Approved Tuesday, January 29, 1991
Date

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION.

The meeting was called to order by Senator Dan Thiessen at
Chairperson

11:00 a.m.~~p.m.~~ on Thursday, January 24, 1991 in room 519-S of the Capitol.

All members were present except:

Committee staff present:
Don Hayward, Revisor's Office
Tom Severn, Research Department
Chris Courtwright, Research Department
Marion Anzek, Committee Secretary

Conferees appearing before the committee:
David Cunningham, Legal Counsel-Board of Tax Appeals

Chairman Dan Thiessen called the meeting to order at 11:08 a.m., and welcomed a new member to the committee, Senator Jack Steineger and the returning members and staff. He turned attention to a memorandum by Kansas Legislative Research Department, providing information about the Kansas tax treatment of armed forces personnel serving in the combat zone recently designated by the President, including Combat Pay under Federal Law and Combat Pay under Kansas Law. (ATTACHMENT 1)

The Chairman turned attention to a Senate Concurrent Resolution to be introduced. This would amend section 1 of article 11 of the constitution of the state of Kansas, relating to the taxation of property. After committee discussion on the resolution regarding tax base and shifting. (ATTACHMENT 2) Chairman Thiessen recognized Senator Fred Kerr.

Senator Fred Kerr moved to introduce the classification proposal as a committee bill, to amend Section 1 of Article 11 of the constitution of the State of Kansas, 2nd by Senator Jack Steineger. The motion carried.

Chairman Thiessen recognized David Cunningham, Legal Counsel, Board of Tax Appeals to brief the committee on the casecount of appeals.

David Cunningham briefed the members on the number of appeals and protests and caseloads from the year 1989, and 1990. Mr. Cunningham said to date out of 17,388 cases about 6000-7000 have been heard and they have about 1900 scheduled to be heard. Mr. Cunningham said on his handout, the bottom totals include total casecount as of 1-18-91. (ATTACHMENT 3)

Tom Severn, Research Department passed out (ATTACHMENT 4) regarding tax base on utility inventories, and (ATTACHMENT 5) A tax commission report, by the 14-member Commission, appointed by Governor Mike Hayden in September 1990.

During committee discussion a committee member said there had been some complaints regarding people having a choice where they wanted their cases to be heard, then traveling a distance to have their appeals heard and being disappointed with only one member of the Board of Tax Appeals hearing their case and having one person making a decision on the case. Mr. Cunningham said this does happen at times but lack of enough clerical help seems to be the reason and then the budget cuts present a problem with not being able to have more clerical positions.

Chairman Thiessen adjourned the meeting at 12:04 p.m.

GUEST LIST

COMMITTEE: SENATE ASSESSMENT & TAXATION DATE: 1-24-91

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
David Cunningham	Topeka	BOTA
Jim Davidson	Topeka	BOTA
Matt [illegible]		
Jerry Cleveland	Lawrence	KG&E
JOHN CLARK	OVERLAND PARK	CITY OF OVERLAND PARK
Don Seifert	Olathe	City of Olathe
Pam Somerville	TOPEKA	KS Motor Car Dealers Assoc.
Tom TUNNELL	TOPEKA	KS GRAIN & FEED ASSOCIATION
LISA Getz	Wichita	KS ASSO FOR SMALL BUSINESS
Mary Ellen Conlee	Wichita	KS Assoc for Small Business
Janet Stubbs	Topeka	HBA of K.
M.S. MITCHELL	WICHITA	HBAK
ART BROWN	K.C. MO	KS. LBR DEALERS ASSN
Jeff Wagaman	Topeka	Office of Sen Karr
Mark Tallman	Topeka	KASB
Tim Langford	Topeka	office of Sen Karr
ALAN Steppat	TopeKa	Pete McGill & Associates
Rich McKee	Topeka	KLA

MEMORANDUM

Kansas Legislative Research Department

Room 545-N – Statehouse
Topeka, Kansas 66612-1586
(913) 296-3181

January 23, 1991

KANSAS TAX TREATMENT OF COMBATANTS AND COMBAT PAY

This memorandum is to provide information about the Kansas tax treatment of armed forces personnel serving in the combat zone recently designated by the President.

Combat Pay under Federal Law

Exemption of Income. Under federal law (I.R.C. 112), federal gross income does not include any of the compensation for active service as a member below the grade of commissioned officer in the armed forces of the United States for any month during any part of which the member served in a combat zone or was hospitalized outside the United States for up to two years following the hostilities as a result of wounds, disease, or injury incurred while serving in a combat zone. For commissioned officers, gross income does not include compensation up to $500.

Extensions of Time to File. Under the federal law (I.R.C. 7508), the period of service in a combat zone, hospitalization outside the United States for injury received while serving in such an area, or missing, and the next 180 days thereafter do not count toward filing deadlines, the computation of penalty or interest on any amounts due or refunds.

Combat Pay under Kansas Law

Exemption of Combat Pay. Computation of Kansas income tax begins with federal adjusted gross income. Thus, the compensation earned in a combat zone which is excluded from federal gross income will also be excluded from Kansas adjusted gross income and thus will be exempt from Kansas income tax (K.S.A. 79-32,116 and 79-32,117).

Extensions of Time to File (General). Kansas does not automatically conform to federal filings dates. However, K.S.A. 79-3221 (c) allows the Director of Taxation to grant reasonable extensions of time to file in accordance with rules and regulations of the Secretary of Revenue. K.A.R. 92-12-67 prescribes procedures for applying for such extensions, and states that properly approved extensions of time on federal forms 2688 or 7005, or copies of automatic extensions of time on federal forms 4868 or 7004, will be accepted by the Department when appropriate copies accompany the Kansas return.

Extensions While Serving in Combat Zone or Hospitalized. K.S.A. 79-3221(d) disregards the time of service in a combat zone or hospitalization outside of the United States for injuries received while serving in such a combat zone, and the next 180 days, in calculating penalties, additional amounts, or interest.

91-64/TAS

SENATE ASSES. & TAX
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ATT. 1

SENATE CONCURRENT RESOLUTION NO. 1611

By Committee on Assessment and Taxation

A PROPOSITION to amend section 1 of article 11 of the constitution of the state of Kansas, relating to the taxation of property.

Be it resolved by the Legislature of the State of Kansas, two-thirds of the members elected (or appointed) and qualified to the Senate and two-thirds of the members elected (or appointed) and qualified to the House of Representatives concurring therein:

Section 1. The following proposition to amend the constitution of the state of Kansas shall be submitted to the qualified electors of the state for their approval or rejection: Section 1 of article 11 of the constitution of the state of Kansas is hereby amended to read as follows:

"§ 1. ~~(A)--SYSTEM--OF--TAXATION;---CLASSIFICATION; EXEMPTION.--The--provisions-of-this-subsection-(a)-shall govern-the-assessment-and-taxation-of-property-until-the provisions--of--subsection--(b)--of--this--section---are implemented--and--become-effective,-whereupon-subsection (a)-shall-expire.-The-legislature-shall--provide--for--a uniform--and--equal--rate--of--assessment--and-taxation, except--that--the--legislature--may--provide---for---the classification-and-the-taxation-uniformly-as-to-class-of motor--vehicles,--mineral--products,--money,--mortgages, notes--and--other--evidence-of-debt-or-may-exempt-any-of such-classes-of--property--from--property--taxation--and impose--taxes--upon--another--basis-in-lieu-thereof.-All property-used-exclusively-for-state,-county,--municipal, literary,-educational,-scientific,-religious,-benevolent and--charitable--purposes,--and--all-household-goods-and~~

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~~personal-effects-not-used-for-the-production-of--income, shall-be-exempted-from-property-taxation.~~

~~(B)~~ System of taxation; classification; exemption. ~~(1)~~ (a) The provisions of this subsection ~~(b)~~ shall govern the assessment and taxation of property on and after January 1, ~~1989~~ 1991, and each year thereafter. Except as otherwise hereinafter specifically provided, the legislature shall provide for a uniform and equal basis of valuation and rate of taxation of all property subject to taxation. The provisions of this subsection ~~(b)~~ shall not be applicable to the taxation of motor vehicles, except as otherwise hereinafter specifically provided, mineral products, money, mortgages, notes and other evidence of debt and grain. Property shall be classified into the following classes for the purpose of assessment and assessed at the percentage of value prescribed therefor:

