

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 22, 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

SB-94, an act relating to dates by which the PVD director must promulgate guides. Chairman Rolfs submitted an amendment that would require the PVD director to publish a notice and hold a public hearing on any changes to property valuation guides. (Attachment 1) Representative Roe moved, second by Representative Lowther, that the amendment be adopted. The motion carried. Representative Schmidt moved, second by Representative Fry, that SB-94 as amended be reported favorably. The motion carried.

SB-96, an act relating to income taxation; concerning interest on income tax refunds resulting from loss carrybacks, was discussed. Representative Ott moved, second by Representative Moomaw, that the bill be reported adversely. The motion lost. After an explanation by Mr. Harley Duncan, Representative Lowther moved, second by Representative Roe that SB-96 be reported favorably, The motion carried.

SB-95, an act relating to dates by which taxpayers must file annual reports to the Secretary of Revenue was discussed. Representative Reardon moved, second by Representative Fry, that SB-95 be amended to change the date by which certain taxpayers must submit withheld taxes. The motion carried. Representative Fry moved, second by Representative Leach, that the provisions of HB-2356 be amended into SB-95. The motion carried. Representative Jarchow moved, second by Representative Ott, that SB-95 as amended be reported favorably. The motion carried.

Representative Fox presented a balloon amendment for SB-31. (Attachment 2) Representative Fox moved, second by Representative Aylward, that the amendment to SB-31 be adopted. The motion carried. Representative Leach moved, second by Representative Erne, that the penalty in SB-31 be changed from 100% to 50%. The motion failed. Representative Vancrum moved, second by Representative Schmidt, that taxpayers be given the right to appeal the penalty to the county board of equalization. The motion lost. Representative Wunsch moved, second by Representative Wagon, to add to SB-31 a provision of amnesty ending August 31, 1985, for taxpayers to file proper returns and avoid the penalty provision of SB-31. The motion carried. Representative Lowther moved, second by Representative Wagon, that SB-31 as amended be reported favorably, as amended. The motion carried.

SB-198, an act relating to the dates which county clerks place escaped property on the tax rolls was presented. Representative Wagon moved, second by Representative Adam, that SB-198

be amended to make the dates for real property conform to the dates for personal property contained in the bill. The motion carried. Representative Lowther moved, second by Representative Smith, that SB-198 be amended to state that no penalty would apply if there was a "good faith" appeal in progress. The motion carried.

The chairman then announced the committee would stand in recess until 9:00.

The hour having arisen for the committee to reconvene its proceedings, the chairman called the meeting back to order and announced continued hearings on reappraisal and classification.

Mr. David Litwin, representing Kansas Chamber of Commerce and Industry, testified in support of HCR-5018 and SB-164. (Attachment 3)

Mr. Ron Gaches, representing United Telephone Company, endorsed Mr. Litwin's views and strongly endorsed HCR-5018. (Attachment 4)

Mr. John Blythe, Assistant Director Public Affairs Division Kansas Farm Bureau, testified as a proponent of SB-5018. He also submitted reports showing that agriculture paid their 15% plus property tax out of only 3.56% of the state's personal income. (Attachment 5)

Ms. Janet Stubbs, representing Home Builders Association of Kansas, testified in support of HCR-5018. (Attachment 6)

Ms. Bev Bradley, representing Kansas Association of Counties, appeared in support of SB-164, an act relating to the taxation of tangible property; mandating program of statewide reappraisal. (Attachment 7)

Mr. Chip Wheelen, representing the Kansas Legislative Policy Group which is an organization of County Commissioners, spoke in support of HCR-5018. (Attachment 8)

Ms. Mary Ellen Conlee, representing Kansas Small Business Trust, an organization of over 200 small Kansas businesses, testified in support of HCR-5018 and SB-164. (Attachment 9)

Mr. Mike Beam, representing Kansas Livestock Association, testified in support of HCR-5018 and SB-164. (Attachment 10)

Additional written testimony was submitted by Karen McClain representing Kansas Association of Realtors and Mr. William Abbott representing the Boeing Company. (Attachments 11 and 12)

This concluded the hearing on HCR-5018 and SB-164.

The minutes of March 21 were reviewed. There being no changes, they were approved as presented.

There being no further business, the meeting was adjourned.

  
\_\_\_\_\_  
Ed. C. Rolfs, Chairman

Proposed amendment to SB 94  
(As Amended by Senate Committee)

On page 2, in line 65, after "any" by inserting "proposed";  
in line 68, after the period by inserting "Such notice shall  
provide a date and place for a public hearing thereon which shall  
be conducted by the director, and shall be published in the  
Kansas register at least 14 days prior to such hearing."

SENATE BILL No. 31

By Committee on Assessment and Taxation

1-16

0019 AN ACT relating to property taxation; concerning the appraisal  
0020 of tangible personal property discovered to have escaped  
0021 taxation.

0022 *Be it enacted by the Legislature of the State of Kansas:*

0023 Section 1. (a) If, after one year from the date prescribed by  
0024 K.S.A. 79-306, and amendments thereto, for the listing of tangi-  
0025 ble personal property, the county appraiser discovers that any  
0026 tangible personal property which was subject to taxation in any  
0027 year or years within five years next preceding has not been listed  
0028 or has been undervalued for whatever reason, such property  
0029 shall be deemed to have escaped taxation. In the case of property  
0030 which has not been listed, it shall be the duty of the county  
0031 appraiser to list and appraise such property at ~~twice its fair~~  
0032 ~~market value~~ *and add 100% thereto as a penalty for escaping*  
0033 *taxation* for each such year during which such property was not  
0034 listed, and it shall be designated on the appraisal roll as "escaped  
0035 appraisal" for each such preceding year or years. In the case of  
0036 property which has been listed but undervalued, it shall be the  
0037 duty of the county appraiser to list and appraise the undervalued  
0038 portion of such property at ~~twice its fair market value~~ *and add*  
0039 *100% thereto as a penalty for escaping taxation* for each such  
0040 year during which such property was undervalued, and it shall  
0041 be designated on the appraisal roll as "escaped appraisal" for  
0042 each such preceding year or years. If the owner of such property  
0043 is deceased, taxes charged as herein provided shall be levied  
0044 against the estate of such deceased person for only three years  
0045 preceding death and shall be paid by the legal representative or  
0046 representatives of such estate. In the event that such escaped

Attch. 2  
2/1/85 3/22/85

0047 appraisal is due to any willful or clerical error of the county  
0048 appraiser, such property shall be appraised at its fair market  
0049 value *and no penalty shall be added.*

0050 (b) The board of tax appeals shall have the authority to ~~order~~  
0051 ~~the refund of taxes paid under protest~~ *abate any penalty imposed*  
0052 pursuant to subsection (a) *and order the refund of the abated*  
0053 *penalty*, whenever excusable neglect on the part of the person  
0054 required to make and file the statement listing property for  
0055 assessment and taxation purposes is shown.

0056 (c) The provisions of this section shall apply to any tangible  
0057 personal property discovered during the calendar years 1982,  
0058 1983, 1984 and any year thereafter to have escaped appraisal and  
0059 taxation during any such year or any year within five years next  
0060 preceding any such year.

0061 Sec. 2. This act shall take effect and be in force from and  
0062 after its publication in the Kansas register.

*insert:*

(b) A taxpayer with a grievance as to any penalty applied pursuant to the provisions of this section, may appeal to the State Board of Tax Appeals on forms prepared by the State Board of Tax Appeals and provided by the County Appraiser. The Board of Tax Appeals shall have the authority to abate and/or refund the penalty, whenever excusable neglect on the part of the person required to make and file the statement listing property assessment and taxation purposes is shown. No interest shall be assessed during the pendency of this appeal.

# LEGISLATIVE TESTIMONY

## Kansas Chamber of Commerce and Industry

500 First National Tower One Townsite Plaza Topeka, KS 66603-3460 (913) 357-6321



A consolidation of the  
Kansas State Chamber  
of Commerce,  
Associated Industries  
of Kansas,  
Kansas Retail Council

HCR 5018 & 5004, SB 164

March 21, 1985

### KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the  
HOUSE ASSESSMENT AND TAXATION COMMITTEE

by

David S. Litwin  
Director of Taxation

Mr. Chairman, members of the committee. I am David Litwin, representing the Kansas Chamber of Commerce and Industry. Thank you for the opportunity to testify in support of HCR 5018 and SB 164, and in opposition to HCR 5004.

The Kansas Chamber of Commerce and Industry (KCCI) is a statewide organization dedicated to the promotion of economic growth and job creation within Kansas, and to the protection and support of the private competitive enterprise system.

KCCI is comprised of more than 3,000 businesses which includes 200 local and regional chambers of commerce and trade organizations which represent over 161,000 business men and women. The organization represents both large and small employers in Kansas, with 55% of KCCI's members having less than 25 employees, and 86% having less than 100 employees.

The KCCI Board of Directors establishes policies through the work of hundreds of the organization's members who make up its various committees. These policies are the guiding principles of the organization and translate into views such as those expressed here.

As many members of the Committee may be aware, KCCI has long supported enforcement of our historic uniform and equal mandate contained in the state constitution. We

continue to do so. Even many supporters of a classification readily concede that uniform and equal has significant advantages. It is fair, it is widely perceived as fair, it is easily understood by the average citizen, and it is easy to administer. Moreover, it must be emphasized that our current tax paralysis was not caused by the uniform and equal standard. To the contrary -- the present situation arose because of lack of enforcement.

HCR 5004, as has been the case with most classification schemes of recent years, is designed primarily to avoid tax burden shifts by more-or-less locking current assessments into law. The problem with that approach is that current assessment levels arose as the result of historical accident, rather than rational tax policy.

However, HCR 5018 differs greatly from previously considered classification proposals.

First, it has only 2 classes - 3 if you include agricultural use valuation -- and is therefore close to uniform and equal. Thus it is easily understood and administered, and relatively fair and neutral. In short, this plan is as close to uniform and equal as, in our judgement, we are likely to be able to get in the foreseeable future.

Next, this proposal deals boldly and courageously with the continuing difficulties with the administration of taxation of business equipment, machinery and inventories. These issues are of great concern to the business community. We feel that to the extent HCR 5018 has disadvantages, they are largely offset by its decisive resolution of the personal property issues, and that this feature would send a clear signal to business both here and in other states and countries that Kansas intends to retain and improve a positive business climate.

Third, we feel strongly that the interests of all Kansans would be best served by a reasonable resolution -- any reasonable solution -- to end our current impasse, rather than continuing our paralysis with an uncertain future and the increasing probability of intervention by the courts. Such intervention could lead to removal of the problem from the political process, with a resulting loss of accountability. Moreover, our state of uncertainty plays a significant role in the decisions of multistate employers who are looking for new sites and of Kansas employers who are contemplating expansions.

HCR 5018 is a compromise. It might not entirely satisfy the needs of each group of taxpayers, but that is as it should be with real compromises. It does address all of the issues in a reasonable and fair manner, and we feel it would contribute to a future environment that will enable our economy to flourish and prosper. We hope that all parties will be willing to put aside the transitory concerns that will be forgotten a few years down the road, to join in support of a plan that will over the course of the coming decades be beneficial to all. We urge this committee to recommend passage of HCR 5018. We also endorse SB 164 and urge that it be recommended for passage along with HCR 5018.

Thank you again for the chance to testify. If there are any questions, I will be happy to answer them.



