

Approved: February 18, 1997
Date

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION.

The meeting was called to order by Chairperson Audrey Langworthy at 11:00 a.m. on February 14, 1997, in Room 519--S of the Capitol.

Members present: Senator Langworthy, Senator Corbin, Senator Lee,
Senator Bond, Senator Goodwin, Senator Hardenburger,
Senator Harris, Senator Karr, Senator Praeger, and Senator Steineger.

Committee staff present: Tom Severn, Legislative Research Department
Chris Courtwright, Legislative Research Department
Don Hayward, Revisor of Statutes
Shirley Higgins, Secretary to the Committee

Conferees appearing before the committee: Senator Dave Kerr
Jim Siemens, Reno County Appraiser
Rod Broberg, Saline County Appraiser
Mark Beck, Director Property Valuation Division

Others attending: See attached list

The minutes of the February 12, 1997, meeting were approved.

SB 224--Relating to property taxation; providing for biennial utilization of valuations.

Senator Dave Kerr, author of **SB 224**, testified in support. The intent of the bill is to ease property owners' constant state of upset and uncertainty about yearly appraisals for property tax purposes. Valuations would change every two years instead of annually. Senator Kerr itemized possible benefits from this change. He stressed that possible disadvantages in the bill are technical and could be resolved. He believes that slowing the revaluation cycle would benefit taxpayers and appraisers. (Attachment 1)

Committee discussion and questions followed regarding the application of uniform and equal treatment if appraisals are delayed for two years. Questions were also posed regarding treatment of new construction occurring within the two year period. Senator Langworthy had questions regarding the effect of the bill on the appeals process. Senator Kerr felt a two year cycle would result in better accuracy which would lead to fewer appeals.

Senator Langworthy called the committee's attention to a suggestion made by Senator Karr to strike Section (b) (2) because of the inequity of the uniformity and also to strike subsection (c) so that the entire process would not continue each year.

Jim Siemens, Reno County Appraiser, testified in support of **SB 224** because it would reduce the work load and deadlines currently placed on the appraiser's office and would allow them time to correct problem areas. Mr. Siemens reasoned, by valuing property every other year, the taxpayer would not be reminded of the property tax so much, therefore, would be angered less. (Attachment 2)

Rod Broberg, Saline County Appraiser, testified in opposition to **SB 224**. He had the same concerns which had already been expressed. Mr. Broberg urged the committee not to pass **SB 224** in its current form which would not alleviate any of the hearing process and would not alleviate any of the work in the county appraiser's office. He preferred that the phases be spread out over a two year period rather than a one year period. With regard to the new construction dilemma, he felt it would be possible to establish a valuation model for the properties in the first year of the biennium. If a property physically changed later, that would trigger the county appraiser to go out and change the physical data and produce a value for the second year of the biennium as it would have been had that property existed in the first year. Senator Lee questioned the constitutionality of this approach.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION, Room 519-S
Statehouse, at 11:00 a.m. on February 14, 1997.

Mark Beck, Director of the Property Valuation Division (PVD) gave an explanation of the provisions in the bill and discussed PVD's concerns with the bill as it is currently drafted. (Attachment 3) Mr. Beck requested to be included in future discussions of the bill to insure that it can be administered by PVD.

Senator Langworthy asked what affect the bill would have on counties which are not in statistical compliance. Mr. Beck suggested that language be added to the bill reinforcing the fact that trending of sales must occur. With good trending information, which can be obtained, the chances are that the statistical compliance issues will not become a great problem. Absent that, he believed there might be serious problems. However, Mr. Beck felt much more discussion in detail would be necessary to answer questions as to what needs to be done.

Senator Langworthy felt an important point was that freezing values for two years does not mean that taxes are not going to go up as taxes are not driven by mill levies; they are driven by spending.

Senator Langworthy called attention to the report of the Task Force on Uniformity and Equality of Property Tax Appraisals published in the Senate Journal of January 14, 1997. (Attachment 4) She suggested that the committee read the conclusions carefully as it addresses issues surrounding **SB 224**. With this, the hearing on **SB 224** was closed.

