

Approved Saturday, May 11, 1991
Date

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION

The meeting was called to order by Senator Audrey Langworthy at
Vice Chairperson

11:00 a.m. ~~XXXX~~ on Tuesday, April 2, 1991 in room 519-S of the Capitol.

All members were present except:

Senator Dan Thiessen, Chairman (Excused)

Committee staff present:

Don Hayward, Assistant Revisor
Tom Severn, Research Department
Chris Courtwright, Research Department
Marion Anzek, Committee Secretary

Conferees appearing before the committee:

Senator Richard Bond, Chief Sponsor of SB192
Frank Seitz, Superintendent of Recreation, Derby Recreation Commission
Larry Clark, Wyandotte County Appraiser, representing KS County Appraisers
Jeffrey Sonnich, Vice President, Kansas-Nebraska League of Savings Institutions
Jim Maag, Senior Vice President, KS Bankers Association
David Cunningham, Director of Taxation, Department of Revenue

Senator Audrey Langworthy, Vice Chairman called the meeting to order at 11:10 a.m. and recognized Senator Richard Bond to brief the committee members on SB192.

SB192AN ACT providing property tax refunds to certain low income individuals.

Senator Richard Bond, Chief sponsor of SB192 said he asked for the bill to be drafted, and he said, staff suggested the bill follow the steps of the homestead act. He said, he has been involved in a group of rehabilitating intercity housing. He said a number of Senator's have been involved, including Senator Dole and he said, several of them have gone to churchs and businesses to raise materials and supplies, and he said, the 501C3 entities has obtained titles to properties, maybe on the courthouse steps, some may be crack houses that are half burned out and they may be for instance, where an elderly lady was living on Social Security, a miserable home, maybe where weeds were growing up high, and he said we go out to these houses which have little or no value and we work hard to get the funds, then we rehab the houses with a lot of volunteer help from all areas of businesses and fix them up to where they sell for maybe \$20,000 to \$30,000. He said, the same person will stay there, such as the little elderly lady and then the house will go on the tax rolls for the next reappraisal for maybe \$30,000 and all the work from the volunteers goes down the drain, because the house will be sold on the courthouse steps.

He said he does not know if the homestead act is the appropriate one for this or not. He said this brings to the committee the problem that the good spirited people who have tried to get some kind of decent housing for people in the intercity and then caught in the hitch 22 of having it go down the drain and having people forced out of their homes because of the appraisals and taxes going up.

He asked, Madam Chairman for the bill to be sent to interim for study.

Madam Chairman said she would hold action on interim study until the committee has a chance for discussion, and she turned attention to HB2222.

HB2222 as amended changes provisions of the Kansas Income Tax Act relating to filing deadlines for persons serving in the Armed Forces or in their support in the Desert Storm or Persian Gulf Desert Shield areas.

Frank Seitz, Superintendent of Recreation, Derby Recreation Commission expressed concerns of the Commission to the committee saying when reappraisal and classification were enacted, the tax lid law was implemented to not only prevent windfall from taking place, but also to protect agencies whose tax support was based solely on the assessed valuation of its taxing district. He asked the committees support for amendments, which protect this injustice from occurring. (ATTACHMENT 1)

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION

room 519-S, Statehouse, at 11:00 a.m./~~p.m.~~ on Tuesday, April 2, 1991

After committee discussion Senator Fred Kerr said he would address the procedure that Mr. Seitz has spoken to, and he said a few days ago Representative Baker and Senator Francisco called about this situation and he said, given the fact that the tax lid bill appears failing and not going to pass, then it creates a situation that Mr. Seitz spoke of in his testimony. He said there has never been a House Bill that would be germane to these problems and he said HB2222 is one, in the way it was described, so we do have the amendment, given us by staff at the beginning of this meeting, (ATTACHMENT 2) which is the amendment Mr. Seitz was talking about.

