

Approved May 4, 1988
Date

MINUTES OF THE Senate COMMITTEE ON Assessment & Taxation

The meeting was called to order by Senator Fred A. Kerr at
Chairperson

10:00 a.m./p.m. on April 28, 1988 in room 519-S of the Capitol.

All members were present except:

Committee staff present:

Tom Severn, Research
Chris Courtwright, Research
Sue Pettet, Secretary to the Committee

Conferees appearing before the committee:

Chairman Kerr called the meeting to order and announced that the agenda was to discuss interim committee requests.

Chris Courtwright of the Research Department explained some requests, (Att. 1) as individually listed.

Item #1 deals with the filing of documents with the County Register of Deeds. It would create more efficiency in the administration of property tax. Senator Thiessen moved that this request be suggested as a topic for interim committee study by the Local Government Committee. Senator Parrish seconded. Motion carried.

Item #2 deals with school finance after reappraisal and classification. It deals with the effect of reappraisal and classification on school finance, which is expected to be significant. Senator Burke moved to recommend this item for interim study. Senator Mulich seconded. Motion carried.

Item #3 deals with appraisal of all Conservation Reserve Program. Current law requires that CRP land be use-valued according to its immediate use prior to CRP. Some irrigated land has been placed in the CRP, and current law may require that such land be valued as irrigated land, which is valued higher than dryland, even while in CRP. Senator Montgomery moved to recommend this item for interim study. Senator Mulich seconded. Motion carried.

Item #4 is the Capitalization rate for use-valuation of agricultural land. The purpose of this study would be to recommend legislation to give the Director of Property Valuation some discretionary direction regarding the .75 to 2.75 average above the Federal Land Bank interest rate. Senator Thiessen moved to recommend this item in the interim study. Senator Montgomery seconded. Motion carried.

John Torbert of the Kansas Assoc. of Counties (Att. 2) asked the committee to consider the subject of reappraisal funding. He stated that his organization requests that the state continue to reimburse counties for at least 50% of the cost of maintenance of reappraised values for years following the implementation of reappraisal. Senator Burke moved that this be recommended for interim study. Senator Allen seconded. Motion carried.

Item #5 regarding conformity to the Federal System for collecting diesel fuel tax will not be recommended for interim study by the committee.

Item #6 deals with the alternative minimum tax. Chairman Kerr suggested that this item be expanded to a study of the "windfall" affects on corporate income tax collections. It would also include an analysis of the types of corporations which would be affected by the Alternative Minimum Tax and by the repeal of the Net Operating Loss Carryback provision. If the corporate windfall is found to be larger than expected the committee would be encouraged to recommend the repeal of the newly enacted A.M.T. (if it is adopted in H.B. 2543) or to recommend lowering income tax rates.

CONTINUATION SHEET

MINUTES OF THE Senate COMMITTEE ON Assessment & Taxation,
room 519-S, Statehouse, at 11:00 a.m./~~a.m.~~^{pm.} on April 28, 1988.

Senator Mulich moved that the committee include this topic in the interim study. Senator Burke seconded. Motion carried.

Item #7 deals with partial property tax exemptions. A study could explore the feasibility of partial exemptions, including the extent to which they are used in other states and if a constitutional amendment would be necessary. Senator Parrish moved to recommend this topic for interim study. Senator Salisbury seconded. Motion carried.

Senator Karr moved that the content of S.B. 451 be recommended further for study. It pertains to the certification of Appraisers. Senator Salisbury seconded. Motion carried. Meeting adjourned.

MEMORANDUM

April 28, 1988

TO: Senate Committee on Assessment and Taxation
FROM: Kansas Legislative Research Department
RE: Possible 1988 Assessment and Taxation Interim Study Topics

Presented below is a list of possible interim study topics for 1988 Special Committees.

1. Filing of Documents with the County Register of Deeds. The Shawnee County Clerk has requested an interim study on the filing of certain documents with the register of deeds in the interest of greater efficiency in the administration of the property tax and greater continuity of ownership records. Although the motivation for change is improved property tax administration, this request could be assigned to the Committee on Local Government.
2. School Finance After Reappraisal and Classification. The effect of reappraisal and classification on school finance is expected to be significant. The Governor has stated that an additional \$71 million will be required to fund a school finance plan with a "hold harmless" or grandfather clause. Because this topic would involve mixing taxation and school finance subjects, it could be assigned to a Special Committee comprised of Education and Assessment and Taxation members. A 1982 Task Force was so comprised but also included non-legislative members.
3. Appraisal of all CRP Land as Dryland. Current law requires that land in the CRP, the federal Conservation Reserve Program, be use-valued according to its use immediately prior to its dedication to the CRP. Some irrigated land has been placed in the CRP, and current law may require that such land be valued as irrigated land (a higher value than dryland) even while it is idled in the CRP.
4. The Capitalization Rate for Use-Valuation of Agricultural Land. Current law requires the capitalization rate to be a five-year moving average of the Federal Land Bank rate, plus from .75 percent to 2.75 percent, at the discretion of the Director of Property Valuation. Legislation could be adopted to provide the Director with some guidance as to how use this discretion.

