

Approved Monday 3-2-92
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 Wednesday, February 26, 1992 in room 519-S of the Capitol.

All members were present except:
Senator Marge Petty (Excused)

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

Conferees appearing before the committee:
Senate President, Senator Bud Burke
Betty Discus, Volunteer Treasurer-American Cancer Society-KS Div. Inc.
Tom Harrington, R.R.T. Pres. Elect, American Lung Association of KS
Mary M. Fiolkowki RN, CDE Government Relations Chairperson, American Diabetes Assn.
Representative Robert Vancrum
Bob Corkins, KS Chamber of Commerce and Industry
Larry Clark, President KS County Appraisers Association
Jim Irish, Greater KS Chapter Appraisers Association

Chairman Dan Thiessen called the meeting to order at 11:08 a.m. and said the agenda for today is a hearing on **SB602, SB640 and SB645** and The Chairman recognized Senator Bud Burke, President of the Senate, Chief sponsor of **SB640**.

SB640: Sales tax exemption for purchases by nonprofit public health improvement agencies.

THE FOLLOWING CONFEREES ARE PROPONENTS OF SB640.

President Bud Burke, said he would request the committee's consideration on **SB640**, and he said, he thought the fiscal note would prove to be very small and he said in a major way the purpose of this bill would make a very strong public statement with regard to the legislative body's concern with all of the varying health care areas. He said, he would like to yield to the conferees in the committee room, that are here to testify before the committee. **(NO WRITTEN TESTIMONY)**

Chairman Dan Thiessen recognized Dr. William Murphy, American Heart Association.

Dr. William Murphy, said he is testifying in support of **SB640** and he said they are not asking for something new; and they are not asking for a privilege they did not previously enjoy, but are asking for a return to the exempt status which was heretofore not protected by law, when they lost a longstanding exemption from sales tax several years ago. **(ATTACHMENT 1)**

Betty Discus, Volunteer Treasurer of the American Cancer Society, KS Division, Inc. said their mission is to eliminate cancer as a major health problem by preventing cancer, saving lives from cancer, and diminishing suffering from cancer through research, education and service.

She said they are funded solely by public contributions, they are able to provide cancer programs and services at no cost to those requesting them.

She said by granting the exemption outlined in **SB640**, the American Cancer Society would save an additional \$5,500 per year and would allow them to fund one of the following, (1) Provide a summer camp experience for 34 children with cancer. (2) Place cancer education kits in 358 elementary schools across the state, or (3) Provide transportation assistance to and from treatment for 37 cancer patients.

She urged the committee to support the passage of **SB640**. **(ATTACHMENT 2)**

Tom Harrington, R.R.T. President Elect, American Lung Association of KS said The American Lung Association of KS, founded in 1908, is the state's oldest voluntary health association. He said the association was prominent in the fight against tuberculosis and through cooperation with the state's public health departments they were successful

Unless specifically noted, the individual remarks recorded herein have not been transcribed verbatim. Individual remarks as reported herein have not been submitted to the individuals appearing before the committee for editing or corrections.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION,

room 519-S, Statehouse, at 11:00 a.m./~~PM~~ on Wednesday, February 26, 1992
in controlling "the white plague" in the first held of this century.

He said, since 1972 when the KS Legislature repealed the sales tax exemption granted to non-profit voluntary health associations, the American Lung Association of KS has paid its sales tax on a quarterly basis in compliance with existing statutes.

He asked the committee members to support legislation giving non-profit health associations' a sales tax exemption based on the merits of the tremendous amount of services that they provide to the state's residents. (ATTACHMENT 3)

Mary M. Fiolkowki RN, CDE Government Relations Chairperson, American Diabetes Association-KS Affiliate said the Association and its many volunteers provide health education and services that no other provides. She said \$5,000 per year saving is very important to them, as this amount would provide payment for their 800 telephone number that serves all Kansans outside the Wichita area.

She said when there are so many who can't afford health care, they need to encourage and preserve non-profit agencies who can provide that special attention they all appreciate. (ATTACHMENT 4)

Chairman Dan Thiessen concluded the hearing on **SB640** and turned attention to **SB645** recognizing the Senate President, Senator Bud Burke.

