Approved Monday 3-16-92
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 Tuesday, March 3, 1992 in room 519-S of the Capitol.

All members were present except:

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:
Senator David Webb, sponsor of **SB630**
Janet Stubbs, Exec. Dir. Home Builders Association of KS
Tom Savage, Savage, Savage & Brown of Wichita
Dr. Mark Dotzour, Professor-Wichita State University
David Craig, David Craig & Company Inc.-Topeka, KS

Chairman Dan Thiessen called the meeting to order at 11:06 and said the agenda for today is a hearing on **SB630 and SB414** and he recognized Senator David Webb, sponsor of **SB630.**

SB630: Registration tax on motor vehicles.

Senator David Webb said **SB630** enacts a flat fee for vehicles based on value; then declines as vehicle ages. He said it would base the vehicle values on the manufacturers suggested retail price, and the bill classes vehicles into 6 categories, rather than 88 different classes.

He said it would also spread the fees out, rather than paying the majority of fees at the beginning, and after the 14th year fees would remain constant as long as the vehicle is registered. (**ATTACHMENT 1**)

After committee discussion Chairman Thiessen recognized Chris Courtwright to explain some comparison charts by the Department of Revenue.

Chris Courtwright reviewed and explained the charts to the members which included, by counties; Baseline, Vehicle age A-F, Difference in Dollars and Percentages. The 2nd chart shows Manufacturers suggested retail price, Original value of KS car tax, the 1993 valuation for KS car tax and 1993 Taxable value. (**ATTACHMENT 2**)

After committee discussion regarding the manufacturers base retail price, and the impact **SB630** would have after the 1st year through a 10 year period. Chairman Thiessen said having no other conferees on **SB630** he concluded the hearing and turned attention to **SB414** recognizing Janet Stubbs, Executive Director-Home Builders Association.

SB414: Property tax valuation of vacant lots.

The following conferees are proponents of SB414.

Janet Stubbs said **SB414** is based upon the Colorado statute and is an attempt to address the problems being experienced by builders and developers on the appraisal of vacant lots.

She said she would yield to provide technical expertise on the appraisal method, by other conferees. (**ATTACHMENT 3**)

Chairman Dan Thiessen recognized Tom Savage, of Savage, Savage and Brown of Wichita.

Tom Savage, said several of their clients owned vacant subdivision property and the notices of value being received were well in excess of the price that a single lot would sell for. He said he recommended to them, appeal based on the fact that their subdivision property was one large piece of land that just happened to be assessed in several smaller parcels and that the parcels did not become individual properties until a buyer wishing to own a single lot could be found.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION,

room 519-S, Statehouse, at 11:00 a.m./~~p.m.~~ on Tuesday, March 3, 1992

He said the county appraisers's premise, is that subdividing a tract the value is increased 1,000 times, and he said this is not true. He said the developer can realize profit by selling off small pieces of the tract, 1 at a time over a period of time for a cumulative selling price of perhaps 1,000 times what was paid for the original tract.

He said consideration of **SB414** must be in the time value of money (the developer will receive the cumulative selling price of the tract over a period of time, not all at once, and the direct costs of operating the business of selling the lots (1 at a time) over the period that it takes to do so. (**ATTACHMENT 4**)

After committee discussion on sub-dividing the parcel into lots and the value of the lots, and the technique of appraisal, Chairman Thiessen recognized Dr. Mark Dotzour, Wichita State University.

Dr. Dotzour, said he is a Real Estate Professor at Wichita State University. He said he would like to encourage the committee to help change the way vacant lots are assessed for property tax purpose.

He said he has studied the issue for about 2 years and there are real problems the way values are assessed for sub-division lots.

He said current methods used by KS Assessors to determine the value of lots owned by developers in new subdivisions grossly overstate the value of the lots, and he said the appropriate way to estimate the lot values is the discounted cash flow method of estimation, because it specifically measures the value impact of multi-year absorption periods.

He offered solutions on page 2 of his handout, and on page 4 and Illustrative Example of dividing a subdivision into lots. (**ATTACHMENT 5**)

After committee discussion, a committee member asked Dr. Dotzour on page 4 of his handout if the value of 60 lots at $10,000 @, would that be $600,000? Dr. Dotzour said no it would be $373,020 under these assumptions or approximately $6,217. per lot. He said the true value of the owner's land is $373,020 not $600,000. He said these figures are fair market value.

During committee discussion a member asked "how do you arrive at a discount rate and how does an appraiser arrive at a discount rate".

Chairman Thiessen recognized David Craig, David Craig & Company Inc. (Real Estate Appraising & Counseling) Topeka, KS.