The meeting was adjourned at 12:01 p.m.

The next meeting is scheduled for February 17, 1997.

SENATE ASSESSMENT & TAXATION COMMITTEE
GUEST LIST

DATE: February 14, 1997

NAME	REPRESENTING
Lana Johnson	KODR-PVD
Lin Siemens	Reno County Appraiser
Rod Broberg	Saline Co. Appraiser
Law Ken	✓
MARK BECK	KODR
Ashley Sherard	Overland Park Chamber
Alan Steppat	PETE MCGILL & Associates
Michelle Peterson	Peterson Public Affairs

TESTIMONY ON SENATE BILL 224
Before the Senate Committee on Taxation
by Senator Dave Kerr

The 1989 Legislature faced a very difficult set of property valuation problems.

- **Agricultural residential, most commercial property had not been revalued for more than 20 years. Valuations were wildly inaccurate.**
- **Defacto classification had evolved but was clearly unconstitutional**

The Legislature's response was certainly courageous and in some ways admirable.

- **The massive job of revaluation was authorized and funded.**
- **A constitutional amendment for classification was passed.**
- **A system to keep values current was established - the key, annual revaluation of all property.**

Looking back today we can make a colorable argument that we have survived the worst consequences of those

Senate Assessment & Taxation
2-14-97
Attachment 1

courageous if distasteful decisions.

- **The work, the expense and the shock of the initial revaluation are now so far behind us that a majority of legislators presently serving can claim they would have done things differently if they had been here.**
- **With the help of some 1992 amendments, the classification percentages seem to have settled into quiet acceptability.**

One aspect of this system continues to keep property owners in a constant state of upset and uncertainty. The annual reappraisal serves as a constant reminder that nothing is certain, there are no safe harbors in the Kansas system of property taxation.

Is this a fixable problem?

- **Surely no one believes the occasional and uncertain system of reappraisal we had before 1989 is the answer.**
- **Is annual reappraisal the ideal?**

This bill suggests changing valuations every two years. Some possible benefits from this change are as follows:

- **Property owners would be relieved to find valuations were stable for two years, especially those who feel inclined to question the valuation given them. If they are successful in gaining relief, the effort would have been worthwhile.**
- **County appraisers are always rushed to get out new valuations. A two year cycle would result in better accuracy.**
- **A longer period of sales would allow a larger number of sales "comparables."**
- **The longer period of sales would have a data smoothing effect.**

There are some possible disadvantages, most are technical and could be worked out if a two year appraisal cycle is desirable policy. One thing that I believe will be cited as a potential problem is the need to change the sales/assessment ratio study.

- **However, the sales/assessment ratio study has a problem now. A careful amendment to this bill could actually**

improve its accuracy which would help us comply with Judge Bullock's expectations.

The only philosophical argument I have heard in opposition to the two year appraisal cycle is that ostensibly, "two 10 percent valuation increases are easier to accept than one 20 percent increase." The accuracy of that allegation is problematical. The improved accuracy resulting from the two year cycle would eliminate at least some large increases. There is one acknowledged impact from a two year cycle which is either good or bad depending upon one's point of view (see attached exhibit) Revenues from the statewide property tax will be flatter in non-reappraisal years requiring more SGF funding.

In conclusion, I would ask that this committee weigh whether slowing the revaluation cycle would benefit taxpayers and appraisers. If it would, the technical problems can be resolved.

Statewide Assessed Valuation

1991	14,630,578,759	
1992	14,600,781,105	-0.20%
1993*	14,870,086,015	1.84%
1994	15,502,087,375	4.25%
1995	16,194,057,543	4.46%
1996	16,703,505,399	3.15%

* 1993 includes reclassification tax base changes

Funds Raised by Statewide Mill Levy for Schools

	<u>Revenue</u>	<u>Mill Levy</u>
1992-1993	523.7	Includes 1991 Tax in Process
1993-1994	482.0	33 mills
1994-1995	523.7	35 mills
1995-1996	526.9	35 mills
1996-1997	564.9	35 mills
1997-1998	561.2	33 mills

SENATOR LANGWORTHY

SENATE COMMITTEE MEMBERS

LADIES AND GENTLEMAN

MY NAME IS JIM SIEMENS, I'M THE COUNTY APPRAISER FOR RENO COUNTY, HUTCHINSON, KANSAS.

