

Approved: Feb. 22, 2000
Date

MINUTES OF THE HOUSE TAXATION COMMITTEE.

The meeting was called to order by Chairperson Wagle at 9:00 a.m. on February 9, 2000, in Room 519-S of the Capitol.

All members were present except:

Committee staff present: Chris Courtwright, Legislative Research Department
April Holman, Legislative Research Department
Don Hayward, Revisor of Statutes
Ann Deitcher, Committee Secretary
Edith Beaty, Taxation Secretary

Conferees appearing before the committee: Representative Ralph Tanner
Karl Peterjohn, Kansas Taxpayers Association
Karen France, Kansas Association of Realtors
Randy Allen, Kansas Association of Counties
Marlee Bertholf, Ks Chamber of Commerce and Industry
Don Moler, League of Municipalities
John Koepke, Kansas Association of School Boards
Don Seifert, City of Olathe

HB 5031 - Constitutional amendment allowing legislature to limit real estate appraised valuation increases.

HB 5035 - Constitutional amendment limiting appraised valuation increases for property tax purposes.

The Chair introduced Representative Ralph Tanner who spoke to the Committee as a proponent for both **HB 5031** and **HB 5035** and presented additional information supporting his position. (Attachments 1, 2 and 3).

Representative Tanner said that they were offering this remedy, recognizing that it wasn't an end-all or a be-all but a beginning for the legislature of Kansas to take hold of the issue of property tax.

Next to appear before the Committee as a proponent for both **HB 5031** and **HB 5035** was Karl Peterjohn of the Kansas Taxpayers Network. (Attachment 4).

In regard to the enactment of a similar law in Ohio, the Chair asked if Mr. Peterjohn knew how long it had been in effect. Mr. Peterjohn said it had been in place since the 1970's.

Karen France of the Kansas Association of Realtors spoke in favor of **HB 5031** and **HB 5035**. (Attachment 5).

Ms France asked that the Committee look at the concept of these bills and consider ways to separate market value from tax values.

Speaking as opponents to **HB 5031** and **HB 5035** were:

Randy Allen, Ks Association of Counties, (Attachments 6 and 7);
Marlee Bertholf, Ks Chamber of Commerce and Industry, (Attachment 8);
Don Moler, League of Ks Municipalities, (Attachment 9);
John Koepke, Ks Association of School Boards, (Attachment 10) and
Donald Seifert, City of Olathe, (Attachment 11).

CONTINUATION SHEET

Eugene Troehler of the Overland Park Chamber of Commerce, provided testimony in opposition to **HB 5031** and **HB 5035** but did not speak before the Committee. (Attachment 12).

Representative Gregory asked Don Moler how it was possible to have actual value when one year it goes up 17 percent, the next year 0 percent and the next year 19 percent. Mr. Moler said he wasn't an appraiser but he would indicate that properties do increase in value in certain parts of the state at a very high rate and these same properties will be sold at a much higher rate than they once were valued at. This takes into account sales relative to that property. He felt the variations were due to the fact that appraising is an imprecise science.

The meeting was adjourned at 10:15 a.m. The next meeting is scheduled for Thursday, February 10, 2000.

STATE OF KANSAS
House of Representatives

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THE CAPITOL

RALPH TANNER
Representative, Tenth District

COMMITTEE ASSIGNMENTS

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ADVISORY BOARD NATURAL AND
SCIENTIFIC AREAS

TESTIMONY
before
The Special Committee on Assessment and Taxation
August 25, 1997

Mr. Chairman and members of the Committee:

I am pleased to be able to appear before you today on the issue of growth in assessed valuation of property in Kansas. If property tax is the most onerous and hated tax in the state -- as many who deal in public policy matters will attest -- the aspect of that tax which is most vexing is growth in assessed value. The most recent try at a constitutional "fix" to property tax problems resulted in language which is at the heart of assessment issues. "Highest and best use" was to be the valuation goal, and "annual" valuation and re-valuation were to be the norm.

These premises have worked to the considerable detriment of the taxpayer. At times when the general economy has grown at a rate of around three percent annually, certain counties have experienced double digit growth in assessed property values. One assumption which has been suggested in response to such growth is that property was so seriously undervalued, that we were merely experiencing adjustment to reflect real growth.

Whatever the reason, we are currently faced with a dilemma. If property tax is a problem in Kansas today, it was the legislature which rode into the political thicket with a constitutional amendment and left us with our current law and practice. It must be the legislature which will provide a remedy.