HOUSE COMMITTEE ON  
ASSESSMENT AND TAXATION

CLASSIFICATION OF PROPERTY

MARCH 21, 1985

THANK YOU MR. CHAIRMAN FOR THIS OPPORTUNITY TO EXPRESS THE CONCERNS OF UNITED TELEPHONE COMPANY REGARDING HCR 5004 AND HCR 5018, TWO PROPOSALS TO CLASSIFY OUR KANSAS PROPERTY TAX SYSTEM. I AM RON GACHES, GOVERNMENTAL AFFAIRS MANAGER FOR UNITED TELEPHONE OF KANSAS.

UNITED TELEPHONE COMPANY IS A STATE REGULATED LOCAL EXCHANGE TELEPHONE SYSTEM. OUR SYSTEM IS REAPPRAISED ANNUALLY BY THE KANSAS DIVISION OF PROPERTY VALUATION AND ASSESSED AT 30%. ALL PROPERTY TAX PAYMENTS ARE REGARDED AS LEGITIMATE BUSINESS EXPENSES BY THE KANSAS CORPORATION COMMISSION - MEANING THAT WE HAVE AN OPPORTUNITY TO RECOVER ALL OF OUR PROPERTY TAX LIABILITY FROM OUR CUSTOMERS.

UNITED TELEPHONE STRONGLY ENDORSES THE CURRENT UNIFORM AND EQUAL MANDATE OF OUR STATE CONSTITUTION. WE BELIEVE SUCH A SYSTEM PROVIDES THE MOST EQUITABLE TREATMENT FOR ALL TAXPAYERS. HOWEVER, IN LIGHT OF OUR CURRENT NON-COMPLIANCE WITH THE "UNIFORM AND EQUAL" MANDATE, WE RECOGNIZE THE NECESSITY TO PROVIDE SOME MEASURE OF PROTECTION FOR HOMEOWNERS AND FARMLAND OWNERS. WE ALSO BELIEVE IT IS IN THE BEST INTEREST OF ALL TAXPAYERS TO ADDRESS THIS ISSUE AS SOON AS POSSIBLE AND NOT FURTHER DELAY THE STATE-WIDE REAPPRAISAL NECESSARY TO RESTORE EQUITY TO OUR PROPERTY TAX SYSTEM.

TO PROVIDE HOMEOWNERS WITH PROTECTION FROM TAX INCREASES, WE URGE THE ADOPTION OF THE GRADUATED RESIDENTIAL EXEMPTION (GRE) DESCRIBED BY DR. GLEN FISHER DURING HIS TESTIMONY. SETTING THE GRE AT AN AMOUNT EQUAL TO 60% OF THE ASSESSED VALUE, WITH A MAXIMUM EXEMPTION NO GREATER THAN THE AVERAGE ASSESSED VALUE FOR EACH COUNTY, WILL HAVE THE SAME EFFECT AS ASSESSING HOMES AT 12% UP TO THE AVERAGE COUNTY VALUE AND AT 30% ABOVE THE AVERAGE.

TO PROVIDE FARMLAND OWNERS WITH PROTECTION, WE URGE THE IMPLEMENTATION OF USE-VALUE APPRAISAL. USE-VALUE SHOULD BE DETERMINED IN A WAY TO ACCURATELY REFLECT THE CURRENT INCOME PRODUCING ABILITY OF THE LAND.

HCR 5018 APPEARS TO HAVE SEVERAL SIGNIFICANT STRENGTHS WHEN COMPARED TO HCR 5004. FIRST, ALL INCOME PRODUCING PROPERTY IS TRULY TREATED EQUALLY. SECOND, THERE ARE FEWER CLASSES - REDUCING THE ADMINISTRATIVE COMPLEXITY. THIRD, CUSTOMERS OF STATE ASSESSED UTILITIES ARE NOT TAXED IN A SEPARATE CLASS. AND, FOURTH, THE RANGE FROM THE HIGHEST TO THE LOWEST ASSESSMENT LEVELS IS SMALLER.

IN ADDITION, WE WOULD LIKE TO RECOMMEND THAT ALL CONSTITUTIONAL AND STATUTORY EXEMPT REAL ESTATE BE REQUIRED TO MAKE A PAYMENT IN LIEU OF TAXES IN SUPPORT OF LOCAL SERVICES. WE SUGGEST THAT PAYMENT BE AN AMOUNT EQUAL TO THE LOCAL MILL LEVIES IMPOSED, EXCEPT FOR THE LEVIES IN SUPPORT OF PUBLIC EDUCATION.

THE OPPORTUNITY TO DRAMATICALLY UPGRADE THE EQUITY AND EFFICIENCY OF A MAJOR TAX DOES NOT COME ALONG VERY OFTEN. WE URGE THE COMMITTEE TO ADDRESS REAPPRAISAL AND THE TAX SHIFT PROBLEM THIS YEAR. LET'S PUT INTO PLACE A TAX SYSTEM THAT MEETS THE NEEDS OF ALL KANSANS.

THANK YOU FOR THE OPPORTUNITY TO ADDRESS YOU TODAY. I WILL BE HAPPY TO ANSWER ANY QUESTIONS.



**Kansas Farm Bureau, Inc.**

2321 Anderson Avenue, Manhattan, Kansas 66502 / (913) 537-2261

Statement of Kansas Farm Bureau  
to the  
House Committee on Assessment & Taxation

RE: S.C.R. 5004--Proposal to amend  
the Constitution to Require Classification  
of Property

March 21, 1985  
Topeka, Kansas

Presented by:  
John K. Blythe, Assistant Director  
Public Affairs Division  
Kansas Farm Bureau

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Mr. Chairman and members of the Committee:

We are pleased to have this opportunity to speak on behalf of the farmers and ranchers who are members of the Kansas Farm Bureau as you consider H.C.R. <sup>5018</sup> 5004, which proposes to amend the constitution to provide for a system of classification of property for ad valorem taxation purposes.

We have appeared before this committee in previous years to discuss taxation issues. We have presented statements regarding the appraisal of property as we have on the classification of property.

We have expressed the views of our members regarding the topic before you today. The policy position of our organization on this matter was refined a bit at the most recent annual meeting of our organization, December 2-4, 1984. That policy and one other relating to farm machinery appear on the next page:

### **Appraisal, Assessment and Taxation of Real and Personal Property**

We believe Kansas should begin the process of reappraisal, and we further believe the new values determined by the reappraisal process should be implemented in all 105 Kansas counties at the same time. Reappraisal procedures should contain provisions for frequent updating of values.

Procedures should be developed to insure against an unfair shift of taxes to agricultural and residential property. We believe that this shift of taxes can be best addressed by classification. The classification issue should not be addressed until reappraisal is completed in all counties.

In 1976, voters approved an amendment to the Kansas Constitution to allow the Legislature to develop use-value appraisal of agricultural land. For eight years we have attempted to enact a use-value appraisal statute. We believe this Constitutional provision should be implemented.

We firmly believe that the income capitalization approach to value is sound and is an equitable method of appraising real property for tax purposes. Statutory or constitutional language should require that all properties valued under use-value, (the income capitalization approach), should have a common capitalization rate based on economic, interest rate and money market factors.

We believe livestock should be exempt from property taxation in Kansas. There are 36 states that presently exempt livestock. Kansas should be added to this list of states so that we can maintain the leadership position in livestock production.

### **Farm Machinery Tax Exemption**

We believe the exemption of farm machinery recognizes the importance of agriculture to the Kansas economy, is in keeping with similar actions in 27 other states and the trend nationally exempting farm machinery from property taxation, and should be defended vigorously.

The farmers and ranchers who were delegates at our annual meeting reiterated the belief that a reappraisal procedure should begin soon. So, while we are talking classification amendment proposals we would want you to know at the same time that we are supportive of reappraisal of property so that you and all of us will know what the true and actual values of properties in Kansas are today . . . or at the conclusion of the reappraisal which we hope will be forthcoming.

Our delegates reiterated the belief that "procedures should be developed to insure against an unfair shift of taxes to agricultural and residential property." This year they stressed the belief that this "shift of taxes" would best be addressed by a classification procedure. They went ahead to say: "The classification issue should not be addressed until reappraisal is completed in all counties."

Mr. Chairman and members of the committee H.C.R. 5004 is very similar if not identical to H.C.R. 5009 as introduced in the 1983 Session. Farm Bureau supported that Concurrent Resolution but had the same objections to H.C.R. 5009 as we now have to H.C.R. 5004 on lines 144, 145, 146, and 147 and ask that the words "and farm machinery and equipment" be struck from lines 144, 145, 146 and 147.

We shared with you the policy position of our members concerning the farm machinery tax exemption. It is very straight forward. It recognizes that this exemption is granted in 27 other states, with yet other states that provide a reduced tax or appraisal on farm machinery. Our people want this farm machinery to remain exempt from property taxation and they want us to defend it vigorously. They likewise want you to defend it vigorously.

H.C.R. 5004 does address the exemption for livestock by phasing out the taxation of inventories of merchants and manufacturers and livestock over a five-year period. Of course, we would prefer an outright exemption but in lieu of the "cold turkey" approach, we would support a five-year phase-out.

The constitutional amendment approved by the voters of this state in 1976 gave this legislature permission to value agriculture land according to its income producing capability or its productivity. To date there has been no implementation of use-value appraisal. We express our appreciation that use-value appraisal is incorporated in H.C.R. 5004. We would at this point tell you that we are supportive of S.B. 164, the reappraisal bill that

has been approved by the Senate and that it does have the provisions for use-value appraisal of agriculture land.

I have attached two pages to this testimony: one page is taken from the Property Valuation Department Statistical Report that indicates that agriculture is paying in excess of 15 percent of the states property tax; the second page indicating Kansas Personal Income in three broad categories: (1) Farm income, (2) Government income & disbursements, and (3) Private non-farm income. The information for this page was taken from the Kansas Economic Report and a five-year average of farm income (not showing 1983 and 1984 income) indicates that agriculture paid their 15 percent plus property tax out of 3.56 percent of the states personal income. I have included these two pieces of information to indicate that Agriculture is and has been paying their share of the property tax.

Thank you very much for the opportunity to make a brief statement on H.C.R. 5004. If there are questions, I will attempt to answer them.