Tom Severn said there are two issues, and he said most school districts and libraries are concerned because of reappraisal and changes that accompanied reappraisal, he said because of reappraisal and changes that accompanied reappraisal, he said because they lost value and the repeal of the tax lid will cause the amount they can raise to drop and in some cases quite abit, and he said the other side is, since the adjustment to be made in 795012b won't be there, then the units that had large increases in value will go back to the fixed dollar levy, and then they experience difficulty in the amount that they can raise. Which could be just as dramatic as the amount that the libraries has lost.

He said, there are (2) approaches the committee might choose to make. (1) To re-enact a compensator, such as was passed when the farm machinery was removed from the tax rolls in 1982 or 1983 and, (2) To reimpose 795021b which would calculate a levy based on what was levied in 1988 and to perpetuate that fund levy limit.

THE FOLLOWING CONFEREES ARE OPPONENTS OF HB2222

Larry Clark, Wyandotte County Appraiser representing KS County Appraisers said the appraisers association does not oppose SSection (1) and he said what they are concerned about is section (2) which seeks to amend K.S.A. 79-1460 to require an individual physical inspection before values may be increased. He said if an appraiser is not doing his job correctly, a physical inspection will have no effect whatsoever.

He said, theoretically this bill only creates unnecessary county expenditures. Practically it will result in a combination of added expense and inequity for 75% of the real property roll every year. (ATTACHMENT 3)

Jeffrey Sonnich, Vice President, Kansas-Nebraska League of Savings Institutions said they have concerns with section (1) of HB2222 which would require escrow or tax service agents responsible for the payment of real estate taxes to provide a copy of the tax statement on or before December 10, or within 10 days of receipt for the tax information.

He asked the committee members to consider striking the language in section (1) of the bill before final consideration is given. The mailing is costly and would require their industry to remedy a perceived problem that should probably be handled at the county level. (ATTACHMENT 4)

Jim Maag, Senior Vice President, KS Bankers Association said their concern is with section (1) of the bill which requires escrow agents to provide to mortgagors, free of charge, annual information concerning property taxes. He said they have serious concerns about the method for notification set forth in the bill.

He said, if the concern is that taxpayers currently do not have sufficient time to file a protest of their taxes then why not extend the period of time for filing such protests so the January statement sent by the escrow agent would provide adequate time to file a protest? (ATTACHMENT 5)

David Cunningham said he thought the counties already have documentation in their files and the language in HB2222 page (1) lines 36 and 37 "a record of such inspection is maintained, including specific reasons for such increase" could be interpreted to require that they must do a separate narrative on every increase of value and he said, they suggest that the committee would strike in line 37 "specific reasons" and insert "the documentation". He said it is there already, and that would allow for the counties to simply provide the information that they have available, without adding the additional responsibilities. He said he would leave this with the committee to consider.

Madam Chairman asked Mark Burghart if he could come back tomorrow as we have ran out of time, and she said we would work HB2111 tomorrow and she announced to the committee altho it is not on the agenda, we will probably be having committee meetings on Thursday and Friday of this week. Madam Chairman adjourned the meeting at 12:04 p.m.



DERBY RECREATION COMMISSION

TO: Kansas Senate; Senate Tax Committee
FROM: Frank Seitz ; Supt. of Recreation, Derby
Recreation Commission
SUBJECT: Support of Amendments to H.B. 2222
DATE: April 1, 1991

I would like to thank Senator Thiesen, and the distinguished members of the Senate Committee on Taxation for your time and consideration of an issue critically important to a number of Recreation Commissions throughout the State of Kansas.

Permit me to review some recent history to relate our concerns to you. When reappraisal and classification were enacted, the tax lid law was implemented to not only prevent a windfall from taking place, but also to protect agencies whose tax support was based solely on the assessed valuation of its taxing district. Recent legislation being introduced by school districts concerning capital improvement levies, brought this problem to our attention. Additionally, I have visited with the office of administration, divisions and reports, concerning this dilemma. They have expressed similar concerns. Since the intent of previous legislation has never been to negatively impact a governmental entity, we are seeking amendments to, at the very least, maintain the integrity of existing tax authority.