David Craig said there is a sub-division analysis booklet, by the Appraisers Institute and this is a recognized method of appraising. He said, he served on the vacant lot sub-committee. He said developers are all phasing their developments, so they probably are not going to have developed lots for sale for more than a 2 year period, ready to go.
He said, in regard to the discount, what Johnson County is getting from the buyer, is what he sold last year and what his cost was. He said they can get a discount rate out of the market above what they should get, because finally they have people buying in bulk lots, so we could analyze that it would take him a year to sell those lots and these are the cost that are going to be entailed and that developer must have used this discount rate in arriving at what he was willing to pay for those lots. He said, so there is a way to get a discount rate out of the market, as opposed to just using some index, and he said the county appraiser did a lot of work to get that. (**NO WRITTEN TESTIMONY**)

Chairman Thiessen asked Jim Irish if he could come back tomorrow because the committee has ran out of time, and Mr. Irish, agreed.

Senator Gerald Karr moved to adopt the minutes dated March 2, 1992 2nd by Senator Audrey Langworthy. The motion carried.

The Chairman adjourned the meeting at 12:06 p.m.

WRITTEN TESTIMONY TURNED IN BY: KS Independent Automobile Dealers Association on **SB630**. (**ATTACHMENT 6**)

STATE OF KANSAS

DAVE WEBB
SENATOR, ELEVENTH DISTRICT
DOUGLAS, FRANKLIN, JOHNSON,
MIAMI, OSAGE COUNTIES

HOME ADDRESS: 18601 NALL
STILWELL, KANSAS 66085
(913) 681-8600
OFFICE: 128-S STATEHOUSE
TOPEKA, KANSAS 66612
(913) 296-7361

TOPEKA

SENATE CHAMBER

COMMITTEE ASSIGNMENTS
VICE-CHAIRMAN: AGRICULTURE
MEMBER: EDUCATION
FEDERAL & STATE AFFAIRS
LOCAL GOVERNMENT
LEGISLATIVE EDUCATIONAL
PLANNING COMMITTEE

SB 630

1. Base vehicle values on the manufacturers suggested retail price.

2. The bill enacts a flat fee for vehicles based on value; then declines as vehicle ages.

3. Classes vehicles into 6 categories, rather than 88 different classes.

4. Spreads the fees out, rather than paying the majority of fees at the beginning.

5. After year 14 fees remain constant as long as the vehicle is registered.

SENATE ASSES. & TAX
3-3-92
ATT. 1

COUNTY	BASELINE	VHCL AGE A-F	Difference	% Change
KANSAS DEPARTMENT OF REVENUE - RESEARCH & REVENUE ANALYSIS				
COUNTY	BASELINE	VHCL AGE A-F	Difference	% Change
ALLEN	$1,650,053	$1,565,220	($84,833)	(5.14%)
ANDERSON	$712,456	$852,270	$139,814	19.62%
ATCHISON	$1,703,960	$1,589,785	($114,175)	(6.70%)
BARBER	$623,677	$741,350	$117,673	18.87%
BOURBON	$1,463,120	$1,410,875	($52,245)	(3.57%)
BROWN	$1,051,361	$1,093,900	$42,539	4.05%
BARTON	$3,555,586	$3,555,415	($171)	0.00%
BUTLER	$5,980,086	$6,037,262	$57,176	0.96%
CLARK	$308,190	$339,887	$31,697	10.28%
CLOUD	$1,362,702	$1,102,800	($259,902)	(19.07%)
COFFEY	$404,536	$1,118,725	$714,189	176.55%
CHEROKEE	$1,661,045	$2,138,865	$477,820	28.77%
COWLEY	$4,138,735	$3,679,245	($459,490)	(11.10%)
COMANCHE	$302,243	$335,805	$33,562	11.10%
CHEYENNE	$350,593	$453,675	$103,082	29.40%
CHAUTAUQUA	$418,129	$487,395	$69,266	16.57%
CRAWFORD	$3,318,677	$3,592,180	$273,503	8.24%
CHASE	$290,528	$338,465	$47,937	16.50%
CLAY	$930,630	$961,500	$30,870	3.32%
DECATUR	$405,140	$471,325	$66,185	16.34%
DOUGLAS	$7,722,728	$8,207,365	$484,637	6.28%
DICKINSON	$1,843,916	$1,998,222	$154,306	8.37%
DONIPHAN	$766,822	$802,750	$35,928	4.69%
EDWARDS	$465,766	$497,995	$32,229	6.92%
ELK	$319,352	$359,390	$40,038	12.54%
ELLIS	$2,532,261	$2,954,635	$422,374	16.68%
ELLSWORTH	$719,242	$734,495	$15,253	2.12%
FINNEY	$2,912,411	$3,434,730	$522,319	17.93%
FORD	$3,038,450	$2,824,012	($214,438)	(7.06%)
FRANKLIN	$2,291,184	$2,303,895	$12,711	0.55%
GEARY	$1,645,800	$1,930,235	$284,435	17.28%
GRAHAM	$428,787	$426,700	($2,087)	(0.49%)
GREELEY	$183,074	$229,775	$46,701	25.51%
GOVE	$354,776	$450,420	$95,644	26.96%
GRANT	$463,438	$1,047,905	$584,467	126.12%
GREENWOOD	$894,616	$841,695	($52,921)	(5.92%)
GRAY	$709,475	$741,240	$31,765	4.48%
HODGEMAN	$332,183	$310,970	($21,213)	(6.39%)
HAMILTON	$267,030	$336,375	$69,345	25.97%
HARPER	$837,275	$867,585	$30,310	3.62%
HASKELL	$289,425	$590,330	$300,905	103.97%
HARVEY	$3,594,336	$3,176,360	($417,976)	(11.63%)
JACKSON	$1,141,151	$1,171,615	$30,464	2.67%
JEFFERSON	$1,707,441	$1,923,970	$216,529	12.68%
JOHNSON	$52,971,600	$58,443,500	$5,471,900	10.33%