# 1983 Statistical Report - PVD

DOLLARS  
**ASSESSED VALUATION AS REPORTED TO THE DIRECTOR OF PROPERTY**  
 VALUATION BY THE COUNTY CLERK, AS OF JULY 1

DOLLARS  
**TANGIBLE ASSESSED VALUATION AND TAXES**  
 AND IN LIEU OF TAXES (As of Nov. 1)

| REAL ESTATE                                                  | Land                   | Improvements           | Total                   |
|--------------------------------------------------------------|------------------------|------------------------|-------------------------|
| <b>RURAL:</b>                                                |                        |                        |                         |
| Agri-Non-Investment                                          | \$ 13,785,158          | \$ 19,638,244          | \$ 33,423,402           |
| Homesites                                                    | 15,862,546             | 113,208,516            | 129,071,062             |
| Planned Subdivisions                                         | 23,507,725             | 116,831,053            | 140,338,778             |
| Spot Indust. & Commercial                                    | 9,365,831              | 135,545,827            | 144,911,658             |
| Recreational                                                 | 670,533                | 2,109,195              | 2,779,728               |
| Agricultural Investment                                      | 1,375,428,497          | 259,767,324            | 1,635,195,821           |
| Mineral Interests                                            |                        |                        |                         |
| Non-Severed                                                  | 38,276                 | xxxxx                  | 38,276                  |
| Severed                                                      | 7,453,360              | xxxxx                  | 7,453,360               |
| <b>TOTAL RURAL REAL ESTATE</b>                               | <b>\$1,446,111,926</b> | <b>\$ 647,100,159</b>  | <b>\$ 2,093,212,085</b> |
| <b>URBAN:</b>                                                |                        |                        |                         |
| Residential                                                  | \$ 296,353,491         | \$1,718,323,909        | \$ 2,014,677,400        |
| Multi-family                                                 | 20,156,422             | 175,296,752            | 195,453,174             |
| Commercial                                                   | 157,297,796            | 613,807,392            | 771,105,188             |
| Industrial                                                   | 15,112,797             | 88,602,656             | 103,715,453             |
| Vacant Lots                                                  | 46,391,782             | xxxxx                  | 46,391,782              |
| Mineral Interests                                            |                        |                        |                         |
| Non-Severed                                                  | 660                    | xxxxx                  | 660                     |
| Severed                                                      | 12,416                 | xxxxx                  | 12,416                  |
| <b>TOTAL URBAN REAL ESTATE</b>                               | <b>\$ 535,325,364</b>  | <b>\$2,596,030,709</b> | <b>\$ 3,131,356,073</b> |
| <b>TOTAL REAL ESTATE</b>                                     | <b>\$1,981,437,290</b> | <b>\$3,243,130,868</b> | <b>\$ 5,224,568,158</b> |
| <b>TANGIBLE PERSONAL</b>                                     |                        |                        |                         |
| City Personal                                                | \$ xxxxxx              | \$154,807,292          | \$ 74,807,292           |
| Township Personal                                            | 254,075,609            | xxxxx                  | 254,075,609             |
| Merchandising                                                | 51,681,928             | 351,719,486            | 403,401,414             |
| Manufacturing                                                | 233,084,798            | 320,192,269            | 553,277,067             |
| Professional Business                                        | 1,901,743              | 36,242,603             | 38,144,346              |
| Contractors                                                  | 35,082,354             | 34,440,244             | 69,522,598              |
| Organizations                                                | 436,656                | 1,217,598              | 1,654,254               |
| Other Business                                               | 51,291,326             | 179,864,410            | 231,255,736             |
| Ser. Sta. Prop. & But. Plants                                | 5,880,658              | 18,802,789             | 24,683,447              |
| Oil Production:                                              |                        |                        |                         |
| Working Int.                                                 | 897,814,965            | 3,867,750              | 901,682,715             |
| Royalty Int.                                                 | 210,777,383            | 451,212                | 211,228,595             |
| Gas Production:                                              |                        |                        |                         |
| Working Int.                                                 | 670,603,946            | 770,220                | 671,374,166             |
| Royalty Int.                                                 | 125,095,480            | 211,330                | 125,306,810             |
| Refining & Processing                                        | 39,464,992             | 581,810                | 40,046,802              |
| Banks, Trusts & Ins. Co's.,<br>and Savings & Loan Assn.      | 370,460                | 24,621,757             | 24,992,217              |
| Community T.V.                                               | 1,584,327              | 12,452,722             | 14,037,049              |
| <b>TOTAL TANGIBLE PERSONAL<br/>PROPERTY (Before Penalty)</b> | <b>\$2,579,246,625</b> | <b>\$1,060,243,492</b> | <b>\$ 3,639,490,117</b> |
| Penalty                                                      | 8,170,292              | 8,190,878              | 16,361,170              |
| <b>TOTAL TANGIBLE PERSONAL<br/>PROPERTY (Taxable)</b>        | <b>\$2,587,416,917</b> | <b>\$1,068,434,370</b> | <b>\$ 3,655,851,287</b> |
| <b>STATE ASSESSED PUBLIC<br/>SERVICE CO'S.</b>               |                        |                        |                         |
|                                                              | 1,585,913,925          | 474,245,557            | 2,060,159,482           |
| <b>GRAND TOTAL TANGIBLE<br/>TAXABLE VALUATION</b>            | <b>\$6,266,542,927</b> | <b>\$4,674,036,000</b> | <b>\$10,940,578,927</b> |

| REAL ESTATE<br>(Locally Assessed)                | VALUATION               | GENERAL PROPERTY<br>TAX   | AVG. RATE PER<br>\$100 ASSESSED<br>VALUATION |
|--------------------------------------------------|-------------------------|---------------------------|----------------------------------------------|
| Rural                                            | \$ 2,094,913,426        | \$ 194,504,589.04         | 13.64%                                       |
| Urban                                            | 3,129,612,681           | 413,051,440.14            | 13.20                                        |
| <b>Total</b>                                     | <b>5,224,526,107</b>    | <b>607,556,029.18</b>     | <b>11.63</b>                                 |
| <b>PERSONAL PROPERTY<br/>(Locally Assessed)</b>  |                         |                           |                                              |
| Rural                                            | 2,608,752,276           | 183,955,419.38            | 7.05                                         |
| Urban                                            | 1,133,997,161           | 146,950,438.44            | 12.96                                        |
| <b>Total</b>                                     | <b>3,742,749,437</b>    | <b>330,905,857.82</b>     | <b>8.84</b>                                  |
| <b>PUBLIC SERVICE CO'S.<br/>(State Assessed)</b> |                         |                           |                                              |
| Rural                                            | 1,585,846,522           | 113,809,253.85            | 7.18                                         |
| Urban                                            | 474,362,766             | 61,673,454.32             | 13.00                                        |
| <b>Total</b>                                     | <b>2,060,209,288</b>    | <b>175,482,708.17</b>     | <b>8.52</b>                                  |
| <b>TOTAL RURAL</b>                               | <b>6,289,512,224</b>    | <b>492,269,262.27</b>     | <b>7.83</b>                                  |
| <b>TOTAL URBAN</b>                               | <b>4,737,972,608</b>    | <b>621,675,332.90</b>     | <b>13.12</b>                                 |
| <b>TOTAL</b>                                     | <b>\$11,027,484,832</b> | <b>\$1,113,944,595.17</b> | <b>10.10</b>                                 |

**IN LIEU OF PROPERTIES**

| MONEYS & CREDITS<br>(Intangibles Tax)                        | TAX                       |
|--------------------------------------------------------------|---------------------------|
| Rural                                                        |                           |
| Urban                                                        |                           |
| <b>Total</b>                                                 | <b>12,480,125.79</b>      |
| <b>FINANCIAL INSTITUTIONS<br/>(5 mills on Capital Stock)</b> |                           |
| Rural                                                        |                           |
| Urban                                                        |                           |
| <b>Total</b>                                                 | <b>851,980.69</b>         |
| <b>INDUSTRIAL REVENUE BOND PROPERTIES</b>                    |                           |
| Rural                                                        |                           |
| Urban                                                        |                           |
| <b>Total</b>                                                 | <b>2,914,335.00</b>       |
| <b>GRAIN HANDLERS</b>                                        |                           |
| Rural                                                        |                           |
| Urban                                                        |                           |
| <b>Total</b>                                                 | <b>751,586.00</b>         |
| <b>GRAND TOTAL IN LIEU OF TAX</b>                            | <b>16,998,027.48</b>      |
| <b>SPECIAL ASSESSMENTS TAX</b>                               |                           |
| Rural                                                        | 9,066,809.82              |
| Urban                                                        | 49,715,882.10             |
| <b>Total</b>                                                 | <b>58,782,691.92</b>      |
| <b>GRAND TOTAL ALL TAX</b>                                   |                           |
| Rural                                                        | 507,071,790.37            |
| Urban                                                        | 682,853,524.20            |
| <b>Total</b>                                                 | <b>\$1,189,925,314.57</b> |

**R.E. 13.64 %**  
**Personal 1.63 %**  
**Total 15.27 %**

**Taxes**

**R.E. = \$157,946,990**  
**Personal = \$18,121,006**  
**Total = \$176,067,996**

| Taxing Districts          | Distribution of Taxes Levied Nov. 1, 1983 for 1984 Expenditures - 'In Lieu of' Tax Distribution |                                       |                           |                                          |              |                                           |                        |                          |
|---------------------------|-------------------------------------------------------------------------------------------------|---------------------------------------|---------------------------|------------------------------------------|--------------|-------------------------------------------|------------------------|--------------------------|
|                           | In Dollars By Type of Taxing District                                                           |                                       |                           |                                          |              |                                           |                        |                          |
|                           | LOCALLY ASSESSED IN LIEU OF TAXES                                                               |                                       |                           |                                          |              |                                           |                        |                          |
|                           | General Tax                                                                                     | Moneys & Credits<br>(Intangibles Tax) | Financial<br>Institutions | Industrial<br>Revenue Bond<br>Properties | Grain Tax    | Col. 2+3+4+5<br>Total In Lieu<br>of Taxes | Special<br>Assessments | Totals<br>Col. 1 + 6 + 7 |
|                           | (1)                                                                                             | (2)                                   | (3)                       | (4)                                      | (5)          | (6)                                       | (7)                    | (8)                      |
| 1. State                  | \$ 16,541,107.87                                                                                | \$ ---                                | \$ 2,672.19               | \$ 29,296.80                             | \$ ---       | \$ 31,968.99                              | \$ ---                 | \$ 16,573,076.86         |
| 2. County                 | 237,804,055.17                                                                                  | 3,171,447.33                          | 42,484.04                 | 458,976.85                               | 751,586.00   | 4,424,494.22                              | 7,206,750.63           | 249,535,300.02           |
| 3. Cities                 | 177,436,326.32                                                                                  | 6,015,753.10                          | 197,161.32                | 1,072,029.44                             | ---          | 7,284,943.26                              | 46,180,245.67          | 230,901,515.85           |
| 4. Townships              | 18,057,717.47                                                                                   | 3,292,925.36                          | 450,767.45                | 57,225.47                                | ---          | 3,800,918.28                              | 3,937,822.46           | 25,796,458.21            |
| 5. Schools                | 621,231,890.29                                                                                  | ---                                   | 143,301.61                | 1,236,463.97                             | ---          | 1,379,765.58                              | ---                    | 622,611,655.87           |
| 6. Cemeteries             | 1,681,129.50                                                                                    | ---                                   | 1.69                      | 77.29                                    | ---          | 78.98                                     | ---                    | 1,681,208.48             |
| 7. Drainages              | 1,186,563.65                                                                                    | ---                                   | ---                       | 34,596.71                                | ---          | 34,596.71                                 | 30,933.13              | 1,252,093.49             |
| 8. Fires                  | 14,096,831.11                                                                                   | ---                                   | 8,912.51                  | 414.72                                   | ---          | 9,327.23                                  | ---                    | 14,106,158.34            |
| 9. Hospitals              | 3,946,649.14                                                                                    | ---                                   | ---                       | 86.95                                    | ---          | 86.95                                     | ---                    | 3,946,736.09             |
| 10. Improvements          | 94,810.38                                                                                       | ---                                   | ---                       | ---                                      | ---          | ---                                       | ---                    | 94,810.38                |
| 11. Libraries             | 7,560,658.67                                                                                    | ---                                   | 2,322.17                  | 15,442.84                                | ---          | 17,765.01                                 | 636,656.75             | 731,467.13               |
| 12. Lights                | 6,149.24                                                                                        | ---                                   | ---                       | ---                                      | ---          | ---                                       | ---                    | 6,149.24                 |
| 13. Parks & Recreation    | 2,021,548.34                                                                                    | ---                                   | 2,282.28                  | ---                                      | ---          | 2,282.28                                  | ---                    | 2,023,830.62             |
| 14. Sewers                | 7,678,129.31                                                                                    | ---                                   | ---                       | ---                                      | ---          | ---                                       | ---                    | 7,678,129.31             |
| 15. Watersheds            | 1,746,284.49                                                                                    | ---                                   | ---                       | ---                                      | ---          | ---                                       | 171,855.38             | 1,918,139.87             |
| 16. Airport Authorities   | 2,422,881.46                                                                                    | ---                                   | 2,075.43                  | 9,723.96                                 | ---          | 11,799.39                                 | 12,178.50              | 2,444,781.84             |
| 17. Ambulances            | 43,821.29                                                                                       | ---                                   | ---                       | ---                                      | ---          | ---                                       | ---                    | 43,821.29                |
| 18. Community Buildings   | 2,206.01                                                                                        | ---                                   | ---                       | ---                                      | ---          | ---                                       | ---                    | 2,206.01                 |
| 19. Ground Water Mgt.     | ---                                                                                             | ---                                   | ---                       | ---                                      | ---          | ---                                       | ---                    | ---                      |
| 20. Industrials           | 33,403.54                                                                                       | ---                                   | ---                       | ---                                      | ---          | ---                                       | 229,379.42             | 262,782.96               |
| 21. Irrigations           | 3,630.31                                                                                        | ---                                   | ---                       | ---                                      | ---          | ---                                       | ---                    | 3,630.31                 |
| 22. Rural Highway Systems | 352,443.00                                                                                      | ---                                   | ---                       | ---                                      | ---          | ---                                       | 270,253.32             | 622,696.32               |
| 23. Waters                | 646.63                                                                                          | ---                                   | ---                       | ---                                      | ---          | ---                                       | ---                    | 646.63                   |
| 24. Zonings               | 5,711.98                                                                                        | ---                                   | ---                       | ---                                      | ---          | ---                                       | 6,616.66               | 12,328.64                |
| 25. TOTAL                 | \$1,113,944,595.17                                                                              | \$12,480,125.79                       | \$851,980.69              | \$2,914,335.00                           | \$751,586.00 | \$16,998,027.48                           | \$58,782,691.92        | \$1,189,925,314.57       |