SB645: Determination of fair market value of income producing property.

President Bud Burke directed attention to the 2nd page of his hand-out, According to Improving Real Property Assessment. A Reference Manual, published by the International Association of Assessing Officers, many assessment jurisdictions have adopted the practice of mailing income and expense questionnaires prior to a reappraisal. He said, **SB645** operates likewise by having the appraiser request such information. A commercial property owner would have the option of supplying net income information which would be used by the appraiser to develop a value. **SB645** is also intended to allow commercial property owners the option of not supplying the appraiser information with the expectation that in such case, the appraiser may use other generally accepted appraisal methods. (ATTACHMENT 5)

Representative Robert Vancrum said **SB645** is a concept which he introduced in the House, he said it is an attempt to create a presumption that the income approach is the most appropriate approach for income producing property and it doesn't set up, just one layer of the appraisal process with regard to income producing commercial property, being first and foremost amongst it. He referred to lines 23 and 24 of **SB645** page 2, "that the county or district appraiser documents substantial and compelling reasons" that this method does not lead to fair market value. He said, the purpose is to create an assumption that income producing properties would be valued other than the farm land which is already valued under use value basis.

He said line 14, page 2 refers to the net income of such property, he said although he and Senator Burke were primarily concerned about not perpetuating the system where certain taxpayers are paying 60, 70 and 80% of their net income in property taxes, a situation he said reflects a market value which doesn't mean market value to him. He said line 19 page 2 does contain a provision which allows the appraisers to determine what are reasonable deductions, and if you have a business where the over-head costs are unreasonable, he said there is a provision in 79-503a the ability to address those particular problems.

He said, he did not think the appraisers can be tied down to the exact expense statement of the business in making their determination.

Representative Vancrum urged the committee to support **SB645**.

Bob Corkins, said KCCI supports the proposal regarding the "income approach" to property valuation with the inclusion of amendments. He said KCCI makes the following recommendations for amending **SB645**. (1)The income approach to valuation should be "mandated," i.e. it becomes the dominant and preferred method of risk resort, only when that method is requested by a given taxpayer (retain the exceptions for cases in which the taxpayer does not supply the necessary income information or when "substantial and compelling" reasons justify a different method). (2)County appraisers should supply easily understandable "worksheets" to commercial taxpayers for their use in determining what their property valuation would be under the income approach.

He said KCCI believes these amendments would not contradict the intentions of the sponsors of **SB645**, and he urged the committee's support to endorse their suggestions and recommend the amended proposal favorably for passage. (ATTACHMENT 6)

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION,

room 519-S, Statehouse, at 11:00 a.m./~~p.m.~~ on Wednesday, February 26, 1992

Larry Clark, President KS County Appraisers Association said he would refer the committee to the 3rd page of his hand-out showing information on 3 parcels of land in Wyandotte County, labeled A, B and C which shows the annual rent, total expenses, net income, capitalization rate, County income estimate, County cost estimate, value used, sale date and sale amount, and he reviewed the figures with the committee.

He said, the Association opposes this legislation on the grounds that it violates sound appraisal practice and will perpetuate rather than eliminate the unfair treatment of commercial real estate, and it uses terms that are not defined and subject to varying interpretation. (**ATTACHMENT 7**)

Jim Irish, Greater KS Chapter Appraisal Institute said this bill is not the way to accomplish what is being sought. He said, at the moment you mandate anything to do with the definition of market value or fair market value, you do not have that, you have investment value.

He said, they are opposed to the bill and will gladly work with the committee and the legislature to help deal with the situation that is in front of the committee and the taxpayers of KS. (**NO WRITTEN TESTIMONY**)

Chairman Dan Thiessen concluded the hearing on **SB645** and adjourned the meeting at 12:02 p.m.