Class 1 shall consist of real property. Real property shall be further classified into ~~four~~ seven subclasses. Such property shall be defined by law for the purpose of subclassification and assessed uniformly as to subclass at the following percentages of value:

~~(A)~~ (1) Real property used for residential purposes including multi-family residential real property comprised of not more than four residential units....	12%
(2) Multi-family residential real property not included in paragraph (1)...........	15%
~~(B)~~ (3) Land devoted to agricultural use which shall be valued upon the basis of its agricultural income or agricultural productivity pursuant to section 12 of article 11 of the constitution..........	30%
~~(C)~~ (4) Vacant lots.........................	12%
(5) Real property which is owned and operated by a taxpayer which is organized for not-for-profit purposes and is not subject to federal income taxation pursuant to section 501(c)(8) or section 501(c)(10) of the federal internal revenue code as in effect on January 1, 1991..................................	15%
(6) Public utility real property, except railroad real property which shall be assessed at the average rate that all other commercial and industrial property is assessed...........................	33%
~~(D)~~ (7) All other urban and rural real	

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property not otherwise specifically subclassified........................ ~~30%~~ 25%

Class 2 shall consist of tangible personal property. Such tangible personal property shall be further classified into six subclasses, shall be defined by law for the purpose of subclassification and assessed uniformly as to subclass at the following percentages of value:

~~(A)~~ (1) Mobile homes used for residential purposes..................................	12%
~~(B)~~ (2) Mineral leasehold interests..........	30%
~~(C)~~ (3) Public utility tangible personal property including inventories thereof, except railroad personal property which shall be assessed at the average rate all other commercial and industrial property is assessed.................. ~~30%~~	33%
~~(D)~~ (4) All categories of motor vehicles not defined and specifically valued and taxed pursuant to law enacted prior to January 1, 1985.........................	30%
~~(E)~~ (5) Commercial and industrial machinery and equipment which, if its economic life is seven years or more, shall be valued at its retail cost when new less seven-year straight-line depreciation, or which, if its economic life is less than seven years, shall be valued at its retail cost when new less straight-line depreciation over its economic life, except that, the value so obtained for such property, notwithstanding its economic life and as long as such property is being used, shall not be less than 20% of the retail cost when new of such property.................. ~~20%~~	30%
~~(F)~~ (6) All other tangible personal property not otherwise specifically classified...	30%

~~(2)~~ (b) All property used exclusively for state, county, municipal, literary, educational, scientific, religious, benevolent and charitable purposes, farm machinery and equipment, merchant's and manufacturer's inventories, other than public utility inventories, and livestock and all household goods and personal effects not used for the production of income, shall be exempted from property taxation."

Sec. 2. The following statement shall be printed on the ballot with the amendment as a whole:

"Explanatory statement. This amendment would revise the current property tax system providing

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for the classification and assessment of all property subject to taxation at different percentages of value.

"A vote for the proposition would, as of January 1, 1991, continue the requirement that different classes of property are to be assessed for property tax purposes at different percentages of value. However, three new subclassifications of real property would be established, namely: (1) Multi-family residential real property comprised of more than four residential units the assessment rate for which would be 15%; (2) real property owned and operated by certain not-for-profit fraternal societies, orders or associations the assessment rate for which would be decreased from 30% to 15%; and (3) public utility real property the assessment rate for which would be increased from 30% to 33%, except that railroad real property would be assessed at the federally mandated rate. Also, the assessment rate for real property used for commercial or industrial purposes and other real property not specifically subclassified would be decreased from 30% to 25%. Also, the assessment rate for public utility personal property including inventories would be increased from 30% to 33%, except that railroad personal property would be assessed at the federally mandated rate, and the assessment rate for commercial and industrial machinery and equipment would be increased from 20% to 30%.

"A vote against the proposition would continue the current system of property taxation."

Sec. 3. This resolution, if approved by two-thirds of the members elected (or appointed) and qualified to the Senate and two-thirds of the members elected (or appointed) and qualified to

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the House of Representatives, shall be entered on the journals, together with the yeas and nays. The secretary of state shall cause this resolution to be published as provided by law and shall cause the proposed amendment to be submitted to the electors of the state at a special election which is hereby called for such purpose to be held on April 2, 1991, pursuant to section 1 of article 14 of the constitution of the state of Kansas.

Joan Finney Governo.

THE STATE OF KANSAS

BOARD OF TAX APPEALS

Victor M. Elliott, Chairman

Docking State Office Building, 4th Floor
Topeka, Kansas 66612-1582
AC-913 296-2388

Conrad Miller, Jr., Member
Charles F. Laird, Member
Maybelle Mertz, Member
Jayne Aylward, Member

Casecount as of 1/18/91

	Total	Closed	Open	To Be Set	Pending Info
89-EQ	2,096	1,516	580	142	0
89-PR	4,945	2,105	2,840	134	2,163
90-PR	10,347	3,114	7,233	1,636	2,062
89 välue Totals	17,388	6,735	10,653	1,912	4,225

	Total	Closed	Open	To Be Set	Pending Info
90-EQ	933	33	900	471	62
91-PR	97	0	97	0	0
90-EQ	8	0	8	0	0
90 value Totals	1,038	33	1,005	471	62

	Total	Closed	Open	To Be Set	Pending Info
89-	13,566	9,689	3,877	307	2,305
90-	18,465	6,628	11,837	2,373	2,315
91-	491	0	491	0	0
All cases Totals	32,522	16,317	16,205	2,680	4,620

County Reviews-

1989- 61,123

1990- 954

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		89 ASSESSED ACTUAL	% OF TOTAL	RATIO	89 ASSESSED PROPOSED	% OF TOTAL
URBAN REAL ESTATE						
RESID MULTI-FAM	12%	262,305,184	1.86%	15.00%	327,881,480	2.30%
RESID OTHER	12%	3,712,918,327	26.32%	12.00%	3,712,918,327	26.06%
VACANT LOTS	12%	135,161,208	0.96%	12.00%	135,161,208	0.95%
FRATERNAL BENEFIT	30%	8,622,265	0.06%	15.00%	4,311,133	0.03%
OTHER COMM'L	30%	2,720,312,551	19.29%	25.00%	2,266,927,126	15.91%
AGRICULTURAL	30%	10,428,719	0.07%	30.00%	10,428,719	0.07%
TOTAL URBAN REAL ESTATE		6,849,748,254	48.56%		6,457,627,992	45.32%
RURAL REAL ESTATE						
RESID MULTI-FAM	12%	3,662,292	0.03%	15.00%	4,577,865	0.03%
RESID OTHER	12%	755,914,542	5.36%	12.00%	755,914,542	5.31%
VACANT LOTS	12%	23,965,185	0.17%	12.00%	23,965,185	0.17%
FRATERNAL BENEFIT	30%	660,450	0.00%	15.00%	330,225	0.00%
OTHER COMM'L	30%	499,375,744	3.54%	25.00%	416,146,453	2.92%
AGRICULTURAL	30%	1,518,658,531	10.77%	30.00%	1,518,658,531	10.66%
TOTAL RURAL REAL ESTATE		2,802,236,745	19.87%		2,719,592,801	19.09%
TANGIBLE PERSONAL PROPERTY						
URBAN						
GAS AND OIL	30%	3,127,722	0.02%	30.00%	3,127,722	0.02%
BUS MACH & EQ	20%	487,405,998	3.46%	30.00%	731,108,997	5.13%
ALL OTHER PERSONAL	30%	63,029,554	0.45%	30.00%	63,029,554	0.44%
MOBILE HOMES	12%	31,602,990	0.22%	12.00%	31,602,990	0.22%
MOTOR VEHICLES	30%	42,659,478	0.30%	30.00%	42,659,478	0.30%
TOTAL URBAN PERSONAL		627,825,742	4.45%		871,528,741	6.12%
RURAL						
GAS AND OIL	30%	1,198,748,479	8.50%	30.00%	1,198,748,479	8.41%
BUS MACH & EQ	20%	195,656,089	1.39%	30.00%	293,484,134	2.06%
ALL OTHER PERSONAL	30%	34,312,773	0.24%	30.00%	34,312,773	0.24%
MOBILE HOMES	12%	17,746,982	0.13%	12.00%	17,746,982	0.12%
MOTOR VEHICLES	30%	62,450,208	0.44%	30.00%	62,450,208	0.44%
TOTAL RURAL PERSONAL		1,508,914,531	10.70%		1,606,742,576	11.28%
EXEMPT PROPERTY						
MERCHANTS INVENTORY	0%	0	0.00%	0.00%	0	0.00%
MANUFACTURERS INV	0%	0	0.00%	0.00%	0	0.00%
LIVESTOCK	0%	0	0.00%	0.00%	0	0.00%
MOTOR VEH DEALERS INV	0%	0	0.00%	0.00%	0	0.00%
FEEDLOTS	0%	0	0.00%	0.00%	0	0.00%
FARM MACHINERY	0%	0	0.00%	0.00%	0	0.00%
BUSINESS AIRCRAFT	0%	0	0.00%	0.00%	0	0.00%
TOTAL EXEMPT PERSONAL		0	0.00%		0	0.00%
TOTAL PERSONAL		2,136,740,273	15.15%		2,478,271,317	17.39%
STATE ASSESSED						
PUBLIC SERVICE CORP	30%	532,876,301	3.78%	33.00%	586,163,931	4.11%
RURAL PUBLIC SERVICE CORP	30%	1,782,858,833	12.64%	33.00%	1,961,144,716	13.76%
UTILITY INVENTORY (a	0%	0	0.00%	33.00%	44,967,698	0.32%
TOTAL STATE-ASSESSED (a		2,315,735,134	16.42%		2,592,276,345	18.19%
TOTAL ASSESSED VALUATION (a		14,104,460,406	100.00%		14,247,768,455	100.00%