KANSAS PERSONAL INCOME (add 000,000)

|             | Total Personal Income | * Farm Income | Farm Income % of Total Income | Gov't Income Disbursements | Gov't Income % of Total Income | Private Non-Farm Income | Non-Farm Income % of Total | Reference Source                                                                |
|-------------|-----------------------|---------------|-------------------------------|----------------------------|--------------------------------|-------------------------|----------------------------|---------------------------------------------------------------------------------|
| 1950        | 2,671                 | 529           | 19.8%                         | 390                        | 14.5%                          | 1,752                   | 65.6%                      | Kansas Co. Income Jan-64                                                        |
| 1951        | 2,987                 | 463           | 15.5%                         | 411                        | 13.8%                          | 2,113                   | 70.7%                      | Office of Econ. Analysis                                                        |
| 1952        | 3,422                 | 601           | 17.6%                         | 475                        | 13.9%                          | 2,346                   | 68.5%                      | "                                                                               |
| 1953        | 3,292                 | 309           | 9.4%                          | 540                        | 16.4%                          | 2,443                   | 74.2%                      | "                                                                               |
| 1954        | 3,435                 | 359           | 10.4%                         | 566                        | 16.5%                          | 2,510                   | 73.1%                      | "                                                                               |
| 1955        | 3,475                 | 204           | 5.9%                          | 608                        | 17.5%                          | 2,663                   | 76.6%                      | " Farm Income Revised in 4th Annual Report                                      |
| 1956        | 3,674                 | 201           | 5.5%                          | 643                        | 17.5%                          | 2,830                   | 77.0%                      | "                                                                               |
| 1957        | 3,859                 | 221           | 5.7%                          | 715                        | 18.5%                          | 2,923                   | 75.8%                      | "                                                                               |
| 1958        | 4,293                 | 515           | 12.0%                         | 791                        | 18.4%                          | 2,987                   | 69.6%                      | "                                                                               |
| 1959        | 4,350                 | 355           | 8.2%                          | 826                        | 19.0%                          | 3,169                   | 72.8%                      | "                                                                               |
| 1960        | 4,546                 | 449           | 9.9%                          | 881                        | 19.4%                          | 3,216                   | 70.7%                      | "                                                                               |
| 1961        | 4,735                 | 469           | 10.0%                         | 955                        | 20.1%                          | 3,311                   | 69.9%                      | "                                                                               |
| 1962        | 4,946                 | 440           | 8.9%                          | 999                        | 20.2%                          | 3,507                   | 70.9%                      | "                                                                               |
| 1963        | 5,080                 | 417           | 8.2%                          | 1,047                      | 20.6%                          | 3,616                   | 71.2%                      | "                                                                               |
| 1964        | 5,286                 | 379           | 7.2%                          | 1,130                      | 21.4%                          | 3,777                   | 71.4%                      | "                                                                               |
| 1965        | 6,039                 | 490           | 8.1%                          | 1,235                      | 20.5%                          | 4,314                   | 71.4%                      | 5th Annual Report, Office of Econ. Analysis. Farm Income revised in 7th.        |
| 1966        | 6,702                 | 526           | 7.9%                          | 1,390                      | 20.7%                          | 4,786                   | 71.4%                      | 6th Annual Report, office of Econ. Analysis. Farm Income revised in 7th report. |
| 1967        | 7,120                 | 458           | 6.4%                          | 1,560                      | 21.9%                          | 5,102                   | 71.7%                      | "                                                                               |
| 1968        | 7,754                 | 489           | 6.3%                          | 1,776                      | 22.9%                          | 5,489                   | 70.8%                      | 8th Annual Report, Office of Econ. Analysis                                     |
| 1969        | 8,385                 | 580           | 6.9%                          | 1,976                      | 23.6%                          | 5,829                   | 69.5%                      | 9th Annual Report                                                               |
| 1970        | 8,860                 | 554           | 6.3%                          | 2,227                      | 25.1%                          | 6,079                   | 68.6%                      | 9th Annual Report                                                               |
| 1971        | 9,497                 | 778           | 8.2%                          | 2,308                      | 24.3%                          | 6,411                   | 67.5%                      | 11th Annual Report                                                              |
| 1972        | 10,631                | 1,114         | 10.5%                         | 2,509                      | 23.6%                          | 7,008                   | 65.9%                      | 12th Annual Report                                                              |
| 1973        | 12,182                | 1,664         | 13.7%                         | 2,746                      | 22.5%                          | 7,772                   | 63.8%                      | 13th Annual Report                                                              |
| 1974        | 13,199                | 1,259         | 9.5%                          | 3,272                      | 24.8%                          | 8,668                   | 65.7%                      | 14th Annual Report                                                              |
| 1975        | 14,141                | 756           | 5.4%                          | 3,767                      | 26.6%                          | 9,618                   | 68.0%                      | 15th Annual Report                                                              |
| 1976        | 15,553                | 636           | 4.1%                          | 4,104                      | 26.4%                          | 10,813                  | 69.5%                      | 15th Annual Report                                                              |
| 1977        | 17,284                | 607           | 3.5%                          | 4,656                      | 26.9%                          | 12,021                  | 69.6%                      | 16th Annual Report                                                              |
| 1978        | 19,430                | 797           | 4.1%                          | 4,767                      | 24.5%                          | 13,866                  | 70.4%                      | State of State Economic Report of the Governor Jan 1981                         |
| 1979        | 22,470                | 1,365         | 6.1%                          | 5,275                      | 23.5%                          | 15,830                  | 70.4%                      | Economic & Social Rpt of Gov, Jan                                               |
| 1980        | 24,318                | 652           | 2.7%                          | 6,170                      | 25.4%                          | 17,496                  | 71.9%                      | KS Economic Rpt., March 1983                                                    |
| 1981        | 26,836                | 333           | 1.25%                         | 6,990                      | 26.0%                          | 19,513                  | 72.7%                      | KS Economic Rpt., March 1983                                                    |
| 1982        | 29,476                | 1,221         | 4.14%                         | 7,649                      | 25.95%                         | 20,606                  | 69.91%                     | " " " Feb. 1984                                                                 |
| 5-yr. Ave.  | 24,506                | 873.6         | 3.54%                         | 6,170.2                    | 25.18%                         | 17,462.2                | 71.24%                     |                                                                                 |
| 10-yr. Ave. | 19,478.9              | 929           | 4.77%                         | 4,939.6                    | 25.36%                         | 13,620.3                | 69.92%                     |                                                                                 |

Farm Income = Net income from farm marketings of crops & livestock, government farm payments, value of home consumption and rental value of farm dwellings.

5

TESTIMONY BEFORE  
COMMITTEE ON HOUSE ASSESSMENT AND TAXATION  
MARCH 22, 1985  
BY  
JANET J. STUBBS  
HOME BUILDERS ASSOCIATION OF KANSAS

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

MY NAME IS JANET STUBBS, EXECUTIVE DIRECTOR OF THE HOME BUILDERS ASSOCIATION OF KANSAS.

THE HBAK HAS A POLICY STATEMENT SUPPORTING REAPPRAISAL OF PROPERTY AS A METHOD OF DATA GATHERING PRIOR TO CLASSIFICATION. THAT HAS NOT CHANGED. WE BELIEVE THAT ACTION TO THE CONTRARY WOULD NOT BE RESPONSIBLE, IF CONSIDERATION IS GIVEN TO A MULTI CLASS PROPOSAL.

SCR 1616 AS AMENDED BY THE SENATE, AND HCR 5018 AS DEFINED IN LINES 113 - 115 IS PREFERABLE TO ANY CLASSIFICATION PROPOSALS WE HAVE SEEN. IT IS A 2 CLASS APPROACH WHICH MAINTAINS A MORE UNIFORM AND EQUAL CONCEPT WHILE GIVING THE HOMEOWNERS A TAX BREAK, AS WELL AS EXEMPTING THE PERSONAL PROPERTY WHICH ALLEVIATES THE ADMINISTRATIVE PROBLEMS PRESENTED BY THEM.

I WOULD POINT OUT TO THE COMMITTEE THAT HCR 5018 IS DRAFTED DIFFERENTLY THAN PAST RESOLUTIONS AND, ALTHOUGH THE EXPLANATORY STATEMENT SPECIFICALLY STATES VACANT LOTS WILL BE ASSESSED AT 12%, I AM UNCERTAIN WHETHER THEY ARE INTENDED TO BE ASSESSED UNDER CLASS I (A) OR (C).

HBAK SUPPORTS HCR 5018 WITH VACANT LOTS AT 12% FOR THE FOLLOWING REASONS.

ALTHOUGH MANY OF THE MEMBERS OF HBAK DO NOT HAVE A MERCHANTS OR MANUFACTURERS INVENTORY IN THE USUAL SENSE OF THE TERM, THEY ARE WILLING TO BEAR SOME EXTRA TAX BURDEN TO MAKE KANSAS MORE COMPETITIVE IN THEIR ATTEMPT TO ATTRACT NEW INDUSTRY TO THE STATE.

WE BELIEVE THAT VACANT LOTS ARE INVENTORY TO OUR DEVELOPER MEMBERS. THEREFORE, IF VACANT LOTS ARE NOT AT 12%, THEN THE BUILDER-DEVELOPER MEMBERS OF MY INDUSTRY ARE BEING ASKED TO BEAR A GREATER TAX BURDEN IN ORDER TO EXEMPT MERCHANTS, MANUFACTURERS AND LIVESTOCK INVENTORY AND BUSINESS EQUIPMENT WHILE BEING TAXED AT THE HIGHEST RATE POSSIBLE ON THEIR OWN INVENTORY.

IN ADDITION TO THE UNFAIR TAXATION OF THE DEVELOPER OWNERS OF VACANT LOTS AT A 30% RATE, WE BELIEVE THERE ARE OTHER ASPECTS WHICH HAVE BEEN OVERLOOKED.