GUEST LIST

COMMITTEE: ASSESSMENT & TAXATION

DATE: WED - 2-26-92

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
WILLIAM MURPHY	67 S. MISSION WICHITA	HEART ASSOC.
MARK A. BURGHART	TOPEKA	REVENUE
Steve Stotts	"	"
Tom Harrington, RRT	905 SW Oakley Topeka	Am Lung Assoc. of KS
M. Hawver	Topeka	Area-Jones
Grace Gray KAGC Inc Kans Host Society	3601 Stratford Rd	KAGC
Chris Steineger	KC.KS.	KC.KS.
Don Schuack	Topeka	ILIOGA
Steven Brunken	Topeka	Revenue
Bob Corkins	"	KCCI
ALAN COBBS	Wichita	Wolfe Hospitals
BEU BRADLEY	TOPEKA	KS Assoc of Counties
JANET STUBBS	Topeka	NBA of KANSAS
FRANCES Kastner	Topeka	KS Food Dealers Assn
KAREN FRANCE	TOPEKA	KAR
George Leminger	Lawrence	—
Salen Kelly	Lawrence	—
Bill Maita	Lawrence	—
Tom Irish	Topeka	Greater Kansas Chapter APPRAISAL INSTITUTE
Tommy Clark	Kansas City	Y. County Appraisers
Bill Waters	Topeka	PVD KDOR
Bill Holloway	Lawrence	Uncommitted + non-obligated visitor
Glenn Cogswell	Topeka	American Cancer Society Kansas Division Inc
Betty Dierkes	Topeka	American Cancer Soc
Jack M. Birch	Topeka	Observer

TESTIMONY SUPPORTING SENATE BILL 640, AN ACT EXEMPTING CERTAIN
NOT-FOR-PROFIT HEALTH AGENCIES

THE EXEMPTION HISTORY OF NOT-FOR-PROFIT HEALTH ORGANIZATIONS IN KANSAS IS CURIOUS. WE LOST A LONGSTANDING EXEMPTION FROM SALES TAX SEVERAL YEARS AGO; AND, AFTER MUCH NEGOTIATION, STARTED TO RECENTLY PAY. WE ARE NOT ASKING FOR SOMETHING NEW; WE ARE NOT ASKING FOR A PRIVILEGE WE DID NOT PREVIOUSLY ENJOY, BUT RATHER WE ASK FOR A RETURN TO THE EXEMPT STATUS WHICH WAS HERETOFORE NOT PROTECTED BY LAW. SENATE BILL 640 ARTICULATES AND CODIFIES A HISTORICAL PRECEDENT WHICH WAS DEEMED APPROPRIATE, NECESSARY, SATISFACTORY AND SUFFICIENT FOR THE FIRST 75 YEARS OF THIS CENTURY. IT PERPETUATES A LONGSTANDING KANSAS TRADITION OF HELPING EACH OTHER. IT IS WORTHY OF YOUR CONSIDERATION AND YOUR AFFIRMATIVE VOTE.

THE NOT-FOR-PROFIT - 501 (C) (3) VOLUNTARY HEALTH CARE ORGANIZATIONS OF KANSAS NOW PAY SALES TAX. THE AMERICAN CANCER SOCIETY - \$20,000; THE AMERICAN HEART ASSOCIATION - \$20,000; THE ARTHRITIS FOUNDATION - \$4,580; MARCH OF DIMES - \$4,350; THE ALZHEIMER'S ASSOCIATION - \$53.00; THE AMERICAN LUNG ASSOCIATION - \$1,200; THE ALLIANCE FOR THE MENTALLY RETARDED - \$298; THE ASSOCIATION OF RETARDED CITIZENS - \$200. IN ADDITION, THERE ARE THE FOLLOWING ORGANIZATIONS ACCOUNTING FOR AN ADDITIONAL \$20,000 IN SALES TAX: THE AMERICAN DIABETES ASSOCIATION, EASTER SEALS SOCIETY, EPILEPSY OF KANSAS, INC., HUNTINGTON'S DISEASE SOCIETY, LEUKEMIA SOCIETY OF AMERICA, THE MUSCULAR DYSTROPHY ASSOCIATION, THE NATIONAL KIDNEY FOUNDATION, URIEL E. OWENS SICKEL CELL FOUNDATION, MULTIPLE SCLEROSIS SOCIETY, UNITED CEREBRAL PALSY ASSOCIATION, AMYOTROPHIC LATERAL SCLEROSIS ASSOCIATION, AND THE JUVENILE DIABETES ASSOCIATION.