SENATE ASSES. & TAX
3-3-92
ATT. 2-1

VEHICLE AGE (A-E) COMPARE

COUNTY	BASELINE	VHCL AGE A-F	Difference	% Change
JEWELL	$482,615	$491,215	$8,600	1.78%
KEARNY	$223,972	$591,205	$367,233	163.96%
KINGMAN	$923,118	$1,072,300	$149,182	16.16%
KIOWA	$386,209	$501,735	$115,526	29.91%
LABETTE	$2,474,012	$2,249,245	($224,767)	(9.09%)
LINCOLN	$415,875	$404,730	($11,145)	(2.68%)
LANE	$357,154	$350,075	($7,079)	(1.98%)
LOGAN	$339,033	$402,705	$63,672	18.78%
LINN	$535,924	$994,970	$459,046	85.66%
LEAVENWORTH	$5,280,232	$5,547,680	$267,448	5.07%
LYON	$3,657,869	$3,273,042	($384,827)	(10.52%)
MITCHELL	$861,780	$866,450	$4,670	0.54%
MEADE	$417,759	$585,250	$167,491	40.09%
MONTGOMERY	$4,174,879	$3,740,420	($434,459)	(10.41%)
MIAMI	$2,768,833	$2,855,395	$86,562	3.13%
MARION	$1,171,593	$1,404,435	$232,842	19.87%
MCPHERSON	$3,033,285	$3,129,120	$95,835	3.16%
MORRIS	$660,720	$729,560	$68,840	10.42%
MARSHALL	$1,330,609	$1,290,467	($40,142)	(3.02%)
MORTON	$310,092	$549,385	$239,293	77.17%
NEMAHA	$1,014,046	$1,235,720	$221,674	21.86%
NEOSHO	$2,219,572	$1,794,620	($424,952)	(19.15%)
NESS	$487,523	$555,375	$67,852	13.92%
NORTON	$623,512	$624,690	$1,178	0.19%
OSBORNE	$531,215	$565,900	$34,685	6.53%
OSAGE	$1,475,686	$1,777,775	$302,089	20.47%
OTTAWA	$651,363	$661,355	$9,992	1.53%
PHILLIPS	$704,202	$724,230	$20,028	2.84%
PAWNEE	$780,395	$871,005	$90,610	11.61%
PRATT	$1,216,122	$1,214,700	($1,422)	(0.12%)
POTTAWATOMIE	$1,087,483	$1,972,800	$885,317	81.41%
RAWLINS	$423,207	$392,680	($30,527)	(7.21%)
RICE	$1,090,551	$1,194,310	$103,759	9.51%
RUSH	$391,215	$453,455	$62,240	15.91%
RILEY	$4,294,150	$4,156,457	($137,693)	(3.21%)
RENO	$7,322,978	$6,634,169	($688,809)	(9.41%)
ROOKS	$686,380	$772,255	$85,875	12.51%
REPUBLIC	$784,846	$772,055	($12,791)	(1.63%)
RUSSELL	$859,695	$1,036,980	$177,285	20.62%
SALINE	$5,514,600	$5,750,167	$235,567	4.27%
SCOTT	$723,065	$755,150	$32,085	4.44%
SHERIDAN	$363,243	$400,840	$37,597	10.35%
STAFFORD	$548,582	$635,680	$87,098	15.88%
SEDGWICK	$46,660,345	$45,935,432	($724,913)	(1.55%)
SHERMAN	$725,844	$805,740	$79,896	11.01%
SMITH	$612,570	$574,370	($38,200)	(6.24%)
SHAWNEE	$21,068,025	$17,750,727	($3,317,298)	(15.75%)
STANTON	$254,128	$404,350	$150,222	59.11%

VEHICLE AGE (A-E) COMPARE

COUNTY	BASELINE	VHCL AGE A-F	Difference	% Change
SUMNER	$2,774,880	$2,624,135	($150,745)	(5.43%)
STEVENS	$236,247	$792,565	$556,318	235.48%
SEWARD	$1,767,486	$2,125,715	$358,229	20.27%
THOMAS	$895,481	$982,320	$86,839	9.70%
TREGO	$375,753	$431,125	$55,372	14.74%
WALLACE	$216,688	$259,240	$42,552	19.64%
WABAUNSEE	$619,657	$762,825	$143,168	23.10%
WICHITA	$347,958	$341,515	($6,443)	(1.85%)
WILSON	$959,645	$1,047,145	$87,500	9.12%
WOODSON	$377,708	$438,565	$60,857	16.11%
WASHINGTON	$679,935	$720,795	$40,860	6.01%
WYANDOTTE	$16,668,306	$13,644,145	($3,024,161)	(18.14%)
TOTAL	$277,903,836	$284,094,569	$6,190,733	2.23%

