SUMNER COUNTY

<u>Change</u>	<u>Number</u>	<u>Percent</u>
Decrease:		
More than 40%	2	10
30 to 39.99	3	15
20 to 29.99	1	5
10 to 19.99	1	5
0 to 9.99	3	15
Increase:		
0 to 9.99%	0	0
10 to 19.99	1	5
20 to 29.99	2	10
30 to 39.99	2	10
Over 40	<u>5</u>	<u>25</u>
Total Number of Parcels	20	100