NOTE: a) Actual tax base as a result of Supreme Court decision on utility inventories.

Kansas Legislative Research Department 23-Jan-91

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B

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LIVESTOCK	0%	0	0.00%	0.00%	0	0.00%
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FARM MACHINERY	0%	0	0.00%	0.00%	0	0.00%
BUSINESS AIRCRAFT	0%	0	0.00%	0.00%	0	0.00%
TOTAL EXEMPT PERSONAL		0	0.00%		0	0.00%
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TOTAL ASSESSED VALUATION (a		14,104,460,406	100.00%		14,247,768,455	100.00%

***NOTE:** a) Utility inventories were thought taxable when levies were set.*

NEWS

MIKE HAYDEN

GOVERNOR OF KANSAS

Rich Epp, Press Secretary The Statehouse, Topeka 66612-1590 (913) 296-4034
Randy Tosh, Deputy Press Secretary

For Immediate Release:
Monday, December 17, 1990

TAX COMMISSION REPORT RELEASED

TOPEKA--Governor Mike Hayden on Monday released the following statement in conjunction with the release of the Governor's Property Tax Review Commission report:

"I appreciate the thorough and complete work the Commission has performed in making recommendations for property tax relief for Kansas taxpayers. Commission Chairman, Governor Robert F. Bennett, and the Commission members, are to be commended for their service to the people of state, and for their willingness to tackle such a difficult and complex issue.

"It is my hope that the Commission's work will serve as a strong foundation of dialogue between the incoming administration and the Legislature. Property tax relief remains the number one problem facing this state, and I hope the Commission's findings are useful in producing a resolution to the tax crisis in Kansas."

The 14-member Commission was created by Governor Hayden in September of 1990. Attached is a copy of the Commission's report.

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SENATE ASSES. & TAX
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REPORT

AND

RECOMMENDATIONS

GOVERNOR'S PROPERTY TAX REVIEW COMMISSION

The Honorable Governor Robert F. Bennett
Chairman

December 15, 1990

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December 15, 1990

The Honorable Mike Hayden
Governor of Kansas
Statehouse
Topeka, Kansas

Dear Governor Hayden:

Transmitted herewith is the report and recommendations of the Governor's Property Tax Review Commission formed by Executive Order 90-130 in September, 1990.

The Commission met on three occasions to review and analyze data and information regarding Kansas ad valorem taxation policies and laws. The Commission is aware that the complexity of the problem and the potential ramifications of various recommendations for reform require considerable more time and analysis than it has been able to provide in the time frame given.

Based upon the information provided through extensive testimony and data analysis the Commission believes that the recommendations contained in this report are appropriate for additional study and review by the 1991 Kansas Legislature.

Given the change of administration that will occur in January, 1991, and the appointment by the Governor - elect of a new group to study taxation, the Commission recommends that it now be dissolved and be released of further obligations to report as required by Executive Order 90 - 130.

I wish to express my sincere appreciation to the Commission members for their diligence and hard work. I also want to acknowledge the contributions of Department of Revenue staff, who provided administrative support and assistance. On behalf of the Commission, I want to thank you for the opportunity to serve the people of Kansas.

Very truly yours,

Robert F. Bennett RM

The Honorable Robert F. Bennett
Chairman, The Governor's Property Tax Review Commission

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OVERVIEW OF THE COMMISSION

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COMMISSION CHARGE

The Property Tax Review Commission was created by Executive Order No. 90-130 of Governor Mike Hayden on September 28, 1990. The Commission was chaired by the Honorable Governor Robert F. Bennett and consisted of 14 members. The general charge of the Commission as outlined in the Executive Order was:

1. Reviewing and analyzing the administration of property tax laws and tax burden shifts that occurred as a result of the implementation of reappraisal and classification;

2. determining the appropriate level of tax burden that property taxes should bear in the financing of local units of government; and

3. recommending modifications to the Constitution of the State of Kansas or Kansas statutory law that would allow for the implementation of suggested changes in property tax policies in order to better meet the needs of Kansas property owners.

The Commission was formed to conduct a comprehensive review and analysis of the impact of reappraisal and the 1985 Constitutional amendment which required property tax classification changes. It was to forward its preliminary report to Governor Hayden on or before December 15, 1990. The final report was scheduled for submission to the Governor by June 30, 1990.

COMMISSION MEMBERS

The Honorable Governor Robert F. Bennett
Attorney
Prairie Village, Kansas

Lionel Alford, Vice Chairman
Wichita, Kansas

O. Gene Bicknell
National Pizza Company
Pittsburg, Kansas

James Devlin
Oil & Gas Investments
Wichita, Kansas

The Honorable Ed Eilert
Mayor
Overland Park, Kansas

Dr. H. Edward Flentje
Wichita State University
Hugo Wall Center for Urban Studies
Wichita, Kansas

Timothy N. Hagemann
Appraiser
Lakin, Kansas

Herb Krumsick
Realtor
Wichita, Kansas

David F. Louis
Realtor
Shawnee, Kansas

Ann Papay
Appraiser
Ulysses, Kansas

Doyle A. Rahjes
Kansas Farm Bureau
Manhattan, Kansas

Dr. Tony Redwood
University of Kansas
Institute for Public Policy
& Business Research
Lawrence, Kansas

Clarence Roeder
J.C. Nichols Company
Johnson County, Kansas

D.L. Smith
Businessman
Topeka, Kansas

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SUMMARY OF TESTIMONY

The Commission met on October 5, 1990, for the purpose of conducting an overview of the Kansas reappraisal process. Commission members heard testimony from the Secretary of Revenue, Director of Property Valuation, county appraisers, the former Chairman of the State Board of Tax Appeals and PVD staff regarding technical appraisal problems and administrative concerns. Those testifying presented their perspective of the property tax system and made recommendations for change. (See Appendix A)

The Commission next met on October 26, 1990, to conclude their preliminary consideration of the reappraisal process and to begin their study of property classification. In order to attain a better understanding of the taxpayers perspective of the reappraisal process, the Commission heard testimony from an independent fee appraiser and from a tax attorney representing clients in the appeal of their property taxes.

