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To: House Taxation Committee

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Subject: **HB 2047** – Supporting the Kansas Property Tax Transparency Act to Increase the Accountability and Transparency of Local Governments in Increasing the Property Tax Burden on Kansans

Chairman Carlson and members and members of the House Taxation Committee, thank you for the opportunity to provide testimony today on behalf of the Kansas Association of REALTORS® in support of **HB 2047**, which is a common-sense, incremental and reasonable proposal to increase the accountability and transparency of local governments who increase the property tax burden on Kansas home owners and small businesses. Through the comments expressed herein, it is our hope to provide additional legal and public 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 and providing affordable housing opportunities while protecting the rights of private property owners.

Over the last decade, the property tax burden on Kansas home owners and small businesses has increased exponentially as total property taxes collected have increased from roughly \$1.97 billion in 1997 to over \$3.9 billion in 2011, which is a 99.31% increase in just 14 years. This dramatic increase in the property tax burden is nearly triple the rate of inflation, ten times the rate of mill levy increases and nearly nine times greater than the state's population growth over the same time period.

If the Kansas Legislature does nothing to address this problem and property taxes continue to grow at the recent average annual growth rate of 5.1%, then the total property tax burden on Kansas farmers, home owners and small businesses would increase by another \$4.3 billion to a total of nearly \$8.3 billion by 2026. Can your constituents withstand this 110% increase in their property tax burden and can they afford to come up with another \$4.3 billion annually to pay their property taxes in 2026?

Unfortunately, we believe that this dramatic growth in the property tax burden stifles the economic prosperity of many Kansas small businesses that have seen a consistent, dramatic increase in the amount of their business income that is devoted to paying their property tax assessments. Unlike our state's income taxes on small businesses (which are either average or slightly below average according to the Tax Foundation), the annual property tax bill of a small business does not vary according to whether the business earned a large profit or suffered a large loss over the course of the preceding year.

Instead, regardless of the underlying profitability of the business, nearly every small business owner will be required to pay the same onerous property tax each year, which only increases his or her business input costs and decreases the amount of capital that can be poured back into the business to expand by hiring new employees or investing in new business capacity. If Kansas is truly on the way to becoming a low tax burden state for businesses, then something must be done to address our exponentially increasing property taxes.

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 41st 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.

In addition, in the report entitled *Location Matters: A Comparative Analysis of State Tax Costs on Business* recently released by the Tax Foundation, Kansas ranks 47th overall in terms of the most favorable tax climate on mature business operations and 48th 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.

Furthermore, we believe this increasing property tax burden makes it more difficult for Kansas families to make ends meet and is severely burdensome for many senior citizens and low-income Kansans living on fixed incomes. Over the last few years, we have heard many anecdotal stories of Kansans literally being forced out of their homes due to their inability to keep up with the rapid escalations in their property tax burdens.

In our opinion, the only way to reform the Kansas property tax system and finally reduce the never-ending increases in the property tax burden on Kansas home owners and small business is to fundamentally alter how local governments increase property taxes on an annual basis through the automatic acceptance of any increases in property valuations. The common-sense, incremental and reasonable proposals contained in **HB 2047** will increase the accountability and transparency of local governments who increase the property tax burden on Kansas home owners and small businesses while fully preserving local control.

If approved by the Kansas Legislature, **HB 2047** will do nothing more than increasing the accountability and transparency of local governments that choose to increase the property tax burden on Kansas small businesses and families. 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 increases in mill levy rates.

Nothing in **HB 2047** 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 falsehood as the property tax burden on Kansans has skyrocketed in the absence of any accountability or transparency in the Kansas property tax system.

As currently drafted, REALTORS® believe that **HB 2047** is simply 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, **HB 2047** simply increases the accountability and transparency of the process by requiring local governments to annually adjust their property tax rates to account for increased (or decreased) assessed valuations on existing real property.

Unfortunately, some groups have admitted that Kansas has a property tax problem and at the same time have opposed increasing the accountability and transparency of local governments who choose to increase the property tax burden on Kansans. Instead, these groups have argued that the property tax problem can be solved by simply increasing funding for the Local Ad Valorem Tax Reduction Fund (LAVTRF).