*AMERICAN HEART ASSN.
PRESENTED BY DR. WM. MURPHY
SENATE ASSES: & FAX
2-26-92 ATT. 1-1*

THESE SALES TAX MONIES COULD BE SPENT BY THE HEART ASSOCIATION, FOR EXAMPLE, ENTIRELY FUNDING NEW GRANT AND ALSO RESEARCH AT A KANSAS UNIVERSITY, OR PLACING SCHOOL SITE KITS IN HUNDREDS OF PRIMARY AND SECONDARY SCHOOLS FOR TEACHERS TO ADVANCE HEALTH EDUCATION OF CHILDREN IN KANSAS.

CONSIDER THE FOLLOWING COST BREAKDOWNS FOR CARDIOVASCULAR DISEASE IN KANSAS; IN THE TEN YEAR PERIOD FROM 1978 TO 1988, CORONARY DISEASE DECLINED NEARLY 30% AND STROKE DECLINED 33%. THESE ARE SIGNIFICANT ADVANCES; OUR WORK IS PAYING OFF. CARDIOVASCULAR DISEASE ALONE COSTS KANSAS \$800 MILLION PER YEAR IN MEDICAL CARE AND LOST PRODUCTIVITY. IF IT WERE NOT FOR THE 30% DECLINE, WE WOULD NEED TO PAY AN ADDITIONAL \$265 MILLION. THIS \$265 MILLION SAVINGS IS TAKEN FOR GRANTED AND CONSIDERED AN OFF-THE-BOOK OR UNACCOUNTED-FOR BENEFIT. THE NOT-FOR-PROFIT HEALTH CARE ORGANIZATIONS OF KANSAS ARE REMINDING YOU HOW WE FUEL THE PROGRESS AND EDUCATION WHICH RESULTS IN THESE SAVINGS. A SALES TAX IS NOT HELPFUL.

THE TRAGEDY OF MY DEALING WITH THIS AUGUST LEGISLATIVE BODY IS THE RISK OF AROUSING PARTISAN FEELINGS WHERE NONE WERE INTENDED. I DO NOT QUALIFY MY SERVICES BECAUSE OF POLITICAL BELIEF. CANCER, DIABETES AND HEART DISEASE STRIKE ALL FACTIONS AND PERSUASIONS. A U.S. SENATOR FROM KANSAS IS RECOVERING FROM CANCER. TEN PERCENT OF YOUR OWN HOUSE AND SENATE COMPATRIOTS ARE TREATED BY CARDIOLOGISTS. YOUR GOVERNOR AND LIEUTENANT GOVERNOR EACH HAVE HAD CORONARY BYPASS SURGERY (PARENTHETICALLY, THE COST OF EACH OF THEIR OPERATIONS IS MORE THAN THE SALES TAX COLLECTED BY THE STATE FROM THE HEART ASSOCIATION.) REPUBLICANS AND DEMOCRATS BOTH SHOULD VOTE IN OVERWHELMING MAJORITY TO SHOW THAT THESE ARE ISSUES ABOVE PARTISAN PLOYS AND ELIGIBLE FOR A SUMMARY CONCLUSION.

WRCM/ss



KANSAS DIVISION, INC.

THERE'S NOTHING MIGHTIER THAN THE SWORD

TESTIMONY OF BETTY DICUS, TOPEKA
VOLUNTEER TREASURER OF THE AMERICAN
CANCER SOCIETY, KANSAS DIVISION, INC.

SENATE ASSESSMENT & TAXATION COMMITTEE
FEBRUARY 26, 1992

SENATE BILL 640

Mr. Chairman and Members of the Committee:

My name is Betty Dicus and I appear on behalf of the American Cancer Society, Kansas Division, Inc. We thank you for the opportunity to appear before you in support of Senate Bill 640.