I APPRECIATE THIS OPPORTUNITY TO APPEAR BEFORE YOU TO EXPRESS MY SUPPORT FOR SENATE BILL NO.224.

IT IS MY UNDERSTANDING THIS BILL AS INTRODUCED BY SENATOR KERR AND OTHERS WOULD CHANGE THE VALUATION OF PROPERTY FOR TAX PURPOSES BY THE APPRAISERS OFFICE FROM A YEARLY OR ANNUAL CYCLE TO A TWO (2) YEAR CYCLE OR EVERY OTHER YEAR.

I SUPPORT THIS BILL FOR THE FOLLOWING REASONS;

1. THIS BILL WOULD REDUCE THE WORK LOAD AND DEADLINES CURRENTLY PLACED ON THE APPRAISERS OFFICE. RENO COUNTY CURRENTLY HAS 34,450 REAL ESTATE PROPERTIES THAT WE ARE REQUIRED TO VALUE EACH YEAR AS OF JANUARY 1ST, WITHIN RATHER TIGHT PARAMETERS AS PRESCRIBED BY STATE LAW AND THE PROPERTY VALUATION DEPARTMENT. THESE PROPERTIES RANGE FROM VACANT LAND TO VERY COMPLEX PROPERTIES SUCH AS A REGIONAL MALL, A REGIONAL GROCERY DISTRIBUTION CENTER AND SEVERAL LARGE SALT MINING AND MANUFACTURING FACILITIES. UNDER THE PRESENT SYSTEM OUR WORK LOAD IS SO GREAT IN MEETING THE YEARLY DEADLINES, WE HAVE A VERY DIFFICULT TIME IMPROVING AND REFINING OUR APPRAISAL METHODS.

VALUING AND SENDING VALUE NOTICES ON REAL ESTATE ON A SEMI ANNUAL BASIS WOULD GIVE US THE TIME TO CORRECT OUR PROBLEM AREAS AND REFINE OUR APPRAISAL PRACTICES ON THE OFF YEARS. IN OTHER WORDS,

*Senate Assessment & Taxation
2-14-97
Attachment 2*

CORRECT THE PROBLEMS AHEAD OF TIME INSTEAD OF REACTING AFTER THE FACT. THIS SHOULD GREATLY REDUCE OUR HEARING LOAD. EACH SPRING WE DO APPROXIMATELY 3,500 HEARINGS AT THE INFORMAL EQUALIZATION AND HEARING OFFICERS LEVEL.

2. THE PROPERTY TAX SEEMS TO BE A VERY UNPOPULAR TAX. AS A PERSON WHO WORKS WITH THIS SUBJECT EVERY DAY, I PERSONALLY HAVE A DIFFICULT TIME UNDERSTANDING ALL THE ANGER EXPRESSED TOWARD THIS TYPE OF TAX IF IT IS ADMINISTERED IN A FAIR AND EQUITABLE WAY. WE STRIVE TO DO THIS AS BEST WE CAN.

BECAUSE SENATE BILL 224 WOULD REQUIRE VALUING PROPERTY EVERY OTHER YEAR THE TAXPAYER WOULD NOT BE REMINDED OF THE PROPERTY TAX SO MUCH.

3. IN A STABLE REAL ESTATE MARKET I FEEL THIS METHOD WOULD BE VERY COST EFFECTIVE AND STILL VALUE PROPERTY FAIR AND EQUITABLY. IN A UNSTABLE MARKET THIS COULD CAUSE SOME PROBLEMS BUT PEOPLE NEED TO REALIZE THE MILL LEVY DRIVES THEIR PROPERTY TAX, NOT THE VALUE, AS LONG AS THE VALUES ASSIGNED ARE FAIR AND EQUATABLE.

