This written testimony was submitted on January 15, 2025 to assessment.taxation@senate.ks.gov.

I am submitting testimony **in opposition** of SCR-1603 to amend to amend section 1 of article 11 of the constitution of the state of Kansas; relating to property taxation; limiting valuation increases for real property and for personal property classified as mobile homes used for residential purposes.

Nobody likes property taxes, including recent increases. The current property tax system in Kansas is one that is equitable — ranked as one of the fairest and most efficient in the U.S.[1] An annual revaluation of property that is based on market value is how everyone is able to pay their fair share each year. The proposed bill erodes fairness under the guise of lowering property taxes.

Budgets for Local Taxing Entities Establish the Tax Bill — Not the Appraised/Assessed Value

- Kansas uses a budget-based tax system.
- The property tax formula is:

$$\frac{\textbf{(Budgeted Expenses – Revenue From Sales Tax and Other Fees)}}{\textbf{Assessed Value}}$$

- The mill levy reconciles the tax base (total assessed property value) and the budget to determine the appropriate tax rate.
- Consider the following illustration:

Example 1 – Tax Year 1 (base year) premise

Example 2 – Tax Year 2 **assessed values decrease by 10%**

	Example 1	**Example 2**
Budget	$1,000,000	$1,000,000
Assessed Value	$10,000,000	$9,000,000
Indicated Mill Levy	**100.00**	**111.11**

If the budget stays the same and values go down by 10%, then the mill levy required to support the jurisdiction's budget increases by 11%.

- Hypothetically, all the values could be cut in half, but the value change doesn't affect the budget needs of the township, county, city, police, fire and school districts.

[1] The Best (and Worst) of International Property Tax Administration, Council On State Taxation, June 2019 https://www.cost.org/globalassets/cost/state-tax-resources-pdf-pages/cost-studies-articles-reports/cost-2023-admin-scorecard---final-draft-combined.pdf

Consequences of Making these Changes

- The cost of implementing such a system is high.
  - I work on the enhancement committee for the appraisal software used in all 105 counties across Kansas.
    - I estimate **it will cost well over $1 million** to modify the computer system to adapt to this law change.
  - Maintaining and administering a capped value system requires more staff
    - This proposal requires the additional tracking of another value for every parcel and personal property account.
      - Each year staff will need to reconcile *market value* with the *3% capped value*.
      - Assuming one minute is spent checking these values for the 49,000 real and personal properties in Douglas County, the reconciliation would take an additional 817 hours (49,000 ÷ 60 minutes).
      - With 13 appraisers on staff, the reconciliation would be an additional 63 hours per person (817 hours ÷ 13), plus the substantial amount of time to address the six exceptions in the bill.
    - I recently hired an appraisal manager who worked at a property assessment office in Florida for 10 years.
      - His office typically employed 100 to 105 people. He estimated that 40% of their staff directly worked on value cap-related tasks (taking applications, reviewing calculations, customer service, etc.).
      - There were so many unique scenarios that large amounts of work had to be manually calculated outside of the computer system.
      - The public did not understand the value cap and significant time was required to answer the public's questions.
      - Public feedback was that the value cap was unfair and resulted in inequities among owners of similar property.
  - The cost of making changes to the software and the additional staff needed to administer the value cap will be passed on to the taxpayer.

Explainability is Lost and Taxpayer Confusion

- As written, the bill provides six exceptions for the value cap. These are noted below with the corresponding concern.

1) The property includes new construction or improvements have been made to the property.

   Concern: This means a new house will be valued at market, while the neighboring houses will be valued at capped value. **This is not equitable treatment compared to similar property owners.**

2) The class or subclass of the property changes for assessment rate purposes.

   Concern: This means if a house changes from a family's primary residence to a hair salon, the assessment class changes from Residential to Commercial, or from an 11.5% to 25% assessment rate. All the other homes in the neighborhood will be valued at a lower capped value, while the value of the hair salon increases to market AND has the assessment rate increase to 25%. **This is not equitable treatment compared to similar property owners.**

3) The property becomes disqualified from exemption.

   Concern: This means if a previously tax-exempt property loses their exemption, the value cap does not apply. If a church sells their property to an office user, then the value cap does not apply, but the value cap does apply to all other office properties. **This is not equitable treatment compared to similar property owners.**

4) The property is first listed as escaped or omitted property, or an error is corrected.

   Concern: This means if a clerical error was corrected, then the property is valued at market, not the capped value. In other words, if the county incorrectly valued a property as a four-bedroom/three-bathroom house and it was actually a three-bedroom/two-bathroom house, and then they corrected the error, the capped value would no longer apply. **This would penalize the taxpayer while correcting the error.**

5) The legal description of the land, lot or parcel changes, except that the total final taxable appraised value of all property affected by a legal description change shall not exceed the total final taxable appraised value of the affected property for the previous year by more than 3%, or a lesser percentage as provided by law.

   Concern: Parcel boundaries are constantly changing. Two parcels get platted into 25 parcels, 10 parcels get replatted into 50 parcels. **The tracking of these parcel changes would have to be manually done in order to ensure the 3% cap was applied to the new parcel configuration.**

   Such manual tracking would create work outside of the appraisal and tax billing software, making it difficult to maintain tracking, have transparency in records and meet auditing standards.