The Commission proceeded to focus their attention on examination of property classification. An overview of the Classification Amendment was provided by staff from the Division of Property Valuation. Members of the Missouri Tax Commission testified via speakerphone as to the inventory tax and exemption. A bipartisan legislative panel comprised of members of the Kansas House of Representatives and the Kansas Senate testified regarding their proposals for amending the Classification amendment. Independent analysis of the Classification amendment was provided by Dr. John Wong of the Hugo Wall Center for Urban Studies, Wichita State University. The Executive Director of the Kansas League of Municipalities, testified as to the effects of reappraisal and classification on local government. Testimony regarding the effect of classification on business and industry was presented by the Kansas Chamber of Commerce and Industry. (See Appendix B)

The Commission met on November 27, 1990, for the purpose of deliberation on the issues of reappraisal and classification. Statewide and county statistical reports simulating the effects of various changes to current classification ratios were analyzed and discussed. The committee reviewed past testimony and written documentation regarding reappraisal and classification reform. (See Appendix C). After careful analysis the commission formulated their preliminary recommendations, which are herewith submitted for consideration.

Administrative staff support was provided throughout by the Kansas Department of Revenue - Division of Property Valuation.

PRELIMINARY FINDINGS AND RECOMMENDATIONS

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REAPPRAISAL

The Governor's Property Tax Review Commission makes several recommendations for change to the present system of reappraisal. The Commission recommends:

(1) Certificates of Value

The Commission recommends that penalties for the falsification of information required to be disclosed by law on the Certificate of Value Form be strengthened.

Reason for the Recommended Change:

Pursuant to K.S.A. 58-2223c, any person found guilty of falsely reporting the value of transferred real estate is guilty of a misdemeanor and can be fined not more than $100.00. Increased penalties would better encourage the appropriate parties to supply accurate and complete data.

The Commission recommends that the Certificate of Value Form be modified to include the same information as is now required on the Kansas Real Estate Sales Verification Questionnaire.

Reason for the Recommended Change:

When a real estate transfer occurs, the county appraiser must mail the Kansas Real Estate Sales Verification Questionnaire or a facsimile thereof to the buyer and seller in order to determine whether each sale is valid. Valid sales are included in the State Assessment-Sales Ratio Study and are used by the county appraiser as a sales price benchmark from which they appraise comparable properties. Often buyers and sellers fail to return the questionnaire or fail to complete all the items requested. Requesting the necessary information on the Certificate of Value form would increase the likelihood that this information would be completed at the closing when all knowledgeable, involved parties are present.

(2) Simplification of the Appeals Process

The Commission recommends that consideration be given to streamlining the appeal process. Taxpayers would have the option during either the valuation appeal process or the payment under protest process of bypassing any intermediate level of appeal and proceeding directly to the State Board of Tax Appeals.

Reason for the Recommended Change:

Upon completion of a valuation appeal to the office of county appraiser, a property owner wishing to proceed in the appeal process must first proceed with their appeal to a hearing officer or panel (if the county has appointed one) and then to the County Board of Equalization. It is only upon completion of all levels of appeal that a property owner can present their case to the State Board of Tax Appeals. The current appeal process is therefore expensive, time consuming and frustrating for Kansas taxpayers. While the Commission believes that this process should continue to be available for taxpayers use, the Commission believes that taxpayers should have the option of bypassing this process if that is the taxpayers desire.

The Commission recommends that the Division of Property Valuation be removed from the approval process in regards to the review of changes in value made by county boards of equalization.

Reason for the Recommended Change:

The Division of Property Valuation must now review any change in value proposed by a county board of equalization as the result of a valuation appeal. In the payment under protest process, review of county board of equalization changes are made by the State Board of Tax Appeals. There appears to be no valid reason for requiring this review and approval at the state level, now that the initial reappraisal has occurred. Significant time and resources would be saved by consolidating this process.

The Commission recommends that the legislature accept the proposed revised tax calender. (See Appendix D)

Reason for the Recommended Change:

The proposed tax calendar would provide additional time for appraisers to process and hear appeals. County appraisers would be able to allocate more time to each taxpayer appeal. A more thorough job at the first level of appeal will result in less wasted effort at higher levels of appeal(s), should the taxpayer elect to pursue them.

(3) State Support of Local Appraisal Efforts

The Commission recommends that the state share the cost of appraisal maintenance with local county government.

Reason for the Recommended Change:

Reappraisal legislation specified that the effort was to be a joint endeavor of both county and state. Regular updating, though not as expensive as the last full reappraisal, still will have its cost. Since many state aid distributions are impacted by valuation of property, the state has an interest in accuracy and keeping reappraisal current.

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CLASSIFICATION

The Governor's Property Tax Review Commission makes several recommendations for change to the present system of property classification in Kansas. The Commission recommends:

(1) Vacant Lots

The Commission recommends that appraisers be encouraged to make adjustments in valuation of vacant lots, particularly where large numbers of vacant lots are unsold in the same area, and that this recommendation be uniformly applied in all appraisals, including but not limited to the valuation of vacant lots.

Reason for the Recommended Change:

It is the consensus of the Commission that the method used to establish the value of vacant lots does not appear to take into consideration the market value of the property, particularly when large numbers of unsold lots are adjacently located. It is also the Commissions consensus that vacant lots are somewhat inventory oriented. The Commission believes that the mechanism exists within the present system to adjust for these considerations.

(2) Fraternal and Not-For-Profit Organizations

The Commission recommends that the legislature seriously consider reducing the ratio of assessed value on property owned by fraternal and not-for-profit organizations, but that such property should not be exempt from taxation. This may require an amendment to the classification provisions in the state Constitution.

Reason for the Recommended Change:

The 30% assessment ratio applied to fraternal and not-for-profit organizations resulted in a significant increase in tax liability for these taxpayers. Many such organizations will be forced out of existence if relief is not forthcoming.

The property should not be tax exempt because these organizations do benefit from some of the services provided by local government.

(3) Re-submission of the Classification Amendment to Kansas Voters

The Commission recommends that the legislature reexamine and resubmit the Classification Amendment to Kansas voters with modified assessment ratios. The Commission recommends:

- a) *The assessment ratio on Multi-family dwellings should be increased, but to a ratio less than commercial real estate;*
- b) *The assessment ratio on commercial and industrial properties should be decreased;*
- c) *The assessment ratio on business machinery and equipment should be increased from 20%;*
- d) *Merchant's inventory over $250,000 should be included in the tax base;*
- e) *The assessment ratio for state assessed property should be increased; and*
- f) *Manufacturer's inventory should remain exempt from taxation.*

Reason for the Recommended Change:

Modification of current assessment ratios would, in the opinion of the Commission, result in a more fair and equitable distribution of the property tax burden. There was insufficient time for the Commission to recommend specific assessment ratios and as a consequence the recommendations have indicated only the general direction, up or down, which the ratio change should take.

ALTERNATIVE SOURCES OF FUNDING

The Commission recommends that the legislature consider increasing the availability of local option taxes as alternative sources of funding for local governments.

Reason for the Recommended Change:

Local taxing jurisdictions would have greater flexibility in determining the tax mix and the tax burden. The share of the tax burden shouldered by the owners of real property would be reduced and redistributed to other types of taxpayers.

CONTINUED STUDY

The Commission strongly recommends that the Governor-elect appoint a Commission of her selection to continue to study and review the issues generally addressed by the Commission.

APPENDIX

Appendix A

PROPERTY TAX REVIEW COMMISSION
TOPEKA, KANSAS

MINUTES
OCTOBER 5, 1990

The Property Tax Review Commission met Friday, October 5, 1990 in the Secretary of Revenue's Conference Room, in the Docking State Office Building, Topeka. Those in attendance were:

The Honorable Governor Robert F. Bennett, Chairman
Lionel Alford, Vice-Chairman
O. Gene Bicknell
The Honorable Ed Eilert
Dr. H. Edward Flentje
Timothy Hagemann
Herb Krumsick
Ann Papay
Doyle Rahjes
Dr. Tony Redwood
Clarence Roeder
D.L. Smith

Staff
Kim Mahan

The Honorable Governor Robert F. Bennett called the meeting to order at 10:00 a.m.