FOR EXAMPLE, IT WOULD ADD TO THE COST OF HOUSING AT A TIME WHEN OUR NATIONAL AND STATE HOME BUILDER ASSOCIATIONS ARE CONDUCTING EDUCATIONAL SEMINARS ON CUTTING DEVELOPMENT COSTS TO MAKE HOUSING MORE AFFORDABLE TO THE PROSPECTIVE HOME BUYER.

ALTHOUGH "VACANT LOT" HAS NEVER BEEN STATUTORILY DEFINED, IT IS MY UNDERSTANDING THAT IT IS ANY PLATTED LAND ON WHICH A HOUSE IS NOT BUILT AND WHICH IS NOT BEING USED FOR AGRICULTURAL PURPOSES. THEREFORE, CIRCUMSTANCES EXIST WHERE HOMEOWNERS MAY HAVE A "VACANT LOT" CONNECTING THE LOT ON WHICH THEIR HOUSE IS LOCATED WHICH IS BEING USED FOR ADDITIONAL YARD SPACE.

IS IT THE INTENT OF THIS BODY TO TAX VACANT LOT BASED UPON THE INTENDED USE BY THE OWNER OR THE OCCUPATION OF THE OWNER?

STATEMENTS HAVE BEEN MADE THAT VACANT LOTS SHOULD BE ASSESSED AT 30% BECAUSE THEY ARE PERCEIVED TO BE THE INVENTORY OF "SPECULATORS" AND ARE "INCOME PRODUCING" PROPERTY. I WOULD REMIND YOU THAT THE MERCHANTS AND MANUFACTURERS INVENTORY IS ALSO INTENDED TO BE "INCOME PRODUCING".

THE DEFINITION OF "SPECULATOR", AS IT HAS BEEN USED TO DISCUSS THIS TOPIC, WOULD SEEM VAGUE.

IS IT ONLY A BUSINESSMAN WHOSE PRIMARY OCCUPATION IS DEVELOPING PROPERTY, OR IS IT AN INDIVIDUAL WHO OWNS PROPERTY AND IS HOPING TO SELL IT AT A GOOD PRICE WHEN THE TIME IS RIGHT? IT MAY BE A FARMER WHO PLANTS SEED HOPING CONDITIONS WILL BE RIGHT TO PRODUCE A BUMPER CROP TO SELL AT A TIME WHEN THE MARKET IS UP.

IT WOULD APPEAR THAT IT IS ACCEPTABLE FOR RETAIL, MANUFACTURING, AND AGRI-BUSINESS TO MAKE A PROFIT, AND WE ARE WILLING TO FURTHER ENHANCE THEIR ABILITY TO DO SO BY REMOVING THE TAX ON THEIR PERSONAL PROPERTY, WHILE IT IS NOT FOR INDIVIDUALS WHO DEVELOP LAND TO BROADEN THE TAX BASE.

IT IS THE BELIEF OF MY BOARD THAT ALL PERSONAL PROPERTY, IRRESPECTIVE OF OWNERSHIP, SHOULD BE TREATED EQUALLY. THAT IS, ALL MACHINERY SHOULD EITHER BE TAXED OR EXEMPT AND SHOULD NOT BE TREATED DIFFERENTLY BECAUSE OF ITS OWNERSHIP. TO DO DIFFERENTLY WOULD SEND A MESSAGE TO A PARTICULAR SEGMENT OF THE ECONOMY THAT THE LEADERSHIP OF THIS STATE DOES NOT CONSIDER THEM AS IMPORTANT AS ANOTHER SEGMENT.

IN CLOSING, HBAK SUPPORTS HCR 5018 WITH CLARIFICATION THAT THE INTENT IS TO ASSESS VACANT LOTS AT 12%. IN ESSENCE, THE USE VALUE APPROACH FOR ALL LAND, NOT JUST FARM LAND.

# Kansas Association of Counties

*Serving Kansas Counties*

Suite D, 112 West Seventh Street, Topeka, Kansas 66603

Phone 913 233-2271

Chairman Rolfs:  
Members of House Assessment & Taxation Committee

I am Bev Bradley, from The Kansas Association of Counties

I appear before you today in support of SB 164. I was president of The Kansas Association of Counties when the clone to SB 164 was developed. That was SB 275 in 1983. A group of County Officers worked with a sub committee appointed by Senator Angel. Counties had one major concern with the bill as it appeared then - the statewide, state controlled comprehensive computer system. That concept was changed this year in Senate committee with an amendment suggested by Property Valuation Department Director Miller and County Officers can live with the language currently in the bill.

Second, we feel county appraisers are the best qualified people to do the reappraisal. They are experts in their field. As you well know, even though they are county hired and county paid, they are state schooled, state tested and state approved.

Third, we understand that no one needs or wants 105 different methods of reappraisal. State guidelines are appropriate.

County officials strongly support the committee concept in Section 2b. There is real evidence that the farm machinery committee and the oil and gas committee have produced some positive results, especially in the area of cooperation and understanding.

Many counties have been "gearing up" for reappraisal for several years. I can speak for Douglas County since I served 8 years as County Commissioner there. We budgeted an amount each year in a special line item and carried it forward for the day reappraisal should become a reality. We had also hired additional staff in order to have each parcel updated on the cards - an effort to be sure every thing was accurate. I know of one county that has a photograph of each farm stead to be sure the buildings on the appraisers records are correct.

I cannot speak for every single county officer in the state, but generally, most county officers favor reappraisal. It is a strong plank in our county platform. Our commissioner's Tax Committee met on Tuesday of this week. That committee unanimously supports SB 164. We do not oppose classification but feel that reappraisal should be accomplished first, so that figures are available before classification is put to a vote of the people.

I urge your support of SB 164.



Kansas Legislative Policy Group  
200 Jayhawk Tower, 700 Jackson, Topeka, Kansas 66603, 913-233-2227

March 21, 1985

TESTIMONY TO  
HOUSE ASSESSMENT AND  
TAXATION COMMITTEE

HCR 5004, As Introduced

Mr. Chairman and members of the Committee, I am Chip Wheelen of Pete McGill and Associates. We represent the Kansas Legislative Policy Group which is an organization of County Commissioners from primarily rural areas of the State. The members originally formed this association because of mutual concerns pertaining to erosion of the local property tax base.

For quite some time, our members have supported the concept of statewide reappraisal of real estate in conjunction with amendment of the Kansas Constitution for purposes of assessing different classes of property at rates that would minimize shifting of tax burdens among owners of different types of property. Our policy resolution on this subject is attached.

We appear today in support of HCR 5004. Of the three classification resolutions that have been introduced during the 1985 Legislative Session, HCR 5004 would more closely reflect the KLPGL policy position on classification because it would establish assessment rates that are approximately equal to current assessment to sales ratios for the different types of property.

Perhaps most importantly, we endorse the provisions in HCR 5004 which would allow the Legislature to retain the statutory option between market value appraisal and use value appraisal of farmland.

This is very important to our counties because of the characteristics of our property tax base. As you probably know, among our counties, assessed valuations attributable to agricultural investment real estate comprise substantial portions of total valuations.

Our concerns regarding use value appraisal are based on questions about some of the assumptions built into the equation that relates use value to market value. We have often heard the argument that until such time that reappraisal is conducted, the Legislature would not have the data necessary for well-informed decisions pertaining to classification. In response, we have argued that measures extracted from the annual "Real Estate Assessment/Sales Ratio Study" are reasonably accurate for purposes of projecting market values. But to the best of our knowledge, there has never been a comprehensive study of the inherent income producing capabilities of the various types of agricultural lands in Kansas.

We agree that the concept of use value appraisal of farmland has theoretical merit, but we do not believe that this is an appropriate time for the Legislature to constitutionally limit the authority delegated by the voters when Section 12 of Article 11 was adopted. This was our principal objection to the two classification resolutions that were introduced by the Senate Committee.

We also objected to the provision in SCR 1616 which would have exempted from taxation almost all personal property. The KLPG is opposed to any further erosion of the property tax base and this obviously means that we cannot endorse any new property tax exemptions. Furthermore, it seems apparent that such exemptions contributed to the defeat of SCR 1616 upon two final action votes in the Senate.

In response to our recommendations for improving SCR 1616, we were told that members of the Senate would prefer a classification amendment that minimizes the number of classes of property and provides for exemptions of certain types of personal property. Our Board of Directors discussed this at great length and finally agreed that it may be necessary to compromise in order to obtain the required two-thirds majority votes.

Therefore, we respectfully recommend consideration of a two-class compromise proposal. Class 1 would consist of all real and personal property (except Class 2) assessed at 30 percent of market value, except farmland which would be valued based upon its inherent income producing capability. Class 2 would consist of land devoted to agricultural use and all residential property which would be assessed at 7 percent of market value. We believe that this would, to a certain extent, satisfy those who continue to insist upon uniform and equal taxation of property, would provide for the use value appraisal of agricultural land desired by farming interests, and most importantly - would protect farmers and homeowners from substantial interclass shifts of proportionate shares of assessed valuations.

Lastly, we respectfully suggest consideration of amendment of the explanatory statement in order to communicate clearly why the Legislature would present the voters with a classification resolution. Perhaps following line 176 where the quotation mark was apparently omitted, a statement could be added to the effect that, "In presenting this proposition to the voters, it was the intent of the Legislature to moderate redistributions of assessed values upon completion of statewide



reappraisal of real estate." We believe that it is important that the voters better understand the real purpose of this extremely serious and much needed amendment to the Kansas Constitution.



Kansas Legislative Policy Group

200 Jayhawk Tower, 700 Jackson, Topeka, Kansas 66603, 913-233-2227

January 25, 1985

WHEREAS: The Kansas Constitution authorizes the levy of ad valorem property taxes for purposes of financing costs of government and public services provided thereby; and

WHEREAS: Revenues derived from ad valorem property taxes are the principal source of funding local governments and essential services to protect the public safety, health, and welfare; and

WHEREAS: In order to assure fair and equitable administration of property taxation it is necessary to periodically reappraise property values; and

WHEREAS: For lack of periodic reappraisal of property values, certain inequities have evolved during an extensive period of time; and

WHEREAS: The immediate use of reappraised values would cause an undue assumption of property tax burdens among owners of certain types of property.

THEREFORE BE IT RESOLVED: The Kansas Legislative Policy Group supports and endorses amendment of Kansas Constitution for purposes of establishing different classes of property; and

BE IT FURTHER RESOLVED: The Kansas Legislative Policy Group supports and endorses the establishment of specific rates of assessment of different classes of property; and

BE IT FURTHER RESOLVED: The Kansas Legislative Policy Group supports and endorses the establishment of assessment rates that would minimize shifting of property tax burdens among owners of different types of property; and

BE IT FURTHER RESOLVED: The Kansas Legislative Policy Group supports and endorses statewide reappraisal of property values only if the voters are allowed to determine whether the Constitution should be amended for purposes of classifying property and establishing specific assessment rates; and

BE IT FURTHER RESOLVED: The Kansas Legislative Policy Group supports and endorses the involvement of county officials in an advisory capacity to the Department of Revenue and the Division of Property Valuation for purposes of reappraisal and particularly computerization of property values.

KANSAS SMALL BUSINESS TRUST  
P. O. Box 9361  
Wichita, Kansas 67277

Testimony Presented to the House Assessment and Taxation  
Committee - March 21, 1985

Representative Rolfs, members of the committee, my name is Mary Ellen Conlee. I represent the Kansas Small Business Trust, a new and growing organization of over 200 small Kansas manufacturing businesses which have joined together because of a concern over the impact of the property taxes on small businesses.

The original issue which brought these businessmen and women together was the use of "trending factors" guidelines for determining taxes on business machinery and equipment. Realizing that that defacto classification of the unconstitutional property tax system was the real culprit in the unfair Kansas tax system, the Kansas Small Business Trust set out to bring legal action - first before the Board of Tax Appeals and now as an appeal in the 18th Judicial District Court, Sedgwick County, Kansas.