   Example: *Douglas County process roughly 200 parcel changes per year, with approximately five new/different parcels per parcel change. This would result in 1,000 additional values that would have to be manually tracked outside of the appraisal/tax billing software for the 3% value cap each year.*

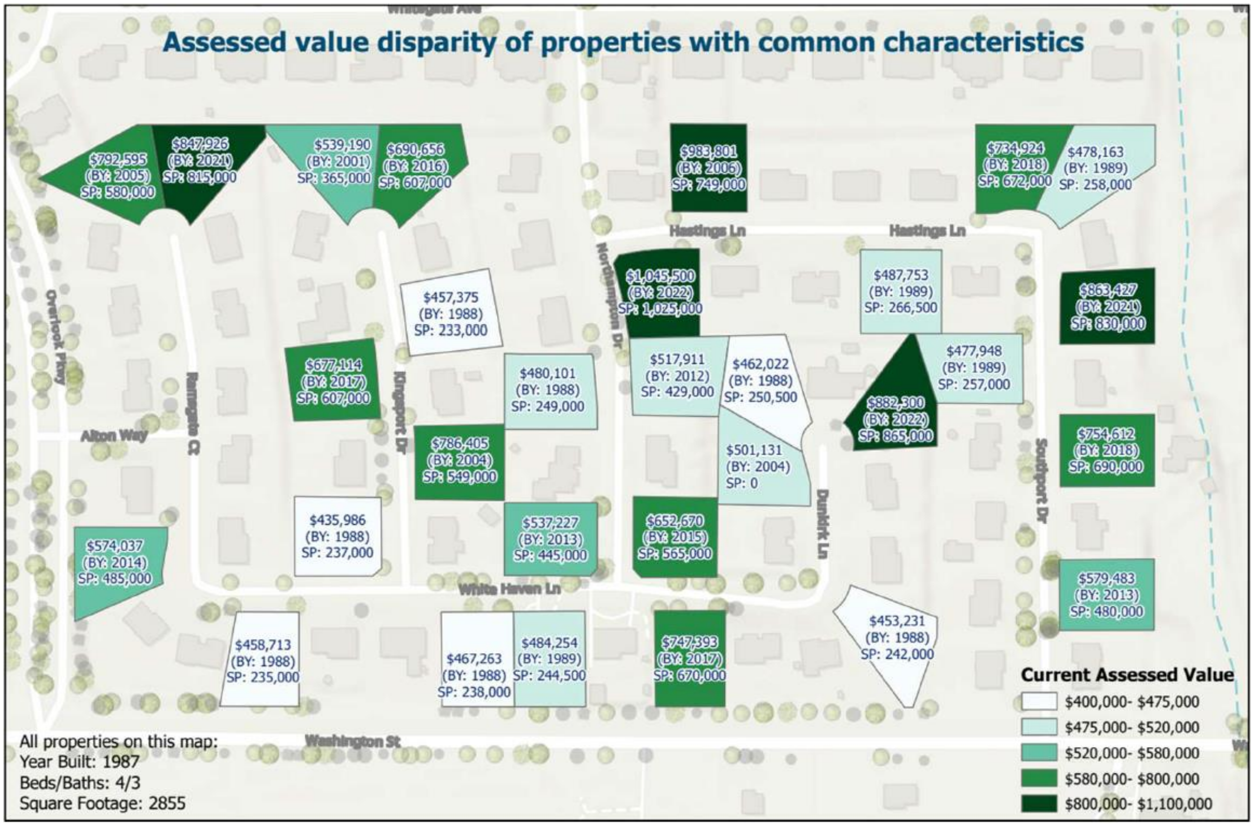
6) Title to the property is transferred, changed or conveyed to another person or entity.

   Concern: This means if a property sells, it will be valued at market. Neighboring houses will be valued at capped value. **This is not equitable treatment compared to similar property owners.**

   Note: This is very similar to the Prop 13 value cap applied in California – see illustration on the next page for resulting value disparity and inequity among neighboring homeowners.

- The inequities compound over time. The end result is people with similar houses in the same subdivision are paying drastically different property taxes. See the illustration on the next page.

- This is similar to Prop 13 in California that applies value caps. In a capped value system, there are winners and losers. The following Value Disparity Map was obtained from the Riverside County, California Assessor's Office and illustrates what happens with property values over time in a capped value system. These homes are similar in age and size.



- If the market increases over several years, then decreases, the market value can exceed the capped value, warranting an increase of the value during a down market. Consider the following illustration:

	Year 1	Year 2	Year 3	Year 4
Market Value	$200,000	$210,000	$224,700	$220,206
Market Increase %		5%	7%	-2%
Capped Value		$206,000	$212,180	$218,545
Capped Increase %		3%	3%	3%

  - In this scenario, the market increased 5% in Year 2 and 7% in Year 3. Then in Year 4, the market went down 2%.
  - Under the proposed law, the value would still increase 3% even though the market went down 2% in Year 4.
  - Counties are required by law to publish the results of their market trends study each year.
  - There will be confusion for taxpayers when the county publishes that the market went down by 2%, but the 3% value cap method was applied and their property value went up.

Additional Resource

Property Tax Assessment Limits: Lessons from Thirty Years of Experience
www.lincolninst.edu/app/uploads/legacy-files/pubfiles/property-tax-assessment-limits-full_0.pdf

Provides background on taxpayer discontent, basics of assessment limits, impacts on local governments, equity/efficiency issues and alternative relief measures.

Summary
In a capped value system, equity is lost. Explainability is lost. The tax burden is shifted to new homeowners/builders and new construction. Not everyone pays their fair share.

These bills are bad for Kansans and will be expensive to implement. Please avoid paying millions to implement a system that creates confusion and inequities among taxpayers while requiring counties to increase staff in order to administer these programs.

There are alternative relief measures available for property tax, such as levy limits, homestead exemptions/credits, circuit breakers and tax deferral systems to provide targeted relief in various situations.

I am available if you have any questions on this topic. Thank you for your time and consideration of an appraiser's perspective on this matter.

Respectfully,

Bradley A Eldridge

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