	Mfg Sugg Retail Price	Orig Val for KS Car Tax	1993 Val for KS Car Tax	1993 Taxable Value	1993 Tax Shawnee County 166.47	1993 Tax Stevens County 39.89	1993 Tax Johnson County 118.31	1993 Tax Coffey County 47.31	1993 Tax Saline County 127.73	1993 Tax HB 2866 ALL COUNTIES	1993 Tax SB 630 ALL COUNTIES
1992 Mercury Grand Marquis Sedan 4D LS	$20,644	$17,000	$14,280	$4,284	$713.16	$170.89	$506.84	$202.68	$547.20	$375	(NO MSRP) $475
1993 (92) Toyota Tercel * Sedan 2D	$6,998	$5,625	$5,625	$1,688	$280.92	$67.31	$199.65	$79.84	$215.54	$300	$300
1989 Ford Ranger Pickup 5-speed Half-Ton	$7,693	$7,500	$3,734	$1,120	$186.48	$44.69	$132.53	$53.00	$143.08	$200	$200
1984 Chevrolet Pickup El Camino	$8,522	$7,500	$1,562	$468	$77.99	$18.69	$55.43	$22.16	$59.84	$75	$50
1993 (92) Lexus LS 400 *	$42,200	$35,000	$35,000	$10,500	$1,747.94	$418.85	$1,242.26	$496.76	$1,341.17	$600	$800
1993 (92) Cadillac El Dorado *	$32,470	$27,000	$27,000	$8,100	$1,348.41	$323.11	$958.31	$383.21	$1,034.61	$500	$800
1993 (92) Olds Regency Elite *	$26,195	$25,000	$25,000	$7,500	$1,248.53	$299.18	$887.33	$354.83	$957.98	$500	$800
1990 Ford Taurus LX 4-Dr Sedan	$16,000	$15,000	$8,891	$2,667	$444.00	$106.39	$315.55	$126.18	$340.68	$325	$425

* Assumes 1993 prices the same as actual 1992.

SENATE ASS TAX 3-3-93 ATT. 2

	Mfg Sugg Retail Price	Orig Val for KS Car Tax	1993 Val for KS Car Tax	1993 Taxable Value	1993 Tax Shawnee County 166.47	1993 Tax Stevens County 39.89	1993 Tax Johnson County 118.31	1993 Tax Coffey County 47.31	1993 Tax Saline County 127.73	1993 Tax HB 2866 ALL COUNTIES	1993 Tax SB 630 ALL COUNTIES
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* Assumes 1993 prices the same as actual 1992.

2-5

HOME BUILDERS ASSOCIATION
OF KANSAS, INC.

Executive Director
JANET J. STUBBS

TESTIMONY
SENATE ASSESSMENT AND TAXATION

SB 414
March 3, 1992

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

My name is Janet Stubbs, Executive Director of the Home Builders Association of Kansas appearing today on SB 414 which was introduced late in the 1991 Session. This bill was based upon the Colorado statute and is an attempt to address the problems being experienced by builders and developers on the appraisal of vacant lots.

I am sure you will remember that we brought this subject before you during the special session of 1989 when it was discovered that appraisers in the larger counties were not appraising property in the manner we believe is established in the appraisal manuals. At this time, a number of developers in Sedgwick County appealed the valuations on their subdivisions to the Board of Tax Appeals. Two days of hearings were held on these cases, 1 day in November 1990 and a second day in March of 1991. To date, a decision has not been issued on these appeals.

In a memorandum dated January 5, 1989, then Director of Property Valuation, Terry Hamblin, issued a 7 page memorandum on the subject of "Director's Reappraisal Update #26. On the final page was a 2 paragraph section entitled "Appraisal of Subdivision Developments" which gave direction to the appraiser's of all 105 counties on the approach to be utilized for appraisal of subdivisions.

Late in 1989, it became apparent to us that these directions were not being followed. I contacted then Director of PVD, John Luttjohann, and expressed our concern and the request that the instructions of his predecessor be enforced. Mr. Luttjohann established a "Vacant Lot Subcommittee" within the already existing Property Valuation Advisory Committee and issued a memorandum on February 16, 1990.

Appearing today to provide technical expertise on the appraisal method recommended in this memorandum is Dr. Mark Dotzour, Wichita State University, Mr. Tom Savage, Savage, Savage and Brown of Wichita and Mr. David Craig, David Craig & Company, Inc.(Real Estate Appraising & Counseling), of Topeka.