Of greatest import in the valuation process, perhaps, is the practice of county appraisers of moving residential properties that are being encroached upon by commercial development to a commercial property tax rate on their own initiative. It matters not that there has been no change in zoning. As a matter of fact, it appears that the Douglas

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County Appraiser has needed only a notion that a parcel would be more correctly appraised as “commercial” than “residential,” and “*voila*,” it is done. How widespread this practice is in other counties is not known to me.

Mr. Chairman, it is not my purpose here today to provide an exhaustive line of argument to the Committee in support of my proposal for a change in the appraisal process. I mean only to present a brief view of the problem. I also want to show that other legislatures have moved on this problem with apparent success. I have spoken with whomever would listen to me for the past six or more months – primarily in the House of Representatives—in an attempt to move that body on a course of action. I fully expect a strong bi-partisan effort in the legislative halls of Kansas during the course of the next session, to place a constitutional amendment on the ballot in November which will change the way we assess real property. And I expect that proposition to pass in the general election.

Remedies in other States

For a suggestion from other states on this matter we have the advantage of a NCSL Legisbrief (March 1997, Vol 5, No. 17) entitled “Property Tax Relief: Limitations on Property Assessments,” by Scott Mackey. (Copy attached.)

In summary, eight states are cited as having found a legislative remedy to exorbitant valuation growth. Of those cited by Mackey, some have imposed statutory or constitutional limits since 1994. They are Arizona, California, Florida, Iowa, Michigan, New York (part of the City of New York), Oklahoma and Oregon. South Carolina and Utah have enacted new law to preclude the run-up in appraised value, and Washington and Montana are seeking remedies at my last inquiry. (*N.B.*, It must be remembered that this listing is now five or so months old.) Prescribed limits to growth in each jurisdiction are set out in the Legisbrief.

Classes of Affected Property

While the temptation will be great to limit access in relief to residential property, fairness argues for inclusion of all classes of real property. Current law established different rates, of course, for different classes of property. There seems to me to be little reason to tamper with those rates at this time. Using the values that are established and in force as a base, limits on valuation growth of a reasonable percentage will work well. As a matter of preference, I suggest use of the Consumer Price Index as an allowable level of annual growth. From this, I assume there will be an adequate stream of revenue to support state government.

Impact on Local Government

The impact of such restricted growth in value is a point touched on by Mackey on the overleaf of the Legisbrief. As allowed growth in value is curtailed, it is strongly suggested that no effort be made to restrict the levy by local government, and, where applicable, by local school boards. At the same time that local government is free to control the mill levy, it is understood that such government must bear the burden for raising the mill levy at the polls. "Limits in both rates and assessments can erode the local tax base," Mackey says. California's law limits annual revenue growth to two percent, which is likely too little.

Oklahoma as a Model

The *Journal* of the 1966 Regular Session of the Oklahoma legislature (p. 929, Chapter 236, HB No. 2198) calls for a constitutional amendment, and provides for a vote of the people on growth of certain real property taxes.

Enrolled House Bill 2198 reads, in part, "Despite any promises to the contrary, the fair cash value of any parcel of locally assessed real property shall not increase by more than five percent (5%) in any taxable */sic./* year. The provisions of this section shall not apply in any year when title to the property is transferred, changed, or conveyed to another person, the property shall be assessed for that year based on the fair cash value as set forth in Section 8, Article X, of this constitution. If any improvements are made to the property, the increased value of the property as a result of the improvements shall be assessed for that year based on the fair cash value as set forth in Section 8, Article X, of this constitution." The change in value of a property brought on by catastrophic loss does not appear to be addressed in this section of the Oklahoma document, but must be clarified in any prospective law in Kansas.

Summary

This testimony will not respond to many of the questions that are being asked regarding difficulties we in Kansas are experiencing with property valuation, nor was it my intention to provide all the answers. But we do have certain premises on which we may mount an inquiry and pursue change. The legislature is the logical agency for the shaping of relief to property holders. The current system has allowed for confiscatory rates. There will be many who will oppose any attempt to fashion any response to this grievous wrong, but we must proceed.

Mr. Chairman, I will stand for questions.

Shirley K. Sicilian, Director
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Office of Policy & Research

MEMORANDUM

To: Representative Ralph Tanner
From: Shirley K. Sicilian
Date: March 16, 1998
RE: Oklahoma-Valuation Increase Cap

Regarding your question on the treatment of new property and improvements under the state of Oklahoma's cap on valuation.