REALTORS® are unconvinced that providing increased funding to the LAVTRF is the answer to the problem of the ever-increasing property tax burden facing Kansas families and businesses. To the contrary, a simple analysis of the historical background behind the funding of the LAVTRF would reveal that providing increased funding to the fund has never resulted in actual decreases in the property tax burden.

Over the last 14 years, the LAVTRF was actively funded by the Kansas Legislature from 1997 to 2004. In 2004, the Kansas Legislature eliminated funding for the LAVTRF and no additional funding has been allocated to the fund since that time. As a result, local governments have not received funding from the LAVTRF for property tax relief since 2004.

According to the proponents of providing additional funding for the LAVTRF, the elimination of the funding for the LAVTRF has contributed to the astronomical increase in the property tax burden on Kansas families and businesses since 2004. If this statement were true, you would anticipate that the total amount of property taxes collected by Kansas state and local governments had increased at a more rapid pace since the elimination of the LAVTRF in 2004 compared to the annual increases experienced by Kansas property taxpayers when funding from the LAVTRF was fully provided to local governments prior to 2004.

Unfortunately, there is absolutely no evidence that would prove there is any correlation between full funding for the LAVTRF and a decrease (or even a reduction in the annual increase) of total property taxes collected by state and local governments. In fact, the data provided in Table #1 on the next page of my testimony actually shows that the average annual growth in the property tax burden on Kansas property taxpayers has decreased by a statistically significant 14.84% following the elimination of funding for the LAVTRF in 2004.

From 1997 through 2004, the average annual growth in the total property tax burden imposed on Kansas families and businesses was 6.1%. During this time period, the LAVTRF was fully funded by the Kansas Legislature and regular property tax relief payments were being transferred to Kansas local governments. Over this time period, three of the four largest annual increases in the Kansas property tax burden actually occurred when the LAVTRF was fully funded in 1999, 2000 and 2001.

Following the elimination of state funding for the LAVTRF from 2004 through 2010, the average annual growth in the total property tax burden on Kansas families and businesses has actually experienced a significant decrease by nearly two percentage points to 4.1%. Accordingly, the average annual growth in the property tax burden on Kansas property taxpayers has actually decreased by a statistically significant 32.79% in the tax years following the elimination of funding for the LAVTRF in 2004.

Table #1. Comparison of Property Tax Growth Between Pre- and Post-Elimination of LAVTRF.

AVERAGE ANNUAL GROWTH IN PROPERTY TAXES PRIOR TO ELIMINATION OF LAVTRF in 2004	6.10%
AVERAGE ANNUAL GROWTH IN PROPERTY TAXES AFTER ELIMINATION OF LAVTRF in 2004	4.10%
CHANGE IN PACE OF ANNUAL PROPERTY TAX REVENUE GROWTH BETWEEN PRE- AND POST-ELIMINATION OF LAVTRF	-32.79%

As a result, there is absolutely no evidence that full funding for the LAVTRF leads to a decrease (or even a deceleration or reduction in the annual increase) of the total property taxes collected by state and local governments. To the contrary, the data provided herein actually shows that the average annual growth of the property tax burden on Kansas property taxpayers has actually grown at a slower annual pace following the elimination of funding for the LAVTRF in 2004.

Accordingly, we believe that providing funding for the LAVTRF will not actually result in a decreased property tax burden or even a reduction in the annual increase of the property tax burden on Kansas families and businesses. While we would agree with the proponents of providing more funding for the LAVTRF that Kansas has a property tax problem, we disagree that increasing the funding for the LAVTRF is the solution to this problem and thus cannot support any proposals to increase LAVTRF funding.

As a result, the only way to provide real relief to Kansas property taxpayers and to reform the Kansas property tax system is to fundamentally alter how local governments increase property taxes on an annual basis through the automatic acceptance of any increases in property valuations. The common-sense, incremental and reasonable proposals contained in **HB 2047** will increase the accountability and transparency of local governments who increase the property tax burden on Kansas home owners and small businesses while fully preserving local control.

For all the foregoing reasons, we would urge the members of the House Taxation Committee to strongly support the provisions of **HB 2047**, which is a common-sense, incremental and reasonable proposal to increase the accountability and transparency of local governments who increase the property tax burden on Kansas home owners and small businesses. Thank you again for the opportunity to testify and I would be willing to stand for questions at the appropriate time.