The HBAK presented information to the Governor's Task Force on Classification which resulted in "Recommendation: 2" of that report and states:

"Provide uniform guidelines for a discounted method for valuing vacant lots.
a. PVD provide guidelines for discounting values."

We urge your support of SB 414.

MOBILE HOME PARKS

We have received many classification questions about mobile home parks. Real property used for residential purposes, including multi-family real property, should be subclassed as R (residential) and assessed at 12% of market value. Mobile home parks meet this definition and should therefore be considered residential property. Like apartment complexes, however, the income approach may be used for the purpose of valuation.

APPRAISAL OF SUBDIVISION DEVELOPMENTS

We have received several inquiries and requests for clarification of subdivision development appraisal procedures. Although mapping specifications call for the creation of individual parcels when a subdivision plat is filed, the appraisal should actually reflect the aggregate value of the development.

The appraiser must consider the rate at which a project will be completed and the number of vacant lots expected to be sold in the local market each year. This absorption period for typical subdivisions covers several years. To account for the impact of this projection on value, a factor reflecting the discount rate should be estimated by ascertaining the appropriate risk rate in the marketplace. This factor is then applied to the expected net proceeds from lot sales over the completion/absorption period to arrive at the present value of the land. When a newly-platted subdivision has been mapped, an influence factor can be applied to each lot or a unique neighborhood CALP model can be developed to accomplish this adjustment. If, however, the subdivision is in agricultural use, then use value takes precedence for appraisal purposes.

KIOGA

The Kansas Independent Oil & Gas Association, in conjunction with our office, will hold an oil and gas appraisal guide conference in Wichita on January 25th. A similar session was held with great success last year, and this year's conference will likely be of great interest as well. I would encourage anyone interested in oil and gas appraisal to attend. Enclosed to appraisers are complete details on the agenda and registration.

IMPORTANT DATES

Jan 16	Martin Luther King Holiday	
Jan 18-20	KAC County Officers School	Topeka
Jan 23-24	Seminar for Non-Appraisers	Manhattan
Jan 26-27	Hearings & Appeals Process	Independence
Jan 30-31	Hearings & Appeals Process	Topeka
Feb 2-3	Hearings & Appeals Process	Dodge City
Feb 9-10	Hearings & Appeals Process	Hays
Mar 23-24	Hearings & Appeals Process	Topeka
Apr 13-14	Hearings & Appeals Process	Topeka

KANSAS DEPARTMENT OF REVENUE
Division of Property Valuation
Robert B. Docking State Office Building
Topeka, Kansas 66612-1585

MEMORANDUM

TO: All County Appraisers
FROM: John R. Luttjohann, Director
DATE: February 16, 1990
SUBJECT: VALUATION OF SUBDIVISION DEVELOPMENTS

The Vacant Lot Subcommittee of the Property Valuation Advisory Committee has spent the last few months examining the issue of subdivision development valuation. They have reached a consensus that the concept of subdivision analysis is applicable to the mass appraisal of vacant lots found in tract developments.

Although K.S.A. 79-405 requires platted lots in a subdivision to be identified and taxed individually, the appraisal should be based upon the entire tract of land. When the appraisal of the whole tract is complete, the market value shall then be allocated among the developer's individual lots. This requires the county appraiser to distinguish between the gross sellout (aggregate of individual retail prices) and the wholesale value of the development as one unit, which is market value.

This conclusion reconfirms the Division's position with respect to the subdivision valuation issue addressed in the Director's update #26 dated January 5,1989. County appraisers have been directed to use the development approach when comparable sales data (for entire subdivisions) is limited. You are expected to obtain pertinent income and expense data from developers and prepare an estimate of value based on the present worth of the projected stream of net income.

The use of discounted cash flow models have gained wide acceptance in the valuation of this type of investment property over the last few years. The subcommittee strongly recommends the use of a detailed cash flow analysis which itemizes the entire income and expense flow on a year by year basis during the absorption period. In selecting the discount rate, the appraiser shall consider the desirability of the project, the risk involved and the competitive rate of return required to attract capital to the project. This methodology shall be given serious consideration at the formal conference with any developer who has filed a 1989 tax payment under protest. It is our intent that these type of appraisal corrections be made at the local level.

Phone (913) 296-2365

A related issue, brought up by appraisers, concerns the impact of individual subdivision lot sales on the ratio study. These parcels may often sell for two or three times their allocated value when purchased on an individual basis. This is no cause for alarm because the comparison is not appropriate. The subject of the appraisal is a group of lots and the allocated per parcel value is simply an administrative requirement. A sale of one lot from a developer's holding is very similar to a split which takes place from an acreage tract. The only difference is that the appraiser has some prior knowledge of how the "splits" will likely occur in a subdivision from the recorded plat. Although the sale data will be very useful for arriving at individual lot values it will **not** be used in the official state assessment/sales ratio study. To properly flag this sale data in CAMA for exclusion, a source code of 7 should be entered when the transfer is processed.