IN CLOSING, I WOULD URGE YOU TO SUPPORT THIS BILL. THERE ARE OTHER BILLS BEING CONSIDERED BY THE LEGISLATURE THAT APPLY TO PROPERTY TAXATION. I ASK THAT YOU LOOK AT THESE BILLS IN CONJUNCTION WITH SENATE BILL 224. THE BILL TO CHANGE THE REINSPECTION CYCLE FROM FOUR (4) TO SIX (6) YEARS WOULD BE BENEFICIAL, BUT I WOULD SUGGEST COUNTIES BE REQUIRED TO HAVE COUNTY WIDE BUILDING PERMITS TO CHANGE TO THIS SIX (6) YEAR CYCLE. THIS WOULD GREATLY INCREASE OUR ABILITY TO FIND NEW CONSTRUCTION IN REMOTE RURAL AREAS.

ANOTHER AREA I AM CONCERNED ABOUT IS AG USE VALUATION. I FEEL THIS

AREA HAS BECOME TOO POLITICAL AND IS CONTROLLED BY ONE SPECIAL INTEREST GROUP. IN MY OPINION THESE VALUES ARE NO LONGER UNIFORM AND EQUAL.

AGAIN, I THANK YOU FOR LETTING ME VOICE MY OPINION AND CONCERNS REGARDING THESE PROPERTY TAX ISSUES.

Senate Bill 224

Explanation:

Senate Bill 224 as introduced provides for a biennial utilization of valuations for property tax purposes. This bill states that notwithstanding other provisions of the law and except as otherwise provided in paragraph (b), the valuation used for property tax purposes shall be used for each year during the biennium, commencing with 1997.

In paragraph (b), the bill sets forth exceptions to the biennium approach to valuation for property tax purposes:

First, new construction must be listed and valued every year. Specifically, the bill states that improvements to existing property or property that has not had a valuation for whatever other reason must have a value established or increased for property tax purposes for the year of valuation and the remaining portion of the applicable biennium.

Second, any reductions in value are recognized each year. Specifically, the bill states that in the event the valuation of property is reduced pursuant to law during a biennium, the reduced valuation shall be utilized for property tax purposes for the year in which the valuation is reduced and the remaining portion of the biennium.

Third, the results of any appeal, application for exemption, etc., are to be recognized each year. Specifically, the bill states that its provisions are not to be construed to conflict with any other provisions of law relating to the appraisal of property for taxation purposes or the appeals processes associated therewith.

Finally, the bill's provisions do not apply to commercial and industrial machinery and equipment, which is to be valued annually in accordance with a formula prescribed by Article 11, §1 of the Kansas Constitution.

This bill would apply to all taxable years commencing after December 31, 1996, and from and after publication in the statute book.

Concerns:

1. Taxpayers with property that increases annually in market value may appreciate the status quo of the valuation during the second year of the biennium when the valuation is frozen. However, if local spending goes up annually, property taxes will go up annually despite the stable valuation. Taxpayers will probably not appreciate having a two-year increase in valuation being recognized all in one tax year at the beginning of each biennium. Property typically increases in value to some extent each year, if just to keep up with inflation. In the typical instance, this bill would result in the value of property going up for tax purposes every other year; therefore, instead of the value of a property going up a little each year, the value would go up twice as much every other year.

Concerns. cont.:

2. Exception (b)(1) of this bill cannot be applied to public utilities in the same manner that the exception is applied to specific property that is individually valued for Kansas property tax purposes. To explain, public utilities are valued based upon the value of the entire operating unit as a going concern. The market value of the operating business is not the same as the sum of each piece of property's market value. Furthermore, the public utility is typically doing business on a national or even international basis; thus, a portion of the entire unit valuation is allocated to Kansas based upon a statutory formula, and distributed to the local taxing districts consistent with statutory language. The value of the entire unit can be determined to see whether the total valuation has decreased for purposes of applying exception (b)(2). In addition, it is possible to make a meaningful adjustment for specific property that a business has added, deleted or improved *for distribution purposes*. However, it is not possible to make a meaningful adjustment for specific property that a business has added or improved for purposes of adjusting the value of the entire operating unit in accordance with exception (b)(1). For example, the market value of a public utility as an operating business may increase, but it is not possible to identify whether any or part of the overall increase is attributable to the acquisition of new property versus economic factors. Thus, it is anticipated that the overall valuation of a public utility may be adjusted downward to comply with exception (b)(2), but the overall valuation cannot be reasonably adjusted upward to comply with exception (b)(1) because the increase attributable to new property cannot be isolated or identified.

