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To: Senate Taxation Committee

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Subject: **SB 370** -- Neutral Testimony on Property Tax Reform and the Impact of Allowing Kansas Residents 65 Years of Age or Older to Defer Property Taxes on Homestead Property

Chairman Donovan and members of the Senate Taxation Committee, thank you for the opportunity to appear today on behalf of the Kansas Association of REALTORS® to offer neutral testimony on the impact of allowing Kansas residents 65 years of age or older to defer up to \$2,500 in annual property taxes on homestead property under **SB 370** for comprehensive property tax reform efforts. Through the comments expressed herein, it is our hope to provide additional legal and policy context to the discussion on this issue.

KAR is the state's largest professional trade association, representing nearly 8,000 members involved in both residential and commercial real estate and advocating on behalf of the state's 700,000 homeowners for over 90 years. REALTORS® serve an important role in the state's economy and are dedicated to working with our elected officials to create better communities by supporting economic development, a high quality of life, sustainable communities and providing affordable housing opportunities, while protecting the rights of private property owners.

Over the last decade, the property tax burden on Kansas homeowners and small businesses has literally exploded as property taxes have increased from roughly \$1.97 billion in 1997 to over \$3.8 billion in 2010, which is a 94% increase in just 13 years. This dramatic increase in the property tax burden is nearly triple the rate of inflation and 9.5 times greater than population growth over the same time period.

Unfortunately, we believe that this dramatic growth in the property tax burden stifles the economic prosperity of many small businesses in Kansas who have seen a consistent increase in the amount of their income that is devoted to paying their property tax assessments. Furthermore, we believe the increased property tax burden also makes it more difficult for Kansas families to make ends meet and is severely burdensome for many senior citizens and low-income Kansans on fixed incomes.

According to a detailed analysis by the Tax Foundation, Kansas currently has one of the most burdensome property tax systems for businesses with a ranking of 41<sup>st</sup> in 2012. Since the Kansas Legislature has started to discuss comprehensive income tax reform to improve the economic growth climate in Kansas for small businesses and individual taxpayers, REALTORS® strongly believe that the Kansas Legislature should also take action to improve the business climate through comprehensive property tax reform.

Furthermore, in the report entitled *Location Matters: A Comparative Analysis of State Tax Costs on Business* recently released by the Tax Foundation, Kansas ranks 47<sup>th</sup> overall in terms of the most favorable tax climate on mature business operations and 48<sup>th</sup> overall for newly-established business operations. Although the report concludes that the corporate income tax burden on these businesses are either average or even slightly below average, the report states that Kansas has one of the highest (if not the highest) property tax burdens on business operations across all 14 categories of businesses.

Having said that, REALTORS® are unconvinced that allowing Kansas residents 65 years of age or older to defer up to \$2,500 in annual property taxes on homestead property under **SB 370** will do anything to actually provide comprehensive property tax relief to Kansas families and businesses. Conversely, the passage of **SB 370** could further exacerbate the exponentially-increasing property tax burden on Kansas families and businesses by distorting the property tax burden through a shift of property tax liability to all property not owned and the principal place of residence of Kansas residents 65 years of age or older.

Unfortunately, the passage of property tax exemptions for one specific class of real property or group of Kansas residents has the resulting effect of increasing the property tax burden on other Kansas families and businesses that do not enjoy the privilege of the property tax exemption. Furthermore, **SB 370** has an extraordinarily large fiscal note and will place an enormous administrative and fiscal burden on state and local government employees in complying with the provisions of the legislation.

In our opinion, the only way to provide substantial property tax relief to Kansas property taxpayers is to fundamentally reform how local governments increase property taxes on an annual basis through the passage of comprehensive property tax reform legislation. In accomplishing comprehensive, real and substantial property tax reform, the Kansas Legislature should pass legislation that would increase the accountability and transparency of local governments that choose to increase the property tax burden on Kansas businesses and families through increases in either the assessed valuation of properties or mill levy rates.

While this legislation fully preserves the absolute right of local control for local governments in approving property tax levies, it would provide property owners with a more accurate snapshot on whether the property tax burden is actually increasing in their communities through either increased assessed valuations or mill levy rates. In a nutshell, this legislation would require the governing body of any local government with the authority to levy property taxes to adjust the jurisdiction's mill levy rate on an annual basis in order to ensure that the local government collects the same amount of total property tax revenue from existing properties as the previous year. Once the mill levy rate has been increased or reduced under this calculation, the governing body of the local government retains the absolute authority to authorize a property tax increase through a simple majority vote on an ordinance or resolution authorizing the property tax increase.

If enacted by the Kansas Legislature, nothing in the legislation would impair or restrict the ability of any local government to raise additional property tax revenues at the local level. Instead, the provisions of the bill would simply require any local government that wishes to increase property taxes to be accountable and transparent in increasing property taxes through the approval of an increase in the mill levy rate (rather than relying on annual assessed valuation increases to raise additional property tax revenue).

Prior to 1999, local governments in Kansas operated under a system that placed explicit annual caps and limitations on the ability of local governments to increase the property tax burden. In 1999, the Kansas Legislature repealed the property tax lid system and replaced it with the truth in taxation system, which requires annual public disclosure by local governments who wish to raise more property tax revenue in any tax year than the preceding tax year.

At that time, the proponents of eliminating the property tax lid argued that the provisions of the Truth in Taxation Law would be sufficient to protect Kansas taxpayers from an exponentially increasing property tax burden. Unfortunately, this has been proven to be a fallacy as the property tax burden on Kansas families and businesses has skyrocketed in the absence of any accountability or transparency in the Kansas property tax system.

The currently drafted, REALTORS® believe that our property tax reform legislation is a good faith effort to make some incremental improvements to the public disclosure requirements contained in the Kansas Truth in Taxation Law. Rather than reinstating a system of explicit annual caps and limitations on the ability of local governments to increase the property tax burden, our legislation simply increases the accountability and transparency of the process by requiring local governments to annually adjust the mill levy rate to account for increased (or decreased) assessed valuations on existing real property within the local government's jurisdiction.

In our opinion, our legislation would simply ensure that local governments are fully accountable to your constituents by requiring any local government who wishes to increase the property tax burden to increase the property tax mill levy rate rather than allowing a property tax increase through the stealth nature of annual assessed valuation increases. By approving this legislation, the Kansas Legislature would be taking a huge step forward in increasing the accountability and transparency of the Kansas property tax system.

In contrast, REALTORS® unfortunately believe that allowing Kansas residents 65 years of age or older to defer up to \$2,500 in annual property taxes on homestead property under **SB 370** will not actually result in a reduction in the property tax burden for most Kansas families and businesses. While we appreciate the proponents' concerns about the exponentially-increasing property tax burden on Kansas property taxpayers, we would urge your support for alternative legislation that would actually tackle the systemic and fundamental problems inherent in the Kansas property tax system.

For all the foregoing reasons, we would urge the members of the Senate Taxation Committee to weigh the provisions of **SB 370** very carefully in terms of the impact on the underlying goal of comprehensive property tax reform for Kansas families and businesses and to support alternative legislation that would actually systemically and fundamentally reform the Kansas property tax system. Thank you again for the opportunity to testify and I would be willing to stand for questions at the appropriate time.