Oklahoma's valuation cap has been in effect as of January 1, 1997. The cap limits the increase in appraised value to 5 percent per taxable year. Improvements made to the property shall be assessed for that tax year based on their fair cash or market value. For example, a home appraised at \$50,000 in the base year, with no improvements, could be increased by no more than 5 percent or to \$52,500 the following year. Another home whose base year value is \$50,000 but to which the owner has made \$10,000 in fair cash or market value improvements, would be valued at \$62,500 (5 percent increase in base value plus \$10,000 in improvements). In subsequent years, the 5 percent limitation applies to the value of the home in the most recent tax year including the improvements or for the first home $\$52,500 \times 1.05 = \$55,125$ and for the second $\$62,500 \times 1.05 = \$65,625$. The value cap does not apply in any year when title to the property is transferred, changed or conveyed to another person. For these properties, the value shall be based on the fair cash or market value.

The cap would apply to new properties (built from the ground up) the year following their being valued as a completed structure. For example, a home in construction as of January 1, 1998 may be valued at \$10,000 but upon completion on December 1 it is sold and based on its fair cash value, the appraiser values the home at \$120,000 as of January 1, 1999. The following year barring improvements or a change in ownership, the valuation would be capped at 5 percent or \$126,000.

If you have additional questions, please let me know.

March 1997

Vol. 5, No. 17

PROPERTY TAX RELIEF: LIMITATIONS ON PROPERTY ASSESSMENTS

By Scott Mackey

One of the major reasons voters hate property taxes is the impact of rapidly growing property values on property tax bills. This brief examines state efforts to prevent large increases in property tax bills by placing limits on the annual growth in taxable property values.

Increases in property values have played a major role in property tax revolts.

Property valuations and property tax rates (also known as mill levies) are the two factors that determine a taxpayer's property tax bill. In localities with rising property values, tax bills can increase substantially even if tax rates do not change. Local governments may receive revenue windfalls without raising tax rates, and in some cases even when lowering tax rates. The impact of valuation growth played a major role in property tax revolts in CALIFORNIA (1978), MASSACHUSETTS (1980) and OREGON (1996), and prompted SOUTH CAROLINA (1995) and UTAH (1995-96) to make significant legislative changes to prevent a run-up in property tax bills due to rising property values. The MONTANA and WASHINGTON legislatures face the same issue in the 1997 session.

One way to prevent large valuation increases is to place statutory or constitutional limits on annual increases in property valuations. Eight states now have some type of assessment limit in place. Notably, four of these states have imposed assessment limits since 1994.

Assessment limitations vary in their restrictiveness.

The limitations shown below vary in their restrictiveness. The least restrictive limit is in Iowa, where the assessment limit is applied statewide on classes of properties (residential, agricultural and commercial) rather than on individual properties. Statewide average valuation growth can mask significant variations in the appreciation of individual properties within regions and even within municipalities. Therefore, a valuation limit applied statewide to property classes may not prevent large increases in the assessments of individual properties.

Assessment Limitations			
January 1997			
State	Amount of Annual Limitation	What Limit Applies to	Year Adopted
Arizona	10%	Individual property	1979
California	2%	Individual property	1978
Florida	3%	Individual residential homestead property	1994
Iowa	4%	Classes of property statewide	1979
Michigan	Lower of 3% or CPI	Individual property	1994
New York	6%; 20% in 5 years	Residential property in NYC and Nassau County only	1981
	8%; 30% in 5 years	Apartments in NYC and Nassau County only	1981
Oklahoma	5%	Locally assessed real property	1996
Oregon	2%	Individual property	1996

Source: NCSL

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Executive Director, William T. Pound

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House Taxation

Date 2/9/00

Attachment # 3

The most restrictive limitations are in CALIFORNIA and OREGON. California's limitation, adopted by voters in 1978 as part of the famous "Proposition 13," limits the growth in taxable values of individual properties to 2 percent per year. Oregon's newly adopted measure has a similar 2 percent limit, although there are exceptions for certain voter approved expenditures. MICHIGAN's limitation was included as part of a major tax policy and education finance overhaul adopted by voters in 1994. FLORIDA's limitation applies only to residential homesteads.

Limits in California and Oregon are the most restrictive.