3. The language of §1(b)(1) is not specific as to what valuation date should be used for improvements. It is not clear whether improvements that are added during the second year of the biennium should be valued based upon the market as it existed the first January 1 or the second January 1 of the biennium. (Note: we presume that improvements made in the midst of the first year of the biennium should be added to the tax roll the second year of the biennium based upon the progress of the improvements as of January 1. This is the practice based upon the current law).

4. The timing of the sales ratio study (K.S.A. 79-1485 - 79-1493) should be revised to coincide with the biennial valuation for property tax purposes proposed by this bill. Specifically, the official sales ratio is currently issued once a year and appeals are held once a year. Language could be proposed to require that counties bring sales ratio appeals on a timely basis throughout the biennium to avoid an onslaught of appeals at the end of the biennium. For example, a provision could require that appeals be made of preliminary sales ratio results on the basis of six month intervals. In addition, language could be proposed requiring the issuance of the sales ratio study once every 2 years rather than once a year consistent with the updated valuations for property tax purposes.

5. The language of §1(c) --- "the provisions of this section shall not be construed to conflict with any other provisions of law relating to the appraisal of property for taxation purposes" --- seems to conflict with the language of §1(a) --- "[n]otwithstanding any other provision of law to the contrary." Appraisal laws require, among other things, that property be valued as of January 1 (K.S.A. 79-301; K.S.A. 79-1455) at "fair market value" (K.S.A. 79-501; K.S.A. 79-503a; K.S.A. 79-1439). K.S.A. 79-1476 requires the county appraiser to "update" real property values annually.

Comments:

1. It appears that this bill would commence January 1, 1997, and the date to be used for purposes of the exceptions listed in paragraph (b) is January 1st. This would be consistent with K.S.A. 79-1455, K.S.A. 79-309, K.S.A. 79-301, K.S.A. 79-304, K.S.A. 79-503a, K.S.A. 79-1412a, K.S.A. 79-1466 and K.S.A. 79-1480, to name a few existing statutes.

2. The bill states that in the event a valuation of property is reduced by law during a biennium, the reduced valuation must be utilized for property tax purposes for the year in which the valuation is reduced and the remaining portion of the biennium. This provision appears to mean that *the county appraiser must still determine the market value each January 1st* to see whether the valuation has increased, decreased or has remained the same. In instances where the valuation as of January 1 of the second year of the biennium has decreased from the first year of the biennium, the county appraiser would utilize the lower valuation for tax purposes for the second year of the biennium. In instances where the valuation increased, the county appraiser would continue to use the same value from the beginning of the biennium for property tax purposes.

This bill would not alleviate the county appraiser's current duty to determine the value of all property in the jurisdiction each January 1. The county appraiser would be required to list and value all real property each January 1 at its market value, then determine whether the valuation should remain the same or be decreased for property tax purposes.

3. The bill states that in the event a valuation of property is reduced by law during a biennium, the reduced valuation must be utilized for property tax purposes for the year in which the valuation is reduced. In addition, the bill states that its provisions shall not be construed to conflict with *any other provision of law relating to the appraisal of property for taxation purposes* or the appeals processes. This provision appears to mean that in instances where the valuation as of January 1 of the second year of the biennium has been lowered because property was: (1) destroyed, (2) left the state (e.g., a heavy truck) or (3) became exempt in the midst of the first year of the biennium, the lower valuation (i.e., "\$0") would be used for property tax purposes the second year of the biennium.