COMMISSION CHARGE
Governor Mike Hayden addressed the commission regarding the property tax issue. He identified reappraisal, classification and the overall property tax burden as the three primary areas of consideration for the commission.

INTRODUCTION OF COMMITTEE MEMBERS AND STAFF
At Governor Bennett's request commission members introduced themselves to those in attendance. Support staff from the State Division of Property Valuation were introduced by John R. Luttjohann, Division Director.

TESTIMONY BEFORE THE COMMITTEE
Ed C. Rolfs, Secretary of Revenue, provided an overview of the Kansas property tax system.

John R. Luttjohann, Director of Property Valuation, provided an overview of the reappraisal process and identified areas which he felt warranted consideration for change. He identified the following issues for the committees consideration. *Denotes suggested solution.

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1) The State's role in the appraisal process.
2) Training and qualifications of Property Valuation staff.
3) District KSCAMA centers.
4) Appraisal districts/part-time appraisers.
5) Streamline appeals process.
   * Send BOE changes directly to BOTA for review.
   * If a taxpayer appears during the appeal process they would not be required to appear in a payment under protest appeal.
6) Changes to the Tax Calendar.
   * Provide the appraiser with additional time to process appeals and protests.
7) Verification of Sales through utilization of Certificates of Value (COV).
   * Increase penalties for misinformation.
   * Expand the contents of the C.O.V. form to allow appraisers to use a COV in and of itself to make an initial determination of good and bad sales.
8) Automobile Tag and Tax Law.
   * Consolidate functions of registration and taxation within the office of the County Treasurer.

Mark Low, President of the Kansas County Appraisers Association and Meade County Appraiser, provided the commission with a small county's perspective of the reappraisal process. He identified the following problems. *Denotes suggested solution.

1) Inaccurate information reported when COV filed.
   * Increase penalties for false information.
2) Use of the income approach in valuing commercial properties in small communities.
   * Use cost less depreciation approach.
3) Cumbersome Hearing and Appeal Process
   * In the appeal process, if a taxpayer has an informal hearing with the county appraiser and is denied relief, they may proceed directly to the BOE. The BOE would be the final step in the hearing and appeals process.
   * If a taxpayer did not have a hearing during the appeals process, they may have one upon receipt of their tax bill. If they did not desire a hearing they could proceed directly to the BOTA.
4) Tax calendar.
   * Revise time frames.
5) PVD Director is a political appointee.
   * Make Director a classified civil service employee.

Keith Farrar, Former Chairman of the State Board of Tax Appeals, presented testimony via speaker phone, regarding his assessment of the reappraisal process and made suggestions as to ways in which the system could be improved. Mr. Farrar submitted the following suggestions for change for consideration by the committee.

1) Broaden tax base by sunsetting all exemptions. Examine each exemption individually.
2) Remove county commission from the appeals process.
3) State hiring and firing of county appraisers.

4) Give the BOTA the authority to abate interest under certain circumstances.

5) Uniform system of taxation for severed minerals.

Larry Clark, Wyandotte County Appraiser, testified as to the effects of reappraisal in Wyandotte County and the problems that were encountered by larger taxing jurisdictions. The following problems were brought to the commissions attention. * Denotes suggested solution.

1) Use of local option taxes to finance local government.

2) COV's - currently appraiser must reverify sale upon receipt of COV.
   * The COV form would be revised to include the same information as is included on the sales verification form.

3) PVD Director.
   * Need continuity in leadership.
   * The Director should be experienced in county government and as an appraiser.

4) An elected body, (i.e. County Commission) appoints the county appraiser. Too much politics involved.
   * County Appraisers would be hired by a body comprised of representatives of all taxing units. This body would evaluate the appraisers work and the appraiser would be responsible to the Board and to the state. The state would provide support and training.

Mike Montgomery, Crawford County Appraiser, gave his perspective of the property tax system and discussed appraisal maintenance. He suggested to the commission that:

* Reimbursements should be restored to 50%.
* The appeal process should be simplified.
* There should be stiffer penalties for reporting false information on a COV.
* The Sales Verification Questionnaire should be tied to the filing of a COV, thereby eliminating re-verification of a sale.

Charles Blow, Johnson County Appraiser, presented his view of the reappraisal process. He identified problems encountered in Johnson County and suggested possible changes to the present system. His suggestions included:

* Stability and continuity of leadership in the position of PVD Director.
* PVD's role should be more advisory.
* County appraisers should be more accountable and given more latitude to operate within state guidelines.
* Reimbursement should be restored to 50%.
* The effective tax rates for business in Kansas should be competitive and similar to those found in surrounding states.
* Laws governing the taxation of property should be updated to reflect modern technological advances.
* Public disclosure of information disclosed on a COV should be allowed.
* BOE's should have the option of using a hearing officer or hearing panel as a substitute in the appeal process.
* Taxpayers should not be forced to go through both the equalization process and the protest process unless new evidence of market value is to be presented at the protest hearing.

Charles Warren, President of Kansas, Inc. reported on the results of a Kansas, Inc. study of reappraisal and classification conducted by Dr. Glenn Fisher of The Wichita State University. Jerry Lonergan, Vice-President of Research for Kansas, Inc. reported on a Kansas, Inc. study conducted by the Institute for Public Policy and Business Research of The University of Kansas regarding the Kansas business tax structure. Handouts which detailed the results of their research were distributed.

Bob Stephens, Abstract and Ratio Study Supervisor for the Division of Property Valuation, distributed copies of the 1988 State Statistical Report of Property Assessment and Taxation and presented a general overview of the purpose of the abstract and sales ratio study.

Governor Bennett inquired of the commission as to whether any additional information or witnesses were desired in regards to reappraisal. Commission members were asked to contact Kim Mahan with their requests.

CONSIDERATION OF TOPICS RELATING TO CLASSIFICATION

The commission next considered topics for study and consideration at their next meeting.

NEXT MEETING DATE

The next meeting of the commission was set for Friday, October 26, 1990, at 10:00 a.m. in the Secretary of Revenue's Conference Room, Docking State Office Building, Topeka.

The meeting was adjourned at 4:45 p.m.

Appendix B

PROPERTY TAX REVIEW COMMISSION
TOPEKA, KANSAS

MINUTES
OCTOBER 26, 1990

The Property Tax Review Commission met Friday, October 26, 1990 in the Secretary of Revenue's Conference Room, in the Docking State Office Building, Topeka. Those in attendance were:

The Honorable Governor Robert F. Bennett, Chairman
Lionel Alford, Vice-Chairman
O. Gene Bicknell
James Devlin
The Honorable Ed Eilert
Dr. H. Edward Flentje
Timothy Hagemann
Herb Krumsick
David Louis
Ann Papay
Doyle Rahjes
Dr. Tony Redwood
D.L. Smith

Staff
Kim Mahan

The Honorable Governor Robert F. Bennett called the meeting to order at 10:00 a.m.

INTRODUCTION OF COMMISSION MEMBER

At the Governor's request, Mr. James Devlin, newly appointed commission member, introduced himself to those present.

MINUTES

Doyle Rahjes moved approval of the minutes of the October 5, 1990 meeting. Lionel Alford seconded the motion. The motion carried.

TESTIMONY BEFORE THE COMMITTEE

Bob Taggart, an independent appraiser and partner in Midwest Appraisal Company presented testimony as to his view of the reappraisal process. He shared with the Commission the following observations regarding reappraisal:

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1) Too much was expected in too short a period of time.
   a) Mapping should have been completed first.
   b) 2 - 3 years should have been allowed to complete just reappraisal.
2) Some reappraisal contractors contracted with too many counties and were therefore unable to complete their work utilizing qualified personnel.
3) Interior inspections would help appraisers more accurately determine values for residential properties.
4) There were problems in Shawnee County with the process for determining the value of 1 1/2 story residences.
5) In determining the value of commercial and industrial properties, income and market are important considerations. The cost approach is a good approach to use when valuing new commercial and industrial buildings. When valuing income producing properties, it is better to use the income and market approach.
6) Office/warehouse buildings should not be taxed in excess of \$.75 - \$.80 per square foot. Office/commercial buildings should not be taxed in excess of \$1.50 - \$1.75 per square foot.
7) County appraisers should be versed in the importance of considering the value of the property they are assessing as of January 1 of each year.
8) A property owner should be able to submit his property for review by the county appraiser without hiring an appraiser, lawyer, etc., when it is obvious that the value is incorrect.