The American Cancer Society is a non-profit organization, incorporated in the state of Kansas in 1946. Our mission is to eliminate cancer as a major health problem by preventing cancer, saving lives from cancer, and diminishing suffering from cancer through research, education and service.

The American Cancer Society is funded solely by public contributions; we receive no government monies. Due to the generosity of Kansas residents and the hard work of over 29,000 volunteers across the state, we are able to provide cancer programs and services at no cost to those requesting them. During the 1991 fiscal year, the American Cancer Society in Kansas reached

nearly half a million individuals with a cancer education message, over 13,000 medical professionals with information regarding the latest detection and treatment methods, and 9,000 plus cancer patients with service and rehabilitation programs. Herein lies the value of our organization, in that we are able to relieve some of the stress on already burdened government health and social services.

The present law provides a sales tax exemption for educational materials purchased for distribution to the public at no charge and at this time, has limited application. It applies primarily to educational materials addressing the early detection, treatment, and cure of cancer, which are purchased by the Kansas Division of the American Cancer Society from our National Headquarters. These purchases account for approximately one-half of the tangible personal property purchased by the American Cancer Society in Kansas. Items we purchase which are currently not sales tax exempt include screening clinic supplies, cancer dressings, and paper supplies. By granting the exemption outlined in Senate Bill 640, the American Cancer Society would save an additional \$5,500 per year. While this amount may seem insignificant to the state, it would allow us to fund one of the following projects:

- * Provide a summer camp experience for 34 children with cancer.
- * Place cancer education kits in 358 elementary schools across the state.
- * Provide transportation assistance to and from treatment for 37 cancer patients.

This amount also seems insignificant in relation to the financial costs of cancer in the United States, which currently exceeds 100 billion dollars annually. The American Cancer Society plays an important role in controlling these costs by providing cancer screening exams, which are traditionally excluded by private and public insurers.

Cancer accounts for 20% of all deaths in the United States. In 1992, it is estimated that 11,000 Kansas residents will be diagnosed with cancer...5,100 will die. With continued emphasis on early detection and prevention programs, we hope to improve those statistics.

On behalf of the American Cancer Society, I urge this Committee to support the passage of Senate Bill 640. Thank you.

AMERICAN  LUNG ASSOCIATION *of Kansas*
The Christmas Seal People®

State Office: 4300 Drury Lane • Topeka, Kansas 66604-2419 • (913) 272-9290

Testimony
Presented To:

Kansas Senate Committee on Assessment & Taxation

February 26, 1992

Presented By:

Tom Harrington, R.R.T.
President Elect - American Lung Association of Kansas

Serving Kansas Since 1908— It's A Matter of Life and Breath® *SENATE
ASSES. & TAX*

Branch Office: 1107 Parklane Office Park • Suite 224 • Wichita, Kansas 67218-3231 *2-26-92*
13830 Santa Fe Trail Drive • Suite 107 • Lenexa, Kansas 66215-3310 *ATT. 3-1*

Chairman Thiessen and members of the Assessment and Taxation Committee, my name is Tom Harrington and I'm a registered respiratory therapist employed by Stormont-Vail Regional Medical Center. I'm also a volunteer and president elect of the American Lung Association of Kansas. In my volunteer capacity I'm here to testify in support of passage of Senate Bill 640 and more specifically the section granting voluntary, non-profit health associations sales tax exemption.

The American Lung Association of Kansas, founded in 1908, is the state's oldest voluntary health association. As such, the association was prominent in the fight against tuberculosis and through cooperation with the state's public health departments we were successful in controlling "the white plague" in the first half of this century. Before tuberculosis was brought under control it was the nation's number one killer.

In more recent years the lung association has concentrated on fighting lung disease through education of the public and lung disease patients and through professional medical education and research. Annually, the American Lung Association of Kansas carries out a full program of work serving these groups and others.