4. The bill states that its provisions shall not be construed to conflict with any other provision of law relating to the appraisal of property for taxation purposes *or the appeals processes*. This provision appears to mean that in instances where the valuation as of January 1 of the second year of the biennium has been lowered at a later date due to the result of an appeal, the lower valuation would be used for property tax purposes in lieu of keeping the valuation the same.

tion, such deadline shall be observed on the next following day that either house is in session.

(i) *Bills introduced in odd-numbered years after deadlines; effect.* Bills may be introduced by members and committees in regular sessions occurring in an odd-numbered year after the times prescribed in (b) and (d) of this rule, but there shall be no final action thereon by either house during the session when introduced. Such bills shall be held over for consideration at the next succeeding regular session held in an even-numbered year.

(j) *Modification of schedule of deadlines for introduction and consideration of bills; procedure.* In any regular session a concurrent resolution may be adopted by the affirmative vote of not less than a majority of the members then elected (or appointed) and qualified of each house setting forth a different schedule of deadlines for introduction and consideration of bills for that session and the provisions of such concurrent resolution shall apply to such session notwithstanding provisions of this rule to the contrary.

(k) *Bill consideration deadline; exceptions.* No bills shall be considered by the Legislature after April 12, 1997, during the 1997 regular session and after April 11, 1998, during the 1998 regular session except bills vetoed by the Governor, the omnibus appropriation act and the omnibus reconciliation spending limit bill provided for under K.S.A. 1996 Supp. 75-6702 and amendments thereto. This subsection (k) may be suspended for the consideration of a specific bill or bills not otherwise exempt under this subsection by the affirmative vote of a majority of the members then elected (or appointed) and qualified in the house in which the bill is to be considered.

REFERENCE OF BILLS AND CONCURRENT RESOLUTIONS

The following bills and resolution were referred to Committees as indicated:

Assessment and Taxation: **SB 6, 7.**

Commerce: **SB 3 (separately).**

Education: **SB 4, 13.**

Financial Institutions & Insurance: **SB 3 (separately), 12, 15; SCR 1601.**

Judiciary: **SB 8, 9.**

Public Health and Welfare: **SB 10.**

Transportation and Tourism **SB 2, 16.**

Ways and Means: **SB 1, 5, 11, 14.**

FINAL ACTION OF BILLS AND CONCURRENT RESOLUTIONS

On motion of Senator Emert an emergency was declared by a $\frac{2}{3}$ constitutional majority, and **SCR 1603** was advanced to Final Action, subject to amendment, debate and roll call.

SCR 1603, A concurrent resolution adopting joint rules for the Senate and House of Representatives for the 1997-1998 biennium, was considered on final action.

On roll call, the vote was: Yeas 40, nays 0, present and passing 0; absent or not voting 0.

Yeas: Barone, Becker, Biggs, Bleeker, Bond, Brownlee, Clark, Corbin, Downey, Emert, Feleciano, Gilstrap, Gooch, Goodwin, Hardenburger, Harrington, Harris, Hensley, Huelskamp, Jones, Jordan, Karr, Kerr, Langworthy, Lawrence, Lee, Morris, Oleen, Petty, Praeger, Ranson, Salisbury, Sallee, Salmans, Schraad, Steffes, Steineger, Tyson, Umbarger, Vidricksen.

The resolution was adopted.

Task Force on Uniformity and Equality of Property Tax Appraisals

Study Topic: Review the status of Shawnee County District Court Order No. 92-CV-796 and study whether the legislature has taken adequate steps to ensure that all property within each subclass is appraised and taxed on a uniform and equal basis. Analyze issues and concerns raised by Judge Bullock with respect to the court order, including the definition of fair market value, the accuracy and efficacy of the sales ratio study as a monitoring device, and the intent of language in K.S.A. 1996 Supp. 79-503a with respect to a variance of 10 percent in any single appraisal's not being demonstrative of "willful neglect" by a county or district appraiser.