I have included a couple of support documents to help you see the direct effect of the expiration of the tax lid. The first item is a copy of a letter written to Rep. Elizabeth Baker outlining the effect on the Derby Recreation Commission. (review letter) The second item is a partial list compiled by myself of some of the commissions who would be negatively effected.

Not having the opportunity to review the amendments prior to the drafting of this testimony does not allow me to comment about the amendments themselves. It also precludes us from getting the support of the Kansas Recreation and Parks Association, which represents over 175 governmental entities and over 600 members. I am confident however the KRPA will give its endorsement upon the review of amendments which protect this injustice from occurring.

Thank you for your attention to this matter, if there are any questions, I will be glad to attempt to answer them.



DERBY RECREATION COMMISSION

March 26, 1991

State Capitol
Rep. Elizabeth Baker
425-s
Topeka, KS 66612

Dear Rep. Baker,

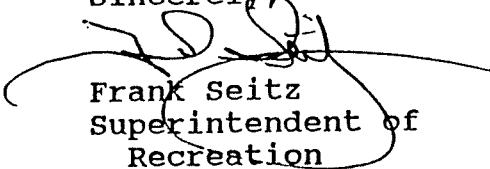
In response to your request concerning the negative impacts of the expiration of the 1990 Tax Lid Law. The assessed valuation in Derby USD 260 in 1988 was 163,790.941 which generated \$163,790.00 for every 1 mill for the Derby Recreation Commission. The assessed valuation in 1990 was 120,111,912 which generates \$120,111.00 for every 1 mill. For the 2 mill levy which we have been appropriated, this would mean a loss of approximately \$87,358.00 of budget authority. In addition because of the revisions made in personal property tax assessments (which could become worse, because of recent proposed legislation) we have also seen a decrease in the amount of motor vehicle taxes collected. This is more than a 27% decrease in taxing authority.

The Derby Recreation Commission has staffing, facility and programming commitments which would not allow for this type of loss. The scenerio very well might be that these burden's would be shifted to another governmental unit which would in turn have to increase its budget through a levy increase to cover these costs.

A strong consideration for a compensator for recreation commissions stem from the fact that levies for Recreation Commissions are initiated locally; and all initial levies are first approved by vote of the local electorate. In addition, subsequent increases are scrutinized at the local level (i.e. resolution passed by taxing authority, protest period for public input, election by local electorate if protested) more than any other tax issue. Therefore Recreation Commissions exist in communities, a.) because communities want them, and b.) At the tax support level which they feel justified.

If there is any further information I can help you with let me know.

Sincerely,



Frank Seitz
Superintendent of
Recreation

P.O. Box 324 • 801 E. Market • Derby, KS 67037 • 316-788-3781

RECREATION COMMISSION	1991 MILL LEVY RATE	'88 ASSESSED VALUATION	'90 ASSESSED VALUATION
HUMBOLDT	1.04	\$15,953,050	\$15,344,111
BURLINGTON	1.02	\$509,263,720	\$503,741,778
COPELAND	1.96	\$10,513,552	\$10,509,758
HESSTON	3.11	\$25,075,044	\$20,082,884
DIGHTON	1.03	\$19,993,850	\$19,460,335
MULLINVILLE	0	\$12,883,005	\$12,516,295
CHANUTE	3.72	\$36,747,702	\$33,549,630
NESS CITY	1.73	\$21,174,708	\$20,198,741
LYONS	3.64	\$23,291,377	\$20,651,088
DERBY	4.63	\$163,790,941	\$120,111,912

Proposed Amendment to HB 2222
(As Amended by House Committee of the Whole)

On page 2, after line 13, by inserting a new section to read as follows:

"Sec. 3. (a) In 1991, and each year thereafter, all existing statutory fund levy limitations on taxing subdivisions are suspended. In any such year, any taxing subdivision is authorized either to levy taxes upon tangible property which produces an amount not in excess of the amount which was authorized to be levied by such taxing subdivision for 1988, or levy taxes upon tangible property at a rate not exceeding the existing statutory fund levy limitation. Except as provided in subsection (b), the tax levy required to produce the amount allowed by the provisions of this subsection shall be the levy limitation for such years unless such tax levy is less than the existing statutory fund levy limitation, in which case such statutory fund levy limitation shall apply.