Assessment limitations are an effective way to prevent large, sudden increases in property tax bills. However, assessment limitations also raise some important policy issues:

- *Impact on local governments in states with tax rate limits.* Some states have imposed limits on property tax rates. Limiting both rates and assessments can erode the local tax base. In CALIFORNIA, for example, property taxes cannot exceed 1 percent of a property's taxable value and taxable values cannot increase by more than 2 percent annually. This limits annual revenue growth to 2 percent from existing properties.
- *Property tax shifts.* Most assessment limits apply to all properties. However, FLORIDA's limit applies only to residential homesteads. Over time, the property tax burden will be shifted to businesses and other nonresidential property owners.
- *Regional disparities.* Assessment limits provide tax relief only to property owners in areas with high growth in property values. They may provide disproportionate benefits to property owners in resort towns and in other high growth areas.
- *Interaction with school aid formulas.* In some states, the school aid formula is based upon property values. Assessment limits may artificially reduce property values in resort towns and other high growth areas. These areas may then receive more state aid than they otherwise might receive without the assessment limit. This may reduce funds available for poorer school districts.
- *Local disparities.* Low assessment limitation percentages, as in CALIFORNIA, may create significant disparities in tax burdens between new homeowners and long-time homeowners. Long-time homeowners in some California counties pay only one-fourth of the property taxes that new homeowners pay because the 2 percent annual limitation never allows taxable value to "catch up" with the market value. New homeowners' taxes, on the other hand, are based upon the purchase price and are significantly higher.
- *Housing market incentives.* Assessment limitations may create incentives for long-time homeowners to stay in their homes to avoid the tax consequences of moving.

Recent trends suggest that more states may look at assessment limitations to address voter concerns about property taxes. Legislators may want to consider these issues in the debate.

Contact for More Information

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TESTIMONY TO THE HOUSE TAXATION COMMITTEE (HCR 5031 & 5035)

By Karl Peterjohn, Executive Director

My name is Karl Peterjohn, I am the executive director of KTN and I dread March 1. If the county appraisers are following state law, re-appraisal notices should be mailed to all homes, farms, and business property in all 105 Kansas counties. At that time unhappy taxpayers begin the struggle to contest this unlegislated property tax hike.

This is unlegislated in the sense that no elected official has cast a vote or taken any action to raises taxes or to impose a new tax. So now there are two ways that property taxes can be raised, first by the affirmative action of several different elected bodies (cities, counties, townships, schools, the state, and special taxing districts) and by the actions of the unelected county appraisers. This is a two sided pincer movement, if I may use a military term, which places many taxpayers in an unpleasant financial squeeze.

Taxpayers have contacted KTN to seek help in trying to stop this tax hike and I can only refer them to the appeals process which is viewed by most laymen as a legal labyrinth.

So today I am here as a proponent on behalf of both HCR 5031 and HCR 5035. KTN supporters statewide have strongly supported indexing taxes on our annual surveys. Of the two resolutions, KTN would prefer the latter bill since it would limit appraisal increases to the federal consumer price index. Indexing to inflation occurred in the federal income tax in 1981 as part of the tax cut enacted nationally. This has been an invaluable tool in stopping another unlegislated tax on income from occurring at the federal level.

I am sure this committee will hear opposition expressed by governmental bodies who are counting on the automatic stream of tax revenue to continue. The same concerns were expressed when federal indexing of the income tax occurred almost 20 years ago.

This committee should also consider statutory options which would not require a constitutional amendment. Senator Tyson has proposed SB 395 which would statutorily freeze existing appraisals for one year. This would provide time for working out a more detailed way of stopping these automatic property tax hikes.

The burden of proof was shifted from the taxpayer to the appraiser on residential property a couple of years ago. This committee should look at taking similar steps to strengthen the taxpayers' ability to stop automatic appraisal hikes.

A proposal which I think has strong merit would automatically roll back local units' mill levies to reflect the increases in appraised value within each tax district. This was enacted into law several decades ago in Ohio. Ohio requires voter approval of property and sales tax hikes. Voter approval of tax hikes is also required in our neighboring states: Colorado, Missouri, and Oklahoma.

During the last year interest rates have been rising nationally. If the market valuation process for tax appraisals is truly working, we should see some significant reductions in many parts of this state. Frankly, I don't think it will happen despite the fact that rising interest rates plays a major role in determining the value of taxable property.

Property taxation is the only time you are taxed on the anticipated but unrealized increase in value of an asset. The income tax at least waits until you sell your property before the tax is imposed. So we now triple tax an increase in value: annually with the property tax and with the state and federal capital gains tax.

House Taxation

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Attachment # 4



Kansas Association of REALTORS®

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TO: HOUSE TAXATION COMMITTEE

FROM: KAREN FRANCE, DIRECTOR OF GOVERNMENTAL AFFAIRS

DATE: FEBRUARY 9, 2000

SUBJECT: HCR 5031, HCR 5035 Constitutional amendments regarding limitations on increases in appraised valuations of real estate.