The association's state headquarters has been located at 4300 SW Drury Lane in Topeka for over 20 years and there are also branch offices located in Kansas City and Wichita to serve those metropolitan areas. I am giving you this historical background to establish the fact the lung association has a long tradition of serving Kansans.

Since 1972 when the Kansas legislature repealed the sales tax exemption granted to non-profit voluntary health associations, the American Lung Association of Kansas has paid its sales tax on a quarterly basis in compliance with existing statutes.

It has been a constant irritation to our many volunteers and staff that the lung association is made to pay state sales tax without consideration of the enormous contribution that we and other non-profit voluntary health associations make to the people of Kansas.

Recently, the American Lung Association of Kansas granted approximately \$1500 in funds for the state's new epidemiologist to attend a specialized training course on tuberculosis at the National Jewish Hospital. This expense equals approximately 20% of the association's sales tax payments for the fiscal year. This is just one example of how non-profit voluntary health associations return direct benefits to the state. If the sales tax exemption were in effect even more services could be provided.

Additionally, the lung association like other non-profit health associations is supporting research at regents institutions into the causes, cures and prevention of disease. Non-profit health organizations in Kansas literally provide hundreds of thousands of dollars in public education and patient services the cost of which would otherwise have to be absorbed by state and local governments.

It is obvious that other states recognize the value of such services since Kansas is one of only eleven states requiring non-profit health associations to pay state sales tax. From our perspective the State Department of Revenue must surely have better uses for its limited number of field investigators and administrative staff than monitoring and collecting a miniscule amount of tax from us.

If state government wants to be truly effective then apply pressure to the Internal Revenue Service to examine the ease at which groups can obtain 501(c)(3) status. Tightening standards for such status would cut down on the proliferation of so many non-profits seeking tax relief.

In conclusion, I respectfully ask the Senate Assessment and Taxation Committee to support legislation giving non-profit health associations' a sales tax exemption based on the merits of the tremendous amount of services that we provide to the state's residents. Sales tax on non-profit voluntary health organizations is clearly counter-productive.

February 25, 1992

To: Senate Assessment and Taxation Committee
Re: Senate Bill # 640

Testimony of Mary M. Fiolkoski RN, CDE
Government Relations Chairperson
American Diabetes Association-Kansas Affiliate

On behalf of the Kansas Affiliate of the American Diabetes Association and the many thousands of Kansans who benefit from the many services that the ADA provides, I sincerely encourage the exemption of state sales tax on voluntary health-related agencies.

High Cost of Health Care Affects Every Citizen.

Agencies such as the American Diabetes Association and its many volunteers provide health education and services that no other provides.

Even a \$5000 per year saving is VERY IMPORTANT to us.

This amount would provide payment for our 800 telephone number that serves all Kansans outside Wichita. This is a tremendous benefit for all of us who need direction or who have questions or concerns regarding diabetes.

Postage that sends materials, newsletters, and supplies amounts to about \$5,200.00 per year. These thousands of dollars are huge to all of us volunteers who work many, many hours to raise the funds to keep our organization viable.

Camp Discovery is imperative in helping children learn how to manage diabetes in a positive way. We could double our efforts and serve more campers if the exemption of sales tax is passed.

These are just a few of the ways the American Diabetes Association could help our diabetes population.

When there are so many who can ill-afford health care, we need to ENCOURAGE and PRESERVE non-profit agencies who can provide that special attention we all appreciate.

Thank you for your kind consideration.

Sincerely,



Mary M. Fiolkoski RN, CDE

VOLUNTEER

SENATE ASSES. & TAX

2-26-92

ATT 4

KANSAS SENATE

PAUL BUD BURKE

SENATE PRESIDENT

P.O. BOX 6867
LEAWOOD, KANSAS 66206



OFFICE OF THE PRESIDENT

STATE CAPITOL
TOPEKA, KANSAS 66612-1565
913-296-2419

CHAIRMAN:
LEGISLATIVE COORDINATING COUNCIL
CHAIRMAN:
ORGANIZATION, CALENDAR AND RULES
MEMBER:
INTERSTATE COOPERATION
LOCAL GOVERNMENT
PUBLIC HEALTH & WELFARE
STATE FINANCE COUNCIL

Testimony Before the Senate Assessment and Taxation Committee In support of Senate Bill 645: Income Approach to Valuation of Commercial Property

The fairness of the property tax depends on how well it is administered. Much of the criticism of property taxes reflect poor or inaccurate property assessment practices.