For additional information on subdivision analysis, see chapters 28 and 32 in the Encyclopedia of Real Estate Appraising or the educational memorandum of American Institute of Real Estate Appraisers entitled Subdivision Analysis. We have also enclosed an example of a discounted cash flow analysis, a worksheet to assist in processing your data and instructions for building CALP models in KSCAMA. If you have any questions or need assistance with this task please call Pete Davis at 913/296-3770.

cc: PVAC Vacant Lot Subcommittee

INSTRUCTIONS FOR PROCESSING SUBDIVISION DEVELOPMENT LOTS IN CAMA

I. PARCEL RECORD CODING

NEIGHBORHOOD NUMBER: Each new subdivision should have a unique number assigned so a individual CALP table can be built.

LAND USE CODE: The code for vacant lots is 100. In order to identify lots held by the developer the land use suffix can be employed. The suffix code S may be used carried in this position until the lot is sold to an individual or builder.

SUBCLASS: Vacant lots should carry the code V in this field.

II. BUILDING CALP TABLES

If lots are currently being sold and improved there may be several stages of land value found in the neighborhood. The CALP tables are typically set up to provide site value estimates based upon square footage, small acreage tracts or frontage and depth models. The appraiser must remember that vacant lots which are held by the developer will require an adjustment under this premise.

For example, the subdivision development has been valued through a discounted cash flow analysis. The allocated estimate of value for each parcel was calculated at $4,800. In this neighborhood, the CALP model has been developed to value an improved site at $15,000. To arrive at the CALP model adjustment divide the allocated lot value by the improved site value. In this example $15,000/$4,800 = .32 or 32%. The influence factor of 032 must be entered on each parcel held by the developer with a descriptive code of 51 (economic and unimproved). As the number of lots held by the developer will typically decrease each year, the analysis will need to be reviewed and a new factor will probably have to be reapplied to the remaining lots.

Since each lot held by the developer will probably require annual CAMA record maintenance, the appraiser may opt to enter the actual unit price of $4,800 on each parcel in this example.

If the subdivision is newly platted and exists on paper only there may not be sufficient market evidence to prepare a CALP model based on site values. The appraiser may build a model based on the $4,800 allocated lot value in CALP for this example and revise it next year.

When the lot sells to an individual or builder it becomes a separate entity. The land use suffix code will no longer apply and any discount influence factor will need to be removed. The sale source code must also be entered as 7 to keep the previous allocated value from being used for comparison in the official state ratio study.

EXAMPLE OF DISCOUNTED CASH FLOW ANALYSIS

100	Number of Lots
5	Years to Sellout
$17,500	Average Lot Price
15.00%	Developer's Yield or Risk Rate
155.00	Mill Levy
10.00%	Marketing Expenses
$750,000	Remaining Infrastructure Costs
20.00%	Developer's Profit
9.00%	Interest Rate on Special Assessments
10	# Years Term of Special Assessment

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6
# Lots Beg of Year	$100	$100	$80	$60	$40	$20
Lot Sales This Year	$0	$20	$20	$20	$20	$20
Specials Beg of Year	$0	$750,000	$675,000	$600,000	$525,000	$450,000
Interest Payment	$0	($67,500)	($60,750)	($54,000)	($47,250)	($40,500)
Principal Payment	$0	($75,000)	($75,000)	($75,000)	($75,000)	($75,000)
Specials End of Year	$750,000	$675,000	$600,000	$525,000	$450,000	$375,000
Gross Sales Income	$0	$350,000	$350,000	$350,000	$350,000	$350,000
Less Mktg Expenses	$0	($35,000)	($35,000)	($35,000)	($35,000)	($35,000)
Less Real Estate Taxes	$7,952	$9,292	$8,952	$7,925	$6,144	$3,532
Less Developer's Profit	$0	($70,000)	($70,000)	($70,000)	($70,000)	($70,000)
Less Special Assmt Pmts	$0	($142,500)	($108,600)	($77,400)	($48,900)	($23,100)
Net Annual Income	($7,952)	$93,208	$127,448	$159,675	$189,956	$218,368
Tax Year	1989	1990	1991	1992	1993	1994
Value Each Year	$427,506	$499,584	$481,314	$426,063	$330,297	$189,885
Allocated Value/Lot	$4,275	$4,996	$6,016	$7,101	$8,257	$9,494
Number of Remaining Lots	100	80	60	40	20	0

SUBDIVISION DEVELOPMENT WORKSHEET

NAME OF DEVELOPMENT: ______________________________
DEVELOPMENT COMPANY: ______________________________
CONTACT PERSON: ______________________________
PHONE NUMBER: ______________________________
Name of Phase or Addn. Within Development: ______________
Number of Lots in Phase or Add.: ____________________
Total Number of Lots: ________ Improved: ________ Unimproved: ________

(PROJECTED)

	Yr 0	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10
(unimproved)											
Annual lot sales											
Balance of Lots											
(improved)											
Annual Lot Sales											
Balance of Lots											
REVENUES:											
(ACTUAL)											
Number of Lots Sold											
Price of Lots Sold											
(INHOUSE)											
Number of Lots Sold											
Price of Lots Sold											
Gross Sales Income											
(___%) Sales Commission											
Net Sales Income											