This case, Dewey Brittan, Walter Groves, Donald Horning and Bert Oakleaf vs. The Kansas Board of Tax Appeals, is one of the lawsuits that may result in court-ordered reappraisal of property in Kansas. Attached is a copy of the Notice of Appeal in this case.

The Kansas Small Business Trust has worked hard and is still working hard to attain a reclassification of property in Kansas to the 30% level required by the constitution as a way to relieve the tax burden on small businesses. While in the past, the

*Atch. 9 H.A.T  
3/22/85*

organization has opposed classification. It is now ready to change that position and support HCR 5018. The bringing together of the two issues - inequity in personal property tax appraisals and a classification of property in a way that promises less shifts in tax burden to homeowners and farmers - is a fair compromise.

The elimination of property tax on inventories and business equipment, even balanced with an increase in real business property taxes, will improve the competitive position for small businesses in Kansas. The annual debate with county appraisors over the value of business equipment is an expensive hidden cost for the businesses I represent. In an age of rapidly changing technology, machinery and equipment is often valued by appraisors at amounts that exceed real market value. Each time this happens, the business owner must take time to argue his case or hire someone to do it for him.

Small businesses provide the vast majority of jobs in Kansas. We believe that it is imperative that the legislature address the inequities of the property tax system as soon as possible in a way that supports this vital segment of the Kansas economy. In order to grow, small businesses which serve as suppliers to many corporations in and out of Kansas must be granted a competitive environment. These businesses want to stay in Kansas, but every day customers in states with more competitive state tax systems try to encourage them to move out of our state. It usually doesn't make the headlines when a single small Kansas

business moves to another state, but in the aggregate, the impact would be felt.

The Kansas Small Business Trust wishes to go on record supporting HCR 5018 because it couples the elimination of the business machinery and equipment tax with a limited classification plan. We ask you to pass HCR 5018 and the reappraisal bill SB 164 this year so that Kansas can begin the task of reappraisal now.

PHILIP EVERETT CROWTHER  
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IN THE EIGHTEENTH JUDICIAL DISTRICT  
DISTRICT COURT, SEDGWICK COUNTY, KANSAS

DEWEY BRITTAIN, WALTER L. GROVES, )  
DONALD HORNUNG, and BERT A. OAKLEAF, )  
Petitioners )  
vs. )  
KANSAS BOARD OF TAX APPEALS, )  
Respondent )

FILE NO. \_\_\_\_\_

NOTICE OF APPEAL

Pursuant to K.S.A. 74-2426, 1984 Supp., Petitioners respectfully Appeal to the Court to review an Order of the Kansas Board of Tax Appeals. In support of this Petition, the Petitioners allege the following:

1. Petitioners Dewey Brittain, Walter L. Groves and Bert A. Oakleaf are property taxpayers in Sedgwick County.
2. Petitioner Donald Hornung is a property taxpayer in Ford County.
3. The "due process clause" of the United States Constitution, Section 1 of the Fourteenth Amendment, provides that:  
No State shall make or enforce any law which shall ... deprive any person of life, liberty, or property, without due process of law.
4. The "equal protection clause" of the United States Constitution, Section 1 of the Fourteenth Amendment, provides that:  
No State shall make or enforce any law which shall ... deny to any person within its jurisdiction the equal protection of the laws.

5. The "uniformity clause" of the Kansas Constitution, Section 1 of Article 11, provides, inter alia, that:

The legislature shall provide for a uniform and equal rate of assessment and taxation ....

6. K.S.A. 79-1439 provides that:

All real and tangible personal property which is subject to general property taxes shall be appraised uniformly and equally at its fair market value, as defined in K.S.A. 79-503a, and assessed at 30% thereof.

7. K.S.A. 79-503a provides, inter alia, that:

"Fair market value" means the amount in terms of money that a well informed buyer is justified in paying and a well informed seller is justified in accepting for property in an open and competitive market, assuming that the parties are acting without undue compulsion.

8. K.S.A. 79-1413a provides, inter alia, that:

Whenever upon complaint made to the state board of tax appeals by ... any property taxpayer, and a summary proceeding in that behalf be had, it shall be made to appear to the satisfaction of the board that the assessment of taxable real estate and tangible personal property in any county is not in substantial compliance with law, and that the interest of the public will be promoted by a reappraisal of such property, said board of tax appeals shall order a reappraisal of all or any part of the taxable property in such district to be made ....

9. K.S.A. 79-1409 provides, inter alia, that:

The state board of tax appeals shall constitute a state board of equalization, and shall equalize the valuation and assessment of property throughout the state ....

10. K.S.A. 79-1451 provides, inter alia, that:

... inasmuch as it is the desire of the legislature to make a comprehensive study of the ad valorem taxation system and a countywide reappraisal of all of the tangible property within any county in the near future prior to such study would be of questionable merit, no county shall apply valuations established for property by countywide reappraisals of real property within the county ... as a basis for the levy of taxes prior to the certification by the director of property valuation that the countywide reappraisal of property in all counties of the state have been completed and are ready for utilization as a basis for the levy of such taxes. Nothing in this act shall be construed to conflict with any other provision of law relating to the appraisal of tangible property for taxation purposes including the equalization processes of the county and state boards of equalization.

11. The study referred to in K.S.A. 79-1451 was completed in 1979 and resulted in the introduction of S.B. 79. That Bill was passed by the Senate, but died in the House in 1980.

12. Although there are differences between the "equal protection clause" and the "uniformity clause", their rationale is essentially the same:

Each man in the State, county and city, is equally in proportion to his property interested in maintaining the State, county and city governments, and in that proportion should bear the burden equally. State ex rel. Stephan v. Martin, 230 Kan. 759, 764, 641 P.2d 1020 (1982), citing Hines v. City of Leavenworth, 3 Kan. 186 (1865).

13. In Sioux City Bridge Co. v. Dakota County, Neb., 260 U.S. 441 (1923), the United States Supreme Court considered the case of a taxpayer whose property was valued and assessed at a higher rate than other property in the taxing jurisdiction. Even though state law required that all property be valued at fair market value, the Court held that, under the "equal protection clause" of the United States Constitution:

... the right of the taxpayer whose property alone is taxed at 100 per cent. of its true value is to have his assessment reduced to the percentage of that value at which others are taxed even though this is a departure from the requirement of statute. 260 U.S. at 446.

Although the Nebraska courts had held that the rights of the taxpayer could be protected by the remedy of having the assessed value of the property of other taxpayers raised, the Supreme Court concluded that:

... such a result as that reached by the Supreme Court of Nebraska is to deny the injured taxpayer any remedy at all because it is utterly impossible for him by any judicial proceeding to secure an increase in the assessment of the great mass of underassessed property in the taxing district. 260 U.S. at 446.

14. Similarly, prior to 1974, the Kansas Supreme Court had consistently held that, even though state law required that all property be valued at fair market value, a taxpayer who was able to establish that other property in the county was being valued at a lower percentage of fair market value was entitled, under the "equal protection clause" and the "uniformity clause", to have his property valued at such lower percentage of fair market value. Beardmore v. Ling, 203 Kan. 802, 457 P.2d 117 (1969); Addington v. Board of



County Comm'rs, 191 Kan. 528, 382 P.2d 315 (1963); Kansas City Southern Ry. Co. v. Board of County Comm'rs, 183 Kan. 675, 331 P.2d 899 (1958); Bank v. Lyon County, 83 Kan. 376, 111 P. 496 (1910). The underlying theory was that:

The duty to assess at full value is not supreme but yields to the duty to avoid discrimination. Addington v. Board of County Comm'rs, 191 Kan. at 531.

To the extent that this resulted in different rates of valuation and assessment in different counties, the Court anticipated that such differences could be equalized by the Director of Property Valuation or the Board of Tax Appeals, sitting as the State Board of Equalization. See *McManaman v. Board of County Comm'rs*, 205 Kan. 118, 468 P.2d 243 (1970); *Harshberger v. Board of County Comm'rs*, 201 Kan. 593, 442 P.2d 5 (1968).

15. However, in *Gordon v. Hiatt*, 214 Kan. 690, 522 P.2d 942 (1974), the Kansas Supreme Court decided to take a different approach. As in prior cases, the Court recognized that:

The constitutional requirement of uniformity takes preference over a legislative directive to assess at a fixed percentage of justifiable value. 214 Kan. at 695.

However, the Court held that:

Uniformity of tax burdens can never be achieved in this state between a taxpayer within a county and between taxpayers in different counties by adjusting individual assessments to the median ratio of real property in each county. We are inclined, in the interest of uniformity throughout the state, to stress the legislative directive to assess at thirty percent of justifiable value. 214 Kan. at 695-696.

The Court felt that the right of taxpayers to uniform and equal treatment could be protected:

... by bold action of assessors, reviewing authorities, and the courts to promote uniform assessment at the statutory rate. 214 Kan. at 696.

16. The decision in *Gordon v. Hiatt*, *supra*, effectively prevents taxpayers whose property is being valued and assessed at a higher rate, from obtaining uniform and equal treatment by means of obtaining a lower assessment. However, as noted above, the right of taxpayers to be assessed on the same basis as other taxpayers is still guaranteed by the "equal protection clause" and the "uniformity clause". Thus, the clear contemplation of the Court in *Gordon v.*

Hiatt was that such taxpayers would still be able to enforce their rights by compelling all other property in the county to be valued in accordance with the law. Otherwise, the position of the taxpayers would be no different than that of the taxpayers described by the United States Supreme Court in *Sioux City Bridge Co. v. Dakota County, Neb.*, supra, with the consequence that the decision in *Gordon v. Hiatt*, supra, would be unconstitutional.

17. One method by which taxpayers can compel all other property in a county to be valued in accordance with law is by filing a Complaint with the Kansas Board of Tax Appeals under K.S.A. 79-1413a, supra.

18. One of the requirements of K.S.A. 79-1413a is that the Board find "that the interest of the public will be promoted by a reappraisal of such property". The meaning of this phrase was discussed by the Kansas Supreme Court in *Board of County Commissioners v. Brookover*, 198 Kan. 71, 422 P.2d 906 (1967) where the Court stated that:

... public interest not only requires equality of assessment for taxation as between property owners within a county but also between property owners of the state. 198 Kan. at 77.

As noted above, one of the primary reasons why the Kansas Supreme Court in *Gordon v. Hiatt*, supra, mandated adherence to the requirement of K.S.A. 79-1439 that all property be assessed at 30% of fair market value was to insure that there would be an equality of assessment between all property owners. Taken together, these cases stand for the proposition that the "interest of the public will be promoted" by requiring adherence to K.S.A. 79-1439.

19. Pursuant to K.S.A. 79-1413a, Petitioners made Complaint to the Kansas Board of Tax Appeals requesting the Board:

- a. To order a reappraisal of all taxable real property located in Sedgwick and Ford Counties; and
- b. To order a reappraisal or equalization of all taxable real property located in all other Counties in the State of Kansas.

20. On August 13th and 14th, the Board held a hearing at which the Petitioners presented evidence, which was uncontroverted, establishing that the valuation and assessment of taxable real estate in Sedgwick and Ford Counties and in all

other Counties in the State of Kansas is not in substantial compliance with law.