Mr. Bicknell expressed the opinion that one of the recommendations that the Commission make is that appraisal contractors receive proper training and retraining.

Bill Thornburg, partner in Midwest Appraisal Company presented testimony regarding his observations of the reappraisal process.

1) The KSCAMA system income models were geared primarily to large metropolitan areas. The system ignored real property in small communities.
2) The KSCAMA system was flawed in the way that values were derived for agricultural buildings. He noted that this problem has been corrected.
3) Nursing homes should have been classified as commercial property and assessed at 30% of fair market value instead of as residential property assessed at 12%.
4) PVD field staff were not qualified to supervise the contractors and county appraisers.

Ben Neal, tax attorney, provided commission members with an overview and observations regarding the appraisal hearings and appeals process. His observations regarding the process included:

1) Hearing Officers/Panels (HOP) were not effective.
2) The only purpose served by the BOE was to eliminate some appeals to the State Board of Tax Appeals (BOTA).
3) Problem with the volume of appeals that went to BOTA.
4) The time frame and volume of appeals did not permit giving appeals the full attention they deserved.

5) The informal appeal to the county appraiser worked well for resolving correction of clerical errors but was less effective for resolving valuation questions.
6) PVD had an arbitrary standard of overturning HOP changes.
7) The BOE still serves a function in the equalization process. The BOE should be taken out of the normal appeal process.
8) If change of value notices are not sent to each taxpayer each year, dissatisfied taxpayers will pay their taxes under protest unless something else triggers the appeals process.
9) Either PVD or BOTA should review valuation appeals. Not both.
10) If the protest process is eliminated, special consideration should be given when special circumstances arise such as a change in property ownership.
11) If the payment under protest process were eliminated, new owners would be left out of the appeals process.

Mr. Neals' Recommendations:
1) Don't eliminate either appeals process or payment under protest process.
2) Eliminate HOP.
3) Classification- make the determination of assessment levels a local option decision.

Bill Waters, Chief Attorney for the Division of Property Valuation, presented an overview of the Classification Amendment.

The Commission then heard testimony via speaker phone from members and staff of the Missouri Tax Commission regarding the inventory tax and exemption in that state. Testifying before the Commission were Mr. William Brenner, Chairman; Van E. Donely, Commissioner; Bruce E. Davis, Commissioner and Robert Van Ark, Property Tax Specialist. The following is a brief synopsis of the testimony presented.

Elimination of the manufacturer and merchants inventory tax in Missouri was accompanied by the creation of a new county-wide real property tax created for the sole purpose of replacing lost revenues. Each county elected a sur levy for 1985 based on revenues derived from the merchant's and manufacturer's inventory tax in 1984.

The average statewide sur tax in Missouri is $1.04 based on $100,000 of assessed valuation. This equates roughly to 18% of a commercial taxpayers total levy. Levies range from $.01 per $100.00 of assessed valuation to $1.70 (St. Louis County). The sur levies remain at the 1985 figure unless a decrease is approved through the vote of the people. There is no roll back provision.

The assessment ratios for Missouri are as follows:

Commercial Property	32%
Residential Property	19%
Agricultural Property	12% based on productive capabilities
Most Personal Property	33 1/3%
Livestock	12% of market value
Farm Machinery	12% of market value
Construction Machinery/ Business Personal Property	1/3 of value
Automobiles	1/3 of value
Benevolent /Fraternal Org.	Exempt

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Sales tax in Missouri is 4.25%. Counties have 3 different sales taxes they can impose. Cities have 2.

The Commission next heard testimony from a Legislative panel comprised of Chris Courtwright, Legislative Research (representing Senator Fred Kerr); Jim Braden, Speaker, Kansas House of Representatives; Representative Vince Snowbarger; Representative Robert Vancrum; Senator Phil Martin; Senator Gerald Karr and Senator Lana Oleen

Chris Courtwright, Legislative Research, representing Senator Fred Kerr, read a prepared statement from Senator Kerr detailing the Senate Assessment and Taxation Committee's classification proposal (SCR 1648). The Senate committee recommended:

1) Reduce the assessment rate for Commercial Property from 30% to 25%.
2) Assessment rate for the first $50,000 of a commercial property would be 21%. Above $50,000 would be assessed at 25%.
3) Reduce assessment rate for fraternal/not-for-profit organizations from 30% to 12%.
4) Increase assessment rate on utilities from 30% to 33%.
5) Increase assessment rate on business machinery and equipment from 20% to 30%, while maintaining 7 year straight-line depreciation, down to 20% of retail cost when new.

Mr. Courtwright then explained SCR 1648 as amended by the House of Representatives:

1) Reduce assessment for single family dwellings from 12% to 10%. Multi-family dwellings would remain at 12%.
2) Increase assessment rate for commercial and industrial properties as inventories are phased out. 1990 - 21%; 1991 - 23%; 1992 & thereafter 25%.
3) Fraternal & Benevolent Societies would be assessed at 12%.
4) Farm machinery and equipment assessed at 30%.
5) Put merchants inventories to the extent of 60% of appraised value in excess of $100,000, back on the tax rolls at 18% of value in 1990; 12% in 1991; and 6% in 1992. Exemption would be restored in 1993 and thereafter.

Jim Braden, Speaker, Kansas House of Representatives presented testimony in regards to HCR 5055. This proposed amendment would have provided property tax relief by:

1) Require a 1% statewide sales tax increase.
2) Money collected would be distributed back to the school districts on a proportional basis. Every school district would get the same percentage reduction in their mill levies.

Representative Bob Vancrum testified in regards to HCR 5052. This proposed amendment would have changed assessment rates as follows:

1) Residential - 10%.
2) Commercial - 20%.
3) Vacant Lots - 10%.
4) Non-profit - 12%

5) Business Machinery & Equipment restored to 30%. Allowed for full 7 year straight line depreciation.
6) Restored 40% of merchant's inventory at 25%.
7) Utilities & State Assessed Properties - 35%.

Representative Vancrum then presented testimony on the effect of a property tax rollback as follows:

1) Rollbacks are not necessary. Some taxpayers already received property tax reductions from classification amendment exemptions.
2) Rollbacks are not practical. It would cost an estimated 1/2 billion dollars to provide a 30% across the board tax cut.
3) Funding for rollback would be unfair. It is estimated that cities and school districts in nearly 2/3 of Kansas counties could not raise enough revenue from increased sales taxes to compensate for a 20% rollback in property taxes.
4) Property tax reductions would have to be financed by taking sales tax revenues collected in counties where the highest volume of sales occur and redistributing the money to counties having the highest property valuations but relatively low sales.
5) Many businesses that provide services had high increases in property taxes. These businesses are not going to be able to pass along the increase in sales tax to consumers. They would therefore be financing not only their own property tax relief but also property tax relief for residents of other Kansas counties.

Representative Vince Snowbarger presented testimony on HCR 5053 which introduced his concept of the "LOCAL TAX CoDe". He presented the following observations to the committee:

1) The taxing process should be turned over to local units of government.

 * Classes of property should be set out in the Constitution and counties could then pick and chose from those classes the property that they wanted to tax. Assessment rates would be set on those classes and mill levies applied to the results of that.

2) Appraisals would continue to be done at the county level with supervision provided by PVD.

3) Reduce local governments reliance on the property tax through local option taxes.

4) Changes would be needed in the school finance formula. Rather than using assessed value, appraised value would be used to determine the wealth of a school district.

Senator Phil Martin and Senator Gerald Karr, representing Senator Dick Rock presented a tax reduction plan to Commission members. The plan would repeal 15 sales tax exemptions, removing 33 sales tax loopholes and expand the state income tax base. Key provisions of this proposal include:

1) Increase residential and multi-family assessments to 18%.
2) Reduce commercial assessments to 20%.