(b) In 1991, and each year thereafter, the statutory fund levy limitations shall be increased by multiplying the dollar amount produced by the levy limitation for 1988 by the quotient determined by dividing the assessed tangible valuation amount of the current year by the assessed valuation amount for 1989.

(c) As used in this section, "taxing subdivision" means every taxing district in the state other than the state.";

By renumbering existing sections 3 and 4 as sections 4 and 5;

In the title, in line 10, after the semicolon, by inserting "concerning statutory fund levy limitations;"

To: Senate Assessment and Taxation Committee
From: Larry Clark, Wyandotte County Appraiser
Date: April 2, 1991
Re: House Bill #2222

Mister Chairman and honorable members of this committee, my name is Larry Clark and I am here representing the Kansas County Appraisers Association in opposition to House Bill 2222. We specifically oppose the language of Section 2 which seeks to amend K.S.A. 79-1460 to require an individual physical inspection before values may be increased.

The appraisers take this stand because the practical result will be either unnecessary expenditure of taxpayer dollars or legislated inequity in the real property appraisal rolls.

One of the outstanding qualities of the ad valorem property tax has been its stability and relatively low cost of administration. Reappraisal, with its high demands and impossibly short time frame, disrupted that stability and it will take the state several years to recover - at least the time it takes to completely reinspect all properties under K.S.A. 79-1476. That stability will return if for no other reason than real property values themselves are relatively stable due in large part to the fact that their physical characteristics remain constant. My house, for example, was built in 1975 as a one story, two bedroom, one bath, frame, ranch style dwelling with an attached two car garage. Today it is a one story, two bedroom, one bath, frame, ranch style dwelling with an attached two car

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ATT. 3

garage. In other words the primary features of my house have not changed in 16 years and that is the rule, not the exception.

What then will an individual physical inspection reveal: that my one story, two bedroom, one bath, frame, ranch style dwelling with an attached two car garage is still that. What that individual physical inspection will not and cannot reveal is the market treatment of my dwelling. Although my property has not physically changed over those 16 years the market certainly has. The neighborhood in which it was built was developing at that time. Homes were being built and property values were increasing. My neighborhood is approaching a period of value stability due to the nature and location of growth in my community as a whole. In other words economic forces within and outside of my neighborhood are operating on the value of my property, forces which must be tracked and on which the appraiser will and should spend most of his/her time monitoring; and that is where the problem with inconsistency begins.

K.S.A. 79-1476 requires the "updating of [values] on an annual basis" and that every parcel of real property be "actually viewed and inspected by the county or district appraiser once every four years." With my current staff I can satisfy the 25% physical re-inspection required in this statute as can most counties. The question this legislation raises is whether to request additional staff to pick up the increases in value along with the 25%. Economic forces at work in every county will indicate that values are steadily increasing in some areas, stable in others and declining in still others. In order to guarantee that all values are fairly adjusted every year and

satisfy this legislation counties will actually need to have sufficient staff to physically reinspect every parcel of real property every year. In Wyandotte County that translates into the expenditure of an additional \$275,000 per year for a 21% increase in the reappraisal budget.

The International Association of Assessing Officers in its text Improving Real Property Assessment states the following:

Research leading to the writing of this book confirmed that frequent revisits to properties are associated with uniform appraisals. Annual visits are optimal from an appraisal accuracy standpoint, but visits of that frequency may not be administratively feasible. Visits should at least be scheduled in conjunction with reappraisals. It is important to note that the chief function of these inspections is to verify rather than to collect information. Therefore, a drive-by inspection, during which the property and its record are visually compared, is often sufficient. (page 87)

Kansas reappraisal specifications require a final field review of all parcels prior to finalization of value estimates. Those specifications conform to the procedure described in the IAAO text. State guidelines already call for sound re-inspection procedures. This legislation creates an unnecessary added burden.