21. On January 30th, 1985, the Board issued an Order denying the Complaints of the Petitioners and refusing to order reappraisal in Sedgwick or Ford County, or any other County. The Board refused to rule whether the valuation and assessment of taxable real estate in Sedgwick and Ford Counties and in all other Counties in the State of Kansas was in substantial compliance with law. Rather the Board held that the interest of the public would not be promoted by a reappraisal of such property. The following reasons, among others, were given:

- a. Reappraisal should be done on a statewide basis.
- b. An Order requiring reappraisal might be ignored.
- c. Reappraisal would be expensive.
- d. Reappraisal would be useless in light of K.S.A. 79-1451 which would prohibit the Counties from using the reappraised values as the basis for levy of taxes prior to the completion of a statewide reappraisal.
- e. Reappraisal should not be ordered because the legislature might change the law to make the reappraisal unnecessary.

22. On February 11, 1985, Petitioners filed a Motion for Rehearing with the Board.

23. On February 20th, 1985, the Board denied the Motion for Rehearing.

24. Petitioners hereby allege that the Order of the Board denying the Complaints of the Petitioners was unreasonable, arbitrary and capricious for several reasons, including the following:

- a. The Board was presented with uncontroverted evidence establishing that the valuation and assessment of taxable real estate in Sedgwick and Ford Counties and in all other Kansas Counties, is not in substantial compliance with law.
- b. None of the reasons given by the Board provide a sufficient basis for the conclusion that the interests of the public would not be promoted by reassessment.

25. Under K.S.A. 74-2426, this Court has jurisdiction to hear this appeal.

IN CONSEQUENCE OF the foregoing:

1. Petitioners request the Court to reverse the Order in a manner which will compel the Board:

- a. To order a reappraisal of all taxable real property located in Sedgwick and Ford Counties.
- b. To order a reappraisal or equalization of all taxable real property located in all other Counties in the State of Kansas.

2. Petitioners request the Court to find that K.S.A. 79-1451 will not prevent any of those counties from immediately applying the reassessed values as the basis for the levy of taxes.

3. In the event that the Court finds that K.S.A. 79-1451 will prevent those Counties from immediately applying the reassessed values as the basis for the levy of taxes, Petitioners request the Court to find that find that K.S.A. 79-1451 is null and void as inconsistent with the "due process clause" and the "equal protection clause" of the United States Constitution and with the "uniformity clause" of the Kansas Constitution.

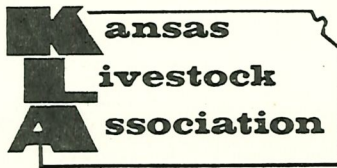
4. In the event that the Court is unable to compel either the Board or the Director of Property Valuation to order reappraisal or that the Court finds that the Counties will be unable to immediately apply the assessed values as the basis for the levy of taxes, Petitioners request the Court to find that the Legislature has not fulfilled the duty required by the "due process clause" and the "equal protection clause" of the United States Constitution and by the "uniformity clause" of the Kansas Constitution and:

- a. To order a reappraisal of all taxable real property located in Sedgwick and Ford Counties.
- b. To order a reappraisal of all taxable real property located in all other Counties in the State of Kansas.

Respectfully Submitted,

By: Philip Everett Crowther

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Owns and Publishes The Kansas STOCKMAN magazine and KLA News & Market Report newsletter.

Statement of the  
KANSAS LIVESTOCK ASSOCIATION  
to the  
House Assessment & Taxation Committee  
Rep. Ed C. Rolfs, Chairman  
with respect to  
Reappraisal  
(SB 164)  
and  
Classification  
(HCR 5004 and HR 5018)  
presented by  
Mike Beam  
Executive Secretary, Cow-Calf/Stocker Division

March 21, 1985

3/22/85

Mr. Chairman and members of the committee, I'm Mike Beam representing the 9,200 members of the Kansas Livestock Association. KLA is a statewide voluntary association of livestock producers and represents the entire spectrum of beef cattle production including cow-calf operators, stocker operators and feeders. In addition, KLA also represents swine and sheep producers. A large percentage of our membership is also engaged in farming and crop production activities. For many years our association has actively participated in the legislative process to represent the best interests of Kansas agriculture generally, and the livestock producing segment specifically. We appreciate this chance to appear before your committee to share with you some of our views relative to property tax classification and reappraisal.

### Reappraisal (SB 164)

The last reappraisal in Kansas began in 1961 and for the most part was completed by 1971. It is no secret that real property valuations have increased dramatically since that time. Our members realize that reappraisal is needed and we strongly support provisions for appraising agricultural land by the use-value appraisal method as outlined in SB 164. In addition, we think the specifically mentioned capitalized income rate as outlined in this bill, is feasible and needed for the reappraisal of agricultural land.

### "Use-Value" Appraisal

Appraising agricultural land by "use value" or its income producing ability is not a new idea. Back in 1976 the original use value amendment to the Kansas constitution was passed by both houses of the legislature and was overwhelmingly approved by the voters. At last count, 45 of the 50 states employ some type of a use-value appraisal for taxing agriculture land. (See attachment.) Obviously there are a great many people in this state and throughout the country who believe use-value appraisal is an equitable and desirable way to value agricultural land.

I'd like to point out that use value appraisal is not a tax break for the farm and ranch community. In fact, use-value appraisal is likely to raise valuations of agricultural land from where they are currently. Our members favor use-value appraisal because land would be appraised on a more mathematically certain basis and more importantly, on a more logical and equitable basis that has some relationship to the income that farmers and ranchers are capable of earning from it.

It's been mentioned before that use-value appraisal is of extreme importance to farmers on the fringes of urban areas. If land is appraised by "fair market value" a farmer may eventually be forced to sell out because the land taxes have risen dramatically since it is appraised on its speculative sale value to a real estate developer. Many states have implemented use value laws for the express purpose of providing aesthetically pleasing greenbelt areas on the outskirts of urban areas and to control urban sprawl.

Use-value appraisal is used in most other states, supported by most farm organizations, was approved by the Kansas voters with a constitutional change, and was advocated by the Lt. Governor's Property Tax Review Commission. KLA feels that now is a perfect opportunity to implement use-value appraisal.

## Classification

For several years KLA has been supportive of certain types of classification proposals. There are several alternatives on how to resolve the effects or tax shifts which would result under reappraisal. These alternatives include: 1) appraise or value all property on the same basis such as a capitolized income stream; 2) adopt use-value appraisal for agricultural land and a provision for homeowner's protection such as an exemption, circuit breaker or similar alternative; 3) adopt a classification system which puts into the constitution specific classes and assessment rates such as HCR 5004 and HCR 5018.

KLA could support any of these alternatives but it appears that a classification amendment to the constitution has the best chance of protecting agricultural producers and homeowners from substantial tax shifts after reappraisal.

## Personal Property Taxes

In 1979 personal property comprised 36% of the property tax base in Kansas, second only to West Virginia where personal property was 40% of the tax base. The national average in 1979 was only 11.7%. Past memorandums released by the Legislative Research Department pointed out that historically and currently, Kansas has seen a shift of the general property tax burden from real estate to personal property. KLA's Tax Committee on many occasions has thoroughly discussed the personal property tax issue. KLA believes that we should move away from using personal property as a major tax base to fund local units of government. The KLA Tax Committee has studied this issue for many years and from time to time has tried to develop an equitable approach to the entire area of personal property taxation. Each time we came up with the same conclusion ... personal property tax defies equity. Incidentally, various legislative committees have studied the same issue and arrived at the same conclusions. Personal property is simply not a good tax base because it's not a good measure of wealth or of the ability of the taxpayer to pay. Personal property taxes are difficult to administer and they're basically inequitable. More appropriate sources of revenue are a combination of income and sales taxes along with real property which is a more reliable indicator of wealth.

For the above reasons we have and continue to support the farm machinery personal property tax exemption. Most of you are knowledgeable about the multitude of past problems associated with the taxation of farm machinery. It's no secret that prior to the farm machinery tax repeal this was the biggest tax problem for the preceeding five or six years. Those of you who live in rural areas are probably very, very familiar with the unrest that increasing farm machinery valuations caused for farmers, county officials and state legislators. There were numerous examples of older machinery which was rapidly wearing out receiving large valuation increases. The Property Valuation Division, state legislature, agricultural organizations and others, all tried various solutions to alleviate the problem. These remedies, however, were always either vetoed or struck down by the courts. Finally, the legislature exercised the only option it had left -- total exemption. Twenty six other states have exempted farm machinery from taxation and another seven tax it at a reduced rate. We believe the legislature did the right thing in 1982 by exempting farm machinery.

This committee is well aware of another personal property tax problem that needs attention. KLA believes that the merchants, manufacturers and livestock property taxes should be exempt or phased out. We have appeared before this committee earlier this session and emphasized the arguments about why livestock taxes are undesirable. In a nutshell, it's a tax on honesty; it's impossible to count inventory; it becomes a negotiated tax between the assessor and the assessed; and there are wide differences of value within a class of livestock. In addition, it's important to realize that Kansas livestock producers are at a competitive disadvantage with 36 other states that have exempted livestock taxes.

In summary, Mr. Chairman, KLA supports classification because it may be the only politically practical way to solve the current property tax dilemma. We believe the classification of assessment rates is really no different than classification for appraisal. From a taxpayer's point of view it's the bottom line that really counts. In addition, our association's criteria for an acceptable classification proposal are to appraise agricultural land by use value; exempt or phase out livestock property taxes; and continue to exempt farm machinery. HCR 5018 meets our criteria and we believe this proposal is a sound property tax policy which addresses our current dilemma and should eliminate or significantly reduce future property tax problems.

KLA doesn't pretend to have all the answers and we certainly don't want to suggest that we're experts. We support working toward a solution during the 1985 legislative session and we'll certainly attempt to cooperate with this committee in addressing this long standing problem. Thank you.



# Rural Land Values an Issue in '85 Legislature

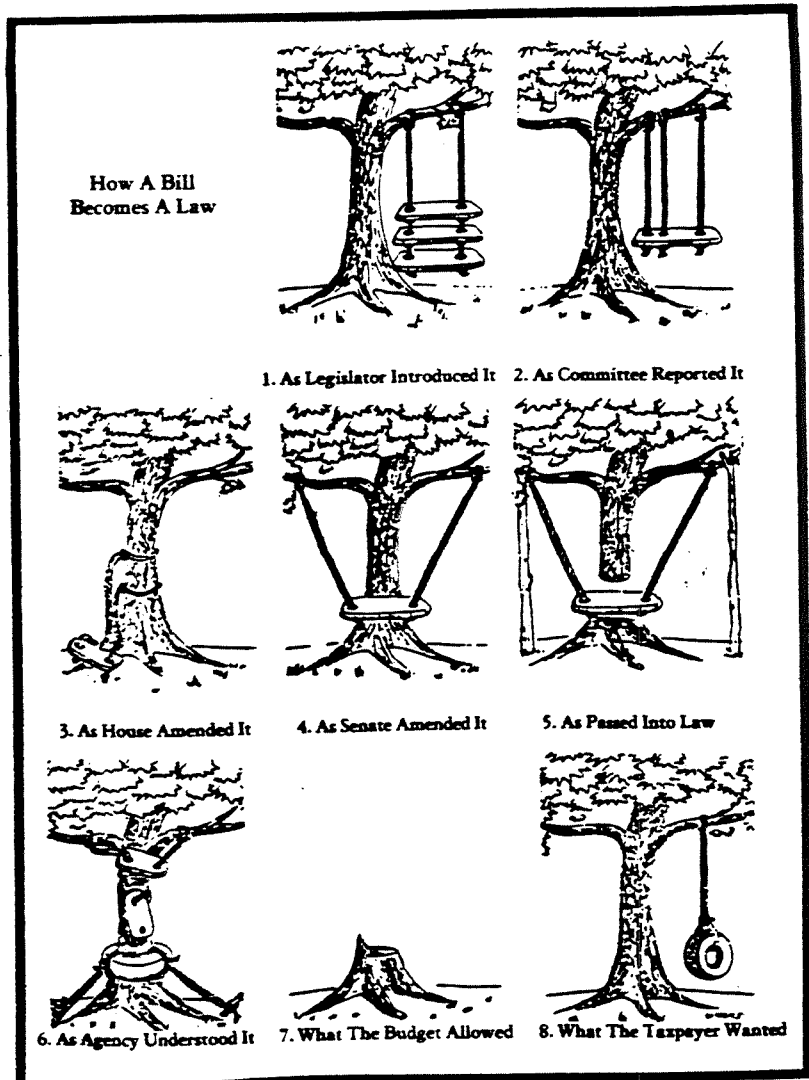
Representative Gene Donaldson (Helena) has advised the Stockgrowers that he will be pre-filing a bill to place in statute the determination of rural land values by use of a return on investment approach. Donaldson indicated that the proposal of the Interim Committee on Agricultural Taxation gave clear direction to the Department of Revenue that agricultural land is to be valued on the basis of its agricultural productivity. It stopped short, however, of providing a clear cut method to accomplish this. Donaldson's bill will call for the use of a formula in which the average interest rate charged by agricultural lending agencies will be divided into the net return over variable costs as determined by the Department using factual information from reputable sources including the Montana Agricultural Experiment Station.