Thank you for the opportunity to testify. On behalf of the Kansas Association of REALTORS® we appear today as a proponent of taxpayers to urge your consideration of the concepts presented in these constitutional amendments.

Ten years after the implementation of reappraisal and classification, there are still many frustrations with the current property tax system. While many complaints are focused on the amount of property taxes reflected on a taxpayer's bill, in truth, the damage being complained about was caused by issues regarding the valuation process. Reductions in mill levies at the state or local level are often swallowed up by problems caused in the valuation process.

Most taxpayers will tell you they are willing to "pay their fair share". But when counties give the appearance of increasing and decreasing property values without rhyme or reason, the taxpayer is hard pressed to feel what they are paying is fair. While there has been improvement in the appraisal process over the years, if asked, few citizens would tell you it is a good system.

When retired individuals on fixed incomes continue to see their valuations rise from year to year, sometimes dramatically, they grow afraid of losing their homes. While the "market price" for similarly situated homes may be on the rise, it really doesn't help these individuals, because they don't plan to sell and that is the only way to reap the benefits of those increased values. Meanwhile, they have to come up with more money every year to pay the taxes, which in effect are rental payments to the government for their property. Oftentimes, elected officials will tell them the mill levy will go down as the valuations rise, but somehow, the tax bills keep increasing. It is hard for them to call this system fair. The frustration is particularly high in counties where there is high rate of new construction is occurring.

If the constitution granted the legislature the ability to "temper" the peaks in the valuation process and had the ability to create statutory growth containment structures, then perhaps we could deal with the fairness issue. The legislative process would lend itself to input from citizens and local and state officials to help arrive at a "middle ground". In the alternative, if the growth rate were tied to an easily identifiable index, such as the CPI, taxpayers would know there was some restraint on the annual fluctuations.

While the concepts presented here may not be the perfect solutions, they do begin for the 2000 Session the now perennial conversation about “What do we do about property taxes?” This conversation has gone on every year since 1989, when classification and reappraisal went into effect. If you do not wish to attack the property tax problem by limiting the valuation growth, you will need to address it at the other end of the spectrum—the spending side.

If you don't give the taxpayers the opportunity to vote on a constitutional amendment to address the spiking valuation problems, then we urge you to re-visit the tax lid or create some sort of opportunity for taxpayers to have a protest petition if taxing subdivisions choose to spend the extra money generated off of the spiking valuations. Those are proposals for another day.

Thank you again, for the opportunity to testify.



Testimony concerning HCR 5031
House Taxation Committee
February 9, 2000
Presented by Randy Allen, Executive Director
Kansas Association of Counties

Madam Chair and members of the committee, my name is Randy Allen, Executive Director of the Kansas Association of Counties. Thank you for the opportunity to present testimony on House Concurrent Resolution 5031. On behalf of our 105 member counties, the Kansas Association of Counties expresses its opposition to HCR 5031, which would authorize the Legislature to limit the growth in assessed valuation of real estate from one year to the next. We object to the proposal for two basic reasons:

1) Limiting the growth in appraised valuation of real estate to a cap established by legislative enactment would in no way guarantee lower taxes. If values are normally increasing and are not allowed to increase at a rate suggested by market forces, county clerks would merely set higher levies (expressed in mill levy rates) to compensate for the relatively lower aggregate property values based on counties' legally adopted budgets – all other factors being equal. There is a common misperception that county commissioners set tax rates. In reality, county commissioners and other locally elected governing bodies adopt budgets while county clerks set tax rates. If a goal of imposing a cap on growth in appraised value is to somehow limit taxes or spending, this proposal **does not** accomplish this goal.

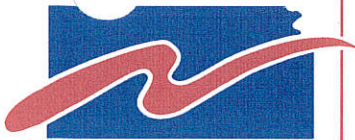
2) Our second concern about this proposal is the inequity that it would create between and among parcels. For example, if the fair market value of one property increases from \$100,000 to \$106,000 in a year's time (i.e. a 6% increase) while a property across town increases from \$100,000 to only \$102,000 in a year's time (i.e. a 2% increase), and assuming there is a cap in the annual valuation growth of 3%, **why** should the owner of the second property pay taxes at an inevitably higher mill levy rate stemming from artificial caps on the growth in appraised values, when that burden should be borne by the first taxpayer and all other taxpayers who are in the same circumstances? As a result of an artificial limitation, the tax burden would merely shift from more rapidly appreciating properties to older, established properties which are stable or decreasing in value. A shift would also likely be directed to commercial properties assessed at higher rates, and to personal property taxes.