The income approach to value provides an estimate of market value based on the income producing ability of a piece of property. This approach is based on the fundamental assumption that the market value of a property is directly related to the amount, duration, and certainty of income associated with the property. The income approach should be regarded as the primary approach to the valuation of income-producing properties. This is the purpose of SB 645.

One of the strengths of the income approach to appraisal of commercial properties is its flexibility in the appraisal of unique, difficult-to-assess properties. In areas with erratic urban commercial real estate markets such as in Johnson County and Wichita, the income approach can focus more accurately than a sales comparison approach. In rural areas of Kansas, comparable properties are often lacking -- for use in a sales approach appraisal. Likewise the cost approach is inappropriate in many rural areas of Kansas because there is little market demand and there may not be available tenants if the current occupant leaves the property. Without a rent paying occupant, a rural commercial property may have a market value of a fraction of the cost value of the property.

SENATE ASSES & TAX
2-26-92
ATT. 5-1

Burke Testimony Continued

Overview of Method:

Income capitalization is the process of converting income figures into an estimate of value. According to Improving Real Property Assessment. A Reference Manual, published by the International Association of Assessing Officers, many assessment jurisdictions have adopted the practice of mailing income and expense questionnaires prior to a reappraisal. SB 645 operates likewise by having the appraiser request such information. A commercial property owner would have the option of supplying net income information which would be used by the appraiser to develop a value. SB 645 is also intended to allow commercial property owners the option of not supplying the appraiser information with the expectation that in such case, the appraiser may use other generally accepted appraisal methods.

LEGISLATIVE TESTIMONY

Kansas Chamber of Commerce and Industry

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



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

SB 645

February 26, 1992

KANSAS CHAMBER OF COMMERCE AND INDUSTRY
Testimony Before the
Senate Committee on Assessment and Taxation
by
Bob Corkins
Director of Taxation

Mr. Chairman and members of the Committee:

Thank you for the opportunity to address you today on the subject of SB 645. My name is Bob Corkins, director of taxation for the Kansas Chamber of Commerce and Industry. KCCI supports this proposal regarding the "income approach" to property valuation with the inclusion of amendments I explain below.

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

KCCI is comprised of more than 3,000 businesses which includes 200 local and regional chambers of commerce and trade organizations which represent over 161,000 business men and women. The organization represents both large and small employers in Kansas, with 55% of KCCI's members having less than 25 employees, and 86% having less than 100 employees. KCCI receives no government funding.

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

SENATE ASSES. & TAX
2-26-92
ATT. 6-1

The concept of this approach first received a good deal of publicity over two years ago during the December 1989 Special Legislative Session. SCR 1605 (1989) was adopted at that time, directing the Property Valuation Division to place more emphasis on this method and educate county appraisers accordingly. KCCI supported that measure, but recognized its limitations.

Since then, KCCI has adopted policies which support legislation designed to better guarantee accurate fair market value appraisals. We believe that SB 645 would be a meaningful step in that direction, but should be amended to account for a couple of business concerns.

Taxpayers should have greater leverage in insisting upon this approach when it leads to fairer appraisals. However, KCCI acknowledges that the income approach will not always lead to true fair market value. Consequently, KCCI makes the following recommendations for amending SB 645:

1. The income approach to valuation should be "mandated," i.e. it becomes the dominant and preferred method of first resort, *only when that method is requested by a given taxpayer* (retain the exceptions for cases in which the taxpayer does not supply the necessary income information or when "substantial and compelling" reasons justify a different method).
2. County appraisers should supply easily understandable "worksheets" to commercial taxpayers for their use in determining what their property valuation would be under the income approach.