3) Repeal exemptions for merchant's and manufacturers inventories, farm machinery & business aircraft and assess at 15%.
4) Non-profit organizations and associations would be assessed at 12%.

Senator Lana Oleen shared with the Commission her perspective of Classification.

Jim Braden provided the Commission with his closing thoughts on classification.

1) Uniform and Equal is the best form of taxation.
2) The assessment rate for fraternal organizations should be reduced to 12%.
3) Commercial property should be lowered to 20%.

Dr. John Wong, Professor of Public Administration at the Hugo Wall Center for Urban Studies, Wichita State University, testified as to his perspective on reclassification, based upon research conducted by Professor Glen Fisher. Professor Fisher's recommendations as noted by Dr. Wong are as follows:

1) In the short run, it would be more viable to strengthen the administration of the property tax rather than shifting reliance to alternative sources of revenue.
2) Efforts should continue to improve the appraisal of property.
    a) Annual reappraisal and re-inspection of property once every four years should continue.
    b) State supervision of education, training, and county performance should continue and be improved upon.
    c) Efforts should be made to improve the data available for appraisal purposes.
    d) The appeals process should be streamlined.
3) Local governments dependence on the property tax should be reduced in the future.
4) Must clearly delineate between shifting the burden and granting relief.
    a) Shifting the tax burden is a long term policy question.
    b) Granting relief for hardship cases should be considered transitional.

In terms of alternatives to property taxes as a source of local government funding Dr. Fisher suggests:

a) Tax lids are usually not effective because they result in litigation, misdirection of funds, and budgetary manipulation.
b) Local sales and income taxes would result in large variations in rates in order to provide the same amount of per capita revenue.
c) Imposing sales or income taxes at the state level for property tax relief:
    1) Would give local assessors incentive to under value property in order to export part of their tax burden to the rest of the state.
    2) Should separate revenue sources of state government from revenue sources of local government so that local assessments would not be used to allocate state taxes.
    3) Difficult to devise formula for returning money to local governments in a manner that is equitable and avoids under compensating some jurisdictions while encouraging over expenditure by others.

d) The property tax provides extreme flexibility for overlapping local jurisdictions.
   1) Tax levies by each unit may be simply added together once a year when computing the tax bill for any given parcel.
   2) Must balance relationship between political boundaries and economic boundaries*:

**correspondence principle (tax boundaries for financing government services should correspond with the geographic boundaries of benefit conferred by the service) versus the tiebout hypothesis (dissatisfied taxpayers will "vote with their feet" by moving to another jurisdiction).*

Dr. Fisher does suggest that if Kansas is to reduce its' reliance on the property tax, the most effective way to do so would be through use of the school aid formula. Other recommendations include:

1) Phased in implementation
   a) State-wide mill levy for extraordinary property tax relief.
   b) Extend borrowing authority of local governments.
2) Administration
   a) Assessors must assist taxpayers to understand the system.
   b) Permanent staff of state appraisers, appraising one quarter of the state every year.
3) Employ a 100% assessment rate with different levies based on classification--100% assessment may prevent some confusion among taxpayers.

Ernie Mosher, Executive Director of the League of Kansas Municipalities, testified as to the effects of classification on local government. Mr Mosher made the following observations:

1) Most basic public services are delivered by local government.
2) Local government is heavily dependent on property taxes.
3) Local non-property tax revenues are unreliable.
4) The policy objective should be to keep tax increases in the range of cost of living index increases.
5) The property tax is a proper, fair and legitimate means of financing most local government services, if kept to an acceptable level and fairly shared.
6) Use value appraisal has tended to shift county-wide and school district taxes to urban properties.
7) Exemption of inventories, etc. have resulted in increased taxes on real properties.
8) Property use may change due to assessment rates.
9) Classification in itself, has not had a direct effect on local government finances, but rather individual taxpayers and classes of taxpayers.
10) There are two principal property tax issues in Kansas.
   a) Equity in the system.
   b) The level of taxation.

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League recommendations for change in state and local financing:

1) Open up the local sales tax option rate.
2) Authorize an additional 1/4% local sales tax for infrastructure improvements without a mandatory referendum.
3) Broaden the sales tax base.
4) Use local income tax option
5) Increase the county-city revenue sharing fund and local ad valorem tax reduction fund.
6) Increase the level of school aid.

Bob Corkins, Director of Taxation for the Kansas Chamber of Commerce and Industry, presented testimony on KCCI's general views regarding property taxes and their position on Classification and its effect on business and industry. KCCI feels that any classification amendment should:

1) Provide a sufficiently stable tax policy
2) Not damage Kansas business' competitive position;
3) Continue the repeal of inventory taxes; and
4) Maintain the existing balance between the property tax burdens shouldered by agricultural, residential, and commercial/industrial property.

KCCI using the above criteria, supported the classification change proposed last session by SCR 1648 in its original form with few exceptions (noted in written testimony).

KCCI has taken the following position in terms of a property tax rollback:

1) Local government over-relies on the property tax.
2) KCCI supports a one-cent increase in the state sales tax rate with proceeds earmarked towards local school districts.
3) Advantages of a one-cent increase:
    a) Better guarantees that the amount of sales tax raised in a given community will be exact or close to the amount of property tax.
    b) Will result in the greatest percentage of reduction in property taxes by giving school districts the money.
4) KCCI opposes any proposal to significantly expand the sales tax base.

CONSIDERATION OF TOPICS FOR NEXT COMMISSION MEETING

The commission next considered topics for study and consideration at their next meeting. The commission decided to hear a presentation from Herb Krumsick and then use the remainder of the meeting for discussion of the testimony previously heard.

NEXT MEETING DATE

The next meeting of the commission was set for Tuesday, November 27, 1990, at 10:00 a.m. in the Secretary of Revenue's Conference Room, Docking State Office Building, Topeka.

The meeting was adjourned at 5:30 p.m.

Appendix C

PROPERTY TAX REVIEW COMMISSION
TOPEKA, KANSAS

MINUTES
NOVEMBER 27, 1990

The Property Tax Review Commission met Tuesday, November 27, 1990 in the Secretary of Revenue's Conference Room, in the Docking State Office Building, Topeka. Those in attendance were:

The Honorable Governor Robert F. Bennett, Chairman
Lionel Alford, Vice-Chairman
The Honorable Ed Eilert
Dr. H. Edward Flentje
Timothy Hagemann
Herb Krumsick
Ann Papay
Doyle Rahjes
Clarence Roeder
Dr. Tony Redwood

Staff
Kim Mahan

The Honorable Robert F. Bennett called the meeting to order at 10:20 a.m.

The Governor briefly discussed formulation and submission of the preliminary findings of the commission to Governor Hayden and Governor-Elect Finney.

MINUTES

A motion was made to approve the minutes of the October 26, 1990 meeting. The motion was seconded and carried.

COMMISSION DELIBERATIONS

The Governor reviewed with the commission, various statewide and county statistical simulations prepared by PVD staff and distributed by mail prior to the meeting.

Exhibit A provides an analysis of the tax situation as it actually occurred. This data indicates what the various mix is for both the state as a whole and for selected counties based on current law. Governor Bennett presented the commission with his analysis of the current situation and his computations as to where the problems were and why taxes increased to the extent they did.

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**All of the simulations were calculated with an 6% basic increase in the ad valorem tax requirement. These figures demonstrate that local units of government as a composite increased taxes by 6%. This increase was spread based on the mix of various classes of property found in each county.*

Based on this information, the following occurred statewide:

1) Residential taxes increased 28%;
2) Vacant lot taxes increased 144%;
3) Agricultural land taxes decreased 18%; and
4) "Other" real property taxes increased 100%.

Exhibit A demonstrates that as a whole, real estates tax burden increased approximately 36%, personal property tax decreased approximately 49% and state assessed property tax decreased approximately 10%. The mix of all property equaled a 6% increase.