The practical effect of this bill will be inequity. Counties will not uniformly increase expenditures sufficiently to satisfy the added requirements of this bill. In order to avoid the politically unpalatable situation of having values only declining and mill rates increasing, I believe counties will opt for changing only the values of properties which are physically re-inspected under K.S.A. 79-1476. That means 75% of the parcels in a county will not change in value in any given year. Inequities that exist or develop over time due to market changes

may remain on the tax rolls for as long as 3 years. Those taxpayers, such as the railroads, who gain tax advantage from this inequity will have a guaranteed winning suit every time they file because inequity will be built into the system.

Theoretically, this bill will only create unnecessary county expenditures. Practically it will result in a combination of added expense and inequity for 75% of the real property roll every year.

**Kansas-Nebraska
League of
Savings
Institutions**

Jeffrey D. Sonnich, Vice-President

Suite 512
700 Kansas Avenue
Topeka, Kansas 66603
(913) 232-8215

April 2, 1991

TO: Senate Committee on Assessment and Taxation
FROM: Jeffrey Sonnich
RE: H.B. 2222 (Tax notification by escrow agent)

Mr. Chairman. Members of the Committee. The Kansas-Nebraska League of Savings Institutions appreciates the opportunity to appear before the Senate Committee on Assessment and Taxation to express our opposition to section 1 of H.B. 2222. Section 1 would require escrow or tax service agents responsible for the payment of real estate taxes to provide a copy of the tax statement on or before December 10, or within 10 days of receipt of the tax information.

H.B. 2222 contains four sections. Our concerns are limited to section 1 of the bill. With one exception (line 16 "without cost") this section is identical to H.B. 2971 which this committee reported adversely in the 1990 session. The issues have not changed and our position has not changed. This bill is a duplicative expense to escrow agents and unnecessary in terms of property owners having access to the amount of their property tax.

Any mortgagor should be able to obtain the current year's real estate tax liability by simply calling their escrow agent or the County Treasurer. Quite a few homeowners do call their escrow agents to get the tax information and to my knowledge no one from our industry has refused to make the information available.

Federal law requires that all escrow agents provide a year-end escrow analysis to all borrowers by January 30 of each year. This analysis contains: borrower's monthly payment; interest paid; portion of payment placed in escrow; total amount paid out of the escrow account during the year for taxes, insurance, and other charges; and balance of the escrow account at the end of the year. Since the majority of taxpayers do not protest their taxes this analysis is used primarily to obtain the interest paid information for federal income tax purposes. Section 1 of H.B. 2222 would require an expensive duplicative mailing of one item from the escrow analysis.....taxes paid.

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ATT. 4-1



Senate Committee on Assessment and Taxation
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Our Kansas members presently service in excess of 130 thousand mortgages of which an estimated 80% escrow for taxes and insurance. Figuring for postage, personnel and computer programming we estimate that each separate mailing will cost approximately \$2 or an unnecessary annual cost of \$208, 000. Our two largest home mortgage lenders would have to notify 31,200 and 10,000 mortgage customers respectively.

The obvious intent of section 1 is to provide homeowners with tax information to allow for a timely filing of tax protests. While we understand and sympathize with the homeowners who feel that property taxes are too high we must face the simple facts: (1) most homeowners do not protest their taxes and (2) those that do obtained the tax information via a phone call to the lender or the County Treasurer. To require a mailing to all homeowners who escrow for taxes would provide the majority of homeowners with information they will not use and impose upon our industry an unnecessary expense.

