

INVESTMENT RESOURCES CORPORATION

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March 4, 2016

Kansas House Committee on Taxation
Attn: Phyllis Fast

RE: House Bill 2714
WRITTEN TESTIMONY

Dear Representatives;

My name is Matt Catanese, and I am the Vice President of Investment Resources Corporation and Affordable Housing Development in Wichita, Kansas. My firm has been in the apartment development business for over 40 years, and we own approximately 30 properties containing over 4,500 apartment units in communities throughout Kansas.

I would like to voice my support as a proponent of House Bill 2714

I personally spend several hundred hours per year gathering information and preparing for tax hearings for our properties. My greatest obstacle is the lack of incentives County assessors and valuation-hearing officers have in settling upon a fair valuation of property based upon actual audited financial data. The current value-protest system offers absolutely no incentive for a hearing officer to make any modification to an appraised value. Simply sending a letter following our 20 minute hearing with "no change in value" is much easier than actually reviewing the audited financial data and case law regarding the fair valuation of property. Once they have issued a letter of "No Change," the problem advances to either Small Claims or BOTA. Simply stated, HB 2714 provides some financial incentive for County hearing officers to do their job rather than passing the buck, creating additional time and financial burden on the tax payer.

Many of the properties I represent are encumbered with income and rent restrictions that do not fit into the typical appraisal box. Our most common battle occurs when an appraiser will state that our expenses are too high as a % of overall project income and that their model will not allow them to go much more than a 50% expense ratio. By way of example, when a project's rents are federally restricted to \$435 per month of income on 30 units, your annual gross rent is \$156,600. The average unit management and operating expenses are \$3600+ per unit due to the various, additional compliance requirements associated with rent restricted projects (e.g., computer software to track income, data entry to housing offices, HUD data system, additional compliance training, investor oversight and monitoring, etc.). So, this 30-unit project at a minimum will cost \$108,000 to run. This 70% expense ratio is typical for very low-rent properties.

I have worked diligently with counties to explain and present them with audited financial information, along with the restrictive use agreements applicable to the properties; but again, with no incentive, the vast majority of the time, I wind up having to move to the next level of hearing.

The second issue deals with County assessors increasing value on our properties the year following a favorable Small Claims or BOTA decision. Often times after a successful hearing in Small Claims Court, our value will be adjusted based upon the actual audited cash flow (as it should be). As soon as legally possible, the County will increase the value back up so we are forced to start the protest process over again, almost immediately. I have been doing this for a long time, and it is not uncommon for me to fight increases of 200% or more on affordable housing properties every two years for a decade.

There is clear legislation and case law regarding the valuation of affordable housing. There is also a published guide for Kansas subsidized housing. Regardless, when working with County appraisers I always bring a copy of the statutes, case law and guides because I know it is the first time the assessors have ever seen it.

I appreciate your time and consideration of House Bill 2714. I truly believe the legislation being presented will help to better shape the valuation process by making appraisers and County hearing officers accountable for their decisions. Requiring counties to pay the same fees required for owners to protest expenses, and holding funds until the valuation is settled, are great incentives and will go a long way towards our goal of having a meaningful hearing at the county level.

Thank you for your service to our community

Sincerely,

INVESTMENT RESOURCES CORPORATION

A handwritten signature in black ink, appearing to read "Matt Catanese", written in a cursive style.

Matt Catanese
Vice President