EXPENSES:											
Engineering & Survey Fees											
Permits & Environmental Impact Reports											
Site Preparation & Grading											
Common Area Costs											
Other Direct Development Costs											
Special Assessments											
Management, Supervision & Overhead											
Office & Clerical											
Advertising & Promotion											
Liability Insurance											
Accounting & Legal Services											
Letter of Credit Fee											
Real Estate Taxes											
Electric & Gas Deposits (Refunds)											
Other Indirect Costs (__________)											
Total Development Costs											
Net Operating Income											
Present Value Factor											
Annual Present Value											

Present Value __________________________ **for the tax year**

Issue:
Senate Bill 414
Valuation of Vacant Subdivision Lots for General Tax Purposes

THE PROBLEM

Current methods used by Kansas Assessors to determine the value of lots owned by developers in new subdivisions grossly overstate the value of the lots in them. <u>These current methods do not account for a very real fact that significantly influences the value of the lots in a subdivision: ABSORPTION</u>. Absorption is the annual rate of sales of lots in a subdivision. This rate is determined by the current supply and demand conditions in the local market.

> For example, suppose that you have a subdivision of ten lots that will sell for $10,000 each. If you ignore the local supply and demand conditions and assume that all ten lots will sell in one year, the value of the lots is $100,000 ($10,000 per lot).
>
> Suppose however that market conditions only produce the sale of two lots per year at the $10,000 price (annual absorption rate of two lots). It will take five years to sell out the subdivision at the price of $10,000 per lot. The value of these lots is clearly less than $100,000.
>
> How would a developer sell all ten lots in one year in these market conditions? They would have to begin to discount the price to attract other customers to purchase lots in the subdivision. Under these market conditions, the value of the lots in this subdivision is substantially less than $100,000. Assessing these lots at $10,000 each would grossly overstate their value.

The appropriate way to estimate these lot values is the discounted cash flow method of estimation, because it specifically measures the value impact of multi-year absorption periods. **WHEN ASSESSORS DO NOT USE THE DISCOUNTED CASH FLOW METHOD TO ESTIMATE THE VALUE OF LOTS IN RESIDENTIAL SUBDIVISIONS, THEY IGNORE THE REAL MARKET IN WHICH THESE LOTS MUST SELL.**

SENATE ASSES.& TAX
3-3-92
ATT. 4-1

THE SOLUTION

The correct way to estimate the value of lots in a residential subdivision, when the number of lots exceeds the annual rate of absorption in the local market, is the discounted cash flow method.

> Note: The discounted cash flow method is already being used appropriately and successfully in the valuation of oil and gas properties for tax purposes in Kansas.

Using the oil and gas method as a model, the discounted cash flow method should be used in the following manner to estimate the value of lots in a subdivision.

STEP 1: Estimate the current sales price of lots in the subdivision.

STEP 2: Estimate the number of lots sold in the area per year.

STEP 3: With the above information, estimate the gross annual sales income generated from the subdivision.

STEP 4: Estimate the annual operating expenses (holding costs) incurred by the developer during the sellout period.

STEP 5: With the above information, estimate the annual net operating income generated by lot sales.

STEP 6: Discount the annual net operating income earned each year of the sellout period at an interest rate similar to that used in oil and gas assessment, to determine the total value of the subdivision.

STEP 7: Divide the total value of the subdivision by the number of lots in the subdivision to arrive at the market value of each individual lot.

CONCLUSION

The discounted cash flow method of estimating the value of lots in new subdivisions is essential for fair assessments. Any other method that fails to recognize supply and demand conditions of the local market cannot be accurate.

This method can be used by assessment officials, because the necessary data is available and can be supplied by the developer. The discounted cash flow method has been used successfully for years in the assessment of oil and gas properties, and it should be used in the assessment of lots in development subdivisions as well.

Respectfully submitted,

Dr. Mark G. Dotzour
Associate Professor and Barton Faculty Fellow
Department of Finance and Real Estate
Wichita State University

An Illustrative Example

1. Suppose you have a subdivision with 60 lots.
2. These lots sell for $10,000 each.
3. The annual rate of absorption is 20 lots.
4. Developer's sales/operating expenses are 25% of total revenue.
5. The discount rate is 10%.

	YEAR1	YEAR2	YEAR3
Lot Price	10,000	10,000	10,000
Lot Sales	20	20	20
Sales Revenue	$200,000	$200,000	$200,000
Operating Expense	50,000	50,000	50,000
Net Income	$150,000	$150,000	$150,000
DCF FACTOR	.9091	.8264	.7513
Present Value	$136,365	$123,960	$112,695

CONCLUSION 1:
The present value of the subdivision is: $136,365
123,960
112,695
TOTAL $373,020

CONCLUSION 2:
The value of an individual lot is : $373,020 / 60 = $6,217

Tom W. Savage-March 3, 1992

Sabre Appraisal Co. was retained by Sedgwick County to conduct the informal hearings during the first few months after the reappraisal notices were issued.