Our purpose with these amendments is twofold. First we do not want to have businesses "locked in" to the income approach before they have some idea what the valuation result would be. Second, we would like to better protect the confidentiality of income information supplied prior to the taxpayer's commitment to that approach.

KCCI believes these amendments would not contradict the intentions of the sponsors of SB 645. They simply would provide another safeguard and better educate taxpayers regarding their options.

We hope that this committee will endorse our suggestions and recommend the amended proposal favorably for passage. Thank you for your consideration of these views.

EXECUTIVE COMMITTEE
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Kansas City, Kansas 66112
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SAM SCHMIDT
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Norton County Courthouse
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913-877-2844

GARY COLEMAN
(Southwest Region)
Hamilton County Courthouse
Syracuse, Kansas 67878
316-384-5451

KANSAS COUNTY APPRAISERS ASSOCIATION

**P.O. Box 1714
Topeka, Kansas 66601**

To: Senate Assessment and Taxation Committee

From: Larry Clark, President KCAA

Date: February 26, 1992

Mr. Chairman and members of the committee thank you for the opportunity to appear in opposition to Senate Bill 645. My name is Larry Clark and I am here representing the Kansas County Appraisers Association as their president.

The Association opposes this legislation on the grounds that it violates sound appraisal practice and will perpetuate rather than eliminate the unfair treatment of commercial real estate. In addition, it uses terms that are not defined and subject to varying interpretation.

Responsible appraisers who are guided by the Standards of Professional Appraisal Practice will have to either ignore this legislation or risk violating those standards. Standard 6, as I testified on Senate Bill 566, specifically requires appraisers to consider all market information and to apply it as sound appraisal principles dictate. This legislation places primary emphasis on the income approach.

Allow me to illustrate by example the dangers

SENATE ASSES & TAX
2-26-92
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in this legislation. Listed below are three properties. The information is taken from actual files in Wyandotte County and could be replicated many times over, statewide. What is shown is the actual income and expense information provided to my staff, the resulting net operating income and the capitalized net income, or the income estimate.

As you can see the range of values per square foot is from \$2.92 to \$42.82. All three properties are downtown row type, single retail buildings such you can find in every county in the state.

Parcel C is subject to a net net lease where the landlord pays only property taxes. That is not typical and any responsible appraiser would impute both an economic rent rate and market expenses to this property rather than penalize the landlord for negotiating an exceptional rental rate.

On the other hand, if we use actual expenses for parcel A we have to conclude that values have fallen off 78% in three years or the purchaser did not know what he/she was doing, or the actual capitalization rate is 2.4%. Parcel B has either declined in value by 54% or the capitalization rate is closer to 5%.

The truth is that is not enough information given to accurately value these properties using the income approach. The range in value per square foot achieved through the approach dictated by SB 645 would produce an equally large inequality in property taxes to be paid by similar properties. That same degree of inequality can be expected any time actual income and expense figures are used to value individual properties rather than looking to market dictated figures.

Parcel	A	B	C
Bldg SQFT	1,830	7,800	4,896
Annual Rent	\$3,600	\$5,400	\$24,000
Insurance	375	365	-0-
Maintenance	537	300	-0-
Property Taxes	<u>1,805</u>	<u>2,225</u>	<u>937</u>
Total Expense	<u>2,717</u>	<u>2,890</u>	<u>937</u>
Net Income	883	2,510	23,063
Capitalization Rate	11%	11%	11%
Income Estimate	\$8,027	\$22,818	\$209,664
Value/SQFT	\$4.38	\$2.92	\$42.82
County Income Estimate	\$26,500	\$67,700	\$ 55,300
	\$14.48	\$8.68	\$11.29
County Cost Estimate	\$36,500	\$44,840	\$ 39,640
	\$19.95	\$ 5.75	\$ 8.10
Value Used	\$36,500	\$44,840	\$ 39,640
Sale Date	4/89	12/89	
Sale Amount	\$37,500	\$50,000	

Fair market value is a sufficient goal in and of itself for responsible appraisers. Attempts to micro-manage the appraisal process through the imposition of some artificial standard will inevitably result in the inequality the fair market value standard is meant to overcome.