5. Conformity to the Federal System for Collecting Diesel Fuel Tax. The expected revenue gain from federal diesel fuel tax would, if projected to Kansas, exceed \$1 million annually. However, the federal system also has been subject to criticism for hardships imposed on farmers and local units of government. An interim study would seek ways to obtain some of the promised revenue increase while avoiding the measures attracting public criticism.
6. The Alternative Minimum Tax. The latest conference committee report imposes an alternative minimum tax beginning in tax year 1989. A study could determine changes in law necessary for implementation, and whether the tax should be imposed, because alternative ways to raise equivalent amounts of revenue from businesses within the state, such as from a corporate windfall due to federal changes, would be recommended.
7. Partial Property Tax Exemptions. The increased number of bills relating to property tax exemptions in recent years, coupled with discussion over the interpretation of "exclusive use" by the courts and the Board of Tax Appeals, has led to the suggestion that Kansas allow so-called partial property tax exemptions for that portion of the property used for exempt purposes. An interim study could explore the feasibility of partial exemptions, including the extent to which they are used in other states and whether or not a constitutional amendment would be necessary.

Kansas Association of Counties

Serving Kansas Counties

212 S.W. Seventh Street, Topeka, Kansas 66603

Phone (913) 233-2271

Testimony

April 28, 1988

To - Senate Assessment And Taxation Committee

From - John T. Torbert, Executive Director
Kansas Association of Counties

Re - Reappraisal Funding

In 1985, the legislature passed Senate Bill 164. This mandated that all real property in the state be reappraised for tax purposes by January 1, 1989.

The legislature, in passing the legislation, knew that a significant cost would be incurred for this massive undertaking. A determination was made that accomplishing the reappraisal tasks correctly and on time would take a true state/county partnership - both in the work effort and in the financing.

Reappraisal costs, for the three fiscal years in which the task was to be accomplished, were estimated to be \$65 million. The state committed itself to pay half those costs and that commitment has been kept. For FY '89 for example, the state will fund approximately \$15 million in reappraisal costs. Part of the funding is state general fund money and part is gaming revenues. The Kansas Association of Counties applauds this commitment that was made and most importantly - kept.

Our concern is what happens after FY '89. The number one legislative priority of this association is as follows;

"State support of the reappraisal system is essential. We request that the state continue to reimburse counties for at least 50% of the cost of maintenance of reappraised values."

From what I've been able to determine, there is no plan on the part of the state at this point to continue any sort of cost sharing arrangement. As a matter of fact, the Governor has recommended that the financing mechanism be left in place so that the state general fund can be paid back in FY 1990 for gaming revenue's money expended in FY '89 for reappraisal.

Reappraisal costs are not going to end in FY '89. I would, for example, call your attention to a February 22 memorandum from Terry Hamblin, director of the Property Valuation Division to County Appraisers, Commissioners, Clerks and Treasurers. That memo, states in part;

STAFFING AFTER REAPPRAISAL

Although this topic has been addressed previously in the Director's Update, it is extremely important and warrants repeat. Do not fall prey to the misconception that computerization in the appraiser's office means that fewer employees will be necessary to effectively operate the office. Having knowledgeable, experienced employees will be imperative after the many contractors now working in the state have gone. You must begin planning and budgeting now to allow for the continued presence of experienced personnel in your office.

At the state level, it has been determined that all employees necessary during the reappraisal effort will be just as necessary afterwards. All values must be updated annually, and 25% of the properties must be physically reinspected each year. Also, map maintenance and use value are continuous projects and will require employees with specialized skills. We have all spent a considerable amount of money on reappraisal. The appraisal practices now in place must be continued, and the only way that they will be is if we all plan now to maintain staffing levels.

The obvious point is that reappraisal will mean increased costs above and beyond what would have been incurred had reappraisal not been a fact. Just because the calendar reaches June 30, 1990 doesn't mean that costs magically end too.

I would urge this committee to give consideration to this situation and do whatever is necessary to get us "into the budget loop" for continued cost sharing after the '89 fiscal year. This has been a good program for the state and the counties. A much needed task is being accomplished. A great deal of work has been done and many dollars spent. In other words, there has been a tremendous investment of human and financial resources by both parties in this partnership. A reluctance or unwillingness on the part of either party to continue may lead to conclusions that nobody desires. We've built this building together - let's keep working together to make sure that what we've built continues to be a sturdy, attractive structure.