One point we would like to make concerns the procedure that was used to pass the bill out of the House. H.B. 2222 was passed out of the House Taxation Committee without any hearings and without any notification on the House Calendar. We were prepared to argue our position, but did not have the opportunity. We appreciate being given the opportunity to voice our opposition to H.B. 2222 here today.

In conclusion, we would request that the committee consider striking the language in section 1 of the bill before final consideration is given. The mailing is costly and would require our industry to remedy a perceived problem that should probably be handled at the county level.

Jeffrey Sonnich
Vice President

JDS:bw
Encl.

SENATE COMMITTEE ON ASSESSMENT AND TAXATION
FR: JEFF SONNICH, KANSAS-NEBRASKA LEAGUE OF SAVINGS INSTITUTIONS
RE: CRANSTON-GONZALEZ NATIONAL AFFORDABLE HOUSING ACT 1990

Section 942. MORTGAGE ESCROW ACCOUNTS

The Affordable Housing Act was signed into law on November 28, 1990. Enactment of the disclosure provisions for escrow accounts were to be delayed by 90 days, however the language was errantly left out of the actual text of the law.

This section requires servicers of federally related mortgage loans to disclose or notify the borrower of information about moneys held in escrow. The law requires servicers to: Notify the borrower of any shortage in the escrow account; Disclose at closing estimated amounts paid out of escrow and the dates they are to be paid; and Provide an annual itemized escrow statement. The servicer would be precluded from charging a fee for the preparation of these statements.

Notification of shortage

The servicer must notify the borrower at least annually of any shortage of funds in the escrow account.

Initial statement at closing

The servicer must submit at closing or no later than 45 days after the escrow account is established an itemized statement of estimated taxes, insurance premiums, and other charges that are reasonably anticipated to be paid out of the escrow account during the year. The servicer must also disclose the dates the payments are to be made.

HUD will issue regulations within 90 days of enactment outlining any necessary changes to HUD-1, Uniform Settlement Statement.

Annual Statement

The servicer would be required to submit to the borrower an itemized escrow statement for each one year period beginning Jan 1 after enactment. The first of these statements would have to be sent by January 31, 1992.

The statement must include: Borrower's current monthly payment; The portion of the monthly payment placed in escrow; Total amount paid into the escrow account during the period; Total amount paid out of the escrow account during the period for taxes, insurance premiums, and other identified charges; and Balance of the escrow account at the end of the period. The servicer would have no later than 30 days after the period (Jan. 30) to send the statement.

Penalty provisions

A civil penalty of \$50 dollars will be assessed for each failure to submit a statement to the borrower - not to exceed \$100,000 in any one year. Intentional failure to disclose will carry a \$100 penalty for each violation with no limit in any one year.



The KANSAS BANKERS ASSOCIATION
A Full Service Banking Association

April 2, 1991

TO: Senate Assessment & Taxation Committee
RE: HB 2222 - Providing copies of tax information

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to discuss the provisions of HB 2222 with the committee. Our concern with the bill is centered in Section 1 which requires escrow agents to provide to mortgagors, free of charge, annual information concerning property taxes. While we do not disagree with the premise behind this proposal (making sure property owners are aware of the taxes which have been levied against their property), we do have serious concerns about the method for notification set forth in the bill.

We do not believe it is fair to expect financial institutions to provide, without any charge, copies of tax information which could otherwise be obtained by calling the county treasurer's office or the offices of the escrow agent. If the concern is that taxpayers would not be aware that they could access such information by telephone, then a printed reminder on the escrow statement sent in January each year might be a possible alternative.

If the concern is that taxpayers currently do not have sufficient time to file a protest of their taxes then why not extend the period of time for filing such protests so the January statement sent by the escrow agent would provide adequate time to file a protest? We simply believe there must be a means by which property owners can receive the necessary tax information without imposing a significant labor and postage cost on financial institutions.

We appreciate this opportunity to appear before the committee and stand willing to work toward a reasonable solution to this problem.

A handwritten signature in black ink that reads 'James S. Maag'.

James S. Maag
Senior Vice President