Summary: The Task Force recommends that the annual reappraisal valuation cycle be retained for a number of reasons, including fairness to taxpayers and compliance with the court order. The Task Force notes with approval the recommendation of the Special Committee on Property Taxation with respect to expansion of the Homestead Property Tax Relief program.

Background

Following a meeting involving the Governor, the Attorney General, the President of the Senate, the Speaker of the House, and Judge Bullock, the Legislative Coordinating Council (LCC) appointed the Task Force to review a number of issues and concerns raised by Judge Bullock in connection with the court order embodied in the April 12, 1996, amended journal entry in *State of Kansas, ex rel., Carla J. Stovall, Attorney General v. Kansas Department of Revenue, John D. LaFaver, Secretary, Kansas Department of Revenue, and Mark S. Beck, Director, Division of Property Valuation, Kansas Department of Revenue, and the Honorable Sally Thompson, State Treasurer* (Shawnee County District Court Order 92-CV-796).

The LCC on November 20 directed that representatives of the Department of Revenue, State Board of Tax Appeals, the Kansas Association of Counties, and the Kansas County Appraisers Association join certain legislative tax committee members or their designees to comprise the Task Force. The LCC authorized the Task Force to conduct three one-day meetings prior to the start of the 1997 Session on January 13.

Committee Activities

At the initial meeting on December 9, staff provided the Task Force with flow charts on the current property-tax-appeals and payment-under-protest procedures.

PVD presented information on the way the Kansas sales-ratio study is conducted. Addressing the technical reliability of the sales-ratio study, Dr. Ronald L. Wasserstein, Washburn University, told the Task Force that he had concluded that the study "is a valid and reasonable method for monitoring appraisal uniformity, and is being conducted in Kansas in a manner consistent with industry standards and with statistical standards of good practice."

PVD and the Attorney General's office briefed the Task Force extensively on the status of the court order and on the issues and concerns raised by Judge Bullock. PVD also provided information on the number of counties in "substantial" compliance as of January 1, 1996.

At the December 17 meeting, the Attorney General's office responded to a number of questions raised by Task Force members with respect to the status of the case and what the court order actually requires. The Task Force asked the Attorney General's staff and PVD to seek clarification from the court with respect to the date of compliance determination in the court order. The Attorney General filed such a motion on December 31 and scheduled a meeting with Judge Bullock to discuss the motion on January 14, 1997.

PVD provided information indicating that as of January 1, 1996, 26 counties were not in "statistical" compliance outlined in the court order for one or both of the residential and/or commercial subclasses of real property. PVD also provided a partial year-to-date report for calendar year 1996.

The Task Force discussed policy options with respect to seeking an additional evaluation of the accuracy and efficacy of the sales-ratio study as a measuring tool. The Task Force learned at its January 8 meeting that the Division of Legislative Post Audit had been directed to perform such an evaluation.

The Task Force also extensively discussed the tax implications of allowing land owners to continue to acquire use valuation tax treatment on commercially zoned parcels by planting crops. The Chairman of the State Board of Tax Appeals said that this tactic was occurring far more often than the Legislature realized.

The Task Force discussed the possibility of eliminating the "laundry list" in K.S.A. 1996 Supp. 79-503a of additional factors (besides sales, cost, and income) which need to be taken into consideration by appraisers in the determination of fair market value. The Task Force asked the representative of the Kansas County Appraisers' Association to provide the "USPAP" market value definition for consideration.

Attachment 4
2-14-97
Senate Assessment & Taxation

In terms of other potential amendments to K.S.A. 1996 Supp. 79-503a, the Task Force decided to take up at its final meeting the possibility of eliminating the 10 percent variance language.

The Task Force asked PVD to conduct a comparison between their budget requests over the last four years and the final legislative appropriations results.

After a discussion of taxpayer frustration with respect to the short amount of time available at the hearing officer/hearing panel level in the appeals process, the Task Force agreed to consider recommending changing certain dates within the appeals process.

Conclusions and Recommendations

The Task Force strongly recommends that Kansas retain the annual reappraisal valuation cycle for a number of reasons.