After experiencing years of neglect in our property tax administration system in the 1960s, 1970s, and 1980s, county commissioners and state officials expended the fiscal and political capital to make our system better. It is not perfect, but it is infinitely better than it was before property values were revisited on an annual basis. We urge the committee to refrain from recommending this bill for passage. Let the values reflect reality as nearly as possible. Thank you.

The Kansas Association of Counties, an instrumentality of member counties under K.S.A. 19-2690, provides legislative representation, educational and technical services and a wide range of informational services to its member counties. Inquiries concerning this testimony should be directed to Randy Allen or Judy Moler by calling (785) 272-2585.

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House Taxation
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Attachment # 6



KANSAS
ASSOCIATION OF
COUNTIES

Testimony concerning HCR 5035
House Taxation Committee
February 9, 2000
Presented by Randy Allen, Executive Director
Kansas Association of Counties

Madam Chair and members of the committee, my name is Randy Allen, Executive Director of the Kansas Association of Counties. Thank you for the opportunity to present testimony on House Concurrent Resolution 5035. On behalf of our 105 members, the Kansas Association of Counties expresses its opposition to HCR 5035, which would impose an annual cap to limit the growth in assessed valuation of real estate from one year to the next using the Consumer Price Index (CPI). We object to the proposal for two basic reasons:

1) Limiting the growth in appraised valuation of real estate to a cap established by legislative enactment would in no way guarantee lower taxes. If values are normally increasing and are not allowed to increase at a rate suggested by market forces, county clerks would merely set higher levies (expressed in mill levy rates) to compensate for the relatively lower aggregate property values based on counties' legally adopted budgets – all other factors being equal. There is a common misperception that county commissioners set tax rates. In reality, county commissioners and other locally elected governing bodies adopt budgets while county clerks set tax rates. If a goal of imposing a cap on growth in appraised value is to somehow limit taxes or spending, this proposal **does not** accomplish this goal.

2) Our second concern about this proposal is the inequity that it would create between and among parcels. For example, if the fair market value of one property increases from \$100,000 to \$106,000 in a year's time (i.e. a 6% increase) while a property across town increases from \$100,000 to only \$102,000 in a year's time (i.e. a 2% increase), and assuming there is a cap in the annual valuation growth of 3%, **why** should the owner of the second property pay taxes at an inevitably higher mill levy rate stemming from artificial caps on the growth in appraised values, when that burden should be borne by the first taxpayer and all other taxpayers who are in the same circumstances? As a result of an artificial limitation, the tax burden would merely shift from more rapidly appreciating properties to older, established properties which are stable or decreasing in value. A shift would also likely be directed to commercial properties assessed at higher rates, and to personal property taxes.

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House Taxation

Date 2/9/00

Attachment # 7

LEGISLATIVE TESTIMONY



The Unified Voice of Business

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HCR 5031

February 9, 2000

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the
House Taxation Committee

by

Marlee Bertholf
Director of Taxation & Small Business

Madam Chair and members of the Committee:

My name is Marlee Bertholf and I am the Director of Taxation and Small Business for the Kansas Chamber of Commerce and Industry (KCCI). Thank you for the opportunity to express our members' reservations about the property tax valuation limit proposal set forth in HCR 5031.

KCCI believes that predictability is essential to business planning and growth. It is not good tax policy to implement a system where property, whether it's residential or commercial, is not assessed at fair market value. When property is not taxed at its true value, the burden of paying property taxes shift from one class to another. Fundamental relationships between the tax burdens of differing population segments are matters that should be addressed in the Constitution.

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 2,000 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 48% of KCCI's members having less than 25 employees, and 78% 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.

House Taxation

Date 2/9/00

Attachment # 8-1

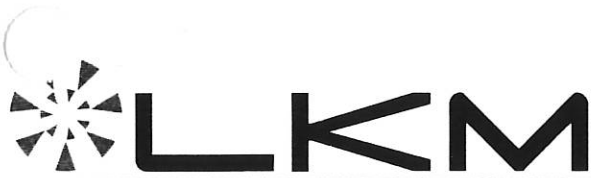
proposals discard the parameters for property taxes as they are set out in the Constitution and tax liabilities are shifted from class to the other without a general public vote, issues of fairness and constitutionality arise.

The prospect of substantial property tax shifts is an implicit consequence of HCR 5031. Nothing in this plan specifies whether commercial property values would be allowed to grow at a rate much faster than those of residential, agricultural or other properties. If the Legislature causes disproportionate commercial valuation growth to occur, business would pay an even higher share of property tax liability.