The Governor distributed **Exhibit E.** This exhibit simulates the scenario that reappraisal had been implemented without a change in the classification ratios or exemptions and that de facto classification would have been construed with the same de facto ratios. Based on that scenario, **Exhibit E** provides an extrapolation as to what the assessed values and taxes would have been if the classification amendment and resulting exemptions had not been enacted.

Based on Governor Bennett's calculations, residential property taxes would have increased 2%, vacant lot taxes would have decreased 3%, agricultural real estate taxes would have decreased 66%, commercial property taxes would have decreased 14%. Overall, the tax burden imposed on real estate would have decreased 13%. The tax burden would have shifted to inventory, other personal property and utilities.

Exhibit B assumes use value appraisal was not in place and that values were based on 30% of fair market value. Using this scenario, no new property would be exempt from taxation and all property would be assessed at 30%. Taxes on residential property would increase 57%, vacant lot taxes would increase 197%, agricultural property taxes would increase 65%, commercial property taxes would decrease 3%, merchants inventory taxes would decrease 61%, manufacturers inventory would decrease 51%, livestock property taxes would decrease 35%, other commercial property taxes would decrease 53%, and state assessed utilities taxes would decrease 40%.

Exhibit C simulates the scenario that property is assessed at 30% and that use value is in effect. It assumes that the exemptions provided for in the Classification amendment still exist. Under this scenario residential property taxes would increase 62%.

Exhibit D simulates the scenario that reappraisal occurred and the classification amendment was implemented without the exemption of any property from taxation. Under this scenario, residential property taxes would increase 10%, taxes on property assessed at use value would decrease 19%, and commercial property taxes would increase 70%. In total, real estate taxes would increase 18%, personal property taxes with no exemptions would decrease 19%, utilities taxes would decrease 4.5%.

Property taxes increased $90 million as a function of the increased cost of government. Real property absorbed $339.5 million in taxes. $90 million from the increase in government, $34.4 million resulted from the implementation of use value. The inventory exemption cost real property taxpayers $108.5 million, the livestock

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exemption $10.7 million, other exemptions $73.1 million, and the reduction in the taxation of utilities cost $22.5 million. A $339.2 million shift to primarily non-agricultural real estate, occurred because of the exemptions. It appears that approximately $118 million of that shift can be attributed to the inventory exemptions.

Copies of the exhibits are attached to these minutes. (See Appendix C - 1)

The commission shifted their focus to the formulation of recommendations for reappraisal reform.

Certificate of Values:

Herb Krumsick moved that the commission recommend that penalties for the falsification of certificate of value information be strengthened and that the certificates of value form be modified to include the same information that is now required on the sales verification form. Ann Papay seconded the motion and the motion carried.

Simplification of the Appeals Process:

Ed Eilert moved that the commission recommend that consideration be given to streamlining the appeal process and that taxpayers be given the option during either the appeals or payment under protest processes of bypassing intermediate steps and proceeding directly to the State Board of Tax Appeals. Lionel Alford seconded the motion and the motion carried.

Tim Hagemann moved that the Division of Property Valuation be removed from the approval process in regards to the review of changes in value. Ann Papay seconded the motion and the motion carried.

Lionel Alford moved that the commission recommend that the legislature accept the proposed revised tax calendar, a copy of which is attached to these minutes. Dr Flentje seconded the motion and the motion carried.

State Support of Local Appraisal Efforts:

Dr. Flentje moved that the Commission recommend that the state share the cost of appraisal maintenance with local county government. The motion was seconded and carried.

The commission discussed the establishment of appraisal districts. No action was taken by the committee as it was determined that the implementation mechanism exists within the present system of appraisal administration and the state's Inter-Local Cooperation Act.

The commission next discussed whether or not the position of Director of Property Valuation should be subject to appointment by the Governor. The commission decided to make no recommendation for change.

Seeing no further recommendations for the modification of the appraisal process, Governor Bennett directed the commissions attention to the issue of property classification.

Vacant Lots:

Dr. Flentje moved that it be the consensus of the commission that:

1) the method used to establish the value of vacant lots does not appear to take into consideration the market value of the property, particularly when large numbers of lots are together and unsold;
2) that this type of property is somewhat inventory oriented; and
3) that the mechanism exists within the present system to adjust for these considerations and that appraisers be encouraged to make these adjustments. The motion was seconded.

Doyle Rahjes amended the motion to include the language "the same method should be used throughout all appraisals including but not limited to the valuation of vacant lots." The motion passed as amended.

Commission member Herb Krumsick addressed the commission on the topic of the state of the real estate market nationwide and provided members with information as to where the real estate market is at the current time and where it is going in the future.

The Commission then proceeded to focus discussion on the subject of property classification.

Fraternal and Not-For-Profit Organizations:

Ann Papay moved that the commission recommend that the legislature seriously consider reducing the ratio of assessed value on property owned by fraternal and not-for-profit organizations, but not exempting it from taxation. The motion was seconded and carried.

Re-submission of the Classification Amendment to Kansas Voters:

The commission next considered whether or not to make a recommendation to the legislature, that they consider re-submitting a constitutional amendment to Kansas voters.

Ed Eilert moved that the commission recommend to the legislature that the Classification Amendment be re-examined and re-submitted and that the following changes be made to current assessment ratios.

a) Increase the assessment ratio on Multi-family dwellings;
b) Decrease the assessment ratio on commercial & industrial properties;
c) Increase the assessment ratio on business machinery and equipment from 20% - 30%;
d) Include merchants inventory in the tax base;
e) Increase the assessment ratio on state assessed property; and
f) Continue to exempt manufacturer's inventory.

Upon recommendation of Governor Bennett, the commission decided to examine and vote on each recommendation.

The commission first considered the issue of whether or not to recommend to the legislature that the classification amendment be re-examined. It was the unanimous consensus of the commission that such a recommendation be made.

The motion recommending that the assessment ratio for multi-family dwellings be increased, but to a ratio less than commercial real estate, was seconded and carried.

The motion recommending that the ratio of assessed value on commercial and industrial property be decreased was seconded and carried.

The motion recommending that the assessment ratio for business machinery and equipment be increased was seconded and carried.

The motion that merchants inventory be returned to the tax rolls with some exemption for small merchants was seconded. Tim Hagemann made a motion to amend the original motion by adding language to define a small merchant as one having an inventory of $250,000 or less. The amendment was seconded and carried on a 5 - 4 vote.

The Commission then voted on the original motion as amended. The motion carried.

The motion that consideration be given to increasing the assessment ratio on state assessed property was seconded and carried.

Upon Lionel Alford's request the Chairman instructed Property Valuation Division staff to provide the commission with simulations illustrating the effect that the following proposed changes in assessment ratios would have. A copy of the simulations are attached. (See Appendix C - 2)

1) Increasing the assessment ratio for multi-family dwellings to 16%.
2) Decreasing the assessment ratio on commercial and industrial property to 20%. Dr. Redwood requested that a simulation be run at 25%.
3) Assessment of business machinery and equipment at 20%. Dr. Redwood requested a simulation using assessment ratios of 25% and 30%.

Lionel Alford also requested that Property Valuation Division staff provide the commission with an estimate of the number of businesses in Kansas with an inventory over $250,000.

Ed Eilert requested that a simulation be run with state assessed property at 35%.

Where it was not specifically noted, the commission decided that property would be left at current assessment levels for the purpose of the simulations.

Tim Hagemann moved that the commission recommend that long-term care nursing homes be assessed at the same ratio as residential properties. The motion was seconded. Following discussion of the motion, it was decided that this provision was already in the present classification system. Lionel Alford withdrew his second and the motion failed for lack of a second.

Lionel Alford requested that simulations be run with merchants inventory assessed at 20% and 25% of value.

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Ed Eilert moved that the commission recommend to the legislature that they consider increasing the availability of local option taxes as alternative sources of funding for local governments. The motion was seconded and carried on a vote of 8 - 1.

Preliminary Report to the Governor and Governor-Elect:

Governor Bennett reviewed the format of the commissions preliminary report and told commission members that a "draft" would be circulated to them by mail for comments and corrections.

The meeting was adjourned at 4:15 p.m.