

Kansas County Appraisers Association

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To: House Committee on Taxation

From: Rod Broberg, Kansas County Appraisers Association

RE: House 2285

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Much of the testimony you have heard, or will hear today, centers on the issues of valuation and the effects of valuation loss that will occur with the changes proposed by this legislation. While these concerns are important and cannot be overemphasized, I would like to touch on concerns that County Appraisers have with the effects on the appraisal process.

If you were asked to use only one word or phrase to best describe the appraisal system in Kansas, that phrase would have to be “market value”. Our constitution provides for a “uniform and equal rate of assessment and taxation”. Further it provides for classification of property by percentages of “value”. To that end, the Kansas Statutes provide in K.S.A. 79-503a, a definition of fair market value that county appraisers are required to follow in placing values on all real estate. In order to achieve that goal of “fair market value” we have instituted a state of the art appraisal system that utilizes the three classic approaches to value. Great pains have been taken to institute a system that meets the requirements of the Uniform Standards of Professional Appraisal Practice, and the best practices of Ad Valorem taxation. The legislation that is being considered today will fundamentally redefine what has historically been considered real estate and thereby change the premise upon which appraisals are performed for ad valorem tax purposes.

HB 2285 will require that items which have long been considered real property, to be removed from consideration when attempting to value any given property. This might be accomplished when using the cost approach to value as original costs for those items could be identified and removed from a replacement cost estimate before applying depreciation. This would be very difficult and require our current cost system to be converted from a square foot method of estimating costs, to a unit in place method, or some combination of the two. It

would certainly require extensive modification to the current Orion CAMA system.

The other two classic approaches to value, sales comparison and income, would prove to be more problematic. Sales of properties in the market, which is the lifeblood of any appraisal system, typically occur with all of their fixtures intact. It would be nearly impossible to determine what portion of a sale price would be allocated to certain fixtures that might not be included for property tax purposes.

Similarly, the income approach to value relies on rental information derived from the market to estimate a value for a given property. Like the sales comparison approach, it would be nearly impossible to determine what portion of rent or landlord expenses are attributable to certain fixtures.

In the final analysis this proposed change to the definition of fixtures could negate the millions of dollars and tens of thousands of man hours that have been expended to place Kansas at the forefront of the ad valorem appraisal world.

Another area of concern to County Appraisers is the prospect of greatly increased appeals and the costs of litigation. As with many pieces of legislation, there are certainly consequences that none of us have currently anticipated. Property owners will fully test the limits of what might be considered personal property under this legislation and they will do this through the appeals process and the courts. This of course costs money, and in some cases it will cost a lot of money. It will happen at a time when valuation and thereby revenue to the counties is decreasing as a result of the same legislation.