The Revenue Department's Advisory Council on Agricultural Land Valuation recommended this approach in their initial recommendation. This was later modified to eliminate all reference to a formula. The Taxation Committees of the Montana Farm Bureau and the Montana Stockgrowers have met twice in the past year on this issue and have recommended that the formula be incorporated in the law. According to Donaldson, "If we are unable to come up with a satisfactory method of accomplishing this, the Legislature may force farmers and ranchers to pay taxes on the market value of their property." Donaldson said "we must avoid this at all costs."

At a recent meeting of the joint FB-MSGA Taxation Committees in Bozeman, Dennis Burr, consultant hired by the two organizations, commented on property taxes as follows: "The reappraisal of property . . . will be one of the major issues concerning property taxes during 1985 and 1986. The reappraisal of commercial and residential properties will cause a large increase in the market value of this property and . . . this increase will likely be offset by a reduction in the classification percentage on this property to prevent property taxes from increasing as a result of reap-

praisal. Agricultural land will also be reclassified during this process to reflect changes in the use of agricultural land. Grazing land that has been planted to crops will reflect increased values as a result of the change in use. Likewise, dry land that is producing larger yields will increase in assessed value and land that is now irrigated will increase in assessed value because the irrigated land schedules carry higher assessed values than non-irrigated land. These changes are a proper and necessary part of the Department of Revenue's reappraisal process and will likely result in higher total property taxes on agricultural land. Increased taxes on agricultural land will result because there are no provisions contemplated for reducing

the 30% tax classification rate for agricultural land as there are for the classification reductions on commercial and residential property. I am not suggesting that a classification percentage reduction is warranted on agricultural land because this land is subject to the same valuation schedules in use since 1965 and other properties are being reappraised from new manuals which bring them closer to current market value. However, I do think it is important to recall that the last reappraisal resulted in about a 5% increase in the taxable value of non-agricultural properties, and a 30% increase in the taxable value of agricultural land. This obviously resulted in a property tax shift from other properties to agricultural land. I believe the same type of shift in the property tax burden will occur during this reappraisal cycle and that other changes in the property taxes on agricultural units must be considered in this context."



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TESTIMONY BEFORE  
THE HOUSE ASSESSMENT AND TAXATION COMMITTEE  
BY  
KAREN MCCLAIN

KANSAS ASSOCIATION OF REALTORS®

MR. CHAIRMAN, AND MEMBERS OF THE COMMITTEE, I AM KAREN MCCLAIN, THE DIRECTOR OF GOVERNMENTAL AFFAIRS FOR THE KANSAS ASSOCIATION OF REALTORS®.

I AM HERE TODAY TO SPEAK TO YOU IN SUPPORT OF HCR 5004 AND IN OPPOSITION TO HCR 5018, *IN ITS PRESENT FORM.*

THE KANSAS ASSOCIATION OF REALTORS® HAS A VERY CLEAR POLICY IN THE AREA OF TAXATION. THAT POLICY IS AS FOLLOWS:

"WE ADVOCATE THE RESTRUCTURING OF STATE AND LOCAL TAXATION SOURCES FOR THE FUNDING OF NON-PROPERTY RELATED SERVICES. WE URGE THE STATE TO WORK FOR THE RESTRUCTURING OF TAXES TO RELIEVE THE INEQUITABLE REAL PROPERTY TAX BURDEN, BUT ALSO NOT TO UNFAIRLY SHIFT THE TAX BURDEN TO ANY TAX PAYING ENTITY."

YOU MIGHT THINK THAT THE REALTORS® WOULD BE SATISFIED THAT RESIDENTIAL PROPERTY IS RECEIVING SPECIAL TREATMENT UNDER THE 30-12 PROPOSAL. HOWEVER, THE REALTORS® LEGISLATIVE POLICY ON TAXATION WAS REACHED IN RECOGNITION OF THE IMPACT WHICH BUSINESSES AND THE WAGES AND SALARIES WHICH THEY PAY, HAVE ON WHO CAN PURCHASE A HOUSE IN THIS STATE. IF THERE ARE MORE NEW BUSINESSES IN THE STATE OF KANSAS, MORE KANSANS ARE EMPLOYED, AND MORE KANSANS CAN PURCHASE HOMES. IF, HOWEVER, THE BUSINESSES ARE SHIFTED WITH BEARING THE TAX BURDEN OF THE STATE, THEY MUST COMPENSATE THAT INCREASED COST IN SOME WAY.

UNDER THE 30-12 PROPOSAL, BUSINESSES WHICH ARE INVENTORY AND EQUIPMENT INTENSIVE, BENEFIT FROM THE PERSONAL PROPERTY TAX EXEMPTION. HOWEVER, BUSINESSES WHICH ARE REAL ESTATE INTENSIVE, FOR EXAMPLE, THOSE WHO OWN OFFICE BUILDINGS, ARE THE ONES WHO WILL BEAR THE COST OF THAT EXEMPTION, IF IMPLEMENTED. HCR 5004 PROVIDES FOR A 5 YEAR PHASE-OUT OF THE INVENTORIES OF MERCHANTS AND MANUFACTURERS. SURELY THIS IS A MORE VIABLE OPTION THAN HITTING THE REAL ESTATE INTENSIVE BUSINESSES WITH THE COST OF SUCH A SHIFT ALL AT ONCE.

IN ADDITION, HCR 5018 ASSESSES VACANT LOTS AS IF THEY ARE INCOME PRODUCING PROPERTY, RATHER THAN ASSESS THEM AS RESIDENTIAL PROPERTY. VACANT LOTS PRODUCE INCOME FOR NO ONE UNTIL THEY ARE SOLD. UNDER THE 30-12 PROPOSAL, THEY WILL ONLY BE A TAX ALBATROSS AROUND LANDOWNERS NECKS. SOME FAMILIES WHO LIVE IN APARTMENTS OWN VACANT LOTS WITH THE DREAM OF SOMEDAY BUILDING A HOME ON IT. IS IT FAIR TO TAX THAT FUTURE HOMESITE AT THE SAME RATE AS IF IT WAS PRODUCING INCOME. ONCE AGAIN, IT IS HCR 5018 THAT PROVIDES FOR THESE VACANT LOTS TO BE TREATED THE SAME AS RESIDENTIAL, NON-INCOME-PRODUCING PROPERTY. I ALSO REMIND YOU THAT THE SENATE AMENDED SCR 1616 TO INCLUDE VACANT LOTS IN THE 12% CLASSIFICATION IN RECOGNITION OF THIS INEQUITY.

IN SUMMARY, AS HAS BEEN TOLD YOU BEFORE, WHAT WORKS BEST IS TO HAVE THE BROADEST TAX BASE POSSIBLE. THE CURRENT TAX BASE INCLUDES MERCHANTS INVENTORY AND EQUIPMENT. A SUDDEN CHANGE IN THAT POLICY ONLY SHIFTS THE BURDEN TO OTHER KINDS OF BUSINESS. IN ADDITION, VACANT LOTS CAN NOT BE INTERPRETED TO BE INCOME-PRODUCING PROPERTY, AND SHOULD NOT BE TREATED AS INCOME-PRODUCING PROPERTY FOR TAX PURPOSES.

IN RECOGNITION OF THESE PRINCIPLES, WE URGE THAT HCR 5004 BE PASSED OUT FAVORABLY BY THIS COMMITTEE. *OR HCR 5018 IN AN AMENDED FORM.* THANK YOU.

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TESTIMONY OF WILLIAM T. ABBOTT  
PUBLIC AFFAIRS MANAGER  
BOEING MILITARY AIRPLANE COMPANY

HCR 5004

HOUSE ASSESSMENT & TAXATION COMMITTEE

MARCH 21, 1985

The Boeing Military Airplane Company is located in Wichita. We are an airplane and aerospace engineering and manufacturing firm and our current employment is approximately 17,500.

Mr. Chairmn, The Boeing Company has a keen interest in the current and future tax policies of the state of Kansas. We do feel the administration of the tax policies of the state should be enforced or changed. I cannot specifically endorse HCR 5004 today, but I appreciate the opportunity to share with the committee some of our thoughts and concerns.

We believe the first order of business on real property is to reappraise. As you know each time a new "list" is prepared to see what the impact is on a given proposal, be HCR 5004, SCR 1616 or any other there is always a qualification that the numbers are the "best we have." It seems almost too easy to reappraise, see what the real numbers are then take whatever action is appropriate to insure the best tax policy for the state of Kansas.

Whatever proposal is considered by the committee, The Boeing Company supports the complete elimination of inventories from the tax base in Kansas.

Ad valorem tax assessment of manufacturers' inventory should be eliminated because of serious defects as a tax base.

1. Manufacturing inventory is not uniformly assessed. In the case of CY 1983, for Sedgwick County, Boeing employed 30% of the manufacturing work force, and was assessed 49% of the total manufacturers' inventory base. In the same year, Boeing employed 9% of the total Kansas manufacturing work force, but was assessed 22% of the total manufacturers' inventory base for the State.
2. Manufacturing inventory is not a stable tax base. From 1982 to 1983, the Boeing manufacturer's inventory assessment increased 26%; from 1983 to 1984, it decreased 10%. Those are serious fluctuations. Those fluctuations in inventory are a function of world wide business conditions.
3. Manufacturers' inventory is assessed differently from other property classes, e.g. Residential at 8% statewide averages and manufacturing inventory at 30%. Inventories are treated differently between manufacturers, merchants and livestock. Uniformity and equality is not achieved.

4. Boeing pays inventory taxes on some inventory three times. Due to the flow time from buying material until final delivery of a build order, some inventory will be assessed for taxes in three different calendar years.

5. Under Department of Defense accounting rules, inventory taxes cannot be passed through as a cost of performing work. Boeing had to absorb out of earnings in the past two years, \$9.7 million of manufacturers' inventory taxes.

If the Committee in your deliberations determines it must pass a classification proposal this year, before reappraisal numbers are known, a bill that has no more than two or three classes, allows for special treatment of residential property and farmland and eliminates inventories from the tax base would be acceptable to The Boeing Company. It comes nearer to the uniform and equal approach to taxation with special treatment for residential and farmland and it addresses our problems with inventories.

Mr. Chairman, we at Boeing feel some adjustments in our tax laws are necessary. I would respectfully urge the Committee to give consideration to the problems I have outlined.