- Decelerating the reappraisal cycle would increase the number of counties not in statistical compliance as measured by the court order.
- A multi-year cyclical approach within which new property and improvements come on line at fair market value in the first year could tend to shift the property tax burden more heavily toward fast-growing counties.
- A multi-year cyclical approach also could seem unfair to rural counties where values are declining. Owners of a grocery store on Main Street in a small town where the market value declines by \$5,000 per year could be taxed based on a valuation that is too high.
- Even if a multi-year cyclical reappraisal were somehow to be crafted to allow the grocery store described above to have its valuation go down every year but NOT ALLOW property with increasing values to be adjusted for several years at a time, the Task Force would have serious concerns about the constitutionality of such a system. How could "fair market value" mean something different for two different parcels depending solely on where the appraiser felt the valuations were relative to last year's valuations?
- Freezing values for the residential and commercial subclasses of real property without freezing values for other classes and subclasses of property could raise serious constitutional concerns, as well.
- With the exception of the 1.5 mill levy for state building funds and the mandatory 33 mill school district general fund levy, "freezing" values would in no way guarantee lower taxes. If values are normally increasing and are not allowed to increase, county clerks would simply set higher levies based on local units' legally adopted budgets, everything else being equal.
- Assuming county clerks would be required to automatically set higher levies, motor vehicle taxes would simply increase that much faster beginning two years in the future.
- Reducing somewhat the annual growth in the tax base would have implications with respect to mandating increased spending to continue to fully fund school finance relative to the Governor's Budget and current estimates. The statewide property tax base is projected currently to grow by 3 percent per year.
- A taxpayer with a \$100,000 house whose valuation is increasing by \$4,000 per year may not be terribly happy under current law when he receives his valuation notice. But he is likely to be even more upset if he received a valuation notice every third year indicating an increase of \$12,000.

In order to facilitate the aim of achieving uniformity and equality, the Task Force recommends that the 1997 Legislature thoroughly analyze resource issues associated with PVD's budget and the requirements of the court order.

The Task Force recommends that the standing tax committees study further the notion of replacing the definition of fair market value in K.S.A. 1996 Supp. 79-503a with the definition provided by "USPAP" standards. (The chairpersons of the standing committees agreed to hold hearings should such legislation be introduced.)

While there was no consensus on the Task Force for a specific legislative solution, the Task Force encourages the standing tax committees to study legislation designed to clarify what the statutory definition of "agricultural land" for property tax purposes should be in order to combat some of the perceived abuses described by the Chairman of the State Board of Tax Appeals.

The Task Force recommends the introduction of legislation to delete the 10 percent variance language from K.S.A. 1996 Supp. 79-503a to clear up any confusion such language may have caused. The Task Force notes that K.S.A. 79-1426 provides that a 10 percent variance shall not be considered violative of that statute, which provides for county appraisers to be removed from office and charged with a misdemeanor for willfully failing to properly appraise and list property.

The Task Force recommends the introduction of legislation to change the initial property tax appeals deadline from April 1 to "within 30 days of the mailing" of the valuation notices. The Task Force notes that this should encourage counties to mail valuation notices earlier than the current March 1 mailing deadline and could allow taxpayers more time to present their cases at the hearing panel level.

The Task Force also notes with approval the recommendation of the Special Committee on Property Taxation with respect to expanding the Homestead Property Tax Refund program by raising the total household income eligibility ceiling from \$17,200 to \$25,000. Kansas property tax expert Dr. Glenn W. Fisher has said that expansion of the Homestead program is the best targeted method of alleviating some of the property tax burden on certain elderly, disabled, and poor Kansans.

CORRECTION OF THE JOURNAL

Correct the Journal of the Senate on Monday, January 13, on page 14, under the heading of "Joint Committees of the Senate and House", to include the following:

Special Claims Against the State: Morris, Chairperson; Brownlee, Gilstrap, Karr, Schraad.

On motion of Senator Emert the Senate adjourned until 2:30 p.m., Wednesday, January 15, 1997.

HELEN A. MORELAND, *Journal Clerk*

PAT SAVILLE, *Secretary of the Senate*.



4-2