Inequity may happen even if the Legislature decided to cap valuation growth for every property class at a single, universally applied percentage. For example, if all property values were allowed to grow no more than 5% per year, and if true market commercial valuation growth does not rise as quickly as true market residential value growth, residential property owners get relatively more relief. Even if all property grows at the same rate, the capped growth may not provide enough money to local units of government. If they are forced to raise the mill-levy, commercial property, which is assessed at 25%, machinery and equipment, which is assessed at 25%, and utilities, which are assessed at 33%, will bear the brunt of the property tax burden. Residential property owners, who are assessed at 11.5%, will get substantially more tax relief.

The Kansas Department of Revenue, Division of Property of Valuation, stated in *Statistical Report of Property Assessment and Taxation*, that in 1998, the latest figures available, residential property totaled 59.97% of all property appraised, but paid only 40.59% of the taxes assessed. Commercial property, industrial property, and machinery and equipment totaled 19.58% of all property appraised, but paid 30.23% of all taxes assessed. These numbers show that the current property tax system is already unequal and commercial property owners make up an increased share of the property tax base. The proposal stated in HCR 5031 could amplify these property tax inequities and cause commercial property, machinery and equipment, and utilities to make up an even larger share of the property tax base.

Again, on behalf of the members of KCCI, I would like to thank you for the opportunity to appear before you today. I will be happy to answer any questions.



League of Kansas Municipalities

To: House Taxation Committee
From: Don Moler, Executive Director
Date: February 9, 2000
Re: Opposition to HCR 5031

First I would like to thank the Committee for allowing the League to appear today in opposition to HCR 5031. We believe passage of this Constitutional Amendment would be a disservice to the state and its taxpayers. Specifically we believe there are two major problems with this type of legislation and this bill in particular.

First of all, this would not have any impact on the amount of taxes collected. It would simply shift the property tax depending on what properties were frozen or restricted in their valuation growth versus those which are not. This creates a situation where levies would still be made, property taxes would still be collected, but the tax burden on various properties would be different as a result of some classifications of property being capped while other would not be capped. Thus, the same amount of property tax would be collected, but the proportion in which it would be collected would be changed.

A second problem with the legislation has to do with the fact that it would return us to the days of unequal valuation of property in Kansas. I am sure all of us remember how painful it was to go through the classification and reappraisal process of the late 1980's in Kansas so that we could return to even valuations which did not unduly disadvantage any one group of properties. We believe that this system has worked well and maintains equal values as prescribed by law. To arbitrarily hold down the values of one classification of property inevitably creates disparities. It would even create disparities between new and old properties. For example, if the growth on homes is limited then older homes would benefit from a lower valuation while new homes would be appraised at the market value when they are built. This was one of the key problems found when the system was completely revamped in the late 1980's. We would strongly advise against a return to a property tax system in which similar properties are not taxed similarly.

While we would agree that the property tax system in Kansas is not perfect, we would suggest that to change it in this fashion would only lead to more problems down the line and would once again create a need for future legislators to revamp and equalize the system as was done in the 1980's. We would strongly advise against this course of action and hope that this Committee will agree with this position. Thank you very much for allowing us to testify today.

KANSAS
ASSOCIATION



OF
SCHOOL
BOARDS



1420 SW Arrowhead Road • Topeka, Kansas 66604-4024
785-273-3600

To: House Committee on Taxation
From: John W. Koepke, Executive Director
Kansas Association of School Boards
Date: February 9, 2000

RE: Testimony on HCR 5031 and HCR 5035 – Limitations on Growth of Appraised Valuation

Madam Chair and members of the Committee, we appreciate the opportunity to appear before you on behalf of the member boards of the Kansas Association of School Boards to express our opposition to the adoption of the two constitutional amendments being heard today by the Committee. During the past five years, the Kansas legislature has severely curtailed its ability to address the needs of public education through overly ambitious tax cuts and tax rebates. The legislature now finds itself in the position of struggling to fund the meager increase promised to local school districts during the previous session, an increase that in and of itself does not even match the current rate of inflation.

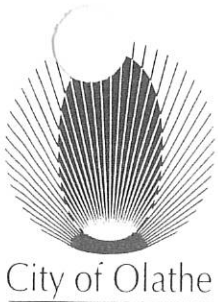
To further limit the ability of the legislature and local school districts to meet the needs of Kansas students by placing artificial limits on the growth of appraised valuations in the state would only exacerbate an already tenuous situation. Such limits would reduce the potential revenue available from the statewide mill levy dedicated to public school funding and would limit the growth in revenue from local mill levies used to fund the Local Option Budget, the Special Capital Outlay levy and bond and interest levies. With no replacement revenue looming on the horizon, the prospect of adequate funding for public education would recede further on the horizon.