Several of my clients owned vacant subdivision property and the notices of value being received were well in excess of the price that a single lot would sell for. They asked for my advice and I recommended appeal based on the fact that their subdivision property was one large piece of land that just happened to be assessed in several smaller parcels and that the parcels did not become individual properties until a buyer wishing to own a single lot could be found.

The County Appraiser's premise is that by subdividing a tract the value is increased 1,000 times. In reality this is just not true. What is true is that a developer can realize profit by selling off small pieces (lots) of the tract, one at a time, over a period of time for a cumulative selling price of perhaps 1,000 times what was paid for the original tract.

For instance, a tract of land capable of subdividing into 100 lots sells for $100,000 to a developer who applies for and is granted platting and subdivision into the 100 parcels. The lots go on sale for $10,000 each and sell at the rate of 10 per year. According to Mrs. Ismert each lot is worth $10,000 so that after the first year when the developer has 90 lots remaining his property is valued at $900,000.

This is just simply not so. The developer will receive a total of $900,000 in gross revenue over the next 9 years at the rate of $100,000 per year. He will have expenses related to the selling of and maintenance of the property during this time. The amount of the expenses, including tax, and the time to sellout will dictate the cumulative value of the remaining lots. It must be understood that the 90 remaining lots are still one large property that will become smaller as parts are sold off.

What must be considered in appraising this property is the time value of money (the developer will receive the cumulative selling price of the tract over period of time, not all at once), the direct costs of operating the business of selling the lots (one at a time) over the period that it takes to do so.

SENATE ASSES. & TAX
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Mrs. Ismert has a false impression that by treating developers fairly she is giving them a break or showing partiality. By appraising a taxpayer's property using sound appraisal technique you are not giving him/her a break.

By appraising property at it's market value you are not creating an inequity. Instead you are practicing uniformity in taxation. To allude that an individual 50 X 75 lot has the same value as a tract made up of 100 commonly owned 50 x 75 lots is a deviation from sound appraisal practice that has been in place for decades.

It is not uncommon for a property to be made up of numerous parcels and for that property to be appraised as a unit.

In the case of the Danish Village Apartment there are 9 separate parcels. The property was appraised by the Sedgwick County Appraiser on an income basis and the value allocated to the various parcels. (PIN 087 119 29 0 33 04 001.00 etal)

In the case of Kensington Estates Condominiums the property is assessed on 42 commonly owned parcels. The property was appraised by the County as a unit and the value allocated back to the parcels. (087 233 07 0 14 02 001.01 etal)

As stated earlier, this practice is not uncommon. It is in fact quite common with commercial property and the County Appraiser is not concerned with justifying the allocated value to an individual parcel as long as the unit is properly appraised.

An office building at 730 N. Main is assessed on 10 parcels. The property is appraised as a unit by Sedgwick County and the value allocated to the parcels. (PIN 087 124 17 0 44 02 001.00 A etal)

The State PVD appraises all utilities on a unit approach and then allocates the total value back the separate taxing districts that the property is located in. It would be ludicrous to imagine appraising this property separately.

The premise that there is more than one market value appraisal is at the heart of the savings & loan and the banking industries problems. The assumption that appraisals could be increased or lowered depending on the application caused many properties to be over-financed and subsequently repossessed. This practice, while common in the 1970's, was and still is unethical. The professional appraisal community would not recognize an appraiser that would profess to apply different judgment based on the application of the appraisal and under the bailout legislation for the thrift industry penalties are imposed for those appraisers who would practice such unethical behavior.

The state of Kansas requires the application of sound appraisal practice and judgment from the County Appraiser's offices. No deviation should be allowed.

KANSAS INDEPENDENT AUTOMOBILE DEALERS ASSOCIATION

Citizens Bank & Trust Building • 6th & Humboldt • Manhattan, Kansas 66502
Phone: 913-776-0044 FAX: 913-776-7085

March 3, 1992

TO: SENATE COMMITTEE ON ASSESSMENT AND TAXATION

SUBJECT: SB ~~360~~ 630 -- REGISTRATION TAX ON MOTOR VEHICLES

FROM: KANSAS INDEPENDENT AUTOMOBILE DEALERS ASSOCIATION

Mr. Chairman and Members of the Committee:

We are submitting testimony representing over 200 used car dealers in the State of Kansas.

We have applauded the efforts of the Committee to look at several possible ways to lower the property tax on vehicles. One result of the high taxes has been a withdrawal of potential buyers from the automobile marketplace.

However, we are hesitant to support SB 630 because we do not believe that it gives enough of the much needed help to the overburdened taxpayers as well as to the bad economy of the car dealers.

We do appreciate your continued interest in lowering the property tax on vehicles.

Thank you for your consideration.

SENATE ASSES. & TAX

3-3-92

ATT. 6