With these thoughts in mind, we would urge this Committee not to adopt either of these amendments to the Kansas Constitution, and I would be happy to answer any questions.

House Taxation

Date 2/9/00

Attachment # 10



MEMORANDUM

TO: Members of the House Taxation Committee

FROM: Donald R. Seifert, Management Services Director *DRS*

SUBJECT: **HCR 5031** and **HCR 5035**; Constitutional Amendments to Limit Appraised Value Increases for Property Tax Purposes

DATE: February 9, 2000

On behalf of the city of Olathe, thank you for the opportunity to appear today in opposition to these two proposed constitutional amendments. HCR 5031 would allow the Legislature to limit by statute the amount by which the appraised value of all or any class of real property could increase annually. HCR 5035 would cap an appraised value increase on real property at no more than the inflation rate measured by the consumer price index. An identical proposal to HCR 5035 was defeated on the House floor in 1998.

For several reasons, the Olathe City Council has a standing legislative policy position against measures that limit appraised valuation changes. First, such proposals distort the free working of the real estate market and undermine the integrity of the property valuation process. They shift Kansas away from the concept of fair market value that lies at the heart of our property tax system. We believe the vast majority of county appraisers do a good job in accurately reflecting local real estate markets in their real property appraisals.

Artificial value limits also have the potential for dramatic unintended shifts of the property tax burden. Empirical evidence of this was presented as recently as last October to the interim Special Committee on Assessment and Taxation. Here, serious policy questions were raised by evidence that appraised value limits would make the property tax more regressive by shifting the burden away from properties and areas with rapidly growing values toward older, slower growth areas and properties. Appraised value caps would also tend to shift the tax burden away from real estate toward other classes of property. The interim committee, after careful study, did not recommend introduction of legislation in this area.

The intent of measures like HCR 5031 and 5035 is to hold down property taxes, which are mainly used to fund local units of government. We believe local officials take very seriously their responsibility to levy property taxes. In response to growing assessed valuation, our governing body consistently held or rolled back the local mill levy throughout the 1990's. Our opposition to these proposals is not because the city advocates higher property taxes, but because they erode the equity of the current system.

Thank you for the opportunity to comment on these constitutional measures.

House Taxation

Date: 2/9/00

Attachment # 11



February 9, 2000

TO: The Honorable Susan Wagle, Chairman
Members of the House Taxation Committee

FROM: G. Eugene Troehler, Chairman
State/Federal Affairs Task Force

RE: **HCR 5031 and HCR 5035**

I am writing to express the chamber's opposition to HCR 5031 and HCR 5035, which would allow for capping of reappraisal increases as a means of providing property tax relief. While the proposals appear attractive -- particularly in a county where reappraisal increases last year averaged 12% for residential property and 24% for commercial property -- the chamber has significant concerns about the long-term statewide impact of such measures.

First, the state's Property Valuation Division predicts that limiting appraisal increases will simply shift tax burden from:

- 1) **Rapidly appreciating property to stable or decreasing property;**
- 2) **Real property taxes to motor vehicle taxes; and**
- 3) **Real property taxes to personal property taxes, particularly business machinery & equipment and oil & gas interests/equipment.**

This shift places additional tax burden on areas in which Kansas may already be uncompetitive with surrounding states.

Second, limiting appraisal increases artificially shrinks the property tax base at a time when growth means the need for local government services may be expanding. Local property tax mill levies (and possibly state sales and income taxes) may simply be increased to offset revenues lost under the cap, diminishing any tax relief the cap is meant to provide.

Third, plans to cap valuation increases usually propose reappraising new property and property that has changed ownership at their values had there been no cap. The Property Valuation Division has indicated that capping valuations would cause substantial logistical problems in valuating these properties. If values on existing properties are held artificially low, it means appraisers will not have "comparable" properties and values on which to justify the value of new property or property that has changed ownership. Also, assuming a change in ownership, identical homes next door to one another may have very different valuations, with home buyers being penalized -- a potential chilling effect on the real estate market. Ultimately, these difficulties are likely to lead to litigation over fairness and uniformity issues.

Although seemingly attractive for our county, the chamber would urge you to oppose HCR 5031 and HCR 5035 because they will result in substantial tax shifts and negative impact on uniformity